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Momentum Group AB (MMGR.B.SE)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

Niklas Enmark
Chief Financial Officer & Executive Vice President, Momentum Group AB

MANAGEMENT DISCUSSION SECTION

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Welcome to the presentation of Momentum Group's Interim Report for a First Quarter in 2023. I'm Australia's 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. Our agenda today is to give you some information about the highlights from Q1 and the development during the quarter, as well as information about the financial targets. We will round off with our growth strategy. And now to the highlights of the report.

We had a strong quarter in the start of our financial year. The business situation remained satisfactory for operations. The anxiety that characterizes the market has not yet had any visible effect on our customers actions. Acquisitions have also contributed to the positive development for several of our new companies showed strong figures. It is also very pleasant to see that HNC group, which had some challenges in the previous year, is now once again seeing a better demand, which in combination with implementing cost reductions, led to an improved result.

During the quarter, we acquired three new companies Hydmos, LocTech and Agera, which all strengthen our position within their respective industries. With continued high customer activity, good demand and acquisitions all contributed to sales increasing during the first quarter by 26% compared to last year, of which 10% for comparable units. Thanks to high customer activity, improved margins and good cost control. EBITDA growth was 36% compared to the first quarter of the preceding year. The cash flow from operating activities also strengthened in the quarter, mainly thanks to the continued profit growth. Our profitability measure EBITDA through working capital, which remains at high levels, ensures a focus on keeping low and stable working capital within all of our operations during the quarter, we further sharpened organizations to optimize for future growth opportunities. Today we'll work with acquisitions at group level as well as business area level and subsidiary level with clear niche strategies to enable organic growth and acquisitions. We are constantly working to make it as easy as possible for companies to develop while at the same time giving all employees freedom and personal responsibility to handle the changes themselves. In my opinion, this is the best way to get people to grow and get involved. I will now 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. During the first quarter, revenue increased by 26% compared with the year earlier period and amounted to SEK 502 million. Growth in comparable units was 10%. As Ulf mentioned, we continue to see high customer activity on health and human in our markets in the Nordic region. The shortage of components that characterized the previous year has stabilized and in some cases also improved, but is still causing long delivery times in certain product areas. The companies in the group are working diligently to secure higher delivery capacity and to compensate for pricing cost increases. During the quarter we also had a strong contribution from acquisitions, adding an additional 13% to revenue growth. During the quarter Hydmos, Agera and LocTech were consolidated. The period also included one more trading day versus last year. Our EBITA increased by 36% to SEK 60 million during the quarter, corresponding to an EBITA margin of 12%. Contribution to the strong profit growth margin of 12%. Contribution to the strong profit growth [indiscernible] increased revenue, both organic and from acquisitions, as well as improvement in margins despite the inflationary cost increases and continued price increases from suppliers. Significant increases in profits were seen in both business areas compared to previous year. Operating profit rose by 49% to SEK 55 million, corresponding to an operating margin of 11%. Operating profit was charged with amortization of intangible non-current assets of SEK 5 million arising in connection with acquisitions and with depreciation of right of use assets and intangible non-current assets of SEK 14 million.

For the last 12-month reporting period, our revenue rose by 20% to SEK 1.8 billion, with EBITDA increasing by 24% compared to the corresponding rolling 12-month period. EBITDA margin increased to 11.9%. Earnings per share rolling 12 months was SEK 3 and increased by 30% compared to the corresponding rolling 12-month period. As previously informed, the Board of Directors has proposed a dividend of SEK 1 per share to the general meeting now in May.

A few comments per business area. Firstly, the Components business area, sales and earnings in the Components business area were positive during the first quarter with sales increasing by 27% to SEK 410 million and EBITDA increased by 33% to SEK 56 million. EBITDA margin increased to 13.7%, and revenue growth for comparable units was 11%. The business areas return on working capital was 69%.

Looking at the individual companies momentum industrial reported health sales growth in the quarter supported by growth in all customers and across their product segments. Worth mentioning also is the fact that momentum last year recorded all time high revenue and earnings in March.

So a strong ending to the quarter, especially given the fact that the company also launched its upgraded ERP system during the month. In addition, the acquisition of LocTech was completed during the quarter. The specialist companies generally continue to perform well during the quarter with good demand and growth in sales and earnings. There was a continued impact from supply disruptions, mainly affecting the possibility to complete certain projects which are therefore stretched out to be confinement. Positive also is an improved demand for HNC group in Denmark after a period of lower activity in the customer side, which we commented on in the last report, this in combination with implementing cost reductions, increase the result. Also, the acquisitions of Hydmos and Agera were completed in Q1.

