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Addnode Group AB (ANOD.B.SE)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

OTHER PARTICIPANTS

Fredrik Nilsson

Analyst, Redeye AB

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Raymond Ke

Analyst, Nordea Bank ABP

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

MANAGEMENT DISCUSSION SECTION

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Hello, everyone. And welcome to the presentation of the Addnode Group Q1 report for 2025. I'm CEO, Johan Andersson. And with me, I have also the CFO, Kristina Elfström Mackintosh.

The agenda for today's meeting is that we will go through the interim report for Q1 2025 in some in-depth details. We will end up with a Q&A. And I'd also like to highlight that in the presentation, you'll find that appendix with further material.

So, just to remind you, Addnode Group, our purpose is all about digitalization for a better society. Through innovation and continuous development, in close collaboration with our customers, we create digital solution for specific needs. The software and digital solutions that we provide design buildings, infrastructure and cities, and also the products that we all use every day, like cars and all the way to life science. The things have been designed and built need to be maintained with a lifecycle perspective. And the public sector has a responsibility for rules and regulations. Our digital solutions make it possible.

Starting off with the business conditions in Q1. In Addnode Group, we have a diversified operations in several different segments with underlying structural growth. The digital solutions we deliver to architects, technical consultants, the manufacturing industry, defense industry, and the public sector in both Europe and the US has a stable demand.

Looking at the different geographies, we have had stable business in all geographies we operate in, with the exception of the German market, where market conditions continue to decline. Our business model, with a high

share of recurring revenue, provides a secure foundation in times of greater uncertainty. Our services are also to a high degree of what we would – could be labeling as recurring nature.

With that as a starting point, I would like to hand over to our CFO, Kristina, who will guide you through the Q1 financial figures.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Thank you, Johan.

Yeah, I will take you through the highlights of Q1. And we think this is a stable results quarter, and also cost initiatives that we have made, I'm going to present a little bit more about that. But if we start from the net sales amounted in the quarter to about SEK 1.5 billion, compared to SEK 2.4 billion last year. And this is, as we anticipated, a decrease, it's 39%. And FX adjusted decrease was minus 41%.

And as we have been speaking about the last 18 months, the changes in the new transaction model within Design Management from Autodesk has made the change, the decrease. And if we look at the same principles that we had in Q1 last year, net sales would have amounted to SEK 2.5 billion, and that is approximately a currency-adjusted organic growth of 3%.

And net sales was solid, both in US and in Europe, without – with the exception of Germany. And in Germany, the market conditions continued to deteriorate, and sales were considerably weaker than in the previous period, particularly in the automotive industry. And as a result thereof, the division PLM has introduced a cost adjustment program. And in the results for the Q1 this year, approximately SEK 25 million has been taken as the program – cost for the program. And after the costs taken for the restructuring, EBITA amounted to SEK 217 million, compared to SEK 253 million last year. And the margin, EBITA margin improved to 14.9%, compared to 10.5% last year.

And adjusted for the restructuring costs, EBITA would have been SEK 241 million, and the margin of 16.5%. And going down the information line, cash flow from operations amounted to SEK 203 million, compared to SEK 381 million last year. And the major changes is mainly due to working capital. And I'm going to go through in more detail where this come from later on in the presentation.

And we also continued to do acquisition, and year-to-date, we have acquired three companies; Congere, Railit and Pcskog, and Johan will talk more about those newly acquired companies going forward.

And I'll hand over to Johan to speak about that.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

So, in 2025, as of today, we have made three acquisitions. Looking at the one, Congere, systems and application for the defense industry, where you'll find customers such as the Swedish Armed Forces, the Swedish Defense Materiel Administration and SAAB. In the middle, you'll find Railit. It's an innovative SaaS solutions for the railway industry. Customers include Arlanda Express, Nordiska Tåg, Snälltåget, the Swedish Transport Administration. And to the right, you will find Pcskog. It's a SaaS company in digital forest management plans. It will strengthen our company Icebound's position and offering within digital solution for the forest industry. So, three good example of acquisition, complementing the portfolio that we have in Process Management.

So, Addnode Group has, since the inception in 2003, made more than eight acquisitions, supporting the group. We have several active acquisition processes underway, and acquisitions are an important part of Addnode Group's growth strategy. Thanks to our strong financial position with low debt, Addnode Group can continue executing on its long-term, value-creating acquisition strategy with a healthy risk appetite even in more turbulent times.

