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# Fagerhult AB (FAG.SE)

Q4 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection,  
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## OTHER PARTICIPANTS

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello, and welcome to the Fagerhult Group Year End Report 2021. My name is Lauren, and I will be coordinating your call today. There will be an opportunity for questions at the end of the presentation. [Operator Instructions]

I will now hand you over to host, Michael Brüer, to begin. Michael, please go ahead.

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**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

Thank you, Lauren, and hello, everyone, and welcome to our presentation of Fagerhult Group's Q4 and full year results for 2021. My name is Michael Brüer, responsible for Strategy and Communications at 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. The presentation will be outlined like our previous calls. Bodil will start with a brief update of our Q4 and year to-date numbers. Following the financials, Bodil will also give an update on our business model and the new structure we implemented last year, including a brief introduction to our business areas. 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 for questions from the conference call, and then, we will allow for questions from the webcast. So, if you would like to post questions in the web, please do so in the chat window on your screen, and I will read them up. 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 you, Bodil, and please go ahead.

## Bodil Sonesson Gallon

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

Thank you, Michael, and welcome, everyone. And as Michael said, I would start with a short summary of Q4. But before I start, I just want to make a very quick comment with regards to today's sad news from Ukraine and also the impact it has on us. To give you an overview, we have no local presence in Ukraine. We have two businesses in Russia, which is one sales office for Fagerhults and one for iGuzzini.

For the group, we have less than 2% of our sales in Russia. But having said that, it's minor from a sales perspective to us. But of course, we think about our employees and of course we care about them. So, our thoughts go to them. And we will and we are already and have been for quite a few weeks, of course, closely following the situations. And we will follow Swedish and European guidelines for how to deal with the situation going forward.

So, then I will go back to Q4 and a little bit more of a positive tone. And we had again very good order intake and we end the year with an all-time high order backlog of SEK 1.89 billion. So, we've seen increased market activities in all our major markets and very well spread over the different business areas. I said in the last reporting for Q3 that we were back to almost normal working conditions on the commercial side. And even with Omicron present around us, we have kept to a higher safe activity than earlier in the year, especially, of course, in our local company operations.

The negative part is, unfortunately, as the impact of the supply chain continues and will continue, and we have not seen the end of it yet. The fourth quarter impact by these challenges were higher than anticipated. And we determine that we had SEK 107 million that could not be delivered in the quarter, which is SEK 40 million more than the last quarter.

So, that shows that the challenges are getting a bit bigger on the supply chain. And the biggest – currently the biggest challenge we have is on the electronics side and we continue to do our utmost to keep our service levels to our customers, which demands a lot of work internally and the situation will continue to be unpredictable.

Having said that, though we see continue to see very healthy margins, thanks to increased market activities and a good cost control. And we worked with these activities all over the year in 2020 and 2021. So, that enables us to again deliver a strong EBIT number for the quarter.

We continue our work on the sustainability side in the group. And we have done extensive work in identifying our baseline both Scope 1, 2 and 3 in one of our business areas. And we will continue with this work in the remaining three business areas during the spring. And this means that we can set concrete and measurable targets towards – against the baseline. And our ambition is to communicate this to you on a Capital Markets Day end of August. And we will, of course, come back with invitations to that Capital Markets Day in due time.

On the connectivity side, we also continue to see strong interest from the market and a good uptake of our latest launch sensors from Organic Response. As you know, this is also an important part of our sustainability offering because with connected solutions, lighting is only used when needed, which has a big impact on the energy use and the climate impact. So, we're also in the process of strengthening the team and we're currently looking for a full time CTO heading up our connectivity initiatives to be able to further accelerate them.

If we then look into Q4 and figures, I would say they're all positive numbers. We have increased order intake with 15.8% organically in the quarter and net sales with 6.9% organically. We add then the SEK 107 million that we weren't able to get out because of the supply chain challenges, that number would have been over 13%. And the

EBIT we reached was SEK 161.1 million, which represents an 8.9% EBIT margin. And a year ago, that EBIT number was 7.9%. And Michael will come back with a lot of more details later on in the presentation.

