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Momentum Group AB (MMGR.B.SE)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

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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 Q3 2023. I'm Ulf Lilius, CEO of Momentum Group. And I'm here with my colleague, Niklas Enmark, Executive Vice President and CFO, and we will guide you through our report today.

Our agenda today is to give you some information about the highlights from Q3 and the development during the quarter as well as financial information. We will round off with our growth strategy, and now to the highlights in our report.

The market situation continued to be at the good level for most of operations during the third quarter, mainly within industry and the aftermarket, which are the group's primary customer segment. The economic unrest that has marked the market in the wake of inflation, interest rates, and deterioration in some sectors has begun to affect the behavior of some customers with a more wait-and-see attitude and somewhat a lower level of activity.

However, the picture is not clear-cut and the general stable demand is still seen. The component shortage is less noticeable, but still means relatively long delivery times in certain product areas. Our companies continue to maintain a good delivery capacity. And, in total, the group net sales increased by 45% during the quarter compared to the previous year and amounted to SEK 580 million compared to SEK 400 million.

Growth for comparable unit was 8%. As an acquirer without an exit horizon, we grow by continuously acquiring profitable, well-managed industrial and infrastructure companies, companies that we take good care of with clear ambition for profit growth and activities to achieve this. During the quarter, we entered the acquisition of two interesting new companies, Processkontroll Items and Conclean, which Niklas will speak more about later on. So, far this year, we have acquired seven companies with combined annual turnover approximately SEK 510 million. The acquisitions strengthened our position as a competent player and made a clear positive contribution to our EBITA growth of 40% to SEK 70 million compared to SEK 50 million for the quarter last year. This corresponds to an EBITA margin of 12.1%.

For the reporting period, EBITA increased by 32% to SEK 185 million (sic) [SEK 195 million] (00:02:22) compared to SEK 148 million last year, corresponding to an EBITA margin of 12%. The acquisitions also contributed positively to Momentum Group's earnings per share, which, for the last 12-month period, amounted to SEK 3.35, an increase of 34% compared to the previous year. Own shares that we had bought back in the previous years also contributed to the EPS growth.

The acquisitions have been financed with internal-generated funds and repurchased shares as well as with some expansion of the balance sheet. The acquisition situation is still considering interesting, and we have several attractive deals under evaluation. Over the past year, we have built up an organization and structural capital within the acquisition area. This, together with the strong balance sheet and free cash flow generation from operation, means that there are good conditions for maintaining a continued high acquisition rate.

Our financial goal is to double the profit EBITA every five years or find development since the listing gives us a good opportunity to reach this first interim goal within the set time. That is to increase EBITA to SEK 340 million by the end of 2026 at the latest.

Despite the world and then economic situation, I'm optimistic about the future. The market situation remained stable for most of the group's operations, and the feared major downturn has so far not materialized. However, the situation is difficult to assess, and the uncertainty surrounding inflation, currencies, interest rate, and future economic development is great. However, we have a strong faith in our decentralized organization's ability to quickly adjust offers and costs. The group's broad exposure to industry and primarily aftermarket customers provide stability and good growth opportunities. Should an economic slowdown affect us more in the future, we are well prepared. We have action plans that can be implemented according to the situation for each company.

The acquisitions are clear examples of the path taken for the group with a focus on the acquisition of strong companies with clear quality and sustainability focus, which strengthened our offer within profitable product verticals.

Now, I will hand over to Niklas who will guide you through our Q3 figures and the development during the quarter.

Niklas Enmark

Vice President & Chief Financial Officer, Momentum Group AB

Thank you. Ulf.

The group reported a strong increase in revenue during the third quarter of the financial year, up by 45% to SEK 580 million. In this is included a positive contribution of 1% from currency, especially the strong Danish kroner in relation to Swedish krona, but also the negative effect from one less trading day during the quarter.

Growth for comparable units, adjusted for this was 8%. This means that contribution from acquisitions was more prominent than before, adding 39% to revenue. During the quarter such contributions come from, for example, Askalon as well as the recently acquired Items and Conclean to name a few.

The business climate in the main markets in the Nordics continue to be satisfactory mainly within the industry segment, which is the group's primary customer segment. The economic unrest that has characterized the market in the wake of inflation, interest rates, and deterioration in certain sectors has begun to affect the behavior of some customers in the form of a more wait-and-see attitude and a slightly lower level of activity. However, the picture is not clear-cut where some export-oriented customers seeing a lower level of activity in their business. The service activities were seasonally affected by customary maintenance stops at customers, which are carried out during the summer period with generally good coverage. In general, we would describe the demand situation as quite stable.

