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Storskogen Group AB (STOR.SE)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Storskogen Q1 Presentation for 2024. [Operator Instructions] Now I will hand the conference over to the Interim CEO, Christer Hansson and CFO, Lena Glader. Please begin your meeting.

Christer Hansson

Interim Chief Executive Officer, Storskogen Group AB

Good morning and welcome to the presentation of Storskogen's results for the first quarter of 2024. I'm Christer Hansson, the Interim CEO of Storskogen and with me today, I have CFO, Lena Glader. I took on this role about two months ago, but I'm not new to the company. I joined Storskogen about eight years ago, initially as an investor and then as operational Head of Trade. Before that, I've had senior position at companies such as Dustin and Telia.

Since taking on this role, I've been focused on identifying both these challenges and the opportunities that we have ahead. I will share more on that a bit later in the presentation.

To start, I would like to share some perspectives on the past quarter and then discuss how we plan to move forward, focusing on organic growth and improving our financial health. So thank you for being here today and let's begin by taking a brief look at Storskogen. As you know, we are a business group with sales of about SEK 35 billion over the last 12 months and an adjusted EBITA of SEK 3.1 billion, spread across our three business areas. The average business unit size is around SEK 280 million in sales, and most of them have been around for decades.

I also want to mention Åsa Murphy, the Interim Head of Trade who's taking on my previous role. Åsa is a great leader with extensive experience in the tech and e-commerce industry. She has held leading positions such as Managing Director of Bookatable in the Nordics and the DACH region and Director of Expedia in the Nordics. So

I'm really exciting to have Åsa joining the team, heading a business area and forming a great team with Peter and Fredrik. So let's move into the first quarter.

We reported sales of about SEK 8.4 billion, an adjusted EBITA of SEK 703 million and with an adjusted EBITA margin of 8.4%. This quarter is a tough comparison against the strong start that we had in 2023 as reflected by the negative organic growth. Part of this is due to the continued, difficult macro environment and what seems like a return to traditional seasonal patterns with typically softer first quarter.

On a positive note, the margin has improved from 7.8% in Q4, which indicates a positive trend in our operations. A significant event this quarter was stepping down of Daniel Kaplan as CEO and me taking on the role as an Interim CEO. I'm in regular contact with Daniel, and I'm really thankful for all his continued support. As we move forward, I'm committing to getting us back on track, growing our earnings again, while also ensuring continuity and stability in the Storskogen's leadership.

On the financial front, we continued to strengthen our balance sheet by refinance our bank facilities, extending the duration and reducing the scope to better align with our needs and priorities. This provides comfort in terms of our financial situation.

Sales for the first quarter was in line with our expectations when adjusted for the divestment in 2023, which accounted for about half of the decline. The remaining decline is due to negative organic growth, and as mentioned, a strong comparable from 2023. I will add some additional comments on each business area later in the presentation.

The EBITA margin of 8.4% is more in line with the historical seasonality as shown in the graph, in contrast to the unusual strong performance in the first quarter of 2023. One of the main difference compared to last year is the Easter holiday came early this year, resulting in fewer business days in the quarter. This affected March, which is usually the strongest month of the quarter. High interest rates and the currency and business cycle also had an impact. As mentioned in the fourth quarter presentation, we expected to see seasonality patterns align more closely with historical trends this year. This means softer first and third quarters and stronger second and fourth. While we are happy to see the margin improvement sequentially, we won't be satisfied until we reach our target of 10%.

Turning our focus to the Service business area, we observed a softer quarter. The beginning of the year typically see lower activity levels. Both sales and profitability were affected by significantly cold winter and fewer working days in March. Net sales decreased by 11% to about SEK 2.5 billion. Organic sales growth was down by minus 3%, but were – divestment had a more significant impact with minus 11%, partly offset by acquisitions and FX at plus 3%. The adjusted EBITA was SEK 204 million with a margin of 8.2%. This is lower than the comparable period at 9%, partly due to the continued soft demand in certain sectors.

