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Mycronic AB (MYCR.SE)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Hello and welcome to the presentation of Mycronic's Q1 report. My name is Sven Chetkovich. I'm the Director, Investor Relations at Mycronic. With me, I have Mycronic's CEO and President, Anders Lindqvist; and CFO and Senior Vice President-Corporate Development, Pierre Brorsson.

With that, I hand over to Anders.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Okay. Thank you, Sven, and welcome to the presentation. So, today we will present our first quarter of this year. So, I will start with a short summary with – about the quarter, and then we will go a little bit deeper within the different divisions that we have. And then, Pierre Brorsson will talk a little bit even deeper than that around the financials. We have some final remarks, and then you have the opportunity to put questions through the operator here at the end of the presentation.

So, starting with the quarter, so before going into the details, we had a – we have a very tough comparison because the quarter one last year was most likely the best ever or at least the best in modern times, with almost SEK 0.5 billion in EBIT which is, most of all – more or less, the half – half of the full-year result. And the reason for that is that we had very good deliveries last year in the same quarter with – especially with the Prexision 800 Evo from the Pattern Generators division. So, that you will see when we do the comparisons here.

Nevertheless, in the quarter, we had a very good order intake with an increase of 40% to close to – or even above SEK 1.4 billion, which we are very happy about. And we can see that there has – there is very good increase in all the different divisions contributing to this number. On the sales side, as I said, because of the great deliveries last

year, we had a decline of 12% to a little bit above SEK 1.1 billion and a big drop, of course, then in EBIT, down to SEK 200 million compared to the SEK 500 million, which is due to the sales mix that we have done in Pattern Generators. And consequently, then the EBIT margin landed at 18%.

Very good order intake, I said, and meaning that the backlog increased to very good level of about SEK 2.2 billion, which we are also very happy about. And in that backlog, we have a very high number of mask writers because we sell a lot of this newly-launched SLX machine now. So, we have 14 mask writers in the backlog as of the end of the quarter. Another major event was the divestment of AEI that was closed in February this year. And this resulted in a financial positive EBIT impact of SEK 25 million for the quarter.

If we then move into the different divisions, and I will start with Pattern Generators. And if we look on the market first, we see a very good demand on the semiconductor side. I think everyone who is reading any kind of paper can say that the demand for semiconductor is very high, and there is a shortage in the world. But we also see demand driven by local – demand of our equipment driven by localization of factories. There is more – there are more and more places where semiconductors will be made, which is a very positive for us.

Looking on the order intake, we had the orders of – no, sorry, I should comment also on the display market. So, display market has also continued strong. It's a little bit more fewer machines every year, so it will be ups and downs in the order intake. But in the quarter, we had an order for a display machine which was the Prexision Lite Evo. And in addition also, we had orders for three SLX machines, which meant that the order intake increased 64% to close to SEK 400 million. And we launched the SLX mask writer which is for the semiconductor industry in the end of 2019. And we have already delivered 10 of them to customers, and they have been very well received. And we see that they're performing extremely well in the field, so very happy with the launch of this product.

On the sales side and, here, we have the comparison that the sales decline with 46% to SEK 320 million. And if we compare what we delivered in the two comparable quarters with this year or last year, we delivered two SLX systems or this quarter, sorry. This quarter, we delivered two SLX systems compared to one Prexision 800, which is a high-end mask writer, also Prexision Lite 8 Evo, and one SLX in the quarter last year. So, this is the mix that we talk about.

And because of this mix, the EBIT declined to SEK 125 million coming from SEK 420 million almost. Backlog is more or less flat at a little bit about SEK 800 million. And we have 14 mask writers in the backlog as of the end of the quarter. So, that was Pattern Generators.

And now move into the High Flex division. Also here, we see a very strong market. The demand for our equipment is very strong, and we see that our customers are doing very well. Both the results and their order books are well filled, especially within our jet printing products and pick-and-place solutions, we see a great market momentum.

