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Addnode Group AB (ANOD.B.SE)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Addnode Group's Q4 Presentation. [Operator Instructions] Now, I will hand the conference over to the CEO, Johan Andersson; and CFO, Kristina Mackintosh. Please go ahead.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Hello, everyone, and welcome to this presentation of Addnode Group's year-end report for 2024. I'm the CEO of Addnode Group, Johan Andersson, and with me today, I have our CFO, Kristina Elfström Mackintosh. We will spend the presentation on Addnode Group, our Q4, full year, talk about the specifics about the divisions, our balance sheets, and with our investment case, and then we will open up for a Q&A. And for those of you who are new to Addnode Group, I would like to remind you that our reporting currency is Swedish crowns.

So Addnode Group, we're all about digitalization for a better society. Through innovation and continuous development in close collaboration with our customers, we create digital solutions for specific needs. The software and digital solutions that we provide design buildings, infrastructure, and cities, and also the products that we all use every day like cars and all the way through to life science products that we use. With things that have been designed and built, it needs to be maintained with a life cycle perspective. And the public sector also has a responsibility for rules and regulations. Addnode Group, digitalization for a better society.

So, 2024, it was a transformative year for Addnode Group. I'm proud of our employees' efforts over the year, a year in which Addnode Group continued to invest in product development, launched new digital solutions, attracted new customers, and carried out acquisitions, resulting in increased earnings.

Over a year ago, we informed about changes to come in the business model for our Autodesk business. During 2024, we have successfully navigated the transition from a reseller to an agent model. It has clarified and demonstrating the value of our proprietary products and services to our customers. Kristina will later describe that

we actually have delivered what we said a year ago. Yes, net sales will go down, but gross profit, EBITA, and cash will not be affected, resulting in higher margins.

2024 was Addnode Group's best financial year ever, and all divisions delivered their best earnings to date. The strong operating result was supported by strong cash flow and return on capital employed. 10 years ago, EBITA was SEK 168 million. And in 2024, we delivered SEK 863 million. We are delivering on our growth strategy, combining organic growth to society with a value-creating acquisition strategy.

So with that, I would like to hand over. But before I do that, let's talk about business conditions this quarter. Our customers' drive to increase their sales and operate more efficiently using digital solutions remain strong. However, the economic and geopolitical situations remains uncertain. The economic situation still has a hampering effect on decision-making processes concerning new and larger system projects. Demand for design and PLM solutions [indiscernible] (00:03:59) US and Europe in Q4. However, Germany, which accounted for 10% of the group's net sales in 2024, has been a challenging market and is expected to remain a challenging market in 2025.

We are seeing indications that the architect markets in both the US and Europe is bottoming out as layoffs among architects have slowed. Demand for case management and geographic information systems from the public sector remain stable. While the number of tenders from the public sector has decreased, our assessment is that we are gaining market shares in terms of the number of tenders won. Addnode Group's diversified operations with strong positions in segments with structural underlying growth provide a solid foundation for continued sustainable value creation.

And with that, I would like to hand over to our CFO, Kristina.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Thank you, Johan. And I would like to start to presenting the Q4 results. But first, I would like to highlight some of the effects that we can see in Q4 on net sales. And as Johan also said, we have informed about 12 months ago that Autodesk has introduced the new transaction model with the transition from a reseller model to an agent model. And we have previously communicated that both the net sales and cost of goods sold would decrease, but gross profit and EBITA as well as cash flow would remain unchanged, and this is what we can see now also happening. And the EBITA margin as the base is lower would increase. And these effects are now visible both in Q4 and for the full year of 2024.

And during the end of this process with the transition to the new model, we have also reviewed other third-party agreements that we have in the group, and where we have identified that Addnode could be considered as an agent, we have also reclassified net sales for these agreements in line with an agent model. And we have informed in the report that net sales has been reduced by this reclassification of about SEK 396 million for the quarter. And that, together with the change in the Autodesk new model, has a negative impact on growth in net sales.

And for your information also, we have included a pro forma table and graphs where we have estimated the previous quarters, how they would have looked like if you use the same principles as we're using in Q4. And this table is included in the presentation material and we also posted it on our website. And I'm going to go through that in a little bit more in detail later on in the presentation.

