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Storskogen Group AB (STOR.B.SE)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Storskogen Q4 Presentation for 2024. [Operator Instructions]

Now, I will hand the conference over to the CEO, Christer Hansson; and CFO, Lena Glader. Please begin your meeting.

Christer Hansson

Chief Executive Officer, Storskogen Group AB

Good morning and welcome to the presentation of Storskogen's year-end report for 2024. I'm Christer Hansson. And joining me today, as always, Lena Glader, Storskogen's CFO.

It's been an intense yet rewarding year since stepping into the role as CEO. And I'm pleased with the progress that we have made across our operations over the past year, and I'm confident that we are moving in the right direction.

Looking at the fourth quarter, it stands out as one of our stronger quarters since our IPO in terms of several key metrics, and I'm eager to get into the details with you. So let's begin with an overview of Storskogen before we take a closer look at the quarter's highlights.

Storskogen is a diversified international business group, with sales of SEK 34.2 billion over the last 12 months and adjusted EBITA of SEK 3.2 billion spread across our three business areas. I'm especially happy to note that Services and Industry tracked above 10% margin on annual basis. Following the several completed divestments over the past year, we now consist of 115 business units, each with an average sales of about SEK 290 million.

Moving on to the highlights for the fourth quarter. We reported sales of about SEK 8.6 billion and adjusted EBITA of SEK 849 million and adjusted EBITA margin of 9.9% for the quarter. Cash flow, organic EBITA growth and profitability have been our top priorities over the past year and will remain so going forward.

This quarter reaffirms that we are on the right track on several levels, including achieving the strongest recorded quarterly cash flow in our history at almost SEK 1.7 billion. Our cash conversion rate at 97% continues to be well above our target, reflecting the great work of our companies over the past couple of years.

Operationally, our efforts have yielded continued margin improvements in addition to sequential improvements throughout the year in terms of organic EBITA growth. Our leverage ratio has moved towards the lower end of our target range, reaching its lowest level since the first quarter of 2022 at 2.3 times EBITDA.

Lastly, I want to highlight the leadership transition. Alexander Bjärgård will be stepping down from the management team. As Head of M&A and Corporate Development and one of Storskogen's co-founders, Alexander has been an integral part of reshaping our strategic direction. He will now serve as the Chair of the Investment Committee overseeing investments and capital allocation. He will also continue as board member of Storskogen.

At the same time, I'm pleased to welcome Johan Ekström to the management team as Group Head of M&A. His extensive experience in M&A makes him an ideal successor to Alexander.

In Q4, we delivered positive organic sales and EBITA growth alongside significant margin improvements in both Trade and Services. Our 9.9% margin is an improvement of 2.1 percentage points compared to the same period last year, marking the strongest quarterly margin since Storskogen's IPO. In 2024, sales and margin followed the usual seasonal trend, a softer Q1, a stronger Q2, a slightly softer Q3 compared to the historically stronger Q4, and we expect a similar pattern for 2025. The decline in reported sales was primarily due to divestments, accounting for 6% reduction, slightly offset by organic growth, acquisitions and FX.

Our meaningful year-on-year margin improvements to 9.9% reflects the strategic initiatives we've implemented to drive organic EBITA, also demonstrated by the positive organic growth recorded by all three business areas. Divestments of low performance also have a positive impact. That said, our ambition is to continue to work hard to reach our newly [ph] computed (00:10:30) margin target of above 10% on annual basis starting in 2025.

Looking at the past two years, I'm very pleased with the result we have accomplished in terms of cash flow, in both 2023 and 2024, with over SEK 3 billion each year. This is a testament of a lot of hard work and processes put in place, and it will benefit Storskogen as we move forward. So let's move onwards to take a closer look at the business areas.

For Services. In the fourth quarter, Services reported lower sales, but achieved a significant increase in profitability. The 12% decline in sales was largely driven by divestments, which accounted for 11 percentage points. On the profitability side, adjusted EBITA grew with 32% year-over-year and with 4% for the full year, reflecting the success of our ongoing efficiency measures. We are especially happy with this in addition to the margin expansion which improved from 8.8% in Q4 last year to 13.2% for Q4.

