Q4

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TRANSCRIPT

Atea ASA Earnings Presentation

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Corporate participants

Steinar Sønsteby Atea ASA - CEO

Robert Giori Atea ASA – CFO

PRESENTATION

Steinar Sønsteby Atea ASA – CEO

Welcome to the Q4 and full year 2024 presentation of Atea's results. This time from our beautiful headquarters outside Oslo in K5. It's almost five years on the day where Corona hit the Nordics and Baltics. The five years following have been unpredictable, not only for us, not only for our partners and customers, but of course also for you following me, following the company from a financial point of view. It's probably not going to be smooth sailing in 2025 either for obvious reasons. So luckily Atea has proven to be a safe haven not only for investors but also for customers in unpredictable times. So, to Q4, the revenue came in at NOK 16.5 billion, an amazing number growth of 15%. The profit before tax came in at NOK 329 million and EBIT at NOK 405 million, both numbers we are really proud of in tough environments. But as Robert will elaborate more on, the cash flow was the king of the quarter. So, with that, I'll leave it to Robert to get all the good news.

Robert Giori Atea ASA – CFO

Thank you, Steinar. Atea reported strong sales growth and a higher net profit in the fourth quarter, driven by new customer agreements and improving market conditions. The market for IT infrastructure has emerged from a cyclical downturn. We expect demand to continue to grow at a healthy rate in 2025. Total gross sales in Q4 were NOK 16.5 billion, up 14.9% from last year. Hardware sales increased by 18.8% and software sales grew by 16.0% from last year. Growth was spread across all product categories with very strong year end demand from central government customers. Services sales increased by 3.6% from last year, driven by higher sales of third-party consulting services. Group revenue according to IFRS was NOK 10.6 billion, up 12.9% from last year. Gross profit increased by 1.4% to NOK 2.8 billion. Atea's gross margin in the fourth quarter fell compared to last year due to several factors. First, the customer mix has shifted with a high volume of sales growth coming from new frame agreements and large public sector projects. In addition, changes in the sales mix have affected the overall gross margin with sales growth coming from product resale rather than Atea's own services. Finally, price competition has intensified over the past year after a particularly challenging preceding year in the IT infrastructure market. Personnel costs and other OpEx grew by 1.6% to NOK 2.4 billion. Adjusted for currency movements, these costs were flat from last year. EBIT before restructuring cost was NOK 405 million, unchanged from last year. In Q4 2024, Atea Sweden incurred a one-time restructuring cost of NOK 39 million to reduce its workforce by 75 employees. Net financial items were an expense of NOK 37 million, down from NOK 94 million last year. The difference was due to lower interest costs and the impact of foreign currency movements on balance sheet items. Profit before tax increased by 5.8% to NOK 329 million.

We'll now take a closer look at sales and profit performance across the countries in which we operate. Atea sales growth was driven by a sharp increase in customer demand in Norway, Denmark and Sweden. Sales grew by 16.1% in Norway, 14.6% in Sweden and 24.0% in Denmark. Our business in these countries benefited from a stronger market environment, new frame agreements and higher year end deliveries to the public sector. Atea's gross margin in each of these countries fell due to the customer mix, composition of sales and intense market competition in the fourth quarter. In Norway, the margin decline was less severe, and Atea's EBIT grew by 29.3% from last year. In Sweden and Denmark, Atea's margin decline was more pronounced, and Atea's EBIT fell by 9.6% and 17.4%, respectively. Otherwise, Atea's sales in Finland fell by 2.9% from last year and EBIT fell by 15.9%. These trends reflect the overall recession in the Finnish economy. Finally, Atea's sales in the Baltics fell by 7.0% from last year due to fewer large projects towards the public sector. EBIT, however, grew by 19.7%, driven by high growth in sales of managed services. In sum, Atea's EBIT before restructuring costs was flat from last year with high profit growth in Norway and the Baltics, offset by lower profits in Sweden, Denmark and Finland.

Now a word on our cash flow and balance sheet. 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. In Q4 2024, Atea had exceptionally strong cash flow from operations of NOK 2.2 billion up NOK 521 million from last year and much higher than the previous years. Cash flow from operations was driven by higher cash earnings and a very large reduction in networking capital. There are many contributing factors why cash flow is so high in the fourth quarter. First, sales to the public sector were very strong with much of the cash collected before year end. Second, much of the order volume in the fourth quarter was for hardware, where Atea has the longest vendor payment terms with many payments not due until the first quarter. Third, Atea has moved a growing proportion of its hardware volume to its distribution company in Sweden. This distribution company is eligible for even longer vendor payment terms than the rest of Atea. And finally, Atea has improved its cash collection cycle from customers through faster invoicing processes and reduced overdue receivables.