But looking at the Q4, our reported net sales after the reclassification amounted to almost SEK 1.5 billion compared to SEK 2.1 billion last year. But if we have used the same principles in Q4 this year like for Autodesk and before reclassification, we have calculated that the net sales would have amounted to about SEK 2.3 billion instead. And that represents an FX-adjusted organic growth of 11% compared to the reported currency adjusted organic growth of minus 30%. Net sales, solid both in the US and in Europe with the exception of Germany. And we can see also that the positive earning trends continue in the fourth quarter and the EBITA increased by 27% to SEK 248 million and the margin improved to 16.7%. And the substantial improvement in EBITA was attributable to design division.

You can also see that cash flow from operations improved and now amounted to SEK 275 million compared to SEK 228 million last year. And I will go through in more details in the cash flow in – later on in the presentation. A good improvement in EPS [ph] 23% to SEK 0.98 per share (00:08:42). And we can also see that we have made acquisitions, that we continue to do. And so we did it in Q4 where we acquired CTC Software from Minnesota in USA. And subsequent to the period – end of the period, we acquired a Swedish company, Congere. And then Johan will talk more about the newly acquired companies a little bit later.

And looking into the full year 2024, net sales reported amounted to SEK 7.8 billion compared to SEK 7.4 billion last year, and that was a growth of 5%. And the currency adjusted growth was minus 5%. And also here, we have recalculated, if we have used the same principles as in 2023, the net sales would have been SEK 8.8 billion, and that instead would have represented growth FX-adjusted of 9% instead of the reported FX-adjusted organic growth of minus 5%.

In 2024, all three divisions delivered the best annual earnings ever despite a tougher market. And EBITA increased by 35% to SEK 863 million compared to SEK 640 million last year. EBITA margin at 11.1% compared to 8.6% last year. EPS increased to SEK 3.02 per share, and that's a 44% increase from last year. And we have also seen that the Board has now proposed a dividend of SEK 1.15 per share, which is an increase of 15% from the last year.

So all in all, we have organic growth, we have improved the efficiency, and we have made add-on acquisitions in the company. We can also see that we have a very strong improvement in cash flow from operations. That is 45% increase to SEK 701 million for the full year. And I have more details later on in the presentation.

And then I'm going to hand over to Johan to talk about – more about the acquisitions that we made.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Acquisitions is an important part of our group's growth strategy. Thanks to our strong financial position with low debt, Addnode Group can continue executing on its value-creating acquisition strategy with a healthy risk appetite. In 2024, we did seven complementary acquisitions. And so far in 2025, we have signed one acquisition.

So, looking at the acquisition we did in Q4, CTC Software strengthen Symetri's portfolio of proprietary add-ins to Autodesk's software. CTC has more than 40,000 users of their software such as architects, engineers, and construction professionals. It will increase our penetration of own software on the Autodesk platform, and is strategic and makes us a more valuable partner to the customers.

After we present the report – published the report, we have also done an acquisition and sign-up for Congere in the first quarter of 2025. It is a provider of digital solutions to the Swedish defense industry. Congere has revenue

of approximately SEK 25 million, and already has a successful partnership with the process management division companies.

So, looking at Addnode Group, as you know, we are three divisions: Design Management, Product Lifecycle Management, and Process Management. The biggest division is design management and represents roughly 50% plus of the EBITA, and Process Management close to 30%, and PLM 20%.

So, Design Management in Q4. Sales compared to last year were strong, particularly in Europe, supported by a product mix with a higher share of three-year Autodesk agreements. The AEC market in Nordic countries show signs of a cautious recovery. In the US, the manufacturing industry contributed to a positive earnings trend in the quarter. Demand for Symetri's proprietary software also increased in the US, supported with the largest order to date for the division's Naviate software. The improvement in EBITA in the division was attributable to solid sales in both the US and Europe, a product mix with a high share of proprietary products and a high share of three-year Autodesk agreement sold.

As Kristina mentioned earlier, reported net sales are affected by changes in business models and reclassifications of third-party agreements. And under the previous Autodesk reseller model and before reclassifications, the division's currency-adjusted organic growth would have amounted to approximately 18%. Gross profit increased by 16%. A strong quarter for our design management in Q4.

