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Fagerhult AB (FAG.SE)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning or good afternoon, all, and welcome to the Fagerhult Group Year-End Report for 2020. My name is Adam and I'll be the operator for this call. If you'd like to ask a question during the Q&A portion of today's event, you may do so by [Operator Instructions] .

I'd now hand you over to Michael Brüer to begin. So Michael, please go ahead.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Adam. Hello, everyone, and welcome to the presentation of Fagerhult Group's full-year 2020 and Q4 report. My name is Michael Brüer, I'm responsible for Strategic and Communication for Fagerhult Group. It's a special occasion, it's our very first audio cast. So we're especially happy to welcome you to this event. We will continue with these calls regularly as we release our quarter results going forward.

On the call today, we have our President and CEO, Bodil Sonesson; and our CFO, Michael Wood. And the structure of today's call will be that Bodil Sonesson will start with a business update; Michael Wood will follow with more detailed financial updates and Bodil will conclude with some forward-looking initiatives. Afterwards, we will open up for questions. And let me also remind you that today's session is recorded and will be available [ph] afterwards on (00:01:15) our website.

Before we start for you on the conference call be aware that the webcast has a 30-second delay, so to better follow the slides presented, you can also download the presentation from our website.

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

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

Okay. So welcome from my side as well to everybody as well. It's a pleasure to have you and I will start with, when we look into 2020, it is an year filled with those external events that we all know about and that has affected us all. But this – as this is our first web and audio call, before jumping into the numbers, I just wanted to give you a very quick overview of our focus areas in 2020 before we look at the numbers for both the quarter and the year-end. So, we launched a new strategy in the first quarter of 2020 based on our new vision and mission statement as well as a new group branding for the Fagerhult Group which now is consistently applied within all of our 13 brands.

And as part of this, we also launched the website, beginning of March, which is showing the new strategy and where there is also all information for investors. I hope that is something that you will be frequently using. And we also launched a new organization with four Business Areas and the reporting, in line with this, we started with already in the beginning of 2020. And when you look into the [ph] whys (00:02:57) behind the organization, it's been very much based on collaboration between the brands with the go to look for growth opportunities in the markets.

So, therefore, the organization has done so what I would call them outside-in perspective, meaning that we've been looking at the market and what's been good for the market. So we've been looking at two areas, which is our common application areas, for example, healthcare, offices, education, and for our key stakeholders and partners, like architect, lighting designers, mechanical and engineering consultants. And we were lucky to be able to rollout the new strategy and organization before COVID-19 had an impact in Europe, and we also took a very early decision that we would continue the implementation, even when it meant working over digital tools – and I think when I look with hindsight today, I think that was a very, very good decision.

So if we then move over to the fourth quarter and we have, ever since COVID started, been following our order intake even more closely than normal and have compared average over rolling 13-week period and the closed down during the spring had a very high impact on the order intake. And I think that's very much related to the – that our partners were not ready for working in home office when they were dealing with big projects handling. And since the spring, the order intake has slowly and steadily been recovering and we saw this trend continue also during the second lockdown at the end of the year. I think us and many customers have been getting used to the new way of working and also the fact that in our professional markets the building activity was kept open during the second lockdown which was not the case in the first lockdown which made a big difference.

And we have all the way since the spring kept our factories 100% open. And I will come back to this a little bit later when we look into the results. There has been big differences between the different Business Areas. And we have had a strong focus. We have communicated so and we've been able to save more than 16% costs comparatively to last year. And we have made the structuring activities in quite a few different businesses which has improved operating margin at the end of the year. The fact of being in a specification market means that we have seen it being necessary to adopt our cost structure to the current market conditions.

I think also very positively has been that we have handled the financial situation well which has resulted in a stronger cash flow even stronger than in 2019, which was already a strong comparative year for us. And all of this has been possible, thanks to a very strong team spirit everywhere. And I think that's a strong culture, I think we all know it. But when you see it, it makes an even more positive difference when you have a little bit of a tougher market. And also our decentralized structure with sales and operations close to a customer have been very important to keep service levels and customer satisfaction high.

