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Fagerhult Group AB (FAG.SE)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning everyone and welcome to today's conference call titled with Fagerhult Group Full Year Report 2023. My name is Ainar and I will be call operator for today. All participant lines will be muted throughout the presentation, but at the end of today's presentation there will be an opportunity to ask a question. [Operator Instructions]

I would now like to turn the call over to Michael Brüer to begin. Michael, please go ahead.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult Group AB

Thank you, Ainar. And hello, everyone, and welcome to the presentation of Fagerhult Group's year-end results for 2023. My name is Michael Brüer, responsible for strategy and communications here at Fagerhult Group. And on the call today, we have our President and CEO, Bodil Sonesson; and CFO, Michael Wood.

The presentation will start with Bodil giving us a brief update of our results for the fourth quarter and the full year results. Bodil will then continue to update us on some highlights and innovations launched during the quarter. After that, Michael will follow with more details about the performance of the group, and Bodil will conclude with a brief recap. And afterwards, we will open up for questions. And as Ainar mentioned, we will first allow questions from the conference call and then we will allow questions from the webcast. You can post questions there on your screen and I will read them up for Bodil and Michael.

Before we start, let me also remind you that today's session is recorded and will be available on our website later today.

With that, I hand over to you, Bodil. Please go ahead.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Thank you, Michael, and welcome, everyone, to this Q4 and full-year 2023 webcast. So, the fourth quarter was yet another good quarter and marked a strong ending to a very good 2023. We saw all time high performances in many areas for the full year. We had all-time high in order intake, in net sales, in gross profit margin, in operating profit and cash flow. So we will come back to the details and all those numbers in this webcast.

So, we've been able to navigate a challenging financial landscape in a very positive way. And with the exception of the higher interest expense, we have seen no major impact on us as a company from an activity level perspective. Last year, 2022, we were impacted by the supply chain challenges that eased out during the autumn and had a hugely positive effect on the result in Q4 2022, when we were finally able to catch up on the order backlog and delivered. And this makes the comparison to the fourth quarter 2023 a bit more challenging.

But the strong gross profit margin is also a sign that we have dealt with the inflationary conditions and the market in a good and focused way and we have focused on our best segments and solutions. It's also reflecting that the total cost of ownership for the customers are an attractive solution, both from energy savings and carbon reduction. And going forward, we will see us focusing more on possible cost reduction, both in materials with new materials and with electronics.

We also are very positive about the continued strengthening of the order intake, where in Q4 we had a positive order intake of 5.5% organically. And especially collection showed a strong growth with above 10% in increased order intake for the quarter. And this is also for us a strong sign that our strategic initiatives with high focus on sustainability and smart lighting to enhance our luminaire solutions and focus on renovation is clearly the right direction for us. We continued to strengthen our sustainable solution focus and have high ambitions with regards to smart lighting. 2023 was also a record year with regards to sales of smart lighting solutions organic response.

As you know, our third strategic pillar in the group is talent and culture and also here, [ph] which is (00:04:29) many step forward in 2023 with some good recruitment. The first most important goal has been to have high performing management teams in place.

So, let's have a look at the key figures for the quarter. So if we look into Q4, as I said, we had an increase in organic intake in Q4 with 5.5% to SEK 2,123 million and the net sales declined with minus 7.7% and in number – also that organically and in numbers, we achieved SEK 2,111 million. And in EBIT numbers, we delivered SEK 216 million with a 10.2% EBIT margin. And this is to be compared with 11.2% from last year. But from an operational standpoint, as I said, this is a good result.

Earnings per share was SEK 0.61 and was impacted by the financial costs. As we have communicated previously, we have partly used our good cash flow to pay back loans, to reduce our interest expense and the lower net EBITDA ratio will also have a positive impact.

So, if we then look at the full year, wherein order intake, SEK 8,435 million and compared to SEK 8,243 million in 2022. In organic growth numbers, it represented a decline with 1.9%. And important to note, when the logistic side was stabilized, the order intake also stabilized. So the second half showed a much more positive trend with a 3.2% organic increase compared to a negative 6.4% in the first half year of 2023.

