Corrected Transcript

23-Feb-2022

Storskogen Group AB (STOR.SE)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

Lena Krauss
Chief Financial Officer, Storskogen Group AB

OTHER PARTICIPANTS

Carl Ragnerstam
Analyst, Nordea Bank ABP

Erik Salz
Analyst, JPMorgan Securities Plc

Herman Eriksson
Analyst, Danske Bank A/S (Sweden)

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

MANAGEMENT DISCUSSION SECTION

Daniel Samuel Kaplan

Co-Founder & Chief Executive Officer, Storskogen Group AB

Hi and welcome. Good morning. And hi and welcome to Storskogen's presentation of our Full-Year 2021, as well as our Fourth Quarter. My name is Daniel Kaplan. I'm the CEO and Co-Founder of Storskogen. And together with me today, I have Lena Glader, CFO.

So, let's get into it. First, a brief recap of Storskogen. As you might know, we are an international compounder, we have an infinite ownership model. We buy small and medium-sized enterprises and we never intend to sell them. We take care of them and we nourish them and we'll – our ambition is to be the very best owner of these companies.

We're gradually moving into new geographies and new industries, creating a truly resilient portfolio of companies. We want to be independent of various macro and micro trends, and therefore, we can produce good cash flows and strong results regardless of what happens in the world around us. We have currently almost SEK 26 billion; and turnover, SEK 2.8 billion in EBITA, and more than 10,000 employees. We've done 176 acquisitions since we were founded and we currently have 115 business units distributed across 13 verticals. We have seven investment teams across the world. As you can see, our companies are still relatively Sweden-centric, but we are gradually moving out now into new geographies. And in every new geography, we aim to be the leading SME compounder in that geography.

Moving forward, we're organized in three business verticals, or rather 12 – 13 business verticals, but three business areas. Services, headed by Peter Ahlgren, comprising – making up about 38% of our total turnover, seven verticals, we'll get into that. We have Trade, headed up by Christer Hansson with 3 verticals; and Industry, headed up by Fredrik Bergegård, making up 32% of our company and 34 business units.

Looking a little bit closer at our 13 verticals, you can see that Services is not only our biggest business area, but also has the most verticals, 7 in total; Contracting Services, Infrastructure, Installation, Logistics, Engineering Services, Digital Services and HR & Competence. And as you can all see, the biggest one with regard to number of companies or rather number of business units is Installation, but also Infrastructure is quite significant.

If you look at Trade, we have three; Distributors, Brands and Producers, where the biggest one is Distributors, also performing very well this year, but we'll get more into that later.

And finally, we have Industry, with Automation, Industrial Technology and Products, where, for example, Products comprise – has some of our biggest business units. And LNS, one of our latest acquisitions, belongs to Automation.

So, what about our fourth quarter? What about the full year? Well, we are, of course, very happy with the year, the way it has turned out. It's been a very complex environment with high sick leaves, various types of shortages of intermediate goods, high freight costs. But that said, our CEOs have made a fantastic job in our organization as a whole.

If we're looking at the fourth quarter, we had a 55% organic EBITA growth, which is quite extraordinary and 141% EBITA growth in total. Of course, this is something that we are very proud of, and I should say that the full year has been very successful as well. So, with a 30% – 36% organic EBITA growth in the full year, the underlying portfolio, a decent margin and of course, if we're looking ahead as well, I think currently, we have an EBITA, a rolling 12-month EBITA of almost 2.5%. We've acquired additional SEK 340 million in EBITA. And finally, we have LOIs, and preferred buyer status as a pipeline basically of another SEK 963 million.

And if all of those come to pass, this will add up to close to SEK 3.8 billion in EBITA run rate. So, we're growing quite rapidly, not only in the last quarter, but also looking forward. But, a very strong year and very strong quarter indeed.

If we're looking a little bit closer at the acquisitions, we have a significant deal flow, as you can see. It's almost tripled since last year at this time. We see primarily the international deal flow increasing, and this is, of course, a natural consequence from us setting up investment teams now in the DAC, UK, Norway and Denmark. And as we'll get into, we will gradually expand into new geographies during the year. And, of course, this – one of the great effects of being in several different countries is the fact that we get access to lots of deals, we can be more selective and really allocate our capital to companies and industries where we get the most bang for the buck, so to say.

We did 20 acquisitions in the fourth quarter. And so far, we have done 17 in the first quarter this year. But like we mentioned previously, we have about 30 LOIs and preferred buyer agreements already signed and entered into. Of course, these are not completed deals. Things can happen all the way. But then, on the other hand, we also have, of course, a number of outstanding non-binding offers, et cetera. So, this is an indication of our acquisition activity going forward. And I guess as you get to know us over the years, these will be a more and more good indication of future acquisitions. And as I mentioned, more and more international deal flow, and we expect that trend to continue. And in the long term, of course, Nordics will continue to be a very important market. But nevertheless, a lot of acquisitions will happen elsewhere, decreasing our geographical dependencies as well.

