Transcript
Q3 2022 Results Presentation

Einar Bonnevie

Good morning, ladies and gentlemen, and welcome to the presentation of the results for CSAM for the third quarter of 2022. The report and a copy of this presentation can be downloaded from NewsWeb or from csamhealth.com. This webcast will comprise a 40-minute presentation followed by a live Q&A session. You can type in your questions at any time during the presentation and we will address them later. A recording of this webcast will be published on our website shortly after presentation, and starting from the third quarter, also a transcript of the presentation. Thanks for the tip, John.

Now, I have the pleasure of handing over to our CEO, Mr. Sverre Flatby. Sverre, the stage is yours.

Sverre Flatby

Thank you, Einar, and good morning everyone. I'm happy to go through some of the highlights for this quarter. But before that, let's start the usual way. For all of our long-haul investors, and also for the new ones, I think it's important to emphasise what it's about. And the three first words here is normally an easy way to define CSAM, and also a way to read our quarters going forward: the healthcare space, the specialist focus, and software only.

So, looking at that, we have been following that strategy for 15 years, and that has also made it possible for us to get a very strong position in the Nordics. As you know, almost all of the Nordic regions, our customers with CSAM, and we are also growing outside. So, this strategy has been a long-term strategy and is going to be so going forward as well.

And what it is about, obviously for society, for patients, and obviously for our customers, the healthcare professionals, these things are important software components at work when people are meeting milestones in their lives, whether they are heavy ones like getting cancer, or it might be a good one like receiving a child. In many of those specialised situations, components from CSAM will be at work. And I think the combination of this specialist strategy and the good thing these software components are doing, is also why many of our people are in our company. We love to do and we are proud of these type of systems and what they actually do.

And then, looking at where we are now, I think it's fair to say it's a quite happy place to be when there are these disturbing times in Europe. Obviously, it is a safe place to be. We have achieved a lot. We have 500 different important healthcare institutions as customers, and these are in 25 countries. And the diversification here is very important when it comes to understanding CSAM and the CSAM platform, because all of those, more than 90% of our income and also our recurring income are coming from these institutions. So, that means the diversification when it comes to geography, regions, and also hospitals, departments, public safety organisations, etcetera, is extremely high. And that is why the low churn and stable repeating income is there in our business.

And then, the diversification doesn't stop there, because also within our business we have different business areas, or niches, if you will. And these niches also have their strong position, and even inside those, you have more diversification, different products for different departments everywhere in our markets. And that means also here, you will see that we have a stable diversified business across these business areas. That means if you look at each one of them, there are a lot of smaller things going on, and I will try to go through some of the important things in this quarter and also what's going to happen over time.

To start, on the top left corner, Medication Management. What is that? Well, it's four different user groups within healthcare, and medication management in our context is about cancer. And if you look at the ones creating a cure, a doctor, oncologist, and defining a cure, you have help in our software to design that cure. So, that is one approach, one part of the tool. And the second one would be the nurse that actually administers the cure, having gotten it from the third one, the pharmacy. So, that value chain in itself is very important to secure the quality of the cure and how it's given to the patient. And the fourth user group obviously will be the patient, because the patient at home need to say, "Do I feel well? Have I eaten?", etcetera. And that type of digital collaboration between the hospital people and the patient is important going forward.

So, as you will see, then, within Medication Management, we have created some sort of a value chain inside the niche, and that is the strategy when it comes to all of our niches. So, it's a similar thing if you take the next one, the Women and Children's Health. Although that is a completely different discipline when it comes to healthcare, it's the same concept when it comes to software. So, what are the user groups, here? Well, obviously you have the midwife receiving the child and also, obviously, doctors, nurses helping out in the processes. And then also here, you have the patient, or to put it that way, the pregnant lady, because this value chain is also the same. You have to collaborate with important information. For instance, you have an ability to register vital data, making sure that you can bring a pregnant lady closer to a specialised hospital, for instance, if some vital signs say you should.

So, there are different ways to secure quality, and as you know, the quality of a pregnancy and that amount or that time when you receive a child obviously has a lot to do with the health of that person further in their lives. So, I think if you see those two together, Medication Management about cancer, Women and Children's Health about maternity and birth, these are the same concept when doing different things. And both of these business areas during the third quarter have upgrades, projects with existing regional customers, meaning there are add-ons coming on, new upgrades with new types of value chain increases that makes the value for the customer higher. And I also would say for the years to come, higher recurring revenue for CSAM. So, that is a good thing and a win-win for both parties.

