

MEKO, Q3 2022, Earnings Call

2022-11-02

Operator

Good day, and thank you for standing by. Welcome to the Meko AB Q3 Report 2022 Conference Call. — Operator Instructions — Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Pehr Oscarson, CEO. Please go ahead.

Pehr Oscarson

Thank you. Good morning, and welcome to the presentation of the third quarter '22. Together with CFO, Asa Kallenius, I will guide you through the results.

We continue to deliver organic growth, which proves our resilience business model, and this is a sign of the strength of our – for our strategy and long-term profitable growth.

We are growing rapidly in the strong Polish and Baltic markets. We have increased our market shares, along with increasing profitability in a successful way.

In Sweden, we experienced a stable market, while we experienced a weaker demand in the Norway and Denmark, especially when we compare to the same quarter last year, which was a very extremely good quarter, especially in Norway.

The acquisition of Koivunen that we conducted during the summer enables a stronger position and significant growth potential for the group going forward. We will get back with more details around the integration work in Finland shortly where we are well on our way to extract the purchasing synergies and synergies from streamlining the backbone of the operation. Our strong cash flow are a benefit for executing on our strategy.

If we move on to Page 3, we here see our strong position in each market where we, after the recent acquisitions, are #1 in Sweden, Norway, Denmark, Finland and Estonia and with significant operations in Poland, Lithuania and Latvia.

In our markets, there are over 70 million people and 35 million cars. The average age of the car fleet in Northern Europe is old and right in our target group.

All markets offer large potential to further organic growth, and we are confident in our ability to transform our business in line with the electrification and digitalization of the industry.

When we now have learned more about Koivunen and the operation in Finland and the Baltics, we are also very confident on that potential.

And in order to explain our markets better, we decided to adjust the business areas somewhat. And as we see on Page 4, business area Denmark, previously called business area FTZ, remains unchanged when it comes to the financial reporting.

Business area Finland, it include our recently acquired operation, Koivunen Finland, as well as our previous option in Mekonomen Finland. Mekonomen Finland was previously included in the reporting of Sweden, Norway, MECA/Mekonomen.

We decided to add the operation in Poland and the recently acquired operations in the

Baltics as joint business area Poland and the Baltics. These markets are growing rapidly, and we see potential for collaboration that we gain the group.

Business area Sweden and Norway includes the previous operation in MECA/Mekonomen and the operation in Mekonomen Finland is now excluded. Otherwise, there has been no changes in the business area.

So I will now hand over to Asa to take us through the results.

Asa Kallenius

Thank you, Pehr.

Moving over to Page 5. We see great volumes and organic growth in the group. As Pehr stated, we had a very positive growth in Poland and the Baltics, quite normally in Denmark, a weaker consumer purchasing power in the quarter. Sweden is stable.

We are confident that we are in an industry that rapidly recovers. The demand will be delayed, but not canceled in full. Service and repairs are necessary in order to retain the need for mobility.

EBIT has been on a stable level last quarter. Our cash flow is strong, which is crucial to enable us to continue to execute on our strategy going forward. Stock levels are stable. We see that we can uphold availability without further increases, which benefit cash flow going forward.

Looking at Page 6. As stated, we are comparing to a very strong quarter in 2021, especially in Norway, where the result last year were partially affected from positive COVID-19 effects. I will come back to the respective business area in a short while.

Excluding this transaction from the acquisition of Koivunen, we are on the same level, which was as last – same quarter last year. Our development is stable over time. Over a single quarter rarely tells the whole story. The long-term trend is positive for us, and we continue our journey to drive our strategy forward and reach the long-term profitable growth.

I now turn over to Page 7. The gross margins are slightly lower in the third quarter, though we continue on a very high level. As you can see, gross margin is somehow diluted by the acquisition of Koivunen who has lower margins than the rest of the group in average. The gross margin in Koivunen will increase over time, as the purchasing synergies will kick in. We are successful in compensating the increase in purchasing prices in the market, as you see in the graph here, where we, in general, have adjusted prices on all markets. Year-to-date, we have increased our gross margin compared to last year.

We move over to Page 9 and the business areas. First, on Page 10, Denmark, we are able to deliver a low organic growth in Denmark in the quarter where we, as I said, are facing tough competition and weak consumer purchasing power in the quarter, though we had initiated actions to balance cost as well as activities to increase sales.

