

18-Jul-2025

Fagerhult Group AB (FAG.SE)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Niklas Willstrand

Head-Communications, Fagerhult Group AB

Bodil Sonesson

*President, Chief Executive Officer & Acting Head-Business Area
Premium, Fagerhult Group AB*

Michael Wood

Chief Financial Officer, Fagerhult Group AB

MANAGEMENT DISCUSSION SECTION

Niklas Willstrand

Head-Communications, Fagerhult Group AB

Hi, everyone, and thank you all for joining us today. I'm Niklas Willstrand, Head of Communications here at Fagerhult Group, and it's my pleasure to welcome you to our Q2 2025 Results Presentation.

On the call, we have our President and CEO, Bodil Sonesson; along with our CFO, Michael Wood. Bodil will begin with a brief overview of our second quarter results, followed by highlights focusing on the Premium business area. Michael will then provide a deeper dive into the group's financial performance. To close, Bodil will summarize the key points, before we open the floor for your questions.

We'll start with questions from the conference call participants and then take questions from the webcast. [Operator Instructions] . Please note that today's session is being recorded and will be available on our website later today.

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

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

Thank you very much, Niklas, and welcome to everyone joining us today. So, I will start with the Q2 results, and we continue to navigate ongoing market volatility and operating results are not satisfactory. And in addition to that, in May, we had, in our Whitecroft business in the UK, they experienced an IT incident. And the issue has since been fully resolved, and the business returned to full operational capacity in June.

So, while the incident had a significant financial impact in May, it is now behind us. And we have taken all necessary measures to address the situation and also strengthen our systems in all our other brands to prevent similar events in the future.

On a positive note, we continued to improve on our strong gross margin. We benefit from the cost improvements that we've been carrying out over the last six months, and we see a higher order backlog. And sales activities levels remained very high, and we have a very high focus everywhere within the organization to focus on order to increase our order intake.

Also very positively, during the quarter, we had a high M&A activity, so it was marked by the closing of Trato and then the signing of Capelon. And both companies brings extensive knowledge and align well with our overall strategy. They also both bring very strong customer relationships. I spoke a little bit more about Capelon in our Q1 call, so I would just briefly highlight on them and then I'll give you a more detailed overview of Capelon as we go along here.

Then, in leadership news, Oscar Wallstén, as we press released, was appointed our new CFO, and he started on July 7. And so, to ensure a seamless transition, Michael is – will remain with us until the end of August. And as you heard before, he is also the one doing the call today.

If we then move to the numbers very briefly, order intake for the second quarter came in at SEK 1.905 billion, showing an organic decline of 6.5%. We saw low activity early in the quarter, and business picked up at the end of the quarter. And for the quarter, net sales declined, but gross margin before IACs continued to increase, and selling and administration expenses reduced with 7% to SEK 629 million.

And during the second quarter, from a financial perspective, I highlight the 3.9% organic order intake growth in Collection, the recovery in operating cash flow, and reduction in the cost base. And earnings per share before IACs were SEK 0.32.

And then, if we look at the year-to-date numbers, the organic order intake is flat compared to last year. And since the start of the year, the order backlog has grown with SEK 316 million, driven in part by the KSP project that we spoke about last time in Saudi Arabia, as well as strong contributions from iGuzzini, Fagerhult, and Whitecroft.

And the group's half-year net sales of SEK 3.788 billion show a 10.7% decrease, when adjusting for currency effect of SEK 93 million. And earnings per share before IACs were SEK 0.76. And as always, Michael will give you more information when we come to the financial section.

And first, as Niklas said, I will give you a flavor, so I'll give you an update on Premium, but also some of the other activities that has happened in the quarter. And we decided this year to go through our four different business areas. And this quarter, we've come to Premium in order to have you gain a better understanding how the group operates.

And Premium business area is our most profitable and stable of the four business areas, and it's focusing on delivering high-quality lighting, mainly across the Western European markets. And it contributes to 35% of the group's revenue, and it's defined by very close collaboration with specifiers and partners to deliver tailored and often what we call bespoke lighting solution. And bespoke means that they've done specifically for the project.

