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Fagerhult AB (FAG.SE)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everybody, and a warm welcome to the Fagerhult Group First Quarter Interim Report 2022. My name is Bethany, and I will be your operator today. [Operator Instructions]

I will now hand you over to Michael Brüer. Michael, please go ahead.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you and hello and welcome everyone to the presentation of Fagerhult Group's results for the first quarter 2022. My name is Michael Brüer, responsible for Strategy and Communications here at Fagerhult Group, and I will be the moderator in the call here today. On the call today, we have our President and CEO, Bodil Sonesson; and our CFO, Michael Wood. The presentation will start with Bodil giving us a brief update of our results and activities during Q1 and Bodil will then continue to update us on one of our strategic initiatives, Connectivity, describing the opportunity and our initiatives and solutions in that area. Michael will then continue with more details about the performance of the group and Bodil will conclude describing the opportunities. We'll conclude with a brief recap and afterwards we will open up for questions. We will first allow questions from the conference call, and then we will allow for questions from the webcast. You can post questions in the chat window from the screen and I will read them out for Bodil and Michael. Before we start, let me also remind you that today's session is recorded and will be available on our website later today.

With that, I hand over to Bodil.

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

So thank you, Michael, and welcome, everyone and welcome to the first webcast this year, 2022. And we have had a good start to the year and overall I would say with good numbers. The highlights being that we had all-time high order intake in any quarter so far in our history. And this also means that the rolling 12 months is now ahead

of SEK 8 billion, and therefore, also ahead of 2019. The activity level on the market side continues to increase, and in Europe we're working normally and the activity level is also high on the specification side which for us has a very positive impact and especially on the Business Area Collection. We continue to see very healthy margins; thanks to the increased market activity and good cost control, which is a result of all the initiatives we initiated – or the activities we initiated the last few years. The GP margin increased compared to Q4 with 1.6% and we, again, delivered an improved EBIT number for the quarter compared to last year.

With regards to the supply chain, the situation is very similar to the last quarter. The challenges continue and it's still on the electronics side where we have the most challenges. And also COVID continued to put a lot of constraints during Q1, both in factories and with logistics, and we continue to do our utmost to keep our service levels to the customers, and it means a lot of time invested from everyone involved, and the situation continues to be unpredictable.

On the sustainability side, we continue the work. And during the spring and early summer, we're defining the baseline of both; Scope 1 and 2, as well as Scope 3 in all the lighting brands in a very extensive way. And this is in preparations for science based targets. We also put a lot of focus into our annual report with regards to sustainability, and this you can find on the Fagerhult Group website. And the interest of Connectivity continues, and therefore I will focus on it in my presentation today, but let's first have a quick look at numbers.

So, as I said, if we look at the numbers for Q1, they all continue to be positive. We increased the order intake with 14% organically and net sales with 7.5% organically. And the EBIT reached SEK 173.3 million and increased from SEK 153 million last year and resulting in an EBIT margin of 9.3%. And Michael will come back with more details later on in the presentation.

Then I have a [indiscernible] (00:04:38) which I call that all positions are now filled in group management, which I'm happy about. And you remember we launched a new business area structure in 2020, and that also meant that we formed a new setup in group management. I have, in the meantime, been heading up Business Area Collection. But from June 1st, this position will be held by Mario Dreismann that you can see in the picture. And Mario has been with the group since 2020 and he's been the Managing Director for WE-EF. He's been doing a very good job. So now he's transiting to this new position, and we have also recruited a new MD to WE-EF, so he's well-prepared to hand over. And with Mario focusing full time on Business Area Collection, I'm looking forward to take further steps on the collaborative agenda and develop more new market opportunities. And with this recruitment, all position in group management are filled, and I mentioned in our last call, we're also expanding the team with a CTO to lead our activities within Connectivity. And if you would like to meet the full team, I would recommend you our upcoming Capital Markets Day which will be held on the 31st of August in Stockholm, and more information of that will come in the formal invitation.