Some highlights from the quarter is that we – there are some major trade shows now coming back as physical shows, and one of them is the APEX trade show that is held in San Diego every year, where we participated in the quarter with great result.

See a very good order increase of 16% and sales increase of 5%. In this division, we have some very – quite minor impact regarding our capability to deliver. We see some impact on component shortage and also some challenges on the logistical side, but no major impact on our result and no cancellations of order because of that, so. And the gross margin was more or less flat, ended at 39%.

On the EBIT side, SEK 19 million or 7%, it's a little bit on the low side and the reason for that – compared to SEK 35 million last year. So, one of the reasons is that we had this major trade show in the quarter, which is making some impact on this, and as well a little bit complicated comparison when it comes to currency gains when compared to the same quarter last year, which has a negative comparable impact. The good order intake and a little bit lesser sales, we can see that the backlog is increasing to a very good level of SEK 216 million.

Then, moving into the High Volume division. So, the High Volume division is located in China with all of its operations located in Shenzhen or a majority of operations located in Shenzhen, and majority of sales is also in China. And despite that, China have had some – still have some challenges related to COVID-19. We can see that the electronics industry is doing very strong – doing very well, and there has quite good development during the first quarter. When it comes to future projects and customers, we'd see a very good demand in the automotive sector. And within the automotive, this, especially the electrical vehicles which is driving demand very much. And this is a big part of the automotive industry now in China.

And we also see very good demand on the consumer electronics side. So, quite good order intake increase with 13%, a little bit more flat on the sales or – which declined with 1%. Shenzhen, in particular, had a one week lockdown in mid of March, but we had very limited impact on the division.

Gross margin declined to 36% coming from 45%. And the reasons for that is that we had a very strong period last year, but also a little less favorable sales mix. And altogether, the EBIT declined to SEK 55 million. A good order intake means also a very good backlog. So, at the end of the quarter, our backlog is SEK 885 million, which is a quite high number and will provide some stability for the future.

Then we'll move to the Global Technologies division. And now after the divestment of AEI, we have two lines of businesses in the Global Technologies division. So, one of them is die bonding. And die bonding is a super high precision placement equipment. And then we have also electrical testing equipment for printed circuit boards and substrates. Both of the markets for these products are doing very well, if we start with the markets for die bonding equipment, which is mainly the tele and data communication market. It had very strong performance during some time and continues to have very strong performance, generating good demand for this kind of equipment.

And we see the same in the market for electrical testing. So, there is a good demand for PCBs and also substrates. Substrate is kind of a more – the next-generation PCB, you can say, where it's possible to pack components in a more dense way and get more performance out of less space. And also very nice to see that we have a very strong recovery in Europe for this kind of equipment.

If we exclude the acquisitions and AEI divestments because, last year, we acquired the business of the electrical testing equipment and, now, this year, we divested the AEI business. So, the order intake increased with 56%, which is a reflection then of the good demand that we see in the market. On the sales side, a little bit less increase, still a good increase of 17%. And here – we have here a little bit more challenges on – to deliver products. We have shortages of both production personnel, as well as component supply chain challenges. So, we have had some delays here in this division, but no cancellations. So, it's coming, but a little bit later.

On the EBIT, ended at SEK 31 million, but you need to see that we had also positive – including in this number, there is a positive impact from the divestment of AEI of SEK 25 million net. So, when you compare, you need to take that into consideration. Backlog, very strong at about SEK 300 million, coming from SEK 82 million. So, there, you see also reflection of the demand in the market.

And we had the divestment of AEI completed in February. So, that was the different divisions. And now, we move a little bit further.

So, we're going to talk about the outlook. So, last quarter, we gave an outlook for 2022 that we would reach net sales of SEK 5 billion excluding any possible acquisitions that could happen during the year. And EBIT will land a little bit above our target of being above 15%. So, the net sales outlook for 2022 is also equal to our long-term financial target.

