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Mycronic AB (MYCR.SE)

Q2 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 Q2 Report. My name is Sven Chetkovich. I'm the Director-Investor Relations, Mycronic. And with me, I have Mycronic CEO, Anders Lindqvist; and CFO, Pierre Brorsson, who will be presenting today. As you can see, we have moved to a live video format, which we hope you will enjoy. And with that, I hand over to Anders. Please go ahead and present Mycronic's Q2 report.

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

Thank you very much, Sven, and welcome to everyone to this new format and our Q2 report. So, what we will talk about today, the agenda is similar or the same as it has been before. So, I will give a brief introduction of the second quarter of this year. We will go a little bit deeper per division and see the divisional development. Pierre Brorsson, our CFO, will go deeper into the financials. We will talk a little bit about sustainability. And then, at the end of the session, we will have a Q&A session as well.

So, with that, I would like to start with the highlight of the quarter two and that was really the strong order intake. We had an increase of order intake of 45% up to a little bit more than SEK 1.7 billion, which is extremely strong for us, and it's very much driven by really good performance in the Pattern Generators division.

The sales development compared to same quarter last year was almost flat. It was a decrease of 2%. And EBIT ended at SEK 170 million. But it has to be noted here also that, including in that, we had a onetime cost, a non-recurring cost, of SEK 60 million related to business development. So, taking that into consideration, we were more or less equal to same quarter last year with the EBIT.

Margin, with that development cost included, ended at 14%. And with the strong order intake, you could see that the backlog increased up to almost SEK 4.5 billion, which is the highest we have ever had. And that backlog contains 31 mask writers and that was per end of the quarter. And then, in addition to that, we also had two more orders for one SLX each after the end of the quarter two.

So, starting with Pattern Generators, as I said, we had a record order intake and it was very much related to the Pattern Generators. We increased the order intake up to SEK 804 million. And in that order intake, we had six systems, two different variants of Prexision mask writers, which are writing photomask for the display industry. And then, we also had four SLX mask writers, which are writing photomasks for the semiconductor industry.

We had a really good development of gross margin. It increased up to 64%. And the reason for that increase is that we have increased the value of the delivery system. Also, we have a little bit of positive currency effect and also we are continuous working on operational improvements. So, all that together resulted in a very nice increase of gross margin.

And the EBIT ended at SEK 191 million. So, the backlog, majority of backlog of SEK 4.5 billion is in the Pattern Generators with SEK 3.3 billion. And as I said before, that consists of 31 systems at the end of the quarter.

So, moving on to High Flex division, what we see here is that we have seen a very strong demand from our customers' customers, like the end customer, in the [ph] four core (00:04:03) segments where we operate, which are aerospace, defense, medical and industrial applications. That demand has not really yet translated into bigger demands from our direct customers, but, of course, it's very good when the end customer market is strong.

If you look on the different regions there that we have, you could see that Europe and North America performed well and this is similar to the previous quarterly presentation we had. And China continued to be weak. We have not yet seen the upswing in China that everyone is waiting for.

We had an increase of sales with 13% up to SEK 350 million. And we also initiated a project to close down production of storage towers. And storage tower is also what you see on the presentation picture here, which we today manufacture in Germany. And that manufacturing will be transferred and consolidated in Sweden with other production.

Gross margin at 39%, which is reasonably okay. And the EBIT declined to SEK 14 million and a bit of that decline, SEK 10 million, relates to cost of transfer to production I just mentioned. Backlog at SEK 175 million, which is kind of normal for us.

If we move into High Volume division, focusing on delivering dispensing equipment for the electronics industry. Also here, we see the weak demand in China impacting this. We see that the investments in consumer electronics manufacturers in China is still weak, similar to the previous quarter that we had. We can also see that our customers are actually replacing manual tasks by increasing efficiency by automation rather than invest in new production lines.

On the other hand, we have been very successful in changing focus from consumer electronics into the electric vehicle industry where we have been very successful and see a very strong increase. The size of that segment is smaller, so doesn't make up for the weak demand in consumer electronics but it's very nice of course to see that we can refocus into other healthy segments.

Order intake decreased 24%; sales, down 32%; and this is all compared to the same quarter last year. Actually, if we look on the order intake which we had SEK 370 million of in this quarter, it's the best quarter. The three previous quarter was actually much less, so we are seeing a change here in the order intake if you look on a quarter-by-quarter sequentially. EBIT, down to SEK 38 million, and that's a good number actually. We are working a lot on efficiency to keep our profitability up. And backlog ended at SEK 723 million at the quarter.

