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# Addnode Group AB (ANOD.B.SE)

Q4 2023 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

### Daniel Djurberg

*Analyst, Svenska Handelsbanken AB*

### Erik Larsson

*Analyst, Skandinaviska Enskilda Banken AB*

### Fredrik Nilsson

*Analyst, Redeye AB*

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## MANAGEMENT DISCUSSION SECTION

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

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### Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Hello, and welcome to the presentation of our Q4 report for 2023. I'm CEO, Johan Andersson, and with me, I have our new CFO, so Kristina Elfström Mackintosh, that I would like to introduce. So, maybe let's start with Kristina who is new on the company, maybe a short introduction before we move on with the Q4 report.

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### Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Yes. Thank you, Johan. I've joined Addnode in December, so I've been there almost two months, Kristina Elfström Mackintosh. I'm not new to this type of a role. I have over 20 years' experience as CFO for listed, non-listed companies, scale-up, startup, et cetera. And I came recently from Charge Amps, which is one of the Swedish leader manufacture of EV chargers, both software and hardware. And just before that, I was CFO for Lagercrantz Group and I have also a background as a chartered accountant. A little bit private, I got three kids that just left the house. I got a husband and a dog that is still with me in the house. So, that's short from myself.

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### Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Thank you, Kristina, and hopefully you will be able to meet Kristina more going forward. So with that, an introduction, let's move on to our Q4 report. And as today, we'll talk about the Addnode Group in brief, talk a little bit short about 2023 before we move into Q4, reminding ourselves what we're doing within sustainability, and then we will open up for questions.

So, what is the Addnode Group for you who are new to us? We are an international group. We are providing digital solutions for sustainable design, product data management, digital twins, also for efficient management of real estate and facilities, and effective public administration. We are a highly decentralized structure with 2,700 employees and 20 specialized companies.

Our business is supported by global trends such as digitalization, automation, urbanization and sustainability, driving the demand for our digital solutions. Looking at our geography, big regions for us are Sweden, USA, UK, Germany, and then we are also active in some – in totality, some 20 countries, predominantly in Northern Europe and US is where you will find us.

So, looking at 2023, we continue to invest in new companies, software and employees. We implemented cost efficiency measures and we merged operations. At the same time, we noted some major changes in the world around us that we had to handle. And looking at net sales, so the increase with 19% to SEK 7.4 billion. We continue to increase our recurring revenues, which amounted to 70% of net sales.

Addnode Group became an even more global company with the acquisition on Team D3, and USA is now our biggest geography compared to net sales. We started 2023 strong, but Q2 and Q3 was tougher [audio gap] (00:04:02-00:04:10) in the PLM division. [audio gap] (00:04:12-00:04:21) stable earnings and solid cash flow. [audio gap] (00:04:26) the strengths of our companies, their ability to act quickly in a changing world, the Addnode Group's strong financial position [audio gap] (00:04:34) provide a good foundation for continued, sustainable value creation in a changing world.

We ended the year with [audio gap] (00:04:43) cash flow. Net sales increased by 16%, [audio gap] (00:04:50) minus 1% was organic. If we adjust for currency, it was minus 2%. EBITA amounted to SEK 196 million. Cash flow from operating activities amounted to SEK 228 million.

[audio gap] (00:05:03) Lifecycle Management division reported growth of 10%. The restructuring program initiated in Q2 has had the intended effect and the [audio gap] (00:05:12) margin has improved. The [audio gap] (00:05:15) organic growth of 3% on an improved EBITA margin. The Design Management division reported growth of 24%, [audio gap] (00:05:26) 6%. The acquisition of Team D3 had a...

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## Unverified Participant

Sorry to interrupt, Johan, sorry. Your sound started to be very [indiscernible] (00:05:36), so let's take a quick break and see if we can figure out.

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### Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

[indiscernible] (00:05:40)

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### Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

[ph] Good (00:05:43).

[Break] (00:05:44-00:09:53)

## Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Hello again. Hello again. It seems like there were some technical troubles with the line and the sound was disrupted and now it should be okay. So, we will start over again with the Q4 2023. [audio gap] (00:10:10) opportunity to hear all again about it. So, we'll make this work.

So, looking at Q4, Addnode Group ended the year with growth, stable earnings and cash flow. Net sales increased by 16%, of which minus 1% was organic. Currency-adjusted organic growth was minus 2%. EBITA amounted to SEK 196 million. Cash flow from operating activities amounted to SEK 228 million. The Product Lifecycle Management division reported growth of 10%. Restructuring program initiated in Q2 has had the intended effect, and the EBITA margin has [audio gap] (00:10:49-00:10:54) adjusted organic growth of 3% and an improved EBITA margin.