Divestments and the increased focus on organic EBITA growth have had the positive impact both in the quarter and for the full year. In addition to working with efficiency measures, we have prioritized projects with strong profitability. Similar to Q3, we observed underlying improvements in most areas, but especially for business units offering digital services, logistics and installation services. However, the market for companies exposed to construction remained soft.

Looking ahead, Q1 is seasonally a softer quarter, but overall, we are continuing to see positive signs of improved market sentiments, and we're cautiously optimistic.

For business area, Trade, organic sales grew with 5% in the quarter. The impact of divestments resulted in decrease of 7%, which generated a total sales decline of 2%. More importantly, adjusted EBITA grew with 21% [indiscernible] (00:13:02) 15% organically. Consumer demand remains muted, but we are seeing signs of recovery, both in gradual improvements and in sentiment. When demand picks up, we see potential for stronger profitability supported by the operational initiatives that we have implemented throughout this year.

Looking ahead, as with Services, we anticipate a somewhat softer first quarter, but in line with historical patterns.

Industry sales for the fourth quarter was in line with last year's figures, while full year sales declined by 2%. Adjusted EBITA and margins also remained in line with previous year's fourth quarter, with a margin at 10.5%. Overall, market conditions remained stable with order books at healthy levels. Businesses focused on automation, especially those offering robot integrations, continued to see solid demand. While those with exposure to consumer demand, in addition to various businesses with exposure to Germany and UK, have a softer sentiment than those with the exposure to the Nordics. Global uncertainties persist, of course, making it difficult to predict when demand will recover fully. In the meantime, we are committed to counter uncertainties by focusing on areas that we can affect to maintain continued operational resilience.

Since becoming the CEO, I've emphasized the importance of organic growth as a key driver to improve our leverage ratio and to focus on long-term success of the group. And I think that we are now seeing continued progress in organic growth improvements. Improving sales, optimizing pricing, having cost controls are part of the daily operations of our business units year round and across business cycle. However, from a Storskogen perspective, we can always improve, especially by identifying best practices in certain areas and replicating them across the group.

To illustrate our progress of the past year, I want to turn your attention to the next slide. Looking at this bar chart, it illustrate the sequential improvements in organic sales and EBITA growth quarter-by-quarter throughout 2024. We started the year facing tough comparables against Q1 of 2023. This prompted the launch of target initiatives to focus on driving a recovery in organic EBITA growth. And as you can see, while sales have remained relatively stable over the year, we have seen steady improvements in organic EBITA growth, reflecting our ongoing focus on operational efficiency and profitability. And I want to highlight the 12.8% organic growth in the fourth quarter.

Before wrapping up, I want to revisit another familiar theme from our past few quarterly presentations related to some of our prioritized areas. Our main focus at hand [indiscernible] (00:16:29) has been on driving organic EBITA growth, pursuing cash flows, improving our leverage ratio, and reviewing our portfolio. In sum, we have made significant progress across all of these areas and remain committed to further improvements.

Looking at how we are approaching the key triggers that will allow us to return to more normalized situation, one where we can reinvest our cash flow into a balanced mix of organic and acquired EBITA growth. In sum, our efforts are moving ahead in the right direction.

And with that, I'll now hand over to Lena for a closer look at our financial performance.

Lena Paulina Glader

Chief Financial Officer, Storskogen Group AB

Thank you, Christer. Let's start with a closer look at the financial summary here adjusted for items affecting comparability. And on the next page, I'll show the reported numbers.

First of all, I echo what Christer just said, we're happy, of course, from the financial standpoint, also to see that our focus on efficiency across all areas, operational, you mentioned already, but it also has to do with financial efficiency, tax efficiency, et cetera, have all resulted in notable improvements in the past three quarters.

We mentioned the net sales declined already 5% in the quarter. This is driven by divestments whereas organic growth was flat for both the fourth quarter and the full year. But despite the sales decline, our adjusted operating profit or EBIT grew by 33% to SEK 655 million in the fourth quarter, and it grew by 3% to SEK 2.4 billion for the full year. This was, of course, helped by divestments of the nine unprofitable businesses earlier in the year, but the improvement is also backed up by operational efficiency improvements, most notably in business area Services, but also within Trade. In addition, group EBIT was positively affected by lower central costs in terms of lower personnel expenses.