So, if we look at the next slide and look at Q4 in very brief. Michael will give you much more details on the financial side later on. So, we still see the market activity being affected by COVID. We ended the year with both

order intake and net sales at minus 15%. And actually, the numbers are very close to the Q3 numbers. The adjusted profit was SEK 134 million from 2020. It is adjusted for the cost of disposal of Lighting Innovations, but not including the trading losses which is part of the result. We normally never do adjusted results. But this is a very, very extraordinary event for us and therefore we decided to do it in this way.

So all other restructuring costs or write-downs are included in the operational profit. Michael will also be coming back in detail in his presentation to the EPS numbers as we show a comparatively high EPS number in Q4, which is related to a tax change in Italy in a post-COVID initiative from the Italian government.

So, if we then move over to slide number 5 and fiscal year in figures, you can see that the yearly numbers show decline in organic order intake [ph] seen for emanating (00:07:50) currencies of 12.3%. The trend was positive in Q1 and they were very negative in Q2. And since the summer, we have stabilized and then we've slowly seen that the gap has been decreasing. The net sales were down 14.3% organically with a big difference within the Business Areas. We started 2021 with a slightly better order intake than we did last year and with a much lower cost base. It was also communicated today that the board is suggesting a dividend payment of SEK 0.5 per share for approval at the AGM in May.

I will not speak a lot about COVID, but in the next slide just a few points on it. And I think that's the mantra to this year with relation to COVID for us internally has been very much keep calm and carry on. We were very quick in securing health and safety for our employees as well as securing our factories, which were very important for us. The only time we had to stop the factories were in Q2 when we had government restrictions and we didn't have any other choice. And as I said before, since then, there's been no more factories closed for the rest of the year.

And you can see on this slide, we actually got a prize in Italy for being one of the companies that had handled COVID in the most professional way, which we were of course happy about. Also, the change to working largely from home has been very smooth. And I would say I don't think I've seen one single glitch during [indiscernible] (00:09:34) that in the year. And it's had the positive effect that we have been focusing a lot in digital transformation not only internally, but also in relation to our customers. So that's the transformation that continues, will continue to be very high focus for us going forward.

If you're reading our quarterly report, you've seen that we have had an extensive reporting about COVID activities. And we will – if the situation remains stable, we will make that a little bit lighter from next quarter.

Besides the COVID, we also completed the divestment of Lighting Innovations in South Africa in the fourth quarter, which we have been communicating extensively about and that's also you know the goal behind that is to be able to focus on other market opportunities where we see a much higher growth potential, so a focused effort.

Part of the Q4 report is also the divestment of Commtech that happened in January of this year. And Commtech is a company is focusing on commissioning that we have been owning since the Fagerhult [ph] Spain (00:10:41) sales subsidiary was acquired many years ago. It's the only group – only company in the group which is not in line with our focus on professional lighting and therefore the divestment.

So if we then look into a little bit more information about the different Business Areas, and I will start with Business Area Collection. So the year started well from an order intake perspective and came to very much in the stop with COVID. It is – I would say, it's been tougher this year to be a global player, especially with strong footholds in some of the Southern European markets and on the same time working on big projects. This has been the case for both iGuzzini, LED Linear and WE-EF, whereas ateljé Lyktan with a strong focus in the Nordics has had a year with good results.

The second quarter was the toughest one in relation to order intake – and as I said before, we've since then seen a more stable situation, but still not entirely back to pre-COVID level. And we have been working on reducing the cost quite successfully and this has also resulted – an effective result with SEK 52.6 million of redundancy provisions and write-offs. And we have been continuing to work with the strategy for the Business Area and we are finding a lot of collaboration possibilities that we will see the fruit of for the long-term. And I would also say that we have a very dynamic management team in place.

And then I'm going over to slide number 8, and just because I said before we didn't have any glitches on the technical side, I can't see the next slide in my presentation with – now I try to redo it.

Unverified Participant

Bodil, like I can help – and change slides – I changed to...

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

Okay.

Unverified Participant

...slide 8.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

Yeah, I see it now – it came back. So now slide 8 and Business Area Premium, and they had a tough start on the order intake and with a better ending of the year. And the business has mainly been impacted in the retail business – and as selling to retail and customers, whereas the other segments like office, education and healthcare have had much better performance.

