

November 7, 2024

Net Insight

Q3 2024



Speakers



Operator



Cecilia Höök
CFO | Net Insight



Crister Fritzon
CEO | Net Insight

Prepared Remarks



Crister Fritzson
CEO | Net Insight

Here with me today. First call.



Operator

Thank you.



Crister Fritzson
CEO | Net Insight

So, welcome. And also our IR manager, Linda, is also with us today. If we move over to the agenda, similar to last time, we will go through some highlights: business overview, media, and time synchronization. Cecilia, we take the financial, and we do an outlook in the end and moving over to Q&A after the outlook. So if we look into the highlights of Q3, we can definitely see that our focus on delivering high-quality and flexible media transfer solution continued to drive revenue growth. And as you can see in the report, the revenue growth corresponding with the past last year was an increase of over 8%. And if we take in comparable currency, it was just over 12%. So it's a strong growth in Q3. And we also have a positive profitability trend, and we are close to 16% EBIT margin.



Crister Fritzson
CEO | Net Insight

So the underlying business shows solid performance and profitability. And at the same time, we are simultaneously also making long-term investment, both in the synchronization part of our business, but also in media. We are building out the organization parallelly in the sales organization, and we continue to have a high investment in our product. This quarter, we have a solid cash flow, close to SEK 28 million, excluding share-related transactions. And if we look into the development costs, we see that it's going down if we compare with sales. And we have done a number of different activities relative to lower cost in R&D, but also be much more efficient. We have communicated that we closed the Camarillo R&D site in California in the beginning of this year.



Crister Fritzson
CEO | Net Insight

But we're also working with the consultant rates and hiring more permanent employees and lower the consultant rate, which also has an effect on the cost. I'm especially glad to see the strong interest in Zyntai from leading telecom operators in all three regions. The ITU standardization process progressed according to plan. We probably will see the standardization will be ready in 2026. It's a progress that will continue during next year. End 2025, 2026, the progress, the standardization will be ready. If we move over to the business overview, we can see that we have a strong growth. If you're looking back all the way to 2021, we had a strong growth. We have been successful to find a growth pocket in the market.



Crister Fritzson
CEO | Net Insight

That was like the strategy that we looked into when I started really to find the growth pocket in the market, and of course, to meet the customer demand of more advanced product. We have kept our firm's strategy focus, and it's resulting in solid growth the last 12 months with 32%, and as you know, our long-term financial target is to have a growth of 15% over a year, so on the back of the increased sales, operating profits are growing the past 12 months with 16% to over 16%, so that's also a strong growth, strong profit. We do see that the third quarter tends to be strong due to the start of sports leagues, which drives increased investment, and that's globally. It's in Europe and it's US. Normally, the sports leagues or the sports contracts can move between operators, and normally, it's made between Q2 and Q3.



Crister Fritzson
CEO | Net Insight

And that can drive investment when you're taking over a license for a sports league. We can see short-term revenue variation continues to be influenced by timing of major deals with key customers. That has gone down when we are of course increasing the sales. The larger deals have less effect, but we can definitely see an effect of larger deals between the quarters. Here's a quick view of the sales per region and sales per our products. As you can see in the graph, we had a strong growth in Q3 in the Americas. And it's actually the second quarter we have strong sales in the Americas. Last year, it was quite a turbulent year in the US. Many of our customers reorganized and cut down the organization, which also affected our sales to our major customers in the US.



Crister Fritzson
CEO | Net Insight

But we see this year that they are coming back and are investing again. So the US market going forward is definitely a market that we will grow. And that US market is the fastest growing market globally. And it has a larger growth than the average if you look at the global market. So that America is a keystone and a building block for our growth journey going forward. The software license sales we have will over time result in high-level recurring revenue. As an example, it's the large software deal that we made in Q2, close to SEK 30 million. And that will generate recurring revenue going forward. So that is a focus that we have to increase the recurring revenue and the license sales that are going up. So that will be a focus going forward as well.



