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# Mycronic AB (MYCR.SE)

## Q1 2021 Earnings Call

# CORPORATE PARTICIPANTS

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**Viktor Westman**
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# MANAGEMENT DISCUSSION SECTION

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

Good morning, and warm welcome to Mycronic's First Quarter 2021. 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 would already now like to ask you to limit your questions two per person as a start, and then – then feel free to get back in line for two more new questions after that. We will end at latest 11:00. And for your information, this session will also be uploaded as an on-demand on the web.

With that, I leave over to Anders.

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

Okay. Thank you very much, Tobias. So today, we would like to present an agenda looking like this, of course, talk about a quarter a little bit in short, with the new operating model [indiscernible] (00:01:10) the business through four different divisions. We will go deeper in that as well. And Torbjörn will give you a detailed view on the financials. We will end up with talking about our strong platform for future growth, and then end with the question-and-answer session, as Tobias just explained.

But first talking about what we do at Mycronic. So, at Mycronic, we make it possible for our customers and our partners to develop products based on the latest technology within electronics. And it's, therefore, that we're saying that together we are bringing tomorrow's electronics to life.

If we move into the quarter and the result, we could see that we had a very high relative growth of 75% compared to the same quarter last year. And it's a little bit what I usually call a mathematical effect because it's partly because of the comparative quarter last year. It was a very strong quarter or a very weak – sorry – the opposite, a very weak quarter. And in this year, we had a very strong quarter on the sales. And, therefore, of course, the relative growth looks very strong.

And we had the good, a very good sales in the quarter. We had the delivery of three mask writers from the PG division including high value mask writer being the Prexision 800 Evo. We had a very strong performance in the HV division, and also a reasonably good performance in the other divisions. The cost of the product mix, especially because of the delivery of the high value Prexision mask writer, the EBIT came out very strong at SEK 498 million, corresponding to a margin of 39%. But we also had a very good performance in the other division, and in the former Assembly Solutions division, which was the model that we used until April last year. We have made – we announced a target last year that we want to reach an EBIT to be about 10% for this year. And we actually recorded an EBIT of 13% in the former Assembly Solution. And also all this despite headwinds where we had a negative currency effect of SEK 90 million for sales in the quarter.

If we look on the order intake, and here we are comparing to a quarter which has very high order intake last year. The order intake last year we had five mask writers. And the order intake this quarter was SEK 1.027 billion, which is quite a normal number, I would say. I think it's quite a good number [indiscernible] (00:04:17). If you say our guidance for this year is to deliver revenue of SEK 3.9 billion, and then you can see that the order intake of SEK 1.027 billion is supporting that quite well. And that is without a display, a high value orders in the Pattern Generators division.

But, anyway, we had very good orders in the High Flex division especially in North America and China. We have two orders of SLX mask writers for the semicon industry in PG. And we have a very good momentum in the high volume business in China, driven by the alternation trend. And the backlog is then, of course, reduced, because of the high sales and the lesser order intake to SEK 1.7 billion coming from SEK 2.7 billion and consist of, at the quarter, of 12 mask writers.

If we move into the divisional view, and since a year ago we changed our operating model. Now, we drive the business in four different divisions in a very decentralized way. And the reason is to get closer to our customers, having a short decision-making paths, and be much quicker on reacting and really realizing the full potential of every business.

So, starting with the Pattern Generators. So as said, we have very good deliveries with one Prexision 800, which is an – Evo, which is a high-value machine, the first Prexision Lite 8 Evo and also one SLX machine. That was a very strong quarter. And, of course, it's not possible really in the PG division to make comparisons between quarters, because the delivery [indiscernible] (00:06:19) up and down all the times. It needs to be viewed in a longer view.

On the order intake, we had the two SLX machines and that should be compared to five mask writers last year. Of course, that was the reason behind the decline. On the backlog, it's down to SEK 800 million coming from SEK 1.9 billion in that case. And in the backlog, we have also changed in delivery which is one SLX machine that should have been delivered in the first half of this year. That is now moved to the third quarter.