In the quarter, SEK 12 million related to distribution of personnel costs is burdening the EBIT compared to the same quarter last year. Going forward, we are confident in the recovery in the market together with our action, and that will give result in the profitable growth.

Then we go over to Page 10 and Finland. Through the acquisition of Koivunen, we have im-

proved conditions for profitable growth in Mekonomen Finland. Integration work around synergies are ongoing according to plan after acquisition. We see a great potential in many areas in line with expectations during the acquisition.

In addition to purchasing synergies will be a large upside in Mekonomen Finland using the logistic backbones of Koivunen. This includes closing of Mekonomen's regional warehouse in Finland and use Koivunen's center warehouse going forward.

The Finnish market is similar to the Swedish market when it comes to maturity with – will growth of around 1% to 2% yearly. We expect stable demand and development over time. The acquired operation, Koivunen, contribute with SEK 294 million in sales and SEK 26 million in EBIT in the quarter.

Over to business area Poland and the Baltics, Page 11. We are pleased with the first quarter in the Baltics. It is in line with our expectations during the acquisition. The acquired operation in the Baltics contributed with SEK 159 million in sales and SEK 14 million in EBIT in the quarter.

We have a successful development in Poland, in line with our strategy of creating profitability, a strong turnaround case for the group since the acquisition in 2018. We increased market share in both Poland and the Baltics on domestic markets as well as in the export business.

We work hard with maintaining gross margin to keep EBIT margin on high levels. Here customer focus and availability are important piece. We see clear synergy potential between the markets, why we choose to set a new business area of structure together. In this market, inflation is a common [event] and has been for a long time. Poland is now facing 17% inflation and the Baltic even higher, over 20%. The operations are well equipped to handle the challenge and had proven that our industry can exist and be profitable with the high inflation.

Moving over to Page 12 and Sweden, Norway. We have a very strong performance in Sweden, where previous actions of balancing cost structure and sales action has proven effective. In Norway, the consumer purchasing demand is low. Low organic growth is compensated by currency, smaller acquisition and price increases.

We have taken strong structural action in the first month in Norway to balance costs and streamline our operations further. Along with a significant sales action to improve sales, we are confident in that, that the market demand will stabilize and that will improve profitability, in line with the improvements in Sweden.

And then Sørensen og Balchen in Norway on Slide 13. We continue our great cost control and have a result on high level, extremely profitable in the record quarter 2021 during COVID. So comparing the quarter, we compare with this is tough. So it's difficult to maintain this high EBIT level each quarter when facing record quarters.

The consumer market in Norway is slow, as I said, also in MECA/Mekonomen, Sweden and Norway. Post COVID, what is clear is most of retail companies report in the past quarters after an extreme demand during the pandemic. As stated, we are confident that, over time, we see more stable demands in Norway. And operation in Sørensen og Balchen is

successfully shifting focus on the B2B business during weaker consumer demand period. I will now hand over to you, Pehr.

Pehr Oscarson

Thank you, Asa, and we will go over to Page 15 and the footprint. We have added Finland and the Baltics as main markets from the third quarter. For Finland, you see that we have increased by around 150 branches and 240 workshops with the acquisition of Koivunen. We have a stable number of branches, here with ongoing optimize availability by merging, adding and closing in line with the market demand. Still the size of workshops and the number of mechanics is the most important, both for the workshop profitability as well as ours.

Looking at Page 16. Strategic new revenue focus involves collaboration outside the core business. As we communicated a few weeks ago, we have partnered up with Mobivia. Mobivia, a similar company to us operating in Southern Europe, head office in France, together, we are developing a combined offer that we build a corporate car owners, new – and new electric car makers, a complete partner for the whole European market. We have initiated a pilot customer case, and we see several opportunities ahead within this area.

Over to Page 17 and more around the importance of focus on corporate car owners. In Sweden, 20% of the cars are owned by companies. And in Norway, the number is 9% and Denmark 15%. The number has been stable for the past years, where we still have a large potential to attract larger parts of that market. Here we are in the forefront in Sweden, while we have not started in large scales in the other markets.

Over to Page 18 and sustainability that are one of the most important strategic areas going forward. We have recently added competence to the group by a new head of sustainability for the group. We are now focusing further integrating the sustainability again in the overall strategy to reach next level in our ambition as a sustainable business.

