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Fagerhult AB (FAG.SE)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, afternoon, evening. Welcome to today's Fagerhult Group Interim Report for the Third Quarter 2022. My name is Nadia and I'll be your moderator for today's call. All lines will be muted during the presentation of the call with an opportunity for questions and answer at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Michael Brüer. Please go ahead.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you. Hello, everyone. And welcome to the presentation of the Fagerhult Group's results for the third quarter 2022. My name is Michael Brüer, who is responsible for Strategy and Communications here at Fagerhult Group. And on the call today, we have our President and CEO, Bodil Sonesson and our CFO, Michael Wood. The presentation will start with Bodil giving us a brief update of our results for the third quarter, and both of them continue to update us on the business and some of our new product innovations.

Michael will then give you more details about the performance of the Group, and Bodil will conclude with a brief recap. And afterwards, we will open up for questions. We will first allow questions from the conference call and then we will allow for questions from the webcast. You can post the questions in the chat window on your screen and I will read them up for Bodil and Michael. And 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 AB

Okay. Thank you, Michael, and welcome, everyone. We saw a strong growth in net sales in the third quarter with a 13% organic growth. And as I indicated already in August, we see a more positive situation on the supply chain

challenges that has been limiting us for a year now. It's not completely over yet, but the situation is clearly better than it has been before.

We have been observing a stable order intake level in the unstable market situations that we all know about and our rolling 12-month order intake remains above SEK 8 billion and we are ahead of 2019 numbers, which was our last record year. We also have a very high level of customer engagement activities and I think we've done more events in Q3 than in the past three years, which has been very positive, both reconnecting with the customers and for the motivation of the sales teams.

So, we continue to see the increased importance of renovation driven by the long-term need for renovation to decrease building's carbon footprint, in line with the climate goals, and currently lighting accounts for around 15% of the building's energy consumption with very good possibility to lower this, thanks to modern technology. And with the rising energy pricing, we also see an increase of earnings for the importance of using LED in combination with connected solutions. And I will come back to this a little later in the presentation.

And on the operating margin, we can see benefits from the price increases that we have done in previous quarters. And we continue to have very high focus on the topic. As we are project oriented, as you know, we see in some brands delay in adjusted pricing having full impact and we continue to work very actively with our pricing models. And as we informed you about in a press release end of September, we have committed to Science Based Targets initiative on two levels, both with regards to the 1.5 degree target and for becoming carbon neutral.

If we then move to Q3 numbers in figures, we had an order intake of SEK 1.89 billion which is a 5.2% organic decrease compared to last year and with the quite big differences between the business areas. We had a very good quarter in net sales with 13% organic growth and SEK 2.08 billion in net sales, which is our second biggest quarter ever. And we also had a good quarter in operating margin at 10.5% and an operating profit of SEK 219 million, which corresponds to an increase of 19% compared to Q3 last year. And we ended the quarter with the continued very strong backlog which is currently at SEK 2.3 billion, which is an increase of 22% compared to the same quarter last year. And as always, Michael will come back to you with much more detail later on in the presentation.

If we then look at the year-to-date numbers until Q3, I would say that our performance in the first nine months of this year has been strong and we have been able to benefit from the high level of market activity. We have been dealing with an uncertain macroeconomic landscape in a very resilient way. And after three quarters, we had an order intake of SEK 6.27 billion, which is equivalent to 2.3% increase in organic order intake, and a net sales of very, very close to SEK 6 billion with an organic growth in net sales of 9%. And the profit after three quarters is SEK 579 million and a 9.6% operating margin. And earnings per share is SEK 2.31.

If we then look into our operating model and I'd like to – before we go into the business update, just as a very small reminder to everyone about our operating model. And in the group we have 12 lighting brands belonging to our four business areas, Collection, Premium, Professional, and Infrastructure. On a group level, we develop solutions for smart lighting with brands – two brands, Organic Response and city grid, and these solutions are available for all our brands. And within the group, we also have three common strategic focus areas, which is innovation, sustainability, and people and culture. And today, I'll give an update on two new innovations and our progress with some of our key focus activities that happened in Q3.