As for adjusted net profit, it increased by 228% to SEK 376 million in the fourth quarter, and by 22% to SEK 1.1 billion for the full year. This is adjusted of course then. And net profit is helped by both lower tax and especially in the fourth quarter and by lower financial costs.

Now financing cost is an area that we pay particular attention to during the year. With lower debt now and some relief in the base rates towards the end of the year, we started to see positive effects already in the fourth quarter, with a decrease of financial items by 31% year-on-year. But given that most of the rate cuts were done during the fourth quarter and also in the beginning of this year, we expect to see more visible positive effects on this line as of the first quarter this year, of course, also helped by a lower gross debt.

Turning to the financial KPIs in the table below there. Christer, you already mentioned the adjusted EBITA growth of 20% and the EBITA margin of 9.9% in Q4, 9.4% for the full year. Adjusted return on equity was 5.6% and our adjusted return on capital employed was 7.6%. Net of goodwill, this adjusted return on capital employed was 17.7%. Even though both of these metrics, return on equity, return on capital employed are still below acceptable levels according to us, we are glad to see a year-on-year improvement also in this metric and we will continue to work towards improving them by growing our profits, of course, and maintaining a healthy balance sheet also as we begin to add M&A growth.

Finally, the earnings per share adjusted for items affecting comparability, grew by 321% to SEK 0.19 per share in the fourth quarter, and the growth was 26% on the full year to SEK 0.57 per share.

And then, just a quick comment here on the reported profit and loss statement here. Items affecting comparability, which is the difference between this and the previous P&L that I showed, were quite small in the fourth quarter. Total effect on net profit only SEK 12 million in items affecting comparability and this largely has to do with the capital gain from the divestment of the Swiss entity in Q4 and also partly refinancing costs.

But for the full year, we had larger items affecting comparability, obviously, related to the divestment of the nine unprofitable businesses that we announced in the second quarter. The effect on EBIT from that was SEK 947 million and the effect on net profit was SEK 1 billion and we explained these items in more detail during our Q2 earnings call. But including these items, of course, the reported full year net profit was a positive SEK 116 million, whereas our reported earnings per share attributable to the parent company shareholder was a negative SEK 0.03 per share.

Right. Then, we have a closer look at the Q4 sales bridge here on the next page. We illustrate on this slide the contribution from organic, structural and currency changes to the fourth quarter's sales growth of minus 5%. Organic growth flat, we already mentioned that, in the quarter. It was positive in Trade and Industry and negative in Services as a result of a clearer focus on profitability in projects and assignments, as Christer described. [ph] Risk (00:23:00) divestment represent minus 6% of the sales decline. FX effect on sales growth was a positive 1% in the quarter stemming from a weaker Swedish krona, and we had no acquisition or no effect from – notable effect at least from acquisitions.

And on the following page, we're showing sales and EBITA bridge again for the fourth quarter, but here divided by business area. And let's start with the sales bridge to the left. What I'd like to bring your attention to here is that business area Services, their sales declined, both organic and from divestment represented the largest – by far the largest share of the group's sales decline, obviously, but this also includes divestments, of course.

However, to the right there in the EBITA waterfall, you see the opposite effect on EBITA. So, you see that the divestments made in Services actually lift group EBITA and that this contribution represents more than half of the total profit growth in the quarter year-on-year, and whereas lower central costs contribute positively around 4 percentage points of that. And the contribution from Trade is also positive 5%.

And let's move on to the cash flow statement for the fourth quarter and the full year. The fourth quarter is typically strong in terms of cash flow when inventory and receivables are reduced after typically building up in the third quarter. But this quarter's strong cash flow is not only due to seasonality, it is also a result of a continuous improvement in our subsidiaries' working capital management.

Cash flow from change in net working capital was a positive SEK 621 million in the quarter, and the largest contributor here was reduction in receivables. We also have some reduction in inventories, but they were more or less offset by lower payables.

But summing up, cash flow from operating activities, mind you, this is after paid interest and paid tax, we arrive at SEK 1.7 billion for the fourth quarter and SEK 3.1 billion for the full year. Cash effects from M&A was a negative SEK 108 million in the quarter and minus SEK 372 million for the full year. This item includes paid earnouts as well as buyback of minority shares in existing subsidiaries. And those items, in fact, make up most of that minus SEK 372 million in the full year. Cash flow from financing activities was minus SEK 745 million. So, in other words, that stems from loan amortizations and minus SEK 1.7 billion for the full year also due to loan reductions or debt reductions.

