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Fagerhult AB (FAG.SE)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning or good afternoon, all. And welcome to the Fagerhult Group Year-End Report 2022. My name is Adam and I'll be your operator for today. [Operator Instructions] I will now hand over to Michael Brüer to begin. So, Michael, please go ahead when you are ready.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Harry, and hello, everyone. And welcome to the presentation of Fagerhult Group's results for the fourth quarter 2022. My name is Michael Brüer. I'm responsible for strategy and communications here at Fagerhult Group. On the call today, we have our President and CEO, Bodil Sonesson; and our CFO, Michael Wood. The presentation will start with Bodil giving us a brief update of our results for the fourth quarter and she will then continue to update us on some – on the business and some examples from successful project installations from the year. Michael will continue with more details about the performance of the group. And Bodil will conclude with a brief recap and afterwards, we will open up for questions. We'll first allow questions from the conference call and then we will open up for questions from the webcast. You can post questions in the chat window on your screen and I will read them up for Bodil and Michael.

Before we start, let me also remind you that today's session is recorded and will be available on our website later today. With that, I hand over to you, Bodil.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Okay. Thank you, Michael. And welcome everyone to this Q4 webcast. So, we are very happy to present our good numbers today. And the strong trend we saw in Q3 has accelerated and became even stronger in Q4, both in net sales and in operating profit. We did our best quarter ever in Q4 and we both achieved our best year ever in

2022, both in net sales and operating profit. So, I think you will hear the word best many times during this call today.

And we did a growth in organic net sales in Q4 that was 16.7%, and we start the year with a strong order backlog of SEK 1.95 billion. So, we continue to see positive effects of the pricing management we've been working on all year, and the positive trend with easing supply chain challenges has continued in the fourth quarter, and I would say challenges are almost gone.

And if we look into the megatrends with focus in renovation and – renovation needs and sustainability in buildings, this continued to have a very positive impact on the interest in sustainable lighting solutions, I think, in combination with the higher awareness and interest for energy efficient solution. So, I read in a report from the World Economic Forum in Davos at the beginning of the year that shows that we need to triple the rate of renovation in Europe if we would have any chance of reaching carbon net zero by 2030.

So, I think that is very much in line what we've been seeing, but we also see the market changing. What the report also said is that the number of companies with net zero commitments to science-based targets is much higher than the pipeline for green buildings. And in the lighting industry, this renovation demand is further driven by the ban of fluorescent lighting, which is happening in September 2023.

So, the way of solving both of those topic is by increasing the pace of renovation and retrofit. And I think we have a very relevant solution within the group for different application areas, as we spoke about in the last webcast. I'll come back to that in my – in my projects later on.

And we've also sent in our targets for validation by science-based target. We did that before Christmas, both for committing to the Paris 1.5 degree target and for becoming net zero until 2045. And I think we expect approval of those targets or validation of those targets in Q3. So, goals that we've already started to work internally towards those targets, and then if you remember, we have 24 levers on sustainability that will make the biggest difference for us. And we will come back and report to you about those and the progression we do during the years to come.

But let's move into the numbers for the first – for the fourth quarter. So, we had a growth in organic order intake in Q4 with 2.4% (sic) [2.6] (00:04:58) or SEK 1.964 billion. We achieved, as I said, a strong growth in net sales with 16.7% organically and the number was SEK 2.271 billion. And that's the strongest quarter we have ever achieved. And in EBIT, we delivered SEK 255 million, also an all-time high and the best quarter of the year with 11.2% EBIT margin. And the SEK 255 million represented a growth of 58.3% (sic) [58.1%] (00:05:35) in operating profit compared to last year's quarter. So, results, we are very happy about it. And the earnings per share was SEK 0.96.

If we then look at the year, also a record year in 2022 for us in many ways, so, we had a record high order intake of SEK 8.243 billion, which represents an organic order intake increase of 2.4%. Net sales were also at new record levels and grew organically by 11% to SEK 8.270 billion. And also the operating profit grew to SEK 833 million, which was an improvement with 18% from 2021. And all of these numbers are in line with our long-term targets, and they're all record numbers – so – for the group.

