

14-Feb-2025

Momentum Group AB (MMGR.B.SE)

Q4 2024 Earnings Call

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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 Year-End Report for 2024. I am Ulf Lilius is 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 Q4 as well as sum up the year. We will round off with talking about the long-term perspective.

Now, to the highlights in our report. The business situation in our main markets in the Nordic was [ph] as held (00:38) somewhat more tentative during the fourth quarter. Behind this general description hides a relatively fragmented picture. After a stable development earlier in the year, we saw lower demand in the automotive sector, which particularly affected our operations within power transmission and parts of technical solutions.

At the same time, we experienced more favorable demand in our other customer segments, particularly for our companies in Flow Technology. The group operation delivered stable sales growth of 12% during the quarter with organic revenue growth of 1%. EBITA did not increase underpinned by various factors as, for example, hold backs in orders from various customers, particularly in Power Transmission and Technical Solutions, as well as extended holiday leave among customers in December.

After the fourth quarter, operational net loan liability amounted to SEK 252 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 859 million, including unutilized granted credit facilities, our cash flow provide us with security and bodes well for healthy financial flexibility going forward. As we sum up 2024, there's much to be proud about. Despite the challenging global environment, we have delivered organic revenue growth in all our quarters. We completed eight acquisition and, once again, exceeded all of our financial targets. I think this points to the strength of our business where our independent companies [ph] compare (02:24) and accelerate based on their specific conditions. And this creates opportunities for us at the group level to develop our business with profitability and profit growth.

Another important ingredient in our business culture is the willingness to improve. During the year, we have seen some examples of our companies find ways to each other for collaboration opportunities. Since the listing in March 2022, we have almost doubled our turnover and welcomed 23 companies and more than 300 talented employees to our corporate group. With solid balance sheet, strong cash flow and available liquid funds of approximately, as I said, SEK 860 million, we have good conditions to continue a successful growth journey. We will continue to invest in our existing operation and implement value-creating acquisition to strengthen our market

position and create long-term value for shareholders. This once again demonstrate the strength of our decentralized business model.

Now, I will hand it over to Niklas who will guide you through our Q4 report.

Niklas Enmark

Vice President & Chief Financial Officer, Momentum Group AB

Thank you, Ulf. And good morning, everyone. For the fourth quarter of 2024, our net sales increased by 12% to SEK 745 million. Out of this, about 12% or SEK 81 million derived from acquisitions and 1% from organic growth. The quarter had one less reporting trading day. Compared to last year, however, in reality, there were probably even fewer trading days due to holiday leave around Christmas and New Year's Eve among customers. As we commented on the report, during the quarter, we saw a generally stable demand situation, though with variations across segments and geographies. The background is a decline in demand in the group's aftermarket operations for the automotive segment in the Swedish market, which makes up a bit less than 10% of revenue together with the continued low level of product sales, which we have seen during the year. To counter this, large segments such as mining as well as electricity and heat production had a positive development during the quarter.

Besides this, the industrial market in Finland continued to remain cautious, while the Danish market continues to be positively impacted by segments such as pharmaceuticals and green technology. Among the business areas, infrastructure was the area [indiscernible] (04:45) most during the quarter especially due to recent acquisitions. Both business areas reported organic growth of 1% each despite the challenging market situation.

Overall, the companies in the group displayed good delivery capacity during the quarter with only some minor delays related to suppliers. The good delivery performance is especially pleasing given that Momentum last year was preparing for the relocation of their central warehouse during the quarter. Purchasing prices and costs continue to increase at a relatively moderate rate.

Looking at the earnings situation in Q4 last year. Our EBITA was flat at SEK 70 million compared to last year. The EBITA margin reached 9.4%, down from 10.5% from the previous year. The lower margin was attributed to a bit lower margin in total among comparable companies and then especially those affected by the volume growth in the automotive segment. This was then compensated for by earnings in the acquired units but not to the same extent as we had in Q3 of this year.

