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Mycronic AB (MYCR.SE)

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MANAGEMENT DISCUSSION SECTION

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Hello and welcome to the presentation of Mycronic's Q3 Report. My name is Sven Chetkovich. I'm the Director-Investor Relations at Mycronic. With me, I have Mycronic CEO and President, Anders Lindqvist; and the CFO and Senior Vice President-Corporate Development, Pierre Brorsson.

With that, I hand over to Anders. Please go ahead and present Mycronic's third quarter.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Thank you very much, Sven, and good morning to all of you and welcome to this presentation. So today, I will talk about the short summary of the quarter first and then go in details with the different divisions. Pierre will talk about the financials and we will have some final remarks, and also leave time and space for questions-and-answers at the end. And to the presentation, if you find that on the website, you will also have a market update session that we will not present today.

So starting then with the highlights from the quarter. So starting with – that we held a well-attended Capital Markets Day in September, where we introduced the new financial targets and also a little bit sharper targets for sustainability. I will come back to that a little bit at the end of the presentation. We also renewed one of our revolving credit facilities with Nordea of SEK 1 billion. We have another one of another SEK 1 billion, which is not for renewal right now. And currently, none of these are used or utilized.

On the order side, we saw a good order intake increase, up to a little bit about SEK 1.6 billion, which is an increase of 30% and the support came very much from the Pattern Generators division, where we saw orders for seven mask writers.

The sales increased by 23% to a little bit more than SEK 1.2 billion, and the EBIT almost doubled to a little bit more than SEK 200 million. Margin was okay at 17% and I should say that we compare it to a rather weak quarter last year here also.

Backlog increased quite nicely to a little bit more than SEK 2.5 billion, which is a good number. And at the end of the quarter, it contained 15 mask writers. And then, after the quarter, we also received order for two SLX mask writers just recently now in October.

So, we focus a little bit on the different division, starting with Pattern Generators. We're happy to see that we got the first order for a new model, which is a variant of the Prexision 8, which is called Prexision 8 Entry Evo. This new model can be upgraded to a more advanced mask writer and this is good for the customer who can grow with the equipment when they want to increase their capability in mask writing.

We had a really good order intake in the quarter with seven mask writers, the already mentioned Prexision 8 Entry and then we had also two Prexision Lite 8 Evos and then four SLX. And the Prexision mask writers are for display and I'm very happy to see that we start to get the orders again for the display industry. And then, the four SLX mask writers are all for the semicon industry, which has been a continued success throughout the year, I would say.

So, very strong order intake. Of course, then with these orders of 76% to a little bit more than SEK 700 million.

On the sales side, we saw a decrease of 7%. We delivered one mask writer in the quarter. Gross margin ended up at 62%, which is good and the EBIT at SEK 76 million.

Good increase in backlog, of course, with a little bit more than SEK 1.1 billion. And as mentioned, we had 15 mask writers in the backlog of September 30 and then, we had orders of additional 2 after the quarter.

On the High Flex division, have seen a stable development, could see the demand have remained on a good level, on a healthy level in Europe and also in North America. We have announced that we're establishing a sales and service center in Mexico and this will be operational. Our expectation is that to have this operational by this quarter in quarter four.

Order intake was up 4%. And we have a very large order of almost \$2 million from an Australian customer. We're happy with that. The sales increase was 26% and the gross margin on a stable level at 41%, which is a good number.

Also very good in the High Flex division is that we have been successful in maintaining good delivery times for all the key products. There are still challenges, but less challenges on the supply side, I would say. But we have been successful in managing this and have currently very good delivery times.

EBIT increased to SEK 43 million and also a little bit of increase on the backlog up to SEK 243 million.

Then, moving to High Volume where we saw very strong EBIT. Majority of business is in China for this division. And in China, we have seen that suppliers to the electrical car industry have high demand and have continued to invest, which has been good for us. At the same time, we have seen that the consumer electronics segment have been a little bit weaker.

Order intake was up 41% and we have to mention here that the – both we have a quite good support from currency and also acquisition here. So, the organic order intake is up by 17% as a comparison.

Net sales up 81%, which is a very strong number, but we should also know that we had a quite weak quarter three last year to compare to and, of course, also on the sales side, we have support by both acquisition effect and positive currency effect.

