

Q3

2024

TRANSCRIPT

Atea ASA Earnings Presentation

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ATEA

Corporate participants

Steinar Sønsteby Atea ASA - CEO

Robert Giori Atea ASA – CFO

PRESENTATION

Steinar Sønsteby Atea ASA – CEO

Welcome to the Q3 presentation of the ATEA numbers here in a little bit cold and gray Oslo, I would say almost like our peers in Europe's numbers over the last couple of quarters. For that reason, I've really been looking forward to this day to hopefully give our shareholders some comfort in the progress that we make. When that is said, the market is absolutely unpredictable, and you need to maneuver that in a good way. So let's take a short look at the main numbers.

The revenue came in at NOK 8 billion, up 3.1% from last year. The EBIT at NOK 307 million, up 3.0% from last year and net profit up almost 6% from last year. With a good cash flow, we have a healthy balance sheet. But as normally, I'll leave it to Robert to give you the rest of the good news

Robert Giori Atea ASA – CFO

Thanks, Steinar. Atea returned to sales and profit growth in the third quarter of 2024, driven by new customer agreements and improved market conditions across most product categories. Total gross sales in Q3 was NOK 11.3 billion, up 5.4% from last year. Group revenue according to IFRS was NOK 8.0 billion, up 3.1% from last year. Hardware revenue grew by 3.3%. Atea had high growth in sales of PCs, servers and storage, but this was offset by lower sales of networking and AV equipment compared with the strong comparable period last year. Software revenue increased by 12.3% from last year, with strong demand for productivity applications, public cloud, and data center solutions. Services revenue grew by 1.4% from last year as growth in managed services was offset by lower demand for consulting services. Gross profit increased by 3.3% to NOK 2.4 billion. With higher revenues across all lines of business, EBIT grew by 3.0% to NOK 307 million and net profit after tax increased by 5.7% to NOK 192 million.

We'll now take a closer look at revenue and profit development across the countries in which we operate. Atea's EBIT growth in the third quarter was driven by its performance in Norway and the Baltics. In Norway, EBIT increased by 28.5% to NOK 114 million. EBIT growth was based on higher sales within software and services, as well as improved gross margins and tight control of operating expenses. In the Baltics, EBIT grew by 7.5%, driven by improved hardware margins and higher sales at managed cloud services. In Sweden and in Denmark, EBIT trends were sequentially better than last quarter, but these countries have not yet returned to profit growth. In Sweden, EBIT was SEK 130 million, down from SEK 153 million last year. The decline was based on lower sales of services. In Denmark, EBIT was DKK 12 million, down slightly from last year. Sales of PCs, servers and storage grew based on new frame agreements, but this was offset by lower revenue from networking equipment, software, and services. Lastly, Atea Finland had lower revenue and profit in a recessionary economic environment. EBIT was EUR 1.8 million, down from EUR 2.9 million last year. On the positive side, Atea Finland won a very large frame agreement to the public procurement agency Tierra during Q3. Atea Finland expects to return to growth during the coming quarters with a new agreement and with an improving economic outlook.

Now a word on our cash flow and balance sheet. Atea's cash flow from operations was an inflow of NOK 112 million in the third quarter of 2024, which was NOK 413 million better than last year. The improvement in cash flow is primarily due to a smaller increase in working capital items during Q3 2024 compared to last year. As you can see from this chart, Atea's cash flow from operations is highly seasonal with strong cash inflows in the fourth quarter as Atea's sales to the public sector increase and its working capital balances fall. Atea expects a strong cash flow from operations in the fourth quarter of 2024 with seasonal working capital reductions in line with prior years.

At the end of Q3 2024, Atea had a net debt of NOK 108 million as defined by Atea's loan covenants. This corresponds to a net debt EBITDA ratio of 0.1. Atea's net debt balance at the end of Q3 2024 was NOK 4.7 billion, less than the maximum allowed by its loan covenants. Atea has a strong balance sheet and significant additional debt capacity before its loan covenants would be reached.

Based on Atea's strong balance sheet and cash flow generation, the Board has resolved to initiate a share repurchase program. The share repurchase program will be for a maximum of 650,000 shares and for a maximum consideration of NOK 120 million. The program will start today and continue until the next AGM on April 29th, 2025, or until the maximum number of shares has been repurchased. Shares repurchased under the program will be used to fulfill the company's obligations under share-based compensation agreements. The share buyback is supplemental to the shareholder dividend and will not impact Atea's dividend policy, which is to pay an annual dividend of 70 to 100% of net profit after tax.

