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# Momentum Group AB (MMGR.B.SE)

Q4 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

### Niklas Enmark

*Chief Financial Officer & Executive Vice President, Momentum Group AB*

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## MANAGEMENT DISCUSSION SECTION

### Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

Welcome to the presentation of Momentum Group's Year-end Report for 2023. I'm Ulf Lilius, CEO for Momentum Group. And I'm here with my colleague, Niklas Enmark, Executive Vice President and CFO and we will guide you through our report today.

Our agenda today is to give you some information about the highlights from Q4 and the development during the quarter, as well as financial information. We will round off with our financial targets and growth development. And now to the highlights in our report. We're seeing a certain level of caution among customers and lower activity in some customer segments. But Nordic industry, which is our primary segment, displayed strong resilience.

We are continually in dialogue with our customers in order to enhance the profitability and sustainability of their operations. Our decentralized structure with decisions made close to customers and suppliers enable us to act quickly based on customer needs and behavior. I am therefore particularly proud that our operations continued to perform so well and displayed an ability to adapt to current market conditions.

We concluded 2023 with a continued favorable trend in terms of both revenue and earnings. In the fourth quarter, we achieved organic sales growth of 5% and with acquisitions we grew at full 35%. EBITA increased by 25%, despite the economic turbulence that impacted the market in 2023, our operations remained stable with continued satisfactory demand. Profitability measured as return on working capital, EBITA to working capital reached 59%, exceeding the target of at least 45%. We call this our super efficiency target, and it is a good measure of the cash flow that our operations can generate.

We posted good cash flow with operational cash flow of SEK 260 million for 2023, which is at a level that will enable us to continue to self-finance acquisitions, investments and development of existing operations, as well as provide dividends to our shareholders. And the board proposed a dividend of SEK 1.10 per share, which is 32% of net profit.

During the fourth quarter, we completed four acquisitions, adding some SEK 100 million to revenue and another 37 new employees to the group. And in total, during the year, we carried out 11 acquisitions during the year with the combined annual revenue of nearly SEK 610 million. The acquired companies will continue to be operated as independent niche companies in accordance with our philosophy of decentralized responsibility.

Now, I will hand over to Niklas, who will guide you through our Q4 report.

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## Niklas Enmark

*Chief Financial Officer & Executive Vice President, Momentum Group AB*

Thank you, Ulf. The group reported a continued positive development in revenue during the fourth quarter of the financial year, up by 35% to SEK 667 million. In this is included a negative effect from one less trading day during the quarter. Growth for comparable units, adjusted for this was 5%. This means that contribution from acquisitions was prominent, adding 31% to revenue.

Positive to note is also that saw an increase in revenue for both business areas after a period of lower sales within the services business area. The business climate in the main markets in the Nordics continue to be stable, mainly within the industry segment, which is the group's primary customer segment, and has shown great resilience during the economic downturn during last year.

For some market segments, predominantly within pulp and paper, we see a decrease in volume, whereas other segments increased. We see a continued improvement in post-pandemic component shortage. However, in this last quarter, we had some delivery interruptions affecting a few companies within the business area components. As we have also stated before, we see fewer and lower price increases in the market from our suppliers, pointing to a more stable market.

The continued economic unrest in the wake of inflation, interest rates and deterioration in certain sectors affects the behavior of some customers in the form of a more wait and see attitude and a slightly lower level of activity, especially relating to larger project deals. This will likely also affect the market for the coming periods.

Our earnings in terms of EBITA mimicked the strong increase in revenue and our EBITA increased by 25% to SEK 70 million during the quarter, corresponding to an EBITA margin of 10.5%. Contributing to the improvement toward increased revenue in comparable units, but also a clear profit contribution from recent acquisitions and healthy margins, adding to the very strong EBITA growth in business area components.

The margin is lower than the corresponding quarter of last year, due to lower margins in the services business area, combined with a bit lower margin for the acquired businesses, compared to the existing companies within business area components. That said, the organic EBITA margin level among the companies in the business area components is stable with positive development of gross margins.

Operating profit rose by 17% to SEK 61 million, corresponding to an operating margin of 9.1%. Operating profit was charged with amortization of intangible noncurrent assets of SEK 9 million, arising from acquisitions and with depreciation of right-of-use assets and tangible noncurrent assets of SEK 21 million.

Profit after financial items totaled SEK 58 million and profit after tax amounted to SEK 44 million. When we thus conclude our financial year of 2023, we can report that our revenue increased by 32% to approximately SEK 2.3 billion, [ph] while this (00:06:23) increase 7% comes from comparable units. In addition to this, then the revenue from acquisitions have contributed with 25% to revenue or corresponding to SEK 440 million. For the same period our EBITA increased by 30% to SEK 265 million, thus surpassing our financial target of at least 15% earnings growth. Our EBITA margin was 11.5%. We are very pleased to see that the acquisition made have added to our top line as well as our profit expansion quite a lot.

