

10-Feb-2021

# Mycronic AB (MYCR.SE)

Q4 2020 Earnings Call

## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Tobias Bülow**

*Director-Investor Relations, Mycronic AB*

Good morning and warm welcome to Mycronic's Fourth Quarter 2020. My name is Tobias Bülow and I'm heading Investor Relations. With me today here in Stockholm, I have the Mycronic President and CEO, Anders Lindqvist; as well as our CFO, Torbjörn Wingårdh. After the presentation, there will be time for questions. I'd already now like you to ask you to limit your questions to two per person as a start at least. Our operator for today will guide you on how to ask questions. We will end, at latest, at 11'o clock. And for your information, this session will also be uploaded as on-demand on the web. For this reason, we ask you to speak to English also during the Q&A.

With that, I leave you over to Anders.

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**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

So thank you very much. So I will together with Torbjörn, our CFO, present the Q4 result and some other things.

So, starting with the agenda, and it's almost a standard again that there is a little bit change, which we might have seen. So, first, I will talk about the quarter four and also the outlook for this year 2021. What is new is that we will go deeper into the divisional development and the market view. As you know, we have changed the organization with the new structure into four divisions. And as from now, we will also report according to that new structure, so you will have some more details about our performance. Torbjörn will go through the financial details and I will end with some words on the platform we have for continuous growth. And then as Tobias said, we have a question-and-answer session.

So first to tell you a little bit on what we actually are doing at Mycronic and we develop and sell products and solutions that make it possible for our customers in their turn to produce products for what we call the everyday

life and example of our customers products could be switches that are used in data communication centers, it could be life-saving devices such as heart starters and pacemakers and it could be all kind of entertainment equipment and car safety equipment. So, it's really supporting your everyday life what our customers are doing.

Then moving over to the quarter four and also I will make some comments on the full year and on our outlook. So, during the year, quite early I think in April, we changed our structure, our operating model into a much more decentralized model and it was quite good timing because that really helped us to manage the effects of the pandemic during the year. So, we were able to manage our performance, our cost and also our local presence really to manage the effect of that. Also, the diversified setup has supported in that.

If we look on the financial development in the quarter, we saw an increase of the EBIT of 5%, up to a 22% margin. Sales decreased with 11% and this is based on a constant currency and we had a quite sharp decline in orders of 49% and the majority of the difference you can also see as a comparison to a very strong quarter in quarter four in 2019.

We still have the target for what we called the Assembly Solutions. So that will consist of the three divisions that were the Assembly Solutions. And there we had an EBIT margin of 5%. And we're still confident and it's still our target that we should be at least at the level of 10% for 2021, so this is this year. Backlog of almost SEK 2 billion going into the year, which is quite good. And long term, we see that the long-term market is robust. We see that the electronic industry are showing some good growth number going forward.

Then we have the outlook. So, our outlook for 2021 is SEK 3.9 billion. And I can imagine that that looks flat because we have more or less the same result in 2020. And there are some reasons why we have chosen to have this outlook. One of them is currency. We have a headwind from the currency. And just to compare kind of the outlook currency versus the 2020 currency, it's more than SEK 200 million gap just of currency.

Another factor is the backlog going into the year. When we went from 2019 into 2020, we had almost SEK 200 more million in the backlog, which is creating quite a gap. And then it's our time that we have between order and revenue. So, we believe that 2021 will be a good year and [ph] visible on (00:05:48) the order intake and the time to revenues in our business a little bit later. So, with the currency headwind, with the lesser backlog and the time between order and revenue that is how we have arrived at a number of SEK 3.9 billion.

So, with that, I will go into the different divisions, so starting with the Pattern Generators division, which are producing what we call mask writer equipment. The customer segment for this is the display industry, semiconductor industry and we're also serving what we call the multipurpose industry. The drivers for this market is very much technology-driven. So, it's new display applications, which could be larger display, more advanced display, like the shifts from LCD displays to AMOLED display, and higher resolution displays, so all that is a drive for creating our market. And we are the global leader and the only supplier of mask writers for advanced photomask for the display industry.