We are organized in three divisions, and Kristina, as we set out – as you see on this slide, you will see our share and distribution of net sales, gross profit and EBITA on the different divisions. So, if we deep – go deeper in our divisions, so let's start with Design Management. Demand in the Design Management division was stable in both Europe and the US in the first quarter. Sales of proprietary software displayed good growth in the quarter, both in the company's symmetry, SWG and Tribia. The drop in net sales and significant increase in gross margin, EBITA margin is related to a change in business model and is as expected. So, this means that we are moving for a – to a more of a high-margin business that we will continue with regards to the EBITA margin, and it has to do, like we said, with the transition of the business model. So, it's as expected.

Under the previous – with the old model, and before reclassification of third-party agreements, our adjusted organic growth would have been 3% in this business area. I would also like to remember that the – Q1 in 2024 was an exceptionally strong comparative quarter with a growth of 34%. But, all-in-all, stable delivery in a demanding environment. And nothing has changed with regards to demands compared to Q4.

Looking at PLM, we can see that sales for PLM systems-related services were stable in the Nordic countries, the UK and the US, where we have more diversified customer segments, spanning from manufacturing, defense and life sciences.

During the quarter, sales to the defense industry increased, reflecting continued positive demand trend. Before reclassification of third-party agreements, the division's currency-adjusted organic growth amounted to 3%. However, market conditions continue to deteriorate in Germany, where sales were considerably weaker than in the previous period, particularly in the automotive industry. As a result, a savings program has been introduced in the division. The implementation cost for the program amounted to approximately SEK 24 million that has been charged to Q1. The annual cost savings from the program are estimated at approximately SEK 45 million. If we exclude the charge cost for the savings program, EBITA would have been SEK 28 million compared to SEK 41 million last year, and the EBITA margin would have been 6.3%.

So, looking at Process Management, the division delivered a strong quarter with growth and improved EBITA margins. The division's organic growth amounted to 5%. The market climate for division remained unchanged, with stable demand for case management and geographic information systems from the public sector. While the number of tenders still is on the low side, our assessment is that we are gaining market share in terms of the number of tenders won.

So with that, I would like to hand over to our CFO, who will guide you through the cash flow.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Yes. Thank you very much, Johan.

And looking at the cash flow from operation, you can see the SEK 203 million was a decrease from the last quarter – last year's quarter amounted to SEK 381 million. And it's mainly impacted by changes in working capital that you can see above the numbers. And it's relating mainly to changes within Design division.

And just to explain a little bit more what has happened in Autodesk, which we communicated already in 2023. All the three-year contracts were paid upfront for all the three years. Now, the payments from the customers are based annually over three terms. So, payments year by year. And that has an effect in Q1 2024. We had a lot of prepayments for the three-year contracts.

So, this means that the working capital has a deficit compared to the last year's quarter. And this should not be confused with the change of Autodesk transaction model. It has to do with the payment terms before, starting in 2023. And, hence, the cash flow from operation is mainly coming from the changes in working capital and the decrease also in the operating profits.

If you look at the financing activities, it's mainly relating to the payments of the newly acquired companies, and also payment to the sellers made in prior years.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

And Kristina, just as we discussed, the changes in working capital related to the payment terms of the period is it's a transition. Meaning that as we go through this transaction – transition and the payment that we'll start paying here means that somewhere in 2026 we will be back...

Kristina Elfström Mackintosh*Chief Financial Officer, Addnode Group AB*

Yes. Yeah.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

...in a more normalized capital as we had previously. So, it's the transition when we go through changes in payment terms is more like you're building a SaaS model stock, if it can be described as. So, it's a transition, and we will move back to sort of a more of a normalized...

Kristina Elfström Mackintosh*Chief Financial Officer, Addnode Group AB*

Yes. That's right.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

...working capital, and that will take us through 2025. So, it's part of what we have already communicated. Not a new news, but we see the effect of it now more deeply in this quarter, and then we will be back in 2026, more normalized.

Kristina Elfström Mackintosh*Chief Financial Officer, Addnode Group AB*

Right. Thank you, Johan.

