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# Storskogen Group AB (STOR.SE)

## Q4 2022 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

## Daniel Samuel Kaplan
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Hi and welcome to Storskogen and our Presentation of the Fourth Quarter. So my name is Daniel Kaplan. I'm the CEO and one of the co-Founders of Storskogen. And together with me today, I have Lena Glader, CFO. So let's get going.

First, Storskogen in brief, we are an international group of businesses. We have annual sales, net sales of SEK 37.4 billion for the rolling 12 months, and an EBITDA of SEK 3.5 billion. We have three business areas, Services, Trade and Industry, and 14 verticals below that. So looking at the Services making up of 32% of our turnover, 62 business units and seven verticals and 5,000 employees. We have Trade headed up by Christer Hansson, 35 business units, a little bit more than 2,000 employees and four verticals. And finally, Industry headed up by Fredrik Bergegård, making up 39% of our turnover with three verticals and more than 5,000 employees. All in all, almost 13,000 employees, in fact. And our reason for our existence. Our mission is to empower our businesses, to help them fulfill their full potential.

So getting into the fourth quarter. It was in fact a strong quarter. We had good sales. We had strong cash flow despite a challenging environment. Net sales, SEK 9.8 billion, a 63% increase compared to last year and organic net sales growth for the full year of 12%. And our adjusted EBITA SEK 927 million. Our organic EBITA growth minus 6%. And finally, our EBITA margin was 9.4%. In fact, the highest margin we've had in the fourth quarter since our start a decade ago. All in all, it was a good finish to a challenging year. I think we all remember all the challenges of last year. With the changing environment, our strategic focus remains on our operational excellence, cash flow, strengthening the balance sheet, and our work, working with the cash flow and working capital really resulted in the fourth quarter.

We saw strong operational cash flow of SEK 1.3 billion. Among other things, this resulted in lowered net debt to EBITDA to 2.6 times. We did five acquisitions with a combined net sales of SEK 446 million. And since then, we have done three more acquisitions and the board has proposed a dividend as well for SEK 0.08 per share. So going little bit more into debt on net sales and EBITA margin. We can see that we had a good demand, actually most of last year and also an increase in profitability. As we know, it's been a challenging inflation environment, and we have successfully managed to push on price increases towards our customers, and you can see that especially during autumn, for example, for Services. Nevertheless, we have currency headwinds. The dollar is really strong affecting primarily the Trade business area.

But in conclusion, the margins were protected by our price adjustments. We had productivity measures and cost cuts in some of our business units. And of course, we had a solid demand helping us in the quarter. The market development, in general, well, the macro, we can see the strong demand in industry, still both in the fourth quarter but also going into the 2023. We have good order books, historically high, and also Services keeping up quite decently, and we've had successful prices increases across the board. In addition to that, we can also see that as inflation is stabilizing and supply chain disruptions easing, we see also that our margins start to go up. That said, the weak Swedish currency is really hampering us, especially our Trade segment, but also demand is going down in consumer-facing industries, and we see companies early in the construction cycle experiencing also lower demand.

The forward outlook, well, we always have a seasonality pattern with a weak first and third quarter, and a stronger second and fourth quarter. And as far as we know, nothing changes at view. But in general, we are cautious about giving a macro outlook for 2023 there. It's uncertain times for sure. If you're looking at the transaction market and M&A, so general slowdown in the market. We have decreasing multiples, relatively speaking in a few verticals at least, even though volatility in prices in this type of asset it is low, and we have somewhat longer deal processes. For us, we still actually have very strong deal flows since we're active in many different verticals and also different geographies. But we have a reduced M&A pace until we have our leverage in order which means that we can be very selective. We're always selective, but even more so in this business cycle.

Looking at our financial targets and how we achieving those, these are medium-term targets, assuming a decent business cycle. It's basically over a business cycle and also access to capital. Well, the organic EBITA growth, real GDP growth, plus 1 to 2 percentage points. Our delivery here this year was minus 6%. Of course, not satisfactory, but one should say that in 2021 we had a 36% organic EBITA growth. So given the many different macro shocks, we are relatively satisfied, nevertheless, with 6% decrease, given the tough comparisons. If you're looking at our EBITA growth, including acquisitions regarding towards in line with historical levels, we have 86% in the year, very strong. We are very happy with that. Of course, in the coming year with the slower acquisition pace, this is to be expected to be lower in this part of the business cycle.