So, if we look on the performance, so we introduced – that was late in 2019 that we introduced a new product some time ago, which is the SLX mask writer, which is aimed for the semiconductor industry. And we had a fantastic year. We had four orders in the quarter four and for the full year we have eight orders. So that really confirms that we had very good timing of the introduction of this product, and the product really hit the market with its features and benefits.

Also you can see that we had quite a few orders of display right there. And there's normal very big deviations between quarters in this business, so you really need to look at this at a very long perspective. The sales for the

quarter ended at SEK 385 million compared to SEK 405 million a year before and for the full year SEK 1.5 billion about, which was a little bit higher in the year before. We have delivered the first SLX mask writer to a customer in Asia.

We had also delivery of a Prexision 8 Evo and one major upgrade. We also had one delay and that is an FPS 6100 that should have been shipped at the end of the quarter that is now moved into the first half of this year, and this is all due to the pandemic situation. Currency effect has quite a big impact in the quarter with SEK 16 million and the full year with an impact of SEK 39 million, EBIT up to 14% in the quarter and on the full year decreased 18%. And the margin was 48% for the quarter and 54% for the year.

Backlog is good. We have 11 systems to deliver in 2021 and we have 2 systems on order that is for delivery in 2022. The pandemic situation has increased the timeline uncertainty or it is uncertain, and it's mainly due to logistical challenges due to travelling, customers coming to our factory for signing of the machine and so on, which we are always working around and find different solutions for.

On the High Flex division, so what we're doing in the High Flex division is that we develop and sell very flexible, full-line solutions consisting of different type of technology, pick-and-place machinery, solder paste jet printers, inspection equipment, storage and material handling equipment. The market drivers is really here – and the market is really high flex market, high flex low volume market where just-in-time production, automation, yield and cost efficiency also are really the drivers for that. And here we have a leading position in this high flex segment with the low and medium volumes.

Performance. So, you saw almost a U-shaped year. We've had a quite low activity level from April to August, and we have seen an increased market activity from that low level in the quarter. So we've seen that the investments that had been on hold start to materialize. We have seen examples of large orders in Western Europe and the United States. The uncertainty is still there and it's an increase from a low level. The sales decreased in the quarter with 21% in the quarter and 23% for the full year.

And also here in this division, we have a very challenging comparison with the very strong quarter four in 2019. Currency is also affecting this division. And in the quarter, we had a SEK 24 million effect of that, which is the same for the full year. A decline in EBIT of 25% in the quarter and 65% for the full year. Margin was 8% in the quarter and 3%. And order intake at more or less the same, decreased 25% in the quarter four and for the full year 2020.

Moving over to the High Volume division, so what we do here is we're selling into the high volume market segment in the electronic industry and the High Volume segment is mainly consumer electronics, such as mobile phone is a big application or a large segment in this market. The market drivers as well here automation, cost effectiveness and the need for robust electronics. The main application that we have here is dispensing and dispensing equipment into this segment. The high volume segment is large in China and we have a leading position in China with this technology and we are number four globally in this technology.

If we look on the performance of High Volumes, we had a very strong ending of the year 2020. We had majority of our sales is in China and our position in China has improved and strengthened during the year. We have a stable and healthy market. We had a dip, of course, during the pandemic situation that was quite early in China and the full close-down in February last year, but since then we have seen a great recovery of the market.

We're also growing outside China with orders. And as I said, the COVID-19 impact has been limited for the full year. For the quarter, we had a sales increase of 8% and for the full year very strong 46% increase of sales.

Currency effect is SEK 9 million in the quarter and for the full year SEK 22 million negatively. EBIT improved in the quarter with 3% and for the full year we had a 75% increase of EBIT, so the margin in the quarter was 15% and 21% for the full year. Order intake, also here we had a very challenging comparison – we have a challenging comparison with quarter four 2019. So, the order intake saw a decrease of 33% in the quarter and for the full year we had a 6% increase.

Moving on to the last one, Global Technologies. Here we have two lines of business and one is die bonding, which is a high-precision placement technology, and camera module assembly, which is mainly for the automotive market – assembly and alignment of active cameras for the automotive market, these two lines of business.

The market drivers is – for the die bonding is really the data center applications. Everything that has to do with data communication and the 5G rollout really supports this market in a strong way. For the camera module assembly side of the – line of the business, the driver here is the in-car advanced cameras for automotives and we have a leading position in both of these businesses.

