

**Q2**

2024

## TRANSCRIPT

Atea ASA Earnings Presentation

Event date: July 12, 2024

ATEA

## Corporate participants

**Steinar Sønsteby Atea ASA - CEO**

**Robert Giori Atea ASA – CFO**

## PRESENTATION

### Steinar Sønsteby Atea ASA – CEO

Welcome to the Q2 presentation of the ATEA numbers here in downtown and sunny, I should say Oslo. The world is becoming more and more influenced by technology every day, but it's also becoming more complex and unpredictable as we can all see around us. And of course, so also for ATEA. The numbers. Gross sales came in about where we expected it at NOK 14.7 billion. EBIT came in at NOK 243 million, somewhat below what we expected.

The cash flow was really strong in this quarter as Robert alluded to in the Q1 presentation and came in at NOK 665 million, some NOK 350 million higher than same quarter last year. Cash is king as we can all see that interest rates will be kept higher for longer and we are competing against companies that doesn't have as strong a balance sheet as we do. But as always, I will leave it to Robert to give you all the details.

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### Robert Giori Atea ASA – CFO

Thank you, Steinar. As Steinar mentioned, ATEA reported gross sales of NOK 14.7 billion last year in Q2 2024, in line with last year. And this is compared with a very strong sales period last year. Net revenue according to IFRS was NOK 8.4 billion, down 5.5% from last year or 4.5% in constant currency. If we look at the last two years by quarter, ATEA had a period of abnormally high revenue growth from Q3 2022 to Q2 2023. During this time, Atea's revenue grew organically at a rate of 22%. This was a period after the COVID pandemic when both supply and demand trends were unusually favorable for ATEA, particularly within hardware. Since the second half of 2023, these short-term tailwinds have faded, and deliveries have returned to more normal volumes. As a result, we've seen a negative revenue trend during the last four quarters compared with the exceptionally high growth rates last year. We also see that Q2 2024 is the last quarter of very challenging year of year comparable and we expect that ATEA will return to higher levels of growth from next quarter.

In Q2 2024, the main drag on ATEA's revenue performance was in networking hardware. Networking was the last product category to resolve industry wide shortages and electronics components at the end of the COVID pandemic. In Q2 last year, supply chain constraints of networking equipment eased and Atea was able to ship a large backlog of orders to its customers. As a result, Atea nearly doubled the shipments of networking hardware compared to the previous year. In Q2 2024, shipments of networking equipment returned to more normal levels, moderately above the volumes of two years before. For this reason, hardware revenue fell by 8.3% from last year, entirely due to lower networking shipments. Sales of other hardware categories grew from last year.

On the other hand, software revenue grew by 14.8% from last year, with strong growth and sales of cloud subscriptions. Services revenue fell by 1.2% from last year due to lower demand for technical consultants to support project deliveries. Other areas such as managed services showed steady rates of growth. While total revenue decline gross margins increased from 29.9% to 31.5% due to a higher proportion of software in the revenue mix.

As a result, gross profit was in line with last year at NOK 2.6 billion. When we look beyond the year over year comparison, the longer-term demand trend remains positive. Over the two-year period from Q2 2022 to Q2 2024, ATEA's revenue has increased at a compound annual growth rate of 5.1% per year and gross profit increased at a compound annual growth rate of 9.3% per year. During this two-year period hardware revenue grew by 2.8% per year, software revenue increased by 16.1% per year and services revenue grew by 9.3% per year. ATEA remains on a solid long term growth trajectory, but with exceptional growth in Q2 last year and a return to a normal long term growth trend line in Q2 2024, we'll now take a closer look at the revenue and profit development across the countries in which we operate.

ATEA's businesses in Sweden and Denmark were most affected by the decline in networking shipments compared with last year. In Sweden, revenue fell by 11.1%. Hardware revenue was down 14.8%, with the entire decline attributable to lower shipments of networking equipment. Services revenue also fell due to lower demand for technical consultants to support project deliveries. Due to lower revenue and flat operating costs EBIT in Sweden was SEK 106 million, down from SEK 152 million last year.