Based on the strong cash flow from operations, Atea had a positive net cash balance of NOK 1.4 billion at year end as defined by Atea's loan covenants. This corresponds to a net debt EBITDA ratio of -0.7. Atea's net debt balance at the end of Q4 2024 was NOK 6.2 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 fourth quarter financial results. I'll now hand the podium back over to Steiner to discuss recent trends in the outlook for Atea's business.

Steinar Sønsteby Atea ASA – CEO

Thank you, Robert. So as said in the opening, we have seen five very unpredictable years. This slide gives us the growth, not the actual numbers, but the growth quarter by quarter the last three years. We came from 2022 where we had negative growth, and you see one of the quarters - Q1 in this slide. And then we went into extreme growth in Q1 2023 of 27% and then back again into a situation where we had negative growth, and in Q3 2023, it was actually very substantial. Now you see that we're back into growth. This is a difficult situation when, for instance, you run a company like Atea with almost 10,000 people. This is a terrible way to predict and work on efficiency. This is probably why most of our peers and competitors in Europe have shown very difficult numbers and even sent several profit warnings. And that therefore extremely happy to say that we have been able to almost stabilize and give growth in EBIT for all the three years we talked about. We hope that we will get back to high single digit growth in 2025 and 2026 so that we can get back to working on the more professional and predictable efficiency programs that we have talked about earlier.

Very briefly on some of the underlying movements here, as you see, hardware has a profile which very much is parallel to the total revenue. And hardware is important to Atea because the services that we produce, our own services is mainly connected to the hardware. The hardware the way we see it right now is very much driven, the growth is very much driven from the growth drivers that we have talked about over the last couple of years. Absolutely defense, absolutely AI and the infrastructure part of AI and absolutely PCs because of Windows end-of-life and I'll comment later on all of them. If we look at Q4 separately or isolated, I should say this is how the growth of 18-19% divides into groups. So, server and storage, on premise server and storage is growing almost 40% in the quarter. It makes up approximately 15% of the total hardware business and again remind you that hardware is about half of Atea's business. PCs are absolutely back in growth and so are luckily for us networking because that will drive back the margins in the quarters to come. Again, AI, Windows 10 end-of-life and defense are mostly the reasons. The group other might look insignificant, but it's not. It's almost 40% of the total hardware and we are looking at growth in those categories also in the quarters to come.

Software has a little bit of a different profile. Software has become more and more subscription and that means that purchase is more evenly shared over the months and quarters. In this group for most including us is also pure public cloud, which is also of course a subscription-based business model. Public cloud is absolutely growing, but so as you saw are on premise, this is the hybrid world that we have welcomed you to for the last 10 years.

Our own services as said are well connected to the to the product business and the product business and the growth and decline of that is in the Gray single line and our services in the table. And so, you can see if you look closely that our services grow and decline approximately two to three quarters after the product business does the same. That is a very normal development for services. And this is giving some hope for growth or higher growth on services in the quarters to come in 2025.

A short comment on headcount. So, during this period of three years, where growth in product and services has gone up and down very sharply, we have tried to keep the staff as constant as possible. Over the last two years, we have decreased the number of colleagues with about 200 people. We're ending the year approximately 50 people higher than what we predicted 3 months ago. As the growth has been a little higher and are predicted to be so in 2025.

And talking about predicting the future, we are working closely with IDC. They're not always correct, but for the next couple of years, we believe in the same numbers that IDC does. And if you look at the top table, they predict for this year infrastructure, which is in our TAM (total addressable market) that is 9% that would be perfect for us if that's what happened and it's exactly what we are planning for. You can also see on the bottom table that there are very small differences between the geographies that we play in.

I have been commenting on this, but these are the four main growth drivers that we have been talking about during 2024. We've been very precise saying that first half would be a little tougher, but second-half would bring us growth and it has. I have to be honest though, we had hoped and thought that the growth in infrastructure would have been a little higher already after the summer. We are happy to see though that it's now here and we don't predict it will stop and the reasons are the same. These four areas, defense NOK 1.6 billion delivered to defense in the seven countries we operating in Q4. AI absolutely a driver for a lot of what we do, both networking, PCs and the server and storage on Prem as much as the public cloud. Approximately 40% of the PCs that need to be upgraded because of end-of-life Windows have been upgraded or at least users have started to use Windows 11. At the same time, the PC vendors predict that approximately 30% of all PCs delivered in 2025 will be AI ready or what I think is a better definition, more powerful PCs that will bring up the average sales price of these. And I don't think I have to motivate you to think that IT security or cybersecurity will be a driver in these conditions that we see.

