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# Storskogen Group AB (STOR.SE)

## Q1 2022 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

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

Good morning and welcome to Storskogen's Presentation of our First Quarter Report of 2022. My name is Daniel Kaplan. I'm the CEO and one of the Co-Founders of Storskogen and together with me today, I have Lena Glader, CFO.

So looking at today's agenda, after a brief recap of Storskogen where we are today, we'll go into the Q1 highlights. Lena will tell you more about our financial performance. We'll have an interview with our Head of Business Area Trade, Christer Hansson, to talk about our new verticals. Finally, some key takeaways, and then of course, Q&A.

So first, a brief recap of Storskogen. We are an international compounder. We buy small and medium-sized companies, and we try to take care of them with the vision to be the very best owner of these companies. We have an infinite ownership agenda, and so far we have never sold off any company or discontinued operations. We have currently about SEK 33 billion as turnover and SEK 3.6 billion in annual adjusted RTM EBITA. So quite a bit more than last time we presented actually.

We have about 11,000 employees distributed across 27 countries. We have about 60 investment professionals. And in addition to that, of course, reporting functions, as well with almost an additional 60 people spread across four market areas and eight countries. Our latest addition, apart from the Nordics, is in the DACH region, we also have Benelux, Kirsten coming in as the CEO, and then we have the UK and Asia as well. Very exciting indeed the international expansion.

So, we have three business areas: Services, Trade, and Industry. Services with most – a lot of employees, almost 5,000 employees, 7 verticals. And Trade, with Christer Hansson, we will talk more about that with our new verticals, the renaming and restructuring of our verticals there, 28% of our net sales in the first quarter. And finally, Industry, with 39% of our net sales in the first quarter as well and 3 verticals below that. 122 business units.

A brief recap of our financial targets, first of all, we are guiding towards to have an organic EBITA growth, real GDP plus 1% to 2%. If we're looking at our performance this first quarter, it's 7%, which we were, of course, very happy with. If we're including acquisitions, we are, of course, an acquisition-driven company in many ways. This is in line with historical levels of 60% to 70% approximately. And this quarter, we had 109% EBITA growth, which is, of course, quite extraordinary, the third consecutive quarter in which we have had 100% or more in the EBITA growth.

If we're looking at our margin targets, it's 10%. And if we're looking at the last 12 months, it's 9.2% below our target, and we're, of course, aiming to raise that towards 10%. Our cash conversion target, 70%. In this last quarter, we had 55%. We'll get into the reasons why. But this is, of course, fluctuating a little bit with this season.

Finally, our leverage target is 2 to 3 and we're currently at 1.8, giving us significant headroom for future acquisitions and to be forward leaning in our operational investments as well. So, this is our financial guidance and the performance in the first quarter.

Looking a little bit on the Q1 highlights, well, give me a second, almost – well, SEK 6.9 billion in net sales, 140% increase, of course, quite extraordinary, 17% was organic net sales growth, and this is, of course, for companies that we've owned for both comparison periods. If you look at the adjusted EBITA that's SEK 568 million, 109% growth, out of which 7% was the organic growth.

And finally, the adjusted EBITA margin 8.2%. Last year, we had 9.4% but in fact, it's more in line with our historical margin of the first quarter which was, well, in line with historical quarter. If you're looking at the key events this quarter, we had done 25 acquisitions including 8 add-ons, and the add-ons are not contributing as much as EBITA but on the strategic platforms they are very important, of course, to our strategic agenda of our portfolio of companies.

We did a bond issue, a tap issue of SEK 1 billion. We raised a credit facility still unused, but of €500 million and we also got a credit rating from Moody's and Standard & Poor's, resulting in a BB+ and Ba1 which we are very happy with. So that was some of the events for the first quarter.

Looking at the backdrop of the first quarter, it was a very strong demand in the market. It's still a good business cycle. But that said, there are lots of disturbances, the supply chain disruption and accelerating inflation. And of course, the war in Ukraine increases complexity of doing business. If we look at the transaction market, we have seen – we actually thought we were expecting a decrease in the deal flow due to the war in the Ukraine. But in fact, we have seen a tremendous increase in the number of cases coming to us, partly because of the fact that we are now established in several geographies and also with a stronger organization in those geographies. So, almost three times as big an inflow of cases. And this, of course, makes it possible for us to be really selective, and therefore, to allocate capital appropriately and buy really good companies at the right prices.

We can see declining acquisition multiples going forward. The cost of capital has increased, so there is still some competition out there for some of the cases, but nevertheless decreasing acquisition multiples. So a very good transaction market for us, really giving us some significant business opportunities going forward.

So if we're looking at the business areas and their performance, first out is Services. I think Services had a decent quarter from an acquisition standpoint, we did a few acquisitions. But we had also – we also suffered from high degrees of sick leave, material price hikes. In fact if you take the sick leave from COVID, that was almost 30% in some of our portfolio companies in the beginning of the year. That was tough, of course. Some of the other verticals like logistics and digital services really had a good quarter with strong demand and sales and margins as well. And we anticipate a recovery in the margins for Services in the coming quarters.