Looking at specific sectors within this area, companies exposed to construction continued to experience weak demand. Installation companies, however, which operate later in the construction cycle, managed to maintain a relatively solid performance with a slightly lower profitability due to increased competition. Logistic has continued to perform well, so has digital services with the product and consultancy firm enjoying strong demand and profitability, largely due to demand for general efficiency improvements where digitalization plays a crucial role.

Looking ahead, while the second quarter is typically stronger, the market remains somewhat hesitant. We are hopeful, however, that potential lower interest rates in the near future will have a positive impact on Services.

Similar to Services, our Trade business area experienced a seasonally softer first quarter. Net sales decreased by 11% to SEK 2.3 billion with organic sales growth down by 6%. The remaining change comes from divestments compared to last year. The adjusted EBITA was SEK 169 million with a margin of 7.3%. This is lower than the 8.4% last year, mainly caused by continued muted demand for companies exposed to construction and consumers. However, on a positive note, we did see an improvement from the fourth quarter where the margin was 6%. We continue to see a solid performance from our companies within the Health and Beauty verticals, despite the soft quarter.

Overall, continued high interest rates, weakening Swedish krona continued to impact margins negatively. Through long-term cost efficiency measures, though, have started to show some positive effects. Looking ahead, the second quarter traditionally shows stronger seasonal performance. We remain cautiously optimistic, expecting that lower interest rates may soon strengthen demand, especially benefiting sectors like consumers and construction. Meanwhile, demand in the Health and Beauty vertical is expected to remain solid.

In the business area Industry we've seen demand stabilize, as reflected in the past three quarters. Net sales of about SEK 3.6 billion with an organic decrease of 8%. The adjusted EBITA of SEK 387 million with an adjusted EBITA margin of 10.9%. This is lower compared to the very strong first quarter last year, but showed sequentially improvements from the two previous quarters. This progress comes as companies focus on price adjustments, productivity improvements and rationalization, also supported by positive currency effects.

Order book has strengthened, providing a solid outlook despite continued uncertainty. Automation solutions, especially in wood processing and robot integration continued to see robust demand as did sectors like metal processing and infrastructure. However, the consumer market and parts of the construction industry remains weak, similar to what we see in other two business areas.

Looking ahead, while the market is generally solid, the geopolitical impact is unpredictable. Order books have improved and we do see signs of further strengthening though consumer and construction demand may stay subdued.

Before I hand over to Lena Glader, I want to share some reflections on the short-term priorities to achieving organic growth. As we look at our short-term priorities, I want to highlight our focused approach towards navigating the immediate future. We structure our plan around three core bases: today, triggers and tomorrow. Driving organic EBITA growth will be our top priority even if the macro environment remains challenging. We will also continue to focus on cash flows, building on the great work that all our companies did last year. Growing EBITA with a solid cash flow will gradually improve our leverage ratio, which of course is an important step for us in order to return to acquired growth. We will also continue to review our portfolio to ensure that each business unit aligns with our strategic goals and financial targets.

So what do we want to see before adding acquisition on our agenda? A satisfactory leverage ratio is key to returning to acquired growth. Persistent organic EBITA growth will demonstrate the effectiveness of our operational efforts and readiness to scale up. This is also important [ph] from (00:11:45) demonstrating the strength of our business model. We are also closely watching for more favorable market conditions, especially for an uptick in demand related to the consumer and construction sectors.

And if you look towards the future development, the tomorrow phase, we anticipate persistent EBITA growth, building on [indiscernible] (00:12:09) onwards. Cash flow from today's operations will be strategically deployed as EBITA positive initiatives. Capital allocation will ensure that every investment is justified by its return, supporting a sustainable growth, whether this means paying off debt, investing in our companies or acquired growth.

In our tactical approach to achieving organic growth, we are implementing a balanced mix of initiatives to strengthen our market position and prepare for increased demand. Regarding sales initiatives, here we are focusing on increasing sales volume and gaining market shares. Our efforts include strengthening sales organizations, working with customer segmentations and branding.

