

03-Feb-2023

Addnode Group AB (ANOD.B.SE)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

OTHER PARTICIPANTS

Fredrik Nilsson

Analyst, Redeye AB

Daniel Djurberg

Analyst, Handelsbanken Capital Markets

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Daniel Thorsson

Analyst, ABG Sundal Collier AB

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Addnode Group Q4 Presentation. For the first part of the conference call, the participants will be in listen-only mode. [Operator Instructions]

Now I will hand the conference over to the CEO, Johan Andersson; and CFO, Lotta Jarleryd. Please go ahead.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Hello and welcome to the presentation of Addnode Group's year-end report for 2022. I'm Johan Andersson, the CEO. And with me, I also have Lotta Jarleryd, our CFO.

The agenda for today is Addnode Group in brief. We will dive into our Q4 report. We'll address sustainability, some of our investment case and, of course, answer your questions. You will also see an appendix in the presentation with our acquisition-related years and our shareholders structure and the share performance for 2022.

Addnode Group. We provide digital solutions for a sustainable future. Looking at 2022, it's been a year of organic growth, acquisitions, and sharply improved earnings per share. I'm very proud of our employees' efforts in a year when Addnode Group increased net sales by 53% to SEK 6 billion plus. Organic growth has been driven by good demand for our digital solutions from our customers, architects, technical consultants, manufacturers, construction and facility management, and the public sector.

We have secured new accounts. We have strengthened our offerings and continued to focus on product development. We also completed acquisitions that complements our existing business, simultaneously with establishing the USA as a new domestic market for Addnode Group through our acquisition of Microdesk. The

combination of our high growth with improved efficiency meant that for the full year 2022 EBITA increased to SEK 728 million while our earnings per share increased by 72% to SEK 2.86.

And looking at our strategy [indiscernible] (02:33) Addnode Group celebrates its 20th anniversary this year in June in 2023. We've been a profitable growth company ever since we started, and January 2023 showed our growth strategy create value, and Addnode Group moved up to Nasdaq's Large Cap segment.

Looking at the slide, you can see our growth in net sales, separated on organic and acquired growth. 2021 (sic) [2022] (03:02) net sales were SEK 4 billion, organic growth was 17% and acquired growth was 36%, adding up to a total sales of SEK 6.2 billion, and we made five acquisitions through the year. So, this slide show our growth for the last six years, both separate and on organic, and acquisitions leading up to where we are today.

And we have increased earnings per share by an average of 20% annually over the last 10 years and by 25% annually over the last five years. This growth has been possible due to all our skilled and committed employees, innovation, strong offerings for our customers in sectors with underlying growth, cost efficiency, and complementary acquisitions. A strong financial position with low debt/equity ratio give us the freedom to continue to execute our growth strategy by continuing to build on our current strength and continuing to develop.

Going into Q4 2022, we can see that the growth strategy is creating value. Our high growth and positive earnings trend continued in the fourth quarter, and yet again, we reported our highest sales and EBITA for a single quarter. Compared to the corresponding period of previous year, Addnode Group net sales increased by 60%, of which 13% was currency-adjusted organic growth. EBITA rose to SEK 200 million and earnings per share was up 28% to SEK 0.77.

Looking at our divisions. PLM and Process delivered at a stable high level. The year-on-year earnings was sourced from Design Management division, which more than doubled net sales, growing EBITA by 88%. The explanation for Design Management gains are strong organic growth by Symetri in the UK and a positive progress of our US acquisition, Microdesk.

Overall, in the fourth quarter, demand was good in all our main markets. However, we are attentive to how an uncertain business environment and cost inflation may impact us going forward.

And with that, 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 sharing a few more details on the net sales. In the first graph, we have about net sales for the fourth quarter over the last five years. As you can see, the current quarter was very strong. Total growth was 60% compared to the same quarter previous year. It's also evident from the graph that recurring revenue was the revenue category that increased the most with about SEK 500 million. That increase is derived from both acquisitions and organic growth. The main contributor was Design division and by that predominantly meaning Symetri and Microdesk that accounted for more than 80% of the increase. The most important driver was multi-year deals following strong demand, especially in the UK and the US markets.