If we're looking a little bit deeper of what type of companies we've bought in Services, we have one example here. It's Nitro Consult. Nitro is originated from Alfred Nobel. It's a very old company. They have been a market leader in this niche. They're a consultant for blasting technology, environmental monitoring, and support software. So a market leader, a long heritage, strong margins, and it's really a company that we were proud of, that they wanted to sell themselves to us and we hope to take care of it in the best possible way. A good acquisition.

If we're looking at the trade, we saw a very solid demand. We had an establishment as well of our new verticals. We'll get into that in our interview with Christer Hansson. But sports clothing and accessories, health and beauty, home and living, and finally, niche businesses is the name of our new verticals. And these are really strong strategic platforms for future acquisitions, but also to find synergies and cooperation between our business units.

As I mentioned, we had a very strong demand, but we also saw some delays. We had price hikes. And then of course, before we raised prices towards the customer, there's a time delay that kind of is a challenge to get through, but nevertheless and also high material prices and price increases. That said, a strong quarter for Trade. And we did four new business unit acquisitions.

If we're looking closer at one of those that's 2M2, SEK 147 million in sales in 2020 with a 9% margin. 2M2 is a distributor of products for the outdoor living environment, that's plants, pots, all kinds of accessories. And those of you who know our portfolio know that we have a lot of decoration. We have a number of companies in this area, Julian Bowen in the UK. So, we see a lot of collaboration between our companies within this vertical. It's a high growth, it's a stable profitability, and very strong and long customer relationship. So this is also a very good acquisition that we're very proud of.

Finally, industry who might have been the business area with the strongest performance in the first quarter, very strong demand. Of course, there were some pricing challenges with, for example, steel prices increasing, energy prices increasing. But, all in all, they've been quite successful in pushing these price increases forward to the customer. There are, of course, once again, time delays from the price rises from the suppliers to the customers. But, nevertheless, a decent margin, a very strong growth across all three verticals: automation, product, and industrial technology.

We did five new business acquisitions and one add-on acquisition. And if we're looking forward to Q2, we still have strong demand outlook. If we're looking at one of the biggest acquisitions we've done to-date, that's LNS. You can see it there on the picture. They're doing peripheral automation products, such as bar feeders, chip conveyors, filters. They're a global market leader. They have production facilities basically both – three in Asia, three in the US, and three in Europe, and sales representatives across the globe; SEK 1.7 billion in turnover, 11% margin in 2021.

And we really believe in the automation space. We think that it's a great underlying trend to increase automation in all kinds of factories. So this is really an area where we want to grow. And LNS really provides us with the platform for future international growth and add-on acquisitions. So an acquisition which we're really happy with.

All in all, as you might say, it might be that we go into a tougher business cycle now. And then, it's really comforting to know that we have a well distributed, diversified portfolio across our three business areas, our 14 verticals; no single vertical more than 14% at the moment. And, in fact, lots of our companies, they have been around – if you look at just at our 20 biggest companies, they've been around for 49 years on average through upturns and downturns; very resilient and profitable companies, all of them.

If we look at some significant event after the reporting period, we have done 18 additional acquisitions. We have a significant pipeline going forward, and we've also used some equity instruments. So 12 acquisitions have actually been completed, six acquisitions have been signed, and we have LOIs and preferred buyer letters comprising of almost SEK 577 million in LOIs. These are, of course, not done deals. It might well be that one or two of these deals will not occur. On the other hand, we also have, of course, additional deals that might come in during the quarter. These will probably be made or closed beginning of July or during the end of the quarter.

One thing on communication of deals, we will always communicate all our transactions on the homepage. But we will, from now on, communicate them as we close the transactions, rather than we sign the transactions. So that makes it a little bit easier for you to assess when they will kind of enter our owned period results.

Finally, as you might have noticed, we have used equity and convertibles in total of three transactions. Why is this? Well, the strategic benefits of having our company sellers as shareholders is significant. They drive new deal flow. They sit on each other's boards. They remain longer in the companies we've bought. And, all in all, they really create a strategic value to Storskogen.

So this is something that we want to do. With the current share price, we use it very sparingly. But nevertheless, you will see, going forward, additional transactions using primarily convertibles that we'll convert into shares in, for example, 12 months' time.

So financial performance. Lena?

## Lena Paulina Glader

*Chief Financial Officer, Storskogen Group AB*

Well, thank you, Daniel. So I'll talk you through very briefly results, margin trends, earnings run rate, cash flow, balance sheet, net debt, I think that's about it. And there's so much we want to say, but you'll find the details, of course, in the actual financial report on the homepage now.

So very briefly here repeating what Daniel has already said, of course, is we had sales growth of 140% in Q1 to SEK 6.9 billion. Now, the organic growth of this was 17%, driven by both volume and price. The LTM, now that's the last 12 months owned reported period, sales was SEK 21.5 billion. And you can see here also the RTM, now that's again the pro forma as if we owned the subsidiaries the entire 12-month period, sales was SEK 29.4 billion for the end of March.

