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# Addnode Group AB (ANOD.B.SE)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

### Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

### Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

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## OTHER PARTICIPANTS

### Erik Larsson

*Analyst, Skandinaviska Enskilda Banken AB*

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## MANAGEMENT DISCUSSION SECTION

### Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Hello, everyone, and welcome to our report presentation for our third quarter 2024.

I'm the CEO of Addnode Group, Johan Andersson. And with me, I have our CFO, Kristina Elfström Mackintosh as well. So, we'll be presenting and doing the Q&A after that as well.

So, looking at the agenda for today, we'll walk you through Q3 2024. We'll finish up with what we believe to be our investment case. Then, we'll do a Q&A. And you will also find in the presentation and appendix with some further information around Addnode Group.

So, looking at the Q3, we said it's a quarter with underlying organic growth and robust earnings improvement. The third quarter was strong. It had underlying organic growth. Currency-adjusted organic growth net sales was 3%, and our gross profit increased by 9%. Although the economic situation was characterized by uncertainty, our strong position in segments with structural underlying growth has provided good prospect for upselling to existing customers.

This was the first quarter that was significantly impacted by the transition to the new transaction model for Symetri's sales of Autodesk software in division Design Management. Like-for-like, our estimate is that the group's currency-adjusted organic growth would have amounted to approximately 16%, assuming that Autodesk sales have been under the old transaction model.

Looking our profit, EBITA improved by 52% to SEK 200 million, and earnings per share increased by 181% to SEK 0.73. The big change compared to Q3 last year is that division Management (sic) [division Design Management] (00:03:03) has more than doubled its EBITA due to organic growth and effective cost control. The Product Lifecycle Management division delivered a stable performance in a challenging market. The Process Management division had organic growth and improved EBITA margins.

We have completed six acquisitions so far in 2024 and I continue to see many opportunities for further acquisitions. As part of our relationship-based process, we are working actively to fill our pipeline with attractive acquisition candidates.

Rolling 12 months, our EBITA is now above SEK 800 million. Earnings per share is now up to SEK 2.83 rolling 12 months, compared to SEK 2.09 for 2023.

Looking at Q3, I'm proud of our employees' ability to land new customers, conduct acquisitions, develop the business and deliver robust earnings improvement in the current market.

So, with an introduction to Q3, I would like to hand over to our CFO, Kristina.

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### **Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

Thank you very much, Johan. And I'm going to take you through a little bit about the breakdown of the net sales.

So, we have two graphs looking at the net sales from two different perspectives. And starting from the graph to the left, we are presenting a breakdown on net sales by geography. And we can see here that Sweden has now reclaimed the position as the largest geography at 27% of net sales. And our international expansion into the US market, which you may know that we acquired Symetri here, so Team D3 in Design division that now amounts to approximately 24%. And the revenue from UK is then, the third largest, which amounts to 21%, and we see Germany at 11%. We also have about 17% coming from other countries outside these four identified.

Then going to the pie chart to the right, we can see that recurring revenue, which is then continuing to form a stable part of our business. It's now up to 74%. And we can also see that the recurring revenue also consists of both third-party sales and also revenue from our own solutions. And service revenue, the second large portion, accounts for 23%, and that is a growth of 3% compared to last year's Q3. And the services consist of both services relating to our software offering and customer specific solutions. And then, we have licenses at 2% and we're talking about the license number going down in favor for recurring revenue going forward.

And [ph] then, allow me to (00:06:17) hand over back to Johan to go through the divisions deeper.

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### **Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Thank you, Kristina.

Before we do that, look at Addnode, what do we do? Everything we do is about digitalization for a better society. This is why we exist and what we want to achieve in everything we do. We believe digitalization is the only way to provide decision basis for our future. We are confident in the capacity of humanity to do good and make sustainable decisions, if the tools are right.

I would like to introduce you to three examples of how we are working with our customers to develop digital solutions for efficient resource use and a more sustainable society.

So, looking at this slide, the first example to the left is how Symetri has helped its customer, Sasaki, with the rehabilitation of the University Lakes in Louisiana, USA. The second example in the middle is about how Technia has supported its customer, Glaston, to improve its efficiency and to become more sustainable as a glass manufacturer. The third example show how Sokigo has enabled the City of Stockholm to ensure compliance with EU requirements on sustainable waste management and traceability of hazardous waste.

