

An aerial photograph of a vast mountain range. The foreground shows dark, rugged peaks, while the middle ground and background consist of numerous smaller, rolling mountain ridges that fade into a hazy blue distance. The sky is filled with soft, white and grey clouds, with a bright light source creating a lens flare effect in the upper left quadrant.

**MUNTERS**

**Q2 report 2020**

**Klas Forsström, President and CEO**

**Annette Kumlien, GVP and CFO**

 **Munters**

# Agenda

## Highlights second quarter 2020

Implementation of strategy

Second quarter 2020 results

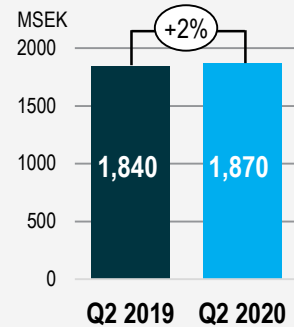
Summary



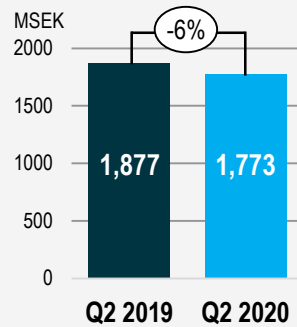
# Highlights Q2 2020

## Robust performance

### Order intake



### Net sales



- Order intake increased organically by +1%
- Net sales declined organically by -6%
- Adj. EBITA-margin increased to 14.7% (13.9)
  - FoodTech strong performance with increasing order intake, net sales and adj. EBITA-margin;
  - AirTech declining order intake and net sales, whereas stable adj. EBITA-margin
- Leverage lowered in the quarter to 2.7x

## Active mitigation of Covid-19 effects



- Some customer delayed investments and delays in deliveries. Also, pockets of increased demand in for example pharma and data centers.
- Stable delivery because of diligent management of supply chain and minor disturbances in operations
- Continuous mitigating actions and adjustment of cost base and planned investments

## Strategy implementation



- Sharpening of customer offering and footprint optimization measures to ensure execution of the strategy. Examples:
  - Exit part of the commercial business in the US and expand Data Centers US manufacturing in Texas
  - Consolidate operations in the Netherlands

# Lithium battery factory orders received – Q2

- Gigafactory for battery production in northern Sweden
  - MSEK 60 order for climate solutions to the first phase
  - Based on Munters DSS\* system, ensures correct climate and humidity in 11 dry-rooms
  - Munters chosen for technical knowledge and contribution to customer's value creation through increased efficiency and reduced energy consumption
- Tesla battery factory in China
  - Order for climate solution based on Munters GreenDry products, ensures efficient cooling and a stable climate
  - Munters delivers cost-efficiency for initial investment as well as operational life-cycle costs



\*DSS = The Desiccant System Solution (DSS) offers a wide variety of material and components to fit most demanding applications for indoor and outdoor installations

# High order intake driven by strong performance in China

## Strong performance in China

- Munters has during the last 5 years built up a strong local presence in the Chinese agricultural market
- Strong brand built on deep application knowledge, high quality and excellent reliability
- Chinese market is substantially growing driven by the recovery from the African Swine Fever (ASF). Increasing customer investments in modern swine production facilities with high bio-security but also investments in new poultry facilities

## Important SaaS-order in the US

- Software order won from US biggest meat producer, Tyson Foods. The MTech software will be used to manage and optimize the whole supply chain for one poultry complex, including feed mill, hatchery and processing facility
- Software as a Service (SaaS) agreement



# Robust demand driven by Asia

## Americas

- AirTech had a good development of Data Centers US and Services as well as in the sub-segment Pharma
- FoodTech had a weak development, primarily driven by the overcapacity in the swine market in the US

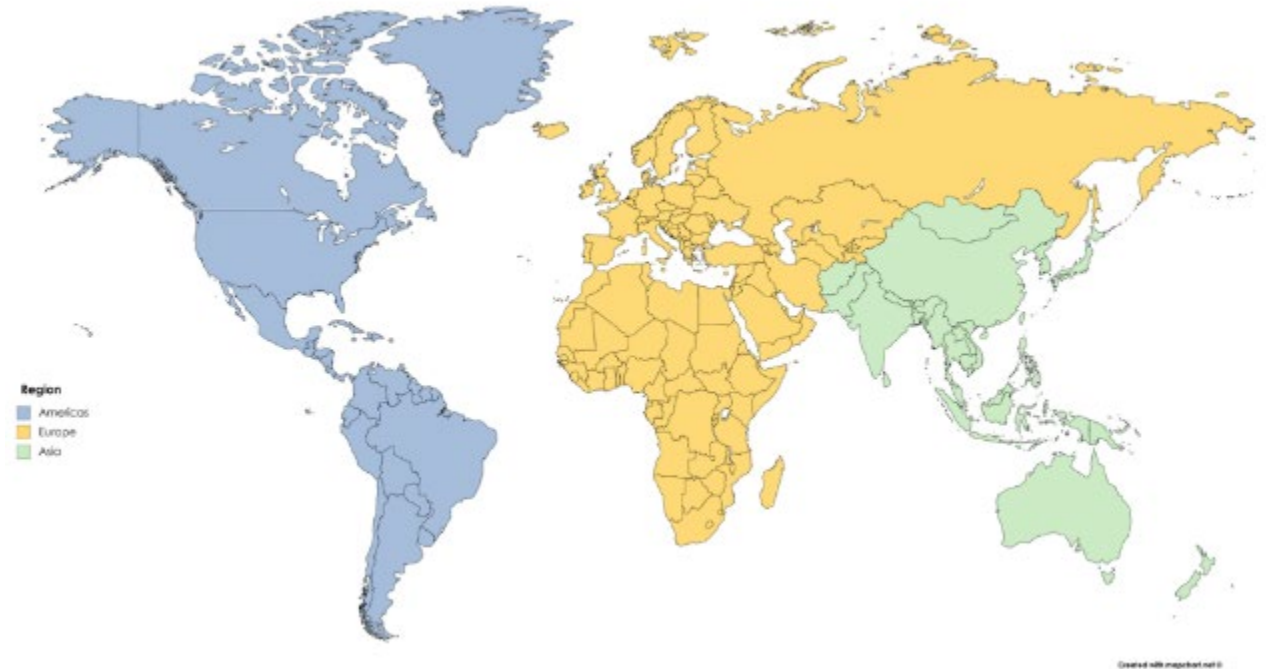
## EMEA

- AirTech had a weak development driven by a weak marine market, partly offset by a good development in industrials and Services
- FoodTech had weaker development in several countries due to the effects from the Covid-19 outbreak, offset by a good development in Germany