If we look then to the balance sheet, going back, just to inform you that this is the operational balance sheet, and it's not the balance sheet that we present in the report. And as you can see, we continue to operate, supported by a resilient balance sheet. It's an important foundation for the growth, both organically and through acquisitions.

And the changes in the balance sheet during 2024-2025 is mainly derived from the acquisitions and also FX adjustments that has an impact on the balance sheet. And you can also see that we still operate with a negative working capital, and we continue to do so. It's minus 5 or 2 that you can see net working capital.

And also going down looking at the provision taxes and other debts. That includes mainly the earn-out payments. And so, in a total amount of SEK 459 million, and the majority is for the Symetri US and the Team D3 acquisitions. And the payments will be made for the rest of 2024 of about SEK 160 million. And due in 2026 is about SEK 250 million, and the rest in later years.

Net debt has come down. It's now at SEK 936 million, and affected by currency effects also in the loans in foreign currency that we have. Cash position was SEK 680 million, compared to SEK 674 million December 31, 2024. And you can also see that out of the facilities of SEK 2.6 billion that we have, we have unutilized about SEK 1 billion that we can use for future acquisitions as well.

And then, I'm going to hand over back to Johan.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you, Kristina. To sum up the first quarter of 2025, I would like to do that with the backdrop of our Addnode Group's reported net sales and EBITA has evolved since 2015. 2015, our EBITA was SEK 168 million, and 2025 rolling 12-month and the first quarter, our EBITA is SEK 836 million. We are year-over-year delivering on our growth strategy, combining organic growth with the value-creating acquisition strategy, delivering an EBITA compounded annual growth rate of 19% for this time period.

We are in the middle of a business model transition, and how we recognize sold third-party software. As seen in the graph, reported net sales goes down rolling 12-month 2025 compared to 2024 full year. But EBITA trend is on the path. This is as we have expected and have communicated.

Looking at the business in Q1 2025, it is a solid quarter in a demanding environment, with one exception being the German market, and we are addressing that with cost reductions and saving that will give effect already in the second quarter. Addnode Group has diversified operations in different regions and segments with underlying structural growth.

The digital solutions we delivered to architects, technical consultants, the manufacturing industry, the defense industry and the public sector in both Europe and the US are in demand. We deliver business-critical digital solutions. And our business model with a large proportion of recurring revenue, is a security in more uncertain times. However, the economic and geopolitical situation remains uncertain and primarily affects the customer decision-making processes for major investment decisions. Our business is not directly subject to tariffs. We sell digital solutions, not goods. We are monitoring the situation closely and we'll continue to adjust cost.

Looking ahead, there is a good demand for the business-critical solutions that we provide, and cost adjustments will improve profitability.

So with that, we would like to open up for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Fredrik Fredrik Nilsson from Redeye. Please go ahead.

Fredrik Nilsson

Analyst, Redeye AB

Q

Thank you. Good morning, Johan and Kristina. I have a few question regarding PLM. The underlying organic growth was slightly positive, yet the adjusted EBITA margins fell from above 9% to above 6%, and gross profit is slightly up, the number of employees basically unchanged. So, what is driving the declining adjusted margin year-over-year?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Basically, what you're saying that you expected a higher margin compared to that or?

Fredrik Nilsson

Analyst, Redeye AB

Q

Yeah. Yeah. Given that the organic underlying growth was slightly positive. Yeah, yeah, yeah.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. But in a quarter, you can have – probably you have a mix also of what have been driving. So, you can see that probably where you can see that the things, for example, we had 6% organic growth there, but we – or probably the costs are going up a little bit. And you have a mix of what we have sold in the quarter. I think that's where to go, so. And we are adjusting that with the cost savings going forward as well. So, I think there's no major [indiscernible] (00:19:27). Just that we have a little bit too much cost, and we are adjusting that, and we had a mix with a little bit more of license sale last years. But I think that's the only reason why, so to speak, so – and with the cost, we are adjusting that now going forward.

Fredrik Nilsson

Analyst, Redeye AB

Q

Okay. And also regarding PLM, in what way is the automotive market weakening further? Are you seeing churn within customers' R&D, for example?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

What's happening is that they are, for example, we don't see churn, but we don't see any new – major churn in new sales, and new sales with regards to services, they are churn in services, meaning that they are not driving as much projects. And not so much churn in the software, because the software that they have, they will continue to use in their R&D department.

