Transcript
Q4 2022 Results Presentation

Einar Bonnevie:
Good morning, ladies and gentlemen, and welcome to the presentation of the report for the fourth quarter of 2022. The report and the copy of the presentation can also be found on our website and be downloaded from NewsWeb. This webcast will comprise an approximately 30-minute presentation and will be followed by a Q&A session. You can type in your questions at any time and I will attend to them later. A recording of this webcast will also be published on our website along with a transcript of this presentation. Alas, it will be only me today. Our CEO and my good friend, Sverre, he is in bed with high fever. But we wish him well, a swift recovery. Get well soon, Sverre, and happy birthday.

All right, let's get the show on the road. Okay, for the new viewers, CSAM, we are a healthcare specialist and we focus only on healthcare and public safety software. We are indeed the leading provider in the Nordics, and we are growing across Europe and beyond. The kind of software we have is the one that facilitates life's defining moments, such as if you get cancer, when a baby is born, when an accident has happened. We provide software that matters and is integrated in people's lives.

We have vital solutions for more than 500 healthcare and emergency response organisations, and we now have customers in 27 countries. Our presence outside of the Nordics is growing. We have a diversified portfolio of business areas, and we're focusing more and more on the business areas. We have medication management, first and foremost, support for cancer medication, and software to assist chemical treatment. We have everything related to women and children's health from the desire to be pregnant to following up the women during pregnancy. We've had some successes there lately, also in continuing delivery projects going on in Norway.

We have medical imaging, numerous solutions used throughout Nordics and elsewhere. Connected healthcare, also very much linked to medical imaging, but also standalone solutions. Health analytics. We did one acquisition in 2022, and that was the acquisition of Carmona, and together with the previous acquisition of MedSciNet, this business area now comprises around seven percent of total business. Public safety, by far the largest business area after four acquisitions within this domain. And again, numerous things happening, and a lot of new contracts. Contracts are won. And blood management, last but not least, a business area where there is a lot of activity going on, first and foremost, in Denmark with a national contract, but also several other projects going on. So real high activity in this area, actually in all business areas.

Okay, to the results. The recurring revenues, really the core and the heart of CSAM's income stream continues to grow. It grew by almost nine percent in the fourth quarter compared to the fourth quarter last year, and it is now about 73 million kroner. And again, the recurring revenue is linked to customers, some of which we have more than 20 years connection with, and they are in the Nordics, but also outside the Nordics, public sector for the very large part. Very little churn. And a lot of the contracts or the agreements have been lasting for more than 10 years. So this is really a long-term business, and we are indeed focusing on the recurring revenue.

A highlight of the quarter, a total income approach, almost 100 million kroner this quarter. It landed at 98 million, and that's a growth of 11.5% compared to the fourth quarter last year. So a solid growth, indeed, and a lot of it is organic. And speaking of organic growth, organic growth in the quarter was 12%. This is a little above our guidance, but the total organic growth for the year ended up at eight percent, 22 full year versus 21 full year, which is in the interval that we have guided on, five to 10%. So that was a highlight. And also, the gross margin kept up. It didn't improve in the quarter. That is, first and foremost, due to a large hardware sale, but the underlying trend is good and we are slightly above 90% in the quarter.

The adjusted EBITDA ended up at 2.5, 2.4 million kroner, around the 2.5% versus the reported EBITDA last year, minus 2.8. The sales outside the Nordics keeps growing, and the slice of the pie is expanding. 13% of total sales was outside the Nordics in the quarter, and that is up from nine percent in the same quarter in 2021.

You all know that CSAM, we are growing through acquisitions, organically, as fast as we can, but first and foremost through acquisitions. And integrating the businesses is really an integral part of unleashing the synergies and the benefits linked between the different business areas and the different acquisitions of businesses within the business area. We have a three-step model, as we call, buy, integrate, and build, and we have the first three months or the first 100 days, and then the next year and after two years, we shall be ready.

We've had some questions, can we do it faster? Is the model the right one? We think the model is very good, but going forward there will be some adjustments. I will come back to those, but for acquisitions absolutely we integrate our businesses, but we will do it slightly differently going forward than what we did in the past.