In Denmark, revenue fell by 3.8%. The Danish business had solid growth in sales of software and services during Q2, but this was not enough to offset lower sales of networking hardware. With lower revenue and flat operating costs EBIT in Denmark was DKK 9 million, down from DKK 17 million last year.

In Finland, revenue fell by 2.9% from last year due to lower sales of hardware. ATEA Finland had very high hardware deliveries to public sector customers in Q2 last year during a major reorganization of the healthcare sector. With lower product revenue partly offset by growth and services EBIT in Finland fell by 11.1% to EUR 3.4 million. Despite lower shipments of networking equipment Atea's businesses in Norway and the Baltics saw higher demand and delivered solid growth and operating profit. Atea Norway had revenue growth in all business lines, with particularly strong growth in software. Demand in Norway is picking up in both the public and private sectors. As a result, EBIT grew by 20% to NOK 97 million.

ATEA Baltics had major project deliveries to public sector customers in the second quarter, particularly within the defense sector. In addition, the managed services business continues to perform well. Based on growth in these areas EBIT in ATEA Baltics increased by 9.9% to EUR 1.5 million. In total, Atea Group had an operating profit of NOK 243 million in Q2 2024, compared with NOK 291 million last year. This is based on a flat trend in gross profit and a 1.4% increase in operating costs. Total headcount at Atea was down about 1% from last year.

Now we're on our cash flow and balance sheet. Atea's cash flow from operations was an inflow of NOK 665 million in the second quarter of 2024, compared with an inflow of NOK 340 million last year. The cash flow improvement was driven by a reduction in the working capital balance compared with the end of last quarter. At the end of Q2 2024, Atea had a net debt of NOK 84 million as defined by Atea's loan covenants. This corresponds to a net debt EBITDA ratio of effectively 0. Atea's net debt balance at the end of Q2 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. That concludes the presentation of the numbers. I'll now hand the podium back over to Steinar to discuss the outlook for Atea's business for the remainder of 2024.

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### Steinar Sønsteby Atea ASA – CEO

Thank you, Robert. Let me start by going back to the four revenue drivers or growth drivers that we touched on in Q1 and have spoken to many of the analysts and investors about over the last 12 months.

1st, the defense sector. We absolutely have started to see that the defense and in our part of the world influenced heavily by NATO or started to invest. But we also see this happening in a different scale in the different countries. If you look at Norway and Finland and the Baltics, the growth in defense spending with ATEA is in the high double digit. If you look at Sweden and Denmark, the investments have not started to grow yet, and you can also see this partially in our hardware numbers in these five different geographies.

IT security is becoming more and more important as we move into an even more digital world. This, of course, is also influencing the numbers in the defense sector, but also of course, with every organization. We believe that the next three to five years we'll see a heavy growth in cybersecurity solutions and a lot of them being managed by a vendor like ATEA. Then these two directives will also force organizations to make this in a more professional and more documented way. And so, we still feel that this is one of the really good growth drivers for the next the period.

Windows 10 end of life in October a year from now or introduction of Windows 11 have started to happen. But as we've said many times, most of our customers wait longer than what we would like them to do. But we do see projects, a lot of projects coming in this fall, which will drive consultancy but also hardware exchange as a lot of the PCs cannot run Windows 11. We also see the vendors, both Microsoft with the operating system, but partners like Dell and Lenovo and HP invest heavily to get the customers to more rapidly move into an exchange.

AI is an interesting area. If we go back some months, it was the only thing that everybody talked about. As normally when something like this happens, we see the technology hype and we've seen and felt that through the AI hype curve. We now see more tangible projects happening and we will see that increasing over the next many, many years as AI will stay with us as long as we are here.

As Robert touched on several time, the networking business was fantastic when the supply chain eased a year ago or 18 to 12 months ago, it is still strong. It's just back to a more normal level and networking will become even more important for all these four drivers as we move into second half and 2025.