That concludes the presentation of the third quarter financials. I will now hand the podium back over to Steinar to discuss recent trends and the outlook for Atea's business.

Steinar Sønsteby Atea ASA – CEO

Thank you, Robert. We understand that there is a lot of things going on both in the market, but also in our industry and for people outside the industry, we also understand it's difficult to follow and judge all these changes. So let me try to bring you some comfort, as said in the beginning of the presentation.

Let's start with the revenue over the last two to three years. You've seen most of this slide before. What happened from Q2 2022 until Q2 2023, those five quarters were very abnormal for a company with more than NOK 50 billion in revenue to grow more than 20% in the quarter is absolutely not to be expected. The situation that happened in those five quarters was that we got everything that was in our backlog from our vendors over a very short period. As you might remember, before this period, supply chain problems were an issue for not only our industry, but many industries. When we compare ourselves in the next four quarters or five quarters to that abnormal situation, it should be so that we don't grow compared to those numbers. And that is exactly what you see on this slide. This is also what we said after Q3 presentation in 2023 and have repeatedly said over the coming quarters. Our judgment going into this year was that the first half comparing to the first half of 2023 would be difficult, but that the second half we would return to growth. And so with the numbers that Robert has just taken you through, we're very happy to prove that our prediction was true. We are now starting to build backlog again and preparing for a more normal situation.

If we try to split the elephant into smaller pieces, this is a look at the Q3 numbers for the hardware revenue split into four categories. So as you can see, the PC and server and storage business grew double digits. Other, which means printers and a lot of different things, IoT devices and so on, grew approximately 5%, a little bit more than 5%, while networking and AV, as Robert informed about earlier, had a double-digit decline. What happened with networking specifically over the period of 2022 and 2023 was that some customers, specifically defense, police, and health, so very critical customers when it comes to operating infrastructure, actually bought to their own inventory and we are about now to come to an end of deploying that equipment. For that reason, we see growth in networking in the quarters to come.

And to give you a little bit of a feel for how big a piece of our revenue these different elements of our hardware revenue has, I can say that PC in the normal quarter is about 35% of hardware. Remember, hardware is about 50% of our total revenue, so half of the total revenue. Service and storage is only 10% of our hardware revenue while networking is as much as 30% and that's why it's so crucial for us to get networking back. Other is of course the rest of approximately 25% of the hardware revenue. As we have said in a long time, on-prem server and storage is a small part of our revenue and that's why public cloud is actually an add-on or a growth factor and not a factor to exchange other revenue for cloud.

And looking at software, as you can see, the abnormal revenue in the second half of 2022 and the first half of 2023 also implied into the software revenue. It's important to understand why software over the last many years, four or five years, has grown faster than hardware and services. There are two main reasons. One, for most companies, including ATEA, cloud is recognized in the PNL as software. Of course, cloud is hardware and software packaged into a cloud solution, but for most companies, it's seen as software. That brings up the software revenue. Secondly, a lot of companies, and for us this applies for instance with Cisco, have split the revenue from one part number which has fallen into the PNL as hardware to two-part numbers, software and hardware. And for this reason, even showing growth on hardware is actually a good thing and that the software grows faster is a part of the changes in the industry. Software will keep on growing and I'll come back to some interesting characters for that business later.

If you look at the services business, the services that we perform are mostly connected to our revenue on hardware and software. We're not a consulting company where we're working completely free from the revenue of products. Therefore, our services revenue, not 100%, but has the same character as our product business and more similar to the hardware than the software. And what you often see and which you also can see on this slide where the green is the services revenue that has grown through this whole period with one small deviation in Q2 are following the trend of the product revenue but will be lagging about one quarter or two. So when hardware and software go down, services would normally go down a quarter or two later and the same thing when it goes back to growth. We've been very happy with the services development over a long period. And as you know, investing in both managed services and consulting or skills is important to our business model.

When it comes to the headcount, we reached a top in Q1 2023, again in line with the massive increase of revenue in that period. Going out of Q3, we were approximately 200 people less and during 2024 we have brought down the number of people by approximately 100 which is a balancing act because there are areas that we invest in and hire and there are other areas that we make things more efficient or need less people. That is a part of life. In Q4 we'll take a one-time recharging of NOK 40 million for mostly decreasing the number of people in Sweden and we'll get back to during the Q&A, I think more on how this works out, but NOK 40 million extra in Q4 which you can see as bringing NOK 40 million of costs from 2025 into a one-time charge in 2024. With that, we expect to be approximately 100 people less than we were in September when we enter 2025.