Also, the component shortage is less noticeable, but still means relatively long delivery times in certain product areas. Despite this, the company still maintained good delivery capabilities. Purchase price and cost increases are still seen but with a more moderate rate of increase, as we also commented on in the last report. The weak

Swedish krona has so far not had any major impact on sales, but is a factor that the businesses have to deal with in their pricing.

The EBITA in the group mimicked the strong increase in revenue, and our EBITA increased by 40% to SEK 70 million during the quarter, corresponding to an EBITA margin of 12.1%. The margin is a bit lower than the corresponding quarter of last year, but an increase from the second quarter of this year, contributing to the improvement for the increased revenue in comparable units, but also clear profit contribution from recent acquisitions and helped the margins, adding to a very strong EBITA growth in business area components.

Operating profit rose by 32% to SEK 62 million, corresponding to an operating margin of 10.7%. Operating profit was charged with amortization of intangible noncurrent assets of SEK 8 million arising from acquisitions and with depreciation of right-of-use assets and tangible noncurrent assets of SEK 20 million. Exchange rate translation effects impact the operating profit with a positive SEK 1 million. Profit after financial items total SEK 56 million and profit after tax amounted to SEK 44 million.

First nine months of the financial year, we can report that our revenue increased by 31% to approximately SEK 1.6 billion, of which 8% comes from comparable units. In addition to this, revenue from acquisitions have contributed with 23% to revenue growth. For the same period, our EBITA increased by 32% to SEK 195 million, corresponding to an EBITA margin of 12.0%. We are very pleased to see that the acquisitions made during the last year have added not just to top line, but also had a significant impact on our profit expansion. During the period, we have also been successful in managing our prices as well as our cost structure. Also, our operating profit rose by 32% to SEK 176 million, corresponding to an operating margin of 10.8%, of course, affected by the effects from the acquisitions made in terms of amortizations and increased depreciations as well as transaction-related costs. Profit for the period increased by 28% to SEK 129 million, corresponding to earnings per share of SEK 2.6 per share.

Commenting on the rolling 12 months numbers, we see that we are now about SEK 2.1 billion in turnover, up 29% compared to one year ago. Our EBITA rolling months as well is up SEK 251 million, increasing by 29% compared to the corresponding period, which is almost twice as high as our financial target of 15% annually. EBITA margin is at 11.8%.

Earnings per share rolling 12 months was SEK 3.35 and increased by 34% compared to the corresponding rolling 12-month period one year ago. One reason for the somewhat larger increase in EPS than net profit being the share repurchases that we have made during last year.

Business area and firstly the components business area. Revenue and earnings in the components business continued to develop in a positive manner also in the third quarter. The revenue increased by 57% to SEK 496 million and EBITA increased by 39% to SEK 64 million. The EBITA margin was at 12.9%. Revenue growth for comparable units was 10%. The strong contribution in terms of revenue from acquisitions thus explains the somewhat lower EBITA margin in the business area compared to last year. The business area's return on working capital was 68%.

The subsidiary, Momentum Industrial, continued to show good sales development during the quarter with volume growth primarily in the automotive, pulp and paper, and mining segments. In addition to this, the sale of a number of larger projects contributed while the weak Swedish krona contributed negatively to the result, which nevertheless showed a stable level compared to the previous year.

The specialist companies generally developed positively during the quarter with stable demand and growth in both sales and earnings. Acquired businesses also continued significantly, contributed significantly to revenue as well as earnings growth. During the quarter, the company, Etab, established a local presence in Luleå. And the operations in Denmark recorded good growth in revenue and profit.

Askalon, which was acquired during the second quarter, saw a good order intake from both process and energy-oriented customers and carried out a number of planned maintenance shutdowns during the quarter. During the quarter also, the acquisitions of Items and Conclean were completed and consolidated.

For business area services, revenue decreased by 2% to SEK 87 million compared to the corresponding quarter of the previous year. Revenue for comparable units, that is also adjusting for trading days and currency, decreased by 1%. No acquisitions are included for the reporting period. After weaker second quarter with a decrease in comparable revenue of 7%, it was positive to see that the business area in the third quarter is quite stable in terms of top line. This is a consequence of capacity utilization in the workshops and the extent of planned maintenance stops at the customer's premises were generally good during the summer, as we also mentioned in the last report.

However, volume and, to some extent, profitability were however affected by the product mix with a lower proportion of component sales during the quarter. We are also doing a structural work in certain parts of the business area to focus our efforts toward customer groups and type of contracts, which we know will have a short-term pressure on volumes. As a consequence, we have also reduced the number of FTEs in the business area.

