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Addnode Group AB (ANOD.B.SE)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Addnode Group Q2 presentation. During the questions-and-answer session [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 the Interim Report for the second quarter for Addnode Group. I'm Johan Andersson, CEO of Addnode Group, and I also have with me today, Lotta Jarleryd, who is CFO of Addnode Group.

We will walk you through the Interim Report for the second quarter, we will end with a Q&A and also, you will find in the presentation an Appendix with acquisitions, shareholders and share performers. For those of you who are new to Addnode Group, I would like to inform you that our reporting currency is Swedish krona.

Before we start with the Q2 report, I would like to give you a brief overview of Addnode Group. Addnode Group, we provide digital solutions for a sustainable future. We generate sustainable value growth by acquiring new businesses and actively support our subsidiaries to drive organic growth. We are organized into three divisions. Those are Design Management, Product Lifecycle Management and Process Management. We believe – sorry about that. We believe in a centralized governance structure. The companies in Addnode Group provide digital solutions for sustainable – sorry about the mix with the technical level, but we're back on the right slide now.

The companies in Addnode Group provide digital solutions for sustainable design and product lifecycle management, management of real estate and facilities and public administration. The foundation of the group's

overall offering of digital solutions consists of both proprietary and partner-owned software. We work continuously on enhancing our portfolio of proprietary software while simultaneously consolidating our offering by developing applications that can be used in combination with software from our partners. We complement this with a strong service offering based on a high level of skills, long-term experiences and solid industry knowledge. Rolling 12 months, our net sales is close to SEK 7 billion, and almost 70% of our net sales is recurring revenue.

In the second quarter, EBITA amounted to SEK 110 million compared to SEK 154 million last quarter. EBITA adjusted for restructuring costs in the PLM division was SEK 120 million. The weaker earnings were primarily due to lower net sales in our Design Management division and expenses for a restructuring program in our PLM division.

In Design Management, lower net sales were primarily due to weaker demand from customers in the construction industry, longer sales cycles and a significantly lower share of multi-year agreements related to third-party products. Design Management also had a tough comparative quarter.

The PLM division achieved organic growth, but as previously reported, work to increase profitability is ongoing. We estimate that the restructuring cost for implementation is about SEK 20 million, of which SEK 10 million were recognized in the second quarter of 2023. The estimated yearly cost savings is around SEK 40 million, with full effect from first quarter 2024.

The Process Management division reported somewhat better earnings than the previous year. In July, we also closed the acquisition of Team D3 with net sales of \$120 million. It's a natural next step after our acquisition of Microdesk in 2022.

Over the past quarter, we also increased our credit line by SEK 1 billion to SEK 2.6 billion and extended our existing credit facility.

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 net sales. In the first graph, we have set out net sales for the second quarter of the last five years. As you can see, the current quarter totaled SEK 1.5 billion in net sales, corresponding to a total growth of 4%. Recurring revenue demonstrates a slight decrease compared to previous year, deriving from weaker sales of Autodesk solutions in Design Division. Recurring revenue continue, however, to represent a considerable portion of net sales, 65%, which is a stable foundation in our business model.

As Johan already has mentioned, the portion of multiyear deals in the Autodesk business was lower than previous year, as its revenue for the entire multi-year agreement is recognized when the contract starts in accordance with governing accounting principles, a lower share of multi-year deals has an adverse effect on net sales recurring revenue, as well as the EBITA. It's also worth mentioning that the net sales derived from Autodesk Solutions can vary quite a lot over different quarters.

Firstly, the contract base volume that is up for renewal differs from quarter-to-quarter, and secondly, new sales can vary quite significantly over time. From time to time, our partner Autodesk also introduces different rebates and other incentives which influence customer behavior.

The first graph also sets out that there was a growth in both license revenue and service revenue compared to previous year. The growth was both acquisitions driven and organically generated.

In the graph to the right, we have set out to break down on net sales by geography. Sweden is still our single largest market, with all three divisions operating, representing 33% of total net sales. But after last couple of years, acquisitions in the UK and in the US and the consecutive organic growth, we are now [indiscernible] (00:06:36) with national group with almost 70% of net sales outside Sweden. The acquisition of Team D3 will considerably increase our group's penetration of the US market.

Back to you, Johan.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Lotta. So – and we will now go into further details in the three divisions of Addnode Group.