Also here, we see geographical differences where Northern Europe has been less impacted from the business perspective than the Southern European region. Both Fagerhult and LTS have completed restructuring programs in Q4, which means that they are having a very healthy cost base when we start 2021. They are also working on more collaboration between the brands. And with LTS based in Germany, they are looking to how we can grow a relatively low market share under German lighting market, the biggest market in Europe.

And that makes me too Professional. They did not deliver good results for 2020, where it looks a little bit better on the order intake which ended at plus 1.8%. And the Turkey – these businesses are [indiscernible] (00:14:26) Turkish, Australian and British markets because these businesses are mainly working under national markets have all been highly impacted by COVID and measures taken by the government. But with a lower cost base and order backlog, actually 20% higher than last year to start 2020 – with 2021 should be better. So all of those brands are strong in healthcare where we see continuous investment.

And I think also the fact that we got clarity on Brexit gives a more predictable business climate which is positive for the UK market. And Whitecroft, as we've been communicating before, has a high focus on sustainability. And

it's very successfully launched [indiscernible] (00:15:11) Vitality so future lighting with a full circular economy concept that has been giving a good momentum both internally and externally. And I would recommend you if you're interested on the sustainability side to go in and look at Whitecroft's website where you will get it full, there is a video which gives you full presentation of the concept.

That takes us into Business Area Infrastructure. And we will end with the most positive Business Area this year because they have been positive both in order intake and a net sales growth and order intake of almost 10% and net sales of 7%. And a good combination of geographical markets and also where they are focusing from an application area has been very much of the winning formula. So the business are mainly operating in Northern and Middle Europes, and is very strong with e-commerce business and also industrial applications.

So two very interesting segments and the Business Area continue to work on further growth potential in these regions where they are based, but also focus on Germany and also a big focus in the Nordics where we see the potential for logistics platform. And they've also launched a new product line specifically focused on horticultural lighting. And the backlog is at 26% higher at the start of 2021.

And then we coming to a beautiful picture before I hand over to Michael Wood, our CFO. And I hope you recognize this. This is a new landmark in Stockholm, it's the Golden Bridge at Slussen. So please Michael give us some more information on the financial side.

Michael Wood

Chief Financial Officer, Investor Relations Contact & Secretary, Fagerhult AB

Okay. Thank you, Bodil. Good afternoon, everybody, and welcome also from me. It is good, as Michael Brüer said earlier on, that we can bring you our first webcast or the new era for the Fagerhult Group. I will be pleased to provide a little more information to what Bodil has already provided on the financials.

First of all, if we look at the summary, you can clearly see the impact from COVID-19 an impact that has organically reduced net sales by just over 14%, 14.3% to be precise. And at this stage, just to communicate, the 14% that we see there for the full-year is now consistent across Q2, Q3, and Q4. So we see no further decline. The last three quarters of the year have been consistently delivered part of our management process with the focus on the management for the customer demand and this has been a high focus and successfully delivered during the last nine months.

The adjustment to net sales arise from acquisitions and divestments relating to, first of all, the positive acquisition for iGuzzini acquired in March 2019. And then the divestment of Lighting Innovations divested right at the very beginning of November 2020.

Just regarding Lighting Innovations just so we're all clear, it is important to remind us that the group does not have a divestment strategy. Bodil has explained why we have divested off the subsidiary because this is a unique decision for the Fagerhult Group. We felt the correct action is to adjust the operating results for the wall of items relating to Lighting Innovations. You'll see the numbers on the next slide in a short while.

The full-year adjusted operating margin of 6.5% is respectable under the circumstances of difficult conditions due to COVID and at 7.9% in the fourth quarter, it is clear to see the progress we have been making in cost reduction terms and stabilizing the business to make, to be in a position, the group to operate at the pre, at the COVID-19 levels as we move forward, and that's something that we have done successfully over the course of the last three quarters.

I shall talk a little bit later regarding the rather unusual tax charge and the impact on earnings per share that this had. Bodil mentioned the Italian tax decree from August, November of last year and we have some detail on this. At in excess of SEK 1 billion for each of the last two years, we are very pleased with the cash performance of the group and that positions us well for future requirements.

