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Transcript: MEKO Presentation Year-end report & Q4 Results 2022

Pehr Oscarson **President & CEO Meko**

Good morning, and welcome to the presentation on the fourth quarter and year-end report for 2022. I will now guide you through the results. Our CFO is not joining us today, but will of course be back on the next occasion.

Q4 2022

Strong growth and improved cash flow

We continue to deliver organic growth in the quarter and have had a strong development in most markets, however, there has been some challenging market conditions in Denmark. We are taking actions to mitigate the effects in Denmark, as well as intensifying our effort in all markets to increase our profitability. I will get back to our actions with respect to the market shortly, but one example is Norway, where we have optimised the organisation further, including the branch network. This will create better efficiency, cost control for the future business.

We have once again proven our resilient business model. Our strong cash flow and financial position creates value for our stakeholders, meaning that we are able to invest in the core business, new business, and future growth.

I'm also happy to announce that the Board of Directors proposed a dividend of SEK 3.30 per share for 2022.

MEKO – Fourth Quarter and Full-Year 2022

Looking at page three, as stated, I'm very satisfied with our continued solid growth. Our strong cash flow continues to improve, and the adjusted EBIT and earnings per share in Q4 are in line with the same quarter last year.

Stable underlying EBIT development

Looking closer to the EBIT bridge on the quarter – for the quarter on page four, we deliver in line with a very strong Q4 last year, despite the weaker market in Denmark and items affecting comparability. There, it is seen mainly across[?] to one of efficiency measures in Norway that will bring positive effect of the result later this year and is in line with our strategy to optimize the supply chain and obtain synergies through the country organization.

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Regarding Denmark, we experienced a lower demand in the quarter, related to macroeconomic situation. We initiated actions in order to secure our market shares, which I will be back in a short while.

Our business in Finland is developing according to plan, and we acquired Koivunen, and for Mekonomen.

Also, a significant development in Poland/the Baltics, both [inaudible] the acquisition of the Baltic part of Koivunen and a very strong development in Poland.

Solid Full-Year Gross Margin Development

Let me move over to page five. We have managed to hold on to a high gross margin for the full year, around 45%. As we can see, price adjustments have overall compensated for product and customer mix. In Koivunen, we have a slightly lower margin. Going forward, we will see improvements in that, due to the purchase and synergies.

Sales & Result per Business Area

Then we move over to slide seven and the business areas.

Denmark – leading position in a challenging market

And as stated, we experienced temporary challenges from the weaker demand in Denmark, especially in this quarter. In order to secure our market shares, we have met the tough competition in the market with sales activities successfully, but momentarily we're lowering our margins. Still, as we said, is by far the market leader in Denmark as well as the most profitable player in the market. We know that the demand is stable over time, and we foresee improvements in the quarters to come. Car is still king when it comes to demand for mobility.

Finland – healthy performance in pending market

Over to business area Finland on page eight, including Mekonomen Finland and the newly acquired company Koivunen.

We saw a really good performance in Finland. The intense work with bringing out synergies is continuing according to plan with gradually ongoing efforts and with full effect as from 2024. One of the larger upside lies in Mekonomen Finland using the backbones of Koivunen. This includes merging Mekonomen central warehouse into Koivunen's, which will result in efficiency gain in the supply chain and, of course, also, a much better availability.

Poland/the Baltics – strong performance in growth markets

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Over to page nine. I'm satisfied that our strongest growth markets, Poland and the Baltics, are performing well. In Poland, we have an outstanding development. In the Baltics, we are performing according to plan, still with upside from the purchase and synergies as well as closer collaboration with the Group.

Sweden/Norway – intensified efforts for higher profitability

And we move over to page ten, and Sweden/Norway. We delivered a decent result in Sweden and Norway and with stable growth. The somewhat lower margins, however, are temporary and this is something we focus on to improve. As I stated earlier, we have optimised the branch network and central functions in Norway. This is in order to improve availability, create efficiency, and lower our costs. And this is in line with our strategy where we always try to optimise availability by merging, adding, and closing branches in line with the market demand.