Crister Fritzson
CEO | Net Insight

That's a change in our product that will be more and more software compared with the less hardware sales. Here's a quick view on the media. We have a very positive trend within the media. The revenue in Q3 was primarily driven from business with existing customers, but we also received additional orders from new customers. With the new IP-based product portfolio that we have invested in the last year, our definite aim is to win new customers, and especially in the U.S. With our IP product portfolio, we are much more competitive in the U.S. The U.S. market is much more focused on the IP. Now we have a product portfolio that can gain market share in the U.S. We are also very glad and proud that our Nimbra 400 recognizes the innovation award winner in IBC in Q3.



Crister Fritzson
CEO | Net Insight

And then was a partnership with Verizon, together with National Hockey League. So two very strong brand names together with us were recognized as the Innovation Award winner at IBC. That's really. I'm glad to see that. As we had been communicated earlier, we see a strong growth opportunity in cloud. And we have invested in the last year a lot into the cloud market. And we have a unique position in that market segment. We are one of the few that deliver both the cloud and the hardware. And that combination is quite unique. We have many competitors that have either/or, but we have both. And that is definitely an advantage for our customers. So as a step in enhancing our competitiveness in the cloud market, we launched the compact and cost-efficient Nimbra 204 in Q3, which enabled fast and easy production of smaller events from any location.



Crister Fritzson
CEO | Net Insight

We are also in the phase of upgrading our existing 400 platform, both the hardware and the software, and we will continue doing that during next year. When it comes to live media transport for high-prestige events, we see a growing demand for significant greater capacity, especially in the U.S. In this area, we definitely are the market leader, and as you know, we were one of the first, or even the first, that actually launched the 100 Gb platform 1060 in 2018, and we now are launching a 400 Gb platform. And that will make a possibility for our customers to lower cost and increase capacity, so a number of our customers are looking into high capacity, and this will be the first 400 Gb platform for media, so we are first with the 100 Gb, and we are first with the 400 Gb products.



Crister Fritzson
CEO | Net Insight

So that's definitely a very important step forward for us. And we will see the product be delivered in the end of next year, beginning of 2026. The product will be in the market. With the rapid development of AI, sorry for that. It's difficult to say. AI is we see that the product lifecycle concern and programmable FPGA have shortened. That's a key component in our high-capacity product. And we are using the most advanced FPGAs in the market. To ensure delivery of high-volume products, our 1060 and 600, we are proactively working to secure necessary supply of FPGAs. A consequence of this is that the inventory level will go up, and the tied-up in the inventory of these high-value components will increase over the coming years.



Crister Fritzson

CEO | Net Insight

If I move over to the synchronization product, we are definitely pleased to see extensive interest in our Zyntai product from leading telecom operators from all regions. We currently have around 10 commercial customers. And we have a significant number of ongoing proof of concept. Among the complete POCs, a majority have successfully advanced to the next phase. I mean, important to remember that we have communicated earlier, it's a number of steps and many different phases before it will be a full launch of a Zyntai or a Zyntai network within the operator. The different phases like the POCs. And the POC can be many different steps. It can be a lab test. It will be a test in the open network. Network planning, definitely. And we see now also that our customer needs to secure budget for the build-out.



Crister Fritzson

CEO | Net Insight

We see a number of customers looking into the budget for next year to be able to launch and roll out our product. We have a strong POC to contract conversion. And that definitely is a testimonial to the strengths of our product. As you can see, the order pipeline had been going down to SEK 175 million. And the pipeline or the order book, actually, it's not a pipeline. It's an order book. A large portion of the order book is coming from Türk Telekom. And Türk Telekom has been taking the first supply in volumes in Q3 of the Zyntai product. So the increase is coming from delivery. And we see also the strengthening of the Swedish krona against the euro and the US dollar has also been taking down the order stock a little bit.



Crister Fritzson

CEO | Net Insight

As I mentioned, I'm very pleased to see that the ITU standardization process of time synchronization technology, which started in December last year, is progressing as planned. And during the quarter, the first document was approved during the quarter. And I'm looking forward to the process being completed, as I mentioned earlier, in Q1 2025, beginning of 2026. That's the forecast right now. Okay, that was the end of the introduction. And we are moving over to Cecilia on the financial.