So, I am very proud of what we have achieved despite, I would say, a macroeconomic context that was not always without challenges. So, it is the result of a focused strategy which is very well in line with megatrends. It's been a lot of collaboration and team effort all around the organization. I think it's also very well-aligned with our core values where we are, if you remember, curious creators that aim higher and are committed together. And you need a lot of committed together to achieve those numbers.

So, if we go to our operating model. And in today's business updates, I will focus on sharing four project examples with you. And in our quarterly reporting every quarter, we want to give you a flavor of what type of projects we are doing. And as you know, we have a global presence with our 12 lighting brands and two connectivity brands. We cover almost all professional lighting market, with sales into 10 different professional customer segments or application areas as we call them. And that's everything from office, critical infrastructure, urban spaces, hospitality, culture, et cetera.

And today, the examples are from three of our four business areas, and they are also showing that we see successes in our strategic group focus areas being innovation, sustainability and people and culture. And the projects in today's presentations are example of innovative projects, including smart lighting solutions with organic response. The project also shows a very strong focus on sustainability and that the market is starting to have a much bigger focus of renovation.

So, I come back to – again – we know 70% to 80% – 75% to 80% of buildings in UK and in Europe are energy efficient, and those buildings will still be there in 2050. And currently, only 1% of those buildings undergo energy efficient renovation each year. And if it continues that same way, it will be impossible to reach the climate goal. Therefore, it's positive to see that of the projects that I'll briefly present to you today, only one is a new build. The rest are all renovation projects.

Then I had the pleasure – sorry, I had the pleasure of being in the UK last week and I spent time with our different stakeholders along our value chain. We had architects, lighting designers, electrical consultants and construction companies. And it was actually very inspiring and it gave me a lot of hope for the future because they all confirm that in the last 18 months, the market have changed very quickly towards renovation projects and the demand is changing towards building that live up to net zero carbon footprint, and we see the same trend in the rest of Europe. So, I think that is hope giving for the future for our climate goals.

So, if we look at the projects. So, I'll start with the first one, which you see is a cultural application and it's done by iGuzzini, and it's the Royal Museum of Fine Arts in Antwerp. And this museum was originally designed in the 19th century and opened to the public in 1890. And now, they have invested around €100 million in an overall renovation and extension of the museum. And this artificial lighting is new for this museum because it was designed with natural lighting in mind. So we worked together with ARUP, the engineering company, and came up with a lighting concept that could be adapted to different architectural context and that could meet different exhibition and conservation requirements.

And the solutions here is approximately 900 lighting fixtures from iGuzzini. It's a spotlight – a small spotlight that you can see in the top of the building here, which you call Palco, which is done specifically for cultural application, and it has a very – minimalist shapes, which means that we can put it back into the historical part of the museum and into the contemporary part. I think when you see these beautiful cultural solutions, I, at least, think about our mission statement, a world enhanced by light, which fits very well to the cultural side.

If I then go to the next story, this is a collaboration between Fagerhult and the customer called bol.com, and bol.com is the e-commerce arm of retail giant Ahold Delhaize. And they have their headquarter, in the picture you see it's a six-tower facility in Utrecht where they've been for seven years, and they now wanted to upgrade their office space and one of the goals was to create a future-proof solution for their 4,000 employees, and they had a vision that they wanted to develop the smartest office in the Netherlands.

And for that they looked for a partner and they found us and we worked together. And this solution is including over 6,000 connected luminaires. And the smart lighting solution is based on Organic Response technology. And what does that do? It creates improved lighting conditions. And you can of course dim down the light for energy savings. But they also wanted to create a better experience for their employees coming back to the office. So the system helps out with booking services of conference room and office desks. It has a navigation hub through the six towers. And then of course there is also a focus on energy efficiency. So it's monitoring energy consumption to further drive down carbon footprint.

But bol.com also has a strong focus to improve health and safety and today they test their emergency equipment once a year with visual inspections, and that turns out to have 15% of units are either faulty, missing, or not in the right spot. And with help of our sensors, you then do an inspection once a year, but they are monitored 24/7. And so I think with this, Bol.com is happy because they have been getting the futureproof solution that they wanted to get.

