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Storskogen Group AB (STOR.SE)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Storskogen Q2 Presentation for 2023. [Operator Instructions]

Now, I will hand the conference over to the CEO, Daniel Kaplan, and CFO, Lena Glader. Please begin your meeting.

Daniel Samuel Kaplan

Co-Founder & Chief Executive Officer, Storskogen Group AB

Hi, and welcome to Storskogen and our presentation of the second quarter. My name is Daniel Kaplan, CEO and Co-Founder, Storskogen. And together with me today, Lena Glader, CFO.

So let's get into it directly. First, a brief recap of Storskogen. We're an international group of businesses, SEK 37 billion in sales, EBITA of SEK 3.5 billion. Our mission is to empower our business to realize their full potential. And we believe that we are uniquely positioned to identify, acquire, and develop market leaders with sustainable business models with an infinite ownership horizon.

And what we offer our investors is profitable growth and resilience, resilience to manage risk through diversification. And the reason we have this is that we have Services, Trade, and Industry, three business areas. Services headed by Peter Ahlgren, making up 32% of our turnover, divided upon seven verticals. Trade, headed by Christer Hansson with four verticals, making up 28% of our turnover. And finally, Industry, headed by Fredrik Bergegård, three verticals and 40% of our turnover.

So diving into the second quarter. We – it's characterized by strong cash flows from operations. We're quite happy that we protected our margins despite the challenging environment. Net sales, almost SEK 9.5 billion, which is a 4% increase. The adjusted EBITA, SEK 922 million, it's a 5% increase. And the adjusted EBITA margin

9.7% as compared to 9.7% last year in the second quarter. The organic net sales growth minus 2%, and the organic EBITA growth at minus 5%.

So, looking at our key events, this quarter, we had a successful issuance of SEK 2 billion in bonds and repurchase of the outstanding 2024 bond of SEK 3 billion. So, we finally got an average maturity now – a debt maturity profile of 30 months. So, that's satisfactory to us. We're quite happy that we managed to protect our margins in the second quarter. And looking at the first half year, we have actually improved our margin from 9% to 9.7%. So, that's also satisfactory.

Cash flow, strong cash flows, about SEK 850 million approximately, a significant improvement compared to last year, and this is partly due to the fact that we have had a strong cash conversion of 105% in the second quarter.

We did four acquisitions, out of which, one, AC Electric (sic) [AC Electrical] (00:03:28) was a platform acquisition. The others, smaller add-on acquisitions. And we also concluded four divestments, including Dextry Group, and we'll go into that later on.

So, moving ahead and looking at our strategic priorities and how we're delivering on those, almost a year ago, we had a Capital Markets Day, and we basically stated six short-term strategic priorities. The first one, most important potentially is to improve cash flows and refocus on cash flows. And we have to say that we're quite happy now that with three consecutive strong cash flow quarters, we're quite happy about that development. We still have some way to go. We have lot work – lots of work and potential left. So, even though we're not guiding any results or things like that for the second half of the year, we do believe that we will continue to have strong cash flows in the second half of the year.

Protect profitability. Well, 2022 was characterized by strong margin pressures, basically with currency movements and all kinds of headwinds. And I think these have continued this year, but in a new form, primarily through weakening demand. But that said, we still have improved our margins. So we're also quite happy with that development. Even though, of course, we – and of course, over a business cycle, we're guiding towards 10%. In a weak business cycle, in theory, we would be happy with 9.7%, but of course, we wouldn't put this in green until we are at 10% or higher. So working towards the goal, but making headway, [ph] let's say. (00:05:18)

Leverage. Well, we think that 2.7x interest-bearing net debt to EBITDA. We still have some work to do. The ambition remains that by the end of the year, we will reduce our leverage to the lower end of our 2x to 3x spectrum. And then the way to do that, of course, is the strong cash flow and protect the profitability, but also the reduced M&A pace. We are doing strategic add-ons and very few select acquisitions, but very few. We are complementing that with some strategic divestments, divesting low performers and companies not aligned with our ESG or strategic agenda, including margins, for example.