Cecilia Höök

CFO | Net Insight

Yeah. And I will start with net sales. And we have had a long uninterrupted net sales growth trend. This is a result of recent years' investments in product development and expertise. And we have strengthened our offering, resulting in new customers, but mainly expanded business with existing customers.



Cecilia Höök

CFO | Net Insight

As Crister mentioned, our net sales amounted to SEK 156 million and grew 8.3% year on year, which is 12.1% in comparable currencies, following strong performance in high-growth region Americas, while net sales in EMEA and APAC decreased primarily due to quarterly variations. Looking at the right-hand side in terms of product groups, we have a good balance between our products. But over time, we will have more recurring revenue coming from support and services, but it will take time, and the change will be marginal. Going further with gross margin, we see that along net sales growth, gross profit is improving and grew with 6% year on year in the quarter. Our gross margin in the quarter was 58.5%. And excluding amortization, gross margin increased year on year to 69.9%. Our rolling 12-month gross margin of 61.8% is above both our one-year average and three-year average.



Cecilia Höök

CFO | Net Insight

Over a longer period, we expect this trend to continue, but we do not expect any rapid or significant change in near time. So looking at our profitability, we have had a positive profitability trajectory with EBITDA margin improving along our solid net sales growth. Looking at rolling 12 months, the EBITDA has increased from SEK 125 million to SEK 178 million, a clear sign of the scalability of the business as the profitability increase has exceeded the solid sales growth. If we adjust the EBITDA and include total development expenditures and look at our EBITDAC, we can see that EBITDAC has been increasing from SEK 32 million to SEK 81 million and the EBITDAC margin growing significantly to 12.7%. This illustrates a growing amount of cash available after necessary reinvestments and a strong sign of a healthy business.



Cecilia Höök
CFO | Net Insight

Looking at the right-hand side, you can see our development expenditures, where a large portion are being capitalized, which is a sign of long-term value creation in the company. The last quarter's total development expenditure has been reduced following the relocation from California to Stockholm in Q1 2024, resulting in cost savings, but also increased efficiency, and the operating earnings amounted to SEK 24.7 million, an improvement of 26.3% year on year, partly driven by improved scalability and supported by currency effects. Total OpEx, including sales and marketing, administration, and development, has increased in total numbers as we have strengthened our organization, both in media, in time synchronization, and in cloud and IP expertise, but as a percentage of total sales, the total OpEx has decreased from 44.9%-43.8%. Other operating income and expenses mainly relate to currency exchange rate differences.



Cecilia Höök
CFO | Net Insight

Operating margin in total increased by 2.3 percentage points to 15.9%, alongside continued increased investments in organization and product development. The increase is primarily attributable to higher sales, supported by improved scalability in OpEx and currency effects. So now to cash flow. And we have, during the quarter, had a solid net cash flow. Excluding share-related transaction of SEK 22.8 million, cash flow amounted to SEK 27.7 million. The cash flow has improved on the back of improved results, and working capital reductions, where capital tied up in inventory, has continued to decrease. Also, the positive effect of last quarter's record high revenue with high billing at the end of the quarter see results. Cash flow from investment activity amounted to SEK 20.4 million, a result of capitalized development expenditures.



Cecilia Höök
CFO | Net Insight

Looking at cash flow from financing activities, these amounted to SEK 25.5 million, primarily attributable to SEK 22.8 million in repurchase of own shares during the quarter, a mandate given at the 2024 AGM that will run until next AGM with a value of SEK 50 million. With a cash position of SEK 240 million, we have a strong financial position for capital allocation for value-added activities. Looking ahead and referring back to Crister's comment on the programmable circuits FPGA, the capital tied up in inventory of these high-value components will increase over the coming years.



Crister Fritzson
CEO | Net Insight

Thank you. And yes, a wrap-up of the quarter. As we have communicated, we have definitely a very strong growth, 8%, and in comparable currency, 12%. So we are really glad for that growth. Operating margin is close to 16%. It's actually increased over two percentage points. So the underlying business is performing strong.



