Transcript
Q1 2023 Results Presentation

Einar Bonnevie:

Good morning, ladies and gentlemen and welcome to the presentation of the first quarterly report for CSAM in 2023. The report and a copy of the presentation is available on NewsWeb and on our homepage. This presentation comprises a 30-minute presentation and is followed by a live Q&A session. You can type in your question at any time and we will attend to them later in this webcast. A recording of this webcast will be available on our homepage shortly after it ends and soon to follow also a transcript. But now I have the pleasure of handing over to you, Sverre. Let's get a show on the road.

Sverre Flatby:

Thank you, Einar, and welcome everyone. It's a pleasure for me to go through the highlights of the first quarter. It represents a good trend and a progress, according to our business plan. Before we go into the highlights, let's just repeat some of the important parts of our strategy, especially the markets we are in, emergency response and healthcare, and what we have focused on is the niche software and we will continue to do that. It's been part of our long-term success with recurring revenue. Also, we have become a strong leader in these areas in the Nordics over the years and as you have seen from our previous development and also this quarter, we are growing further across Europe and beyond, outside the Nordics as well. Obviously, why are people working here? Why do we get up in the morning? Obviously, most of our systems are focused on helping the society, the healthcare workers, and in the end, the patients.

If you look at this couple here, obviously if they've had a tragedy in the family, if they had some good news about a birth, a baby received, or they're thinking about having a baby or they have just had a emergency call, all of these situations you will see that CSAM components are a part of the processes. I think these functional supports in the healthcare and emergency response is obviously important and will be continue to be our main strategy going forward. Then, we have business-wise been able to create a very diversified business, not only through the Nordics but now in 27 countries. Diversification is important also when it comes to stability and long-term recurring revenue streams. For our business, we now see that the growth of recurring revenue is the main thing and the main KPI for our managers and teams.

Now, all of our business areas, we have eight business areas but seven of them are related to healthcare software. Number eight is through this year becoming a separate consulting company but is part of the business as of today. These seven areas have had since the last year obviously a process with regards to becoming decentralised business areas. This has been an important step and as you see there are different size of the chart, obviously. As you see, public safety, which is the biggest one, and you have medication management, the smallest one. On the other hand, they are run the same way. The same principles applies when it comes to organic growth, EBITDA measurement and also integration of new acquisition targets. In the end, we have chosen to focus on these seven areas, both when it comes to organic growth and also further M&A's.

In the future, we also look to increase the number of niches through acquisitions, but so far we will go through this today obviously for the first time also the performance within these business areas. Just to focus on the principle when we go into a niche is obviously also to create a small value chain inside each of these areas. Especially if you look at the two first one in the top left, you can see they are completely different when it comes to what type of healthcare business they are targeting. One is the medication management which is related to cancer and the other one, women and children's health, focus on babies and obviously pregnancy and babies. Then you can see that these are different in that sense, but completely the same when it comes to a concept. Our concept focusing on a value chain is to target different user groups and add functional components over years to secure a broader value chain and then again securing the stickiness of these important systems.

Without going into all these details of the businesses, I think it's important to understand also when you read our quarters, that this type of approach is a long-term strategy that has created the current growing, recurring revenue stream. Let's go into some of the highlights for this quarter. Obviously we are very happy to tell you that the growth of the recurring revenue is very, very strong and from 67 last quarter of the quarter, first quarter '22 to 79 this year. Obviously if you take 79 times four, you'll see how this trends for 2023.

I think the other thing that is important is obviously these customer types that support this recurring revenue, obviously. These systems are in place many times for decades and that is obviously why the recurring revenue has a low churn also. The combination of fast-growing recurring revenue, low churn, and these important customer structures is what makes this a very good quarter, showing that our value creation over time is on track, so that is important.

Also, we have to celebrate this quarter to get to a three digit number, more than 100 million a quarter total sales is also very good. We think also with the growth of 7% income is where we are in the phase we have guided and we are very happy to see that four times 100 is also a nice, I think, approach to what we have said will be roughly our sales for 2023 as well. I think we are trending, right and this is important for the value creation. Same thing with organic growth, which is a different number than the growth of the sale and income in total. This is in local, of course, per business area and 6% is also good in the interval we have been communicating earlier, between five and 10, and so we're happy to see that it moves forward as expected.