The net sales are organically positive with 0.2%, and in numbers SEK 8,560 million compared to SEK 8,270 million last year. And operating profit has grown from SEK 833 million to SEK 901 million in 2023, which represent an increase with 8.2%. And an operating margin has gone from 10.1% to 10.5% for the full-year of 2023. And earnings per share is at SEK 3.09. And as always, Michael will give you much more information when we come to

the financial section. And first, as Michael – the other Michael said, I will show you some things that have happened in the quarter.

So in our quarterly reporting every time, we give you a flavor of our strategic group focus areas. And this time I will speak about how all external factors like legislation and customer views are aligning well with regard to sustainability and smart lighting. And we can see an uptake in awareness and interest for our solutions. I will also present two new innovations launched in the quarter which are both sustainable and smart. One from iGuzzini and one from our smart outdoor lighting brand, Citygrid. And we will end with a nice collaborative group project with participation from many group brands that shows our strengths when we work together and win very nice landmark projects.

And as you know, we have a global presence with our 12 lighting brands and 2 smart lighting brands. We cover almost all professional lighting markets with sales into 10 different professional customer segments or application areas as we call them in everything from office, critical infrastructure, urban spaces, hospitality, culture and more.

So I think, in general, sustainability strategies are successful when it's an integral part of business strategy and therefore becomes a win-win for everyone. And we see this very much being our case. Being part of the building industry that is standing for almost 40% of the energy consumption and the global carbon footprint, we can make a difference with strong energy saving potentials.

Lighting is today 15% of a building's energy consumption and already today, we have technology available to decrease that with 90%. We save 70% if we go from traditional fluorescent technology to LED lighting. There, we need to remember that in Europe, the installed base of LED lighting is around 35% of all the buildings, the 65% of unused potential. If we add on smart lighting, we can save another 70%, both from making sure that light is only used when and where needed and by optimizing the usage with leading luminaire designs.

Renovation will be a driver in smart lighting for many years to come as building owners look to reduce costs, optimize energy and leverage the data and smart functionalities of these solutions. And many of the property owners are also signed up to SBTi and our Scope 3 is their Scope 1. So we need to work together to achieve these goals.

But today, smart lighting is only used in 4% or 5% of buildings. So, why is that? And I've said before that ignorance is our biggest competitor and it is still the case. But we start to see positive signs with big customers seeing the benefits of the solution. And we also see all the external factors in line in the direction of smart lighting.

So for us, luminaire designs enhanced by sustainability and smart lighting go hand-in-hand as we will succeed with our sustainability targets when we succeed with our smart lighting targets. The same goes for our customers. The property owners and end users, they will not succeed with their SBTi targets, if they do not use smart buildings and smart lighting technology.

Of course, the underlying most important one is the Paris Agreement to limit the temperature to increase 1.5 degrees. And here we can play an important role through energy savings and helping to renovate Europe. EU's aim to be net zero by 2050 has also introduced a lot of new initiatives in order to be able to reduce greenhouse gas emissions by 55% by 2030. So, there is updated legislation to what's called the European Energy Performance of Buildings Directive or the EPBD, and that was published in December 2023. And it's on energy performance in buildings, but for the first time, it also has a strong focus on smart lighting. For example, the directive says lighting should communicate with relevant connected technical building systems. And this is a key

reason why our smart solution, Organic Response and Citygrid are open systems which facilitate being connected.

The third point we see is that there is a lot of development happening on the technical side. It's easier to install a smart lighting system with Organic Response compared to other traditional systems. For example, you do not need additional cabling and plugs. And also if you want to move around the office or the walls in the office, it has no impact on your lighting installation. And there is also a lot of development on the sensor side, which makes it very interesting for the future.

So here we see two quotes, one from an end user and one from a real estate company. A typical example of the awareness that I was saying starting to happening on the market. And I will let you read these two quotes, so you can see what they are incorporating.