If you look [ph] on the (00:15:09) performance, we have a very mixed development what we call optoelectronics, and this is the die bonding – auto die bonding market or the die bonding technology supports data communication also. We have seen a strong, very strong performance and this is driven by the increased number of data centers in communication, and also the increased need of high-speed communication. Chinese market has been a little bit slower. We had very high levels earlier and I see that going down and it's quite a lot driven by an accumulation of inventory, and that acclamation of inventory belief was because of the belief in an increased uncertainty because of the US-China trade wars.

The other line of business, camera module assembly, we have seen that automotive industry has been extremely affected by the pandemic situation and already was in decline before that, and here we've seen a much – quite low activity and less good performance. So there is really this mixed development inside this division and the summary of that is that the sales declined with 46% in the quarter and with 16% for the full year. Currency effect is negative in the quarter with SEK 11 million, and it's the same currency effect for the full year. EBIT was minus SEK 8 million in quarter four and minus SEK 87 million, and margin minus 9% and minus 21%. And here, you may remember that in the quarter three, we had a write-down of intangibles that has quite some effect on the full-year EBIT. Order intake decreased with 52% in the quarter and 27% in the full year.

So, coming over to long-term performance, so I already said on the first page I think, that our outlook for this year is SEK 3.9 billion. Still see very positive on the year and that positive attitude also is the reason why we confirm our target of SEK 5 billion by latest 2023. No change on the other financial targets. We still want to be above 15% EBIT margin over a business cycle. The Assembly Solutions business area want to be at or preferably above 10% for this year, and Pattern Generators should continue on a healthy level, as it does. Capital structure, net debt should not be higher than three times average EBITDA, and that is calculated over three years.

All right, so that was that part. Now I hand over to Torbjörn to present the financials, little bit more in depth.

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## **August Torbjörn Gunnar Wingårdh**

*Chief Financial Officer, Mycronic AB*

Thank you very much, Anders. So, please, if we look at our order intake and revenue slide. So, we enter the year of 2021 with a robust order backlog. We had an order intake decrease in quarter four with 49%, to SEK 865 million. We had a strong order intake from Pattern Generators, with four SLX systems and one Prexision Lite 8 Evo, while in Assembly Solutions the decrease was 34%. So we see, in terms of Pattern Generators, it was a good number of systems coming in even though the value was lower than the corresponding quarter in previous

year. Just like Anders said, we enter 2021 with a strong order backlog at almost SEK 2 billion, it was a little bit about SEK 2 billion, corresponding time last year.

In terms of Assembly Solutions, there was a slight increase in the order backlog, while for Pattern Generators the decrease was to SEK 1,156 million, which is approximately SEK 200 million less which Anders also mentioned was a difference in backlog going into this year. For quarter one 2021, we have three mask writers scheduled for delivery, and if you look at the [ph] rolling 12 (00:19:51) number the group is at SEK 3.7 billion. And then we are ready to go into the next slide, please.

So looking at the next slide, we see the net sales, where we had a decrease of 16% to a little bit less than SEK 1 billion. The decrease in constant currency was 11%. So that decrease was less. We had within Assembly Solutions, a mixed performance, which led to a 22% decrease to approximately SEK 600 million and for Pattern Generators, the decrease was 5% to SEK 385 million. And in connection with that, we think it's important to point out that a scheduled FPS 6100 delivery has been moved into first half of 2021, connected to two circumstances during the pandemic which complicates this aspect. We also note that in quarter four, the first SLX was delivered, which we consider to be a very important event. We also delivered a Prexision 8 Evo, and also a major upgrade.

Currency effects have had a negative impact of SEK 60 million and if we look at the rolling 12-month net sales, we are at SEK 3.9 billion. So we are then ready to look at the next slide, please.

In terms of margin development, we are very happy about the good levels that we continue to be at, and in quarter four, gross margin actually strengthened to a little bit more than 52%, compared to little bit more than 49% in the corresponding period previous year. At Assembly Solutions, we had a slightly lower margin and at Pattern Generators, we had a stronger margin at 73.5%, and the Assembly Solutions gross [ph] margin income continue (00:22:42) to be close to 40%, which we see is good.

