

19-Jul-2024

Fagerhult Group AB (FAG.SE)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Fagerhult Group Q2 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. Please go ahead.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Okay. I think I'm going to step in here because I think Magnus might be having IT problems. So, apologies to our audience for that.

So, my name is Michael Wood, not Magnus Haegermark. Michael Wood, Fagerhult Group, CFO. Thank you. And hello everyone and welcome to the presentation of Fagerhult Group's second quarter results for 2024. On the call today, we have our President and CEO, Bodil Sonesson, and myself. And the presentation will start with Bodil giving us a brief update on our results for the second quarter. And then Bodil will then continue to update us on some strategic highlights [indiscernible] (00:01:23) science-based targets plus innovations launched during the quarter.

After that, I will follow with more details about the financial performance of the group, and Bodil will conclude with a brief recap. And afterwards, we will open 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 up for Bodil and Michael. Before we start, let me also remind you that today's session is being recorded and will be available on our website later today.

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

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Thank you, Michael, and welcome everyone to this Q2 2024 webcast. So, in the second quarter, we saw a return to growth for us in both order intake and net sales on the group level. The market conditions remained the same and we continue to focus on the renovation market where, as you know, our solutions are well positioned and where we continue to secure projects. And we are contributing to renovating Europe's energy inefficient buildings, and that is one of our ambitions. And our solutions and local footprint makes this possible. This is also balancing a new build market that still is constrained by high interest rates.

Although there are regional variations and indications of a more positive outlook from next year. We also heavily involved in outdoor projects for urban spaces, which is one of the focus customer segments in business area collection. We continue to see megatrends supporting and remaining favorable for our industry, providing a solid foundation for our strategy and future growth.

And the gross profit margin has continued to improve, but the operating margin has been impacted by higher operating expenses in the quarter. We have started to address this, and we have seen some positive results at the end of the quarter and this will continue in Q3 and Q4.

Product innovation activity continues to be high. And I will share two examples in my presentation today: one retrofit solution from WE-EF and another truly innovative product from iGuzzini that is playing with the boundaries of light. And as you know, sustainability is an integral part of our strategy and what we do. And later on in my presentation, we'll have a closer look at our science-based targets, the numbers behind and what our focus is going forward. And part of sustainability is also new partnerships. And one example is what Fagerhult does together with Hydro to recycle extruded aluminum. But let's have a look at the numbers first.

So, order intake in Q2 was SEK 2.1 billion, which represent an organic increase of plus 0.8%. The organic net sales increased with 0.9%, and in numbers, we achieved almost SEK 2.2 billion. At the EBIT level, we delivered SEK 169 million with a 9.1% EBIT margin. Earnings per share was SEK 0.62. And as expected, we started to see a reduction in interest cost from the second quarter.

If we then look at the year-to-date, the half year result was very similar to prior year, and in numbers, it represents order intake of SEK 4,233 million compared to SEK 4,286 million in 2023. And net sales declined organically with 0.7% to SEK 4,347 million compared to SEK 4,371 million last year. And operating profit is at SEK 470 million compared to SEK 446 million last year, which represents an operating margin of 9.6%. And earnings per share is at SEK 1.40. And as always, Michael will give you more information when we come to the financial section. And first, I will show you some things that have happened in the quarter.

So, you know that in our quarterly report, we tried to give you a flavor of our strategic group focus areas. And today's focus will be on our sustainability agenda. And you know it's an integral part of our business strategy. And when sustainability and business goes hand in hand, it becomes a win-win situation and gives a very clear direction for the group. And this time, we will focus on our SBTi targets and what we have achieved so far, what our goals are and, in brief, our focus priorities to achieve the goals. And I will also present some selected innovations in the group that was launched in the quarter and those – this time it's from iGuzzini and WE-EF. So, let's jump to the sustainability agenda.

And in the Q1 webcast, we spoke about what's happening on the market with regard to sustainability-related topics and legislation and the European Performance of Buildings Directive and also the explanation behind our taxonomy numbers. And all of these topics are, of course, driven from the need that our buildings in Europe have

to be renovated as they stand for almost 40% of the carbon footprint and the majority of the buildings are energy inefficient. Without this, we have no chance of achieving the Paris climate goal [ph] of 55% (00:08:08) to reduce emissions by at least 55% until 2030. And this time, I will focus on how sustainability agenda relates to our validated SBTi target. And I'll just give you a quick recap with regards to the SBTi targets.

You might remember they were validated in October 2023 for both Scopes 1, 2, and 3, as well as for net zero in 2045. And we did an extensive mappings of all our factories and our complete footprint in 2021. And therefore, we used 2021 as our comparative year for data, also called base year. And on the slide, you can see the results for 2023, where we have reduced our total emissions combined in all scopes with 24% since 2021, and that is – the meaning of that is, of course, that we are on a good way towards our SBTi goals for 2030.

