Q2 Results 2023

Wednesday, 24th August 2023

Highlights

Pehr Oscarson

CEO, Meko

Thank you and good morning and welcome to the presentation of the Second Quarter for 2023. I'm here together with our CFO, Åsa Källenius, and we will guide you through the key figures today. Let me start by summarise the highlights and let's look at slide two.

Highlights

In short, the second quarter demonstrates that Meko is steady even as the economy slows down. We increased our revenue, improved EBIT and generated a higher cashflow. Also, we see a pent-up demand to repair and maintaining our cars.

The market conditions improved in several markets, which is an evidence of a strong underlying demand for our products and services. That said, we face challenges. Among these are inflation and weak Scandinavian currencies against the Euro. This factor mean that we're intensifying our efforts to improve our margins, and we'll talk more about this in just a moment. But particularly important during this quarter was a significant strength of our financial position. Thanks to the sale of properties in Finland, we now have a leverage clearly within our target range. Now, let's look at the key figures for the quarter, please Åsa.

Key Figures

Åsa Källenius

CFO, Meko

Thank you, Pehr. We are on page three now. If we look at net sales, we have a strong growth. We grew 28% in total and by 9% organically in the quarter. And as you can see, EBIT is improving significantly, supported of course by the sales of the properties in Finland in May as Pehr mentioned. But even without this effect, the results improve. Adjusted EBIT increased with 12% compared to Q2 last year and cashflow is also stronger than last year. However, the adjusted EBIT margin is lower. The main reason is the weaker gross margin, which we'll look at in a minute. But before that I'd like to elaborate on our stronger financial position and the sales of properties in Finland. Let's move over to slide four.

Financial position and sales of properties in Finland

The agreement with Sogax[?] was completed in line with our plan when we acquired Koivunen. Owning real estate is not in line with Meko strategy. The transaction valued the properties at EUR 36.5 million and we made a capital gain of EUR 10 million. We booked half of the gain in the second quarter and distributed the rest over the next ten years, which is the leasing period for the properties sold. After the transaction, we will still have about half of the acquired properties within our books.

In conclusion, this strengthened our financial position as our next step is reduced significantly. But this is also in line with our financial sustainable M&A strategy as we would see in the next slide. Slide five.

The sale of the properties demonstrates our ability to identify values in larger acquisitions and our capacity to effectively reduce leverage when the acquisition has been completed. In Q2, our leverage is 2.61 and clearly in line with our financial targets. We had a similar process when we acquired a certain entity back in 2018 shown here in the graph. At that time, we were highly leveraged for a limited period but managed to reduce next steps effectively. Going forward, we will continue to reduce our next steps according to plan; and in the beginning of Q3, we have a multisite 500 million SEK on our long-term debt.

Gross margin

Now let's move over to page six and look more on our gross margin development. As you can see, gross margin is 43.3% in the quarter, and this is lower than last year. On the positive side, we have succeeded in making price adjustment, but the weakest Swedish and Norwegian currency against the Euro contributed negatively. And as Pehr said, we are taking action to improve this effect. We also have structurally lower margin related to Koivunen acquisition and 1.3% is related to changes in product and customer mix. And we are taking action to raise this level of course, and to increase our profitability.

Adjusted EBIT

Now we proceed to adjusted EBIT on page seven. Adjusted EBIT is higher compared to the second quarter last year. This is mainly explained by improved EBIT in Finland, Poland, the Baltics and Sweden, Norway. The item Other relates mainly to added resources for increased ambition in sustainability, investments in IT to improve our governance systems and insurance costs related to cyber security.

Business areas

Let's move over to the business areas on page nine. And starting with Denmark. Net sales in Denmark were strong in the quarter, an increase of 18% in total and 5% organically. EBIT was stable but the margin was lower. Our actions to improve profitability are having effects, visible effects, and we also see signs that the market condition will continue to improve from here.

Finland

We turn to Finland on page 10. Finland, the operation is progressing in a good pace with a healthy growth of 34% in Mekonomen and a positive development also in acquired Koivunen. Synergies are also extracted as planned through several different activities; among them, the merger of our finished warehouses and synergies within purchasing.

Poland, The Baltics

Moving over to Poland, Baltics on page 11. Poland grow organically with 6% in the quarter and we also see a positive development in The Baltics. As in Finland, we continue to extract synergies according to plans which will have full effect in 2024.

Sweden, Norway

Turning to Sweden and Norway on page 12. We are pleased to see Sweden-Norway delivering improved growth and EBIT in the quarter. This is partly an effect of our many activities to improve profitability as presented in connection with our previous financial reports. We will continue with this effort which will include activities across the business area and in both countries.

