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Fagerhult AB (FAG.SE)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to today's Fagerhult's Group Investor Webcast the Q1 2021. My name is Jordan and I'll be coordinating your call today. [Operator Instructions]

I'm now going to hand [audio gap] (00:00:37) Michael, please go ahead. I'll now hand over to Michael Brüer to begin. Michael, please go ahead.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thanks. Hello, everyone, and welcome to the presentation of Fagerhult Group's Q1 interim report. My name is Michael Brüer, I'm responsible for Strategy and Communication for Fagerhult Group. And I will be the moderator here today.

On the call today, we have our President and CEO, Bodil Sonesson; and our CFO, Michael Wood. Compared to our last call in February, we have outlined the presentation a little bit different this time. Further, we will start with a brief update of the Q1 numbers and then spend some time on what we see happening on the market, the trends we see from the future and how we are positioned to benefit from these opportunities going forward.

Michael will then give you more details about the financials for the group and our business area. And finally, Bodil will conclude with a brief overview of a few key initiatives. Afterwards, we will open up for questions. We will first allow questions from the conference call and then we will allow questions from the webcast. The questions posted in the webcast will be read up by me for Bodil and Michael during the entirety of the call.

Before we start, let me also remind you that today's session is recorded and will be available on our homepage later today. With that, I hand over to Bodil. Please go ahead.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

Okay. Thank you, Michael, and thank you to all of you that's present on this webcast today. And as Michael said, I will start with a brief overview of the numbers and then look into what we see happening in the markets.

So, first, let's look at the quarter. So, we continued to see progress in the markets even though we all know COVID is still around us. And I would say that the geographies that had a tough pause last year like Southern Europe and the UK are recovering. We have for example seen no negative effects of Brexit in the UK rather the opposite, where the clarity of direction seems to be helping in decision making.

We were very happy to see an improving operating margin to 9.1% as a result of an – I would call it an okay phase level, a good GP margin and a reduced cost base. And we had said this in the whole year and we continue to have very good cost control.

In the beginning of April, we acquired the remaining 80% shares in Seneco. We have been [indiscernible] (00:03:51) the last five six years and acquired a 20% minority stake in 2017. And I will come back to some more details about that later in my presentation.

Also as reported last time, we continue our group projects on core values and sustainability, and they continued with good progress in the quarter. And like everyone, we have a strong focus on the current supply chain challenges in the bucket. We have not seen any negative effects on the sales in Q1 and we see the situation is going to be continuously challenging. All of the group companies are working together in a very good way and we are quick in decision making, and we also have a strong and long-term relationship with our key suppliers which helps us in handling the situation.

So Q1 in 2021 in figures, and you see some key numbers for the quarter and also comparison to last year. We had a comparable decline in order intake of 7.4%, so the steady trend continues back on track. And, also, Q1 2020 was quite a good quarter from an order intake perspective as COVID began to impact only at the end of the quarter for comparison reasons. And we did – net sales were an organic growth of 6.6% compared to last year and we reached SEK 1.678 billion.

Operating profit was SEK 152.9 million with no adjustments and this, as I said, was a big improvement to the last year's results with our operating margin of 9.1% this year. Earnings per share was SEK 0.53, and Michael will come back to you with a few more details when he looks more on the numbers. So, looking into what's happening on the market, I'm not going back to our developments in 2020 but I wanted to show you a brief overview of the latest market statistics from the [indiscernible] (00:06:08) that was released last week for the European markets for 2020.

And the European markets, so like in last year on the Professional side declined with 11%, which is in line with our development. There was a big difference in both geographical markets and application areas, which is also in line what we reported all last year. The market where harder restrictions and lockdowns were implemented, if you look into Southern Europe and UK, so a higher decline last year and numbers were better in Northern Europe. And the most difficult application areas last year was retail and culture, traditional retail whereas industrial applications performed much better.