And on the backlog, as of now, we have actually 13 systems. Actually, we have 12 systems in the quarter one, but we also received an order in early April for an SLX machine. So now we have 13 systems to be delivered from backlog in the future.

So, in the High Flex division, you see good development and also an improved demand. And you see this demand being sequentially improved. So from a low point, that was somewhere mid last year, we have seen that quarter by – or month by month, actually, quarter by quarter, we have seen an improved demand. And this has been especially visible in the USA and in China. And we also have a very good improvement on the result, and we announced this target of being above 10% in the Assembly Solutions divisions. A lot of that was coming from efficiency measures. And we have done a lot of activities to improve cost efficiency in this division. And it has been difficult to see the effect of that because we also had a decline of revenue during last year. But now, when revenues start to pick up, again, we clearly see the effect, and we are very happy with this improvement.

So, we recorded an EBIT of SEK 35 million for the quarter, which is equal to a 13% margin. And also, just compared to the same quarter last year, the order intake is flat. But comparing it to the previous quarters, it's actually improving. And that improvement, as I said, is mainly coming from US and China, and Eastern Europe is extremely slow at the moment in this division.

If we move into the High Volume division, so this is mainly selling and dispensing equipment, and it's mainly active in the Chinese market. We have a very strong performance. We have a very strong domestic market, and domestic market is China in general in this case. You see that the automation trend that is ongoing in China is really increasing the confidence in doing investments.

The order intake increased by 46% compared to the same quarter last year. And we are improving our positions and also gaining share in this market. And the growth of sales was 67%. And EBIT is following very nicely. So, we have 64% up and corresponding to a 24% margin. So, I think we see a very strong continued performance in this High Volume division. We are, of course, very happy with that.

Then, we have a division Global Technologies, where we currently have two lines of business. And one of this business line is called camera module assembly, which is mainly for the automotive market. And the automotive market has been very slow. So, last year was really bad for this line of business. But we have seen a recent pickup in the automotive business, but still from a very low level. We'll – we actually also have started to see sales outside of the automotive, as an example, in the drone market, where the same technology is also possible to use.

The other line of business is optoelectronics. And, in the quarter, we had a very strong US market, very much driven by needs in the data communication, fueled by 5G and cloud investments. So, that has been very strong. We are usually very strong in China. It was a little bit slower in the quarter, but it improved towards the end of the quarter, actually, so that we saw an improvement. Still, the result is not very good here and we recorded minus SEK 14 million in the EBIT, which is actually an improvement from the same quarter last year, but still not good, of course, and we have actions in the pipe to improve that should be visible a little bit later this year. And also, this division is the one where we have the biggest impact from potential trade conflicts between countries and companies, of course, which has so far haven't had a major impact. But, of course, this is increasing the uncertainty of our business here.

If we look a little bit on our long term target, we feel very confident still with them. And so, we confirm our long-term targets, and one of them is that we should reach a sales of SEK 5 billion and that is not later than the year 2023. We should have a profitability, which is about 15% EBIT over a business cycle, this is on average in the cycle. And a capital structure that is – where the net debt is less than 2 times the EBITDA. We are far away from that at the moment.

On the short-term targets, we confirm then as well, and this is – this year we want to reach a sales of SEK 3.9 billion. And this SEK 3.9 billion [indiscernible] (00:12:25) said also when we did the guidance the first time that this in the currency – at the currency levels that was existing at the end of 2020, around December actually in 2020. So you can have that in mind also when you want to recalibrate on that one.

And another short-term target is that this year during 2021, we should be – we want to be about 10% in EBIT margin for the former Assembly Solutions divisions. That was called the [indiscernible] (00:13:01) Assembly Solutions in the past. And we worked for the quarter and, of course, this is really a minimum, so very happy to see that we are above this level currently.

