Mekonomen, Q2 2022, Earnings Call

2022-08-24

Operator

Good day and thank you for standing by. Welcome to the MEKO Q2 report 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. Please go ahead.

Pehr Oscarson

Thank you. Good morning and welcome to the presentation of the second quarter 2022. Together with CFO, Asa Kallenius, will guide you through the results.

On 1st of July, we closed the acquisition of Koivunen ahead of schedule, which is very positive, and this enabled us to start to extract synergies earlier than expected. The acquisition enables continued growth and a strengthened position for us in Northern Europe. And we're taking other step towards being the best and most complete partner to the customers in our markets by becoming the market leader in Finland, Estonia and expanding to Latvia and Lithuania.

I'm fairly satisfied with the quarter given the circumstances. We are comparing to a record quarter last year. We grow organically, we improve our gross margin and achieve an all-time high result in Poland. We experienced market fluctuations in Denmark and Norway. During the quarter, the demand is somewhat weaker, and we have, therefore, initiated cost balance activities in order to improve profitability. This is something we have done before. We know how to adapt in costs in uncertain times and are expecting to see a gradual profitability improvement.

Looking a little bit closer on the acquisition of Koivunen on Page 3. We estimate synergies of SEK 40 million with full effect during 2024. Among other things, the synergies will come from economy of scale connected to our Mekonomen operation in Finland. We also estimate efficiency potential within distribution and warehousing as well as purchasing synergies.

As a large group with presence in many markets, we will also gain benefits between the operations due to use of best practice, not least when it comes to electric vehicles, where we have learned a lot from Norway that will benefit to the rest of the group as respective country progress in this area. We are now market leader in Sweden, Norway, Denmark, Finland and Estonia and with operation also in Poland, Latvia and Lithuania.

I'm very much looking forward to the next chapter of – for MEKO, and I'm confident that we, once again, will prove that we have a resilient business model and that we will deliver profitable growth in the long run regardless of uncertain times and economic cycles.

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

Asa Kallenius

Thank you, Pehr. As stated, despite uncertain clients, we see an organic growth and a strong cash flow in the quarter, profitability is to a large degree negatively affected by cost

inflation and currency effects. We had, as Pehr also mentioned, a strong development in Poland and also in Sweden but weaker in Norway and Denmark, where we experienced a somewhat lower demand in the quarter. I will get back to this within the respective business areas later.
EBIT is affected by items affecting comparability of SEK 26 million related to the acquisition of Koivunen. Bear in mind that we are comparing to a fantastic Q2 2021, where we reported a very strong set of numbers.

Our business model is resilient over time despite economic cycles. We have experienced good and bad economic conditions during the years and are also negatively affected in the earlier stage of a recession when the demand temporarily is weaker. We know from earlier experience that we are also 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 — indiscernible — Our attractive and affordable concepts are an upside when the customer needs to prioritize costs.
Looking at Page 5 and EBIT. We see that Mekonomen stands out. We are negatively affected by lower demand in Norway, currency headwind and cost inflation. We saw the same effect from lower demand of total Norwegian market, meaning also including Sørensen og Balchen as well as in Denmark.
Over to Page 6, we have increased the gross margins further from already high levels in the quarter. Increased gross margins is an ongoing priority for us to compensate for increasing purchase prices and inflation in general, of course.
Moving over to the business areas. First, we look at Denmark and FTZ. We had a negative organic growth in FTZ, minus 2% in the quarter due to slower market with somewhat lower demand of our products and services. We do estimate that we have kept our market shares, and therefore, we get back to growth when the market demand stabilizes. We have initiated actions course to balance our cost base and improve profitability going forward.
Over to next Page, #9 and Inter-Team. As Pehr mentioned, we had an exceptional great result for our Polish business area this quarter with the best Q2 result ever and close to the best quarter ever. We're very happy about results in Inter-Team. We have continued to focus on customer loyalty, strategic customer groups in order to increase profitability. This is aligned with our strategy.