Looking a little bit closer at acquisitions in 2021, we have done – of course, we have bought a number of business units, but in addition to that, a number of add-ons. And of course, the add-ons, they are usually small, but they also provide important strategic benefits to our portfolio company. So, they are not to be discounted. They are very important for the growth and success of our portfolio companies.

And all in all, I think the 71 acquisitions, that's actually 65 transactions, but 71 acquisitions. They have contributed an EBITA of SEK 1.4 billion, which is, of course significant. Looking forward, I mean, we have had an extraordinary organic EBITA growth in 2021. We'll get into this further, but of course, we're expecting a more normal level of the EBITDA growth from the organic part, but we see a continued strong acquired growth pace going forward.

If we're looking at 2021, you can see that we've bought a number of companies already, a lot of them in the Services business area. We have, of course, a number of different verticals within the Services business area, all of them with very different risks and cyclicality. So, we really appreciate that. We have done a few industrial acquisitions. The biggest one of these, LNS Group, the biggest acquisition we've done to date within Automation, a very strong market leading company with almost 1,000 employees. So, it's a very good contribution to us. But also, a few highlights. Tornado Group in the UK, an industrial company, but also in Sweden, just recently, Hudikhus for example, complementing our Producer vertical with, for example, [ph] Skidstahus (00:09:59), which we have already. So, that's just a few excerpts from the pipe from the currently made acquisitions. So, adding another SEK 340 million.

So, of course, when we've bought these companies, it's what we do with them. And of course, it's easy to be confident after a year with 36% organic EBITA growth. But for us, why is a company that sells the stuff, why is it more worth in Storskogen? It's, of course, an interesting question. What value contribution do we have to this company? And for us, all our work boils down to increasing the upside, but also decreasing risk in the individual company.

And we do this, of course, we're almost – we're about 90 people in the group, operations, its finance, investment managers, investment directors and the M&A team. In addition to that, we have 115 business units and these have fantastic CEOs with operational experience, and they sit on each other's boards and they help out in any way they can evaluating new acquisitions, driving deal flow, et cetera. And finally, of course, we have 10,000 employees with extraordinary expertise in their area, also actually contributing to the common good in Storskogen.

And of course, if we're talking about the competence that all our fantastic employees provide, it's Industrial competence. We have people with in-depth knowledge and operational experience. We have, of course, significant situational experience. At this point, there are very few company situations which we haven't seen before. And now, with the international team in place and operations in 27 countries, we can help our companies source internationally, of course, sell internationally, do add-on acquisitions. And sometimes, of course, things don't go that well and we can help them with a turnaround activities.

In addition to that, we have the domain expertise. We have Industry specialists, but not only Industry, but actually Branding, automation, artificial intelligence, ESG, for example, and all of this area in HR. So, we have specialists helping the companies, improving in all kinds of aspects of their operations. And finally, with local teams, local representatives of Storskogen, we can help and have that geographical component, which can help our companies grow internationally.

So, all of these people together, they drive business improvement. I should say that the heart of Storskogen is still at the centralized approach. So, the CEO and the management team of each and every company is responsible for their P&L and the strategic decisions. But that said, we are contributing in many different ways to their operations.

One, of course, is financing and also financial stability. So, not only do they have access to – they can borrow money, they can have guarantees if they have big projects, with leasing agreements, et cetera. But in addition to that, just the fact that they know that we are an owner, they could be a little bit more forward-leaning in their various strategic initiatives. So, we truly expanded – CapEx, for example, in 2020, investing in new machinery, building new factories, recruiting people. So, it's not a coincidence that we've had this fantastic growth during 2021. So, being a little bit countercyclical is a part of Storskogen's long-term agenda.

If we're looking at growth-generating activities, I mean, we talked about the international expansion. But add-on acquisitions is, of course, an important component. And we did 34 add-on acquisitions, and these provide all kinds of strategic benefits they could provide, additional geographical or product lines. They could add competence and broaden the team. And, of course, together with organic growth, acquired growth, and I should say that some of the companies we buy, like LNS are somewhat bigger. As you can see, we have a 30% increase in the average size of our business units this year on average.

And what does this entail? Well, it means that we get a bigger team. We get more customers, more suppliers, more resources to put into – put in structure of capital, having established processes and monitoring and good financial reporting routines. So, I think size is truly an indication actually of risk in the company. And if we grow the average business unit with 30%, that means that our risks, operational risks in each and every company goes down significantly.