And in this slide, we see a full view of our carbon footprints. And this is, of course, coming from the research that we did in 2021. So, when we look at our footprint, we can see that by far the biggest impact is in Scope 3 and particularly the use phase that represents 88%. Of course, this is normal as lighting solutions have a long lifetime, and when light is on, energy is consumed. And we know that lighting is 15% of a building's energy consumption.

The second biggest number is related to suppliers and material use in our products, accounting for 8%, where the highest part is coming from electronics. The footprint from our factories is a very small part. Only 1% pertains to direct emissions. So, we have established short and long-term targets to reduce direct and indirect emission. And the short-term targets that apply from 2021 to 2030 are reducing scope 1 and 2 by 70% and scope 3 by 30%. And to reach this, we have designed and prioritized around 20 activities based on the insights we gained in 2021. So, we call these our levers. So, there's actually 24 projects that we're working on, and I will highlight two of the major ones today.

And in scope 1 and 2, the most important levers in our factories is our internal heating and paint plants that consumes a lot of gas and electricity and represents 50% of our direct emissions. And as you might remember, we already [ph] own (00:11:14) 75% of usage in renewable electricity in our own operations.

The reduction of 30% in scope 3 is a very ambitious [ph] goal (00:11:26), and this is where sustainability and smart go hand-in-hand. And we have a vision to be 100% smart by 2030. This implies that by 2030, we need to have sensors in all our lighting solutions that go out of our factories. And that is a big undertaking from our side, both internally but also externally, to spread the understanding for the why and how of smart lighting.

With a sensor in each light connected to the network or to the cloud, we can optimize the energy consumption for the user during the full lifecycle of our products. And our scope 3 is our customers' direct emission, meaning scope 1 and 2, so that means that we are to a large extent in this together with our customers.

And all this technology is in place today with the Organic Response and Citygrid solutions. So, that is why it's so important to spread knowledge about smart lighting. If you go back to the basic assumptions, we know that lighting is 15% of the energy consumption and that the energy consumption already today can be reduced with up to 90%, with the combination of LED and smart lighting compared to a traditional installation. We should use the light where and when it's needed.

And as we spoke about in the last webcast call, we will get [indiscernible] (00:12:58) legislation in the European Performance of Buildings Directive (sic) [Energy Performance of Buildings Directive] (00:13:01) that will be implemented in local legislation by the latest in spring 2026. And that implies smart lighting and also implies high renovation rates. This is only the first step in our journey towards net zero, where the usage of smart lighting will play a major impact together with a circular approach.

So, when developing new products and solution, we strive for modular development. And this is to achieve standardization and from a circular perspective, enable us to simplify renovations and upgrades. And we gave you some examples of these models at last time, but this [ph] all (00:13:48) takes us to new partnerships.

And I mentioned Hydro in my first slide. So, this is an example where Fagerhult is cooperating with Hydro Extrusion in Sweden. And they together have made a pilot project to explore circular processes for the use of extruded aluminum. And this was done for Telenor's headquarter in Oslo, where a product of Fagerhult was installed in 2002, and now renovated with the goal of saving 50% energy.

And in the pilot project with Hydro Extrusion, the goal was to preserve material properties and not downgrade the aluminum. And we want to be able to recycle extruded aluminum as it's a very common material in our light fitting, and that has so far not been possible. So, therefore, this pilot project has been very important to us.

So, what we did was that we took back the light fitting to our factory, where they were taken apart and sorted. And then, they were sent to Hydro Extrusion, where the aluminum was melted and then extruded again. So, for us, this is a big step forward because it enables for circular products – process when using aluminum and lighting solutions. So, another step towards circular solutions.

Then, let's leave sustainability and go to the two innovations I promised you for the quarter. And the first one you see here is [ph] TRICK e up to em (00:15:27), which is from iGuzzini. And I would say this solution really takes innovation and how we can play with light and push the boundaries to a completely different level. It showcases the group vision statement, a world enhanced by light. And it really gives life to architectural buildings at night with a lot of possibilities to play and doing tricks, therefore the name of the product, with light both in indoor and outdoor application.

And as you can see on the picture, if you look closely, you can see there is a diamond-like part of it. And that is one of iGuzzini's core strength being optics. And this product is difficult to describe in words. So, I would really recommend you to go on to the Internet and have a look at the film TRICK em at the iguzzini.com.

