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Addnode Group AB (ANOD.B.SE)

Q3 2023 Earnings Call



CORPORATE PARTICIPANTS

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

OTHER PARTICIPANTS

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Fredrik Nilsson

Analyst, Redeye AB

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Addnode Group Q3 Presentation. [Operator Instructions] Now I will hand the conference over to the CEO, Johann Andersen, and CFO, Lotta Jarleryd. Jared. Please go ahead.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Hello and welcome to Addnode's presentation of the Q3 report. I'm the CEO, Johann Andersen, and with me I have Lotta Jarleryd, CFO, Addnode Group as well.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

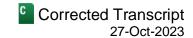
And if you missed it, it's actually Lotta's last interim report for Addnode Group. So, this will be the big finale.

So, with that, I would like to start with our agenda. We'll walk you through the Q3 2023, talk a little bit short about our sustainability agenda, and then we'll move over to Q&A in the attached presentation that we'll walk through. You'll find an appendix as well with our acquisitions, our shareholders, and our share performance for the last year. And of course, you will find more material on our website as well, addnodegroup.com.

So Addnode Group, as you know, we provide digital solutions for a sustainable future. We generate sustainable value growth by acquiring new businesses and actively support our subsidiaries to drive organic growth. The companies in Addnode Group, we provide digital solutions for sustainable design and product lifecycle management, management of real estate and facilities and public administration.

Looking at rolling 12 month, nets [ph] sales over (00:02:00) SEK 7 billion, and 69% is what we address as recurring revenue. With that as a short introduction to Addnode Group, let's move on to Q3.

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The headline for Q3, we said, weaker USA figures cloud outlook. Looking at net sales for the third quarter 2023, it increased to SEK 1.8 billion, representing a growth of 11%. Acquired growth amounted to 16% and organic growth was negative in the quarter. EBITA adjusted for the restructuring costs amounted to SEK 137 million.

The negative growth in the quarter, lower earnings related to weaker demand from the construction industry and lower sales of Autodesk three-year agreements in the Design Management division. This was most evident in the USA market.

In addition, the comparative figures for the division were high following a record-breaking sales in the third quarter 2022. The Product Lifecycle Management and Process Management division reported organic growth in the quarter, and both division also delivered improved EBITA adjusted for the restructuring costs.

Cash flow from operating activities was negative in the quarter, primarily due to lower [audio gap] (00:03:27) and a temporary increase in working capital tied up. With that as an introduction to the Q3, I would like to hand over to our CFO, Lotta Jarleryd.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Thank you, Johan. I would like to start by showing a few more details on net sales. This graph set up the breakdown of net sales from three different perspectives. In the first graph, we present net sales for the third quarter over the last five years. It is evident that we have experienced considerable growth the last two years. The current quarter totaled SEK 1.8 billion, as Johan said, corresponding to total growth of 11%. Recurring revenue demonstrates an increase of 8% compared to previous year.

Organic growth of recurring revenue was negative following the lower sales of three-year agreements. Recurring revenue continue, however, due to stable foundation in our business model representing a portion of 71% of net sales.

The demand for our service offering grew by 14% total in this quarter. Our consulting revenue derives from both services related to our software offering and customer specific solutions. 5% constitute the organic growth.

In the third graph to the right, we have set out a breakdown of net sales by geography. Please note that this quarter is a milestone in the Addnode Group internationalization journey. For the first quarter ever, Sweden is not our largest market. USA has passed Sweden after the acquisitions of Microdesk, Team D3, and a few small bolton acquisitions for PLM division.

Back to you, Johan.

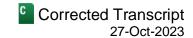
Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Lotta. Addnode is – as you know, we have three divisions and we will walk you through the three different divisions more in detail.

So, looking at Design Management, headlines, weaker US market and high comp. So, what do we mean by that? Net sales increased by 8% to SEK 1 billion roughly in the third quarter. Organic growth was, however, negative. Adjusted for currency effects, organic growth was minus 21%.

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EBITA decreased to SEK 57 million, and the EBITA margin declined to 5.4%. The division's operations in digital solutions for Design and [ph] PLM (00:05:57) product data, which are conducted under the company name Symetri, began to note weaker demand for Autodesk solutions during the second quarter 2023, particularly for customers in the construction industry in the US market.

This trend continued in the third quarter and has resulted in longer sales cycles, a significantly lower sales of three-year agreements than in the same period last year, both in terms of new sales and with respect to renewed volumes. However, the comparative figures for the division are high following record-breaking sale of three-year agreements in the third quarter 2022, mainly driven by demand in the USA and the UK.