## Asia

- AirTech declined mainly due to weak development in Mist Elimination
- FoodTech strong development in the swine segment driven by the increased investments resulting from the African Swine Fever (ASF) outbreak in 2019

Regional split	Americas	EMEA	APAC
Share of total order intake	39%	37%	24%
Y/Y change in %*	-8%	-1%	28%



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# Focus in 2020 and beyond

Purpose:

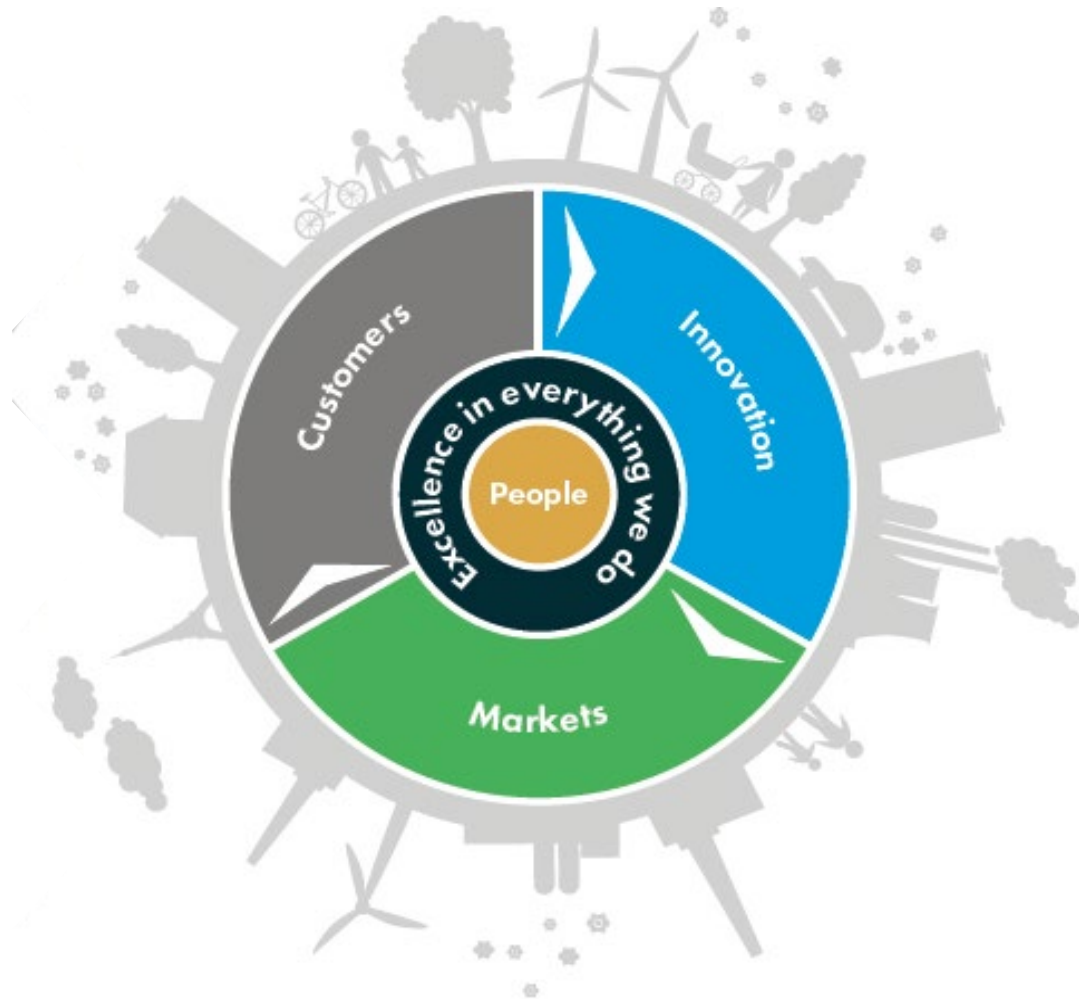
**For customer success and a healthier planet**



Strategic priorities:	Focus areas
<b>Customers</b>	Improve go-to-market models and pricing strategies
<b>Innovation</b>	Focus investments in R&D and product portfolio alignment and adjustment
<b>Markets</b>	Growing in prioritized markets and strengthen Services
<b>Excellence in everything we do</b>	Continuous improvements, lean activities in complete value chain, manufacturing footprint and working capital
<b>People</b>	Organizational re-design, leadership and competence development in line with strategic priorities



# Next step in strategy implementation



## Sharpening the customer offering and footprint optimization

- Exit non-core part of the commercial business in the US
- Expand Data Centers US manufacturing in AirTech in Texas
- Consolidation of operations in the Netherlands
- Other measures to ensure execution of the strategy