And then, if you look at Medical Imaging. Medical imaging in our context is also highly specialised, like using photo as here and focus on a specific thing like skin cancer, like this. However, value chain in this case is more over integration with other systems in the hospitals and other process systems, and also integrated with the one to the right, with Connected Healthcare, because there you have a huge stack of components, different types of components, that will help sharing images over a lot of different organisations. For instance, as we have in Denmark, a combination of medical imaging, connected healthcare in Region Zealand, and then also sharing with the Capital Region in Denmark, for instance.

And also, these areas, Medical Imaging, Connected Healthcare are working with new platforms that are going to be easier for us in the future - to sell and easier to maintain. For instance, within medical imaging, through acquisitions over years, we have acquired three different types of medical imaging systems. Now, they are merging into one platform. We have done that over years, but then again, keeping the customers, keeping recurring revenues, giving the customers more with a new platform, and giving us the possibility to maintain this much cheaper, and the summary is a win-win there as well.

So, then to our newest business area, Health Analytics. Still, Health Analytics is in the middle of integration because this is the last acquisition we did early ‘22, and also the first acquisition in ‘21. So, this is the only place where we are in the earlier stage of integration. Of course, that is a bit struggling when you put together two platforms, two teams. It will still take some time, but then again, a good place to be because you still have good platforms, different customers, and when you merge them over time, it’s also a good business case.

And the special thing with Health Analytics is that healthcare data and registers, like national registers that we serve in these business areas, are obviously very important over time when it comes to research and when it comes to understanding the business and make the right business decisions. So, over time, the next decade, I think that Health Analytics will be a very growing area and also a synergy with the rest of our niches.

And then, Public Safety, I have mentioned in the report in my introduction a bit about Public Safety. It is our biggest area. And when I’m talking about value chains, the user groups here, the one in the photo, the operator obviously is very important, taking the phone calls, 911 calls, and then also the driver in an ambulance or a pilot in a helicopter, and then the person in the back of the ambulance helping the patient. We have solutions for all of these.

And in the end also, the Optima solution, part of that value chain, that also helps creating or looking at different logistics, and making it possible to analyse and create more of a high-quality business out of the acute service. For instance, if you have 50 ambulances, where do you put them to make the best effect out of that? Or maybe you could be enough with 48 instead of 50. So, these type of business cases is what you get out of solutions like that.

So, again, Public Safety is an example of several acquisitions put together over years and are creating a very strong value chain. And that’s where we are today.

And also, not only very strong in the Nordics, but also more and more in different types of countries. And I also mentioned in report that we have renewals going on in Public Safety both within the Coordcom operator software, for instance, in Valencia, in Spain, renewals, and also add-ons and further growth. And similarly in Moldova, for instance. So, this again shows that it's these renewals and also new contracts for instance with Optima in Australia, US, and the UK, a summary of those gives us these long-term value of recurring revenue streams, and also the ability to continue working on a very, very stable platform.

So, the last one here, Blood Management. Blood management has partly been the business area together with Public Safety that has been invested a lot in '22. I also talked about earlier that we had to scale up our delivery teams, and that has been very important for us, a very good investment, making sure that customers in a row actually are able to get the deliveries faster. Obviously, that has hit our costs in the quarter this year. On the other hand, it's more important for us to secure that these things are happening for the customers' side, and also for our own side, when it comes to further growth in years to come.

For example, within Blood Management, we have more than 20 customers waiting in line to actually get upgrades. And since these projects are complex with integrations, processes, training, etcetera, maybe they will take between six and 18 months each to carry through. And as you will understand, to do those one by one would take many years, and that is not possible. So, we have chosen to invest in that, and we think that is the right decision to make, and that's why you will see there are of course higher costs, especially high personnel costs and consulting costs to do this as a temporary activity to secure a better flow in the incoming... in the order book.

And of course, within Blood Management, there's also another thing going on, very important, development of a new platform in addition to the contract in Denmark, the national contract we won last year. We, of course, put together here a new platform, a new version, that will make it easier to secure add-ons and easier installations over time and subsequently higher recurring revenue over time.

So, all in all, if you look at the diversified set of business areas, what's going on in them from a long-term perspective, extremely low churn below 2% as always, and gives us a very strong position now with renewals going on and also add-ons going on, and also efficiency through combined platforms going forward. So, I'm quite happy about the status exiting the third quarter and looking forward to present the highlights going forward.

