

18-Jul-2025

Momentum Group AB (MMGR.B.SE)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Ulf Christian Lilius

President & Chief Executive Officer, Momentum Group AB

Welcome to the Momentum Group Interim Report for Q2 2025. I'm Ulf Lilius, CEO, joined by Niklas Enmark, Vice President and CFO. Today, we will share key Q2 highlights, recent acquisitions and financial updates. We'll conclude with an overview of our business framework and progress on our five-year plan. Now, let's move to the report highlights.

The group delivered a stabled performance in the second quarter of the year, which was characterized by challenging global environment and soft demand. Acquisitions contributed positivity to the outcome with the group's revenue up 7% and EBITA, improving 5% during the quarter compared with year earlier period. Year-to-date, six companies have been acquired, of which two in Q2 with the combined annual revenue of approximately SEK 300 million. During the second quarter, our operations continued to offset an uncertain global environment and cautious demand. Nonetheless, we delivered a quarter with improved earnings, a stable cash flow. Acquisitions made a positive contribution to both revenue and profit, and our decentralized structure, together with the strong financial position, mean we are well equipped to handle changes and take advantage of new opportunities.

The business climate in our main markets in the Nordic region remained generally somewhat sluggish during the quarter. A number of customers acted cautiously and prioritized cost savings, which was probably linked to uncertainty surrounding their own demand. For our larger customer segments – automotive, the metals and mining industries, and parts of the power and heat generation industry – this was reflected in lower product sales and fewer repair projects and maintenance shutdowns.

Despite these challenges, our companies demonstrated a high level of adaptability while maintaining their delivery capacity and effective cost control. Due to the breadth of our offering spread across a number of niche Specialist companies, we were able to continue to grow both our revenue and our earnings, not least thanks to acquisitions. Revenue increased by 7% compared with the year-earlier period and EBITA improved 5%.

What we're seeing now among our customers is typical of a mild recession, cautious demand and strong focus on cost. At the same time, we know from experience that demand in the aftermarket returns when customers gain more clarity with respect to their own business. We are, therefore, continuing on our established path, maintaining our focus on earnings growth by developing our six existing operations and adding new companies to the group.

We work closely with our customer and adjust cost quickly to address any changes in demand. Our goal is to achieve stable earnings growth and increased earnings per share, while at the same time maintaining a focus on

cash flow with the low leverage ratio. Our financial position and clear strategy will enable us to continue increasing our earnings by carrying out more acquisitions and organic improvements in 2025. Despite external uncertainties such as the economy, inflation, currencies and tariffs, we can see opportunities. Our decentralized model provides our companies with the power to act quickly and locally, which creates flexibility and resilience. Along with our broad industrial exposure, this gives us a solid foundation for further development.

We have already prepared our operations for different scenarios with contingency plans and measures in place in each company. Strong teams, a clear strategy, and a business model that has demonstrated its strength over time put us in a good position to create long-term value, even in a changing world. In the prevailing market, we continue to deliver strong cash flow, and this, once again, demonstrates the strength of our decentralized business model.

Acquisitions are part of our DNA, and the two acquisitions during the quarter proves that. The two companies acquired in the second quarter are both located in Norway. Håland Instrumentering, with its cutting-edge expertise in valves and instrumentation, will strengthen our position in the energy and processing industry. TTP Seals complements and strengthens our offering in the sealing technology and delivers to industrial customers, both OEMs and customers in the aftermarket. 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 are continuing our established approach of developing and acquiring successful, sustainable companies.

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

Niklas Enmark

Executive Vice President & Chief Financial Officer, Momentum Group AB

For the second quarter of 2025, our net sales increased by 7% to SEK 824 million. As Ulf has mentioned, during the quarter, we saw a subdued demand which led to a negative organic growth of minus 2%. The quarter comprised one less trading day as Easter was in Q2 this year compared to Q1 last year. And we also saw some smaller negative effects on net sales from the stronger Swedish krona during the period. Growth was achieved through a strong contribution from acquisitions, adding about SEK 78 million to our top line.

As we commented on in the report, the softer demand was due to a more cautious stance among our customers with a strong focus on costs as a result of uncertain demand linked to international economic turmoil. Demand was weaker in the automotive, metals and mining industries, and parts of electricity and heat production. This was noticeable in the form of both reduced product sales and fewer repair work and maintenance stoppages. However, we saw a more positive development in areas such as defense-related.

Industrial demand in Finland remain cautious when the Danish market continued to develop positively, especially in pharmaceuticals and green technology. In Norway, demand was stable at a good level. Among the business areas, both exhibited sales growth during the quarter, with Infrastructure as the area that grew most due to recent acquisitions. Industry business area reported organic growth of 1% as sales in business unit Specialist performed very well, especially in Denmark and for some industry segments in Sweden. In Infrastructure, we saw reduced organic sales of 3%, especially in business unit Technical Solutions, where the reduced demand affected both the service business as well as the measurement companies.