So, in summary, so far in 2024, our revenue is in line with last year, exactly what we have expected. EBIT is NOK 34 million behind last year and the cash flow has developed in a positive way. Our prediction for this year is the same as it was in February when we announced the Q4 2023 numbers. We will have growth both on revenue and EBIT when we end this year. So with that, I'll open the Q&A and I'm happy to have Silje with me today. That is the CFO in the Norwegian organization. So Silje, is there any question for Robert or me?

Questions and answers

Unidentified Company Representative

Yes, we have multiple questions, here Steinar. Can you please explain one more time how the restructuring in Q4 works?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, we take a one-time cost of NOK 40 million which is to lower the number of employees by approximately 100 people where 75 of them are in Sweden. There are a couple of other elements in there, but mostly this is for lowering the number of people. The law for doing these things is a little different in the seven countries we operate. But in Sweden, we need to take that when we discuss with the unions and the employees.

Unidentified Company Representative

Men in the industry have been angry at Microsoft for the changes in their partner program that have been said to get into action January 1st, 2025. You haven't said anything about it in your presentation. Do you have any comments?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, I know there's been a ton of discussions about Microsoft and their information that they will change some of their or some elements in their programs January 1st, 2025. I would say normally it's not in my or our culture to whine about things we can't do much about. Changes in partner programs with our biggest vendors, the 2025 biggest vendors happen every quarter. And so this is what we call internally to manage the beast. It's a big task that you have to see the partner programs of the vendors, including Microsoft that they want to influence our behavior, they want to influence how we go to market. Microsoft wants us to sell their security, their AI copilot, their cloud. And if you do that, you're paid as much as you have been. If you don't, then keep on in the old days selling EAS on Prem, then you will be paid less. For us, where Microsoft is about 15% of our revenue. We believe this will have a minimum effect. For people who are stuck in the old and have 85% of their revenue on Microsoft, I really do understand that this creates some kind of a panic. But I also want to say that we are working with Microsoft and I have confidence that what we see January 1st will look a little different, meaning better than what was announced in September. And I was in Seattle talking to top management at Microsoft last week. So, I just came back yesterday. And so, I feel confident that we have the right actions, the right behavior, but also that Microsoft will take care of their biggest partners going forward.

Unidentified Company Representative

We have a couple of questions regarding the cost cut program. Could you please help us align the higher growth expectations ahead with the staff reductions planned for Q4? And could you also please repeat how many people we're talking about and in what areas you are reducing staff?

Steinar Sønsteby Atea ASA – CEO

Yeah. So mostly this restructuring is about Sweden. There are 75 people in Sweden that will be or have been noticed or will be noticed this week and next week. And these people are mostly working in what we call central functions, so support functions and admin functions. And if you look at this, this is something we do as I said mostly in Sweden in Q4, we started planning it when we saw the numbers in Sweden in Q2, which were not acceptable. In the other countries we've taken this along the way during 2024 when we have fitted the workforce to the revenue we've seen. The growth we'll see going forward, we'll be able to do that, the product growth will be able to do that with the workforce that we enter 2025. So, you can see that as an efficiency gain in our structure. So, 75 people in Sweden, 25 people outside Sweden and we will be able to carry the revenue over the next 12 to 24 more months with that. When that is said consulting revenue, if that starts increasing more than two, three, four percent, we might need to hire some people, but that is not the area where we have decreased the number of people.

Unidentified Company Representative

You previously expected 5% to 10% growth in the second half of 2024, but now deliver negative organic revenue growth even with the NOK 350 million backlog build-up you highlighted in Q2. What has changed in the outlook or market compared to your previous expectations?

Steinar Sønsteby Atea ASA – CEO

Well, I don't recognize exactly those numbers, I must say, but there is no doubt that the market has been a little bit more unpredictable this year. At the same time, our target is to deliver on growth for the full year, both on revenue and EBIT. And we're very happy that we're back to growth in Q3. The growth isn't big, I agree. And as all our peers around who are sending profit warnings have informed

the market about, it is a little bit more unpredictable, but still, we believe that we will be growth both revenue and EBIT when we close the year.

Unidentified Company Representative

You only showed growth for Networking combined with Audio Video. How was networking doing in the quarter?