What happened is that as they are not hiring new people, and they are more on the other side, they are letting some people go, then they will not drive new projects, new services. So, the churn, yes, we have a little bit of churn on the software side [indiscernible] (00:20:40), but that's not more of it. It's more of the services that they need to drive new products and help from our sites are not happening. And then, we – that affects the billability. So, it's more of that type of churn.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay. And last question. When will the cost savings be realized approximately?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

It will start in Q2. Already, we'll see the effect, and then it will increase gradually over the year. ,So that means that we'll set up the full year effect of the cost savings introduced will be above SEK 45 million. You will not see the full SEK 45 million in this year, but if we can realize half of it, it would be as expected, and then it will be starting gradually in Q2 and then increasing over the year.

Fredrik Nilsson*Analyst, Redeye AB*

Q

Okay, great. That's all for me. Thank you very much.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Thank you.

Operator: The next question comes from Erik Larsson from SEB. Please go ahead.

Erik Larsson*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you. I have a few questions, mostly on Design. Firstly, on the cash flow here, helpful comments. And I know this change has been coming for a while. I think we've discussed it before. But I just have a question to sort of understand it fully here. First of all, I'm curious when this change went into effect? Because I thought, or my understanding is that customers have already had the opportunity to pay once per year, also last year. But what you're seeing is that many customers still paid for three years, regardless. And now, that alternative is no more or?

Kristina Elfström Mackintosh*Chief Financial Officer, Addnode Group AB*

A

Yes, that is right. It's already in 2023 when we communicated that Autodesk was changing from the three-year upfront payment to annual payment. But some customers have still paid upfront even during 2024, and in even by the end of 2024. That amount is going down quite dramatically. And – but we could still see that in 2024. It's getting less and less customers paying upfront. They had the opportunity to do annual payments, but some of them still wanted to pay upfront.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

And that's one thing. And then, we'll also have to realize that it takes three-plus years to walk through the change. Meaning that the tail needs to connect with the front. Meaning that if you have – every – it's not just a matter of choice, because if you're selling a three-year contract, we recognize the full value in the P&L, and then we get deferred in the cash flow. So, that means that it takes three years because – to go through that cycle.

And then during this period, we also increased a little bit of the total number of three-year deals. So, that means that the full transition period is three years-plus. Meaning that if we move from 2023, and then we need to move into 2026 to get to sort of a more of a normalized capital. And this could fluctuate between the different quarter. But on a yearly basis, it will take three years-plus to do that transition on the full customer base.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

And I just want to reiterate also that it shouldn't be confused with the change in the transaction model. This is the payment terms for the three-year contracts.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah. Yeah. Great. So just to clarify, I guess we should assume weaker cash flow this year, given the timing and Q1 being important in that sense. And then, seeing more normalized levels as of next year.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

Yes. We think that this will be going on for the 2025. We are at the bottom of that effect. And 2026 will be more normal in terms of cash flow from operations from the Design, this effect.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Thanks. I just have two other questions on Tribia here in Design. You wrote in the report that their earnings declined this year in Q1. So, could you...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

...just talk a bit about their exposure...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

...and the general outlook?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Did we saw – and where – just to be honest, where did you find that information?

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

You're putting me on the spot here.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

I read it in the report.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think to be fair, I think what we said with Tribia is that their result was in level with last year.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Maybe I had it wrong there.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. I'll get back to you later if I misunderstood it.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. Okay. Sorry about that.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

I can take another question instead...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

...still on Design because it's easy to be cautious when looking at macro data in the US and so forth. But it sounds like Design for you is doing fairly well. I mean, the outlook is okay. So, where do you find this confidence? Are you looking at your own pipeline, listening to customers, or could you just help us there?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

We're looking at our pipeline, pipeline and our customers. So, we feel that we – you can always target how far. But if you look ahead under the coming six, seven months or something, that we have a good visibility in our pipeline for both services and our software. So, we – that's where our confidence are coming from.