The next product I want to share with you is an upgrade kit. It's – or so called, we call them upgrade kit or retrofit kit from WE-EF, which is in line with us helping renovating buildings to cities in an energy-efficient way. So, this kit can be used on luminaires dating back to 2014. And it takes only five minutes to upgrade, thanks to pre configuration done in the factory. It's a very easy and sustainable way to enhance the lifetime of your solution, and also, an example of that, what I said before, that modular thinking has been with us for quite a long time. So, you can get 40% more light output with a new version, and you can choose whether to get the higher output or decrease the power consumption, and therefore, reduce your energy cost.

And this luminaire can, of course, also become smart by using the Zhaga-based smart controller from Citygrid that we announced in Q1. And with this, I'm sure you're curious about the numbers. I will soon hand over to Michael. But I thought we – you know we have a lot of beautiful picture, and we are in the middle of the summer. So, with this picture from Stockholm and Riddarholmen, where you can see the traditional beautiful lights that have been updated with LED modules from ateljé Lyktan.

And with that, I hand over to Michael.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Okay. Thank you, Bodil. Even though for the second time, a very good morning from me also. It's great, I think, Bodil, to see that we've got such a high rate of innovation and new products constantly coming through across the group. It's part – it's testament to our strong view of the future that we have.

I think, in many aspects, the second quarter was very similar to the comparable period from 2023. And in the report, we mentioned higher operating costs. I see some you have already mentioned that in your update. So, I will try to deal with that now and give you a little bit more flavor around our common figure.

In the early part of the quarter, we did get ahead of ourselves when it came to revenue investments. We took immediate actions in the early part of June and these actions will continue during the third and fourth quarters and where they will enhance the operating margin in the second half of the year.

It is a significant benefit to the group's decentralized operating model that we can react so quickly when the need arises. And we already noticed an improvement in the situation in the month of June.

Let us see what the second quarter brings, with what I said to you guys at the end of Q1. Let us see what the second quarter brings. Well, the second quarter did bring growth, we returned to 1.1% overall order intake growth. And to me, this is a signal that, perhaps, we'll see the renovation growth and no longer a declining new build market, because one is beginning to pass the other. So, that to me is another positive sign for Fagerhult Group. And with lead times now back to normal, it is expected that some of the order intake growth translates into net sales growth. And the group delivered another solid SEK 2.2 billion, which was ahead of last year.

The group – our ability to meet customer delivery expectations is good across all brands. And again, this is another strength of our operating model, decentralized, make product close to where our customers are. The growth in the second quarter was also delivered at an improved gross profit margin. And we shall remain active in portfolio management, pricing and cost management to support this in the future.

As mentioned, the operating profit was short-term affected by higher operating cost, and we are confident of a somewhat lower operating cost level in the second half of the year. Operating cash flow was good, almost sufficient to neutralize the dividend release that we did in early May. And we expect that lower interest rates would come through in the second quarter. This is our expectation. And in the report, we note that this was in excess of SEK 10 million in the second quarter. [indiscernible] (00:20:47) the impact from currency movements are not controllable. We expect the net debt to further reduce in the rest of the year.

Looking at year-to-date now for us. Looking at year-to-date position, the second quarter order intake and net sales began to close the gap from the first quarter. So, for us, it was a better second quarter as far as the activity level [ph] went, (00:21:10) order intake, net sales. The gross profit margin also improved compared to last year and we have initiated actions where we have needed to in order to improve the operating margins in the coming two quarters.

Operating cash flow for 2023, if you recall, was a record, and we also see a very good performance on the cash generation side during 2024. The net sales for H1 2024, January through to June, shows a 3.7% growth compared to the net sales for H2 2023. And this is why we begin to see the rolling 12 months no longer continue to slightly decline, but now more positively it begins to improve a little bit. We look to continue this with the market opportunities that present themselves.

Looking at the margin, I'm not going to dwell – no longer dwell on the operating margin. We've clearly now communicated in the report and in my earlier words what actions have been taken and will continue to be taken in

the second half year to address this. And we do expect a resurrection of improved operating margins as we go through July through to December.

Collection, we reported quite an optimistic view of Collection at the end of Q1, and that optimism continues for second quarter. Business area Collection continues its stronger overall start to the year that we reported in the first quarter. The year-to-date Collection has delivered order intake growth, net sales growth, and the trends for operating margin and operating profit remain very positive. For us, this is critically important. It is our largest business area. The 11.1% operating margin is by a long way not only 4.3% ahead of last year, but also raises the bar further with a new quarterly record for the businesses in Collection. The steady migration from a fund from family-owned businesses accepting ateljé Lyktan, of course, takes time, as we have previously reported. And now we're beginning to see good progress in iGuzzini, LED Linear, and WE-EF. Once again, we continue to win some great projects.