Next page, we come to MECA/Mekonomen. We already spoke a little bit about Mekonomen. We had the sales growth in the business area with decreased gross margin and EBIT due to the currency headwind with SEK 19 million in this business area. And we also had – we saw cost inflation. And bear in mind that we are comparing to a very strong Q2 last year. The slower Norwegian region market has affected this area negatively in the quarter. We have initiated activities in order to balance cost and support future profitability. Still, we had a strong performance in Sweden during the quarter with stable demand and added customers. And we did manage to balance cost inflation and currency effect in Sweden.

Over to Page 11, Sørensen og Balchen, where we report yet another quarter with very strong margins compared to our peers inside and outside the group. Growth was negatively – negative – organic growth was negative and the business area is to large extent affected by the slower Norwegian retail market, even that 40% of the business is towards the consumer market. Still, we are pleased to see that we maintain our long-term strong position as a sharp niche player and one of the strongest player in our industry.
I will now hand over back to you, Pehr.
Pehr Oscarson
Thank you, Asa. We're in a good position to continue developing the business according to our strategy. We have a strong footprint in all the Europe surrounding the Baltic Sea. On Page 13, we see that we have increased the number of workshops in almost all markets. This is a clear sign of that we have kept our market shares and will enable future upside when demand stabilizes.
Over to Page 14. Before the summer, we conducted a cross-national mobility survey in Denmark, Finland, Norway and Sweden with more than 4,000 respondents. This is a unique survey that has not been done before, and we have asked a broad range of questions about current habits in everyday life connected to the personal transportation. And we can conclude that car is still king where 8 out of 10 use a car every week, and over 60% think that cars will be a big part of the future. We look forward to seeing development by conducting the survey on an annual basis going forward.
Over to Page 15 and electrical vehicles. Our target is to be the natural partner to go to for EV owners, and our offering includes wide range of short- and long-term initiatives. We have a wider coverage of spare parts for electric cars, and that is matching the offering which we have for combustion engine cost.
We have initiated a new collaboration with the Norwegian technology and innovation company, Electric Way during this quarter, where we will become the service partner for the Chinese electric car brand VOYAH.
Regarding our earlier announced collaboration with Fisker. The production starts in November this year, and there is more than 56,000 pre-orders for the model Fisker Ocean.
Before the summer, we initiated the new central warehouse project in Norway. In this project, we would invest in further efficiency, improved competitiveness and increased availability for our customers. We will increase our local stock to around 100,000 items, and the new facility is expected to be completed in 2025.
Finally, our strong position around the Baltic Sea, our size and experience will benefit us in uncertain times. We are well able to adjust to the market development and expect that our initiated cost balance actions will lead to gradual profitability improvement. The demand for our products and services are robust over time. Service and repairs are necessary in order to retain the need of mobility.
While we are temporarily affected from economic cycles, our type of business recovers rapidly. We will continue to follow the market development closely and adapt our operation based on the conditions.
And this concludes our report for the second quarter, and we now look forward to your

questions.

Question and Answer

Operator

— Operator Instructions — There are no questions at this – sorry, there is one question . One moment, please. We will now take the first question. One moment. It comes from the line of Mats Liss from Kepler Cheuvreux.

Mats Liss

Well, a couple of questions here. First, you indicate that you are in an early stage of a recession and so on. But then again, you also indicate that cost measures you are about to implement will sort of balance that and that you expect the margin and profitability to improve going forward? Could you give some sort of indication that if it's sort of still has been in the third quarter, and it's more towards the end of the year next year that we expect these measures to be effective? And also maybe if you say something about potential cost to implement these measures.

Pehr Oscarson

I will try. Let's see if I will answer your question. But we have – based on history and experience when we enter this kind of economic cycles towards recession and so on, we usually get hit in the beginning because it's a general slowdown in everything. People get more careful in everything. So when the service lamp starts to light in the car, there is, let's say, let's wait a couple of weeks or months, but soon or later, the car should be serviced.

It is impossible to say how it will be this time. But again, our experience says that we will recover quite quickly because even in bad economic cycles, we are still – our business model is quite strong. And there is maybe one factor which you can look at, and that is unemployment. And since we don't have any unemployment yet, and there is nothing in sight either, that tells that people are going to work every day, and that means also that cars is used. If we get very high unemployment, then it's a little bit another situation. But then we need to go many, many years back, and then it will be maybe affecting our – the demand of other products and services. So it will – it usually recover quickly.