So with that, I will now hand over to Torbjörn here to go a little bit more in detail on the financial side. Thank you.

## August Torbjörn Gunnar Wingårdh

*Chief Financial Officer, Mycronic AB*

Thank you very much, Anders. So in terms of net sales and EBIT margin on a rolling 12-month basis, our net sales rolling 12 months amounted to SEK 4.437 billion, which was a very good level, thanks then to this very strong first quarter. The EBIT margin in the first quarter was 39% and on a rolling 12-month basis, it was 30%.

So, in addition then to the strong performance from PG, we also see a positive margin development from improving performance in High Flex and also improving in High Volume which already was at a very good level. And if you see here in this graph that aftermarket provides a stable base of recurring revenue for our business and for the group.

Looking then at the last year compared to this year, we see very then the strong volume with the effect on Pattern Generators and also from High Volume. And the cost increase we see here is in line with this volume increase. Our R&D investments in the period were stable. And we have also seen on the selling side that we have cost savings from travel restrictions and less industry fairs which, in the short perspective, of course, saves costs. But then, longer term, it can be a challenge which we try to work around as much as possible under the current circumstances.

You all know that we are now presenting the segments in terms of our divisions, which is new then and is related to the organizational change we did last year. We have – we see here then the very strong difference and positive difference between last year's first quarter and this year's quarter related to the strong deliveries within Pattern Generators.

As Anders had commented on previously, also, we are very satisfied to see the improvement on High Flex and that now it's starting to show all the good actions that has been taken in terms of their performance during last year and are showing in these volumes that we can see here in the first quarter. High Volume already performing on a good level, also show an improvement year-over-year. And we are very satisfied to see that Global Technologies coming to an improvement compared to what they have done before. And as Anders commented, actions are being implemented in that division to improved performance. And the cost for group functions is at a stable level. All this resulting in the 39% EBIT margin for this quarter.

In terms of R&D for innovation and growth, we saw a decrease in R&D spending from quarter one 2020. And we always have a stringent approach to our R&D investments in terms of having solid business cases. When we do investments here, we also have seen with the distributed organization, the reorganization last year that more responsibility is taken by the divisions in terms of making the right decisions, and we find that that is a good effect.

And we don't see the R&D spending decrease which is not necessarily at the level that we will find ourselves going forward. It's connected to the amount of R&D investment opportunities we see.

There were levels of capitalization and amortization during the quarter. And then the resulting R&D cost-to-sales ratio was 11.5%, than a decrease for the 14 – compared to the 14.2% last year. We end the quarter with a very strong cash position of [ph] a bit (00:17:48) more than SEK 1.6 billion. We had a slight increase in working capital primarily driven by [Technical Difficulty] (00:17:57) the deliveries within the PG division. We also acquired minority interesting one of our subsidiaries within the HV division and that includes then an outflow of SEK 39 million. And the net cash position then is SEK 1.4 billion. So, we're seen on a very good footing in terms of the active M&A strategy as part of our growth strategy that we have communicated several times before.

And with that, I'd like to give the word back to you, Anders.

## Per Anders Lindqvist

*President & Chief Executive Officer, Mycronic AB*

Okay. Thank you very much. I will conclude the presentation. So, we feel that we have a very good foundation for continued strong performance. We have a solid – it remains solid. You could see the new organization that has not actually been in place for more than a year because the implementation and the starting date was April 1 last year. You see that the results start to come because of the customer-centric, scalability, centralized organization and I think it was – and especially good during the pandemic which is still out there obviously. But I think we managed that in a very good way and very much thanks to the decentralized way of working, we could take fast and good decisions.

If you look on the product portfolio, we have a very competitive product portfolio, and we continue to invest to keep it competitive for this future as well. And there's no change in our attitude to this at all.