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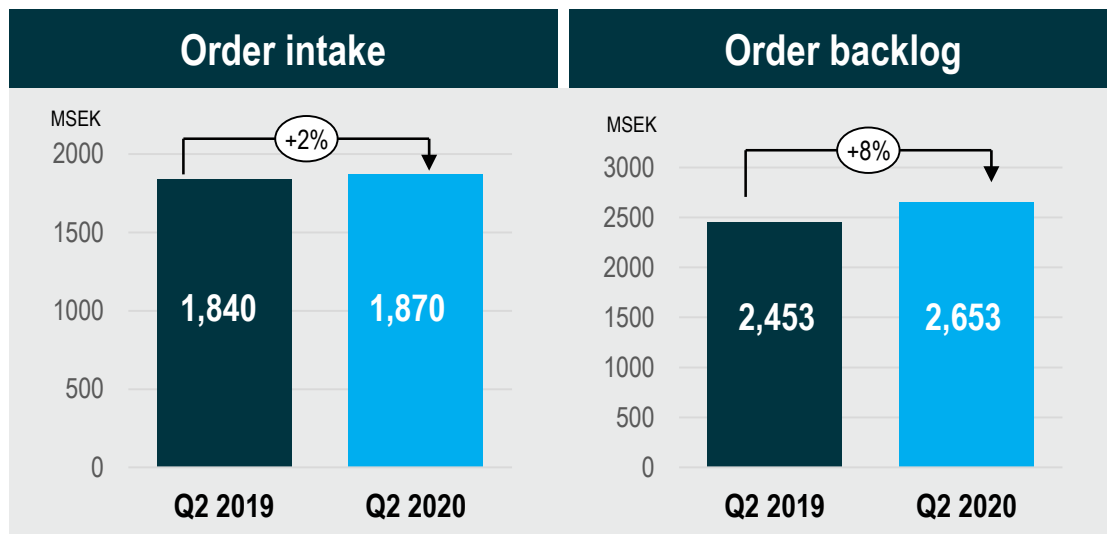
# Q2 2020 vs. Mid-term targets and PY

	Mid-term targets	Q2 2019	Q2 2020
<b>1</b> <b>Net sales growth</b> Org. growth p.a. over a business cycle	5%	4%	-6%
<b>2</b> <b>Adjusted EBITA-margin</b>	14%	13.9%	14.7%
<b>3</b> <b>Capital structure (LTM*)</b> (Leverage: Net debt / adj. EBITDA)	1.5x-2.5x	3.8x	2.7x



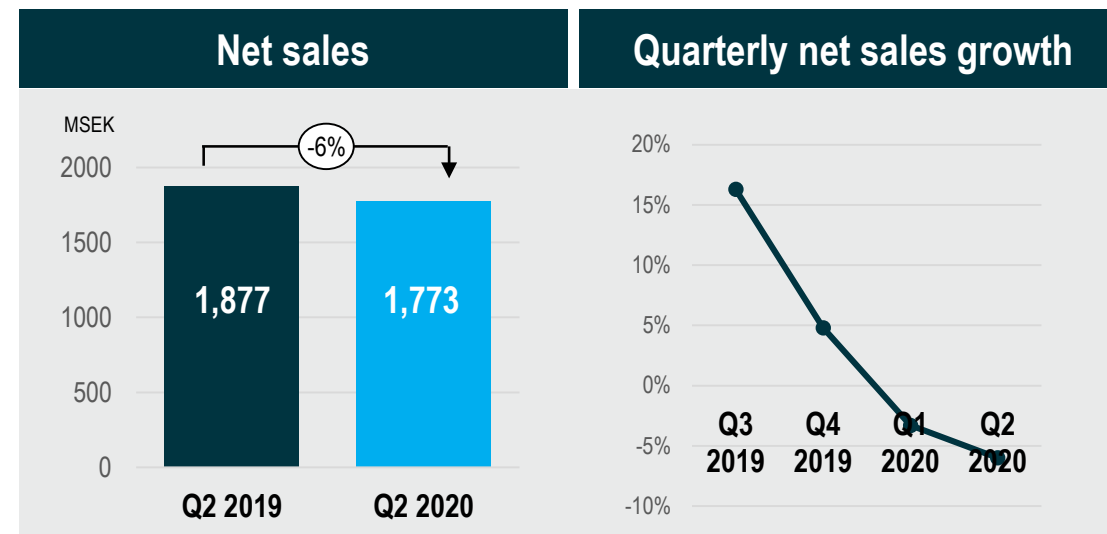
\*LTM = Last Twelve Months

# Group: Robust performance in a challenging market



## Order intake

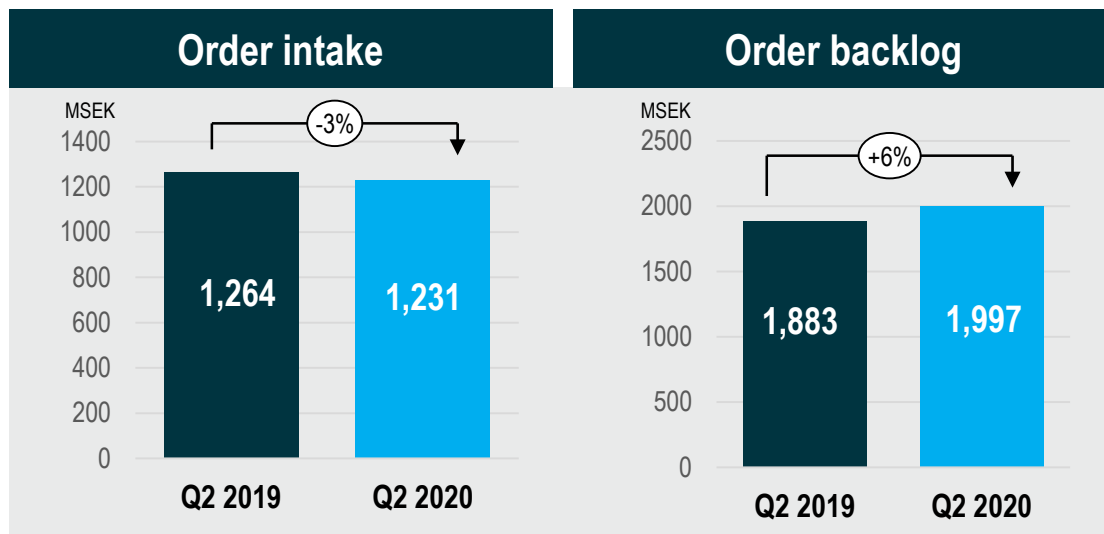
- Increased +2%, adj. for currency effects +1%
- AirTech: Decline driven by weak Mist Elimination, partly offset by good growth in Data Centers US and the industrial segment. Services grew slightly, despite negative effects from Covid-19 outbreak
- FoodTech: Increase because of good growth in China driven by good growth in the swine segment. In EMEA, demand was softer and the US had a weak development in the swine segment