Our adjusted EBITA margin over time, 10%, 9.2% this year. We could see that demand was quite good actually in the year. But with most of the shocks, the COVID closedowns in the first part of the year, the accelerating inflation, the currency headwinds, and now, of course, by the end of the year, weakening consumer demand has of course, affected our margins in the year. Looking at our cash conversion, our target is 70%. We're gradually increasing now. We had a weak start to the year. But as we changed focus to cash conversion in the second half of the year, especially now in the fourth quarter, we do see some great tailwinds in that one. So we had a gradual improvement now to 59%, which is decent but still not satisfactory. I think coming into 2023, we have significantly higher ambitions than that.

And finally, our leverage and interest-bearing net debt to adjusted RTM EBITDA, 2 to 3 times is the target range. We're currently at 2.6 times. As you can see, a decrease from last year's fourth quarter of 2.7 times, third quarter 2.7 times, so a decrease. And this is of course, one of our most important ambitions this year is to decrease this one to the lower end of the spectrum. In a good business cycle with low interest rates to be on the higher end of the range is a good thing, but in uncertain times, with high interest rate costs being in the lower range is the prudent way to go. So that's our ambition for the year. So looking at our three business areas, how are they performing.

Well, looking at Services, they had good sales growth in the fourth quarter, 39%, out of which 14% were organic sales growth as counted on those companies that we owned for both the comparison periods. The organic EBITA growth was a minus 5%, still lingering effects of the inflationary pressures. That said, we see that we have been successfully pushing onward prices and you can see that on the sequentially increasing margins over the quarters. So we're actually quite happy with the development in Services. Especially we could see that Logistics, Digital Services and Infrastructure have performed well and contributed to profitability. If we're looking ahead, we can actually see that, of course, we're expecting Q1 to be a seasonally weak quarter. It's hard to do construction or infrastructure work when the weather is cold. That said, of course, we're not suffering from the COVID close downs that we had last year.

So outlook for Installation is good, and we're still seeing a strong utilization numbers in our companies. Logistics, however, as the economy cools down, we can see lower volumes in Logistics. We did two add-on acquisitions in Sweden and Finland and one divestment in Installation during the quarter. So looking at Trade, we had a strong sales growth, plus 62%, even an organic sales growth of 10%. But the EBITA growth was minus 14% for the full year. I think Trade is, of course, the business area which is facing the toughest time now primarily at the moment, currency headwinds. But also, we see that a weakening demand in the consumer-facing industries, especially related to e-commerce. It's in fact, concentrated. Most of the portfolio is actually doing well in Trade. It's four to five companies where we have more difficulties at that one.

The hard work with decreasing inventory levels is paying off, and we can see a release of working capital. But overall, we see decent demand in our less cyclical verticals, whereas, we foresee a continued tough market for consumer durables. We did one add-on acquisition in Norway and one divestment is signed but not yet executed in the DACH region within the Niche Businesses. Industry, well, Industry had a tremendous year, 92% growth in the fourth quarter and steady margins. And actually, the full year has been tremendous, especially if you consider the fact that we had such an extremely strong year in 2021. So we are, of course, very happy with that.

And we have a strong underlying market, good demand, and of course we're going into the year with strong order books, even though we are humbled to the fact that actually out of our three business areas, normally Industry is the most volatile in recession market. But so far so good as far as we can see. Prices increases, we improved productivity, compensated for cost inflation, and we are benefiting from the reshoring trend where companies are moving back production closer to home, demanding automation solutions and, of course, giving also our industrial technology companies a lot of good deals. Challenges, well, that would be in the consumer-facing product companies within the industry. We did one fantastic acquisition in Singapore. I'll get more into that later.

So Lena?

## Lena Paulina Glader

*Chief Financial Officer, Storskogen Group AB*

Well, thank you, Daniel. So let's have an even closer look at the Q4 numbers here. Again, repeating what Daniel just said, Q4 net sales grew by 63% to SEK 9.8 billion, so close to SEK 10 billion by Q4. And for the full year, sales amounted to SEK 34 billion, up 96%, so almost doubling from 2021. RTM or pro forma sales as we had owned all our companies the entire year was SEK 37 billion. EBITA or adjusted EBITA grew by 71% year-on-year in the quarter to SEK 927 million, with full year EBITA amounting to SEK 3.1 billion and RTM pro forma EBITA to SEK 3.5 billion, as seen here. And this corresponds to an EBITA margin of 9.4% for the quarter, which is an increase from 9.0% in Q4 last year.

And why is this margin then up year-on-year? Well, it is due to a few things. First of all, we had a negative effect from inventory provisions in Q4 last year, and there have been no material such in Q4 this year. And also referring to Daniel's previous comments about positive effects from price adjustments made throughout the year that have gradually improved the underlying margin and an overall strong performance in Industry and Services in Q4 2022. Not shown on this page, but worth mentioning is that group operations at the HQ, headquarters, reduced somewhat to minus SEK 74 million in Q4 2022 from SEK 75 million actually a year ago. And relative to group sales, this is a reduction from 1.2% of sales in Q4 last year to 0.7% in Q4 2022. And we believe that this level is fairly well-adapted to our current business plan.