Looking at the division of Product Lifecycle Management, Q4 sales for PLM systems and related services were stable in the Nordic countries, UK, and the US, where customer segments are more diversified, spanning manufacturing, defense, and life sciences. Sales were weaker in Germany, mainly due to decline in license sales in the automotive industry. Reported net sales were also impacted by reclassifications of third-party agreements. If the reclassifications of third-party agreements had not taken place, it is estimated that the currency-adjusted organic growth would have amounted to approximately 3%. EBITA was in level with last year. The trend of customers increasingly preferring to rent licenses on a fixed term basis rather than purchasing licenses with perpetual right of use is continuing.

Process Management. The process management division delivered a stable performance in the quarter and an improved EBITA margin. While the number of tenders has decreased, our assessment is, like we said earlier, that we are gaining market share in terms of the number of tenders won. The public sector continues to offer many opportunities for upselling digital solutions to existing customers. Net sales growth adjusted for currency effects was minus 2%, but EBITA increased by 4% to SEK 70 million and the EBITA margin increased to 20.3% compared to last year at 19.4%. So, a solid quarter for the division.

So, with that, I would like to hand over to our CFO again. Kristina, please.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Thank you, Johan. And this is the pro forma information that I was discussing a little bit earlier. And in this graph, we have recalculated the previous quarters in 2024, where we've estimated the quarter's net sales using the same principles as we have used in Q4 2024. And the pro forma presumes that the reclassification of the third-party agreements to an agent model, and also the Autodesk implementation of the new transaction model was effective from January 1, 2024. And you can see that the black bars represent the net sales that we have reported. And next to them are the gray bars that are the pro forma net sales using the same principle as in Q4. And the line graphs above the bars represent the EBITA margin, and the top one, the dark blue one, represent the EBITA margin on the pro forma. And the light blue one at the bottom is the reported EBITA margin.

And on the next page, we have a detailed table of the pro forma numbers per division. And I hope this will make it easier to understand our business going forward [audio gap] (00:17:42) your requests to make it easier to understand the changes made. And I'm not going to go into details here, but this is more information for you going forward looking into the company.

So, if we're looking at a little bit more about the cash flow, the consolidated cash flow, that we can see that the fourth quarter cash flow from operations was good at SEK 275 million compared to SEK 228 million in the previous year. And this is in line with what we communicated about 12 months ago that the cash flow would be – not be affected by the change in Autodesk model. And so, we see here that it hasn't. And you can see that the improvement was mainly related to the better operating profit, both for the quarter and also for the full year, together with the changes in working capital and non-cash items.

Cash flow from investing activities in the quarter minus – includes the acquisitions that we made. And we can also see that investment in development of our own products and solutions is key for Addnode. And we continue to invest in development of our proprietary products, and that amounted to about SEK 49 million in the current quarter. And for the year, the full year, cash flow from investment activities is minus SEK 532 million. That includes the acquisitions and also considerations to sellers for – amounting to about SEK 314 million. And also, investment in own solutions and products and purchases of external software amounts to SEK 169 million in that line item.

Cash flow from financing activities in the quarter, SEK 96 million, represent a new loan in foreign currency for acquisitions, and also the effect of the IFRS leasing and repayment of loans. And for the year, financing activities, SEK 211 million, includes new loans for acquisitions of SEK 182 million and also dividend payments, the last year's dividend of SEK 133 million, and also repayment of loan and IFRS leasing of SEK 260 million.

Looking at the consolidated financial positions, I just would like to highlight a few areas, pay attention to the [audio gap] (00:20:34). This is the operational balance sheet and not the balance sheet presented in our report. And we continue to operate supported by our resilient balance sheet. It's an important foundation for a continued growth organically and also for acquisitions. And [audio gap] (00:20:53) 2024 are mainly driven from the acquisitions that we have made during the year. You can see that the SEK 390 million increase in intangible noncurrent assets representing the acquisitions. There's also a translation difference in the effect of goodwill.

Our business model, as we always talk about, enables us to operate with a negative net working capital and we continue to do so, minus SEK 524 million as of 31st December, 2024. And the line item provisions, taxes, and other debt, SEK 691 million, includes earn-outs and other liabilities to the seller, about SEK 518 million. And the majority of those represent the companies we acquired in the United States 2022 and 2023. And of those payments are due in 2024, about SEK 220 million; and in 2026 SEK 178 million [ph] is due (00:22:07).

