

Transcript

Q2 2024 Results Presentation

Einar Bonnevie:

Good morning ladies and gentlemen, and welcome to the presentation of Omda's achievements for the second quarter of this year. The report itself and a copy of this presentation will be available on NewsWeb and on omda.com. The webcast consists of a good 30-minute presentation followed by a Q&A session. Please remember, you can type in your questions at any time during the presentation and we will attend to them later. A Recording of this webcast will be available on our website, and soon thereafter, also a transcript of the presentation. And as always, I'm here together with my long-time partner and our CEO, Sverre. The floor is yours.

Sverre Flatby:

Thank you very much, Einar, and good morning everyone. Before we jump into the quarterly numbers, I would like to come with some of the fundamentals of the company for those of you that are new to Omda. 20 years ago we started out being a consolidator within specialised healthcare, and 10 years ago we also started focusing on emergency. We stick to that strategy. We've done that for the last decades and we will continue to do that the next decades. What has happened really is that we have become the leading player in the Nordics by sticking to this highly specialised niche strategy. And today business-wise, we have six separate decentralised business areas and these are delivering to different parts of healthcare, but mostly to public healthcare. As you see on the top left corner emergency, which is our biggest area, delivering to 911 operators, to drivers of an ambulance, to specialised healthcare personnel in the back of an ambulance.

We have Woman and Child, handling the critical part when it comes to pregnancy and childbirth. And both of those completely different in a way, but then again also the same type of highly specialised components. Then we have medication management, focusing on oncology. And oncology is, in our business, focusing then on medication management within oncology, which is also critical. Important algorithms designing and creating cures for specific

patients depending on their vital data. Then we have connected imaging, a lot of interesting tools to focus on the imaging part of diagnostics, but also huge and complex storage mechanisms within imaging. Then we have LIMS, which is also an important Nordic market-leading specialised type of solution. Handling blood management, not only for storage and collection, but also distribution to clinics where they use these important things. It's not only blood, also tissue, et cetera.

This is also a typical Omda business area, has been working as a business for 40 years, and that says something about the long-term part of our business. Then the last one, down to the right, health analytics is more over our use of data. Handling data, also from some of our other business areas, and focusing there on analysing data for research for managers of businesses, et cetera. Which will be a growing and important part of Omda in the future. So, all of those are running as a separate business. We share, of course, our brand, we share handling of customers and marketing, but then again, decentralised businesses on their own. And as you will see from the reports, previous reports and our reports going forward, we will also distribute the details of each business area. So, what are they doing? And the fundamentals, before we go into the numbers, is obviously these type of income streams that we have.

The most important one is, of course, recurring revenues. And what is recurring revenue here? Well, it is the customers that pays for one of those highly specialised components. Then when they buy something, a new component or an add-on component, they will also pay a one-time licence fee. So the combination of those two, 80% and 3%, is our software income. And then the third income type, which is the important one, is professional services. And what is professional services? Well, it is service that we give to customers when they use our own software. Could be training, installation or integrations, et cetera, and work we have to do. So one, two, three here is a very, I would say, predictable part of our business, which is important to understand when you look into each and every quarter when you follow us. Then if you look at, where is these customers? What are they? What are they doing?

Well, as you can see on the left side, highly important type of customers, large regions, important hospitals or emergency services in different countries in the world. And those four boxes on the right, it's important when you read us or follow us, we have extremely solid counterparties. Not only are they solid,

but there are many of those. So the diversification is high, and that means that there are no binary threats to our recurring revenues. That means the stickiness, as one can call it. And stickiness means it is so critical that they seldom change or get new types of systems into their operations, because to change them is a huge, huge project. So that means our low churn here, less than 2% the last 10 years, is based on the fact that these systems are there. They're sometimes there for many decades. So, this is important when you look at our numbers in general, the quarters behind us and the quarters to come.

Let's go into this quarter, second quarter 2024. The most important thing that happened, most important milestone is that we got our MDR, medical device regulation certificate, which is important to us. When it comes to numbers, we will see that it is kind of flat compared to the second quarter in 2023. Meaning it's slightly disappointing. On the other hand, we have said that we grow between 5 to 10% organically and we did that as well. And why is the organic growth still there when the reported numbers are flat? Well, please remember we divested some of our non-strategic assets in the third quarter last year. Meaning when we compare to the second quarter '23, we still have an organic growth in local currency. And as you see, 83% is software and highly valuable income. Then we have the EBITDA, also lower than expected. The reason is, obviously a thing we are going to go into in detail here today, we expected also a higher EBITDA, but still the same EBITDA as in the second quarter in 2023.