EPS grew by 73% to SEK 0.22 per share in the quarter or SEK 0.86 per share for the full year, which is an increase of 43% year-on-year. Return on equity was 9%. The return on capital employed was 10% for the full year. We've actually included a comment here regarding what return on capital employed would be in the underlying businesses. So net of goodwill, it's actually north of 22% for the full year 2022, return on capital, excluding goodwill, that is. And this is, of course, illustrates, first of all, that the underlying businesses are in good health, and it also illustrates the quite significant dilutive effect from the fact that many of these units are recently acquired when it comes to goodwill value, and have, therefore, not yet had the time to contribute with multiple years of profit growth. However, goodwill is intact and there have been no impairments with good margins as well.

So should we deduct cash from the capital employed, then return on capital employed is 11.5%. We had cash flow from operating activities as stated in the cash flow statement. Now, this is actually after tax and interest costs, just bear that in mind, of SEK 1.3 billion in Q4, an 82% growth year-on-year with SEK 1.6 billion for the full year period. Cash conversion in the quarter, 109%, and which is also an improvement from 98% the previous year. And I'll come back to both cash conversion and leverage separately in a little while. So organic sales growth in Q4 2022 was 11% and 12% for the full year 2022. And in Q4, the organic sales growth continues to be a mix of price and volume. Pricing, roughly half of that or less than half of that organic growth, whereas volume was a little bit more than half of the quarter's organic growth.

And as you can see from this graph, organic sales growth has been strong in the past years, actually, as I said, driven by both volume and price, which reflecting the inflationary environment in 2022. In 2021, organic growth was actually 17%, partly a result of the post pandemic boost from the year 2020. So organic sales growth, as shown here, has been fairly good. However, as you heard from Daniel just before, organic EBITDA growth was weaker in 2022 of minus 6%. And I must remind you here that the organic EBITDA growth in 2021 was exceptionally strong at 36% for the full year of 2021, driven by, again, post pandemic boost and a very strong market. So when we went into this year 2022, especially Q2 through Q4, we had really tough comparisons in terms of EBITDA growth.

And in addition to the cost inflation and the weak Swedish currency or the strong dollar, rather. We did, however, see a pickup in Q4 when price adjustments more or less fully came in. So here on this page, we show operating cash flow defined as EBITA, less change in net working capital, less CapEx. And the cash conversion, which is then the operating cash flow over EBITA. So essentially, how much cash is generated out of the operating activities. On this page, we show last LTM, so rolling 12 months. Operating cash flow for the full year was all in

SEK 2.4 billion. And as you see here on this graph, this is a record level despite that we have tied up more net working capital, especially in the beginning of 2022 than during any normal period.

And we briefly talked about that working capital already, it has been affected by high inventories and these problems are now diminishing. And we've worked and continue to work actively to reduce working capital. And Daniel, I think, will come back to this in a little while. We actually freed up more than SEK 300 million during the fourth quarter, which is significant, with significant positive effects from inventories and receivables, in particular. And cash conversion for the full year was 59%. Couple of comments on net debt and leverage as well, before I hand back to Daniel. Showing here is interest-bearing net debt and interest-bearing net debt-to-EBITDA. Interest-bearing net debt was SEK 12.3 billion at the end of the quarter, a decrease of SEK 410 million despite a handful of more acquisitions made during the quarter.

And leverage was also lowered, thanks to the strong organic cash flow from SEK 2.7 million at the end of Q3 to SEK 2.6 million at the year end, with an ambition to reduce it further. The denominator, so the RTM or the pro forma EBITDA in Q4 was SEK 4.7 billion. So it was slightly up from SEK 4.6 billion in Q3. And our total available liquidity amount to SEK 10 billion, were SEK 3 billion in cash and SEK 7 billion in unutilized credit facilities. And we have a reminder, we have no maturities in 2023, but we are, needless to say, of course, already now working towards extending the overall maturity profile of our loans to arrive at a more diversified maturity profile, and to reduce the overall absolute debt. And this is particularly relevant with the current interest rate environment.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

All right. So touching it once again on this slide, we talked about the divestments. And to conclude that part, I think there is more to come there as we review our portfolio. If we look at acquisitions, we did a few small add-on acquisitions. We did the acquisition of Cutrin in Norway. And we previously talked about the merger of some of our haircare distributors into one new company called ByWe, and Cutrin is an additional acquisition to that giving us a real strong position in Norway. If we look at the business units, we acquired one CMTI in Singapore. This is one of the world's leading suppliers of wire harnesses and cable assembly services to medical technology. It's a niche application, but they have strong profitability, strong margins, strong growth, and we acquired them at the right price.

