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# Storskogen Group AB (STOR.B.SE)

## Q1 2025 Earnings Call

# CORPORATE PARTICIPANTS

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

# OTHER PARTICIPANTS

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

# MANAGEMENT DISCUSSION SECTION

## Christer Hansson

*Chief Executive Officer, Storskogen Group AB*

Good morning and welcome to the presentation of Storskogen's report for the first quarter of 2025. I'm Christer Hansson, CEO of Storskogen and with me today is, Lena Glader, our CFO. This past quarter once again, underlines the strength of our diversified strategy, owning and developing small- and medium-sized businesses across Trade, Services, and Industry. The breadth give us exposure to different parts of the economy and helps balance our performance across cycles. The first quarter is, however, usually our softest period of the year. Still, I'm pleased to see that the positive progress across our operations has continued into the New Year.

Before we get into the details, let's begin with an overview of Storskogen. Storskogen is a diversified international business group with sales of SEK 33.8 billion over the last 12 months and adjusted EBITA of SEK 3.2 billion spread across our three business areas. Services and Industry track above 10% margin on annual basis, we trade currently at 8.4%. Following two mergers of business units in the quarter, one in Services and one in Industry, we now consist of 113 business units, with an average sales of about SEK 300 million.

Moving on to the highlights for the first quarter. We reported sales of about SEK 7.9 billion and adjusted EBITA of SEK 700 million and an adjusted EBITA margin of 8.8% for the quarter. Over the past year, we have been focusing on three main priorities, cash flow, organic EBITA growth and profitability, and these remain our top priorities going forward. This quarter reaffirms that we are on the right track. Our cash conversion rate at 88% continues to be above our target. Operationally, our efforts have yielded continued margin improvement with a continued positive year-on-year margin trend holding steady. Since our leverage ratio has also improved and remains at the same level as in Q4 at 2.3 times EBITA, its lowest level since the first quarter of 2022, and a level that we are quite comfortable with.

Keeping a strong operational focus continues to be key, especially now as uncertainty in the global economy has increased. Scenario planning and adapting to new situations have been an integrated part of our operations since the pandemic and continues to be so. Maintaining our healthy leverage ratio not only strengthens our position, it also gives us flexibility to resume acquisitions in the coming quarters. In fact, we just completed a small add-on acquisition last Friday, when our automation business, Dematic acquired a smaller business that will [indiscernible] (00:12:59).

Our strong cash flows over the past two years have played a key role in achieving the lower leverage ratio and enable us to make acquisitions. Continuing to generate solid cash flows is vital for our business model and our long-term success. Looking to the first quarter, it's a period where cash flow is affected by tax payments and increases of inventory. Given the seasonal fluctuations quarter-by-quarter, it's more appropriate to look at our cash flow from operations on a rolling 12 months' basis. And as you can see, this remains very solid around SEK 3 billion. The results we have accomplished in terms of cash flows for 2023 and 2024 is a testament of a lot of hard work and processes put in place, and these are expected to benefit us as we move forward.

Next, I want to draw your attention to our net sales and EBITA margin. As mentioned, the first quarter is our seasonally softest period. Still, we delivered positive organic EBITA growth in both Trade and Services, alongside – margin improvements. Sales decreased [ph] with 5% (00:14:24) compared to the same period last year due to divestments made in 2024, accounting for decrease of 6%, slightly offset by organic growth of 1%. On a rolling 12 months' basis our margin improves to 9.6%, which is an improvement to equivalent margin in Q4 of 9.4%.

Let's take a closer look on how our diversified approach is reflecting in the performance of our three business areas in terms of margin. On the left-hand side, you see the timeline from the fourth quarter of 2023 to the first quarter of 2025. It shows the margin development for Services, Industry and Trade. Over this period, Services has steadily improved its margins moving from below 10% to above 11%. In Industry, margins have softened slightly, moving from just above 11% to slightly above 10%. Meanwhile, Trade has moved more sideways overall, but with a gradual and positive uptick in recent quarters. As a result of our diversified approach, the combined margin of the business area – seen as the dotted line has continuously improved since early 2024.

Moving to the right-hand side, we see the development of the group's adjusted EBITA margin now, including group operations on a last 12 months' basis. Similar to the previous combined business area margin, the margin initially trended down, reaching a low of 8.7% during the first half of 2024. Since then, we have been seeing steady improvement with group margin increasing quarter-by-quarter, reaching 9.6% for the last 12 months by the first quarter of 2025. Our ambition is to continue to work hard to reach our margin target above 10% on annual basis.