As we cut this in a little bit different angle, we'll see on the different countries. Norway had a very strong Q2 and actually a very strong first half of this year with growth on revenue and EBIT. There is no reason for that not to continue. As just mentioned, several of the growth areas from technology have kicked in Norway, especially the defense. Consulting is a little bit weaker and for first half is flat and we expect that to pick up a little bit, but still being the weaker side of the business.

Sweden was definitely the part of Q2 that disappointed. Sweden have delivered over the last many, many, many years and therefore the surprise is bigger. But it's important to say that we have higher win rate and higher booking than last year. And so, the backlog has grown by approximately SEK 350 million through Q2 in Sweden. We believe that we'll get back to growth as we move into the later part of second half of 2024.

Denmark showed improvements and the SKI contracts are starting to deliver. This has been a slower process than what we expected, we have to admit, but we do see it started moving and it will heavily influence the business in Denmark in second half and the years to come.

In Finland, we still see, if you look at this in a longer perspective, a strong development where Finland is becoming more and more similar to Norway and Sweden, both in market share, but also in content as services business is growing faster than in many of the other countries. The defense sector is also influencing us more and more every day. And there is no reason when you see the budgets that will stop in the coming years. Very proud of what Finland had done over them the last five years. So, keep up the good business.

Baltics the same and of course being the closest to the war in Ukraine from a position point of view, the defense and security sector in the Baltics have been strong since the attack and the war from Russia started. It's stable and that is how we predicted to be also in the rest of this year and next year.

So, there you have it. At first half, a little bit influenced by the unpredictable situation that we are all a part of. A revenue of NOK 16 billion, down approximately 9%, a gross profit of NOK 5.2 billion, about flattish. An EBIT where we miss our own expectations by NOK 40 million on the NOK 500 million, we actually did make. So, a good first half, but a little bit behind where we expected it. Our job is to bring that back in second half and that is what we plan to do when we enter a half year when we expect growth to come back to what we have seen over the many years between 5% and 10%. That concludes the numbers for the Q2 presentation, and we move into Q&A.

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## Questions and answers

### Unidentified Company Representative

Thank you, Steinar and Robert, for the presentation. Got a number of questions here. First question is strong software growth. How do you see Copilot development going forward?

### Steinar Sønsteby Atea ASA – CEO

So, I think Copilot comes into what I just said about AI extremely hyped a lot of customers dip their toes in the beginning, first in November and then when the purchasing rules, so to speak, changed in January. But we are not on plan right now to have 20% of our customers or licenses, I should say, have bought Copilot before the end of this year. We'll probably be closer to about 10%. And this is not due to ATEA, this is the whole world. It's going a little slower. It shouldn't be a surprise because that is what happens when new technologies are introduced to the world. I'm 100% sure that Microsoft together with its partners like ATEA will make Copilot a success over time.

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### Unidentified Company Representative

Coming back to defense spending, can you give us more flavor on how the defense spending has developed?

### Steinar Sønsteby Atea ASA – CEO

Yeah. So, in some of these countries like the Baltics and especially Baltics and Norway, the defense, the increase in the defense spending has been very strong. I have to be a little careful because we are under certain regulations when it comes to what we can say, but it's been a massive increase. And we also see all the projects that they are planning for the future. So those two countries, Finland just behind also doing well, will ramp up. Very surprisingly, Sweden and Denmark has actually a decline in spending for first half, which is, you know, not what they have the politicians have said it's not what we have expected. On the other hand, they've all improved massive investments in defense. So, we see this, it's just a delay and not an end conclusion.

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### Unidentified Company Representative

Thank you. New question here, Q2 EBIT decline was contrary to your comment on the Q1 earnings call. So, what surprised you on the negative side and how much of this do you think you can catch up in Q3, Q4?