Regarding pricing strategy, I think our companies have done a great job in handling inflation and currency effects the past two years. However, I do think that we can take a more structured approach to pricing optimization. Obviously, improving sales and aiming for solid pricing strategies are part of the everyday work of our business units all year round and over a business cycle. However, equally obvious from our perspective is that we can always improve, especially when identifying various best practices in certain areas of the business group that can be replicated in other areas of the group.

To establish a more structured approach to sales and pricing, Fredrik Bergegård, the Head of Industry is leading these efforts along with a number of other members of the team. We plan to share these best practices our – at our KX portal, similar to the efforts last year to decrease net working capital.

In terms of strategic investments, we continue to enhance scalability and professionalism across our operations such as in some of our largest entities in the industry, Biel, Berne, LNS, for example, or warehousing initiatives in both [ph] Storskogen (00:14:24) Scandinavian Cosmetics and Trade. These type of initiatives which increase production capacity, streamline product lines and enhance warehousing solutions will allow us to benefit when demand increases.

Cost control. Of course, this remains crucial, especially in challenging times. Our rigorous cost control continues, identifying efficiencies to reduce overheads without compromising on quality or output.

In summary, these strategies are designed not just to navigate the current economic landscape, but to position Storskogen to capitalize on the opportunities as market demand strengthens.

Now over to Lena Glader.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

Well, thank you, Christer. So let's have a closer look at the numbers here, starting with the Q1 financials. Christer already mentioned net sales growth of minus 9% and I'll come back to a closer look at the sales bridge on the following page. However, the negative organic volume growth compared to a year ago, and of course, items affecting comparability again compared to a year-ago as well, meant that we had an EBIT decline of 43% to SEK 478 million in the first quarter.

Had we adjusted for these items affecting comparability in both periods, then the EBIT decline would have been 27% from SEK 679 million to SEK 497 million, and not 43%. Net financial items were a negative SEK 280 million versus SEK 194 million in Q1 last year. This increase is due largely to, of course, higher rates, both base rates and margins and a one-off cost of SEK 24 million related to the refinancing that we did in March, like Christer mentioned, and I'll come back to that in a little while as well.

However, if we split out interest expenses and look at the sequential change, you can see that they decreased from – to SEK 217 million in the first quarter from SEK 225 million in Q4 and SEK 257 million in Q3 of last year, thanks to lower debt and somewhat lower average margins during these three quarters.

Looking at our KPI table below, [ph] as Christer (00:17:01) already mentioned, the adjusted EBITA and EBITA margin, which was in line with our own expectations but below where we should be. Return on equity was 2.8% for the 12-month period. Adjusted for IACs, it was 3.7% negatively affected by, of course, these financing costs, and, of course, then the volume decline and consequent margin pressure that a number of companies in trade and services have experienced.

Our return on capital employed for the 12-month period was 6.8%, or 7.1% adjusted for IACs, mostly impacted by the lower profit levels. EPS adjusted for items affecting comparability in both EBIT and net financials declined 49% to SEK 0.09 per share.

Then, on the following page, the Q1 bridge, we show sales and EBITA for the first quarter, starting with the sales bridge to the left here. [ph] Again (00:18:10) total sales growth minus 9%. Our three business areas contributed equally to the group's total sales growth, part of which was, of course, the result of divestments.

Total EBITA was – growth was minus 21% and the corresponding EBITA bridge to the right here shows that all business areas contributed negatively to the group's EBITA change. All three business areas had an organic EBITA growth of around minus 20%, which is not shown on this page, but Christer had them on the previous slide.

Business area industry is the largest negative contributor here, with 11% out of the total 21% decline, and that's largely explained by the fact that it currently is our largest business area in terms of absolute profit levels. In fact, industry represented more than 50% of the group's EBITA in the quarter. And you can also see here that lower central costs contributed positively by 1 percentage point to the year-on-year EBITA change.

And then, a closer look at the Q1 sales bridge here. We illustrate the contribution to sales from organic, structural and currency changes on a group level, same numbers as Christer showed per business area just before.

