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Fagerhult Group AB (FAG.SE)

Q1 2024 Earnings Call

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Fagerhult Group AB Q1 Report 2024. For the first part of the conference call, the participants will be in listen-only mode. [Operator Instructions]

Now, I will hand the conference over to Magnus Haegermark, Head of M.

Unverified Participant

Thank you. And hello, everyone. Welcome to the presentation of Fagerhult Group's first quarter results for 2024. My name is Magnus Haegermark and I am the Head of Mergers and Acquisitions here at Fagerhult Group. 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 first quarter. Modil will then continue to update us on some strategic highlights and innovations launched during the quarter. After that, Michael will follow up with more details about the performance of the group, and Bodil will conclude with a brief recap. And afterwards, we will open up for questions. We will first allow questions from the conference call. Then, we will allow for questions from the webcast. You can post questions in the chat window on your screen and I will read them to Bodil and Michael.

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

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

Unverified Participant

Okay. Thank you, Magnus, and welcome, everyone, to this Q1 2024 webcast. So, the first quarter was a good quarter for us and the third strongest net sales that we have ever delivered. So, we continue to see megatrends supporting our strategy with updated EU directives with regards to the so-called European Energy Performance of Buildings Directive. When update, was voted in Parliament in March. I'll give you a brief update on this – of this. And of course, the main goal of all these directives is to renovate Europe. And this is very much in line with our focus on renovation and retrofit, where we see continued development and we expect that this will increase as awareness races and legislation becomes national.

New build activity remained subdued, although we see some positive signs and a big variation in geographic areas. Also confirming this is that we had a solid order intake growth in both collection and premium business areas. Professional, Infrastructure had tough comparative numbers from last year where Q1 2023 was a combined 26% higher than the annual quarterly average. We also saw positive development of gross profit margin in all of our four business areas. The focus remained pricing management, and now also turns to material cost reductions. Innovation activities with launch of circular products remains high. And I will present you an example today from atelje Lyktan call, the Superdupertube, which is a truly sustainable product and even compostable, base material in the product housing is [indiscernible] .

We have also published our sustainability report during the quarter and we continue to make progress and we reduced carbon emissions overall, including both Scope 1, 2, and 3 in 2023 with 24% compared to baseline year being 2021. And we have reduced Scope 1 and 2 since our baseline year with 39%. As an example in the Scope 1 and 2, we have increased our use of renewable energy to 75% in our own operations. We have increased the solar park of iGuzzini factory in Recanati to 10,500 solar panels, and that cover approximately 55% of our own energy needs at the site.

So let's have a brief look at the numbers. An order intake in Q1 was SEK 2.1 billion Swedish, which represents an organic decline of 3.3%. The two main reasons for the decline is related to that we had big projects in the same quarter last year and the Easter effect that slowed down the order intake at the end of the quarter. We've seen the levels coming back at the beginning of April in a good way. The net sales declined with 2.2%, and in numbers we achieved SEK 2.180 billion. And in EBIT numbers, we delivered SEK 220 million with a 10.1 EBIT margin. And earnings per share was SEK 0.78. And in the first quarter, still impact by the financial cost. And we expect this being neutral going forward.

So, in our quarter reporting every quarter, as you know, we give a flavor of our strategic group focus areas. And today's focus will be a different part of our sustainability agenda. And as you know, this is an integral part of our business strategy. When sustainability and business goes hand in hand, it becomes a win-win situation and gives a very clear direction for the business. So, this time, I will give you an update how the regulation in Europe continues to evolve and is supportive to our strategic direction in the aspects of renovation and smart lighting. I will also give an understanding of how the EU taxonomy works with regards to the lighting industry. And I will mention a few of the renovation and refurbishment business models we work with in the different brands with the goal of taking us towards circular business model.

I will end by presenting another great example of sustainable innovation in the group. And this time from atelje Lyktan. And as you know, we have a global presence with our 12 lighting brands and two smart lighting beds. So we cover almost all professional lighting markets with sales into 10 professional customer segments or application areas, as we call them, everything from office, critical infrastructure, urban spaces, hospitality culture, etcetera.