### Steinar Sønsteby Atea ASA – CEO

Absolutely. We believe that we would have a chance, even though we said it that way, have a chance to get to be flat year over year on EBIT in Q2, we did not reach that and that is entirely due to Sweden. So, the others were approximately where we expected them, and the Swedish situation is just a little bit slower when it came to bringing in the orders in Q2. And that's why I commented on the backlog. We absolutely expect them to get back to a growth in second half.

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**Unidentified Company Representative**

So somewhat related to this new question, with EBIT declining materially year over year to date, how can we bridge this with significant growth in EBIT for the year as a whole?

**Steinar Sønsteby Atea ASA – CEO**

We still expect to grow EBIT in 2024. We are, as I said in the presentation, about NOK 40 million behind last year and we believe as we get further and further out in 2024, the comparisons will be easier and easier to be. So absolutely, we believe that we will grow EBIT in 2024 compared to 2023.

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**Unidentified Company Representative**

Thank you. EBIT in Sweden, in Denmark was particularly weak in Q2 with the absence of the two new contracts in Denmark and a weaker market in Sweden. Could you give us some more color on the weakness here? And is it only due to hardware and network equipment as OpEx seems to be quite flat?

**Steinar Sønsteby Atea ASA – CEO**

Yeah, so we don't believe that we have come into a situation which suddenly the world has changed. The situation in Denmark is that we have won the contract. They are getting up to speed and the 50.03 for the people who remember the server and storage is in Q3 will be up running as expected and the 50.40 sorry will be ramping up through Q3. Denmark is the country we have the lowest cost ratio of all the countries. So, it's not a cost issue, it's a scaling issue. In Sweden we got a little surprised of that the revenue came in a little slower in Q2 than we had expected and there therefore I'm convinced that we will bring back that in, in the second half because the backlog increased by approximately SEK 350-360 million. So, and the cost in Sweden is barely higher than a year ago. So, it's not like we have added a lot of cost or sacrifice for inflation or something like that. I think we balance the cost approximately where we thought it should be with the revenue we thought we would get. And of course, looking back, maybe we should have done a little bit more on the cost side and we'll look at that.

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**Unidentified Company Representative**

So, keeping with Sweden, a new question here. Can you give some more flavor on your view on the public sector spending in Sweden?

**Steinar Sønsteby Atea ASA – CEO**

Yeah, So the way we saw Sweden and this is also supported by some of the articles in newspapers in Sweden from a more economy point of view that Sweden in the first half of this year have had a weaker economy than the other countries that we're in. And so, when we look at our business, which is of course just a small part of the whole Swedish society, we see that the public spending is the biggest issue for us and the defense being the biggest surprise. And I would be shocked if we don't see that starting to increase in the second half.

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**Unidentified Company Representative**

So, more questions on Sweden here. Can you elaborate on the on the large EBIT decline in Sweden year over year and what are the key drivers on how you will address this going forward?

**Steinar Sønsteby Atea ASA – CEO**

So again, our win rate in Sweden during this quarter and first half was higher than we've ever seen. The strength of ATEA in Sweden has been proven over many, many, many years. There is no weakness in our performance. It's a situation where the orders come in too late and with customers taking longer to evaluate, probably also influenced by the interest rates and the whole financial situation. But the backlog is there, the win rate is there, the pipeline is there, and so we feel confident.

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**Unidentified Company Representative**

A new question perhaps more for you, Robert. Can you quantify the expectations for IFRS 15 revenue growth year over year in the second half of 2024?

**Robert Giori Atea ASA – CFO**

We don't provide a firm guidance on revenue growth in the second half of 2024. What we've stated is we expect to see stronger revenue growth coming out to more normal level, longer-term levels as we go into the second half of the year.

We have a lot of growth drivers that are quite positive for us that should put us significantly into that growth range. But we haven't given a hard guidance for the second half of the year. We expect to see stronger growth in the second half.

**Steinar Sønsteby Atea ASA – CEO**

But I also think it's important, as Robert said in the presentation, to see what has happened over the last two years. The average total growth over the last two years has been 5.1%. It's been difficult to predict, difficult to calculate for people outside ATEA, also, of course we understand that, but that is what we have said in a long, long row of quarters is that ATEA is a company that should grow between 5% and 10%, and that's actually what we've done on average over the last two years.