In terms of EBIT margin, we had a strengthening from 17.2% up to 21.5%. And Assembly Solutions performed at 4.6%, slightly lower than the previous year, and in terms of the Assembly Solutions, Anders reactivated the target level for 2021 being above 10%. He will also present the corresponding number for underlying, which is then taking away the acquisition-related costs, and there we was at 5.6%, also a little bit lower than corresponding period last year. And Pattern Generators continue at the strong level of 48.5% EBIT margin and here we have benefited from a favorable product mix. Now we're ready to look at the next slide, please.

So in terms of investing for the future, our R&D for innovation and growth was lower in quarter four compared to the corresponding period last year. In this we had full-year capitalizations of SEK 85 million, and there was also amortization and impairment of SEK 37 million relating to the full-year. Our level of R&D cost-to-sales ratio was 13.2%, which is basically the same level, as it was during the corresponding period last year. We're ready to switch to the next slide, please.

And we are of course very satisfied of ending the year with a very strong cash position and it is more than SEK 1.3 billion, and for the full-year change in working capital, that is mainly explained by advances from customers and in terms of financing activities, this includes of course the dividend to shareholders of almost SEK 200 million. And I think it's important then again to mention our very strong balance sheet and also our readiness to pursue growth in the future, and that of course includes, as we have said many times before, activities within M&A.

And with that, I would like to give the word back to Anders Lindqvist.

## **Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

Okay. Thank you very much, Torbjörn. And I think we have now a very strong platform to grow further in this business. We implemented the new operating model during last year here. Already seeing effects of that with our scalable structure, with the new organization in place where we have a decentralized way of working with clear leadership and accountability for managing performance throughout the different divisions.

On the products side, we have in all the segments that we're active in, we have a leading position or we are in the top layer of market leaders. And that's where we want to be. And so we continue to invest in next-generation solutions all the time. Torbjörn just showed you that we have a very strong balance sheet and in our growth strategy, there are M&A activities included. We haven't done an acquisition in quite some time, but we are constantly evaluating and scanning for opportunities. And now with the support of the divisional structure, we also have a very clear target profile on what technology and what markets and what areas do we want to find those companies and targets to grow it.

We have also increased, because of change and the other things, our market and customer focus. I would say that we have a customer obsession in the organization, and what we're doing and our view on the market remains intact. So we reconfirm or we confirm our long-term financial outlook.

All right, so that was the end of the presentation. So, hand over to Tobias.

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## **Tobias Bülow**

*Director-Investor Relations, Mycronic AB*

Okay. Thank you, Anders and Torbjörn. With that, we conclude the presentation and move over to the Q&A session. So, operator, please go ahead.



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from the line of Daniel Djurberg of Handelsbanken. Please go ahead. Your line is now open.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Thank you very much and thank you, Anders and Tobias, for taking my questions. I was – my first question would be on your AS margin target for 2021. Despite you have a quite hefty currency headwind, currently at least, can you give us the key triggers for you to meet this target 10% or above?

And my second question would be on [indiscernible] (00:29:33) component shortage – we see component shortage in many segments: automotive, ICT that a lot of companies are also talking about. Have you seen any impact on your business or customers [indiscernible] (00:29:49) may impact you negatively in 2021 you think? Thank you.

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

All right. So Anders, here, I can answer on both of them I think. So, on the Assembly Solution target, so, yeah, first of all, when we set the target of 10%, remember I said that we don't need an increase in revenue to reach this target. This is all done by efficiency measures in the organization and the efficiency measures were very much around how we spend our OpEx. So it was R&D efficiency, sales efficiency, margin expansion and so on.

Now we have seen that the revenue have declined quite a lot, but we still maintain the margin, so it's clear that we have implemented a lot of efficiency measures as we can keep – haven't dropped in the margin significantly and the leverage that we have created and the scalability in that organization is really good right now. So that's why we believe that we have a good position to reach this target. But the efficiency measures or what we have done is really to work with R&D efficiency, sales efficiency and cost efficiency on all places without jeopardizing anything on our innovation capability and our customer coverage or anything else like that. So...

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Obviously, it's your current pipeline support this target then, I guess?

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

Yeah. The visibility...

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

The volume.

