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Momentum Group AB (MMGR.B.SE)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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Welcome to the presentation of Momentum Group's Q3 report for 2025. I am Australia CEO of Momentum Group and I'm here with my colleague Nycda's, Denmark 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 Q3 and the development during the quarter as well as financial information. We will round off with those going forward, not to the highlights in our report. We continue to deliver earnings growth and healthy profit despite the challenging and cautious market climate in the third quarter. Through cost adjustment in our companies, a strong contribution from the companies acquired during the year, we succeeded in offsetting the effects of a weak sales trend in comparable units. Revenue increased by 7% during the quarter and we achieved our highest EBITA ever for a single quarter. Year to date, six companies have been acquired, adding combined annual revenue of approximately 300 million SEK. The third quarter was characterized by continued uncertainty in the Nordic region. Demand was subdued in several industrial segment, particularly automotive, metal and mining, as well as part of the electricity and heat production segment. At the same time, we noted stronger demand from the pulp and paper industry as well as the steel industry. It was also encouraging to see a stronger sales trend in Finland. The summer months of July and August were characterized by lower activity levels, but September ended on a strong note, which meant that the largest share of the revenue was noted towards the end of the quarter. This resulted in higher accounts receivable at the end of the period and is impacted cash flow for the quarter. Despite these conditions, the group's revenue increased by 7% year on year. Our decentralized model, based on a clear financial targets and local accountability, has enabled us to adjust our cost level and ensure our delivery capacity, along with strong contribution from companies acquired during the year. This offset offset the effect of a weaker sales in comparable units and resulted in improved EBITDA. Our acquisition strategy remains a central part of our growth model. During the year we have carried out six acquisition to strengthen our position in the industrial infrastructure segment in the Nordic region. These companies have provided us with specialist expertise, complementary offerings and new customer relationships, and we have already started to have a positive impact on the group's performance. Our model is based on active ownership, decentralized responsibility and long term partnerships with the entrepreneurs behind the acquired companies. In parallel, we continue to develop our existing businesses by combining local entrepreneurship with the group's resources in areas such as purchasing skills development and digital allocation. We can create in the conditions for profitable organic growth and a strong EBITDA through working capital ratio. Allow us to focus on low and stable working capital in all our companies, generating good cash flows from operating activities. With the strong balance sheet and available credit facilities, we can continue to invest in growth through both acquisition and organic development without compromising on our profitability. We are now in one of the most intensive sales periods of the year. The world around us remains uncertain, with geopolitical risks, energy concerns and inflation affecting our customers. Our task is clear to work closer with customers, offer competitive solutions and adapt quickly to changing market conditions. Improvement measures are being implemented on an ongoing basis in each company, with the aim to continuously drive development forward and deliver long term sustainable results. In parallel, we continue to evaluate new acquisition opportunities and believe there is a good potential for continued growth. The strengths of our model focused on growth, profitability and development is a well proven, even in challenging times with committed entrepreneurs in our company, strong customer relationships and a clear strategy and momentum group is well equipped for the future. Now I will hand over to Nick, who will guide you through our Q3 report. Thank you, Will. In total, our revenue increased by 7% compared with the year earlier period and amounted to 746 million SEK, which acquisitions contributed by 82 million. Sales for comparable units declined by 4% during the third quarter, with business area industry decreasing 4% and infrastructure decreasing by 2%. The group's main Nordic markets experienced sluggish business conditions during the quarter, with customers focusing on cost control amid this uncertain demand. In Sweden, demand declined in the automotive, mining and parts of the energy sector, although the pulp paper and steel industry saw positive trends. Product sales were generally weak, but service operations benefited from repair work and maintenance stops during the quarter. Industrial demand improved in Finland, while Denmark and Norway remained quite stable. Purchasing costs rose moderately and delivery capacity remains strong. Inter-companies. Some operations also implemented cost saving measures to address fluctuating demand globally uncertainties and subdued industrial activity continued to pose challenges. The stronger Swedish krona is expected to drive further cost focus among export dependent customers. Since the group has limited trade outside of Europe, its performance is largely dependent on Nordic industry trends. Despite slight optimism reflected in economic indicators, customer caution is likely to persist or to declare recovery emerges for the industry business