And finally, we have reduced central costs as well from 1.1% of sales to 0.7% of sales. And in fact, that's a 36% cost reduction as a percentage of sales. So it's actually a significant reduction in our central costs compared to our sales.

So, long story short, we believe that we are making great progress on our strategic priorities and with a strong ambition that this will result in reduced leverage by the end of the year. But most importantly, moving to the next page is, of course, that we create value for our companies and, in the end, producing profits and resilience into our portfolio.

The case study today we have chosen is Wibe Group. This is a company we bought in 2021 in Q2. This was a carve-out from Schneider Electric. It's a leading company with regard to cable ladders, cable trays, and mesh trays. There are some global, really strong brands and operations in six countries, 280 employees. So, it's a significant company as seen from the eyes of Storskogen.

The reason why we bought it at the right price was, of course, that this was a carve-out and carve-outs have risks and complexities that makes it unsuitable for all types of buyers. But we do feel confident in our operational capability to help company become, so to say, an independent entity. So, what we have done since the acquisitions is that we have created an operational platform [ph] to work (00:07:55) together with [ph] Fredrik (00:07:56) and the management, an independent organization, a separate sales organization, an independent systems architecture supporting the business and the entire infrastructure, from procurement to sales as an independent company.

Of course, they have been excluded from the Schneider Electric purchasing agreements, et cetera. But on the other hand, Storskogen by now has more than 60 frame agreements supplying and assisting the Wibe to achieve strong margins, even going forward.

And in addition to that, we have strengthened – we've invested in the business. We have done an add-on acquisition, creating a further strengthened product portfolio. And the result of this, in the case of Wibe, has been a significant rise in sales, 27% uptick in sales, but also stronger margins. So, we're very happy with the performance of Wibe currently with a turnover of around SEK 1 billion in last 12 months.

So this showcases our operational capabilities when it comes to how to create values, but also to create deals that might not be suitable for all types of buyers. So, looking forward to continue to support Wibe going forward.

Back to the quarter and our performance, net sales and EBITA margin. We're quite happy actually that we've managed to protect our margin in the quarter through the diversified portfolio. This has been strengthened by the strong performance of Services. But Trade is, of course, suffering from the recession, especially in Sweden and the weak Swedish krona, especially towards the dollar that affects the margins in Trade adversely, and continued focus on margins in this challenging environment.

Looking at the market development, in general, well, we do see a solid demand in the Industry and Services. We can see that the cost inflation that we could see accelerate during last year has stabilized. And many of the supply chain disruptions have also gradually been reduced, which makes life easier for us and our companies with margin consequences – positive margin consequences, of course. That said, we have a weak consumer demand in all industries related to consumer and durable goods. And also, companies early in the construction side are suffering from weaker demand.

Looking at the transaction market, it's a decent inflow. Actually, from Storskogen's perspective, a very strong inflow from many markets and many different industries. Multiples have stabilized, and I think good companies always remains the same with regard to prices. And from our perspective, there are not that many bargains just because there's a low churn. On the other hand, when we have done a few exits, now we have achieved decent multiples on those as well.

Of course, transaction processes take a little bit longer and this is because it's a more complex environment, but [ph] for us (00:11:34) that suits us quite well, because we're currently focusing on de-levering and so we're doing less acquisitions, being very selective on what cases we are choosing at the moment, prioritizing small add-ons that support our current market positions and a few – very few platform acquisitions.

So looking at how we are performing against our financial targets, well, one, and these targets, of course, are set in the medium-term [ph] or C number of (00:12:06) business cycle, assuming access to capital. Looking at the organic EBITA growth, we're guiding towards real GDP plus 1 to 2 percentage points. We're currently at minus 5% year-to-date. Not particularly surprising, but of course, not something that we're happy with, even though we believe over a business cycle that we are on target.

