

Fasadgruppen transcript – Q3 2021 call

Please note that this is a translation of the original call held in Swedish. The translation has in some instances been adapted for reading purposes.

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Hi and thank you for joining us. Welcome to this Fasadgruppen presentation of our Q3 2021 results. I am Group CEO Pål Warolin and I am joined by our CFO Casper Tamm. We will guide you through this presentation. Next slide.

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As usual, I will start with a short introduction to Fasadgruppen. We are market leading in façade work. Façade work is a specialist service, primarily on local markets with a high level of craftsmanship. Our offer includes masonry work and plastering, the installation and renovation of balconies, roofs, windows, plus scaffolding services. In effect everything to do with the outside of buildings and where you need scaffolding to access.

We focus on mid-size projects in the region of SEK 1–100 million with an average project size of SEK 3-4 million.

Fasadgruppen has an active acquisitions agenda, with the aim of consolidating the Nordic façade industry. It is also a very fragmented market. Today the group has 38 companies in Sweden, Denmark and Norway. We work in line with a very decentralised structure and have around 1,350 employees today. Next slide.

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Let's take a look at our rolling 12-month key figures. It is extremely a pleasing to report we have passed a little milestone of over 2 billion kronor in sales for the first time. Adjusted EBITA was 243 million kronor which gave us a healthy EBITA margin of almost 11%. Next slide.

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Here we look at what has happened in Q3. It is very pleasing to say we have had strong and profitable growth in the quarter. It is also fun to say we have now achieved organic growth for the second successive quarter since Covid appeared. Sales increased by almost 115% compared to the comparison period, of which 2.5 % is organic growth. Our adjusted EBITA margin of 13.2 %, was well above our target, which is pleasing. We have also continued to have good acquisition momentum in the quarter on all our markets. We have now made 18 acquisitions in the year with combined annual sales of almost 1.1 billion. Next slide.

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If we take a general look at the acquisitions we have made during the year, as mentioned, we have acquired 18 companies with assessed annual sales of almost 1.1 billion kronor. We made four acquisitions in the third quarter, plus a further five after the end of the quarter. What we can say in general about our acquisitions is that we have managed to make acquisitions on all our markets and broadened our offer somewhat, such as in sheet metalworking, our first façade glazing company which are all in line with our future vision. This is my general view on all these acquisitions.
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Here we take a closer look at the acquisitions we made in the third quarter. The first one, Åby Fasad, we had already agreed to acquire and signed the contract in Q2, but completed in Q3. It is a family-run company dating back three generations, strong in plastering in the Östergötland region. The company won the façade of the year award for 2021, the second time they have won this award in recent years. In other words, they are a highly skilled company that we are proud and delighted to have in the group.

Acquisition number 2 is Eklunds glas, located in Västerås. This is another company with a long history, they manufacture and install aluminium and glazed facades. This is a new niche area for us as a group, very welcome, they have great management, a wonderful company.

We are once again very proud of the acquisition which offers new sales opportunities.

Our third acquisition is Husby Takplåtslageri, a sheet metalworking company founded in 1992, that has been on our radar for a long time, they have been involved in projects alongside other Fasadgruppen subsidiary companies, not least one of our larger reference projects, Grand Hotel in Stockholm. The company is based in Eskiltuna and is a near neighbour of one of our earlier subsidiary companies and we are pleased to have them.

Last but by no means least is our fourth acquisition, Er-Jill Byggplåt in Gothenburg, another company with a long history, founded in 1971, a highly skilled niche company within renovation work on older buildings and churches for example. They have an excellent reputation in the local area and a welcome addition. They offer cross-sales opportunities, especially in the west of Sweden.

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7 We are proud to say we are continuing to expand our sustainability efforts all the time.

One example in Q3 is recycling window glass for glass wool. This is via one of our Danish subsidiaries, Byens Tag & Façade that, together with one of our largest suppliers, Saint-Gobain ISOVER, have recycled glass from 800 old windows to turn them into glass wool with excellent thermal insulation capacity. This method can recycle up to 95% of glass from old windows. These 800 windows correspond to 11 tonnes of recycled glass and the project has achieved CO2 emission savings of 2.3 tonnes.

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8 We now come to the Q3 financial reports so I will hand over to our CFO Casper Tamm.

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9 In this quarter, Fasadgruppen has achieved its best ever figures, both in terms of sales and adjusted EBITA which is fantastic to report. Revenues were SEK 714 million with organic growth of 2.5%, which includes 19 companies. EBITA was SEK 94 million with an adjusted margin of 13.2%. Our order book amounted to SEK 1.6 billion, a 600 million increase since the start of the year. Profit for the period was SEK 72 million with earnings per share of SEK 1.59 compared to 80 cents in the comparison period. However the number of shares has increased by around 20% since the comparison period. Operating cash flow was almost SEK 67 million, which we are very satisfied with. Cash flow was strong in the period which has followed subdued demand earlier in the year, which we will come back to.

Next slide.

10 Net sales increased by 115%, primarily driven by our acquisitions agenda. As noted previously, we had organic growth of 2.5% which we are very satisfied with, and it is the second quarter in a row where we have had positive organic growth since the year of the pandemic, which is great to report. Our orderbook grew by 65%, here too, we have seen a gradual improvement over the course of the year, with a slight negative organic growth figure of -0.6% and 65% acquisition related in the quarter. New acquisitions accounted for 450 of the SEK 600 million increase in the orderbook for 2021 in total up to the end of September. Orderbook growth was seasonally weak in the quarter due to the summer holiday period.