Strategic development, are we talking to the right customers? What about the pricing? What about our unique selling points in each and every company? We're hunting for operational excellence, of course, every day, how can we produce better and faster with higher quality and make our customers happier in every way. In addition to that, if we're talking about decreasing risk, governance and professionalism are truly important. I think we help them structure their financial reporting, so that their reports are accurate and correct and fast, so we always know what's happening. We're introducing KPIs on other aspects, so that we can start to benchmark the companies. And we get the learning curve going, so to say.

Finally, and potentially the most important, when it comes to risks and decreasing risks is, of course, succession planning. So, we buy a lot of generation shift companies. Sooner or later, there will be a generation shift. So, we planned for that, we try to broaden the team, lessening the personal dependency and also recruit really good people to help the companies grow.

So, I think when it comes to the value contribution of Storskogen, well, if you look at these two last years, we had a very tough year in 2020 with decreasing GDP. Nevertheless, we managed to have a positive EBITA growth, organic EBITA growth. And if you look at this year, which was a strong 2021, a strong year with GDP in Sweden, for example, growing almost 5%, we actually achieved a 36% EBITA growth. So, I think that we are selecting good companies and helping them decrease their risk and increase their upside. I think that's undisputable.

So, we're also moving into new geographies. I think – and the question is, why are we doing that? I mentioned that already. What markets do we want to enter? And this is like an example of what we like and prioritize. In this case, it's Singapore, our latest country, where we have set up shop. It's a mature market. It's a free market. It's very stable. From a sustainability perspective, it has low degrees of corruption. And of course, we have a vibrant M&A community with brokers and lots and lots of lots of SMEs. And the thing is professional and professional owner with a long-term perspective, very few of those are around in Asia. So, we really feel a void in the market, contributing extraordinary value to our entrepreneurs who want to sell their company to a long-term owner, but also to society as a whole. And for us, of course, it's a great business opportunities to buy the right companies at the right price.

If we look at the team, this kind of illustrates the type of people we're looking for when we're setting up the team. We have Shou-yen Shu who used to work actually with one of our colleagues, Mikael Neglén, in Asia. So, Shou-yen, apart from, of course, having lots of experience of working with Westerners, having taken his Master of Science in Stanford and MBA at INSEAD, a number of years at Bain, a management consulting firm, he also worked in various operational roles in Asia-Pacific together, for example, with Mikael. So, we know him well, and he kind of embodies the professionalism, the skill set and the type of person that we really appreciate.

Together with Shou-yen, we have additional two persons, [ph] Wei Cai (00:19:17) joining us next week, actually, coming from one of the most prominent private equity firms and previous to that an M&A advisory role. An extraordinary person and a specialist doing M&A supporting Shou-yen. And, of course, [indiscernible] (00:19:35), which is our investment director. Well, once again, well, Shou-yen, he's from Singapore, [ph] Wei Kiat (00:19:45) is from Malaysia originally, and [indiscernible] (00:19:47) is from China. So, when she moved to Singapore later on, she – of course, after her study, she joined Boston Consulting Group. She had been the head of the Asia Pacific operations of a satellite company, but she also founded a company of her own, a Montessori school. So, embodying that entrepreneurial spirit that we love and cherish and that we also need, both to grow and to support our companies. So, that's an extraordinary team. We're really looking forward to what they can do together with us in Singapore to start with and potentially in the rest of Asia.

So, Lena, the business areas.

Lena Krauss

Chief Financial Officer, Storskogen Group AB

Thank you, Daniel. So, let's have a closer look at the development in the business areas. We're going to talk about market trends, market sentiment, what the drivers were in Q4 and what we are looking at in Q1 and then have a closer look at the results, balance sheet and cash flow, of course.

Starting off with Services, the largest business area today. First of all, Q4 is seasonally strong for Services, which has, as Daniel said, seven verticals in the report. Six verticals, it was changed to seven now in January. So, there are no misunderstandings there. These are personnel-intensive companies and organizations. So, Q4 is naturally a stronger quarter than Q3, and that is what we expected. And that is actually also what we saw. There was a sequential improvement actually in all verticals within Services.

The fourth pandemic or the COVID pandemic, the Omicron virus that spread across Europe, of course, resulted in some high levels of sick absence. Towards, we could actually see this already in December and then in January and the beginning of February as well. And so, that had some impact in Q4 towards the end of the quarter. The underlying business, however, is really positive. The sentiment is really, really positive. Overall, however, of course, the COVID virus might have some effect, and we expect that to have some effect in Q1. So, we look forward to the markets or the businesses opening up now towards the end of Q1 and going forward.