Adjusted EBITA grew by 109% to SEK 568 million. The organic growth was 7%, as Daniel just mentioned here. Again, the LTM, the last 12 months owned period EBITA, SEK 2.0 billion. And the RTM, the pro forma EBITA, SEK 3.15 billion for the end of March.

Q1 EBITA margin was 8.2%, around the levels that we had expected, given that Q1 is seasonally weaker with 2021 actually being an exception. If you look at Q1 2020, we had an EBITA margin of 7.8%. In Q1 2019, I think it was 6.7%. But then again, we have acquired higher margin businesses, so this year's margins should be higher. On the other hand, we've had some severe disruptions in price increases, inflation, COVID, et cetera, that Daniel mentioned that will again put pressure on margins somewhat.

HQ costs, headquarter costs, unchanged in Q1 at SEK 75 million approximately compared to Q4 last year. Transaction costs that were exceptionally high in Q4 were now significantly lower at SEK 18 million in Q1.

The LTM margin here is 9.2% the last 12 months. And the RTM, again, the pro forma margin, is 10.7%. I might add here that it doesn't show on this picture, but we had significantly higher, of course, financing expenses or costs compared to previous years, especially compared to Q1 last year due to the expansion, of course. And this has an impact on the EPS – in the financial net, I'm sorry, in the financial net is also an FX of – so currency effect of a negative SEK 45 million. And the EPS of SEK 0.13 is unchanged to last year. Now, there's three items affecting this; first is this FX effect on the financial net. So, excluding that, EPS would be approximately SEK 0.15 and that's a 15% year-on-year growth.

We also, of course, have dilution from share issues. We didn't do share issues only in the IPO. We had quite significant share issues, actually pre-IPO in Q2, Q3 last year that also dilute this comparison, of course. And then somewhat higher minority shares of the net results in Q1 this year compared to last year as well.

Return on equity, return on capital employed, roughly 9%, of course, also diluted by growth and share issues. And I'll come back to the cash flow and net debt items in a little while.

Here we show a time series of the sales and EBITA margin. A couple of reflections on this page. Well, first of all, the Storskogen in terms of sales were actually six times, more than six times larger in Q1 this year compared to only three years ago in Q1 2019. The other reflection is here that the margin has fluctuated in our portfolios – in our portfolio between 8% and 11%, historically. You can also see here that Q1 has been weaker except for last year, which was, well, again very strong year. So, we're happy to have organic growth, of course, despite that.

Our ambition, as a reminder, is to grow our profit in absolute terms, not necessarily growing the margin year-on-year. However, we have the margin target of 10%, of course. And looking at the coming quarters, we expect the margin to recover. But the profit growth in absolute number is the key metric for us, and that is done by growing organically in existing businesses and, of course, growing through acquisitions and yet, of course, always creating shareholder value through that. Christer Hansson, Head of Trade, will come back in a little while to the studio to talk about the organic growth, something he is, more or less, an expert on.

Here we show the EBITA growth bridge. Now, this is the pro forma growth bridge. Given the fairly rapid growth of a company such as Storskogen, looking at the owned period only doesn't necessarily give you the best backdrop for earnings forecast and that's why we try to help you by showing the run rate earnings or the run rate EBITA of Storskogen.

So, we're starting off to the left here with the LTM EBITA of SEK 2.0 billion. We made acquisitions during Q1, of course, that – and including those, the EBIT – the run rate EBITA is SEK 3.15 billion per the end of March. But we have also made acquisitions in April and May since the closing of the quarter, corresponding to roughly SEK 480 million in terms of EBITA and that gives us a run rate of SEK 3.6 billion per today.

And then, of course, we have the pipeline of letter of Intents and preferred buyer status deals, which currently is around SEK 580 million. And if we were to close all of those, of course, then the EBITA run rate would already be SEK 4.2 billion.

Looking at the three business areas very briefly. Services, sales growth, 74% year-on-year, of which 14% is organic. EBITA margins 7.8%, roughly 1 percentage point lower than last year. Q1 is seasonal, especially in

Services. Looking at the LTM here to the right, you see that the margin was 9.6% for the last 12 months, which is fairly in line with historic levels.

And then moving on to Trade, business area Trade had a year-on-year growth of 128%, of which 20% was organic. And it constitutes both volume and price. EBITA margin of 9.7%, which is higher than in Q4. The LTM margin 10.5%, around or somewhat below the recent historic levels.

And then, finally, Industry. Business area Industry had an impressive 273% growth, acquisition-driven but also with strong organic sales growth of 20%. Both volume and price the same as for the business area Trade. EBITA margin in business area Industry was 10.1%. The business area Industry lost a roughly 2 percentage points margin compared to last year. About two-thirds or three-quarters of this is explained by the price lag that Daniel talked about just recently. Price increases have been done, but there is a lag between the purchase and the sales here. And the LTM margin was 11.3%, again, in line with or slightly above historic levels.