So, looking at Design Management, we had a challenging quarter. Net sales decreased by 3% to SEK 778 million in the second quarter. Organic growth was negative amounting to minus 6%, but adjusted for currency effect, organic growth was minus 9%. EBITA decreased to SEK 48 million and the EBITA margin reduced to 6.2%. Design Management had a tough comparable compared to Q2 2022 when we saw a growth from SEK 40 million to SEK 80 million in EBITA. But lower net sales and weaker EBITA compared to previous year were mainly due to, as mentioned before, lower sales of Autodesk agreements because of a slower construction market and longer sales cycles.

Due to an uncertain market, investors in construction and civil engineering projects are now increasingly being deferred. This means that although most customers are renewing their agreements, some are deciding to downscale volumes. The share of three-year agreements sold was lower than previously, which also may be a result of greater caution impacted by economic conditions. We also perceived that Autodesk changed its payment model for the three-year agreement at the end of March 2023, had a negative impact on sales in the transition to the new terms.

The Addnode Group company Symetri, including Microdesk and Team D3 has now roughly 25,000 customers. New Autodesk contracts are signed and contracts expired are renewed all year round, but new or renewed contracts could be different in regards of both number of users and which software and applications they cover, affecting reporting net sales.

Three-year contracts are typically chosen by customers with established teams and long-term projects, as it assures uninterrupted workflows. Essentially no risk of losing access at missing renewals and automatic product updates. In this division, you will also find the company Tribia and SWG. Tribia are providing collaborative solution for construction, civil engineering and Service Works Global are providing digital solution for facility management, and that's owned software and they have stable progress in the second quarter.

And as we mentioned, we have recently closed the acquisition of Team D3 and through both organic growth and acquisitions, Addnode Group's company, Symetri has grown to become the world's largest Autodesk partner with a strong portfolio of complementary proprietary software related services. The acquisition of Team D3 with net sales of \$120 million was the natural step after our acquisition of Microdesk in 2022.

Microdesk established Symetri in the USA, especially in the AEC segment and on the East and West Coast. The acquisition of Team D3 has consolidated Symetri's position in the manufacturing and process industry segment,

and also geographically in Central USA, meaning that we are now having representation more broadly across the US and we are covering both the AEC market and the manufacturing market.

Symetri's proprietary software such as Naviate and Sovelia are now an attractive offering to both Microdesk and Team D3 customers on the US market. Symetri in total now have over 400,000 daily users of the software that we provide to 25,000 customers and service is being provided by 900 employees. We expect the acquisition of Team D3 to have a positive impact on Addnode Group's earnings per share from the third quarter of 2023.

I'd like to take a moment also about other investments being made. The foundation of Addnode Group's sustainability agenda is to deliver digital solution for customers, enabling them to design, produce and manage sustainable buildings, facilities, infrastructure products and also services for the customers and for its citizens. We do big acquisitions like Team D3 that support our sustainability agenda, but we also make early investments in area where we can get a pay-up on our market presence like Bimify, an AI solution for large-scale digitalization of existing buildings and infrastructure.

Bimify is developing a digital platform for creation and maintenance of digital building models that is powered by machine learning and automated technologies. BIM models drive sustainability of the built environment and building account for 40% of energy consumption and over 90% of buildings are not yet digital. So, there's a huge market opportunity out there.

Addnode Group companies like Symetri, Service Works Global and Tribia has a good potential to leverage on Bimify solutions and digitalizing existing building for our customers, enabling digital [indiscernible] (00:12:31) and lifecycle management.

So, with that, moving over to the PLM division, who had a solid growth in the quarter, but EBITA was impacted by low utilization and the restructuring that we are performing. In the second quarter of 2023, net sales increased to SEK 468 million. It was a growth of 19%. Organic growth was 13% and currency adjusted was 6%. Market conditions in Germany, UK and USA were stable in the quarter. Demand in the Nordics was weaker. The division saw continued demand for PLM systems from customers, both established companies and startups like managing – companies that manage the electrification investments in the vehicle and transportation industries.