You can read more about this in the appendix, but you will also find it on our website and you will find it in our Interim Reports. So, please take the opportunity to read up and see more what we are doing and helping our customers with.

So, looking at the three divisions, where we've got now three divisions, Design Management, Product Lifecycle Management and Process Management. Looking at the financial, you can see that, if you look at gross profit in the middle, you will see that Design Management is roughly 53% of our businesses. And PLM and Process Management is roughly 25% each of our business, looking at the gross profit level.

So, if you look specifically at Q3, and Design Management, net sales increased by 5% and adjusted for currency effect, organic growth was 7%. We are aware that last year's comparative figures were impacted by weak sales in the US, but still, we believe it's a strong performance by the division. This was the first quarter that was significantly impacted by the transition from a VAR model to an agent model to Symetri sales of Autodesk software. I will come back later to that on the impact on that.

The EBITA increased to SEK 118 million, and the EBITA margin also increased to 10.6% and gross profit increased with 15%. And as we were able to hold on to the cost level, that has had a good impact on the EBITA level. So, organic growth and effective cost control meant that the division's EBITA more than doubled.

Looking at the market, Symetri experienced stable demand and strong sales during the quarter. In both Europe and the US, the product mix had a higher share of three-year Autodesk agreements compared with the year earlier period. Sales in the UK were strong to both the construction and the manufacturing industries, and Team D3 in the US have contributed good to the earnings in the quarter.

The new transaction model that have been discussed in the last year, it was implemented in the US in June 10, and in Europe, September 16. Commission-based net sales under new agent model were limited in Europe during the third quarter, but had a more significant impact in the US for the agent model, as I said, was introduced in June 2024.

Our estimate is that the division's net sales would have increased by approximately 25%, if the previous VAR model have still applied in the third quarter, say, in like-for-like, the growth would have been 25%. And if we adjusted for currency effects, it would have been 27%.

We believe and experience that the transition to the new transaction model has highlighted the value similar to services and own complementary product as a competitive advantage when customers select their Autodesk partner. So, all in all, a strong quarter from Design Management.

Looking at PLM, Product Lifecycle Management, net sales decreased by 3% and organic growth was minus 5%, if we adjust for currency. But we were able to have a good cost control. So, EBITA we'll see at SEK 39 million and EBITA margin was still 8.3%.

Looking at the market, we can see that demand for PLM systems and related services were stable in the Nordic countries, where customer segments are more diversified, spanning from manufacturing, defense, life sciences, to be compared with the rest of Europe where automotive is stronger. Sales were a little bit weaker in the UK and Germany, mainly due to decline in license sales to the automotive industry.

The trend that we can see of customers increasingly preferring to rent licenses on a fixed term basis rather than purchasing licenses with perpetual right of use continued as before, meaning that customers are going more from the old license model to a rental model, so that also has a smoothing and effect on the growth in net sales.

The economic situation, interest rates have affected customers' decision-making processes concerning new and large systems, leading to postponements rather than losing out to market. So, we believe it's more of a postponement of investments. However, if you look at the division's good and well-established relationship with its customer base, there are frequently opportunities for recurring sales and expansion of current assignments.

So, if you look at Process Management, had a net sales increase of 3% and 2%, if we adjust for currency. We have a small operation in Norway as well in this business, even though main business is in Sweden. We're able to increase EBITA to SEK 58 million and also the EBITA margin to 20.1%. The division's good and well-established relationships with a large public sector customer base has made it possible for us to do recurring sales and expansion of current assignments, even though has it been a little bit tougher market with less tenders than last year preferably to state agencies.

But looking at municipalities, we can see that we have won several tenders during the quarter. And we still believe that the division's businesses are well positioned in public sector owing to their attractive digital solutions, in-depth experience and good [ph] relationships (00:13:38). All in all, a good quarter for Process, delivering growth and increased profitability, and taking some good businesses in the markets.

So, with that introduction to what we have achieved in our three divisions, I would like to hand over to our CFO.

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## Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Thank you, Johan.

And I'm going to start taking you through the cash flow, and I'm going to do it this way that I'm going to do it by line items and start with first, Q3, and then I'm going to go to year-to-date September.

So, if we start with the cash flow from operating activities, I would also like to – those of you that have followed us for some time and read the report thoroughly, you can see that Q3 is normally the weakest quarter during the year. And you can also see here that we have a negative cash flow from operation activities. But however, better than last year of SEK 6 million. And the improvement comes from the operating profit of SEK 67 million and offset by the changes in working capital by SEK 56 million.