So if we start what I said before, a very high level of activity on the events, and we had – these events have been focused on the specified community and I think it's the first time since the end of 2019 that we have done bigger face-to-face events again. And therefore I wanted to share a few examples with you and you can see on the

picture, on the PowerPoint, you can see the poster from [indiscernible] (00:06:52) event that focus on innovation in urban spaces.

And iGuzzini we have had a global tournament. You can see the tournament example with a focus on the We Light Together, and this has been in major cities around Europe as well in Australia and Dubai. And Fagerhult has had a big Light Symposium event together with Aalborg University, with a focus on we can make a real change with sustainable lighting. I think all of these events has been big successes and it's been very good to reconnect with the specified community. And in total, we have had more than 2,000 lighting professionals at our events in Q3.

So, let's move to what I said before, a little bit focus on innovation – continued focus on innovation. And I'd like to highlight two new innovation, and this time I'm focusing on lighting optics because we have a big heritage in bringing high quality lighting to the market. And it is for us very important to have a high innovation path in improving light – continue to improve light quality, which then also improve people's wellbeing. It's core for all our businesses.

And during the quarter, what you see in the picture here, you can see we launched Crystal, which is, again, it's not only one product, it's actually a full family of products. And you can see here, the name is, of course, not a coincidence. You associate to Crystal when you see it on maybe a diamond. And the optic is actually called diamond optics and is a patented technology. And it brings excellent lighting comfort and at the same time, it creates an architectural effect on the surrounding ceiling.

So, the innovative optics leads to small amount of light on the edge of the luminaire and then very discretely light the surrounding ceilings. So this is very subtle. So it's a little bit hard to capture in a picture, but it creates a very warm feeling, and I think it's a very good addition to the portfolio of iGuzzini.

And if we look at a second example of optics and this is a new nano-Optix solution from LTS. There is – if we look into, there is a lot of things that's going to miniaturization and they have actually transferred the optics functionality onto an ultra-thin film of just 0.6-millimeter thickness. And due to its design, it can produce continuous lengths. So, this makes it possible to get desired light distribution with a continuous uninterrupted lighting pattern with no impact from visible edges in length up to 150 meters. So, if I would express this in non-lighting language, it means that when you look at the picture at the wall, the full surface will be lit up equally well all over and you cannot really see where the light source is coming from.

So, that was two examples of innovation all happened in the quarter. And then I mentioned the Science Based Targets and we have committed to the initiative during the quarter and to the Paris Agreement with the 1.5 degree target and also our aim to lower carbon footprint according to this. And I think I mentioned already in August, we have done a very – very thorough work in all our factories with regards to our baseline. And with that, we have defined 24 levers that will help us to reach the targets.

So, we are already working with many of these levers in the business based on their individual footprint, as well as defining projects where we will benefit from being committed together as a group. And one part and I will of course – you will hear me coming back to this, I would guess, in every quarterly report that we are having. And one important part of sustainability is also to work in a circular business model. And we see a very strong interest for this in the market. And I wanted to share with you the understanding why we see this opportunity, and only one example today of what we are doing.

So, we call this renovation and retrofit opportunity. And just to be clarifying, retrofit for us mean changing only the light source and keeping the existing light fitting housing. And where possible, we will always add organic response to make it a connected solution. This is – we can also, of course, do bigger renovation. One of the advantages of retrofit is that we don't have to make any changes to the ceiling. And the reason for the interest from the market is, of course, both that we can decrease the energy consumption with 90% from a fluorescent lighting solution to a LED lighting solution which is connected.

And with today's surging energy prices, the interest is high, which also makes total cost of ownership much lower for the customer.

In addition to that, it also has a positive impact on the climate and the carbon footprint for us and, of course, also for the customer. And in addition to that, the ban for production of fluorescent lamp is effective from next year. And the same ban that started with light bulbs for us as the consumer in 2009 is actually now happening in more professional lighting from September 2023 for fluorescent lighting. So, we are working with retrofit kits in the majority of our businesses and we offer extended services around it.

As an example, in the background of the Power Point, you can see a retrofit kit by ateljé Lyktan. These are used to upgrade the iconic Supertube from the fluorescent lamps to the latest LED technology and keeping the original houses. And when sensors are added, this can generate energy savings up to 90%. So, very good for the environment and creates a good business opportunity for us.