And most of the sales come from indoor application and then selected outdoor offerings in the Nordics. And the customer segments are offices, hospitals, education, and retail customers. And there are two brands, which are Fagerhult and LTS, and they have both development and manufactured located in Sweden, Germany and China.

So, let's have a brief look at each of the two brands. And as I'm sure you know, Fagerhult is where we started, and they stay close to their Swedish roots also in the design of their luminaires. And it started 80 years ago with Bertil Svensson. And today, Fagerhult operates in nearly 20 countries and has expanded its very modern factory, which was the one that you saw on the cover page just at the – watching over the Vättern Sea.

And this factory has been modernized more than 40 times. And there is very strong importance of light and a very strong drive for innovation that is continuing to define the Fagerhult brand. And I think this is evident, you can see

some of the pictures of the projects to the right, you have like World of Volvo in Gothenburg. Another notable one is Slussen in Stockholm or the recently delivered West Link and that we spoke about in Q1.

And Fagerhult stands out among our brands as a global leader in innovation for very sustainable and energy-efficient solutions. And I think this is reflected in how we work with materials, for example, recycled aluminium, wood, and paper, and together with the integrated smart lighting to reduce CO2 footprint even more. And you might remember we have launched several products in wood and carbon and also it's a very good business model for renovation.

If we then look into LTS, a brand that was founded in 1985 in Southern Germany. So, from its roots, it's grown into be a trusted name in high-quality indoor lighting and mainly for the European market of office, retail, and hospitality. And they have a track record of delivering smart and very design-driven lighting in Europe. And here, you very much have bespoke concept for retail chains, which you also can see on the pictures where it's very important to be flexible and high requirement on prototyping.

So, that was business area Premium. And then we'll go to our two acquisitions. So, just you saw maybe the press release that we communicated on the 2nd of July that we have completed the acquisition of 100% of the shares in Trato TLV Group. And that means that the numbers will be integrated into our numbers full of – the full part of Q3. And Trato provides lighting solutions for retail and healthcare interiors, and it's two segments where they have a leading position in the French market. And as we said in Q1, they will be part of our business area Professional.

And we see several growth potential, with mutual cooperation within the business area. For example, Trato is very strong in healthcare equipment, as you also can see on the picture here. They do bed heads, for examples, which is – could be a very good additions to Whitecroft solution. And Whitecroft is very strong in healthcare lighting that will be complementary to Trato's solutions.

And then we move to Capelon, where we – you probably also saw that we announced this week the acquisition of Capelon in a press release on Wednesday. And Capelon is a Swedish technology company and a pioneer in connected street lighting and smart city applications. And they have more than 20 years of experience. And the acquisition strengthens the group's position in smart lighting and support our goal that every luminaire we sell by 2030 is ready for smart decisions.

So, Capelon, from a technology perspective, brings a scalable and open IoT platform that enables integration with both our own brands and external partners. It's the only solution in the market that combines so-called cabinet controls with smart lighting, outdoor lighting, supporting broader smart application, which is also very good entry path for the cities when they start with smart lighting. And they have a strong base of recurring revenue, so they add valuable and future-ready dimension to our offering and opens up new opportunities for international expansion.

I also wanted to take you through, because I think this is very interesting as it is in line with our strategy, to give you some of the reasoning why we decided to do this, and I think there are many strategic reasons. As I said, key focus to accelerate the development of smart lighting, supporting our target and vision of having smart lighting in everything we do. It's also several strong factors, which is influencing the outdoor lighting market over the next five years, because today, currently the most outdoor lighting in the market is still using outdated technology, the so-called high-pressure sodium lamps. And this is the equivalent of the fluorescent lighting that we've been speaking a lot about on the indoor side.

And the EU ban for high-pressure sodium is not coming effect, so it hasn't been as the fluorescent came effect in 2023. For high-pressure sodium outdoor, it's coming into effect in 2027. And that will bring more cities and municipalities investing into new LED luminaires with smart technology, either to get connected now or to be ready for future connectivity, and the provision for the market in outdoor is that smart lighting is expected to grow in Europe by around 22% in the coming years.