So, how about liquidity and cash? Here, we show the items affecting cash. We went in, we started off the year with SEK 6.2 billion in cash. Some might say it's too high, of course, since cash at the bank account doesn't generate returns until it's deployed, obviously. But we have deployed some of it, SEK 4.9 billion in investments during the quarter, of which SEK 4.7 billion in M&A, rest CapEx and other items. We raised new debt of SEK 1.8 billion; SEK 1 billion of this is the SEK bond that was raised in January. And so, cash at the end of the quarter was SEK 2.9 billion, but we also have – and this is important – unused credit facilities available to us of SEK 12.8 billion at the end of March. So, that means that the total available funds is SEK 15.7 billion.

A few words on the cash flow here. We had negative operating cash flow in Q1, which is, more or less, as expected. Three main reasons for this, we had above normal levels of stock. Inventories plus price increases, of course, which has a negative impact on working capital. But we also had price increases in our own products and high sales especially in March, which also boosted receivable, which, again, also has a negative effect on working capital, but it's not necessarily a bad thing.

And then, thirdly, we had above normal levels of – or above normal levels, I would say, of paid taxes due to acquisitions, of course, but also due to the fact that some deferred payments that were a result of the government grants related to COVID-19 in 2020 are now being paid. CapEx-to-sales, 1.6%, slightly below normal or average levels for Storskogen. Cash conversion of 55% and this is explained, of course, explained by the negative effect from working capital. So far in April, it looks to be recovering.

And then, back to the net debt and leverage, you recall from the previous slide that we had available funds of SEK 15.7 billion at the end of the quarter, so liquidity is obviously not a constraint at the moment. We had interest-bearing debt to – net debt to – interest-bearing net debt to EBITDA of 1.8 times. This excludes earn-outs and minority options. And why have we decided to exclude those? Well, this is because this 1.8x reflects the terms in the current loan facilities, both the RCF and the SEK bonds. So, this reflects the terms basically there in the covenants, etcetera. And we are still below the target range of two to three times of net debt to EBITDA. Our aim is to be around the middle of this range. Including earn-outs and minority options, net debt would be roughly SEK 10 billion and comprised – or would be a leverage of around 2.6 times.

**Daniel Samuel Kaplan**

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Right.

### Lena Paulina Glader

*Chief Financial Officer, Storskogen Group AB*

That was it.

### Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Thank you, Lena. For now, you'll come back to us during Q&A. But first, we welcome Christer Hansson. Christer is – welcome, Christer.

### Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Thank you.

### Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Hi. Christer is Head of Trade. He's been around for quite some time here building Storskogen together with myself, first as a – well, you were one of our biggest investors, still, still one of our biggest owner, but also as Head of Trade and a member of a lot of our different boards as well. So, welcome.

### Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Thank you.

### Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Well, a lot of interesting changes happening in our Trade area, including our new verticals. Please tell me a little bit, what are we doing there?

### Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Well, up until recently, we have divided our businesses into three different verticals. It's been distributors, producers and brands. And this has been based more on the business model or the business logic, which the company are working with, rather than which industries we're active in. And I think this has served us well so far.

Take distributors as an example, even though they are working in many, many different industries, the challenges and the questions and – they're pretty similar. So, I think, we have increased our knowledge within this field enormously over the past years. However, as we're growing, more and more companies are working within the same industry. And I think they can clearly work more together. So, in order for us to kind of grasp up opportunities, we are changing the vertical structure to be more into industry logic, rather than the business model logic.

So we actually have four new ones instead of the three. So the first one is Sports, Clothing and Accessories. Here, we have all the companies working, for example, with sports equipment, clothing and that kind of products. The second one is Home and Living. We have companies working with home decoration products, home construction, building homes and products around renovation. Third one is the Health and Beauty, all the professional hair care distributors, which I will talk about a little bit further on, and all the beauty products are there.

And finally, we have a vertical what we call Niche Businesses, which is a vertical with professional equipment sales, B2B sales, that kind of – in different industries. So I think this will help us be clear in what we want. And so, I'm really looking forward to work with this kind of division going forward.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Yeah. You mentioned Health and Beauty. Could you tell us a little bit about – or the viewers, rather, how has that developed over time?

## Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Yeah. I think that's interesting how we develop in a vertical. And I have to take you back to 2019, where we had an opportunity to meet a company called Baldacci. They are a hair care distributor in the professional side. This was our first investment in the field, but we really, really liked the company. It was great management. They had interesting products. The customer base with thousands of hair salons was really, really interesting. So we liked it and took the opportunity invest in it.

About a year after, we had the opportunity to do two more acquisition. The first acquisition outside of Sweden and actually with Frends as an hair care distributor in Norway, and also another Swedish distributor L'Anza at the time. And even though this was in the middle of the pandemic, we felt confidence that we could do a lot good with this, and it has been really, really good investment so far. The companies had worked together. They have been able to attract new brands. They're looking at best practice in e-commerce and sales and so forth.