Organic sales growth was minus 6% for the group, whereas minus 3% in services, minus 6% in trade and minus 8% in industry, which again had a very strong Q1 last year. So demanding comparisons there.

Divestments represented minus 5% of the 9% sales decline. The largest divestment was Dextry Group and the three electric installation companies within services, as well as [indiscernible] (00:20:09) in business area trade. All of these were included in Q1 last year, but not in Q1 this year.

Divestments had a weaker margin, bear in mind, I think an average of 4% margin last year. Acquisitions and currency represented a combined plus 2% of the year-on-year sales change in Q1.

And then, over to cash flow statement for the first quarter here. First of all, a reminder that we do have seasonality in our cash flows as well, especially in trade and services, but also in paid taxes, which is why, we've included the LTM on the last 12-month period on this page. Paid income tax was SEK 387 million, which is lower than Q1 last year. And it was, as a reminder, actually positive in Q4, and it's expected to be lower again going forward in Q2 and Q3.

The cash flow effect from change in net working capital was minus SEK 163 million. That's due to somewhat higher inventory and receivables, but partly offset by higher payables as well and we would say that this is a normal seasonal pattern.

Summing up all cash flows from operating activities, and mind you again, this is after interest costs as well as after tax, we arrive at SEK 109 million for the first quarter and SEK 3.0 billion for the last 12-month period.

CapEx to sales, 1.3% or just over SEK 100 million in the first quarter. Cash effects from M&A was minus SEK 171 million for the first quarter, of which acquisitions is only SEK 7 million, while paid earnouts represent SEK 150 million, and cash out for purchase of minority shares is SEK 19 million. And a reminder that when we buy back minority shares, which we will continue to do throughout this year and next year, we will also – we're also buying shares in profitable companies, so that will contribute positively to the earnings per share.

Cash flow from financing activities close to zero, so summing it all up gives us the cash flow for the period of minus SEK 176 million for the first quarter.

I'll come back to cash conversion on the following page. But finally, [indiscernible] (00:22:56) on the total cash balance, that was SEK 1.4 billion at the end of the quarter with total available liquidity of SEK 3.7 billion. And the reason for the lower available liquidity is simply that we tightened our revolving credit facility to better fit our current balance sheet and funding needs, and as a consequence, reduced the funding costs.

So then, here on this page, we show operating cash flow and cash conversion, which is one of our financial KPIs. We have a group target of at least 70% cash conversion over a 12-month period, which is the dotted line here on this page. And a reminder, cash conversion is defined as EBITDA, less change in net working capital, less CapEx divided by EBITDA.

And in the isolated quarter, cash conversion was 72%, although again above target. But given the already mentioned seasonal nature of especially trading and services businesses, we prefer to look at the rolling 12-month number, which is, as you can see here, improving significantly from the low point in mid-2022, thanks to great work by our subsidiaries in reducing inventories and receivables and negotiating payment terms. And we reached 104% cash conversion for the rolling 12-month period, which is actually the same as for the full-year 2023.

But as demand returns and growth starts to come back, we do not expect cash conversion to normalize – or I'm sorry, we do expect cash conversion to normalize again, but at more efficient levels than pre-pandemic.

And then, a few remarks on the refinancing, which we did in March, and that was quite significant and important to us. Christer already mentioned that before that we successfully refinanced both our outstanding credit facilities in March. One positive aspect of the refinancing is that it removed the [ph] nearer (00:25:19) maturities and prolonged the weighted average maturity, which is now more than 30 months – I believe it was 23 months at the end of last year.

Secondly, it gives us a more diversified maturity profile. As you can see here on this page, we have SEK 3 billion maturing in 2025, SEK 3.8 billion in 2026, and finally, SEK 3.7 billion in 2027 where SEK 1.7 billion can be extended to 2029. And it also better aligns the overall facility size with our current balance sheet and financing needs by reducing the overall RCF substantially with consequently lower costs, of course. And yet, we have unutilized credit of sufficient size – in this case, SEK 2.3 billion in undrawn facilities.