Crister Fritzson
CEO | Net Insight

And remember that we are heavily investing in product and building out the market organization to capture the opportunity in the market. And again, we are showing our technology leadership by launching the groundbreaking 400 Gb product, first in the market. And with that, we are strengthening our competitiveness. And as I also mentioned, we are building out the cloud product portfolio. That's with two new products. And that has also strengthened our position in the cloud market. That's our growing. And in the future, it will be more and more important for us. And the strong interest in the Zyntai product from leading telecom operators is really a good sign. And we see a number of POCs starting in Q3. And ITU standardization is a key component really to get the product as a stable product to deliver to telecom operators.



Crister Fritzson
CEO | Net Insight

The fourth quarter, seasonality tends to be more volatile and are depending on our customer remaining budget capacity. And this year, we also face a tough comparable after a strong finish last year. But we definitely maintain our confidence in our financial target of an average annual organic growth of 15% until 2027 and reaching a margin of 20%. So thank you for listening. And we are moving over to a number of questions that have been coming in. So should we start?

Q&A



Operator

Yes, thank you, Crister. So we'll start with a couple of questions from Carnegie analyst Andreas Joelsson. Given the tough comparison next quarter, what kind of visibility do you have? Would you say it will be difficult to reach year on year growth, Crister?



Crister Fritzson

CEO | Net Insight

As I mentioned, pretty much on the Q4, it's depending on the budget that our customers have remained for the year.



Crister Fritzson

CEO | Net Insight

And it can be a volatile quarter. We are not giving any forecast, but we are pointing out that it is a volatile quarter. And we have a strong number from last year that we have year-end sales. So year-end orders from a number of our customers that were driving the revenue last year is too early to say exactly what we will see this year because the year-end orders based on budget will come in quite late because the customers are right now looking into the remaining budget for the year. So we don't have any specific forecasts. We're just pointing out that it's, and if you're looking back to the Q4, it has been more volatile than other quarters.



Operator

Thank you. A lot of product launches this year. What can you say about interest and the normal lead time before new launches turn into orders and sales?



Crister Fritzson

CEO | Net Insight

It's a little bit depending on the product. We have seen like the IP product that we launched last year have a very rapid uptake. And that's really based on that our existing customers are taking on that project immediately. The 400 Gb platform that you may be referring to will take a little bit longer because that will be a number of large customers that will start to invest in that mainly in the U.S. And that's actually for cost reason. To buy capacity, the cost for a 400 Gb capacity is less than 100 right now. So it's a cost-driven product that is important for us to deliver that to the large customers because they will be able then to lower cost. So we will see a number of large customers that are waiting for that product and need more capacity right now.



Crister Fritzson

CEO | Net Insight

With the cloud product, I think we will see much more quicker uptake on that because that's a product that they are less costly. It's more flexible. It's a larger volume in number, but of course, in revenue, it's less than compared with MSR. So I foresee that the 400 that we do the upgrade that we will see an uptake next year and the new 204 will be launched during next year. And we expect that that will take an increase in sales quite quick. But the volume compared with the MSR and the revenue compared with MSR is less.



Operator

In your opinion, how constrained are the customers in the current capacity that they have? Is it possible to quantify?



Crister Fritzson

CEO | Net Insight

No, it's hard to quantify it actually. And it's of course various between customers. And you mean constraint is capacity, I understand then.



Crister Fritzson

CEO | Net Insight

And we see the larger customers in the U.S. They are coming to using the 100 Gb platform. Quite a large portion of the capacity they've already used. So they need to move over to 400. But I see less need in Europe and less need in Asia. So this is a product that are driven from the U.S. market demand.



Operator

And then we have two questions for Cecilia. The software side is continuously strong in the quarter, but the gross margin ex amortization is flat year on year. Can you explain the dynamics in the product mix? The dynamics the product mix have on gross margin. Does the regional mix also have an impact on gross margin?



Cecilia Höök

CFO | Net Insight

I can start with the last part of the question with the regional mix. And there we don't see a large difference.