The business areas digitized maintenance operations, Intertechna and Mytolerans, both showed volume growth during the quarter driven by increased customer activity and improved demand. Preparations for the merger between Carl A and Mekano's operations in Helsingborg are proceeding according to plan starting at the turn of the year.

EBITA in the business area amounted to SEK 10 million, corresponding to an EBITA margin of 11.5%. Business area's profitability, measured as return on working capital, increased to 59%.

The ratios, firstly, the group's profitability, measured as return on working capital, amounted to 60% for the rolling 12 months ending in the reporting period. The return on equity for the same period was 32%. We continue to see a stronger cash flow for the period compared to the previous year. Cash flow from operating activities before changes in working capital for the reporting period totaled SEK 194 million compared to SEK 121 million for the comparable period. The change in working capital amounted to an increase of SEK 35 million for the period and SEK 23 million in the last quarter.

In the third quarter, inventories increased by SEK 2 million whereas both operating receivables and liabilities decreased the latter by SEK 21 million, explaining the largest change in working capital. Cash flow from operating activities for the reporting period thus amounted to SEK 159 million, which then also includes IFRS effects of SEK 47 million. The reporting period's cash flow from investment operations amounted to SEK 348 million. The cash flow includes business acquisitions with SEK 339 million and net investments in fixed assets of SEK 9 million.

At the end of the period, the group's operational net loan liability amounted to SEK 323 million compared with SEK 48 million at the beginning of the financial year. The difference is largely attributable to cash flow from operating activities and acquisitions carried out during the reporting period, as well as the dividend paid. Cash and cash equivalents, including utilized granted credit facilities, totaled SEK 694 million at the end of the period.

During the third quarter, we closed two acquisitions, adding some SEK 100 million to revenue and 23 new employees to the group. First, Processkontroll Items is located in Stora Höga near Stenungsund in Sweden. The company has a leading niche position within instrumentation for demanding operating conditions for customers primarily in the process, gas, biogas, pharmaceutical, and manufacturing industries. The product range includes fittings, valves, regulators, sensors, components.

Conclean is situated in Norrköping in Sweden. Conclean is a leading niche player in private sewage, rainwater recycling, and stormwater management, primarily for infrastructure companies, but also directly to municipalities. The offer includes mini treatment plants, septic tanks, pumping stations, rain recovery tanks, and oil separators.

Now, I will hand back to Ulf who will talk about our continued growth and strategy going forward.

Ulf Christian Lilius

President & Chief Executive Officer, Momentum Group AB

Thank you, Niklas.

Now, I will give you some input about our growth strategy going forward. Our focus is to develop Momentum Group further by growing organically as well as by making carefully selected acquisitions. As you can see in the left graph, we have had a strong organic growth over time coupled with an increase in contribution from acquisitions. We continue on the set path of developing the group with leading position in various niches. As you can see in the graph on the right side, growth in EBITA surpassing net sales growth, thanks to improvements in comparable units as well as good acquisition track record.

Acquisition is an important driver for the profit expansion, and we aim to achieve earnings growth EBITA of 15% annually over a business cycle and at least double earning every five years. We will continue to develop our operation through clear internal focus on our three basic requirements, growth, profitability, and development based on active ownership and decentralized responsibility and development of our coworkers. Acquisition are also still a large part of our everyday life, and we will add more fine companies to our group with whom we can further develop together with the entrepreneurs.

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 strong focus on our selected product and service verticals in our acquisition process.

Our focus is to develop Momentum Group further by growing organically as well as by making careful selected acquisitions. We continue on the set path of developing the group with leading positions in various niches. And on top level, we're managing and gearing our business on seven parameters, so-called our corporate governance model.

We'd like to have organic growth by developing our companies in a decentralized environment. Cash flow from EBITA through working capital to finance our expansion and development, margin around double digits in order to have an EBITA through working capital to finance our expansion and development. Margin around double digits in order to have an EBITA through working capital above 45%. Make three to five acquisitions every year. And we aim to at least double earning every five years, so increase EBITA to SEK 340 million by the latest year-end 2026. We also like to have a reasonable net debt to EBITDA. And capital allocation through share buybacks when it's favorable for us as well as add-on acquisitions to strengthen the offering or geographical expansion based on our

capital allocation model, our internal focus model, which helps each company to prioritize their goals and activities to focus on, all in all, with the aim to increase earnings per share.

Thank you for your time and interest listening to our Q3 presentation, which are available with the report on our website. If you have a question or specific request, do not hesitate to contact us through our [ph] IR by email (00:20:14) or by phone. Thank you very much.

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