The trend of customers increasingly demanding time – leasing of licenses instead of the previous licenses purchased with a perpetual right of use continued. Service revenue was somewhat higher than last period. As previously reported, restructuring measures are ongoing in the division to increase profitability by adapting the organization and the cost structure. The restructuring cost [ph] implementation (00:14:00) are estimated at approximately SEK 20 million, SEK 10 million was recognized in the second quarter and we expect to recognize another SEK 10 million in the third quarter [indiscernible] (00:14:11-00:14:25) to 4.3%. But we – if we adjust for the restructuring costs, it was SEK 30 million in the quarter and the EBITA margin of 6.4%.

Then looking at Process Management, we continue to have an organic growth and increased EBITA. Net sales increased to SEK 320 million. It's a growth of 8%. Organic growth was 5%. Municipalities and public authorities showed some restraint in terms of investment, and there were fewer tenders than in the previous year. But the division's good and well established relationship with the large public sector customer base frequently present opportunities for recurring sales and expansion of current assignments. EBITA increased to SEK 60 million and the EBITA margin was 18.8%.

The division's businesses are well positioned in public sector tenders coming forward, always are attractive digital solutions, in-depth experience and good references. The division is continuing to invest in enhancing its customer

offering, and an example of that is the partnership with S3, the global market leader in geographic information systems, software, location intelligence and mapping. This week, S3 holds their Annual User Conference in San Diego with some 20,000 participants from the worldwide. The Addnode Group Company, S-Group Solutions, was recognized for their outstanding work with the new generation of [indiscernible] (00:15:59) for water sewer systems.

S-Group Solutions has supplied S3's latest technology to develop a state-of-the-art solution, which helps Swedish municipalities solve existing and future challenges using – securing access to our most valuable resource, our drinking water.

And with that, I would like to hand over to Lotta again.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Thank you. I would like to continue with an overview of the consolidated cash flow. The operating cash flow for the second quarter amounted to SEK 127 million, which was slightly better than in the same quarter previous year. A favorable change in working capital was a contributor to the increase. Cash conversion rate, that is operating cash flow to EBITA was about 90%. Already in February this year, we communicated that Team D3 and Microdesk partnership Autodesk [indiscernible] (00:17:00) its invoicing and payment terms for software agreements lasting more than one year commencing March 27th.

Payments, both from customers and to Autodesk, are now intended to be annual, even if the customer signs three-year agreements. This implies an initial negative effect on cash flow, but no change in revenue recognition principles, e.i.,(sic) [i.e.] (00:17:19) revenue and costs for the entire agreement value will continue to be recognized immediately when the agreement commences.

The impact of the new payment model on Addnode Group's operating cash flow was, however, limited in the second quarter of 2023. A portion of the three-year agreements reported in the second quarter were sold before implementation of the new invoicing and payment model. Additionally, several customers used to pay for the full three-year agreement upfront, despite having the option to spread payments of over three years under the new model. In summary, we have not seen the full effects of this change yet.

Cash flow from investing activities in the second quarter amounted to SEK 82 million, primarily related to development of proprietary software and earn-out payments to sellers for acquisitions made in previous years. The minority investment in [indiscernible] (00:18:09) Bimify that Johan talked about earlier is also included here.

Cash flow from financing activities predominantly referred to the dividend to the shareholders of SEK 133 million paid on May 11, as well as utilization of the revolving credit facility by SEK 500 million, mainly for financing of acquisitions. Addnode Group signed an agreement to acquire Team D3 in June 2023. The acquisition was completed on the first working day of July. To be able to pay the initial purchase consideration on time on July 3rd, the loan was drawn from the credit facility already on June 30th.

At the same time, we also borrowed – financed the first earn-out payment to the sellers of Microdesk, that was acquired previous year. Consequently, about SEK 500 million increased cash flow from financing activities in the second quarter and at the same time temporarily increased the cash position.

Next page, please. I would like to proceed with a few comments on the consolidated balance sheet. We continue to operate supported by a resilient balance sheet. Changes in the balance sheet during the second quarter were

limited, besides what I previously described about the financing of Team D3 and Microdesk considerations. Besides that, there were no effects from the Team D3 acquisition as it was effective on July 3rd and consequently will not be consolidated into the group financials until the third quarter.

Working capital showed a favorable development during the quarter. Provisions, taxes and other debt included future earn-out payments depending on the financial performance, amounting to about SEK 370 million.