So, let's start with the recurring revenues. They grew approximately 5% compared to the last quarter. And of course, recurring revenue is the most important thing for us. And as you will know, these recurring revenues are there many times for decades. As example, for some of our customers here, just to give you the picture, these are installations that have been there for years and going to be there for years, and that is why it's important for us obviously to secure a growth in recurring revenue.

So, if you look at the sales in total, it doesn't look very exciting, obviously, with 0%, or the same as we had the third quarter last year. On the other hand, different reasons for that. Third quarter last year, we had more licence income, which is one-time and lumpy income. So, if you have added the same 4 million in addition last year, and also look at maybe FX and all those things, it's not that bad either. So, in my head, it's as expected and a good place to be, although it's obviously a boring number, to put it that way.

And then, the organic growth, I've always said we will stick to a long-term perspective. 15 years in a row we have seen that the average will be about between 5% and 10% annually, and we stick to that, and YTD, it'll still be that, although it's 2.4% in this quarter. So, we think we'll keep on guiding between 5% and 10% going forward as well. And you might say, next year, obviously we have inflation protection, not kicking in so much this year because you measure it this year and you kick it in next year. That means our interval, between 5% and 10%, we should expect obviously in the higher part of that interval next year given the inflation coming in addition.

So, then, the gross margin, it has to do with quality and how are we actually maintaining a good position there and also over time want to increase that from 92 to 95 over time. Well, that is actually to use our IP, our software, which is quite important. We don't want sub-deliveries, and we would try to reduce as much of that and stick to selling our own IP and be a very clean software business. So, we are proud of having an ability to stick with a very strong gross margin, and focus on getting it even better over time.

And then, the EBITDA, probably not so exciting. On the other hand, as I mentioned, it has been a deliberate action to do. We had to invest in these activities to do parallel deliveries in Public Safety and in the Blood Management area. So, that will still hit us this quarter and obviously a bit going forward as well. On the other hand, we think that we have a programme and are going into that to make sure that we restore the profitability to our target margin, 30%. Coming back to that.

And then, still, we are strong in the Nordics and have the main part of our income there obviously. However, it has been growing compared to the quarter last year. So, from 8% in '21 to 12% this year, and I think that is also important to look at when you see our growth outside and diversification of different types of institutions. Many countries and many regions, many departments gives us a very strong position here, and most of that are also national or public organisations, meaning that we are not affected by these negative things outside, the financial things outside going on.

So, I have to explain to you, then, what about the margins? And I have said many times before, our target margin is 30%. And then, I get the question back, obviously, from many of you, "Are you sure you're going to get 30% margin?" Well, let me explain how we measure how, to get to 30% margin internally. And first of all, we are using a model, we have been using that model for seven years, a well-trained organisation and how to actually integrate acquired companies. And this is a very important part of reading CSAM quarter by quarter, since nothing happens specifically in a quarter, but specifically through a two-year project. And these projects, we have a portfolio of those, making sure that when we acquire something, we have a business case, we have an integration process for 24 months, that actually specifically is going to bring a 30% margin to that object, integrated into our system.

And then, everyone wants obviously to see how can we measure that. And that has been, and still is, quite complicated, but we are going to solve it because everyone is asking for it and we also need to do it ourselves. And I'll explain exactly how we're going to do it. Traditionally, we have been running this portfolio specifically inside the management, top management, as a portfolio and followed up processes in the organisation. That has been a good way. However, when we are getting bigger, we see that the scalability of handling this process, this way, is probably not the best one. So, that is why our focus has been on the organisation this year.

In addition to this delivery step up, we also had to reorganise and reorganise to make it more de-central and more transparent, because the way to answer many of your questions about transparency and reporting also is connected to how we work and how we are organised. So, that is an important thing, and we have done that, and come to a structure now that we feel gives us the possibility much more to be transparent with businesses that we can follow internally and also publish externally. So, our plan is obviously to do that.

And now, if you see this organisation, how we are organised and connected to very specifically the businesses, you will see that all of those seven on the left-hand side there, and we are going to measure those ordinary with organic growth, EBITDA, internally. That means we also, from the first quarter next year, would publish that. How are each of these business areas actually performing? And if you see on the bottom there, organic growth, EBITDA, capital discipline, we want internally to focus on that for all those.