If we move on to the next division, Global Technologies. In Global Technologies today we have two different lines of businesses: one is electrical testing and this is the equipment you see on the picture here; and we have also a technology called die bonding, mainly focusing on equipment for the telecom and data market.

And we have a mixed picture in performance. We can see that the electrical testing of printed circuit boards and substrates have recovered in this quarter in terms of sales. And we have seen that demand in this segment is very much driven by investments in AI and also servers. In die bonding, on the other hand, we have seen very strong demand from aerospace and defense, but our biggest segment or market in this is data and telecom. Here, we have seen that this market remains weak and, therefore, we see this mixed picture in performance.

So combined, the order intake increased 11%; sales, down 15%. And the order intake of SEK 246 million is actually the best order intake in the last four quarters. So, here we see a little bit the trend shift. EBIT was down to SEK 9 million, which is unusually low. And we have seen that the aftermarket business was impacted in the electrical test line of business. And backlog ended at SEK 272 million.

So if we move on, that was the divisions. If you look on our outlook for 2023, we confirm that we remain at the same number as before, that our outlook is that we should reach net sales of SEK 5.5 billion for the full year.

And with that, I will hand over to Pierre Brorsson to go a little bit deeper into the financials. Thank you.

Pierre Brorsson

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

Good morning from my side as well and thank you, Anders. Looking at the development over time, we can see that the rolling 12-month took a little bit down. We took the 12-month number a little bit down by declining 2% in the quarter on the same quarter of last year. You can see that on a rolling 12-month basis, the EBIT margin is around 16%. Aftermarket continued to increase as before sequentially now since 2021 despite some challenges particularly in the GT division in the quarter.

If we look at it on a quarter-by-quarter basis, you can see that we are having quarters in the beginning of the year around SEK 1.2 billion. And given our guidance for the year to reach SEK 5.5 billion, we are then predicting to be on average at SEK 1.5 billion for the remaining two quarters of the year. So, predicting a stronger ending than start of the year. As Anders mentioned, we had business development project cost in the quarter amounting to around SEK 60 million, which took down the EBIT margin to a level a little bit below what we've had lately in this quarter.

If we look at it by cost category, you can see that we had an improvement in the gross margin. This stems largely from our Pattern Generators division where we had improved gross margin on last year due to improved efficiency in our own operations and also higher value in the machines that went out. We had also a slightly higher mix of the Pattern Generators in the quarter.

On the cost side, the main difference on quarter-by-quarter is, of course, the business development project costs that we have in the quarter. And on this other items, we have the main parties there, they're related to the

restructuring of RoyoTech within the High Flex division. That brought us to SEK 170 million at the end of the quarter.

Division-by-division, we had a good contribution from the Pattern Generators quarter-on-quarter, whereas all the other divisions declined for various reasons on a quarter-versus-quarter basis. And on top then, the group functions where we host the business development costs also contributed to lower EBIT for the quarter compared to the same period of last year.

Looking at the cash flow for the year, we have a strong cash flow. We had a strong cash flow in the quarter as well. We have improved working capital. This stems both from reduced receivables, which is not necessarily only a good thing, we could have had higher sales of course, we had very high sales towards the end of the year, but also from advance payments in particular in the Pattern Generators division that contributed to a strong working capital improvement.

Last year, we had the divestment of AEi, which generated about SEK 215 million in cash, which we didn't have this year. And having paid the dividend, we still have a very solid cash position of SEK 1,395 million. And on the bank, we have SEK 1.6 billion at the end of the quarter.

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, Pierre. So, we will move on to the last slide before the Q&A and this is, as usual, about sustainability. So, we continue to focus on our initiatives regarding sustainability and during the quarter, we had a lot of visits to our different subsidiaries from our management team to discuss the local sustainability activities that we are driving around the world.

As of next year, 2024, reporting need to be carried out with the new EU Corporate Sustainability Reporting Directive, normally called CSRD. And as a part of the preparation for this, we made an assessment of our companies' reporting from 2022 and also on our current processes and reporting structure compared to the coming requirements of CSRD. So, the final report is not yet out, but preliminary result indicates that we are in a good position and we are prepared to meet the future reporting requirements, which feels very good.

So, with that, I would like to hand over back to Sven to introduce you to the Q&A session.

QUESTION AND ANSWER SECTION

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Thank you very much, Anders and Pierre. So, now, we move over to our Q&A session and we will start with Carnegie, Mikael Laséen. Please go ahead with your questions, Mikael.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Thank you. Good morning. Okay, I'll start with the SEK 60 million in cost that you have related to business development. If you can explain the reason for this cost and how we should think about them ahead? And when do you expect to have a more normalized cost level for the group functions?