In the growth plan that we have, acquisitions is a part of that, of course, obviously. We haven't done one in a while now, but it's – we're really ready to do it. As Torbjörn said, we have a good funding – good – we have the means to do it, of course, but it has to make sense, and it has to add value to our business. And, of course, being selected in that, it doesn't happen really every day. But this is really something that we have on the radar, and it's included in the strategy to grow by meaningful and good acquisitions.

And, finally, we have a very strong culture being innovative, dynamic, responsible and customer centric, which is a very good base for us to deliver the future results. So, by that, I feel, really, that we have a very good position to continue to be successful and continue our strong performance.

So, that's ending the part of the presentation. I'll hand over to Tobias here then.

## Tobias Bülow

*Director-Investor Relations, Mycronic AB*

Thank you, Anders. And with that, we conclude the presentation and then 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 good morning, gentlemen. Congrats to a very solid earnings in the quarter. I had a question on the – if you could talk anything about visibility with the Pattern Generators, especially on the display side. As you mentioned, you had a very good order intake on the SLX side [indiscernible] (00:21:49) side, while less so in display. And I was thinking if you could spare with us some of the market dynamics that you've seen. Are there any technology shifts already in AMOLED or is it more a temporary impact from, the OEM, let's say, problems in Huawei and LG, et cetera, that impacts your trends. So, how should we think on the visibility for the display? It would be great if you can elaborate a bit. Thanks.

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

A

Okay. And, yeah, thank you, and I was expecting that, of course, and that should happen. So – nothing – first of all, there is no conflict in between SLX and display, right, as the semicon market segment is isolated from the display one. So, we could – to be successful in the semicon doesn't mean an unsuccess in the display. So, that is – it could be good in both at the same time and then vice versa as well. And we have been very successful, I think, in the semicon market space with the SLX, where we – I mean, when we launched [indiscernible] (00:22:52), we said that we should take the majority of orders of the launch, and that we have definitely done. So, I think that that is good.

But, as you say, we haven't seen any orders on the display side for quite some while. And then, it's important – we are quite early in this value chain in the display industry. And if you look from the – where the consumer is actually buying panels in the shape of TVs and computers and smartphones and all that, there is a panel maker and there is a mask maker, and then there is us selling to the mask maker. So, it is a very long, how do you say, investment cycle, it's very long investment decisions. And what we sell today could be used, that technology could be seen in a few years in the future.

So, if you look on the technology trends, we see no difference. There will still be the shift from LCD to AMOLED that's still ongoing, and the majority of panels are still LCD, so that shift will go on for some time. We also see that this increase in complexity for displays are also there, still there. No change in that as well as the area of this place and so on. And also new technologies are coming in in forms of micro level, mini level, and stuff like that. So, we don't really see any difference in the drivers long term.

One could say that the shift from LCD to AMOLED, it's a little bit slower than it has been. And this is actually due to the success of panels makers where they produce a lot of LCD panels right now because of the big need in the market. That's really driven by consumer behavior. At the moment, we believe that, long term, that should be a good thing for us because it means that if our customers customer are profitable, of course, they have a big willingness to invest in future technology. So – or at least the ability to do that, and that should be positive for us.

So, we have not – so, short answer is that we have not seen any change on the technology side in the market that should impact demand for our product. And no really big change other than usual in the market dynamics on who is doing what and so on. So, it's – yeah, we don't [indiscernible] (00:25:07)

[indiscernible] (00:25:09)

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

Q

[indiscernible] (00:25:11) so to say, the visibility on your ongoing discussion with the optoelectronics and so on. So, you have the same number or similar discussions ongoing at that [indiscernible] (00:25:24) year back or whatever.

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

A

Yeah. I would say that all the major customers have similar or have the long-term plans from the customers are looking the same as they did. And then, of course, they can be in different stages in discussions on new equipment and so on. So absolutely.