The Design Management division reported growth of 24%, with currency-adjusted organic growth amounting to minus 6%. The acquisition of Team D3 has had a positive impact on earnings. While demand in Europe was stable, demand from the construction and real estate market in the USA remained weak in the quarter. To respond to this weaker demand, staff reductions have been implemented in Symetri USA, which has had a positive effect.

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

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## Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Thank you, Johan. And we are going to look at the breakdown of the revenue. We have three graphs that I would like to take you through and we'll start at the bar graph from the left. You can see the breakdown of the net sales for the fourth quarter over the last five years. And [audio gap] (00:11:51) substantial growth which mainly consist of the last two years. And the current quarter amounts to SEK 2.1 billion compared to SEK 1.8 billion from [ph] last (00:12:05) year. And Johan also mentioned that it's a 60% (sic) [16%] growth.

You can also see that the major part of the revenue consists of recurring revenue and that increased by about 21% from last year, mainly driven by acquisitions, and the organic growth of recurring revenue was minus 1% and that is relating mainly to the lower sales of three-year agreements. We can also mention that we are meeting strong comparatives from last year, which was the strongest quarter in history of Addnode.

Going to the middle graph, the pie chart in the middle, we can see also that recurring revenue continue to form a stable foundation of our business model and now amounts to 70% on net sales. Our service revenue grew by 12% in total this quarter and consists of both services relating to [audio gap] (00:13:15) and customer-specific solutions. The organic growth was slightly lower than last year by minus 1%.

And then the last graph all the way to the right, we can see that present the breakdown of sales by geography. And also we can see now this is the second quarter in a row America has become the biggest market with 32% followed by Sweden, 27%; UK and Germany, about 10% each.

And we can also continue now and [indiscernible] (00:14:00) going to look at some of the performance of the three divisions. I'm going to hand over to Johan again.

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## Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Thank you, [audio gap] (00:14:08). And [audio gap] (00:14:12) three divisions starting with [audio gap] (00:14:15-00:14:20) increased by 24% in Q4. Adjusted for currency effect, organic growth was minus 6%. The EBITA was SEK 98 million and the EBITA margin declined to 7.9%. Operations in the divisions, looking at it, you can see that Symetri, providing design, BIM and product data, began to note weaker net sales of Autodesk solution in the second quarter of 2023 already, mainly due to construction industry customers and particularly in the USA. This trend continued throughout the year and is deemed to be a result of uncertain economic conditions and the lower volume of three-year [audio gap] (00:15:00).

Although net sales improved compared with the second [audio gap] (00:15:05), sales cycle remained longer and three-year subscriptions are lower than in the same period last year's in terms of both [ph] new sales (00:15:14) and renewed volumes. However, the comparative figure for division are high following record-breaking sales of three-year agreements in 2022, mainly driven by USA and the UK.

However, the number of customers and the annual value of the underlying contract database, which is the basis for future contract [audio gap] (00:15:35) continue to increase. We still see great potential for selling Symetri's proprietary [audio gap] (00:15:39) growing customer base. Symetri's European operations reported stable volume for the quarter and stays in line with the previous year.

The cost reduction made in US operations, which were announced in the third quarter of 2023, have had an effect. Team D3 acquired in July 2023 have had a positive impact on earnings. Service Works Global, which provides digital solutions for facility management, and Tribia which provides collaborative solutions for construction and civil engineering delivered stable growth driven by the acquisition of FAST2 in the first quarter of 2023.

So as we have discussed earlier on, there are some changes being made in the business model for our Symetri business that are a world-leading partner for Autodesk, and we've [audio gap] (00:16:32) to spend some time and walk you through the changes that are expected to happen going forward.

Autodesk, who is a partner to Symetri, has announced the [audio gap] (00:16:46) transition from current reseller model to an agent model. The new transaction model will be introduced gradually starting 2024 and is expected to be fully implemented by the end of 2025. [audio gap] (00:17:02) continue to work with customers to identify the solution that best suits their business and will continue to provide quotes, implement the Autodesk solutions and provide support.

Also going forward, Symetri will continue [audio gap] (00:17:16) invoice for its own software and associated services [audio gap] (00:17:19) with an agency free from Autodesk [indiscernible] (00:17:22) for reselling the Autodesk software. We think that the move to an agent model will demonstrate the strength of Symetri's service offering and its broad portfolio of proprietary complementary products.