With these market conditions, competition in the US market has increased, resulting in downward margin pressure. In order to adapt the cost structure, the employee head count in the US operation has been reduced. The operational on Team D3, which was acquired in July 2023, which mainly has manufacturing customers in the USA, also noted certain market sluggishness and lower sales of three-year agreements. But the Nordic operation of Symetri performed in line with last year and UK had a solid performance.

The number of customers and the annual value of the underlying contract base for Symetri, which is the basis for future contract renewals are continuing to increase. We still see great potential for selling Symetri's proprietary software to the growing customer base. The two other companies in the division, SWG and Tribia, which offer proprietary software for facility management and for construction and infrastructure projects, displayed a stable performance.

So, with that, looking at Product Lifecycle Management, we had a strong business performance and acted out on their previously announced restructuring measures in the quarter. The division reported net sales of almost SEK 500 million, represented a growth of 23%, a very strong growth. Organic growth was 20%. And if we adjust for currency, the organic growth was 10%.

EBITA, adjusted for restructuring costs of SEK 5 million, was SEK 48 million and that corresponded to an adjusted EBITA margin of 9.9%. Market conditions in Germany, the UK, and the USA were stable in the quarter, while demand in the Nordic was still weaker.

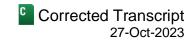
Organic growth was part attributable to a couple of large license deals for PLM systems in Germany and the UK. The trend of customers increasingly demanding time-finite leasing licenses instead of the previous license purchases with perpetual right of use continued. Thus, a move to more recurring revenue.

As previously reported, restructuring measures are ongoing in division to increase profitability by adapting the organization and cost structure. Estimated yearly cost saving is still around SEK 40 million and will have full effect from Q1 2024. As previously communicating, the cost for implementation will be SEK 20 million. Of those SEK 20 million, SEK 10 million was recognized in the second quarter of 2023, SEK 5 million has been recognized in the third quarter, and the remaining SEK 5 million will be recognized in the fourth quarter of 2023.

So, going to number three, Process Management, who continued to have a profitable organic growth in the Q3, so the trend is going on. Process Management division increased net sales to SEK 280 million. It's a growth of 7%.

EBITA increased to SEK 53 million and the EBITA margin was 18.9%. Municipalities and public authorities continue to show some restraint in terms [audio gap] (00:10:08) demand for the division's consulting offering was

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good, especially for services related to customer specific solutions, where we do tailor made solution and delivery systems for our customers, is not a specific consulting offering.

[audio gap] (00:10:23) invest in the product offering. We have good and well established relationships with the large public sector customer base. These frequently present opportunities for recurring sales or the expansion of current assignments. The division's businesses are well-positioned in public sector tenders owing to their attractive digital solutions, in-depth experience, and very good references.

So, with that on the divisions, I would like to hand over to Lotta Jarleryd.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Thank you, Johan. I would like to continue with an overview of the consolidated cash flow. The operating cash flow in the third quarter was negative at SEK 139 million. Previous year the operating cash flow was positive and very strong, SEK 89 million. The comparative figures were high following record breaking sales of three-year agreements in the third quarter of 2022.

Before that, the third quarter has historically been a weak quarter in terms of operating cash flow. The operating cash flow has been negative several times. For example, in 2021, 2020, and 2018. The lower cash flow was mainly attributable to lower operating profit and temporary increase in working capital tied up. Please note, however, that the net working capital has been negative SEK 495 million.

The changes in invoicing and payment procedures for the three-year agreements introduced by Symetri's partner Autodesk at the end of March 2023 had a limited effect on the operating cash flow. The reason for this was that the volume of three-year agreements was low in the quarter, but also that a number of customers decided to pay for the full three-year agreement on a one-off basis despite having the option to spread the payments over three years under the new model.

Investing activities in the third quarter amounted to SEK 373 million. As Johan mentioned, we closed acquisition of Team D3 at the beginning of the third quarter. The net outbound cash flow from that acquisition was SEK 254 million. The remaining portion of the investing activities comprised earn-out payments to sellers for acquisitions made previous years and development of proprietary software.

Financing activities included SEK 14 million relating to repurchase of 180,000 own B shares on Nasdaq Stockholm in accordance with the mandate from the 2023 AGM. The purpose of the repurchase was to enable delivery of shares related to completion of Addnode Group's long-term share-based incentive plans. The remaining portion mainly related to leasing.