So, if we look into a little bit beyond the COVID pandemic and what we see as the market potential is of course increased interest in sustainable and energy efficient solutions. So, across many markets and regions, the new regulations and initiative to drive sustainable change. For example, we all know the EU Green Deal with the Renovation Wave initiative and we also see similar initiatives, for example, in the UK.

If you look at the worldwide numbers, lighting is estimated to account for up to 16% of the global energy consumption in the world. So, the impact of energy efficient lighting is significant. So, our offer here is to focus on high quality lighting that reduces this energy consumption and at the same time increases people's well-being and safety. So, we believe that this will be an important part of the solution.

The illustration you see here shows the potential energy saving brought by new technology and the change from conventional LED that start – conventional lighting to LED that started 10 years ago brought significant energy savings. And now we add in also new connectivity solutions to the installation, the energy consumption will be further reduced. So, I will explain to you how we see that happening and the reasons behind it.

So, as I said, the change from conventional to LED lighting started about 10 years ago. And regarding sales volume, LED luminaires quickly took over. But in the market, there is still a large install base to be changed. And looking at the install base is an average 30% LED lighting installed across the European markets that you can see illustrated here how it's changing. The situation in North America shows an even lower rate of installed LED luminaires.

And here again in the installed base there is some higher shares in retail and outdoor applications to lower in office and healthcare applications. And there is a similar trend in geographies where the installed base of LED luminaires is higher in North and Central Europe and lower in Southern and Eastern Europe. And in order to accelerate the change, we need more innovation. So with the ongoing upcoming sustainability initiative, this brings a good opportunity for the coming years, first, from a market opportunity perspective but also for us to contribute to a more sustainable environment.

So besides focusing on energy savings, we also aim to provide our lighting solutions in a sustainable way. So, you know our new vision statements from last year that highlights our ambition, together we innovate to deliver professional lighting solutions that are circular and climate-positive and contribute to better life. We already today only manufacture and sell LED luminaire with high energy efficiency.

In the market, we also see an increasing demand from our customers to better understand how and where our products are manufactured. And as you know, we have 17 factories all close to our customers. To make sure we capture the opportunity and to have the right attention and focus in the organization, we have appointed a chief sustainability officer to further develop the group's sustainability agenda.

And on the right hand side of the picture, you can see three positive examples from the group. Two of our brands are EcoVadis Silver awarded since last year, which is an external recognition of their sustainability efforts. And as I mentioned last time, Whitecroft has launched the group's first circular products on a new circular product platform called Vitality, and where many more products will follow.

And also across the group, there are multiple initiatives to reduce our carbon footprint. As example, on the picture, you can see solar panels on [indiscernible] (00:11:27), and we installed those solar panels last summer.

So, the LED technology also brings new possibilities for smart connected lighting control solution. We call it we call it connectivity solutions and there are multiple benefits with good connectivity solutions. It brings significant energy savings up to 70% with presence detection and motion control. And for outdoor environments, remote monitoring can also help lower the maintenance costs.

So besides energy savings, connectivity solutions brings new features for increased well-being by adopting light safe preferences or adjusting for daylight levels. In outdoor environments, a properly lit area also helps increase

safety for people by adopting light levels. And beyond lighting, there is new business opportunities together with partners in the building ecosystem. And this includes using our luminous sensors and sensor data for new user cases and integrating with other systems.

And so as far as you look in the market, the adaptation is rather low. We estimate that only 10% of applicable projects to be delivered with full connectivity solution as you can see and described above. This is a good opportunity for the coming years and we also already see a very good increase for organic reform solutions, where we sold approximately 80% more units last year compared with the year before.

So, we go back to Seneco and within the group, we have to two in-house connectivity solutions. One for indoor, Organic Response, and one for outdoor, which is Seneco. And those systems have the same basic principles, they are based on presence detection which brings significant energy savings because light is only on when you need it. And both systems work standalone. But by connecting them, the user gets excess additional features and functionality. So, both systems are also based on open architecture to make it easy for integrations and partnerships with other building and city management systems.