Pierre Brorsson

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

A

Maybe I can start responding to that question. Thank you. I mean, we have business development projects ongoing. We go out with information of about more details as soon as we can. We have only one business development project, which we have been clear about so far, and this is the potential listing of Axxon on the Shanghai Stock Exchange. And maybe I can say that I foresee that we will have somewhat lower costs in the third quarter than what we had in the second quarter. That's as far as it goes.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. And do you have other projects ongoing support for the Axxon listing, not just M&A costs and other items in that?

Pierre Brorsson

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

A

It states in the report that its projects. So, yes, there are more than one project.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. All right. And another thing I'm curious here about the comment you have in the report about exciting development projects. Can you say something about what they are and then elaborate a bit more on that?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

Yes. And that's in addition to, of course, the corporate development. And this is very much related to product development projects. We have a very good pipeline of good ideas in all our divisions and very exciting new products that we will develop and introduce to the market. It's not very soon. But, I mean, the list of ideas and what we want to execute and we'll execute on looks very promising, I would say.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. And this is part of your ongoing R&D activity and that you have a strong pipeline? We shouldn't expect any significantly higher R&D activity just because of this?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

It will be around the range we have always been, I think. Not on extremely high special cost; it's kind of normal development, but very exciting product.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. Interesting. And I have a couple of other questions regarding the TV segment. You had a really, really strong gross margin in the quarter. And you mentioned a few reasons for this. For example, the value for system. So, I'm just wondering if you – if this gross margin that you had in Q2, if this is applicable for the other SLX systems you have in the order book. Of course, there are variance in price of course, but if this is an approximate level that we can use also in the coming quarters?

Pierre Brorsson

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

A

It varies depending on system configuration, et cetera, et cetera. So, it's not necessarily exactly the same, but we do see an improvement then we have had also improved the exchange rates and that contributes to this development in addition to our own execution ability that we are able to lower the product cost on these machines.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. So, you didn't have any software upgrades and the temporary boost effects supporting the margin in the quarter?

Pierre Brorsson

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

A

Not of a significance that drove the margin extremely high, no.

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Q

Okay. I have a few more questions, but I'll hand over to Fredrik to continue.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

A

Okay. Thank you very much, Mikael. So, now, we move over to Handelsbanken and Fredrik Lithell. Please go ahead and ask your questions, Fredrik.

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

Q

Thank you very much and thank you for the presentation. I'll continue little bit on the questions here then. You talked in the quarter about you have moved production from Germany to Sweden within High Flex, the storage

towers. Haven't you also moved your production of the inspection machines from France to Sweden? Is that something that is impacting the numbers as well in the quarter or is that something that will come?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

So, if I start with the inspection equipment, so that has been moved already completely last year. So, that's finalized. And we still have an R&D department left in France, but that will remain there and the production will remain in Sweden for the inspection equipment. So, that is all done and there's no extra cost coming out of that.

When we come to the storage tower, we have just initiated this move and it will be a gradual move. So, there could be smaller cost, but not significant coming in the coming quarter. And we do it to consolidate a larger volume at one place where we see more efficiency in production and also in R&D. So, this will turn out very good, we hope.

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

Q

Okay. Thank you. And maybe if I could continue on Mikael's question on exciting projects that you are working with. You have talked earlier about the success with the laser technology you have in the SLX machines and that you have intention to upgrade your laser technology within the Prexision lines of machines as well. How is that progressing? Where are we in that type of project and what do you foresee?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB

A

So, I don't have anything on top of my mind an exact timeline, but it's coming very soon and we have already got a lot of – as you said, the solid state laser, which is a more energy efficient laser, is already in the SLX. All the SLXs are equipped with that laser. And we have also the intention to put that laser – similar type of laser into the Prexision machines. And we have been around with customers to calibrate their interest to have this upgrade and there's a remarkable large interest actually to make an upgrade mainly for sustainability reasons. And I don't have exact timeline here now, but it will come quite soon.

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

Q

That's very interesting. Can I also touch a little bit on the order intake? In my view, High Flex came in a tad slower in order intake than what I had anticipated. And also High Volume came in much stronger. So, should we see this as High Volume and China specifically is starting to ramp or was the order intake – any onetime large contracts or projects that came in to the order intake? Could you comment a little bit about those numbers?