On the COGS, it develops the right way actually. So, that is not a problem. Our target, long-term target, is 5%, but it's gradually coming down, which is the good development we expect. The personnel expenses, salary costs, is high. The number of employees slightly higher than it was in the second quarter in '23. And we will go into this to explain what we do on this cost item because this is probably, in combination with the income side, what defines the road to a better, stable EBITDA on a higher level. Also, the other costs is also developing okay. That means the weak EBITDA is a combination of the income side and the level of personnel costs. Let us then dive into it and see what are we actually going to do on the income side. And this is not a specific thing popping up this quarter.

This is more of a programme that we have going on since we started decentralising the business. And what we are doing on the income side, when we see we have some sub-performing BA's, when we look at each quarter. This

quarter, the second quarter '24, we see that emergency and LIMS, those two are sub-performing. So what we do then is obviously look at this in more detail and see, are there any actions we can do on that? That is one thing. And most of it relates to income activities. Similarly for all business areas, we mentioned this during our first quarter presentation, that we have a huge potential when it comes to more productivity and a higher degree of invoicing in professional services. And that is the programme going on and we see a positive development within the second quarter. More invoicing, higher productivity in the latest part of the quarter than in the beginning. So, it will work and work over time.

That is the primary actions on the income side. Then on the cost side, we have three important elements, which it's important that you understand reading our numbers. We have, for 20 years, working with remote sourcing. This has been working well, especially before we decentralised. After we created that decentralised model, we see that there are much more to get when it comes to efficiency, to work closer to the customers and more in short than we've done the last 10 years. So what we have done this quarter, we have signed an agreement to divest our operations in the Philippines. And I think this, with 50 employees compared to the number of total employees that this process will be a very important part of the change of our personnel's cost of the next quarters. So I think this is strategically very important and is a good thing for us and a good thing for the team in the Philippines, which will work and work also with other customers in the future than Omda.

So, that is important. In addition, as you all know, huge changes are going on when it comes to how to be an efficient developer. The combo of these three elements, inshoring the divestment and also extensive use of AI tools will get us into another and more efficient productive development process as well. So, this is important. Please understand this is not happening over a month, but it's probably the most important value creation programme we've had since we decentralised the company. Let me look at the numbers, and as I did during the first quarter presentation, we were talking about the simplicity of the model and the three elements of the income and the three elements of the cost side. So, let's look at it. What happened in this quarter? Well, licence sales, it's not that bad. It's okay. And similarly, recurring software revenue, taking into consideration the divestment we did developing, okay. Stable. Low churn. Nothing wrong. Professional services, that is still weak.

As I mentioned in the first quarter, there are programmes actions going on to secure better productivity, but still weak. The three costs items. The COGS, cost of goods sold, definitely going the right direction. So that is not a problem. And similarly, other costs also on the level we expect could slightly be lower. But as, again, say what is the weak thing here? The cost on the salary and personnel side is too high. So all in all, with the three income elements and three cost items, there are two things to do. Instead of looking at this as a problem, it's more like a structure of tasks. And these I mentioned on the topping here, there are specific actions taken in the business areas that are slower this quarter. And there are a generic ongoing productivity action plan for the whole company and all of the business areas when it comes to professional services that will solve that part of the income side.

Then on the salary and personnel side, I mentioned this restructuring of the way of working with the development, which, I think, will give us a much more productive approach to development in the future. Also reducing the number of personnel within development dramatically. So all in all, we to conclude that the numbers on the left side here, looking at this quarter in isolation, it is not a good quarter. On the other hand, the action that we have been working on the first half year will also solve this over time, not overnight. So in our head, with the numbers presented and the action plan going on, we feel comfortable that we will reach our profitability targets over time as well. That means there's nothing wrong here. Although the disappointment of a quarter is there, we still stick to our plan, and that is simply to work within these specialised areas and emergency.