And if we look at the next picture, we see an example. So, this is actually taking the kit that you saw from the former Power Point to such a retrofit installation by ateljé Lyktan. And above the bookshelf, you can see the upgraded Supertube at Jönköping library. And by offering this service, it's possible to keep the original design and significantly reduce the energy consumption. And as an added benefit, the light comfort becomes better with the new technology, as we spoke about before. So, this is actually a true win-win for us and for the customers.

So, with that, I will hand over to Michael for update on the financials.

Michael Wood

Chief Financial Officer, Fagerhult AB

Hello and good morning from me. So, the group delivered a strong third quarter set of results, they're in front of you now. Overall, net sales grew 19% with a 13% organic growth level and the SEK 2,081 million was the second highest quarterly net sales ever for the group. And we are on course for an all-time high year by the time we get to the end of December.

Market conditions are probably, we're all aware, probably best described as a little bit unstable around us in the world that we live in today. And – but on a positive note to that, the previously reported supply chain challenges we see is now subsiding, ebbing away with other more geopolitical topics taking a little a little bit of a higher profile. We have dealt well with the effects of the supply chain difficulties, and we continue to provide a good level of order intake in such market conditions that we see.

Cost pressures are still around. We're aware of utilities in particular, but inflationary cost pressures do continue. Our response has been positive. Our response has been to increase prices, up several points during the last 18 months, 22 months; and the operating margin has now begun to increase as a result. And evidence of this can be seen in – clearly in the third quarter.

We do anticipate further positive impacts of our focus on pricing in a Project Lighting World. Just to remind us, it can take some time for the full benefit to mature. This is something that we talked about at the end of Q1 and Q2 webcast sessions that we that we provided. The operating profit of SEK 219 million delivers a 10.5% operating margin. The margin is flat compared to last year, which under the difficult external conditions, our view there is that that's quite a strong result. Earnings per share at SEK 0.89 increases 24% compared to the SEK 0.72 for 2021.

Cash flow further improved in the quarter, the trend is expected to continue. I'll come back to that a little bit later. You look at the year-to-date now, we previously reported a decent and robust half year. They were the words that we used in a few weeks ago in August, a decent and robust first half year. And this, combined with an improved third quarter, makes the year-to-date position a further improved position overall compared to where we were at September 2021.

The operating margin delta compared to 2021 continues to close. But let me just explain that a little bit more. So, you see a little bit more clarity and I'll talk about it now and in a slide or two's time. If you look at Q1 and Q3, the group delivered a flat operating margin compared to 2021. The impact of the supply chain cost pressures was markedly ahead of our own price increases during the second quarter, and that's what we saw and we reported a few weeks ago when we were here in August, a flat Q1, a disappointing EBIT margin drop-through in the second quarter, but we did anticipate increasing that coming through into the third quarter; and that's what you can see now in front of us.

Operating profit of SEK 579 million is ahead of SEK 545 million for the – for last year, and the operating margin gap reduces to 20 basis points to 0.8%. The net profit of SEK 408 million is 12.7% ahead and the EPS is almost 14% ahead of the period last year.

Development in the rolling 12 months net sales continues on a good trend. You can see some acceleration there coming through towards the right hand side, and this has increased quite well in the last quarter. The challenge that we set ourselves to get back to pre-COVID levels has been achieved for the rolling 12 months order intake levels, and the rolling 12 month net sales levels now approaches that landmark. We anticipate this being achieved in the full year.

I talked on the previous slide or two a little bit about the Q1 and Q3 operating margin. And you can see here that the margin for Q1 and Q3 was flat compared to last year, with Q2 being temporarily – was the words that we used – temporary adverse to the prior year as we stated at that time. We expect this to improve as the pricing improvements continue to take positive effect, and our focus on pricing remains. The larger scale [ph] producer serving industry (00:18:58) our own adjusted operating margins remain healthy compared to what we see on the market.

Little bit of a deeper dive into our business areas. And the first obvious comment to make here in business area Collection, [ph] I'll (00:19:15) move your eyes to the right hand side of the chart. They – looking at the four years on the chart is the improved consistency of the operating margin. There is, of course, still seasonality in all of our businesses and business areas, but the extreme swings, extreme difficulties that we saw in the earlier years, particularly in 2020 there, they are no longer. So, we're pleased with the development of this consistent level of profitability in Collection.