In addition, you will see that the buy, integrate, and build actions are inside each business area. What does that mean? And why is that important for us and for you? Well, simply, the scalability and the ability to acquire more in parallel and be able to integrate and without disturbing other business areas. So, I think it’s important to understand that this change through the year has been... Of course, it takes some time to do. We are closing in now at the end of the year, and I think this is a very good news for when it comes to how to secure value creation going forward.

And then, as you see, there is... In this slide, on the right-hand side, there is a new business area, and what is that? Well, we have in the Philippines about 50 employees. We’ve had that for many, many years, more than 15 years actually. And, this team, together with some of our Nordic teams, is obviously used by different business areas, and we would like to convert that and have done that, initiated that the third quarter, to actually run that as a profit centre, rather than a cost centre. And also, because we have from the outside, needs from existing customers to others, to actually also sell services outside the company as well.

So, all in all, we think that is also actually a value creation engine, and that is we have an internal consulting service delivery with development and consulting, project management for instance, that at the same time can sell those services outside the company. So, that is a new add-on which we are looking forward to also report. So, when we report our first quarter next year in May, mid-May, we would obviously also report this new business area in the same way, although the performance KPI would be a bit different for a consulting… but on average, the company in total should still work for the 30% EBITDA margin, consolidated. So, that is still what we are going to do.

So, what we look at now, if you see what we presented to you during the IPO in 2020, and we have repeatedly gone through this slide and explained our plan. And there are a couple of things to say about this now, because when we say 30% EBITDA margin, how are we going to achieve that while we're still growing? Well, what we want to do now is to tell you about the project Triginta, which is an internal project that we follow up and secure that within the third quarter next year, where all of the integration activities we mentioned are finalised. At this point in time, the company should perform on the current business 30% margin, meaning the current business will be measured quarter by quarter next year on each business area. And then you can see when we split this, it's easy to see when we acquire new companies, those integrations will be only in one business area, making it quite easy to measure.

So, this slide, what it is saying actually? Well, we stick to our strategy with the specialised software, we stick to focusing on the recurring revenue and still say 5% to 10% organic growth, and we think we will stick to the 30% margin for the current business third quarter next year, but then again, we will acquire more. And talking about acquisitions, we have not done many acquisitions this year. We see that, on the other hand, the activity is actually extremely high. And then ask me, "Why haven't we then acquired a lot of companies?" Well, we have to make sure the fundamentals are okay. We have seen there are expectations on valuations we haven't accepted.

So, we think it's going to be going back to a volume and to a more strong acquisition volume going forward, although it has been paused a bit this year, and for many reasons as you know, like the war in Ukraine, things have not yet been normalised as we see it. But I would like to assure you we have more than 300 projects in our M&A database and working thoroughly with those, categorising them, have a lot of dialogues going on, and waiting for making the best deal. So, we stick to this plan and still think it's possible to reach to NOK 1 billion. And how do we finance that? Obviously through getting the performance back in the third quarter next year, to secure further growth and funding.

And then, I've always said CSAM is not a sprint, it's normally not a quarterly thing that's very much happening. I've been working here for 17 years, so it's still a marathon. And we think we have been able to create a company that is leading in the Nordics with that strategy. I think we can be notable in Europe and in the world. We are going to stick to that strategy. And I think we've shown through our numbers that it's possible to get a diversified, strong recurring platform in the Nordics as you see, and at the same time grow slowly, without too much risk through acquisitions, outside the Nordics.

So, in summary, I think we are in a good place. We have a programme to secure or to restore our EBITDA margin to 30% on the current business. And those who asked me, "Are you sure you can do that?" Well, we showed it from '19 to '20, if you look at our books. So, it's possible, and we have a programme to do it. So, we are going to do that, and we're going to acquire more companies, and we're going to go forward and to reach our ambitions. And having said that, Einar, maybe you should talk a bit about the numbers. Here you are.

Einar Bonnevie
Thank you, Sverre. I will indeed. We've received some questions, so just keep them coming, type them in, and we will address them as soon as I'm finished with going through the financials.

All right. First and foremost, we are focusing on, as you know, on recurring revenues, and they continue to grow. They have grown 21% year over year, measured Q3 over Q3 last year, and still more than 95% of our customers are in the public sector in the Nordics and elsewhere, and neglectable churn. For all our bondholders, this continue to be good news, and also the perfect foundation for doing M&A.