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

Q

May I have one question perhaps on the – I think we could digest the perhaps [indiscernible] (00:25:48) for me to understand on the R&D in the [indiscernible] (00:25:55) High Flex and High Volume. It was down quite much in High Flex but up a bit in High Volume. So how to think about the R&D resources, are they sort of [indiscernible] (00:26:08) so we can work for one project and another within the High Flex for a while and High Volume or what is the duration depending on?

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

A

You should think about the R&D spending in terms of the divisional taking responsible for their own R&D. I think to a certain extent and may be some resources but it's not really much. It's more like the divisions adapt and review their own business cases for R&D in any clear and accountable fashion. That the group level percentage goes down, it's not sort of a group centralized planned event. It is an event of the – as a consequence of the divisions' diligent and disciplined approach to R&D capital to our new organization.

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

Q

Okay. And if you look at the High Flex, for example, down 27%. Of course, a lot of the percent of that is currency, I guess. But is that more of a plan to make it more profitable then or if you can give any comment on that.

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

A

Yeah. Well, the R&D spending and – it was absolutely part of all the actions taken to improve the cost structure of the HF division, yes. We can confirm that.

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

Q

Perfect. Thanks.

**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

Good morning. Hi. Yeah. I have a few questions. I'll take them one by one. And first of all, can you comment on the component shortage what you said in the report and maybe also initially here during the call [indiscernible] (00:28:04) couple of minutes here in the beginning what you see? And can you elaborate on those comments? And also how this relates to the unchanged guidance because the result of 2021 is really, really strong and suggests an imminent significant slowdown perhaps later on? But if you can elaborate around that. Thanks.

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

A

So, yeah, on the component shortage, so, yeah, that was commented in the report. And for the quarter, there was no impact, I would say, or a very little impact on that. And, of course, we are affected in both ends of this because also semicon especially and it's also on our customer side, so. But if you look on the supply side, for us, we haven't been – we haven't – of course, there is a little bit more management with the inventory and suppliers and so on, but no big impact. If you look forward, we believe that it could have a bigger impact going forward. But at the moment, we don't really foresee a big change. And that is not a part of an unchanged guidance. I think in the guidance, you need to remember that we actually pegged that to a fixed currency, which is equal to end of December 2020. So, obviously, you might want to recalibrate a little bit depending on that one.

But you're right. I mean, we had a good start of the year. I think I'm very happy with the order intake of a little bit more than SEK 1 billion in the quarter, given that we had – on the PG side. We had no large [indiscernible] (00:29:55) in that order intake and which is – so I think we have a good base for our business obviously. Not, that – on that business, we don't really take an order and turn that around in this short time. SO, it's a – but we are confident with the guidance of SEK 3.9 billion, but [indiscernible] (00:30:15)

**Mikael Laséen**
*Analyst, Carnegie Investment Bank AB*

Q

Okay. Thanks.

**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 and congratulations on the strong quarter. I want to ask about the growth prospects for the High Volume division. What is the runway there and what do you think the market growth can be here?

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

A

All right. So, we're doing lots of things, I think, and we have been very successful for quite some time in this division. I think we delivered good performance quarter by quarter in here, and it's – now it's more visible also because of the divisional breakdown that you can see. And we have been driven very much in the past by the investments in the mobile phone industry and so on which also see a lot of technology change, 5G being one of them, of course, and so on.

Going forward, we want to be present in many more segments. We are present now also in semicon with dispensing equipment. We are also present in the segment which is growing very, very fast and especially in China, which is electrical vehicle or new energy vehicles as it's called in China. And we're trying to expand our applications within dispensing into more market segments to capture growth opportunities besides that. It was expanding geographically, so, still, the majority of our businesses in China. But we are expanding in the countries around obviously and also globally. And we're growing very fast outside of China but coming from a smaller base. The percent of the growth is high but it's a smaller base but rapid growth.