## Net sales

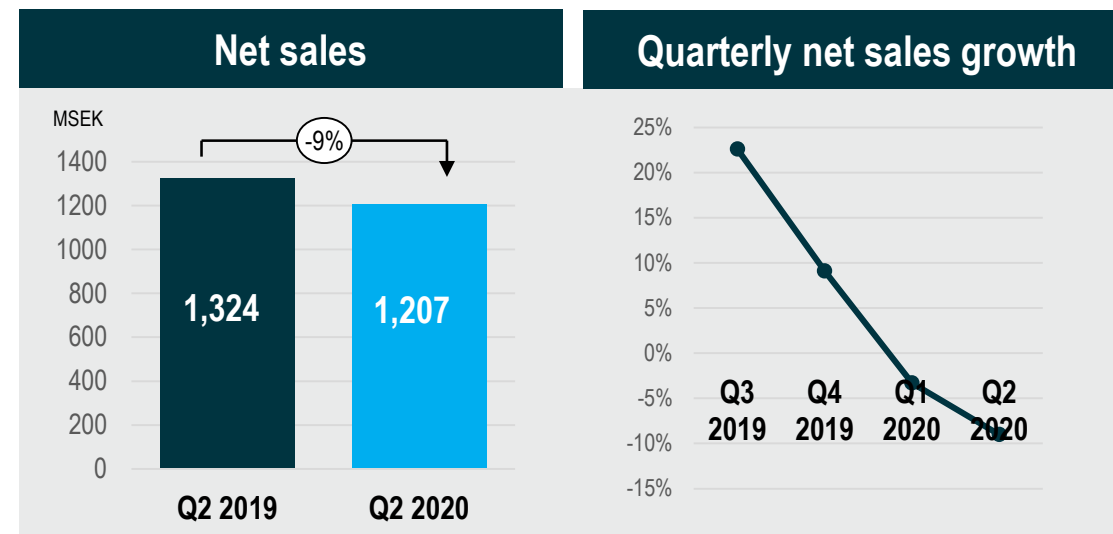
- Declined -6%, adj. for currency effects -6%
- AirTech: Decline driven by weak development in Mist Elimination and the industrial segment. Offset by good growth in Data Centers US. Services slight growth despite Covid-19 outbreak
- FoodTech: Increase because of good growth in the swine segment in China. Offset by a weak development in EMEA and Americas
- Services represented 14% of total net sales

# AirTech: Strong growth in Data Centers US



## Order intake

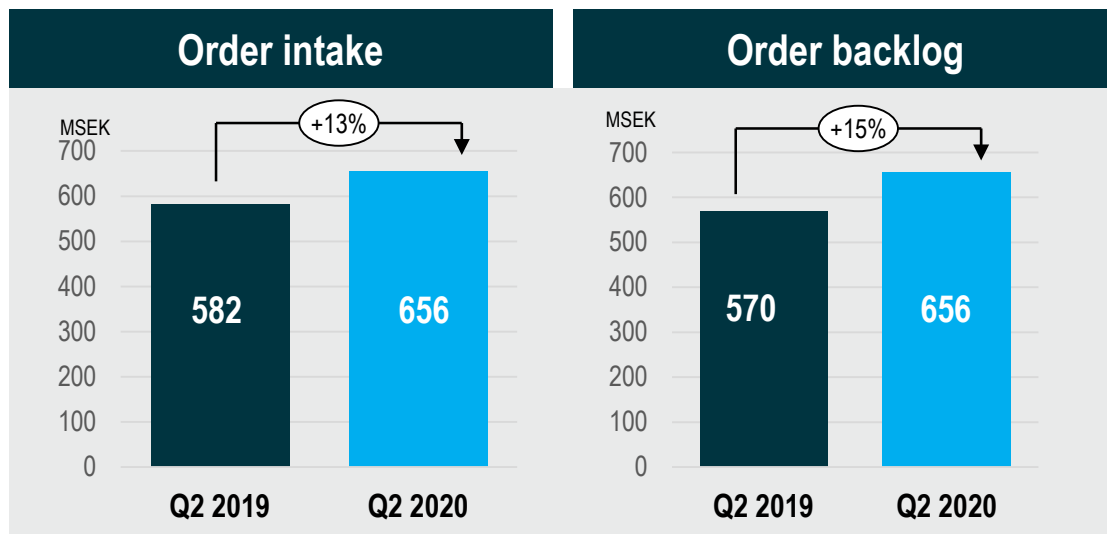
- Declined -3%, adj. for currency effects -3%,
- Decline driven by Mist Elimination with global weak demand in the marine market
- US strong development in Data Centers US and the industrial segment where lithium batteries had good development
- Services had slight growth driven by the Americas and EMEA.
- In APAC order intake was down due to a weak market for Mist Elimination



## Net sales

- Declined -9%, adj. for currency effects -10%
- Decline mainly due to weak development in Mist Elimination driven by the marine market globally and the power subsegment in India
- Data Centers US and the pharma segment had good growth
- Services grew slightly driven by Americas and EMEA