If we instead look at the full-year numbers, there is of course, a very clear improvement compared to last year. Order intake for the full year increased with 13% organically. So, a number we're happy about that, and that's leading to the strong order backlog that I would say, SEK 1.89 billion, which is up 49% compared to beginning of last year. And net sales increased with 7.4% organically. And EBIT, as I said, substantially improved from SEK 442 million last year to SEK 706 million this year, which is an increase with 60% compared to 2020. And we are again, that's double digit operating margin levels for the full year. There has been a lot of hard work done by many in the organization in both lowering cost levels and increasing industrial margins in the challenging external conditions. And of course, the strong results also lead to a very good bounce back in EPS, increasing from SEK 0.73 to SEK 2.64.

So, that was a very quick update on the financials. And as Michael said, today, we want to focus on our business areas. As we are getting a lot of questions about them and since we did this organizational change, we did on March 1, 2020, we have had very limited occasions to meet you face to face to present them and also the why behind them. So, if anything remains unclear after today's presentation, please don't hesitate to raise the question later on.

So, the change in our organization was the result of the numerous good acquisitions that we've done over the past two years, and we now wanted to make sure to better capture the market growth opportunities to better and closer collaboration. And I think this became even more obvious after the acquisition of iGuzzini that gave us a true global footprint and access to a stronger stakeholder network of architects and lighting designers all around the world.

That also meant that when we outlined the organization, we wanted to base it in the market. So, we used the so-called outside in prospecting started with the markets and looking at similarities and opportunities for collaboration and growth. And the different parameters we considered was common customer segments, stakeholders, and geographical markets.

One additional benefit of this organization is also when we look at potential future acquisitions. There is already clear structure in place where they belong and contribute to one of the business areas. Then, we've been speaking about before that we have a few common group initiatives, which I wouldn't highlight too much today with connectivity, sustainability, and people and culture. We also cooperate in many other group-wide initiatives that we call forums, for example, within purchasing, finance, and innovation. But that is, however, nothing new and it's been a successful working model for us for many years. So, we will continue on that.

So, then let's move over to the third business area being Collection. And I think a very common saying is that a picture says more than 1,000 words. And therefore, we have chosen to give you a lot of pictures in this slide as we believe what is for us evident, when we think about the different businesses, hopefully will give you a sentiment of what kind of brands are in the different business areas.

All of our brands are quality lighting brands. We do not do low end products. And as you call – and as you know, everything is produced in our own factories close to our markets. And we do a lot of so-called bespoke lighting solutions, customized to specific customers.

The brands in Collections, as I hope you can see in the pictures, are our most high end brands. And if you look at the map, it's highlighting in dark, where you have our own local presence. And in other parts of the world, we are

represented by partners because the Collection business is very much of a global business. We do both outdoor and indoor lighting within Collection. And we are, for example, number one in Europe in urban landscape lighting, which means that we are contributing a lot in making our cities more beautiful.

So, Collection works with several high end segments, cultures, hospitality, high end residential, urban landscape and high end offices. The stakeholders are the global community of architects and lighting designers. This means that very often we are involved very early in the project and all the way through, which gives long stake cycles and also very strongly specified projects.

There are many growth opportunities within Collection. We have two German brands, one Scandinavian and one Italian, with slightly different focus and own design languages, which gives complementary product portfolios. We also have different geographical footprint between brands, which we can use to grow into new markets.

The main opportunity is to become much more successful in North America, where we today have three brands presence. And we have started this work, and as you might remember, iGuzzini acquired the remaining part [indiscernible] (00:12:21) part of our North American partners [indiscernible] (00:12:24) looks in the last quarter. So we will continue our growth from there.

And now, I will hand over to Michael to give you a short financial update for Collection for Q4.