So if I look at those three companies from 2019 to up until 2020, we have increased sales with 35%, 40% and the EBITA with about the double size. So it has been really, really good investment for us.

Then going further, when we went into DACH region. The first investment that we did in that was in with PerfectHair (sic) [PerfectHair.ch], an online distributor in the hair care and beauty segment. We also did an add-on acquisition there with Marwell. And in all those, I mean, we had our team at Storskogen, but we also used [indiscernible] (00:32:49) in the DD and the investment processes. And he is also now, as you mentioned, one of the members in the board of that. So he really helped us with a lot of knowledge in that area. So we did that in the DACH region. And now, recently, we have done two more acquisition with Session Map in Sweden and Scandinavian Cosmetics also in the Nordics. Scandinavian Cosmetics will join us in a couple of weeks.

So taking you back from 2019 with one company, about SEK 100 million of sales in 2018, now to a vertical with over SEK 2 billion in net sales over the last. So, I think, that's a really good, interesting story for us.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Yeah. And as a group, I guess, we are the market leader.

## Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Yeah. If you look at the professional hair care side in the Nordic, we're absolutely the market leader. And going forward, I think the opportunities for us with add-on acquisition to attract more people, it will be good. So I'm really, really looking forward for us evolving this vertical even further. And that goes with other verticals as well.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

All right. So thank you, Christer, for some insights. Any parting words?

## Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Well, you mentioned how can we take care of all the companies and all that. And I have to say, we have a brilliant investment team in Trade and in other business areas. So, I mean, we have great people from different industries with a lot of experience taking care of our businesses, and also, of course, great management team out there. So I'm really happy with what we're doing in especially Trade, what I know. So, yeah, good people and great opportunities for us going forward.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

So thank you, Christer, for some insight into what's happening in the Trade area.

## Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Thank you.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

Thanks for your fantastic work for the entire business area, of course. So it's thank you, Christer.

## Christer Hansson

*Executive Vice President & Head-Trade, Storskogen Group AB*

Thank you.

## Daniel Samuel Kaplan

*Co-Founder & Chief Executive Officer, Storskogen Group AB*

So, first, a few takeaways, and then it's time for Q&A. Welcome, Lena, back onto the stage. So, in summary, I think we had a tremendous growth now in the first quarter, 109% EBITA growth, a decent organic EBITA growth of 7%. Of course, we were suffering from some seasonality, some COVID, as well as the war in the Ukraine, but nevertheless a margin in line with historical numbers.

That said, each and every acquisition we do reduces our operational risk and creates, like Christer mentioned, strategic platforms for us to develop our businesses to become even stronger in our market positions and, over time, increasing profitability in our companies.

The shift in the business cycle really offers us some great business opportunities. We can see acquisition multiples coming down, but we still have a great influx of deals to be made. We also have SEK 16 billion in available capital in liquidity and unused credit facilities. So we also have a very comfortable financial situation, a good headroom, both to handle unexpected things in the business cycle as well to continue to do acquisitions.

So a very successful quarter for us. I think we are very happy with that, but not without challenges. So time for some Q&A.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] The first question is from Mr. Carl Ragnerstam from Nordea. Please go ahead.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Hi. It's Carl here from Nordea. A few questions. Firstly, you mentioned several headwinds. I mean, you have raw materials, sick leaves, I guess inefficiencies due to the supply chain issues. Is it possible on the group level to sort of quantify these impacts? And I guess, ask – also ask – sick leaves rates are normalizing, I guess, in Q2. But on the other hand, we have inflation, which should pick up quite significantly to Q2 versus Q1. And still, you're guiding for a margin recovery. Is it driven by M&A or how should we look at that?

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

A

I think – I mean, you're on to it. I think we had an extraordinary event with very high degrees of sick leave, especially within our installation – construction and contracting services verticals. I think that was quite extraordinary. And as we – and the utilization is quite high. So, of course, there is a natural recovery, especially in the Services area with regard to that.

There has been an acceleration of inflation, which, of course, puts pressure on margins as there is a time delay between when we get the price raises and we push it onwards toward the customers. But overall, we actually see that during the second quarter, a number of our price increases really come into effect. So, that's another part of the margin recovery as we go forward – looking forward.

With regard to quantifying the extent, how that has affected our margin, that's a very good question.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

We can say – and these are approximate numbers, of course. As I mentioned, of the 2-percentage-point drop in margin in Industry, we estimate a roughly three-quarters actually of that is due to price, to the delay in price increases. So, that is an effect of the increased cost of goods, of course.

And then, in Trade, had a roughly 1-percentage-point drop in margin compared to last year. That is a split between the same price delay, and as well as shortage of material goods and freight costs, etcetera, I would say.

And then for the Services business area, the majority of the margin drop is related to the COVID situation we would say.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Yeah. And also, just to be clear, when you're talking about the margin recovery in Q2, are you talking sequentially or sort of a year-over-year development or they might be the same or...