And the results and the financial development for Services, Q4 net sales increased by 104%. EBITA increased by 160%. We had a significant, of course, contribution from the Ceder portfolio in terms of sales, as you can see here to the left in Q4 and also contributing to margins. There was also some favorable comparison from Q4 last year, which was affected by one-off items in one of the subsidiaries there. Organic growth, Daniel mentioned already, very strong at 21% for the full year in terms of EBITA. And to the right here, you can see the resilience in the EBITA margin. We have – this is a very diversified portfolio Services companies within different areas and that is actually very visible when you look at the numbers and the resilience of the margin here, which has been quite stable at around 10% for the past rolling. We look here at the rolling 12-month basis.

And moving forward to Trade companies, again, very strong sales, very strong B2B markets; especially, Distributors and Brands performed really well in Q4, as expected again. We were, as you know, as we mentioned previously, strategically building up inventories in Q3, which affected Q3 cash flow negatively, but this turned out to be quite a good strategy as we were able to have strong sales growth in these companies.

And, however, we see that there are still – there's still a high cost level. We still have above-average inventory levels here. And – but, however, we continue to adopt prices, we have successfully increased prices in several companies in most, actually almost all of them. And we'll continue to do so likely in 2022. The beginning of this year in 2022 was obviously affected by COVID, high sick absence leaves in – across many of these businesses. And so, that might have some effect also in Q1 obviously. Underlying B2B market, however, remains strong.

Looking at the financial development here, we had sales increase of 138%. We had an EBITA increase of 97%, so close to 100% EBITA growth. However, the margin here dropped to 8.5%. And why is that? Well, that is to the full extent explained by inventory write-downs that appeared in conjunction with year-end closings in a handful of subsidiaries here, SEK 41 million in total. So adjusted for that then, the EBITA margin was a lot stronger, of course. Here, we also show what the margin would have been without transaction costs that are [audio gap] (00:25:44 – 00:25:51) in affecting of the business areas, so 8.9% margin including transaction – excluding transaction costs. And I would like just to be clear that this [audio gap] (00:26:05) again, 35% for the full-year 2021 and net sales full-year growth of 100%. So, the level of sales is more than double than what we had a year ago.

And then finally, Industry, very favorable markets, very strong demand across all verticals here. We have, of course, as many other companies have some supply chain issues. We've seen increased commodity prices. This has been offset, however, by high production efficiency and productivity improvements, which has more – and actually more than offset these disruptions that we've seen. And we continue to see some supply chain disruptions. These issues are not solved yet, and there is still some material shortage out there as a result of that. But the market is strong, especially for the Automation companies.

And looking at the financial development for Industry, net sales Q4 increased by 178%, EBITA increased by 230%, with a very strong margin. And excluding transaction costs, margin is now above 13%. And organic EBITA growth extraordinary 53% for the full-year 2021. This is very, very strong. And with strong market, well-run businesses and this is visible in graph to the right here where you can see the rolling 12-month margin, which has increased sequentially each quarter, the past five quarters.

And some comments about the group performance. Net sales growth, 134%; organic growth is a 23% on sales in Q4 and 55%, as Daniel said, in terms of EBITDA in Q4. And the EBITA margin here is 9%. I have to comment somewhat on this. This is lower, because of, first of all, transaction costs were significant in Q4. We've invested and we've made a lot of acquisitions. We've invested in the group operations, just as Daniel mentioned. And this kind of growth initiatives do cost initially when they have not yet produced the level of income and earnings that we expect them to do, obviously.

And so, if we would adjust for the group, if we would exclude the group costs and transaction costs, which are growth costs, basically then, the margin actually would be 11%. So, the underlying business is, according to us, really solid. And RTM EBITA level, 2.5%, I'll come back to that later. Return on equity, return on capital employed are – those metrics are diluted by share issues, actually in return on capital employed, 9.1%. If we looked at net debt instead of gross debt, then it would be roughly 12.5%.

Net sales/EBITA trend, it's a growth company with fairly resilient margins quarter-by-quarter, as you know. And then, looking closer at the EBITA growth bridge, which we've tried to explain here, you can have a closer look after our presentation. This presentation will be available on our home page, obviously. Here, we show what the impact from a contribution from organic growth is, what the contribution from M&A is to the EBITA margin. And so, the reported EBITA margin, 1.7 – or the EBITA, I'm sorry, is SEK 1.7 billion for the full year 2021. If we'd own the companies, the entire 12-month period, would be SEK 2.5 billion as a pro forma or RTM. If we'd included the acquisitions that are made to-date in 2022, then we're already at SEK 2.8 billion and then the $1 billion roughly in EBITA, which is in the LOI pipeline, would bring us to SEK 3.8 billion. Now, this is not 100%, of course, certainty in closing all of these deals.