So, looking at how will this change, just to stress, it [audio gap] (00:17:44) something that is going to happen in 2024. What will happen is that nowadays, this is an illustrative example. It's not the P&L for the Symetri, but it's an example showing you the changes going from [indiscernible] (00:17:59) reselling model to the agency model. That means that today, when Symetri sells and Autodesk subscription, we sell it to the customer, we collect the money, and we get a cost of sales from Autodesk and we provide them with that. And then we saw gross profit is what ends up and then we get an EBITA.

What will happen going forward is that instead of invoicing the customer and getting a cost of sales from Autodesk, we will get an agency fee from Autodesk for selling the same volume. We expect that the agency fee will be at the same amount as the gross profit that we are generating from existing [ph] volume (00:18:45). Having said that, we also think that we will continue to sell our own technology and services, and there are some other third party, and that will be conducted in transaction in the same way.

So what will happen starting 2024, we don't know the exact date, this is something that will happen going forward [ph] until (00:19:05) fully in 2025, is that our gross profit margin will go up as a result, and as a result also, [audio gap] (00:19:12) expected to increase [audio gap] (00:19:15). And that has to do with [audio gap] (00:19:17) we are expecting the same [audio gap] (00:19:19) gross profit, but net sales will go down.

So, looking at Product Lifecycle Manage [audio gap] (00:19:32) Q4, the Product Lifecycle Management division reported net sales of SEK 499 million, a growth of 10%. Organic growth was 8% and adjusted for currency, it was [audio gap] (00:19:46). EBITA [audio gap] (00:19:49) million [ph] SEK 59 million (00:19:52). The margin was [audio gap] (00:19:56-00:20:04) and that looks weak compared to the other [audio gap] (00:20:08).

Organic growth was [audio gap] (00:20:09) attributable to a couple of [audio gap] (00:20:12) PLM systems in the UK and Germany. Customers are continuing to demand time-finite licensing or licenses instead of the previous license purchases with perpetual right of use. As previously communicated, such measures have been carried out within the Product Lifecycle Management division in order [audio gap] (00:20:32) organization and cost structure.

The previously communicated estimated restructuring cost for implementation ended, as we said, at SEK 20 million [audio gap] (00:20:44) was recognized in the second quarter, SEK 5 million in the third quarter [audio gap] (00:20:50) SEK 5 million [audio gap] (00:20:51) this fourth quarter. [audio gap] (00:20:53) and expected to [audio gap] (00:20:57).

The Process Manage [audio gap] (00:21:05), the Process Management had a solid performance this quarter. The Process Management division increased net sales to SEK 346 million. It's a growth of 3%. EBITA increased to SEK 67 million and EBITA margin improved to 19.4%. Municipalities and public authorities continue to show some restraint in terms of new investments. The number of tenders decreased compared with the preceding year, but the division's good and well-established relationships with a large public sector customer base frequently present opportunities for recurring sales and the expansion of current assignments.

Demand for the division's offering for customer-specific business systems remained favorable during the quarter. The division is [audio gap] (00:21:50) enhancing its customer offering. [audio gap] (00:22:01) made changes within the structure that [audio gap] (00:22:07-00:22:13) companies [audio gap] (00:22:15) Swedish municipalities an uninterrupted digital urban development process and better conditions for sustainable urban development. [audio gap] (00:22:28-00:22:36) broad product portfolio and collaboration with partners [audio gap] (00:22:37).

As part of this, we have also created a new company, Icebound, [audio gap] (00:22:49) operation [audio gap] (00:22:52-00:22:57) digital solutions for the forest sector [audio gap] (00:23:00). Based on its existing product portfolio as well as its competence and experience in geographic information systems, Icebound will offer digital solutions that streamline processes and business flow for the forest industry and basic industries.

In January 2024, Icebound also made its first acquisitions, Efficture. It's a proprietary software for forest and timber management with net sales of SEK 2 million. And on top of that, we made another acquisitions to process in Q1, this acquisition of Jetas. It's a Swedish supplier of case management system for issues and work orders,

public transport and property management. It's an add-on to our company, Forsler & Stjerna, that will strengthen the offer to Sweden's public transportation sector. [audio gap] (00:23:58) net sales of roughly SEK 6 million.

So with that and the introduction of the business in Q4, I will hand over to our CFO, Kristina.