And also, the reason for the municipalities to go in this direction is that electricity costs for outdoor lighting in cities is more than half of a municipality's electricity costs, which, of course, is driving the shift towards energy-efficient and sustainable LED-based solutions. In addition to that, 2G networks are phased out and many existing connected lighting systems will need to be replaced or upgraded.

Okay. And with that, I thought also give you a little bit of market information, because we think the Euroconstruct numbers are very relevant for us, and the latest release came as late as end of June. So, we'll have a brief look at them, what they're saying. So, they forecast a gradual recovery where renovation is the key driver, and I think the support behind this is, of course, lower interest rates, stricter climate regulations, and targeted incentives for energy efficiency.

So, the market is moving towards improving what already exists, not building more of the same. And you know we are very well positioned with our [ph] renovation (00:24:13) business model in a landscape that prioritizes smart solution, digitalization, and long-term operating efficiencies.

So, if we zoom in with the next slide to the renovation market, because I think this shows very clearly that every quarter, the renovation market gains in traction. And I think we will see this for quite a few years to come, and it is driven by the fact that the buildings and the building industry accounts for 40% of Europe's carbon footprint. So, we need to renovate Europe.

And you can see, of course, this is fueled by climate targets, the need to modernize existing infrastructure. And from a lighting perspective, the customers are demanding smart, easy – and easy-to-integrate solution into their operational environments. And I think that is very much in line with the technologies that we have and they will extend life of buildings, lower operational cost, and support circular goals.

And with that, I will hand over to Michael to give a more detailed outlook on our numbers. Please, Michael.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Okay. Thank you, Bodil. So, there certainly has been a lot of things going on in the last 90 to 100 days. I, too, welcome everybody to the call. So, good morning from me as well, as you've heard from Bodil and Niklas.

Whilst many strategic topics continue to make very good progress, we are, as Bodil has already stated, not happy with the operating unsatisfactory results. From an all-time high order intake in Q1 to an organic decline of 6.5% in the second quarter just shows how inconsistent and volatile the markets are, also, because the headwinds on order intake and net sales have increased, with an average of SEK 31 million per month in the second quarter of the year.

A reminder to us all that the second quarter was negatively impacted by SEK 42 million on net sales and SEK 21 million at the operating profit level as a result of the IT incident that Bodil has mentioned. The improved gross profit margins and the reduced cost base are both positive signs of increased future profitability, but the current

activity levels are incapable of supporting a double-digit operating margin. As mentioned, we are disappointed with the 6.5%.

The cost base reduction programs continue to benefit the result, and more of this will be seen in future periods. The costs are 7% lower in the second quarter compared to the comparable quarter, some of this is, of course, due to FX. At SEK 162 million, the operating cash flow was improved compared to the low first quarter. However, it is the operating profit that creates the gap to the last year's SEK 280 million.

Coming to the year-to-date, and being aware of the impact of the IT incident, it shows that the first and second quarters were very similar. Both quarters were tough from an invoicing and net sales perspective, but positively, both quarters delivered improved comparable gross profit margins and reduced comparable cost reductions. There has been and continues to be a very high focus on sales activities to rapidly improve order intake levels, and when the markets begin to return, we expect a sharp improvement in our levels of profitability.

The rolling 12-month net sales development clearly shows the impact of the ongoing newbuild construction industry decline, which was capable of being overcome by the growth we experienced and continue to experience in the renovation segment in the years 2022 to 2023, but the continuing nature of this makes it difficult in the 2024-2025 period. [indiscernible] (00:28:25) the Euroconstruct statistics coming through towards the end of this year.

As Bodil mentioned several times, there remains many opportunities almost everywhere on the market, and our order backlog is over SEK 300 million higher than at the start of the year. The market and sales volume challenges have a direct and clear impact on the profitability, despite good gross profit margin development and increasing benefit from cost reduction programs where there is more to come.