Cash flow, strong again after a weaker Q3 due to the inventory buildup. We're back at normal level with a cash conversion rate of 73% for the 12-month period. I like to look at this on a 12-month rolling period basis because of – there's quite significant seasonality in these kinds of numbers. So, 73% is above the target of 70%. Here, we have, of course, significant amounts in investments in acquisitions, but also significant amounts in terms of the proceeds from the IPO and other financing that were done in Q4.

CapEx to sales also back at more normal levels at around 1.9%, 2% for the full year. It's higher than it was in Q3, but that was expected. And the net debt post the IPO obviously is a lot lower, 1.3 times. If we look at only the financial debt, then 0.5 times is the net debt to EBITDA. So, that leaves us pretty comfortable in terms of headroom for further acquisitions, while still maintaining a solid financial position.

And that was basically it, in a brief about the numbers.

Daniel Samuel Kaplan

Co-Founder & Chief Executive Officer, Storskogen Group AB

Yes. So, if we summarize the key takeaways, I mean, it's been an extraordinary year. I think it's been an opportunity for us to show our operational excellence not only in tough times like in 2020, but also in good times like in 2021. And, of course, our pipeline, our cash position also makes it possible for us to grow going forward.

So, I mean, coming out of a quarter with very strong growth, but even the full year, 19% EBITA growth, 36% organic, of course. I think we're mostly proud of the organic EBITA growth, because it really shows the health of our companies and that they're performing well and that we're also rapidly – we're currently at SEK 2.8 billion and EBITA and, like Lena said, almost SEK 1 billion in the LOI pipeline.

So – and apart from the hard numbers, I think from a qualitative measure, I think we are rapidly improving our processes. The team is growing, adding more expertise, new geographies, and I think we have to be very positive to the fantastic feats actually of our staff during this year and extraordinary. And it's been a complex environment for our CEOs, but they have really managed to maneuver in that environment with great competence.

Looking forward, I think we have seen higher degrees of sick leave by the very end of the year and the beginning of the year, not only with the Installation, for example, the Installation vertical suffering from that, but also the fact some of our other verticals where the customers, for example, have had the highest degrees of sick leave. So – but that said, if you look at the full-year 2022, I think we still see a decent, strong demand, even though we expect even – given the fact that we have significant geopolitical risks that we have, still a shortage of various intermittent goods as well as freight costs and stuff like that, that kind of disturbs the view. Nevertheless, I think we have a positive outlook on the year. We feel confident that our diversified portfolio is truly resilient regardless what kinds of shocks that will occur in the world around us. So, a positive outlook, even though a more normal year, I think we would project rather than 2021.

So, finally, that said, we are ready for questions now. So, I'll hand over to the operator for you to pose your questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Carl Ragnerstam of Nordea. Please go ahead.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Hi, Carl.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Good morning. It's Carl from Nordea. A few questions. Firstly, related to the transaction costs. I guess, it was roughly SEK 40 million. How much of that is related to large acquisitions?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I think it's a significant part, actually. I think buying a big company like LNS, not only is it a big and complex transactions with factories over all over the world, so the due diligence processes is quite careful. It also entails that we – basically, we take an insurance both for our sake, but also for the sellers, because they have to do a lot of guarantees in this case. So, we buy an insurance, so that the insurance company basically guarantees those guarantees. So, all of these things makes that the LNS acquisitions was, I think, SEK 16 million or SEK 17 million of those SEK 40 million, just that transaction alone. I mean, historically, we have had, relatively speaking, low transaction costs. But when we're buying some of these bigger international companies, those certainly are higher.

I should say also, internationally, we have somewhat higher transaction costs, especially in the beginning before we basically – we get new suppliers of due diligence, legals, financial due diligence. And before they're up to speed with how we're working, the first projects are usually a little bit more expensive before they start to get better at it, and also [ph] wee (00:37:08). So, but then, we see quite rapidly decreasing acquisition transaction costs, I think related. But for sure, significant transaction costs related to bigger acquisitions.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

Definitely.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Perfect. Very helpful. And you mentioned that you have 30 nonbinding and LOIs pipeline. Could you give the split between LOIs and preferred buyer agreements?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yes, I think we can.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

I think we can. Yes.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I think it's like three or four preferred buyer agreements and the rest of them are LOIs. And as we – I think we discussed it previously. When we only bring our preferred buyer agreements, where we see that we have a high probability of closing the transaction, usually, we have an exclusivity or we would have a break fee if things don't turn out to plan, even though it's not a formal LOI. So, a very high degree of the LOIs are actually closed at little bit high risk on the preferred buyer agreements, but nevertheless a significant portion of those get closed.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