So we find it to be a good illustration of the value of having a strong deal flow in different markets and industries. The acquisitions completed after Q4, relatively small in size, that said, and as a chimney sweeper, a company that is doing very well. And then we did two add-on acquisitions to ARAT Group. ARAT is one of our business units focusing on the sawmill industry, providing automation services there. And in this case, we're strengthening their offering with software competence and programming skills related to that production line. So some strong strategic acquisitions.

I'll touch upon this very briefly. We are, of course, working with operational efficiency. Lena touched upon more and more efficient group operations. The bulk of the work is done, however, in the business units where we have companies where we know that we are looking at the potential decline in demand in a recession year. Example is [indiscernible] (24:45) for example, who provides boat trailers. So already last summer, we did some cost redundancy programs there. 170 people were now made redundant. And this is, of course, something that we review across the portfolio if necessary, and to protect margins and retain profitability. Then of course, we have our low performers, and there we help them and support them with all types of activities to make them profitable once again or even more profitable.

And finally, we have a contingency planning in all our companies to be ready for whatever comes along. We talked about the KX and our procurement process. We have 12 different initiatives providing voluntary frame agreements for our subsidiaries. We currently have more than 30 negotiated frame agreements. One illustrative example is energy, where we have a great cooperation in Sweden with Vattenfall, providing both ESG-friendly solutions to our companies and reducing costs significantly as well. So that's one very concrete example. In addition to that, we talked about the working capital project. We're extremely systematic. Of course, we have some short-term benefits, but also it's a long-term work where we educate and support our companies.

We follow up, we set targets, we follow up on KPIs, and we also introduce a number of very concrete activities that drives better cash conversion. And this, of course, is a long-term work, but we think, if you see on the right-hand side, you can see the working capital ratio. We actually tied up a significant amount of money in the first nine months of 2022. Finally saw some risk effects of our working capital work in the fourth quarter, like Lena said, releasing SEK 300 million. But our internal target is to move towards 15% as net working capital as a percentage of sales. So even in the short term, we think that there is a significant potential in the coming year, not necessarily quarter-by-quarter, but over the full year, so to say. But long term, I think that's lots of work here to be done.

In conclusion, we're quite happy with the fourth quarter. We think we had a good performance given challenging macro environment and tough comparisons. We have a mixed picture. Industry has still strong demand, Services is gradually improving, whereas, Trade has a mixed bag about the consumer-facing industries and companies as well with particularly the e-commerce related is weaker. Q1, we're expecting that to be seasonally weak. We had a strong cash flow and also the work to reduce our leverage ratio has begun with a decrease from 2.7 to 2.6 times. Our focus remains on operational excellence, cash flow and the balance sheet. But of course, we are continuing to do acquisitions. But once our leverage is reduced, we will start to use our free cash flow to a greater extent to fuel M&A driven growth.

# QUESTION AND ANSWER SECTION

**Carl Ragnerstam**
*Analyst, Nordea Markets, Corporates & Institutions*

Q

Good morning. It's Carl here from Nordea. A couple of questions from my side. Firstly, I'm a bit curious to know if you could shed some light on sort of the working capital release where it stems from by segment. I mean, as you said, you've done quite a lot of work in Trade, for instance. Is it that segment that is primarily yielding results, or is it too early to sort of be seen in Trade?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

As we have, I think we believe we say in the report as well, the main contribution has been from reduced inventories and receivables in the quarter, whereas payables also reduced due to lower procurement which hadn't been offsetting or slightly negative effect on cash flow. We've had significant improvements in Services when it comes to accounts receivable, and we've had inventory reductions in both Industry and Trade, also with solid improvements overall throughout more or less all verticals. So this has been a really good job made by the business areas.

**Carl Ragnerstam**
*Analyst, Nordea Markets, Corporates & Institutions*

Q

Okay. Very good. And also, I mean during Q3, you had some negative or quite a lot of negative FX impact on EBITA on Trade. If I interpreted correctly, it's less in Q4 than Q3, but is it still possible to quantify the FX headwinds in Trade?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

No. We haven't quantified those exact in Trade. We're talking about currency exposure, of course, especially to the dollar that was strengthened or rather the Swedish krona has weakened significantly in Q3. And there is a spillover effect also in the fourth quarter. We had in actually on page 16 in the quarterly report, you can see the more detailed split between the regions of sales in the business areas. And it's pretty clear that the business area Trade has a 55% exposure to or sales in Sweden, and most of their goods are actually imported in foreign currency. So this is an natural effect, of course. We cannot quantify any further than that.