As a comment to the graph in the center, I would like to stress that it is certainly important to have such a high share of recurring revenue, 68% in the fourth quarter, as a stable foundation in our business model. We have a strong cash flow generation, thanks to a higher share of advanced payments at the beginning of the year. Service

revenue is admittedly not included in our definition of recurring revenue, but many customers return to us again and again for our service offering.

In the third graph, we have set out a breakdown of net sales by geography. After the last couple of years acquisitions in the UK and in the US and the consecutive organic growth, we are now a group with a significant international presence. In the fourth quarter, 42% of our net sales were generated in these two important markets. In the same quarter previous year, the share was 22%.

Back to you, Johan.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Lotta. Especially, as you know, we are three divisions [indiscernible] (07:05) make sense to walk you through the three divisions in the fourth quarter. Looking at Design Management, net sales increased to SEK 1 billion, it's a milestone going for the first time in one quarter, and it represented a growth of 113%. Organic growth currency-adjusted was 22% in the quarter.

Symetri's new operation in the USA, Microdesk, continued to outperform expectations due to positive demand in AEC segment. The organic growth was mainly from Symetri's UK operation. Demand in the Nordics remained positive from the AEC segment and manufacturing. Volume and margins on new business sale and three-year agreement renewals progressed well.

Tribia, providing collaborative portals for construction and civil engineering, and SWG, providing digital solutions for facility management, made also good progress in the quarter.

In total, EBITA was up by 88% to SEK 111 million. The EBITA margin was slightly lower compared to last year mainly because of a changed revenue mix with a higher revenue share from third-party solutions as a result of Symetri and Microdesk's growth in the quarter.

We also would like to inform that Symetri's and Microdesk's partner Autodesk has announced its intention to alter invoicing and payment terms for contracts lasting over more than one year. That means that payment both from our customers at Autodesk will happen annually even if the customers sign a three-year agreement. That up until today they have paid upfront for a full three-year period and now it will be billed annually so that even though it's signed for a three-year from a contractual perspective. This will have an initial effect on the cash flow. But as currently, revenue and costs for the entire contract value will continue to be recognized immediately when the contract commences. So, no material changes in that. And this change that we are describing is scheduled to come into effect at the end of March 2023. So, it's something that is an upcoming event. So, all in all, a very good quarter from Design Management.

And then we also made an acquisition after the end of Q4 of a company called FAST2 Affärssystem AB. The spelling you can see it's a Swedish company. They are offering a proprietary ERP system used by 9 of the 13 largest public housing corporations in Sweden. FAST2 will integrate with SWG, making it even stronger in the digitalization and lifecycle management of real estate, primarily for the public sector. In the division, we also have Tribia, another company, that delivers SaaS solutions for project management in construction and civil engineering projects. The acquisition of FAST2 means that SWG and Tribia consolidate their offering of proprietary digital solutions for the real estate and construction markets in the Nordics and UK. And together, they will have a combined net sales of approximately SEK 500 million. So, meaning, that with FAST2 and Tribia and

SWG, we are having net sales in the division of Design Management of almost SEK 500 million of own proprietary system aiming for the facility management in the construction markets.

So, with that, we'd like to move on to Product Lifecycle Management. As you can see, net sales increased to SEK 455 million in the fourth quarter. It's a growth of 29%. Organic growth currency-adjusted was 6%. Demand on the German markets progressed somewhat more positively than market data indicated earlier. Sales performance in the UK remained good and demand on the Nordic market was stable. What we can see is that customers are still increasingly demanding time-finite leasing of licenses instead of the previous license purchases with perpetual right of use. This means that the division continues to be of a stronger base on recurring revenues.

At present, the acquisitions on 2022 in the division have lower profitability than divisions under operations in the quarter. Integration and work on increasing profitability is ongoing. EBITA for the quarter amounted to SEK 44 million and the EBITA margin was somewhat lower than last year.