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## Michael Wood

*Chief Financial Officer, Fagerhult AB*

Hello and good afternoon. So, very briefly then, for business area Collection for the fourth quarter. The business area continues, as you can see, to deliver strong organic order intake growth, plus 25% in the quarter, and plus 14% for the full year. This growth is slowly – and I use the word slowly deliberately – slowly increasing the net sales with plus 9.3% organic growth in net sales in the quarter, which, as Bodil mentioned earlier on, have been affected by the supply chain challenges. And in business area Collection, it was SEK 49 million of an impact.

And you need to work out for yourselves what that would have given in organic growth in business area Collection and we've been able to deliver that. Of significance, what I'd like to point out is the full year operating profits have more than doubled in the business area. And margins have increased from 3.2% in 2020 to over – sorry, to 7.6% in 2021. So, a very good, strong recovery from what we had in the year 2020 in business area collection.

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## Bodil Sonesson Gallon

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

So, then let's look at Premium. And as the name indicates, Premium is also high quality lighting solutions, but with a very different focus in segments and geographical coverage. The two brands are Fagerhult and LTS, which have their home base in Sweden and Germany in all countries on the map, Fagerhult holds or LTS have their own sales companies that focusing on selling the two brands, which means a strong presence in the Nordic and Western Europe. The focus segments, as you can see on the pictures, are office, health care, retail, and outdoor in some parts of the area.

The business area also has a close cooperation with many large retailers, which we work and serve globally. The stakeholder focus is also here in lighting designers with a strong focus on the good light brings a difference for us as users. We're also working with high tech digital knowledge in close cooperation with electrical consultants and with a strong focus towards easy installation for the installer community.

What brings opportunities here is that in many of the countries we have so far only had focused on one or two segments and have still not started proactively working with other segments. The most obvious example here is Germany where LTS has a very strong retail portfolio and good presence. Fagerhult has a strong offering in office lighting, but is not selling anything to the German office market today. The work is undergoing how to best collaborate to capture this opportunity. And as you might have heard before, the German market for office lighting is the biggest in Europe.

So, then over to the financial picture for Q4.

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## Michael Wood

*Chief Financial Officer, Fagerhult AB*

Okay. Obviously a slightly different delivery today for – with the business area of focus. We're happy to talk about business area Premium. In the business area for the fourth quarter, we report a 16% organic growth in order intake and 13% for the full year. Profitability is consistently good, it remains strong and the quarterly trend, as you can see, has been very positive for the last two years. And with that, up 14.9% operating margin in the quarter, the business area is clearly leading the way. For the full year, profits have increased to 47% in business area Premium.

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## Bodil Sonesson Gallon

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

Okay. Then, let's move over to Professional. And business area Professional is a little bit different from the other ones, as they have a very strong national focus. And in the businesses we're having today, they are present in the UK, Turkey and Australia. And all of them has main focus on indoor products.

That means that their cooperation possibilities are difference less from direct sales corporation into different international markets and more from sharing best practices, incorporate different initiatives that could be around market understanding or different segments. As you see there, you can see from the pictures, all of the [indiscernible] (00:17:15) are very strong in healthcare. And therefore they can also share product ideas or R&D initiatives where one is licensing products from the other one and then produce it locally.

An example of such an initiative has been the work and strengthened their position on sustainability and how to develop solutions that are cradle to cradle-certified. So in that way, we can make the move much quicker. And we can see in some of the pictures they have in common that they're strong in the same market segments, which I mentioned healthcare, but also office and education. And they also work more – and they work towards the same stakeholders being a little bit different from premium, also electrical consultants, but a lot with construction companies directly again. So, then look at their financial position for Q4 as well.