The current integration project portfolio comprises four last acquisitions, the acquisition of Carmenta, which was almost two years ago, February '21, within public safety. MedSciNet, that was later the same year, in May, within health analytics, and then another acquisition within public safety, Optima in June, the very last day of June, in 2021. And then finally, Carmona in February 2022. So we see that there are currently two acquisitions within public safety, emergency response, and two within health analytics.

And what is changing is that they are indeed now doing more and more on the integration work is done within the actual business area. But as these acquisitions and approaches are approaching their end, we see that within the third quarter of 2023, the current businesses, they should all be all more or less integrated, left alone, except for Carmona, which still will probably some work to be done.

As we told you last time, we have decentralised our organisations. We have slimmed down. We are leaner, not necessarily meaner, but we are leaner, and we are more business focused. And the main thing is that we're focused into business areas. This is a model that you will recognise from Vitec, from Constellation and others, but it's a real empowerment, real decentralisation, and power is given to the business area managers, as we call them. We currently have seven business areas that are within eHealth, or public safety, and the last one we constructed this year, that is consulting services headed by Ilan Eini, and that will be consulting services for internal use for CSAM. All of our Filipino resources, for instance, they will be a part of that consulting services, but it'll also be sold externally.

On top here, you will see the corporate management, or common services, as we call them. We are here to assist and serve the business areas because they are the main driver. We also see that we have slimmed down common services and we are focusing much more on the business areas. For those of you who follow us closely, you'll see a new picture, and that is Roger Weman, who has taken over as the new business area manager within health analytics.

We mentioned the Project Triginta, the cost reduction programme that we launched in the middle of December last year. The aim was to take us from an average of five percent EBITDA margin in Q3 '22 to 30%, which is our target margin within the third quarter of this year. Project Triginta comprised several cost initiatives. On the COGS side, on other OPEX, but first and foremost related to salary and personnel. And salary and personnel can be divided in two groups, fixed employees and more or less permanent consultants that we used, adding to our own resources.

In the Project Triginta, again, we are measuring the business areas exactly the same way as you measure CSAM. We focus on organic growth. We measure them on EBITDA, or actually EBITDAC, so EBITDA, less CAPEX, and capital discipline that is both CAPEX, but also Net Working Capital discipline to manage the cash properly. I mentioned the buy, integrate, and build process, and as you can see from this slide, the responsibility for integration is actually now within the business areas themselves.

So you'll see that, for instance, on public safety Johan, he is responsible for integrating Optima into the Carmenta business. Roger, he will be responsible for integrating Carmona, the business where he came from, together with MedSciNet. And Lilly, responsible for women and children's health, she had responsibility to integrate Fertsoft into her business area. And Ilan, he is running a new profit centre handling development test and consulting internally and externally.

What I would like to highlight is that in the Project Triginta, we are on track, and we are absolutely delivering and expecting to see the results this year. On a customer side, I mentioned previously that we are expanding in the Nordics, but also outside of the Nordics, and we see that 46% of the customers are in Sweden. So that is really the home market, and then we have Norway, the rest of the world, Denmark and Finland. The rest of the world increasing its presence from nine percent to 13%, and you also see Denmark increasing.

The increase in Denmark is very much related to the blood management project going on in the capital region and on the national level and on the rest of the world. The reason for increase can be attributed to two business areas, is health analytics, where we have customers, outside the Nordics, particularly in the UK, and then public safety where we have customers in Europe, like in Spain and elsewhere in Europe, but also increasingly in other parts of the world such as New Zealand and in the US.

Okay. Let's take a look at the financials, and the backbone of our income on our financials is, of course, the recurring revenue. And this is a view graph showing the rolling quarters, and we measured the last four quarters, and you can see that from the first quarter of 2017, there only were 78 million, and the rolling four quarters in the Q4 2022 amounted to 281 million kroner. That's an increase of 13% quarter over quarter. So a very healthy increase. And again, keep in mind, 95% of our customers, they are within the public sector and we have very, very little churn. We have guided on less than two percent churn on average per year, and we are experiencing, actually, at the moment less than that.

