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# Momentum Group AB (MMGR.B.SE)

Q1 2024 Earnings Call

### **CORPORATE PARTICIPANTS**

**Ulf Christian Lilius** 

President & Chief Executive Officer, Momentum Group AB

**Andreas Cajbrandt** 

Group Accounting Manager, Momentum Group AB

### MANAGEMENT DISCUSSION SECTION

#### **Ulf Christian Lilius**

President & Chief Executive Officer, Momentum Group AB

Welcome to the presentation of Momentum Group's Q1 Report for 2024. I'm Ulf Lilius, CEO of Momentum Group, and I'm here with my colleague, Andreas Cajbrandt, our Group Accounting Manager. Niklas have taken the liberty to go on holiday. So, today, me and Andreas will guide you through our report. Our agenda today is to give you some information about the highlights from the Q1 and the development during the quarter as well as financial information. We will round off with some information about us going forward.

Now, to the highlights of our report. Our businesses continue to perform well and display their ability to adapt to current market situations. The business climate in our main markets in the Nordic region remained robust during the first quarter of the year, although economic uncertainty has affected the market for some time, causing some customers to become more cautious. And Industry, which is our primary customer group, has continued to show stable demand. In general, our company has displayed a strong delivery capacity during the quarter and delivered solid sales growth.

Due to the continued uncertainty in the market, some customers and customer segments are adopting a wait-andsee approach, especially when it comes to larger projects and system sales. While our aftermarket business, which accounts for approximately 90% of sales, is showing greater resilience, a challenging international security situation, historically high interest rate, and customer caution are expected to continue to affect the market.

Our companies are continuously taking measure to adapt to the current market climate and are confirming the strength of our decentralized structure with decision making taking place close to the customers and suppliers.

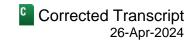
The group's operations delivered favorable sales growth with an organic revenue growth of 5% in the quarter. Recently acquired business further strengthened this growth, resulting in a total year-on-year increase in revenue of 32%. Revenue growth combined with our effective cost control led to a 25% increase in EBITA compared with the same quarter last year, which included one trading day more than this year.

Although some product segments and export-oriented customers, especially in pulp and paper, displayed a low level of activity, this was offset by more positive development in other sectors where companies worked closely with the customers to be able to adapt quickly to changes in demand patterns and are very restricted when it comes to costs.

Now, I will hand over to Andreas who will guidance you through our Q1 report.



Q1 2024 Earnings Call



#### **Andreas Cajbrandt**

Group Accounting Manager, Momentum Group AB

Thank you, Ulf. During the first quarter, revenue increased by 32% compared to the corresponding period previous year and amounted to SEK 661 million. Growth in comparable units was 5% and contribution from acquisition amounted to SEK 144 million, corresponding to a 29% revenue increase.

The quarter included one trade day less than the previous year. As Ulf mentioned, we saw stable demand for products and services across most customer segments during the quarter. However, it is still noted that within certain product segments and mainly within paper and pulp, that some companies are facing a weaker demand. To a great extent, that would offset by a more positive development in other sectors.

Some customers are also slightly more cautious, which is seen especially in companies with a higher portion of project and system sales. The aftermarket business, which accounts for approximately 90% of group revenue, has shown greater resilience to a somewhat weakened economy. The Easter effect had, of course, a negative impact on revenue in March. However, adjusted for the number of trading days in the month, we saw stable growth for comparable units and a strong ending to the quarter.

As we also have stated before, we see fewer and lower price increases in the market from our suppliers, pointing to a more stable market. It is also worth noting that companies have [ph] upheld (00:04:10) a generally good delivery capacity and the overall ability to consistently deliver products and services remained strong throughout the quarter.

For some companies within the Infrastructure business area, there is a seasonally weaker demand during the first quarter and which is highly related to maintenance activities for customers within the power generation segment.

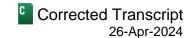
Turning to group earnings, our EBITA increased by 25% to SEK 75 million compared to the same quarter previous year and corresponding to an EBITA margin of 11.3%. The increase in EBITA is derived from positive development in comparable units, both volume growth with good cost control as well as contribution from acquisitions. The slight decrease in EBITA margin compared to the same period previous year is explained predominantly by acquisitions within the Infrastructure business area, where we also have the added effect of a first quarter that is seasonally weaker.

Operating profit rose with 18% to SEK 65 million and corresponding to an operating margin of 9.8%. Operating profit was charged with amortization of intangible assets arising from acquisitions by SEK 10 million and with depreciation related to right-of-use assets and tangible non-current assets by SEK 22 million. Net profit amounted to SEK 43 million and resulted in earnings per share of SEK 0.85 per share and was unchanged compared to the same period last year. This, in turn, is explained by increased financial cost due to the acquisition and higher amortization of intangible non-current assets.