And end of last year, we opened a sales office in Vietnam, as an example of that graphical expansion. And come to the market, we are actually taking share in these markets. So, we're growing faster than market but we really want to participate in those market segments that is growing fast like new energy or electric vehicles, like semicon for dispensing and so on. So, – and our ambition is to grow at least with that market and preferably [indiscernible] (00:32:43) of course.

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

Q

But would you characterize this market as super cycle or is there rather a long-term structural growth trend?

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

A

I think it depends. They're not the same all of them. Some of them are short-term intensive, of course. But I think in general, there will be always – I mean, long-term trend that there is a good – this is a good market to be in. And then, it can be faster and slower in between, of course.

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

Q

Yeah. I'm just going to give – do a quick follow-up on the first question because I anticipated your answers about automotive there. So, can just say what's the time line to address the automotive dispensing?

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

A

Yeah. We already do have sales in the automotive dispensing, especially for the new energy vehicles in there. And we want, of course, to address more and more applications as going forward – as a part of the automotive there, I cannot really disclose any time line for how complete. But, I think, a good thing with the electrical vehicles is that there are much more electronics and much more applications in such a vehicle than in another one. And, of course, we want to participate in this as many as possible where it makes sense with our technology.

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

Q

Okay. Great. Thank you.

**Operator**: Thank you. Our next question comes from the line of Anders Rudolfsson of DNB Markets. Please go ahead. Your line is now open.

**Anders Rudolfsson**
*Analyst, DNB Markets*
Q

Yes. Good morning and congratulations to a great report. Looking into – we have been through the pandemic now for a year, and we can see there is a lot of, so to speak, pent-up demand for a number of products out there in different sectors. And so, the first question is do you see anything regarding that in this report and, perhaps, if it will be looking ahead? And the other question is, perhaps, related to that as well, as we can see that China now is building up their own, so to speak, high-tech industry and want, really want to compete with the US and so on. Will that lead to much more interest on your products looking to [indiscernible] (00:35:20) 2022 or later? Thank you.

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

Okay. So, first, on the pent-up demand. So I think the – you need to split that a little bit in the world in the geographically and see. I think the China business has been good since the end of last year and early before end of last year. So I think there's no accumulated demand at all in that part of the world. And so while we have seen a good increase recently especially in the US if you take the remaining countries and Europe is actually still slow, especially Eastern Europe. So there's a big difference in between. I don't think it's difficult to say what is kind of a one-time effect of accumulated need and what is sustainable. But I think if you look under the sequential development, I think we have a step-by-step improvements. It doesn't really fit, and it's one good month and that's it. But that is very difficult to say what is what.

The other question there about China [indiscernible] (00:36:36). I think it's – and the same actually goes for other regions as well. I mean, US and Europe also want to be independent. And we could see parallel supply chains being built up maybe. There's a lot of discussion on the semiconductor side where that should be manufactured and so on. And I would say short term, this is – or medium term, this should be good for us, of course, the more if we can sell to three places instead of one, of course, that should be a benefit for us and including China, of course, and the increased need of technology.

**Anders Rudolfsson**
*Analyst, DNB Markets*
Q

Okay. 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

Thank you, operator. Yeah. I had a question on M&A. You highlighted that you have a good war chest for M&A. And the local companies that I cover indicate the pricing especially on software and companies with high recurring is quite high right now, ridiculously high more or less. I was thinking, have you seen a lot of M&A process that has been [indiscernible] (00:38:08) due to this [indiscernible] (00:38:13) for you?

And also the second question would be a question on AS. You have a target of at least 10% EBIT margin for this year going forward. I was thinking, if this target is [indiscernible] (00:38:32) is it a big hurdle for mitigating growth, I would say? Do you need to back off a lot of procurements due to pricing or is this ambition to be about 10% that we saw in Q1 here [indiscernible] (00:38:48) more of an internal thing that to do an operations better? Okay. Thank you.

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

A

Okay. I was thinking about the second question so much, I almost forgot about the first one. So, yeah, M&A, you talked about it, right, and the pricing...