I also want to like to mention a couple of things related to equity and the Addnode Group share. Following a resolution by Addnode Group's AGM in May 2023, a third long-term incentive plan for managers and senior executives was launched. In June, 201 call Options for Class B shares were issued to some 40 participants. The market value of call option premium are SEK 19.45 per call option resulted in a total purchase price of SEK 4 million, which has been applied to the group's shareholders' equity. Each call option carries entitlement for purchase of one share.

In June, the Board of Directors, supported by authorization from the AGM 2023, decided to repurchase 180 Class B shares. The main purpose was to enable delivery of shares associated with the incentive plan. The repurchase has not yet been executed.

And finally, I would like to comment upon financing and net debt position. We strengthened our financial position in June 2023 when we expanded our credit line with a term loan of SEK 1 billion, increasing the total credit line to SEK 2.6 billion. This was an important foundation for our continued growth [indiscernible] (00:21:14) organically and through acquisitions. This term loan can be utilized for refinance of existing loans in different currencies as well as for general and corporate purposes. The new loan has a three-year term with a one-plus-one year extension option. Most of the loans already drawn from the revolving credit facility were transferred to this new term loan, which created a very rich credit scope in the revolving credit facility.

In addition, we also exercised our option to extend the existing SEK 1.6 billion revolving credit facility by one year to June 2026, with other terms and conditions unchanged.

Net debt was on the lower side, SEK 0.5 billion. Net debt to rolling 12 months EBITA was below one. Cash position was SEK 1.2 billion and outstanding bank term was SEK 1.5 billion. As previously described, the measures taken to finance consideration for acquisitions in July temporarily increased the cash position as per June. However, this did not affect the group's net debt. Consequently, we had funds of about SEK 1.8 billion in total by the end of June, but it's available for continued growth. Available funds include cash of SEK 0.7 billion, as well as the unutilized portion of the revolving credit facility of SEK 1.1 billion.

Back to you, Johan.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Lotta. We also like to take a few minutes to address our sustainability agenda. Addnode Group, we provide technology for a sustainable future. This is supported by our sustainability agenda. Our biggest contribution to a more sustainable society, we believe is the digital solutions we offer to our customers so they can use them, for example, to perform digital simulation for the benefit of the environment and how they can make more sustainable design choices. Example reducing carbon footprint, can design, build and maintain more energy efficient buildings and infrastructure.

And as we highlighted in our Interim Report, I would like to introduce you to three cases that shows how we actually work with our digital solutions to support the sustainability development goals.

The first example to the left is from Symetri in the Design Management Division. Symetri has supported EASYFIX Rubber Products on a digitalization project to improve the utilization of technology, a structural capital to promote business and sustainability targets. The new working methods established have reduced cost and increased efficiency while reducing carbon footprint.

The second example in the middle is from TECHNIA in the PLM division. TECHNIA delivered a powerful design to a robust PLM system to build valuable technology. With the new PLM platform, Bold's battery solutions have become more available and cost efficient.

The third example to the right is from Forsler & Stjerna, it's in the Process Management Division. Forsler & Stjerna is supporting the public transport provider, Skånetrafiken with their planning tool, Rebus. They will reach greater efficiency in reliability of public transport. It means more people choose these alternatives above their own cars. Just remember, each journey by public transport instead of car, cuts climate emissions by an estimated 90%. You will find a full version of these cases at the Addnode Group website.

And just to end the presentation before we go into Q&A. In this diagram, you will find the -- how the EBITA of Addnode Group has evolved over the last 10 years. At Addnode Group, we provide solutions that digitize society. We see great business opportunities in the wake of global trends as digitalization, sustainability, urbanization and automation. Our strategy is to, with a sound risk taking, capitalize on these trends by continuously acquiring new businesses and actively supporting our subsidiaries to generate sustainable value growth and drive organic earnings growth over time. With this strategy, EBITA that can vary between quarters and years, but Addnode Group's yearly average EBITA growth has been 20% to 40% historically, whether measured over the past 3, 5 or 10 years.

Our strong financial position offer us the potential to keep delivering in line with our profitable growth strategy. Over the past quarter, we increased our credit line by a further SEK 1 billion and extended our existing credit facility.

So, with that as an introduction and presentation to the interim report, we would like to open up for Q&A.