Coming to Premium. For business area Premium, I would like to clarify one point. You can see the slide for yourself. I'm not going to talk to each individual part, but I would like to clarify and explain a little bit, and that is the fact that the business area Premium takes the full impact to EBIT of our growing investment levels in our smart lighting solution Organic Response. That has accelerated this year. The future lighting industry, we are convinced, will be shaped by smart lighting solutions. Of that we are very, very sure. We continue to invest and we do not take the investment to the balance sheet, nor do we adjust the operating result. When we say EBIT, we mean EBIT. What you see is what you get from Fagerhult Group. I think this is important in the understanding of our results compared to our peer group in the industry. But just as an indication how we see things going in Premium, looking at the 11.1% year-to-date operating margin that you see in the report, I can tell you that the operating margin for the two luminaire brands in the business area combined is a very healthy 13.9%, almost 14%.

Coming to Professional. Last quarter we reported a very high comparable order intake in period Q1 2023. For Q4 2024, the Professional business area has delivered strong order intake, almost 14% ahead of Q2 last year. The growth in net sales of 8.7% included the delivery of some of those large projects from Q1 last year. And that sometimes is an indication of how long the delivery programs are. Some of you will remember the names Everton Football Club and Hinkley Point Power Station that happened in Q1 order intake last year; and now in Q2 2024, the deliveries have taken place. The business has grown its order backlog position in recent months and that provides confidence for the future. The two-and-a-half year operating profit and operating margin trend, the line to the right-hand side, remains positive. And here we also see good projects for renovation and growth in smart lighting solutions.

In business area Infrastructure, I have less good news to report, although the order intake in the second quarter did show growth compared to last year. However, we clearly see the impact of the weak Q1 order intake, which was 21% adverse year-on-year. And the year-to-date order intake in business area Infrastructure lags last year by 11%. The softer market conditions that we reported last quarter do continue, particularly for our Veko business in Holland where we take a full business structure and strategy review during the current quarter. The long-term design plan investment in the German transport and custodial segments begins to make a more significant difference, and we see higher and increasing levels of order intake for design plan in that German operation. We will come back to the Veko situation in the Q3 report, but for now, we will take a full review as we go through July, August into September.

Cash flow. On the cash flow side, we continue a very positive way. The chart remains positive now with nine quarters of generating a positive cash flow. It will, as previously reported, will be difficult to match the SEK 1.2 billion from last year. But we still see room for improvement in some of our businesses. Net debt, as you can see, the net debt increased in the quarter due only to the dividend release. The operating cash flow was, as reported,

very strong. We do report a net debt of SEK 2,579 million adjusted to SEK 1,842 million for IFRS 16. And the net debt/EBITDA ratio of 1.9 means we are in a strong position for our new M&A opportunities with the recruitment of the Head of M&A from last September.

Before handing back to Bodil for closing and Q&A, I would like to end as traditional with a quite short summary message from myself. The group, for ourselves, we are in good control and we're in a strong market position with healthy margins and a strong balance sheet. We see increasing traction of the megatrends. Bodil's talked about these earlier on this morning and with tailwinds for growth from the ban on fluorescent lighting and anticipated pickup in the construction market and through M&A, further consolidation activities in the industry. There is no reason for us to lack confidence in what we see in the next one to two years.

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

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Okay. Thank you, Michael. So, I'll also give you my conclusion and a picture before we move into questions. So, the conclusion for the second quarter is that it is a good return to growth on both order intake and net sales. It's good to be on the positive line, and together with high and improved gross profit margins.

It's also very positive with the improved results in Collection in combination that we are securing projects on the renovation market. And also, renovation projects often have a strong sustainability angle and often the user or the owner of the building is involved. So, therefore, we actually see a higher adoption of smart lighting in renovation project. And also, as an additional benefit, Organic Response is a wireless system which makes it very easy installation in a renovation project.

So, today, we focus on how ambitious our SBTi targets are and what we are going to do on our journey towards smart and circular as we continue to renovate Europe. We are well-positioned with regards to the market trends, and we continue step-by-step to work towards our ambitions. And this is making us well-positioned when the new build market again turns positive.

So, with that, before we open up for questions, you could see another nice picture. And this is the Kabukicho Tower in the Shinjuku area in Tokyo. And the Kabukicho Tower is a 225 meters high building that was completed last year. And the lighting you see here is from LED Linear. And I hope you can see that the lighting is enhancing the architecture of the building. And it's a vertical entertainment complex. And actually, the first great building in Tokyo that is designed by woman, which is the contemporary architect with the name of Yuko Nagayama.

And with that, I hand over to Magnus and questions from the phone line.