area. Revenue for the business area decreased by 2% to 395 million. SEK compared to the same quarter last year. Revenue for comparable units measured in local currency and adjusted for the number of trading days decreased by 4% compared to previous year. EBITDA decreased by 9% to 53 million. SEK corresponding to an EBITDA margin of 13.4%. The business areas profitability measured as return on working capital amounted to 68%. Within the group, we have two different business units and the first one, power transmission, where sales fell slightly with lower EBITDA margins of the weak start during the quarter. Sales improved, especially to pulp and paper, metal and mining customers, with several projects closing late in the quarter. Strong cost controls partly offset lower gross margins caused by ongoing customer cost pressures in specialist. Both sales and EBITDA margins dropped for comparable units and manufacturing industry demand stayed soft, but strong orders from Sweden's defense sector balanced this season for a steady in Denmark and Roese in Finland. Acquired businesses added 10 million SEK in revenue with solid margins in our other business area infrastructure. Our revenue for the business area rose by 21% to 358 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 decreased by 2%. EBITDA increased by 35% to 50 million. SEK corresponding to an EBITDA margin of 14%. The business areas, profitability measured as the return on working capital amounted to 61%. In flow technology, one of the business units within this business area, comparable sales remained steady, while EBITDA margin improved thanks to strong service utilization growth in several operations offset lower product sales to some Swedish power and heat generation customers. Acquisitions added 52 million SEK to revenue and positively impacted earnings in technical solutions. Comparable sales and earnings fell as customers reduce activity, leading to weaker product sales. Service operations saw good utilization late in the quarter due to slightly higher demand. Measurement technology continue to face weak demand during the quarter. Acquisitions contributed 19 million in revenue and also boosted earnings. The group's EBITDA during the third quarter increased 7% to 95 million SEK, which makes this the best quarter yet in terms of EBITDA since the listing in 2022. The EBITDA margin reached 12.7% where the EBITDA margin is in business area infrastructure stood out as quite strong this quarter and then compensated for the lower margin in business area industry. Business area infrastructure increased its EBITDA by 35%, as I mentioned, during the quarter, whereas the industry decreased by 9%. Besides the operational comments per business area, EBITDA was also affected by slightly higher depreciations than last year, by roughly 3 million SEK, and also a higher cost related to incentive programs with about 1 million positive. To note is that we increased our gross margins in the group despite the fact that there is in a high degree of attention to costs and prices among our customers. Also during the quarter, a relatively large portion of sales came from services, which also contributed to the increase in gross margins. Operating profit increased to 81 million SEK corresponding to an operating margin of 10.9%. Operating profit is affected by higher level of amortization, with an effect of approximately 3 million SEK compared to the previous year. Profit after financial items totaled 72 million SEK with relatively stable financial net. And earnings per share was increased slightly to 1.1. Swedish krona for the quarter. A brief summary of the nine month period that we reported. Our revenue increased by 8% to about 2.3 billion SEK where the organic development was -2%. Driver of net sales growth is the acquisitions which have added 239 million to revenue. Currency effects and number of trade. And these two combined contributed with about -1% to net sales per business area. Net sales were stable in industry where the organic change was -1.5%. In infrastructure, net sales increased by 3%, where organic change was about -1%. Our EBITA increased by 4% to 263 million SEK with an EBITDA margin of 11.4%. And where both businesses areas increased their EBIT, they giving this last quarter are net sales. Rolling 12 months is now for the first time above 3 billion. SEK or EBITA is at 333 million, which is almost twice as high as three and half years ago when we were listed. And to round off my part some comments on the cash flow and financial position of the group. To start off with our operational cash flow before working capital changes continued on a strong level also in the third quarter. However, as we also mentioned in the report, net sales during the quarter was not spread evenly this summer. Months of July and August were characterized by lower activity levels, while September ended on a strong note, which meant that the larger share of revenue was noted towards the end of the quarter. This resulted in higher accounts receivables at the end of the period and thus impacted cash flow for the quarter in a negative way. Combined with the fact that accounts payables are as usual at the relatively low level of the summer period. During the quarter, cash flow from operating activities decreased to 38 million, and for the nine month reporting period, cash flow from operations was 190 million. Our continued focus on working capital is high and we are currently in the process of launching more specific working capital management projects within the framework of our business school. Operational cash flow also includes positive effects from IFRS 16 of accumulated 68 million, which is done by the same negative number in financing activities, making the net amount zero. Cash flow from investing activities for the