**Carl Ragnerstam**
*Analyst, Nordea Markets, Corporates & Institutions*

Q

Okay. Very good. And on slide 14 here in the presentation on completed transactions, I mean, we can see at least or seemingly two divestments there. Is it possible to sort of quantify the sales here and also a bit were they loss making, and why you took the decision to divest the companies? And obviously a follow-up question is, of course, also, if it's more to come or if you feel fairly satisfied with the sort of group of subsidiaries that you have currently.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Good question, Carl. I actually flipped the page, I'm not sure if you can see them still, to page 19. You can see we have two divestments, one is Thermo-Fasad. It's actually a subsidiary to a company called – to a business unit called Dextry Group, previously [indiscernible] (31:38). So the reason why we sold Thermo-Fasad is basically that the Dextry Group is a group of painters, whereas Thermo-Fasad does other types of work. So...

**Carl Ragnerstam**
*Analyst, Nordea Markets, Corporates & Institutions*
Q

I'm not sure if I lost you, Daniel.

**Operator**: Ladies and gentlemen, please hold. Yes, you can continue, sir.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*
A

All right. So can you hear me, Carl and the others?

**Carl Ragnerstam**
*Analyst, Nordea Markets, Corporates & Institutions*
Q

I can hear you for sure. Thank you.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*
A

Okay. So we take a new track. It's so interesting when you're passing the 50s, the technology seems to not be working for you, rather against you. But let's get to it. Divestment, so we did the Thermo-Fasad. Thermo-Fasad was a subsidiary to Dextry Group. Dextry is a group of painters, and Thermo-Fasad actually does other types of work. So they have no natural synergies with the rest of the Dextry Group. They also had a contribution of minus €5 million in EBITA in 2022. So it was no strategic benefits and a negative, and a loss making company where we found it hard to turn it around. So it was a natural decision.

If you take our second subsidiary, it's also a subsidiary to a current business unit in the Niche Businesses in the DACH region. In this case, once again, a natural profitability, no natural synergies with the rest of the group. So to your question, your second question, are we satisfied with this. Well, I think we will continue to do divestments of companies that either are low performers and not aligned with our strategic agenda when it comes to profitability, growth or our ESG agenda. So this is the work that we will continuously review our portfolio and do some divestitures. I think that's for sure.

**Carl Ragnerstam**
*Analyst, Nordea Markets, Corporates & Institutions*
Q

And the final one from my side is in Industry. You mentioned that or in report at least that order intake decreased somewhat during the quarter. So I wonder if you could shed some light on the magnitude of the drop, and if you have seen it accelerate the drop now entering Q1 as well. And also, if you could remind us a bit on how big your backlog is in the industry, i.e., when will the decreasing orders be visible in sales?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*
A

I mean, I should say that the absolute numbers of the order books are historically very strong. There are very large order books in any given year. I think we would have been very happy with that. I think when it comes to the slightly weakening order intake, it's on the margin. So it's not particularly – it's not enough almost to call it a trend. It's more a fluctuation short term. So it's hard to say actually when we – then of course, the further on we go into the year, the less visibility we have. So apart from that, it's hard to give any guidance except that we are surprised by the strong order books and order intake in the fourth quarter.

**Erik Salz**
*Analyst, JPMorgan Securities Plc*

Q

Sorry. Can you hear me now?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Yes. We can hear you. Good morning, Eric.

**Erik Salz**
*Analyst, JPMorgan Securities Plc*

Q

Good morning. You may have actually answered some of my questions in the meantime, but could you – you mentioned the multiples in the space where you do acquisitions. Can you maybe give us a little bit more flavor on to where multiples are trending and why processes may take longer if I recall you said?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Well, it's a good question. I mean, in general, the general reflection is that actually multiples with our types of assets do not fluctuate that much. They are decreasing in some verticals, even though I wouldn't say that it's across the board. But certainly competition is tougher. And even though it's less tough with fewer acquirers out there. If you look at the – so a slight decrease in multiples, I would say. So looking at the wide, longer processes, it's mainly because since earnings generation is more uncertain in uncertain times.

And I think last year was also a year when a lot of companies experienced strong demand but sudden normal margins. So there's more of a discussion what's their long-term earnings capacity of each and every company and the future cash flows, and those uncertainties drive us towards more – we have more earn-outs and other types of models when we acquire companies. So it's simply a longer negotiation. It's also longer for us to be become comfortable with their earnings forecast as well. So it's a little bit sign of the times as we have uncertain times.