So, if we go back to where we ended last time, we focused on our business areas and described them in more detail. And if you missed that call, it's still available to listen to on our website. So, this time, I will instead focus on one of our group initiatives, Connectivity. And you know that we have these few strategic initiatives that we're focusing on, on a group level and I'm planning to do Connectivity today. And in our Q2 presentation after this summer, I'm coming back to more of the sustainability agenda. So – but starting in the market, because of course the way we work, we start in the market and we're responding to the trends that we are seeing, and we see three main trends that are affecting the lighting industry. The first is the continuously increasing demand for more sustainable solutions. I think the climate change and our responsibility are undeniable for everyone. And since we provide solution to all builds environment, we have a big opportunity to also affect other industries positively, like real estate and construction companies. This means we both strive for the most energy efficient solution and make sure these are manufactured in a responsible way using a minimum of resources. The second market trend

is the increased focus on well-being. As we spend more time in indoor environments, good lighting can increase people's well-being and productivity. And similar, we can help create more safe and beautiful outdoor environments with good lighting. The third trend we see relates to the quick development of smart buildings and smart cities. As more products around us become connected, it also creates new demand to include our lighting solutions in new connected ecosystem which also brings more value to the customers.

With this as a background, let's look in to the solutions are responding to these three trends. If we start with the sustainability aspect, Connectivity solutions are crucial to reduce our carbon footprint. With presence detection and smart lighting, we significantly reduce the energy consumption from our installation. It's simple. The light is on when we use it and it's not on when we're not using it. And correctly used, this can help us achieve up to 70% energy savings, and here we need to remember, this is on top of the already very energy-efficient LED technology. And Connectivity also brings revolutionary opportunities for tailored lighting controls. The light can be adapted to specific situations and preferences chosen by the tenants and users. And, in indoor environments, light intensity and color temperature can easily be adapted to the time of the day to create better working conditions.

In outdoor applications, we can create solutions minimizing light pollution and energy consumption and, at the same time, create very safe environments in areas with presence. With Connectivity, we can increase the people's well-being in both indoor and outdoor environments. And Connectivity also becomes a part of the smart society, and this brings many new opportunities both as a standalone lighting solution and as a part of a new ecosystem. As an example, in standalone lighting solutions, Connectivity enables remote monitoring. This significantly reduces the maintenance costs in the outdoor installations. So, very easily, instead of driving around to identify broken luminaires manually, the service provider is directly informed by the luminaire itself that a repair or a replacement is necessary. However, the biggest benefit comes when we are able to leverage our infrastructure with sensors or other connected systems. With our luminaires, we have a very granular installation of motion sensors; in indoor environments, every 2 to 3 meters and in outdoor, in every light pole. This infrastructure data can of course be used by other applications and we are working on growing our partner network. I hope this gives you a good understanding of why we are investing in Connectivity, why we see growing demands from the market and what opportunities we see.

Before continuing to look into the solutions, just a small recap; and that is, when we look into energy savings because I think we all are aware of that is something we need to work very hard at currently. And the LED technology – going from conventional to LED technology, reduces energy consumption by 70% compared to the traditional fluorescent tubes. Adding Connectivity brings another potential of 70% energy savings from optimizing the usage. So, that means in total, we can reduce energy consumption with up to 90% compared to conventional lighting installations. So, if we look at the two solutions we have from the group, we have organic response and Citygrid, and these are for different applications. Organic response is used for indoor environments like offices, schools and hospitals, and Citygrid is used for streets and pathways and other urban areas. Both our solutions is based on the same basic principle, presence detection with motion sensors and very simple installation. The simple installation is a very important to lower potential barriers. As example, organic response works directly out of the box. The luminaire just needs to be plugged in to start working in a system with the neighboring luminaires.

Another important principle is our approach towards open systems. We developed our Connectivity solution with an open system approach to ensure easy integration with other smart application in the build environment, and this is an important cornerstone to able partnerships and take advantage of the full potential of the installation. So, I'll have two solutions [indiscernible] (00:12:14) little bit more about the solutions before we move over to the financials, and then first is the organic response who's been part of the group since 2017. And we have further developed the technology and worked on the implementation into products around the group. So, we now have

the technology integrated into luminaires from all our brands with large indoor sales, and as you know, we see good traction on the market.

The strong demand for property owners and real estate companies comes both from the energy savings potential but also from the added benefits. With the connected solution, it's easy to track usage to see how many hours the luminaire has been used. This becomes important to do proactive maintenance, but also to optimize usage. Having all product information in one database also makes asset management very simple. Keeping track of your assets are becoming increasingly important in today's society. One example of this can be if you want to reuse the luminaires in a renovation project and you want to select the luminaires within those numbers of hours used. This is very easy, thanks to our solutions.