And from that I moved from the Netherlands to the UK, and this is a case from business [ph] area (00:12:59) infrastructure and it's a transportation case. And here we were working with a consultancy company which is called Qsustain, and of course together with Network Rail, and it's the Fagerhult Group company Designplan who has upgraded the platform lighting. And this is in Birmingham, it's New Street Station, and they want to do energy-saving LED using our retrofit gear tray. And if you remember from the last web call, I talked about our retrofit solution and retrofit for us means changing only the light source and keeping the existing light fitting housing. And if you look at the luminaires from Designplan, they're all made from very durable and recyclable material. So it's steel and aluminium. And we also need a high what you call an IK rating, meaning that they're very durable and have impact resistance. And Designplan also have replaceable gear tray in order to have that it is sustainable technology. And we need these two elements because the requirement from Network Rail is that they need to have a 30 years tenure. So, they need to be in place for 30 years.

And this is a very good example of this because we started actually to work with Birmingham New Street Station in 1998. And we are now upgrading the in-store lighting to make it more energy efficient and we're starting with the platforms. So, upgrading the light engine of the existing luminaires and not the full body of the fixing and this has many benefits. One is that it's saving significant time on site because this is a hub station, it's a very busy station. So, the one who's doing the work, they can only do it between 1:00 AM and 5:00 AM during night. And also when we look into the energy savings of this method and lamp lighting upgrade are significant. So, the upgraded platform luminaires only will reduce the energy with 57% in this case.

So then I'm going to a completely different and the next and the last solution here. And if you remember last time I show a retrofit solution from our brand ateljé Lyktan at the library in Jönköping. This time I have a different example. It's what we call a bespoke solution. And what we mean with bespoke is that we do a unique solution for a specific customer.

At a later stage, this might become part of a standard range, but it's not always the case. But this long experience we have in bespoke solutions is also very good for renovation, because in renovation there's very often something unique for every customer. And ateljé Lyktan has a specific department for this. They call it the Studio. And in this case, the customer is a newly opened hotel in Gothenburg which is called The Pier Hotel. And ateljé Lyktan has created bespoke lighting for the restaurant, the 250 room where you see an example here on the PowerPoint and many of the other spaces. And of course when we do it bespoke, we can integrate it completely into the interior. And we have some carefully selected materials here.

So those were the four customer stories for today. And what I would like you to remember is the focus on renovation, focus on sustainability as well as connected solution. And for ateljé Lyktan also showing our strength in doing customer-specific projects, which I think illustrates how close we are to our customers and also very much the strength in the local footprint that will be a very good asset for us going forward. And with that I will leave over to Michael for some more information about the financial numbers. Maybe we hear the word best again, Michael.

Michael Wood

Chief Financial Officer, Fagerhult AB

At least once or twice.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Good.

Michael Wood

Chief Financial Officer, Fagerhult AB

Thank you, Bodil. I'm pretty sure everyone on the call now is beginning to get the message about the important renovation wave. And we've shown four examples of good projects there.

Let's go back to the numbers, taking in the financial summary for Q4. And let's start [indiscernible] (00:17:23). Group delivered an all-time high quarter with many new records in the fourth quarter. The overall growth was significant to almost 25%, and the organic growth almost 17%. The SEK 2,271 million was the highest ever quarter in net sales for the group. And this is a very good reason for us all to be confident for what the group is capable of.

We see in the market activity, we see it remaining geographically mixed with many countries are now delivering or continued to deliver great results. There is around us, of course, some uncertainty, but balancing this uncertainty are the supply chain challenges that Bodil has already referred to which you'll read from the report have now been largely overcome, almost back to normal. And also we see many positive opportunities for future growth. Our highest priority is, of course, to continue to service our customers very well.

More recently, cost pressures have come in the form of utilities and employee-related costs and we continue our response by increasing prices to continue to facilitate good resources and service the high levels of service to our customers. In the quarter, if you're looking at the report that was released about an hour ago, you will calculate the higher gross profit margin and this has had a beneficial drop-through to the operating margin. The operating profit at SEK 255 million delivers a very strong 11.2% margin which is the highest since the COVID rebound in early 2021 and a full 230 basis points ahead of last year, we consider a super result for a fourth quarter in uncertain times. Earnings per share SEK 0.96 increased 57% compared to the SEK 0.61 for last year. And as we've mentioned in Q2 and in Q3 we did fully expect strong cash flows towards the end of the year and we didn't disappoint. The SEK 366 million is 91% of the full-year cash flow.