To put that into context, the break fees, if that is some indication of how many deals we break, as was last year, 1.2% of the total transaction costs, I think so very low.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Okay. Perfect. Should we expect them to be closed in Q1 and Q2 or do you have a longer time horizon in your pipeline?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I think more or less all of these LOIs and preferred buy will be closed within the next one-and-a-half quarters. I think that's fair to say that they will all be closed in the next four or five months or something like that.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Perfect.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

And also, on the group costs, [ph] SEK 75 (00:39:05) million in the quarter, is this the run rate we should expect for full-year 2022 or do you see a need for further expansion in the short term?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I think we have made a strategic decision that we want to grow, but we also want to grow with quality. So, we want to have the M&A teams in place, the business managers, the investment managers in place already before we do the acquisitions. So, we don't – we want to avoid bottlenecks and quality problems in these when we're buying companies. And, of course, that investment in organization, I just presented, like, for example, the Singapore team. This is before we have actually an acquisition in place. So, this, of course, drives cost. And our ambition this year is to expand into additional geographies. Singapore is one. But we're also looking, for example, at Finland and Holland or in the Benelux as well as potentially the US. So, we will see continued investments in organizational development, I think, in the coming years for sure. Yes.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Perfect. The final one from my side is on the margins in Services. As you said, a lot of the sales growth or at least a chunk of the sales growth in the quarter came from the consolidation of the Ceder companies. If I remember correctly, they had high-teens margins. But still, the margin is up sequentially – or marginally sequentially even though Q4 should be quite good quarter for an Installation companies or service companies in general. So, what is behind that, or if you could help us bridge the margin a bit?

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

Well, first of all, you have to look at the transaction costs as well and add those back to get a decent number. But I don't think you would have the transaction costs split by business areas for Q3, so that will make it harder. No. But, the underlying margins in the business is sequentially stronger. I don't have on the top of my head now how much Ceder contributed. There are sometimes some extra costs in the big – in the very beginning of an ownership period. That might be one explanation. And then, of course, if you look at the year-on-year margin improvement, then we had the one-off items related to Svenska Tungdykargruppen last year, which significantly impacted. So, that contributes positively in the year-on-year comparison.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah. I should say also taking it down into one detail level, I think if you look at this – the different verticals, they're also performing – well, they're a diverse bunch. So, if we have, for example, Digital Services performing really well and some of our Logistics companies performing very well, including Skaraslättens, for example. Whereas, of course, Installation already sort of started to suffer a little bit from high sick leave levels during the latter part of December, for example. I think that's when Omicron really started to get going. So, we had some disturbances as well from the – from COVID, I should mention.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

And also, getting back to the transaction costs, I mean, we made basically no transactions in Q3. So, there shouldn't be much transaction costs in Q3 numbers. So, you need to add those back to get to underlying profitability.

Carl Ragnerstam
Analyst, Nordea Bank ABP

Q

Perfect. Very helpful. Thank you.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Thanks.

Operator: Our next question comes from the line of Erik Salz of JPMorgan. Please go ahead.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Hi, Erik.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

Excuse me, operator. Could you turn on the volume a little bit, since my ear dropped? Thanks.

Erik Salz
Analyst, JPMorgan Securities Plc

Q

Hi. Good morning and thanks for the presentation. I hope you can hear me well. I've got a couple of questions, if I may. First of all, can you maybe comment a little bit about multiples paid for the acquisitions so far, and what are you seeing in terms of competitions for the deals that you're doing?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

A very good question, of course, something that we're monitoring continuously. I think for the bulk of our transactions, we have seen more or less a stable price environment. That said, we have also bought a few bigger acquisitions such as LNS, which kind of really influences the multiples. So, I think in the short term, I think the average multiple has been a little bit higher than normal.

Looking forward, I think we – I mean, the prices of small- and medium-sized companies, they're not really super correlated in the short term to the stock exchange, for example. So, they've been slow to rise. And now, as the stock exchange is kind of having their sector rotation, I think they're slow to decrease. But that said, even as late as last – yesterday, I think I heard from the M&A team that we do feel, if we put it likely, a softening from the seller side when it comes to pricing and competition. So, I think we will be seeing, on average, still in the first quarter somewhat higher multiples than historically. But going forward, those might well recede a little bit. I think that's the view on prices depending on geopolitical risks and energy prices and all of those things making life exciting. Yes.