Also happy to see that we have an improvement on the shortage situation and we didn't see any problems in the quarter by this. We also have seen that freight prices have fallen from very high levels, which is a good thing. Gross margin improved, 39%, also very good. And we had sales increase, of course, and some efficiency here. We have reaching a good EBIT number of SEK 95 million and also an increase in the backlog to almost SEK 900 million.

Ending up then with Global Technologies, continue to stay at double-digit EBIT, 10% for this quarter for the division. Within the division, we have two lines of business. One is electrical testing and one is die bonding activity and we have a little bit of mixed performance between these two. We are seeing that the electrical testing equipment have had a very strong performance with very good demand, while we have seen in die bonding especially that orders from China have slowed down in the telecom and datacom industry.

The reported numbers here, the order intake decreased by 18%. But here, we can also exclude acquisition effect and divestment effect, and then it was at the same level as last year. Sales down 6% and organic net sales actually decreased 10%.

Here, we had the impact from supply chain issues on the die bonding side, where we could not deliver everything we wanted in the quarter. While on the electrical testing side, we could execute according to the plan.

Good margin improvement of 39% or 39% is a good number. The comparative number of 23% is also impacted by SEK 26 million from acquisition-related cost when we acquired the company last year, atg L&M. EBIT SEK 22 million for the quarter.

So, at the Capital Markets Day that we had in September, we introduced new financial targets and also sharpened our sustainability target. So, what we want to achieve for the coming seven years or by the latest, 2030 – hopefully before, of course – is to double our sales to SEK 10 billion. We want to double our EBIT to SEK 2 billion. And at the same time, we want to half our emissions, our carbon dioxide emissions by 50%. All of this to happen, at the latest, 2030.

In addition, we want the EBIT margin to be about 20%, which is, of course, needed to reach the EBIT target. And also, we wanted no division should be below 10%. We feel that it doesn't make sense for us to run the division on a profit profitability level, which is below this. So the EBIT margin for the divisions, we want to be at least 10%.

And also to sharpen our commitment to sustainability, we have decided and applied and already joined the Science Based Targets initiative to sharpen our work and measurements around sustainability.

The outlook for this year, and this could require a little bit of explanation. So the previous outlook was that we should reach SEK 5 billion at the end of the year, and this was set at the exchange rates as we had at the end of 2021. We still have the same number as the outlook, SEK 5 billion, but at the prevailing exchange rates. So the difference here is that we believe that we will reach this number at – or at the prevailing exchange rates.

On the EBIT margin side, yeah, nothing has changed and we have communicated that we will be a little bit above our long-term old target of 15% here for the year. No change to that.

All right. So, I will be in silent for a bit and hand over to Pierre Brorsson, CFO, to explain a little bit more about the numbers.

Pierre Brorsson

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

Thank you, Anders, and good morning from my side as well. Just digging a little bit deeper then into the numbers, starting by rolling 12 months situation. And after five quarters of decline in the relative margin, it's good to see that we have at least stopped this fall and delivered another quarter basically on par with the last three quarters that we had preceding this one.

The aftermarket revenue is continuing to increase. We have no longer support from any additional acquisitions of any size in this number now, a little bit from the currencies and we are approaching a level of around SEK 400 million per quarter. So, good steady increase on that one, continued and happy to see that. And the EBIT margin rolling 12 months is at 17%.

As mentioned, we are continuing on par with the last three quarters for this quarter and this is sales level between SEK 1.1 billion and SEK 1.3 billion. And the EBIT that we generate from that has been above SEK 200 million continuously, so SEK 200 million to SEK 230 million, and the EBIT margin in the range 15% to 18%.

We're happy to be able to deliver this given the sales mix that we have and the strong contributor is that we have a 10% and higher margin in all divisions, although Global Technologies was just at the mark. On that division, the acquired electrical testing business from last year has continued to perform very well. Whereas we have some more challenges on the die bonding business, where we had the component supply issue for the quarter and where we have seen challenges in the order intake in China in particular.

Splitting the profit and loss statement by lines, we can see that we have an improved gross margin in the quarter. This is, to a degree, depending on that we had an acquisition-related cost in the comparative quarter. I think, at large, our divisions are performing in line with expectations, meaning the former Assembly Solutions divisions are around 40% and the strong contribution from the Pattern Generators division, which is above 60% for the quarter.