So, adding it all up gives us a cash flow for the period of SEK 599 million, that's almost SEK 600 million, in the quarter and SEK 309 million for the full year, which gives us a cash balance of SEK 1.9 billion at the end of December. In addition to that, we had the unutilized credit facilities of SEK 3 billion. So, the total available liquidity for Storskogen Group at the end of the year was SEK 4.9 billion, which is a comfortable level, obviously.

Next page, then where we are showing operating cash flow and cash conversion on a rolling 12-month basis. This is the EBITDA based operating cash flow for the past 10 quarters that we see here. So, we've gone from a cash conversion rate of 50% to being at or around 100% for the past six quarters now and that is on a rolling 12 months basis. Again, this is well above our communicated target of 70%. For the isolated fourth quarter, cash conversion was, in fact, 140%.

Over to Storskogen Group's condensed balance sheet on the following page, total balance sheet amounts to SEK 43.2 billion, which is 2% lower compared to a year ago, largely a result of divestments, reduced working capital and consequently reduced debt. I'll show how net debt items and leverage have developed in more details on the following pages. But I look at the equity ratio here in the – finally, it increases to 48% from 46% a year ago.

And then, let's move on to the interest-bearing net debt and interest-bearing net debt to EBITDA, so the leverage. Interest-bearing net debt decreased by SEK 1.2 billion during the quarter and is now below SEK 10 billion for the first time since Q1 2022. And our leverage ratio is also at its lowest level since then, coming down from 2.6x in Q3 to 2.3x in Q4. And it is, in other words, now in the lower end of the target range of 2 times to 3 times that we've stated quite clearly as our ambition.

And here, essentially the same figures, but in more detail showing total debt, cash and EBITDA. The dotted line first there shows our 12-month pro forma EBITDA development which we use in the leverage definition. And after a period of declining EBITDA up until the first quarter 2024, we managed to stabilize it in the second quarter and in the third quarter. And now, in Q4, we can show a more visible increase in our EBITDA to SEK 4.26 billion.

On this graph, you can also see that all debt items, interest-bearing debt, leasing and non-interest-bearing debt, all decreased while cash and cash equivalents increased. As for the non-interest-bearing debt of SEK 1.94 billion, almost all of that is minority options liability. And we expect to buy back roughly between SEK 400 million and SEK 500 million during this year, which will be EPS accretive, obviously.

And finally, on the next page, as we touched upon briefly at our Capital Markets Day in November, we will, as of Q1 this year, start reporting our profit and loss statement based on nature of cost instead of function. This is the table to the left. We believe that this better reflects how we manage and how we follow up our business areas operationally. And I believe it will also make it easier for you to track important cost items such as raw material and goods, personnel costs and, not least, depreciation and amortization.

I'd like to point out that all KPIs are unchanged, such as sales, EBIT, profit before tax and after tax, et cetera. And of course, in this setup, we will also show EBITA and EBITDA in the P&L statement as separate lines. To the right there, we will also, in line with our ambition to streamline and to focus our operational steering, reduce the number of verticals from previously 14 verticals to 7. Our new verticals are shown in the table to the right, as you see there. There are no changes to the business areas nor to our reporting only to the sub-verticals. Services will now have two verticals, Business Services and Infrastructure Services. Trade will also have two verticals, Consumer Products and Professional Products. Whereas Industry is unchanged, automation, industrial technologies and product solutions. That was my last slide.

Over to you, Christer.

Christer Hansson

Chief Executive Officer, Storskogen Group AB

Thank you, Lena. To summarize today's presentation, our operational initiatives are yielding positive effects with a strong organic EBITA growth in the fourth quarter, laying a great foundation for years ahead. We achieved highest quarterly cash flow in our history, reaching SEK 1.7 billion while also delivering our highest margin since going public. I also want to highlight that our interest-bearing net debt is below SEK 10 billion for the first time since the beginning of 2022, also reflected in our lowest leverage ratio since Q1 of 2022.

The steps we have taken reaffirm our commitment to driving organic EBITA growth and maintaining strong cash flows. This position us well for the implementation of our updated strategy and financial targets as outlined at our Capital Markets Day in November.