Moving over to page 13 [inaudible]. We are pleased to see that [inaudible] is back in healthy organic growth. The pace is 12% in the quarter, a clear improvement compared to the same quarter last year. EBIT margin is at 19%, which is higher level than peers; however, slightly lower level than Q2 last year. In response, [inaudible] will continue with optimization and effort to gain market share in the business to business sector, which is less affected by weaker median market than the retail segments.

That was a brief overview of the development in our business areas. Pehr, I hand it over to you.

Market

Pehr Oscarson

CEO, Meko

Thank you, Åsa. Let's move to slide 15 and look briefly on our market footprint. It's clear it shows that Meko is a company with diverse net sales across Northern Europe compared with the situation which we had a few years ago when Sweden-Norway was dominant. This situation makes us more stable as a company and opens up for new growth opportunities. It also demonstrates our strong market position. We are leading in several markets but still with room to gain market shares and increase value creation.

Business model

We move over to page 16. Meko's business model is very well positioned for the future and the necessary ongoing green transition. Our business is all about extending the life of cars, making them last longer instead of buying new cars, which in most cases is worse for the climate. Our business is also about taking care about used parts instead of throwing them away. In other words, Meko is about sustainability and circularity.

This quarter we increased our internal ambition regarding sustainability. As one of the first companies in our industry, we have linked our bank loans to sustainability targets. This will strengthen our internal focus on systemic sustainability even more.

New strategic collaboration

Finally, turn to page 17. Today, we announced a new strategic collaboration within heavy trucks. We will become a supplier to the largest independent truck workshop chain in Sweden, Malte Månson Verkstäder, and this will further strengthen our position in Sweden and enable Malte Månson to continue to grow in a rapid pace in the coming years. This is a priority segment from Meko where we have grown 25% since 2018. Today heavy trucks account for SEK 500 million in net sales.

So that was our presentation for today. Thank you for listening and we are now open for questions.

Q&A

Operator: Thank you. As a reminder to ask a question, please press star one one on your telephone and wait for your name to be announced. To withdraw your question please press star one and one again. Once again that's star one and one if you wish to ask a question. We will now take the first question. It comes from the line of Smart Lee[?] from Kepler Cheuvreaux. Please go ahead.

Smart Lee (Kepler Cheuvreaux): Yeah, hi. Thank you. Couple of questions first. We, you mentioned that you're a bit behind with price increases, and could you give some indication what will happen in the second half now regarding that?

Pehr Oscarson: I think that the ambition is to close the gap during the rest of the year, so to say. It's not only a prices increases, it's also about choosing the right customers and selling the right products. But I will also stress that we work intensively with our suppliers to also get some better conditions going forward.

Smart Lee: Great. And secondly, you also indicate that the gross margin decline is partly – largely due to customer mix and product mix. Could you say something more about that also?

Pehr Oscarson: Yeah, that's a bit more difficult because on that aspect, it's a lot of different trends and we have that, let's say, kind of volatility that sometimes customer product mix makes the margin up and down, and now it was down this quarter. It can be more sales or tyres for example can be one reason that lower the gross margin.

Smart Lee: Okay, great. Then in Denmark, bit disappointing, I guess, but you also say that you have some measures to be implemented there to improve profitability. Could you say something about what kind of measures?

Pehr Oscarson: I mean, it's the spectrum of all activities and it's quite a big portion coming in within costs and we are merging some branch but it's mostly reducing people in all kinds of levels. It's also other costs related to marketing and those kinds of things. So there is a big effort in cost reduction, and it also tends to work to get back on track when it comes to the gross margin. The gross margin is then mostly pressured by a tough competition but we are trying to find ways and also here with the help of suppliers to get that back on track. And I would say that during the second quarter [inaudible] one way of saying it, the feeling is that [inaudible] profitable.

Smart Lee: Okay, great. And given the top line there, top line growth in Denmark, it seems that while you are growing in line with the market or you're even growing your market share.

Pehr Oscarson: I would say we have a stable market first, [inaudible] a little bit deeper. We gain more customers than we lose, but if it's significant [inaudible]. But it has been a healthy development and [inaudible] our market maybe making something from some of the competitors as well.

Smart Lee: Okay, great. Thank you.

Pehr Oscarson: Thank you.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one and one on your telephone. That's star one and one if you wish to ask a question. We will now take the next question from the line of Andreas Lundberg from SEB. Please go ahead.

Andreas Lundberg (SEB): Thank you and good morning. I'll start with organic growth, 9%. Is that mainly price effect or what about volumes? You talked about big pump of demand for instance. Could you give more colour on the organic growth? Thank you.

Pehr Oscarson: [Inaudible] quarters, probably higher amount of volume this time due to the pent-up demand. And I mean we see that – We don't communicate the exact numbers but we, of course, see it in the warehouses and so it's more volume this quarter but still a mix.