Cecilia Höök

CFO | Net Insight

So it's more about how the mix is when we sell something, the mix between hardware, software, and services. If we look at the product mix and we see comparisons compared to last year, they are to some extent distorted because of the change of our ERP system that we did between Q3 and Q4 last year. So comparable figures like for like will be from Q4 last year and this year. So we have not had a huge change between our mix between the years. So it's a slow change where we're going to see, as Crister said, when we sell a software license, we also will add recurring revenue from the support side, but that will take a very slow change in the product mix and the gross margin. So in short term, no significant changes.



Operator

And one additional for you, Cecilia.



Operator

OpEx lowers sequentially and good to see the impact on R&D. Should we expect that there is some seasonality in the OpEx, for instance, holiday, and that OpEx will come back up in the next quarter?



Cecilia Höök

CFO | Net Insight

The seasonality has an effect in Q3, where we have, especially in Sweden, we have a large portion of vacation that takes down the cost a bit. But not compared to any other year, the changes between the quarters are quite similar. So it's lower in Q3 due to the vacation, but no other effect.



Operator

Thanks. And moving on to other questions from the listeners. Can you say something, Crister, about the growth potential within product group media? Is it comparable with Zyntai as a product group, or does Zyntai by far have the largest growth potential?



Crister Fritzson

CEO | Net Insight

Yes, I mean, if you look over time, the growth potential is greater around Sync. And we expect that that will continue during next year and the coming years. So that will be definitely the large portion of the large portion of the growth the coming year will come from Sync. But we definitely see that we are taking market share within media, and we have the ambition to continue doing that. We see that the market is growing maybe between 2% or 4%. And as you can see, the growth that we have the last year is much greater than that. So we are taking market share, and we have ambition to keep that going forward.



Operator

And if you look specifically at Americas, where do you see the best growth opportunities within media or within Sync?



Crister Fritzson

CEO | Net Insight

Yeah, I mean, media is definitely, as I mentioned, Americas is one of the key markets that we would like to grow. And we have less market share in the US compared with like Europe. And with the new IP product that we have, we have a very strong position now, really to gain market share in the US. And we will next year invest in more resources into the US market, as we have done actually in Europe this year. So media is definitely the region, the US is the region that we would like to see a growth in media. But of course, time synchronization is a number of very, very large operators in the US, and it's a huge potential. Just as one are taking our product, it's a huge upside of course of that because the base station per operator in the US is tremendously large.



Operator

Are you looking at acquisition opportunities at other companies? If so, what areas?



Crister Fritzson

CEO | Net Insight

Yeah, I mean, as we have mentioned all the way back to 2020, in the end of 2020, we presented our long-term strategy. One phase, the phase three included M&A, and we have started looking into that. It's too early to mention which market segment or which area that we will move into, but it's something that we are looking into right now. We have the balance sheet and the possibility of doing acquisition and starting to get interest to look into that. So that's something that we will continue to communicate going forward.



Operator

Can you elaborate on, if we look at the Sync area, on the time from proof of concept to order?



Crister Fritzson

CEO | Net Insight

Yeah, I mean, we have discussed this many times.



Crister Fritzson

CEO | Net Insight

In the beginning, it was a long from the first POC to order was more than a year initially. That was because of that we didn't have the final product. Since the beginning of this year, remember, it's just two quarters since we started to deliver the new Zyntai product. We have shortened the POCs, but it's still, this is a crucial, very important part of a network for a telecom operator. They put in quite a lot of resources to make sure that this will be working well in the network. These are key components, and they take it really seriously to make sure that it will work as they hope. Rolling out the network, it takes time. I mean, rolling out the 5G network or any network takes many, many, many years. We will not see a rapidly large order per quarter.



Crister Fritzson

CEO | Net Insight

We will see gradually roll out from our customer over a long time, many years. So time is shortened. And as we see the conversion from POCs to order going to the next phase, we have a very good traction and ratio on that.



Operator

And you have a large agreement with Türk Telekom. What's the status there?



Crister Fritzson

CEO | Net Insight

Yes, we communicated last quarter. The 5G license has been a little bit delayed. And the last communicated from Turkey is that like next year, beginning of 2026, it will be launched. But they haven't released the licenses yet in Turkey. So it's still not confirmed when they will launch the 5G network.