Operating profit decreased to SEK 53 million, corresponding to an operating margin of 7.1%, down from 9.1%. The decrease is partly explained by items affecting comparability around SEK 5 million that relates to relocation costs of Momentum industrial central warehouse but also higher charges for amortization of intangible non-current assets related to acquisitions.

Profit after financial items totaled SEK 45 million, down from SEK 58 million from the previous year, impacted by higher financial expenses than last year, which was caused by negative currency translation changes in the value among other things acquisition-related liabilities. Earnings per share was SEK 0.65 for the quarter.

For the full year, our revenue increased by 25% to a bit south of SEK 2.9 billion, with growth in comparable units of 3% and where we delivered organic growth in all quarters despite the challenging market situation. Acquisitions added SEK 518 million to full year net sales. The number of trading days were the same compared to last year. Our EBITA increased by 22% to SEK 322 million, corresponding to an EBITA margin of 11.2%, whereas operating profit rose by 15% to SEK 273 million corresponding to an operating margin of 9.5% once again affected by the higher amortizations arising from acquisitions. Acquisition-related expenses had an impact of

minus SEK 4 million this year. Profit of the financial items totaled SEK 240 million. Earnings per share increased to SEK 3.60 for the period.

And now, for some comments on the business areas, first, the business area industry. And sales and earnings in business unit power transmission within the industry business area and the power transmission consists of the company Momentum Industrial. We saw that sales and also earnings declined during the quarter. And during the quarter, lower demand was [indiscernible] (08:10) from customers in the automotive segment. On the other hand, demand in the metal and mining industries developed positively and remained stable in paper and pulp. The company is currently relocating its central warehouse from [indiscernible] (08:23). During the fourth quarter, a lot of preparation work was conducted and the company recorded relocation costs of SEK 5 million. The move has been very successful and operations at the new site have been up and running for a couple of weeks now with no effect on operations. All in all, some 30,000 articles have been moved.

Unfortunately, during the quarter, we made a provision for expected customer losses related to Northvolt for our remaining outstanding receivable of SEK 1 million. The business unit specialist posted increased sales with stable profit levels in comparable units. In addition, acquired businesses contributed sales of around SEK 50 million with a positive contribution to earnings. The Swedish operations noted generally stable demand, but the situation remained cautious in Finland related to a generally soft business cycle where demand in Denmark was stable. Revenue in all rose by 3% to SEK 439 million compared with the same quarter last year and revenue for comparable units measured in local currency and adjusted for the number of trading days increased by 1% compared to the previous year. EBITA decreased by 5% to SEK 54 million, corresponding to an EBITA margin of 12.3%. The business areas' profitability measured as return on working capital amounted to 68%.

Turning to the infrastructure business area. The companies in the business unit, Flow Technology, done within this business area generally performed well during the quarter with favorable sales growth and also margin development for comparable units. Overall, demand was good in Sweden and continued to strengthen in Denmark during the quarter driven by the pharmaceutical sector and investments in green technology.

In Finland, there was a slight increase in activity but from rather low levels. Acquired businesses contributed revenue of SEK 23 million with a positive contribution to earnings in the quarter. In the business unit, technical solutions reduced sales and lower earnings for comparable units were noted during the quarter. The capacity utilization in the workshops was negatively impacted by lower activity among some customers, particularly in the automotive sector and towards the end of the quarter also by holiday leave.

Demand in the measurement technology and control operations remained positive during the quarter and the companies are experiencing a good business environment with numerous customer dialogues also regarding [ph] Nordic (10:59) systems. Acquired businesses contributed SEK 43 million to revenue during the quarter would help the margins. All-in-all, revenue rose by 26% to SEK 312 million compared with the same quarter last year for the business area. Revenue for comparable units measured in local currency and adjusted for the number of trading days increased by 1%. Our EBITA in the business area increased by 18% to SEK 26 million corresponding to an EBITA margin of 8.3%. The business areas' profitability measured [indiscernible] (11:35) working capital amounted to 60%.