Deep diving into the business areas. Our revenue for the business area Industry rose by 2% in total to SEK 456 million compared with the same quarter last year. Revenue for comparable units measured in local currency and adjusted for the number of trading days, increased by 1% compared to the previous year. Our EBITA increased by 5% to SEK 64 million corresponding to an EBITDA margin of 14%. The business areas profitability measured as return on working capital amounted to 69%, which was equal then compared to one year ago.

Sales in business unit Power Transmission, which comprised of Momentum Industrial, was stable during the quarter, which saw increased sales to customers in the pulp and paper segment, which then compensated for reduced sales to the automotive, metals and mining segments. The result was somewhat lower due to the cost focus of customers that had a negative impact on the gross margin, but which was mitigated by good cost control and lower costs for logistics, where the new central warehouse has been up and running the whole quarter with good performance.

Business unit Specialist post increased sales with increased profit levels in comparable units. In addition, acquired businesses contributed to sales of SEK 10 million with a strong contribution to earnings. Demand for systems and projects for manufacturing industry remained low but was offset during the quarter by strong demand from the defense industry in Sweden and from the pharmaceuticals sector and investments in green technology in Denmark.

Revenue for the business area Infrastructure rose by 15% to SEK 381 million during the quarter, compared with the same quarter last year. Revenue for comparable units measured in local currency, adjusted for the number of trading days, decreased by 3%. EBITA increased by 11% to SEK 39 million, corresponding to an EBITA margin of 10.2%. The business area's profitability measured as return on working capital amounted to 57%.

The companies in business unit Flow Technology generally performed well during the quarter, with favorable sales growth for most of the comparable units. However, lower product and services to some customers in the electricity and heat production segment meant that the total sales volume for the business unit was a bit lower than last year. EBITA margins had increased somewhat and EBITA was further boosted by acquisitions, which added SEK 46 million net sales with good profit margins.

For business unit Technical Solutions, reduced sales and lower earnings for comparable units were noted during the quarter. Utilization levels in several service businesses was negatively impacted by more restrained demand, particularly in the automotive, metals and mining industries. The measurement business has also experienced lower demand during the quarter due to more cautious customers. Acquired businesses contributed SEK 19 million to sales during the quarter with a strong contribution to earnings.

Our EBITA in the group during the second quarter increased by 5% to SEK 92 million. The EBITA margin reached 11.2%, which meant an improvement compared to Q1 on this year as margins in Infrastructure was strong in this quarter. Compared to last year, the total EBITA margin was a bit lower due to mix effects between the business areas. EBITA was also affected by translation effects of currency and higher acquisition related costs of in total SEK 2 million.

Positive to note is that we increased our gross margins despite the fact that there is some increased attention to costs and prices among our customers. Both business areas increased their EBITA. Business area Industry also increased its EBITA margins with a strong contribution from business unit Specialist. In business area Infrastructure, EBITA increased but with a bit lower EBITA margin than last year due to the decrease in sales and result in business unit Technical Solutions.

Operating profit increased to SEK 78 million, corresponding to an operating margin of 9.5%. Operating profit is affected by higher level of amortization, with an effect of SEK 3 million compared to the previous year. Profit after financial items totaled SEK 70 million, the same as last year with relatively stable financial net, and earnings per share was unchanged at SEK 1.05 per share for the quarter.

During the quarter, our continued focus on cash flow and working capital management led to cash flow from operating activities of SEK 60 million compared to SEK 72 million the same quarter last year. The decrease compared to last year, predominantly caused by some larger invoicing at the end of the quarter of this year, affecting accounts receivables and thus to a buildup of working capital. For the six-month reporting period, cash flow from operations is at SEK 152 million, an increase compared to last year.

Our return working capital stood at 58%, which is well above the financial target of at least 45%. Our return on equity was 25%. Cash flow from investing activities for the reporting period amounted to minus SEK 242 million. This cash flow includes the acquisitions of SEK 206 million compared to the SEK 98 million the previous year, settlements of prior acquisitions of SEK 27 million, and net investments in non-current assets of SEK 9 million. The level of net investments during the quarter was more normal after the unusually high number in the first quarter of this year.

During the quarter, we also paid dividends to our shareholders of in total of SEK 64 million. Our financial position continues to be strong. The group's operational net liability amounted to SEK 456 million compared to SEK 252 million at the beginning of the year. And the changes are dampened, of course, by acquisitions and dividends. Our net debt to EBITA ratio was around 1.4 at the end of the period. Total cash and cash equivalents, including unutilized approved credit facilities, amounted to some SEK 645 million at the end of the quarter.

Before I hand back to you, Ulf, some words about accumulated six-month period. Our revenue increased to close to SEK 1.6 billion plus 9% where the organic development was minus 1%. Growth stems from acquisitions, which added SEK 157 million to revenue. Per business area, revenue increased by 1% in the Industry where organic growth was flat, and by 23% in Infrastructure, where organic development was minus 1%. Our EBITA increased by 3% to SEK 168 million with an EBITA margin of 10.8%, and where both business areas increased their EBITA level. Our EBITA a rolling 12 months is now at SEK 327 million, 8% higher than a year ago.