So, these two quotes tell us a few things, awareness of the possibilities are increasing. We also know that lighting is everywhere. With the granular system of sensors throughout the building, one sensor in each luminaire connected to the cloud we are able to share information. And through the cloud, the system can be managed remotely and the data can be used to improve the performance and usage of the building and bring more value to the customer.

So, let's move over to the two innovations from the quarter. So, the first one is that we continue to grow our smart lighting platforms and our outdoor brand, Citygrid, is launching a range of new products this year and the first one out is the Zhaga controller, allowing our luminaires to communicate wirelessly. And it's built in open standards supporting the Zhaga socket and has the capability to send information about actual energy consumption from the luminaires. And this is key in our ambition to help our customers optimize usage and minimize carbon footprint over time.

Then, we have the second one. And every time we launch a new product, I'm looking for the sustainability angle and last year there were many. And we can do sustainability in many ways. We saw it with smart, but we can also do it with regards to material. And in Q4, we launched a Light Shed Linen from iGuzzini, which is the first professional lighting product made in linen, which makes it extremely light, like a feather and very beneficial from a carbon footprint perspective.

So, we are doing a lot of research with new sustainable materials and also work in partnership, which Light Shed Linen is an example of. It comes out of a partnership with different stakeholders, both commercial and the universities in the [indiscernible] (00:15:09) region, the home of iGuzzini. And the goal has been to work with bio-based materials that has real strength and durability, and it's once again showing how ambitious sustainability targets are driving innovation and reducing embodied carbon.

On top of that, there is strong architectural trends in what's called biophilic design, which means that we also take in nature in architecture. And of course, Light Shed Linen responds very well to this. And it's equipped with the smart lighting sensor from Organic Response.

And as I said, we like to speak about projects where we use the full strengths of the different brands of the group. And it shows that we are good at working together and it also capitalizes of the full strength of product ranges of our brand company. And I think this is a reference project that I believe that many of you can relate to. It's the Everton Football Stadium, a stadium that is going to host almost 53,000 fans. And it's currently being built. And we have products from three group brands, it's Whitecroft [ph] design fan (00:16:20) on the inside and iGuzzini doing the outdoor lighting.

And we like this project as well because it has a goal to be the most sustainable stadium in the English Premier League. And there has been a lot of attention from all angles to make it sustainable. For example, the builders are reusing 95% of all materials on site, and they're using solar panels and rainwater harvesting. All the 14,000 luminaires on the stadium are designed with circularity built in to allow to light upgrades and maintenance, and thus reducing the whole life carbon footprint of the lighting solutions.

And what can be better, Michael, than handing over to you with a British project speaking about the financial numbers.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Well, it's pretty good, but I'd rather would be rugby stadium instead.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

I know that, but still British.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Thank you, Bodil, and a very good morning to all our guests from me as well. When reflecting on what to present and talk about in these calls, I always find that the one covering the final quarter of the year is often easier. And why is that? I take the view that the challenge for the year is done. It's behind us, and we look forward to the new year.

On the last call, I talked about confidence being high and looking forward to closing out the year in a very good way and the group clearly delivered on this ambition with many all-time high levels of performance. Bodil already mentioned the tough comparable quarters from Q2 2022 as we caught up with approximately SEK 540 million order backlog from September 2022 through to January 2023. What we have done is to grow our order intake since the summer period in 2023 and increase our market share. The overall order intake in the second half year was positive 7.6%. The net sales of over SEK 2.1 billion is a strong result, and the group's ability to win orders and deliver on shorter lead times to meet customer expectations is at a good level. As a consequence, our decentralized operations continue to perform very well.

On the market, we continue to see more opportunities than headwinds and our highest priority remains to service our customers with excellence at each and every touch point. The group brands have responded well to the cost pressures in the supply chain that we've mentioned previously, and we see an all-time high gross margin as a result of intelligent pricing, smart portfolio decisions and product mix management. Looking forward, we intend to continue our focus here.