The revenue mix, while seemingly a flat development, the income composition has improved. So, we have recurring revenue increasing from 78% to 82%

compared to the same quarter last year. And you will also see an increase in professional services. And this is, of course, linked to the fact that we have a lot of ongoing delivery projects. So, in spite of this being in the midst of the holiday season for Nordic employees, we're still increasing the professional services.

What is going down is licence sales. It is lumpy, but if you see the development YTD, you see that we are approximately, let's say, on track from last year. And then hardware sales, the non-strategic hardware sales is also going down. Just want to add one comment to the seemingly flat development, keep in mind that almost half of our sales are in Swedish Krona, and Swedish Krona has weakened compared to the Norwegian Krona approximately 6%. So, keep that in mind. And we do report in Norwegian Krona. So, the underlying trend is actually a tad stronger than what you see here.

All right. The gross margin. Gross margin continues to be high, and we know it's 92%. Our long-term target is to bring it up to 95%. We are on our way. And the overall profitability will be restored to 30% during our Project Triginta. You see that other costs is increasing a little, about the same level as last year, but it is first and foremost the salary and personnel part that needs to be addressed.

If you look at the overall margins, you'll see that they have improved compared to the second quarter, but they are still below the third quarter last year. But again, we have had a lot of temporary personnel to deliver on the many projects that have been ongoing. We have hired a lot of people in order to turn the organisation to make us more focused on sales and delivery. We have hired personnel to help us with that. You will see that the CAPEX, they're back to the guided levels. We have said the CAPEX will be approximately 10% or slightly below that, but we are still on that, and up compared to last year from 6%. Again, we are reorganising our company into business units or business areas as we call them. And that has also had an impact on the short-term profitability.

We are focused on networking capital. We have communicated a target that we shall be minus 10% or better. We see that we are a bit down this year compared to last year, but the trend is in the right direction. We still maintain our goal, and also the reorganisation into business areas, where we will measure business areas not only on organic growth and profitability, but also on capital discipline. We expect that to improve the networking capital. But still, in order of priority, profitability first and then the networking capital. But rest assured, we are focused on the capital.

The trend that you have seen that we are typically very cash rich at the very end of the last or the fourth quarter and the beginning of the first quarter, you'll see the same trend this year, and that is linked to that we pre-invoice, invoice in advance, all the annual recurring revenue or service and maintenance agreements as they're often called. So, you will see the same pattern going forward as well.

All right. Who are our investors this year? And we've shown you this pie chart a few times before. There have been some changes since the last time we uploaded this pie chart, and you will see that Norwegian, US, and Swedish investors, they comprise approximately the same, 25% each. A slight decrease in Norwegian/ Swedish investors and an increase in US investors, and also an increase in the UK investors. So, Anglo American comprised 35% of all investors. So, that's how it is. There have been no changes on what we call on management of key personnel, Sverre, myself, and the other founding fathers. We haven't sold a single share and we don't intend to sell anyone. Speaking of shares, you will notice that we are pressing play again on the share buyback programme that was temporarily paused, so that was communicated this morning as well.

All right. To sum it up, we will maintain our guidance on organic growth between 5% and 10% annually. And because of the higher inflation this year, we should assume that to be a robust backing for organic growth next year. We are, as Sverre mentioned, still focusing very much on M&A. We have had high activity. The fact that we haven't announced any deals absolutely does not mean that we haven't been in discussions and been in dialogue. But we will buy the right company at the right price, whenever the opportunity is there, and I think we can do very, very efficient and quick DDs. And so, we definitely have a no-nonsense and rapid approach to DDs, but we will not buy the wrong company at the wrong price. That's the easiest thing in the world to do. But that's not the business we're in. Only if it makes sense and adds value.

We will focus on profitability. Sverre described that we will take us back to profitability, Project Triginta, and buy, integrate, and build. We're absolutely certain that we will reach 30% EBITDA within the third quarter next year through the measures that we have taken and are taking and will take. We have a decentralised and very empowered organisation, and I'd like to underline and stress the fact that the way you organise your business, it really makes a difference. We have looked at who have been really successful in growing and organising the business and what have they done, and in retrospect, you can say we are shameless copycats. So, we have tried to learn from the best and see what have they been doing, and we do the same. But we absolutely believe that decentralising decision making, bring it closer to the customer, and empowering the managers of the business areas, it makes sense and it will yield results.

A side effect to that is also an answer to a question that a lot of you have had. When can we see the development within the different business areas? And in order to do that, we have had to do a lot of things internally, and we've had to really focus on the business areas, but we will start reporting the development on the different business areas from the first quarter 2023. That means organic growth, EBITDA, capital discipline, integration progress, BIB progress. So, we heard you, we listened, and we will take action, and that will happen in the first quarter of next year.