And some external figures, it's also that we looked at. For example, you can see that [indiscernible] (00:26:51) the system released their figures, I think, it was yesterday, and then they had a 9% growth in the US market, and in the European market it was 1% on their sales. So, I think there is a – there're a lot of things going on from the geopolitical situation. But if we look at US as a standalone market, we're still quite positive in the short term with regards to services and the way we can deliver software to our customers.

Erik Larsson

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. That was my questions. I will get back in the queue. Thanks.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Okay.

Operator: The next question comes from Daniel Thorsson from ABG Sundal Collier. Please go ahead.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Yes. Hi. Thank you very much. First, a question on Design. The EBITA drop year-over-year looks quite large given that you say that the adjusted organic growth would have been more or less 3%, and also so your licenses are up year-over-year versus a strong Q1 last year. And despite this, EBITA is down 8% year-over-year. What is really behind that? Is it higher services-related...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

...costs, higher OpEx, lower utilization on consultants or own software or should be something else?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

I think the most part of that is probably with regards to services being delivered further. So, it's not a sort of – so, we have a little bit of that, and probably some of the margins. So, I think it's not just one explanation. It's unfortunate that we have some – we had a – and I think three things. Last year was very strong in all things. And what happened is that when you have a very strong quarter, everything get extra boosted with regards to sales because we have a sort of a good leverage in our organization on when we, say, sell more because the fixed – the costs are fixed to sort of people. So, when we're really good at selling, that has a good leverage on the upside. That's one of the things.

So, that's basically saying they had a good comparison. So, that explains a big part of the sort of the margins. And then, we probably had a little bit of less sales in services. We don't really talk about Easter effect and et cetera, so. But probably had a little bit of that and then margin. So, there's no major part. But I think the most sort of the biggest explanation is that last year was really good.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Yeah. No, I understand that. It was just related to your comment that the adjusted organic growth in Design...

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

...would have been plus 3% this year.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

So, this year is even better than last year on sale. Should scale as well. So, it's not like it's down 10% year-over-year. Then I would have understand the...

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Okay.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

So, yeah. But maybe related to the services or own software revenues perhaps, which has a higher profitability than third party.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Okay. I have another one on PLM then. What type of roles will be affected by the restructuring? Is it salespeople? Because you see demand is coming down, the market is weaker, or is it rather unutilized consultants that you have? So, it's more of a cost issue that you would like to solve.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

It's both, so. But I think...

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Okay.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

...the majority is that we need to adjust the organization to the current run rate. That's where you'll find sort of the most things are happening. So, that means that on a sort of percentage level, it's more of adjusting to the current run rate, rather than. But having said that, so you will find both people in sales and delivery in this.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Okay. I see. And then, the final question, which I'm not sure if we have talked about historically. But on FX revaluation of balance sheet items like accounts receivables, given the weak FX rates, at the end of the quarter versus the average FX rates, is that something that has a negative impact on earnings in Q1 here? Is that affecting your P&L and EBITA? Or is that something that you take outside the P&L?

Kristina Elfström Mackintosh*Chief Financial Officer, Addnode Group AB*

A

Yeah. If we – revaluation the subsidiaries that you will see going directly into equity or the [indiscernible] (00:31:42) and...

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Yeah. Yeah.

Kristina Elfström Mackintosh*Chief Financial Officer, Addnode Group AB*

A

...also for the loans that we have against the acquisitions that we also have in the balance sheet provided for the acquisition, it's also in the equity revaluation. And you can also see during the end of the quarter, the FX had a more negative effect. We had the trend from the results were positive at the beginning of the quarter, where the FX had a lesser effect.

Daniel Thorsson*Analyst, ABG Sundal Collier AB*

Q

Yeah. No, I understand. But I was a bit curious about the operating items on the balance sheet. The more the accounts receivables or the payable side, if that has a negative effect on the P&L because some companies report that as another operating expense, for example. And you are revaluing your accounts receivables in the P&L, which has a negative effect operating profit. So, I was just curious if you do it that way or not, because that could explain some SEK 5 million, SEK 10 million on the EBITA drop here [indiscernible] (00:32:56)

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

Yeah. No. We don't report that separately. And also, we are as far as possible, hedging internally the same currency in the sales side with the cost of sales side. So, we try to do that as possible – as far as possible, but we don't separate that in the income statement.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

[indiscernible] (00:33:26)

Daniel Thorsson

Analyst, ABG Sundal Collier AB

Q

Okay. I see. Okay, that's all. Thank you very much.