reporting period amount to 250 million. This cash flow includes acquisitions of 206 million SEK supplements or prior acquisition costs included and earnouts and call options of 32 million and net investments in noncurrent assets of 12 million. The level of net investments during the quarter was at the normal level and spread on several companies. Our return on working capital stood at 58%, which is well above the financial target of at least 45%. And we also see that the working capital turnover has increased a bit during this year. Our return on equity was 25% as we continue to have a high reinvestment rate of about 100% of free cash flow after tax or spent on acquisitions this last 12 months, combined with working capital investments, dividends and our CapEx, our operational liability amounted to 472 million compared to 252 million at the beginning of the year. Our net debt to EBITDA ratio was around 1.4 at the end of the period. Total cash and cash equivalents, including unutilized approved credit facilities, amounted to some 630 million SEK at the end of the quarter, which means that we combine with a continuous strong cash flow from operations and good balance sheet, have a lot of room for additional inorganic initiatives going forward. And with that, I hand back to you where you will discuss the activities we take to continue to build the group. Thank you, Douglas. And I will give you some input about our journey and examples from one of the companies in the value chain that is production of own products. We have a long history from the start to 1906. The Foundation and Momentum Group is when Burmann and having bought the company that I worked for, Momentum Industrial in 2004. We are today six listed companies where I work with the same financial goals and with extensive experience in acquiring and developing leading niche companies with the long term ownership approach. We have made a great deal of development from 24 million.second market cap to 180 billion SEK in the five years following our spin off from Birmingham paving we do believe today and doubled revenue through 19 acquisitions through our industrial components core business drop to 15% in accordance with all allowed us to form their lead group with focus entirely on industrial components and solutions and pursue our key financial goal of maintaining EBITDA through working capital above 45 percent. Our target is to increase EBIT EBITDA by at least 50% EMYRIA over five years time, aiming for 340 million SEK by the end of fiscal year 2026. The table shows we have reached EBIT, a rolling total rate of 333 million SEK after three years and three quarters. And I'm confident we'll maintain this momentum to achieve our goal of again.You. A very important factor in being able to reach this goal is to keep up a high acquisition pace. That is why it is important for us to generate good cash flow from our operations or finance a target for profitability. Working capital is a simplified measurement of cash flow, meaning that if we can derive good good after tax profits from our business and be stringent in our working capital management, we should generate a good cash flow. The new group structure for continued growth, profitability and development has been vital. Being able to reach EBITDA of 340 million SEK at the end of 2026. The change strengthened the conditions for organic and acquired growth in each business area by making better use of 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 around 1.5 billion SEK and completed 28 acquisitions. Six So far this year, nine of the acquisition has been bolt on in order to create the best condition for continued growth and to be more clear, to reflect the strategic focus. We made this adjustment of the group structure based on the market sectors in which companies operate. We want to utilize the expertise accumulated in the group, especially on the acquisition side, and encourage knowledge sharing between companies with similar market conditions or framework to reach. The five year goal in EBIT was set during the listing. We said we will focus on the Nordic market, focus on value, adding resellers of service, repair and maintenance, focus on local manufacturing, assembling proprietary brands with end customer contact with lower CapEx need. Focus on end customer in both MRO and OEM. Regarding the product verticals, we have added that, for example, valves that today are our second largest vertical. One example of own products is mobi-c. It's our brand for customer sales. We have a flexible production tailored to customer needs in material and dimensions, minimizing waste and environmental impact. We have ten machines in five locations close to the customer, and we produce around 180,000 sales per year. Montilha is part of a specialized company which also have hydraulics in their portfolio. Just one example of how we assist customers in by providing tailored solutions to reduce downtime and waste. In this case, we have replaced an existing product with a new material to decrease friction and increase wear resistance, and it got the improvements. With increased machine availability, fewer will replace mills and on the expected stops resulting in reduced product waste. Here are some examples of products that we produce in our ten machines. We mainly produce products for hydraulic implementing solutions and also offer custom options to help customers reduce downtimes. Everything from gate greens to radial shaft seals, gaskets, varying specials and pistol seals and as well as wipers. Behring's. Thank you for your time and interest listening to our Q3 presentation, which are available with report on our website. If you have any questions or specific request, do not hesitate to contact us through our IR email or by phone. Thank you very much. Once again.