QUESTION AND ANSWER SECTION

Magnus Haegermark

Head-Mergers and Acquisitions, Fagerhult Group AB

A

Thank you, Bodil. And hello everyone on the call. I am Magnus Haegermark and I am the Head of M&A here at Fagerhult Group and I will take care of the Q&A today. And I will now ask the operator to open for questions from those on the telephone line.

Operator: [Operator Instructions] The next question comes from Nikola Kalanoski from ABG Sundal Collier. Please go ahead.

Nikola Kalanoski

Analyst, ABG Sundal Collier AB

Q

Yeah. Good morning, all. Hope you're doing well. Just a couple of questions from me. I'm a little curious regarding the stronger order intake momentum towards the end of the quarter. Could you perhaps say anything about which segments this affect and maybe even provide us with some additional color?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

It's a good question, I would say. And I think if I look into the quarter as such, well, I don't think there is anything that stands out specifically. So, we are referring sometimes to bigger deals in the different parts. But I think in the Q2, it was more what I said before, we see a continued good uptake in renovation projects. So, we see that continue. And we also see – so, I would say, it's more a continuous trend on that side and also the same continuous trend on the small side. I also highlighted in my initial presentation I think we see that continue as well. In addition to the renovation projects, we see quite a lot of urban spaces projects as well, which if you look into the Collection this quarter, we had quite a good and many nice project on that side. I don't know, Michael, if you have anything to add specifically, if you come to think of any specific events for the quarter.

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. Well, I think you saw in Infrastructure and Professional, they had stronger quarters than they did in the first quarter. So, the comparisons were better for Professional and Infrastructure. Year-to-date, we've said that Collection and Premium remain ahead of order intake compared to last year-to-date, which is good. I'm not aware either [indiscernible] (00:33:56) individual large megaprojects. I do think we see quite some increased activity on that order intake side, subject to the comments that we said in Professional. It was quite a good rebound from a poor Q1 for them. So, generally, I think in the report I think, Nikola, we talk about business as usual in the second quarter and that's quite how we see it.

Nikola Kalanoski

Analyst, ABG Sundal Collier AB

Q

Yeah. Understood. Very helpful. Thanks. And then a quick one on the gross margin. Could you perhaps provide us with some detail on what has been the driver of the gross margin expansion year-on-year?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Well, everybody knows that the supply chain cost pressures that we faced in late 2021 through to 2022 when we were encouraging our businesses to think about pricing and price improvements, this took place during 2022 into 2023. You guys, as well as ourselves, we were keen to see the impact of this coming through in the income statement. It did quite strongly come through in the last two to three quarters of 2023, and that was mainly through pricing to recover the cost impacts in the supply chain, but also as well on the employment cost that are part of the margin calculation. We've been through a period of higher employment cost levels.

On what we see in 2024, Nikola, is a little bit of a combination of – it did take a long time for some of these pricing improvements that we've made to impact our results, and that has continued partly in 2024, but also on the supply side, we do see now input costs beginning to reduce. So, in this year, it's a combination of continuing to benefit from the pricing improvements that we've done. It takes anywhere between 6 and 12 months for them to be fully through into the income statement. But more quickly, we get into the EBIT number the impacts of any input cost reductions. And we've had those in two broad areas, on base metals, steel, copper, aluminum, but also in LED electronics across our businesses. So, this year, different than last year. Last year was about pricing and cost increases that we had to overcome. This year, it's been about price, continuing of pricing, and input cost reductions.

Nikola Kalanoski

Analyst, ABG Sundal Collier AB

Q

Yeah. Thanks, Michael. I appreciate the detail. And then finally on smart lighting. Would you say that you continue to experience positive business momentum and client reception? Or is it perhaps a little bit stagnant because investment sentiment is perhaps generally dampened?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

I think it's what I said before. I wouldn't say it's dampened. I mean, that's more relating to when you look into renovation and new build. And for us, as I said, smart lighting very often is very, very good. When we do renovation projects, we are closer to the decision-makers that will have the benefit, i.e. the energy reduction. And also, it's very good for doing easy installation as it's wireless. And so, I see a higher uptake on the renovation side. I think then otherwise, it's more, as what I said also, this is a question about education and knowledge, and that work we will have to continue for many years to go on the smart side.

And the other point, which I think is important here as well is we all saw the reelection of Ursula von der Leyen, and one of the first things she did was to reinstate the – or to push on the Green Deal, and that is important for us because that goes in line with renovating Europe. And then we need the smart lighting. And in the last webcast call, we spoke about the European's Performance of Building Directive (sic) [Energy Performance of Building Directive] (00:38:25). And there is actually legislation in there for smart lighting that, as I said, goes into national legislation into 2026. So, maybe that will give us a little bit of an additional push from 2026, but I don't see any reasons why we shouldn't, in the meantime, continue to see good inflow of projects.