Erik Salz
Analyst, JPMorgan Securities Plc

Q

Yeah. Understood. I appreciate that it's maybe more, but you maybe cannot comment like with an exact number on the multiples. But when you say a little bit higher than the average in the past, do you then allude to, I think, the circa 9 times in last year were like pre the IPO or the year pre the IPO, which I think was a bit higher because of doing bigger acquisitions or more in terms of it would be a little bit higher than the circa 5 times to 6 times that you had been paying before you were starting to do these bigger acquisitions pre the IPO?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Very good question. I mean, to be a little bit more exact, I mean, we don't have an official guidance on the multiple. I should say that we have implicitly been guiding towards around 7-ish. I think if you look at the last period, it's been slightly higher than 7-ish, but not as high as 9 times. And I think, that's about as close as I might get. And as, Lena, she's the strict one on what we can say or not.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

No. I think that's fine. I mean, you can [indiscernible] (00:46:33) in the LNS press release, we were actually a bit clearer and said that, so you can read there that the multiple was 9, I think for LNS, which – and which is a huge acquisition. So, that obviously also, that brings up the average.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

So, that brings up the average, but it's – if that's like the most expensive that we would pay for an acquisition, it's less than that. Sorry. Yeah?

Erik Salz
Analyst, JPMorgan Securities Plc

Q

Yeah. Okay. And then, it seems that the growth – inorganic growth is going very fast this year, and then also with the LOIs signed so far. And where – I think you just mentioned that some of that could close in the next quarter or quarter-and-a-half, and that would mean that obviously you're running through to capacity that you have for doing future acquisitions, also take-up leverage. I mean, obviously depending on the multiple state that even if multiple would be relatively low, let's say, or the 6 times on this SEK 900-something million of EBITA for those LOI-signed companies, then obviously leverage would come in a region where also a potential equity raise in order to do then – to do further acquisitions would be something that you consider, I would think.

How do you – how would you think about future equity raisings and the amount of leverage headroom that you had post those LOIs and given current state of financial markets and which are probably not as supportive to equity raises as they were when you did the IPO?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I mean, you're absolutely on to something. I think we have always communicated that. We have an intention to grow and do acquisitions when the opportunity arises, and that actually consumes more capital than our free cash flow allows if we are going to retain that growth. This means, just like you're saying, that we will gradually kind of do acquisitions. We're, of course, gradually also increasing our free cash flow. Then, of course, at some point, we can complement that one with paying partly with equity, for example, but that's also equity raises. And if we are to complement this with a capital raise going forward, I think it's a little bit up to our owners. But I think we will have to be a little bit sensitive to that. All acquisitions and all capital raises we do have to have very positive effects for our shareholders and our earnings per share. So, I think that will temper our appetite for the size and timing of when to do capital raises. Yeah.

Lena Krauss
Chief Financial Officer, Storskogen Group AB
A

And each acquisition is – each decision we make also gives us new EBITA/EBITDA obviously which helps the leverage, but you know that already.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

But I should say, I mean, given the free cash flow, there is a scenario, of course, where we would kind of complement that cash flow with debt. And that will still give us a decent headroom for long-term acquisitions without raising new equity. But I think that discussion will be with our main owners regarding when and how they feel, if that feels like a reasonable dilution at the time when that discussion kind of arises. Yeah.

Erik Salz
Analyst, JPMorgan Securities Plc
Q

Yeah. Okay. Maybe one last question on these LOIs, is some of that in the new regions like Singapore?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Yes. For sure.

Erik Salz
Analyst, JPMorgan Securities Plc
Q

Okay. Okay. That's all from me. Thanks a lot and thank you. Thank you.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Thank you, Erik.

Operator: Our next question comes from the line of Herman Eriksson of Danske Bank. Please go ahead.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Hi.

Herman Eriksson
Analyst, Danske Bank A/S (Sweden)
Q

Thank you. Good morning, everyone. Hi. So, you covered most of my questions, but just on the organic growth. Can you please just define how you measure the organic growth? I mean, what proportion of the company you own now are included in the calculation of the organic growth, roughly?

Lena Krauss
Chief Financial Officer, Storskogen Group AB
A

Well, organic growth is calculated as the companies that we've owned the entire year, 2020 and 2021, obviously. And so, at the end of how many companies did we own at the end of – at the beginning of 2020?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Good question.

Lena Krauss
Chief Financial Officer, Storskogen Group AB
A

Yeah. Very good question. So, I don't have that on the top of my head. It's a very good question, obviously, but you can find that out in the financial report. But it's – but yes, you're right, that's the definition. So, everything that's acquired post that and you can see that in the EBITDA bridge that we showed is not included in the organic growth. We do, however, internally, of course, follow up their underlying organic growth even for the acquired company businesses. And it's usually pretty much in line with the reported organic growth.