Operator

Yes. And if we move over to cash flow, how do you view, what can you say about the cash flow going forward?



Operator

Are we to expect a positive cash flow as we saw now in Q3, exclusive ex share-related buybacks, or what to expect in terms of cash flow going forward?



Cecilia Höök

CFO | Net Insight

Our cash flow, excluding buyback of shares, we have had positive cash flow both for the quarter and for the nine months, even though that, as said in Q3, it was larger. Of course, it's connected to our EBITDA. So the higher a result we do, the higher will the cash flow be. Then the major impact will be currency exchanges and also change in working capital. So it's dependent on how we need to work on our inventory, but it has decreased, and we do not see a close increase.



Operator

The U.S. election just ended. Trump will be the new president. There's been speculations about trade tariffs. Can you comment on how this potentially could affect Net Insight?



Crister Fritzson

CEO | Net Insight

I think it's too early to comment on that. And we have seen in the news that there's a lot of discussion what can happen. So it's much earlier to get a comment on that. So we will follow that and see what impact that can have on Net Insight. So we don't have a clear view on that right now. So we need to come back with that when we see the activities from Trump and the administration in the U.S., what type of action they will take. So we need to come back on that.



Operator

And we have a question on Nimbra 400. Will it be at customers in time for the North American World Cup in soccer 2026? And I'm assuming they're referring to the groundbreaking 400 Gb.



Crister Fritzson

CEO | Net Insight

400 Gb. Yeah, it's that 2026. Yeah, 2026.



Crister Fritzson

CEO | Net Insight

With the plan right now is that we should launch the product in the end of next year or beginning of 2026. So that platform will be in the market 2026.



Operator

Can you say anything about the remaining customers, the commercial customers within Zyntai, apart from Türk Telekom? How to access the potential when it comes to those customers and what to expect in terms of revenue going forward here?



Crister Fritzson

CEO | Net Insight

The change like the last six, nine months is that we have seen a larger operators showing interest into our products, both in Asia and in the US and also in Europe. So all three regions who have much larger operators showing interest in the product. And that's really nice to see. And they have also started POCs. So they are like in the phase of testing the product and making sure that it's working as they hope.



Crister Fritzson

CEO | Net Insight

So that's, I see, it's a much greater opportunity now when we are coming closer to a larger operator. So that's, I think that's the larger change in the last six months that we have a number of large operators coming in and testing our products.



Operator

The past 12 months, APAC represented 13% of net sales. How do you view that region going forward, the potential in that region?



Crister Fritzson

CEO | Net Insight

I mean, we have seen, if you look back a few years, we have seen a steady growth in APAC. And APAC is like a little bit different through the US and Europe because it's much more smaller countries and different demands in different countries. It's much more complicated to quickly increase sales in APAC. But we have seen the trend is still going in the right direction.



Crister Fritzson

CEO | Net Insight

As we just announced, the LG Uplus in Korea is really a step forward because this is the first phase of a build-out of a national network for stadiums, so that's the things that we are looking into to come into larger deals like LG Uplus, and China is also open up. We had had sales into China. It has been closed for a while, but now it's opened up, and we see also traction in China, so I see it very positive on Asia, but even though that is a much smaller number in Asia compared with Europe and Americas, but still steady growth, and if you look back on the sales, we have steady growth for the last three years in Asia.



Operator

Thank you very much, and with that, there are no further questions. I'm handing over back to you for your final remarks, Crister.



Crister Fritzson

CEO | Net Insight

Yeah, and the final remarks, I think that we have been communicated very strong Q3. We're looking forward to the Q4. And we see a strong uptake on the interest in Zyntai. And we see stable sales in the media. And as you can see that we are still investing in product to gain market share and strengthen our position. So by that, I think that we say thank you for listening in. And I don't know exactly when we are reporting the Q4. Do we have that?



Operator

19th of February.



Crister Fritzson

CEO | Net Insight

19th of February. So 19th of February, put in and remark in your calendar so you don't miss that. So see you again the 19th of February. Okay. Thank you.



Operator

Thank you.



Cecilia Höök

CFO | Net Insight

Thank you.