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## Michael Wood

*Chief Financial Officer, Fagerhult AB*

Okay. Professional covering Arlight in Turkey, Eagle Lighting in Australia, and Whitecroft Lighting in the north of the UK. But the key metrics in the fourth quarter, that I'm not going to go through because they are very similar to the full year. So, I prefer to give you full year where all three businesses contribute to an 18% full-year organic order intake growth, combined with a 25% organic net sales growth and a fairly significant under the 78% increase in in profitability. The full-year operating margin, again, in the business area Professional more than doubled from 3.7% to 8.4%. And what we would like to point out here, as well as a comment that's equally as relevant to the other business areas is, during 2021, we saw a much improved consistency and predictability with

the quarterly results coming through, not only from professional but from also [indiscernible] (00:19:10) business areas in the group.

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## Bodil Sonesson Gallon

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

And with that, we come to the sourced business area, which is infrastructure that has a clear focus on Northern and Middle Europe, which are the respective home countries of the brands, Finland, the UK, and Netherlands. And they also have their own sales organization in Germany and Sweden. Sometimes they follow their customers from the home countries around the world in specific competent segments like paper mills and heavy industry. The name of the business area infrastructure is very well describing the customer segment. As you can see on the picture, being critical infrastructure, industry and distribution, very different from what we saw from Collection. Veko also has a specific product solution for the healthy culture of market in the Netherlands. The great opportunities exist here in all segments and in all markets. Some of the initial focus areas of cooperation is that the range of Ivalo and Veko has very complementary product ranges. For example, in the industry, the Ivalo product solutions will be used for the heavier industrial site and Veko more on the logistics side, but they can very well go into the same customers. Therefore, we've also decided – and Ivalo had started to sell Veko Solutions in Finland, and both companies had together invested in sales resources in Sweden.

So, with both words and pictures, I hope we've been able to – gave you a better view of the why we went for the business area structure, their different market focus and markets – geographical markets as well some of their growth opportunities.

So, with that, let's look at the numbers for Infrastructure as well.

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## Michael Wood

*Chief Financial Officer, Fagerhult AB*

Okay. Finally, our last but not least business area, Infrastructure, has grown well in two years. Despite COVID and the supply chain difficulties in 2021, the business area grew organically order intake almost 5 percentage points and remind us that this also was on top of the 10-percentage point growth in 2020. Business area Infrastructure was the one business area that continued to go forward during the COVID year 2020 unlike the other three business areas. So, it's year-on-year growth that we see in business area Infrastructure.

The operating results, you can see the line on the chart to the right-hand side, is very consistent and reliable. However, note the spike in the middle was the release and the reverse of an accrual for a non-earned earn-out in Q4 2020 related to the vehicle business. This sum of money was SEK 41 million Swedish as a one-off adjustment. Other than that, very consistent, very reliable EBIT stream coming through from business area infrastructure.

Okay. I should carry on now with a little bit more detail on some of the financial side. First of all, let me say we are pleased with the results that we delivered not only during the fourth quarter, but also for the full year. We operate in difficult times, times which are made more difficult from many external events, from COVID and supply chain to geopolitical aspects, [indiscernible] (00:22:44) true than where we are today as Bodil has already mentioned.

The recovery continues to make good progress. However, on a positive note during 2022, we shall no longer use the word recovery in our description as this has negative connotations. So, we prefer to use the words continued growth and development of the results of the Fagerhult Group. That's an indication of how we see the group now moving forward.

Turning to the numbers. First of all, just to remind us that I communicate that the net profit and earnings per share for 2020 Q4 and full year 2020 have been adjusted because of the significant impact of the Italian tax decree that we took advantage of during Q4 2020. We now view the numbers here on a lot more like-for-like basis with each other.

The quarterly organic net sales grew 6.9%, which would have been in excess of 13%, both for the supply chain and up 13%. This is much more in line with what we achieved in order intake. Despite the supply chain difficulties and the dark winter months of the fourth quarter, it was the second highest net sales performance during 2021.