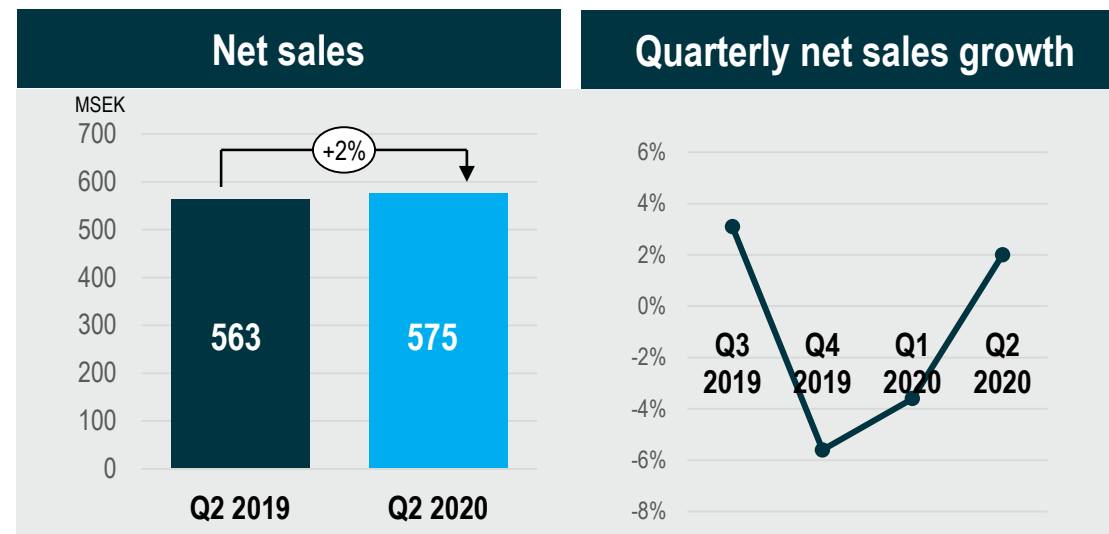
# FoodTech: Strong growth in China



## Order intake

- Increased by +13%, adj. for currency effects +13%
- Strong development in Asia, driven by the swine segment in China, as capacity being increased after ASF\* outbreak in 2019
- EMEA had softer order intake, partly offset by Germany had a good development
- In Americas, the US had a weaker development mainly due to a decline in the swine segment

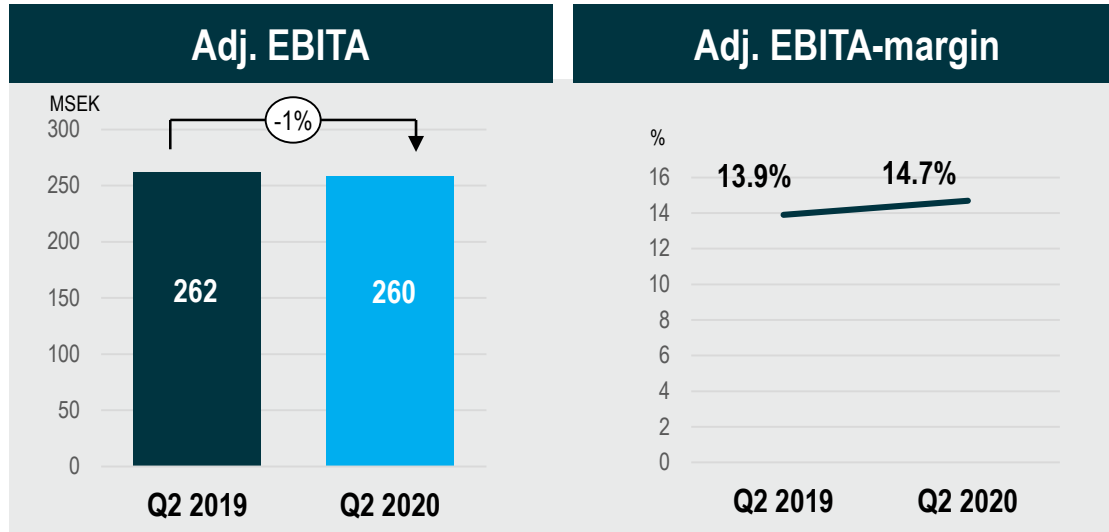
\*ASF = African Swine Fever



## Net sales

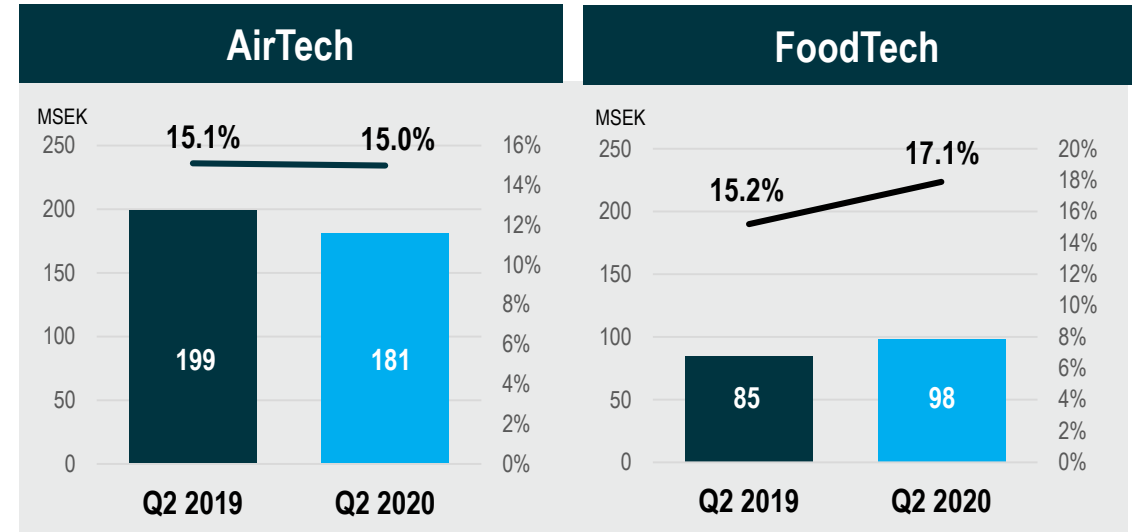
- Increased by +2%, adj. for currency effects +2%
- Increase because of a good growth in China with a strong development in the swine sub-segment
- The US had a negative development especially in the swine segment due to an overcapacity in the market.
- The Americas and the EMEA region impacted in the quarter by the Covid-19 outbreak

# Improved adjusted EBITA Q2 2020



## Adjusted EBITA:

- Slightly improved adj. EBITA-margin because of:
  - Active mitigation of the effects from the Covid-19 outbreak
  - Stable gross margin and lower indirect costs