Then on top of that, secure the revenue, as we've been doing for the last 10 years, then have this organic growth on top, and then continue to acquire. So we've done that for 20 years, and that is the plan for the next 10 years. We will secure that we could continue the business with the same recipe. What has happened, if you look at our history from the beginning with all of these acquisitions, we have the same priorities going forward when it comes to use our leading position in the Nordics to become more notable in Europe and in the world. And you'll see that the priorities when it comes to organic growth, profitability, cash discipline and acquisitions is what's going to happen the months ahead of us. So, we will stick to the plan. But before that we will now... Einar, you will go back to the details, so the financials.

Einar Bonnevie:

I will indeed. All right, let's look at all the juicy numbers and give some colour. Recurring revenues, the backbone of our business, still very strong. Again, they are developing nicely, 332 million on annual run rate and a 7% growth over the last four quarters. So they are developing in line. Very little churn from more than 600 customers or customer contracts. We are diversified, continue to be. Emergency remaining the biggest business area, followed by connected imaging, LIMS, and woman and child. So, very diversified. Small changes as we go along. Continue to be diversified international as well. As I said, we have customers in more than 27 countries, more than 600 customer contracts. What you see is that Sweden remains our biggest market, while you see that the rest of the world increases its presence. So, that is interesting to note.

The revenue mix. You will see that we continue to be a very software-driven company. 83% of the income is related to either licence sales or recurring revenue. You see that professional services, they are indeed lower this quarter. That is the disappointment, and we have plans to remedy that situation. But by and large, it's stable and the foundation is good. One thing we should note is that the increase in the recurring revenue from last year seems to be meagre, but keep in mind that we disposed of the Finnish scanner business. A large part of that business was recurring revenue. So when you compare 83 to 80.5, you should really knock off at least 1.5 million. Compare 83 to just south of 80, in all fairness. So keep that in mind, that we sold the business. So, the underlying growth is a little stronger than it appears at first glance.

The cost base, you could say... The good news is, it's stable. That's the bad news as well, it's a little too stable, I'm afraid. We see that compared to the second quarter last year, you see improvements on the COGS. It continues to come down, also partly because we sold the scanner business, but it continues to improve also in other business areas. Slowly but surely. And we maintain our target of 5% of total sales. Same thing other cost, slightly better than last year. So we continue to improve that in spite of the second quarter being an expensive quarter with Vitalis and marketing initiatives, et cetera. The salary and personnel remains higher than we wanted it to be. Partly continued use of external consultants, but also partly due to the way we measure it. When you compare it to last year, keep in mind 1 million higher CapEx last year than this year. So part of it is lower CapEx and part of it is represented by

accruals for severance packages or people leaving the company. So with those adjustments, we are more or less on the same level as we were last year.

Then again, in all fairness, keep in mind that we have adjusted salaries with effect from the second quarter, mostly from 1st of April. General increase in salaries in Omda is around 4%. That's the average. So the underlying, you see that there is a slight improvement but it isn't enough. Again, the resource pool is there but it has room for higher professional services, and we are working actively on that. We started to see some results at the end of the quarter, but too little, too late. We continue to have a strong focus on that. So, that's it on the cost base. Slight increase on the head count, that is to prepare for the insourcing of task from Cebu. But please note there will not be a one-to-one replacement there. As Sverre explained, efficiencies, AI, new ways of working. So not a one-to-one replacement. The EBITDA, again, in line with the same quarter last year. Again, it has improved year-to-date. Q1 plus Q2 shows an improvement. Good. But again, not good enough.

It's a distance from our expectations, which are reasonable, and the results we deliver. So, we are disappointed as well. But we have hope, and even better, we have plans to remedy the situation. One thing, cash EBITDA. EBITDA improved, not much but still, due to the lower CapEx in second quarter this year. All right, the CapEx. Most of the CapEx is related to R&D. So we are capitalising the development in software. And again, keep in mind that there's a business case between every CapEx project we take on. So it's not like we arbitrarily just transfer something from the P&L to the balance sheet, business cases. It has to make sense. You will note that there's a little higher PP&E this quarter, really. You won't see it that often, but it's because we have renewed the entire server park and backup solution. And that will last at least five years. So this is really an investment for the future. This is a one-timer in this quarter. It'll be depreciated over five years, economic lifespan, at least that. All right.