The operating profit of just over SEK 161 million delivered 8.9% margin, contributing for the full year rolling 12 months double-digit or 10.0 percentage points. The quarterly operating margin would have been in excess of 11 percentage points but for the drop through that we lost from the supply chain challenges. Earnings per share operating cash flow, I'll come back to a little bit later on in a slide or two's time.

Looking at sales development, it's clear to see the development in the rolling 12 months net sales is clear to see. We are on a journey to get back to pre-COVID levels and we are making good progress in that trend. As stated earlier, if this chart was looked up with regard to order intake and not net sales, we would already be back to the pre-COVID level of activity.

On the margin development, the quarterly operating margin positive is trend – sorry, the trend is positive. Of course, the fourth quarter faces some challenges especially for our businesses servicing the outdoor application areas. And furthermore, the impact of the supply chain challenges and the EBIT drop-through of the delayed sales is not insignificant. Approximately 2 to 2.5 percentage points in the fourth quarter with the effect of this. Other than that, operating margins are healthy compared to what we see on the market for large-scale luminaire manufacturers and luminaire groups.

Coming to the cash flow, good – the operating cash flow remains strongly positive. The group has a good process and a good culture for profit cash version. During the year, the group has invested in inventory levels by approximately SEK 200 million, and this was done specifically to support and service our customers during these difficult supply conditions. The cash conversion in the 2021 year was 114% of the operating profit.

For the full year, the operating cash flow at just over SEK 800 million is additional to what we generated in 2020 and 2019, both of which were in excess of SEK 1 billion. Not surprisingly – so it's positive cash generation has an impressive impact on the net debt development. And you can see there from the highest point in the chart in Q1 2019 with the acquisition of iGuzzini, we've come down now to an adjusted net debt of SEK 1.85 billion and a net debt-to-EBITDA ratio of 1.87. A reminder that this chart is presented on an adjusted basis, adjusted for acquisition and disposals, so a pro-forma basis and also ignoring the impact of IFRS 16. So, the summary here is adjusted net debt down to below SEK 2 billion, liquidity in the group is at a good level. And a balance sheet provides room for further investments.

Earnings per share, the earnings per share number, we have adjusted this chart, and we're now going to stick with this format of presentation. If you do remember it from the earlier presentations, Q4 2020 [indiscernible] (00:28:00) the adjustment took place. You can see the asterisk there on Q4 2020 and the adjustment relates to the impact of the large positive Italian tax decree, which is not from a genuine trading point of view, not particularly realistic.

So, you can see the quarterly EPS development shows a strong trend, and in the quarter, SEK 0.61 per share was significantly ahead of the SEK 0.28 from 2020. And for the full year, a strong recovery to SEK 2.64 per share, which is more than a factor of times three the earlier year. Our ambitions here, of course, do remain at a higher level.

Before handing back to Bodil for closing and Q&A, a quick summary message from me. Order intake continues to grow. We should remember that, continues to grow strongly. The order backlog position is at an all-time high. Net sales and EBIT dropped so are temporarily affected by the supply chain. Costs levels are under control. And operating margins are healthy. And when the supply chain challenges disappear, we will be shifting from full – sorry, from recovery to full ahead growth mode.

And with that, I hand back to Bodil for summary.

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## Bodil Sonesson Gallon

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

So, I think that was actually quite a good way of summarizing it and that when we look at all the Q4 numbers, I think they were all positive compared We look at the all the Q4 numbers, I think they were positive compared to last year. So, a lot of positive and a lot of indicated in green. And also, the fact that Q4 was confirming the trend of good recovery that we've already seen in the past quarters. So I think with ending 2021, we would not mention the word recovery anymore, but we will look into the future and be positive for that side of it. And I think we can say that also when we look into 13% growth in order intake and with record-high order backlog that is very positive. And also the fact that, thanks to all the good work, thank you to all the – also all the people within the group has been doing the hard work, we have returned to a margin level of 10%.