So, looking at the third division, Process Management, we can see that continued organic growth and we are mostly focused on expansion. Net sales increased to SEK 335 million. It's a growth of 13%. Organic growth was 8%, in line with recent quarters. The organic growth is the result of the division's close and well-established relationships with a large base of public sector customers and the strong offering of attractive digital solutions. The division's companies added a new number of employees in autumn to strengthen its development resources. Decisive in Norway, acquired in June 2022, progressed as planned. And looking at the EBITA, it was SEK 60 million, and the EBITA margin was 17.9%.

So, with that, I would like to hand over to our CFO, Lotta Jarleryd, who will walk you through the cash flow, I guess. Yes.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Yeah. Thank you, Johan. That's correct. I would like to continue with an overview of the cash flow. The operating cash flow for the fourth quarter amounted to SEK 261 million, which was in line with the same quarter previous year. Following the strong development of the operating results deriving from organic growth and acquisitions, we generated SEK 714 million in operating cash flow during the financial year 2022. That was SEK 277 million or over 60% more than previous year. Cash conversion rate was about 90% and that is operating cash flow to EBITA adjusted for the property sale in the first quarter.

Investing activities in the fourth quarter amounted to SEK 45 million, and that was primarily related to investment in development of proprietary software. For the 12-month period ending December 31, cash flow from investing activities was SEK 490 million. About SEK 420 million related to the five acquisitions we made this year as well as to considerations to sellers for acquisitions made previous year, i.e., mainly earn-out payments. Other investing activities mainly refer to development of proprietary software.

The financing activities in the fourth quarter predominantly refer to repayment of the credit facility. In the beginning of the financial year 2022, we financed the acquisitions of Microdesk and DESYS with loans under the revolving credit facility, about SEK 300 million in total. We have, however, repaid about half of that amount later during the year following good operational cash generation. Dividend to shareholders of SEK 100 million as well as repurchase of own shares totaling SEK 23 million were also part of the financing activities. These were, together with the remaining three acquisitions, financed through readily available cash balance.

Please also note that the board of directors has proposed a dividend of SEK 1 per share to the AGM 2023. This means an increase from previous year by SEK 0.25 and corresponds to a total dividend of SEK 133 million to be paid out to the shareholders in May 2023. Please also remember that we made a 4-to-1 share split in May 2022. And in the following interim reports, we have recalculated all share-based key ratios, including dividend per share.

And I would like to continue with a few comments on the consolidated balance sheet. You have probably heard me saying this before, but we continue to operate supported by a resilient balance sheet, which gives us a favorable position to continue to grow organically and through acquisitions. Changes in the balance sheet during 2022 predominantly derived from the five acquisitions we have successfully executed during the year.

Following the customary purchase price allocation exercises, goodwill and other intangible assets have increased by about SEK 800 million in total. Due to the strong cash flow during the year, the cash position increased by almost SEK 200 million to SEK 600 million as per December 31. Together with unutilized portion of the revolving credit facility, we had about SEK 1.3 billion in available funds by the end of December. The credit facility balance was SEK 0.9 billion by the end of the year and the amount was reported under noncurrent liabilities. The net debt has increased by SEK 95 million during 2022. The ratio net debt to EBITA was rather on the lower side actually and about 0.7 times.

Finally, I would like to comment upon the repurchase of own shares. In June 2022, the board of directors, supported by an authorization from the AGM 2022, decided to repurchase 230,000 Class B shares. The main purpose was to enable delivery of shares associated with one of the group's two incentive plans. The repurchases were executed during the summer. As per December 31, Addnode Group post 1,030,000 owned Class B shares in total.

Back to you, Johan.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Lotta. Just would like to take a few seconds to address our sustainability agenda. Still the same agenda, still the one that we're pushing, and it's five items. And we would like to give you an example, number one, digital solutions that contribute to sustainable development; and the rest is, of course, that we care for our people and the planet; and the way we work with our partners and suppliers; we need to have a long-term financial strength in order to do all the good things that we'd like to do; and, of course, we need a governance model to make it happen.