We continued our investments in the connectivity area in 2020. We opened a new competence center for Organic Response in Linköping, a complement to their headquarter which is based in Melbourne. And beginning of April, we also acquired the remaining 80% shares in Seneco, where we have collaborated for the last five to six years. And the Seneco solution is already used or in development by all the brands in the groups that are selling outdoor lighting.

So, that ends this part of my presentation, which was more market-oriented. And I will hand over to Michael for more financial numbers. And I would do that with this stunning picture, which is from London and it's the Royal Wharf Pier and it's lighting from LED Linear.

So, please, Michael, if you can give us some more numbers.

Michael Wood

Chief Financial Officer, Fagerhult AB

Okay. Thank you, Bodil, and thank you, Michael, and good afternoon everybody from me. Welcome to our second webcast. Hope you enjoy the rest of the show. First of all, looking at the first quarter, the results for the first quarter clearly demonstrate that the group continues to make a steady good progress in overcoming the challenges from COVID-19.

At SEK 1,678 million quarter-on-quarter sales, we're marginally up versus 2020. You see the 0.7% minus, but comparable sales growth was good, positive 6.6%. Many geographies and many product segments had delivered good growth. At SEK 97 million, the currency headwinds remain strong, and the SEK 24 million of divestments relates to the sale of Lighting Innovations [indiscernible] (00:16:03) from late last year and earlier this year.

The operating profit of SEK 153 million delivered a 9.1% operating margin, and this results strongly from 1.8 percentage point increase in industrial margin. As reported last quarter, we continued the reduction in fixed costs. So, both of those GP increase and fixed cost control contributing to the 9.1% in good measure. Operating cash flow is positive again at SEK 59 million [indiscernible] (00:16:39). I'll explain that a little bit later on. The operating cash flow has been positive now for each of the last 11 quarters.

Okay, looking at the longer term sales development. Last time, I covered the development of the six-year net sales levels. And so for this quarter, we concentrate simply on the quarter, where we see a leveling off of the

negative impact due to COVID. We were all looking forward to this point in time. And that's what you see from the net sales level [indiscernible] (00:17:16). But also from a comparable sales level, we see almost 7 percentage points growth in net sales.

Operating margin, firstly, a reminder that Q2 – sorry, Q3 and Q4 last year, you can see the light gray bars in the right-hand side of the screen, they were adjusted due to the cost of the exit from our business in South Africa. And turning to the first quarter, a 9.1% net. We see 9.1% is at a good level compared to the market. And this as we say is driven by operational efficiencies and cost savings.

Taking it to the four business areas now one by one. Business Area Collection delivered a much improved first quarter compared to last year with all entities contributing positively to the turnaround, and the turnaround operating margins closed 7.8% for the quarter. The results in Italian industry was good in that first quarter.

We continue to see the negative effects of COVID, however, particularly for those entities with a global reach and a global operation. But as Bodil said earlier on, these effects are reducing. The ordering intake trend overall is positive. And the gap on the comparable order intake and statistic, the trend remains positive.

Focus and collaboration examples where we see good level of current and future opportunity are working more closely with international specifiers in our high-end brands area and business area collection. And our Swedish [indiscernible] (00:19:10) Sweden, ateljé Lyktan working well with the iGuzzini distribution network firstly in Denmark and in Italy. So, good activities we see taking place there.

Looking at Business Area Premium, Business Area Premium as we know is concentrated in Europe and where the countries are developing at different rates from the initial COVID impact. In the UK, we see increased activity where, as Bodil mentioned, the certainty of Brexit gives clarity and the vaccination rollout program makes good progress. And contrast this position with what we're seeing in the Nordic region where we see a slightly lower level of activity as the current wave of the pandemic remains stubborn.