QUESTION AND ANSWER SECTION

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

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Yes. Thank you very much, and hi, Johan and Lotta. I start off with the question, looking ahead in Design Management here, you mentioned the tough comps from last year, and that is obviously true and the comps are getting even tougher in the second half of this year, especially in Q3. Last year, you mentioned a very strong tailwind from three-year licenses, which in my book should result in an even greater decline in organic growth ahead in Design Management. Is there anything on the positive side that I'm missing that could mitigate that?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think just to start off with that, the one thing that we're pointing out in the interim report is that, there is a – we could say yes, we have a decline within the businesses. So we will not expect organic growth in the business – in the Symetri division, Design Management as a start.

But where we're pointing out the three-year deals and we're seen there probably some impact in the third – in the second quarter from the new agreements with the three-year deals. What we're basically saying that is, there are probably some customers are probably delaying their investments as well with regards to trying to understand a bit. So, it's both a combination of the weaker market and the part of that could be affecting the three-year deals, but part of us could also be affected that the customers sort of wait and see and see how the new agreements regarding that spans out.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Okay. So that could be some businesses coming back in Q3, actually?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

I see. Okay. And then follow-up on that one. Do you perceive that some of the decline in the quarter is company specific or is it mainly the market development? And will you in that case, also look to adjust the cost base ahead to do any restructuring or lowering the costs there in Design?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Addnode Group has always been focused on the bottom line, mean that we will protect that. But we have not initiated any bigger cost reductions in Design Management so far. We always look to protect the bottom line. So, if for any reasons we will see that the decline will sort of carry on, we will of course take measures, but not so far.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Okay, good. In PLM then, is there a risk in the second half of the year that we will see the cycle also hitting that division and causing a negative growth rate? Or is it something in that division that should mitigate and then make PLM more resilient than Design?

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

A

Yes. I think what separates them is that it's – they are not attracting the AEC market and going for that. They, you will find that the customer base being manufacturing, life science and high-tech companies and they are active in the Nordic countries and in the US – a little bit in the US, but more UK and Germany. We can see that most of, like I pointed out in the interim report, where the new EV companies are doing their engineering in the UK market are a growing company, part of our business as well. So, there are differences in the end customer group.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

I see. Okay. Final question then on Process Management. The 5% organic growth was slightly below what I expected but are there any one-time effects in this quarter? Like you mentioned, fewer tenders, was it fewer tenders than normally or just year-over-year? And then also perhaps a negative calendar effect on the delivery side, I guess, is that something that could make the growth rate come back to levels we have seen recently? Or is this more of a level we should expect ahead?

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

A

Two of that. There are – so, this is a Swedish company and there are some predominant businesses there. So, there are some calendar effects there. We normally don't mention them because we think it's – we are focusing more of the year-over-year effect. But you're true that there are some calendar effects.

As you mentioned, there are a little bit of a slow in then tender announced. So probably affected that as well. But I think over time, we – it will be tough to expect that this will have a 10% organic growth. If this – if we can keep this and do better any quarter, that is good, but I will not make any promises that they will sort of go on with 10% organic growth going forward.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

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

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

A

Thank you, Daniel.

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

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Thank you, operator, and hello, Johan and Lotta.

Q

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Hello.

A

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Hi.

A

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Three from my side as well. First on the Team D3 coming sort of July, you mentioned could give a positive impact on EPS from Q3, i.e., bottom line. But ballpark, could you say anything about how it would impact Design Management? For example, the EBITA margin rolling 12 months or something backwards? So just to get – a little more easier to the modeling here.

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

I think if you're looking historically at that business, they are coming – it's an entrepreneur-led organization having a healthy growth time over time. They are predominantly addressing more of the manufacturing and process automation industry. There are some AEC business in it, but the majority is attracting that type of business. They are earning money and the profit margin is – if you look at the – historically, we have been going around 10% on top of that of the businesses. They are not generating the 10% margin, but they have a healthy margin and if it's probably they operate – operating margin before any capitalization, they are probably more around 6%, 7% to give any guidance of where they are performing at the time of – when they sort of enter Addnode Group. So, probably 6% to give any guidance on that.

A

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Yeah. Perfect. Very helpful. And also in the PLM side, you do the cost savings of this as we came from now. The question is, did you have any, you know, tailwind from any savings in Q2 mitigated by our defects or – and do you see any reason so far in the market to expand this cost saving program any further? Or is it, you know, the ambition they have, do think it will be good enough given what you see now in the market?