Drop now into each of the business areas, we first of all take Collection, as you are aware. For the first half year, Collection has delivered a healthy 6.5% organic order intake growth and we begin to see an uptick in the level of profitability. The business area has more than 60% of the first part of the King Salmon Park order to deliver in the coming months with just less than 40% already delivered, and [indiscernible] (00:29:29) remains engaged in plans to secure the next part of this large project. A new cost reduction program was initiated at LED Linear in the quarter and the results of this will be seen in Q3 and beyond. The whole program carries a 10-month payback and the SEK 12 million cost has already been taken.

Coming to Premium, in 2023 and the first half of 2024, the net sales levels in Premium were at a high level. For the last four quarters, however, the net sales have been flat at SEK 650 million to SEK 670 million. So, we don't see an ongoing trend in a bad way in Premium. What we see since Q3 of last year, we see a relatively flat position. Gross margins have improved, cost base has reduced, and the operating margin remains at a very good level, 14%, you can see on the chart. And the 14% for the second quarter compares to 12.4% last year where in Q2 last year, the sales were SEK 80 million higher. So, the level of profitability in Premium is at a very good level. Again, for the Fagerhult brand, there is quite regionally mixed order intake activity levels, and the high focus remains on spreading the improved order intake across each of the regions they operate in.

Going to the third business area, which is Professional, as is clearly stated in the report, the Professional business area has had a very tough first half year. And this was not all helped by the IT incident at Whitecroft in the UK. More positively, the year-to-date order intake growth is a healthy 4.9%, and the order backlog has increased SEK 92 million in Professional, some 31% compared to the earlier periods. Despite a tough half year, the business area is quite well positioned for an improved performance with a healthy backlog, improved gross profit margins, and a lower cost base.

Looking at the fourth business area, Infrastructure, the significant cost reduction program that Veko carried out towards the end of 2024 continues to make a positive impact, but the weakening order intake delivers a poor result. Veko is the dominant business in the business area. Designplan is running quite well with an improved second quarter performance compared to Q2 2024, and the order intake situation, particularly at Veko and i-Valo, but also Designplan is the highest priority for all involved.

Moving now on to cash flow, on the cash flow side, we continue in a positive way now 13 quarters of generating a positive cash flow. For the first quarter, the cash flow of SEK 26 million was impacted – sorry – in the first quarter, the cash flow of SEK 26 million was impacted by lower profitability and an increase in working capital, whereas in the second quarter, the cash flow improved SEK 162 million as working capital was better controlled. Again, the lower comparable number is due to the levels of profitability. The group has a good cash generating process. However, there are continued areas for improvement in the working capital on the balance sheet.

Net debt, during the last 3 to 4 years, you can see our strategy has been to reduce the net debt, and this has been very successful with the Q1 debt being the lowest the group has carried for over 7 years. During the second quarter, the debt increased as a result of the SEK 248 million dividend distribution. The ratio is impacted by the dividend and the lower earnings, of course.

Earnings per share, we repeat the message about not being pleased with the earnings per share level and are working very hard to get this trend going back the other way. The SEK 0.32 for the quarter, all the recent trend – trend in recent times. Gross profit margins are having a beneficial impact, so too, the lower cost base, and increased volumes will benefit further.

And with that, I hand back to Bodil for closing and questions and answers.

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

Okay. Thank you, Michael. So, let's have a short conclusion and recap. So, we see that the market volatility remains a key factor in shaping our industry landscape and affecting our results, but we also see our focus on cost reduction continues to supporting our results. And we will, of course, continue on a very high sales focus within all the brands in our group to continue to create order intake, and we also note some continued positive signals in the renovation segment, along with some early, very early, but some encouraging signs in the newbuild activity.

Then I think, as you said, Michael, we've had very high activity in the quarter with different parts and also on the M&A activity, starting our collaboration with both Trato and Capelon, and that will further strengthen our position and capabilities going forward, and they're both very much in line with our strategy. So, I'm very happy with both of those acquisitions.

So, I think with that, we can see if we have any questions that we should answer. So, I hand over again.

QUESTION AND ANSWER SECTION

Operator: Thanks, Bodil. There are no questions from the telco, so I hand the word to you, Niklas, for written questions. But I'll get back if there are questions here.