We mentioned, of course, like everybody else, that the global supply chain challenges continue and unfortunately getting a little bit worse than they were before. And we don't see currently any changes in this until at least mid-2022. We will try to do everything we can to mitigate that. We will do every possible work for it in advance, but it will have an impact going forward as well.

We also see very good progress with our strategic initiatives. We have good collaboration regarding our sustainability and connectivity initiatives. That continue to progress according to plan. I also hope that we gave you a good picture of the business areas. And of course, with the focus on collaboration, I think we're looking very much forward to and that gives a little bit of feeling of hope that we will be able to meet more internationally. Because that's going to make it easier as well. So, we have – that's been more difficult during the COVID period. Actually, if we look this week, we had people leaving for Australia on Monday. It was the first day possible and it hasn't been possible for a long time. And we also have a big team in place next week in Montréal in Canada to start their work there. So, I think that's a positive way to end that we will be able to do more than we've been able to do the last few years.

So, with that, we will end the presentation part and open up for questions. So, I hand back to the other Michael, to see if we have any questions from the session.

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## Michael Brüer

*Chief Strategy & Communication Officer, Fagerhult AB*

Thank you, Bodil. And with that, we ask Lauren, to open up for questions from the conference call.

## QUESTION AND ANSWER SECTION

**Operator:** Of course. [Operator Instructions] Our first question comes from the line of Mats Liss from Kepler Cheuvreux. Mats, please proceed.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yeah. Hi. A couple of questions. First, I was thinking about – you've mentioned the impact of supply chain issues and so on, 2% to 2.5% on EBIT margin I thought but going forward, would you expect this to sort of ease off? And maybe also if you could include a comment there if you have been able to increase prices? So, it was more to balance the costs. So, it's less more related to the supply chain constraints, this 2% to 2.5%. Please.

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

A

Sure. Bodil is going to take the pricing comment Mats, and I will follow up with the supply chain.

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

Good. Hi, Mats. So, I will start with the pricing side of things. Yes, we have been working with price increases and I think you see that also on our Industrial margins. And that's work that was ongoing for all of last year. We don't – the way we operate, we don't do one. It's different into the different businesses and there will also be a variation into different national markets because we also see different, different inflation rates, very different inflation rates in different places.

So, we look it from it from a local perspective. Yes, there has been a lot of work ongoing. There's also been work ongoing at the beginning of the year. And I think it's something we will live with and have to work with because I don't think it's something that's going to go away in the short-term. Does that answer your question on the pricing side? Sorry, I can't give you one single number because there is no one single number. There is a lot of different numbers in the different – we will – all of the businesses working very actively with it.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yeah. Maybe I can just add that maybe I mean some of the deliveries seized or delayed now have you been able to sort of balance that in pricing in the contracts or you're affected in that sense also that maybe the costs have increased during the lead time there between order and delivery?

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

No, I wouldn't say so that that's impacting us. We've been working with where we see also quite a big part is on transportation side. So, we've been working with some special transportation parts as well. And if you – I think it is the way of looking at it is looking into our industrial margin and we see that is better. It's increased in 2021 compared to 2020. But would you see a little bit, of course, maybe some of the price increases you'll see them when you do when you work like that, you will see the effect of them coming a little bit later from when the cost increases started.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Yeah. Right.

Q

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

Okay. On the supply chain, it continues remain mix. I think Bodil mentioned earlier on, Mats, the challenges with LED electronics. So, many of the other components and materials have settled down a little bit. And we do begin to see some of the cost pressures on some of the other raw materials coming off the peak like the steel and aluminum, for example. LED electronics service and delivery remains mixed across all three largest suppliers from semiconductor availability through to COVID in the factories. There's no one common factor for all three of our largest suppliers. It is mixed. We continue to service it as well as we possibly can. I think actually we're doing a pretty good job to service our customers and project. The indications we have and [ph] warn (00:36:27) they are indications. The indications we have for Q2 and onwards into Q3 is when we can expect to see some improvement in this position.