Looking at the adjusted EBITDA growth, including acquisitions, we hope to guiding on line with historical levels. However, without bringing new capital, we have a 25% growth year-to-date. I think that's satisfactory, I think, with the slower growth going forward as we have reduced our M&A pace.

Looking at the adjusted EBITA margin over time, 10%, I think, in this case, I think we are on target, 9.7% so far this year in a recession environment. I think that's decent. But of course, like I mentioned before, we're not satisfied until we've beaten that 10% target.

Cash conversion, our strategic priority for the year, we're really over-delivering here, 87% these last 12 months and hope to continue on that journey to deliver strong cash flows. And helping us with our final goal to reduce leverage, we are in the middle of our stand, 2x to 3x in net debt – interest-bearing net debt to EBITDA. But that said, we want to be in the lower range and we will not stop until we're there, basically.

So, looking at our three business areas, we have Services, who made a very strong quarter, significant margin improvement, and a decent organic EBITA growth of 8%. We're strong in EBITA growth, actually, this year.

Some of the verticals that had a tough time last year, installation and infrastructure are actually really improving, both margins and sales. And even some of our other verticals like digital services, logistics, et cetera, continue to deliver. Whereas companies with exposure to new construction, especially engineering services, they have a weakened demand. We know for a fact that Q3 is a weaker quarter for Services due to holidays, et cetera, but we do see a solid demand in most areas and have more visibility in this – in the – for the second half of the year in a positive manner when it comes to Services. So that's on that on the Services side.

Looking at Trade, well, Trade is certainly having a tough time. They have an organic sales growth of minus 3% year-to-date, but an organic EBITA growth of minus 22%. And this is, of course, due to soft demand with consumer-related durable goods, e-commerce. It's not always consistent. A few of our companies do perform strongly. And from a vertical perspective, health and beauty remains strong. But we believe that the tough times will continue in the second half of the year. There's certainly [indiscernible] (00:15:39) significant headwind with a weak Swedish krona towards the dollar. But I think what they have done quite excellently is to retain their market positions, even strengthen the market positions. They're doing a lot of hard work including cost-cutting programs to protect profitability. And they have been really good at releasing working capital, getting their inventory down. So I think Trade has been a great contributor in the second quarter to our strong cash flows. We're happy about that.

Looking at Industry, they had an extraordinary Q1, still a strong, but more normalized second quarter. We see a somewhat softer demand side in the autumn, but still from high levels and still a stable development for Industry. We had a sales growth of 9% in Q2 and a margin expansion. So, I think that's a positive thing, of course. Industrial technology is performing really well. We saw increased competition in automation and price pressure. But nevertheless, you have these underlying trends reshoring [ph] and green (00:16:54) transition and a great demand for automation solutions. So, they're all underlying the strong performance of Industry. So, going into Q3, we do see the trends of the second quarter to continue.

Looking at our transactions, like we said previously, a reduced M&A pace, mainly doing some small add-on acquisitions, one platform acquisition, AC Electrical. Looking at the divestments, we have done a few, Dextry Group being the biggest. And these, of course, could be low performers or they could be companies not aligned with our overall strategy. And of course, if you look at – closely at these divestments that we have done, they have a turnover of about SEK 1.2 billion and they contributed with SEK 41 million in EBITA. So from a margin perspective, that's below – well, it's closer to 3% or 3.5%. So that kind of shows a little bit why – the thinking behind why we've done those divestitures.

So, Lena, financial performance.

Lena Paulina Glader

Chief Financial Officer, Storskogen Group AB

Well, thank you, Daniel. Over to the numbers here. So let's have a closer look at the Q2 numbers. First, repeating what Daniel just said, Q2 net sales grew by 4% to SEK 9.2 billion. This growth is driven by acquisitions, if you understand, since the organic sales growth was slightly negative during the quarter. And I'll come back to that in a little while. For the last 12-month period, our net sales were SEK 36.9 billion and pro forma, which is now adjusted for acquired and divested companies. So divested companies are removed for the entire 12-month period here, whereas acquired companies are included for the entire 12-month period. So that leaves us with SEK 36.1 billion in pro forma turnovers.