Niklas Willstrand

Head-Communications, Fagerhult Group AB

A

Thank you very much, Einar, and thank you very much, Bodil and Michael. And we have a few written questions, and I will start with the first one. We read about the volatility on order intake and the market. How do you view the second half year from growth?

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

A

I think if you look into the second half here, I mean, you saw the numbers I showed on Euroconstruct. I don't expect any drastic change in the market. I think what we will see is a gradual improvement. I think also what we said and what this might mean Michael highlighted is that we have a higher backlog than we had in the first half year, and that should give some positives, the number of a bit more than SEK 300 million. And I also see that our new and especially Trato being part of us from the full quarter will also giving us some positive contributions from the third quarter.

Niklas Willstrand

Head-Communications, Fagerhult Group AB

A

Thank you. And we have a second question here as well. Capelon sounds like an exciting acquisition that fits well with the overall smart strategy. When do you expect that closing would be?

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

A

We expect this to be quite quick. So, I see a closing after the holidays, hopefully during the first part of August. So, we should be able – it's always easier when it's in Sweden, so we should be able to move quite quick here. So, that will be a good contribution as well.

Niklas Willstrand

Head-Communications, Fagerhult Group AB

A

Thank you. Let's see. Can you tell us something about when you expect to see an improvement to turnaround in both BA Professional and BA Infrastructure?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. Sure. Sure. Perhaps I'll jump in here, Bodil.

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

A

Yeah.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. Two different qualities for the two different business areas, I suppose. We did report a challenging Q1 leading into Q2 for Professional. Again, I'm not going to mention the IT. But if you look behind the 6 months, whatever's happened in BA Professional, to come out of that period with an almost 5% growth in the order intake compared to the prior year and nearly SEK 100 million increase in their order backlog at the start of July, then you can anticipate a much improved second half year compared to the first half year in Professional.

When you look at Infrastructure, and as I've reported earlier on, the dominant business is Veko in Holland, Designplan runs quite well, and i-Valo is, compared to last year, more or less a little bit flat, but improving. Every focus in every activity in Veko is about pipeline, pipeline management, go-to market strategy, and really trying to understand converting opportunities.

The business is not short of opportunities. It just needs to improve its conversion on those that it sees on the market. And that is 110% priority for that Veko business. So, we do anticipate with the higher focus and higher energy going into conversion and order intake in Infrastructure, particularly Veko, we do anticipate to see some of that start to come through. And maybe not Q3, but maybe towards the end of Q3 into the fourth quarter.

Niklas Willstrand

Head-Communications, Fagerhult Group AB

A

Thank you. And one question here as well. You mentioned that Capelon is the market leader in Sweden and that you see great possibilities for expansion to other markets. When do you see this can start?

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

A

I think we've – they've already seen it within Capelon because they already have customers outside Sweden, both in Finland and Norway and Netherlands. So, they have already seen that the technology solution works very well outside of Sweden as well. And I think that is where it's a very good match with us as well, because we will be able to use our global sales networks so that we can accelerate this in a much more rapid pace. That will be very much part of how we're going to work on the future together. So, that is exciting as well.

Niklas Willstrand

Head-Communications, Fagerhult Group AB

So, thank you, and thank you everyone joining here. So, with that, we are done with the questions today. But before we end, Bodil, any last comments from you?

Bodil Sonesson

President, Chief Executive Officer & Acting Head-Business Area Premium, Fagerhult Group AB

I'm just going to say thank you to everybody for joining today and for your questions. I think from – bringing with us from the call is for, of course, to continue our growth within smart outdoor lighting, and that will help us shaping a more connected environment with our customers in the future. And then, of course, I wish everybody a happy holiday season as well since we are – as we are in the middle of the summer. And I think with that, we will say thank you to all of you.

Niklas Willstrand

Head-Communications, Fagerhult Group AB

Yeah. Thank you, everyone, for joining today's conference call. Next, we will publish our Q3 results on October 27, 2025, and we will host a webcast on the same day. So, have a nice day, everyone. Thank you.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.