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# Momentum Group AB (MMGR.B.SE)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

**Niklas Enmark**

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

**Ann Charlotte Svensson**

*Head-Group Communications & Investor Relations, 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 the Third Quarter. I am Ulf Lilius, CEO for Momentum Group. And I'm here with my colleague, Niklas Enmark, Vice President/CFO; and we will guide you through our report today.

Our agenda today is to give you some information about the highlights from our report and the development during the quarter, as well as financial information. We will round off with those going forward. Now to the highlights of the report.

The business climate in our main markets in the Nordic region remained stable during the quarter. Demand in Sweden was relatively strong, especially in our after-market operations, which account for most of our business. However, demand in larger projects remained low. The market in Finland remained cautious, while the Danish market exhibited healthy demand within certain customer segments, particularly in pharmaceuticals and green technology.

The group's operations delivered stable sales growth during the quarter with organic revenue growth of 3%. Consolidated revenue increased by a total 20% year-on-year, with the primary contribution to growth coming from acquired companies. EBITA increased by 27% compared with the same quarter last year. And our EBITA margin rose to 12.8% compared to 12.1% last year. This earnings growth was underpinned by various factors, including stronger margins in comparable units and acquisitions.

After the third quarter, our operational net loan liability amounted to SEK 334 million, compared with SEK 326 million at the beginning of the year. The difference is largely attributable to cash flow from operating activities, acquisitions, and dividends paid during the reporting period. Together with our cash and cash equivalents of SEK 781 million, including unutilized granted credit facilities, our cash flow provides us with security and bodes well for healthy financial flexibility going forward.

Despite the uncertain global security situation, relatively high interest rates, and delays to the anticipated economic recovery, we remain optimistic. We have a positive foundation for growth in both of our business areas. We will achieve this by enhancing our operations through a clear internal focus on our three fundamental requirements: profit growth, profitability, and development based on our active ownership and decentralized responsibility and the development of our employees.

Acquisition also remain a major part of our everyday operations, and we will add more outstanding companies to our group that we can further develop together with the entrepreneurs behind them. This, once again, demonstrates the strength of our decentralized business model.

Now I will hand it over to Niklas, who would guide you through our Q3 report.

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**Niklas Enmark**

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

Thank you, Ulf. Some comments on the third quarter of 2024, which is, of course, a quarter affected by summer period. But our revenue despite that increased by 20% to SEK 694 million. Of this, about 15% or SEK 86 million derived from acquisitions and 3% from organic growth. The organic growth was thus improved from the previous quarter when we reported about 1% organic growth. In addition, during this quarter compared to last year, we had one more trading day.

As we commented on in the report, during the quarter, we saw an overall stable demand situation with some positives in – predominantly in the Swedish market, whereas the finished market was more muted. In Denmark, we saw some positive signals, foremost from customers within pharma and green tech.

When it comes to other market segments, we saw good demand from customers in mining and metal for spare parts, whereas the development in automotive was relatively flat. Also in pulp and paper, we saw signs of a more stable demand after a period of headwinds. And as before, the defense-related industries continued to show good demand.

Among the business units, Infrastructure was the area that grew organically during the quarter, with the strong overall demand for the products in Sweden, not least in Askalon that had a good quarter. Overall, the companies in the group displayed good delivery capacity during the quarter, and purchasing prices and costs continue to increase at relatively moderate rate.

Turning to our earnings for the quarter, our EBITA increased by 27% to SEK 89 million. The EBITA margin reached 12.8%, which is actually the highest level so far in the group for an individual quarter. The margin increase was attributed to an increase organically, as well as good levels for the acquired businesses.

Operating profit rose by 26% to SEK 78 million, corresponding to an operating margin of 11.2%. The operating profit is affected by the higher charges for amortization of intangible noncurrent assets, as well as depreciation of right-of-use assets and tangible noncurrent assets both impacted by acquisitions completed.

Profit after financial items totaled SEK 70 million, impacted by slightly higher financial expenses than last year due to higher borrowing in connection with acquisitions and higher interest. Earnings per share increased by 24% to SEK 1.05 for the quarter.

For the full nine month reporting period, our revenue increased by 30% to a bit more than SEK 2.1 billion, with growth in comparable units of 3% and where acquisitions added an additional SEK 438 million. The number of trading days were one more than last year.

EBITA increased by 29% to SEK 252 million, corresponding to an EBITA margin of 11.8%. Whereas operating profit rose by 25% to SEK 220 million, corresponding to an operating margin of 10.3%, once again, affected by the higher amortizations arising from acquisitions. Acquisition-related expenses had an impact of SEK 4 million

during the full period. Profit after financial items totaled SEK 195 million, and earnings per share increased to SEK 2.95 for the period.