The acquisition of Team D3 was financed through our revolving credit facility to – made to pay the initial purchase price consideration on time on July 3, the loan was drawn from the credit facility already on June 30, which is why the drawdown of the credit facility is not reflected in this quarter, but rather in the nine-month period ending September 30.

Back to you, Johan. It's me again.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB



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Corrected Transcript 27-Oct-2023

Yeah.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

So, I would like to proceed with a few comments on the consolidated balance sheet. So, we continue to operate supported by a resilient balance sheet, which is an important foundation for our continued growth organically and through acquisitions.

Changes in the balance sheet from December 31, 2022 until the end of September 2023 predominantly derive from the three acquisitions we have executed during the period. Following the customary purchase price allocation exercises, goodwill and other intangible assets have increased by over SEK 500 million in total.

Our business model enable us to operate with a negative net working capital and we continue to do so at SEK 495 million. Provisions, taxes, and other debt included future earn-out payments depending on the financial performance of the acquired companies, amounting to about SEK 480 million, as well as other liabilities to sellers of SEK 53 million.

Net debt increased by SEK 0.6 billion to SEK 1.1 billion during 2023 as we continue to execute acquisitions. Net debt to rolling 12 months EBITA was 1.4. Lastly, I would also like to mention that Addnode Group now holds 1,210,000 own B shares. As already mentioned, we repurchased 180,000 Class B shares this summer following the board of directors decision in June.

Now it's back to you Johan.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

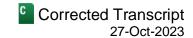
Yes. Thank you, Lotta. As we started [ph] Addnode (00:15:14) presentation, we provide technology for a sustainable future. This is supported, of course, by our sustainability agenda. Our biggest contribution to a more sustainable society is the digital solutions we provide to our customers so they can help their customers to make more sustainable buildings, infrastructure, products and services for creating a more sustainable societies.

So, what do we actually do for our customers? We have three examples here in the report that you can read more about on our website as well. I would like to introduce these three case studies that shows our data digital solution supports our sustainability development goals.

Looking to the left, example one is from Tribia in the Design Management division. It's a project management tool for documentation and coordination. Tribia has supported Peab, the construction company with the project management tool Interaxo to ensure quality and documentation in the development of the Tåsenhjemmet nursing home in Norway, who is building [ph] solid wood (00:16:25). One benefit of using Interaxo is that Peab may reduce the risk of mistakes and misunderstandings that can lead to design problems and waste during the construction process.

Looking in the middle, you find a strong example from TECHNIA in the Product Lifecycle Management division about optimizing energy use in electric vehicles. TECHNIA has delivered a modeling and simulation solution to McMurtry, one of motorsport's leading electric car manufacturers. These advanced solutions will allow McMurtry to better optimize the efficiency and energy use of its cars. And TECHNIA's experience And solutions for more commercial vehicle applications are also transferred.

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Example three is from Stamford in the Process Management division, is about more efficient port logistic that helps to reduce idling on the case side. Stamford has implemented a notification system for the harbor of Halmstad's container operations. This has resulted in a significant increase in resource efficiency, both for the port and for the freight companies. It also helps with planning and prediction of workloads and transportation, shortening the idle time of trucks, and thereby reducing the amount of CO2 emissions from the port operations.

And like I mentioned, you will find a full version of these cases at the Addnode Group websites.

So, before we go to question-and-answer, [ph] just to (00:17:59) remind you about Addnode Group, what we believe about ourselves as an investment. The structural underlying demand for the digital solutions that's offered by our companies extends beyond and across economic cycles. It's driven by customers' needs for digitalization, automation, urbanization, and sustainability.

However, the current economic situation is dominated by uncertainty and restraint among several of our customers. Addnode Group's strategy is to, with a sound risk taking, capitalize on these trends by continuously acquiring new businesses and actively supporting our subsidiaries to generate sustainable value growth and drive organic earnings.

During 2023, we have carried out acquisitions and cost reductions that have provided Addnode Group with an even better position for achieving [ph] profit (00:18:52) growth when the economic climate stabilizes and recovers. Addnode Group's good financial position, that Lotta mentioned, means that we can continue to invest and execute on our acquisition strategy.

And with that, I would like to hand over to Q&A and we are open for questions.