So, we believe that we will reach our financial target at the end of this year. And because of that, we will launch new financial targets a little bit later in the year. Profitability target long-term is to be above 15%, and also on the debt side not to exceed 3 times EBITDA. And that is our business cycle. So, temporarily, we could be above that, but not over time.

So, that was a little bit about the result in the quarter and the highlights. So, I will hand over to Pierre to explain a little bit about the financial details.

Pierre Brorsson

Chief Financial Officer & Senior Vice President-Corporate Development, Mycronic AB

Thanks, Anders, and we move on. We're looking at the 12 months numbers, where we stand. We had a little bit of a decline in the sales, as alluded to, already by Anders. And as you can see on this slide, also, the long-term EBIT margin is coming down. And this can, of course, be viewed in some different ways. I would say that this is actually a quite good result in line with our expectations given that we do not have any mask writer – high-ended display mask writer in the rolling 12 months numbers for the end of quarter one. And we are in line with where we have said we would be for the year as well. And I think we are well positioned also in that segments to capitalize on the future, not specifying when in time that will happen.

If we look at it quarter-by-quarter, you can see that if you look sequentially, we are slightly above Q4 and Q3 of last year in terms of relative profitability. [ph] This system (14:32) boosted about 2 percentage points by the sale of AEI. So, excluding that, we were at 16% in the quarter. It's very positive for us that we see continuous growth in the aftermarket revenue, and we had again a strong quarter on that side. And it's a quite stable development gradually moving upwards.

If we compare the quarterly result with the same quarter of last year when we had almost SEK 0.5 billion in EBIT, we can see that we have a volume effect. This decline of around SEK 150 million in sales [indiscernible] (15:16) last year's margin have generated SEK 93 million more. And so, that's the volume effect. And then we have a distinctly lower margin, partly by a lower margin within the division Pattern Generators and partly by having a lower share of Pattern Generator business. And you can also say that we have about SEK 30 million related to a lower margin than last year within the HV division.

If we look at the operational costs, we have a slight increase of spend in all categories. And this is quite natural given that we have added some acquisitions along the way. And this is also the main explanations for these categories. In addition to that, we have participated actively on this trade show, which Anders already mentioned in the US, so in division HV, which is then boosting a bit the marketing and sales costs in the quarter.

Finally in this other bucket, we have the gain on AEI, which is SEK 25 million net. And we also had some other impacts mainly not the same strong positive contribution as last year from realized and unrealized gains and losses on exchange rate exposure that we have, ending the quarter on SEK 206 million. Cutting the result in

another dimension then looking at it from a divisional point of view, see the majority of the deviation is in – as expected in the Pattern Generators division.

We see also some minor increases and decreases in the other divisions. If we take them division by division, starting with HF, the High Flex division, we had the sales which was on a similar level as last year. We had the trade show, and we had somewhat lower positive net on exchange rate differences, and this resulted in a negative SEK 16 million.

If we look at High Volume, the majority of the deviation here is coming from the gross margin development, which was very high in the first and actually also in the second quarter of last year, then came down towards the end of last year. And we see starting this year a similar sales mix as ending last year.

If we take Global Technologies, we have there the SEK 25 million, which is a boost of the result. And then we have some improvements in – some contribution from the acquired atg and some slight improvement also in the other die bonding business. Ending then also in this version, of course, on SEK 206 million.

Cash flow wise, of course, we had a lower result than in the same quarter of last year. So this results in a lower cash flow. We have seen in the quarter that the business that we have added and replaced the large orders from Pattern Generators with, has tied up some money in the receivable side. We have also built a bit of component inventory, and this has not been fully offset by higher payables. So, we have a negative impact on the working capital in the quarter.

On the investing activities, we had the cash flowing in from the divestment, and we have some investments in the main site here in Sweden on the tangible side, as well as some capitalization.

On the financing activities, there was a special thing in the quarter of last year, and this year is normal numbers. And this is only a reflection of the lease reporting from – we don't have any debt in the company at present, traditional debt. We have at the end of the period a cash of SEK 907 million. And reporting-wise, that would be SEK 664 million net.