Looking at the year as a whole, I'll try to summarize how the four quarters come together in the 12 months. The robust performance in the first half year combined with an improved third quarter that we reported on in October. And the results in the fourth quarter delivers the best-ever year for the group.

The operating margin improved during the year to close at 10.1%, which is 10 basis points ahead of last year and we maintained double-digit for each of the last two years. Operating profit of SEK 833 million is an 18% growth and the net profit after financials is a 23% growth.

If you have joined the calls earlier in the year, you will know that we have been targeting an earnings per share above SEK 3 for the year and at SEK 3.27 we certainly achieved that. We will be proposing a dividend of SEK 1.6 per share, some 23% ahead of last year.

The operating cash flow approximately half of the level that it was a year ago takes into account almost a SEK 300 million increase in inventory levels, which have shown a steady month on month reduction since August. I think we commented upon that in October, but also a growth in accounts receivable due to the very high sales growth levels.

Coming to the sales development on a rolling 12 basis, the development in rolling 12 continues on a very strong trend and has increased very significantly as a result of the fourth quarter. We now pick off where we left off before the COVID period began. And again from early results calls we have been expecting a rolling 12 month net sales to return to above pre-COVID levels, and the SEK 8.3 billion certainly meets that expectation.

Margin development, happy with what we see on margin development. What I referred to earlier on when presenting year-to-date slide can be seen quite clearly here. The operating margin has increased steadily since the fourth quarter last year and has been consistent at 10% now for the last two years.

Largely, our response to cost pressures, good cost control, and the flexibility to act based on our decentralized model are all aspects that the group has been delivering on in the last one to two years. For large-scale producers serving the industry, our unadjusted operating margins remain healthy to what we see on the market.

Let's drop into the business areas now. Firstly, we go to collection business area. And similar to last quarter, I do repeat the obvious comment when looking at the four years on the chart to the right-hand side that is the increasing delivery with improved consistency of the operating margin. That will of course continue to be seasonality, particularly in collection, where the business area has a large share of outdoor sales, but the extreme difficulties seen in the early years are no longer.

For 2022, net sales and profitability has developed very well, a record year for the business area as a whole where all brands contribute to the growth, but the area is dominated by the iGuzzini business in Italy. We will continue to the journey to develop the operating margin for the whole business area, and there are many ongoing projects in this regard, not least collaboration in the group which we will come back to in our April webcast.

Moving to Premium, the Premium business area delivers exceptional levels of profitability. The trend since the third quarter of 2020 is very impressive. I think you will agree with this comment. In the third quarter, the operating margin was a significant 16%, and even in the fourth quarter, this was 15.8%. As a reminder the business area also funds the growing investments we make in our Organic Response business. Our Organic Response business is our indoor smart lighting technology business.

Moving to Professional, you will be aware in the Q2 report and the Q3 report that we previously reported, the business area has had a difficult year in the UK and Australia. We do today report a more stable position in these countries and an increased positive result in the business area. This indicates to us that we are emerging from the very difficult period and we are pleased to say that the worst that we've experienced in 2022 is now behind us.

Our business in Turkey delivered growth in net sales and profitability during 2022, despite the very tough market conditions and the very weak Turkish lira. And in passing regarding Turkey, we are pleased to report that besides the economic impact to the country as a whole, our people and business are largely unaffected by the recent earthquake tragedy.

Picking up the last of the business areas is Infrastructure, the business area Infrastructure, we report very strong growth in sales and profitability, and have set new records. You can see the chart to the right-hand side, 2022, and we report new records every quarter during the year. We continue to address the high growth opportunities and you can see the results of this beginning to show. Our focused approach, Bodil mentioned focus one or two times before, and we think it is key to our success, our focused approach for transport distribution centers. Harsh and secure environments provides much success and we shall continue this journey.