Looking at some profitability and cash flow metrics. Our return on working capital in the group was at 59%, which is well above then the financial target of at least 45%. Our return on equity was 27%. For the reporting period, our cash flow from operations before changes in working capital increased by SEK 31 million to SEK 311 million. For the fourth quarter, we delivered a strong cash flow from operations with SEK 109 million, which is our highest yet for a quarter since listing in 2022. For the full year, our cash flow from operating activities increased to SEK 323

million, an improvement with SEK 63 million or 24% compared to the corresponding period of last year. Cash flow from investing activities for the reporting period amounted to SEK 160 million and this cash flow includes acquisitions in total of SEK 105 million, including settlements and deferred payments regarding acquisitions of SEK 12 million and net investments in non-current assets of SEK 11 million.

Our financial position continues to be strong. The group's operation at the liability amounted to SEK 252 million compared to SEK 326 million at the beginning of the year and SEK 381 million at the beginning of the quarter. Our net debt to [ph] EBITDA (13:04) ratio was around 0.8 at the end of the period. Total cash and cash equivalents, including unutilized approved credit facilities, amounted to some SEK 860 million at the end of the quarter.

And now, I will hand over to Ulf who will give you some words on our long-term development.

Ulf Christian Lilius

President & Chief Executive Officer, Momentum Group AB

Thank you, Niklas. Now, I'll give you some input about our development over time. During our first year as listed company in 2022, our traditionally largest customer sectors, metal and mining, pulp and paper, general manufacturing and automotive represented some 55% of net sales. Today, these sectors are still a large part of our total business, making up some 45% of sales. During the same period, we have established a new, large customer segment in electricity and heat production, as well as increase of share of sales to pharma and medical devices and water sewage. This is in line with our philosophy of making incremental steps into new markets, especially via acquisitions, where we see there is a good opportunity for the long-term growth.

Looking at our largest product segments, there are similar chains where valves is now our second largest segment increasing from basically zero a couple of years ago. A very important factor in being able to keep a high acquisition pace is that we can generate good cash flow from our operations. Our financial target for profitability and working capital is a simplified measurement of cash flow, meaning that if we can derive good after-tax profits from our business and be stringent in our working capital measurement, we should generate a good cash flow.

Looking at these last three years, we have generated close to SEK 600 million in cash flow from operations, also increasing incrementally year by year. Of this money, about 10% has been invested in working capital, a bit simplified to fuel our organic growth. Around 5% has been invested in CapEx as a reference to our asset-light operating model with the low amount of fixed assets. Around 27% has been distributed to our shareholders either as dividends or via share buybacks. That leaves around SEK 630 million we have spent on acquisitions. This is, of course, a large number and higher than the cash flow generated. This also means that we have been required to increase our net debt during the period but to a still very healthy level and that gives us a reinvestment ratio of 109%.

Thank you for your time and interest listening to our Q4 and year-end presentation, which are available with the report on our website. If you have any questions or specific requests, do not hesitate to contact us through our IR email or by phone. Thank you very much.

QUESTION AND ANSWER SECTION

Ann Charlotte Svensson

Head-Group Communications & Investor Relations, Momentum Group AB

A

Hi and welcome to this Q&A session on Momentum Group's Q4 report. We have received some questions since we released the report this morning, and we are going to answer them here. And with me, I have our CEO, Ulf; and our CFO, Niklas. Let's start. Okay. So the first question in the report, you mentioned that the business climate is generally stable, but the organic growth rate is decreasing compared to previous quarters. Can you elaborate on this? Niklas, please.

Niklas Enmark

Vice President & Chief Financial Officer, Momentum Group AB

A

As we have said, during the year, we feel that the business climate overall is quite stable and moving sideways actually. In Q1, we saw a bit higher growth rate, around 5%, followed by 1% in Q2, 3% in Q3 and now 1%, so it's quite stable.

Ann Charlotte Svensson

Head-Group Communications & Investor Relations, Momentum Group AB

A

Okay. So the next question is on the same topic. Organic growth among many of your peers is increasing. Why is that?