Then if we look at an outdoor example, and for Citygrid, I would like to highlight the solution launched by our brand, WE-EF called Wild-Light. And this solution aims to minimize light pollution by changing light intensity and color temperature depending on presence, and the solution is based on our Citygrid technology and uses built-in sensors to detect presence. When there is no one present, the luminaires are dimmed down and have a warm color temperature which is wildlife friendly, like you see in the picture on the top here. When presence is detected, the luminaire dims up and also changes color temperature to create a safe and well-lit environment for people. You'll clearly see the difference in the picture below. I think this is a very good example and illustration of how we can use new technology to create solution which was not possible before. And with this solution, we both preserve the wildlife and significantly minimize energy consumption and we keep people safe at the same time. So it's a solution that is sustainable for many different aspects.

Then, we move over to the financials with Michael and some more details.

Michael Wood

Chief Financial Officer, Fagerhult AB

So good morning from me. Most welcome. Thank you, Bodil. Thank you, Michael. For 2022, the group has made a good start to the New Year with good levels of growth in order intake, net sales and increased levels of profitability. As reported last quarter, we continue to operate and manage well in these quite difficult times. The effects of COVID still exist around us, more recently in the example that we suggest about the Shanghai situation and that was much commented on in the supply chain challenges that we talked about last time and indeed in our Q1 report this time. This is compounded by the unfortunate and sad situation that we see in Ukraine. Overall, the group continues its growth journey, and with a fantastic record order intake of SEK 2.2 billion in the Q1, this provides increased confidence for the group and belief for our future development and strategy.

Looking at the numbers and once again, all key measures from order intake through to operating margin are ahead of the comparable quarter last year. Organic net sales grew 7.5 percentage points which would have been closer to 14%, but for the unfortunate impact of the supply chain difficulties, and I'll remind is that at 14%, this is exactly in line with what we see and what we achieved in order intake growth. The operating profit of SEK 173 million delivered a 9.3% operating margin, which is ahead of the prior year level of 9.1% and maintains the positive trend we have been seeing in recent times. Earnings per share at SEK 0.68 per share makes further progress, whereas during the quarter funding the growth and the inventory there was a small negative cash flow and I'll come back to this later.

The development in the rolling 12 months net sales continues on a good trend and it's clear to see, clear blue water opening up now above the SEK 7 billion level. And our ambition to return to pre-COVID levels remains. But if we think about order intake, we are already at pre-COVID levels of order intake. So, in our opinion, it's a matter of time before the same can be stated for the net sales and the progress here continues.

On the margin aspect, firstly, a reminder that for Q3 and Q4 2020; the margins are adjusted due from the exit from South Africa and our comparisons are now made on this basis. In future earnings webcasts, I will stop making this opening statement even though the numbers will remain, as you see in front of you today. The quarterly operating margin at 9.3% is ahead of last year and, at the time when the supply chain challenges have a little or no effect on the group's performance one can expect a further positive development here. Last quarter, I reported the impact of the supply chain challenges having approximately a 2 percentage to 2.5 percentage impact. And this quarter, the impact is very, very similar. For large scale producers or larger scale producers, the operating margins are healthy compared to what we see on the market.

Let's have a little bit of a deep dive as you are used to, into the separate business areas. With Collection, we are very pleased this quarter. The strong organic order intake trend continues with plus 23%, but of equal and a very notable significance is the double digit operating margin at 10.2%. This is as a result of the increased activity level, good cost control and passing on supply chain cost increases to the market. The higher activity level in the specification market combined with a strong organic order intake growth are two confidence signals for the future, and in the report, we mentioned just four of the larger prestigious projects that we won during the quarter.

If we turn to the Premium, the business area, we report an 11.5% organic order intake growth. Due to the supply chain difficulties, a negative 3.6% decline in net sales. This is an unfortunate situation that we are all aware of. Despite this, operating profitability remains at a high level. And here, again, we see good cost control and supply chain cost recovery from increased prices to the market. As again, we mentioned just a couple of large prestigious projects in the business area Premium section of the report.

Moving through to business area, Professional. In the business area Professional, results were below expectations, but on a positive note we are investing for the future in all businesses with some key recruitment, which of course, takes time to come through to profitability levels. Here we see less success in supply chain cost recovery from increasing market prices, but we are sure this is a timing comment rather than the competence or capability one. The situation in the business area is made more challenging as a result of the 41% weaker Turkish lira.

Lastly covering our business areas, if we take Infrastructure, we see good growth for order intake and net sales and these contributed to a good improvement in operating margin compared to last year. We report strong order intake in the UK and in the Netherlands and now a consistent level of profitability. That concludes the business area deep dive a little bit.