All right. That was to sum it up, and again, as Sverre said, we are maintaining our targets. We will continue to be in this business. We will continue to focus and be very disciplined on clinical software, on specialised software. We will grow as fast as we can organically, and we will continue to do acquisitions when they make sense and we have the capital and we are ready and able to act quickly.

Before we go into the Q&A session, I just want to remind you that we have a newsletter. There's a lot of things happening in CSAM. Subscribe to our newsletter. Pick up your phone, scan the QR code, and it will take you directly to the login page. And once you've subscribed, you will be the first to know.

All right, that was it. Let's go into the Q&A session. Let me bring it up here. And we have a couple of questions here. And one of them, I'll give it to you first, Sverre, and that is from Emily. And that question is, "Acquisitions is critical to reach your 2025 revenue target, and would imply a higher M&A frequency or larger acquisitions. How should we think about this? Do you expect activity to pick up and/or be more sizable acquisitions going forward?" That was many questions in one, Emily.

Sverre Flatby

Yes, it's a good question. And I think you have to explain specifically what we are doing. When it comes to activity is one thing, and that means how many are we actually focusing on? And as I mentioned, 300 different projects. And if you want to see, the size of those are very different. Most of them are smaller, mid-sized, as the ones we have done in the past, some of them are bigger, and we also always look at targets also compared to our own size at that point in time. And we have a lot of dialogues going on, both with bigger ones that could come up to half of our size, for instance, and also a lot of smaller ones we have been discussing with for many years. So, I think it will be a package.

And in my head, to stay on with the 1 billion goal, at least performa exiting 2025, I think we have to acquire 100 to 150 in extra sales for '23, '24, '25, around that. And, in the database with the projects, we feel comfortable that it's possible to get a combination of the bigger ones and smaller ones in those three years. So, we still stick to the plan. We know that when we have a '22 that is a bit dryer, that it has to be geared up. On the other hand, we feel that that's going on when we see the dialogues coming back now, that I think the world is getting back to a bit more normal valuation when it comes to those type of targets that we are looking for. So, yes, I think we will acquire both small and big compared to our size.

Einar Bonnevie
All right. Also, a question here about the auditor, and it's, "Why did you change the auditor mid-season this autumn?" And there's a very simple reason for that. We actually hired the previous auditor from RSM, and due to hability, they couldn't be an auditor anymore. And that said, RSM had been an auditor for CSAM for more than 17 years, so maybe it was about time to change auditor anyway. So, very little drama, and we changed to PricewaterhouseCoopers. And no other reason at all.

All right. And then, a question which I'm not sure I fully understand, but I'll try to address it anyway, and that is, "When do you expect to have finance operations up and running?" And I do think that we indeed have these finance operations up and running. If we hadn't, we wouldn't have been able to sit here and report the numbers to you. So, they are up and running, and they will continue to improve. If you think about when we're going to report on the business areas, that is, as I presented, as from the first quarter of 2023.

All right. And then, Sverre, a question, "Why does it take so long to improve the EBITDA margins, and what can be done to expedite the process?" Why can't it happen tomorrow?

Sverre Flatby
Yeah, that's a good question. Obviously, if you look at healthcare, healthcare processes, I think you have to see that all the stability, predictability, recurring revenues, the stickiness over time, and these good things with our business, they also mean that things are taking time. So, if you acquire a company and you want to get 30% EBITDA, it's not done in a quarter or two quarters. And it's simply because if you say the income part, you want to renegotiate the contract with a customer, sell some add-ons for cross-selling or something like that, you still have to talk to the customer that year and maybe affect the budget for them the next year, meaning then you already have the plus 12 months, you have this buy, integrate, and build thing that are 24 months.

So, it's just about reality. When you have these good things with recurring revenue streams that are so steady, the other side of that thing is obviously that things are taking time to change, and that's why we have trained over time and focused on doing it through a two-year project rather than thinking it should be a fast thing to do. So, that's why when we have a portfolio now of five integration projects going on, at the same time scaling up acquisitions, it's not possible to drag a quarter down just to do it, and I won't do it either. So, I think that is the answer. We have to do it in our way to secure the 30% margin at the point in time where we can actually manage to do it in the proper manner.