If we look at the same line going to the year-to-date September, you can see that we have a very good cash flow from operating activities of SEK 426 million, that is an increase of SEK 169 compared to the year before. And the main – the changes come from the operating profit that was SEK 145 million increase from the year before, and

offset by changes of working capital, and also positive by SEK 74 million. So, strong cash flow from operation year-to-date September.

Going down the table, we are looking at the cash flow from investing activities. And that amounts SEK 167 million minus, and apart from the acquisitions that we have made in the quarter, we have talked about the Addoceo and Prime Aerostructures. We also had considerations to sellers for acquisitions made previous years in that line.

So, moving on to the year-to-date cash flow from investment activities, minus SEK 373 million. That includes all the acquisitions that we have made so far to this quarter. And we have the acquisitions in the previous quarters as well. Also, investment in own products and solutions, also included there, and we believe that that's an important for Addnode to continue growing and make our products available for the future. And we also had investments, intangible assets and other shares in that number. Looking at the financing activities, you can see small numbers, SEK 25 million, which is relating to leasing maybe. So, that's just cash flow.

And then, we're going to look at the balance sheet. And I'd just like to highlight a few areas in the consolidated balance sheet. And please notice that this is the operational balance sheet and not the balance sheet you can read from the report. And we continue to operate – supported by a resilient balance sheet, which is important foundation for our continuous growth. And the changes in the balance sheet is mainly related to the acquisitions we've done so far. And we also had a translation difference in goodwill that you can see on the first line there.

Our business model allows to operate with a negative net working capital, and we do so as well in Q3 of minus SEK 478 million. The item provision, taxes and other debt includes future earn-outs for companies acquired, that we have SEK 485 million, of which the majority, over 85%, are related to the US acquisitions. You can also see that net debt now is SEK 1.1 billion and it was impacted by the acquisitions and the dividend payment and net repayment of loans offset by strong cash flow from operations. Also going down a little bit further down, we have total facilities, SEK 2.6 billion, and of that, about SEK 1.1 billion is still unutilized as of September 30. Right?

And then finally, we're going to look at some of the numbers for the five years' perspective. And you can see that the net sale has a solid increase from 2020 of SEK 3.8 billion now to the rolling 12 months of SEK 8.4 billion in this report. And EBITA also has grown from SEK 0.4 billion 2020, to SEK 0.8 billion now in 2024. Also, saw on the return on equity, you can see from just over 11% to over 17% now in this quarter, and a solid increase of EPS from SEK 1.22 to SEK 2.83. And you can see also that the growth is supported by strong balance sheet with a leverage of currently 1.1 times. Also, a business model with prepayments provide a good level of cash flow per share.

And then, I would like to hand over back to Johan.

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## Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Thank you, Kristina.

Before we go into Q&A, I would like to take the opportunity to tell you a bit more about Addnode Group. We are all about digitalization for a better society. We would like to help our customers provide – doing better with the digital tools that we provide. And thanks to good cash generation and strong financial position with low debt, we can continue to execute our acquisition strategy with a healthy risk appetite.

Looking at the economic climate, it's uncertain, and customer remain cautious on major investment in new products. However, our strong position in segments with structural underlying growth provide good prospect for

upselling to existing customers and expanded assignments. With a diversified business in terms of geography and customers, a continued focus on improvement, and a business model with a high share of recurring revenue, I believe we have good prospect for continued profitable and sustainable growth.

So, with that, we would like to open up for Q&A.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] The next question comes from Erik Larsson from SEB. Please go ahead.

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you, operator. Good morning to you. I have a few questions. I'll take them one by one. So, first off, you mentioned that you think Symetri's competitive advantage will become more apparent here after the transaction model change. And I guess it's still very early days, but have you seen any early signs of this in the US so far?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Like you said, it's early, and we can see early signs. But what we basically mean is that looking at some of our competitors, we have invested in own software that complements the Autodesk software and then enriches the investment that the customers are making, and also supported by a strong service offering that then makes the software even easier to use. And if you haven't invested in that, with the new agent model, the price is fixed. So, you can't really be the one who are being competitive with the price. You need to be competitive with the services and the software that you provide in a high degree.