So, we mentioned briefly in the last webcast call the EU Energy Performance of Buildings Directive that was published in December 2023. And its goal is to promote improvement of the energy performance of buildings within the EU to reach net zero by 2050 and Member States must incorporate this changes into their national legislation not later than spring in 2026. It's up to each EU country to make a national transition in line with the directive or sooner. And if we look at the buildings in Europe, it's the single largest energy consumer and it's 85 EU's non-residential buildings were built before year 2000 and that is around 220 million buildings. And among these, 75 had a poor energy performance. So, acting on the energy efficiency of building is, therefore, key to saving energy and achieving a zero emission, and a fully decarbonized building stock by 2050, particularly for the worst performing buildings in each country.

And this time, what is new in this directive that we haven't seen before is that EU is particularly pointing at smart lighting to be part of the solution. For example, the directive says light should communicate with relevant connected technical building systems. And this was voted in the parliament on the 12th of March. And that means it's both approved in Parliament and in the EU Council. And the updated mandate calculates and reports buildings carbon footprint. And it's a significant expansion from the former directives. So, it starts with buildings exceeding 1,000 square meters in 2028 and includes all buildings in 2030. So, it includes zero-emission targets for new buildings. And there is a lot of different initiatives in renovation as well. So, the next step is publication in the official journal. And then, it enters into force. And as I said, national legislation at the latest in spring 2026.

So we have – we've spoken about this before. Here, we mention a few. So we have launched several renovation and refurbishment concepts around the group to develop our circular business model. And it's perfectly in line with this new European legislation. So, we renew, we reuse and rebuild existing lighting solutions, and then we always add smart lighting to optimize energy efficiency, decrease carbon and get use of the latest lighting technology. So we have an advantage with our local presence close to the customers and we have an effective low carbon footprint reduction which is experienced to work with customer specific solution, which is crucial in renovation.

So, on the slide, you can see examples from four of the different brands. The first one is called Second Life from ateljé Lyktan. We work with the out-of-frame and most of the components are preserved, but the inside is filled with new technology. And in [indiscernible], the renovation concept is called [ph] Vitality Real Life and [indiscernible] is focusing on the UK market and the numbers in the UK and legislation is very similar to Europe. And [indiscernible] the concept is called ReFurbish. And when refurbishing, we always make sure that we install smart lighting from organic response to optimize the energy efficiencies. In addition to renovation, we also do so-called retrofit where we keep the housing and only change the electrical – electronic components inside. For example, the [indiscernible] a lot of this as their customers often operates in an environment where renovation is time critical, like train stations offices. The different concept for us is also a way to educate the customer so that they know that it's possible to renovate their lighting solutions for better energy optimization and carbon footprint. And we can see that this is gaining traction.

So let's look at the exciting topic of the EU taxonomy. So, we have listed the explanation behind our taxonomy numbers and what makes the revenue aligned or not. And we have a high part which is eligible 86%, which is normal being part of the energy sector. We can be aligned in two ways, either by being part of the highest energy classes, A or B, or as a second alternative, using smart lighting. And in 2023, we were aligned to 7.2%, up from 5% the year before, which is mainly thanks to increase in our sales of smart lighting. But with regards to energy classes from A to G, we have an industry view as it's measured in what's called [indiscernible], which is a large database set up and operated by the European Commission, aimed at making information about the energy performance of the different models of household appliances. So, the same mechanist, as we all know from our dishwashers or our washing machines.

And in the [indiscernible] database, the measure is not lighting solutions, but the light source. And just over 1% of all light sources are in the top two energy classes, A and B. That means that the share of sustainable or aligned turnover is low in industry, which also applies to us. If you instead look at our split in the different energy classes, this is the picture you get. So, Fagerhult Group has a favorable breakdown in the other energy classes, C to G, compared to the industry light source market, as you can see on the slide, which indicates that our solutions are generally more energy efficient than the market average. But integrated motion and daylight controls are one of the aligned criterias.

So, our interpretation here, as you know, is very simple and direct. We are aiming towards 100% implementation of sensors in all our luminaires by 2030, which will gradually drive our alignment in the taxonomy, and more importantly, drive towards smart lighting solutions that contribute to 90% energy efficiency. And we, of course, also work with improving the energy classes. But there are many factors to take into consideration when doing this.

Solutions in energy class A and B are difficult to achieve with the technologies that are in the market today. And this is mainly because of the energy labeling is based on the light output from the LED chip itself. And it's simply a matter of amount of light. And to do good lighting quality, there are many other parameters that are important, like distribution of light, avoiding glare. In addition, we consider product lifetime. We consider color rendering and color temperature. And all of this together make an agreeable light quality for all of us. If we would use Class A in

our lighting, you get a very cold white bright lights. If you want a better more comfortable light for us as users, you lose a little bit in energy efficiency and therefore in energy class. So, very few led chips used by professional lighting manufacturers are, for the time being, available in class A and B.