Sorensen Og Balchen (Norway) – reliable performance

On slide 11, business area Sorensen Og Balchen, we experienced a weaker retail market in Norway during the quarter; although, we see signs of market recovery in the quarter compared with development throughout the year. We know that the demand will recover over time. Still, in order to reduce the vulnerability towards retail, we continue to take action to address and develop the offer for the business-to-business customer area.

Market & Footprint

Strong Group footprint

Then, on page 13, and looking at our footprint, the number of branches is stable over time. We have grown overall in number of affiliated workshops. Here, we are especially successful to attract customers in Poland, which we can see in the growth result. And as stated before, the size of the workshops and the number of mechanics are most important for both the workshop profitability as well as ours.

Meko strengthens its position in Denmark

Over to page 14. We recently closed the acquisition of the leading car accessories company Avant. We hereby strengthen our position further by adding new products and new customer segments in Denmark. Going forward, we have a potential to extract synergies with the purchase and area of accessories in the Nordics. This is a growing segment in the Group with a large potential. [Inaudible] to that, the demand is very stable, regardless of which type of vehicles are driving on the road in the future. For example, electric vehicles will still demand car care as well as assortment[?] and so on.

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Meko continues to be one of Sweden's most equal companies

Moving on to page 15. I'm proud that we continue to be one of the most equal companies in Sweden. Gender distribution in the Group Management Team has been equal since 2018, and we have a dedicated focus on increased diversity in the Group. The gender perspective is one important part, it's also important for us to have teams that contribute with different strengths and perspectives.

Capital Markets Day 21 March 2023

Moving to page 16. I'm happy to announce our upcoming Capital Markets Day, and during that event, we will go deeper into our strategy, market, and initiatives going forward. So, please save the date, 21st March, in Stockholm, and we will send out more information on the event through a press release.

Summary

And finally, to summarize, we look back at the second-best full year ever regarding our earnings, and the best year ever when it comes to sales. The past quarter, we had strong growth, strong cash flow, and we were able to defend our market share despite challenging times. Also, we are on the forefront when it comes to new technology, where we have a leading competence within electric cars and utilization of the business.

I'm very happy that the Board proposed an increased dividend of SEK 3.30 for the year compared to SEK 3.00 last year.

And with that, we will open up for questions. And with my side, I have Camilla Axelsson, Head of Group Business Controlling, who will assist me if there might be any financial details that might come up. So please, welcome with your questions.

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Q&A

Operator: Ladies and gentlemen, we now begin the question-and-answer session. If you wish to ask a question, please press star one and one on your telephone. Star one-one if you wish to ask a question.

We are now taking the first question. And the first question from Andreas Lundberg from SEB. Please go ahead, your line is open.

Andreas Lundberg (SEB Equities): Yeah. Good morning, thank you. It seems that input costs and energy costs were on the high side and put some pressure on volumes. Is it fair to say that your own price hikes are lagging or are you not taking enough to fully compensate, and how are you thinking about on pricing in 2023? Thank you.

Pehr Oscarson (President & CEO MEKO): Yeah, pricing is – there is a big difference in the different markets, so there's not one simple answer to that. But we – where it's possible, we, of course, increase prices. Sometimes, we – there is a delay because we need to announce it to certain customer groups and so on, but we also need to be careful, so we all the time have a good offer to the customers – and of course, we have the competition. So that's one side. But the other side of compensating for the inflation is, of course, to create better efficiency, which the activities in Norway is an example where we close down and merge branches just to reduce cost in that way.

Andreas Lundberg: So what do you say is the outlook to improve margins in 2023?

Pehr Oscarson: We don't guide all like that. But, I mean, we – I don't see any big variation from this level both up and down. As I said, there is a lot of things to do with the gross margin but also on the cost side, so we'll see.

Andreas Lundberg: And on cash flow, you talk about the strong cash flow. Agree with that. Firstly, what was the ordinary CAPEX for 2022 and how do you see that in 2023, and can you also comment on the current inventory levels? Thank you.

Pehr Oscarson: To start with the inventory levels, they are still a little bit high, due to that we increased inventory during last year to be more prepared for the disturbances in the supply chain, but it starts to be more normal.

When it comes to CAPEX, I will lean over to my colleagues here.

Repeat the question on CAPEX.