So, we have seen signs of that, but it's early to just say that it's – we still believe it's going to more increase as we go forward, a competitive advantage. And also matter of size as we are one of the biggest partner in the world, it means that we are able to invest, and we are here for the long run. So, we think those are things that's going to work for us going forward.

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

All right. Thank you for that. And then you made an estimate on the underlying organic growth in Design, which is much appreciated. Can you just share how you went about doing this? I understand you have limited transparency in general from Autodesk here, and how certain are you that you're in the – at the ballpark correct level?

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

Yeah. I will take that question. And what we've done, we have access to – when we import the customer orders into Autodesk system, we have access to the Autodesk system, and we've pulled all the information from there. And then, we have adjusted that for contracts that are not falling through in this quarter, but rather in the future quarters. So, it's an estimate. We've done all the checks and backtracking that we can, and we feel quite confident that this is the number.



**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. Sounds good. Then, I have another question for Design. I note that your OpEx level is down by about SEK 20 million or so from Q2. And I was just curious, is this only attributable to vacation effects or maybe a bit stronger effect? I'm just curious if we can extrapolate anything on to Q4 here, or rather look back at Q2 maybe as a reference?

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

Yeah. We can see that in the – we have, of course, the consulting effect when we have a vacation. So, that has definitely an impact. And we're not providing any further information in that respect for Q4. I hope you appreciate that.

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Yeah. Yeah. It's fair enough. And just final from me, I just want to hear if there are any changes in terms of the M&A outlook. You've been fairly active this year, but you haven't made any larger acquisitions. So, I'm just wondering if you – do you think weak macro here in the last few months affect things in any way?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

I think like we stated in the Interim Report, we have a lot of conversations ongoing. And we believe that we have a good pipe. But we also have, like I said, a process where we discuss a lot with, and it's related to, more of a relation-based process. I mean, so we have a lot of discussions ongoing, and these are bilateral processes. And we can't really control when we are able to sort of finalize the deals. So, I can't make any promises for the year. I can say that we have a good pipe. And when we can execute that, that's the – quite a big question mark. But I truly believe that we have a good pipe for acquisitions going forward.

Will it happen end of this year, or will it happen next year that we're able to execute some of them, but still I think we have a fairly good pipe for the business plan that we would like to execute over the coming years.

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. Thank you for the color. I'll go back in the queue.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Thank you.

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

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Thank you. Good morning. And I want to start...



**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

Good morning.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Good morning, Fred.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

...with Design Management, you mentioned that SVG (sic) [SWG] (00:26:38) and Tribia had a somewhat weaker quarter compared to last year. Is that driven by weaker markets primarily, or is there anything else going on?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

I think it's a little bit weaker than last year, but it's not sort of a big one. And it's a little bit – on the market side with regards to our facility management system, we can say that we have a lot of public customers there, and like we described in the Process division, we can see that the tenders are a little bit less this year, but we can see that those are coming back. And then we – to make it simple, it makes us – we need to keep the personnel and the staff during that period because we see that things are coming back. And that means that we will have a little bit of hit sort on the profit side this quarter, but it's sort of a short-term effect, so to speak.

And, of course, we are a little bit weaker on – doing on construction, because we have a SaaS solution there for construction as well. We don't see the high growth in the Nordic construction market, but we are still able to do a sound profit out of that. So, it's more of a – I would describe it as a short-term effect.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay. I see. And over to Symetri and the US market, as far as I understand, the share of three-year licenses were quite high in this quarter as well, despite US now moving on to the new transaction model, I mean, why is that, do you think?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

I think you have to separate that. Looking at the – this has been done in sections, like US started selling from the new model in Q3, which you see the result of that here in the Q3. Europe started selling now end of this quarter and you will see the effect of that in Q2. So, we have the effect of the three units that were sold from US we'll have in our P&L now in Q3. And we also can see the effect of that in Europe. So, it's more of a delayed effect from that.

