

10-Feb-2023

Mycronic AB (MYCR.SE)

Q4 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 Year-End 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, who will be presenting today.

With that, I hand over to Anders. Please go ahead and present Mycronic's year-end report.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Thank you very much, Sven, and good morning to everyone who is online and afterwards as well. So, today, I will present the quarter four of last year and a short summary of the quarter, go a little bit deeper in the different divisions. Pierre will explain the details on the financials, some final remark, and then we will have a question-and-answer session. And in the material, there is also an appendix about the market, which we will not present, but contains a lot of good information.

So, starting with the quarter, so we had a fantastic quarter. We had a quarter with a lot of different records, and this is of course always very fun. We had record order intake, more than doubling the order intake compared to the same quarter the year before, and that quarter the year before was kind of a normal quarter. So, you can understand that over SEK 2.5 billion in order intake was fantastic and the highest ever. Very much driven by Pattern Generators, which had orders for 15 systems, which is very high.

Also sales was another record, the best-ever, increased 16% to close to SEK 1.5 billion, whereof organic sales increase was 9%. Well, staying on the quarter, we also had a record order backlog, [indiscernible] (00:02:06) record order backlog of almost SEK 3.6 billion, which is very high and had 25 PG systems at the end of the

quarter. EBIT, we increased to SEK 262 million, which corresponds to a margin of 18%. And we had a record-high backlog at the end of the quarter with 25 systems and SEK 3.6 billion, but then we also received two more SLX mask writers early this year, adding on that of course.

If we go on in detail in the different divisions, as it was a record for the total company in order intake, we also had all-time high order intake in Pattern Generators with several nice highlights in the orders. One of these highlights is that we had the first-ever order for a new product, which is FPS10 Evo, which is a system to write photomask to produce what is called Fine Metal Masks, which in turn are used in the production of OLED displays.

Another highlight is the order intake of 15 systems, which is fantastic. But also a highlight within that is that we had also the fifth order for our flagship product, P-800 Evo. So, order intake increased almost 400% to a little bit more than SEK 1.8 billion. We shipped also five systems, four SLX and one Prexision Lite 8 Evo, which corresponds to an increase of 14% to SEK 455 million. Margin stable at 54%, EBIT at SEK 154 million, and also here record backlog as it was for the company with SEK 2.5 billion and 25 systems. So, very strong order intake and very strong backlog, of course, related to that.

If we move to High Flex division, also very strong, also very happy with the performance here. We had a fantastic strong finish to the end of the year. We saw very good demand in Europe and North America. The Chinese market was in the quarter still challenging. But at the end of the quarter, the COVID restrictions were lifted in China, and we believe that this will be an opportunity going forward.

We also had now the sales and service center in Mexico operational, which we have announced before, and this will be a base both for High Flex and the High Volume division in Mexico, which is a new hot market for electronics production. Orders were up with 17% and sales up 19%. Nice gross margin of 43% and also strong EBIT at SEK 77 million, which is 18%, and backlog SEK 138 billion. So, all-in-all, a very stable and solid performance of High Flex division.

On the High Volume division, a little bit of mix. We had a slow order intake, but quite good sales. Order intake is related still that we had in the quarter still the COVID lockdowns in China, which is the main market for this division. But we have seen that – since these lockdown restrictions has been lifted, we have seen the large, clear increase in the requests for products from our existing customers, especially in the consumer electronics segment, which is a little bit faster moving than the other segment.

Slow order intake, it was down 35%. Sales up 38%, also supported by currency in this case. So, the organic sales increased with 23%. Gross margin was 39% compared to 32%, which is a little bit an unfair comparison as we, in quarter four 2021, had a negative impact from acquisition-related costs and also higher than normal logistics cost. We also had some financial effects in the quarter with the write-down of SEK 8 million in the acquired company HC Xin. On the other hand, we also had a positive effect from a reevaluated earn-out portion from the acquisition of Axxon Piezoelectric Technology of SEK 6 million. Sales – oh, sorry. EBIT was up to SEK 74 million and backlog quite okay at SEK 717 million.