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**Unidentified Company Representative**

Thank you. I will ask this question, it might be complex to answer, you might not be able to, but how much of gross sales were defense-related in Q2?

**Steinar Sønsteby Atea ASA – CEO**

No, it's not that difficult to answer, but we just have to be a little careful here in what we say. Defense spending with ATEA in 2023 was approximately 7.5% to 8% of our total IFRS revenue. It's growing, but we can't say more than that.

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**Unidentified Company Representative**

Thank you. New question here. Can you help us understand why services are flat year over year in Q2 while growing in the preceding quarters?

**Steinar Sønsteby Atea ASA – CEO**

As I said, in a couple of the countries, the consulting business has slowed a little bit and is either in small decline or flattish. This is especially in Denmark and Sweden. It follows somewhat the product revenue because about half of our consultancy is dependent on the product deliveries, so it's connected.

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**Unidentified Company Representative**

Thank you, Robert. OpEx seems slightly higher relative to the number of employees in ATEA. Is there anything here we should be aware of?

**Robert Giori Atea ASA – CFO**

No, the number of employees was down 1% year over year. OpEx was up 0.5% year over year on a group level. So, I don't see anything there that would appear to be abnormal when it comes to the overall trend.

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**Unidentified Company Representative**

Thank you. Software seems very strong this quarter. Was this purely driven by improved underlying factors or is there any phasing effects that are occurring?

**Steinar Sønsteby Atea ASA – CEO**

There is nothing specific in this quarter other than being the end of the year for Microsoft, but that happened last year too. So, there's nothing especially specific. Norway had a very strong quarter and first half on software driven by cloud mostly and cloud subscription, which becomes software in our books. But there are no specifics, maybe with one little exception, and that is that there was a lot of talk and noise around VMware in the first half, which was bought by another company that is not really famous for talking to customers about pricing and licensing. So, there were probably some VMware licenses or VMware business that was moved from Q1 to Q2. But if you look at the first half, that shouldn't be influenced at all by anything specific.

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**Unidentified Company Representative**

Thank you. Steinar mentioned that customers are somewhat postponing investments. Does this mean that Q3 has not started as good as you expected three months ago?

**Steinar Sønsteby Atea ASA – CEO**

No, that is not what I'm trying to say. Q3 has hardly started with vacation in the Nordics and Baltics. But no, it's not influenced by what I've seen in Q3. I understand that question, but what we've said is that specifically in Sweden, the order is there, the project is there, but the customer takes a little longer before they actually get to a closing stage.

So, it's not that it disappears or they're using less money, it's just that the process takes a little longer. That surprised us a little bit in Q2 and therefore things came in a little bit too late. We absolutely expect growth in Q3.

**Unidentified Company Representative**

Thank you. And our final question, this is not the best quarter, but you seem quite positive.

**Steinar Sønsteby Atea ASA – CEO**

It's interesting because when you are publicly traded, you have to stand up every three months and with a big company like ATEA, that can sometimes not fit into how our customers or the market behaves. But what we do see is that we increase our market share. We have invested heavily in the company over many years and the difference between what we are capable of and what our competitors are capable of, but also matched with what the customers are asking for. We are extremely well positioned to take advantage of all the growth drivers we've been talking about. I also see how we develop skills and are able to keep people and develop the customer relationships every day. So, I feel very confident in the longer term and sometimes one quarter can be too short to prove that. But over some quarters or over years, our shareholders and investors in general will see that this will play out over the next couple of years. So yes, I am confident, and we will prove that in the quarters to come.

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**Unidentified Company Representative**

That concludes questions for today. Thank you.

**Steinar Sønsteby Atea ASA – CEO**

OK, I want to say thank you for participating. Thank you for all the really good and insightful questions and of course, have a really, really good summer.

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