Coming to the adjusted operating profit, it's rare, in fact it's unique in the Fagerhult Group's history to adjust an operating profit in a matter to end with an adjusted operating profit, both you see here the adjustments of SEK 63 million for intangible assets, SEK 15.2 million for redundancy and the other costs and SEK 31 million for loss on disposals are unique form of costs and the full-year trading losses in Lighting Innovations of almost SEK 20 million have not been adjusted for and they remain as part of the operating profit mainly accruing to the end of the third quarter, very little in the fourth quarter. So, just a little bit of clarity on what's involved in that adjusted operating profit.

Okay, sales development, over a six-year period sales development has developed very strong. It's doubled from SEK 4 billion to SEK 8 billion all the way through from 2015 to 2019. This is due to two significant aspects. First of all, the group successfully embraced the LED technology shift originating at low levels in 2008, 2010 and growing rapidly through 2012 and 2013, and then on to the chart that we see. And secondly, in the period through to 2019 with the group delivered five significant acquisitions, almost one per year during that period. 2020 disappointingly shows the COVID-19 impact per quarter from a different perspective than the earlier chart. But we do hope to ambitiously get back to where we used to be in the not-too-distant future.

Coming to margins, it's a similar portrayal on margins. We feel that the margin has developed well over the longer period and the longer period goes back to before this chart. But also for 2015 to 2019, good consistent delivery of margin developments at a high level, also during a period when the group grew significantly. 2020 has been quite different. We reported many challenges during Q1 of which you will be familiar. We put a market communication out. All of these, except the ongoing COVID situation, were dealt with quickly. But as we say, the impact of the pandemic has a lasting effect for some time. During a difficult period, we have delivered an average 8%-plus adjusted operating margin from Q2 to Q4. And we emerged from 2020 and an improved financial condition as a result of the COVID pandemic. But in our opinion, this is a good result and shows what Bodil refers to as fighting team spirit and strong set of values across the Fagerhult Group organization.

Cost savings, it has been a focus, not surprisingly, we reported upon it in Q2 with SEK 86 million, in Q3 with SEK 87 million, and in Q4 with SEK 128 million, a mixture of different types of cost savings come to this number. And in total, it's in excess of 16% year-on-year comparison. But let's be clear, it does not count, does not double count anything to do with the adjustments relating to our Lighting Innovations and the operating profit and also the SEK 300 million of savings is after taking a charge of SEK 52 million relating to redundancy cost – redundancy costs in several entities. And we've scaled the business with a lower level of activity through cost reduction and whilst at the same time preserving and protecting those areas that are strategically core and maintaining investments in these areas, important for us to – for these to benefit our future growth ambitions in focus, identified growth opportunity. Of course, the focus remains on organic growth. But for now, we set the tone for a slow recovery and protect the operating margins by being more efficient and more effective in all areas and in all regions. We are quite prepared for 2021 and the ongoing lasting effects of COVID.

Cash flow, an obvious highlight not just for 2020, but also for 2019. The cash performance has been strong. There was a significant focus on cash-generating activities, in particular working capital – it's improving the effectiveness of working capital. The result is clear. So to the impact on the net debt position on the next slide that I'll come to a little bit later and just to conclude on this slide that probably needs no further explanation. Of course,

we maintain our focus on this working capital and cash flow management in the current period and in the year 2021.

Net debt development – first of all, it is important for the listeners to understand and I should clarify that this chart shows the net debt adjusted for IFRS 16. And also, it shows a net debt to EBITDA ratio also adjusted for IFRS 16 and further – and you will expect that any acquisitions and/or divestments are dealt with on the traditional way of pro forma basis. So what you look at here is adjusted net debt for IFRS 16 and the ratio is calculated again without IFRS 16 complication in there and any acquisitions or divestments are taken for rolling 12 months into all of these numbers.

Despite that, you can see just to the right of the center of the slide is obviously the [indiscernible] (00:27:09) for the Q1 2019 acquisition of iGuzzini and the following quarter paid off or repaid due to the rights issue. And then we closed the 2020 year at the same level as we closed the 2018 year which is a strong delivery of cash generation and debt management over a two-year period, 2019 and 2020, following not only the group's largest acquisition of iGuzzini but also in dealing in this last 12 months with the challenges thrown on to our plate with COVID-19. The net debt to EBITDA ratio has increased during the two-year period, but has been in control and well within the covenant situation we have with our lenders for the whole of 2020 and it closed [ph] at 2.74 (00:28:04) for the end of the year.