Einar Bonnevie
Okay. There's another question related to the EBITDA margins, and that is, "How do you plan on improving EBITDA margins to 30% in the next 12 months if you also acquire new companies?"

I can start on that one. This is a very good question. It's very relevant. When we say 30%, we are speaking about the current business. So, if we acquire a new business... and we have typically acquired turnaround or turn-better candidates, and we say that acquisitions will be dilutive. But, say, if we acquire a business, say, 100 million in sales, and it contributes zero EBITDA margin, we will still have 30% EBITDA margin on the current business. So, that is what we are referring to. So, the overall margin may be diluted, but in monetary terms on the current business, our target is... that should be 30%.

Sverre Flatby

And in addition, just to add, that obviously when we now have split into different business areas, it's much easier to actually look at a separate business area and the integration of a new object there, meaning the others are not affected, so they should be easy to measure. And when you consolidate everything, it's also easier than to see how the margin is actually restored. So, I think that is also important. When you want to follow us from the first quarter, I think it's much easier to see the development both in the integration activities and the profitability separately.

Einar Bonnevie

That's right. Another question that also comes back to M&A, and that is about valuations. And the question there is, "Have you seen company valuations change throughout the year?" What would you say, Sverre?

Sverre Flatby

Yes. We've seen that people running businesses, and owners, executives coming from a situation maybe with increasing valuations, and in the private market, those who are not listed, maybe didn't quite understand what happened actually when it comes to tech valuations in the world and the change in the market. So, I think it's quite a difficult time if you look at the second, third quarter, and even this fourth quarter, that I think it's not yet fully, I think, understood by everyone.

However, I think the trend is definitely positive, meaning specifically, we have have paused M&A project dialogues that are now coming back, and that means we have said where we are when we acquire companies, and they're still coming back. So, I feel now that some of these processes are getting back to normal, to put it that way. So, I think that is the trend. Don't you agree, Einar?

Einar Bonnevie

I absolutely agree, Sverre. And speaking of M&A and valuations, there's another question here that is related to the previous one, and that is, "With acquisition valuations becoming more reasonable, are you seeing increasing competition chasing the same M&A targets? Vitec, Constellation Software subsidiaries, etcetera, are all chasing niche software businesses," which is true. So, what would you say, Sverre, about the competition for M&A targets?

Sverre Flatby

I completely agree that these excellent acquirers are competitors when we look at bigger targets, that's for sure. On the other hand, most of the ones in our database of the 300, we don't see so much competition really. And I think the reason is these are highly specialised, normally non-performing or sub-performing, and I think it's not that much value creation for many of those looking at it to say that this is a target that are relevant for them.

So, far, I think because, and as I mentioned initially in my presentation, the strategy we chose here, very focused on highly specialised things, you get a number of smaller targets that are doing exactly that, maybe exactly one discipline in one country, which is not a relevant big thing for anybody. Not for private equity, and not for bigger industrial acquirers either. So, in that sense, I think yes, on the bigger ones, there will be some competition, and it has been there for a while, but for the smaller ones, I don't think it would be too much still because of the highly specialtised solutions that we are looking at. So, that's still my feeling, although obviously we are monitoring the competition all the time.

Einar Bonnevie

Yes, and I'm happy you mentioned Vitec and Constellation, two companies that we have the greatest respect for. So, that is very relevant. Another question on M&A, and this is about M&A and debt. Very relevant. "In order to get your 1 billion target, you need to refinance your bond," which is correct. "Given the market conditions have massively changed, how feasible do you think this is?"

Okay, the refinancing the bond, just want to remind everyone that the bond, it was launched in 2020. It matures in 2024, so two years from now. And it was called at 103.5 and the Fall 2023 at 101. It is currently 500 million NOKs outstanding on the bond.

I think refinancing it, one thing is the market conditions, and the other is season performance. I think first and foremost, it is linked to season performance, and the key to refinancing, not only refinancing the bond but to refinancing it at competitive terms, is to make sure that we perform well and that we, in fact, deliver good results, financially.

The market is very little we can do about, right now. Look at the iTraxx and the VIX, have improved, and one month ago they were worse, mid-summer they were better. Just saying, there will always be windows of opportunity in the market. But we will take care of CSAM, we will make sure that we perform, and when there is an ample opportunity in the market, we will be ready to exercise.

Okay. Still three more questions, and you can still type them in. We still have six minutes to go. It was about the margins again. "Why have your margins declined so abruptly, if the majority of business area managers have remained at the company for over a year? What is the specific cause behind the margin decline? Is it you hiring in advance for future tenders?" That was three questions in one. It was a kinder egg. So, what will you say, Sverre?