QUESTION AND ANSWER SECTION

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

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Yes, thank you very much. Good morning Johan and Lotta. I start off with a question in Design Management here and I'm a bit curious where you are in the process of addressing costs. I guess that it is difficult to even see close to a full quarter effect here given that you [ph] enter (00:19:57) Team D3 at 1st of July, for example. So, I guess the EBITA margin has maybe kind of bottomed out here in Q3 even though sales may be negative for another quarter or so. Is that the right way to think about it?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

I think with [indiscernible] (00:20:11) what we have done in the Q3 is that it is [indiscernible] (00:20:17) operations who has left. So, all costs really – and the US, as you know, has a different type – it's a different thing of doing cost reduction in Sweden than in the US. So, that's already addressed and that's part of the Q3 results. So, you will see nothing in a cost way with regards to that going forward. And that means that we will have a lower cost base when entering Q4 related to that.

We are very hesitant to bring on new people and actually more of a hiring freeze in the organization in total. But we don't see that we will do more of a big restructuring cost program right now, because there is business ahead of us. And so, no, no more planned according to that. So, if the business is as we believe it will be, it will be a little bit tougher the coming period. And then, hopefully, move forward you will see no more big cost [ph] reflection (00:21:18), but of course, we will work with cost. That's the answer I can give on that if that addressed your question.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Absolutely, that's very clear. And then how many people are in total in the US today after Team D3 just to get the feeling of how large share [indiscernible] (00:21:34) persons are, roughly?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Roughly 500.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Okay. Excellent. And then on Team 3 as well here, in Q3 did Team D3 perform relatively as you expected or weaker than expected when you announced and closed the deal in early summer?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

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In this specific quarter, it was weaker than we expected. We had more of a linear approach over the year and that was affected part of the market, but also about becoming part of Addnode Group. And we probably – you know what an entrepreneur led company, even though it's bigger, becomes part of a listed company, there are some adoptions that needs to be made and those – then the management probably spends too much. They need to do it, but they spend more time on integration rather than sale. So, that probably has an effect as well. So, long term, our view on Team D3 hasn't changed. In the specific quarter we were hoping that they would have done better.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Okay. I see, that's very clear. On PLM here, the strong organic growth of 10%. Despite that you actually address cost base, is pretty much in line with what Dassault Systèmes said in the Q3 just a few days ago that we see some return of large orders, et cetera, which you mentioned here in Germany, UK as well. But looking at their guidance, they're guiding for relatively flat growth in Q4, so down to 0% again. Is that how we should view that market or do you see anything else out there?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

We still see there are – the thing is there is deals to be made, but we will not guide for a 10% organic growth going forward. We are able to have our organic growth, then we're okay with that. So, we're probably – we don't do any guidance, but we don't see that the – it's still we have the German market and there is something to discuss, there we'll see what happens. This is – like we showed in Q3, it's still possible to do deals, but don't expect that we will do 10% organic growth going forward. If we do that, I'm happy, but we are not planning for it.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Yeah. I see that. That makes sense. I jump back to the queue and let someone else ask questions.

Operator: The next question comes from Daniel Djurberg from Handelsbanken. Please go ahead.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Thank you, operator. And good morning, Joanna and Lotta. Thanks for taking the question here. I just wanted to address the cash flow initially on the change in working capital, minus SEK 258 million, and we obviously had expected to see a negative working capital on the changes, seeing the payments in the Design Management side.

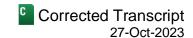
Can you just comment, though, how much – if it's possible to give any ballpark, how much is also from the underlying squeeze in the DSO to the DPO in these types of market where people tend to be focused very much on cash flow? And also if there are part of this that will be onetime adjustments from these changes or if it will continue to hamper the working capital here for a couple of quarters more? Thanks.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

The first question was about the DSO, and we don't see big changes in that compared to last year. We know, however, that the payment pattern in US a little bit slower than in Europe, but we haven't seen any big changes yet. And the other question was about the three-year deals.

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Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Yeah.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Yeah. And what has happened is that on the US market, there you can see the new patterns, so to say, that the payments are divided over three years. On the other hand, we had very low sales of three-year deals in this quarter. But in Europe we see another pattern, and that is that the customers continue to pay upfront even though we don't have to pay the suppliers over three years. So this pattern sort of evens out the effect.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Okay. May I also ask a little bit - you mentioned the US market on Design Management that - I think you had talked about a little bit tougher competition, if I heard you correctly. If you can comment a little bit on if it's in a specific segment or if - and also if it impacts your pricing strategy for 2024 that you need to be cautious on pricing this inflationary environment.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

No. I think this is what's related to Q3, what we've seen, and that affected the margins here and they were normal. What happened is that you have one competitor who goes just for price. We don't – we tend to think that we sell value to our customers. We provide our own technology provider services and also the [indiscernible] (00:26:58) platform. And then, we had one customer who were pushing quite heavily on the price in the US market on the construction side. And that is something that we have seen that we are able to meet better here in the Q4.