So, for us, taxonomy is in one aspect, but only one aspect. It does not consider all sustainability topics or very importantly, the quality of light to the user. So, I hope that gave you a little bit of the overview to understand taxonomy from the lighting industry, because I know you need to understand it in many different industries.

So, with that, I'll move to sustainable product that I mentioned, and I'm very proud to present it. It's a new product called the Superdupertube, and you can see it on the picture, and I would call it this is more than an evolution of our classic luminaire, which was called the Supertube, the Superdupertube, which represents in many, many ways our commitment to sustainable and material exploration. Just as the Supertube in the 1970s was groundbreaking for its time, the Superdupertube is a tool for navigating towards circular economy. We've developed it together with the Norwegian architectural firm [indiscernible], and we have refined every aspect of the product from design to manufacturing, to minimize its environmental footprint. And we have carefully considered every step in the lifecycle from raw materials to recycling. And the Superdupertube represents collaboration between sustainability and technological innovation.

The main profile and LED profile are made of extruded biobased polymer, where the [indiscernible] are made of injection molded biobased polymer and the base material of the product is [indiscernible]. The luminaire housing has 73% lower carbon footprint compared to the equivalent in aluminum. And of course, it includes organic response sensors. For those of you who have a design interest, you'll find much more information and sense in the medium. And at the atelje Lyktan websites, you can read about the discovery journey or finding the good [indiscernible] materials and much more of the full process of the development process.

So, with the picture this time from the Philharmonie underground station in Athens that has been renovated with lighting from [indiscernible], I will hand over to Michael and the thorough financial [indiscernible].

Unverified Participant

Good morning. Thank you, Bodil. And a very good morning to all our guests from me as well. The group closed out 2023 in a good way. We have started 2024 also in a good and strong way. Confidence remains high across the Fagerhult Group. The impact from the Easter period was unfortunately early in the year as it disturbed the comparables with 2023 and those comparables, as Bodil has already mentioned, were high to start off with. Despite the Easter impact, we were pleased with order – organic order intake growth in our two largest business areas collection and premium, and the value of large projects in the prior year Q1 in both professional and infrastructure proved difficult to overcome. Let us see what the second quarter brings without an impact from Easter in the current year.

The high comparable numbers from Q1 last year included the final five to six weeks of the supply chain correction and order backlog capture. But on saying that, the net sales of almost SEK 2.2 billion is a strong result and is the group's third highest ever quarter. It was only beaten in Q4 2022 and Q1 2023, which included the more than SEK 500 million order backlog capture. We see a shortening of customer lead time expectations, and therefore, the impact on placement of orders. In a good way, the group is – has a strong ability to deliver on shorter lead times to meet these customer expectations and our decentralized operating model performs well.

The opportunities for growth in renovation and retrofit remain larger than the somewhat subdued new build activity. However, on a positive note, in the new build activity market, we do see some early positive signs. So perhaps the market has now passed low point in this segment. The group's brands continue to respond very well to the previous reported cost pressures in the supply chain. And we have continued gross margin development, as Bodil says, in all four business areas. Actions remain high and in focus on intelligent pricing, smart portfolio decisions and product mix management. Looking forward, we shall continue our focus here.

The operating profit of SEK 220 million delivers a strong 10.1% margin and is in fact the second highest Q1 operating margin in the last six years. Q1 2023 was obviously boosted by the higher net sales. The impact of higher interest expenses begins to neutralize and even reduce as the drop through to net profit improves versus 2023. On the interest expense side, we continued our focus on cash flow and net debt reduction and so we expect the interest expense to be somewhat lower in 2024.

Looking at the longer term development of sales, it's clear here to see the order backlog catch-up period in the middle right-hand side of the chart and we are pleased with the sales growth over the longer term as shown by the chart, looking from the very left-hand side to the very right-hand side. The rolling 12-month net sales remains above SEK 8.5 billion. And we look to develop this further in coming years, both organically and through M&A.