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## Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Yes. Thank you, Johan, and I would like to continue with an overview of the consolidated cash flow. And the way I'm going to do this, I'm going to start with the cash from operating activities first for the quarter and then the year, and then going down to investment activities for the quarter and then the year. So I hope you will follow that.

So, looking at the fourth quarter cash flow, it remained strong, SEK 228 million compared to SEK 261 million in the previous year. And the decrease from last year is mainly related to the lower operating profit, together with some increases in paid interest in the fourth quarter. And if we look at the full-year cash from operating activities, we generated SEK 485 million in operating cash flow. And this was a decrease from the year before and it was mainly due to the decrease in operating profit by SEK 117 million and also the negative change in the working capital of SEK 125 million.

Going down to cash flow, we are looking at the cash from investing activities for the fourth quarter. It mainly consists of investment in development of proprietary products around software. And for the 12 months ending 31st of December, the cash flow from investment activities was SEK 672 million. And about – [ph] of (00:25:51) that, about SEK 460 million into the three acquisitions during the year and also include the considerations to sellers for acquisitions made previous years, that is the earn-out payments. And also important to know that we invest substantial amount in the future products and services, and approximately SEK 152 million is relating to investments in proprietary software during 2023.

And then looking how we're financing our investments and operations, looking at the fourth quarter, the financing activities [audio gap] (00:26:40) is mainly related to leasing. And for the 12 months, we had an [audio gap] (00:26:49) reflected in the full year and the borrowings for the acquisitions [indiscernible] (00:26:55) in the three finance [indiscernible] (00:26:56) the revolving credit facility. And [indiscernible] (00:27:01) noticeable that the dividend of last year, [ph] SEK 133 million (00:27:06) was [audio gap] (00:27:08) in 2023, in May. And I would like to pay attention that you might have read through [audio gap] (00:27:19) dividend of SEK 1 per share in this year, the same as last year, and that will be paid to shareholders in May 2024.

And looking at the balance sheet of the group, we're looking at the balance sheet from an operating view that you – what you find in the report, which is the legal statutory balance sheet. And we can here see that we are continuing to operate by resilient balance sheet, which is very important for our type of business for continued growth, both organically and through acquisitions.

We can see also that we have access to additional funds of SEK 1 billion from June 2023, and the major changes in the balance sheet is relating to the three acquisitions that we have executed during the year. We can also see that the net working capital is negative and our business model enable us to work at a negative working capital, and that amounts to minus SEK 543 million.

Including in the line item provisions, taxes and other debt [indiscernible] (00:28:51) for the sellers of the acquired companies. And as of 31st of December 2023 [indiscernible] (00:29:01) amounted to SEK 481 million, and we also had other liabilities to sellers of about SEK 56 million. Net debt now at SEK 999 million was increased by SEK 536 million as we continue to execute acquisitions.

The cash position was SEK 667 million, which is an increase of SEK 67 million, and you can also notice that the dividend of SEK 133 million has impact on the cash position. We have available facilities of [ph] SEK 2.6 million (00:29:50) and not utilized SEK 1.1 million of those which can be used going forward for acquisitions and growth. Lastly, I would also like to mention that we now have repurchased shares, no more repurchase since last summer 2023 and hold 1,210,000 of shares [ph] class B (00:30:20).

And by that, we will now continue to have an overview of our sustainability agenda and also looking to three sustainability cases, and Johan will talk about that.

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## Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Thank you, Kristina. Well, with Addnode Group, we are long term and we continue to do what we do, so the sustainability agenda is the same and we are still pushing for it. And we believe that the digital solution that we provide for our customers are enabling them to be more sustainable in how they do [indiscernible] (00:30:57) of the materials to be used in buildings and products and et cetera and how you create the urban environment that we are all living in. So we think that we can provide the digital solutions to make that happen.

Of course, we care for our people and we – with our people in the environment where we are active, of course. Also, the way we work with our partners and suppliers, we want to work with the good guys. And we believe that part of the sustainability agenda is to make sure that we have a long-term financial solidity so we can make the right choices at our own choosing, and we need to have [ph] some (00:31:36) governance to make that happen. So it's the same agenda and we are pushing for it.

So, looking what we are doing for our customers, we – there are three examples here that we are highlighting and you can also find them at our website. Looking at the left, you can see an example from the Design divisions where the company, SWG, are providing 3D models and digital drawings for the Nordic Museum in Stockholm, and enabling them to have digital documents to facilitate repairs and maintenance in order to ensure that the building retain their historical profile. Those have helped the Nordic Museum to improve the quality of its building data and the digital format also enables building information to be easily updated in one place.

