

17-Jul-2024

# Momentum Group AB (MMGR.B.SE)

Q2 2024 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 Interim Report for 2024. I'm Ulf Lilius, CEO for Momentum Group, and I'm here with my colleague, Niklas Enmark, 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 Q2 and the development during the quarter as well as financial information. We will round off with about us going forward as well as the acquisitions done in the quarter. Now to the highlights in our report.

The business situation in our main markets in the Nordic region was generally stable during the second quarter of the year. The market continued to be characterized by economic uncertainty, with cautious customers at somewhat lower level of activity in some customer segments.

The group's primary focus aftermarket products to Swedish industry continued to generate stable sales in general while sales of components were weaker. The group posted a positive sales trend with stable demand for the company's products and services in most customer segments during the quarter. A low level of activity in certain products and among certain export-oriented customers, particular in pulp and paper, continues to characterize demand. This has been offset, however, by increased sales to other customer segments such as automotive and the segments that are partly new to the group, such as power generation and defense-related industries.

Markets outside Sweden, particularly Denmark, were characterized by weak demand during the quarter. This was partly offset in Denmark by strong performance for customers in the pharmaceutical industry. The group's revenue increased by a total of 41% year-on-year, where acquired businesses contributed in particular to this growth compared to last year, which contained one less trading day.

EBITA increased by 35% compared with the same quarter last year. Acquired businesses contributed to earnings growth during the quarter, while comparable companies successfully managed to match a somewhat lower organic growth rate with corresponding lower cost increases to post stable earnings. In the prevailing market, we've continue to deliver strong cash flow and healthy profit growth per share. This once again demonstrates the strength of our decentralized business model.

Now, I will hand over to Niklas, who will guide you through our Q2 report.

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## Niklas Enmark

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

Thank you, Ulf. During the second quarter, revenue increased by 41% to SEK 773 million. Growth in comparable units was 1% and contribution from acquisitions amounted to SEK 208 million. The quarter included one trading day more than the previous year.

As Ulf mentioned, we saw a stable demand for products and services across most customer segments during the quarter, a low level of activity in certain product segments and among certain export-oriented customers, particularly in pulp and paper, continues to affect demand. This has been offset, however, by increased sales to other customer segments such as automotive industry and to segments that are partly new to the group such as power generation and defense-related industries.

Markets outside of Sweden, particularly Denmark, were characterized by weak demand during quarter. This was partly offset in Denmark by strong performance for customers in the pharmaceutical industry. Demand in the infrastructure business area was stronger in the second quarter following seasonally weaker demand in the first quarter. Some customers are also slightly more cautious, which is seen especially in companies with a higher portion of project and [ph] OEM (00:03:48) related sales.

The aftermarket business, which accounts for approximately 90% of group revenue has shown greater resilience through the economic cycle. Overall, the companies in the group displayed good delivery capacity during the quarter and purchasing processing costs increased at the moderate rate.

During the quarter, the acquisitions of KmK Instrument, Hydjan, WH-Service, Sikama, ZRS Testing Systems and Minrox were completed and consolidated for parts of the period.

Looking at the earnings in the group. During the quarter, our EBITA increased by 35% to SEK 88 million, corresponding to an EBITA margin of 11.4%. It was acquired businesses that contributed to earnings growth during the quarter. While comparable companies successfully managed to match a somewhat lower organic growth rate with corresponding lower cost increases in order to post stable earnings.

Operating profit rose by 31% to SEK 77 million, corresponding to an operating margin of 10%. Included in operating profit are the higher charges for amortization of intangible non-current assets as well as depreciation of right of use assets, intangible and non-current assets both impacted by acquisitions completed. Acquisition-related expenses had an impact of SEK 2 million SEK as costs in the quarter.

Profit of differential items totaled SEK 70 million, impacted by higher financial expenses due to higher borrowing in connection with acquisitions and higher interest expenses. Earnings per share increased by 17% to SEK 1.05 for the quarter.

Accumulated for the year-to-date over a six-month period, our revenue increased by 36% to more than SEK 1.4 billion, where growth in comparable units was 3%, and acquisitions added an additional SEK 352 million revenue. The number of trading days were the same as last year.

Our EBITA increased by 30% to SEK 163 million, corresponding to an EBITA margin of 11.4%, whereas operating profit rose by 25% to SEK 142 million, corresponding to an operating margin on 9.9%. Acquisition-related expenses had an impact of SEK 4 million in the period. Profit after financial items totaled SEK 125 million, and earnings per share increased to SEK 1.9 per share for the period.

And now we turn to our two business areas, Industry and Infrastructure. We start with Industry and there we have our two business units, Power Transmission and Specialist. And within Power Transmission, development of sales and earnings which consists of the company momentum industrial were positive during the quarter. We are continuing to see volume growth, particularly in the automotive segment from several customers.

Also sales through defense-related industries although still relatively small or increasing its share of sales. At the same time, the weaker performance of pulp and paper customers are continuing, which we have commented on this last quarters. Also during the quarter, sales to metal and mining customer were somewhat weaker, but this is related to a number of larger projects deliveries in the comparative period that were not repeated this quarter.