Net debt, just over SEK 1 billion. And we have calculated the leverage amounting to about 1.1 times. We can see that we have facilities available about SEK 997 million unutilized that we are able to utilize for future acquisitions. And I think that we can also see just pointing out that we have a return of capital employed of about 19%, which is an increase of 5% compared to last year.

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

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Kristina. Just the end of our presentation, but just to say that it's not been a perfect market in 2024, but we were able to deliver our best year so far financial-wise. Addnode Group, we are all about digitalization for a better society. And our strong position in segments with structural underlying growth has provided us with a good foundation to continue our profitable and sustainable growth journey. And also thanks to that we have a good cash generation like Kristina has described and we have a strong financial position with low debt, we believe that we can continue to execute our acquisition strategy with a healthy risk appetite.

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

QUESTION AND ANSWER SECTION

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

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Good morning. Hope you're all good. I have three questions, and I'll take them one by one. So, first off, a bit technical here, but I saw that long-term receivables is up by around SEK 560 million year-on-year. And this roll on the balance sheet was not specified last quarter. So, I'm just asking if you could give some color on what's moving here.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

Yeah. Yes, I'm taking that question. This is relating to our three-year contract that we have with Autodesk. And the year after 12 months is now recorded as a long-term receivable, and also a long-term debt on the balance sheet. So, that is a good reflection. And we have reclassified the 2023 for that as well.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Thank you very much for that. And then, I also noted that other external expenses grew quite a lot here in Q4. So, I'm just curious, if anything is standing out there that is more maybe of a onetime nature or so?

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

We have – in the other expenses, we have the acquisition – cost for acquisitions, that would explain.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

When you're saying that other external expenses has increased, what – I'm trying to understand here, yeah. What you mean...

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah, yeah. No, other external costs, SEK 167 million.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

No, I think that – it's not that we have increased our cost rate. It's like Kristina says, it could be a reflection. So, [ph] in my opinion (00:26:02), I think that we are growing as well. So, there – that we are [indiscernible] (00:26:06) it's up SEK 20 million, I think that's just more of a fluctuation over the year. It's not that we have sort of increased our structural cost.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Yeah, fair enough. It's all good. And then final – heading into 2025 here, I just want to hear how you think about this customer cohorts which signed three-year deals in 2022, because you have seen some tailwinds in 2024 here, but all else equal, you have a pretty large group of customers that seem to come up for renewal soon. Has anything changed there or...? Yeah.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

No. I think we're – I think one of the things [indiscernible] (00:26:47) we have a resilient business structure, meaning that this is something it's the basic tools that the customers use in the daily work. So, it means that – that means that we are expecting them to renew their existing contract. So, I'm not so that concerned about that. I think we will be able to – I don't expect any sort of big changes in insurance and et cetera. I think we are in a position to renew the contracts that we – so basically, the contracts that we sold, we'd be able to renew in the upcoming years as well. So, that will support the growth. Is that clear?

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. And just like – yeah, yeah, kind of. And also, like you mentioned that you had a higher share of three-year deals this year.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

It isn't so that the customers from 2022, for instance, just sort of renewed earlier or anything to a wide extent?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think it's a mix of that, but I don't think we will see sort of an – or any sort of the negative effect of that coming up there in Q1, Q2. So, I think we will – there is an underlying growth in the market as well as we said. So, all the growth is not coming up from sort of changes in the mix where there's an underlying growth as well that supports it.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

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

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Eric.

A

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

Fredrik Nilsson

Analyst, Redeye AB

Thank you. Good morning.

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you.

A

Fredrik Nilsson

Analyst, Redeye AB

I want to start with Process Management. The slightly lower growth than we have seen in recent quarters. Is it a slightly weaker market or perhaps a calendar effect or just a normal variation? I mean, if you could elaborate a bit on that?

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

No, I think, look – like we stated in the report, there has been, compared to last – the year before, there is a – the number of tenders is a bit less, but we believe that we are – sort of, have a good hit rate on that and winning our portion a little bit more supported by that, right? But we don't [audio gap] (00:29:19) from quarter to quarter. And most of our business is related to this [audio gap] (00:29:24) software, the digital solutions that we sell.