If we get to middle of the slide [indiscernible] (00:32:25) finance software for the company, TECHNIA, in the PLM division, the digital twins of vehicles for last-mile delivery [ph] days (00:32:33), TECHNIA has helped the German startup Mocchi with a virtual twin of its Smart Pedal Vehicle for last-mile deliveries of goods in urban environments. Looking to the right, you will find an example from the Process Division, is a company, Decisive, in Norway. More efficient for the railways, Decisive has supported Norwegian infrastructure company, Bane NOR, who is responsible for Norway's railways in implementing the new European Rail Traffic Management System.

It probably is Norway's largest publicly utilization initiative today. By investing in new system, Bane NOR has helped to strengthen the competitiveness of the railway system as a logistic solution. Having more people travel by train and more goods transported by rails helps to reduce CO2 emissions and increase energy efficiencies. So three good examples of what we're doing in Addnode Group.

So, finally, looking at Addnode Group, we have a strategy of both organic and acquisition led. We believe that the structural underlying demand for the digital solutions offered by our companies extends beyond and across economic cycles, driven by customer needs for digitalization, automation, urbanization and sustainability. However, short-term, the current economic situation is dominated by uncertainty and restraint among our customers. Addnode Group's strategy is still with a sound risk taking, capitalize on these [ph] grounds (00:34:07)



by continuously acquiring new businesses and actively supporting our subsidiaries to generate sustainable value growth and drive organic earning growth.

2023, we have continued to invest in new companies, software and employees, and in addition, we have implemented efficient measures and [indiscernible] (00:34:24) operations to strengthen our positions. Addnode Group has become a more global company and the acquisition of Team D3 meant that the USA became the group's largest market in terms of net sales. The strength of our companies, their ability to adapt quickly in a changing world, and Addnode Group's strong financial position and strategic advice provide a good foundation for continued sustainable value creation.

And with that, we would like to open up for questions. And thank you for taking the time, took a bit longer with some technical issues but I think we are past that. So, let's open up for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] The next question comes from Daniel Djurberg from Handelsbanken. Please go ahead.

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**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Thank you, operator, and good morning, Johan and Kristina, and congrats to a stable report.

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Thank you.

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**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

A few questions from my side, starting off with Design Management. Obviously, we will focus more on the gross profit growth going forward, but a question is if you have decided how you would report the top line for Design Management in 2024 and 2025 timeframe? Will you divide it into the VAR and the agency model so we can keep them separate and see the development, more or less, and calculate backwards to see – or any thoughts on how to get away from the uncertainty that a mix would create?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. We are looking into that. We haven't made the decisions on that, but it would probably be some changes in how we do report. But we would like to come back to like how we do it. However, we had – there are some guidance that I would like to highlight in the report. For example, we are writing there, for example, that if you look at the Symetri business, you will find that today half of the gross profit generated by the Symetri business is from own services and own proprietary products, and the other half is from the – what you would call the VAR business, selling the Autodesk business, the gross profit.

And then you need to figure out how much of the Design division that is not the Symetri business. And [indiscernible] (00:37:18) find that from public figures looking at how much is the net sales of the Tribia and SWG.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. Fair enough. Thanks. And may I ask you on the – I should know this, I guess, but the new transaction model, will it also change Symetri's relationship with existing clients or is it merely new signings? Will Autodesk invoice all clients also existing?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

When we make the transition, what will happen is that there are – for example, it will be a mix from a relationship perspective. As we have, for example, three-year contract that are ongoing, there are installments that – going to be made, that existing contract will go ongoing forward. But that should not be confused with our reporting on net sales, because as we – we will still have the same revenue recognition principles. That means that when we do the switch, we will report any new sales according to the new transaction model.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. So...

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Did you understand my answer on that [indiscernible] (00:38:35)?

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah, I think so. Yeah, and will come back to it, obviously, later on. And may I ask you also on, you have seen in US a certain weakness in construction segments throughout 2023 and I was thinking you also mentioned in the report that it was seen in Q4, obviously. But entering 2024 and I don't – I know you don't give guidance, but should we expect it to stabilize in first half or accelerate or – and also if possible, ballpark, how large part of the US side management business is dependent on the US construction segment?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Starting with the – probably, say, last question looking at how much of the business is dependent on the construction market, in the US, it's probably, I would argue, almost half the business in the US are addressing the, what do we call, the [ph] AC (00:39:41) market. It's not...