The restructuring programs completed during the second half of 2020 results in a lower cost base. And despite the slightly lower service level, the increased operating margin moves up to 11.4% from 7% a year ago. Here, we see specific opportunities in the DACH region for our indoor brands, and the [indiscernible] (00:20:28) in the retail segment is of prime importance for us.

Professional, the third of our four business areas, the entities in Professional Business area combined to deliver a strong start for the year. Each of the metrics is positively ahead. The 20% organic growth in order intake was strongest in the UK, likewise strongest in the UK for the 34% growth in net sales. Whitecroft experienced a good market response to that circular product platform Vitality, as Bodil mentioned earlier on, where the portfolio now continues to grow.

Late last year as with the launch of the first Vitality cradle to cradle certified luminaires and now there's two luminaires in that portfolio and working on a third. And the response from the market has been very good. A good level of operating consistency is anticipated as Australia and the UK made good progress in dealing with the pandemic.

Business Area Infrastructure, in Infrastructure, the numbers for the first quarter do not look so good, but I'll explain a little bit as to why. First of all, the first quarter of last year was very active, very high level of activity particularly in our Dutch-based business, where they were embraced in several large projects in the e-commerce segment. I think we reported on that in our Q1 report last year.

The e-commerce segment continues to grow and one now where we see increased level of competition due to its attractiveness. In the business area, we see the UK entity performing well, a factor that is consistent for the group's businesses in Britain and a steady growth also coming through in our Finnish business i-Valo.

Coming back to cash flow, the group has got very strong cash generating capabilities and abilities. The decentralized model works well here and here we see that for the last 11 quarters, we see a positive cash flow across each of those quarters. The resulting rolling 12-month cash flow, which is a line that you see, has been now SEK €1 billion for each of the last 18 months. So, at a good level of cash generation. We continue our focus of course in this area. And it's a focus that is well managed.

And net debt development, again, a reminder that what you're looking at here is different than what we report in the report. First of all, it's a reminder that the net debt is stated here without the impact of IFRS 16. And the chart from net debt EBITDA ratio is also adjusted for IFRS 16 and the acquisition and disposals. Again, the history on the chart was covered in some detail last time we met. So, I'll report only on the closing quarter with a net debt to EBITDA ratio of 2.37, which is the lowest ratio we've had since the end of 2018. Liquidity in the group is at a good level and continues to grow.

My last slide and just a reminder [indiscernible] (00:24:12) doing lots of reminding today. But it does need reminding when you look at the Q4 EPS number, that's Q4 from last year, the Q4 EPS from last year benefited if we recall from the new Italian tax decree that the group took advantage of in – before last year. So, I'll refer you to Q4 report and also the details of that and also refer you to the Q4 report to recalculate that EPS measure base without the impact of the Italian tax decree.

Turning to the current quarter, quarter one 2021, we report a steady SEK 0.53 per share. Not yet at the level of our ambitions of course, but for the first quarter in 2021, we suggest it's a good step in the right direction and a step forward from where we were during 2020.

Okay. I'm going to close now with leaving you with an image of the Red Dot award winning new Superrail and Robin spotlight from iGuzzini as I hand back to Bodil for a few slides of recap and closing.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

Okay. Thank you, Michael. It's quite amazing what you can do with light. It's almost a piece of art. So, it's not that so strange that we've a lot of passion for light within the group. So – but back to conclusions and recap.

So, when we look into Q4 and what we said before is that we saw an organic sales growth in the quarter and an improved profit margin of 9.1%. And this is a result of both good margin development and the strict cost control we all – the measures we took last year. And we are quite pleased to see these results. And in addition to that, we are continuing to work on a group specific initiative, including strengthening our outdoor connectivity solutions with the acquisition of Seneco and we also see, as Michael said, increased collaboration activity within the different business areas where activity level is high. And I think that's a positive aspect of the new structure that we launched last year and also quite promising for the future.