Andreas Lundberg: Ordinary CAPEX for 2022 and your plans for 2023?

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Pehr Oscarson: I will start with that there is no – we don't see any big variations going further, but we will see what in 2022 it was.

Andreas Lundberg: Pehr, perhaps I can ask another question about Denmark and what's particularly challenging here versus the other markets? What's the issue in Denmark, can you be more concrete?

Pehr Oscarson: Yeah. It's lower demand. We see that when we look at sales of diesel and petrol, which has decreased compared to years before, there is a lower customer confidence in general in Denmark. And the – when we talk to other industries in Denmark, it seems to be that's [inaudible] in a more dramatic way. So it's more careful among the consumers and among the companies. However, it starts – already the end of last year, we see some recovery. We still believe that this will at some point bounce back, so it's more temporary.

Then, there is tough competition, and so we have also – that affected the gross margin, where we needed to fight back to keep our market share.

Camilla Axelsson (Head of group Business Controlling, Support & Financial Analysis, MEKO): Yeah. When it comes to investment, it's [inaudible], we have invested SEK 208 million for 2022, and it's slightly more than 2021. And I don't think that we want to release exactly what we will have in 2023, but it's normal investments that we [inaudible].

Andreas Lundberg: Did you say SEK 200 million, I couldn't hear you?

Camilla Axelsson: SEK 208 million.

Andreas Lundberg: Okay, got it. Thank you very much. That concludes my question.

Operator: Thank you for your question. We will now take the next question. And the next question from Mats Liss from Kepler Cheuvreux. Please go ahead, your line is open.

Mats Liss (Kepler Cheuvreux): Yeah. Hi, thank you, a couple of questions. Looking at Norway, and you hinted at these measures to make it more efficient, could you say something about the payback expected going forward and when it will be fully yield?

Pehr Oscarson: We have – we don't disclose what the actual savings are, and this is also in order to improve availability, but the positive effect will be – all be in 2023. And then we took some one-offs regarding rental contracts over – in the Q4.

Mats Liss: Okay. And in Finland, you mentioned the integration process is going on, and that you will, sort of, integrate the warehouses, etc. How far out is this process to be finished?

Pehr Oscarson: We – the very simple answer is that all the synergies should be full realised by 2024. And then there is an ongoing effect, and it depends a little bit on – I mean, now we are in

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the middle of the moving process. We need to create space in one warehouse to move over, so it's very difficult to say exactly when it will come. But as from 2024, we will have the full effect, and gradually during this year.

Mats Liss: Previously, you also indicated that you saw opportunities to adjust – relocate holdings there. Are there any more to comment on that?

Pehr Oscarson: No, that's still the same situation, and we are monitoring the possibility of – to sell some or all of the properties at one time when the market is good for that.

Mats Liss: And looking further down the P&L, there was some [inaudible] carry forward in the Finnish operation in Koivunen and it was that there – or are there more to come there, or is it sort of a one-off in the fourth quarter?

Camilla Axelsson: It's what we have assessed now, and it's more or less a one-off, and it comes from Mekonomen Finland and not Koivunen.

Mats Liss: Meko Finland, yeah, okay.

Pehr Oscarson: Well, so, Meko.

Mats Liss: Yeah. Okay, great. And finally, over in the Baltics there, they performed quite strongly, and do you expect that trend to continue? I guess it's, well, a pretty good development.

Pehr Oscarson: Yeah, I hope that we can see the same development in the Nordics as in Poland. It's a tough market, and as well as in Poland, the competition in the Baltics is much tougher than we see in the Nordics. So, but it's also an increasing market and a lot of possibilities, so I have good hopes that the Baltics will follow the same trend as Poland has done the last couple of years. Still, it's very small countries, and it's a small market, so for – when you take it for the full Group, it might not have that big impact.

Mats Liss: Okay. Thank you.

Pehr Oscarson: Thank you.

Operator: Thank you for the question. As a reminder, if you wish to ask a question, please press star one and one on your telephone. We don't have any further questions at the moment. I will hand the conference over to the CEO for closing remarks.

Pehr Oscarson: Yeah. Thank you very much for listening and have a great day.

[END OF TRANSCRIPT]

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