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Mycronic AB (MYCR.SE)

Q1 2023 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 CEO and President, Anders Lindqvist; and CFO and Senior Vice President, Corporate Development, Pierre Brorsson, who will be presenting today.

We have made a change to the Q&A session later in the presentation. There are no phone numbers to dial this time. If you want to ask questions during the Q&A, please click a Request to Speak button that will be visible during the Q&A in order to enter the queue. Ask your question when introduced by me. And we will only be broadcasting your voice.

With that, I hand over to Anders. Please go ahead and present Mycronic's Q1 report.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Okay. Thank you very much, Sven. And this is what we will present today. So we will start with the quarter one in short, summary of that, and then also the divisional development. Pierre Brorsson, CFO, will go through the financials, talk a little bit on our progress on sustainability. And then as Sven said, we will end with the question-and-answer session. And at the end, in the material and the presentation, you will also find an appendix that we will not present, which is the market update with all the statistics from the market where we operate in.

When it comes to the first quarter, the highlight of the quarter is that we have had a continuous, very high and good order intake. We had an increase of 12% compared to the same quarter last year, up to a little bit about SEK 1.6 billion. It's driven by the order intake in Pattern Generators. And yeah, you can put that in relation also to last year revenue, which was SEK 5.1 billion. And then you see that the SEK 1.6 billion level is a really strong order intake number for the quarter.

At the same time, we also had an increase in sales by 7% to SEK 1.2 billion. Quite a lot of that was driven by currency, so 2% organic growth in that number. EBIT ended at SEK 182 million compared to SEK 206 million. And for comparison reasons, we have also, as we say here, that we had the divestment, we had AEi in the business same quarter last year. So if we adjust for that, it's a flat development of EBIT and corresponding to a margin of 15%.

So we have had also good order intake previous quarters, as you have seen hopefully. And we have a record high now backlog of close to SEK 4 billion at the end of the quarter. And at the end of the quarter, we have 30 systems in the backlog. And then, as an additional highlight, we had also two more orders after the quarter of two pieces of SLX mask writer. So backlog is extremely strong, as you can understand.

If we go a little bit more in details on the different divisions, starting with Pattern Generators, we can see that we still have a very good market for photomask in semiconductors. And to say here that it's in the mature design nodes that remains strong and the mature design nodes are the ones which we address with our SLX mask writer. So it's a good place to be at.

Also, display has been good. We had – if you look at the order intake, we had eight systems for the quarter, a Prexision 8 Evo, it's a display writer, and then also an FPS6100 and six mask writers for the semicon industry SLX. So very strong order intake, 113% up compared to the same quarter last year.

We also delivered some systems, and we had an increase of sales of 10%, reaching SEK 351 million. And in the delivery, we delivered three pieces of equipment, one Prexision Lite 8 Evo, FPS6100 and one SLX. And we should have delivered one more SLX in the quarter, which was moved from quarter one to quarter two. So it will be delivered this quarter instead.

Gross margin was okay at 62% and EBIT reached SEK 150 million, so backlog of close to SEK 3 billion in this one. And at the end of the quarter, we had 30 systems as said.

If we move on to the other division, another division, High Flex where we had, I'll call it, a decent start to 2023. We have seen that we have very good demand in Europe and also North America and a lower level in China. And a lower level in China you will see in the other divisions as well actually. It's a kind of a common theme here.

But in the beginning of the quarter, in January, there was an annual trade show in San Diego, which is the one of the big one in the electronics assembly industry, which had a lot of visitors, a lot of interest and a lot of activity, which is really showing that there is a good demand and a good interest from [ph] especially then (5:49) the North American market, including Mexico as well.

And on the order [Technical Difficulty] (6:00-6:31) Sorry for that. Yeah, so excuse me. Sorry for that. We continue. So on the High Flex division, so we had an order decline of 3% and also an increase of sales with 11% up to SEK 322 million. Gross margin, quite stable and good gross margin of 40%. EBIT ended at SEK 23 million, which is a little bit up compared to last year, and a backlog of SEK 180 million. So it's kind of as expect start to the year.

In the High Volume division, we had – we can see that we have a little bit of slow pace of investments when it comes to consumer electronics manufacturing. And even though the COVID restrictions in China have been lifted, we have seen that this industry has not yet really recovered when it comes to investments. It's still hesitating a little bit, but we expect that to come. You can see that in the order intake, we had a decline of 41%.

To compensate, we focus on new areas. One of them is electrical vehicle industry, which is very strong, especially in China, and also looking at the more aggressive geographic expansion outside of China. We have got an initial order from a production facility outside of China, but belonging to a Chinese manufacturer of electrical vehicles.

