Comments by the CEO

After a well-managed handover from my predecessor Kristina Willgård, many visits to our portfolio companies, interesting and productive discussions with employees as well as a thorough analysis and planning process, I have become well acquainted with AddLife and our subsidiaries. I can conclude that we have highly talented and motivated employees, well positioned companies in attractive niches, deep customer relationships and a strong and positive culture.

In summary, the strong positive impact of COVID-19 related revenues in 2020, and even more so in 2021, has slowed down sharply in 2022 as expected. These revenues generated good margins since they could be handled by the existing organisation without increasing costs. Thanks to several major acquisitions in 2021 and 2022, we have replaced the loss of COVID-19 revenues with acquired revenues at more normal margins. The result is a larger and more stable European AddLife, with operations in more niches, and well positioned for existing market needs as the effects of the pandemic subside. We have jointly established a plan to further develop the companies and the group based on this new and significantly strengthened position.

It is great to see AddLife concluding 2022 with a quarter of good organic growth and with EBITA margin and cash flow in a positive trend.

Demand increases as market enters a new phase
After a summer of subdued demand, the European market entered a new phase in the fourth quarter, in which the direct effects of the pandemic have subsided. The healthcare system has returned to more normal activity levels, with more elective surgical procedures being performed.

However, healthcare systems in most parts of Europe suffer from staff shortages, which means that the backlog of patients waiting for surgical procedures remains high. A gradual reduction of the backlog is expected over a longer period as the number of surgical procedures slowly increases.

We expect healthcare in general to remain a high-priority sector in our markets, despite the overall economic situation. Some countries are allocating extra budgetary resources to reduce the backlog and we are also seeing that staff shortages are driving interest in efficiency-enhancing products, services, digital solutions and homecare.

Although larger capital investments account for only a small part of sales for AddLife companies, we note that demand is somewhat subdued. Some uncertainty about future research budgets can be noted in academic and government-funded research, but activity and demand remains strong in drug development.

As healthcare activities have normalised, we have been able to increase our commercial activities such as customer visits, trade fairs, training and sales activities. The customer dialogues will enable the launch of new products and we see a need for and interest in new products and solutions.

Increased organic growth in both business areas
AddLife's sales in the fourth quarter increased by 9 percent year-on-year. As expected, COVID-19 related sales continued to decline compared with both the fourth quarter of 2021 and the third quarter of 2022. In Labtech, the organic growth rate excluding COVID-19 was 6 percent and in Medtech 5 percent. Organic growth excluding COVID-19 for the Group was 6 percent, a clear improvement compared with the previous quarter.

Sales for 2022 exceeded SEK 9 billion and sales growth reached 14 percent despite the drop in COVID-19 related sales to SEK 760 million, down from SEK 1,976 million the previous year. Organic growth excluding COVID-19 was 4 percent.

Margin and cash flow in positive trend

The EBITA margin for the quarter was 11.1 percent (15.5), lower than last year mainly due to lower COVID-19 sales, but an improvement compared with the previous quarter when the EBITA margin (after adjustments) was 9.7 percent.

Price increases from suppliers and currency effects from purchases denominated in USD and EUR had a negative impact on gross margins. Efforts to manage price increases are expected to continue in 2023. In general, customers understand and accept price increases, but in a small proportion of sales a delay in price increases is expected due to longer contracts.

For the Labtech business area, the EBITA margin was 14.5 percent (20.8), lower than last year mainly due to lower COVID-19 sales, but also due to increased commercial activities related to product launches. However, profitability improved compared with the previous quarter.

For the Medtech business area, the EBITA margin was 8.9 percent (10.4). Newly acquired advanced surgery contributed to increased profitability, but this was offset by negative effects in eye surgery, our important future investments in digital solutions, and currency and price effects. Nevertheless, the EBITA margin increased compared with the previous quarter when it was 7.5 percent (after adjustments), mainly driven by a rapid recovery in advanced surgery and a gradual improvement in eye surgery.

Operating cash flow for the fourth quarter totalled SEK 351 million (393). Cash flow strengthened compared with the previous quarter, driven mainly by improvements in accounts payable and accounts receivable, while inventory levels remained stable.

The AddLife companies have proven themselves as reliable and competent partners, offering customers a high level of supply security even in times of great volatility and uncertainty in deliveries and logistics flows. This has led to strong positions with deepened customer relationships, a focus on value rather than price and new business when competitors could not deliver, but also in some cases a deliberate increase in capital commitment. Global logistics flows have begun to stabilise, but disruptions and supply problems persist, due in part to shortages of raw materials and components. Over time, it should be possible to reduce working capital by reducing buffer stocks and increasing the focus on cash flow.

Summary

The companies within the AddLife group have done a fantastic job in 2022 and have continuously adapted to changing market conditions. The positive trend in the quarter is further evidence of the strength of our decentralised business model with delegated responsibilities and strong customer relationships.

AddLife has a unique European market presence and a strong position in product segments that benefit from long-term trends. AddLife support health systems in managing a significant backlog combined with staff shortages. There is a great need for planned surgery and AddLife can offer products, services and digital solutions to manage a large number of patients with limited staff resources.

We also see that the current market trend, with some competitors reviewing their organisations and product portfolios driven by declining COVID-19 sales and a weaker economy, opens up growth opportunities for AddLife.

After a few turbulent years, which, thanks to our proactive companies, resulted in strong COVID-19 related sales and high profitability, we look forward to further developing the group in 2023 under more normal market conditions with a primary focus on organic growth and over time improved margins, cash flows and acquisitions.

Fredrik Dalborg

President and CEO