Something that has improved, that is the net working capital. Our target is that it shall be minus 10% or better. We had a negative surprise in the third quarter last year where it was minus five. We were focusing so much on improving profitability and margin that the net working capital came a little out of sight. We have since then had a strong focus on cash flow net working capital, improving the whole situation around the cash and we are seeing the fruits of

that. Fourth consecutive quarter we see an improvement in the net working capital, minus 15 versus minus standard target. So I'll say, we are comfortable with the development. Again, we have even higher ambitions and we think there's still room for improvement, but at least things are moving in the right direction indeed. All right. Again, let me run off with this one. This is the building block. We will continue to be in this market within e-health and emergency.

We will focus on a specialised software. We have a base of public customer or public-sector-like customers, and that will continue to be our target customers. Slowly but surely it'll grow, save payers, et cetera. We will continue to focus on organic growth and spice it up with some selected M&As. We maintain our goal, and this is what we will do. So, to conclude. Again, organic growth, 5.4% this quarter, 7.3% last four quarters. So we are, again, within the range. We said between 5 and 10, sometimes a little lower, sometimes a little higher. Just that's arbitrarily. We will continue to focus on margins. And one shouldn't underestimate the initiatives that we have taken, insourcing AI. May seem boring at first glance, but I think there's more power in them that you can probably anticipate. We will continue to focus on cash, cash discipline, cash conversion, net working capital, anything that has to do with cash, maybe even Johnny. And on M&A, yes, we will continue to focus on that.

We know that we have set that for the past couple of quarters and we haven't announced anything yet. Okay, but stay tuned. All right, that concludes the presentation. But before we jump into the Q&A session, please remember, subscribe to our newsletter. Just scan the QR code with your iPhone or whatever and enter your details, and you'll get all the juicy news right in your mailbox. Let's move on to the Q&A. Let me bring it up here, and refresh it. The first question here that pertains to mergers and acquisition. So we will continue where we just left off in my presentation. Sverre, the question here is, "In what areas is it most likely?" Can you say anything at all?

Sverre Flatby:

I can say things but it's, of course, difficult to announce specifically that. Because, as you know, it takes two to tango and to sign a deal. That will happen in one business area, but I can't tell you which one. However, what I can say is that all of the business areas has relevant prospects and we have dialogues, as we've told you before. We have dialogues over time, sometimes even though

in more than 10 years with targets. So what we are doing now is discussing on all areas about this. And I can't specifically tell you which one will pop down first, but what I can say is that it will happen. We will continue to acquire and we see a lot of interesting targets that, I think, you will like when it comes to the business case, the growth and the relevant things for the business area at hand. So no, I can't tell you which one, but it will happen soon.

Einar Bonnevie:

Okay. Another question that relates to finance, so I guess I'll take care of that one. And the question is, why did we decide to distribute a dividend when the capital could have been utilised more effectively elsewhere? Very good question. Perfectly understand why it comes up. But as we have explained before, in Norway we have the situation where we have the wealth tax, the fortune tax and that has to be paid, and also very high dividend tax on individuals. That is to allow Norwegian shareholders to actually pay their dividend tax related to their shareholding in Omda. And we think that is better to have this small maintenance dividend rather than, for instance, Sverre and myself selling our shares to pay the wealth tax. So that's the sad fact, but still a fact. Okay. The next question goes to you, Sverre, and relates to our bold goals. It's from anonymous. "Your previous 2025 goal of 1 billion NOK in sales and high EBITDA margin appear like a remote dream at this point, based on the current developments. What will change that enables an acceleration?"

Sverre Flatby:

I don't think it's a remote dream actually. Well, let's start with the 1 billion target. We all agree that the ability to reach 1 billion, at least in '25, which was original ambition, we are probably delayed. Yes, I agree. On the other hand, we are just below half a billion at this point in time and we have both large targets and smaller targets at hand, and the ability to close those in the next 24 months are still there to reach that volume. So it's not that it's a dream when it comes to the growth. I would say quite the opposite.