So, as presented last time, we have four key focus areas on the group level that we will continue to work with and we will take steps forward in all of these areas, and I will continue to report on them. And our core values, we've asked all our employees of their feedback on the proposed direction. And with that feedback, we will now finalize that work and start implementation. And very high on the feedback list is what I said before, it's passion for light,

which might not be a surprise taking into consideration where we come from and our big knowledge in the lighting solutions.

Within sustainability, the focus [ph] within the group's perspective is on the mortality (00:27:17) analysis with stakeholders interview, and this will be an important background material for the sustainability strategy and target setting that we continue to work on. And on the connectivity side, I've already told you about the Seneco. So I will end this presentation and as I give you an example of cooperation within the connectivity field to show you what we can do even beyond lighting.

So, our collaboration with Securitas is an example of the extended ecosystem. We have been working together with Securitas for two years. And in April, we launched an extended partnership where we use our organic response sensors that are integrated in our lighting solutions. And then, they communicate with the Securitas alarm system. So, the systems can support a large equipment to localize for example, if you have a building that you need in a critical situation and you need to detect people that are not supposed be there as a part of a burglar alarm.

In this way, we bring added value for the customers with a better overview for the property owners of the buildings in a very efficient way as we use the white capillary of lighting. So, I think it's a solution which is beneficial for both the customers of Securitas and the customers of Fagerhult. And this is also a very good example why it's so important to work with open systems that are easy to integrate with. And we are looking forward for more partnerships to come in this kind of areas.

And with that, I will end the presentation and I will hand over to Michael and see if we can open up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We have a question from Mats Liss of Kepler Cheuvreux. Mats, the line is yours.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Hi, thank you. And congrats on a good quarter. I had a couple of questions. First – can you hear me? Sorry.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yes, we can.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, great. First, I guess the order intake improved sequentially quite a lot, and I was just wondering how business activity had been during the quarter. I mean you started – or I mean the last quarter – the fourth quarter last year you had a considerably lower order intake, still sales is sort of picking up here in the first quarter. Have you seen a pretty good activity in sort of [indiscernible] (00:30:24) orders during the quarter? Or how – could you say something about that?

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Thank you, Mats. I will direct this question to Bodil.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Thank you, Michael. Yes, I think if you see in general I think what we said is that we see the – we're getting more and more used to work in the current situation. So, I would say yes we have had an increased activity levels in the first quarter, and that's what you can see that's reflected in the results. So, the very simple answer to that is yes.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Yeah. Yeah and...

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

And I think we've also seen when you look upon it, it's been – it's the trend that we saw. I mean it's of all the way through last year. But I would say it's been taking one step up in the first quarter.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. And just to get a feel also, I mean raw materials and components seems to have [indiscernible] (00:31:28) pricing in other business areas, and have you experienced the same thing? I mean, just to get a feel for how much is price and what is volume in this sequential improvement.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Michael, maybe you can give a perspective on the price levels and the components shortage there?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Sure. I mean, we touched a little bit on this last time, Mats, so you're right to follow the question up with the second question this quarter around. I think everybody – as Bodil mentioned in her opening slide, I think everybody is aware of disruption in the supply chain. We see that disruption manifested itself in lead times that we are – that you can and we are protecting against with increased inventories. One of the reasons for the less than last year cash flow in that first quarter.

And then the other disruption effects and impact that we see is costs, some cost pressures coming through. And we see this on a few different items, and some of them can be a significant percentage but on a low percentage share of the mix of a luminaire. At the moment, it's not troubling us too much. And we do want to ensure consistency of delivery, so we are taking measures to, one, we are working well with our supply chain; two, we're providing long-term forecast that demand levels to our supply chain; three, we are providing [indiscernible] (00:33:15) orders, not just now for May and June but for also now for July and August into September because that helps on the lead time protection and service to our customers' level. And then four, we are having some price discussions with our supply chain.