**Erik Salz**
*Analyst, JPMorgan Securities Plc*

Q

Yeah. Okay. And then, maybe if I can ask on your slide 6 where you list the targets, some of them I appreciate are longer term, too. But when you think about 2023 and you think about potential for the organic EBITA growth and the margins, the cash conversion and sort of bringing leverage to the lower end of the 2 to 3 times range, do you think through towards the end of the year you will sort of be closer to where you want to be with these financial targets?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I think, we don't want to give guidance on our organic EBITA growth, [indiscernible] (37:52) acquisitions uncertain times ahead with low visibility, especially for the second half of the year. What we can say being a little bit more bullish about is, I think we feel confident that our cash conversion will be strong in the year. It's something that is to a greater extent within our power to affect. And as such, we also have a diversified and quite resilient portfolio.

So I think we will generate significant amounts of cash and therefore reducing our leverage. I think that's the two targets where I can be more explicit, so to say, not promising anything on the other targets. And I should say, of course, our EBITA, including acquisitions, since we'll be doing less acquisitions, that will obviously be lower in the short term.

**Erik Salz**
*Analyst, JPMorgan Securities Plc*

Q

Yeah. Understood. And I think, somewhere there was a mention of extension of debt maturities. What are you working on there, like initially, what's the main sort of focus in terms of the debt facilities that you have which you're looking to extend?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Yes. Hi, Erik, this is Lena. Of course, we're not going to go into detail regarding exactly what should be extended where. But I mean, it's pretty obvious that this is important to us, and there are a number of different alternatives in how to reach over time in the long term a much more diversified maturity profile, with the maturities extending longer out in the period. This is exactly according to our financial policy as well to do that now. So this is an ongoing work, and we're not going to comment anymore on that until we have something to comment on so to say. However, what I can just remind the market of is that, I mean, the reason why the maturities, now assuming no extensions, of course, but we have always assumed exceptions can be made, of course.

Then, the reason why the maturity profile is fairly short, there's nothing maturing in 2023 again, is the fact that the capital markets or rather the debt capital markets were more or less shut down, especially for new issuers, the broader markets in last year. And so we're going to have plans, and I believe we also explicitly communicated such plans in the beginning of the year to issue, for instance, Euro bonds with a much longer maturity, of course. And these were put on hold due to the market environment and the inflationary environment and interest rate worries last year. So that's basically the reason. But yeah, so we're working towards, of course, changing that picture.

**Erik Salz**
*Analyst, JPMorgan Securities Plc*

Q

Okay. Thanks very much. That's all from me. Thanks a lot.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Thanks.

**Operator**: Thank you. The next question is from [ph] Johan Dahl (41:14) of Danske Bank. Please go ahead.

Q

Yes. Good morning. Just two quick questions. Firstly, on the balance sheet. I noticed that you took down the EBITDA RTM slightly in Q3 since they've been stable in Q4. But the combination of that, together with higher interest rates, to what extent did that trigger sort of a discussion on goodwill values in your balance sheet? And to what extent is that an issue when talking covenants and the prolongation of the duration of the debt?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Hi, [ph] Johan (41:52). The goodwill values booked in the balance sheet have been – we've done impairment tests, of course, as you would in the end of the year. We monitor this, of course, more frequently than that. But we did proper impairment tests that have been reviewed as well, et cetera, no impairment need has been detected in any of the 14 verticals we have with the significant or substantial headroom margin between the book value and the assumed value valuation, which is again, also, when we do the internal valuations. We do take into account the higher interest rate and higher discount rate, and also, being a bit more cautious on the short-term outlook as well because we do see uncertainties. So yeah, so fairly prudent assumptions, and no goodwill impairment. I believe that's all we can say at the moment.

Q

Yeah. No. I appreciate that. It is obviously non-cash, but I'm just interested in whether it's part of covenants in any part.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

No, it's not really. No. It's not at all.

Q

Okay. And then, can you just – on keeping this cash balance of SEK 3 billion approximately, the logic behind that, please.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Well, the logic behind it is that we are – well, SEK 3 billion is quite a lot of cash to keep at the balance sheet, of course, at the moment. So this is something that we will continuously during this year calibrate working with efficient cash management and cash pooling, et cetera, to reduce the absolute debt. We did reduce the debt in Q4 by SEK 600 million, or more than SEK 600 million actually. But the cash flow was so strong. So the cash position didn't reduce as much.

Q

Okay. And just a question on Industry as well, I just noticed that there was, I think, a reported 11% organic EBITA growth in the first nine months and flattish for the full year. It just implies some material deterioration in your sort of organic earnings growth. Could you add some color to that, where it happened and why was that?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I think it's actually a little bit more related to comparisons in the fourth quarter in 2021, where I think we had 55% organic EBITA growth. So in fact, Industry was very strong in the fourth quarter even this year. It was just that the comparisons were – but it was a relatively extremely strong Q4 in 2021. So apart from that, we were actually very happy with the Industry performance in the fourth quarter.