Now then if we turn to the individual business areas, and we start with the Industry business area and its business units Power Transmission and Specialist, sales and earnings in Power Transmission, which then consists of the company, Momentum Industrial, were positive during the quarter. It was due to positive demand for spare parts from customers in the metal and mining industry, which led to volume growth. Other larger customer segments such as automotive, as well as pulp and paper, posted stable demand. The development in pulp and paper [ph] was (00:07:40) more positive during the quarter after a period of headwind.

As communicated in the report, Momentum Industrial is in the process of moving its central warehouse from Alingsås during the first quarter next year. The project is proceeding according to plan and no material costs have been incurred to-date.

Business unit Specialist posted for comparable units somewhat lower level of sales, but with good earnings growth. In addition, acquired businesses also contributed revenue of SEK 19 million with good EBITA margins. The reason behind this is the Swedish businesses where we noted a general strong demand, but where the situation was more cautious in Finland. In Denmark, we continue to see strong demand from customers in the pharmaceutical sector, but where the general industry was somewhat weaker.

Revenue rose by 7% to SEK 402 million compared with the same quarter last year. And revenue for comparable units measured then in local currency and adjusted for the number of trading days were unchanged compared to the previous year. EBITA in the business area increased by 12% to SEK 58 million, corresponding to an EBITA margin of 14.4%. The business area's profitability measured as return on working capital amounted to 69%.

And now then to our second business area, Infrastructure, which then comprised of the business units Flow Technology and Technical Solutions.

The companies in the business unit Flow Technology generally performed well during the quarter with favorable growth in sales and earnings. We noticed a generally strong demand in Sweden and also to a somewhat improved situation in Denmark during the quarter, once again driven by the pharmaceutical sector and investments in green technology. The market in Finland remains cautious. A significant part of the business unit consists of companies acquired in the current or preceding year. Acquired businesses contributed revenue of SEK 39 million during the quarter.

The business unit Technical Solutions displayed a stable sales performance with strong earnings growth for comparable units during the quarter, with overall good capacity utilization in the workshops. Also, demand in the measurement technology cluster was positive during the quarter here, actually due in part to increased sales of larger systems. In addition, acquired operations within the business unit contributed SEK 28 million to revenue during the quarter.

In total for the business area, revenue rose by 42% to SEK 295 million compared with the same quarter last year. And revenue for comparable units measured then in local currency and adjusted for the number of trading days increased by 7%. EBITA increased by 68% to SEK 37 million, corresponding to an increase in EBITA margin to 12.5%, thanks to improved margins and effective cost control. The business area's profitability measured as the return on total working capital amounted to 61%.

And now I would like to round off my part of the presentation by commenting on some key financial metrics for the group. Our return on working capital stood at 60%, which is then well above the objective of at least 45%. This is for the latest 12-month period. And for the same period, our return on equity was 30%. We delivered a strong cash flow from operations during the third quarter, SEK 87 million, which means that during the nine-month reporting period, our cash flow from operations before changes in working capital increased by SEK 46 million to SEK 240 million.

Adding to this, a more limited buildup of working capital compared to last year means that our cash flow from operating activity increased to SEK 240 million, an improvement with SEK 55 million or 35% compared to the corresponding period of last year.

Cash flow from investing activities for the reporting period amounted to SEK 111 million, and this cash flow includes acquisitions of in total SEK 90 million and settlements of deferred payments regarding acquisitions of SEK 12 million, as well as net investments in noncurrent assets of SEK 9 million.

Our financial position continues to be strong. The group's operational net loan liability amounted to SEK 334 million, compared to SEK 326 million at the beginning of the year, and SEK 381 million at the beginning of the quarter. Total cash and cash equivalents, including unutilized approved credit facilities, amounted to SEK 781 million at the end of the quarter.

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

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## Ulf Christian Lilius

*President & Chief Executive Officer, Momentum Group AB*

Thank you, Niklas. Now I will give you some input about our three fundamental requirements. Our three fundamental requirements for long-term profitability growth are: earnings growth, profitability, and development.

Our earnings growth target is to have an EBITA growth of 15%. And to do so, we, of course, have to increase our sales as well. 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 a super efficient target of EBITA through working capital to be larger than 45%. This is a simplified [ph] mix (00:13:25) of cash flow, and the aim is to pay dividend of one-third. And we also have to pay tax, which is around one-third. And then we have one-third left to invest and grow and develop our business.

Development. I believe there are two ways to develop a business. One is to develop the offer, as well as business idea, and associate that offer that supports the business idea. And second is to develop the employees. And that is very important for us.

In order to grow our business, we have a framework to work by. We call it our mind and soul and heart and soul. The mind and soul is to have the business development in our companies through decentralized responsibility and in each, company employee development. We also like to be an active owners and work with our companies to find new opportunities to grow and develop the business, as well as growth through acquisitions.

Secondly, we like to work with heart and soul. To achieve this, we believe very strongly in decentralized responsibility, as well as the willingness to improve. We call this to be better than yesterday. And to be able to be better than yesterday, we must work with simplicity.

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

All in all, we build culture. It is important to maintain our company culture now that we are growing continuously every quarter with new talented employees.