Also, income quality is part of our process now obviously to secure better EBITDA over time. Then we think 92% gross margin is quite good. We have obviously actions going on to make this even better, but it's good already, so that's good news. Also we have broken the trend from last year as planned, so we are progressing in the plan when it comes to reduction of cost, which then again has given us a 5% EBITDA so far. This is without having the effect of our Triginta project which was carried through in the first quarter, but the effect obviously very small in this quarter. But the good thing, we are still then progressing in the right way and that means that we internally see that the plan is progressing as we expected, which also good.

Then it's important for us, although we are very strong in the Nordics and we have much more potential in the Nordics, our national growth is important. We see now that this increase outside is coming from organic growth, which is important when we look at the ability to grow further and also when it comes to new acquisitions in the future. We see that there are a huge potential for us to follow our plan to become a notable player in Europe and in the world, so we're happy to see that, and 14% outside is good. We expect that to grow further in the years to come. Then I have to repeat and summarise a bit about buy, integrate and build, which has been a very important part of our business, our strategy. Buy, integrate and build obviously is what we do each time we have an acquisition, and acquisitions need to be integrated to get to the margin, EBITDA margin, we want and our target margin 30% is a structured approach we use to get to that margin.

This is a playbook and as you all know, we have reorganised through ‘22, getting a more decentralised model, but the buy, integrate, and build is the same. Each manager is responsible for carrying through, managing projects to secure the margin expansion. Then previously we have reported these acquisitions or integration projects and we see they have different states, meaning that they will at some point in time dilute margin very much. At the same time you have a two year project per target to secure a combined margin in the end. This is obviously what we have been doing and following previously as a central portfolio but now more in business area-oriented structure. I would like to explain them, the combination of our history here of acquisitions, and the specific plan starting now in the first quarter when we finalised the Triginta project.

If you start on the left here, to understand what we did in 2018, starting with the acquisition from Saab in Sweden and then some other acquisitions where we diluted the margin and we had an integration process and we then restored the margin and we started again in late 2020 to acquire more acquisitions and then ending in Camona in the beginning of ‘22. Then obviously now is the same process here to secure the margin again. To explain specifically the plan, the first quarter, this year, which we now have presented, we have completed the project Triginta, which we explained in the fourth quarter last year. Please understand that this milestone is important when it comes to the performance of the second and the third quarter and not that important for our first quarter. However, it is critical when it comes to number of employees. If you look at our annual report and see the numbers of employees there versus end first quarter, you will see how the trend is going on the cost side, which is not shown in the numbers of the first quarter.

This milestone, first quarter, we have actually then finalised Triginta. However, the effect of Triginta, meaning the run rate on the salary side, obviously will come in the second quarter. That’s why in our plan if you look at the second quarter, most of the effect there will come on the employee side. But then again, as I mentioned, what is happening in the second quarter? Well we have a lot of important deliveries, meaning we have a high run rate still on the consultant side and that is what we have to do. Through the second quarter, we will then reduce number of consultants. That means, in addition to other cost savings as well on the plan, that our plan to reach our target margin is structured this way, that the combination of reducing employees in the first quarter with effect in the second quarter, reducing consultants in the second quarter with effect from the third quarter is how we are then planning to reach our target.

This is specifically designed or described as buy, integrate and build in our documentation when we IPO'd in 2020, so this is nothing new, but I think it's important to communicate that this quarter shows that we are on our way to reach this and how we're going to reach it, to read us going forward, I think this is important. Then how are we going to do this specifically internally? As mentioned, we have this decentralised model, we have specific persons doing exactly what they're supposed to do within each area, and we will measure them obviously on the major KPIs that we have for the company in total, like the organic growth, the EBITDA, and obviously capital discipline. What we do now is obviously to see that these areas we have started for the first time to show you also the KPIs for these areas for the first time, which I think is also relevant.

It's not easy to read. There are different types of business, different types of delivery structures, so a quarter is not necessarily the best way to measure them. On the other hand, to show the progress each quarter would be interesting over time. Let's look at this. We have now shown that the seven business areas delivering software to emergency response and healthcare have different sales, different size. They have completely different EBITDA and different Capex and different organic growth, although all together they are showing the numbers that we have presented this quarter and also the previous quarters. Why are they so different? Why shouldn't be very easy to read? Well, I think that is important if we just take three of them and look at what's going on. It will always, when we present a quarter, it would always be lumpy. The reason is that many of our delivery projects are over many months and sometimes many years, meaning that the business case is good but the business case for one quarter might not be good.