For 2022, net sales have developed well in Collection and this is as a result of record order intake levels in the business area showing that the model and our business – sorry, showing that the model our businesses have

adopted and the strategy they follow are both working. The next step is to develop the operating margin for the whole business area, and there are many ongoing projects in this regard.

Let's move to Premium. Premium business area continues its very, very solid performance with the growth in net sales in the last two quarters coming through quite strongly over on the right hand side and delivering higher operating margins. In fact, higher operating margins than when the sales, over on the left hand side of the chart, were at even higher levels. So, the rate of profitability in Premium continues to improve. In the third quarter, the operating margin was a very significant 16%. The year-to-date intake remains ahead of last year and we do see variations from region to region and from application area to application area.

The Professional business area results continue to be below expectations, and that's disappointing for us and for everybody involved. In the UK and Australia, there are many identified opportunities – improvement opportunities that are taking place and we are working intensively on all of these. In the UK, we obviously see high levels of uncertainty and the strained economic practice. But let us hope we now begin to see some stability return in the UK, which is a very large market for us. Our business in Turkey continues to deliver growth in net sales and profitability despite the tough market conditions and the very weak Turkish lira.

Lastly, we move to Infrastructure. In the business area Infrastructure, we see record levels of order intake and, for the third quarter, a record net sales level. You can see the bar chart over on the right hand side. The growth opportunities here are undoubtedly one of the highest across the four business areas we operate in, and we are systematically addressing these growth areas across all three of the brands, Designplan, i-Valo, and Veko. Here, too, is a focus on pricing as the three businesses all operate in specifiable application areas and with product portfolios to suit. The operating margins are more consistent and pricing improvements will help further support development in this area.

Coming back to cash flow. Please know that even though it's small – relatively small, please know that the full year operating cash flow has now turned positive with a positive SEK 37 million in the year. The year-to-date cash flow is affected by a SEK 418 million increase in inventory, as well as the sales growth, naturally increasing accounts receivable. At the end of the quarter, we recorded the first inventory level reduction since October 2021. So, the work that we began in the summer is now beginning to come through. Overall at group level, towards the end of the quarter, we had the first reduction in inventory since almost a year ago. And that's expected now to continue through to the rest of the year and into the early part of 2023.

Net debt, a quick reminder that the chart is – for net debt is adjusted for IFRS16, and the chart for net debt/EBITDA ratio is adjusted for IFRS 16 and acquisitions and/or disposals. We report a closing net debt/EBITDA ratio of 2.38%, slightly lower than where we were a quarter ago. And again, with the – what we see on inventory and working capital from the high Q3 net sales, we expect more significant reductions in the next few months as the working capital continues to unwind.

Lastly, I'll finish with earnings per share and a very brief summary. Year-to-date earnings per share continues to develop well. The rolling 12-month level is now at SEK 2.92 per share. We have been aiming all yet to deliver both SEK 3 per share. And this for us is now in clear focus. Our ambitions here remain high.

Just before handing back to Bodil and closing on Q&A, a quick summary from me. We see order intake is steady in an unsteady world. The order backlog position is high SEK 2.3 billion and good for the shorter term delivery. Net sales and operating margins continue to grow and develop well. And in the medium to longer term, the megatrends are very favorable for us.

And with that, I'll hand over back to Bodil.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Okay. Then for a short conclusion and recap, so, I think the first one is that this is the first quarter for a long time that we've been able to say that the global supply chain has improved, which is positive. We have been able to achieve a result of 13% organic growth with net sales of SEK 2.08 billion, which means our second biggest quarter ever in net sales. We also delivered 19% increase in our EBIT results compared to the third quarter last year, and an EBIT margin of 10.5%.

We continue to see a high level of activity and a lot of customer interaction as I presented earlier on. And we also are in the start have seen increase – increased renovation projects contributed to high energy efficiency and lower carbon footprint. And I think we are very well-positioned for this with our high focus on innovation and sustainable solutions.