During the period we have also been successful in managing our prices as well as our cost structure. Our operating profit rose by 28% to SEK 237 million, corresponding to an operating margin of 10.3%. The margin development of course being affected by acquisitions made in terms of amortizations and increased depreciations.

Profit for the period increased by 24% to SEK 173 million, corresponding to earnings per share of SEK 3.45 per share, meaning our EPS grew by 28% compared to the previous year. I would now like to comment per business area and I start with the components business area. Revenue and earnings in the components business continue to develop in a positive way also in the fourth quarter. Revenue increased by 42% to SEK 567 million and EBITA by 41% to SEK 69 million. EBITA margin was 12.2%. Revenue growth for comparable units was 5%. The strong contribution from acquisitions revenue explains a somewhat lower EBITA margin in the business area compared to last year. The business area's return on working capital was 68%.

For the full year, revenue increased by 39% with organic growth of 9%, EBITA increased by 36% to SEK 255 million. The subsidiary Momentum Industrial continued to show good sales and profit development during the quarter, with volume growth primarily in the automotive and mining segments, whereas a bit lower to customers within pulp and paper. Per product area, revenue increased in the largest area bearings as well as in automation and seals.

During the year, the acquisition of LocTech has been successful and has led to some new customer projects as well. The specialist companies developed positively during the quarter with stable demand and growth in both sales and earnings, acquired businesses was a great contribution to revenue growth. In general, the companies experienced a stable demand, but with a bit slower pace in project sales where customers are a bit more cautious. Also during the quarter, we had some delivery challenges that affected sales [indiscernible] (00:09:30). During the quarter, the acquisitions of Cobalch, WEH Sweden, Swerub and Helsingin Kum was completed and consolidated.

For business area services, revenue increased by 5% to SEK 104 million compared to the corresponding quarter of the previous year. Revenue for comparable units for increased by 7%. No acquisitions are included for reporting period. After a weaker second and third quarter with a decrease in comparable revenue, it was positive to see that the business area in the fourth quarter increased its top line.

This is a consequence of generally okay capacity utilization in the workshops and improved demand for the measurement technology companies. However, we also saw that the capacity utilization dropped at the end of the period. This was due partly to holiday leaves in December time and the preparation for the movement of Carl A's operations and the subsequent merger with Mekano at year end. EBITA decreased with some 29%, compared to the corresponding quarter of the previous year, which was also an all-time high quarter in terms of EBITA.

The decrease was caused by some larger workshop projects with lower margin, the mentioned merger between Mekano and Carl A. As we have said, we are conducting work in certain parts of the business area to focus our efforts with customer groups and type of contracts with the potential for increased margins.

For the full year, revenue increased by 4% with organic growth of 2%, EBITA decreased by 8% to SEK 37 million. The business areas profitability, measured as return on working capital decreased to 51%. The group's profitability, measured as return on working capital, amounted to 59% for the reporting period. The return on equity for the same period was 31%.

We continue to see a stronger cash flow for the period, compared to the previous year. Cash flow from operating activities before changes in working capital for the reporting period totaled SEK 280 million, compared to SEK 185 million for the comparable period. The change in working capital amounted to an increase of SEK 20 million for the period and it decrease by [ph] SEK 50 million (00:11:52) for the last quarter. During the reporting period,

inventories increased by SEK 20 million, whereas both operating receivables and liabilities decreased by an amount to SEK 26 million.

Cash flow from operating activities for the reporting period, thus increased to SEK 260 million, which then also includes accounting effects from IFRS 16 of SEK 65 million. We are very pleased to see that we have been able to combine a quite high increase in our business volume with a strong cash flow.

During the year, we have worked quite hard with our focus model to drive improvements in working capital management in both existing and new companies to the group. The reporting periods cash flow from investment operations amounted to SEK 436 million, the cash flow includes business acquisitions of around SEK 424 million, including a deferred payment of SEK 10 million from an earlier acquisition and net investments in fixed assets with SEK 12 million as well.

At the end of the period, the group's operational net loan liability amounted to SEK 326 million, compared with SEK 48 million at the beginning of the financial year. The difference is largely attributable to cash flow from operating activities and acquisitions carried out during the period, as well as the dividend paid during the year. Our [ph] net debt to EBITDA (00:13:21) for the rolling 12 months adjusted for accounting effects is currently at 1.2 times. Cash and cash equivalents, including unutilized granted credit facilities totaled [ph] SEK 690 million (00:13:37) at the end of the period.

Now, a few comments on the acquisitions that we completed in the last quarter of last year. And during this quarter, we completed four acquisitions, adding some SEK 100 million to revenue and 37 new employees to the group. Cobalch is located in [indiscernible] (00:13:59) in Denmark, close to Helsingør. The company is a specialist in pipe and accessories for gas, water, oil, sewage treatment plants, water works, and refineries. The assortment includes pipe, accessories, sliding supports, and now also valves and spray nozzles from BPS. The company was acquired by BPS and is a good example on how we expand our business.