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A



Yes, that's correct. On the component charges, so this is interesting because it can have an impact both ways anyway. So, the component shortage is very much because of stocking in the supply chain and inventory buildup, especially on the IC, the semiconductor part of things. The shortage of course due that there's a lack of components, especially for automotive industry and so on. So the production volumes are lower and that can of course affect us negatively. But our direct customers are doing really good and we believe that long term this is a good thing if they make money and so on. However, we need to have a look, of course, on this inventory situation as this can create swings in the market when it equalizes.

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**Daniel Djurberg***Analyst, Svenska Handelsbanken AB*

Q

Okay.

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**Operator:** Thank you. Our next question comes from the line of Fredrik Lithell of Danske Bank. Please go ahead. Your line is now open.

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**Fredrik Lithell***Analyst, Danske Bank A/S (Sweden)*

Q

Thank you. Hello, everybody. Hope you're all well. Thanks for the presentation. I had two questions on the PG Division. First, you are sort of talking about some timeline uncertainty, so if you could sort of maybe expand a little bit on that, if that has sort of a background on financials at your clients or if it's just COVID-19, it's difficult to travel, they want to visit you in order to calibrate before it is shipped and so on. Please elaborate a little bit on that one.

And then on the drivers for PG, we've talked about that for many years now, but could you reflect on the latest a little bit, on what you see and what you heard from CES, even though it was digital, it was still a lot of presentations and trends on the panel size there. So, could you reflect on the drivers what you feel are different or new or has changed? Thank you.

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**Per Anders Lindqvist***President & Chief Executive Officer, Mycronic AB*

A

Okay. Yes. So, on the timeline, so this is just to say that there is an uncertainty in the timeline. It's not at all due to any technical side. On the supply side, we manage quite well. It's a little bit of a lead-time uncertainty obviously because of the transportation modes are – there are less choices actually or are less available, but that side we manage very well. So I think all the machines that we have supplied and [ph] are to be supplied (00:34:16) we know that we can make them in time. So it's really more on the – there is normally what you call a factory acceptance test before we deliver a machine where the customers spend quite some time together with us around the machines and verify that it will work in their environment as expected and so on.

And we have, during the year, invented other ways of doing this with remote monitoring, virtual factory acceptance visits and so on, so I think we have managed the situation in a very good way, but it is more – it takes more time to do it the other way. And some customers are – want to do it this way and maybe some are less willing. So, it's nothing to do with the customer situation on the final side, it's nothing to do with our ability to build, but it's more around this kind of handover process that is more complicated but manageable. So, we just want to flag for that uncertainty on that side.

On the drivers, yes, CES, we had visitors there but virtual visitors, I think, and I think that the trends that we have talked about are confirmed. We see larger screens coming, we see high-resolution screens coming in large sizes and so on, but I think maybe what was most [ph] released the (00:35:43) foldable and curved and the shapes of

screens, which hasn't – that has also – that's a positive driver for us as well. The curved screens require more advanced layers and so on. So that is a positive effect of our mask writers and then we also see – and this is what we talked about long time already, that we see displays in much more applications and also high-resolution displays.

On the change from LCD to AMOLED, so, right now the LCD panel display manufacturer are doing extremely well. So the increase of displays have boomed during the year very much from this working-from-home trend and everyone needs now at least two or three computers because they have different workplaces and so on. So [ph] that is doing that (00:36:32) the production rates of the LCD is very high and by that, the time or willingness to change over time will [indiscernible] (00:36:41) this momentarily a little bit lower. So producers are very busy to produce and make money right now. So I think long-term this is positive. It's very good if the display industry makes money, because that means that they will and can invest in new technology. So long-term, I think this is positive for us.

**Fredrik Lithell**

*Analyst, Danske Bank A/S (Sweden)*

Q

Yeah. Can I just add a question there? On the variations and just to be clear here then, so I'm not wrong, that the micro-LEDs or the mini-LEDs or OLEDs or AMOLEDs the variations are basically the same in the bottom and it's all they need you in every instance of whatever variation it is, right?

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

That's correct, and that's a good point because we can see more variations. I think we talked very much about AMOLED and micro-LED, but we also see other technologies and the more the better for us, actually. So that is...

**Fredrik Lithell**

*Analyst, Danske Bank A/S (Sweden)*

Q

Yeah, yeah.