## AirTech:

- Margin in line with 2019. Lower net sales, offset by a stable gross margin and lower indirect costs

## FoodTech:

- Improvement because of a slight improvement in gross margin driven by efficiency improvements and lower indirect costs

# Execution of Strategy

## Major impact from measures taken in AirTech

### Exit non-core part of commercial business

- Exit non-core part of the commercial business in the US within business area AirTech

### Expansion of manufacturing

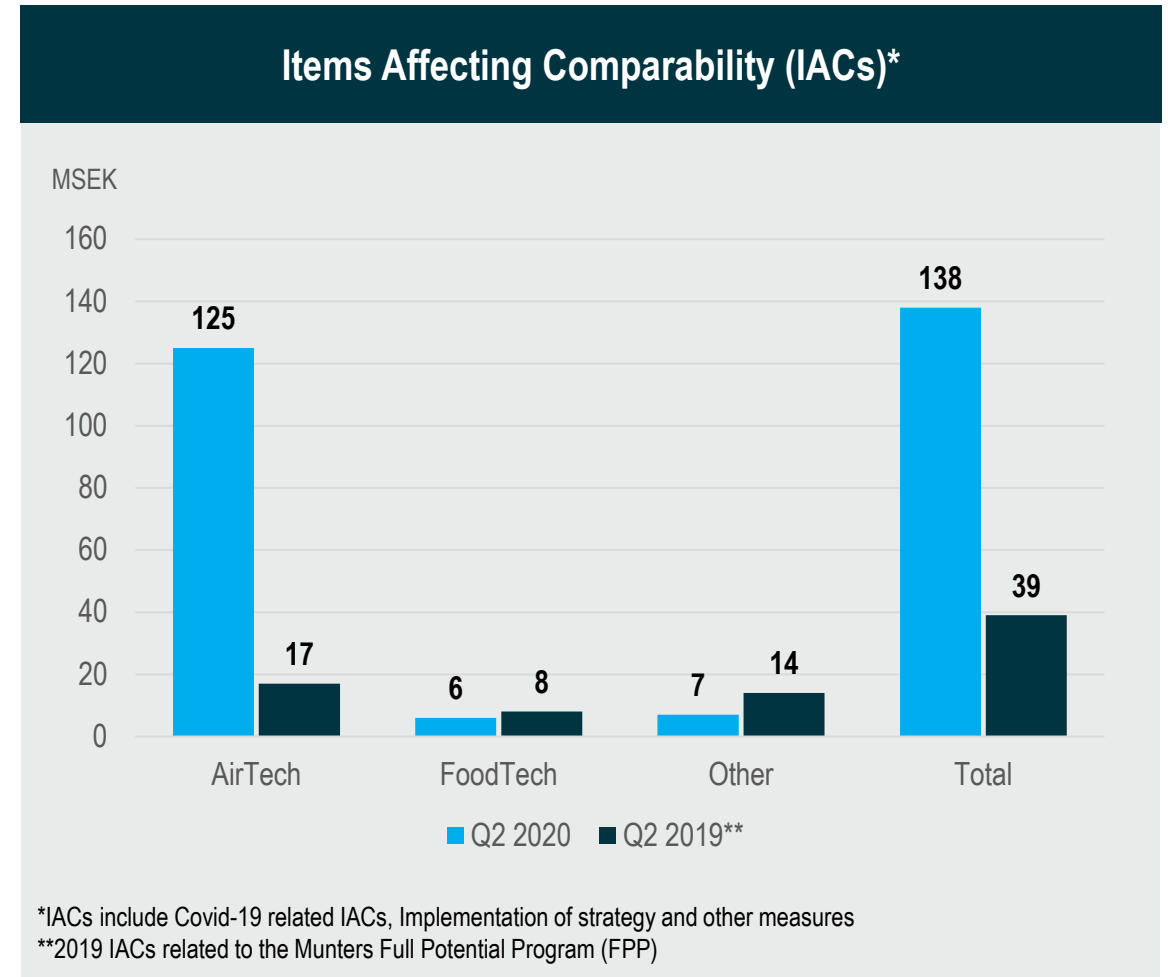
- AirTech to expand Data Centers US manufacturing in Texas