But also as it is a global situation, it's not one of our own making, we do seek and we are firmly turning to our customer base. And there will be some select areas for recovery of those pricing in the marketplace. It's a situation, as I say, that manifests itself outside of our control. And it's a situation that's facing not only lighting, not only construction but many, many different industries across the globe.

So I think, Mats, we're resolving it well. I think we're doing everything that we need to do. And how long will this last for? Well, some people thought Q3 on it. Some people thought Q4. I think some of the more pessimistic people put Q1 on it. So, your guess is probably as good as mine when it comes to how long that will last.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. It seems [indiscernible] (00:34:42) semiconductors, is that an issue in this industry as well or for you? I mean [indiscernible] (00:34:50).

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Well, the demand of semiconductors from automotive has an impact on the fab plants, so where the semiconductors are produced. And those producers from the fab plants, they also have customers within the lighting industry that made the LED electronics. But we have good relationships with our largest suppliers of LED electronics. We have good inventories. And for our two largest suppliers, we are category AAA customer to them.

So, whilst at the moment we have taken measures to increase our inventories and work closer together, I [indiscernible] (00:35:35) a bit odd and I say odd 1 or 2 across all of our 17 factories. The odd one or two instances so far of outages, it's largely being COVID, with the relationships that we have, the inventories that we hold and the high categorization of the Fagerhult Group accounts from those two large supply chains.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. And then I was just wondering about sales in the first quarter. I guess looking back, the first quarter have been sort of the seasonally slow part of the year. [indiscernible] (00:36:18) through the acquisition of iGuzzini so it's more of level out throughout the year. It's similar. Could you say something there?

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Maybe, Bodil, continue on your first answer there.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

I can start. I think we've said in the past when you look at Fagerhult where there is a seasonality effect is on the outdoor and indoor side of things. Indoor is all year round, outdoor is more in the summer season. And when you look into iGuzzini, they have both. They both have outdoor products and indoor.

So, I would say there are no big changes compared to how it's been before on the seasonality side. It's been more – when you look into the past year, it's been more the curve that has been affecting that side of it. So, I would assume we will see the same pattern. There are no major changes I would say. I don't know if you have anything to add Michael from your side.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yeah. I just have a little bit of clarity for Mats on the iGuzzini comment there. I mean, Bodil's talked earlier on about organic like-for-like order intake in Q1 of minus 7.4% comparing to 2020. We have to remember that 2020 was quite a strong 7.1% organic growth on order intake. So if you skip over 2020, the order intake at the organic level in 2021 was at the same level as it was in 2019, so far 0.3 percentage points.

So, we see that continued trend recovering quite well. It moves through the quarter. The exposure that we have – the traditional exposure that we had to our seasonality is less because of the geographical spread that we now have and also the product spread that we now have indoor, outdoor, northern and southern hemisphere. I think that works quite well for us and we look forward to moving forward through the rest of the year.

Hopefully, these trends continue and we don't see the new wave of the pandemic, as Bodil mentioned. We don't see those as significantly damaging our performance because people are learning and cope – and learning how to cope and learning how to deal with the new ways of working. And that's been part of the secret to our success in this first quarter, learning from some of the challenges last year into new ways and delivering the 6.6% growth organic net sales.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

And then also in addition to that, I think there is also always – you can always make a difference yourself. So, there is from that side also very high activity level within the different entities in what they are doing now that we maybe weren't able to do a year ago. So there are a lot of digital – I think we mentioned this in report, there is a lot of digital product demonstrations going on, for example, that we weren't able to do just a year ago. So, that makes a difference, a new way of working together with our partners.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yeah. But also, Bodil, – sorry, and also Bodil we are working and delivering upon many, many different things within the business, not only concentrating...

