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Momentum Group AB (MMGR.B.SE)

Q1 2022 Earnings Call

CORPORATE PARTICIPANTS

Niklas Enmark

Chief Financial Officer & Executive Vice President, Momentum Group AB

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Welcome to the presentation of Momentum Group's Interim Report for Q1 2022. I'm Ulf Lilius, CEO from Momentum Group. And I'm here with my colleague, Niklas Enmark, Executive Vice President and CFO and we will guide you through our report. Our agenda today is to give you some information about Momentum Group. In brief, the highlights from Q1, our strategic position and of course the development during the quarter as well as our focus going forward. Momentum Group is today operating with a decentralized business model where our two business areas are components and services. Business area components, it's a group of companies working with components, services and solutions for industry with expertise in industrial improvement consisting of companies with leading specialist positions in their respective market niches. Business area services is a group of companies in Sweden offering through its services longer life and efficiency of install machines, new installations. Solution are also offered for digitize – digitize maintenance. We operate in a decentralized business model with strong local presence close to customers, and we would like to grow through development and acquisitions of sustainable businesses. Focus on aftermarket sales, specialist companies in, for example, selected product verticals and technical service companies.

Some highlights from the report, we had a good underlying demand during the first quarter in both our business areas. The global component shortage affected final delivers somewhat during the quarter and COVID-19 related sick leave, especially in our service companies affected chart hours at the beginning of the quarter. Organic sales growth in combination with good cost control and well-managed price increases from suppliers contributed to sale increase of 14% and EBITDA growth of 19% compared with the first quarter last year. And our EBITDA through working capital increased to 62%. When the extraordinary general meeting on the 23rd of March this year decided on the spinoff and the listing of Momentum Group, a new start as an independent company took place with an even clearer focus on the development of our operations within components of services for the Nordic industry. We now have better condition for expanding the business. On March 31, Momentum Group was introduced on Nasdaq Stockholm Midcap list, a new company, but with the long and proven business model and philosophy.

Our aim is to be the market's best partner for sustainable industry in the Nordic countries. Our strategic direction, Momentum Group is an active owner that focuses on developing and acquiring companies within the product and service verticals where we have knowledge, competence and experience. We have a clear growth strategy with the ambition to grow through both acquisitions and the development of existing businesses. Opportunities, we are now working to fully realize. Our strategic direction is to offer sustainable products and services that helps our customer in their everyday operations. Sustainable for us is to offer quality products with long lifetime and low energy consumption. Our value added services is combining our product offering with service, maintenance,

repair and replacement of products, as well as training a specialist expertise in order to also be sustainable in the circular economy. Our financial target is to have an EBITA growth by 15%, and to do so, we of course have to increase our sales. If we can grow 15% five years in a row, we will double our earnings. In order to do so, we have to finance the expansion. We therefore have our super efficiency target of EBITDA through working capital to be larger than 45%. This is a simplified measure of cash flow and the aim is to pay dividend of one third. We also have to pay tax, which is one third, and then we have one third left to invest, to grow and develop our businesses.

In order to grow our business, we have a framework to work by. We call it our Mind and Soul, and heart and soul. The mind and soul is to have business development in our companies through decentralized responsibility and each company employee development. We also like to be an active owner and work with our companies to find new opportunities to grow and develop the business as well as grow through acquisitions. Secondly, we like to work with heart and soul. And to achieve this, we believe very strongly in decentralize responsibility as well as the willingness to improve. We call this to be better than yesterday. And to be able to be better than yesterday, we have to work with simplicity. Now, I want to hand over to Niklas, who will guide you through our Q1 report.

Niklas Enmark

Chief Financial Officer & Executive Vice President, Momentum Group AB

Thank you, Ulf. And my name is Niklas Enmark. I'm CFO with the Momentum Group. And during the first quarter, our revenue increased by 14% compared with a year earlier period and amounted to SEK 399 million growth in comparable units was 11%. The quarter included one more trading day than the corresponding quarter in the preceding year. Contribution from acquisitions made in 2021 added 1% to top line growth. The increase in sales is related to the favorable demand here in the first quarter Topline growth. The increase in sales is related to the favorable demand during the first quarter with underlying volume growth and also attributed to price increases. Due to a global increase in demand, however, the shortage of materials and resources in some of the group's product areas continued to dampen sales to a certain extent through delivery delays during the quarter.

Despite the worsen security situation and the crisis in Ukraine, sales in the group's operations are yet to be impacted. Elevated uncertainty due to the political situation, the continue global effects of the COVID-19 pandemic, and the clear rising inflation, particularly in MGM view, make it likely that the shortage of components will continue during the second quarter, and the price hikes can be anticipated in certain areas, such as freight and shipping, as well as components. The ongoing pandemic situation at the beginning of the quarter, limited customer visits and sick leave during the period had a certain impact, especially for the companies within business area services.