A

So, we think we're in for – continue working hard at the problem during Q1 and then as we enter through a new through the second quarter, we should, is the words that I'm hearing, we should begin to see some, some relief from some areas of the LED electronics side.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

And I was right there. I mean, the interpretation – I already have said that 2% to 2.5% impact on the EBIT margin. Yeah.

Q

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

Yeah.

A

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Okay.

Q

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

Absolutely. The EBIT drop-through from the delayed sales would have had a 2% to 2.5% impact at that level.

A

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Sure. Good. Then I had a question – well, more like a bookkeeping or whatever you say. I – there would be some – a lot of change in the UK tax, well, taxes next year, corporate taxes. And will that affect your sort of tax level somewhat?

Q

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

A

You've probably calculated it already, Mats. You've probably done the same as looking at the Q4 effective rates of tax, which was quite low for the group. That then brought down the tax rate for the full-year 2021 to 24.5 percentage points. This was partly due to the UK situation, but also partly due to other areas around the group of good, efficient tax planning that we've been doing progressively in the last two to three years. So, we're pleased that 24.5 percentage points was the result for the full year. We're happy about the level of that and anticipate going forward to be in line with what you might expect. It's going to depend upon the mix, of course, where we generate our profits. But see, no real reason why we should expect a significant change.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Okay. And finally, I guess we experienced some high energy prices here, and you have an energy saving offer through to the customer. Do you see any sort of pick up there in the changeover to – I mean, I feel it's a pretty low level of LED-lighting solution in Europe, at least you have sort of indicated it is about a third or something like that. Do you see that since you were to pick up due to these high levels, the experience from time to time?

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

I think the combination of, I think people might – might make the people speak more about the energy side of things. There is becoming a higher awareness of it. But I think for us, otherwise, it's more long-term climate goals, which are the really important ones and the need for innovation in Europe in order to have energy-efficient buildings. But maybe that discussion is going to become more present. And I think it is already more present than it's been before about it, so. But then, to translate that into numbers is more difficult, but we hear more about it than we used to do.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Okay.

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

So, we have quite a few requests from people who wants to do retrofits in higher expense and as quick as possible.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Okay.

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

And then, from our side, we know that for us it's – what I said in the beginning, I mean, the focus on the connectivity side is extremely important. The knowledge of understanding that you can take down by using a connected solution, your energy footprint is getting down with 73%. So, the best thing people can do short term is to get it done, their energy bills, is to make sure they have sensors in their LED, but also having sensors into them.

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Okay. Thank you very much.

Q

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

What we also see is that when you – when you look into – from the industrial side, for example, when all the big companies start to look into Scope 1, 2, and 3 for science-based target, one of the easiest thing to do for a big industry is to change lightings to LED lighting. It's something that will pay us very quickly as an investment. And there, we see also more discussions that we have seen in the past, first from an industrial perspective, but also from the renovation of normal building.

A

**Mats Liss**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Great. Thank you.

Q

**Operator:** We currently have no further questions on the telephone line. You can now proceed with the webcast questions.

**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

Good. So, let's continue with questions from the webcast. I think we have answered a few already, but we'll have one more in the bookkeeping type here with [indiscernible] (00:42:04) the positive figure on the line cash flow from investment activities, which is SEK 58.9 million.

A

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

Sure. Okay. It is an easy explanation. And it does relate to the moneys that we paid for the 30% acquisition of the Sistemalux minority share, and it has been after consultation with TWC, it has been a reclassification in the two lines cash flow from financing activities and cash flow from the investing activities.

A

So, SEK 129 million has been taken from investing activities to making it a positive in the quarter and then put to cash flow from financing activities in that same quarter making that SEK 290 million negative from the SEK 129 million reclassification from the line above. So, nothing magical about it, just the reclassification from the line just on top of it.

**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

Good. And then we have one last question more from a business perspective regarding the large iGuzzini acquisition, which was now then three years ago. And how is it going compared to what you expected?