When we come to Global Technologies, where we had within the die bonding segment – the die bonding business line, quite challenging market. We have seen that both the largest segment or largest market which is data and telecom, telecom was quite slow during the quarter and also the Chinese market, and both of these are very important markets to us. So, the order declined. Order intake decreased 33%. Now, this is also an unfair comparison, because we had partly the company AEi in the numbers the comparative quarter, and excluding that, the order intake declined with 20%.

Sales down 11%, in which also organic sales were down 3%. We have seen, within the die bonding segment or the product line, that the supply chain situation has been a little bit easier, a little bit better. So, we are able to produce and ship according to plan more often, while we see that in electrical testing still it's a challenge. Gross margin was up to 37% and EBIT down to SEK 6 million. So, outlook for this year. So, we and the board of directors believe that we will reach sales of SEK 5.5 billion this year, which is in line with our long-term plan.

And with that, I will hand over to Pierre to talk a little bit more about the financials.

Pierre Brorsson

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

Good morning from my side as well, and thank you, Anders. So, looking at the numbers a little bit more graphically, we had a continued rolling 12-month increase despite the tough comparison with the prior all-time high sales quarter of Q4 last year, and we surpassed also the outlook that we had and the previous financial target, which was at SEK 5 billion. So, we ended the year on SEK 5.1 billion and with an EBIT margin at 17%, also that well in line with the previous outlook that we had for the year.

Obviously, it's been a year which was not easy to foresee. We have had some positive support from the currency development and the weak Swedish krona. But on the other hand, there has been enough headwind in particular in our imported – the Chinese market with COVID lockdowns, and towards the end of the year also, a lot of people falling sick when opening. But all-in-all, we reached where we thought we would end the year.

And then, if we look at it quarter by quarter, you can see that we have a steady increase also of the aftermarket business here, now surpassing SEK 400 million, which is a good base for us, with a steady flow of recurring revenues. The quarter ended with an EBIT margin at 18%, so just above our average for the year. And we had a very strong ending in particular at HF, which supported the volume increase and also the profitability increase. So, now we have set the new mark, almost SEK 1.5 billion as the record quarter. We can also say that the delivery situation is overall at good control in the company, and it has not been a huge issue. But now, we are where we want to be in that respect in almost all products.

If we make a bridge quarter-on-quarter, we went from SEK 204 million and 16% last year to SEK 262 million and 18%, and this was mainly contributed to by the volume and gross margin effect. We have improved gross margin across, except for the division PG, which was quite similar to last year. Of course, the currency play in our favor here as well to some degree, and they're playing then against us when it comes to translating the operational costs. So, this is one of the explanations. But the majority of the explanation is our own activities that we have done. And we are seeing opportunities and we are investing in several divisions, more into the R&D.

And so, three of the divisions actually have distinctly increased their R&D spend compared to prior year, [indiscernible] (00:12:21) may be a mathematical effect that we have not activated as much as last year. We have higher sales, higher activities, and we have also provided a little bit more for bad debt than last year. This relates to China and in the division HV, where we have increased receivables, partly related to delayed payment reflecting COVID situation. But we also see the slower market are increasing the risk for us and certain customers are delaying payments a little bit. It's not a huge issue, but we have that effect in the quarter.

If we look at it division by division comparing it to last year, you can see that the majority of the improvement actually comes from the High Volume division. I would say apart from that, we are very happy with the development in the High Flex division and we are not happy with where we stand on the part of the Global Technologies division, which relates to die bonding. PG developing well in accordance with plan, and of course, delivering the majority of the profit in the quarter as well.

Looking at the cash flow, we continue to have an overall very good and solid cash flow from our operations even if we are not meeting fully last year. Here, you can also see the effect of increased trade receivables. This stems from the HV division and also from the PG division. But from the PG division, it's more of a factor of when things were invoiced, and this was more towards the end of the year this year, why we have a little bit of an increase there. So, no additional risk to that side.