This is ordinary business for CSAM, so when it looks like this, it is not a negative factor. For instance, if you look at LIMS here, well, it's a negative EBITDA, but we have explained before what has been going on here. We have explained the technology shift. We are working on a new version, we have a pipeline of customers there where we have doubled the delivery teams, meaning higher use of consultants temporarily. Obviously also, as we have announced, we had this contract, national contract in Denmark, which also is challenging for a company on the short term, front-loaded with cost. On the other hand, the business is good, so looking at this quarter, it is like this. The same with the organic growth, high line systems in the quarter we compare to and the lower in the quarter we percent, so things like that will always be lumpy.

For instance, if you look at medication management, you look at an organic growth of -19%. Why is that? Well, the simplicity here is that in the first quarter '22, we obviously had delivery with licences, professional services and increased recurring revenue. But obviously if you don't have that in this quarter, it will look negative. If you look at medication management over time, we acquired this in 2008, that is 15 years and the average of 15 years would still be close to 10% organic growth. That's why it's important for us to communicate. When we publish this each quarter, expect lumpiness. Then if you look at connected healthcare, has a quite heavy consulting on a temporary basis, so that is primarily why the EBITDA is low. As you know, as you saw from the other timeline, we are still some integrations going on and health analytics will still go on for a while, which will be at least the rest of the year and also in the beginning of '24.

Then you have seen it and we will go through more details when it comes to the business and numbers later. In summary, this quarter with a 18% increase in recurring revenues, it's a strong quarter and we also see the diversification and the growth outside the Nordics and with the strong low churn current platform in the Nordics and increasing outside also with more organic sales outside Europe including North America. I think we see now that our plan is working and that the first quarter is quite good progress towards our plan. Now, let's go into the financials and the numbers and Einar, it's your turn to run the show.

Einar Bonnevie:
Thank you, Sverre. All right, let's go have a look at the financial and all the juicy numbers. First and foremost, the most important part of CSAM's revenue stream, the recurring revenue, a healthy growth from the last quarter, and also here you see the last four quarters. 11% growth from the last four quarters approaching the 300 number, and if you look at the run rate, it's actually higher. This is good news for the bondholders and for the shareholders. The revenue

mix, we're very satisfied with the quality of earnings for the quarter. You see very high recurring revenue, the most important. Then average licence sales, good professional services holding up. If you look at the recurring revenue, we see that it's actually a increase of 18% on reported income and that is... and recurring revenue comprises... sorry, consists of 77% of total income is represented by the recurring revenue, so a very good revenue mix indeed.

The cost base, if you look at the cost base and compare it to first quarter last year but also to the fourth quarter of last year, we see that we are heading in the right direction. During the fourth quarter presentation we said that you should expect to see the first rays of light in the first quarter presentation. I think that is what you're seeing. I think we are maintaining the top line. We said we were heading into a year with 400 million in sales and we're actually a little bit above that. On the cost side, the effect of the Triginta project, you see that COGS is under control. We have a gross margin at 92%, so we're heading in the right direction compared to the fourth quarter.

When we look at the number of employees and you see there in the blue ovals on the bottom there on the bar charts and those numbers you can also find in our quarter report and in the annual report. Keep in mind that those numbers, they are the numbers exiting the fourth quarter. We went into the first quarter 2023 with 317 employees and we are exiting the first quarter and entering into the second quarter with 297 employees. But most of those 307 employees, you can't use the average. Most of the 307 employees were still there during the first quarter and they affect the P&L accordingly.

The temporary use of consultants, we said that you shouldn't expect them to show anything in the first quarter and they will still be there and they will gradually be phased out during the second quarter, so this quarter, with the full effectiveness built in the third quarter this year. Also keep in mind that although we have finalised project Triginta, per se, there have been some people leaving us with severance packages also in the second quarter. That effect of course will be visible at the end of this quarter, but full effect next quarter. One example or two examples could be the previous business area managers for medical imaging and connected healthcare replaced by an in-house recruitment. That could be one example to that one.

You see on other cost, you see they are progressing very close to our target so they have come down significantly from the fourth quarter of last year. All in all, costs, we are on our way. The EBITDA margin of course down from the first quarter last year to the first quarter this year. But that is explained by the previous slide, but still it's demonstrated for you, we are better than the fourth quarter last year, so things are improving. Capex, we maintain our guidance, so 10% GAAP Capex, although it was around 8% in the first quarter and you see that the EBITDA of course still hampered by the reorganisation so it will take another quarter before it has full effect. But again the cost reduction programme is indeed on track and you should expect to see more visible effects in the second quarter when we present those numbers later in August.