It is also a question about what I said that we're saying that we are having – everything being smart in 2030, having the sensors in the lighting solutions going out of the factory, that also demands a lot of work internally to make sure that that happens around our product portfolios. So, there was an example of in the report this quarter in Whitecroft where we have the first circular product, which now has the Organic Response also included into it. So, we also step by step in terms of making it available and a wider product portfolio. So, I think I would actually

say it's more depending on ourselves and how we make steps forward than the general market sentiment. And then I think we get help from the renovation market.

Michael Wood*Chief Financial Officer, Fagerhult Group AB*

A

Yeah. I think that last point that Bodil makes, Nikola, there is quite important. The current form factor, the shape, size of the existing Organic Response Sensor Node is incorporated very well into many of our indoor luminaires [indiscernible] (00:39:53) indoor smart lighting solution. And we were in Southern Germany our LTS business recently, late June, and they were very proud to show the development of integrating the Organic Response technology into a smaller round luminaire through to, that Bodil refers to, with the Whitecroft launch in the second quarter. So, a lot of it does depend upon ourselves, by being able to integrate and offer a wider array of our portfolio with the Organic Response technology. And that we can see taking place across the whole group.

Nikola Kalanoski*Analyst, ABG Sundal Collier AB*

Q

Yeah. Wonderful. That's all from me. Thanks for taking my questions and for answering in great detail.

Michael Wood*Chief Financial Officer, Fagerhult Group AB*

A

Okay. Thanks, Nikola.

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

Mats Liss*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yeah. Hi. Good morning.

Michael Wood*Chief Financial Officer, Fagerhult Group AB*

A

Hi, Mats.

Mats Liss*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

A couple of questions. First, I mean, you mentioned that you have implemented some measures to improve profitability and operating margin in the second half. Could you be a bit more specific regarding what measures you have in place?

Michael Wood*Chief Financial Officer, Fagerhult Group AB*

A

Yeah, no, we think we've moved early, we saw the need and we jumped on it straight away. And I think that was the right thing to do. The benefit of our operating model says that once we jump on these things, it can happen rather quickly. And we did see quite a good impact of this in the June result. Obviously, you guys don't see the June result, but we do. And what we've done is we've taken early action on those discretionary spend areas. That's not going to hurt the future. And we've also slowed down our recruitment of roles around the group. We've not said stop, that would be the wrong message, that would be too harsh.

But we've just said make sure that we get the right person 100% every time. And I think that will have an impact of slowing things down a little bit, which won't damage us in any way. So, discretionary spend areas has been one topic. And then on the head count growth is the second one. And we know that those things will come through with quite an impact. We saw it already in the end in the second quarter. But we're not looking at cross group restructurings or anything like that. That's not on our agenda because that would be damaging for the longer term.

Mats Liss*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Okay. Great. Thank you. And the second one is sort of, I mean, in Premium, there, you mentioned the investments in smart lighting and Organic Response. And if I, well, got it right, I guess you have sort of some 4%, 5% of the margin affecting – in that segment affecting both – costs that relate to smart lighting. Will this level continue in the second half [ph] with respect to that (00:43:33)?

Michael Wood*Chief Financial Officer, Fagerhult Group AB*

A

Let me just [indiscernible] (00:43:36), we talk about the year-to-date operating margin in the Q2 report that you see at 11.1%, lifting to 13.9%. Once you look at just the luminaire brands in Premium, so we see a 2% – 2.5% to 3% delta there. And that will continue in the second half year, though, there will be some discretionary spend controls as well brought into all of our businesses. Nobody is deserving of special treatment. That's part of our model. So, when we are all asked to help, then everybody is asked to help. And the expectation is that everybody contributes to that help. So, it will continue at its current level. And it will continue to grow, but not as rapidly as it has done in that first quarter.

Mats Liss*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

And they see sort of a trend that affect you, I mean, you have these 2030 ambitions. So, it's sort of necessary to do this to stay competitive, I guess.

Michael Wood*Chief Financial Officer, Fagerhult Group AB*

A

Yeah. In that same slide, I mentioned that we do see the lighting industry in the future will be shaped by good robust open smart lighting solutions and Organic Response technology is very definitely one of those. It's robust. It's easy to – it's easy for the installer community to install. It's very robust and it is capable of a lot more. We've talked through before, I think in the Q4 presentation, the 70% savings by going to LED and another 20% savings making 90% savings overall by going to smart LED with Organic Response. So, that's...