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

Q

Yeah. Yeah. Correct. Go on.

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

A

I think it's right. I mean, I've seen in some very strange or ridiculous price level. We have not jumped off any kind of product because of pricing, pricing, yeah, I would say. So that has not – it has not been the reason for not doing an acquisition in a way actually. So that is why. But we are quite selective and I think we really want to have high-performing companies in our portfolio, and they are normally a little bit expensive. But I think that is how it should be that the good companies cost a little bit more. But as you see in some markets or some segments, this has been very, very crazy.

I think we are more, of course, we have different avenues in our M&A strategy on what we want to acquire and so on, and it could be technology and so on. But we are mainly looking on the equipment manufacturers that can complement and increase competitiveness of our portfolio and so on. And I think it's a little bit less of craziness on that side. But it has not been a reason for not doing it so far. But it could definitely be, of course, yes. Yeah. You're absolutely right.

And then, it was about – it's about what has really created this improvement in profitability and so on, and are we saying no to the market. So, no, that's not the case. We won the game. And when I communicated this target of 10%, I said that that should be reachable with no change in revenue.

Now, since I said that the revenue declined actually, that was one reason for not having it visible in the past. But we have done a lot of efficiency measures, and the idea is to deliver as much sales power and innovation power and market coverage and so on as before they have to do it in a different way and become more scalable, to get more leverage in the business, but without jeopardizing anything on innovation or market coverage and so on. We are saying no to deals, of course, when there's no money in it. I mean, that's – we see that as empty calories, in a way, so that doesn't really help, but believe that it should not impact the growth rate, at least not profitable growth rate. So, that's in the plan. [indiscernible] (00:41:41).

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

Q

Perfect. Thanks, [indiscernible] (00:41:42).

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

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**Mikael Laséen**
*Analyst, Carnegie Investment Bank AB*

Q

Okay. Hi again. Yeah. I was curious about the High Volume results. I noticed that the margin improvement was almost – more than 10 percentage points quarter-on-quarter when we're talking about gross margin. So, what is the reason behind the gross margin and the strong results? What is [indiscernible] (00:42:22) unusual quarter or just a normal thing? And how should we look at the gross margin going forward, because it has varied quite a lot in that segment. Thanks.

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

A

Yes. And that is correct. And there is – the majority of business is in China. There's a very high cost pressure – price pressure, actually, in China. So, that has impact on margin, but also our cost down initiatives are working in parallel on that. So, the majority of changes is customer mix, I would say. Product and customer mix. Maybe more customer mix than product mix where we had this time before, quite big orders to few customers with, of course, a bigger negotiating power when it comes to prices and different scopes. So, it's – so, it will vary with the product and customer mix going forward as well, but around these levels, I would say.

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**Mikael Laséen**
*Analyst, Carnegie Investment Bank AB*

Q

Okay. Just a follow-up, so when we look at the order backlog of nearly SEK 700 million for High Volume, what type of sort of margin is built into that? Is it sort of the run rate the past 12 months that we should think about as a fair level or a bit higher even maybe going forward [indiscernible] (00:43:46)?

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

A

Thank you very much for that question. I think, firstly, we have disclosed in the gross margin levels in the backlog even though it is a very interesting aspect of it that we are – that we, of course, ourselves are keeping track of.

And, I think, it's fair to say that for – due to contractual reasons in the Chinese market, the turnaround of a contract from a IFRS revenue recognition perspective is a bit longer than the pure sort of building the machine and delivery aspect. So, I think that that's an important aspect to bring in. So, a part of the realization or the revenue recognition in each quarter comes from orders a couple of months back. That means that the price pressure that Anders is commenting on, that effect is a little bit delayed. So, trying to answer as directly on your question at the end should we look at higher gross margins, I would not think that that is something that you should build into your forecast.

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**Mikael Laséen**
*Analyst, Carnegie Investment Bank AB*

Q

Okay. On the IFRS accounting here, what is the reason for much delay?