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

...that is so.

**Fredrik Lithell**

*Analyst, Danske Bank A/S (Sweden)*

Q

That's perfect. I'll go back into the line. Thank you.

**Operator:** Thank you. Our next question comes from the line of Mikael Laséen of Carnegie. Please go ahead. Your line is now open.

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay, great. Thanks. A follow-up on that last question about PG uncertainties. Is that also a fact for order intake, that it takes longer to take in new orders, the sales cycle are longer not only slowing a handover process, but also the order intake process might take longer, is that also a key?

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

I could imagine because of course with no ability to meet and demonstrate that, that should have an impact, but on that side, the customers on this have extremely long horizon because we are two steps away from the display industry. So our customers are mask writer, producers and then in turn their products are used in the display industry and the investment logic for them is they need to think five years ahead.

So, they are far, far away from hopefully this temporary pandemic situation. So investment decisions [ph] also (00:38:57) but of course, the whole negotiation process, which is very much in our case a technical negotiation and demonstrating of capabilities and so on, is more complicated. We haven't really seen that it has had a large impact. I think the variation we see now is quite natural despite that.

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. Great. Thanks for the clarity. And the second question is about the new division reporting structure, and we get the margin differences in the High Volume High Flex and Global Technologies segments, and some are lower margins and High Volume is quite profitable. Can you say something elaborate on the margin profile for these three divisions? Just to give you – give us the backdrop on how they should perform and maybe explain a bit how 2020 developed in the quarterly perspective? We only have one quarter and a full year.

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

Yeah. And that's the only...

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

But do you see upside potential to improve significantly and have all segments possibility to go to 10% [ph] more so at (00:40:13) Global Technologies and more insight on that, please.

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

Right. So I think the different divisions have different ability to reach different levels because they are in – and that's also a reason why we made the split to really give every division the best chance. So it's not really a democratic target that is equally distributed, or the division, but the total should be definitely above 10%. And the way – the ability to reach that we believe is high by creating this visibility and the push for that and there are different recipes. So the only comparison we have is to – that we have right now, and there will be more comparison of course as we go to the quarters coming in this year. Of course, but as you can see, the High Volume division has a very good profitability, we're very happy with the 20 – above 20% EBIT margin in that division. So there we really look for increasing revenue. That will be the recipe for further success there when we had very good growth in that business.

The growth has been very much driven by the mobile phone market, which continue to grow, but our strategy is to expand into adjacent and other segments in the electronic industry there as well, such as the semicon industry and especially the electrical vehicle side of automotive. So, that's the expansion plan with maintained profitability obviously, and also to expand outside China, so we're growing actually triple-digit rate, I think, outside China, but from a low level. So, there are opportunities to expand on that side as well.

On the High Flex, this is a niche market. High Flex and low volume. Aerospace, medtech, some automotive industrial applications are here and you're seeing recovery. This is where we have worked quite a lot with efficiency and scalability. So, we think we have good effects here and here we want to be above 10% and even when we're at 10% we will most likely put a target higher than that.

On Global Technologies, here we have this mix really and the good performance in the die bonding, which is driven by data communication centers and so on. But on the other side of the business with the camera module assembly, we have several factors. We have the production rates in the automotive industry, which has declined quite a lot. We have the adoption rate of number of advanced cameras in cars not increase as the outlook was a few years ago. So, here we have some market headwind, I would say, and we need to work both with cost and market expansion. We have a very strong position in the market. So, it's very much related to the market on that side.

So, altogether, that makes us comfortable to reach the well above 10%, but it's not 10% flat or lower. So, more margin on – sustained margin on the High Volume business with more revenue and above 10% in the HF and an improvement on the GT obviously.

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. Great. Thank you very much.

**Operator:** Thank you. Our next question comes from the line of Viktor Westman of Redeye. Please go ahead. Your line is now open.

**Viktor Westman**

*Analyst, Redeye AB*

Q

Thank you. I wanted to touch on the headwinds in the automotive in Global Technologies there. Can you say something how long the sales cycles are here because there is a rather large? I mean, there're a lot of large volumes down the road here from regulations and in camera in cars. But when does the customer need to order your machinery to be able to deliver on this?