Okay, net working capital, we maintain focus on cash management and networking and capital discipline and we're happy to announce and to see that it actually improved five percentage points compared to the same quarter last year. Still not as good as the first quarter in 2021, but definitely it is an improvement and we will continue to maintain focus on net working capital. Okay, Who are our investors? We see that on the free float, not so much change but we do note that US investors, they have increased their holdings somewhat compared to last time when we met.

Okay, time to wrap it up first. We will continue in the short run to focus on organic growth and to maintain the top line, so that will definitely be the main focus. We will continue to focus on profitability. Our ambition is to deliver 30% EBITDA margin in the third quarter, so we will definitely remain cost focused and focus on quality earnings. Then a lot of people have asked us, "What about M&A? Have you completely forgotten about M&A?" And someone said, "You shouldn't focus on it at all." The answer is we are focusing on it and we maintain focus. There is high activity in this area but we will remain focused. As the Oracle of Omaha said, "Success is very much about staying disciplined and to say no."

But again, to grow organically as fast as we can, we're probably growing as fast as it is possible right now organically. Then if you want to grow faster, and that is our ambition, you need to do M&A and you do, to do acquisitions and that is a part of what we do, to offer growth through M&A. So we maintain focus but at the same time we want to buy the right companies, the right businesses, on the right conditions. We are absolutely convinced that the decentralised model has been the right thing to do and it has empowered the organisation most definitely. We have seen some positive results from that already and I think we'll continue to see more positive results from that going forward.

Last but not least, let me repeat this. We initiated the cost reduction programme, announced that just before Christmas last year. We executed on this during the first quarter and we'll gradually see the effects. To paraphrase one of the greatest hockey players in the world, Wayne Gretzky, "Skate to where the puck is going to be, not where it has been." All right, we will maintain our ambition, as I said, to be a leading player going forward and our ambitions to reach the 1 billion remain. We shall see when we reach it but rest assured our ambitions remain unchanged. Then before we go into M&A, subscribe to our newsletter, if you are interested in all the juicy news. You can use your mobile phone and scan this QR code or you can log into our websites. Okay, that was it and I think it's time to move on to the M&... to the Q&A. M&A, a slip of the tongue there.

Einar Bonnevie:
Right. Okay, let me take a look and one of the first questions here, it goes to me and that is related to organic growth and that is, "How much of your 6% organic growth is driven by repricing existing customers and how much is new business?" That is the 6% organic growth, this is really the first part of that. That is, let me remind you how we calculate organic growth. It comprises licence sales, recurring revenue and professional services and is measured in local currency, and so the 6% also that is how it's measured. Keep in mind that licence sales, they were unusually high in the first quarter in 2022, so that's kind of camouflages the underlying organic growth. Then when it comes to the question about existing customers versus new business, I will leave that to you, Sverre.

Sverre Flatby:
Yeah, I think that is a good question. We haven't reported exactly, but normally and on average it will always be mostly sales to current customers. I would say up to 90% of our growth is related to the fact that we have more than 750 contracts and customers that want more and that is also why we have a stable five to 10% growth over time. On the other hand, we have seen new, as I mentioned also, in outside Nordics, some organic growth increasing within our emergency area. There are a little bit of both and it might change a bit over time, but so far I will stick to say that around 90% still is sales to current customers.

Einar Bonnevie:
Okay, so let me get rid of that one. The next question, and there are several questions here related to the breakdown in business areas and the results, EBITDA, et cetera. Let's see if we can then address them and maybe some overlap here, but you'll have me excused. One is, "Can you help us understand how some of the cost base of Fertsoft, Carmona, MedSciNet and Carmenta add up to such a steep decline in profits from 2020 to 2022? Seems like the increased cost base is higher than these combined." Okay, and I'll actually address this question by reading the next question, because they are indeed very much linked together. I think very much of the answer is linked to the next question, namely, "Is the business area EBITDA, does it include corporate overhead or does that come in addition?"