The revenue mix, so not only is the recurring revenue strong and growing strongly, the total revenue, the quality of earnings, so to speak, is also very strong, 73 million in recurring revenue and then an additional three million in licence sales and 18 million in professional services, so recurring, or semi-recurring, if you like, and then some other hardware and other income. The recurring revenue and the licence sales, software related revenue, and then the professional services, they are recurring or semi-recurring, and they were high year and they're high in the Q4 this year, or 2022. Very much attributed to all of the delivery projects going on, not only in Denmark, but also in other regions and hospitals in the Nordics and in the rest of the world.

Speaking on the recurring revenue, they grew 12% quarter over quarter and comprised 78% of total sales. So very, very strong. And also the run speed, we see that, okay, the last four quarters saw a run speed of 281 million NOK's, but the run rate, based on the last quarter, is 295 million, approaching 300 million kroner. So very, very strong development there.

What is not so good in the report? At first glance, the cost side. We see that the total cost amounted to 118 million. That is reported cost in the quarter. But keep in mind, this is a Triginta quarter. This is a restructuring quarter. As a reported salary and personnel, it's slightly less than 74 million NOK's, and then other cost of 21 and COGS of 9.7. And then we have a booked restructuring costs that is just the accruals for the Triginta, so directly attributable, over 30.3. But we see gross margins over 90%, despite the higher hardware sales, and we're still thinking that the COGS will come down. This was a one-time sale of hardware that come in lumps, as we have discussed before. And this was a large hardware order related to public safety. So it was semi-strategic hardware sale.

And then, as I said, we had more than 13 million in directly related restructuring costs, and then we had 6.7 million related to salary and personnel. That is accruals and other one-offs, and 2.6 related to other costs. It is costly to reorganise, but we have taken all the costs here, and if you then take the 73.9, less 6.7, you see that the underlying run rate for the fourth quarter is like 67 million NOK's. And then you should keep in mind that the fourth quarter salary personnel is always a little higher. It comprises more than 25% over year, and that is linked to holiday pay that is accrued for and paid out in July and August in Norway and Sweden. So the underlying trend is actually a little better than what you can expect at first glance.

As we said, the margins are temporarily diluted, but they will improve. If you look at the adjusted EBITDA, we see the trend already. So from minus three percent last year to 2.5% in the fourth quarter this year, or '22. We see the capitalised R&D, the CAPEX, it's back to a more normal level for the quarter. We guided on around 10%. There have been slightly less during the year, and they will hover around 10%, and that is on the short-term or guiding.

I mentioned the cost reduction programme earlier in this presentation, and I would just like to highlight that indeed the target for Project Triginta and for the cost reduction programme was to be finished by the end of the first quarter. We have actually finished already. So we are, in that respect, making good progress. Every deal is signed, everything with the employees, all agreements are signed, there are no loose ends, no legal disputes, no discussions with any trade unions. So we are exactly where we wanted to be and where we communicated that we would like to be, and maybe slightly ahead of our communicated schedule.

We are also, as a company, focusing on the networking capital. We have an ambition to have a target of minus 10% or better. In the fourth quarter of 2021, we had minus 13. And then, as you see, we will typically always be much more cash rich in the first quarter of every year because all of the prepayments on the annual subscriptions and annual recurring services. So minus 13 in the fourth quarter last year, minus 15 in the fourth quarter of '22. So a slight improvement. Not as good as we were at the end of 2020, but we are working hard on it, and progress small steps at a time, but they're going in the right direction.

Okay. Our investors, we are blessed with long-term investors, long-term thinkers that have supported us since we went public, and they still do. We see that the Norwegian investors are still the biggest group, and on the pie to the left, we see all investors, but we have some of the farmers of the company, and we are not doing anything. So if I look at the free float, we have the green pie chart. And you see there Norwegian investors, external investors that comprised 27%, while US investors are the second biggest and almost as big as Norwegian investors, holding 26% of their shares, almost the same as the Swedes. So Norway, US, and the Swedes. And if we add UK to the Americans, we see that Anglo-American investors, they hold 35% of all shares in CSAM. And then there's a good mix of other countries of this world.