Adjusted EBITA grew by 5% year-on-year to SEK 922 million, with the last 12-month period delivering SEK 3.5 billion in EBITA and pro forma, again, SEK 3.6 billion. This corresponds to an EBITA margin of 9.7% for the quarter, same level as Q2 last year. And for the first six-month period, however, EBITA margin, in fact, improved substantially from 9.0% to 9.7% year-on-year. This reflects in numbers, obviously, the operational efficiency improvements that you just mentioned, Daniel, price increases that have been successful, as well as good performance overall in Industry and Services.

And besides the softer demand in Trade, as just mentioned, the weak Swedish krona, obviously, also continued to put pressure on margin for the business area, Trade, compared to Q2 last year, in fact, the net effect of this weak Swedish krona against the dollar pressed the Trade margin by as much as 1 percentage point, in fact.

The group operations HQ costs, as we call them, were maintained at the same level as Q2 – as Q1, but significantly lower compared to last year at SEK 68 million compared to SEK 97 million a year ago, representing 0.7% of sales, which is I think unchanged for the past few quarters.

EBITA adjustments amount to a total of SEK 101 million for the quarter, where approximately half is revaluation of earn-out and half is net capital loss on divestments. We have recorded both capital gains and capital losses on these divestments. The net is negative SEK 46 million. Net financial items were pretty high in Q2, [ph] SEK 357 million (00:21:06) versus only minus SEK 26 million in Q2 last year. So, there's big delta here, which of course, impacts the net results and especially the net result development versus last year by quite a bit. However, the actual interest costs are unchanged from Q1 at roughly SEK 220 million. This is equivalent to an interest rate of 6.2x on the average interest-bearing debt during the quarter.

Other items in the net financials are non-recurring costs related to this early redemption of the 2024 bond that you just mentioned as well, Daniel. And then we have reevaluations and effects that – for the parts that are unhedged in internal loans that are a negative SEK 84 million in this quarter.

So the aforementioned net adjustments and non-recurring financial items affect net results by, all in all, a negative SEK 236 million or SEK 0.14 per share, which of course impacts the reported EPS, which was SEK 0.04 for the quarter – SEK 0.18, if we had adjusted for added back these non-recurring items. And this, of course, also impacted the return on equity, which was 7.7% compared to 9.2% in Q2 last year. And however, return on capital employed increased from 9.6% to 10.2%. Return on capital employed net of cash was, in fact, 11.8% and net of goodwill 24.2%. So this is a good improvement from 18.5% a year ago, which reflects a healthy return on capital employed in the subsidiaries, of course.

We have cash flow from operating activities as in the cash flow statement of SEK 852 million in Q2, which is an improvement of, all in all, SEK 517 million from last year – from Q2 last year, with SEK 2.8 billion in cash flow from operating activities during the last 12-month period.

Cash conversion was 105% in Q2, a significant improvement from last year as well, and 87% for the last 12-month period. So I'll come back to both cash conversion and leverage separately in a little while.

Let's spend some time on looking at the organic sales growth in the meanwhile. So on this slide, we show organic sales growth per quarter. In the isolated Q2, this was minus 6%. As you can see on this graph, sales growth has been strong the past years, driven by volume and price, but in the negative territory, as I just said, in Q2. We have, all in all, been successful in increasing prices also in the second quarter, but volume growth in particularly in Trade, notably the Home and Living vertical has impacted group organic growth negatively.

On the next page, we're going back to the cash flow here. We're showing operating cash flow now here defined as the EBITDA less change in net working capital less CapEx, and cash conversion, which is the same divided by over EBITDA. So essentially, how much cash is generated out of the operating activities. On this graph, we show the last 12-month period, so rolling 12 months in the bars here.