With this, I leave the word back to Anders.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Okay. Thank you very much. And before moving into the question-and-answer session, want to talk a little bit about our platform for future growth and also sustainability.

So, we're still building our platform to continue to grow in a profitable and sustainable way. I think every month, we are getting better than the previous one and creating a stable support and stable platform to become a much better company.

And sustainability is a part of that. And if you look on our position in the supply chain, in the electronics industry, we believe that we have both a responsibility and also a great possibility to make an impact on the electronics industry. And this is built in then in this platform and in all of our activities going forward.

And about sustainability, we also recently had stakeholder dialogues with targeted stakeholders regarding sustainability. And this was with all of our stakeholders being our customers, our employees, our suppliers,

partners, and also our investors. And the result of that will be reflected in how we prioritize and work with sustainability going forward. And we feel very happy about this work that has been done.

So, with that, I think we end the normal presentation and go into the Q&A. Sven, do you want to take this or...

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Yes. Thank you, Anders and Pierre. So, now, we're moving over to our Q&A session. Operator, we are ready to take questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Mikael Laséen from Carnegie. Please go ahead.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thanks. Good morning. I have a few questions, first of all, on the High Flex segment. If you can talk about how you manage this supply chain situation, if you can quantify it perhaps, the impact on revenue. So, elaborate a bit on that first of all.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Okay. So, on the High Flex side, we had the challenges we see on the component shortage – is on component shortage is a part of that. And it's a lot of work to both redesign and reprioritize and find components and the division doing a great job of doing that, I think. We also see some time challenges on the logistics side with freight being more and more – not more and more, but continuously difficult to book. And the price is higher, the availability is less. And also the predictability is a little bit more difficult. So, it means for the division that there's kind of a substantial amount of work being done to manage the situation. If we should quantify, it doesn't have a big effect on the sales because we manage it very well, I think. If we should put a directional number, I would say it is quite less...

Pierre Brorsson

Chief Financial Officer & Senior Vice President-Corporate Development, Mycronic AB

A

Single-digit percent.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yeah. Single-digit percent, so much less than 10% or less than 10%, you can say, so in that range. And we haven't seen any cancellation of contracts or lost orders because of that. I think the whole industry have the same challenges, but I believe we do very good in managing the situation in the division.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Excellent. And, Anders, has this become the worse or more difficult during the quarter? And did you have any impact on the margin?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

It's not worse. I think it's more or less on the same level as it was on the quarter before. And I think it will be on that level for some time and not any big impact on the margin, I would say.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thanks. And when it comes to high volume, I'm just curious about the margin swings or gross margin changes from last year and also during last year. If you can discuss the reasons for this and what we should – how we should think about this going forward. Is the margin of roughly 40%, 41%, is that sort of a run rate that you feel confident in or has something happened here?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

I can say that the...

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Or was the first half last year unusually strong that is difficult to replicate or get back to?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

It's a bit of everything, I would say. So, we had a very strong quarter or on the margin in High Volume division last year, and they have a less good quarter this year. So, of course, the comparison becomes big and maybe than needed or than if you would compare to average. The margin will swing depending on mix very much in this business, and it's mainly because of customer mix depend, where we have different margins on different type of products and also different kind of projects. So, I cannot give you number on how it will look like and so on. But I think, typically, you can see – you will see variation like these numbers.

Pierre Brorsson

Chief Financial Officer & Senior Vice President-Corporate Development, Mycronic AB

A

We have a somewhat lower run rate if you look at the last three quarters, then the two exceptionally strong quarters starting the year last year. And in the short-term, I don't see us coming back to those level of first half last year.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. That's good clarity. And my final one for now, at least, you say in the report that you have or customers want to live with two systems in the PG segment one quarter earlier, in Q4 2022. But at the same time, the guidance is unchanged and the margin guidance is unchanged. Does this mean that you have a weaker situation in some other areas? Or is it just giving you more confidence that you will maybe be a bit above what you have said before?