Okay. I said that we would continue for half an hour, so that means it's time to wrap it up. I would like to highlight five things, five concluding remarks. One, we are focusing very much, of course, on growing as fast as we can, but in the short term, organic growth. We have been guiding all the years between an organic growth or between five and 10%, and we will continue to do that. We think that 2022 is a good example. We ended up at eight percent, so spot on where we have guided. But another thing you will observe is that it is uneven from quarter to quarter, and you will and you should expect some quarterly variations. Don't lose your sleep if you see that. It will always be a bit lumpy. CSAM isn't your typical quarter by quarter business, but when you average out and measure it over a year, you see that we are indeed there and we will continue to focus on organic growth as a company and in the various business areas.

Second, profits. We are focusing very much on profitability, and that is together with keeping the top line stable and stable growing. The rest is really about cost control within our three groups, COGS, under OPEX, and last but not least, salary and personnel. We have been slimming down. We are much leaner, and we will continue to do our daily jogging runs and stay slim and stay fit. And you'll see, and you should expect to see, the profitability developing through the year. Do not expect so much for a first quarter because a lot of the employees and the discussions they were going on in the first quarter, so you could start to see maybe a little effect in the first quarter, but it's from the second quarter that you will really see it, and we should be there, close to or on the target margin by the third quarter. So that is what you should expect. We are on our way, but from here on, it'll take nine months, or from the 1st of January, it'll take first nine months, just like a pregnancy. You can't force it and you can't put two women on the job.

M&A, very high activity. We've probably never been as active as we are now on M&A, but we see that we have communicated this before, and we still do, there is a distance between what we believe is fair valuation and so on the expectations among the entrepreneurs and the companies that want to sell their companies. And this is very often linked to maybe they had an angel investor or some investor two years ago, and is anchoring. So we need to take the time, but there are several dialogues going on, and as soon as we have something to announce we will. The flip side of M&A is divestment, and we have communicated before that we have some non-core or non-strategic assets in our portfolio, and we'll work hard to divest them. And again, when we do, you'll be the first to know.

We have decentralised our organisation and we have empowered the business area managers. They are running the business. They are responsible, and through this exercise, we have seen that we are getting more efficient. The first thing we want to focus on, as we communicated, was sales. We wanted to be more sales focused and a sales driven organisation, closer to the customers. And I think based on the results and the sales for a fourth quarter, you see that we are perhaps starting to see some of the effects of that.

And speaking of the business areas, a lot of you have asked us, "What is the difference between the business areas? Do they all grow as fast, et cetera, et cetera? Are they equally profitable, et cetera, et cetera?" Again, we have promised to publish those results and do that by business area, reporting from the first quarter or 2023, and that will be in May this year. So starting from the first quarter this year, we will indeed give you all the information on the development within the different business areas. So it'll be easier for you to analyse the company and enter your own conclusions. Okay, so these are the five priorities and, in my mind, the five key takeaways from this presentation.

All right, time to round it off. Again, remind you, we started as a very small company, a Norwegian company, and we have grown through Scandinavia and through the Nordics, starting to have a presence in Europe and also, increasingly, in the rest of the world. And by 2030, we absolutely have the ambition to be a notable player in this world, and by 2025 a notable player in Europe. So we continue to have ambitions. We continue to have ambitions and we maintain the targets. If we reach it in '25 or not, we shall see. As I said, the first priority is profitability, and that is also the link in our minds to unlock the door for future financing, which is needed to reach our ambitious targets.

Okay, before we jump into the Q&A session, remind you our newsletter, you can scan this QR code and it will take you there, or you can log into our website, but subscribe to our newsletter and you will get all the juicy news first. Okay. That was about it. Time to move into the Q&A session. You will bear with me, as you know I am alone today, so it may take slightly more time, but I'm sure that you will give it to me.