Operator: The next question comes from Raymond Ke from Nordea. Please go ahead.

Raymond Ke

Analyst, Nordea Bank ABP

Q

Hi. Good morning. A couple of questions for me. First, starting with PLM and the declining German market there. Could you maybe help us understand just roughly how much is automotive in Germany for you? And do you see it spread to sort of other industries outside of auto, specifically?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. If you look at from a group perspective, about 10% of our sales are related to Germany. So, we generate. And that is you will find in the PLM division. And then, you can always debate about how much that is automotive. But the – being in Germany, you are dependent on the automotive working market. So, the big part of the business there in the PLM division, those 10% is related to the automotive industry. And the automotive industry being both the sub-suppliers, the supply channel and those the big automotive guys. So, probably close to half of the business there in Germany are probably related to the automotive business, both providing services and software to them.

Having said that, we can see that they are opening up a lot of investments in the German market from the public sector, as well in defense spending, et cetera, holding up there. We have some customers in life science, et cetera, they are continuing to grow as well. So, we are not seeing that it's sort of expanding to other sort of subsectors in the market. Other than it is in Germany and the German sort of market are dependent on what's happening in the automotive industry. So, it's probably hard to separate it from the rest of the economy. So, it's a two-sided question from that perspective. But we don't see it. So, it's more of a spending from the automotive industry we can see it is less.

Raymond Ke*Analyst, Nordea Bank ABP*

Q

That's very helpful flavor there, Johan. And then, on the layoffs that you implemented here, now, are they sort of based on the current market and demand or do you think you're doing sort of enough so that even if the market was to weaken further from here, you will have done sufficient? Just sort of trying to understand how much downturn you are bracing yourselves with, with this action.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

And I guess if you're looking at, you will never know if you have done enough because there are no certain guarantees in this type of business. But I think we have done what is necessary to have a healthy profit in PLM this year compared to historical numbers if the market is continuing on the level as it is today. So, we are not basing this sort of cost saving programs that the market will be sufficiently better this year. We are basing it on that it will sort of be on the low side this year. And this cost savings will be enough to generate a healthy profit in the division.

Raymond Ke*Analyst, Nordea Bank ABP*

Q

Got it. That makes sense. And then, on Design and the tough comps you talked about there, for how many quarters sort of into 2024 do you regard as having exceptional growth that is tough comps or was it really just Q1 that was the one sticking out?

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yeah. I think it was the ones sticking it out. And we have – Addnode Group is quite – with our history, you will see that the quarters are sort of – actually has been – we don't have an even distributed from year to year, quarter to quarter to quarter business. But on the long term, the business is trending upwards.

So, that means that, yes, I think if you look at this year, you will find that we – it was – the Q1 was a tough – a really good quarter. So, if you look at, for example, Q2 and Q3, I'm not saying that we will have sort of – we always have tough quarter, but compared to last year when we had, I think, it was 34% growth in the Design business, we will not have those exceptional comps going forward.

Raymond Ke*Analyst, Nordea Bank ABP*

Q

Yeah. Got it. And just the final one. In Q4, you won a record order in the US with Naviate, and you gave the impression that you had some momentum there with your proprietary software.

Johan Fredrik Andersson*President & Chief Executive Officer, Addnode Group AB*

A

Yeah.

Raymond Ke*Analyst, Nordea Bank ABP*

Q

Do you still feel sort of positively about the US or how is the sentiment over there a quarter later?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

We are still positive about the US market. And I think it was one of the previous question was what do you base that upon? It's that more of like we can see what our pipeline is going forward. And we expect that we can still continue to sell our own software in the US market as well. But we – it would be very nice if we can have record sales in Naviate every quarter, but we will not have that.

So, it's a journey. We have started it. We will do more of those deals. And as we go forward, we will hopefully be able to report that. But we will not be able to report those things every quarter.

Raymond Ke

Analyst, Nordea Bank ABP

Q

Perfect. Thank you so much for answering my questions. I'll get back in line.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. No problem. Thank you.

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

A

Before we go to next, I would just like to go back to Daniel Thorsson's question here about the revaluation. And of course, we do revaluation if that was unclear, both for accounts payables, accounts receivable and the OpEx. But we don't separate that in the income statements. I might have been a bit unclear about that.