But let's have a focus on number one. There are some examples in the interim report and I would also like to highlight them here and also make sure that you know that case descriptions are available on our website.

And looking at the case, you can see the example one, to the left, is from the Design Management division. It says Symetri is supporting BamCore in developing digital solutions that demonstrate the energy and CO2 impact benefit by making buildings more sustainable with biogenic fibers like bamboo. It's a very practical example of what it can do, both in practicality and with digital solutions.

And the example two, in the middle, is from our division Product Lifecycle Management. It's TECHNIA who has delivered 3DEXPERIENCE platform as a cloud solution with the company Kite Rise to be used when developing high-performance energy storage systems.

Looking at the example three to the right is from our Process Management division. And it's a company, Sokigo, who has to delivery its solutions to TopoCad and CSM to the environmental service group, RagnSells. The systems enables faster, more efficient design of their recycling plants. As I've mentioned, you will find a full version of these cases at the Addnode Group website.

And looking at Addnode Group as an investment, this is the same slide as previous, this is the same one that we're using, but I just want to highlight what we are trying to achieve. Looking at the Addnode Group, there are a few things [indiscernible] (19:18). So, looking at Addnode Group, we provide digital solutions for our customers. Our growth is supported by underlying trends like digitalization, urbanization, automation and sustainability. Our customers' need for digital solutions is there, and we don't believe it will disappear.

Addnode Group is continuously creating value by supporting our organic growth with acquisition of enterprises that complement our current businesses. We have skilled and committed employees. We make strong offerings to our customers and have a high share of recurring revenue that Lotta mentioned earlier. 70% of our net sales is from recurring revenue, meaning that the customer pay upfront for the right to use the software or digital solutions that we provide. Our customer concentration is low. We have a geographical diversification and we have a strong financial position with low net debt that Lotta described.

We are demonstrating that Addnode Group has a solid platform for organic and acquisition-led growth in good and tougher times. From the inception of Addnode Group in 2003, we have up until 2022 doubled our net sales every fifth year. Demand is good, but we are attentive to how an uncertain business environment may impact us going forward.

So, with that, we would like to open up for any questions.

QUESTION AND ANSWER SECTION

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

Fredrik Nilsson

Analyst, Redeye AB

Q

Hello. I want to start with the margins in PLM and – I mean, it's a healthy level, but it's still not as strong as we have seen in recent quarters. You mentioned some new companies joining the numbers, but I believe most of that was present earlier in this year as well. So, could you tell us a bit what's the difference compared to the really strong levels seen in recent quarters?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yes. I think there are – basically what I mentioned is that we have a change in the customer going from – historically we had very strong license sales in Q4 in the PLM division. But over the last year, we have – both from customers sort of wanting it and having a shift from a license model to a more recurring-based model, meaning that the customers are leasing their system. That means that we would have a more even earnings during the year. So, that's one thing that has sort of changed the mix over the different quarters. And you can see the previous quarters have been quite strong. That's one result.

And then, as we mentioned is that if you look at the comparable quarters, you can see one effect we have on the acquisition and then another is the execution. We could have been able to execute a bit better in the quarter. So I think it's three things that we are making sort of the margin a bit lower than last year. A mix in the business model going from – more from a perpetual to a more of a recurring base model, meaning that it will have an even – more even over the quarters, and then the acquisitions have less than the margin that we have today. That was something we're working on. I'm not worried about that. And then, of course, we could have executed better. So, I think that's the reason behind it.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. I see. Sorry. [indiscernible] (23:22) my echo, sorry. Yeah. Also, like, I want to ask kind of the same question regarding process. I mean, you mentioned that you have hired some new personnel. I believe that this may be one explanation. But is there anything else? I mean, you grow the sales by 13%, but the profit is basically flat. So, is there anything else there?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