[indiscernible] (00:45:48)

Bodil Sonesson*President & Chief Executive Officer, Fagerhult Group AB*

A

And I think there is another few points here which are very interesting. I mean, it's for us, it's completely logic that this is the way we go. But there is also – I think there is also a large competitive benefit with it because if you look into – we do the same smart lighting solutions for all our brands that they're able to benefit from. And if we take a step back and look at the lighting market, we know it's still extremely fragmented. And I think when we look into that, it's going to be interesting to see how the dynamics of smart lighting will change the industry dynamics, because it will be more difficult if you're a small player to be able to also have [ph] software (00:46:32) development.

So, I think there is also – and taking a little bit of a longer-term perspective, there's many industry dynamics which are interesting. And also, for us, it's very good, I think we've mentioned before that we have an average sales value, which is 30% to 40% higher when you do smart lighting solutions. But if you look into the payback times of that because if you go back to the matrix of that, when you have a traditional lighting solution, and you go to LED, you save 70%. And when you go from LED to smart, you save another 70%. And that makes that – that we have [ph] applied towards (00:47:13) payback times on this.

Then, of course, it's depending a little bit on the electricity pricing, but we are down – we are at levels, which is, I would say around – it's depending on application, but let's say around two years. So, that makes it a very, very interesting investment from the company. And at the same time, they decrease – what I said before, they decrease their carbon footprint in scope 1 and 2. So, all property owners who have SBTi targets, this is a very, very easy move to do for them. So, I think there is many benefits in it. I think I've said it before, it's more the knowledge about how to do this and what the benefits are that we need to make sure that we work with.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. Great. Yeah. And, yeah, and looking at the Infrastructure, I guess I was a bit disappointed on the margin there but now, orders are improving somewhat. Do you see there of increased volumes to support margins going forward? I guess...

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah, I think we do see, that despite what we mentioned about Infrastructure and the review that we are embarking upon in Veko, we do see a more positive order intake position in the second quarter and that will help of course. And we talk about some of activity that design plant does in Germany with Deutsche Bahn in particular on the refurbishment and renovation of the railway estate in Germany. It's an activity that they started many, many years ago, that's now coming through to benefit. We will be taking a long, hard look at Veko and realigning their strategy for – with them. And we do hope that maybe not Q3, not Q4, but most certainly in 2025, you should see improving margins coming through in the next year period.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. And finally, just about, I mean, M&A there, I guess gearing is down to pre-iGuzzini levels...

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

...and the market is sort of maybe a bit slow for some competitors. Do you see opportunities to move forward and make some additional acquisitions or is it sort of a wait-and-see game?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

It's a little bit of both, it is wait and see, because I can't say too much, of course. But we are moving forward with second and third round conversations with contacts and opportunities that we have been discovering in the first six months of 2024. Magnus, who's on the call with us, he's hard at work doing that. So, we are optimistic for the future in our new M&A agenda. But it is, as you say, Mats, wait and see.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, great. Thanks a lot.

Operator: [Operator Instructions] There are no more phone questions at this time. So, I hand the conference back to the speakers for any written questions or closing comments.

Magnus Haegermark

Head-Mergers and Acquisitions, Fagerhult Group AB

A

Thank you. We have some written questions here and I start with one here to – perhaps maybe to Bodil. You make reference to the new build market possibly at the bottom with a pickup expected. When do you see this pickup and can you add some more here?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

I mean, it's always difficult to look in the prediction in the future. But if you look at the building market in general, I think we also need to see that our global footprint makes the fact that we see differences in different regions. You have some regions that haven't been impacted, which is good and positive. But if you look into the latest statistics from EUROCONSTRUCT, we see a positive on the renovation market, which you hear us speak about loud and clear. But going into 2025, which might be also natural, seeing the development [ph] and – or the hope (00:52:16) development on the interest rate for the fall, there is a discussion starting about that new build market will become positive from 2025 again. And of course, that would be very good.

I think we see some regional differences there as well. I think one very good thing is that speak about good activity in the UK, where I hope we now have some stability. And as you know, UK is our single biggest market. So, it's an important market for us. I think that is how much I can say about it.

Magnus Haegermark

Head-Mergers and Acquisitions, Fagerhult Group AB

A

Thank you. And the other written questions we have here are already answered during the call. I think we have a question still from Karl. It looks like he's trying to add via the phone here. So, I ask our moderator to see if you can help him to ask the questions.

Operator: The next question comes from Karl Norén from SEB. Please go ahead.

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

Yes, good morning. I just have some clarification questions. And the first one is on operating cost during the quarter. Would you say that there's any specific like one-off impacts, or is that a quite clean cost base in the quarter?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Quite clean. [indiscernible] (00:53:47) no one-offs in [indiscernible] (00:53:51) quarter. Yeah.