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

I think when you do changes, it's a mix. You will sort of – you will lose some revenue, even though you do and you will also have some costs. So I think we haven't seen the impact yet on the bottom line in Q2 of the restructuring program. We will see that in Q3 and going forward. And we – as we are now, we don't expect to do more and what we have announced there.

A

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

Perfect. And if I may, a final question for me also on Process, and here we are – you mentioned, last time you said there's some hesitance in signing contracts. And I was wondering if you could give any more details on in, for example, is it in case management or with the [indiscernible] (00:35:10) or is it more broad based?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think, just to clarify, we don't see any hesitance in signing contracts. It's more that we can see the number of available tenders in the private market is a little bit less this quarter. So that means that we have to work sort of more actively with our customers to make sure that we address their needs as well. So, so, they are willing to invest still, but we can see on forward looking that this quarter, it was a little bit less so. And if this is a sort of an indication that for the rest of the year for us, we will have to wait and see. But we can see in this quarter less available tenders. But we have a – long-term, we don't see any changes for the second half of the year compared to the first half of the year. But it was a slower available tender, so to speak.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

I see. Just also on that topic, if do you see any changed budgets for these projects to be adjusting for inflation or will you have less underlying volume, i.e., if the budget is – stays on the same level?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

We haven't – of course we haven't had those discussions yet with the customers. Normally what happened is that you have those discussion with the big customers on the public sector during the year and see what they can end up there. So, but it's – so, we'll have to come back to that question later part of the year but I sort of understand your question, but I don't have a good answer for it yet .

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

No worries. Thank you. And good luck in Q3 and hopefully have a great vacation as well.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

A

Thank you.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Thank you. Thank you Daniel.

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

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you, operator. Hope you can hear me. I have a question on Design Management, if you could give some color on the demand throughout the quarter, i.e., April versus May and June, and perhaps also from a geographic perspective, if that's possible.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Thank you, Erik, for that question. Looking at what we can see, that as we described in the first quarter, we had an organic growth, I think almost close to 20% with regard to Design. Entering that, of course, it was higher in the beginning sort of the beginning of the quarter. We can see that the end of the quarter we could see the effect. So we can see a slower demand in the later part of the quarter, both the related to the construction cycle and also to the change in the like we mentioned going on the three-year deals as well.

And quite – we can see that the slowdown was seen both in Europe and US as well, and probably for different reasons in the US probably a bit more wait and see from the customers and we are still sort of making – it was seen both on the side of the Atlantic.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Perfect. And then a question on margins. If we – if we assume that three-year deals or the share of three-year deals remain depressed even beyond the next quarter or so, should we expect lower margins or structurally lower margins? Is that a fair assumption, or will you sort of address margin in that case?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

No, not structurally, because it's just a – I've actually explained it. It's just a timing over – so, structurally it shouldn't be a lower margin. But as we sort of – for example, we see that we have a dramatically lower part of that – that will be affecting the first quarters, but by the end of it, you will probably – that will sort of come back again. So if you're talking structurally in the business, no. Timing wise, we would see an effect.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

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

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

Fredrik Nilsson

Analyst, Redeye AB

Q

Thank you. Hi. I want to continue on the discussion on the bottom line in the Design Management. You mentioned that you do not expect any cost savings programs, although I suppose you are not satisfied with the 6% EBITA margin. So to me that implies that you expect some kind of improvement in demand compared to what we seen in this quarter. Is that a fair assumption?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think you have to look it from different perspectives. Yes, we will of course, we will adopt costs. That doesn't mean that we will have a sort of a big restructuring program. Because we are always looking that. That's also part of the DNA.

And then you will have to see how – what – how long do you think that slowdown in the market will be. Because we have spent a lot of time hiring very good people and establishing us in the market and having the sort of the best capabilities of taking care of the customers. So then you always have to look at those type of perspectives as well. So no, we're not sitting on our hands waiting. So of course we were looking at what we can or will do with regards to hiring and all the cost. And then we also have to balance that with making sure that we are keeping our momentum and the power in the market as well with the good people that we are hiring. So, it's always a balance.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. And also, why do you think that Service Works Global is doing better than Symetri? I mean, both are exposed to the construction sector in some way.

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

A

Yes, but they address – it's a very different offering in different markets in that segment, meaning that Service Works Global are addressing the owners and operators of the facilities in the public sector. That means that the fortification agency in Sweden, if there are – the regions that operate the hospital that means that a special purpose facilities that are to stand there for like 50 years. So that means that they have a long term perspective. They are not affected by the cycles in the same sense.