For example, we are implementing a new certification in Norway, the Miljøfyrtårn, as it's called, is a tool for working comprehensively, systematically and long term with improving environmental performance, reduced climate gas emissions and contributes to a green future indoors by the Norwegian authorities.

In Denmark, we have started the electric transformation within deliveries, where we just received the first electric delivery vans, an example how we are building for a more sustainable future.

On Page 19, you see the forecast of the EV transformation in some of our markets. We have shown this before, and the development are still in line with these numbers. We're still moving slowly. Issues like charging infrastructure, the original electricity, the pricing are often pointed out as obstacles for a more rapid development.

And in light of the recent EU decision around phasing out combustion engines from 2035, the pace will still be slow going forward. The car sales in 2034 will still live for 50 years or so.

Regardless, we look forward to the transformation, and we are well equipped through. For example, mechanic training, certification of workshops and development of our as-

sortment. Our initiatives also create availability and meets the demand, and that's why we are proud that we, in many ways, are contributing for the development of – and the transformation.

On Page 20, we have another strategic area, digitalization. 90% of our sales are already digital, although we are determined to develop the customer journey further. When it comes to digital bookings, we have a positive development.

In our service, we see that the car owners want to book online, and this also creates efficiency for the workshops. Digital bookings are foremost offered in Sweden or in Denmark, but the solutions will also be offered in our other markets going forward, while we see – where we see a large increase in this area going forward.

We have a strong position surrounding the Baltic Sea. Despite challenging times, we see large potential, both short and long term, in all markets with continued profitable growth. Over time, the demand in our industry is stable. Service and repairs are necessary in order to retain the need for mobility.

We're able to adjust to the market development and expect that our initiated cost balance actions will lead to gradual profitability improvement. And with our size, strong concepts and proven strategy, we will continue towards increased profitability.

So that concludes our report for the third quarter, and we now look forward to your questions.

Question and Answer

Operator

— Operator Instructions — And your first question comes from the line of Stefan Stjernholm from Nordea.

Stefan Stjernholm

A question on the acquisition of Koivunen. In the report, you say that you believe that you can see larger synergies than you earlier expressed of SEK 40 million. How much more do you expect?

Pehr Oscarson

— Technical Difficulty —

Stefan Stjernholm

Sounds good. And a question on the inventory. I can see that it's up 45% or SEK 1.2 billion year-over-year. How much of that increase is Koivunen roughly?

Asa Kallenius

Roughly, it's all of the increase. We have kept the inventory levels in other business areas on a stable level. It has increased a little bit with higher excess rates, et cetera. But volume wise, we keep it stable.

Stefan Stjernholm

And looking ahead, can you comment on the supply chain? Has that improved anything? Or do you expect it to improve? And if so, do you believe you can take down the inventory level to some extent next year?

Pehr Oscarson

Yes, it's a lot of ifs and buts, but we see that the deliveries are a little bit more predictable on time from our suppliers. So that's good. It's still a bit too early to say that we can release some of, let's say, the extra capacity, which we have in the availability. So – but it's going in the right direction, but I can't promise when we can reduce the inventory.

Stefan Stjernholm

I see. And a final question from me regarding Koivunen. There were some real estate in that deal. What's your thinking about real estate? Are they for sale? Or is timing not good? Any comments on that?

Pehr Oscarson

That's, at the moment, in analyzing phase. We – I mean, we don't have general real estate in our business, so it's obvious that we look into the possibility to sell off that. But if it's the right timing now or later, that we'll see. But it's something we were at the moment looking into.

Operator

— Operator Instructions — And your next question comes from the line of Andreas Lundberg from SEB.

Andreas Lundberg

To start with this Mobivia relationship, could you share with us the business model set-up for Meko?

Pehr Oscarson

It is as – I mean, we call it fleet phase when we go to companies who has a larger number of cars, and we offer them a service repair solution. And we have seen that, lately, more and more international big companies wants to have European partners. And that's why we partnered up with Mobivia.

They have very strong workshop concepts, so they have a good ability to service this kind of customers. So together now, we can, let's say, move further into that customer group of corporate customers. And we also – this is also important when we talk to the new EV carmakers that want to enter Europe, then they can have one combined partner that can take care about the aftermarket for most of Europe. So it's a strong augment to that as well.

Andreas Lundberg

So you will basically deliver spare parts to these workshops.