### Consolidation in the Netherlands

- In the Netherlands, operations to be consolidated

### Other measures to execute the strategy

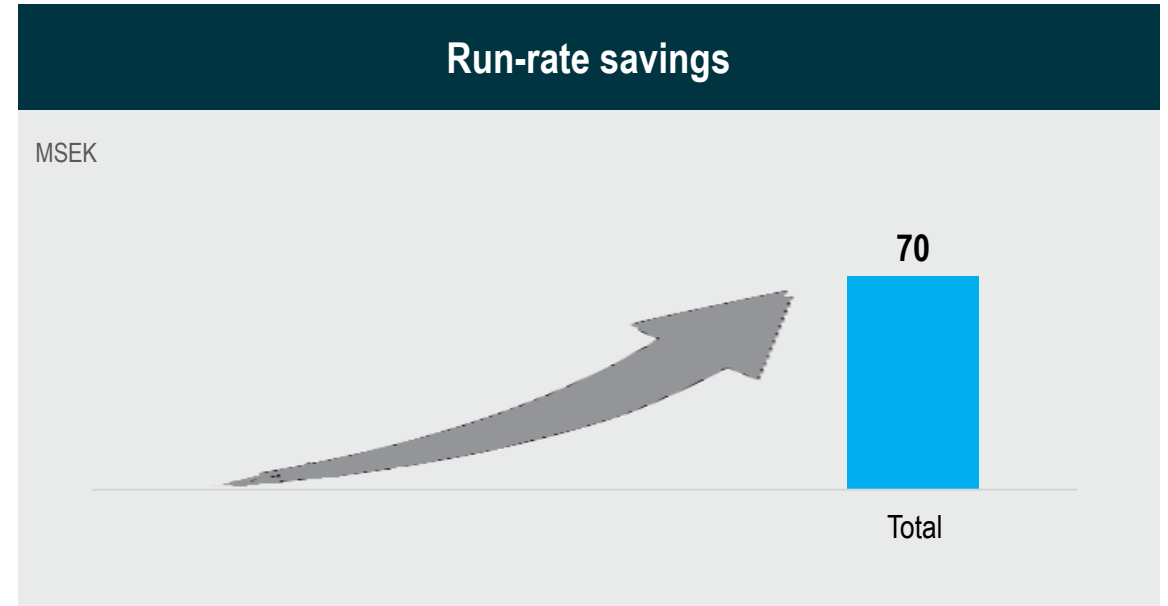
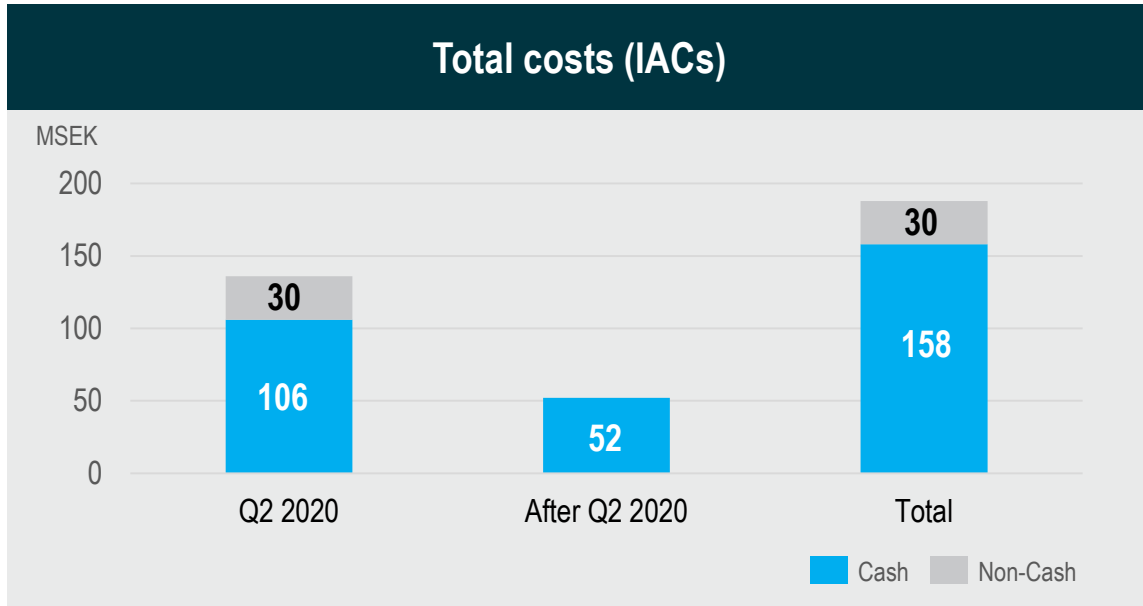
- In addition, several other measures will be taken to ensure execution of the strategy





# Execution of strategy

## Measures implemented over next 18 months



### Time

- Expected to be implemented within next 18 months

### Total costs

- Estimated to appr. MSEK 188, ~ MSEK 158 to impact cash flow

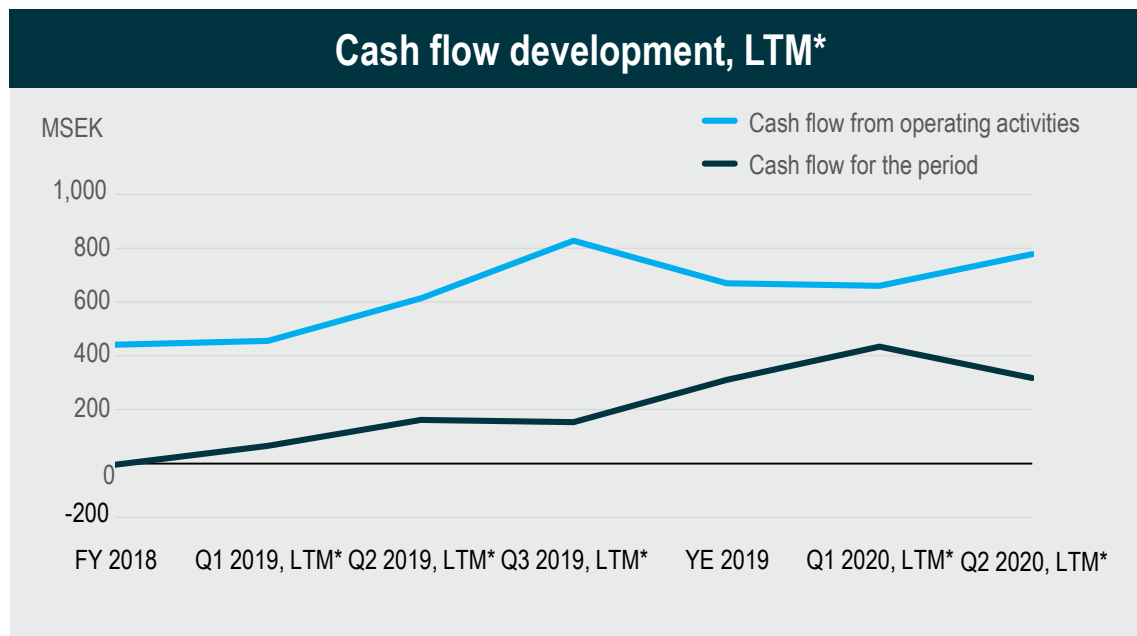
### Q2 costs

- MSEK 136 booked as IACs, ~MSEK 107 to impact cash flow
- Additional MSEK 52, all cash items, will be booked as incurred