So, there are no sort of big change in the US with regards to the portion [indiscernible] (00:28:58). The big effect [indiscernible] (00:29:00) you can see rather in Europe, and that's probably a little bit of a push, because this is the sort of the last chance for our customers to sign up according to the old model. And there are people out there who value security knowing what you get. And the good thing for us is that the customers are willing in this time of market and are willing to invest in a three-year contract for the software, one way of putting it, is that it also show that this is an important software for the business. And so, I think there are two sides of looking at that.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay. Thanks. So, over to PLM, the decline in licenses compared to the same quarter last year, it's quite brutal. Yet, you managed to retain a quite solid margin. Could you elaborate a bit on that?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

I think it's due to good cost efficiency. Last year, we saw that the market was slowing down, and I think we said that we were [indiscernible] (00:30:08) we had too many people in the organization with regards to what we were able to sell to our customers. We did the restructuring program last year and the management team has been really good at executing that. So, that means that we now are entering sort of this slower phase with regards to sales with better cost control and efficiency. And we can see that that enable us to scale, provide a healthy profit in the business.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay. Great. And regarding the recurring revenue in PLM, the growth is quite strong. I mean, should we assume that the churn within automotive is flat, basically, or do you see any increase there?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

We haven't seen any churns yet on the business. What we can see is that it's tougher to sell new products, new sales, new – like normally when you start off with these big products when you are basically helping our customers to build a digital twin of their production and R&D, then you usually have a license sales in the beginning. As we are not – and like I said, those type of products have been postponed. And we also have the movement from going from license to more recurring revenue with regards – or rather ramping it. So, those two effects are having, like I said, a brutal effect on licenses. Both less project, but also a transition from license to rental.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay. I see.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

But we haven't seen any churn on recurring revenue from automotive. So, they have not been sort of canceling any of their recurring revenue. Well, when they renew – they can't cancel during the contract period. But when they renew, normally yearly, they can choose how many seats they would like to renew. But we haven't seen any big churn in that.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Interesting. So, last question from me. What can you do to increase the exposure beyond automotive in the UK and Germany? You mentioned life science, defense, for example, as relatively solid sectors in the Nordics?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

We can do a lot, and we are doing that. The team is doing a really well job. There are some – and for the macro things, it's a disturbing world, people tend to invest a lot more in defense materials. And the same type of system being used for R&D in automotive with regards to digital tools are also being used by the defense industry. So, we are expanding that business to our customers here in the Nordic. I think we mentioned that in Interim Report as well. We are doing more with the life science, more of the, I would say, the medical equipment part of life science, because they have the same issues with traceability and efficient design processes and et cetera, and we are helping them with the same type of digital tools. And then even though the EVs are also an expansion [indiscernible] (00:33:26). So, there are several opportunities to do that.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay. That's all for me. Thank you very much.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Thank you.

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

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Yes, hi. Thank you very much. I have a question on Design Management. I guess the 27% adjusted organic growth that you mentioned in Design is a result of the transaction model changes due to both a final reselling boost and also more three-year licenses. So, I'm a bit more...

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

...interested in the underlying demand profile on a like-to-like basis and also some comments on how you expect Q4 to play out in terms of sales and gross profit growth year-over-year would be helpful.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. Like I said, there are several factors driving the, well, I'd say the like-for-like organic growth of 25% in the Design division, because I believe that was your question.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Yeah.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

And we can see that, yes, we don't have 25% underlying organic growth. So, that means that we have a push from the three-year deals, meaning that it's up. And then, like you said, we also believe that there is a push right now from customers wanting to make sure that they lock in the old transaction model before we go over to that. So, we definitely have that. Is it half and half? To be honest, we can't really measure and separate that. But we would like to, like you said, point out that we don't have an expectancy of the market to grow by 25%.

If you look at some market sort of estimate going forward, [ph] Daniel, we're (00:35:25) probably looking at if this is a market in this type of world that are probably growing the like 5% to 10% organic growth over year. That's probably a bit more of an expectation. And with regards to Q4, unfortunately, we don't give any prognosis. But we can't see any changes compared to what we have seen in Q3 with regards to what we're seeing.

The tough one, if you look at underlying growth and reported growth in net sales, it's two different things in Q4, because what we will see for [indiscernible] (00:36:00) net sales will go down as we will have the full impact of the new transaction model from Europe as well in Q4. So, Q1 next year will have that. So, if you look at net sales, it will go down. But it doesn't mean that we have underlying organic growth. That's the reason why we ask you to look at gross profit terms.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Yeah. No, I understand.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