So, I would say that, no, it will not affect sort of the long-term business and the total business. It was something that was related to the UK – US market construction here in Q2 and Q3. It's not something that we see will have that sort of effect on the total business in that respect with something that will sort of disturbed the pattern here.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Perfect. And finally, if I may, a little bit on you mentioned that the number of customers and annual value of the underlying contract base in Design Management was increasing, but how much of that comes from acquisition? [indiscernible] (00:27:48) compare apples with apples here...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Yes, it also come from acquisition, but it's also organic. So it's both organic and acquisition. So, sort of the existing customer base that you had, if you put the D3 acquisition aside, you still have the same pattern.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

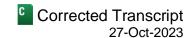
Yeah. Actually right underlying contract, as you said. Perfect. That's good

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Johan Fredrik Andersson President & Chief Executive Officer, Addnode Group AB [indiscernible] (00:29:23) looking forward to that. Daniel Djurberg Analyst, Svenska Handelsbanken AB Thank you so much and good luck in Q4. Johan Fredrik Andersson President & Chief Executive Officer, Addnode Group AB Thank you.	A Q A
President & Chief Executive Officer, Addnode Group AB [indiscernible] (00:29:23) looking forward to that. Daniel Djurberg Analyst, Svenska Handelsbanken AB Thank you so much and good luck in Q4. Johan Fredrik Andersson	A Q A
President & Chief Executive Officer, Addnode Group AB [indiscernible] (00:29:23) looking forward to that. Daniel Djurberg Analyst, Svenska Handelsbanken AB	A
President & Chief Executive Officer, Addnode Group AB [indiscernible] (00:29:23) looking forward to that. Daniel Djurberg	A
President & Chief Executive Officer, Addnode Group AB	A
	A
Perfect. Perfect. I fully understand.	
Daniel Djurberg Analyst, Svenska Handelsbanken AB	Q
President & Chief Executive Officer, Addnode Group AB No, we are in a — the reason why we don't want to give you any [indiscernible] (00:28:5 mentioned, we have recently acquired a US operations. And we feel certain that we can but before we give any data, we would like to see a couple of quarters with the US operations of quarters with that it actually is on the exact numbers. So	n give a statement on this, erations as well so we feel
Johan Fredrik Andersson	Δ
No, no. Yeah. On the change, year-over-year change or quarter-over-quarter or some	thing.
Daniel Djurberg Analyst, Svenska Handelsbanken AB	Q
And with that, you think about new customers or?	
Johan Fredrik Andersson President & Chief Executive Officer, Addnode Group AB	A
Yeah, of course. Yeah, that's good. Is it possible to give any ballpark percentage or number there, low single-digit percentage or a number of these number of customers and value?	
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Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Thank you, operator. Good morning. Hope you're good. I have two questions, follow-ups on this last topic here. I didn't fully understand the comment you made regarding the underlying contract base in Design. So, just to clarify, do you mean that the number of licenses are growing, but the mix of three-year deals makes the recognized sales volume lower, is that what you mean basically or ...?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Yes and no. What we mean is that, yes, the number of customers are growing and the value of the annualized contract base is growing. So, that means that, yes, we have a renewable of three-year deals coming up -looking for, yes. So it's a mix. And it also then you have the mix over the year as well. So, that means that depending on where the one year deals are being renewed as well, you have that part of the composition as well. So, what we're saying is that if you annualize the value of all the Autodesk contracts, we can see that the value of that is growing. And...

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

All right.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

...those are the number of customers.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

All right. Okay. Perfect. Thank you. And then on D3, I tried to calculate backwards here, and it seems like they did like around 0% margin for Q3. And you commented on the performance in general. But would you say that this weaker than expected performance, is it normal or is it more specific factors like the three-year deals? And you mentioned integration. Is that sort of the bulk of the reason you think for the performance?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

It's a mix, like I said. There are some seasonality over the year, to be – that's part of it. It's obvious. And then also there are some three-year deals. They also are sold – volume of three-year deals were higher for them last year. So, that's also part of the mix. And the third part of the mix is related to integration, meaning that the owners and the sellers has been heavily involved in part of making the transaction happen and they need to spend some time on integration. And if they haven't spent that time, they would actually be out promoting and doing the sales, so it's a mix.