We have also received relatively large down payments related to PG – to the PG orders that we had during in particular the fourth quarter, which offsets a large portion of this increase in the receivables. On the investing activities, the largest factor was the sale of the AEi business in the beginning of the year, but we have invested a bit in machinery, et cetera, during the year, offsetting part of that. Financing activities is largely related to our dividend, and that means that we have a net cash at the end of the year of SEK 1 billion and the actual cash is almost SEK 1.3 billion. Apart from that, we have also two credit facilities, each of SEK 1 billion, should we need to draw. So, a very solid financial position in the company.

And with that, I hand the word back to Anders again.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Okay. Thank you very much. So, we want, as always, to give an example of our sustainability work, what we're doing, and what's specific for the quarter was a lunch of the professional group-wide network for women that we launched. And this idea was established following a survey to analyze what kind of activities for inspiring and generating engagement within all of our female employees at Mycronic. And the idea is to create relationships and cooperation globally between divisions, between functions, between different countries, between all of our female employees. And so, that was launched during the quarter as a very nice example, I think, of sustainability work.

All right. So, that was the end of presentation. I hand back to Sven now to manage the Q&A session here.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [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

Hey. Good morning. Thanks for taking my question, and I'll start with the guidance, SEK 5.5 billion in sales. And you have disclosed the system shipment schedule for the PG segment. So, we know that quite well. But can you say something about what you expect for High Flex, High Volume and the Global Technologies in 2023? Do you think it's possible for these segments to have a positive organic growth in 2023?

Pierre Brorsson

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

A

Shall I go?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yeah.

Pierre Brorsson

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

A

I mean, we are not guiding by division, as you know. We think there are opportunities for all divisions. We have not included any potential acquisitions in this number, obviously. So, this is possible to calculate on where with the information that is available.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. But mathematically, if you just can confirm that it means that you'd expect these segments to grow as a whole in total?

Pierre Brorsson

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

A

As a sum of the part, mathematically, that could come out, yes.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay, good. And last year, I think you provided an EBIT margin guidance or an indication for 2022, but I can't find anything for 2023. Can you say something about how we should think about the margin in 2023, if it's possible to deliver better margins this year than last year of 17.5%, considering the – what you're doing in the R&D side, the activity that you have there, the underlying cost inflation and the segment mix dynamics?

Pierre Brorsson

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

A

I think there was a specific reason to why we guided on margin last year, and that was we were increasing – we saw that we were going to or plan to increase the volumes, but that the mix would cause a decline in profits. And that's normally not what you should expect. So, if we would have guided on sales only last year, we would have put the wrong expectations or we risked to put the wrong expectations in the market. I think the normal scenario is that when you grow in sales, your margin would also have a positive impact, all other things equal. Now, I think it will be up to you to make the math a little bit on how the segment split, because we have different profitability in our segments. I think you can calculate an impact of that by knowing the PG order stock and what we are planning to deliver on in 2023.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Yeah, fair enough. And another question here is on the Pattern Generators side. If you have still the capacity to take orders for the shipment in 2023? That was the first one.

Pierre Brorsson

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

A

I mean, the capacity is somewhat limited for 2023 new orders, so.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Basically, if you take orders right now, you will probably deliver them in 2024 or later?

Pierre Brorsson

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

A

I think the majority of what comes in now will not be delivered in 2023. I think we had one of the orders that we published this week will actually go out this year as well. But also given the lead time of these projects on the customer side, we don't see that as a major issue. They know...

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay.

Pierre Brorsson

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

A

...the lead times at the moment, so.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Yeah. And can you say something about how the services part is performing for the PG segment in Q4 and what you see ahead?

Pierre Brorsson

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

A

I think that what we can say is that, you know the shipments of the SLX machines that we have started – the semicon industry, which has started relatively recently, and this is still a minor portion of the aftermarket business for PG, obviously. So, in the medium, long-term, we do see opportunities here for this to increase.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

So, how long time does it take for, after the shipment is done, until you start recognizing services on the machines?