WEH Sweden is distributing the products from WEH, the world's largest manufacturer of equipment for gas refueling equipment for vehicles. Situated in Gothenburg, the company was acquired by our recently acquired company ITEMS.

Swerub is a world-renowned solution provider for advanced, custom-made rubber products to the industry. Products include [indiscernible] (00:14:47), dampers, buffers, mountings to be used in advanced applications such as high performance cars and specialized industrial equipment.

Helsingin Kumi is also a company within specialty rubber products [ph] to the (00:15:03) building construction, engineering, ship, and vehicle, as well as food industries. It also represents our first acquisition in Finland. For the full year of 2023, this means that we were able to complete 11 acquisitions, adding some SEK 600 million in annual turnover to the group.

Now, I will hand back to Ulf, who will talk about our continued growth and strategy.

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## Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

Thank you, Niklas. Now, I'll give you some input about our financial targets. Moving on, we would like to discuss our financial targets and how we have delivered on them. As mentioned before, we have one target related to our growth, meaning we should grow our earnings measured on EBITA of at least 15% annually over a business

cycle. Over five years, this means we should double our earnings level. In 2022, we grew 19% and in 2023, 30%, which exceeds our goal of 15%.

The other target profitability means to achieve profitability on working capital of at least 45% measured as EBITA in relation to utilized working capital rolling 12 months. This is really a form of cash flow target. If we turn our working capital sufficiently enough and generate a good profit margin while we do so, this should generate a good cash flow from operation and the outcome for 2023 was 59%.

Generating this cash flow means that we should have an ample means to reach a third financial objective. To have a good dividend level to our shareholders, as well as being able to invest in existing and new businesses. For 2023, the board proposes a dividend of SEK 1.10 per share, with a payout ratio of 32% exceeding our target of 30%.

Our focus is to develop Momentum Group further by growing organically as well as by making carefully selected acquisitions. As you can see in the left graph, we have had a strong organic growth over time, coupled with an increase in contribution from acquisitions. We continue on the set path of developing the group with leading position in various niches. As you can see in the graph on the right side, growth in EBITA surpassing net sales growth. Thanks to improvements in comparable units as well as good acquisition track record.

Acquisition is an important driver for profit expansion and we aim to achieve earnings growth EBITA of 15% annually of a business cycle and at least double earning every five years. We will continue to develop our operation through clear internal focus on our three basic requirements; growth, profitability and development based on active ownership and decentralized responsibility and development of our coworkers. Acquisition also still a large part of our everyday life and we will add more fine companies to our group with whom we can further develop together with entrepreneurs.

We've introduced a new group structure for continued growth, profitability and development. The change strengthened the conditions for organic and acquired growth in each business area by making better use of the breadth and expertise that has been built up in the group since the listing. Since the spin-off in March 2022, we have completed 15 acquisitions and 11 so far in 2023. In order to create the best conditions for continued growth and to be more clearer reflect the strategic focus, we've made an adjustment of the group's structure based on the market sectors in which our companies operate.

We want to utilize the expertise accumulated within the group, especially on the acquisition side, and encourage knowledge sharing between companies with similar market conditions. We are therefore, divided our group into the business areas industry and infrastructure.

The companies in the industry business area offer components and related services primarily to the aftermarket and OEM customers in the industrial sector in the Nordic region. The companies are primarily resellers, but with some elements of own products and assembly with a strong focus on industrial improvements. The companies with a leading position in one or more product verticals and market niches are divided into the two business units, power transmission and specialist.

The companies in the infrastructure business area offer products, services and solutions to customers in industrial infrastructure that are critical to functioning society. The companies are resellers and service companies and often deliver complete solutions with the focus on safe operation, longer service life, and increased efficiency. The company's with leading position in one or more product market verticals and niches are divided into the two

business units, flow technology and technical solutions. The business area consists of the former business area services with the addition of certain companies that were previously part of the components business area.

I also would like to take the opportunity to thank our dedicated employees for their many outstanding contribution during the year and our customers and business partners for their continued confidence. By focusing on developing and successfully acquiring businesses in our core areas, we have not only strengthened our market position, but also welcomed new talent and skills to our team.

We are an active owner with the clear vision and we have the desire to challenge ourselves to reach new limits. We believe in the power of collaboration and innovation within the framework of our decentralized corporate responsibility. I am convinced that our impressive journey will continue in 2024.

In conclusion, we're continuing along our establishing path with earnings growth in our existing business, together with acquisitions of successful niche companies continuing to make us better than yesterday.

Thank you for your time and interest listening to our Q4 presentation, which are available with the report on our website. If you have any questions or specific requests, do not hesitate to contact us through our [ph] IR mail (00:21:07) or by phone. Thank you very much and have a nice day.

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