Sales were flat, SEK 367 million, same as last year, and we have an increase in gross margin, and [ph] this to have (8:15) a better mix. We have a better delivery, better gross margin in the deliveries we have had. And also we have worked with efficiency improvement in this division. Resulting net EBIT improved to SEK 64 million. And in that SEK 64 million, we also had a negative impact that we have had debt provisions of SEK 7 million in that. So backlog at the end of the quarter a little bit more than SEK 600 million.

When it comes to Global Technologies, we have two lines of business here, one is electrical testing of PCBs and substrates, and the other one is die bonding, addressing mainly the telecommunication market. And we have seen a little bit of slowdown in both of these markets, both related to the Chinese market as a whole, but also that in the market of data and telecom, a little bit of decline and resulting in that our order intake decreased by 27%. If you make a fair comparison because we had this AEi business in the quarter last year, it's a decline of 25%, so almost the same. A little bit an increase in sales, but mainly related to the currency exchange effect here.

Gross margin flat at 35% and EBIT down to SEK 3 million. Also here we have a comparison effect with the AEi business that we had in the business last year, which had an impact of SEK 25 million of the previous quarter last year – or the same quarter last year, previous year. Backlog ending at SEK 236 million [audio gap] (10:06) no change here. We still believe that we will reach sales of SEK 5.5 billion at the end of the year. And so, nothing to update there.

So by that, I will hand over to Pierre, CFO, to explain the numbers a little bit more in detail.

Pierre Brorsson

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

Good morning, everyone, from my side as well. We will go a little bit deeper in some of the numbers here. If we look at it, we continue to have a fourth quarter in a row of continued growth on the revenue side and we are now at SEK 5.2 billion rolling 12-month. The margin is at 17% on a rolling 12-month basis and relatively flat development lately. The aftermarket revenue continued to increase since two years quarter-on-quarter when looking at the rolling 12-month numbers. And this is, of course, a good thing for us.

Moving a little bit into the quarter-on-quarter comparisons. We have now six quarters in a row above SEK 1 billion in revenue. So we are establishing a good level and that this is the fourth quarter on SEK 1.2 billion. So also there is good, even if the organic growth in the quarter was modest with only 2%. We had a little bit weaker EBIT margin than the last couple of quarters. And if we compare year-on-year, it's affected by the AEi divestment we had last year, which gave a gain of SEK 25 million in the Q1 numbers of 2022.

We also have higher costs on what we call group functions and sometimes referred to group functions, etcetera, where we have also eliminations. And this is largely driven by our high activity in business development projects at the moment. This made us end the quarter at an EBIT margin of 15%.

If we look at bridge of where the components make up the difference between the quarter one last year and the quarter one this year, we had in volume and gross margin effect positive development, largely driven from PG, where we had a little bit of volume and a little bit of improved margin. We had also improved margins in the High Volume division in particular.

If we look at the R&D, we are investing in the organic opportunities that we see. We had slight increase across in R&D, but in particular in division High Flex in the quarter compared to the same quarter last year.

On the marketing and sales side, there we have the increased business development projects. We have also the provision for bad debt in division HV that Anders mentioned earlier. This is a provision which we make as a calculation based on the aging of receivables, and it's not attributable to a specific loss. We haven't basically had any concluded losses on the receivables, but we do see a delay in payments, particularly related to the High Volume division. G&A some small increases. And in this other position, the main difference on last year is the SEK 25 million related to the AEi divestment last year we have spoken about a few times already.

If we then move into the other dimension and look at it division-by-division, you can see that we have improvements in the Pattern Generators related to volume and gross margin, as mentioned. We have in High Flex a little bit increase in volume in the month – sorry, in the quarter. And on the negative side here, we had a little bit higher R&D spend. In High Volume, we have improved the gross margin in particular and, in the Global Technologies, then the sales of the AEi is recorded. And finally, in the group functions, etcetera, largely the business development, and I should also mention a very low comparative number for the same quarter of last year. The average for the year, the difference is about SEK 10 million less than the SEK 34 million noted here.

If we look at the cash flow, we have strong cash flow both from the result and from improved working capital, positive development on the receivables compared to end of the year and also a little bit higher payables than we had at that point. On the investing activities, we had last year in the comparative number the sale of AEi, which generated SEK 215 million. So this is a normal level of our investments, you could say. And apart from that, no other big differences in the financing activities and the exchange rates. We have a strong cash position and the cash as such was SEK 1.6 billion almost. And adjusted for the IFRS, etcetera, we have a net cash position of SEK 1.3 billion at the end of the quarter.