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11 Our adjusted EBITA also increased sharply to 89%. The margin was 13.2%. The comparison period was higher, but it is worth noting that this current quarter presents a fairer picture for a normal third quarter for us. The comparison period was impacted by an abnormally weak EBITA margin in the second quarter, primarily due to the pandemic. If you compare the 2 quarters in each year together, you get a fairer picture. Looking at items affecting comparability, these had a positive effect in this current period, of SEK 8.5 million due to a revaluation of earnouts that we perform on a quarterly basis that naturally have a negative or positive effect on how the year has gone.

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12 I will only comment on a few items here, that deviate from the normal trend, here we have other operating revenues where we had a positive effect from the revaluation of earnouts that also affect comparability as already mentioned. Looking further down, we can see that depreciation has varied significantly over time. This year we have depreciated acquired intangible assets such as customer relationships that are part of our acquisition valuations that did not feature in the 2020 comparison period. These too, are items affecting comparability. Looking at other operating expenses, here too, we have IPO costs that also affected comparability.

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13 A few words on the balance sheet. There was a sharp increase in the balance sheet total, driven by our active acquisition agenda, that increased by SEK 1.3 billion primarily driven by goodwill and brands. On the liabilities side, the big increase was due to the offset issue between the period ends that amounted to SEK 379 million. The IPO in association with this made up a large part. Interest bearing net liabilities amounted to SEK 794 million an increase on the comparison period attributable to the acquisition agenda. The net debt to adjusted EBITA ratio improved and was also an improvement on the second quarter where the ratio was 2.9, both better than the comparison period of 3.0.

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14 A few words on cash flow and cash conversion, there was a strong increase in operating cash flow in Q3 and about the same level as Q2. Cash conversion has developed well through the year and was 57.4 for the period, a clear increase on the comparison period. This has benefited in the current period by improved EBITA and that investments have remained on a stable level compared to the comparison period. On a rolling 12-month basis, cash conversion is around 80%. Both operating cash flow and cash conversion are in line

with the seasonal patterns we have seen over the years. Namely, the year starts slowly and gradually increases over the following 3 quarters. Now back to Pål for a summary and wrap-up. Next slide.

Summary

Thank you Casper, we can now jump to the next slide.

Slide 16 wrap-up

As noted we have had continued strong and profitable growth in the quarter, which is pleasing. Plus it was the second successive quarter with organic growth since the Covid pandemic. We can also say it is going to be a record year for acquisitions in terms of both number, which we have already passed, and also in sales figures where we have already reached last year's figures in the third quarter. I am very satisfied with the way our acquisition process has developed during the year and the way we work. We have fine-tuned how we broadly work on all markets which also means we have a fine pipeline on all three of our markets moving forwards, which is very pleasing and to enable continued growth, since the end of the quarter we have been granted a new sustainability linked credit facility.

This is what we had intended to present and are now ready for a Q&A session.

Q&A

First question from Karl Ragnastam from Nordea: I would like to ask about the organic growth of 2.5% which is good in the light of the pandemic, but comparing with Q2 when this was around 8%, I would like to ask for a bit more clarity about that and how you compare with the market as a whole.

A from PW. If we first look at the organic growth of 2.5% in the quarter, it is important to bear in mind when it comes to comparison figures that 2020 was a tough year but we also had very tough comparison figures for 2019, which was a record year in many respects. And then we have the effect of the orderbook which was much poorer at the start of the year and which has gradually improved. This is also an effect of the tough comparison figures we had in 2019. So we, or I assess that with regard to the market, we are very much in line with the way the market has developed and we have absolutely not lost any market shares during the quarter. We can also note that organic growth is relatively low in normal conditions in our niche.

Q. KR. You mentioned that October and November have continued on a good level. Can you put a bit more flesh on the bone and have the comparison points continued to be on a good level?

A. PW. When we say that we mean activity on the market and that we have good projects that are in progress and our projects tend to last a relatively long time, so projects that were underway in August and September are still going in October and November. They have delivered good figures in Q3 and I would say we are on a promising footing moving forward.

Q KR. Would you say this will be an improvement on Q3 or should we interpret it as a continuation in line with Q3?

A PW. I would rather not discuss the future in that way, but improvement is too much for me to promise, we are delivering on a good level today and in Q3 we had a good margin and stable business, and this is how I think the future will look as well.

Q. KR. Can I ask about possible inflation trends and how you view this? For example, according to figures, inflation is running at 7% in the USA, and so I wonder if there will be any pay inflation and in such a scenario, how would you manage this in your business?

A. PW. If I start by talking about raw materials, I can say that Fasadgruppen has far more power with reference to suppliers, thanks to our size than if our companies were still standalone and while we could not manage any large price reductions in the first six months, we have at least managed to maintain the old prices and we have long contracts that mean it will be a while before suppliers can make price adjustments, so I can say in the immediate future, the next six months that won't be a worry. On the personnel side, I am aware what is happening in the US, but I am not desperately worried here and do not envisage any gigantic pay inflation here in the coming year. But personnel costs are the same as with supplier costs in that we have locked in prices, but if not, we are generally able to pass on price increases to customers.

Q KR. You say you have improved and refined your M&A work. Can you tell us a bit more about that and provide examples?

A. PW. Firstly our M&A group is a bit bigger with more people working there. We have also become better and better at integrating subsidiary companies and their CEOs in the M&A process. We held an executive management meeting in the last few days where we went through our acquisitions and where they came from. The overwhelming majority came via internal contacts, and even though we have increased the rate of acquisitions, the picture still looks the same as before.

This means that when we contact target companies, we do not have any competitors as it were, looking to acquire the company. Secondly, we already know that it is a fine company that several of our subsidiary companies have recommended. That process has become much more efficient and broader. We have more contacts all the time.

KR. Thank you very much.

There appear to be no more questions.

PW. I would like to conclude by thanking you all for listening and an extra big thank you to all the fantastic employees we have in Fasadgruppen.

See you again on 17 February. Thank you.