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah.

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

...just pure construction, the architects who are sort of depending on that. And then looking at the growth in the market, you will – then we also need to look at from two perspective. The underlying market growth, it seems like it's not getting worse, it's more stabilizing, and then let's see how much it will continue to grow. That's one thing.

And then the other thing, it has to do with our revenue recognition principles, is that we also this year, as we were selling, had a mix with less three-year deals moving to one-year deal.

That affected this year, so when we are coming to Q2 and Q3 next year, then that means that the three-year deals that hopefully were not sold last year, that we will be able to sell the next year. And that will sort of help with the net sales compared to Q2 there. But still [ph] me (00:40:38) looking at the growth, we are not expecting high growth in the market going forward. Hopefully, it will stabilize.

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**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*



Yeah. That's fair. And I have a last question on PLM and TECHNIA, and [indiscernible] (00:40:54) reported yesterday and they saw growth level of some 8% to 10% in 2024, well, double-digit again in 2025 and onwards. Can you comment a little bit on how you see in your crystal ball, is it fair to assume similar levels or should – is it something impacting pros or cons [ph] versus (00:41:22)...

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*



We're a little bit worried we don't make any [ph] prognoses (00:41:26) for the future, but we tried to give some flavor to that now. And what you can see is that in the, what we would call a tough year for PLM division, we still had organic growth of around – I think if you adjusted there in Q4 for currency effects, the whole thing, this was 4% organic growth. And at the same time, we managed to do a major cost reduction program, increasing margins, and hopefully we don't have to spend 2024 on cost reduction and be more focused on growth.

But if we are able – I was going to say we can do 5%, that's as expected across, and if we do more, I'm happy with that, but we never planned for more than 5%.

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**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*



Perfect. Thank you very much and good luck here and...

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*



Thank you.

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

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**Fredrik Nilsson**

*Analyst, Redeye AB*



Thank you and good morning. And I want to start with the PLM. I mean, you had a quite strong third quarter as well but then you had quite a lot of licenses compared to the same quarter last year. However, this quarter, we see that the licenses are about the same. Still, you make a really strong margin compared to what you have done historically. Have the PLM found its place or are you happy with the performance?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*



Thank you for that. Looking at the PLM, there is a seasonality in PLM, so Q4 should be the strongest quarter for the PLM businesses. And that has to do with it's still the division where we actually have the business model with more of the classic licenses. That means that you spend the year sort of talking with the customers, discussing with them, and there are probably big [ph] OMs (00:43:28) and by the end of the year, they are ready to sort of push the button for bigger investments in licenses.

So that's sort of for the PLM. In a normal year, it should be the strongest quarter. And I guess we can see the effect now of looking at the cost, so this is a Q4 that they should be able to deliver going forward.

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**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay, thanks. So, then Design Management, I mean, you had a negative organic growth in this quarter but was a lot better than seen in the last quarter. So, could you elaborate a bit, what was the main driving factors behind the improvement compared to last quarter?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Compared to last quarter, you will find in the US market. As we were just sort of – as we described in the earlier – in Q2 and Q3, we were hit by lower market demand in the US and also we had the big effect of the three-year deals, transition from a mix of three-year deals to more one-year deals. That was also a hit, so those two were hitting us in the US market. And now, as the US market is probably, I would say, that they're stabilizing but still not sort of a growing market, that's a good effect, and then we were – we're able to, say, able to do some cost reduction in the US market as we were reducing – the number of people reduced.

That also help on the profits side so. I think you will find the biggest change compared to Q3 to Q4 is that the US is doing a little bit better. And also on the profit side, as we said in Q3, that was the first quarter where Team D3 was part of us and we probably had more focus on making the transaction happen there, and now in Q4 they are contributing, as they should, with – regarding to profit, and all that together makes Q4 a better quarter than Q3 for our Symetri business.

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**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay. So, that's the US market outside of construction then getting better, I suppose, or how should I interpret that?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

And I think that's organic, yes. No, no, I think it's not from the market side, it's more the Team D3. Looking at the profit side, there were more – I guess, there was sort of what can happen sometimes when you are part of a transaction, you get more focused at the management team to make the transaction happen rather than focus on business.