Okay, and the first one from Emily, and that is related to the one billion targets. And you say, "Can you comment on how you are planning to reach the NOK one billion target 2025 revenue and the M&A pipeline?

Okay, I think I mentioned some of the M&A pipeline. I can't, of course, go into all the dirty details, but the pipeline is good. We have an M&A system, a pipeline management system called [inaudible]. We enter all the targets and leads there. There are currently more than 40 active leads. We have 400 in the database altogether, 40 of them are more or less hot or warm, and those are all relevant to CSAM, and they comprise, in total, sales of one point, between one and one and a half billion kroner. So there's definitely enough targets, and there are definitely enough sales within those targets. So the challenge is really to agree on valuation and closer transaction.

And again, we are patient. A lot of the transactions that we have done before, we have had dialogue for many, many years. Optima, for instance, the first dialogue was in 2015. We acquired them in 2021. And this is a good example, and we have a lot of other dialogues that have been going on for years. When it comes to 2025, we still think it's possible, we're heading into 2023 with approximately 400 million in sales. We went public two years ago with 200 million in sales. So it definitely isn't mission impossible. We have the targets, we have the pipeline, there's enough food on the table, we still have cash. But what we want to do is also to make sure that we have financial performance that unlocks the next chests of money.

Okay, I'll take your questions in turn here. So please excuse me if I jump back and forth here. This is a question from Henrik Larsen, and it is, "When do you expect your EBITDA margins to improve?" I touched slightly on this during the presentation, but what you should expect to see is that maybe a slight or some signs of improvement in the first quarter, but you shouldn't expect to see real improvements until the second quarter. And then we have ambitions to reach target margins in the third quarter. So expect signs in the first quarter, and then see the real proof of the pudding in the second quarter. That is what you should expect.

Okay, from DT, "How likely is it that no acquisitions will be done in 2023?" Well, very hard to guide on that one, but this is a question in the same family as, "How likely is it that it will not be any sunny day during summer this year?" There's always a chance, but I bet there will at least be one day of summer, or sunshine, this summer.

Okay, and from Andrew, nice to have you here Andrew. Glad you're following us. "How are you preparing for the upcoming bond loan repayments?" A very good and very relevant question, and this really relates to what I was saying about profitability and the prioritisation of profitability, organic growth, profitability. The bond matures in the third quarter, quarter 2024. We aim to demonstrate our 30% margin, the target margin, by the third quarter 2023. So one year before the bond matures. We think that having a decent EBITDA and a decent cash flow, and again, maintaining the CAPEX discipline, so say an EBITDA of 30% and an EBITDAC, cash EBITDA, of 20%, that should give comfort to bond investors that we are indeed bankable, to use that expression. And we believe that profitability and sufficient free cash flow is what will unlock the door to further bond financing.

Okay, another one from Andrew. “Hi Einar, and happy birthday, Sverre.” Well, there you go. “You have seven corporate people and eight area heads. Is there any plans to grow the headcount in any area? Also, do you have assistance or other support staff?” Yes, behind the various business managers, there are indeed support staff. They’re not all the same, but if you can produce in the graph here, there’s the slide there. Yes, there you see it. You see the slide. So behind me, and as a CFO, I of course have a team of accountants and also business controllers and a finance manager, and they are also in various ... So that is one of the largest and also operational services, internal IT, for instance, they are also there. So yes, we are not the only ones, but we try to be as lean as possible and as focused as possible. And then again, what can be done in the business area will be done in the business area.

Okay, and then we move on another one from Andrew. “What is your personal opinion about stock based compensation?” My personal opinion, I think that if it’s compensation or if it’s being a shareholder, I think it’s a very good idea, personally. All initiatives that align interests are good in my opinion. So if part of a compensation, say, for example, a bonus scheme is settled in shares, I personally think that is a good idea. Always good when you have your skin in the game.