The margin development – the first quarter operating margin developed well, as commented above. In fact, 2024 is the first time here you see a double-digit operating margin in the first quarter. And this is mainly as a result of intelligent pricing and portfolio management. The group is consistently delivering 10% or higher operating margin for more than the last three years. And as a reminder, this is a clean and unadjusted number. It shows the robustness of the group to adapt to change. It shows the decentralized operating model to be ideally suited to a world full of challenges. And it shows that we do move with speed.

Coming to collection, business area collection has developed order intake well in the last nine months, with almost 3% organic growth in the first quarter, adding to the 8.3% growth in the second half of 2023. However, that is not the whole story I would like to report. We also see a record level operating in the first quarter at 10.7%. The gross profit margin continue to develop well with a positive impact at the operating margin. As you can see, we continue to demonstrate our portfolio reach by winning some great projects.

Turning to premium, business area premium continues its steady growth trend or organic order intake growth was also almost 3% in the quarter. Net sales dipped a little bit due to the Easter impact and a slightly less demand for deliveries from customers on some existing projects. And this did have a little bit of an impact on the operating margin and we continue to invest. Remember, business area premium hosts the organic response smart lighting technology business where smart lighting investments remain at a good level. At almost 13%, however, margins remain at the high end of the performance level. The business area has the highest share of net sales in smart lighting, approaching almost 15%. And this grows well since last year.

Coming to professional. In the first quarter of 2023, the business area secured over SEK 100 million – SEK 101 million that came out of three very large projects. So, the comparables was always going to be tough. The business area is steadily returning to higher operating margins, and of course, seasonality plays a part in this business area where all of the three businesses operate almost entirely in that country of residence. The first quarter operating margin of 7.1 compares very favorably to the 3.7% from last year. And there is room for further development here.

All lines, factory relocation that we reported on last time has been completed. This had a little bit of an impact on the sales – lower sales levels from our Turkish base business in Q1. But the order intake is significantly ahead in

[indiscernible] light. And the order book is – the order backlog is at a good position and we expect a much improved Q2 for [indiscernible]. All three businesses are heavily engaged in winning projects with a strong energy renovation smart lighting theme and the projects that you see mentioned here are just two examples of this in the quarter.

Lastly, on the business area slide detail, we come to infrastructure. The business area infrastructure, we see a little softening of the demand in the distribution and warehousing segments at the moment. We do consider this a short-term situation because the inquiry and quotation level does remain quite high. The work on specification activities in the German railway segment makes good progress with design plan. And here you can see the securing of the program for a large railway station roof rollout program converting to LED. At [indiscernible], we do really look forward to the receipt of the orders and the delivery of 34 kilometers of lighting where we have been specified.

Cash flow. During the quarter, the cash flow continued to be positive, making eight successive quarters of positive operating cash flow. We continue to carry a lower net debt and the net debt EBITDA ratio is just over 1.8. Net debt development, including the impact of IFRS 16, which is SEK 735 million, we do report a lower net debt of SEK 2,467 million and a net debt EBITDA ratio of 1.86. Adjusting for IFRS 16, the net debt is, of course, still lower now SEK 1.7 billion on our old [ph] money type of basis. The strong positive trend is clear to see and the good work and focus on working capital management and cash generating activities will continue and we do expect to put our cash to good use. The second quarter, of course, we'll see the payout of the dividend.

Looking to earnings per share. The EPS, earnings per share, continues to be impacted by the higher interest expense. But as previously commented, the impact is now becoming neutralized and we expect lower levels of interest expense in coming quarters with the lower net debt. We continue to take mitigation steps for 2024 and beyond with a strong focus on cash generation and loan portfolio management.

Before handing back to Bodil, for closing comments and Q&A session, just a short summary message from myself. For many reasons, we do and we continue with a good start to 2024 and we're in a good, strong position. The Easter impact was unfortunate, but we continued the order intake growth in our two largest business areas. Both gross and net margins continue to develop well. And we have a clear strategic focus.

Thank you for listening. And with that, I hand back to Bodil.

Unverified Participant

Okay. For a quick conclusion and recap for first quarter of 2024 was that it was a good performance in the quarter with high comparables from last year. We showed good order intake in our two biggest business areas with strong margins in all business areas and a healthy operational margin. We delivered record high margin and business are collection and strong recovery in Professional. Today, we are focused on the sustainability topic as we continue to see the renovation trend strengthen and that a high interest for smart lighting, which is balancing the fact that newbuild activity still remains subdued, but with large geographical variations. We see that the renovation trend will continue to become stronger because of the big need to renovate Europe and also supported by stronger, stricter goals in the European Building Services. We are well positioned with regards to the market trends and we will continue step by step to work towards our ambitions.