[ph] First, just to (00:36:27) give you a flavor on. And the second one, I'm not able to give you a distinct answer.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Yeah. No problem. And will you give this adjusted organic growth figure also in Q4 in Design you think, or will you talk about organic growth and gross profit instead, or when will you change that type of communication?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. We'll see. We'll definitely give you at least the same information that we gave you in Q3.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Yeah. Okay. Clear, clear enough. And then a follow-up question on Team D3 here in Q3 EBITA, that was up year-over-year. Is it because they did close to zero last year, or is it because you have been able to improve their margins closer to the Design Management segment margins? Or are you still halfway up to that level? Or where are you in that earnings growth pace?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. I think, like you said, last year, Q3 was Team D3's first quarter as part of Addnode Group. And they were very close to this year-end profit there, because and like we said, that was their first quarter, management heavily engaged in the transaction, basically selling the company [indiscernible] (00:37:36) and we said that they will catch up on that. And now, they have done that. So, that means that they are back on the level where they're expecting. And they are having a good – they're doing better than when they sort of became part of Symetri a year ago. But there are still more to do with regards to margin-wise going forward.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Okay. So, still some room to improve that margin, still.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yes.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Good. And then a question on Process Management. You mentioned here in the call that there are less tenders during the last year. While I guess there are quite a lot of suppliers struggling a bit on the consulting side, is that causing some price pressure on new tenders that could cause closer to 0% organic growth or even negative organic growth for the segment in 2025?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. We haven't seen that so far, but it's, of course, it is – normally, what happen is that consultancy companies who struggle, they tend to do – in better times, they tend to go to the public sector. And in tough times, they see that there are still tenders in the public sector and then try to move on with that. But then, you have to recognize that looking at our businesses, it's a software business and where we are selling products to our customers and our consultancy is more delivering and maintaining of that. So, that means that we will not have the same effect. Of course, we will have sort of an overall effect from the IT market. We're not free from that. But I think, more important for us for the next year is probably what will the KPIs be for the maintenance agreements.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Q

Yeah. Okay. I see that. That's clear. And then the final question on PLM here. Does the strong margin in PLM here in Q3, despite the negative organic growth, mean that 2025 or perhaps 2026 could result in a margin above the historical levels of 10%? If this level of cost is sufficient to capture growth, that would be your margin level, which you have not exceeded since 2014.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Look, I think we are in much better position right now with regards to cost efficiency [indiscernible] (00:39:55). But if we are going to improve the margin, we need growth. And then, we come to the question of, will there be growth in 2025? We'll see about that in the market, because like you said, we have a strong position in Germany and UK with regards to the automotive industry. And there are some – yeah, it's tough to make a judgment on that on how the market will be. What we are doing is that making sure that we can earn money in all markets.

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Yeah. And if we'll see...

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

So, there are room to improvement.

A

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Yeah.

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

[indiscernible] (00:40:33), so to speak.

A

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

I see. I see. And this cost level is enough. If you see growth in 2025, the cost level in PLM is pretty much okay.

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

It's okay for some growth. But if we want to grow like organic growth, we want to go for 10% organic growth in that business, of course, there will be some hiring.

A

**Daniel Thorsson**

*Analyst, ABG Sundal Collier AB*

Yeah. That's clear. Thank you very much.

Q

**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. Yeah, most questions [ph] asked, just recent (00:41:17). I was wondering a little bit on the underlying growth again then in Design. You mentioned that you had some 27% FX adjusted, while I guess less than 25%, 24% FX included. But can you just explain why it's so much higher than the gross profit growth of 15%.

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Sorry, Dan. Can you please repeat the question?

A

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. Yeah. Yeah. We saw a 15% gross profit growth, I believe, in Design. And you've mentioned that the underlying gross profit – or growth in the top line was 27% FX adjusted. So, I guess, or 27% you said, and I guess FX adjusted, a bit less. So, the question is why they deviate so much 15% versus, yeah, the other number?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

15% versus...

A

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

You mentioned 27%, but that is adjusted FX, 15% is included FX, but still, it's a quite big difference. And you mentioned before that you calculate the 27% directly from – you had more knowledge on that. But, again, the deviation is on gross profit, gross versus the expected 27% would be interesting, if you understand my question.

Q

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

Yeah. I think, if I understand it correctly, that we are only providing the information on the net sales. What that would have been, if we had all the transaction model. So, that is the 27%.

A

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Yes. But here, I guess, you have said before that it should be more or less equal. No big changes on the gross profit level, the changes, i.e. that, so the question is why the gross profit growth of 15% is so much lower than the 27%? Again, FX should be adjusted for here in the 27%.