Just two slides go from me, then ultimately our earnings per share from a good level as you can see that good level and a good growth and development of earnings per share, the EPS merger has of course deteriorated during 2020. We expect an improvement in 2021 and beyond that wouldn't be unreasonable for any listeners to – for that expectation to come forward. And we reinforce that expectation, but the sharp increase that you see there in Q4 does look very odd, very unusual given a COVID situation is due to the adoption of new tax legislation in Italy, which I'll explain even further on in the later slide. The approximate EPS for 2020 without the tax credit can readily be calculated from the information provided in the Q4 report that was released a few hours ago.

So, let me take you now straight away to that because it is an unusual transaction and what we seek to what we explained on this slide is that during 2020, the Italian government taking several actions to support the economy. This tax decree reference 104/2020 is just one aspect. There was five or six different measures that they took. We adopted at the group and the iGuzzini subsidiary in Italy. We're well-positioned to adopt this new legislation. It's what we did and move forward from that.

In summary, we take in 2020 an additional tax charge in our Italian subsidiary of SEK 52 million. And also at the same time, reverse the deferred tax of SEK 488 million on the intangible asset valued on the balance sheet as iGuzzini trademark. So simple form, we take a tax charge of SEK 52 million and we reverse out SEK 488 million deferred tax relating to the intangible assets iGuzzini trademark. The whole process is long-term at least 18 years, perhaps a little bit longer. And the benefits will accrue in the lower tax rate payable in the Italian subsidiary over the course of the next 18 years as we can now under this legislation amortize into the corporate income tax calculations, the amortization of the intangible assets under deferred tax thereon. And that will last until the tax has been fully recovered. So, we see a future benefit. But that future benefit will take some time to come through in full.

Over on the right-hand side, the headline numbers there are clear from the Q4 report. But also we make it clear that the underlying tax charge is SEK 80.6 million for 2020 and SEK 180.9 million for the prior year.

Okay. So this current slide just to show that we are also into indoor projects as well which is what you would expect. The Head Office of the Law Society in Paris designed by Renzo Piano, the famous Italian architect.

At that point, I will be pleased to hand back to Bodil for conclusion and recap.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

Okay. Thank you very much, Michael. So, I will try in one slide to summarize what we've been saying before I look a little bit into our focus area. I think we can summarize what we've been saying about Q4 and the year in five points. We have, as an organization, handled COVID well and it has not limited us from continue to work with our strategic initiatives to bring future results, which has been very important for us. We have also taken measurements to make sure to compensate for the sales decline we have seen in 2020. So, we are able to start 2021 in a sound way. And we have already seen an improvement in that direction in Q4. So, I think overall we've handled the financial situation well in many different dimensions, and Michael does too many of them from a balance sheet perspective. So, we are getting strong [ph] rise in (00:33:02) 2020 with an organization that is motivated and working [ph] ties it (00:33:07) together and seize many opportunities for collaboration in the future, and that's part might be even more important than anything else.

So, if we then looking a little bit forward and before we start the Q&A session, the business strategies are done within the Business Areas and together with folks with the different brands. And on the group level, we have defined four areas where we think that we as a group can make a difference in adding value. And these four areas are, as you can see here, is our group core values is connectivity, it's sustainability and digital transformation. And today, I will focus on the connectivity group values and sustainability with a very short updates on where – what we are doing.

So first one is on the group core values, and I think we've all heard and know the expressions that culture eats strategy for breakfast. And when we launched the new strategy with a higher emphasis on collaboration, it is also very important for us to work on the values and that will help us in this direction. Of course, we see when we look at the organization that we have a very – it is a very open organization and they're very open to change, and there is a willingness to work together. So, I think we already have the right prerequisites. And you see the quote here, which I think is a very good quote, so if you believe in people you believe in values. So that's also very much the guiding star.