Next, let's move in onwards and take a closer look at the business areas. Start with Services. In the first quarter, Services reported lower sales but achieved a significant increase in profitability. The 14% decline in sales was largely driven by divestments, which accounted for it. In terms of adjusted EBITA, the Service business area grew 16% year-over-year or up 4% organically. The decline in sales, excluding divestment alongside improved EBITA, reflects our focus on project profitability. This means that business units are deliberately opting out of long-term contracts with insufficient margins to have the flexibility to take on more profitable projects in the future.

In line with the developments in the past few quarters, our business units offering digital services and logistics continue to do especially well. However, the market [ph] for encompassing (00:17:47) the infrastructure vertical experienced another challenging quarter when compared to the business services. The Infrastructure businesses are more exposed to seasonality, especially those exposed to the construction industry as also noted in previous quarters. Looking ahead, Q2 is usually seasonally stronger for the business area. Project starts are planned and order intake has picked up in many businesses and the trend for coming quarter is expected to be cautiously positive.

For business area Trade, we reported positive organic sales growth of 3%, however, offset by divestments, which had an effect of minus 6%. In terms of profitability, organic EBITA growth in the quarter was 2%, resulting in slight year-over-year margin improvement. Consumer Products, the largest vertical in the business area experienced a solid quarter with somewhat increased sales. Adjusted for divestment in the previous year, the Professional Products vertical [ph] noted (00:18:58) slightly higher sales, which in combination with the company's long-term efforts, including pricing initiatives, cost focus and efficiency measures also resulted in improved profitability.

Looking ahead, the second quarter is normally seasonally stronger. The strengthened Swedish currency had no significant effect on the profitability in the quarter but has the potential [ph] to significant (00:19:25) benefit the business area as large part of the purchase are made in euro and US dollars.

Industry sales for the first quarter grew with 1%, while organic sales grew with 4%. Adjusted EBITA decreased by 9%, primarily organically, and the margin decreased to 9.8% from 10.9% a year ago. The start of the year for business area Industry will slow with an EBITA and margin below expectation. First off, the companies in Product Solution delivered sales and EBITA in line with last year. However, companies in Industrial Technologies and Automation came in below expectation, driven by a slow start to the quarter.

Even though sales was broadly in line with last year, we did see margin pressure and some projects were delayed into Q2. On a positive note, the market situation improved sequentially, with March seeing activity and profitability levels in line with expectations. We also noted a strong order intake during the quarter, which combined with a strong March, gives us confidence ahead of Q2 that we will see profitability recovering back to the strong level reported last year. In the meantime, we're committed to counter uncertainties by focusing on areas that we [ph] can effect (00:20:53) to maintain continued operational resilience.

As we highlighted during our Capital Markets Day in November, a key focus for Storskogen is to strengthen the foundation for long-term profitable growth. On this slide, you can see our current exposure. A large share of our sales today comes from Sweden, both at the group level and within each of the three business areas. This strong position in Sweden and our exposure to more cyclical sectors puts us in a favorable position to benefit when the economy rebounds. The cash flow generated from these businesses would play a crucial role in supporting our future growth plans. At the same time, the high concentration to Sweden and to cyclical sectors also highlights, why we are taking active steps to further diversify our profile, both geographically and sector-wise, to strengthen our resilience over time.

On the next slide, you will see our executing on that strategy. Going forward, we are focused on three main initiatives. First, increasing our exposure to non-cyclical businesses to build a stronger and more stable earnings base. Second, increasing our geographic exposure outside Sweden to reduce country and certain FX-specific risk. This has become even more important recently given the rising uncertainty related to trade tariffs, especially from the United States. Third, increasing our exposure to selected investment themes, where we see a long-term structural growth opportunities such as automation, digitalization and well-being.

All of these initiatives aim towards the same objective, delivering profitable growth and building greater resilience for the future. We are confident that our strong cash flow from our existing businesses, combined with a sharpened strategy focus, will allow Storskogen to continue growing while steadily improving the quality and resilience of our business group over time.

