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Net Insight

Q1 2025



Speakers



Crister Fritzon
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Linda Lyth
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Prepared Remarks



Linda Lyth
Investor Relations Manager | Net Insight

Good morning and welcome to Net Insight's Q1 report presentation. I'm Linda Lyth, Investor Relations Manager, and with me today I have Crister Fritzson and Cecilia Höjgård Höök, Crister Fritzson, CEO, and Cecilia Höjgård Höök, CFO. We will begin with discussing the numbers and the business in general, and then we will move over to Q&A. Crister, the floor is yours.



Crister Fritzson
CEO | Net Insight

Thank you and welcome to Net Insight Q1. The agenda for today, as Linda mentioned, we are going through the highlight, business overview, media, and time synchronization, and then we will move into the financial numbers and outlook, and we will end up with Q&A, and you can send in any question you like into the chat. If we start with the highlights for Q1, the first quarter began with strong growth in our focus region, Americas. As we previously communicated, investment levels in EMEA and APAC region showed more hesitation. During the quarter, we strengthened our media product portfolio with several new feature launches for the NAB show in Las Vegas. We are also accelerating investment in our media solution on managed networks that we see a strong growth. Growing awareness of the need for GNSS independent time synchronization among government have increased dramatically the last few months.



Crister Fritzson
CEO | Net Insight

Several initiatives aimed to reduce GNSS dependency have started. We see a general market uncertainty from the geopolitical situation that we see, and the current geopolitical situation has made short-term dealing timing hard to predict. Given this, we have decided to initiate a cost-saving program. A little bit on the numbers. The net sales growth has been slower the last two quarters, even though we see a growth the last 12 months of 4%. We have a very strong gross margin, and over the last 12 months, it has increased with one percentage point. We see a huge growth potential in media and synchronization, and it's important to continue to invest on a high level to secure the future growth.



Crister Fritzson
CEO | Net Insight

We have a solid EBIT on 10% the last 12 months, so we have a very strong position in the financial situation, and we continue to grow the gross margin, and it's an important point to reach the long-term financial targets. If we go into the business overview and start with media, first of all, we see the live sport and pay TV are very resilient to downturns in economy cycles. We can even see in some of the markets the pay TV revenue increase when the economy is going down. We see the key demand drivers in the market remains. It's no change. It is a continued transition towards IP and cloud, which continue, and growing market for remote production. This is important; drivers to lower costs for our customer and broader the market.



Crister Fritzson
CEO | Net Insight

We see a continued high activity in the industry, a high number of business discussions going on, and an activity level has not changed. The increased geopolitical uncertainty causes short-term hesitation, and timing of business deals is hard to predict. We are coming back from a very successful NAB in Las Vegas, and we launched a number of new product features, confirming our strong product portfolio. We have a very strong position in the market, and we strengthen our position with new features launches during the show. In line with our strategy, we are accelerating investment in our unmanaged offering, and we see an increased interest in solutions for unmanaged, and it's the cloud and, of course, the hardware connected to the cloud. We are accelerating that investment, and we have a very strong position and a unique position that we both have the cloud and the hardware.



Crister Fritzson
CEO | Net Insight

We are working hard to strengthen our relation with our existing customers like Tata, NEP, Red Bee, Globecast, and many others. At the same time, we have a high focus to attract new customers, and we are glad to see over the last three years we have added more than around 21 major new customers, and in 2024, we added 11 new customers. Increased revenue from these new accounts from 1% in 2022 to almost 15% of the total revenue in 2024, and that definitely secures our long-term growth that we get new large customers into our customer base, and that also shows our strength in our product portfolio that we can attract new customers. Moving over to time synchronization. At the Mobile World Congress, a telecom and technology fair in Barcelona in late March, we observed a clear increase in interest in GNSS and GPS independent synchronization.