Symetri are to a more – even though they are in construction, they are addressing more architects and technical consultants in that market. And that can vary. It's more of a timing perspective, but the facility market that Service Works Global are addressing is long term, predominantly purpose built facilities.

Fredrik Nilsson*Analyst, Redeye AB*

Q

That's true. That's my mistake. I was thinking about Tribia.

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

A

Okay. Tribia, they are – yes, they are more close to that. And you'll see some effect there. But Tribia 90% of their businesses are in – or 80% or 90%, depending [ph] on cap (00:42:56) is Norway. And Norway still have a healthy market with regards to, not if you take away the condos, if you look at public buildings and offices, they still have, a healthy market there with the regional allies as well. So that has an effect.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. I see. That's all for me. Thanks.

Operator: The next question comes from Aline Ghatan from Carnegie Investment Bank. Please go ahead.

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Hi, Johan and Lotta, Aline here from Carnegie.

Q

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Hello.

A

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Two questions. First of all, do you expect that number of active licenses will go down throughout the year compared to last year?

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

If I'm talking about in the I guess in Symetri with regards to Design Management there. Yes, if we can see a – normally what happens you see in a slower is that – I think Lotta addressed that early on, is that the customers tend to stay with us over time, but what they can do is that they can adopt their number of subscriptions, actual users. So, if the – and what we address is that, yes, so probably we will see a downfall in the number of subs – seats at the customers during the year, if the slower market continues. And that will sort of affect our net sales – reported net sales.

A

Aline Ghatan

Analyst, Carnegie Investment Bank AB

And do you have an estimation how much you think that will go down?

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

No, we don't have any estimate because it's depended also, if the type of contracts which in the markets. No, we don't have any good expectation, but overall, we expect to see a slow – slowdown in that. So, as we said, we don't expect organic growth in Symetri this year and that is represented by – it will be a lesser number of subscriptions. Not subscriptions, but maybe seats on the subscriptions.

A

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Yeah. Would you say that the drop in sales is mainly related to the changing three-year contract? And have you seen any – can you...

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Oh.

A

Aline Ghatan

Analyst, Carnegie Investment Bank AB

...show how much is tariff there?

Q

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

And I guess the question was, looking at the drop in the organic growth in Design in Q2, how much that was related to sort of underlying business and how much was related to less three-year deals?

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Q

Yes, exactly.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah, it's both. We do see a slowdown, especially in the – for the construct. If you decide the sort of the building construction market, you can see that there were less sales from construction actually people building things and then also we have the, like you said, it was a – as we commented, this was an effect from the three-year deals both. And that could also have to do with the slower market, still could be. And then also there were some hesitance from customers probably relating to that. There are new sort of terms for the three-year deals and then they need to adopt how it relates to them. So it could be that we sort of have a temporary effect from that as well. So it's a mix.

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Q

Okay. But it's I think construction...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

How much it is related is too early to say.

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Q

Okay. What I thought about was that construction, we've seen a downturn for a couple of quarters now. So, I was a bit surprised – it was a quite big move that we have seen. So wondering how much that could actually be related to construction. And if you have seen this was coming from before.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yes, we have commented before, we can see that in our sales figures that we saw that by the second part of the Q2 we had a very good organic growth in the Q1 as well. So yes, we addressed and see that it will come. But for us, it's sort of – we could see that in our reported figures by the end of Q2. And we – and how it will pan out going forward, of course, we are observant of that, but I don't have any good prognosis to give you on that, if that makes sense.

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Q

Yeah. Okay. Thank you. And one last question is that, the acquisition of Team D3, how large share of three-year contracts do you estimate that they have?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

if you add – I will not be able to give you a good figure of that, but I can give you the guidance in saying that if you add what we have already in Symetri and Microdesk all together, they will probably not change the total mix.

Aline Ghatan

Analyst, Carnegie Investment Bank AB

Q

Okay. Thank you. I'll get back in line.

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 your interest and insightful questions. And Lotta, anything to add before we close this session?

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

No. Just to say, have a nice summer.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

The same. Great. Thank you all.

Lotta Jarleryd

Chief Financial Officer, Addnode Group AB

Thank you.

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