Before I hand over to Lena, I want to briefly touch on how we are set to improve the resilience of our business group in terms of capital allocation and where we see future investments. Here you see the five investment themes we have already have businesses today, health and well-being, automation, energy and sustainability, digitalization and infrastructure. While, for example, automation is mainly part of our industry segment today, all five themes are relevant across our three business areas. That said, we would welcome an investment [indiscernible] (00:23:58), for example, a trading company that is a supplier to area of automation. These themes are important because they highlight where we see the future opportunities for growth, both organically and through acquisitions.

With that, I will now hand over to Lena.

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### Lena Paulina Glader

*Chief Financial Officer, Storskogen Group AB*

Well, thank you, Christer. Now let's move on to the Q1 financials. Here, first of all, I'd like to say that we made a number of changes to our financial report as of the first quarter. And on this page, we show the adjusted profit and loss statement, on the next page, the reported figures. Now, as of Q1, our profit and loss statement is shown per cost item instead of previously per function, as we believe that this gives a more transparent and better understanding of our underlying performance.

So starting off with sales, the year-on-year sales decline of 5% to SEK 7.9 billion is driven by divestments, as we've heard from Christer just now. And looking at the cost items, our largest cost items raw material and personnel costs were 6% lower than in Q1 of last year, and our EBITA declined by 3%, which is slightly less than the sales decline. Depreciations on tangible assets and amortization of intangibles reduced by 7% and 14% respectively. The latter is expected – or the amortization part is expected to continue to decline going forward. And this led to an adjusted EBIT growth of 5% to SEK 523 million. Net financials decreased substantially, as expected by 23% to SEK 198 million on the back of rate cuts and lower absolute debt levels. And this translated into a 35% increase in adjusted pre-tax profit.

Finally, a few words on the financial KPIs below. Now Christer already mentioned the adjusted EBITA margin of 8.8%. But looking at our earnings per share, EPS, adjusted for items affecting comparability here, grew by 35% to SEK 0.13 per share from SEK 0.09 per share in Q1 last year. Adjusted return on equity was 5.8% and our return on capital employed was 10.4%. Both of these metrics are based on the rolling 12-month period, and both of them have improved year-on-year. Return on capital net of goodwill, which is not shown here on this page, was 25.8%.

And on the following page we show the reported, unadjusted profit and loss statement. And the difference between this and the P&L on the previous page is that this one includes items affecting comparability of SEK 20 million, consisting of a negative effect from reassessment of earn-out liabilities during the quarter. Including these items, the reported profit before tax was SEK 305 million, so a growth of 54%. And our reported earnings per share attributable to the parent company shareholders was at SEK 0.12 per share.

And let's take a closer look at the Q1 sales bridge. Christer touched upon this already, but here we'll illustrate the contribution to sales from organic growth, structural changes and currency. First off, organic sales growth for the group was plus 1% in this quarter. We saw positive growth in Trade and Industry as mentioned, but Services experienced a decline due to the sharper focus on profitability and projects ahead of sales growth that Christer described.

Currency and acquisitions had a marginal but yet positive effect on sales growth. And given the currency exposure based on the geographic expansion shown on Christer's previous page, we do anticipate a slight negative translation effect if the Swedish krona remains at these levels going forward from non-Swedish businesses. However, on the other hand, we also expect a positive margin contribution to business area Trade towards Q2, Q3 as purchases are typically made in euros and dollars that have weakened against the Swedish krona. Divestments accounted for a 6% drop in sales. So that's the largest explanation behind the overall 5% sales decline. And the largest impact here, of course, came from the portfolio divestment that we made and announced last summer.

On the following page, we show the similar EBITA bridge. Now, this is a bit different from the sales bridge we discussed earlier in terms of dynamics. First of all, divestments contributed a positive 3% to operating profit. This is because the assets that we divested last summer in particular were running with a negative profit in Q1 last year, amounting actually to minus SEK 21 million in Q1 2024. Currency and acquisitions had a marginally positive effect on EBITA similar to their effect on sales, while organic EBITA growth was negative 4% in Q1. While we saw positive organic EBITA growth in Trade and Services, it was negative in Industry as described earlier.

And then over to the condensed cash flow statement for the first quarter. In the first quarter, we saw a 4% increase in cash flow from operating activities year-on-year, reaching SEK 113 million. But looking at the 12-month rolling period, our operating cash flow was SEK 3.1 billion. The cash flow from operating activities is largely attributable to profit growth, which has been supported by lower interest payments in the quarter and significantly reduced tax payments compared to the same period last year.