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yeah.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

...on today's quarterly results, which of course is important, to get right but we are – we have a long list of activities that we are going through and ticking off that will do us good for next quarter, the quarter after, the one after that and also for the future. So, we're not – we are busy at the moment delivering on many different improvements.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. Okay. Thank you. I get back in line.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Thank you, Mats.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Thanks, Mats, for your kind words. We're open to your question.

Operator: We have no further questions via the phone lines.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

So, thank you, [indiscernible] (00:41:08). We will continue from the – with questions from the Web audience, and that we have a question regarding our margin outlook. So, I will direct this one to you Bodil. Are you happy with your margins or where are we going in terms of profitability if the growth continues?

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

I think it's – you're never happy with your margins, you always want more. I think what we said before in the opening, I think that the 9.1% is a good operating margin where we are today. We also know that we have had higher levels in the past. So, of course, we would like to get back to those levels that we have seen. And I think for our part, it is very much connected to the sales volume because we are good on the GP margin side, we have been working very actively on the cost side. So, the whole part is to make sure we continue the order intake and the growth on the organic side, which is important to us.

I don't know if you want to add anything to that, Michael.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yes. I mean, we all are happy with the 9.1%. We are happy with the 9.1%, it's a historical backwards looking margin. But to have recovered from where we were a year ago and also I reported at the last webcast an average of just over 8% in Q2, Q3 and Q4 last year on the adjusted basis to come to Q1 2021 with a 9.1% clean unadjusted margin. Yeah, I think we are quite happy with that.

Does it mean that we'll be happy with that going forward? Like my earnings per share comment, no. We have ambitions for higher. We do want to return to where we were, strongly double-digit margins. But we've made a good start to the year and we continue to work hard in all of those areas. And Bodil was right, the volume going through our factories is a key indicator of margin delivery. And as the volumes return, that should benefit in the future – future level.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Good. Thank you, Michael. I think we have covered the other questions that came in from the Web audience and in the earlier discussions in response to Mats' questions. So I think we should consider ourselves to be done with the questions here and maybe [indiscernible] (00:43:53) if you both want to add some last reflections from your side?

Operator: We have received a follow up question from Mats of Keppler Cheuvreux.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Mats, yes?

A

Operator: Mats, the line is yours.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Yeah. Thank you [indiscernible] (00:44:09). Just wondering about the – well, the cost [indiscernible] (00:44:15) during last year in traveling and marketing and so on, and do you expect them to sort of reappear gradually in our – have you sort of implement the cost savings that you don't need to see that and could you say something about that?

Q

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

So, maybe Michael should go.

A

Michael Wood

Chief Financial Officer, Fagerhult AB

[indiscernible] (00:44:39) absolutely. Although it'd be good to end on not a cost question, Michael, but I'll gladly take the question.

A

What we did to last year, Mats, we did – we [indiscernible] (00:44:50). Obviously there were some natural cost reductions through COVID and traveling. And then we worked hard in many, many other areas. What we have successfully done is that we focused our areas on the strategic forward looking areas and that's been important for us to do. We haven't taken the same approach with each type of cost spend, that's been a key tone to our discussions. And so we prioritized current and future activities of costs we have.

When you then talk about some of the traveling returning, yeah, people are going to get back to traveling at some point. So, some of that will come back to the organization. But a reminder that for the first quarter, the SEK 107-million reduction in selling and administration costs compared to Q1 last year, a similar number in Q4 last year, lesser numbers in Q2 and Q3 last year. So all in all, close to SEK 450 million of cost reduction.

So, in fairness and being honest, to generate the future, we can afford to do a little bit more traveling going forward. Now, although given the digital media, it probably won't be anywhere like at the level that we used to be in the past.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Great. Then, [indiscernible] (00:46:30) curious about the competition in the sort of [indiscernible] (00:46:35) with Securitas. And what is your competitive position there? Are you ahead of competitors or do you [indiscernible] (00:46:50)?

Q

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Bodil, can you please go ahead on that?

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yes. I'm not 100% sure I understood your question, you meant on the – more on the connected side if we see similar types of competitors as we do in the lighting side?