Erik Larsson

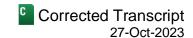
Analyst, Skandinaviska Enskilda Banken AB

All right.

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Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

But - so...

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Yeah. Okay, perfect. That was all of my questions. So thank you.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you. Should we put one question aside that we have from the mail, Lotta?

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Yeah. It's from [indiscernible] (00:32:10) Handelsbanken. You were beating expectations in the PLM division quite good and safe. Could you give some more color related to the larger license status in Germany and UK?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB



It's like we described, they have been - we've done some bigger license deals in the UK and German market. And they are also related to both life science and also to EV companies. And [ph] they were (00:32:41) classic license when they're buying [ph] new more (00:32:44) licenses because they are expanding their businesses. These customers that we've been working for quite some time so that we are expanding sort of the engagement with them.

And next question, could you perhaps give some more color on the EBITA margin in the Design division? The drop we saw, how much of it's related to a weaker market and how much from a delusion effect from [ph] Al

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

(00:33:07), Team D3 and Microdesk?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

I think they are both connected, because the market being slower, that's affecting both Team D3 – predominantly Microdesk and Team 3 (sic) [Team D3] (00:33:20) in the US, and that leads to lower markets, because if we are selling less, that sort of drops through the P&L. So, I think they're both related in that sense.

Lotta Jarleryd

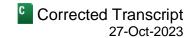
Chief Financial Officer, Addnode Group AB

Follow up question there, considering Team D3's exposure more towards more factoring and process industry customers, how is the demand holding up there?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

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It's better compared to Microdesk. As you said, their end customer group are manufacturing companies of a diverse nature in the US market. And this seems to be a better demand picture there for Team D3.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

A

And the last question, three-year contracts are, obviously, down year-on-year from – [ph] as (00:34:04) comparable last year. I guess we should expect more one-year contracts rather than three due to the macro. But could this boost your revenue going forward from one-year contracts being more expensive [indiscernible] (00:34:15)?

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

What will happen is that – I think there's two ways of addressing that. There are no sort of – previously if you go back a year ago, there were some discounts on the three-year deals and those discounts on the sales price is not there anymore. So, it's sort of the same saying for one year and three year deals compared to that.

But what will happen, if we lower the volume of three-year deals right now, that means a year from now we will have a higher portion of renewals because the one year deals will then be renewed. If we have sold a one-year deal now, it will take three years from now to renew that. That goes back to revenue recognition [indiscernible] (00:34:55). So, based on that, the sort of the flipside of selling less three-year deals right now is that a year from now we will sell more compared to having sold three-year deals. So, you will have like a buildup of a SaaS model, similar type.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

A

Okay. That was the last question from [indiscernible] (00:35:16).

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB



Any more questions from the audience?

Operator: The next question comes from Fredrik Nilsson from Redeye. Please go ahead.

Fredrik Nilsson

Analyst, Redeye AB

Hi. One question that you haven't touched upon already, and it's about Process Management. In the last quarter, you mentioned a lower level of procurements and now you mention some restraint. And, I mean, you have had quite strong growth and margin in that division for quite a long time. Should we expect a slower growth rate going forward, given what you say about the market?

Johan Fredrik Andersson



President & Chief Executive Officer, Addnode Group AB

I think what we are saying is that the overall market will probably have some effect on budget restraints is coming out there. It's obvious there. Looking at ourselves, we still believe that we can have a growth in that business, but it's probably tougher to generate that growth because we probably need to answer a little bit more [ph] of a bid (00:36:14). But there is some market [ph] that is up (00:36:16).

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We are coming from a – what we are commenting is that we are coming from a backdrop last year when we are able to generate 10% organic growth in this division. I don't think that is feasible the coming year, but we will still be able to have organic growth, but it will not be 10%.

Fredrik Nilsson

Analyst, Redeye AB

Q

Okay, that's clear. Thank you very much. That's all from me.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you.

Operator: There are no further phone questions at this time, so I hand the conference back to the speakers for any written questions and closing comments.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you. As I started out, you will hear me next time. You will, unfortunately, not hear Lotta, because this was the final one, so I would like to end up with thanking Lotta for all her efforts during these years.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Thank you, Johan.

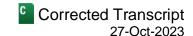
Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you.

$Addnode\ Group\ AB\ {\it (} {\tt ANOD.B.SE)}$

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