So, just before we go to questions, we like to end with some culture and I think this beautiful picture is the Whispering Gallery in St Pauls Cathedral in London, which I hope many of you have visited. So this Baroque

masterpiece by architect Sir Christopher Wren, which we all know, were installed with products from iGuzzini. This is the first phase of a program to modernize St Pauls' interior lighting that was originally installed 25 years ago, so a different type of renovation program. This main product is the iGuzzini Palco and an extra safety feature added to the gallery is a series of iGuzzini custom-made hidden emergency lights that can be used to provide low level of lighting to the floor of the gallery and highlight the exit doors in an emergency, all to keep the beauty of this place.

Unverified Participant

Thank you, Modil. With that, we ask the operator to open for questions from those on the telephone line.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Mats Liss from Kepler Cheuvreux . Please go ahead.

Q

Yeah. Hi. Thank you for taking my questions. First – couple of questions, first, well, you mentioned the energy efficient building procurement in Europe, I guess. And that this will be sort of a final approval there on the local level in 2026 at the latest. But what do you see for market demand and momentum? Well, up until then, it maybe afterwards is it sort of something that will keep the market on a lower level or you are sort of – well, customers already see this coming and they have started to make their renovation and investments needed to a full extent. If you could give some flavor there. I mean, how much do you see the opportunities of a growing market?

A

Yes. I mean, it's – of course, 2026 is two years away where I think that is when everything needs to be ready. And if you look at the targets – I mean, we haven't seen as clear targets for renovation before, the very clear deadlines on it. So even if they need to implement it in national legislation, they can't do something which is lower than what the EU is saying. I think the deadline is for 2030, which is 16% renovation rate of these – of all these buildings and in [ph] 2023, 26%. So, it is very ambitious what is coming out of the EU. And I think what we see there is the discussion, it's not finalized yet. We also see it as, I think for the first time we're speaking more about how is this going to be financed. Do they also looking into solutions for financing, for renovation, which there has been less of before? So, I think we will see this evolve in the coming quarters to see what impact that we'll have. But I think the target is very, very clear.

And then if you ask what we see, I would say that we see a gradual awareness increasing into the market. So we see as we come that also, as I said, when you look into our different models that we're using for renovation, the different concepts we have, that's also increasing the awareness from the customers. So they start to ask about it and we see those quotations in those different – different initiatives, I would say steadily increase. So, we see the trend, that's very clear. Of course, it's difficult to see how quick will this be impacted by local initiatives. But the trend is very, very clear, I would say. Speed is always difficult to judge.

Q

And do you feel that – sorry.

A

Yeah. You may go ahead.

Q

Yeah. Do you sort of – have the offering in place already or do you see that you need to sort of add something or do something different to adapt to these demands?

A

No. I think that in many, many businesses, we are very well prepared, I would say. That what I said we have – our local [indiscernible] close to the customers and also having production units that are used to do. I don't know if you remember, we used to say that 40% of our customer demands are bespoke, meaning done to customer – specific customer demands, and that fits very well with renovation because it's individual solutions very often. So, I think we are very, very well prepared for that. And you also know that, I mean, we have had 100% LED since a long time. So we have only been driving the LED message for quite a few years. And I think that's another strong point.

And then, also the strong focus on smart lighting. I mean, we've been doing this for a few years and of course there will be new things added to that as a continuous development. But I would say we have nothing today that hinder us from doing full renovation solutions, whatever it is.

Q

Great. Thank you. And another one is, well, regarding orders there. I mean, you fell slightly behind last year, but I guess you also had some extra opportunities there, as we've seen, in infrastructure [indiscernible] . Could you say something about – well, how much that could end up being?

A

Yeah. I – in a quick answer to your question of how much is 34 kilometers of lightning, Mats, no, I can't I say what the value of that is. But we do know it's a hell of a lot of lighting. And we have secured the contract for the 34 kilometers of lighting with the very first part of that contract being received as order intake so far. So we look forward to the rest of the order intake coming through. Veikko is a particular business where they supply lines of light and 34 kilometers is a long line of lights. Not all one line, of course, but it's a substantial quantity and it is to be fitted with smart lighting. So, we look forward to receiving the balance of the orders. They will come progressively through time. So we look forward to receiving the balance of the orders, and manufacturing and supplying accordingly. But what 34 kilometers of lighting looks like, you can only picture in a highway sort of

sense and then try to put a value to that is will be a challenge. Maybe the boys and people from Veikko will know what 34 kilometers of lighting is valued at, but that it's not something that I can recall from the top of my head.