[indiscernible] (00:47:12)

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

I think targeted I think for Mats with regard to the Securitas relationship and agreement that we have.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yeah, but I answered your question. It's more general [indiscernible] (00:47:26) than related to the Securitas relationship.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Yeah, probably, you're right there. Yeah.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yes. I think that if you – what I said before I would say it's still very early days as it's 10% of the projects they might – might be connected. So, I think it will be quite a lot of a changing landscape. And also when you look into it, where I think it's interesting for us, so I would say that is competition. I would rather say that probably the biggest competition is the ignorance, meaning the lack of knowledge in the market about how do you do this. Then, it's really competition, which is the big question. So, maybe if you ask me that question in a few years, I will have a different word on it.

So, what we're doing is that we are taking very much steps in the direction. And I think what we – one of the very strong elements of our side is that we are [ph] catering (00:48:27) for open systems. And I think that's the choice to do that because [ph] that mean (00:48:33) that you can work more with ecosystems. And I don't see everybody's taking that same approach. I see some people working more in closed environments. So, I think we are making some early choices that will benefit us going along, but we're still in very, very early days.

And also, if you look upon it, I think questions we need to ask ourselves is how many we look into cities, how many cities do we think will be smart in 10 years. And also when you look the same, you can ask yourself the same question about buildings, how many smart buildings which will happen in 10 years. And there, I think there has been a lot of things happening in the last year because we look upon the office, we look upon the building in a completely different way now that we did a year ago. So, I think that is most – it's more important that side of it than the competitive side of it actually

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay and what about the revenue split between you and Securitas? Is this sort of you install the equipment and they have some sort of service fee as they usually have or how do you?

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yes. I mean we have our own go to market part because we install our sensors that then can integrate into the system, thanks to Organic Response. And then Securitas will work with their normal way of working from a service perspective, yes. So, we use our normal go to market rates.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great and just finally about the financial, I mean that you said that you have already [indiscernible] (00:50:08) lower net debt since fourth quarter though before the iGuzzini acquisition, and I guess it seems that you are prepared to make a move. I guess you made an acquisition here of Seneco, but it seems you are in good position to make further moves as well. Do you have any risk there of further acquisitions or should we see iGuzzini as [indiscernible] (00:50:36) more to?

[indiscernible] (00:50:40)

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

No, and I think what you need to see there as well is that there is a little bit of it – with the new four business areas, I think we're looking more targeted from the needs of the different business areas. So there you might see a difference in the future. But we always have our eyes open, but it also needs to be interesting enough.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Thank you. Okay. Thanks a lot.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Thank you, Mats.

Operator: We have no further questions on the phone line. So I'll hand back.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Yeah. And no further questions from the webcast that we have not covered. So again, Bodil, any last reflections from your side or should we go to closing?

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

No, two words maybe. I think summarizing what we've said and also summarizing your questions in that sense. I think we look upon the future. We are cautiously optimistic. I think there's been a lot of movement in the last quarter, which is all positive. And I also – one of the things we highlighted last time was that we were very happy that when we saw COVID happening last year, we just introduced a new strategy.

And one of the decisions that we took, which Michael highlighted before, that was we were saying we're not going to stop these initiatives. We're going to move forward and we have done that all last year. And also we are continuing. And I think we're starting to see the results of that in small steps and they will continue to be small steps moving in the right direction.

So, I think and I'm happy with that. I'm cautiously happy with the results. And I'm also happy with all the steps we're taking in the right direction. So, that might be an ending comment.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

So, thank you everyone for joining today's conference call and presentation. And of course we hope to see you again in our Q2 presentation, which will be after summer in August 23. So, again, thank you for listening today.

Michael Wood

Chief Financial Officer, Fagerhult AB

Thank you from Michael as well.

Operator: This concludes today's call. Thank you for joining. You may now disconnect your lines.

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