Obviously, any CFO should be interested in cash flow and I am pleased to see the rolling 12-month chart begin to go about the other way, a little tick-up in the fourth quarter. The operating cash flow in the quarter was positive SEK 366 million, as we've previously stated, resulting in a year-to-date positive cash flow of SEK 403 million. I've already passed comment on the inventory and accounts receivable increases, but what is pleasing to see now is that the growth in sales and profitability is turning to a very strong cash-generative period for the group.

Net debt, first of all, just a very quick reminder that the chart for net debt is adjusted for IFRS 16, and the chart for net debt/EBITDA ratio is adjusted for IFRS 16 on the acquisitions and/or disposals. We report a closing net debt to EBITDA ratio of 2.36 and a reduction from the previous quarter. Here, we expect further reductions in the next few months as the working capital will continue to fall whilst profitability remains. Of course, you should not forget the dividend payment in the spring.

Earnings per share, summary here for us is that we have been aiming for an EPS above SEK 3 for the year. We have delivered SEK 3.27. Let's not sit and rest on our laurels, 2022 is now behind us and we look forward to developing this further during 2023.

Before handing back to Bodil for closing and Q&A, just a very quick short summary from myself. If you want four bullet points to remember, please remember for the group that order intake remain steady in an uncertain world. Order backlog position remains healthy. We keep a focus on growth and net margins. And externally the megatrends are favorable and the renovation opportunity grows quickly and we respond well to that.

Thank you very much for listening. And I'll pass back now to Bodil.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Okay. Thank you very much, Michael. So where is this picture from?

Michael Wood

Chief Financial Officer, Fagerhult AB

This picture is from Sandwell in Birmingham, which was the home of the Commonwealth Games for the swimming side of the Commonwealth Games.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Okay. And what brand is it?

Michael Wood

Chief Financial Officer, Fagerhult AB

It's from where I came from.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Okay.

Michael Wood

Chief Financial Officer, Fagerhult AB

It's from [indiscernible] (00:28:35), yeah. That's what you're really asking, wasn't it?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Yes. It was. Okay, so let's move to a quick conclusion and recap from my side as well. So, I think the conclusion for Q4 and 2022 they are all positive. We have as a group worked hard with our focus on people, sustainability and innovation since we launched actually a new organizational strategy in 2020 and it's good to see that we're bringing good results. It's been a record quarter and year for both order intake, net sales and operating profit. And what we've done shows that there's also been a lot of additional work done in the individual brands since 2020. I think all of this means that we are as a group much stronger today.

As Michael said, we are well positioned with regards to megatrends and it's good to see that market really starts to understand that if you want to reach the Paris climate goal, we need to increase renovation of buildings. And I think this is even happening in a way where it goes people don't even think about it instead of working with new builds, they're now starting working with renovation.

We also need to make sure that we install smart lighting solutions because those are up to 90% more energy-efficient. And I think we're just starting to see the awareness of this. And for us, in a way, that's very positive because it means years of opportunities.

As we've said, we have submitted our targets for validation by SBTi with two different goals to meet, the Paris agreement 1.5°C target by 2030, and to become net zero as a group by 2045. And our total carbon footprint is to 89% dependent on the full lifecycle of the luminaires. And that means Scope 3 user phase. So, we need to work very closely to partners and customers if we want to bring that to a success.

So, also for me, three things to remember from this presentation. Good results in 2022, well positioned for global macro trends, including the need for renovation of buildings, and a lot of good progress with sustainability.

So, with that, we will end the presentation part and open up for questions. So, I will hand over to Michael.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Bodil. And with that, may I ask Harry to open up for questions from those on the conference call?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Okay.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

So, please, Harry. Go ahead.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question today comes from Mats Liss from Kepler Cheuvreux. Mats, please go ahead. Your line is open.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, hi. Thank you. Well, congrats on a record quarter of course from me as well. I have a couple of questions. First, I mean you seem quite confident there on the outlook. And I mean then again, I mean, Q4 is normally pretty good seasonally. But then you mentioned also the reno trend there and will that trend sort of change the seasonal performance somewhat? You mentioned that the renovation sort of creates a quicker payback or you get business quicker in that segment compared to new builds.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Hi, Mats. Thank you.

A

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Hi.