It has however though been very important for us to make a bottom-up process. We don't want – we wanted to come out and shape in the organization, so not being forced on from group level. So in 2020, we have made workshops with more than 100 managers in the organization to collect their feedback. And currently, we're in the process of rolling out what we did in those management workshops to all employees to get their feedback on the suggested values that we have selected before we go ahead with implementation after the summer. And we also have since the beginning of January, we have a new Chief People Officer, whose name is Andrea Gageik, she started in January and so she is the one who is managing this project together with the – with HR and the different brands.

Then, you have connectivity where we have a group-wide approach and I think it said it – on the one of the other slides, but I want to highlight it as well. We had a good year in 2020 in connectivity with a growth of 79% as part of our solutions sales. And this is one of our long-term investment areas and what you see in the picture here is from our center in [ph] Linköping (00:36:10), where we have opened a second competence center. The other one is in Melbourne. And this is taking us closer to our European brands and customers. And the connectivity agenda is also very, very closely related to our sustainability agenda. And with our dark winters in Nordics that we are hopefully slowly getting out of, our product lifecycle analysis shows that 70% of a lighting – 75% of our lighting

solutions energy consumption is during its usage. So if we have connected solutions that make sure that the light is only on when necessary that of course becomes very important.

So then looking at the last slide and you will see us when we go forward, we have started with a very high focus internally on the sustainability side. We think every time you will hear us speaking from now on you will hear about sustainability and I think that the trend – if you look in the market the trends in awareness about sustainability have accelerated enormously in the past years. So I'm very happy that we took a decision for such an ambitious mission statement which we did in 2019. And you see it here on the slides. Together we innovate to deliver professional lighting solutions that are circular and climate-positive and contribute to better lives. And during this past year, we have appointed the Sustainability Officer which is part of group management. And he is, together with the brand, working on the group's sustainable strategy and the action plan that we're going to take. And we have also developed an approach for the group. We'd have with ambition to have a sustainability focus integrated in all our business areas and focuses, our functions. So we believe that we have a big impact on the entire value chain. And therefore, we can make a difference all the way from supplier relationships in working with likeminded partners, suppliers through production and then bring our knowledge to our specifier partners.

Also reporting within the [ph] scene (00:38:24) as you all know will have an increased importance. And just to give you an example from our production facilities is that we actually already have so much solar energy in place, in our [indiscernible] (00:38:38) factories that we can run one of our biggest production facilities entirely or we could run all of Business Area Infrastructure with the solar energy that we are producing. So if we do this right, we also think that it will bring us opportunities. The focus from the European Union and also lately the US is very strong. So after the transportation industry, the building industry is the second biggest polluter. And if you're looking to buildings in Europe, there's only 1% of buildings that has undergone efficient renovation and they're standing for 40% of the consumption of the energy. So there is no way that Europe will reach its goal of being climate neutral without massive renovation program. And I think that will also, that will mean this is opportunities for us as well.

So, the last picture and here is also from Stockholm with very beautiful lighting in front of the Opera House. You can see here that we're doing our best to have you thinking about us when you walk around this city. And I think with that, we will end our presentation. And we can open up for Q&A.

So with that, I would hand over to the operator to see if we have any questions. In this section, we will only take questions on the audio and not from the webcast something that we might change in the future. But this is the first trial. So, let's see if we have any questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Mats Liss of Kepler Cheuvreux. Mats, your line is now open. Please go ahead.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Hi. Thank you. I have a couple of questions here. First, I guess you indicated that you expect the markets to recover gradually. But given the current level of the orders SEK 1.5 billion, SEK 1.6 billion, you still well below the SEK 8 billion you seem to target after the iGuzzini acquisition, but it seems that you see an improvement. But when should we expect you to return to the pre-COVID levels? Hello. Hello.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Sorry. I was on mute. I'll give you...

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

I think that's a million dollar question...

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Absolutely.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

...on that side of it. So, I think we don't have, I mean what we see today I think we are telling you what we're seeing and we never give any forward-looking numbers. So, we can speak about ambition levels but we can't give you any concrete numbers when we see that we're returning to the SEK 8 billion level. And then, Michael, if you have anything you want to add on that.