Q

Okay. Great. And I guess this is some sort of – well first type of orders, well, that looks like this or order more to come in other parts of Europe, I guess, sorry, Holland or whatever.

A

Yeah. I mean lines of light is what Veikko do. They light up the big long passageways in distribution warehouses and logistics warehouses. And you can see many, many of these buildings being erected in all sorts of different places in Europe. You only need to drive on motorways in any of our countries and they are popping up all over the show, and they are simply ginormous buildings and each one of those will need to be lit, each one of those will need to be lit sustainably, and therefore, good value for money lighting with smart lighting technology. So they are not permanently lit for when when the operators are not there. Working is what we supply from Veikko.

Q

And can you say something about competition in this segment, so to say?

A

Yeah. We're not alone. There's many of our peer group across Europe who do have similar solutions. We just need to position ourselves better and more smartly with the customer base. But many of the small to medium and larger players here in Europe do have lines of light that do compete with the Veikko offering. And so we just need to be better and we need to provide better customer service and better customer satisfaction.

Q

Okay. Okay. Great. Thank you. And just finally, about – I mean, well, you mentioned that this was some sort of – well, it was a tough comparison year-over-year due to the reasons you mentioned with the easing of the supply chains and backlog delivery in the comparative quarter. But then again, it's a very strong first quarter and it's normally a seasonally slower quarter for you. Should we expect the coming quarters to be seasonally, well, improving as expected, or if they have historically?

A

I think that when you look at – we'll try to answer [indiscernible] Michael, but I think when you look at the seasonality, the last few years has been – has had so many different factors to it. So, it's been more difficult to look at seasonality. It was a thing last year, I think it was the last delivery out of the supply chain side as well, which we haven't spoken too much about because that ended Q1 last year. Then, in the past, when you look at it, we had – we also had the indoor/outdoor side of things. So, I think we have a more balanced view on that now

because we are selling both in the northern and the southern hemisphere. So, I would say that it's difficult to compare when you look a few years back.

Is there a seasonal effect? Maybe slightly, but not much, I would say.

A

Yeah. I mean, we're spreading our footprint marks across Northern Hemisphere, Southern Hemisphere, as Bodil says. And across the 10 application areas, and across indoor and outdoor. We sort of like taking almost like an insurance policy against the steep peaks and troughs of seasonality that we used to have. And if you do reflect on some of the comments that we've made in the last maybe 8 or 10 quarters reports, the last two years have been difficult to make straightforward comparisons because of the supply chain impact on orders coming in where we've reported at the start of that period orders coming in very early so we could get ourselves ready to make and deliver. And then, in the latter part of that period, we've been comparing ourselves to a very turbulent period of supply chain orders and supply chain correction with net sales.

So, I would look at the last maybe two years and say doesn't really exhibit a normal pattern of seasonality. But fingers crossed, the order backlog period is behind us now. It was – it closed out in Q1 2023 as a comparable – sorry, Q1 2024. So, as we move now forward into Q2, we can hopefully return to a little bit more visibility on what is the seasonality pattern here at Fagerhult Group.

Q

Okay. Great. Thank you very much.

A

Thank you, Mats.

Operator: There are no more questions from the phones at this time. So, I hand the conference back to the speakers for any written questions and closing comments.

A

Thank you very much, Mats. We have some recent questions sent in to us as well. We start with the Easter effect. We had some comments here on that one. We speak about the Easter effect. So, how has April started?

A

We normally never say anything about the future in that sense, but I think I said it already, and that's why we speak about the Easter effect. So, I think we – after coming back, you can see a difference when you don't have Easter in April that the months have started well for us. But I think that's positive.

A

All right. So moving on to any new written question here. I can see that you are positive about the margin in collection business area. Do you see that continuing?

A

I mean, if we were very happy about the first quarter in collection, as Michael said before, and I think that's the strength for the business area. And we also saw that they've had good order intake for some quarters now and also in Q1. So for me is no reason that that shouldn't continue. We remain positive with regards to collection.