So, my focus today on the innovation side was a new solution that shows our competence in optics and lighting quality; and this is actually what makes us go to work every day, is our culture for passion, for light. And then, our second motivation is our commitment to sustainability and becoming carbon neutral, illustrated this time by us having committed to Science Based Targets.

With that, we will end the presentation part and open up for questions. I hand back to Michael for the question session. But before that, I would like to share another picture with you, which I think is quite an amazing picture. And it's the CaixaForum in València, which is a new center which is dedicated to culture and science, and it's designed by the very well-known architect, Santiago Calatrava. And the lighting is all from iGuzzini, and I think it's an example on how lighting can enhance art, and that light is actually culture as well.

So, with that, I'll hand over to Michael.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Bodil. And with that, we ask the operator to open up for questions from those on the telephone line.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Mats Liss of Kepler Cheuvreux. Mats, please go ahead. Your line is open.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, hi. Hi, thank you. Good numbers. And just a couple of questions. Just starting with the mix of new building, I mean, you talk about the renovation need or opportunities out there to upgrade lightings solutions. But if you could sort of indicate the normal sort of mix between new building construction and renovation?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

I – hi, Mats. I don't have a total number for the group, because there is a little bit of differences between the different companies. So, in some companies, it's very high all the way up to 90%. And in some companies, we are around 50% newbuild and 50% renovation. But it is already today quite a high number, but we can see the focus is going over to be even more renovation for the coming years.

But I think what I wanted to show today as well with the retrofit because – is that that brings an additional opportunity because, one, when you look into the market today, we're still around 30% LED lighting in Europe and have 70% which is not, and we know we need to make a change to this. And we think one of the reasons that that's been slow is, when you need to do a full renovation project, there's quite big implications if you want to take out your ceiling, and it implies a bigger renovation.

So, what we see happening now is also the retrofit opportunity. And when you look there, I think the company I know that has the highest within the group, they have 16% of their numbers. So, there, we are still in the beginning of the retrofit opportunity because that has been less present before. And I think also, when you look upon it, what I've said before, when you look at the fluorescent lamps, the ban is actually – haven't been until 2023. So, that should be another push in the market to be able to go from some traditional fluorescent to LED lighting.

So, I think there are a little bit of new elements in the market that we haven't been seeing before. But the renovation trend will be there for many years to come. I don't know if you remember from before, [ph] we fill retail (00:30:00) 75% of the buildings in Europe that needs to be renovated if we are going to achieve the Paris climate goal in general, not only for us but for the buildings that are existing in Europe.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Yeah, it sounds like a good opportunity there. Then, number two, where, I mean, you mentioned the price increases are gradually compensating for the cost increases you have seen. And I guess, given that it's quite strong, I guess that you are able to outperform then your margin targets in this quarter and so far this year? I guess, do you have any sort of indication there what the upside is? I mean, it seems that you indicated the margin could improve further from these levels, and I guess the target has seemed a bit, well, too demanding. But [ph] Bodil (00:31:06), if you can shed some light there on the sort of upside that price increases represent?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Sure. Absolutely, Mats, and good morning. We saw – I think we tried our best to explain and did an okay job of explaining when we did Q2 report, that we saw the dip in Q2 compared to last year was temporarily affected were the words that we used, because we were fairly confident that the pricing had been done and was beginning to come through.

It does take a while, as we said that in Project Lighting World through the enquiry to quotation to order and then to delivery and execution. During the third quarter, we were pleased with what happened was in line with our thoughts. We thought it would come through stronger. We do expect that to continue to take place as we look forward. As you know, we don't give forward looking sort of targets out in the short term. We only have our very long term ambitions. But we're aware that our businesses have put price levels to the market. We're also aware that we've not yet received the full benefits of those, and we do expect that to positively impact the next two to three quarters.

Of course, on the opposite side, we've had the utilities and employee inflation yet to become strong enough in the overall situation. But at the top level, net sales, pricing improvements and a continued focus not just on price levels per luminaire but also in terms of offering great services and great solutions.