Michael Wood

Chief Financial Officer, Investor Relations Contact & Secretary, Fagerhult AB

A

Yeah. Just a little bit to help Mats with his understanding that. I think the wrong thing to do for this year, Mats, will be to set our ambitions too high on the top line because we see the COVID is still around us and it's still affecting some markets. You correctly point out SEK 1.6 billion to SEK 1.7 billion of order income net sales on the quarterly basis, that's been consistent now across the last nine months of 2020. So, we're not going to pressurize ourselves into accelerating the growth agenda too quickly. We've just saw the words from myself from one of the slides. So at the moment, we could talk [ph] loss (00:42:41) and we embrace 2020 in a more prudent way. We're ready for dealing with 2020 in that more prudent way.

However, we do see, as you've experienced, a little bit quarter-on-quarter things slowly coming back. And Q2 was minus 24% as you know and Q3 was minus 15%. And Q4, despite the sharp impact of the second wave, was flat. So the impact of the second wave of the pandemic didn't deteriorate the numbers further. And so we took that as a positive sign as we now move forward into the first quarter of 2021. And I think that's an indication that the world is – the medical world is beginning to deal with the medical side of the pandemic better, but also ourselves and our peer group in terms of supply chain and customers are beginning to find new ways of carrying on with doing business despite the pandemic. So we are looking forward in a healthier way, but not relying upon overnight return to growth levels. Yes, of course, we have SEK 8 billion in our sight to return to a pre-COVID level as soon as we possibly can. But that will need the market to support that. But as Bodil says, we don't say we're going to be at SEK 8 billion by such and such a date – that's not within our group chemistry and to give them out.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. Thank you. And well, just coming back to some issues that have affected other companies. And that's the sort of semiconductors and electronics, and so do see any sort of supply chain issues in that area?

Michael Wood

Chief Financial Officer, Investor Relations Contact & Secretary, Fagerhult AB

A

Yeah. We – in the Q4 report, you'll see a line in there is one of the qualitative impacts from COVID and what we see – it's quite varied, Mats, but you see across there that can be there can be challenges in cardboard for packaging, even recycle cardboard because of the amount of consumption that people like Amazon are doing for home deliveries. But there can also be sheet steel at the areas of sheet steel that goes into the fabric and the housing of [indiscernible] (00:45:17) which is the automotive industry beginning to recover. And then when you talk about semiconductors a particular question, again, it's longer lead times and some cost pressures that we see not significant on cost pressures side and quite rare, we've had experienced one only so far from one supplier, but it's more to do with the lengthening of the lead time on semiconductors. And we are now being organized to provide longer-term forecast of our supply chain to help meet that demand. So it's not – the world is talking about it. It's not overnight a very significant problem like the rare-earth oxide was in 2010 for the supply of fluorescent lamps. But it's definitely there and we're dealing with it in a good way. It is good that we have distributed manufacturing and distributed operations close to our large customer bases. But we are through the group's operations staying close to that topic. It's not – it's there but it's not effecting us significantly at this stage.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. And just a final one on while the Infrastructure there you have an reversed turn off and is that sort of a [ph] well spend (00:46:51) made cleaning up there I guess and this is sort of fully implemented that?

Michael Wood

Chief Financial Officer, Investor Relations Contact & Secretary, Fagerhult AB

A

Sure. Yeah. That was the final year of the 2020 was the final year of the earn-out relating to our Dutch acquisition of Veko in 2018. So that is now clean and clear at the moment on the group balance sheet, there's no more provision for earn-out. So that was like is a cleaning and tidying of the balance of the Veko earn-out situation. While some say now the Veko business as part of Infrastructure has been going very, very strongly during its three years with the Fagerhult Group.

Bodil Sonesson Gallon

President & Chief Executive Officer, Fagerhult AB

A

Yes, I think – I think that's an important conclusion. It's been a successful acquisition.

Michael Wood

Chief Financial Officer, Investor Relations Contact & Secretary, Fagerhult AB

A

Yeah.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, great. Thanks a lot.

Michael Wood

Chief Financial Officer, Investor Relations Contact & Secretary, Fagerhult AB

A

Thank you, Mats.

Operator: No further questions are present. [Operator Instructions] As we have no further questions, I'll hand back to the management team for closing.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Oh, thank you, Adam. And then thanks. Thank you everyone for joining the conference call and the webcast and today's presentation. And we hope to see you again at our Q1 presentation which will be on the April 29. So again, a big thank you for today.

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