Crister Fritzson

CEO | Net Insight

That's increasing, and that's, of course, driven by geopolitical uncertainty and the growing awareness of security of the 5G network, because that is a critical network, and it's really essential to have a high security in that network. We also see a growing awareness of GNSS and GPS independency among governments. We see several international initiatives aimed to reduce dependency on GNSS and GPS. Some examples: in the U.S., FCC has requested an alternative for positioning of timing from the GPS and GNSS. India's strict requirements have been proposed by the Department of Consumer Affairs, and countries across Europe and Asia are also placing greater emphasis on this area. It's the same thing that we have seen in Sweden, now going broader globally. The standardization process with the ITU is progressing according to plan and is expected to be completed late this year, beginning of next year.



Crister Fritzson

CEO | Net Insight

We are also very glad to see several promising large PoCs and field trials ongoing successfully, complete once entering into the negotiation phase. In the second half of Q1, we started new PoCs. That was the outlook, and we are moving into the financial numbers.



Cecilia Höjgård Höök

CFO | Net Insight

Okay, thank you. We start looking at our net sales, and in recent years, we have focused on our core areas, and we have made important strides in product development, growing our market share. This has resulted in a net sales CAGR of 12%, and this has been done by upselling to existing customers and, as Crister said, accelerated customer intake. Looking at the quarter, we have a temporarily hesitant market on the back of increased geopolitical uncertainty, resulting in a net sales decrease of 19.6%. If you look at the right-hand side, you can see that the more subdued net sales level is also putting pressure on profitability levels. With a non-adjusted margin of approximately 70%, we have good scalability, but we also see a notable impact on the result when volumes are lower.



Cecilia Höjgård Höök

CFO | Net Insight

For the quarter, the lower revenue resulted in an operating loss of SEK 9.1 million. Now to the regions, and the overall soft sales demand dynamics was driven by a hesitant market in EMEA and APAC. Those regions had negative sales with 15%, respectively 78%, while focus region Americas grew with 46% year on year. Gross margin, our unadjusted gross margin for the quarter was 66.2%, whilst for the last 12 months, we had 71.6%, which is close to our three-year average. Gross profit amounted to SEK 57.3 million and a gross margin of 50%. The lower profit and margin is primarily driven by the lower net sales in combination with the continued investment in future growth. Over a longer period of time, we have had a positive profitability trajectory with EBITDA margin improving along our net sales growth.



Cecilia Höjgård Höök

CFO | Net Insight

However, looking at the quarter, our EBITDA amounted to SEK 14.5 million with an EBITDA margin of 12.6%. This is a year-on-year EBITDA decrease, primarily attributable to the lower revenue in the quarter. If we look at our EBITDA, and that is our EBITDA including the cost that we capitalized, we have a negative EBITDA of SEK 10.2 million as we have maintained investment in innovation and technology advancements when the EBITDA has been lower. For the last 12 months, our EBITDA increased to SEK 147.8 million with a margin of 25.5%, and this is a long-term sign of our business scalability along with growth in net sales. Now to innovation, and during the last 12 months, 24.5% of our revenue has been invested in R&D, and 66.5% of those has been capitalized, and this reflects Net Insight's focus on long-term value creation.



Cecilia Höjgård Höök

CFO | Net Insight

During the last year, we have had efficient gains by relocating development from the U.S. and India to Sweden. Now to our EBIT, our operating earning, and the top-line weakness temporarily impacted profitability with a negative gross profit effect of SEK 28.2 million. At the same time, we have had cost control with OpEx level at the same level as last year. In total, we had an operating loss of SEK 9.1 million, and this was, as you can see, primarily driven by the lower revenue. On the back of this top-line weakness and the increased geopolitical uncertainty, we have decided to initiate a cost-saving program. We will also continue monitoring the prevailing demand situation in order to adjust the measures if needed.



Cecilia Höjgård Höök

CFO | Net Insight

Net cash, so net cash from operating activities was SEK 31.6 million, and this lower cash flow is attributed to the lower sales, but also increase in working capital, where we have a negative effect by extending payment terms for a number of orders. If we look at cash flow from investment activities, those amounted to SEK 24.8 million, and those are mainly a result of our capitalized expenditures. Cash flow from financing activities amounted to a negative of SEK 13.3 million, and they are primarily attributable to our repurchase of own shares. In total, we have a net cash flow of minus SEK 66.4 million, excluding share-related transactions. Our net cash position for the quarter is SEK 156.3 million, and this is still a robust financial position for seizing opportunities looking further. Now to some trade tariffs and an update on the impact that those have on Net Insight.