A

All right. And maybe next one here for Michael, perhaps. You have talked about putting surplus cash to good use. Can you comment on this?

A

Yeah. Somehow that might have come from you, that question, Magnus, as Head of M&A. However, yeah, we do talk about putting our surplus cash balances to good use and that good use will be balanced either by opportunities on the M&A front. But also if those opportunities are a little bit staggered in terms of timing, then we will look to do more amortization of our longer term loan. So, we will put them to good use. It just depends the timing of the various opportunities we have out there compared to the ongoing level of debt within our loan portfolio.

We certainly won't just sit with surplus cash and do nothing with it.

A

Right. And then, moving on to the next one here, maybe refining a little bit to that one here from listener. Your M&A interest seems to be picking up. What type of company seems nice to acquire?

A

Well, it will be a lighting company or a lighting technology company. We have a good process now with Magnus who joined us in September of last year. I think we introduced the name Magnus in his new role on the last call. So, we're busy with our funnel and our pipeline of activity in this area, screening lots of opportunities, narrowing it down to less than lots, and then now beginning to engage with some very early conversations. Of course, I'm not going to and I'm not permitted to say any names, but we have some areas of the globe where we wish to have more representation and we have some product portfolio areas that would be good as complementary to our other brands. And of course, if there's another smart lighting brand that would complement our solutions in areas where organic responsive to city grid doesn't operate, then of course we would be interested there as well.

A

Okay. Thank you. I see we have another one here. What is the – this is about the luminaires.

A

Superdupertube.

A

Superdupertube.

A

What is the price premium on innovative products such as this one, the Superdupertube and others?

A

If we look into the price premium, I think first of all, I mean, we are a premium company what we're doing in general. I don't have the exact pricing levels in terms of the Superdupertube. I think what is positive then, I think from when you look at this specific product, this is not a niche product. This is a volume product which I think is also important because it's going out. We should be able to do big volumes of this one. And we see also we have early high interest for it. But when you do new sustainable products, I don't think you should do anything that can be used in very small applications. If we want an impact on it, we need to do things that we can have – we can have a much larger scale. And I think Superdupertube is one of this.

A

Okay. And maybe a little bit connected to this one. You showed a slide in which housing stays in place while lights swap out. Can you clarify the extent to which you are offering this across the lines?

A

I mean, this is an example in the four different – you saw the four different concepts from the four different business areas, they all have – that's one part of that. The – I think this is something we have. I don't know the percentage of it in all our businesses, but it's – it is something going in line with the renovation trend, so we have this in a high amount of our businesses, that they also do this for their specific segments. Then, maybe, as we said, there might be different ways of doing it. If you're doing it in a transportation solution or if you're doing it in an office. In office, very often you go in and say, maybe I change this, I keep this, I retrofit this. Often, it's also the consulting part of it that we have a knowledge within the group where we will help the customers to say what is the best solution for.

A

The retrofit topic is particularly important where as Bodil mentioned in her slides, at this point, where there is a time element to access to the space to work within the space so that – that is a particularly relevant aspect to retrofit, but also where the housings for the luminaire are fairly substantial. And that's why it's not a surprise that our business design plan in the south of the UK has developed this retrofit proposition, because design plan luminaires on railway stations and/or prison cells and custodial areas, they are fairly chunky, fairly heavy industrial-based luminaires that need to be fitted securely into the space. So the retrofit proposition is very suitable to those application areas.

Unverified Participant

Okay. Thank you. And with that, we are done with questions for today. Before we end, Bodil any last comments from your side?

Unverified Participant

Yes. I think have a lot coming for you. I think that it's been a good set of numbers that we've delivered in the first quarter. And at the same time, we are progressing in all our strategic initiatives, being sustainable, smart lighting and talent. And I also see a very well positioned when the external macroeconomic landscape puts focus on changing our buildings to become more sustainable and smart, so coming back to the innovation side. So, I think we have a very natural role to play to help renovating Europe and we're really well prepared for that. So that means that we continue to see many opportunities and that makes me confident for the future.

Unverified Participant

Thank you, everyone, for joining today's conference call. Next, we will publish our Q2 results on July 19, 2024, and we will host a webcast on the same dates.

Unverified Participant

Yeah.

Unverified Participant

Have a nice day.

Unverified Participant

It's important to mention because we didn't last year. So, we have added that this year. Okay. Thank you, everybody.

Unverified Participant

Thank you.

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