With that, thank you all for listening, and we look forward to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Karl-Johan Bonnevier from DNB Markets. Please go ahead.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Yes. Good morning, Christer and Lena. Congratulations to solid development and excellent cash flow in Q4. And on the [ph] back of that, Lena, I know (00:33:47) you earlier talked about that you had an aim to get down maybe to the lower end of your 2 to 3 times net debt to EBITDA financial target. Looking at how solid the cash flow is these days and, I guess, also, as you pointed out, that they are now coming into maybe a lower interest rate cycle as well. Do you feel that getting down to the lower end of the target before you maybe sort of initiate more acquisition kind of [indiscernible] (00:34:15) two quarters or is that you can maybe be complacent with what you have now in that respect?

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

Thank you. Thank you for the questions. Well, we said at the Capital Markets Day that we believe that if we continue to develop in the way that we have been developed, that we can start doing acquisitions in Q2 or Q3 of this year. And so, we believe that this position us well to start doing that. And we feel comfortable with coming down to 2.3x, which is the lowest that we have been in three years. So, with that said, we believe that we can start doing acquisitions again within the next couple of quarters.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

I'd maybe clarify, when we've talked about the lower end of the range, we've always pointed to the lower like between 2x and 2.5x. And when we talk about the lower end, we don't mean 2.0x.

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

So, with that said, we think that we are in a good position with what we have delivered during this year and especially during Q4.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

And just also on the fewer verticals that you will show going forward to us, so to say, outside the company, does it also imply any changes to the structure how you are managing this operation in-house and maybe rationalization to the structures here?

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

The big structure, we have already reduced a lot of assets, we talked also about on the Capital Markets Day. The big that we're driving is it's Trade, Services and Industry. But we think it's aligned more with the focus that we will have going forward on the investment themes and what we want to drive, but no major shifts in kind of the headquarters there. We have already taken those step prior to this. So, this is more how to align what we want to do and what we want to achieve going forward.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Thanks for that. Excellent. Thank you very much. And all the best out there.

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

Thank you.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Thank you.

Operator: The next question comes from Andreas Koski from BNP Paribas Exane. Please go ahead.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Thank you and good morning. Just one question about the very strong margin in Services. When reading the report, it sounds like you think this is a sustainable step-up that we have seen and that it will even continue to improve from the levels that we saw in the fourth quarter. Is it possible to split the positive impact from the divestments and the efficiency improvement that you have done? And can you just confirm that you didn't have any effort what could be considered as one-off in the strong margin in the fourth quarter? And also remind us of the margin seasonality for Services as well until 2025? Thank you.

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

I just thought that you can take the questions on – Lena, on the divestments. I think the margin improvements in Services has been also – we did that. We have a great margin improvement also in Q3. So, they are structural part of that. We have been really so much more focused on taking on projects that are better profitability. I should have said no to projects that are not that profitable for us. So I think there is – and also a lot of fewer FTEs driving this – doing the Services. So, in that sense, we think that we are on a strong level and we'll have a 13.2% that's really, really strong.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Yeah. And regarding how much of the improvement is attributable to divestments, as we've indicated, the divestment, especially of the portfolio in the summer, has had the largest effect on Services. But there's also other positive effects in there. So, roughly 50/50 of the margin improvements is attributable to divestments and to kind of operational organic improvements.

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

And also, as I can mention, if you look at the Q4 numbers, we're growing the EBITA level with over 30% in Q4 compared to Q4 last year, and about 22% of those are organically for the quarter.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Yes. Yes. That's why I'm wondering if this should be seen as sustainable or if there were any sort of things that could be considered one-off in the quarter and that we might see margin coming down again in the coming quarters?

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

I mean, there will be seasonality, of course, in our year. But we think that the measures and the efficiency measures that we have taken in Services will be sustainable.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

There were no material one-offs in either direction in Services in the quarter. Quite solid improvements throughout actually all verticals – on most verticals.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

That's great. Thank you very much.

Christer Hansson
Chief Executive Officer, Storskogen Group AB

A

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, all, for listening. And I wish you all a great day and soon a great weekend.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

Thank you so much.

Christer Hansson

Chief Executive Officer, Storskogen Group AB

Thank you. Bye-bye.