### Savings

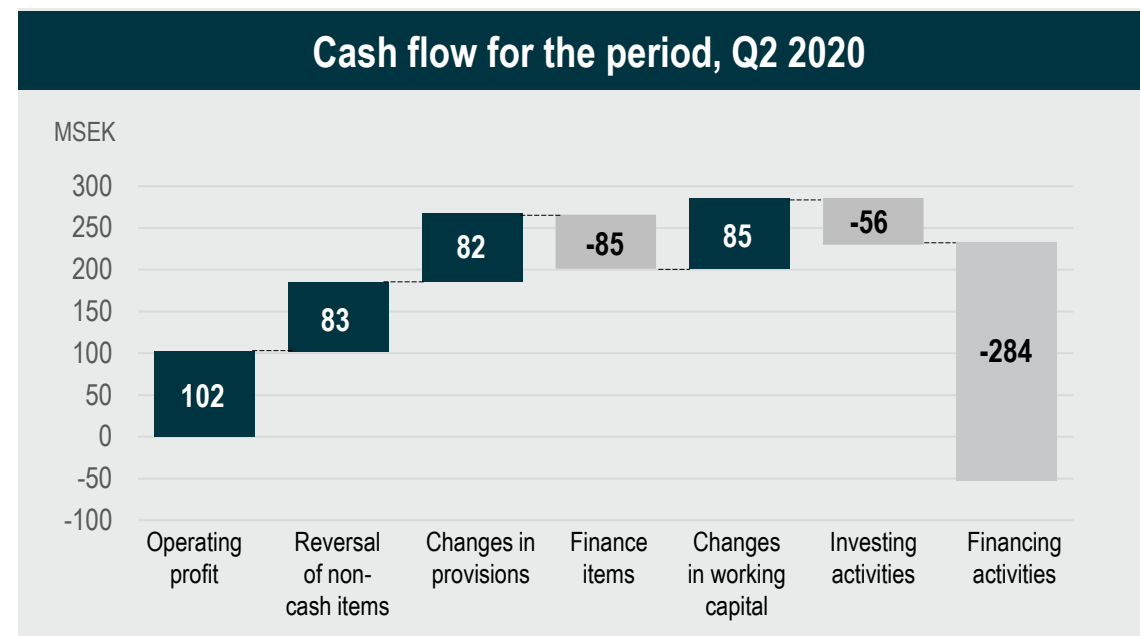
- Estimated to about MSEK 70, to reach full annual run-rate once the measures are implemented

# Cash flow development



## Cash flow development:

- Continued focus on cash and management of working capital
- The positive effect on cash flow from working capital mainly driven by a good performance in business area FoodTech.



## Cash flow for the period:

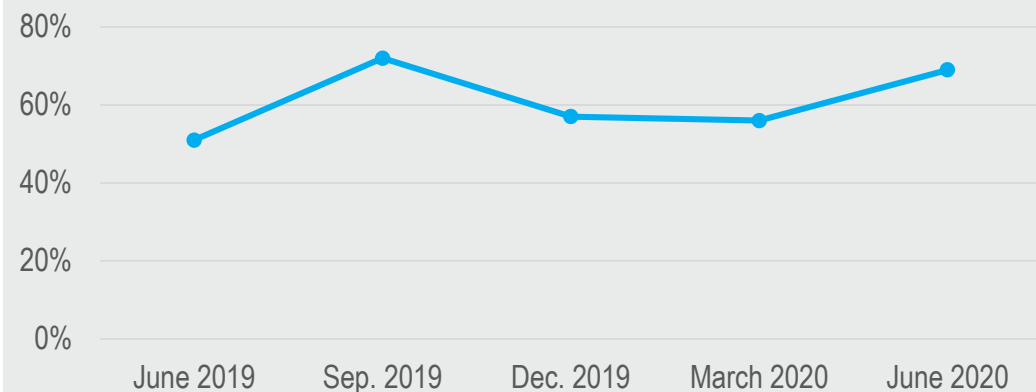
- Cash flow for the period impacted by a repayment of outstanding RCF drawings of MSEK 240.

\*LTM = Last Twelve Months

Cash flow development includes discontinued operations

# Continued improved leverage in Q2

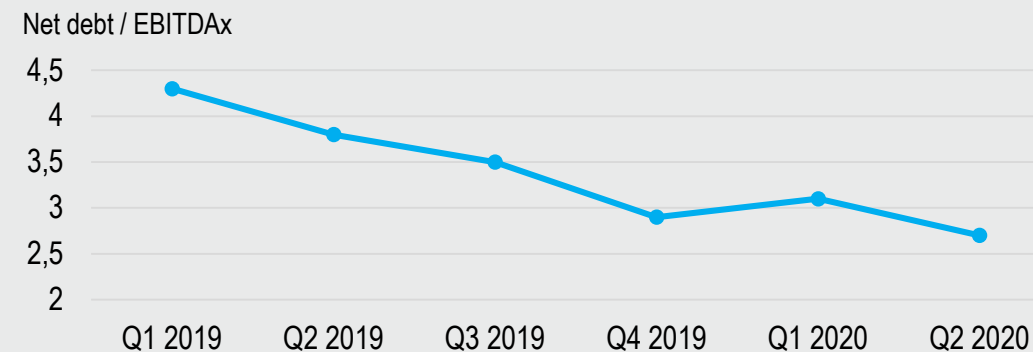
## Cash conversion (OCF\*/Adj. EBITA)



- Strong cash generation and cash conversion contributed to lower leverage
  - Leverage 2.7x end of June, decrease from 3.1x end of March
- Net debt decreased from MSEK 3,338 at end of March 2020 to MSEK 2,896 because of a positive cash flow development and a positive exchange rate effect of MSEK 209

\*Operating cash flow

## Development of leverage



- Create headroom for strategy implementation in times of a challenging business environment:
  - Covenant related terms for the current financing has been re-negotiated. Covenant increased to 5.5x from 4.5x, from Q2 2020 to Q1 2021
  - In July, Munters established a new MSEK 750 Revolving Credit Facility (RCF) secured by EKN, the Swedish Export Credit Agency, as a precautionary measure

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# Robust performance in a challenging business environment

- Growth in order intake, adj. EBITA-margin improvement as well as lower leverage
- Current healthy order backlog
- Visibility of the effect of the Covid-19 outbreak limited
- We are well positioned in a long-term growing market driven by climate change, energy efficiency and digitalization



# Questions & Answers