A

Having said that, yes, there are services as well, so that could have an effect. But I think what this represents, that is the market base has been a little bit slower this year, and we're hoping that it will sort of – so, yes, the market has been a [audio gap] (00:29:45). But in this slow market, we were able to uphold our market share and probably do a little bit better than our competitors here in Sweden basically we have this business.

Fredrik Nilsson

Analyst, Redeye AB

Okay, I see. Great. And regarding PLM, there was a quite significant decline in license sales, although I assume that the reclassification might explain parts of it. But I mean, could you give some kind of approximation about the impact? Because the decline is quite significant, if you compare it to Q4 last year.

Q

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Yes, yes. You're right, Fredrik, that that reclassification has an effect and you can see in the pro forma also what PLM would have looked like, if we had the reclassification done already from January 1.

A

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

[indiscernible] (00:30:46) the reclassification in PLM is related to license sales of – third-party license sales. That means that the license sales last quarter was gross, and this year is net, the margin, and the effect of that. And so, we are saying we are able to uphold license sales in the business, but the reported is license sales of third party. Basically, what we do for [indiscernible] (00:31:10) is reported net this quarter compared to last year, when it was gross. So that has a negative effect on the reported net sales. So, it should not be viewed totally that we have sort of lost the license sales this year compared to before. It's more related to the classification.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

We can also see that the customers are moving away from the lifelong license sales and moving on to rental and subscriptions.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. And that's true. So, there is an effect of that. So, I was reflecting early on this. So, the more dramatic effect to that is related to the classification.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

Yes.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

But we have a long-term progress more to rental agreements rather than the license agreements in that area.

Fredrik Nilsson

Analyst, Redeye AB

Q

Okay, great. Thanks. And regarding Symetri, just a clarification. You mentioned that construction and manufacturing in Northern Europe was strong, but the AEC market in the Nordics rebounded somewhat. So, just – so I understand this correctly, is the Nordics not a part of Northern Europe or is it that the architecture and engineering is lagging behind structural [indiscernible] (00:32:29)?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah, no. I think both statements are right. What we are saying is that we had a strong sales in both construction and – towards construction if you mean AEC market and manufacturing in the quarter. But looking market-wise, we can see that the AEC market is becoming better and better. So what we basically were saying is that we had a good progress in the market. Compared to the market, we believe that we did a good quarter. So, both statements are correct.

Fredrik Nilsson

Analyst, Redeye AB

Q

That's clear. And lastly, looking at the pro forma figures for Design Management and looking at first quarter 2024, you had a really strong margin. I mean, should we expect a stronger seasonal pattern in the new transaction model or was it something special that quarter that you could remind us of?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Margin-wise – are we talking about EBITA margin now or...

Fredrik Nilsson

Analyst, Redeye AB

Q

Yeah, exactly. It was 25% in the pro forma for Q1 in Design Management.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. I think basically, what it reflects, even though you could see in the old model as well that we have a stronger quarter in Q1. Basically, Q1 has always been a strong quarter and that's related to actually to Autodesk. Their loss end of Q4 ends in January. So it's always been a good strong sales drive in Q1. So I think it reflects that. So it should be a...

Fredrik Nilsson

Analyst, Redeye AB

Q

Okay. I see that.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

[indiscernible] (00:34:11). And we have historically sold more in Q1 and if we sell more with the same sort of cost base in the other quarters, then we should get a better result out of that in Q1.

Fredrik Nilsson

Analyst, Redeye AB

Q

I see. Okay. That's all from me. Thank you.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Thank you.

Operator: The next question comes from Raymond Ke from Nordea. Please go ahead.

Raymond Ke

Analyst, Nordea Bank ABP

Q

Hi, guys.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Hi.

Raymond Ke

Analyst, Nordea Bank ABP

Q

A couple of questions from me. The first one, in terms of sort of improving margins and the proprietary sales, do you expect them to reach the same level as Symetri in Europe over time? And how far along are you in that journey and sort of extract synergies there?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

First off, there's no reason why we should not be able to reach the same margins. And the way to move forward [indiscernible] (00:35:21) is to work more efficiently with regards to how we operate. And we're in the process of that. And then also, like you said, support, how can we increase the penetration rate of our own software that benefits the customers from their first investment in the Autodesk platform? So those are the two things.