I'm going to move back to the cash flow comment. The cash flow for the quarter was negative SEK 68 million. Not huge, but still negative. We report that this has been impacted by approximately SEK 177 million increase in accounts receivable due to the quarterly growth and an increase of SEK 194 million and inventory to help overcome, again, the supply chain challenges. We will continue to support and service our customers during these difficult supply conditions, by holding higher levels of inventory and at some point, we will return at a later date to increase in the stock turn ratio and generating cash from this inventory portfolio.

Net debt, first of all, a reminder that the chart for net debt is adjusted for IFRS 16 and the chart for net debt EBITDA ratio is adjusted for IFRS 16 and acquisitions and/or disposals in the relevant period. We report a closing net debt EBITDA ratio of 2.00%; a slight increase on the previous quarter for reasons explained and the net debt and ratio remained under control and significantly lower than the last 2 to 3 years.

Lastly from me, our earnings per share, EPS. Again, a reminder that we have changed the 2020 numbers and eliminated the very high positive impact from the Italian tax decree, it was a distorting effect and we thought far better to provide an underlying view of the EPS during 2020 through to 2022. And the picture that you can see in the rolling 12-month line is clear for obvious reasons. The quarterly EPS continues to develop well with the rolling 12-month trend now approaching SEK 3 per share. Our ambitions here are, of course, and will remain to continue to develop and grow the earnings per share.

Before handing back to Bodil, I would just like to summarize with a quick message of takeaway from a financial perspective. Order intake continues to grow and quarter one was an all-time record for the group. The order backlog position remains very, very healthy as we enter the remaining parts of the year. Net sales and the EBIT drop-through are affected by the supply chain challenges and this will be corrected at some point, difficult to say. Price increases now begin to negate the impact of supply chain cost increases and cost levels are under control, and operating margins remain healthy and growing.

And, with that I'll have a nice picture of the Glasgow railway station I would like to hand it back to Bodil.

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

And I will do a very quick recap of the Q1 as well. And, I think, we are remembering the good and positive numbers which are all positive, as we said, and especially as Michael mentioned, a record high order intake of 14% with the rolling 12-month order intake taking us above SEK 8 billion, which brings us back to the 2019 year's level and you can hear this is something that we've been working for. So, we're very happy about it. We also saw a positive net sales growth for 7.5% organically and I'm also happy about that we can manage our GP margins so well, even with an increase compared to Q4 even in very challenging conditions with a lot of price increases from the suppliers.

And we also saw a higher level of activity on the market and [indiscernible] (00:25:17) you have some examples in the report, a lot of procedures and projects both in Europe, and we also start to see bigger projects in North America. The global supply chain challenges continue, and I think, we all know about this, and we expect them to continue at a similar level for periods to come and we believe at least during 2022. And we will do everything we can to mitigate those and ensure customer service in the best possible way. We also continue to see good progress with our strategic initiatives and I hope that today you got a better understanding of our Connectivity initiative.

And I think with that, we will end the presentation part and open up for questions. So, I hand back to Michael Brüer for the question session. And also with a very nice picture what you see here is a picture from Greenland. It's an [indiscernible] (00:26:15) installation and it's the Center for Sustainability, which the building looks very sustainable but we can see still see the ice melting on the picture.

Okay, Michael, what questions do we have?

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Thank you, Bodil. And with that, we'll start with questions from the conference call. So, we ask the operator to please open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Michael. [Operator Instructions] The first question comes from Mats Liss at Kepler Cheuvreux. Mats, please go ahead.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Hi. Good morning and congrats on the strong report. Well, I had a couple of questions or thoughts regarding the order intake. I mean, it's very solid, it seems. Could you give some more color there regarding larger orders included, which well, maybe not appearing every quarter and also some comments on price mix – I mean, price volume mix, starting with example?

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

A

Okay. Mats, let me take the first part of the question and I'll hand the second part of the question to Michael. I think, in general, in terms of order intake is what I say we see a higher market activity. And I think if you compare to 2021, at least [indiscernible] (00:27:50), we also see that the values of the projects are bigger. We see – we mentioned a few projects. We can't mention all of them for reasons that we need acceptance from the customers, but I would say we see quite a few hospital projects in the pipeline and we see also quite a lot of outdoor urban spaces, projects. And I'd say we've seen transportation projects. We actually see activity in quite a few different areas. We also see high activity on the retail side in many of our different segments. So I think comparing to last year, the biggest difference is that there is higher value than there was. We also see, I would say, a change where we have higher demand on the renovation side compared to before. And I think that is also, for obvious reasons, if you listen to my numbers before how much we can save on the LED side, I think it will be a way forward also for the construction market to compensate for higher prices. We can contribute with the fact that we also save energy, when you look at the total package result. So, we see a lot of activity on that side as well. And those are often handled in the same way as new construction because very often it's big renovation projects. And so I think that gives you a little bit of a flavor.