It's quite normal in the entrepreneur-led businesses. And now they are able to focus on the business and then you get the profit-wise. So, market-wise, nothing big change. It's more that we – you're able to sort of do the final part of the business, making sure that you are generating profit that you should, and that has [indiscernible] (00:46:30). So more of a profit side for Team D3. Market-wise is sort of still the same stable market with regard to manufacturing.

What has changed is that the construction business stabilized and we also see the effect of – I think it's more that if you look at from a market perspective.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

Okay, great. And about Process, you mentioned fewer procurements, all those things that you have done quite well, relatively speaking. But what about the solid demand for customer-specific systems? What are the reasons for the divergence, in your view, between those two?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

So, I think the reason is that we have – okay, we have a very – starting with the first one, we have a very strong market position at local municipalities, providing software or helping them with building permits, environmental permits, create and everything that has to do with that. So, that means that it's a very sticky business. So when we say that there are fewer tenders, it still means that we can do business with them and growing from the business that we have. So, that's the first thing.

And the second thing, we always say the tailor-made solutions, is that we have an offering to our customers who – there are customers in the public sector, they want to build their own systems and we can help them build them from scratch and then take responsibility for those going forward and helping them out to support them.

In that sector, with the tailor-made solutions, we have had a very strong order book this year. So, we are looking with sales. And if you combine that with the slower labor market, meaning that we will be able to keep the same people in the projects during the year, that creates a better sort of sustainability in those projects and that helps from a margin perspective as well because you don't have to teach new people going to the projects, you don't have to replace them at the same rate, so that supports that business.

**Fredrik Nilsson**

*Analyst, Redeye AB*

Q

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

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Thank you.

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

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you and good morning. I have a few quick questions on Design. So, first off, my understanding is obviously that three-year deals are down significantly versus last year but you're still selling some of it, so would it be possible for you to give a ballpark figure here on how much three-year deals are down these last few quarters versus 2022? Are we talking 25%, 50%, 75%? Any color?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. So far, we haven't given you any guidance on that and we will not be able to do that this quarter as well. And it's more that we – looking from that from a competitive perspective to our other partners that we're pricing with. But it's down significantly in the mix. It's both that, like you said, it's affecting the new sales of it and the mix of it. The good thing is that we will be able to sell – if we sell the one-year contracts instead of three-year contracts, we will be able to sell that next year as well so we don't have to wait three years for that.

But it's down significantly and that's what we are trying to help you with addressing and say that the underlying contract base and the number of customers are still growing. We hope to give – I had a question earlier on do you want to – are you going to change your reporting in any way. We'll see how we can help address for that. I don't have any good answers today, but the only thing I could say is we're looking into how we can do things a little bit different going forward with regards to reporting.

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. Fair enough. And then as you mentioned, the underlying contract base, some encouraging numbers there, would you say that, that growth, is that attributable to market share gains? Is it driven by upselling to existing customers? Do you have any drivers you see there, any specific ones?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

It's a mix. So we're not saying that we're having a high growth but there's a growth and it's – like you said, it's a mix, both that we are able – like the underlying, there's a growth in the market, but also that we are able to gain new contracts because we are also competing against other partners in the market.

So, the customers are wanting to work with us because they see that we have a broader offering. We can help them with services, we have complementary products that then really enhance their investments into alternative platforms. So, yes, we are gaining some market shares as well.

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Perfect. And then last question on the, again Design Management and the pretty resilient numbers here. Obviously, it's very difficult to predict where three-year licenses end up, but now it was quite a bit to consensus figure, so I'm just curious, were you surprised yourself on the numbers, and heading into the quarter, would you have guessed this outcome?

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

A

Not as good as we ended up, but there are always a – we can see that you're always a little bit worried when you have a Q3 like we reported, how will Q4 – there are some possibility. And we have – we are able – this is a business model where if we are able to sell a little bit more than expected, then you will have a good outcome on the final report, because we don't need to hire more people to make that happen. You have a good sort of leverage on that, so...

**Erik Larsson**

*Analyst, Skandinaviska Enskilda Banken AB*

Yeah, indeed. Okay. That was all my questions, so thank you.

Q

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Thank you.

A

**Operator:** There are no more questions at this time so I hand the conference back to the speakers for any written questions.

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

Yes. We have a few written questions. I'm going to take the first one from [indiscernible] (00:52:54), and the question is, you have been active in the M&A space lately when in the big picture [audio gap] (00:53:02-00:53:07) how you see the M&A market and also comment on why you have been successful in completing acquisitions.