I think we have been growing. In the last year, we have seen that we are able to grow the business, and we have moved from a low-digit organic growth to a more of a higher organic growth. So, looking at – comparing, I guess, if you would compare 2022 with 2021, you can see that we have doubled sort of the organic growth rate. That means that when you go through that transition and you sort of get used to that and you add more people, there will be certain quarters with what you would call it a little bit dip in the margin. And we have also moved from a 15% margin in this division to 20%. That means that there will be sort of some lower quarters on the margin and when we sort of find the right balance in that. So I'm not that worried about in that sort of a downwards trend. It's more – we have a good growth, and it will be – some quarters might have lower. So I think it's just that reason. We are learning to grow and we hire new people and we are able to [indiscernible] (24:57) long term so that will have the effect on single quarters.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. Seems reasonable. Also, you mentioned that you believe there's a catch-up effect in Symetri in the US and UK due to the pandemic. I mean, why do you believe there's a catch-up effect affecting those numbers? What reasons do you have to believe in that?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

If we start with the US, you can see that – I don't think that we [indiscernible] (25:28) European. We didn't really sort of see how closed down business was in the US during the pandemic and the COVID situation. What's happened is that when you start to open up different urban areas and you start to invest again and then you start new development and then you need to do more designs. And that is sort of the catch-up effects in the business that people are forward looking again and they were able to invest. And then you need to – then you will hire an architect, and then you need a technical consultant. So that's sort of the catch-up effect there.

And then also looking at the UK market where we have the organic growth, as we report, Microdesk is not reported as organic. If you look at organic growth, you will find mostly in the UK and I think the business there was a little bit hampered by the Brexit, the COVID and altogether and now we can see that they are back on track and

that meant that 2021 was not a good year and 2022 was a good and even strong year then you would have the catch-up effect in our numbers.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. One last question from me. Could you tell us about your view of the market condition? It seems like it's rather solid in basically all markets, even in Germany, if I understand you correct? Could you tell us a bit more about that?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yes, I agree with that is that we seem to have a solid market for the offering that we are providing both to construction, facility management and also to the public sector and the manufacturer and the OEMs. So, there is a market out there for us. Like you said, there's enough market for us to make it a solid business. And then we all were talking about what will happen depending on the interest rate and inflation and the war. And today it seems that everybody is reading into the Fed's last decision that interest rates will go down and that will have an effect, but that's for others to discuss. But I think for us, we have enough market to make a solid business. I think that's how we look at it.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. Thanks a lot. That's all from me.

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

Daniel Djurberg*Analyst, Handelsbanken Capital Markets*

Q

Thank you, operator. And good morning, Johan and Lotta. A question on – starting on this FAST2 ERP business and consolidated into Design Management into the SolidWorks Global (sic) [Service Works Group] (28:20) together with Tribia. You mentioned that this will be a roughly SEK 500 million business. And I was wondering if you can give any view on the underlying market growth here and the profitability on a pro forma level? And also if you look into make this your fourth direction going forward?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yes. If we start out with the sort of the profitability, I think that is if we are looking at SW and Tribia, who are sort of the existing [ph] businesses (28:57), they are contributing to the – they are slightly above the margins in Design Management as they should as their own ERP. So that's to be expected from that. FAST2 that we have acquired will add in the beginning roughly about SEK 18 million plus in net sales. Their financial performance is lower as of now, but we expect that we can lift that being part of the group and with some synergies that we have. So, given time, it will come up to what we are achieving today there's potential in that. So, I think what we can expect from this type of setting is probably closer to what we're doing in process [indiscernible] (29:41).

We are seeing that this could be a growth area. Will it be another division? Let's see. There are very good synergies with existing business in Symetri as they are working with similar customer groups and similar needs.

So, for this entity to grow, we don't have to bring it out to new division as of now. But who knows, going forward, I'm happy to have the problem of that if they continue to grow.

Daniel Djurberg*Analyst, Handelsbanken Capital Markets*

Q

Nice. May I ask you on Design Management? Obviously, fantastic strong second half of 2022 also triggered by Autodesk due to the contracts. I guess, the discount that triggered a lot of your three-year contracts in advance. Was this seen also in Q4 and, i.e., should both Q3 and Q4 2023, that means very tough comps? And are there any other reasons really then locking in the price now to take a three-year contract for customer rather than take a one-year contract since you pay annually to Autodesk and you?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

I understand your question, but I don't think the question is fair because looking at what you can see – if you look at Symetri, the [indiscernible] (31:10) of the existing business when we entered 2022 [ph] it was good (31:15). Their sort of ratio three-year contract for the full year is not different than 2021. So, that means that the growth from that business is coming from making more business in total.