The companies in the specialist business unit displayed a stable sales and earnings level for comparable units during the quarter. In addition, acquired businesses contributed with revenue of SEK 25 million, which also includes the acquisition of Hydjan Oy which was completed during the quarter. The Swedish businesses noted generally strong demand, while demand was weaker for the Danish businesses that also are relatively more focused on project sales and sales to OEMs.

Revenue rose by 8% in total to SEK 446 million compared with the same quarter last year. Revenue for comparable units in local currency and adjusted for the number of trading days were unchanged compared to the previous year. EBITA amounted to SEK 61 million corresponding to an EBITA margin of 13.7%. The business areas profitability measured through total working capital amounted to 69%.

And if we now look at our Infrastructure business area and start with Flow Technology, companies within Flow Technology generally performed well during the quarter with favorable demand in Sweden. It was positive to note that demand was stronger in the second quarter following the seasonally weaker demand in the first quarter. Demand in Denmark and Finland was somewhat weaker. This is affecting the largest company in the business unit, Askalon, and it's mostly related to project related business, whereas the aftermarket business is performing better.

Also in Denmark, that whole market is still affected by the very strong demand within their pharmaceutical sector, which mitigated the lack of demand from other sectors. It is important to keep in mind that the business area is highly impacted by the fact that a lot of the businesses are inorganic compared to last year, and especially so for the flat – Flow Tech business unit. Acquired businesses contributed SEK 144 million to revenue for the quarter, which also includes the acquisitions of Sikama and Minrox that we completed during the quarter.

Within Technical Solutions, revenue increased from comparable units coupled with stable earnings during the second quarter for the workshop's capacity utilization in major workshops in Köping and Örebro was favorable with revenue and earnings growth. Revenue declined somewhat for other workshops, but earnings were stable, thanks to the initiatives implemented in the operations.

Demand for the companies specializing in measurement technology and control also remain positive during the quarter. Also for this business unit, the contribution from acquisitions have increased, adding SEK 40 million to revenue for the quarter, including the acquisition of KmK Instrument, WH-Service and ZRS Testing Systems that were completed during the quarter.

In total, revenue rose by 141% to SEK 332 million compared with the same quarter of last year. Revenue for comparable units measured in local currency and adjusted for the number of trading days, increased by 4%. EBITA increased by 150% to SEK 35 million, increasing the EBITA margin to 10.5%. The business areas profitability measured as return on working capital amounted to 58%.

And to round off, I would like to highlight some key financial metrics for the group. For the rolling 12-month period, the group's profitability measured as return on working capital amounted to 59%. And for the same period, the return on equity was 29%. Looking at the cash flow for the first six months, the cash flow from operations before changes in working capital increased by SEK 30 million to SEK 153 million. In that is included a higher level of tax payments of SEK 15 million compared to last year.

The increase in working capital amounted to SEK 20 million during the period, resulting in a cash flow from operating activities of SEK 133 million, an increase of SEK 21 million during the reporting period compared to the previous reporting period.

Included in this are positive effects from IFRS 16 in total of SEK 39 million compared to SEK 31 million for the previous year. Cash flow from investing activities for reporting period amounted to SEK 108 million and cash flow from – cash flow includes acquisitions of SEK 90 million, settlements of deferred payments regarding acquisitions of SEK 12 million and net investments in non-current assets of SEK 6 million.

Cash flow from financing activities was, besides acquisitions, affected by the corresponding negative effect from IFRS 16, as mentioned above, but of course also the dividend paid of SEK 56 million during the quarter.

Turning to the financial position. The group's net loan liability amounted to SEK 381 million compared to SEK 326 million at the beginning of the year. The total cash and cash equivalents, including unutilized approved credit facilities, amounted to SEK 731 million at the end of the quarter, which then includes the increase in the group's credit facility of SEK 100 million to SEK 300 million that took place in April.

And now, I'd like to hand over to Ulf who will give you some final words from the last part of the presentation.

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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 organization and acquisitions. We have introduced a group structure for continued growth, profitability and development. The structure 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 more than SEK 1 billion and completed 22 acquisitions and 7 so far this year and welcome more than 300 experienced colleagues. In order to create the best conditions for continued growth and to 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 acquisition side, and encourage knowledge sharing between companies with similar market conditions.

Acquisitions are part of our DNA and the six acquisitions during the quarter proves that. The acquisitions of KmK Instrument, Hydjan, WH-Service, Sikama, ZRS Testing Systems, and Minrox were completed. These companies clearly represent the focus on establishing a presence in several interesting customer segments and our shared goals, a strong business culture, being a leader in our areas, focus and profitability, and the desire to improve. With 7 acquisitions conducted so far this year, we have completed 22 acquisitions since our IPO just over two years ago and that have contributed to the group's excellent performance in terms of revenue and EBITA growth.

This also means that we have succeeded in creating a healthy profit growth per share for shareholders, something that we also noted during the second quarter.

Continued healthy cash flow during the reporting period coupled with our financial position is enabling us to expand and has provided us with excellent prerequisites to maintain a favorable acquisition rate.

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

Thank you for your time and interest listening to our Q2 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 IR email or by phone. Thank you very much once again and have a nice summer.

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