A

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Good question. We are – continue to be active in the M&A market. So, normally, you don't see everything that we do. We're comfortable with pedaling under the waterline, and then sometimes we pop up and make an acquisitions and that it could be silent for two quarters and – but then we do three deals in a quarter. And so for us, it's more we acquired companies from entrepreneurs who want to be part of Addnode Group and continue to grow. That's sort of a basis. It means it's very much relationship-driven and I think that's a success for us.

A

So, we'll take some time but we are able to – when we sort of meet and are able to finalize a deal, we know that the people are sort of the right from a culture perspective as well. And hopefully, what we're seeing now from a bigger perspective is that the price in the market, they are reaching more of a level now where buyers and sellers both think that we're sort of approaching the right numbers.

Going back a year where sellers feel both that the price level was as it used to be a couple years ago and we were saying that we'll be – we're not willing to pay that. But I think we're reaching more of a level there. So, hopefully, we'll see some more acquisition this year.

**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

Right. Thank you. We have a few more questions, too, and this one is from – I hope I pronounce your name correctly, [indiscernible] (00:54:40), and the question relates to earn-out. Is there risk with earn-outs that managers are solely focused on them instead of the long term?

A

**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

Well, it's always a risk, but we try to make sure that the earn-outs are aligned, what we both would like to do, and that is continue to grow our operating profit going forward. And then we need to be smart about them to make sure that we have a constant discussion. Sometimes there could be decisions that needs to be made that are of a long-term perspective and then we have to adjust the earn-outs. So, you need to be a little bit flexible about them

A

and be – there's always a risk but we try to handle it, and we have 20 years' experience as an organization to handle those type of things.

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**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

**A**

Right. And here is another one from the same, [ph] Roger (00:55:38). [audio gap] (00:55:39) succession plan [audio gap] (00:55:41)?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

**A**

It's a constant ongoing. We do feel that [audio gap] (00:55:48) internal leaders because there is – we have to appreciate working in a decentralized environment. And if you haven't worked in one of decentralized environments, it could be sometimes hard to understand it because we [ph] give the – they afford it (00:56:02) to our leaders to drive the businesses, but we also expect [audio gap] (00:56:06) to drive the businesses. So, that means that they are expected to do probably a lot more than you're doing on other businesses and you need to embrace that.

So, that's very much part of it and hopefully we do that. It's a normal thing, make sure we are able to take on new responsibility. And there are some internal training, fostering, be part of boards within internal. So it's a constant thing but it's definitely something that we address.

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**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

**A**

So – right, thank you. And one more question from the same writer. How do you make sure that you make good acquisitions from return on invested capital perspective instead of chasing these?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

**A**

We are [audio gap] (00:56:53) improvement on what we are expected to pay for our acquisitions. That means that if you go back like two, three years ago when interest rates were low and it was possible to borrow a lot of money and pay a lot of money for your acquisitions, we were losing out on a lot of these because we are not with those high multiple.

So, we are – historically, we have [indiscernible] (00:57:17) around 6, 7 times operating profit, and these types of companies don't have any assets so there are no amortization or depreciations, so it's the operating profit. And sometimes, we have – I think where the maximum sort of multiples we have paid is up to 10 times, that being high growing, high margin software businesses. So, I think we're quite prudent on how much we would pay, because you can never change how much you pay but you can always change operations.

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**Kristina Elfström Mackintosh**

*Chief Financial Officer, Addnode Group AB*

**A**

Right. And then I guess the last question from the audience, and this is, how do you manage key [ph] personnel (00:57:54) risk in the companies?

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**Johan Fredrik Andersson**

*President & Chief Executive Officer, Addnode Group AB*

**A**



The first thing is that you've got to make sure that they find it fun and then be part of Addnode Group and work with it and it's rewarding to create new opportunities, and also make sure that you [ph] have raced (00:58:12) being a part of a growing company. Because [ph] though (00:58:16) looking back, historically, over the last 20 years, you will find that Addnode Group on average has roughly 15% growth, and you need to make sure that you have the people who like that and you also need to provide the opportunity for that. And I think that's sort of the major part of it. You may – need to continue to grow so they can grow.

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## Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Right. That was all the questions that I had to the call.

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## Johan Fredrik Andersson

*President & Chief Executive Officer, Addnode Group AB*

Thank you, and thank you, all, for listening into this and – yeah, thank you.

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## Kristina Elfström Mackintosh

*Chief Financial Officer, Addnode Group AB*

Yeah. Thank you.

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