And back to you, Ulf.

Ulf Christian Liljus

President & Chief Executive Officer, Momentum Group AB

Thank you, Niklas. Now, we'll take a more long-term perspective of our development. 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 acquisition and development of existing businesses. Our three fundamental requirements for long-term profitable growth, there are earnings growth, profitability and development.

Our earnings growth target is to have an EBITDA growth of 15% per year. 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. That corresponds to have an EBITA of SEK 340 million at the end of fiscal year 2026. And as of now, we're in the pace of SEK 327 million in EBITA rolling 12 months of the three year and two quarters. I'm confident that we will keep up the pace in order to reach our goal in time.

In order to do so, we have to finance the expansion. We therefore have our super efficiency target of EBITA through working capital to be larger than 45%. And as of today, it's 58%. This is a simplified measure of cash flow. And the aim is to pay dividend one-third, was to pay tax with one-third, and then we have one-third left to invest to grow and develop our business.

The third, requirement development. According to [indiscernible] (00:16:06) there are two ways to develop a business, develop the offer as well as a business idea and associated offer that supports the business idea, and two, to develop the employees. And I will now give you some examples how we work as an active owner.

We understand the importance of sharing knowledge and successful strategies to promote growth and strengthen our common working community. Sharing and Caring is a hub for providing tools, templates and best practices that the companies can use in their daily work. At this internet page, our companies will not only find a variety of useful templates and tools, but also collection of best practices that have been tested and proven within our group. By sharing these resources, we strive to facilitate and accelerate our work process while creating a platform for the change of ideas. This is a helpful site to drive the development of each business and organic growth and even more in a sluggish business climate.

All in all, we build culture. It is important to maintain our company culture now that we grow and continuously every quarter with new talented employees and companies. Through, for example, our business booklet, business school, and Sharing and Caring, we must continue to ensure that the corporate culture continues to be in our DNA.

Decentralized responsibility. It's like jeopardy. We ask the question, but the entrepreneurs have the answers. We also have to have the freedom to independently lead, develop and improve their business. But around that, we need to have clear, measurable goals and we have to emphasize that important business decision are made close to the customers and suppliers by competent employees with great personal responsibility.

The willingness to improve better than yesterday. Every day we must become a little better than we were yesterday, and changes and improvements must be permanent within the Momentum Group. For us, it's very important to quickly be able and willing to adapt to new conditions and challenges in a market that is constantly changing.

Simplicity should reflect the way of working. Simplicity is not about working quickly and carelessly, but about working thoughtfully and concentrated. For us, simplicity is about simplifying problems and not getting lost in the ocean of details.

Acquisitions are part of our DNA and the two acquisitions during the quarter proves that. With six acquisitions conducted so far this year, we have completed 28 acquisitions since our spin off just over 3.5 years ago 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 healthy profit growth for our shareholders.

Acquisitions occur at group and business area levels with subsidiaries making acquisitions if they have an EBITA through working capital ratio about 45%. As previously noted, companies grow in two main ways, developing a business idea and offerings or by developing employees. Subsidiary level acquisitions serve as a tool for both approaches, and I will present an example of that.

The BPS was established in 2001 with the objective of serving customers in the water and sewage sector. This customer group was identified as reliable in payments and less impacted by economic fluctuations. Since the

start, the product range has included valves and related accessories required at waterworks and sewage treatment facilities. Early on, BPS developed its own brand to reduce dependence on suppliers. During the acquisition process, opportunities were identified to double the revenue as well as the earnings through organic growth and business expansions of the acquisitions. Over three-year period, plans were made to support employee development through training and to broaden the geographic presence in Denmark and Northern Sweden.

Two acquisitions have been completed to enhance market coverage and cross-selling opportunities with their own product brands. And the management succession process for the Managing Director had also been carried out during this period. And as you can see, we have succeeded to both double the revenue as well as the EBITA.

We remain committed to our corporate governance model as a foundation for achieving sustainable earnings growth, both in good times and weaker times. Our strategy includes generating robust cash flow through strong profitability, EBITA through working capital margin of 45% to support the expansion and development initiatives. We prioritize optimizing margins and improving capital turnover to maintain this super financial target EBITA through working capital above 45%.

To realize our target of doubling EBITA to SEK 340 million by the end of 2026, we will pursue an appropriate number of strategic acquisitions annually. Acquisitions will be achieved through a balanced approach combining propriety and debt finance investment, maintaining a prudent net debt to EBITDA ratio. Capital will be allocated using our internal focus model and share repurchase when it's favorable for us. As of today, we currently hold around 1 million shares from a 1.5 million shares that we repurchased in 2022. All in all, our aim is to enhance earnings per share and deliver attractive returns to our shareholders.

Thank you for your time and attention during our Q2 presentation. The full report is available on our website. Should you have any questions or specific request, please feel free to reach out to our Investor Relations e-mail or by phone. Thank you once again.

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