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

But that has to do with the mix of the different – because if you look at the gross profit, if we have not adjusted, we need to adjust the gross profit as well. If you look at the margin or – so, that's probably not your question.

A

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

I think it was. Well, maybe we can take it offline later.

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

I did understand your question, but if there are different mixes in that, so we have to do the calculation of that as well. And we chose one matrix to present that to you. So, I think that's part of the question.

A

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Yeah. And again, obviously, you mentioned that you had good support in the Design with the three-year agreements and advance buying. And it's hard to say exactly how much comes from each. But if you look at the funnel, or the pipeline, can you say anything, quantify it on that? Is it still supportive for 10% net sales or that gross ambition that you do have? Or is it like empty, on back of this advanced buying and the three-year agreements, are you hitting hard on Q4 and early 2025 growth?

Q



**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

No, I don't think we are empty with regards to Q4 and going forward. There are still deals out there to be made with regards to new sales. So, we are not sort of emptied the things to make the Q3.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

So, is it possible to give any – and quantify numbers on how much larger this, or how much of the revenue in Design that came from three-year and the advanced buying? Just to help us out a little bit on how to think on the growth prospects for Q4, and first half of 2025?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

We haven't given numbers out on that, but I think one of the previous questions I tried to help out with that one and said, if you look at the – we don't believe that we have the underlying sort of organic growth, if we look at gross profit on 15%, that's probably boosted by the three-year deals. So, if you look at what the sort of market estimations on this, if you look at the market things, they are telling us that this type of market should be able to grow 5% to 10% over the year, coming years.

So, that probably gives you some guidance on what can be expected. I'm not saying that we are in that process. I'm saying that the guys who're trying to estimate the market seem to tend to look at organic growth probably around 5% to 10% on that. And we are now at 15%. And I don't think that we will be able to deliver an organic growth of 15% and historically, we haven't done that. So, that's clearly, we have an effect of three years and a...

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

...lot of people trying to lock in.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. It support it. Thank you. That's what's all I had actually.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Thank you.

**Operator:** The next question comes from Mikael Laséen from Carnegie Investment Bank. Please go ahead.

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Yes, hello. Couple of questions from me as well. And I was wondering if you saw any disruptions, timing of revenue recognition, price adjustments that are temporary or differences in the payments from the customers, or from Autodesk that you saw in Q3 that was temporary, or, yeah, unusual? And how we should think about this going into Q4 when we also have Europe for the Design segment tariffs?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

If starting with regards to payment, basically, if you look all across the group, we can't see any sort of big changes with regards to delays or anything like that. It's more like business to business, if you look at the group level. And with regard to the changes with the new transaction model, we can say that it seems to be going sort of fairly well or smooth or I don't know exactly word. We are able to do the transition with regards to systems, how to make that up. Probably a little bit better than expected.

And then, we have the things that we're moving from one model to new model, but we don't have any sort of one-time effect. Yeah, I can't really see that – looking at her. So – see, if I'm missing here something else.

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

You will see – yeah, no, that's right. And you will see that the effect is that you will have a decrease in the balance sheet in total as we're now getting the net commission instead of the growth. So, that will be going forward, obvious, going forward.

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. What is the main reason for the weak – or for the negative working capital figure in this quarter?

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

It's mainly relating to the working capital that you see. And the majority part of that is coming from Design division. And you can see also that in the past, when there were prepaid three-year contracts, where we received the payment in advance, the payments back to Autodesk and such are coming from the two and the three years rolling in, two, three years. So, that's the smaller part.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

And you have to add that, that sort of the change compared to last year.

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

Yes.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

If you look at an overall picture for Addnode Group over the year, you will find that Q3 is the weakest with regards to cash flow and that has to do with that. We do get a lot of prepayments from our customers in the first quarter with things also being the maintenance agreements in the Process division and also in the PLM division. And

those are sort of things that we're going to live through. So, that means that Q3 doesn't have the payment for the maintenance because this has already been paid in Q1. So, that means that Q3 with our business model and looking at the payment pattern from the customers, it should be the weakest of the year.

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**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

A

Yeah.

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**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. So, you had some changes in the prepayments driven by this transaction model change or...

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

No.

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**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

...in the quarter [indiscernible] (00:50:43).