We are seeing good progress in that. Like we mentioned, we were able to do our – actually our biggest sale of own software in that area this quarter, irrespective of it's been in Europe or US, it's the biggest so far. We need to do more of those deals going forward and make that happen. We will probably not see the full effect of that in 2025. We'd probably need 2026 as well to reach that, but I think we're on a good way to make that happen.

Raymond Ke

Analyst, Nordea Bank ABP

Q

Got it. And just a sort of a clarification in – on the German market and your cyclicity. The weakness in Germany and the auto industry is no secret. Is sort of your pipeline synced with the industrial cycle, would you say, or do you feel like PLM only starts hurting after or even before the challenging market is a fact? If you understand my question.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yes, I think so. PLM has always been late cyclical. And it has to do with predominantly – you have more bigger customers, bigger investments. That means that they have historically tend to be in a – in the boardroom, they have been supported doing investments in new design software, new sort of PLM installations, or when they – sort of economy as well. And then they order it and then we deliver it. So we have an order book more to fulfill, and it historically has been more late cyclical. We are able to sell and do business in, like you said. We are – we see some negative growth, but we are still being able to – we have sold licenses in Q4. But historically, late cyclical, I'd say.

Raymond Ke

Analyst, Nordea Bank ABP

Q

Yeah. And 2024 – sorry, 2022 was a big year for three-year contract renewals. But we also have seen quite a lot of early sort of contract renewals here in 2024. Do you still expect 2025 to be a big year or bigger year maybe than 2024 is in terms of three-year contract renewals?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

It's always hard to give – we don't like to give prognosis, but like you said, the contract that the customer signs in 2022, we probably expect those three-year contracts to be renewed in 2025 as well. Because if you think about the customers who have chosen the three-year contract is, they were probably customers who were on one-year contracts and decided to go for three-year contracts. So basically what I'm saying, the cyclicity of the one who had a three-year contract in 2022, historically, it's been a good chance that they will renew the three-year

contracts coming up. Otherwise, they would have to go for a one-year contract. And so do you see the mechanism.

[indiscernible] (00:38:44)

Raymond Ke

Analyst, Nordea Bank ABP

Q

Yeah, that makes a lot of sense, yeah. Just the final question from me also. Considering that you forward sort of any price hikes to customers, would you say price hikes is the biggest upside to a high share of three-year contracts being renewed in a given year? Or is there some other P&L impact that we're missing here?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

So you're thinking about from a customer perspective or why they would go from there.

Raymond Ke

Analyst, Nordea Bank ABP

Q

No. From...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

[indiscernible] (00:39:15).

Raymond Ke

Analyst, Nordea Bank ABP

Q

...sort of your earnings capacity, when there's a three-year contract, how does that hit when there is a big year for three-year contract renewals?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

What happened is that if we're saying the same underlying business model, let's say, for example, 100 contracts, if the customer sign up and chose to renew that, go from a one-year to a three-year contract, well then, that has to do with our revenue recognition principles as we have discussed a lot over the year with agent models and et cetera. As we are an agent, we must, according to IFRS, report the value of the full contract when we sell it. And that means that we can sell a three-year contract and the value is SEK 300 million out of that. Then we need to report in our P&L net sales of SEK 300 million. And if we sell a one-year contract to the same customer, it's SEK 100 million in that period. So you will have a timing effect of that.

So from us, if we increase sort of the portion of the three-year compared to last year with the same underlying business volume, we will have a boost in that quarter. So it's more of a timing effect over the quarter. So I think that's the effect with that. And with regards to the prices, yes, there are always some sort of price increase that we're trying to do, but that's not the major driver in this quarter. The major driver here is that we had sold more. And like we said, there are also an effect of the three-year contracts.

Raymond Ke

Analyst, Nordea Bank ABP

Q

Very clear. Thank you so much for answering my questions.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Thank you.

Operator: [Operator Instructions]

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

So, thank you for that. And...

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

So, thank you for taking the time to listen to our presentation and some very good questions. And thank you.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Thank you.

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