Looking at business area services and business area performed well during the quarter, especially considering that the first quarter is often due to seasonality a bit slower in activity level. Also this year, the impact from sick leave was not as significant as last year's first quarter. We saw stable growth in both sales and earnings for most of the operations. Revenue rose by 17% to SEK 97 million SEK compared with the same quarter last year, and revenue for comparable units increased by 9%. About the largest companies in the business area, Rörick, showed high capacity utilization over the quarter, whereas the activity level in Mekano gradually picked up during the quarter after relatively slow start. EBITA amounted to SEK 10 million corresponding to an EBITA more done 10.3% during the quarter. The increase was due to relatively high level of capacity utilization overall, coupled with the high degree of components sets. The business areas profitability and assured us return on working capital continued to improve and stood at 66%. Rounding off with some financial metrics for the group, the group's profitability measured us return on working capital amounted to 62% for the rolling 12-month period. The return on equity for the same period was 31%. Positive to note is the stronger cash flow for the period. Cash flow from operating activities before changes in working capital in the quarter increased to SEK 58 million. One factor being the more normal level of tax payments this year than the loss that we had commented on earlier.

During the period, working capital was unchanged, despite the increase in revenue, with inventories in operating receivables increasing by SEK 1 million each and operating liabilities increasing by SEK 2 million. Accordingly, cash flow from operating activities for the reporting period amounted to SEK 58 million.

Other items that affected the cash flow during the period were acquisitions of SEK 17 million. If there is 16 effects on the cash flow, it's in total, of course, zero, but with a positive contribution to operations of SEK 40 million and the negative effect on financing in the same amount. Looking at our financial position in the group, at the end of the period, the group's operational net loan liability amounted to SEK 22 million.

Cash and cash equivalents including unutilized granted credit facilities totaled SEK 987 million meaning that we still have ample room for continued growth and a strong financial position.

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Thank you, Niklas. Now, I will give you some input about our growth strategy going forward. Since our listing in March 2022, we have acquired seven companies with a total annual turnover of almost SEK 220 million, and they will be managed as independent niche companies, all in accordance with our philosophy of decentralized business responsibility. In the first quarter, we acquired Hydmos, which has a product offering in advanced hydraulic and gas systems with high pressures. Agera, which is an independent reseller in power transmission and LocTech supplier for seals for rotating aesthetic applications. A decentralized business model is a key where we develop each company individually based on its own merits and as a group, build up competencies in several industrial niches.

Looking ahead, we have a strong platform and good businesses, which means we can work with a strong focus on our selected product or service verticals in our acquisition process. Our focus is to develop Momentum Group further in 2023 by growing organically as well as by making carefully selected acquisitions. We continue on the set path of development, the group with leading position in various niches and we are at the same time well prepared for if a slowdown were to affect our operations.

Our financial target is to have an EBITDA 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 EBITDA through working capital to be larger than the 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 around one-third and we have one-third left to invest to grow and develop our businesses. And I'm therefore happy that the EBITDA through working capital remains stable at 62% in order to be able to finance through working capital remains stable at 62% in order to be able to finance more acquisitions with our own generated cash flow.

Thank you for your time and interest listening to this presentation, which are available with the report on our website. If you have any question or specific requests, do not hesitate to contact us through our IR mail or by phone. Later on, you will also be able to listen to Q&A that we have received during the day. Thank you very much.

QUESTION AND ANSWER SECTION

Q

So, welcome back. We have received some questions on our Q1 report. And I will ask these questions and we'll answer them. So firstly, what percentage of organic growth comes from price increases?

A

As we have also stated before, it is very difficult to give an exact answer as the [ph] composition between volume and price increase, as the products that we sell changes quite a lot from time to time due to them being spare parts to a large extent. However, as we'll also comment in the report, we have been working with and successfully compensated for the price increases from suppliers.

Q

Thank you. How do you see the price situation in the future, does it slow down?

A

As the costs for the price increases to some extent has stabilized and in some cases [ph] calmed down, we hope that the price volatility in the market will cool a bit. Besides the obvious risk with the high degree of price volatility to safeguard the gross margins, there is also substantial resources and costs that need to be developed to the actual work updating price risk, renegotiation agreements, et cetera.

Q

Thank you. Can you explain a little how things are going for the companies like Mekano and Rörick?

A

If we start with Rörick, as you know, the acquisition of the old [indiscernible] was a substantial addition to the Rörick business. The management in Rörick has worked really hard, integrating the business in a very successful way to make Rörick into the number one electromechanical workshop in Sweden today for service of heavy and complex electrical motors, generators, transformers, pumps and spindles.

As regards Mekano, that business is a bit different from Rörick, with a stronger focus on field service, especially targeting water and waste plants, chemical processing, et cetera. As such, we are more dependent on weather and wind, meaning that Q1 is often a rather slow period for Mekano.

Q

And how do you view your continued acquisition markets in 2023?

A

Well, we continue to see a good M&A market, no changes really from before. We're working very much with our outreach work and have many meetings. The deal flow from M&A advisors is stable.

Q

Finally, the last question What is the main reason why Momentum Industrial ended the quarter so strongly?

A

Well, there are several reasons, of course, but the high level of availability of products, a strong commitment to its customers over time, highly skilled employees, good support from its suppliers and a lot of fighting spirit.

Unverified Participant

Thank you. And so that ends the Q&A session for this report. And we would like to thank you for listening into the report and the Q&A.

Unverified Participant

Thank you. And as you can see, if you have any more questions, don't hesitate to contact us on this address or email. Thank you very much.

Unverified Participant

Thank you.