Pierre Brorsson

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

A

Yeah. We typically have a warranty period of 12 months, and then it enters – as from that point, it enters into service contracts.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. So, final one – or maybe couple of more, if I may. The die bonding area, just curious if this is a profitable business segment.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yeah. I think die bonding is a niche and we are one of the really top suppliers globally. If we look at the gross margin, it's normally quite stable around 40%, and definitely, it should be a profitable segment. Now, we had, at the end of last year, quite a decline in our key segments, the key segments here is really data and telecom, also a little bit of aerospace and defense. And we have seen that the data and telecom investments slowed down. And then, also key – one key area for us is the China market for die bonding, and also that slowed down too, very much due to COVID lockdown reasons. And of course, when the volume declines, it doesn't help with the gross margin. But when we get volumes back to kind of normal level, there is definitely a long-term strong market here in the data and telecom business. This this should be a profitable business. But for the quarter, we had – or actually the end of last year, quarter three was not fantastic either. We had a decline on sales and orders for die bonding.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. And final one for me, can you say something and talk about the M&A opportunities in 2023, what you have in the pipeline?

Pierre Brorsson

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

A

Yeah. That's – of course, not go into the various specifics of that. I think we have a financial position that allows us to do things on the M&A market. And given the overall financial climate, there might be better opportunities to find things at the right price today than it was one or two years ago. But we will continue to be active and look, and then if we are able to close or not, that we will see.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

All right.

Pierre Brorsson

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

A

But I mean, this is an important – sorry, this is an important part of our ambition to reach the double size of the company. We have, I think, also explicitly say that we think that about one-third of this growth has to come from inorganic opportunities. So, calculating that, we will continue to be active.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thank you very much.

Operator: [Operator Instructions] The next question comes from the line of Anders Rudolfsson from DNB. Please go ahead.

Anders Rudolfsson

Analyst, DNB Markets

Q

Yes. Good morning and thank you for taking my question. I have actually just one, and that's regarding the potential spin-off that you actually mentioned last year. Is there any progress on that on timing? And I can understand that there have been problems during the COVID, but is this progressing in a positive way or not?

Pierre Brorsson

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

A

Yes. Thank you for the question. We are continuing to make sure we take the right steps here. We are working diligently on this, and it will probably take us a little bit more time before we see exactly how this pans out. But we are continuing to work on this, and it shouldn't be seen as a total spin-off. The idea here is that we should give Axxon and the division HV the perfect opportunity to succeed in China. We will still retain the majority ownership of that business, et cetera.

Anders Rudolfsson

Analyst, DNB Markets

Q

All right. Thank you. Perhaps I have the time and ask another one then. It seems that the – so to speak, the speaking war between the US and China continues and actually increases by the month, so to speak. Is this something that you can feel as well or does your business run as normal?

Pierre Brorsson

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

A

I think so far, the business runs more or less as normal. I think the regulations that came out in the autumn actually made some more clarity. And for now, it does not make a major obstacle to the business that we are doing. We are working on – mainly on nodes which are not affected by this regulatory change. So, I think that makes the playing field for us more clear for now. Of course, if this escalates and escalates, this may be a difficulty for us. But for now, I think it's under control from our point of view.

Anders Rudolfsson

Analyst, DNB Markets

Q

All right. And the final one, you have a lot of business in China, and the 2022 was of course very challenging. How much – actually, is it possible to estimate how much that cost you compared to a normal year, so to speak,

regarding in fact top line growth and so on? And what could we expect from that, so to speak, to be better in 2023?

Pierre Brorsson

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

A

Oh, that's – I think there are so many parameters in that. So, it's very hard to say, okay, it had this effect. But maybe what could be done is to look – of course, it's not the only factor. But we have been growing the HV division very strong since the acquisition. I think we announced when we did the announcement of the potential listing that we have grown some 39%, and this division has, on the order intake side, not really grown substantially this year. So, of course, this is a setback for us. In addition to that, we have had the High Flex division and we have had the Global Technologies division which are also strongly affected by this. So, it has had a substantial effect for Mycronic.

Anders Rudolfsson

Analyst, DNB Markets

Q

Right. Well, thank you so much and good luck.

Pierre Brorsson

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

A

Thank you.

Operator: [Operator Instructions] Gentlemen, there are no more questions of this time. Would you like to conclude the conference?

Sven Chetkovich

Director-Investor Relations, Mycronic AB

So, yes, thank you, operator. So, with that, we have reached the end of today's presentation of Mycronic's year-end report. So, thank you very much everyone for attending.

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