Q

All right. Thanks.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Yeah. All right. More questions.

**Operator**: Thank you. The next question is from Rickard Hellman of Nordea. Please go ahead.

**Rickard Hellmann**
*Analyst, Nordea Bank ABP*

Q

Yeah. Good morning. I only have one question related to your liquidity position. With your SEK 7 billion in available credit facilities, are you allowed to use them to repay market-related, i.e., the bonds? Thank you.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Hi. Thank you for the question. Quick answer to that, we're not commenting on specific terms in the bank's loans obviously. So can't comment on that.

**Rickard Hellmann**
*Analyst, Nordea Bank ABP*

Q

Okay.

**Operator**: The next question is from Andreas Koski of BNP Paribas Exane. Please go ahead.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Thank you, and good morning, Daniel and Lena. I have a couple of questions from me. First, on the weakness that you saw in Industry's order intake. Was the book-to-bill well below 1 in this quarter, and could you give an indication of how long your backlog is in terms of month of sales?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

We can't really give you an indication of that. But I should say that it shouldn't be over – I mean, over interpreted. We do feel actually that the order books are quite strong and that order intake still remains strong actually into the first quarter, even though we had record high order intake in the fourth quarter. So that's in relation to that. But we can't really comment on how many months of sales. And I think it's also very different with very different types of companies. Some of them don't have order books at all, even the industrial companies, whereas others have very long order books just inherent in the different natures of their industries.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Okay. Thanks.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Just a quick comment on that question, just to be clear, know that I believe as you know this but for all the listeners, the order book and order intake is something that we do not – that is not included in the financial reports, and it is also a KPI, which is relevant to the business area Industry. Now, that's today of course the largest business area. But just to be clear on the fact that it is isolated, any comments on that to business area Industry.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Yeah. And then on the organic growth of 11% in the quarter, is it fair to assume that FX had a positive impact of around 5 percentage points? So call it the underlying organic growth price and volume is closer to mid single-digit levels, or did you have a smaller FX impact in the quarter?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

We don't comment on the FX impact. It's smaller than what you imply here. Again, I would ask you to – I would refer you to page 16 in the quarterly report where we are quite explicit about in which countries we have failed. So perhaps that will help you.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Yeah. And based on my model, I come to a mid single-digit level in terms of the FX support, that's why I asked. When I do the weighted average by region basically. But okay, it was smaller number. On EBITA, you are mentioning in the report that you had a considerable headwind. I understand, but you don't want to quantify it. But was any of that explained by hedges or inventory revaluation that will not be repeated in the coming quarters, or was all of it later to translation and transaction and we will continue to see the same kind of impact also going forward?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

If we're talking about the negative EBIT organic growth...

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

No. Yeah. Of course, it is part of the organic growth, the FX impact. Sorry.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I mean, I think if we look at the full year, we had all kinds of shocks, macro shocks, the COVID close downs in the first quarter, the accelerating inflation, the currency headwinds, and the somewhat weakening demand in consumer facing. So all of those have – I would say, that's basically what impacted that one. Otherwise, I don't really get your question [indiscernible] (50:15).

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Sorry. I was thinking explicitly about the FX headwind that you had in this quarter on adjusted EBITA.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Right. You were also asking about inventory provisions and, I mean, there were no material inventory provisions. Of course, most companies do smaller inventory provisions like quarterly or monthly even, but nothing that would impact the margin in immaterial way in Q4. Regarding currency, no, we're not giving any specific number on how much that affected margins. Of course, this is, again, related to business area Trade mostly. They have hedged some of their purchases as well. And we haven't commented really on how much is hedged. But there is some kind of cushions there, but no specific comment on that.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I mean, looking ahead, most important for us is to have a stable relative currency so that we can set the right prices towards our customers. I think that's the big fluctuations is more costly to us with regards to margin over time, and of course, hopefully that has stabilized, and that the Kroner will not weaken further. I think that's the hope but, of course, no guarantees.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

But having said that, the effect on business area Trade is fairly significant, as we have said. But some of it is the procurement is hedged. So it's not a full effect.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Yeah. And then maybe a short-term related question, as you have made so many acquisitions in the past making it difficult to actually see what the seasonality is between Q4 and Q1. Could you give some indication of what a normal seasonal decline in Q1 is versus Q4 in terms of sales? Should we expect sales to be down by 5% to 10% based on the normal seasonality in Q1 or what is the normal seasonal effect?