And then finally, the margins in these new facilities is actually somewhat lower compared to the prior facilities, which is, of course, nice. Following this refinancing, our next bond maturity is in December 2025. And we will, of course, continue to actively work with our debt portfolio to make sure that we can gradually reduce our financing and interest cost and keep our refinancing risk low.

And then, over here to the condensed balance sheet for the end of March. Our total balance sheet is 5% lighter compared to a year ago, largely as a result of divestments, of course, as mentioned, as well as working capital focus. That has enabled us to lower our debt. Equity ratio increased to 46% from 43% a year ago, while debt and net debt has been reduced.

Interest bearing net debt including leasing and pension liabilities but excluding earnouts and minority options is [ph] SEK 615 million (00:27:39) lower compared to March last year. If we include earnouts and minority options, then the net debt is reduced by SEK 1.2 billion year-on-year. But quarter-on-quarter, however, comparing to the end of 2023, net interest bearing debt increased by just above SEK 600 million, largely to due to leasing debt increase of more than SEK 200 million, currency translation that increased that of by SEK 75 million, and paid earnouts as mentioned before, during the quarter of SEK 150 million.

So our interest bearing leverage ratio was 2.8x at the end of Q2 and we had expected it to increase from the year end level of 2.5x, which we were clear about at last quarter's earnings call, given that we rolled out such a strong Q1 last year, and rolled in a little more – a little bit more normalized Q1 this year based on the lower volumes that we experienced also at the end of last year.

Our ambition remains to bring leverage down to the lower end of the range of 2x to 3x, which is why we will continue to prioritize both profit growth and cash flow.

And yeah, I think that was my last slide, so over to you, Christer, for final remarks.

Christer Hansson

Interim Chief Executive Officer, Storskogen Group AB

Thanks, Lena. To sum up our first quarter performance, we experienced a seasonally softer quarter, facing a challenging year-over-year comparison due to last year's exceptionally strong start. The quarter was also impacted by divestments made in the year. Our bank financing is now better aligned with our current needs and has significantly extended our maturity profile. And moving forward, our priorities are clear, focusing on organic EBITA growth and maintaining strong cash flows.

And with that, we want to thank you for listening and are ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Carl Ragnerstam from Nordea. Please go ahead.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Good morning. It's Carl here from Nordea. A couple of questions here. Firstly, on the cash flow and leverage, which you could see creeped up a bit here sequentially, as you also mentioned. I mean, your previous ambition level was to take leverage to the lower end between the 2x to 3x interval. I mean, obviously, stickiness was a bit higher, but could you share your ambition for the current year? And do you realistically believe that you were able to lower leverage year-end versus the end of Q1 level? Or do you think that the rate cut or divestiture of, I guess, profitable assets is required to reach that?

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

Thank you, Carl, for your question. What we are seeing now going forward, we absolutely need to focus on getting back on organic growth, and that will help us to take down the leverage ratio. We need, of course, to strengthen the macroenvironment, but we will do our utmost in order for us to come back to that growth. That is what we can say at the moment.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. So we need macro to getting better. Do foresee that in the coming future? It doesn't sound like Q2 will see a massive increase in the macro at least or in macro situation according to your comments or...

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

Now what we see as most of things – people – we think that we will have a better situation end of this year. Hopefully interest rates are coming down in the near terms that would probably help the demand in the end of the year. And as I said, we will continue to focus even if a tough macroenvironment to enable us to strengthen our results in our subsidiaries. So we're working really, really hard even in a tough environment to – in order for us to increase earnings.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

And you also mentioned some new initiatives, price optimization, also sales improvement to drive organic EBITA. I mean, you mentioned – could you firstly perhaps mention a bit on an aggregated level how much you plan to lift prices also by segment? And also, secondly on that, you mentioned ambition to gain market share through increased sales organization. Given that it might take a bit time between gain market shares and also results from branding, should we expect SG&A levels to increase in the short term?