Pehr Oscarson

Yes. We will – hopefully, by this partnership, we will have more corporate customers in our markets that enters our workshops affiliated or – and of course, that triggers more parts sales from us.

Andreas Lundberg

Okay. Cool. And you mentioned streamlining operations in Sweden. Can you give some more color on that, what's – what you're going to do?

Pehr Oscarson

It's ongoing and has been going on for, I would say, a couple of years, but it's working with

efficiency. We look into the branch network. We look into logistics and all things and continuously try to make the business leaner and by that also more profitable without losing any market share, of course.

Andreas Lundberg

Okay. And then Sweden was much more stable than Norway and Denmark. I appreciate not reading comps and so forth. But why do you think Sweden has been more stable?

Pehr Oscarson

I think the demand is better in Sweden or more stable, but I also think that we are doing well on the market when compared to our competitors. So I mean, you remember, we had – if we move back 4 or 5 years, we still were struggling with a lot of things, and all that is far behind us.

And we have a stable and good management who is doing the right things all the time. So that's one thing. But it is a big difference in the general market demand when we compare to Norway and Denmark.

Andreas Lundberg

And do you think – do you know the reason for that?

Pehr Oscarson

I would say, in Norway, it's – yes, the – I think it's more normal in Sweden, and it's weaker in Denmark and Norway, and that comes from decreased purchasing power. And when we look at the retail, and that's mainly in Norway, it's – we have the same situation in all retail. So we just follow the same trends.

We have a little bit lower miles driven in Denmark, which probably affect the market demand. We also see that, probably, a little bit of that consumers are more – let's say, they will let the service lamp be on a couple of more weeks until they book the service. So it's a little bit hesitating market, I would say, which is normal when we have this – when we enter into these uncertain times. We have seen this before also, but it usually will stabilize over time.

Andreas Lundberg

And lastly, on your organic growth, I think it was 4% in the quarter. Is the bulk of that pricing? Or is there any volume component as well?

Pehr Oscarson

I would say that it's mostly pricing.

Asa Kallenius

Yes, mostly pricing.

Operator

— Operator Instructions — And your next question comes from Mats Liss from Kepler.

Mats Liss

Couple of questions. First, in Denmark, you mentioned increased competition. Could you be – or shed some more light on that line?

Pehr Oscarson

I mean, Denmark is a tough market. We know that by history. We have been there with other concepts and trying to compete, but it has again increased. We have – especially when it comes to low-price offers, and that is something which we don't want to fight with the price because we have so much value added in our distribution.

So that makes it a little bit tough, of course. It's not dramatically. It's nothing that has completely changed, but it is a little bit tougher than it has used to be.

Mats Liss

Okay. Great. And then while Stefan asked you about the synergies here in Finland, so I guess the Koivunen related synergies and the integration there is one thing, I guess. But you also talked about the previous Meko Finnish exposure, and that you have performed with a loss there. And then the integration of logistical structure with Meko that should reduce the losses, I guess. The losses in Meko, those will disappear. Does that include the synergies as well? Or is it something?

Pehr Oscarson

Yes, and I don't know if I will answer correctly to your question. But if you look at – in the slides, you see that we have also said that we had an EBIT of SEK 26 million coming from Koivunen, and we reported SEK 21 million. So the difference is, of course, the loss-making Mekonomen.

And the ambition when we close the regional warehouse and the get rid of the cost is, of course, to at least get Mekonomen Finland on a zero level as a first step, and that should be achieved probably during next year. It depends on rental contracts and so on. But during next year, we should be able to get to zero. So that's, of course, one of the synergies.

Mats Liss

Okay. And the change here in business area structure towards a more country like exposure there, is this something that also creates synergies? Or is it more – a better way of just presenting it externally? Or do you see sort of internal efficiencies improving also that creates synergies, so to speak?

Pehr Oscarson

Not by just putting together the business areas in a different way, but one of the reasons behind that we put together Poland and the Baltics is both because the market is similar in the way they are behaving, culture and everything. But we also think that there is possible synergies between Poland and the Baltics, or at least between Poland and Lithuania as being neighbor countries. So that is something to explore in the future.

Operator

— Operator Instructions — There are currently no further phone questions. I will pass the call back to you.

Pehr Oscarson

Okay. Thank you very much for listening, and have a great day.

Asa Kallenius

Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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