The operating profit of SEK 216 million delivers a strong 10.2% operating margin. However, supply chain improvement and the SEK 45 million EBIT boost, as mentioned in the report, makes the comparison tough with the end of 2022. However, I bring to your attention that the 10.2% compares very well with the fourth quarter average for the preceding three years, which is at 8.8%. So, the two to three to four-year trend continues to be positive.

Earnings per share at SEK 0.61 in the quarter was impacted by higher interest rates as well as negative currency impacts. On the interest expense side, we carry a much lower debt into 2024 and we have repaid SEK 457 million in term loans. So, we expect the interest expense to be somewhat lower in 2024.

On the Q4 2022 call, I recall promising a SEK 250 million reduction in working capital. And I remind us today that we have delivered SEK 288 million reduction and we've put our surplus cash to the best use possible.

Looking at the full year [ph] financials on a (00:20:33) year-to-date 2023, we previously reported a robust first half year and combining this with a strong second half, the group continued to deliver improved results. Our operating profits increased 8.1% to SEK 901 million, first time over SEK 900 million for the group. And the impact from this is to grow the operating margin from 10.1% to 10.5%.

Our clean unadjusted double-digit operating margin for each of the last three years is good to what we see on the market. The SEK 77 million impact of the higher interest rates and the SEK 40 million swing in FX impacts from 2022 to 2023 affects the net profit and EPS. For Fagerhult, we believe given the current conditions that the interest expense has peaked and for 2024 we should see a lower expense. We are positioned well and have taken actions to reduce. Cash flow is significantly ahead of last year and we are proud that the dividend that is proposed shows a 12.5% increase to SEK 1.8 per share.

Let's have a look a little bit more now at some of the longer term trends. Mentally and just – I look at this and think mentally adjusting for the artificial, I'll call it artificial, artificial supply chain boost from September 2022 to January 2023. The development in the rolling 12 months net sales continues in a good way. The rolling 12 months is now at SEK 8.6 billion. The second half year order intake developed well. It reminds us that it was plus 7.6% growth in the second half year of 2023. And our ambitions, of course, remain to further develop this in the coming years, both organically and through M&A.

Looking at margin development, what I referred to earlier can be seen quite clearly here. The group is consistently delivering 10% or higher operating margins for each of the last three years, and this is clean and unadjusted. So, what does it mean? To me, it's quite simple. It means 10% in 2021, 10.1% in 2022 and 10.5% in 2023, or in a three-year period where there have been many external challenges. It shows the robustness of the group to adapt and change. It shows the decentralized operating models to be ideally suited to a world full of challenges. And it shows that we can move with speed, which is vitally important in a digital age.

Let's drop into each of the business areas now. Four of the business areas taking collection first. As mentioned – or sorry, as already mentioned, the Q3 and Q4 order intake in collection was a lot stronger than the first half year. How stronger, you will be aware that the organic growth to the half, it was negative 14.5% in collection, whereas the second half year the growth was positive 10.3% and double-digit in the last quarter, as Bodil mentioned. This provides confidence in the shorter term as it will mean improved net sales in the coming periods. Here, you can see some of that happening in the fourth quarter.

The gross profit margin continued to develop well with a positive impact to the operating margin where the fourth quarter was 10.1% compared to a GP affected 8.9% in the previous year. As you can see, we continued to demonstrate our portfolio width across the brands by winning some great projects.

Let's take Premium now. A decent second half year order intake in Premium combined with positive gross profit development, means that the premium business area continues to deliver consistently high levels of profitability. In Premium, you can quite clearly see what we mean with the tough comparable period from late 2022 and the supply chain improvement. But the order intake levels are at a good and positive level and lead times are back to

normal and profitability is high. The business area grew almost 5% in the full year. The operating margin of 14.1% for 2023 is the same as for 2022 at the high and consistent levels.

Moving to Professional. The Professional BA continues to make a good recovery from the difficulties that we've communicated in 2021 and 2022, with the attention now turning to the longer term development in all three businesses. We see increased levels of cross brand collaboration and cooperation with knowledge sharing high on the agenda. Arlight in Turkey have just moved this month to a new factory facility which provides a strong platform for growth compared to their former location.