With that, I hand the word back to Anders.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Thank you [indiscernible] (16:25). And the last picture from my side about sustainability. So we continue to improve our work around sustainability, not at least to meet our targets that we also added last year along our financial targets. And we have established sustainability goals for 2023, broken down and also connected that to the annual strategy process to implement that in all of our divisions and in line with the long-term action plan.

We also – when we announced the new financial targets last year together with our sustainability target, we also said that we have joined the science-based target initiative and we have started a working group there to preparing the proposals that we need to submit to this organization. And our target is to be ready by the end of this year with this. So we are included in that initiative.

All right. So that was the part of the formal presentation. So I hand over to Sven now.

QUESTION AND ANSWER SECTION

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Thank you, Anders, and thank you, Pierre. So now we will move over to the Q&A session. And as you can see, there is a Request to Speak button that you can press if you want to ask a question. And first in line, we have Fredrik Lithell from Handelsbanken. Please go ahead, Fredrik. So, yes, Fredrik, please go ahead and ask your question. Fredrik Lithell, Handelsbanken, please go ahead and ask your question.

Okay. So there seems to be a technical glitch. So, Fredrik, please try again. And in the meantime, we will let Mikael Laséen from Carnegie ask his question. Please go ahead, Mikael. Okay. Mikael Laséen, Carnegie, please go ahead and ask your question.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Can you hear me?

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Now we can hear you. Sorry about the technical glitch here.

So...

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

...Mikael, please go ahead and ask your question.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thank you very much. Yeah, I'm a bit curious here about the guidance of SEK 5.5 billion. You have a really strong order book in the PG segment and the service revenue in that part is also relatively predictable and High Flex also starting off with a good order intake. So I'm just curious if you can maybe elaborate a bit on the outlook for High Volume and Global Technologies, how we should think about that.

Pierre Brorsson

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

A

I mean, we are not making an outlook on divisional level. We do see – the up so far this year has been the strong order intake on the PG side, the strong order book we have there. The down as so far been the time it takes to recover in China, which affects basically all divisions, even if we have had the strong development from PG there. And this means that we maintain the outlook of SEK 5.5 billion.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. So if I'm correct, it implies significantly lower sales for High Volume in the coming quarters, that must be the implied effect of the start of 2023 and the unchanged guidance. Just to be clear here, so we understand the dynamics.

Pierre Brorsson

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

A

Yeah. I will not guide on divisional level. We maintain the guidance of SEK 5.5 billion for now.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Yeah. Fair enough. Can you also then maybe comment a bit more in detail what you see in China, primarily for the High Volume segment, how the quarter developed and the market activity? And maybe also say something about the end market exposure for the High Volume segment, which type of customers and end markets that you are exposed to? Thank you.

Pierre Brorsson

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

A

If I start and then maybe Anders can continue. I think we do expect the Chinese market to recover. It's very hard to predict exactly the point when this will happen. But we have seen that it takes a little bit longer than what we had hoped and maybe thought as well. So – and our High Volume division has then put more efforts on other segments than the traditionally strong consumer electronics segment, which has been the slowest to recover from our point of view.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

[indiscernible] (23:26) different segments with the High Volume division. The consumer electronic has traditionally been the – is the largest one, but also in – we're also now quite active in automotive as well as semiconductor with that division. And we have refocused more into automotive because of the enormous development of electrical vehicle that we see in that segment, so to compensate. But just to add to Pierre's comment that I think we, among many others, also believe that after the COVID restrictions, we should see a faster increase of investment activities, but there is longer than what we believe hesitation here. But the market is very active and the number of requests are very high. So long term, we still believe in this.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. And my final question is on the PG segment, if you can say something more about demand for your different type of systems, SLX replacement possibilities ahead and also the market situation in total, if you can elaborate a bit more on that?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

It's quite unchanged, I would say. So we had – we see a continued very strong demand from the semicon industry and especially in the technology segment, which we addressed with the SLX writer. So, no change from before. We have a similar interest on the display side as well. So compared to before, I think it's obviously a similar

situation. But it's, of course, difficult to say how this is translating into equipment sales, of course. But on the photomask side, we see that there's a good demand and a good market in all of our segments.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thank you. I'll get back in line.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Okay. Thank you, Mikael. And now over to Fredrik Lithell. Let's hope it work this time. Go ahead, Fredrik.

[Technical Difficulty] (25:43-26:20) We have some trouble hearing Fredrik. [Technical Difficulty] (26:25-27:16)

Okay. So, Fredrik, please go ahead and ask your question. [Technical Difficulty] (27:25-28:07) Okay. So we are having some trouble, unfortunately, getting Fredrik Lithell on line. But please, if there is anybody else wanting to ask a question, go ahead and click the Request to Speak button.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Okay. Well, with that, we have reached the end of today's presentation of Mycronic's Q1 report. Thank you very much for attending.

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