Then we have Microdesk and in the US you have sort of a – that's more of a more three-year deals in that. So, yes, it's not changing the ratio. I'm talking about the ratio, that means that we're also selling one-year and three-year. So I'm not saying that we are not expanding three-year deals. Just the ratio of the total sales. So, once there is a portion and that could be different between quarters, but if you look at the total year, I would say that the main driver has been that we are doing more business with the customers.

Daniel Djurberg*Analyst, Handelsbanken Capital Markets*

Q

Yeah. And I guess, we should be a little bit aware of this, at least, when putting our numbers on the growth for Design Management on...

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

Daniel Djurberg*Analyst, Handelsbanken Capital Markets*

Q

Yeah.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

So I think it probably is that we are very proud of the good year that we have. That has also been a very good year from a sort of a group perspective. And we are not expecting that we will be able to run this business with the [indiscernible] (32:26) organic growth moving forward. So, you're fair with that in the question that you should be aware of that.

Daniel Djurberg*Analyst, Handelsbanken Capital Markets*

Q

Yeah. Perfect. And if I can ask a little bit on the PLM, two sides of it perhaps. Germany did better than feared. Should we expect this to be stable also entering in 2023 or was it more of a delay in the issues that might hit the fan? And also on DESYS and Claytex, you talk about working on profitability and so on. Can you give any more colors on the work you do there to catch up and to margin levels on average?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

So I think we start with the tough question that I really can't answer is the market conditions in Germany in 2023. As of now, we can see that because it's very much dependent on what will happen in macro environment, and I'm not controlling that. But we are prepared for handling whatever sort of scenario that will happen. And as of now, we can see that the customers are buying for us and they are willing to invest. Most of the customers are related to R&D in any form. Meaning that the ones who are making designs of both machines, cars, chips, and et cetera, and as long those – and the customers are willing to invest in new products and development, then we will have a customer. So, long term, I can see that the need is there. How that will be affected by short-term things? Tough question.

And then there was another question about how well we're sort of making sure that we can continue to improve margins in PLM. It's basic things – making sure that you have the right organization in place, the right kind of people, and the right offering. So, there's no magic, it's just a matter of continuing to execute it.

Daniel Djurberg

Analyst, Handelsbanken Capital Markets

Q

Perfect. I'll go back to the queue and good luck in Q1.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Thank you.

Operator: The next question comes from Erik Larsson from SEB. Please go ahead.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you. Good morning to you. I have a follow-up question on the margins in PLM. You gave some good color. But I'm just curious on the strong guidance from Dassault into next year that we saw yesterday, do you think that you will be able to leverage that and maybe be more forward leaning, sort of execute better and improve on the margins?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I mean, we are a strong partner to Dassault and we are sort of [indiscernible] (35:22) in the Nordic market and in the German market and we also are in the UK market, and then we have some offering in the US. But the main market for us is in Northern Europe. And [indiscernible] (35:36) we have our sort of share of that because I think we do have that division. And then it's a matter of how efficient we can be in the execution of that growth, and that's up to us. And we have shown that we are on that path. So, of course, if we see growth in the market and we are able to catch on that, we should be able to see that in our profitability as well.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

And then on general price hikes, what are you seeing looking into 2023, both from your software partners but also in process management? How will you be able to compensate wage inflation coming up here?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think we have been quite okay with that, looking at most of the – in the public sector, meaning both what we do in Design Management, but also for our facility management offering. And primarily in Sweden, we have a lot of, for example, state agencies, local hospitals, et cetera, that use our system [indiscernible] (36:46) index. That means that whatever cost inflation that we endure that would be reflected in the prices as well.