Herman Eriksson
Analyst, Danske Bank A/S (Sweden)
Q

Okay. Also in this quarter or?

Lena Krauss
Chief Financial Officer, Storskogen Group AB
A

I would say yes. If you – if we overlook the effect from Tungdykargruppen which had not a large effect on the full year organic growth, but some, then I would think so. Yes.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Yeah. I think we had actually, this last year a somewhat higher organic growth in the companies that we have owned for the full – for the two period – for the full period, so to say, but reasonably in line. Yeah.

Herman Eriksson
Analyst, Danske Bank A/S (Sweden)
Q

Okay. Perfect. Thank you. That's all for me.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Thank you.

Operator: Our next question comes from the line of Andreas Koski of Exane BNP Paribas. Please go ahead.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB
A

Hi, Andreas.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Thank you and good morning. Hi, Daniel. Firstly, I would like to better understand your comment about normalizing organic growth rate into 2022. Should we just read that as you expect lower organic growth rate in 2022 compared to 2021, or should we read it as it's getting very close to your organic growth target of real GDP plus 1% to 2%?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I think the latter. I think our guidance is probably where we start with regard to our preview. Of course, there's not much transparency from a macro perspective on the year to come. I think if we're moving into recession or not, I think that's very difficult to say. At this point, we feel a pretty strong demand actually in almost all areas despite disturbances. But I think our guidance is probably the best real GDP, I should say, given that inflation is picking up that is getting more important. I think that's probably our best guidance at this point. Yeah.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Understood. Thank you. And then, the turbulence that we are currently seeing in the financial markets, do you see a risk that that will impact your ability to make as many acquisitions as you would like to do?

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

I think, I mean, of course, in good times, companies are doing good profits and they also have good projections and they're stable, so it's easier to agree on a baseline for valuation, basically. And in the case that they have positive projections, you can have earn-outs and put call options to kind of bridge that gap in expectations. So, a good market, it's a lot easier to make deals, more companies come out wanting to sell themselves, of course, more companies in the market. So, if we get to a turbulent market, a volatile market, we would probably see a decreasing supply of interesting companies to buy. I think that's one aspect.

Then, of course, on our own, of course, we have to feel confident that we can raise debt and in other ways complement, we need basically functioning financial markets if we're going to continue to grow in line with historical levels. So, it will, I think, certainly affect us not in the short term, but in the mid to – in the midterm, I think that's quite likely.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Yeah. Thank you. And then, lastly, on the inventory write-downs in the business area Trade, I think it was like SEK 41 million. Was all of that related to one single company within Trade or was it spread across many different companies? And do you think that this is normal part of businesses within the Trade business area, i.e., that we're going to see inventory write-downs also going forward from quarter-to-quarter?

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

Well, I sure hope not. This is related to the – not the majority, a little short of half is related to one company. And the rest is, I think, divided by five or four, actually, other companies with slightly smaller amounts and where of course, I mean, we have quite strict internal control rules and financial reporting for our companies. We have 105 business units reporting to us at the end of the year, bear in mind. So, we will, of course, follow up on this throughout the year to make sure that we use to – that we improve the inventory value basically accounting quarterly...

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

A

...so that we don't end up here. But this is – I mean, in terms of the annual closing and the annual review done in conjunction with the annual closings, these kinds of things materialize sometimes and we, of course, try to minimize those effects.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah. I should say also, we acquire companies continuously. And the reason why we're measuring organic EBITA growth, for example, for the full – we have to own the companies for the full comparison period is basically because when we buy them, we have to introduce our accounting standards and our controls.

So, I think we will not see a quarter-to-quarter write-down, but it would not be surprising if we buy companies in the future. And before they get up to speed basically on inventory control, et cetera, I think it will be a part of like the fourth quarter when they finally do the inventory checkup that will be some kind of write-downs in the future in the fourth quarter. It's not impossible anyway if we buy companies during the year. Yeah. Lena, doesn't like that.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Thank you very much.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

A

Yeah. Thank you.

Operator: And there are no further questions at this time. Please go ahead, speakers.

Daniel Samuel Kaplan
Co-Founder & Chief Executive Officer, Storskogen Group AB

So, that was all for today. I hope you felt that this was informative. It's a pleasure talking to you, and looking forward to hear your questions and to meet you in other arenas. Thank you very much for today.

Lena Krauss
Chief Financial Officer, Storskogen Group AB

Thank you.

Daniel Samuel Kaplan

Co-Founder & Chief Executive Officer, Storskogen Group AB

Thank you.