Then again, in this quarter, also compared to a very good quarter last year, especially because we mentioned in the report the Retail business, especially in Norway and maybe this is more the normal level and maybe last year was exceptional because Retail was really blooming in all kind of industries. Sport accessories or – and Clothes and everything. And now it seems to be much, much slower. So then it might be dangerous to talk about recovery because it's – maybe this is a little bit more normal. And then we, of course, need to adapt when it comes to costs, which, I guess, was your second question, and that is – there's no program with a number of millions to sale and an end date because this is so regional. It's only Denmark and Norway, and it's also on a regional level. But we're doing kind of a portfolio of everything that we are reducing staff. It could be [attempts] reduced. We look at transports and also sizes of branches and rents and so on. So it's kind of the – a very general, I would say, nothing extremely focused and extremely dramatic.

Mats Liss
Okay. Great. And then again, you mentioned that you have sort of increased the number of affiliated workshops there compared to the first quarter and so on? Do this sort of include any extra cost to the marketing or sort of start-up costs?
Pehr Oscarson
No. There is some, but when we enter agreement with new affiliated, there is some cost, but it's not significant. So it should be hundreds of them when it starts to show in the P&L. And it's very often based on shared investment. So we take some of the investment in the workshop, some of them. So it's nothing significant.
Mats Liss
Okay. Then well, coming back to Norway, while you're talking about the high-tech automated central warehouse there, and it should be up and running 2025. What kind of investments are needed to make this happen?
Pehr Oscarson
There is – we haven't communicated a specific number for that, but it will be very much on lease agreements. So I mean...
Asa Kallenius
Yes, I can. Yes, we are currently looking into how to finance the new warehouse. There are different alternatives. The main alternative would be that we do – like we do with the new warehouse in Denmark, a kind of lease operation that will be like IFRS 16 in the balance sheet. We – and lease fee or rent to the owner of the property. So we haven't finalized that yet, but we want the cash out from the cash flow as we see it. But that's still to be deciding.
Mats Liss
Okay. Great. And then looking at the numbers again, cash flow looks pretty good and cash conversion also compared to earnings. Is this something that you expect to be able to continue during the second half now? And also keeping in mind that the inventories are quite – well, you indicated that those – you have some sort of — indiscernible — related inventory to be able to supply in maybe a tougher supply chain and so on.
Asa Kallenius
Well, we do not now see that we need to further increase inventories level. On the other side, we think we perhaps can start to decrease them a little bit when the logistics chain, supply chain are improving. We see some signs of that, but it's still open what will happen during the autumn, of course, when it comes to supply chain, the global transfer of goods. But as we see it now, we would keep the good cash flow we have, and we won't increase the inventory levels further during the autumn.
Mats Liss
Okay. Great. And just finally, I mean — indiscernible — platform complete, and – could you just indicate something there about what you see in the second half? And maybe also, I mean, the acquisition will be up and running 1st of July. And what will the sort of gearing be it following that? That sort of...
Pehr Oscarson

We don’t have any more – any new numbers else than what was communicated when we announced the acquisition. So it’s still those numbers and figures that is – those are valid. We have been working now. Of course, it’s vacation time also, but we – when it comes to the synergies, we have gained confidence in that, it will be achievable.

So that is a good sign, then there is, I would say, the first indications is that we have a market development, which is when it comes to the Baltic operation, very similar to the Polish which we have with good growth and increased profitability, where we get some indication that Finland is more similar to some – between Sweden and Norway, which is fairly good still, but it’s, again, we don’t have the first month’s sales number even. So it’s just feeling from the ground.

Asa Kallenius

You will have to wait for Q3 report, then we will have Koivunen and the acquisition included in the reporting.

Operator

— Operator Instructions — There are no more questions at this time. I would like to hand back over to the speakers for final remarks.

Pehr Oscarson

Okay. Thank you very much for listening and have a lovely day. Goodbye.

Asa Kallenius

Bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.