And then looking at what we are – primarily at what we do, for example, with our Symetri offering with Autodesk and the Dassault bring, every time you sort of renew and annually, that's the price discussion. And so far, it's meant that price has gone up. And so, I think we can always do more, but we are able to rise prices. And does that mean that we are able to do it 3%, 4%, 5%, 6%? It depends on each contract and it depends on each sort of customer groups.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Great. Just a final question from me. Looking at the strong performance in Symetri and Microdesk throughout the year and thinking about 2023 where we have certainly more uncertainty. So, how forward leaning are you here? Are you expecting to grow your head count in these businesses, hire salespeople and so forth, or are you more cautious, would you say?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

The good thing with this business is that there is scalability in this business. That means that for every sort of growth [ph] in that stage (38:08) you don't have to hire. For a consultancy business [indiscernible] (38:13) then you need to hire more people unless it's impossible to invoice more. But in this business, you can always sell a little bit more. So, that means that we can be a little bit cautious on hiring people and still being able to sell. So, it's not sort of a trade-off situation there. So, we see a good market. But does that mean that we will increase with 15% on full time employees? It doesn't have to be that. So, no, I'm just saying that we can still grow without hiring more people. So, [indiscernible] (38:51) cautious and at the same time grow. So, it's not a very easy question to answer on that side.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Fair enough. Okay. Thank you, guys.

Operator: The next question comes from Daniel Thorsson from ABG Sundial Collier. Please go ahead.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Thank you. Lots of questions already replied here, so that's very good. Thank you. I just have one. Where do you think we will see slower growth and market growth first in 2023? We haven't talked about Germany here end of 2022. That did not happen. Do you see any red flags or any orange flags and risks going into 2023?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I see risks everywhere. Every morning when I wake up, I see risks. Though if you ask me where I see risks, it's everywhere. And that's just part of doing business. And that's also a possibility. The risk [ph] is also (39:48) somewhere. So, no. But to be honest, of course, there is. You can have a – we try to sort of maneuver in the way in the business where we are today. It means that some people are saying that there will be a soft landing now going up in the end of the year. Others say, okay, if you look at specific – we have some business that are focused on pure construction, the construction side. That's a very small portion of our business. But of course, we don't expect to get much business from business development in construction in the spring of 2023, but it's already there. So, that's nothing new. And then if you mean risk is that we will not be able to deliver 10% organic growth, that's a risk. But if we are able to sort of have a more modest organic growth, then the risk here is lower.

And the thing with Addnode Group is that we are a diversified group also from a customer perspective. I think the 10 largest customer all together generate low single portion of the total Addnode Group. We are in several markets. But in each several portion, I wake up every day and see a risk and think of what we can do. But if we sum it up to a totality, there are no sort of big, big risks for us. So you're not getting a very good answer, but that could also be answer.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Yeah. Thanks for elaborating. Absolutely. And then just to follow up a little bit here on M&A opportunities in 2023. I mean, now you have a really large market share in both Dassault and Autodesk reselling businesses. Do you find any regions that you would like to expand into or should we expect acquisitions in the current markets that you operate in or how should we think about what type of targets you're looking for perhaps?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

You're correct as we have strong market positions being a partner-based business. But for example, in the US market, we have almost no – we have a very small Dassault business, we have entered with Microdesk, but we are still not the dominant player in the US market. So, there's more things to do there. We have a strong position in the UK and the Nordics, but there are other regions. So I don't think we are limited in our growth with regards to those type of businesses. We discussed a little bit today and so the management, the acquisition of FAST2, we are there the Swedish, Norwegian and the UK player, still more to do, very fragmented local markets.

And in the process division, we are looking at the public sector. And in the public sector, software for local municipalities and state agencies, we are predominant in Sweden. We have expanded to Norway with the acquisition of Decisive. But it means that we're still a local regional player. And like I said, Lotta mentioned that our net debt is SEK 450 million, something like that, and we are still [indiscernible] (43:14). So I think we are in a position to do more acquisitions in 2023.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Excellent. Thank you very much.

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

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you for taking the time to listen to Lotta and me presenting the Q4 report.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.