Cecilia Höjgård Höök

CFO | Net Insight

At the current position, our product is currently exempt from the U.S. tariffs that were introduced in April, and we are only subject to those that were previously enforced. However, should the situation change, the company will, of course, become subject to additional tariffs, and our profitability could be impacted due to the risk of price pressure of hardware sales in the U.S. If we look at 2024, our hardware sales to the U.S. amounted to 12% of our total group's net sales. At this time, it's very hard to predict how high the tariffs would be and if they will come, but we're proactively taking countermeasures to mitigate the risk of higher tariffs, including a review of our value chain. In the long term, we expect a gradual reduction of exposure to the risks through an increased share of software sales.



Crister Fritzson

CEO | Net Insight

Thank you, Cecilia. Just moving into the outlook and the long-term strategic initiative that we have, one thing that has been very high focus the last year is growing the existing customers, but also with the new product and features that we have launched the last three years, gaining new customers, of course. We see the growth in managed networks through the IP movement in the market that continues, and it will continue for a number of years ahead. Unmanaged, we have seen the last 6-12 months increasing demand in the market, and we are very well positioned in cloud, and we have strong products connected to the cloud offering. Americas is our key region for growth, and we are glad to see that Q1 has a strong growth compared with last year. We also see the sports league that we would like to focus more on.



Crister Fritzson

CEO | Net Insight

We know that the integrators, service providers are supporting them with features based on our product, but we would like to come closer to them to secure long-term growth within that segment. Time synchronization is definitely something that is broadening our market penetration, and we have huge potential of growing in the next coming years, and that will be one of the key components in continuous growth in the future. Recurring revenue, as we have discussed earlier, is a focus, and it is coming from cloud, but also when we are launching time synchronization, it is to have a high level of support and license in the time synchronization product. We would also like to expand into adjacent market segments through own development of new products, but also looking into the potential of M&A.



Crister Fritzson

CEO | Net Insight

If we look at our financial targets, we are looking for a 15% average growth per year and an operating margin of 20% in 2027. To sum up the communication that we have today, we see definitely short-term market hesitation, and we see a temporary top-line pressure, but the underlying activity remained high, and we have a good number of tangible business negotiations taking place right now. Temporarily declining non-drivable low volumes, but we have just initiated a cost-saving program, and we will implement that during Q2. As I mentioned, we have strengthened our product portfolio within media with new features launched, and we have a very strong media product offering, and it is a solid growth foundation for the future, and we still see the same potential in the market going forward.



Crister Fritzson

CEO | Net Insight

If we move over to synchronization, it's a strong growing demand within time synchronization, and the number of customers that we have today is much, much larger than if you just go back 6 or 12 months, and we have several new PoCs launching in the second half of the quarter, and we have still a high number of large operators testing our product in PoC and in the network. It is also interesting to see that the government started to pay much higher attention to the vulnerability with GNSS, GPS independency on time synchronization, and the risk for the society in 5G, in power grid, and other industries.

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Crister Fritzson

CEO | Net Insight

We see a short-term caution in the market, and we have a large software deal, as you probably remember in Q2, so we have tough numbers to meet in the second quarter, but we still see a high number of activities in the market. We have a positive view of the market in Q2 and moving forward in the rest of the year. We are now launching a cost-saving program that is ongoing, and the financial targets reiterated, as I just mentioned. Thank you, and Linda, should we move over to the questions?

Q&A



Linda Lyth
Investor Relations Manager | Net Insight

Yes, let's move over to questions, and we have gotten in quite a few questions. We will start by a few general ones. Cecilia, you talked briefly about the U.S. tariffs and how it affects Net Insight. Can you say a bit more about this and also perhaps elaborate on how you are affected by the U.S. dollar movements we've seen?