Sverre Flatby
Well, I think most importantly, there are a couple things. One generic thing is obviously that we, as you saw from the organisational chart, we have a step up here to go from a 400 million-ish business that we are now to the 1 billion, so that's one thing. Secondly, obviously as I mentioned, these parallel delivery projects, which is costly but is not giving the income at the same time, that will obviously give us a beating when it comes to the EBITDA margin. And that is also not a thing that we can do quickly. So, even if you have a separate business area manager, as we have for this specific area, and both in Public Safety and the Blood Management, LIMS area, we still have these delivery projects with a lot of temporary resources going on, and that will stay for a while.

But then again, back to the Project Triginta, which is coordinating these things in addition to coordinating the buy, integrate, and build processes, and altogether, that should bring us back, and we stick to the third quarter as a 30% margin performance for current business. So, that is how we do it, and it's not possible to do it faster, and we had to invest in these parallel delivery projects to make sure that we keep the customers happy. So, in my head, it has been a good investment, although it doesn't look that nice when you see the quarter isolated.

Einar Bonnevie
Okay. And another question on the M&A pipeline, from our long-term friend Eddie. Good to have you there, Eddie. "The M&A pipeline. How are they divided between Nordic and non-Nordic companies? Pros and cons?" What would you say, Sverre, about the extensive M&A pipeline that we have?

Sverre Flatby
Well, it's actually an interesting question. We don't publish specifically the statistics from that database, and it's a live thing. But on the other hand, what I can say, if you look at our market position in the Nordics now, we are about at 10% business market share, if you look at specialised healthcare in the Nordics. So, obviously there are a lot of companies in the Nordics to continue to acquire. We might even get to 1 billion only in the Nordics if we wanted.

On the other hand, I don't think that is the right way to do it. So, our focus is obviously to have a balanced discussion going on with some outside Nordics, some inside, and also a combination. As you remember, we acquired Carmenta, which gave us the extremely well-positioned way to get acquisitions, namely a strong one in the Nordics like in Sweden, with additional in Spain, Moldova, Greece, etcetera. It's a very good way to expand with the targets that has operations both ways.

And the same thing with Optima, which we acquired from R1 in the US. Obviously, we knew them for many years, five, six years. We knew their software. They had customers in the Nordics, although most of the customers are in UK, US, New Zealand, etcetera. So, I think we would stick to focus on both. And I think also an opportunistic approach. It takes two to tango, so it has to do with valuation discussions. So, I think that it might be maybe 50/50, maybe 70/30 between them. We don't know yet. But in the database, there are a lot of both of them. So, I think the volume should give us comfort that we are able to reach the billion anyway, whether it's in the Nordic or outside.

Einar Bonnevie
Okay. 90 seconds left. So, speed it up here. Good to have some other questions. "Are there any cases that you lost some deals to competitors recently due to valuation or other reasons?" And I assume that you are referring to M&A, and the simple answer is no, we haven't lost any deals due to valuation, just

where we have been outbidded, but we have indeed walked away from some transactions, whether we thought for either strategic or validation purposes were not interesting. And some we have just paused and we will pick up the discussions later. So, that is the plain and simple answer.

And then, another question which is also related to M&A, and that is about the share buyback. "Can you comment about the buyback of shares and the reason?" Very simple, we are buying back shares so that when we are doing acquisitions, we have the ability to settle all or part of the settlement in shares. And to us, at the current share level, it makes much more sense to buy back shares than issue new ones. So, that is the very simple reason for that. Another tool in the M&A toolbox.

And then, the last question, and that is from Andrew. And thank you, Andrew. "Thank you, guys, for these presentations and the ability to access you both." Well, we are here for you. "Is the plan to keep this structure for quarterly reports in the medium term?" And what do you say, Sverre?

Sverre Flatby
I would say yes.

Einar Bonnevie
I would say yes as well. We will indeed keep the structure, but of course, as for the first quarter 2023, we will, as I said, report on the development on business area per business area. So, it will be a little expanded, but the structure will remain the same.

All right. Our time is out, and that was the last question. So, thank you all for watching. We hope you have enjoyed this presentation. Tune in again on the very last day of February next year when we will present the results for the fourth quarter of this year. And until the next time we meet, take care. Tell your loved ones that you love them, and stay safe.