A

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

I've spent a lot of time in Italy during this last few years, even though less during the COVID period. And I would say that also whether we look from a general people's perspective, from a financial perspective, I think we have

A

been – it's been a very successful. I wouldn't call it integration because it's not. But they're very well integrated into the group today.

I think there is also been a lot of activities and changes in iGuzzini. There has been a lot of transformation. So, there is a new management team in place who's working very closely together and is now been working through during the last two years. I think also one of the other part is, when I was there last time, they have a very high level of activity on the innovation, which is what we expected from them. But I think it's even more than the expectations, which is very good for us as well.

So, I would say, all in all, a lot of positives. Good team. A strong culture that fits well into the Fagerhult group culture and a very proactive agenda for the future. So, I'm very happy with the – that we did the acquisition of iGuzzini. And also as I said before in the Collection team, it's added on a global network for us, both the geographical footprint but also from the stakeholders in terms of many relationships and contacts still over years with the very well-known architects and lighting designers.

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**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

A

And I think we've got much to learn from each other. So, the acquisition bring into the group of our Italian colleagues. They'll be learnings for our Italian colleagues but we'll also be learnings for the people that exist in the group before the acquisition of iGuzzini. You would expect that to be so given it was such a large acquisition with its own practices and its own philosophy and its own go to market type of approach in that high-end segment. So, now, we are coming through COVID, and we can get out and about a little bit more. We do expect those learnings to begin to accelerate.

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**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

And my Italian is getting much better.

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**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

A

And just one last question just came in here regarding organic growth, and you mentioned that you target to increase your mark – in your 2022 outlook here, you mentioned that you target to increase your market share. Can you be a bit more specific on this specific geographies or segments?

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**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

I think I mentioned a few. When you look upon it, I think it's depending on the different segments. It's a combination of segments in national markets. And so, we saw – for example, we worked very well in retail in 2021, and we will see that continue then from a national group – national market's perspective, I was saying much more work to do in Germany. And also long term, we see, as I've mentioned, North America as one market where we can do much more than we're doing today. And then it's in all the different business areas. There's opportunities in all of them. So, it would be a pity to highlight only a few. Anything to add, Michael?

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**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

A

No. I think it's not a general comment that we make.

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

A

Yeah.

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

A

It's that we don't do general sort of stuff. We are very specific in what we set about doing. And there are a list of maybe six or seven core key strategic projects for us where we do seek to increase our market share. So, some is growing what we've already got for some good reasons. And then, some are – where we have a little bit of a white spot in terms of our activity level, but we've got super brands to take advantage of that. And now, with the global footprints that we now have, we're putting processes together to capitalize on that.

So, behind the comment, there's a whole big list of activities within the businesses and the business areas that were set about working upon. Should get easier as [indiscernible] (00:48:01) life should be getting easier with regard to COVID slowly ebbing away. Hopefully, the troubles that we experienced this morning are all short term for them, but we don't know that.

**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

A

Great. Thank you. And with that, we are done with the questions. So yes, before we end, any last reflections from your side, Bodil?

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

Maybe repeat a little bit, but I think that's good as well. So, I would say, another good quarter. Last time we speak about recovery, but it was a recovery in 2021, and we entered the year with a very good order intake, record-high order backlog, and many financial indicators being green. We, of course, also have a very strong focus in doing outmost of dealing with the supply chain challenges. And I would say, in general, I look very much forward to 2022. So, in our spirits and what we see happening in the organization, many projects going in the right direction.

**Michael Brüer**

*Chief Strategy & Communication Officer, Fagerhult AB*

Good. So, thank you, everyone, for joining today's conference call and cheerful presentation. We hope to see you again at our Q1 presentation on April 26. So, again, thank you for today.

**Michael Wood**

*Chief Financial Officer, Fagerhult AB*

Thank you.

**Bodil Sonesson Gallon**

*President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB*

Yeah. Thank you, everyone.

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

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