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Well, we talk sequentially here. Of course, I mean, our target is to have a 10% EBITA margin. And from what we can see today, we believe that we might be able to reach that or up to 10% for this year despite Q1 being lower, of course. But there is – I mean, we have to say that there is a lot of uncertainties regarding what's going to happen in the second half of the year, of course. But that's what we see today.

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

A

Yeah. I should say, I mean, in the second quarter, where we have some transparency, we have a very strong demand. So, I think, we are quite confident in the performance in the second quarter. On the other hand, we have less transparency into what will happen with the business cycle, for example, in the second half of the year.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Q2 is seasonally stronger than Q1.

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

A

Yeah.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

So, it should recover. And as far as we can see now, it looks as it's going in the right direction despite still some troubles on the way, of course.

**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Very helpful. And also, I think you mentioned somewhere in the report that you see sort of scalability on central functions. How should we look at these costs? They were fairly flattish, just about SEK 70 million sequentially. Should we just extrapolate that level on a full-year basis? Or is it depending on the possibility to sort of taking capital or, I mean, being able to maintain the high M&A pace you had in the past two years?

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

A

I think it's a very good question. I think, [indiscernible] (00:41:14), I mean, we are moving from almost 100 people at the beginning of the year to 140 people in total in central functions by midyear. If we take one step with regard to central costs, I mean it's all about what we want to achieve; and one of that part is actually to be the best owner of small and medium-sized companies. And this means that we're doing the work, we are helping them, we're supporting them in good times and bad, and that requires resources.

In addition to that, we also have a relatively high ambition on the company level. We want to gradually expand into new markets, basically most major markets, and we want to become the leading SME compounder in those markets. So it's a significant vision. And to be able to do that, we need to scale the organization in time so that we can do this with quality and a decent workload. So, I think, we're guiding towards SEK 400 million in total central costs this year as I think that's still reasonable going forward.

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**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Perfect. And also, I mean, regarding the M&A multiples, you've said that they might come down or maybe that they had come down already. I mean, one problem which we've seen before is that sort of the public market's perception of the multiple, I mean it comes down faster than the private market, meaning that we may be entering a period of a mismatch between the buyer and sellers, meaning a potential slowdown of the M&A pace. Do you see a risk of that or what's the thinking of the seller currently?

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

A

I mean, it certainly is an effect that the stock exchange moves faster for the small cap acquisitions that we do. That said, we've actually seen a significant decline in multiples going forward and also in the current pipeline. But then, of course, it's depending on these individual companies, the size of the companies, and the quality of the companies we buy. But there has already been a significant decline. That said, they will not – I mean, they don't have the volatility as you would have on the stock exchange. So, they will decline, but not to the extent that the stock exchange has declined.

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**Carl Ragnerstam**
*Analyst, Nordea Bank ABP*

Q

Okay. Perfect. Thank you.

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**Operator**: Thank you, sir. Next question is from Mr. Dan Johansson from SEB. Please go ahead.

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**Dan Johansson**
*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you so much and good morning, Lena and Daniel.

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

A

Good morning.

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**Dan Johansson**
*Analyst, Skandinaviska Enskilda Banken AB*

Q

Two questions from my side. Maybe I'll start a bit on your continuing to build on the inventory. I do believe that some of your customers are also building inventory. And if so, did that support your sales that was quite strong here in Q1, or would you rather say that you suffer from being – not being able to deliver to full capacity with missing certain components, or what's your feeling on those types of dynamics here?

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

A

Yeah, I think you're probably right on both counts, actually.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

I would agree.

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

A

So, we certainly have – in some instances, some of our companies are actually – we would have sold a lot more if we would have had the goods. So I think that's certainly affecting our sales, even though it was a relatively strong – even the organic sales was – but the demand was even stronger in some areas. On the other hand, I think it might have been – we saw that, for example, that people have been building stock in certain areas quite actively now to – just as we do, to avoid supply chain disruptions and volatility in inbound prices.

**Dan Johansson**
*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. Got it. Perhaps on cash flow, accounts receivable increased quite a lot from the last 12-month basis. What's driving that development here? Is there any seasonal effect we should be aware of, or is it due to different mix of the group as it looks today? Perhaps also, if you can guide a bit for the coming year, if you expect the inventory and working capital to continue to drag on cash flows here due to the supply chain situations or do you expect it to reverse now in a few, yeah, maybe already in Q2? What's your feeling about that topic?

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

A

Lena?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

Should I do that? Yeah. Okay. Well, the receivables increase, that's exactly right. The main driver behind this is – it's twofold. First of all is that we had price increases, of course, in our sold products that boost the receivables, which is not necessarily, again, a bad thing. And then, second of all, we had quite a slow period in January and February, whereas March is typically very active. And so – and that was, I think, more emphasized this year than it would be normally.