On the R&D side, there is nothing really dramatic here. Slightly higher than last year, a bit across mainly in the High Volume division, where we have a small impact of the acquired HC Xin entity, but also continue to increase our activities going forward and also some exchange rate impact.

In marketing and sales, we were on par with last quarter, but distinctly higher than a very low quarter of last year. We have, since the pandemic, increased our sales activities in several divisions. We have also, to a degree, so here, currency effect when we look at it in absolute numbers. And the sales level that we had in the quarter, especially towards the end of the quarter, generated then sales commissions as well.

Maybe also a comment on this other point towards the end, which is the largely the effect of realized and unrealized exchange rate gains when the currency is moving. And we also have here a little bit of subsidies in the HV division coming in better than last year.

Looking at it or cutting the income statement in the other direction, we had last year SEK 106 million EBIT and we have this year SEK 203 million. So, strong improvement and this comes largely from the High Volume division

and also the Global Technologies. But as Anders mentioned earlier, we had this hit of SEK 26 million in acquisition-related onetime costs in last year's comparison for Global Technologies. So, that improvement is actually distinctly smaller.

Strong improvement in High Volume, however. And in Swedish money, given the exchange rates, we have actually the best EBIT from High Volume that we had ever had and also the highest contributing division this quarter is High Volume.

On the cash flow side, not so much to mention, maybe that we have an increase during the year in receivables and inventory side. I think that's what we hear that many have – we have, in the quarter, improved the structure in the trade receivables, meaning that we have less overdue than we had at the end of the second quarter, even if we have higher absolute receivables. But this is something that we monitor very closely and work a lot with at the moment, in particular in areas where we can expect some increased risks. And this relates for us, in particular, to certain segments of [indiscernible] (18:42) in China.

On the investing side, we had the positive impact of divesting AEi earlier in the year, as you may have seen in previous quarters. And on the financing side, its majority relates to the dividend, but we also have some other things like repurchase of own shares coming in there.

Financial position at the end of the quarter is still strong, very strong, with net cash reported at SEK 639 million. And the cash at the end of the period was even SEK 900 million, in addition to the two credit facilities that we have now in place of SEK 2 billion for some years going forward.

And with that, I leave the word back to Anders for some summary.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Okay. Thank you very much, Pierre. So, last picture from our side. So, to go a little bit deeper on our commitment to sustainability. So, together with the new financial targets, we also presented our climate target. And we want to half our own CO2 emissions by 50% by 2030. And our own CO2 emissions, what we refer to is our production sites, our offices, our transportation from business travel, what we generate as an entity and as a company. Our commitment is to half that for the next or until the year 2030 by latest.

And also, as you know, that at the same time, we have also committed to increase our sales, double our sales and double our profit. To sharpen this commitment, we have also undertaken to set new climate targets in accordance with the Science Based Targets initiative, and we have joined that organization and committed to that as well. And targets will be set in the near future based on this methodology.

So, we feel very proud about this and we want to do our best to show our commitment to a sustainable electronics production industry.

Okay. That was everything from the presentation. I hand over to Sven now to moderate the question-and-answer a bit.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from the line of Mikael Laséen from Carnegie. Please go ahead.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Hi. Good morning. A few questions. First of all, can you say something about and comment on the order intake that you saw here after the summer for the PG segment? You received a lot of Precision orders and SLX orders, and elaborate on the market situation and the strong recovery that we have seen.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Okay. Yeah. So, we got order for seven mask writers in the quarter, which was four SLX, I think, and three Precision. So the four SLX is for the semicon industry. And it was all different orders. They are not at all related to each other. It was less than seven orders, but it was quite a few orders in that. And there was a little bit of coincidence, I think, that they kind of coincided so close to each other. So, there's no really changed in the industry that kind of triggered that or there's not one company order or all of them.

The four SLX orders, I think we have continuous good orders for SLX throughout the year and throughout the previous year as well. Obviously, the good demand from the semicon industry also in the pipeline going forward. So, I think this has been there and solid. Of course, very happy to see orders on the display side and I think there's nothing has changed really in the market fundamentals.