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

...but, it ranges from, yeah. Yes and no. And the reason why it doesn't have to do with the change in the transaction model, it has to do with the change with the three-year contract that were announced a year ago, because historically, the customers have paid three years in advance for the three-year contracts, at when they signed a contract to pay three years upfront. A year ago, that changed, so that they sign up contractually for three years, but they pay installments year-on-year every year, three installments during that contract, that change started a year ago and we can see the effect of that now.

So, it's a change from Autodesk business, but it's not related to the transactional, it's related to the change of the payments of the three-year deals that were announced a year ago, and now we can see the effect of that. So, that is, if you would call a one-time effect, that's true. And then, well, going forward as we roll that on, if it will take two years or three years, then we will be back on the sort of a level because – it's like when you start selling a SaaS model rather than a license model, then you have like a U-turn in the cash flow from that part. That sounds we have a one-off effect.

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**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. Yeah. Complex, but, okay. Next one is on...

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

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**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

...just on this multiyear contract mix that most of us have asked about.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Yeah.

A

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Is it possible to give any indication about the magnitude of this in any way?

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

We haven't given any exact figures because that's more for competition reasons with regards to our customers, and those customers are [indiscernible] (00:52:38). But like I said early on, we can see that we have an impact from that we are selling more three-year deals, so impact, so we want to sort of put out there, we don't have an organic growth of 15%. It's probably, if they guess, like I indicate, and we're probably on single-digit organic growth rather than the two-digit organic growth that we are in this quarter, if you are trying to guess. But these are guesstimates from us in the organizations. It's quite complex to derive exact figure on that, well, if you try to separate that.

A

But we have organic growth, but it's boosted by the three-year deals that we're selling more. We do believe that we are in a process and we're moving to a bigger mix of three-year deals as a total. So, we expect that to continue as we move forward. So, it's a change in the pattern, but we also expect that we can carry that on going forward.

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Okay. But if you listen to Autodesk, they suggest that the share of annual contracts or multiyear contract will decline, if I understand them correctly, and they will focus on that in emerging markets where you have uncertain payment terms and strengthening in the distribution partners. But you say that you can maintain this level?

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Yeah. We believe so. And by the end of the day, the customers probably have some saying in that as well.

A

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Yeah. Yeah. For sure. All right. The final one is on Europe. You mentioned in report that you are dependent on the automotive industry. And could you provide some more insights into how much of sales and gross profit for the PLM segment that comes from the automotive sector?

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Not – we don't have an exact – but if you look at the figures presented today and you're an analyst, you could see that 14% of our business is related to Germany. And if you are active in Germany, you are in one way or another

A

dependent on the automotive industry. So, that gives you a figure on how much of our businesses are dependent on Germany and indirectly of the automotive industry.

**Mikael Laséen***Analyst, Carnegie Investment Bank AB*

Q

Yeah. Okay. And is there anything that we should remember here going into Q4 for the PLM segment in terms of contract renewals, timing of those and the current market condition? I'm thinking about retention and loyalty, especially maybe in the automotive industry.

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

A

Like I said, I think – I also had a question earlier on cash flow, saying that most of the renewals of the maintenance agreement or part of that is being done in Q1. Looking at Q4, historically, we have been more dependent on license sales with – because what happens is it tends to be the big customers within our industries that tend to buy new licenses rather in Q4 than the rest of the year. So, and that goes back to auto. We will be dependent on automotive industries still investing in their R&D in Q4 compared to last year. So, yeah, probably more to look at that, if we are able to generate new sales from the R&D departments at our customers. And historically, they have. So, it's not so much of a renewal. It's more of an – are we able to generate new sales predominantly on existing customers in Q4.

**Mikael Laséen***Analyst, Carnegie Investment Bank AB*

Q

Okay. Got it. And I guess, I mean, the R&D side, it's probably the last thing that they cut back on. Super solid [ph] benefit (00:56:58).

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

A

Yeah, and that goes – yeah, yeah. That's our experience as well. That goes back to one of the questions earlier on regarding to churn at that early on. We don't see any big churns from that, because like your said, by the end of the day, they're smart management, they know that they're going to live on new products and when things turn around, so you don't want to cut off your R&D department. And we are predominantly at the R&D department rather than the production supporting them.

**Mikael Laséen***Analyst, Carnegie Investment Bank AB*

Q

Yes. Thank you so much.

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

A

Thank you.

**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 into our report presentation and all the questions that we hopefully were able to answer to some satisfaction. So, thank you.

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## Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Thank you.

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