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

That's clear. And then just a question here on the cost measures taken. I mean, it looks to me like your number of employees has declined quite a bit or declined in the last quarters, but they were up a little bit sequentially. So, I'm just wondering a little bit regarding how much you think that it's going to impact. I think – I know you don't guide, but could you say anything involving what you saw in June?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. You're right. I'm glad you have to mention that we don't guide, so thank you for that, Karl. No, I mean, we had an impact in June and the immediate impact we were pleased about because it showed that the message had landed well and people had jumped to it. But we expect once the message is taken a little bit deeper into their businesses, we do expect that we can perhaps improve in the second half year over what we did in June because June was very, very new, very recent, so we expect a little bit more. I think I am entitled to expect a little bit more in the second half of the year [indiscernible] (00:55:11) immediate reaction in June.

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah. Sounds fair. And then I also have a question regarding the seasonality in the business. Can you just remind us a little bit there, how the summer impacts, et cetera?

Michael Wood

Chief Financial Officer, Fagerhult Group AB

A

Yeah. We used to be quite seasonal and that if you go back quite some number of years and I'm going back to maybe the early teens of the current century, Karl, here, and it was very, very clear that the Q2, Q3 were by far our strongest quarters back then. But I think with the shape and size and dynamics of the group now and by dynamics, I mean northern hemisphere, southern hemisphere, global businesses, European businesses, indoor and outdoor. I think the seasonality that we used to see is not as clear as it is – it's not that clear today. So, I think it's more evenly spread today across the application areas and across the geographies within our businesses. So, we've not really had a seasonality conversation at group for quite some number of times now.

And I suppose I would just add one part to that, though, Karl, the last two to three years have been heavily, what's the word I'm looking for, disguised, as you would say. The quarterly performances in the last two to three years have been heavily disguised with, one, the recovery coming out of COVID and, two, the impact on, first of all, order intake and then on net sales from the supply chain crisis.

So, I remember talking about Q4 2022, was an all-time high quarter. And for that to happen in the Q4, you'd say, is that realistic, is that repeatable in Q4 to come in the future. No, it's not because it was a catch-up period from the supply chain. And so it has got a little bit disguised and quite unclear. We look forward to 2024 being a normal seasonality quarter, and then when we get into next year, we'll look back at it and then decide where we go.

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah. Sounds fair. And then just a last question, if you could say anything regarding the growth within new build compared to renovation in the quarter. Is it possible to quantify that?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

No, it's very difficult to quantify it. What you can see is if you look in general on the market, if you look at the building markets as such, it's half-half almost in Europe, if you quantify the new build construction market and the renovation market. And we more renovation than we are new build. And if you look also on the growth rates, on the markets, you have the growth rates on the renovation market, which you don't have on the new build market. So...

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay.

[indiscernible] (00:58:18)

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

...that gives you a little bit of a feeling for it. That's why I say that it will be positive having growth again in the new build markets...

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

...from...

[indiscernible] (00:58:37)

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Q

And it sounded in the CEO letter, Bodil, that new build is suspected to be a bit more stable going forward [indiscernible] (00:58:43).

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

A

Yeah. I think that's what the research is saying. And I think I mean it is dependent on interest rates as well. So, let's hope they're right. And I think you hear me also saying that for the renovation side, there will be legislation impact, but I think we will get more of a boom on the renovation side, if you look from...

[indiscernible] (00:59:04)

Karl Norén

Analyst, Skandinaviska Enskilda Banken AB

Yeah. That's good. That's all for me. Thank you.

Q

Michael Wood

Chief Financial Officer, Fagerhult Group AB

Thank you, Karl.

A

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Thank you.

A

Magnus Haegermark

Head-Mergers and Acquisitions, Fagerhult Group AB

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

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Yeah, I'll make a very quick one because we're running out of time. So, very nice to have so many questions today, we enjoyed that. But I think in a brief conclusion is that we delivered positive numbers both on order intake and net sales combined with very strong gross profit numbers. And we are, as you've heard us, focusing on balancing net sales and the cost levels for the remainder of 2024. And we are expecting an improvement, a positive improvement here in the second half. At the same time, even more important, in line with our strategy, we continue to make progress in all our initiatives being sustainability in smart lighting that we spoke a lot about today. But we're also working really, really hard with the talent development, which people [indiscernible] (01:00:10) what makes the difference in the end. So, we continue to see many opportunities and that makes me confident for the future. And I think with that, we'll wish you all a continued good summer, and hope you'll get some deserved vacation.

Magnus Haegermark

Head-Mergers and Acquisitions, Fagerhult Group AB

Thank you, everyone, for joining today's conference call. Next, we will publish our Q3 results on October 28, and we will host a webcast on the same day. Have a nice day, everyone. Thank you.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult Group AB

Thank you.

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