Thank you for your time and interest listening to our 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 e-mail or by phone. Thank you very much, and have a nice day.

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## QUESTION AND ANSWER SECTION

**Ann Charlotte Svensson**

*Head-Group Communications & Investor Relations, Momentum Group AB*

A

Hi, and welcome to our Q&A session on Momentum Group's Q3 report. I'm Ann Charlotte, and I'm here to guide you through this session. We have received several questions about the report this morning. And as usual, Niklas and Ulf will go through the key points and try to answer your questions.

So, without further delay, here's the first question. Despite a challenging market, you're delivering organic sales growth of 3% with some markets doing better or worse. If the market doesn't take off, will you be able to grow organically?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

As we stated in the report, it is the mixed bag as regards to customer demand. Our focus on spare parts, to a large extent, means that we're somewhat protected and stable. But, of course, in a situation with a long and deep recession, the growth would be hampered. But that is not the scenario we anticipate, but rather that the improvement in the economy would probably materialize a bit later than the market could have expected coming into this year.

**Ann Charlotte Svensson**

*Head-Group Communications & Investor Relations, Momentum Group AB*

A

So, next question. You mentioned in the report that the expected economy improvement is pushed further away. Can you elaborate on that? Ulf?

**Ulf Christian Lilius**

*President & Chief Executive Officer, Momentum Group AB*

A

As stated, many economists and business people foresaw that the general economy and the industrial sector would improve the second half of this year, even the reports so far that the improvement is no more pushed to next year; a view we also share, given the challenges in markets such as Germany.

**Ann Charlotte Svensson**

*Head-Group Communications & Investor Relations, Momentum Group AB*

A

He has another question. Demand in the Nordic region was variable, and the market situation is difficult to assess. How do you work with the companies to adapt to the prevailing market situation? Ulf?

**Ulf Christian Lilius***President & Chief Executive Officer, Momentum Group AB*

A

Our companies are, for the most part, relatively small and target the market segment of limited size in each. This means that they have very close relationship with their customers and are well adapted, understand that the market changes. Based on this, we decide on our priorities when it comes to recruitments, which customer to focus on, et cetera. It starts and ends with understanding your customers and their demands. And we work very closely with most of the segments in the Nordic area, like pulp and paper or steel and mining. So, we stay close to the customers and [ph] have the years on the rail (00:18:30).

**Ann Charlotte Svensson***Head-Group Communications & Investor Relations, Momentum Group AB*

A

Okay. You delivered your highest EBITA margin for your quarter-to-date. What key factors contributed to this improvement, especially if you compare to previous quarters? Niklas?

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

A

Yes. Thank you. The quarter was our best so far as regards to EBITA margins. This was a consequence of improved margins in both of our business areas, and especially the Infrastructure area. Organically, we improved in the companies, and we had also positive contribution to the margin from acquisitions. The focus on cost control and higher efficiency in acquired units played a critical role in enhancing the profitability.

**Ann Charlotte Svensson***Head-Group Communications & Investor Relations, Momentum Group AB*

A

Next question. Momentum Industrial will move its central warehouse in Q1. How much, and when will this affect earnings? And is there a risk that sales will be negatively affected during the period of the move? Niklas?

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

A

Yes. Thank you. Well, we have a budget for the move, of course, but we will comment on the costs in the coming reports as they materialize. We are prepared for the move for a long time and do not foresee any significant impact on the sales performance in Momentum Industrial. Remember that an important part of their business model is to have local stock available in each branch.

**Ann Charlotte Svensson***Head-Group Communications & Investor Relations, Momentum Group AB*

A

You did not make any acquisitions during the third quarter. How come? And what does the pipeline look like for the rest of the year? Ulf?

**Ulf Christian Lilius***President & Chief Executive Officer, Momentum Group AB*

A

Right. We do not rush into acquisition just to deliver some kind of [ph] quantitative (00:20:24) ambitions. We do the acquisition, but we have done our homework and feel that the timing is correct. The pipeline is solid, but we



have not committed to a certain timeframe. Bear in mind that acquisitions is one [ph] way (00:20:36) to reach our EBITA growth of 15% per year. So, we will also focus on developing the business we have with organic growth.

### Ann Charlotte Svensson

*Head-Group Communications & Investor Relations, Momentum Group AB*

A

So, the final question for today, what is the outlook for the group, considering the global economic conditions? Niklas?

### Niklas Enmark

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

A

Despite the challenges rising from a cautious market, the relatively high interest rates still, and an uncertain global security situation, we remain optimistic. Our strategy focuses on active ownership, profitability, and employee development. We are confident in our ability to continue delivering growth and profitability, supported by a robust portfolio of businesses and a clear capital allocation focus.

### Ann Charlotte Svensson

*Head-Group Communications & Investor Relations, Momentum Group AB*

So, thank you for listening in. If you have any further questions, please contact us on [ir@momentum.group](mailto:ir@momentum.group).

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