Robert Giori Atea ASA – CFO

Sure, Networking. We showed a blend of Networking and Audio Video together. There's some vendors which cross both product categories. In general, networking was below the minus approximately 12% that we showed on the chart for the trend in networking in AV, AV was down mid-single digits and networking was worse than that.

Unidentified Company Representative

We have a couple of questions regarding the share buyback. Why only NOK 120 million in buybacks? What have been the discussions in the board?

Robert Giori Atea ASA – CFO

Yeah, the purpose of this buyback is to fill the obligations that the company has under its share-based compensation agreements. The 650,000 shares that will be repurchasing is going to be sufficient to cover the company's obligations from the AGM next year. So from the AGM in April 2025 to the AGM in April 2026. So that's where the 650,000 shares come from. And then the total value is just a multiple on the 650,000 shares, but the determination was on the 650,000 shares and that is fit for purpose, which is to meet the company's obligations under the share-based compensation.

Unidentified Company Representative

So just one follow-up question there. How much of the share buyback will you actually use? Is it fair to assume that you will fully utilize the NOK 120 million?

Robert Giori Atea ASA – CFO

Again, the 650,000 shares are the most important metric, not the NOK 120 million and we expect to use all the 650,000 shares that we will do a buyback for the 650,000 shares, we'll be taking a determination all the way through the AGM how much we would purchase at which times. But we expect to repurchase the entire 650,000 shares. And again, that number is determined because that is the amount of shares that we will forecast to need for the share-based compensation programs from the AGM in 2025 to the AGM in 2026.

Steinar Sønsteby Atea ASA – CEO

I just want to add one thing because we have dialogue with shareholders all over the world and we will also the next days and weeks. This is not a share buyback program where we buy a lot of shares and take them out of circulation. This is for a different use and it is all, a lot of these shares are used for all employees who have a part in our share savings program which goes on every month. And there are about 50% of the employees who take part in that, which we are really proud of. So this is for a different use than what I would call the American buyback model.

Unidentified Company Representative

Can you please provide an update at the different dynamics impacting product revenue across geographies? An example, Norway looks weaker compared to Sweden

Steinar Sønsteby Atea ASA – CEO

Yeah, so there when you look at one quarter and you look at seven countries, you will have different outcome. You need to look at it in a longer sense than that. And if you look at the whole company, if I start there, take a step back, the growth per quarter on average for the last three years has been 8.5%. So exactly in the bracket between 5% and 10% where we've said that our business model should land. 8.5% on average every quarter, when that is said, when you compare one quarter, one year with another or with the same quarter of the year before, there are a lot of factors that factor into that and that is what you see in the Norwegian organization. And so it's difficult to comment on each country on each element for each quarter. But over time, all the countries will return to growth and we expect all countries to grow their EBIT compared to last year in Q4.

Unidentified Company Representative

Do you have any further visibility on when you expect networking demand to pick up?

Steinar Sønsteby Atea ASA – CEO

Yeah, so I had to be transparent on the fact that networking is weaker in this quarter than what we expected six months ago. It has taken longer for customers to empty their specific inventory on networking products. And I think you can see this when our vendors on networking announced their numbers. So it has taken a little longer. When we look into the future, we think that we will see much better numbers on networking already in Q4. And this will be driven a lot from what we call the security sector, so police and defense. If we'll go all the way to show growth on networking is touch and go. And so I don't want to predict that, but we'll see much more, much better numbers from networking already in the quarter we are in.

Unidentified Company Representative

Do you have an update on when you anticipate the Swedish defense spending to start to positively impact your business? I understand the Swedish public sector spending is more cyclical than your other categories. So do you expect this to be more of a 2025 story now?

Steinar Sønsteby Atea ASA – CEO

Yeah. So this question and my answer to the previous question are actually overlapping. So one of the reasons why networking has been weaker than what we predicted is because the Swedish government has been weaker this year and that is the main factor to why Sweden has been weaker as a country. In Sweden, 70% of our revenue is public. And when public, specifically defense and municipalities, have been weaker than what we expected, that influences the numbers, but it also influences networking, which is big in Sweden to the public sector. We don't expect a revolution on this in Q4. We expect Sweden in Q4 before restructuring to land a little bit better than last year. So Q2 not good, Q3 better, Q4 in line with or better than last year. That's what we expect and some of that will come from defense. But as it looks right now, defense in Sweden is slower to accelerate than some of the other countries. And so maybe we are in 2025 before we really see that difference.

Unidentified Company Representative

What is the delta revenue and/or gross profit effect from the contract in Finland?