Operating cash flow, LTM, as I said in Q2, was SEK 3.9 billion and cash flow has, as you can see, improved significantly quarter-by-quarter over the past four quarters on the back of substantial work with reducing working capital, especially. In Q2, cash flow was positively affected by reduced inventories and higher payables. And – but, overall, receivables were fairly neutral here.

Cash flow improvements from Q2 last year are significant showing through in cash conversion, which was 105% in the isolated quarter compared to 44% a year ago. So now, we are significantly or, at least, a bit above the 70% target again, which is as we planned. So, CapEx to sales 1.8% in Q2, pretty much in line with previous periods.

And then over to net debt and leverage on the following – on the next slide. Showing here is the interest-bearing net debt and interest-bearing net debt to EBITDA and the leverage. Interest-bearing net debt was SEK 11.9 billion at the end of the second quarter, which is down from SEK 12.1 billion at the end of Q1. And in fact, so that's a decrease of SEK 230 million during the quarter. In fact, with an unchanged of stable SEK-euro rate, the decrease would have been SEK 100 million more.

But leverage was 2.6x or actually just below 2.6x at the end of the quarter, which is the same as last quarter, where it was a tad above 2.6x, in fact, which is within our target range. But as I think Daniel made it pretty clear here just now, we have an ambition to reduce this further by year end.

The denominator here, the RTM EBITDA, so that's a pro forma EBITDA in Q2 was SEK 4.6 billion versus SEK 4.7 billion in Q1. So, this, of course, affects leverage as well. Liquidity-wise, our total available liquidity amounts to SEK 8.9 billion, SEK 2 billion in cash and SEK 7 billion in unutilized credit facilities.

Regarding the overall financing strategy, we continue to work towards extending the overall maturity profile to arrive at a more diversified debt portfolio and to reduce the absolute debt. This is particularly relevant, of course, with the current interest rate environment. And as part of this focus, we extended our bank loans by one year in Q1. And in Q2, we continued the work by refinancing the 2024 bond maturing in 2024, reducing its size by SEK 1 billion and rolling to of the SEK 3 billion over to a new bond maturing in 2027. This means that we now have no debt maturities in 2023 or 2024.

And, in fact, when looking at the gross interest-bearing debt, we, in fact, reduced the gross interest-bearing debt by SEK 1 billion since year-end. So, we are working towards slowing the gross debt, so not only focusing on the net debt. And during the quarter, we reduced the gross debt by SEK 0.5 billion.

And then, finally, looking at this – or showing this diversification effect in a nice illustration here, we have a diversified business portfolio, obviously, of businesses that we operate in the three business areas. And on this page, we illustrated the diversification by showing the EBITA margin of our business areas over the past eight quarters. The dotted line there that you see is the group – the Storskogen Group EBITA margin.

And you can see here that – or this is actually net of the HQ, headquarters, so this is the business areas only. And you're seeing here, obviously, that EBITDA margin from our businesses, the dotted line here, is much more stable on a group level, which is obviously the diversification effect when the business areas are combined. And in Q2, you see that Trade and Services are moving up, in fact, sequentially, plus Industry is on a strong margin level, but slightly lower in Q2 than in Q1 here. And this is the expected – pretty much the expected seasonal [ph] pattern (00:30:11) for the quarter.

So I think that's it for me. So I hand the word over back to you, Daniel.

Daniel Samuel Kaplan

Co-Founder & Chief Executive Officer, Storskogen Group AB

Thanks, Lena. So in conclusion, some key takeaways, I think we're continuing to deliver on our strategic priorities. Strong cash flow in the quarter. Retained margin in, as you know, the last six months, a significant margin increase, actually. A seasonally strong performance in Services, showcasing our diversification in the portfolio. Looking at our maturity profile, it's been extended first by extending our loans in the first quarter and now refinancing the 2024 bonds with a [indiscernible] (00:30:59) issue due in 2027. So a successful refinancing as well.

Looking forward, we're still continuing our operational focus, protecting our margins, focusing on cash flow and, of course, we want to continue our work with our balance sheets, reducing leverage going forward.