On the other hand, we did experience a higher working capital build-up of SEK 436 million. It's important to note again that the first quarter typically sees an increase in inventory and receivables in anticipation of higher volumes in the second quarter. Looking at the net working capital-to-sales ratio, this has remained steady at 15% over the past 12-month period, which is a level that we're comfortable with and we'll continue to monitor and focus on. Our CapEx-to-sales ratio was 1.9% in Q1, up from 1.6% last year. And on the financing side, we did spend SEK 733 million on debt amortization, supporting our lower interest payments obviously. And when we sum everything up, the cash flow for the period was a negative SEK 777 million.

Our total available liquidity at the end of the quarter was SEK 4.1 billion, including cash balance and [ph] ICE credit (00:32:03) facilities. And this obviously provides us with good flexibility, which I think is particularly reassuring in these times of uncertainty and volatility on the credit markets.

And then having a closer look at the operating cash flow cash conversion. Turning to the rolling 12-month EBITA based operating cash flow on this page and cash conversion since Q3 2022. Now the group target is for a cash conversion of over 70% over a rolling 12-month period. And as you see, and those of you who followed us know that it has been above these levels significantly during the past years. And in Q1, cash conversion was 88% for the rolling 12-month period still above the target level. And also, again, as a reminder, maintaining, of course, 100% cash conversion is challenging for our line of businesses over a longer period of time. So reaching a more normal level, but still a good level is anticipated.

And then a few words on the balance sheet here on the next page, our total balance sheet was SEK 41.7 billion, 7% less compared to – or lighter compared to a year ago, largely as a result of divestments, reduced working capital and consequently significantly reduced debt, actually. And I'll come back to the net debt and leverage on the next page.

Looking at our equity ratio, it increased to 49% from 46% a year ago, also helped by currency. And as regards our debts portfolio, still a few words on that. During the quarter, we extended our revolving credit facility of €400 million, which today is largely undrawn to the first half of 2028. And after the quarter, we've refinanced our term loan facility to – and extended that to September 2027 with a year extension option. And at the same time, it was increased also in terms of amount from €290 million to €345 million. Now of course, this is drawn debt at lower margins and this means that we have no larger debt maturities until 2027.

And on the following page, finally, we show our interest-bearing net debt and leverage ratio over the past nine quarters. Our interest-bearing net debt remained below SEK 10 billion or at SEK 9.9 billion at the end of Q1, this is actually SEK 1.6 billion lower compared to Q1 2024. And this also translates into our leverage ratio, which was unchanged from year-end at 2.3 times and also significantly lower than the 2.8 times we had a year ago.

So to summarize the financials, we have seen margin improvements year-on-year, again, healthy cash flow supported by lower interest payments, underlying profits, and continued focus on cash flows. We have continued to reduce our debt and we have no longer – no larger near-term debt maturities, I should add. And this all brings us to a comfortable financial position for the upcoming quarters, I would say.

So over to Christer for some concluding remarks.

**Christer Hansson**

*Chief Executive Officer, Storskogen Group AB*

Thank you, Lena. To summarize today's presentation as we close the first quarter of 2025, these are the takeaways. First quarter was a seasonally slower quarter as expected. I'm pleased with the margin expansion and the continued strong cash flow on a rolling 12 months' basis. And we are now looking ahead to a stronger second quarter. Second point to be made, we remain firmly focused on operational value drivers still, generating organic EBITA growth and ensuring solid cash flow performance. And finally, we are preparing to make acquisitions in the coming quarters, building on the strategic groundwork we have laid. All in all, we have made meaningful progress in 2024 and that progress gives us a robust platform to continue executing on our strategy with confidence.

Thank you all for listening. And we are now looking forward for your questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] The next question comes from Carl Ragnerstam from Nordea. Please go ahead.

**Carl Ragnerstam** Q

*Analyst, Nordea Bank ABP*

Good morning. It's Carl here from Nordea. A few questions. Firstly, looking at Industry, you mentioned the – it – perhaps slight margin in the quarter. And you also mentioned, I think you mentioned postponed projects and the sort of slow start to the quarter. I mean, is the slow start to the year and postponed projects related to each other or is it separate issues? And also, could you quantify the magnitude of this postponed project? And on that note as well, when you guide for a flat margin year-over-year in Q2 for Industry, is it including these projects that could in that case boost Q2?