The answer is it includes corporate overhead, so everything we call common services is included and distributed down to the various business areas. Also keep in mind that what we showed you is the results for the first quarter where we really haven't seen the effect of project Triginta, the cost reduction programme. There are two ways of doing this. Maybe we should have been clearer in the report, but either we could show you the marginal contribution from each business area to the EBITDA or we could distribute and allocate it out. We have chosen the latter, so for each business area they have their costs allocated, so the margin contribution is much better and that also I think answers the first question.

Again, the reason why we reorganised and trimmed down the organisation that we were simply too many the way in the previous centralised organisation. That is why we had the project Triginta in the first place. Okay, so I hope that answers that. Then there's a question I think for you, Sverre, and and that relates to the sales force. "How does the close down of the sales force in Q1 impact your future ability to grow organically?" I didn't know we had closed down the sales force, but maybe you can shed some light on this.

Sverre Flatby:
Yes, it's very interesting questions. Obviously it's the opposite way. The reorganisation has created much higher and forceful sales force, obviously. The focus and the closer to the customer model makes it much easier to secure and follow up the customers. Since most of our sales, as I mentioned, close to 90% is to current customers, the model where the business area managers focusing on sales and with their also key persons in their team, focusing more

and more on customer centricity. I think the sales force now is much, much stronger than it ever has been in CSAM, so I'm very happy to explain that.

Einar Bonnevie:
Okay, that's great. Some questions related to FX or foreign exchange. The first one is related to the impact of FX on the price increase on organic revenue growth in Q1. Okay, again, as I said the way we measure organic growth, it's licence sales, recurring revenues and professional services, and actually because the licence sales were lower in the first quarter of 2023, but again, if you look at the total licence sales for 2022 and divided by four, using an average of around 3 million per quarter, which is around where we are in the first quarter of 2023, so that's more normal, if you like. So it really camouflages the underlying growth. But FX, so you should really study that on the recurring revenue.

We have previously guided and said, and I think we'll repeat that, that we get some assistance, some from price escalators in the contract of say around 5%, but there are huge differences from contract to contract. But that wouldn't be 5% out of the 6%, that would be five, so related those 5% to the growth of recurring revenue. All right, I'll follow up with another question related to foreign exchange. "How has the high inflation impacted your results?" Very much the same. "Both on revenue and cost?" I think I just explained the revenue side. On the cost side, of course, I mean, there are price escalators in most contracts that we have on, say, housing and our suppliers, so it impacts that. But that, again, I think cost discipline and reduction of the number of employees or FTs is much more important.

The contracts, "are they CPI adjusted?" I assume the one asking the question really refers to our sales contracts, customer contracts, and the answer is yes, by and large they are. There may be a few exceptions but most of them are. But again, we have many hundred contracts with many hundred customers and keep in mind we have acquired those contracts through acquisitions so they're not all alike. There are different price escalators in all the different contracts and there are differences from country to country and from business area to business area. We have previously communicated that it's between 1% and 11%, so assume an average of around 5%. "Does these escalators balance out increased salaries?" Again, approximately, I'd say yes. Okay, and now it's one for you, Sverre, and that relates to external consultants. "Usually it's hard to get rid of consultants so how confident are you that the margins will go to 30% shedding your consultants?" Can we get rid of them? Why are we stuck?

Sverre Flatby:
Yes, I've been a consultant myself many years ago and I can agree that there are consultants who want to stay and want to invoice hours, that's what it's about. On the other hand, the question here when you look at CSAM's use of consultants, it's all related to actual projects that has to start and stop. These are primarily the delivery projects and I mentioned before that, especially within LIMS, the blood management area, and the public safety and also partly in connected healthcare, and the summary of those are projects that we aim to deliver in the second quarter and that's why there's no possibility to reduce very much in the first quarter which we presented today.

However, during the second quarter we see that these delivery projects come to an end. That means that when it comes to consulting, in our head, it's always consultants that are there to do a specific task in a specific project and not type of consultants that are going to stay and be there. We are focusing on retaining employees, to understand our business and to have that type of competence when it comes to software and development. We are quite confident and we feel comfort that reduction of consultants will be as planned reaching the third quarter.

Einar Bonnevie:
Okay. Then there's a question from Oliver. "Any restructuring costs or severance packages in this quarter that you haven't adjusted for?" No, everything is included. If I understand you correctly, Oliver, everything is included. We haven't presented any adjusted numbers so anything and everything that relates to the first quarter is indeed visible in the P&L. What you see are the real and true numbers. We could have made adjustments, but as we have said, we are not a company that is very fond of recurring one-offs.