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

A

Okay. Yeah. So, I think maybe this is not the right place to go into the details of IFRS revenue recognition, but it's connected to the change in usage of the equipment from all aspects that are important. So, I'm sure you're familiar with the IFRS revenue recognition conditions.

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**Mikael Laséen**
*Analyst, Carnegie Investment Bank AB*

Q

Yeah. Exactly. But I was just curious about the revenue that – the revenue model that you have in China if that is different compared to Europe or the Americas [indiscernible] (00:45:49).

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

A

No, no, no. But the contraction model – but the contraction model.

**Mikael Laséen**
*Analyst, Carnegie Investment Bank AB*

Q

Okay. Thanks.

**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. Can – question for Torbjörn, can you help me understand the SEK 32 million in operating income? I was a bit surprised that there was not a negative currency effect here. So, what are those SEK 32 million related to?

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

A

So, I hope that you're referring to the other operating income and expenses. And on that line, we have a number of currency effects, which are correctly relating to. But we also have contributions in different parts of the world mainly related to R&D spending, where we get local government subsidies for R&D investment. So those are main aspects there.

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

Q

Yeah. Okay. Great.

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

A

[indiscernible] (00:47:08).

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

Q

Yeah. Thank you. So, I'm going to assume those are one-time thing. I have another question also on the EBIT margin target [indiscernible] (00:47:19).

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

A

No, you should not – sorry, sorry. You should not assume them one-time time. Okay. All right.

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

Okay. Thank you so much, Torbjörn. I was going to ask also one question about the EBIT margin target. It was interesting to read Anders' comment in the report that he was talking about being well above the 10% EBIT margin in the AS division combined. This was the first time I heard or read this actually. So, can you say what's the reason behind that? What's the reason behind this new optimism? Is there anything that have changed in terms of the long-term margin prospect?

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

I can describe the same thing a little bit, when they made the target that – and I think I explained it at that time why 10%. I always say minimum 10%. So, it means that everything above is better, of course. This is a minimum thing. And the reason why putting it up at the first place was [indiscernible] (00:48:29) benchmark to other business, other companies. There is no one really exactly like us, but I think they have a lot of peers in a very similar industry, with a very similar business model and so on. And we could see that the level of earnings, the EBIT level was higher in these businesses, even higher than 15%, 20%. And then, we said okay, then we should be at least at 10%.

Once we are at 10%, of course, we will not be happy with 10%, so it's a kind of a journey of continuous improvement, of course. And, of course, it's easier to be more positive, and we'll now deliver 13% also. So, that is part of that and that it's visible that what we actually are doing is paying off and it's not one-time items or one-time effects in that, and it's a good level to be at, but the target is 10%, minimum, not 10%, but at least 10%.

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

Yeah. Okay. And sorry for squeezing in a last question also. The SLX market – SLX continues to impress us. Isn't it time to increase the market TAM estimates for SLX?

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

That's difficult. I don't think, we – the SLX market is partly a replacement market and partly a new investment market. And, I think, the analysis we did in the past on the market size was quite wide, actually. And then, also the assumption on our sales and that we have not seen any reasons of changing that. But, on the other hand, I mean, the shortage of semiconductor is on every news today, of course.

And also, there is, I think, a lot of – what we have also said that the reason why we launched the SLX is that there is a need, of course, of less advanced semiconductors as well, very much also in the new applications and automotive and so on. So, I think, we have a good position there, but that was in the assumption when we launched our machine and also estimated our potential in the market.

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

Okay. Very good. Thank you so much.

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

Thank you.

**Operator**: Thank you. We currently have no further questions. So, I'll hand back to the speakers for any final remarks.

## Per Anders Lindqvist

*President & Chief Executive Officer, Mycronic AB*

Okay. As there seems to be no questions left, we will then end the call. Thanks for joining today. Welcome back next quarter.