Pierre Brorsson

Chief Financial Officer & Senior Vice President-Corporate Development, Mycronic AB

A

I think there is still enough uncertainty to exactly predict where we will land the year. If we look at how the divisions are looking on the year, it's slightly – some have slightly shifted their prediction upwards, and some slightly downwards, and there is a high degree of uncertainty. But of course, if we get more machines out this year, then – of some importance, this is, of course, making it – making us more comfortable.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Fair enough. Thanks.

Operator: Thank you. The next question comes from Fredrik Lithell from Handelsbanken. Please go ahead.

Fredrik Lithell

Analyst, Handelsbanken Markets

Q

Thank you very much for taking my questions. I just wanted to check one thing to start with Global Technologies. You talked about the capital gain of SEK 25 million in the quarter impacting positively the EBIT, but at the same time, you have acquisition-related costs of SEK 10 million. So, should we adjust for that as well to get to an underlying EBIT or – so that's the first question.

And then on – if we stay with Global Technologies, if you could sort of give us a little bit of a coloring on if these sort of gross margin levels with the units that are now part of Global Technologies, if these are the levels we should expect, if it's kind of a stay the trend quarter-over-quarter in the history of these two units you acquired or if these fluctuations we should expect in any way, if you could color it, it would be easier for us to model it. Thank you.

Pierre Brorsson

Chief Financial Officer & Senior Vice President-Corporate Development, Mycronic AB

A

If I take the first question then, the gain that we have reported though, SEK 25 million, is actually not related to the SEK 10 million, which was stated in the report. The SEK 10 million which was stated in the report refers to amortization of intangible assets related to the two acquisitions done earlier. So, just to clarify this. I can understand that it can be a little bit confusing when reading the definition, but the definition states that it's related to acquisitions specifically. So, the SEK 10 million are outside the SEK 25 million.

Fredrik Lithell

Analyst, Handelsbanken Markets

Q

Okay. Very good. Thank you. Then on Global, how we should sort of view that on a four-quarter basis. How is it with seasonality sound? And is the gross margin stable between quarters in the history? So, how is it looking?

Pierre Brorsson

Chief Financial Officer & Senior Vice President-Corporate Development, Mycronic AB

A

Yes. I think we have – there are two major entities then. And they have their specifics, of course, individually, and they are not really related from a business point of view. However, we see good demand on both of them. We see good order stock for both of these entities. And if you look back where the gross margin has been historically when no specific events have been, they have been on the lower side in the Mycronic group between – around

35-ish historically when there has been no specific events. So, I think you can use that as the starting point at least.

Fredrik Lithell

Analyst, Handelsbanken Markets

Q

Okay. That's very good. And then a final from me and I go back to the queue. Anders, you talked about in your CEO comment that photomask market for this place shows signs of improvement. Is there something you could add to that comment? Is there something you see? I know there is a fair in Japan coming up in a week or so, I guess. Is there something you could give us extra here? Thank you.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yes. So, what we see now on the display side, so I think we had the kind of special times on the display side, maybe much because of the pandemic where we saw a delay of R&D work et cetera.

And so, on one part of that was that the old technology sold very well. So, I think customers focused more on production rather than development. And now, we're kind of a little bit back to the traditional way, where innovation in the display industry will drive future demand. And this is also, of course, positive for our services now that the AMOLED conversion is kind of increasing and also new technologies are coming in.

And this is, of course, reflected in our discussions with customers. We also saw an order for a display machine in the first quarter with this Prexision 8 Lite (sic) [Prexision Lite 8] (32:04) light that we had installed. So, sign of that recovery. So, we have, I mean – and we need to look on this on a very long term, and it's very difficult to predict when the customers actually will order. But we are – we have the same position in our – for our – for the future as we have always had at – the demand for better screens, better displays, new technology, new shapes and new products are still there. And so, we believe in this market, but it has to be seen over quite some time.