So, sales in March picked up very strongly and that means – I mean, if the average receivable is 30 days, then that means that the receivables would be higher over the end of the quarter, basically. So, it's volume and prices that push up the receivables. That would be the main – the explanations. And again, neither inventory buildup nor higher receivables in this case is a negative thing, we believe.

Of course, if it's persistent, then that might be signs of other disturbances, but we haven't seen that. It's, of course, difficult to project the future now, given the turbulence in the market, etcetera. What we can see in April is that we have the reverse effect in April, what we can see so far. But that's not a guidance or a complete forecast for Q2.

**Dan Johansson**
*Analyst, Skandinaviska Enskilda Banken AB*
Q

No. I got it. Thank you so much for the clarification. So, that was all for me for now. Thank you.

**Operator**: Thank you, sir. Next question is from Mr. Andreas Koski from BNP Paribas, Exane. Please go ahead.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*
Q

Thank you and good morning. I just have a question about your net debt-to-EBITDA target because I noticed that you have changed the definition and you now just capture interest-bearing debt. And did you make that change just to make further room for acquisitions or are there any other reasons as well?

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

I think originally we had – this was actually always the intention that we would measure on this one. And of course, the bank agreements that we had at the time of the IPO was basically the net debt to EBITDA definition was reflecting that bank agreement. However, we refinanced in – as we did the IPO, we refinanced the RCF and the covenants were changed and also the agreements were changed. So, we thought that we needed to clarify. So, it was basically misleading with the previous definition. So, we wanted to clarify how we measure the – towards the banks and therefore how we measure our own leverage targets.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*
A

I might add here also is that, I mean, this does reflect how the covenants are measured. So that does give you a good picture of how much headroom we have. Whereas with the older definition, that would be, as Daniel says, like misleading. However, if you choose to – when you look at the net debt in Storskogen, you might want to choose to add back the minority and earn-out liabilities, of course, to get a good picture of the net debt, but that's one thing. The other thing is the net debt to EBITDA, the target, the headroom in the financing, and that's better measured on 1.8 times.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*
Q

Okay. Thank you. And how to think about the cash flow impact from contingent consideration, liabilities and minority options? How will that impact cash flows in the coming years?

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*
A

Well, the earn-outs are – I believe – I wonder actually if you're able to see that in the Annual Report, the earn-out liabilities are typically shorter, could be one year, could be even shorter sometimes, or up to three years, typically, I would think. And so, there is always a component of short-term in the earn-out liabilities. Now, these will typically be paid out during Q2 once the Annual Report is reviewed. Then, after that, the earn-out is paid.

So there will typically be a cash payout in the second quarter of the short-term parts of these earn-outs, and that will occur this year as well. So that's included in our own financial planning, of course. Whereas, when it comes to the minority options, they're typically much longer.

And I don't know if you want to comment on that?

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

2024 or 2025 and onwards, basically, that's the majority of the earn-outs – of the minority options start to fall at that point of time. I should say if the management stays on, if we're happy with them and they're happy with us, it might be that they actually – we have the option, but not the obligation basically to buy it. So it might be that we kind of postpone the buying of the final minority option, so to say.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*
A

If you don't find the split between the earn-out and the minority option in the Annual Report between the short-term and long-term, get back to us. I think you'll find it there. But if you don't, get back to me and I'll provide some help with that.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*
Q

Yeah. I'll have a look. Thank you. And then, Daniel, you talked about a shift in the business cycle. And in the report, you're writing about the potential shift. But have you already started to see a weaker picture or a weakening business cycle? Or is that something you just expect because of all the headlines in newspapers, et cetera?

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

Good question. We actually haven't seen it yet. We still feel that short-term demand is quite strong. But I think having more than 100 subsidiaries, of course, we do get some macro insight into the expectations of our customers as well. And we see that the complexity in the economy is difficult, but that – it is, in fact, we haven't really seen it in demand just yet. So we could be optimistic for another quarter.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*
Q

Because in the Q4 report, you wrote about normalization of organic growth rates. Does that still stand or do you expect weaker demand and – or weaker growth and a normalized growth rate?

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

I think in the short-term, we don't – we think still that it's not a weaker demand. It's a relatively strong demand going forward. But that could well – I mean, the transparency for next year, in particular, is very low. So in the short-term, we do see a strong demand still.

**Andreas Koski**
*Analyst, Exane BNP Paribas SA (Sweden)*
Q

Okay. Thank you. Thank you very much.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*
A

Thanks, Andreas.

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

A

Thank you.

**Operator**: Thank you, sir. Next question is from Mr. Will Turner from Goldman Sachs. Sir, please go ahead.

**William Turner**
*Analyst, Goldman Sachs International*

Q

Good morning, everyone. Good morning, everyone. I hope you can hear me okay. I don't have the strongest connection. But, yeah, hope you're doing well. I just had a couple of questions. The first one was on the leverage. So if we look at the narrower definition of leverage – of net debt and take into account the letters of intent that you've signed already, it means that you're probably – assuming that you managed to complete these private transactions, you'll probably be in the middle of your target range. What does this mean going forward for the capital structure? Are you going to look at doing a more significant capital raise in the future, or are we going to [indiscernible] (00:54:09) basically the limits the further acquisition growth that you have?