Robert Giori Atea ASA – CFO

OK. The contract in Finland, we announced some estimates. These estimates that we had in the Stock Exchange notice were coming from discussions that we had with the public procurement agency. So these are estimates that we have that come from the public procurement agency. But based on those estimates, which is the best that we have, we would expect incremental revenue or incremental sales close to revenue of about EUR100 million per year. Incremental, incremental. That's right.

Unidentified Company Representative

We have a few more questions here. How much analyzed EBIT tailwind do you expect from the cost reductions in Sweden for 2025?

Steinar Sønsteby Atea ASA – CEO

You said tailwind on what the cost reductions in Sweden, yeah, the tailwind on EBIT, yeah. So we expect to save approximately SEK 100 million in Sweden for the whole program and we have no other wishes than that becoming 100% EBIT. We are about to finalize our budget for next year and so I'll take that with Linus of record, but hopefully that whole effect will land on EBIT there. There are no other plans right now.

Unidentified Company Representative

So we have one question regarding Microsoft. Some of your peers have noted there will be some changes to Microsoft incentives from January 1st next year. Can you help us understand what the headwind will be next year and how you will weather it? What do you need to counter this effect and what is the opportunity here?

Steinar Sønsteby Atea ASA – CEO

So I think the way you should see it is that what Microsoft really wants us to do is sell the more advanced technology. And when I say us, I mean the market, all Microsoft's partners, all 30, 40, 50 thousand partners around the world. A lot of those partners have not

really changed behavior over the last five years, where Microsoft has repeatedly informed us all that they will move incentives from one part of the revenue to another. What they really want to pay us for is to sell security, AI, on cloud and Azure consumption in general. If we do that, we're paid more than what we were used to being paid. If we don't change behavior, it'll have a consequence. For us, specifically, that movement of revenue started many years ago. If we don't keep on moving, it will have a consequence. But the implementation of the program where we have a lot of our revenue already in contracts which are in place will come over time and we will be able to change the behavior as those come. But what it helps us with is that we are also a managed service provider. So we are running the customers' IT. Some of that is moved to Azure, to Microsoft's cloud. We are one of the biggest, if not the biggest, security vendors in the Nordics and we are absolutely one of the biggest on Microsoft. So that helps us. We are or were a pilot on Copilot and are one of the most important partners for Microsoft on Copilot. And lastly, we are the one in Europe driving the hardest, the move from Windows 10 to Windows 11, which you also see in our PC numbers that grew more than 10% this quarter. And so for all of these reasons, we believe that we can neutralize the effect. But if we don't change behavior, it will have an effect. But the way we pencil this in right now is that we will be able to change the behavior enough to nullify the effect.

Unidentified Company Representative

In light of your strong balance sheet, what are your priorities on capital allocations going forward?

Robert Giori Atea ASA – CFO

We are going to pay 70% to 100% of net profit after tax in the form of dividends. We've announced also the share buyback that we're doing. It will end up being, depending on where the share price is. If we use today's share price, it'll be approximately NOK 90 million and it'll be a little bit more than that, but up to a maximum of NOK 120 million. And after that, you know, we have room for investment, we have room for M&A, but the two main things that will be outside of just traditional investments and possible acquisitions would be the dividend 70% to 100% of net profit after tax and the buyback that we've just spoken about.

Unidentified Company Representative

How large part of the services business is related to hardware revenues? Do you have a rule of thumb?

Steinar Sønsteby Atea ASA – CEO

Yeah. So if you look at our services revenue stated as one of the lines in our aggregated PNL, that revenue can be split into three very easily. One-third is managed services, which is not really depending on our product revenue. This is where we use CapEx to build data capacity, so storage and servers and networking in data centers that we control hooked up to the cloud. So it becomes a hybrid environment. One-third of the service comes from that. Approximately one-third comes from services that are 100% connected to our product revenue, not necessarily only hardware, but mostly hardware. And that last one-third is what we call consulting, but really is system engineers that work with the technology we sell that are not necessarily connected to a delivery of product that quarter or that year, but they work on the technology that we provide. So one-third, one-third, one-third approximately. So direct answer to the question above one-third.

Unidentified Company Representative

We have one last question here. Could you please clarify your guiding for Q4 and 2024?

Steinar Sønsteby Atea ASA – CEO

Yes, we expect to grow revenue. So gross sales and EBIT in Q4. We expect that that growth will be high enough to take 2024 past 2023 on both those numbers, gross sales and EBIT. And with that, I hope you're happy. I'm happy. We'll see you next time.