For the rolling 12 months period, the revenue increased by 33% to SEK 2.5 billion and EBITA rose by 27% to SEK 280 million compared to the corresponding period previous year. The EBITA margin was 11.4%. Earnings per share was SEK 3.45 and increased by 15%. As previously announced, the board of directors have proposed a dividend of SEK 1.1 per share to the annual meeting in May, a dividend increase of 10% compared to last year.

So, some comments per business area and, firstly, the Industry business area. Revenue rose by 11% to SEK 441 million and the growth in comparable units was 5% for the quarter. EBITA increased with 11% to SEK 59 million and corresponding to an EBITA margin of 13.4%. The return on working capital was 69% for the rolling 12 months period.

Q1 2024 Earnings Call



Looking at each business unit, Power Transmission, comprising Momentum Industrial, reported a stable growth in sales and mainly within the automotive segment, but also a good development within the metal and mining sectors. As pointed out earlier, we saw a weaker demand for the paper-and-pulp industry.

And looking at the product side, increases were noted primarily in mechanical seals where also last year's acquisitions contributed positively to the development. In the Specialist business unit, we saw strong development during the quarter with growth in both sales and earnings for comparable units. Besides that, acquired businesses contributed with a turnover of SEK 33 million with good margins.

Generally, we saw a stable demand and exposure to various customer segments is also a strength. During the quarter, the acquisition of PW Kullagerteknik was completed.

Turning to the Infrastructure business area. Revenue increased by 102% to SEK 224 million and the growth in comparable units was 5% for the quarter. EBITA rose by 85% to SEK 24 million and corresponding to an EBITA margin of 10.7%. The return on working capital was 55% for the rolling 12 months period.

Within the business unit, Flow Technology, we saw a stable start to the year, but, as pointed out earlier, for some businesses, the first quarter is seasonally weaker and especially for businesses such as Askalon and Conclean. A significant part of the business unit were acquired during the previous year and acquisitions contributed SEK 111 million to the revenue in the quarter. In March, we signed an agreement to acquire Sikama and its closing is scheduled to take place in early to mid-May.

The companies within business unit, Technical Solutions, generally showed stable development during the first quarter. Rörick's larger workshops in Köping and Örebro demonstrated good capacity utilization and with growth in both revenue and earnings.

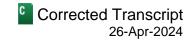
For Mekano, revenue decreased slightly in the quarter, but improved margins and efficient cost control led to an increase in EBITA, also in line with initiatives implemented in the business during 2023. The positive trend for the operations within measurement technology continued during the quarter, with gradually improving customer activity and demand. Following the end of the quarter, KmK Instrument and ZRS Testing Systems was acquired, which we believe will further strengthen in this area.

To highlight some key financial metrics for the group, with a rolling 12 months period, the group's profitability, measured as return on working capital, amounted to 59%. For the same period, the return on equity was 29%. Looking at the cash flow, the cash flow from operations before changes in working capital increased to SEK 65 million and that also included a high level of tax payment where SEK 8 million was related to the 2022 financial year. The changes in working capital amounted to SEK 4 million, resulting in the cash flow from operating activities amounting to SEK 61 million.

Other items affecting the cash flow were cash flow in our investing activities; SEK 6 million related to acquisitions, SEK 10 million related to the settlement of deferred payments arising from acquisitions and SEK 3 million related to the net investment in non-current assets. All in all, the cash flow from investing activities amounted to SEK 19 million.

Cash flow from financing activities amounted to SEK 46 million, all related to the net change in interest-bearing liabilities. IFRS 16 effects is in total a zero effect, but will have positive effect in cash flow from operating activities of SEK 19 million and with the same negative effect in cash flow from financing activities.

Q1 2024 Earnings Call



Turning to the financial position. The group net loan liability amounted to SEK 293 million compared to SEK 326 million in the beginning of the year. This change is primarily driven by the cash flow from operating activities and acquisitions during the quarter. The total cash and cash equivalents, including unutilized approved credit facilities, amounted to SEK 713 million at the end of the quarter. In that amount, it is not included the increase in the group credit facility by SEK 100 million to SEK 300 million, which took place in April. All in all, meaning that we have plenty room for continued growth and with a solid financial position.

Now, I hand over to Ulf who will give you some words on the final part of the presentation.

#### **Ulf Christian Lilius**

President & Chief Executive Officer, Momentum Group AB

Thank you, Andreas. And I will give you some input about going forward. We have introduced a new group structure for continued growth, profitability and development. The change strengthens 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 increased our revenue with SEK 1 billion and completed 19 acquisitions and 4 so far this year. In order to create the best conditions for continued growth and more clearly reflect our strategic focus, we have made an adjustment of the group structure based on the market sectors in which our companies operate. We want to utilize the expertise accumulated within the group, especially on the acquisitions side and encourage knowledge sharing between companies with similar market conditions.