**Christer Hansson** A

*Chief Executive Officer, Storskogen Group AB*

Thank you, Carl. First of all, looking at the Q1 on Industry, we have had a slow start in a couple of all the companies in Automation and Industrial Technologies that brings the margin down. And these are high-margin companies. We believe that going into Q2 that we will be coming back to the same level earnings-wise, that we were on last year with that, with the postponed projects. So that's what we were saying.

 

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Okay. What are these – when I look at it just from the numbers, it might not be correct, but the US is around 11%, 12% of Industry, right? When looking at sales contraction, it is fairly substantial, 7% year-over-year in that segment. Is it there you see the projects being postponed or how should we look at it from a geographical point of view?

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*

A

Now, I think we – it's not only based in the US. It's more broadly on several – but it's temporarily in several business units, not only in the US. I would say it's more a temporary slow start than looking at it on another way.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

And you said that you have seen an improvement in March. I guess, given your guidance, is it fair to assume that you see it continuing so far in April and May as well, I guess or...

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*

A

Yeah, we have seen a – improvement in March and it looks – and also good order intake in the quarter and also continued in April. Yes, correct.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Okay. Perfect. Very clear. We also saw you doing to [indiscernible] (00:40:10) in the quarter. Should interpret – and also [indiscernible] (00:40:13) post the quarter as well, is that as you have reached a stable leverage situation and you're now ready to really restart the M&A agenda or is it just two quite small bolt-ons not representative for the overall strategy? How should we look at it?

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*

A

I think you should look at it – I said it already in, on the Capital Markets Day in November that I thought that we were going to start in Q2 and Q3. And of course, we will start with doing a couple of add-ons, acquisitions, but we are absolutely starting to look at opportunities and have been building a pipeline and looking at acquisitions again. As we said, our leverage ratio is now on the comfortable level and we will continue – and we will and have started already looked at that company to acquire. And as I said, this start with a couple of add-on acquisitions is probably going to be the first and then later in the year, there will hopefully be also platform acquisitions.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Very good. And on the Capital Markets Day, you talked about doing just the high-margin acquisitions and the ones you've done so far obviously, they are quite small. But anyway, when you look at the margin profile of these acquisitions, are they in line with what you said during the Capital Markets Day of them being highly profitable?

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*
A

Yes. And then you also have to look the – when we're doing add-on acquisitions there also – we are also looking into synergies that will be built into it. So, yes, but we're not doing – we will not do acquisitions that are not giving us a path towards higher margin.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*
A

I believe that if you read the report closely, you will find that the add-on acquisition made after the end of the quarter was actually, in fact, 15% or more than 15% margin business.

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*
A

Yeah. And that as – all on their own. But I mean, we're looking at – this will be an integrated part of our automated company, Dematic, and of course, hopefully we will have synergies as well. So yes, we are looking at high-margin acquisitions.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*
Q

Okay. Very clear. And the final one from my side is on Service. As you said that you see [ph] tendencies (00:42:42) of improved markets in infra services, that that's been sluggish, I guess.

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*
A

Yeah.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*
Q

Is it quotations only or is it firm orders? And yeah, could you give some more...

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*
A

It's both Carl. We see order intake has been better, there's more quotation there is out there. So there is a better – kind of we're seeing a better situation in the market going forward. But both.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*
Q

That's good. And with the lead times you have, when do you think that these projects or orders might be delivered? Is it a quarter or six months or what kind of orders are we talking about? Is it bread, butter delivered to the same quarter?

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*
A

That's all over the place. There are some small ones, then there are large ones as well, but there is kind of – the activity – I think the most important thing is that the activity in the market is increasing somewhat.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Okay, very clear. That's all for me.

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*

A

Thank you.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

I would like to add to one of your questions, Carl, when it came to the proportion of US sales in Industry, just a reminder that when you compare Q4 to Q1, for instance, you would need to bear in mind that the SEK has strengthened I think, roughly 10% against the dollar during that quarter, so during the first quarter alone. So just try to bear that in mind. It won't have any larger effect on the overall group sales because it's only 11% of business area Industry, but we're looking specifically on that.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Okay. Thank you.

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

**Christer Hansson**
*Chief Executive Officer, Storskogen Group AB*

Thank you for the questions Carl and thank you all for listening. I hope that you will have a continued good day and thanks from all of us here at Storskogen.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

Thank you.