It's possible, with a slight delay. That is my view. When it comes to the EBITDA, I don't think that's a far dream either. I agree with Einar saying to you and you should think about it, the divestment we now did with the 50 people, we are on 295 now. Then if you look at that transition, will give us quite much boost when it comes to a stable margin on a higher level. So I'm not

that disappointed with what I see coming, going forward, although I share everyone's disappointment when it comes to the specific numbers this quarter.

Einar Bonnevie:

So, you keep your dream.

Sverre Flatby:

Definitely.

Einar Bonnevie:

Without a dream, how can a dream come true? I'll just call you Martin Luther from now on. The next question. "What will be the impact of the cost-cutting and divestment actions?" I guess that is very much related to the previous question about reaching the sales target and to speak about the EBITDA margin.

Sverre Flatby:

Definitely. I think what is really happening here is that the combination of reducing the number of developers working closer to the customers, working more with AI. Examples of AI tools, like Co-Pilot. When you do a migration of an old legacy system, for instance, the efficiency there might be 20, 30% quite immediately. So only AI itself will help. But then again, the remote sourcing with complex, highly specialised solutions that we have, it has been working well for us for 20 years. I think going forward, we'll see a shift where the home sourcing with use of smaller teams closer to the customer would be much, much, much more efficient. If you look at this quarter, I would say that there were millions of savings on the personnel side, in general, for the quarters to come the next years because of the fact that the way of working and the number of people involved in doing the same thing would be much less. So, that is a simple mathematics.

Einar Bonnevie:

Keep it simple. All right. A couple of questions related to cash flow, EBITDA margin, et cetera. One question here. "When does the company expect to become cash flow positive given the high burn rate over the quarters?" Okay. It's very hard to say exactly that quarter, it'll be the third quarter, it'll be fourth quarter. But 10% means that we burn cash. 20% EBITDA margin means that we are stable. And we are not that far away. And we think the initiatives on the income side and on the cost side shouldn't make it too hard. It seems like,

“Ooh, that’s a far stretch, you need to at least double your EBITDA margin.” Yeah, we know that, but it shouldn’t be that mission impossible. I think I’ll leave it at that. Then another question related to CapEx and investments, and that is, “CapEx is around 10% while software revenue growth is slowing down. When will we see more of an effect from the CapEx investments?”

All right. We have said all the time that we guide on CapEx level of 10% of sales. And that’s where we are, that’s where we have been. A little lower, in fact, this quarter compared to same quarter last year. Revenue growth is slowing down? Well, I’m not sure I agree to that. We said organic growth between 5 and 10%, and for this quarter 5.5 and for the last four quarters, approximately seven and a half. So I’d say we are spot on where we have said we want to be. Sometimes it’s a little higher, sometimes a little lower. It’s not a trend going down, just the arbitrary ups and downs in this quarter. So I think the premise for the question isn’t entirely correct. “When will we see the effect from the CapEx?” Valid point. But let me explain how we go about it when we launch a CapEx project. You have a project, you have an idea within the business area and then that idea translates into a project calculation. Very, very simple.

You identify the cost elements like development and other things over a period, and then the income from hospitals or the clients or emergency institutions when they will come. You isolate the cash flows related to this project. We discount these cash flows over seven years and add a reasonable terminal value and we use weighted average cost of capital of 12%. And if that sounds like exactly what you do when you do an M&A and you do a calculation for an acquisition, yes, you’re right because they are competing for the same funding. So that’s how we go about it. That means that typically for a CapEx project, it’s negative at first just like any other investment project, and then the income comes over time. So, that’s how we go about it. That’s what we’ve always done, that’s what we do, and that is what we’ll continue to do. All right. Then there are a few questions pertaining to the divestment in the Philippines, Sverre, and the first one is, “How much net cost will be taken out with the divestment of the Philippines and the reshoring?” I guess we haven’t- ... communicated that.

Sverre Flatby:

No, but we will continue to- It will happen. It’s important to understand we have signed an agreement to divest it. We haven’t formally done it yet, but we will

publish more details when it actually happens in the second half year. But what is important here is that you will see a large reduction of number of employees in Omda. Probably with 50 employees down there and it's not one-to-one when we work more efficiently, so you can make your own calculations.