The companies in Momentum Group offer components and related services primarily to the aftermarket customers. Our companies are mainly resellers, but with certain owned products and system construction as well as service companies which deliver solution with the focus on secure operation, longer service life and increased efficiency. As of last year figures, the MRO market stands for 90% of our sales. And of our total sales, 15% are service, repair and maintenance. Local manufacturing assembly and owned brands stands for 10% of the total sales. Regarding the product verticals, we have had a change that valves is today our second largest vertical with, for example, the joining of BPS and Askalon to our group.

Acquisitions are part of our DNA and the acquisition of PW Kullagerteknik, a specialist in ball and rolling bearing, was completed during the quarter. After the end of the period, we announced two acquisitions within measurement technology, KmK Instrument and ZRS Testing Systems, and the acquisition of Sikama, which is a specialist in gas and fluid handling.

With 4 acquisition announced so far this year, we have completed 19 acquisition, as I mentioned before, since our IPO. These have contributed significantly to the group's favorable revenue and EBITA growth, but have also resulted in increased cost in form of depreciation and interest expenses.

Our stated ambition is to grow with financial stability focused on our loan-to-value ratio and acquisition-related cost to create good growth in earnings per share for shareholders over time. Our strong financial position enables continued acquisition expansion. And organization and structural capital combined with stable companies and efficient cash flow generation give us excellent condition to maintain a good acquisition rate in 2024 as well.

In summary, we're continuing our established path on developing and acquiring successful sustainable companies in the Nordic region.

Thank you for your time and interest listening to our Q1 presentation, which are available with the report on our website. If you have any question or specific request, do not hesitate to contact us through our [ph] ER (00:15:10) mail or by phone. Thank you once again.

#### QUESTION AND ANSWER SECTION

#### **Ulf Christian Lilius**

President & Chief Executive Officer, Momentum Group AB

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We've received some questions. So, welcome to the Q&A session. The first question is that we mentioned in the report the seasonally weaker first quarter for some of the businesses such as Askalon and Conclean. Can you elaborate on the reason behind this?

There are various reasons, of course, for this seasonability (sic) [seasonality] (00:15:39). For Askalon, the background is the customer composition with a relatively large portion of customers in power generation such as nuclear power plants. These operations normally run on full or close to full capacity during the winter season, meaning the maintenance window is later during the season starting in Q2 when the weather is warmer.

For companies such as Conclean and, to some extent, BPS, selling system for underground placement, means that the activity is slower during the winter season where the digging opportunities are worse.

We've also received a question about that our financial costs have increased compared to the corresponding period, of course, related to acquisition, but are there other effects as well?

Our financial cost increased to SEK 11 million in Q1 compared to SEK 2 million last year. Out of this cost, approximately half is related to interest expenses. Other items include translation effects on external loans in Danish kroner and euro of approximately SEK 3 million and then IFRS 16 effects of SEK 2 million. Our interest rate is based on the underlying [ph] EBO (00:16:50) rate with an interest margin markup on the same level as last year.

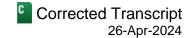
And then, we have got a question about acquisitions. And so far this year, you have presented four acquisition. You mentioned a normal acquisition pace of at least three to five acquisitions every year. Does this mean that there is one more to go this year, or can we expect the same number in last year that is 11 acquisitions?

Yes, that's correct. We have one left to five. But the number of acquisitions we do during the quarter is dependent on a number of factors. But ultimately, it's dependent on the pipeline in our M&A activity level. I feel confident with our M&A pipeline. And resource-wise, we're building up our own capacity. [ph] During the autumn (00:17:34), we will increase the M&A team with an in-house legal counsel, for instance. All in all, I see that we are in a good position to leverage on a good pipeline, strong financial position, and internal competencies, and to be – and to keep a good pace also for the remainder of the year.

One question is that I mentioned in the report the relatively weak demand from pulp-and-paper industry, whereas other sectors such as automotive, and mining, steel are increasing. Is this a typical situation given the economic cycle, or are there other factors contributing?

Well, if you look at the long-term development, the pulp-and-paper industry in Sweden has underperformed other industrial segments in terms of industrial production. These last couple of years have been even tougher. This

Q1 2024 Earnings Call



has caused closing down of plants and more price pressure in the market. Despite this, Momentum Group has been able to keep a healthy volume and a margin. But we see that the volume increase coming from other sectors.

#### **Ulf Christian Lilius**

President & Chief Executive Officer, Momentum Group AB

Thank you for listening to our Q&A session. And if you have any more question, don't hesitate to contact us. Have a nice day.

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