Q

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

I think that when you look upon it, it's always the different elements of this because you have different elements of renovation. As we said, we have the retrofit, which I think is a quicker solution when we only upgrade the light engine of it. But then when you look into renovation, if you go back to the numbers where we look into 75% to 80% of the buildings that need some kind of upgrade in the years to come, I mean, that's not a short-term perspective. That is more market opportunity for us for many, many years to come. So, I think what we're saying is that we see this happening quicker than we thought. And maybe the reason for that is that the markets [ph] we've focused (00:32:55) have understood. So, the awareness of this, I've seen it increased incredibly in the last 18 months. And that awareness change, having people changing to this focus has been going quicker than I think we could imagine. So, that is positive. But for me, it's a trend. It's a trend that we see that will impact us for a long time to come. But I don't think it will change the short-term seasonality of what we're doing. I don't know if you have anything to add, Michael, on that side.

A

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

No, I don't – renovation, we see, Mats, as indoor and outdoor. And there is the mix of northern and southern hemisphere and our geographical spread. So, I don't think the renovation trend, renovation focus will change materially the overall seasonality for the group.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. Then, I mean, you mentioned that price increase is starting to, well, get more sort of a drop through there. Is there more to come? And it also seems that there is more to come in the coming quarters. Is that right?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yes. I think so. We're fairly confident that we do think so. We continue through Q3 of last year and Q4 of last year, and even into – into Q1 of this year, the start of the New Year, price adjustments taking place, sometimes across the board in various brands, sometimes a little bit more focused at certain luminaire types or application areas. But we are fairly confident that there will be further development from those pricing adjustments.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. And just sort of a – well, when you – when I look at – you mentioned that you trade in line with the targets, but I guess you are about the modern target now...

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yes.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

...and with a healthy outcome. Should we see it more as a flaw or if it's sort of – well – a quarter that is – has been strong and we – we couldn't be expected to trade so much higher, could you say something about that?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

I'm assuming you...

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Maybe also, sort of – yeah, maybe also adding that – the renovation – that trend, is that – is that supporting the margin for you?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

I assume when you say about the target – I assume you're referring back to the Capital Markets Day for our long term ambitions. More than a 10% EBIT margin through the economic cycle. And I know 10.1% is just fractionally

above that. And we're happy with the 10.1% for 2022, two years running now at 10% or more. We do continue to hold our view in the long term through the cycle. Operating margins will be at least up 10% number that we communicated in August.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. And finally, just looking at, well, the other strong cash flow and I guess you – with a little less help from – from – less help from working capital than in the comparative quarter, but you also indicated there are sort of opportunities to release working capital further. And could you give some indication how much you – well, what is the normal level as you see it now?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Sure. I think what we see [ph] in (00:36:53) most of that comment, Mats, [ph] it's already referred to (00:36:54) inventory levels, accounts receivable is a function of the growth and we are, in one way, happy if accounts receivable continue to increase because it means the growth continues to escalate. But when it comes to inventory levels, we know we peaked at around the end of Q2, early Q3 of last year with the inventory level across the group funded because we needed to support the supply chain challenges and that has been coming down from August all the way through to December.

It's still at a level that we consider high across the group. So, we're thinking maybe SEK 200 million, SEK 250 million is still excess inventory that we're holding across the group. And of course, if we continue to grow, then the inventory will need to increase to fund that. But the SEK 200 million to SEK 250 million is about where we think at the moment. Extra inventory can be released to support the cash flow.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Thank you very much.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Thank you, Mats.

Operator: The next question is from KJ Bonnevier from DNB Markets. KJ, your line is open. Please go ahead.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

Thank you very much. Good morning, Bodil and Michael. Just coming back to the few of the other achievements you must have done during 2022, what happened in the connectivity area? What kind of percentages are you up to? How much [ph] a client (00:38:23) taking up your offering there?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

I mean, I think what we've said before, we see – we see a very positive development. I would say that it's still in the early stages, but I think what you saw, that's also what I gave an example of, was that we see bigger and bigger – bigger and bigger inflations. And I think the one that I showed you was an example of that. And we see

that in many places. And then I would see – we'd see a little bit – we see stronger. It's also depending on the different organizations. We are ramping up internally in terms of our competence. And I think that's also going quite quickly. So, it's difficult to give you an exact number, but it is step by step, I would say, going in the right direction on the connectivity side.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