Einar Bonnevie:

Okay. Still 10 questions remaining. Another one related to the Philippines. It's from Emilie. Hello, Emilie. Good to have you watching. "We understand that the Philippines operations has been a source of low-cost development resources. How do you expect this divestment to drive improved margins? Why are you doing this now as something that has happened recently?" Or I guess it is, is it something that has happened recently? It appears counterintuitive. So, are we replacing low-cost resources with high-cost resources?

Sverre Flatby:

That would be a good idea in this context. I think it's important to understand the history behind this. Of course 20 years ago we had a good cooperation with the Philippines as part of development of one product. We have had a good thing going on for the last 20 years doing exactly that. But there are a couple of things. One thing is that, and it's not happening now. It's just that when we decentralised, which is a very important part of our history, just after we IPO'd, we saw that the transparent numbers and the workflow in each of these areas and when we continue to acquire companies that the complexity of development makes it hard to work remotely. So we have gradually been looking at that, meaning that a few of our business areas has already done it differently. So it has happened a bit over time, but I think now it's the time to actually do this as a company-wide action.

We have been working on that for a while and also talking to the old founders of the Filipino company, they are fully available to continue doing their work while we are, at the same time, reducing the use of remote resources. So this is not something that came up because the second quarter is slightly disappointing. Quite the opposite. It's actually part of the findings we had when we decentralised. So, that is one thing. And the other thing is that when you look at modernising development, we also have to take into consideration that what is really happening now on the development side is also things that Omda has to do. And we have probably more productivity possibilities

with AI tools in development than many others, because being an acquiring company that has a lot of legacy code, we see a lot of efficiency by doing this.

But the efficiency and the new development is related to a close customer relation about functionality, quality, security, regulations, et cetera. And that is much more efficient to do in a roundtable way, to put it that way, a smaller team closer to our customers and main offices. So that's something we've been working on for a couple of years, but now it was the time to do it and we will do it structurally and properly during... The first step will be this year and we will announce that when it's formally done. And then secondly, it will be gradually, being a focus for '25 and going forward that we work solely with people in the Nordics or in the main offices, other places, as a general way of working in the future. So all in all, as a company-wide view, we can run the same operations with the same income with much less number of heads. And also part of your question, a low-cost? Well, it's not that low-cost anymore either. So I think the net value here is much more important than you think when you look at it now.

Einar Bonnevie:

Okay, thank you. Thank you, Sverre. There are several other questions relating to the divestment and the inshoring, so I'll just try to take them all in one group. And there's one from Matt here. He asks, "Could you elaborate a bit more on the reasons for divestment of the Philippines subsidiary?" I think you have done part of that already. But the question also specifically, "Were the developers there not as good or efficient and were there communication problems due to the time and distance and language?" We have still 10 questions, so we'll try to be specific here.

Sverre Flatby:

One very specific thing is that if you sit together as a team around the table and find a problem and you solve a problem and discuss a problem, compared to sending a description just to somebody else that has... Maybe they're gone to bed already, it's on the other side of the world. There are things that makes it more difficult when these development tasks are complex. I think it's as simple as that. It is actually more efficient with the number of highly complex tasks we have at hand. So, that is the real reason.

Einar Bonnevie:

Okay. Another one on this subject from David. "What will be the cost impact from Nordic inshoring? What is driving this decision? It's hard to imagine that the cost will be lower."

Sverre Flatby:

But then again I am sure it's going to be lower, because we see the types of tasks that we have and the number of migrations and the use of modern tools and also the type of collaboration we have with our large customers that this is much, much more efficient. So yes, we are sure it's going to be a lower cost. And please don't think about it. That is a very, very low cost part of the company because it's costs to have this entity as well. We see a very good business case going forward doing this.

Einar Bonnevie:

I guess I might add, one thing is the cost, another thing is the invisible cost, namely the productivity. How fast can we develop? How good the code? And deliver it to a customer. Can we advance deliveries and speed up when we get the cash flow? So there's also considerations that has to be taken. Okay. Then another question related to the Philippines. "What is the average salary in the Philippines on a FTE basis?" I understand the reason for the question. We haven't disclosed that. I think it'll be more visible when we finally divest and start to report the accounts without the Cebu operations. So I guess we'll have to be patient and have to wait and see. Okay. Then a couple of questions from Oliver. Thanks for watching Oliver. "Do you expect the use of external consultants to remain high in the second half of this year? And why is the use of consultants higher than you expected?" What can we say about that, Sverre?