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

We are aiming to get back on our margin targets to 10%. That's what we are aiming for. And all the companies will have different initiatives. Some of the companies will have to work even harder on sales initiatives and pricing initiatives. Other will have to continue with cost controls. And I'm really, really [indiscernible] (00:33:46) of our investment organizations together with the management team and our subsidiaries are taking these questions and optimizing every single company in order for us to get back on organic growth.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

And this is too early to tell on the aggregate level how much you plan to initiate to these prices?

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

Yeah. That's too early to give an indication on that.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

And have you started with the measures of price increases? Or is it more the projects started now and that we'll see [indiscernible] (00:34:16) of the price increases in a quarter or two or...

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

No, I would say that we have – as I said, we have taken measures for a long time. And that's what we have seen. Our margin is even with a tougher environment and a lower demand, we still managed to have a decent margin, even though it's not been in line with our targets. And that comes from our companies who have been doing really a lot of initiatives in order to take control of inflation and currency effects over the past years. So this is the constant evolving thing within our companies.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. And looking at trade, we saw organic growth down 6%, total sales down 11%. I mean, EBITA decreased by 23%, but still the number of FTEs were up by 2%. What's the reason behind the uptick in the FTEs given the environment?

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

I don't know actually. I'm sorry, I have to look into that question, Carl.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. Because it would be interesting to hear a bit more because – that might be one reason, but please come back on that. That would be super.

Secondly, I think, I mean, you divested [indiscernible] (00:35:52) in the quarter as well. Could you give an indication of the exit multiple in that transaction? Because looking at it seemingly, I mean, a decently profitable company, close to 9% profitability in a tough market. So on one hand, I guess, you're fueling cash flows in the short term by the divestiture hopefully, but decreasing it in the longer term. So, I mean, how do you look at these sort of...

[indiscernible] (00:36:21)

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

Carl, we look at our – looking at divestments, we are, of course, taking in multiple measures when looking at – are the company strategically fit for long term, will we benefit from on the margin side and net working capital. And in that, we saw that we will have probably some progress on margins. And it's also a company that has a pretty large net working capital in there. So we saw that that was part of the reason for us divesting it.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

And the multiple, could you say something about that?

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

No. No, we don't talk about that multiple.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. And the final one from my side. You took SEK 19 million in non-recurring item in the quarter related to central restructuring costs. Is it possible to give any comment what is it related to?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Hi, Carl. Yes. Central restructuring costs is mainly – the absolutely largest part of that is the CEO shift.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. So the vast majority is the CEO shift?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Yes.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. Thank you so much.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

And I believe we already – we also mentioned that in the annual report, actually.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. Okay. Thank you so much.

Operator: The next question comes from Karl-Johan Bonnevier from DNB Markets. Please go ahead.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Yes. Good morning, Christer and Lena. Just to continue on Carl's question, if you look at your internal Storskogen confidence indicator when I also interpreted your presentation, Christer, it sounds like that might have bottomed out and is now turning positive, even though it might not be more than greenshoots at this stage. Is that the kind of right interpretation of what you see?

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

I think we are taking a lot of measures in order for us to come back when the market is turning. If it has turned already, I think it's too early to say, but hopefully we'll see – interest rates are coming down and more demand is coming from consumer, and hopefully, even the construction side will look better in the end of the year and the beginning of next year. But it's too early to say if it has turned already.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Easy to just understand. And Lena, just looking at the profile of earnouts and minorities for the rest of the year, is there big amounts that are going out there?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Hi. Well, that depends on what you consider a big amount, but I would say fairly substantial, around SEK 350 million in total is expected to be paid out this year. A smaller part of that is earnout payments, a little bit more than SEK 100 million, and actually the rest is then expected buyback of minority shares. And bear in mind, again, that buying minority share is positive for earnings per share because we are buying, obviously, shares in profitable companies. So, yeah, that should answer. And then the payouts are expected to be distributed across Q2 and Q3, mostly.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Excellent. Thanks for the color. And just on that, Lena, as you have had little variation in what you would call your normal seasonality pattern, how do you see the seasonality in the cash flow this year?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

We do expect normalized seasonality in cash flow this year as well. Last year, we of course reduced our working capital tie-up substantially, reducing net working capital to sales from, sort of, to 18% to 15% throughout the year this year, and 15% was our internal target. So this year we do expect to be able to keep working capital around those levels, so – but with normal – little bit normal seasonality, which means typically more working capital tie-up in Q1 and Q3 for higher sales seasonality in Q2 and Q4.