Niklas Enmark

Vice President & Chief Financial Officer, Momentum Group AB

A

Well, we track our peers' performance as an important input to us in our planning, the peers being elder compounders for most, such as [indiscernible] (17:39) et cetera. And compared to these players, we have a larger share of aftermarket business and aftermarket sales tends to at least, over time, be a bit less sensitive to economic cycles, resulting in a more stable development. However, this also means that when the market turns, there is normally a certain delay for us. Our peers reports since Q1 in 2024 and also the industrial production which is [ph] not a metric (18:09) that we follow, has during 2024 indicated that the demand is gradually coming back, which is of course also positive for us going forward.

Ann Charlotte Svensson

Head-Group Communications & Investor Relations, Momentum Group AB

A

Another question. 9% of your revenue comes from the automotive sector. How do you plan to handle this if 2025 turns out to be as a tough year for the sector, as some predict? Niklas?

Niklas Enmark

Vice President & Chief Financial Officer, Momentum Group AB

A

Well, first of all, the automotive sector is relatively small part of our business and also includes, well, not only cars but also trucks, et cetera. And also one other thing which is important to keep in mind is that we are not selling products to the actual cars or trucks, but to the production machinery that produces these vehicles. Over time, this segment has also actually decreased as a share of revenue in our business.

Volatility in demand, in general for specific segments, is nothing new to us. And if the reason is more short-term, there is usually a spillover effect as repairs and spare parts tend to be critical for many of our customers. We then adopt by decreasing our inventory purchases of certain articles and make short-term reprioritizations among customers. If the reason is a bit more long-term structural reason, we can also make changes to our assortment of products and also make pushes into other market segments.

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

A

Okay. So now we have a few questions about the relocation of the central warehouse that Momentum Industrial is performing. First question, will the results for Momentum Industrial be negatively impacted in Q1 due to the relocation? And are there more one-off cost expected? The other question is, what would be the benefit from the relocation of Momentum Industrial Central Warehouse? And can we expect any positive impacts or financials from it? Niklas?

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

A

The relocation of the Central Warehouse is progressing as planned in Q4 of 2024. There was a lot of preparation work in both logistics and IT and where we also actually stocked up our local inventories in the branches in order to decrease the products that we had to move in the Central Warehouse. We moved during this quarter, that is Q1 2025. And as I mentioned in the presentation, the new central warehouse is up and running since a couple of weeks with no negative impact on customer deliveries. We see a great advantage with the new central warehouse. It is highly automated and it will have a positive impact to support Momentum Industrials' further growth.

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

A

Next question, have you analyzed how the US tariffs might affect your business? Niklas?

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

A

Well, first of all, we have an extremely minute level of sales to customers in the Americas and especially in the US. And of our purchasing, about 95% of our purchases comes from European suppliers and only around 3% comes from suppliers in both North and South America. And so there is a very limited, direct effect, I would say. However, I mean the indirect impact of tariffs and how they will impact our customers foremost is harder to predict. So here, we will have to wait and see how this all plays out.

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

A

Next question, your EBITA margin is typically between 11% and 13%. Do new acquisitions typically dilute margins or do they increase margins? And also going forward, is there potential to increase the EBITA margin? Ulf?

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

A

I wouldn't say that new acquisition dilute margins. As you know, we focus on profitable working capital were EBITA margin is one component. But to have the profit of working capital above 4% to 5%, of course, we aim to have double-digit companies that we acquire, but also get double digits in all of our entities that we already have.

And of course, to increase the EBIT margin, we work with that every day. So that's also an aim. But I wouldn't say that it's dilutive. I think that's the wrong context.

Ann Charlotte Svensson

Head-Group Communications & Investor Relations, Momentum Group AB

A

And then the final question, what does the acquisition pipeline look like going forward? Ulf?

Ulf Christian Lilius

President & Chief Executive Officer, Momentum Group AB

A

The pipeline looks good. We have robust structure and very confident in the process of making acquisition as well as approaching new companies and it's in our DNA. And as we have grown, of course, we have more and more people feet on the ground in all Nordic countries. So I would say that activities in the acquisition hasn't been higher than it is right now. So I'm very confident in the acquisitions going forward.

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. Okay. So that's all the questions for this time. Thank you for listening. And also if you have any further questions, please contact us on ir@momentum.group. Thank you.

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