Our EBITDA increased by 19% to SEK 44 million corresponding to an EBITDA margin of 11% earlier in the quarter. Our operating profit rose by 6% to SEK 37 million corresponding to an operating margin of 9.3%. Operating profit included expenses effecting comparability of SEK 4 million related to the separate listing and mainly pertaining to advisory costs, review costs and separation costs. All in all, this cost for Momentum Group now amounts to SEK 10 million compared to the estimate of SEK 13 million that we set in the prospectus estimate of SEK 30 million that we set in prospectus. And we still have some smaller costs remaining in Q2. Also, our operating profit was affected by slightly higher amortization from acquisitions. The main drivers of our profit expansion during the quarter was attributed to the organic sales development mentioned before, coupled with good cost control. During the quarter, we especially noted an increase costs from freights as well as travel and sales-related activity costs. Of course, our personnel costs were also higher due to the fact that we are approximately 100 more FTEs during Q1 this year compared to last year.

Finally, we have successfully managed to compensate for higher supply-related costs also during this quarter and we see our gross margin is improving compared to last year. Important to keep in mind, this is also partly related to mix effects from acquisitions where we have a higher degree of service sales.

A few comments per business area. Firstly, the components business area. Revenue rose by 8% to SEK 322 million compared with the corresponding quarter of the preceding year. Revenue for comparable units measured in local currency and adjusted for the number of trading days, rose by approximately 6%. EBITDA amounted to SEK 42 million, corresponding to an EBITDA margin of 13%. The business areas profitability measured as return on working capital increased to 75%.

Looking at the individual companies in Momentum industrial sales increased in all product areas; bearings, automation, transmission and sales with particularly strong demand in sales at the end of the quarter. Among the customers is the steel sector and other machine manufacturing experienced the greatest increase during the quarter. The specialist companies base Etab and JNF all trended positively during the quarter, particularly through increased customer activity in system sales and projects. However, the impact of delivery delays and material shortages, primarily within hydraulics and pneumatics led to deliveries of certain complete orders systems being postponed.

Turning to our second business area, business area services, our revenue increased by 52% to SEK 82 million. This increase was partly due to closing of the acquisition of three electromechanical service workshops from assembling in April of last year. That is accounted for us organic revenue. However, also adjusted for this, we saw good development in sales.

EBITDA amounted to SEK 7 million corresponding to an EBITDA margin of 8.5%. The business areas profitability measured as the return on working capital amounted to 47%. The decrease compared to last year was a result of the somewhat lower EBITDA margin on the rolling 12 months basis, partly attributed to the costs for the integration of businesses, as well as somewhat higher level of capital tied up in acquired operations.

We are working to increase the profit margin and we saw a strong contribution from Rörick as the acquisition workshops from assembly now is fully integrated and we have started to see a positive effect. Also in our other larger company [indiscernible] were slightly improved performance in Q1. However, the businesses in our service operation experienced challenges in our service operation experienced challenges as a result of COVID-19 related sickness resulting in a negative impact on workshop activities and customer cultivation, especially at the beginning of the quarter. Positive to note is that the level of incoming work and enquiries remained favourable.

Looking at the group's profitability, cash flow and financial position and the group's profitability measured as return on working capital increased to 62% for the most recent 12 month period. Cash flow from operating activities before changes in working capital for reporting period totaled SEK 13 million. The decrease compared with the preceding year was primarily the result of paid tax of SEK 38 million, a large proportion of which concerned supplement repayments regarding [ph] tax for the last financial year. During the period, inventories increased by SEK 4 million, whereas operating liabilities decreased by SEK 1 million. All in all, this means that cash flow from operating activities for the reporting period amounted to SEK 8 million. Cash flow from financing operations includes net change in interest bearing liabilities of SEK 12 million, mainly related to IFRS 16 effect. Cash flow from investing activities was zero during the quarter. Looking at the financial position at the end of the period, the group's operational net loan receivable amounted to SEK 57 million. Cash and cash equivalents, including unutilized granted credit facilities totaled more than SEK 1 billion, meaning that we have ample room for continued growth.

With that, I would like to hand over to you again, Ulf.

Ulf Christian Lilius

President & Chief Executive Officer, Momentum Group AB

Thank you, Niklas. Now, I'll give you some input about our focusing going forward.

We have identified a number of product and service verticals where we would like to be present. We have then divided them into three focus areas. One is the aftermarket where we today combine a value offer with a broad and deep product offering and related services with expertise in industrial improvements. Secondly, we focus on specialist companies with expertise in one or two product verticals. For example, [indiscernible] in hydraulics in The third focus area is technical services, where we today have companies that do maintenance service on and off customer sites like digitalized maintenance, refurbishment of gear, motor pumps, generators as well as spindle service or decentralized business model is the key to the success and continued development of the business within each company. And we would like to be a niche compounder within our selected product and service verticals.

Our feeling is that we have the critical success factors in place to succeed with our strategy. We are financially strong with room for acquisitions. We have a strong cash flow from operations and the possibility of acquisition financing through a revolving facility of SEK 800 million. We are principal owners who want to grow the group in our desired position. We have a good industrial network, mainly in Sweden, but also in Denmark, Norway and Finland. We have a proven process and resources and a total around 10 employees who work on acquisition in various forms in place to evaluate and implement acquisitions, as well as a proven onboarding model with decentralized performance and business responsibility. And we have competence in our field at several levels from the board and management as well as in our companies.

Finally, I would like to thank you for your time and interest listening to this presentation.

The presentation shown today and the report is also available on our website. If you have any questions or specific requests, do not hesitate to contact us through email or by phone. Once again, thank you very much for your time.

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