I think it was a little bit coincidence we got all these orders quite close to each other in time, but there is a good pipeline also on this side and good interest from customers. And we believe there is – on the long-term perspective that nothing really have changed in the market.

We could see that many manufacturers are intensifying their shift to more advanced displays, both on television sets, but also I think the – especially the AMOLED technology will come in medium size. This display is coming from watches and mobile phones and so on. And now will migrate into computer screens and larger equipment and also super high-end television sets, of course. And this is very beneficial for us.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. So, there is no catch-up here, recovery after low activity since Q1 2020 that customers need more updated production tools, for example, in [indiscernible] (24:37) right now?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yeah. In a way, it is, because I think customers were very, very busy to produce and sell, because this pandemic effect that was very positive for the display industry, we believe actually reduced the R&D activity for a while. And

now, you can see that the forecast for displays are less. It has actually declined from the peak level that we had currently.

And then, normally, what happens is that the industry focus more on new models and R&D, which is positive for us, because then it's there when the photomasks are needed. So, I think there's a little bit of, I should say, a catch-up effect or a delay in that. But long term, I think it's a natural cycle.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Got it. And then, another one on the Prexision side, you [ph] have received several orders now on the manual (25:35), then were expected to be delivered in Q4 2023. Can you say something about your own capacity for delivery during 2023? It seems to be quite busy now in the end of next year.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yes.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Do you have possibility to continue to deliver in 2023 or should we expect new orders to come in 2024 or to be delivered in 2024?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

It will depend a little bit on what type of machine it will be, but it's true that we will be very busy for the next 18 months, I would say, actually on the PG side. We have improved our lead times, both on the Prexision and on the SLX by efficiency in the workflow, I think, to a very good time. So, this has been done.

It has been investments, of course, but not in facility or space and so on. So, we are able to turn around the machines quicker than before and because of that, increased the capacity. Depends on what kind of – if we would – if your question is that could we deliver one more machine in next year, it will depend very much on which type of machine that is – how that will fit into the schedule. But, yeah, it's correct to say that we will have a very busy production next year.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

All right. And a couple of more questions here, if I may. Can you remind us about the main reasons why a PG customer should invest in the Prexision-800 system, the key drivers or triggers for that, why they're it taking up Prexision?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yeah. So the – and this is very much led – the need for P-800 is very much generated from the need of higher resolution, then lower power consumption displays and also with other technical features like refresh rates and things like that. And this still we see quite a low number of – if you see the majority of screens are still the old LCD or TFT technologies. So, that shift is still ongoing and the majority has not yet happened when it comes to that

and the leading – or not all of the leading manufacturers have not yet invested in that technology. So, we believe that there is still a market for the P-800 going forward.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

All right. And a final one, you mentioned in the report that you see weaker demand in China. Can you first update us on how much sales each segment has in China and then discuss what you see the outlook in China per segment and maybe if some areas are more affected and the others are more resilient?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yeah. I think we can talk more in general about China. So, for most of Asia, except for PG and except for the electrical testing where we still see good orders in China, we have seen a weakening demand. So we have seen less orders in High Flex. We have seen less orders from High Volume, and also the order intake for die bonding has a little bit of decline in China.

We believe it depends on – what we hear is that it's primarily because of the COVID lockdown and the very strict COVID policy that China still adheres to, where customers hesitate to invest and so on. So, once that will change, I think we will see a return on the business.

Also, there's a little bit of hesitation because right now, as we speak, we have this Party Congress going on and they will, of course, direct the direction for the future in what kind of high-tech industries will get the most support and where they want to see growth, which is also normally also a trigger for new orders and also, before that happens, a little bit the hesitation and so on.

And it's also a little bit segment-oriented. So, as I said, electrical testing is still on a good level and this is mainly because of substrate manufacturing in China, which is a different way of packaging PCBs or bare board, how to put the components in a more advanced way and a compact way, where we have a good product offering. And then also the sub-suppliers for the electrical vehicle market has been doing very strong. Yeah. So it's a little bit plus and minus at the same time.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thank you so much.

Operator: [Operator Instructions] Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Sven Chetkovich for any closing remarks. Please go ahead.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Thank you, operator. So, with that, we have now reached the end of today's presentation of Mycronic's Q3 report. Thank you very much for attending.

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