So thank you very much for listening in, and now it's time for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] [Operator Instructions] The next question comes from Carl Ragnerstam from Nordea. Please go ahead.

Carl Ragnerstam
Analyst, Nordea Markets, Corporates & Institutions

Q

Good morning. It's Carl here from Nordea. A couple of questions. Firstly, looking at the negative organic growth in the quarter, is it by any chance possible to give some flavor on the organic development month-by-month? I guess we've heard quite a few companies reporting a weak start to the quarter. Did you – have you experienced the same? Or is it fairly flattish throughout the quarter?

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

A

No. It was certainly – hi, Carl, by the way. So, I mean, you're absolutely right. I think, in this, the culprit, so to say, was April, which was a weak month at the start of the quarter, whereas we could actually see much better May and June, which was actually quite strong. So [indiscernible] (00:32:45)

Carl Ragnerstam
Analyst, Nordea Markets, Corporates & Institutions

Q

Was it strong in the sense that you had positive organic growth in June, or is it still slightly negative, would you say?

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

A

I don't want to comment really on that level, but – I'm not sure how to respond.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

I don't – we're not giving any monthly organic growth numbers.

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

A

But I think April had fewer workdays, and there were all kinds of aspects there that made it a less profitable month, simply put.

Carl Ragnerstam
Analyst, Nordea Markets, Corporates & Institutions

Q

Okay. Very good. And could you perhaps shed some light on the order intake situation in Services and Industry, where I guess orders make more sense, I guess? And also, if you could give maybe some comments on the length or size of the backlogs you have currently in both of these segments?

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

A

I'll try to respond to those that I can. Looking at Services, we do see a relatively steady inflow order intake. And like I mentioned, the – and the visibility for the second half of the year is much better now in a positive way. So we do feel confident in Services. Looking at Industry, we do have a decent order intake, but we do – but this is from very high levels. So as compared to previous levels, it's still a softening of that with a slight decrease. And, of course, transparency in the industry is a lot less. So we don't want to be – we're not as bullish in Industry as we are in Services. So, somewhat weaker order intake in Industry, but still at decent levels.

Carl Ragnerstam
Analyst, Nordea Markets, Corporates & Institutions

Q

And in the Services, I mean, I guess, especially in the construction related parts of it, we've heard that the pricing landscape could be defined as quite fierce, I guess. And with, obviously, taking – risk of taking on less profitable projects, which you could suffer from for quite some time as lead times are a bit longer. Could you give any sort of flavor on how you monitor project calculations may be changed or incentive structure in that segment or maybe tightening the thresholds on what projects you could take on as, yeah, various levels?

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

A

I mean, you're certainly correct that if in those companies that you would see a decline in order intake that you would – some managers could get nervous and start to take on projects that are not really that profitable. In most of our companies, we haven't seen that situation. In fact, we are retaining the margins or even increasing margins in Services. And I think we actually see that demand is quite good in most of our companies, as illustrated by the second quarter in Services with an improved margin. And I think that trend actually continues in the third quarter with the exception of a few companies, of course.

As a rule, most of our companies keep a close watch on costs and to the extent that those are movable costs, so to say, they would refrain from taking unprofitable projects. So, it's not really something that we see yet. But there's – but the – but we are monitoring closely. And, of course, in every board meeting, we're looking at utilization rate and the upcoming projects if they're significant, having a discussion with management. But they, of course, need to run their business as good as they can.

Carl Ragnerstam
Analyst, Nordea Markets, Corporates & Institutions

Q

Okay. Very good. And the final one from my side is on working capital. We saw LTM level of 16.5%, it looks like, at least. Are you still confident of reaching 15% by year-end? And is it fair to assume that Industry and Services will be the main driver of the release, if you are still convinced that you will reach the 15%?