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

A

I mean, the basis for our future acquisitions, at this point, we have a relatively low level leverage, 1.8 times, with significant headroom to do acquisitions in the coming year. In addition to that, of course, we have cash flows from our business, good profit. So, of course, the basis of our – we have the available cash, we have the cash flow. And probably to that, we will add a debt side, so we can complement that one.

So we don't actually see any shortage of funds in the near future at all, rather that we can do all the transactions that we would want to do. Then, as a natural part of seasonality, we do very few transactions in the third quarter simply because everybody's going on holiday and the investment memorandums come out in September. And we negotiate and do deals in the fourth quarter. And primarily, we usually say that 70% of all the acquisitions are done in the first half of the year. So long story short, we see that we have plenty of dry powder, a decent leverage, and good headroom.

And then, I mean, in the current financial market at the current share price, I don't foresee any big – at least not any traditional accelerated book building processes or anything like that, but rather we will use the cash at hand. Then, of course, we have uncertainty in the business cycle. We are, relatively speaking, still having an high acquisition pace, but we are still being a little bit more conservative when we are evaluating cases. We are a little bit more – so we were almost projecting an accelerating pace of acquisitions. This will not happen this year. But we will rather be a little bit more restrictive on acquisitions with regard to the pace of acquisitions, not due to funds, but rather due to the business cycle outlook.

**William Turner**
*Analyst, Goldman Sachs International*

Q

Okay, yeah. That makes sense. I mean when you take into account the 12 acquisitions that you've made after the quarter and then the 10 which you have letters of intent, it looks like you'll be in the middle of your – somewhere in the middle of the target quarter range. So should we expect those possibly to complete and then there'll be a pause in the third quarter and then fourth quarter will reassess activity dependent on the various types you mentioned?

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

A

We will certainly have a somewhat of a pause in the third quarter not to actually to the fund or anything but simply because it's that seasonality. We conclude the deals before summer and then we basically wait until the new deals come into the pipeline. But we don't foresee any shortage of funds actually that will affect our acquisition pace as such. But the seasonality gives us – I mean, last year we almost didn't do any acquisitions in the third quarter, partly due to the IPO, but also due to seasonality.

**Lena Paulina Glader**
*Chief Financial Officer, Storskogen Group AB*

A

I might add here that the – I mean, we're a new company, so you're still getting to know us. The letter of intent and preferred buyer deals that we presented in the Q3 report, that's half year ago. Of those, the majority, I think almost all, only one has fallen out, I think, and the rest have either been closed or assigned. I believe maybe one or two of them are still in the pipeline active. So, we believe we will conclude them. So, it doesn't materialize necessarily in a quarter. These deals sometimes live for four, six months, but are still closed. So, the deal flow we present now in the pipeline we present now, those are deals that were not necessarily all of them closing in Q2, right, Q3, even Q4.

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

A

Yes.

**William Turner**
*Analyst, Goldman Sachs International*

Q

Okay. Great. And then, just a final point and question. You mentioned earlier on in the call that you've used equity in free transactions in the quarter and that you expect to use more going forward. How much equity would you typically use in an acquisition? Is there a limit to the amount of share capital you can use on upcoming transactions?

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

A

I think in the annual meeting that we have -shareholders meeting that we will be having in a few hours, we have asked for a mandate for the board to do the equivalent of 10%, I think, issuing new shares. So that's one way to see it. But as I said, I think we will use it, but we will use it sparingly, given the current valuation of Storskogen. But it is, of course, one tool in the toolbox, so to say.

**William Turner**
*Analyst, Goldman Sachs International*

Q

Okay, great. And then, one thing that you were mentioning earlier, obviously, employee absenteeism in your installer businesses have been a bit of a challenge, I'd be very interested just to know in general how those employee turnover been in the last six months or so? Obviously, there were very tight labor markets globally, things like installers and a lot of your industry business shortage of workers for various different functions, and quit rates have generally been high in a lot of economy. So, I was wondering, how have you seen employee turnover?

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

A

I think we haven't really seen a significant shift in our employee turnover at this point. There is, of course, a shortage of – we have a digital services where we need IT, programmers and stuff like that. But so far, we really haven't seen that that shortages or that wage inflation coming into play. I think that's probably a Swedish phenomenon into some extent but not in any significant manner, I would say, at this point.

**William Turner**
*Analyst, Goldman Sachs International*

Q

Okay. That's interesting. Thanks a lot.

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

A

Yes.

**Operator**: Thank you, sir. We have no other questions. Sorry. Back to you for the conclusion.

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

Thank you, everybody, for today and for your questions. Don't hesitate to call if you have additional questions. Thank you very much.

## Lena Paulina Glader
*Chief Financial Officer, Storskogen Group AB*

Thank you. Thanks.

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

Thank you. Bye.