Order intake has been positive for the full year, closing at plus 10.5% for the 12 months. And the operating margin has been improving since the start of 2023. The full year operating margin closed at 8.3% compared to a difficult 4.3% in the previous year.

Coming to Infrastructure. Infrastructure growth has been consistently positive for the last three to four years. And for the first time, we are really pleased that the business area grew to above SEK 1 billion and at the same time increased the operating margin from 12.5% in 2022 to 14.4% in 2023. 2023 was a very good year for the business area with all businesses performing well, delivering a 29% operating profit increase to SEK 147 million. There is a strong focus when it comes to application areas. Recently, we reported the withdrawal from the low margin horticulture segment and this has provided not only profitability improvement but also enhanced the focus on the business areas core segments. You can see two nice project examples of this on the slide.

Cash flow, following a weak cash flow in 2022 where we invested in inventory to support our customers, the 2023 performance is record breaking. The full year operating cash flow was SEK 1.2 billion and I'll say it again, that's SEK 1.2 billion. And as mentioned, we have put the surplus cash to good use and propose a dividend at the high end of our long-term dividend policy. Furthermore, we carry a low net debt with us into 2024 and a net debt EBITDA ratio of 1.8x. In recent times, I cannot recall a lower ratio.

First of all, a reminder that the EBITDA used in this chart is adjusted for acquisitions and/or disposals, including the impact of IFRS 16, which adds SEK 728 million to the net debt. We report a closing lower net debt of SEK 2.414 billion and a net debt EBITDA ratio as mentioned of 1.8x. The four year trend is clear to see and is strongly positive. The work and focus on working capital management and cash-generating activities will continue across the group.

Finally, earnings per share. In 2023, our ambitions were for a further positive development in the EPS. However, we are not the only business that has been impacted by higher interest expense. We have taken and we'll continue to take mitigation steps for 2024 and beyond with a strong focus on cash generation and loan portfolio management.

Before handing back to Bodil for closing and Q&A, a short summary message from myself. 2023 was a good year for Fagerhult Group where the performance continued to improve and where we're in a strong position. Order intake grows and net margin trends are positive. The strategy and focus is clear and intact. And the debt is lower and confidence is higher, which is just the way I like it to be.

Thank you very much. And I now hand back to Bodil.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Okay. Thank you, Michael. So, another beautiful picture. This time it's in [indiscernible] (00:29:26). And it's a concert hall in Congress Center. And you can see the outdoor lighting, which is from our brand, [indiscernible] (00:29:36) this time. So, if we go to conclusion and recap for 2023. So the conclusion is very simple, it's another record year and we continue to strengthen our financial position and organization.

We showed positive comparative numbers, as we said, both on order intake, GP margin, net sales, net profit and cash flow. And I think it's especially positive to see the strength in order intake in the second half year. And we see that order intake situation and lead time being back to normal after last year's order situation that was influenced by the supply chain challenges and customers facing order early. So that is now completely normalized.

We continue to see the renovation trend strengthen and with that a higher interest for smart lighting. The ban of the fluorescent lighting and the communication around is slowly creating an awareness of the possibilities for much more energy efficient solutions. We also win prestigious projects in different parts of the world and an increased cooperation between our brands and continue to release innovation, sustainable lighting solutions in our different brands.

We also are very well positioned with regards to megatrends and we continue to see legislation in Europe and the UK focus to increase renovation and therefore focus on energy efficiency. This has been strengthened the last period with a focus on smart lighting in the updated European Buildings Directive. And in addition to that, we see an increased awareness among our customers for the possibilities with smart lighting, which makes us confident that our strategic focus gives us confidence in the positive outlook.

We are also very proud in 2023 that we got our very ambitious sustainability targets validated from SBTi in 2023 [ph] versus (00:31:41) Scope 1, 2, 3, 2030 as well as our net zero target for 2045. And I really, truly believe that when the sustainability goes in hand-in-hand with earnings, then it's a real win-win-win case for everyone.

And with that, I think we'll end the presentation part and open up for questions. So, I hand back to Michael.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult Group AB

Yeah. Thank you, Bodil. And I hand back to Ainar to open up for questions from the conference call.