Okay, and hello, Emilie, and the question is, "Can you provide some details on the share of personnel expenses related to external consultants in Q1?" To take that one first, we haven't communicated those numbers, but to give everyone a guideline, we said that project Triginta, Triginta being 60 million, going be saved and most of that would be related to salary and personnel and we thought that it would be approximately, say, 50/50 or around there, and we said that we have, and most of the consultants will still be there in the first quarter and a lot of them... and we'll phase them out during the second quarter. I guess you can do your math based on that.

"How many external consultants did you have in Q1 and how many do you expect to have in Q3?" This is not only a numbers game, there are different consultants, but again, rather than counting the number of consultants, I think we shall concentrate and focus on that. We had a number of consultants during the first quarter, we had them in fourth quarter and first quarter this year, linked to specific delivery projects that later on when these projects go live they will start generating recurring revenue, which we all love. They will be there in the first quarter. They will gradually phase out in the second quarter and in the third quarter we assume minimum use of external consultants. Hope this helps you in your calculation.

Another one from Oliver to follow-up on, and that is, "So were one-offs in this quarter that are not adjusted for? How much would that be more or less?" Haven't really done that calculation, Oliver, but there are some of them in this quarter, some in the second quarter. There was a little blurred line there and that is also what we have written in the comments that there were someone leaving us also in this, I mean, the second quarter. So we haven't calculated and we haven't presented, made those data public, but it's not enormous amounts. Most of the costs related to Triginta and severance packages, they were booked during the fourth quarter last year, so nothing much remains, so to speak, is more adjustments. Okay, another one from Emilie, "Can you provide an update on the reduction in number of employees? You previously announced that you will reduce the workforce with 25 to 35. Where did you end up, in the lower or higher end of this range?" What will you say, Sverre?

Sverre Flatby:
We are now actually in the middle. We have reached, if you look at the specific number from the fourth quarter, 317 down to 297. That is one specific number, but there are more to come during the second quarter as well. We will see that between 25 and 30 will be the number.

Einar Bonnevie:
Yeah, and also remember that that number, that 25, if you take it up to 35, that will include some of the consultants. But I think we can say that if you take a

look at the number that we presented for the fourth quarter, 317, and look at the number that we are exiting Q1 and entering Q2 with, 297, and then add to that the information that we gave you, that some people have left us also during the second quarter, and you see that we end up approximately, and then you can remove some of the consultants, and you see maybe we're in the middle of that interval that you are referring to. Okay, another one from Emilie, that this goes to you, Sverre, and that relates to organic growth in the business areas. "Can you elaborate a bit more on the organic growth and margins per segment? How do you expect organic growth and margins to develop going forward?"

Sverre Flatby:
Yes, obviously there are, as you saw from the table, that it's very lumpy and it's all depends on the types of delivery projects we have. We can take one example would be LIMS, which looks very negative. Then again, they have large pipelines with large customers and some projects, a parallel project, might take one and a half year or something like that. Meaning that the business case is not related to quarter, and customers may also change their plans for installations that might also influence the booked income, so from one quarter to another it's very difficult. In that sense, we're not really a quarterly business when it comes to how to measure these things. On the other hand, we see that on average over the years back in time, it has been an organic growth between five and 10 and we stick to the fact that this is what's going to happen going forward as well.

I see that the current projects going on and the current development in the first quarter should continue, meaning that we will see lumpiness in the quarters to come where one business area gets some licences, additional professional service because they deliver, and then also a tick up when it comes to recurrent revenue streams. I think the only thing I can promise you is lumpiness. On the other hand, the average I think will be as we plan and we look at this year from in total for '23, and I also see that the years to come that we'll stick to our guidance with five to 10% organic growth and obviously also continue acquisitions.

All in all, we don't expect too much per quarter that will change our minds very much, but we think it's important for us to deliver this more granular approach since most of our investors have asked for it. It will be interesting for I think an external investor has to look at this but we cannot see that it will be other than lumpy going forward as well. Don't expect that it will be a linear development in this business area, but I think the development we have promised when it comes to CSAM in total will be as planned.

Einar Bonnevie:
Thank you, Sverre, and again just to remind you that the organic growth includes a licenced sales and that is a lumpiness that Sverre is referring to. If you remove that from the equation, you would see that the organic growth give you a different picture. I think it's also worth noting that our biggest business area, public safety, or emergency and responsive, if you like, also has a very significant organic growth, so the biggest area, growing the strongest, could have been worse. All right. One from Victor and that it relates to also recurring revenue growth, so we continue where we left of with a previous question, "What was your recurring revenue growth in the first quarter year-on-year in constant currencies?"