Andreas Lundberg: And you're talking about pent-up demand, why is that and how do you see that from here?

Pehr Oscarson: It's [inaudible] or during end of last year and beginning of this year that people... Even if the service light was light up, they postponed the service and the maintenance, and if it wasn't really needed, they waited. But now during the spring, those car comes into the workshops and we have normal waiting times in the workshops usually fully booked one or two weeks and so on. So that's definitely positive. Then there is also [inaudible] because we had a very late spring, which means that the tyre season came in more in the [inaudible].

Andreas Lundberg: I actually losing you once in a while, but I think I got the message. But the current change to gross margin, is it fair to say that you have [inaudible] they call it the online cost inflation and it's more an ethics issue right now. Is that a fair assumption?

Pehr Oscarson: [Inaudible] it's more due to currency in this quarter than actual inflation from price increases from suppliers. So, I think that the price from the suppliers, this is a different product and that's also why we believe that we could get some help in gross margin from the suppliers because the production prices are stabilised now. So we don't see any more increases in the production.

Andreas Lundberg: Rotation costs. Where are [inaudible] those items?

Pehr Oscarson: We lost him.

Andreas Lundberg: No, when it comes to energy and transportation costs, you talked a lot about that in the last year. Where are we now?

Pehr Oscarson: We are on a stable, I would say. There's no more increase[?] [inaudible]. Probably there will be also some possible decreases in those costs as we see it. We don't have any impact in the Q2 versus earlier quarters from those areas. I think transportation's inbound from supply [inaudible] but then we still have some increases when it comes outbound to customers.

Andreas Lundberg: And what about currencies in general? If I recall it correctly, you had a pretty big negative effect in the comparable quarter last year. Is it fair to assume that the delve down FX has been negative also Q2 '23?

Pehr Oscarson: Probably. I don't have that numbers here and in my head, but you are probably right.

Åsa Källenius Yeah, probably it's [inaudible]

Pehr Oscarson: Maybe the slot is better than last year but Euro versus SEK [inaudible] definitely worse.

Andreas Lundberg: Yes, hopefully [inaudible], how far are you there? How much has been realised versus how much is remaining? Thank you.

Pehr Oscarson: Negotiation with suppliers has gone very well so that we will start to see now, with effect from next year where either we'll see if in gross margin or increased sales because we are more competitive. And then we have the merge of the Mekonomen and the Koivunen warehouse and that is planned to be finalised now in September-October or something. So from next year, those costs should be completely out as well.

Andreas Lundberg: Thank you so much.

Operator: Thank you. We will now take the next question from the line of Stefan Stjernholm[?] from Nordea. Please go ahead.

Stefan Stjernholm (Nordea): Yes. Hi, it's Stefan here. I have a question on the inventory. It remains at a quite high level. I do understand that FX and also the acquisition made are part of the explanation, but do you see room for – to lower the inventory levels somewhat giving that lead times in terms of sourcing now are back to more normal levels?

Pehr Oscarson: Let me put it in this way. I don't see any need for increasing inventory at least. Then to decrease it also should be always balanced with availability, which is key in our markets. So that's a balance. And then of course, with the inflation also in the inventory it increases; but I wouldn't guide on that, but it's more room for decreasing than increasing. Put it in that way.

Stefan Stjernholm: And another question on the EBIT line and other, it was up 10 million year over year. Is that one off or should we expect a higher level going forward?

Pehr Oscarson: Partly one off items, but I would say mostly it is a new level. I mean, we need more resources when it comes to sustainability. We need more resources in IT and cybersecurity. So we are gearing up both for future growth, but take care about that. Then it will be other or if future, this will be cost that will be covered by the business areas, that I can foresee at the moment. But I think that the level we have to live with.

Stefan Stjernholm: Okay. Thank you. And the final question on interesting deal collaboration within heavy vehicles. Can you please comment on the profitability within that segment? I would guess that it's a quite good margin. That's right?

Pehr Oscarson: The gross margin, it's different in different markets, but it's a little bit lower than passenger scores, but it's still good. And the gross profit is very interesting because the parts is so much more expensive. I mean, the brake disc for a truck is 10, 15 times more expensive than a passenger car. So there's a lot of... And then we can utilise all the network and the logistic and everything. So the EBIT margin, that business should be very good. We don't communicate the exact number, but it should be fairly good that we can utilise on the structure we have.

Stefan Stjernholm: Okay, thank you.

Operator: Thank you. There are no further questions at this time. I would like to hand back over to Pehr Oscarson for final remarks.

Pehr Oscarson: Yeah, if no more question, then again, very good quarter. We are happy for that. Still of course some challenging times still ahead, but I think Meko has once again proven that we are very stable even in tougher times. So with that said, thank you very much for listening and goodbye.

[END OF TRANSCRIPT]