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

Yes. So, the market is driven by volume is one key factor and the other is technology. So, the more advanced the cameras – I mean, there is a difference between a parking camera and safety pedestrian brake equipment camera and so on. And we are more targeted to the advanced side that's the adoption rate that is there. But right now, the volume is the biggest. And there is also the utilization is, of course, a factor on when the customers need to invest in volume or in capacity improvement. And our customers is mainly the Tier 1 companies in the automotive industry and I would say that 12 months ahead of start of production, there should be firm discussions on this kind of equipment about and it could differ very much between manufacturers and how far they are in their own kind of process and so on. But it's quite a lot of uniqueness in this business, especially on the advanced cameras. So it's rather long [ph] the cycling (00:45:43).

**Viktor Westman**

*Analyst, Redeye AB*

Q

Yeah, I can imagine. And my question on the optoelectronics, you mentioned that this was previously been driven a lot by the inventory buildup from the trade war. Can you say something how large the effect this had and anything about a normalized level here?

**Per Anders Lindqvist***President & Chief Executive Officer, Mycronic AB*

A

Yeah. So, we saw a lot of activity in the early of last year and that was customers being a little bit uncertain where to trade, where would we go and so they ordered machine and now it's more normalized and I think the visibility is better on that. So, it's difficult to have an opinion on which way that will turn going forward. But I think right now we have a more normalized market level and also more comfort I think around customers to know what they can invest in and what they cannot invest in. The trade war have had not really a material impact on our business so far. So, if things don't change, I think this is as it is right now, but there is of course a positive drive for the 5G rollout. It's only in its beginning. And then the consequential effect of the 5G, which means that because the 5G connected to data centers is a direct effect, of course, but then all the other applications that will be possible or enabled by the 5G technology will in turn also require data communication and so on. So I think there will be a secondary effect here. So, we believe that this market will be good.

**Viktor Westman***Analyst, Redeye AB*

Q

Yeah. That's a great point. And just to follow up quickly to clarify. Is that hyperscale data centers or any kind of it?

**Per Anders Lindqvist***President & Chief Executive Officer, Mycronic AB*

A

Sorry. Can you explain what that is?

**Viktor Westman***Analyst, Redeye AB*

Q

I mean, there are really, really big data centers with lots of the servers from the FAANG companies, the world's largest tech companies, are those the kind of data centers you're referring to?

**Per Anders Lindqvist***President & Chief Executive Officer, Mycronic AB*

A

Yes. And that's one part and that's very big. What I referred to secondary effect that the computing will be done closer to the applications or on the close distance of applications, but not in the application. If you take self-driving cars, it might be that the intelligence is not in the car, but in a device close along the road or anything like that, and that will require communication and so on. So, our benefit is mainly on the high speed communication side. When the speed increases, that's where we see a need of our equipment.

**Viktor Westman***Analyst, Redeye AB*

Q

Thanks. Thank you. And sorry for the third question in the end there. I'll get back in line. Thank you.

**Operator:** Thank you. Our next question comes from the line of Daniel Djurberg of Handelsbanken. Please go ahead. Your line is now open.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. Thank you very much. I have two more questions, if I may. And the first one would be on the PG side and [indiscernible] (00:49:06) talking about the triggers in all the AMOLED and car screens and different sizes. And we see a lot of new use cases for displays and so on. But on the multipurpose side, I think you took your last, perhaps only, FPS 8100 order in December 2018. And so I was wondering what has happened since. If it's like in [indiscernible] (00:49:35) competition with the other machines, Prexision Lite, and that I also know, of course, that you have this FPS 6100 for early first half to deliver that but a little bit I had expected some more of these multipurpose machines given the more use cases. So is that yet to be seen multipurpose? First question.

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

All right. So, we don't see a different – so there's no overlap between the technologies. So, it cannot do the same or you can do the same, but that would be an overkill to buy a Prexision machine for a multipurpose use by far. But if you just look on the price points, they are extremely different and the SLX also is very different. So, there should not be any logical overlap or cannibalization internally on our range. So, on the multipurpose segment, I mean, we have a – on the display side, we are the only supplier to the advanced photomasks.