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

A

I would want to say that we will reach the 15%, but we are certainly aiming for it. We do see that we will have strong cash flows. I just don't want to commit to exact levels. And I think we have good progress in Services. We have very strong progress in Trade. Industry has had a quite a strong situation in the first half of the year. So, they have had more difficulties obtaining their – reaching their working capital targets. But, well, I know that they're working hard to achieve them, you might say. So, a bit of a fuzzy answer there, but we do know that we will have strong cash flows. But I wouldn't want to commit to the 15%, that's more of an internal target for us.

Carl Ragnerstam
Analyst, Nordea Markets, Corporates & Institutions

Q

Okay. Very good. That's all for me. Thank you.

Operator: The next question comes from Johan Dahl from Danske Bank. Please go ahead.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)
Q

Yes. Good morning, everyone. Just a few questions from my side. Firstly, on the balance sheet, I think you've been fairly clear on your ambition to reach the lower end of this indebtedness interval. It just seems as if, when we look at the cash flow, operating cash flow clearly improves, but the metrics, net debt to EBITDA doesn't really budge and net debt in absolute numbers doesn't really budge. I was just thinking, looking in the second half here, what sort of measures are you taking to actually take down the debt? Is it a stop for acquisition? Is it further divestments? Because the denominator in that measure seems to be going down slightly if we look on the EBITDA in a rolling 12-month basis. Just to understand what measures you're taking to actually get that net debt down in absolute numbers?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB
A

Should I start?

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

Yeah.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB
A

And then Daniel can fill in regarding the technical aspects of that. First of all, the net debt was reduced during the quarter and has been reduced during the first half of the year. In the second quarter, just as a reminder, we did pay dividends to our shareholders and part of that to minority shareholders as well. We did have some earn-out payments as well in Q2, but those we'll obviously also have in Q3. And then, there were some acquisitions, but also some divestments in the second quarter. But overall, as I said, I mean, net debt was reduced during the quarter.

And going forward, I mean, the operating cash flow is strong, as I said, and the M&A pace is significantly slower than previously. There is still a lot to do in terms of reducing working capital and releasing cash flow from operations. And as you just mentioned, Daniel, especially within business area – all business areas, Trade is continuing to work well. Services is tying up less than the other business areas. And we do expect to see positive results from Industry as well for the second half of the year. So, we are pretty confident then or our ambition is clear to reduce the net debt to EBITDA towards the lower end during the second half of the year by year end without going into specifics about specific plans. But it has mainly to do with the operating cash flow [indiscernible] (00:41:04)

Johan Dahl
Analyst, Danske Bank A/S (Sweden)
Q

But have you changed scope in any way in terms of looking at the potential divestments? You've talked about the share of sales that are not really performing as you planned. But has there been any – can you give us any update there or any changes?

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

A

No. I think we think don't have any change scope as such. We're still low performers and we're also looking at the companies not aligned with our long-term strategic agenda apart from ESG issues that could entail that they have margins, that we – that would make – I mean, Dextry is an example where we – it's a roll-up case. If we would continue to buy [ph] painters (00:41:47) at the 4% margin, that would be detrimental to our overall margin target. So that's not something we would want to do. And so in the Dextry case, it was quite clear that we were not the best owner going forward if that roll-up case was going to be continued.

So we're looking – when we're reviewing our portfolio, those are the things that we're looking for will they fulfill our targets for organic growth, for resilience, cyclicality, margins, et cetera. So those are our main focuses, so we – when we're looking at divestitures going forward, not only this year, but I think continuously in the long term. We will gradually look at our – we will always look at our portfolios also. But no change in scope from such perspective. But we do feel, like Lena said, very confident in our ability to generate strong cash flow. So it's more a question of when that will take more effect in our leverage ratio.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)

Q

I hear you. Secondly, on the Industry business area, it just seems as if organic earnings in the second quarter was down some 25%. So just can you walk us through what contributed to that and what potentially sort of you take away from that going into the second half year?

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

A

Without commenting on the organic growth number, I mean, the industry actually had a decent second quarter, so...