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I can't really give you an exact guidance as to that. But that said, I think last year the normal weak Q1 was exacerbated a little bit by the COVID close down. So basically people are homesick. But apart from that, I think, last year's relative seasonality between the quarters was relatively representative, I think, even for the future. I think that's a general comment.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*

Q

Okay. Thank you very much.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Thank you very much.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

I believe we've done our 60 minutes already. But if there is another question, I believe we have time for that.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Yes.

**Operator**: Thank you, ma'am. We have one more question from Karl-Johan Bonnevier of DNB Markets. Please go ahead.

**Karl-Johan Bonnevier**
*Analyst, DNB Markets London*

Q

Yes. Good morning, Daniel and Lena. Good to be able to sneak in here at the end. First of all, congratulations to see that the cash flow is in much better order now going out of Q4. And on that, Lena, is there a lot of more working capital release you see coming in the first half of next year?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

I believe – hi, good morning. Good question. Of course, this is something that we are trying – like working with actively as I'm sure you've understood by now. On one of Daniel's slides there, you could see a graph of quarter-by-quarter change in working capital to sales. Now, this is net working capital to pro forma sales, of course. And you could see that we came from a level of just north of 15% in Q1 last year, which was already I think above kind of a well above pre pre-pandemic level. And then it increased further in Q2 and further in Q3 and then it came down quite substantially in Q4, which is as planned and also due to many of the activities that we've made. Of course, our ambition is to continue to bring this down. I mean, just getting it down to a normal level is quite feasible we believe. Getting it down to pre-pandemic level will take much more, it will take more time and more effort. And it will be a work that is basically non-stop that we will continue doing not only this year, but also going forward. But the first goal is to get it back to the level where it was basically a year or year-and-a-half ago.

**Karl-Johan Bonnevier**
*Analyst, DNB Markets London*

Q

But you would see that as a continuous process in during 2023 rather than something that might be geared towards first half.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

A continuous process for sure.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Absolutely.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

So this has to do with agreements with suppliers, agreements with customers, and a lot of negotiations that we will – that are not – all of them is not doable in a very short period of time.

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**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

And actually, if you look at the long-term potential is actually even more significant. But that requires – could be redesign of products, analysis of inventory, an ABC analysis selling off slow movers, et cetera and changing the offerings towards the customers. So that's a long-term process, I think, over the next years. So a continuous process forever, I guess, to improve.

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**Karl-Johan Bonnevier**
*Analyst, DNB Markets London*

Q

Yeah. And I guess that should be slightly easier for you if you put it like that, given that you haven't brought in so many new companies of late. Then on – just to come to your key takeaways, the last one also talking about continued deleveraging and before you start to deploy as free cash flow towards M&A again. Is it to get down to around 2 times before you see that coming and being the relevant, say, the modus operandi change?

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**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I can't comment on the specific level. I think we're calibrating that a little bit towards the uncertainties in the business cycle around us and geopolitical risks. The more uncertain the world, the lower the leverage ratio. If we, on the other hand, feel more comfortable with our performance and the world around us, we would have probably accepted somewhat higher leverage ratio. So I think that will be continuously calibrated. But at the moment with the current – as things stands at the moment, we would see at the lower end without being more explicit than that.

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**Karl-Johan Bonnevier**
*Analyst, DNB Markets London*

Q

In your view, looking at 2023, we should expect basically minor bolt-ons being the thing that could happen during this year.

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**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I think primarily, I think, minor bolt-ons and a few select [indiscernible] (57:43) acquisitions. That's the expectation.

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**Karl-Johan Bonnevier**
*Analyst, DNB Markets London*

Q

And if that is the expectation, do you feel that you're able to keep your organization intact, because I guess the organization was geared towards a completely different tempo if you go back 12 months in time.

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**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

I think we have done some significant organizational changes. I think we have a pause for some redundancies. We've also changed what people are working with. There are actually a number of our employees from HQ are now actually operational CEOs, CFOs, business development persons in their actual business units. So we have kind of shifted our gear a little bit. And I think we have a comfortable level organizational wise. And also, we are investing in our organization luckily, and I said that our productivity basically we have the same cost now as we had net costs as we had the fourth quarter in 2021 despite being twice as big. So we have lots of work to do, and I think being a little bit longer than the next quarters, I think we are actually quite well staffed for the challenges ahead, even though we will, of course, calibrate afterwards whatever happens in the world around us, I should say. But that's our current view.

**Karl-Johan Bonnevier**
*Analyst, DNB Markets London*

Q

Thank you very much for the extra color, and all the best out there.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

All right.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Thank you.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

A

Thank you very much.

**Daniel Samuel Kaplan**
*Co-Founder & Chief Executive Officer, Storskogen Group AB*

I think we have to conclude. All-in-all, thank you for listening in. Happy for your participation, and enjoy a wonderful day. Thank you very much. Bye.