And then as I said, paid taxes, larger in Q1. That was quite a substantial amount, and this is mainly related to the taxation year 2022 and the quite large number of acquisitions made back then. So going forward in Q2 and Q3, we expect lower – clearly lower taxes paid compared to Q1.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Excellent. And just to – I heard your commentary about the decreased available liquidity levels. Would you say that it is just on the basis of you now having the kind of debt structures and the kind of debt profile that you need to – so you've also then been able to optimize the liquidity levels to not overpay for on the financial side for having access to things that you're not really see that you're going to use?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Yeah. Well that's a pretty correct take on that. We feel no need to pay for available liquidity, which we don't think that we will need in the coming years because right now focus is on improving or reducing leverage through profit and as well as cash flows. And once we get on track also on profit growth again, that's when we would start looking at making acquisitions again. But I think that the levels in the previous [ph] RCS (00:42:58) were far too big for that purpose.

Karl-Johan Bonnevier
Analyst, DNB Markets

Q

Sounds logical. Thank you very much and all the best out there.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

[indiscernible] (00:43:07).

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

A

Thank you.

Operator: The next question comes from Johan Dahl from Danske Bank. Please go ahead.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)

Q

Yes. Good morning, everyone. Just on those minority earnout payments. Excellent color there for 2024. Can you say anything regarding the following years in that respect? I mean, what's your visibility there? And secondly, also on the same topic, is there something that I'm missing here in the valuation of those commitments? I would have thought that when sort of earnings capacity comes down, that should also affect the value of those – of that outstanding debt, or is there anything else in the valuation of those commitments that I'm missing? Thank you so much.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Hi, Johan. I'm going to take that question, so – well, just to close the question about earnouts. Earnouts would be a quite small amount left on the balance sheet that we expect to pay, as I said, a little bit more than SEK 100 million this year and then there would be very little left. So the biggest part of this a little bit more than SEK 1.8 billion, SEK 1.9 billion in the balance sheet is minority – valuation of minority options. And the way they are valued is, of course, there we're using a discount rate. And I believe during the first quarter, actually, the discount rate decreased a little bit due to lower rates. So that might be – that's probably the reason for the slightly higher debt. But that's a very marginal effect.

So of that SEK 1.8 billion, SEK 1.9 billion that's in the balance sheet, as I said, I think SEK 250 million or something like that is expected to be used to pay – to buy back minority shares this year, and then the remainder would be distributed across 2025, 2026, but also 2027. And in some cases, it's not necessarily so that the holders of these minority shares will want to sell them to us if they think that the profit is going to – is at abnormally low levels, they might want to hold on to those shares and sell them at a later point in time. So the value we have in our books is pretty cautious and pretty prudent in that we estimate in the valuations that we will buy back all of these shares. But in some cases, we believe that they will want to hold on to those shares. It's also a nice incentive for the holder of those minority shares.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)

Q

Okay. Got you. But what you're saying now is indicating that the earnings performance is affecting the price eventually when the minorities are required...

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Yes.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)

Q

But I don't get it why you don't – why the – just seems that if the value of the minorities should come down as earnings capacity comes down. But I guess I have to look more at that later. Thank you so much for your reply.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

But I mean – again, coming back to that question, the way they're valued in the books is expected profit development over the coming years discounted to today's value. So if we expect to buy them in three years from now, that's the profit that we use for the valuation.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)

Q

All right. Good. Thanks.

Operator: There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

Well thank you for being with us today and thank you for all the questions. Have a good day.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

Thank you so much.

Christer Hansson
Interim Chief Executive Officer, Storskogen Group AB

Thank you so much.