The Board will ask the General Assembly for a dividend payout of NOK 7 a year for the 2024 results in 2025, and that would be in line with the top end of the bracket of our dividend policy.

So, there you have it. And to sum up, the full year 2024 gave us almost NOK 54 billion in revenue, an amazing number which I am extremely proud of. A fantastic cash flow and a pre tax profit of more than NOK 1 billion, giving us a net position as Robert was in on cash of almost NOK 1.4 billion. We enter 2025 very confident that we are rightly positioned to play an important role for our customers and our partners. That concludes the presentation of our numbers and predictions, and we will now go to Q&A.

Questions and answers

Unidentified Company Representative

Thank you, Robert and Steiner. We've got some questions that are coming in now. First question is, can you elaborate a little bit more on the AI and the opportunities for Atea and any comments especially after DeepSeek?

Steinar Sønsteby Atea ASA – CEO

Yeah, that was Black Swan for a lot of people, and I do understand it was for me too. But I think if you take a step back, the fact that China is participating in the AI race shouldn't be a surprise. For us, it doesn't really change that much. If anything, I personally think that it changes things in the positive way, meaning that AI can be developed in a more efficient way using less money and less power. But for us the opportunity is not in training data models, which for instance Deepseek do or open AI do or others. For us, the opportunity lies with the customers in our region. It lies in building an infrastructure that allows you to collect and compute data all the way from the edge to the public cloud. And we see it very clearly in the growth in Q4 and the customer cases that we have in our backlog and also in the discussions with customers for the coming quarters. It is everything from you as a user to your network to your data center to the cloud. We work closely with Microsoft on AI and we have sold approximately 75,000 Copilot licenses, where half of it came in Q4. This is shyer what we thought two years ago, but it's, it's promising to see what happened in the late part of 2024. But it's also good to see that a lot of customers have started to test AI as we are. We are a user of AI and we need to innovate around AI as much as our customers. And that testing for our own IT and our own company's efficiency is something we bring to our customers. And it's built very much on IBM and Microsoft on the software and pure AI side and with our hardware vendor on the infrastructure.

Unidentified Company Representative

Thank you. Next question, gross profit on products seems disappointing. You both commented, but could you share some more insight please?

Steinar Sønsteby Atea ASA – CEO

Yeah. The people who have followed us for a long time know that I very often talk about mix. So, the important, the most important part when you look at our gross profit in Q4 is the mix. And this time it's less between product group and more about customer groups. So, the biggest drivers of our growth in revenue in Q4 2024 was defense, it was SKI and other large frame agreement to the largest central government customers. Those agreements are not on an average hardware margin of 13%. So, when they become this high or big part of our revenue then the mix brings the margins down. As Robert said, there have also been cases and projects where the competition seems a little bit desperate, but we can live through that and we expect the margin to climb back to normal levels. I just want to say very briefly here that changes in vendor programs is not an influence in this. So, we have to take it on us and not our partners.

Unidentified Company Representative

Thank you. Another question a little more specific on gross margins, when do you expect gross margins to normalize, and which should be the driver behind that?

Steinar Sønsteby Atea ASA – CEO

So again, as I just answered on the previous question, this is a mix. The mix will change already in Q1 and competition you know will still be fierce. So depending on what the question think is a normal level, we think we'll be back to normal level during first half of this year.

Unidentified Company Representative

Thank you. Another question here, what is the outlook for defense in 2025?

Steinar Sønsteby Atea ASA – CEO

You know, I'm not a defense expert, but from everything I see in the work that we do with defense in seven countries, it's difficult to see that it will not grow in 2025 over 2024.

Unidentified Company Representative

Thank you. It looks like our final question for today. You both commented on the very strong hardware growth, but can you please expand further on this?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, you know, many times I've been standing in front of all of you on quarterly presentations and saying that the software that runs on software is still not invented and we need hardware. It's a base for the whole compute and the digitalization of the world. And the hardware needs to improve. And that means that it has to be replaced. Over the last two to three years, that replacement cycle has been pushed out a little bit. There is a limit to how long you can keep your old hardware. So, a lot of what we see right now is investment in new areas, which is one investment stream, AI of course being a very obvious one, security another one. And on the other hand, it's replacement that hasn't taken place for too long and Windows 10 end-of-life that comes in October of this year is a very hard, so to speak, driver of that replacement cycle. But it's also important that security pushes a replacement cycle also on all existing hardware because you can't upgrade with the latest security features. So, replacement on one side, totally new areas of the realization on the other side drives something that IDC thinks will be a high single digit for the next 4 years for hardware. And of course, that brings good cash flow and higher margins for us. Thank you for everybody around the world that have watched and listened. We hope to see you and discuss our results and our performance over the next days and weeks. Until then, thank you.