QUESTION AND ANSWER SECTION

Operator: Yes. And the first question comes from the line of Mats Liss from Kepler Cheuvreux. Please go ahead. Your line is open.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Hi. Thank you. And I had a couple of questions. At first, I mean, you've mentioned well, the orders are developing well and you mentioned the positive trend is maybe especially in the re-innovation part of the business there. Could you say something about the mix there? What kind of mix is there between re-inno and the new construction currently?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

I mean, if you look into the – as we've see an uptick on the renovation side, as you know, we don't look into a percentage point in the different businesses, how much is renovation and how much is in newbuild. But we can see a clearly higher activity on the renovation side than we have seen before. And I think that is what we said is driven also by the smart lighting. So we see it also on the development on that side.

Having said that, I mean, there is still also, as you can see in the report, some very nice newbuild projects as well. So I think there, when you look at us, we are in so many markets and so many segments around the world, which means that there will always be a mix of it. But if we look into Europe, I mean, we know the underlying numbers, 80% of buildings in Europe would still be there in 2050.

And today we do 1% renovation. We need to at least triple that to be able to reach the Paris Agreement of the 1.5 degrees. So I think we will see a steady, continued increase in the renovation rates. I mean, this is something that will be a very, very natural part of our business. And we will see an increase in this for many years to come.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. [indiscernible] (00:34:23). And I guess in the smart lighting solutions, you have some sort of ramp up cost or should we expect the smart lighting solution to have a similar margin as the rest of the business going forward, or going forward but maybe there are startup costs included in those segments.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. I think, Mats, we've already have the startup costs in our business today. So, that's not new for us. We've been investing in Organic Response and Citygrid now for at least three years with Citygrid and longer, five, six years with Organic Response. So that startup cost is with us. But not only just in those two technology brands, but also in the luminaire businesses. So, bringing the technology through their operations to the market. Much of that cost is already taken in our cost base today.

Coming to the margin, we expect the margins on smart lighting to be higher. And why is that? Because we're offering something more than just a luminaire that produces light. Our history is luminaire produces that produced

light in the building and in the outdoor environment whereas the smart lighting solution offers so much more than just lighting. So, we do expect for margins to be higher in the smart lighting segment for us.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

And I think also adding to that, Mats, there's also a question about the total cost of ownership for the customers because they will be able to do so much more. But also when we saying we are saving 70% more energy, it also makes that you can't only look the value of the individual solution. You need to look at the total cost of ownership, and you also need to look at the total installation cost because it is in many cases lower with smart lighting because it's easier to install.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Just look at the two quotes that were on the slide from a developer and an end user. Now, we see that growing trend of the value of smart lighting and the benefits of the realization of that is beginning to get through to the customer base.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Very convincing. Good. I also see that you are sort of outperforming the financial targets or the margin at 10% and the way [ph] they are bulked (00:37:05). Some with positive outlook now. You mentioned the smart lighting having a higher margin. So, is this sort of to be seen more as a floor or is it time to make an adjustment going forward? Can you say something about that?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. We always want more, of course, Mats. I guess, it's the nature of how we are. We're quite competitive in what we do. We'll stick with the 10% operating margin in the round through the economic cycle. We don't know what's around the quarter. People on the call don't really know what's around the corner. But we are confident that we've done 10% plus for each of the last three years and we'll focus on doing that and perhaps a little bit more in the future. But from a communication message, we'll stick with the 10%.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Then again, looking a bit at the earnings line, I saw infrastructure is sort of, maybe it didn't come up to my expectations truly. But is it more related to the seasonal impact there or could you say something about that? I mean, you're above. It was a tough comparison, of course, given the order release in the comparison quarter. But could you give...