Bodil just talked to your answer about the retrofit refurbishment and there, just to add a little bit of color to our capabilities there, we've done everything from office blocks in the north of Sweden – north of Stockholm to Oslo, to prisons and railway stations in the United Kingdom. So, that retrofit refurbishment opportunity does cover many of our focused application areas. And if you combine that with offering the services and combine that with the pricing improvements that we're making, we're fairly confident for the short term.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, great. I guess you have a pretty good trend in most of the business area, but Professional seems [ph] too off (00:33:46), having a tough market situation, I guess. But when it comes to the sort of company-specific, well, performance, are there anything that you can change or make better there or is it more a market situation?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Sure. I mean, you see the three businesses in Professional, [ph] on my delivery (00:34:13) Arlight in Turkey continues to grow well and develop increased profitability. So, we'll put that aside. The team there is doing a fantastic job.

If you look at the United Kingdom, obviously, for me, it's very close to my heart where I came from in Whitecroft, we see now a more stable position in Whitecroft than in the early part of the year, is what we are – is what we are looking into. So, stability has returned a little bit in the business, but the market conditions, with the interesting political situations, has been disruptive in the summer months. But we expect that to settle down now as we head into the back end of the year and through into 2023. The interim management lead and team there is beginning to put improvements through into the business. So, we're happier with the UK situation and there are many, many identified improvement activities down in Australia that's now beginning to take place.

So, we're working positively on those, in both the United Kingdom and Australia. And I'm sure that when we look through the next two to three quarters in the UK, we can expect a little bit of an upturn, and I think that may be a

similar situation that we anticipate in our Australian business that we have. Looking forward to delivering that and delivering some better news to you guys during the next couple of – two to three quarters. We know what we have to do. It is possible to do it, it's not overly difficult or complex. And the activities have been initiated. So, improvements are on the horizon for business area Professional. We just have to be a little bit patient.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. And just finally, I mean, you mentioned that cash flow [indiscernible] (00:36:19) strong sales and accounts receivable have grown, and inventories are maybe also on the high side. But could you say something about the normal situation of inventories? How much is sort of extra, which you have sort of increased due to the supply chain situations? And maybe also accounts receivable, I guess, it's pretty good cash flow to be expected here in the fourth quarter if things have move as expected.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yeah. I'll take the accounts receivable first, Mats. So, I don't mind high accounts receivable so long as credit days outstanding in the market is under control, and that's what we have. So, we do have a SEK 480-million increase in accounts receivable from the start of January, but we have a credit days overall at the group level which is slightly lower than where it was a year ago. So to me, I'm happy with that situation. That's all about sales growth coming through. And as we know, on a 30 or 60-day payment cycle from our customer base, that should deliver some upside for us in coming months and quarters.

If you look at accounts receivable, oddly enough, and it's just a coincidence – sorry, inventories. If you look at inventories, the inventory level has also increased exactly the same level. It's in the report, SEK 480 million since the start of the year. And the start of the year was SEK 200 million higher than it was at the end of 2020. So, you could you could put a proposition there that says, well, there's been a SEK 600-million increase in inventory level since the start of the supply chain challenges.

We did see our first reduction in inventory levels in the month of September, not yet in the quarter. And I'm anticipating – because we've been communicating with our businesses – that we will support the levels of inventory going forward at around where they were at the end of Q1. So, that's about the SEK 1.3 billion to SEK 1.4 billion. And that's where we're striving to get to in coming months and quarters, which is quite a drop from where we are today.

So, we're not saying, in the short-term at least, we're going to push it back all the way to where we were at the end of 2020, which is just under SEK 1 billion inventory. But we do have sights on levels of about SEK 1.3 billion to SEK 1.4 billion.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. Thanks a lot.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Okay. Thank you, Mats.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Thank you.

Operator: Thank you. We currently have no further questions. I'll hand the call back over to Michael for any webcast questions.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Thank you. So let's look into what we got from the webcast so far.

We have a few question. We can start with one here, which we partly covered perhaps. But I see that you're committed to the SBTi, what's the reasoning behind it and what are the next steps? I think we touched upon that Bodil, but maybe you can elaborate a bit more.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Yes. And I said also, I will come back to it. But if you look into the reasons why, I think for us those are quite obvious because I think SBTi is a very fact based scientific way of looking at it. So, I think it's showing our commitment to it, but it is also showing that we want to be very transparent in what we are doing.