Sverre Flatby:

I think most of this type of consulting is related to emergency and I've mentioned before this AI project, which has been one of those. Also have some other CapEx projects going on that has been part of developing within emergency. So primarily it's now within emergency and it will gradually come down because these projects are coming to an end. It's not going to go completely away, but it's gradually coming down. And we have chosen to keep it since also the context after a project is finalised is also that we have

products to sell to current customers that will give us increased recurring revenues. So it's a good investment through operations even though we pay, in this case, the University of Barcelona to help us creating these AI components.

Einar Bonnevie:

Okay. Another question from Oliver, and that relates to the LIMS business. Oliver is asking, "What is happening in LIMS? You invested significantly in this business in 2023, but with minus 18% EBITDA margin, it appears like investments are coming up again without growth coming through." What can we say about it? What is happening, Sverre?

Sverre Flatby:

I agree to that observation, if you look at it as just the numbers and for this quarter and also the previous quarters. But as I mentioned before, what is really LIMS? If you look at 40 years back in time and 30 years ahead, this national project that we have been working on now for a few years, we will still continue to have upfront costs on that project for the next couple of years. I think this final delivery will probably be beginning of 2028 on that contract. But remember, 30 years after that still we will have increased recurring revenue, add-on sales, et cetera, in a very good business.

In between, there are milestones we reach. Sometimes there are cost items without income and sometimes it's the other way around, depending on the contract deliveries and structures like that. And that is not possible to define upfront whether that happens in one quarter or the next quarter or a quarter next year. So that is the good thing with the long-term here. It's a bad thing from a quarter to quarter basis. But I assure you that this is going to be a very good business, it has been for 40 years and going to be. But it's not going to change very fast, to put it that way.

Einar Bonnevie:

Okay. Just let me see if I can group them. We continue. I think we have no more questions related to the Philippines, so back to the margins. Another question from Emilie. "Can you say something about what we should expect with regards to EBITDA margin in the second half of this year? Target of 30% is unchanged? When do you expect to reach it?"

Sverre Flatby:

That's the-

Einar Bonnevie:

Just tell me, Sverre.

Sverre Flatby:

That's the million-dollar question that everybody wants the answer. Of course, I understand. And one thing is for sure we have not changed anything and the fundamentals of this business with the recurring revenue and the way the contracts are, we should be able to produce a 30% EBITDA, in general, as a platform going forward. That's for sure. The question, yes, we are delayed, which everyone understands. But on the other hand, I think you'll see traces of it already this quarter. Then again, I think the operations we do, which I explained previously when it comes to divestment, et cetera, it's also a transitional task that is important. So we will focus more on securing the long-term, stable margin rather than trying to increase very fast to do something very fast. So please keep in mind, yes, the target will be there. It will probably not happen overnight, but then, again, you will see traces of it very soon.

Einar Bonnevie:

Okay. Following on that path and on margins and margin improvements, from Gert, "The Triginta cost savings project brought the salary and personnel expense down to 50% of revenue." That was the third quarter last year. "However, this level was maintained for one quarter only. Is 50% of revenue still a realistic target for salary and personnel?"

Sverre Flatby:

Yes, as you see it now it's all too high and it'll come down. And around 50% will be the target anyway. That will not happen overnight. But still that... If you look at the mechanisms when it comes to our development processes I explained and also look at the professional services' productivity, which is ongoing and increasing, slowly but increasing. When we reach that, I think the level of EBITDA and also the cost of personnel will be getting closer and closer to 50%. So, that's still the target and that's also why we initiated this company-wide approach to development productivity.

Einar Bonnevie:

Keep in mind, we said it before, that because of the way we account according to gap and the holiday pay effect is quite pronounced in the third quarter. So 50% as an average will not mean 50% each and every quarter. But of course, the cost base is too high compared to the income in the second quarter as it was in the first quarter. But it is a combination of the cost base and the income side and, of course, licence recurring revenue, but also professional services. There is a potential there. We need to unleash that potential. Okay. Continuing on the same path, from Jonas, "Cost based is escalating each quarter since Q3 '23 after you declared the success for Project Triginta. Now you once again have a bloated cost base, which seems as sticky as your revenue." Clever wording. "How poor is your cost visibility internally?" Is it foggy Sverre?