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. I think what you're witnessing there, Mats, is some of the impact from the horticulture business that was quite active for us in 2021, 2022 and then in the early part, I would say very early part of 2023. We haven't got that with us today.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, great. And then cash flow was strong on you released working capital. Is there something that sort of – well, you have done what you can? Now, should we expect somewhat more?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Mats, maybe with my cash history, we've never done what we've done. There's always more. We've done the vast majority, though, Mats. I think the significant boost that we had in 2023 was a successful project that we run. Looking forward, we're going to continue to manage our working capital well. And there are still some businesses with a suboptimal inventory turn and we will continue to work with those businesses to improve that. So to me, it's about EBIT drop through to the cash line. We managed our working capital well and some improvements from some of the businesses that are still a little bit behind the group average when it comes to inventory turn.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. And just finally, Michael, I mean, you're doing well in reducing gearing here. And you also mentioned that M&A could be of interest. What kind of M&A are you targeting currently or would you like to add to the offering?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

We've got a new head of M&A joined us since September. The pipeline is – and the activity level is building. We will be looking for strong branded businesses because that's our operating model. We're not looking for me-too businesses and we have some white spots to our area of operation. You know, we've talked before about a white spot being an indoor DACH region, would be interesting for us, so too with North America also interesting for us. And we want to capitalize on our good base footprint that we have here in Europe in infrastructure, which we think we have quite a low market share in infrastructure. So, there should be lots of opportunities to grow. So, that's just three areas that we have in focus on our new M&A agenda.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

So, there is a lot of...

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

...analysis ongoing. But as always these things doesn't happen overnight, but we are [indiscernible] (00:41:18) this level.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. Great answers. Thank you very much.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Thank you, Mats.

Operator: There are no questions from the call this moment, so I hand the word back to you, Michael.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult Group AB

A

Thank you. So, let's take some questions from the webcast. First more on the general business climate and maybe for you, Bodil, how do you see the order intake growth developing going forward?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

I think it's interesting to see what we did in Q4 and also, as we said, the second half was much better than the first half. So I think we can look at the order intake for Q4 with good confidence because there is no – it's a normal order intake. There is nobody placing orders ahead of time.

I think it's also important when you look at us that we are a business where we are project business, which means that what you see in our order intake, and we have order intake in all the businesses, is real projects with real customers because we don't have a business model where we sell over distribution. I think it's the best reflection of it. So, it was good to see the trend in Q4.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult Group AB

A

Thank you, Bodil. Then, we have a few questions on the Horticulture business we mentioned. So I tried to summarize them, so maybe for you, Michael, here. So, what's the reason you are leaving the Horticulture business? You mentioned the low margins. And also which brand has provided Horticulture? And how are you two doing the scale up?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Okay. First of all, the brand that I engaged with Horticulture was Veko from the northern part of Holland. Yes, it was quite good volume from the net sales perspective for us because they came in large project orders, but the profitability at the net level was quite disappointing. So that's the main driver of saying it's not for us. A little bit similar to what we've talked about previously in street lighting in Italy and this is the smart portfolio decisions that we have been making in this last two years. Two examples, street lighting in Italy and the Horticulture business through the Veko brand.

Scale down, it's largely done. We've got a little bit of comparison in Q1 2023 as we enter Q1 2024, but largely it's easy. It has been done. It was easy to turn the tap off for Horticulture business in Veko.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult Group AB

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Thank you, Michael. And with that, I would say we covered all the questions and we're done with questions for today. So before we end, maybe Bodil, some last comments from your side on 2023 and the fourth quarter.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A very quick word. So I would end by saying that 2023 was another good year with many all-time high performances. And at the same time also important, we are progressing in all our strategic initiatives being sustainability, smart lighting and talent. And I also see us being very well positioned with the external macroeconomic landscape, put focus on challenging our buildings to become more sustainable and smart. I think that we continue to see many opportunities and that makes me very confident for the future. So, that would be the ending remark. Yeah.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult Group AB

Thank you, Bodil. And thank you, Michael. And thank you, everyone, for joining today's conference call. Next, we will publish our Q1 results on May 2 and we'll host a webcast on the same day. Until then, have a nice day.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Yes Thank you, everyone.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Thank you.

Operator: This concludes today's call. Have a nice Friday. You may disconnect your lines.

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