Cecilia Höjgård Höök
CFO | Net Insight

Okay, if we start with the tariffs, as we said, our products are extended, so we do not have any direct consequence right now, so it's only if these changes that we will have a hit. However, it's quite a small portion of the group's total revenue that is affected. It's only 12% if we look at the last year, and we are, of course, looking at how our value chain is looking and what we can do that, not in short term, but in longer term. Looking at the currencies, we have nearly all our revenue in euros or in U.S. dollars, so of course, with a strengthened krona, this will affect our revenue. What we do is that, and what we have done during a long period of time, is that we do hedge that amount so that we don't get a direct.



Cecilia Höjgård Höök
CFO | Net Insight

It is more evened out during the periods.



Linda Lyth
Investor Relations Manager | Net Insight

All right, thank you very much. What can you say about the cost-savings program that you are going to implement? How do you reason when designing such a program, and what's the magnitude, and when will it have impact?



Cecilia Höjgård Höök
CFO | Net Insight

We started, as you can see, since our OpEx levels are at the same level as last year, we already during Q1 started to be very cautious with our costs. What we're doing now is that we're taking a broader approach, and we will start doing this now, and we will have more information about the program and the total amount that we are expecting in our Q2 report.



Linda Lyth
Investor Relations Manager | Net Insight

Okay, let's take a question on media. Can you elaborate, Crister, on the market dynamics that you're seeing in media at the moment? Do the customers have overcapacity, which makes them afford delaying investments, or what dynamics are you seeing at this moment?



Crister Fritzson
CEO | Net Insight

The dynamic is still the same as we've seen in the past. We see high activity, and it is still a focus of moving over to IP, and cloud is definitely something that we're looking into because you're lowering costs. We'll be much more flexible, and we are well positioned into the cloud segment. There is the uncertainty that drives the issue that we don't can determine exactly when we'll receive the orders. Some orders can move over to next quarter or just be delayed, but we still see the demand in the market. Long term, we don't see any change. I need to underline that the live sport is the driver in the media industry, and it's behind the pay TV cards, which means that the revenue stream into our industry is continuing on the same level.



Crister Fritzson
CEO | Net Insight

We can even see, as I mentioned, that in some markets, the revenue coming from live sport and pay TV increased during downturn in the economy because the people are not traveling, they're not going to restaurants, and then they can maybe increase a subscription to have more content to view when they are at home. Long term, we do not see any change. Our market will be, on the revenue side, more resilient than other markets. I think that we are very well positioned, and we have a very positive view of the market at the moment, even though we see a delay in the orders and are hesitant on placing them.



Linda Lyth

Investor Relations Manager | Net Insight

You mentioned a fairly good number of new customers over the recent years. How does this intake of 21 new media customers compare to historical levels?



Crister Fritzson

CEO | Net Insight

I mean, it's extremely high, as I mentioned. I mean, it's going from like 2022, we have like one new customer, and last year we had more than 10. That is definitely in line with the long-term strategy that we are moving more into IP, which is we can attract new customers. The U.S. market is definitely a very IP-based market that we had had problems in the past really to attract new customers. With our new strong product portfolio that we have around IP, we definitely see that new customers are coming in and showing interest in our product. That is really promising going forward.



Crister Fritzson

CEO | Net Insight

Large customers, we are looking at the large customers, and the first initial investment will be a little bit substantial because we know that if there is a little bit more substantial investment in the first order, in the first investment, it will become a recurring customer over time. We are looking at recurring customers that will stay with us over time, and as you know, our existing customers have been with us, like Tata has been with us in 2008. That is our focus, to find new recurring customers over time where we will have a stable income over the next coming year.



Linda Lyth

Investor Relations Manager | Net Insight

The main focus market is the U.S., and can you say something about the customer base there? Is it a broad customer base, or is it more concentrated in terms of numbers?



Crister Fritzson

CEO | Net Insight

We compare Europe with the U.S.; it's a different market. I mean, the U.S. is more country-based. It's not a region, but if you move into like U.S., it's like the whole U.S., and it's a much larger customer in the U.S. Less smaller, but very large, important customer. I mean, we can see, if you go back last year, that we were able to attract a number of the large customers in the U.S., but we have still many new customers that we would like to bring into our customer base. This is still a really good opportunity for us to grow. This is a very competitive market, but we see that we have the right products to attract new customers.