And then I also think SBTi helps you because it's a long-term way of looking it. So, it helps us making plans until 2030 so we can already now look into what is the long-term investment plans that we want to do into sustainability and how we're going to deal with it. So, I think there are a lot of advantages, transparency, but also a good tool for ourselves internally to work with.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Right. Thank you, Bodil. Next question here. Looking at the order intake, the order intake figure seems a bit disappointing to me, which is not in accordance with your comments on strong customer engagement. Can you comment on this and maybe give an outlook on this metric?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

We can comment on the market situation. Of course, we always want order intake to be as high as possible in that sense. But I think that when you look at the market, first we need to see we have a good order backlog with 22% higher than we were last year. So, that's one point. And then I think we have regional differences and also differences in the business areas. In total, I think that's positive because we don't have all our eggs in one basket and in a market situation, which is, as we all know, a little bit challenging, it's good to be present in many different markets and in many different application areas. So, I think that is positive for the future and also what we spoke about with renovation and the retrofit opportunities.

So, I also see quite a lot of upsides into what we can do. And I think the high market activity that I'm referring to, that our activity which was in Q3, and that takes time before that transfers into projects in our world. But the fact that they are working on projects is something which is very good. And we also work with some long-term indicators in the businesses where we can see very far ahead. And actually, when I look at those, they are still

very positive. So, I think that's a good indicator as well. I think that gives you a little bit of an overview of it. Then we never give a forward looking number for it.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yeah. And just to answer that a little bit from my perspective, we do see some variation from country to country and also from business area containing the businesses to other business areas. And just draw our attention that we grew very significantly, almost 35% organic growth in Infrastructure. The UK market had a little bit of a summer time difficulty given where they were in the external environment, offices is a little bit softer. Public spending money in areas around the globe is on the increase.

And if you sort of take that fairly complicated picture because that's a little bit how we are with our 4 business areas and 12 businesses and then blend into that the opportunity that we see not just as an opportunity but also as real now for us in retrofit and refurbishment, we think that the levels of where we are in the quarter might have seem a little bit softer. But in the year-to-date, we're still positively ahead. We end the Q3 with a high order backlog and there's lots of short and medium term opportunities for us.

The work to get us into that optimistic sort of position when we're looking forward has been done not just in the Q3 but in the last 12, 18, 24 months. If we hadn't been working on these retrofit solutions, some of our businesses beginning 2019 we wouldn't be sounding as optimistic as we are with regard to our approach to this and our solutions for our customers in many different areas. So, if we can do it in an office or a prison or a railway station or a museum, then it shows the – one, the complexity, but also that we are positioned well for it and making good progress, not just – we're not just positioned but we are now executing on some of these opportunities.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Thank you, Michael. And last question here, as a follow-up on the SBTi, can you make an example of a sustainability investment you have done or planning to do?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Yes, I think we can. We had one example last week which is quite a big investment in iGuzzini where we took an investment to – we have already since 2014 20% of the energy consumption in iGuzzini in Italy is done by solar panels. So, we have very good experience of that and we've been running it since 2014. And we took last week a decision for an investment of €5 million to increase that so that we can get up to 64% solar panel efficiency in the site in Recanati, which will make us self-sufficient up to 64%.

So, that is good for two aspects. It's good for the energy costs for ourselves, of course, but it's also good for our sustainability footprints. I think that's a very good example of a very concrete decision we took last week in the board meeting.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Bodil. And with that, we are done with questions for today. And before we end, Bodil some quick last comments from your side.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Yes, of course I can do that. I would summarize and say that we are satisfied with the first nine months of the year, especially with regard to the increase in net sales with a strong 13% increase in Q3. It's not been easy to deal with the supply of challenges over the last year, and I think we've been able to keep good service levels to our customers. And this has been done with a lot of hard work, but I believe we've done a good job in it.

And I think the application to Science Based Targets is another proof of how seriously we are seeing our engagement towards sustainability. And therefore, I'm also encouraged how quickly the organization is refocusing to retrofit and refurbishment that is needed today for both for energy efficiency and helping to decrease the carbon footprint in our buildings and cities. I think that was my summary of Q3.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Bodil. And thank you, everyone, then for joining today's conference call. With that, we're done today and we hope to see you again at our next webcast for the full-year report, which would be on February 22 next year. So, until then, have a nice day and a nice weekend.

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