But would you say that it has – has turned into a business driver as such in the premium segment that's where you really highlighted?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Yes, I would say so. It's – I would say it's part of all the discussions we're having and if you go – and depending on the application segment. But in premium, if you look into office applications, yes, I would say, it's becoming a business driver. There's so many benefits to it for the customers as with the example with bol.com. It's energy [ph] efficiency (00:39:46) that we start with, where you take it down to 90%, but then you have many other positive sides – side effects in terms of making the office future-proof, making it smart. And so, yes, I think we will see – you'll hear us speaking much more about it in the future.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

But do you still think it's still too early to talk about that that's a business driver across the group at this stage?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

No, I don't think so. I think it's becoming – in the office segment, I think it's becoming a business driver for all of the – for all of the different ones. But the premium segment is ahead, I would say.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

Excellent. And then just looking at the 2022 as well, if you look at the different customer verticals that you service, which were the stronger one, which were the weaker ones?

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

We've actually had quite a few. I don't have the direct – direct numbers of them, but if you look into the different segments, I think you see – [ph] it's a good examples what I've showed here (00:40:49). I think we saw strong growth in cultural applications, for example. If you look into iGuzzini, they had very good growth in hospitality and high residentials, where they've been having [ph] greater (00:41:03) high focus. We saw actually very good growth in retail. We saw good growth in all the infrastructure business as you see; transportation. And also we saw very good growth in office when you combine it with connectivity solutions as well.

So – so many segments that were doing well.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

And some – something that you feel lags behind at this stage?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

If there was one application area, Karl-Johan, that was a little bit lagging behind, maybe it's too soon to expect the boost coming through in health care.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Yeah.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

We do have a strong pedigree in health care with many of our indoor businesses, and maybe we anticipated too much, too soon following the COVID period and government investments in health care. And we know it takes at time because people are still dealing with almost medical emergencies in nations, but health care would be one. Well, we think it is just lagging behind our expectations at this stage.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

Excellent. Thanks for the extra color. And just looking into 2023-2024, you seem to enter the year with a slightly, say, lower order backlog to LTM sales at least. Do you feel that a 10% growth is achievable in this year as well?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

I'm just going to comment, first of all, on the entering the year with a slightly lower LTM to sales. It needs to be, say, in context as we enter 2022 with an exceedingly high ratio there built up through recovery from COVID in many areas, many countries, many customer segment. But also what we've begun to see towards the end of 2021 was because the supply chain challenges beginning to bite. So, I don't think they – leaving 2022 into 2023 is directly comparable with leaving 2021 into 2022 but we are – we do continue to plan for growth.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Yeah. And having said that, we have a stronger backlog into the year than we had into – compared to 2022.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Yes.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

A

Yeah.

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Q

And I guess you still have the positive pricing component there as well for this year.

Michael Wood

Chief Financial Officer, Fagerhult AB

Yes.

A

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Yes.

A

Karl-Johan Bonnevier

Analyst, DNB Bank ASA (United Kingdom)

Excellent. Thank you very much.

Q

Michael Wood

Chief Financial Officer, Fagerhult AB

Thank you.

A

Operator: [Operator Instructions] We have no further questions via the phones, so I hand back to the management team for webcast questions.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Harry. And today, it seems to be very quiet on the webcast questions as well. So, I think with that, we are done with questions for today. So, maybe, Bodil, you have some – if you have some closing comments and reflections on the year.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Very last word. So, I think I'll summarize and say that, as we've said, 2022 was a very good year for the group, the best in our history so far. And I believe that it shows that we as an organization can make a difference. And therefore, I think, I'd like to end to say thank you to everybody in the group that has contributed to the results of the year. So, thank you, everybody.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, everyone, for joining in today's conference call. The next call would be for our webcast for the Q1 report on April 26. So, until then, have a nice day and thank you for today.

Bodil Sonesson

President & Chief Executive Officer, Fagerhult AB

Yes. Thank you, everybody.

Michael Wood

Chief Financial Officer, Fagerhult AB

Thank you. Goodbye, folks.

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