And here’s one from Oliver. Hello, Oliver. “What are the main functions that will see downsizing in addition to consultants, R&D, marketing, et cetera, et cetera?” Good question. I think it’s really two-fold. One is related to common services. So the corporate services we have slimmed down. We are doing less, and we are focusing on what we absolutely have to do and needs to be done and not so much what’s nice to be done. And again, more is done by the business areas themselves, and as a matter of fact, much more efficiently. So one is what we can say administrative tasks. The other is some R&D and developments and consultants. So some are R&D. Again, we are prioritising more to develop what needs to be developed and what is paid for. And again, just much more focused so that within the business areas, developers, maybe sales resources, maybe non-strategic developments. So we are slimming down and [inaudible] from prioritisation, actually.

And of course, you mentioned consultants. Let me not forget that one. We have had extensive use of consultants. We had some delivery projects that came suddenly and demanded, more or less, immediate action and we didn’t have the people on board, and that is why we used consultants temporarily for a lot of those. It is more costly, but the alternative would've been worse. And of course, again, you should see the use of consultants starting to come down. Again, not so much in the first quarter, again, as we said before, but again, from the second quarter you should start to see the results.

Okay. Another one from Oliver. "What are the main levers for organic growth that you see for 2023?" Okay, I'd say three things. First, we are continuing to push and focus on sales, a more sales oriented and sales driven organisation through the decentralisation and into business areas. So that is one thing. We focus on sales, and what we focus on and what we measure, that is what gets done. And as you saw from the view graph on the business areas, maybe you can produce it. You saw that we are measuring the business area managers the same way as we measure ourselves. We measure them on organic growth and we measure them on EBITDA. So that is really how we measure them.

So that is first. We focus on organic growth. The second, we will get some tailwind from inflation, the high inflation. So in one way or another, most of the contracts we have with the customers, they are linked to any kind of inflation. Not all of them to consumer price index. There can be other indices, but there's always something, and that is higher now in '22 than it has been for a couple of years. And maybe the third, you can see some FX effect. But again, that isn't something we really can take into budget with. But right now, we are experiencing some tailwind from FX as well. Norwegian kroner has weakened again almost all the trading currencies.

Okay. Whoops, I was a bit quick there. Don't know if there's a way I can get it back. Yes, I think there is. Yes. Okay. Okay. "Could you elaborate a bit on the one-off costs not directly related to the restructuring?" Other one-off costs not directly related to restructuring, they are travel, they are legal, they can be accruals for extra use of extraordinary consultancy work that is above the average for the year. And some on the other cost side, marketing and consultancy on branding, for instance, there are something that are truly not recurring, but related to specific projects. So it's things like that.

As you know, we haven't really used to percent adjusted numbers. We have done it once before. That is when we IPO'd. We thought it was fair to adjust for the IPO cost. We don't IPO regularly, and this is a special project and we thought it was fair to adjust for that. But we really haven't used it very much.

So this is the second time since we went public that we present adjusted numbers because most of it, like M&A, we think that's a part of the business. So we don't want to adjust for recurring one-offs, so to speak. But this time we think it's fair. And in the report, if you read it, you can see each and every item is specified. So we'll try to be as detailed as possible to make it real easy for you to analyse us. And again, just for yourself. If you think it's fair to calculate as one-off or not, but you can do the math yourself. But we have been very transparent on the issue and also described it in the report itself.

Okay. This is again one from Andrew, and it reads, "If when you divest some areas of the company, what would you like to do with the increase in the cash in the bank?" I think that's really easy. If and when we divest something, you will see two effects. One is that what is diversity will see the effect in the P&L in the quarter when it was divested. So that is one effect you will see. And whatever money that goes into the bank, that is typically what we will put in. So divestment is just a reverse M&A, in my mind. So if we divest something, put it in the bank, and I'd like to buy something else that is more strategic for that money. So to do an M&A, that would be priority number one, spending the money from a divestment.

Okay. I actually think I managed to cover them all. Let's see if there will be any more refreshes. Nope. No. There seems to be no more questions. I'll take a last look. No, we're all good. No, seems to be no more questions. I hope that you have enjoyed this presentation, albeit it was me and my solitude. Sverre will join me next time. Tune in again on the 18th of April when we will present our annual report. And until then, enjoy spring. It's on its way. Take care and stay safe.