Sverre Flatby:

Well, I think if you look at it in a broader perspective that the higher cost in this quarter on the personnel side is also part of a transition to a more efficient model in total. Because we cannot just divest and then remove people from one area, and then at the same time just wait to recruit new ones. So you have to understand that this transition is something we plan and have to do, and it's more important to us than specifically the number in this quarter. So, it isn't that sticky and it isn't that we don't have control. It takes time and we have said that we are also disappointed and that it took more time than we expected, but we stick to the plan and we will achieve the same with a slightly delay. That is the fact.

Einar Bonnevie:

Speaking of our time, "What is the timeline you expect on the professional services overhaul programme?" When should we expect to see results from that? Should it be the third quarter, fourth quarter? When will we see the tangible evidence that we manage to scale the professional services?

Sverre Flatby:

What I can say is that we... The good thing is that every hour, including Einar and my hours, are logged every day of the year. That means that we have the statistics of everyone. That also means that we did that from the first quarter this year, and in May when we compiled this data we see exactly what to do. And we have already seen after our actions in the second quarter that it's better in June than it was in April. So I think you will see that it will gradually get better also the second half of this year.

Einar Bonnevie:

Okay. Three more questions, four minutes left. Two of them relating to the accounts, I'll address them, and one to M&A. So, I'll take the two first, ones related to the accounts first. First is, "Why is earned revenue not shown on the balance sheets? What makes up the line item other short-term liabilities? And how is net working capital calculated?" Okay. First thing first, the two first ones, they're really related. Unearned revenue is in all the short-term liabilities. Typically, other short-term liabilities, when we invoice a customer annually up front, we get all the money in there and we have a liability for the year. We recognise one-twelfth of the income each month and reduce the liability accordingly. So that is really the unearned revenue also. And net working capital, I'm not sure I'm going to go through the calculation here live, but I'd say it follows the textbook.

We do it the same way as any other company will do. Textbook calculation. And interest expenses is another one. "What can you say about the interest expenses?" I would like them to be lower. They are linked to three month LIBOR plus 600 BPS. That is the Omda02 Pro. That's how it's nominated. It is trading higher than that. So right now, based on the latest trades, there is room for lower rates. But it is what it is right now based on floating rate, LIBOR is still high. That is what I can say. And then one question related to M&A from Matt and he says, "Hi Sverre and Einar, how many targets do you have in your database? And how many of them are active leads?" What can we say?

Sverre Flatby:

That's a complex definition of what is a lead. And as you know, some of our dialogues have been going on for years. Some are popping up as we speak. But there are thousands of companies in the database and we have a platform, an M&A platform, which we've been handling for 15 years. The content of that is, of course, something that we haven't discussed, but there are hundreds that we have had dialogue with and there are, let's say, 20, 30 that are dialogues that we have going on all the time, really. Then the question is, when will they pop up and what is a lead, what is this? There are different things we have to do. One thing is to calculate the business case and negotiate. And the other thing is, obviously, to pick the right target at the right time. So there are complexity to it. But there are many and many enough to stick to our original target. That's for sure.

Einar Bonnevie:

Okay. One last question, one minute left. And that is related to the divestment projects. "What is left to be determined on the divestment project, given that it is signed, but you can't say much on the impact? Is it to replace the capabilities of the Philippines? Would be great to just understand this better." Very, very briefly. The term sheet is signed, the details are yet to be worked out and it'll be closed later this or next quarter. So when all the details are finally worked out, we will explain them to you. But I don't want to sit here and say something that's mostly wrong. So as soon as we have it signed, we will let you know the facts. And the thing is replacement. We are replacing, as Sverre said, inshoring and also using new development tools like AI in an efficient way.

So, that is what we will do. But again, it isn't an overnight transition. It will take a little time. Just like a pregnancy, it takes a little time, but you know the outcome nine months ahead. All right, and I think that was that. No more questions and we are where we should be. Time-wise, a little overdue, but no more questions. We hope you have enjoyed this presentation. Again, a little lacklustre. They are behind our ambitions, but we maintain hope and we have the plans for remedial actions. Tune in again on the 8th of November when we will present the results for the third quarter this year. And until we meet again, as always, take care and stay safe.