Pierre Brorsson

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

A

We had a number of, let's say, significant, for us, projects in the second quarter, in May in particular. That said, also the underlying demand is somewhat better in the second quarter than what we had seen before. So, I think the jury's still out there, but sequentially it looks as an improvement.

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

Q

That goes for High Volume, right?

Pierre Brorsson

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

That is High Volume, yes.

A

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

Yeah. And High Flex, did you yourself expect High Flex to be at these levels in order intake before the quarter or is it a bit slower than you expected?

Q

Pierre Brorsson

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

This is more or less according to what we could expect going into the quarter. So, I think we had maybe anticipated the High Volume revenues to be a little bit higher still, but we do see improvement on the order intake side there.

A

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

And my final question then also on the back of what Mikael asked you regarding the gross margin in Pattern Generators that came in at a very strong level. You alluded to in your response that you had also done changes to production or maybe the COGS within – for an SLX machine. Have you been able to reduce the COGS levels on SLXs or was it production related?

Q

Pierre Brorsson

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

I mean, we have been, since the introduction, increasing the number of produced units and thereby also learned how to assemble this in a faster way. We have a little bit higher volumes on the components, et cetera, et cetera. So we have made improvements on the operations side there.

A

Fredrik Lithell

Analyst, Svenska Handelsbanken AB

Okay. All right. Thank you. I'll leave over the questions to others.

Q

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Thank you very much, Fredrik. It sounded like Mikael at Carnegie had some more questions. Do you have any more questions, Mikael?

A

Mikael Laséen

Analyst, Carnegie Investment Bank AB

Yeah, I have, if it's okay.

Q

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Please go ahead.

A

Mikael Laséen

Analyst, Carnegie Investment Bank AB



I'm wondering about the High Volume segment. That segment has grown strongly, I mean, by CAGR of 30% roughly until 2021, but now it looks like growth will be negative in 2023. Can you say something about the overall market situation for this segment and talk to us about the long-term growth drivers for the segments, what they can achieve over time, thinking where they are in the market and maturity levels and so on?

Per Anders Lindqvist

President & Chief Executive Officer, Mycronic AB



Yes. So the underlying segment that we focus on is consumer electronics, which is very much driving the sales of the High Volume equipment. And the majority of consumer electronics is in China, still in China and will be in China for the foreseeable future. And the China market, especially when it comes to consumer electronics, has been weak. There's a hesitation in the market to invest. Rather, customers invest in efficiency like productivity with automation and so on, rather than buying new lines.

And reason for that is there are not so much new products. I mean, we had a big jump in the past with the 5G, with the iPads and smartwatches and all that. So, there we haven't seen really those kind of big investment waves yet in consumer electronics. But most likely it will happen. There is always something new and now we are talking about 6G and so on.

We also, of course, have uncertainty on the Chinese markets related to the kind of trade frictions between various countries. We have seen that India is not anymore buying Chinese-made smartphones, which is a kind of big market for the China smartphone manufacturers. We have seen also tensions, of course, the US-China, so one which is also creating hesitation in the market.

And so, I think all of these are impacting this. It's very difficult to say how this will look like in the future. I think global demand of consumer electronics will be the same as before. So I think that we might see a little bit different distribution on the market.

Pierre Brorsson

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



And adding to that, I think on the new important market for our High Volume division is the electric vehicle business, which is growing and where we are also gaining market share. Another potential market is to address the markets outside China with the High Volume products that we have and we are growing there as well. This cannot fully replace the consumer electronics industry in China at the moment, but it's becoming a more important part of this business and could be the base for future growth.

Mikael Laséen

Analyst, Carnegie Investment Bank AB



Okay. Got it. And then when it comes to High Volume again here, the operating costs on a quarterly basis are varying quite a lot. Can you explain why they vary so much and how we should think about the OpEx going forward?

Pierre Brorsson

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



Yes. This is varying quite a lot and this is largely related to that they have a high variable portion of the pay. This is the main explanation. The other explanation is that they are also very quick in adapting to new circumstances and holding back on things when the business is not there.

So, I think these two explanations [indiscernible] (00:29:01) and thereby it's a little bit difficult to predict because if they see good development, they will spend more and they will also cost more because of the variable part. So it will be highly linked to – more highly linked to the revenue than what you see in other divisions.

Mikael Laséen

Analyst, Carnegie Investment Bank AB



Okay. That is from my side. Thank you.

Sven Chetkovich

Director-Investor Relations, Mycronic AB

Thank you, Mikael. So with that, we have reached the end of the presentation of Mycronic's Q2 report. Thank you very much for attending.

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