We haven't presented that number, but I'll give you some guidance on how you can do the calculation yourself. The reported growth, quarter of a quarter or year over year, is 18%, and we have said that you can assume that the currency effect or effect from price escalators is around 5%. So that should give you a rough idea of how strong the organic growth is, if you exclude the currency effect. You probably end up with a conclusion that we are, the recurring revenue growth organically, is somewhat above our previous guidance. All right. Another one from Emilie for you, Sverre, and that relates to LIMS. "Just to follow up on the margins, do you expect for LIMS to still be a negative contributor to the overall margin in Q3? In other words, that some of the higher margins segments to be above 30%?" So will they all be 30 or will it be some above and some below? Give us an answer, Sverre.

Sverre Flatby:
I'll promise you it won't be everyone is 30, and yes some will be over, and I think typical like LIMS, when you have an ordinary business, it has a 40-year history, it has had recurring revenue streams for decades, but then again, every 10th year you have a change of technology. LIMS are in the middle of that change, releasing a new version this year, and obviously that means higher Capex and also a lot of actions going on with the customers and costs related to that. Also at the same time with pipeline, a long pipeline, of customers with projects going over years and then a national project in Denmark obviously, which is a special one as well. If you combine all of these,

you will see that the mix here is not doing... It's not going to be 30% overnight, obviously. However, the long-term plan for LIMS should be the same.

It's no reason why LIMS shouldn't perform 30% either. But we have to take into consideration that we think we have made very good business decisions around having this Denmark project at the same time with a high pipeline, at the same time creating new software that will make it easier to speed up delivery project the years to come, so in our head it's a long-term game. Yes, there is a specific answer. Some of the business areas will be lower and some will be higher, and on average we expect 30% to be reached in the third quarter.

Einar Bonnevie:
Thank you, Sverre. If I may add, keep in mind that the contribution for each business area in the table in the report, it is not the marginal contribution, it is the contribution including allocated common services, so I think that is worth noting. Okay, and there's one more question. If you have more out there, this is the time to type them in, but this last question is from Karl. "Thanks, Einar and Sverre!" Thank you, Karl. "Could you please elaborate more specifically, how do you look at capital discipline in the business areas? Also, in what range is your internal hurdle rate for M&A projects and internal investments?" That appears to be a very financial question, so I think I'll address that one myself.

That's capital discipline in the business areas. Let me take that one first. You will see also in the table that we presented in the report that there is a huge difference between where we have spent the Capex. You see that where we have had the good business case and when we are present a good business case, that is also where we are allocating the money. It's not like we're just spreading them all around or doing some funny accounting tricks. These are, as we have said before, actual investment cases. You will continue to see that we may invest in one business area and not in another one. If we don't have a good business case to invest in, we won't, and that is one thing on capital discipline.

Capex, the other part of capital discipline, is related to working capital, and what can a business area manager do, him or herself? Two things, mainly. One is to improve the qualitive earnings in the contracts. In other words, to invoice the customer as much as possible upfront and long time in advance, and then to negotiate your suppliers from 14 days to 30 days to 60 days to

90 days, the simple tricks in the book. Then the last question was the internal hurdle rate for M&A projects and internal investments. That hurdle rate is exactly the same. We regard an investment in an acquisition, in an M&A, in a new business, require business has the same average cost of capital as when we do an investment in internal project Capex. In many respect you could say it's buy or build, so we're really a bit indifferent to that one.

Again, and that is also why we indeed will continue to do M&A and we haven't given up on that. We will do M&A because that is our way to grow. We have been growing through acquisitions for 15 years and we are not about to stop now. The internal hurdle rate has come up, which we are currently using around 12%. But you always have to reassess your weighted average cost of capital, both your own capital costs, how the bond trades and the base rate in the markets, et cetera, but currently around 12%. Okay, let's see if there are any more questions. No more questions, it seems to be, and we are approaching 9:30. Let me just give it one more second here and refresh the screen. Nope, there seems to be no more questions, Sverre. We hope you have enjoyed this presentation. Tune in again on August 25 when we will present the Q2 numbers. Until next time, enjoy summer. The days are getting longer and things are indeed looking brighter. Thanks for watching, take care, keep faith, and stay safe.