When you look at the activity level, if you look into Connectivity – oh, if you look into Business Area Collection, there we have quite a view which is quite long forward-looking view because we are very early in the stage and we can see that those long indicators, they are looking positive because there is a lot of specification work ongoing, but a little bit of change more towards renovation project and also a lot of outdoor urban projects. Did that answer your question on that side?

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Great. And then about the smart solutions, so I guess it's still a limited [indiscernible] (00:30:10) but what kind of investments do you need to implement [indiscernible] (00:30:17) or are you sort of – the offering is already in place? You don't have to do a lot of product development, and if you could say something there about the competition also.

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

A

If you look into – I mean we have been since 2019, and actually all the way through these two last year, we've been continuing to invest in the technology, and I'm very happy about that. So I think from a solutions perspective, lighting technology always you always need to further develop, but I think we have the solutions already and very, very workable. So that is a very good thing. Then, where we need more to invest and I mean that's also the reason why we speak about it here today. I say that the biggest competitor we have is the ignorance, because this is still early days in the market. So, I think everybody needs to understand the possibilities with this new technology. So I think in the last six months, we've seen a clear difference from the market that there is a high interest. But then you need to be able to understand really how to use it and also to use the possibilities in the open system to be able to integrate it with other partners. And that is also one of the reasons why we are recruiting a CTO.

So, it's actually more of a market-oriented CTO that we are recruiting so that we can focus more in partnerships and working on the thought leadership on the market, and also where we see investments needed is where we put people into, expert into our own sales organization. We get a very good return on that. Because then they can train the trainer of the rest of the sales organization, but also work with partners and the market to work with the solutions. So, I would say that when you look into competitors, I think in general, many people speak about controls. I think where we have chosen to do it a little bit different is that we are working more – we're very, very committed to open solutions, so that we can work more in partnerships on the markets, and also to try to make it as easy as possible for the customers. So, I would say that we are well-positioned in this.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

And just a follow-up there; I mean, is it possible to, sort of, upgrade existing systems or do you need to, sort of, make a full, sort of, changeover of lighting system as such or could you sort of integrate it with existing systems?

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

A

Yeah. It's not a complete yes or no question. It's a little bit depending, because we have – as I said, we do different types of lighting solutions. We're also working a lot of renovation today. So there we could use some existing lighting fixtures and use a new remodeling with sensors, but we also have solutions where we can use external sensors to the lighting solutions and such. And it's the same if you look at the outdoor when you do an outdoor solution very often, you keep the pole and you change the light mode, and then you make sure that you put in a Connectivity solution at the same time. And there also, there're a few different versions where they're integrated into the light but you can also work with an external module, which is called a Zhaga socket. So, there are different solutions to it.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. And then, in the small numbers more, if you look at the – previously, I mean, the seasonality had been sort of a quite a slow first quarter, but now it seems that well – is there any difference compared to history? I mean, during the second half also last year you had some supply chain constraints which made the sales to have a delay in the deliveries, which – is there any sort of extra deliveries coming into the first quarter or is it – [indiscernible] (00:34:24) sort of changed the seasonality of the company that you are more and more sort of even between quarters.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

I think, Mats, it's really – good morning, by the way. I think we don't detect any significant change in the seasonality patterns across the group. We're now – 2022 is our fourth full year with the iGuzzini, and I made that comment because it is a large entity within the group structure. And so, we don't detect any change in seasonality patterns across the group. So we do expect normal type of levels in Q2 going into Q3 and then coming down a little bit as we go through into Q4. That said, the impact from the supply chain challenges is now baked into our numbers. We saw numbers of SEK 60 million, SEK 70 million in Q3 last year; SEK 107 million, I think, in Q4 of last year and we're at that sort of level as we go forward, but our order intake numbers and our order backlog position should help both Q2 and Q3 going forward.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. And, well, looking at the well costs related to supply chain shortages and raw mats, have you been able to pass them through, by and large or is there a delay?