Operator: The next question comes from Daniel Djurberg from Handelsbanken. Please go ahead.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

Hi. Good morning. Yeah, a couple for me as well. Most questions were asked. But, obviously, March is the most important month in Q1. And but still, can you give some insights on how the development has been during the quarter? And also starting in April, April has been this rollercoaster months so far. So in terms of demands in your end markets uncertainty there.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. Thank you, Daniel.

Looking at the Addnode Group, we – yes. Last quarter is always important. But for us also sometimes the first month in a quarter is important. And it has to do with our relationship with Autodesk. They have a lot – their yearend is in January, and then so that means that this last month of the quarter will be our first month of the quarter. So, for us, and that has a tendency to drive sales in that.

So, it means that we are both depending on the start and the end of the quarter [indiscernible] (00:41:05). But going back to, I guess, with your question, how was our confidence in the business compared to the end of the quarter and the start of this quarter? I think we are still confident about the business that we are running compared to the market that we have today. So, we don't see any changes. So, if you look at the market side, if

you separate the German market that we have talked about and then we talk about the rest of the business in Addnode Group. We still feel that we have sort of a – we use the word stable, and stable meaning that nothing has really changed in the business that we deliver to our customers compared to the beginning of this quarter and how we can see the start of this quarter.

If you look at what the sales reports in the sector, of course, we don't have the figures for March. But we, of course, we follow sales figures and pipelines and et cetera. So, we feel quite okay with things going forward.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

[indiscernible] (00:42:04) a little bit on the average deal sizes, the ASP in both PLM and Design. When you look in the funnel, are they more conservative in deploying larger projects?

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

They – yes and no. We can see that in some businesses, the really, really sort of the big sort of transition projects that could be of a – the sort of the mega projects are not happening right now. So, they are on the sort of on the waiting list. When you go to the boardroom as a customer and you ask them, could I please have SEK 200 million to run a digital transformation project. Then they probably would say, oh, let's wait another quarter. But if you look at the sort of the normal-size deals that we are doing, those are still happening.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

Yeah. Perfect. Can I also ask you how we should look at the potential negative impact from rightsizing or downsizing among customers, given that you have this delay from recurring revenues? And, obviously, what's seen now was starting off earlier with the customers? So, do you think we are in the midst of this? So, we are still or do you – should we expect to see a worsening trend or made – already made rightsizing that would be impacting your business later on? Just if you understand the question.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yes. No, I think it was – I think this is something that has been going on in the markets that we are in for the last couple of years, that customers are doing like us. They are addressing cost making sure that they have their company in order. So, I think, it's been an ongoing process for the last two, three years and something that we are living in. So, I don't expect that there will sort of be – you never know with this as well. But if you look at what we know, so we don't see that we have sort of a something ahead of us that will worsen the situation compared with that. So the answer to that is no.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

Perfect. Good. And my also – you had strong performance in Process Management, obviously. Good recurring business and the EBITA was up 14%, I think. Can you...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

...can you say something about the outlook and the business performance mainly in the various set of assets.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah. I mean, I think, we're – they're off to a good start and had a good trend from the last year in the Process division. And I think it's a mix of existing operations being run more efficiently, and we're looking, and we have some growth organic and there're some price increases adding to the mix as well. And then, we had done some acquisitions lately that are also helping with the performance of the group. So, I think it's a mix of they are running an efficient organization right now. They are in a market where they are in demand for the things that they are delivering, both – mostly to the public sector, local municipalities, also defense industries. So, there – it's a little bit of all of the above, and they are doing it well.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

That's great. Yeah. Good luck in Q2 here and hope to see you [indiscernible] (00:45:42)...

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Yeah.

Daniel Djurberg

Analyst, Svenska Handelsbanken AB

Q

...development in the world. Thank you.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

A

Thanks, Daniel.

Operator: No more questions at this time. So, I hand the conference back to the speakers for any closing comments.

Johan Fredrik Andersson

President & Chief Executive Officer, Addnode Group AB

Thank you for taking the time to listen in and...

Kristina Elfström Mackintosh

Chief Financial Officer, Addnode Group AB

Yes. Thank you very much, and have a good weekend when it comes.

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