Linda Lyth

Investor Relations Manager | Net Insight

Moving over to time synchronization, there has been a strong optimism around time synchronization, yet the order book is declining, and sales is now lower than the previous quarter. What's the reason behind this?



Crister Fritzson

CEO | Net Insight

I mean, as we have mentioned, the sales cycle is quite extensive. I mean, normally we start with the PoC in a lab. So many of the new large customers that we were announcing in the Q4 report, they are now testing the product in the lab, and it can take all the way from one to three months they are testing and see the boundaries of our product and make sure that it will fit into the network that they have. The next phase is doing like a more test in the open network, that requires that you need to install the product into the network, which takes time. After that, you do a network design, and then we are moving into the negotiation phase and budgets.



Crister Fritzson

CEO | Net Insight

It is quite like a long sales period that we see, but we see traction, and it is moving forward, and we see definitely that our product is very competitive, and so far we have not seen any customer that has been disappointed in the product that we have. It is very solid. It is proven we have more than 10 commercial customers still, but it will increase in the second half of this year. Long term, of course, the sync will be a very important part in our long-term growth.



Linda Lyth

Investor Relations Manager | Net Insight

Yeah. Okay, and if we take a look at the numbers, the group numbers again, we saw gross margin decrease. What caused this decrease, Cecilia? Is there a fixed element in the cost of goods sold?



Cecilia Höjgård Höök

CFO | Net Insight

It's as the main change between our gross margin is dependent on the portion of software and hardware. In this quarter, we saw that we had a bit more hardware than we have had for the last quarters. This is not a trend. It's more significant for this quarter. Looking ahead, seeing what will impact a gross margin increase is mainly two things. It will be that we will have a shift from hardware to more software. That will take a long time, but it's also when we are having the unmanaged, and the unmanaged is having a higher gross margin than the managed. When that will increase over time, that will also have an impact on our total gross margin.



Linda Lyth

Investor Relations Manager | Net Insight

Okay, thank you for clarifying that. If we take a look at our current market share at the global base, what potential do you see in growing this, and where do you see growing this market share, Crister?



Crister Fritzson

CEO | Net Insight

Yeah, I mean, if we look back, we see that we have been growing faster than the market. We have been taking market share, and we see growth coming from the U.S.. As Cecilia mentioned, the unmanaged is coming more and more, and that's a real positive for us because we are very strong in that. The region base is definitely Europe, but we see still potential, and we see a very strong market in Europe right now coming in, and that we have a very strong position. The market share in Europe is much higher than the rest of the regions. If you're coming in the same line in market share-wise in the other two regions, it will increase our sales really dramatically.



Crister Fritzson

CEO | Net Insight

The investment that we are doing now is growing U.S., investing in unmanaged, continue to launch new features in the IP-based product that we have. In the later this year, in the end of this year, we had a 400 GB platform that we will launch, and that will strengthen our positioning to the larger customer and definitely in the U.S. market. Pretty much all the investment that we are doing with the 400 GB is coming into the U.S. market because that's the large customer that we see. That will be a really important launch that we're doing, and we are one of the first into that segment. As we were with 100 GB, we were one of the first in. We are like pioneering that, and it's an important part of that thing.



Crister Fritzson

CEO | Net Insight

We see in the venues, it's moving from 10-20 Mb up to 100 Mb. We see the 1060 is moving out to the venues, which means there's a volume potential when you install higher capacity in the venues. That's a trend that is coming, that they need higher capacity in venues because they have like full HD and other features, and they need higher capacity, which means that it's driving our sales of the 1060s.



Linda Lyth

Investor Relations Manager | Net Insight

Thank you very much. Thank you, everyone, for all your questions that you've sent in. It's time to wrap things up. If you feel you didn't get an answer to your question, you're more than welcome to email investorrelations@netinsight.net. Thank you all for listening today. Thank you, Cecilia and Crister, for your explanations, and we look forward to seeing you again, if not sooner than at least in connection to our Q2 report presentation the 18th of July.