Michael Wood

Chief Financial Officer, Fagerhult AB

A

No. I think – oh, there is a delay but let me come back because I think this was part of your first question that Bodil said we'll split it between Bodil and myself. So, I'll come back. On the quarter, we state 7.5% organic growth on net sales and we determined within that mix, there's approximately 2 percentage points growth due to pricing and the balance, 5.5 percentage points due to volume and mix. And why do we make that calculation? For ourselves, many of our businesses began to react now with price into the market – increased price into the market in Q3 going into Q4 last year, but that's not an immediate return for us because you have to consider the quotation period, typically three months to four months, and you have to remember the order receipt period. The order then goes into our order backlog position, and normally within about six weeks, 80% of the order is delivered from our order backlog, but that has now extended a little bit due to the supply chain challenges. So, from quote to order to backlog and production to delivery is taking a little bit longer than we traditionally see. So therefore, our conclusion and our understanding for the first quarter a 2 percentage points of pricing benefit coming through, and I think you can see that in the gross profit margin that we state at 1.6% and then the balance, 5.5% is volume and mix coming through.

Mats Liss

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. Well, thank you. Thank you. Very clear.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Okay. Thanks, Mats.

Operator: We have no further questions on the conference call. So I hand back to Michael for the webcast questions.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Thank you. And I think we have actually touched upon most of the questions that have come in through the webcast, but we have one here also on the science based targets that we have mentioned and maybe Bodil, if you would like, mind explaining a bit about how we're working on this and when we aim to implement this?

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

A

I'll try to make it sure to answer to a very long – to a long question in the sense that there's a lot we're doing on this part, but I think maybe the most important one is we started already last year where we did a very extensive research, internally and also with some external helps to design our baseline in the Premium business area. And as I said before, that we'll look into both what we can impact ourselves on Scope 1 and 2, but also very extensive view of Scope 3.

And what we're now doing, what we got out of that was so good because we've really got the things that we could look into and see how we can affect our way going forward which is towards our mission statement of becoming climate positive. So, what we then said was that let's do this extensive work also for all the other brands within the group and that we are working on right now. So, we are defining a baseline for all our lighting brands and looking to all the three different scopes. And that means that we will have everything in order to really put numbers and how we can go towards becoming climate positive and that will be part of the sustainability targets that we will be launching. And as said, I will focus the next webcast we'll have a sustainability focus in that slide, so a lot of work ongoing internally on that side and we will see the goals for that at the end of this summer.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

A

Great. Thank you, Bodil. And now, we've received another question regarding organic response here. Previously, you have highlighted your progress but it saved some units. Is it possible to get an update for the first quarter, and if possible also, your thoughts for the full year.

Michael Wood

Chief Financial Officer, Fagerhult AB

A

Okay. I'm not going to dwell on the first quarter. We don't provide an update every quarter, but I'll take that question and happily provide an update at the half year position for us and how we see the growth coming through. I know from Bodil's presentation, in the top of the meeting, our engagement with connected solutions, real estate developers, real estate companies is growing. We do have a colleague here in the Stockholm office. He's quite getting inundated with organic response, connected solutions. So all indicators are positive, but I'll happily come back with an end of the half year update on organic response nodes out in the market. It takes – to sell a lighting solution is one thing, but then to sell a lighting solution on a connected basis just takes a little bit longer. So, maybe to report quarterly it is a little bit less than superior. So maybe, each six months is ideal for us.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Great. Thank you, Michael. And with that, we are done with the questions. And just before we end, any last reflections from your side, Bodil?

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

Yes, I'll give a short last reflection, so I would say another good quarter, and a good start of 2022. We now have fourth quarter in a row where we have posted positive order intake, and it's part of our very strong objective, is to have organic growth. We have gained, I would also say, a lot of experience for the past two years in dealing with challenges situations and still keeping a very strong focus on our strategic initiatives and develop the business and I'm sure that we will benefit from that going forward; we all will. And I will also send regards we have very

good team in a very dedicated manner, dedicated to the group. You know one of our core values is committed together and I think we are very committed together. And we all know that in the end people make the difference. So, I'd like to end with the people today and say thank you to them.

Michael Brüer

Chief Strategy & Communication Officer, Fagerhult AB

Perfect. And so, everyone, thank you for joining today's conference call. We hope to see you again at our Q2 presentation on August 23rd, and thank you again and have a nice day.

Bodil Sonesson Gallon

President, Chief Executive Officer & Head-Business Area Collection, Fagerhult AB

Thank you. Thank you, everyone.

Michael Wood

Chief Financial Officer, Fagerhult AB

Thank you.

Operator: Thank you for joining the call. You may now disconnect your lines.

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