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

The 25% is not the number we have for Industry, [indiscernible] (00:43:37) organic EBITA growth.

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

A

Yeah. So, they actually had a decent second quarter. I mean, comparables were really tough, because they had a very strong second quarter last year. But all in all, they're actually performing quite nicely, most of the companies. There is some weakness in some of the consumer-facing or construction-facing companies. But, overall, we do see a decent performance by Industry. So, I guess that would be the negative organic EBITA growth in the second quarter, even though it's not 25%. It's more related to comparables rather than their actual performance from – and our expectations [indiscernible] (00:44:28) performance.

Johan Dahl
Analyst, Danske Bank A/S (Sweden)

Q

No, I just look at the first quarter, you had that 25% organic EBITA growth in Q1 and then it was zero for the first six months, so that's just how I looked at it. But you also talked about strong order books, et cetera. But if you're happy with the performance, I hear you then. I'll get back in line. Thanks.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Great.

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

A

Thanks.

Operator: The next question comes from Karl-Johan Bonnevier from DNB Markets. Please go ahead.

Karl-Johan Bonnevier
Analyst, DNB Bank ASA (United Kingdom)

Q

Yes. Good morning, Daniel and Lena. Lena, just a couple more questions on the financials, please, if I may. You alluded to that net interest in Q2 was on similar level as in Q1. Do you see that with the kind of duration you have on the portfolio and the refinancings you have done being a good guidance also for the second half of this year given the current environment?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Well, if we're talking about rates, I mean, you can calculate that backwards with the SEK 221 million in net interest cost over the average interest-bearing debt, including [indiscernible] (00:45:42), you would arrive at 6.2% in Q2. Now, this was not including, obviously, the new bond, which is a bit more costly. And also, I believe that we have had some price – some rate hikes during the quarter, which may not have fallen through completely in that. So, you would expect to have a higher interest rate as a percentage point in Q3 and Q4. In – but however, as you point out, I mean, we've reduced the debt as well by SEK 1 billion during the first half of the year. So in absolute numbers, the debt is obviously lower now, which offsets the interest rate hike. So, I don't know if that gives you an answer. We don't have any guidance specifically for Q3.

Karl-Johan Bonnevier
Analyst, DNB Bank ASA (United Kingdom)

Q

No, no. It's good color. Good color. Thank you very much. And looking at the move with the maturity moved from – on the SEK 3 billion bond for 2024 to 2027, what's your average maturity of your financing for the moment?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Yeah. Well, that's a good question. It's 30 months at the end of Q2 with the average maturity, which is actually more than 48%, closer to 50% better or extended compared to the end of last year. So there's all this work that we've done with the expansion and this bond even though the bond is slightly more pricey has had a significantly positive effect on the overall debt maturity, which gives us plenty of room to wait out the market and negotiate new refinancing as we need them. But there is no urgent need to do that right now.

Karl-Johan Bonnevier
Analyst, DNB Bank ASA (United Kingdom)

Q

And looking at the portfolio, have you done any move between the variable part and the fixed part of the financing?

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Unfortunately, there is no significant such move now during that quarter. So there is some part that is hedged. It is approximately – I think it's approximately 10% of the loan or the debt, including the bonds that is hedged with – I think it's, like, four years as of now, but the rest is variable. So let's keep our fingers crossed that the rate hike will flatten out eventually.

Karl-Johan Bonnevier
Analyst, DNB Bank ASA (United Kingdom)

Q

I agree to that. Thank you very much. And all the best out there.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

A

Great. Thanks.

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

A

Thank you.

Operator: [Operator Instructions] There are no more questions at this time. So I hand the conference back to the speakers for any written questions or closing comments.

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

So thank you, all, for listening in. I wish you a wonderful day. And if you have any questions going forward, please contact Andreas or myself and Lena, and we'll try to answer it offline. All right.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

Great. Thank you.

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

Take care. Bye.

Lena Paulina Glader
Chief Financial Officer, Storskogen Group AB

Goodbye.