On the SLX side, we're by far the best supplier into the semicon industry for laser writers and so on. And on the multipurpose, we have more competition. We haven't seen that we have lost more orders than normal, I would say. So I think there is no really performance explanation if you see the fewer orders and so on. So, it's just how the market is working right now.

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

I guess, you focus more on selling Prexision and perhaps SLX as well [indiscernible] (00:51:10-00:51:16) it is selling Prexision?

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

Yeah. So we're happy to sell any kind of machine, of course, and we haven't come to a situation in where we need to choose where to put focus on yet. But if we would, I think you're right in your priorities there if you look...

[indiscernible] (00:51:34)

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Q

Okay. Another question, if I might, and that would be on SLX. You delivered machine here in the quarter and so on. Can you comment a bit on how the aftermarket, if it differs to the [indiscernible] (00:51:49) side or to the Prexision side if it's similar – or to the display side, I should say, if it's similar?

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

A

So, if you say potential versus price of a system, it's similar or the relative value of the aftermarket would be the same. But of course, the installed base has to be built up. So there is a delay, of course, time wise...

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Yeah, of course.

Q

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

... in that. But over a lot of years, of course, the revenue potential is in – it's not more, but it's I would say in the range of being very close to the same. So the need of aftermarket, I mean, if you say the importance of uptime is at least as high as in the display industry of such machinery.

A

**Daniel Djurberg**

*Analyst, Svenska Handelsbanken AB*

Perfect. I would like to ask about M&A. But I guess someone else will do that work. So I'll get back to the queue. Okay. Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Fredrik Lithell of Danske Bank. Please go ahead. Your line is now open.

**Fredrik Lithell**

*Analyst, Danske Bank A/S (Sweden)*

Thank you. Thank you. I will leave that for Daniel to ask later on. I had a question on SLX. You have had great success on that line of product. Can you see – are you evaluating variations of the SLX in any old way that I can't really come to think about? But can you sort of create – do you see that you can increase your total addressable market by saying that, all right, we are selling SLX to this specific solution today, but if we tweak it like this, we have an adjacent, small niche market that we can also address and thereby building out the scope of this machine that's if you could expand on that? And then also for Torbjörn then, you had the negative SEK 31 million in the P&L other income expense. Is that purely sort of revaluation FX effects from assets and liabilities or is there anything else in there? Thank you.

Q

**Per Anders Lindqvist**

*President & Chief Executive Officer, Mycronic AB*

Okay. So, commenting on the SLX and, of course, we're looking for what's beyond that. So, the SLX itself, what we have launched now is already a series of variants and which will cover quite a lot of the laser-written applications in semiconductor. The expansion, as I see it, will be within the same application in semiconductor, but possibly taking a larger share of those applications and so on. And the laser technology has some limitations. And [ph] after (00:54:44) limitation is electron-beam technology. And there is no laser. We want to go into that technology. But even within the laser-driven applications, which there could be expansion opportunities. Of course, we are looking into that and that is in the strategic plan to be, but no firm ideas that we can communicate about here. But there is space to grow. That is for sure.

A

**Fredrik Lithell**

*Analyst, Danske Bank A/S (Sweden)*

Okay.

Q



**August Torbjörn Gunnar Wingårdh**  
*Chief Financial Officer, Mycronic AB*

A

Yes. And thank you for the question, Fredrik, on that line. We have in terms of the other income and expenses, which you're referring to, we have currency effects, but in this quarter we have a reservation for restructuring costs included in part of the organization, so that impacts that line.

**Fredrik Lithell**  
*Analyst, Danske Bank A/S (Sweden)*

Q

Okay. Perfect. Thank you very much.

**Operator:** Our next question comes from the line of [ph] Adolph Bahadri (00:56:13) of Danske Bank. Please go ahead. Your line is now open.

Q

I have no questions. Thank you.

**Operator:** We currently then have no further questions at this point. I will hand back to the speakers for any final remarks.

**Tobias Bülow**  
*Director-Investor Relations, Mycronic AB*

Okay. Thanks. Thank you a lot. As there seems to be no questions left, we will end the call now. Thanks a lot for joining us today and thanks for good questions and welcome back next quarter.

**Per Anders Lindqvist**  
*President & Chief Executive Officer, Mycronic AB*

Thank you very much, everyone.

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