Fredrik Lithell

Analyst, Handelsbanken Markets

Q

Okay. Thank you very much. I go back to the line.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Okay. Actually, we also have a written question here through a questioner, which basically it's very similar to the one that we just had, but I'll read it out loud and let Anders answer it. It has to do with Pattern Generators. So, it's [ph] Miguel Turin (33:07), who is wondering if you could please elaborate a bit more on how you see future sales and market development for Pattern Generators.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

So, on the display side, I think it will be driven by the same drivers as had been driving our development, which is new technology mainly. We also see changing of – in the customer universe, if you want, with some mergers and some new customers coming into this field as well. So, I think this is also positive for us. But especially on the technical development side, we see shape – shape and form is developing with foldable, curvable, so on, and displays in especially on the automotive side and also in like wearables like the smart watches and so on. So, there is a continuous trend of new products there. Good for us.

We also see on the display technology where you can – we have the AMOLED shift that was or is and has been a big driver for our super high-end systems. We also see now we have the microLED, which is actually an LCD technology, but an enhanced, so which this means also driving demand. So, every change in technology is normally positive for us. And then coming is also the microLED, which is a similar technology to the AMOLED and even more advanced and where we believe that we also we'll have a good position to capture the photomask market needed for that technology. So, we are walking hand-in-hand with our customers on the technical development on the display side.

On the semiconductor, it has been exceptionally strong. I think we launched this SLX mask writer end of 2019, aiming because we saw there was a gap on the semiconductor market side with an aged installed base, still a high demand for a medium advanced semiconductor. And, now, what we see has exceeded all those kind of expectations with a much higher-than-believed demand and also much more development in the mid-end semiconductor, driven by new applications, especially on IoT type of equipment and smart homes and smart everything, I would say, and quite few suppliers in the market. We have the most modern and productive machines or so our equipment. So, we have been able to take a very big part of this market, which is doing very well, so. And this will continue for foreseeable future as well is our prediction. So that is little bit how I see the market on the Pattern Generators.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Thank you, Anders. Okay. So back to you, operator.

Operator: Thank you. [Operator Instructions] Thank you. The next question comes from under from [ph] Ander (36:30) from DNB Markets. Please go ahead. [ph] Mr. Ander (36:41), please go ahead. Your microphone is open.

Q

Okay. Thank you. Yes. Good morning. I have a question regarding prices and so on. Listening to companies now, everyone is raising prices. And as you have a rather big backlog, which is great, are you afraid that there will be problems raising prices for the component that you're buying? Or how should we look into that?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

That's a good question. So, yeah, it's a challenge. I mean, obviously, on the supplier side, of course, price increases, also transportation and also inflation in wages and so on is driving that. And we have done – and depending on the division, we have mitigated that by doing, I think, in a very proactive way price increases to compensate for that. So, I think we – it's difficult to say what will be exactly the net effect of that. But so far and what we believe is that we have managed that in a very good way to compensate for price increases by our own price increases and also, of course, efficiency gains and so on. So, I think it's – yeah, to conclude, not a big thing.

Q

Not a big thing; that sounds great. And the other one is other companies are little bit talking about that they have kind of inflating order books just because there are problems getting someone and you order just to make sure that you get something in the future. Do you have any feeling for where your order book is regarding that or is it [indiscernible] (38:24) that you have in your order book?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

I think as we sell production equipment, I think it's a little bit less speculation and so on. And so, I don't think we have seen any orders or speculation that the numbers are big. I think, however, what we have seen is possibly that orders are placed earlier than planned where they're kind of moving investments and so on for, but not aiming at, how do I say, safety on the manufacturer side. So, I think it can move in time. I mean, we have seen some demand for the deliveries on the PG side to be moved earlier and so on. So, I think that is reflecting that what you talk about.

Q

Great. Thanks so much and good luck.

Operator: Thank you very much. [Operator Instructions] Thank you. There are no further questions at this time. Please go ahead, speakers.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Okay. Thank you. So, with that, we have reached the end of today's presentation. Thank you very much for attending.

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