



# Munters

Q2 report 2021

Klas Forsström, President and CEO

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# Agenda

## Highlights Q2 2021

Implementation of strategy

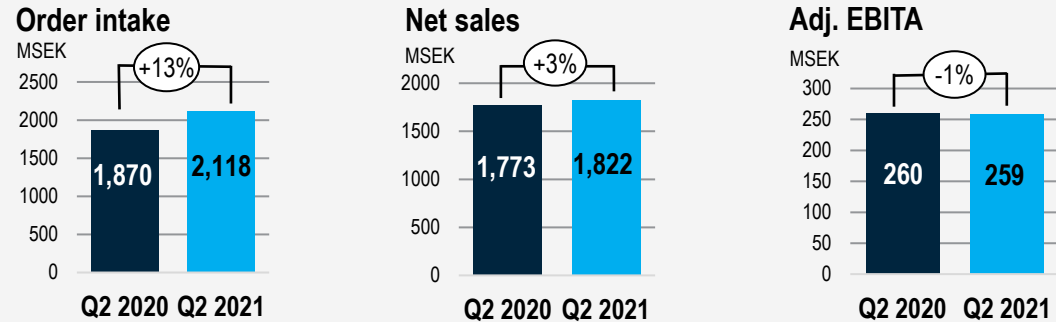
Q2 2021 financial highlights

Summary



# Solid underlying demand in the second quarter

## Good demand and stable net sales



- Order intake increased FX-adj. by +23% (+1)
  - Increase driven by the battery sub-segment in Industrial segment in AirTech; swine segment in the US for FoodTech and growth in Services
- Net sales increased FX-adj. by +13% (-6)
  - AirTech strong increase in the battery sub-segment in APAC and Americas; good development in the US for FoodTech
- Adj. EBITA at MSEK 259 (260), EBITA-margin of 14.2% (14.7)
  - Constraints in supply chain, increased costs and changed product mix negative impact on margin

## Constraints in supply chain



- Constraints in supply chain increased throughout the quarter leading to longer lead times and sourcing related production disturbances
- Costs increased for raw material and freights; majority effect of consecutive price increases in 2022 due to extended lead times
- Constraints in supply chain expected to remain in 2021

## Strategy implementation

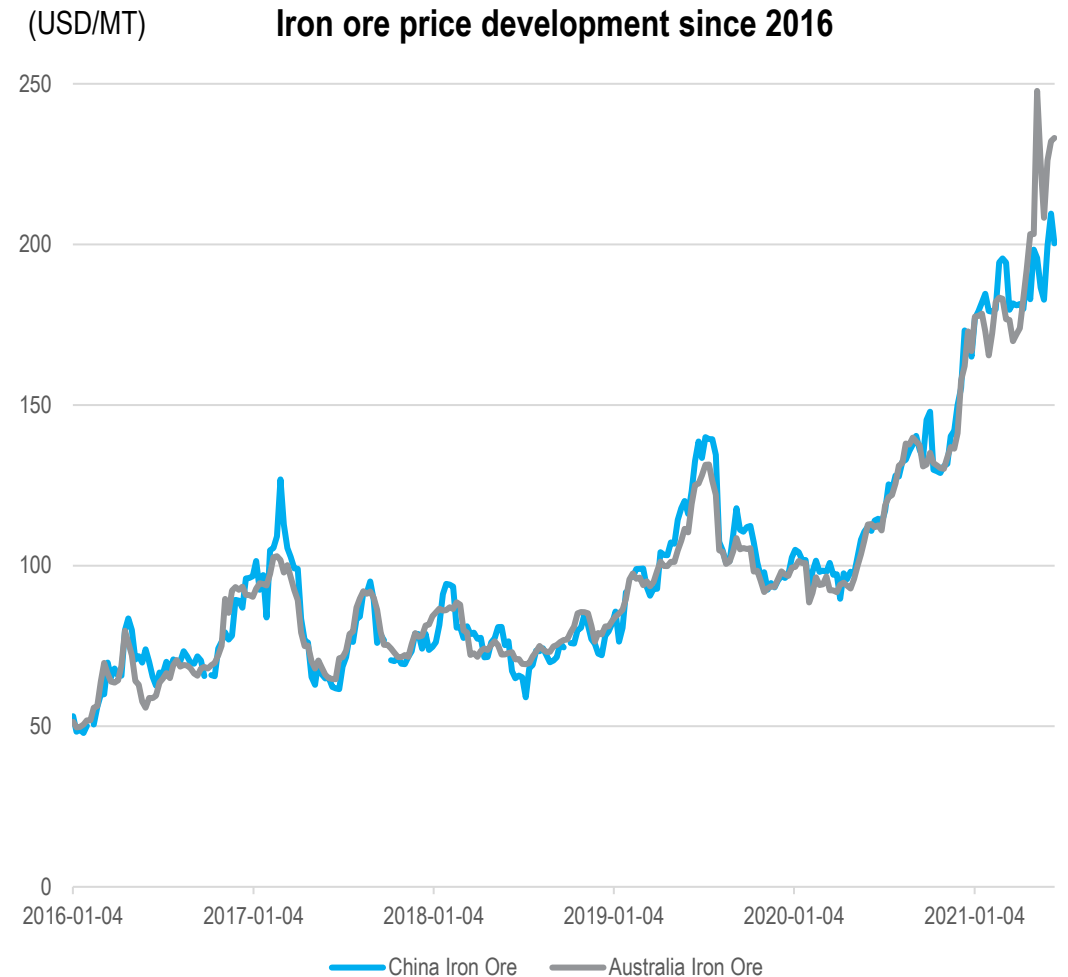


- Execution of our long-term strategy continued
- Examples of actions taken:
- IP acquisition to strengthen technology position in core business of AirTech
  - FoodTech strategy launched in the quarter aiming at accelerating the digital journey and strengthen the equipment position

# Raw material and supply chain headwind

- Sharp increase in freight costs and raw material and component prices in 2021
  - Example: Price increases of about 100% for freight shipping from Europe-Asia and Europe-North America
- Largest raw material exposures for Munters:
  - Steel, Copper, Zinc/Magnesium, Aluminum
- Constraints in supply chain led to longer lead times and sourcing related production disturbances

**Consecutive price increases 2021;  
effect over coming quarters with majority next year due  
to extended lead times**



Source: Kairos Commodity Indices

# Order intake Q2 – Growth in the US

## Americas

- AirTech - growth driven by primarily battery sub-segment in Industrial segment, offsetting negative effect from exit of non-core Commercial segment. Services showed good growth
- FoodTech – good growth in broiler, swine, layer and dairy segments

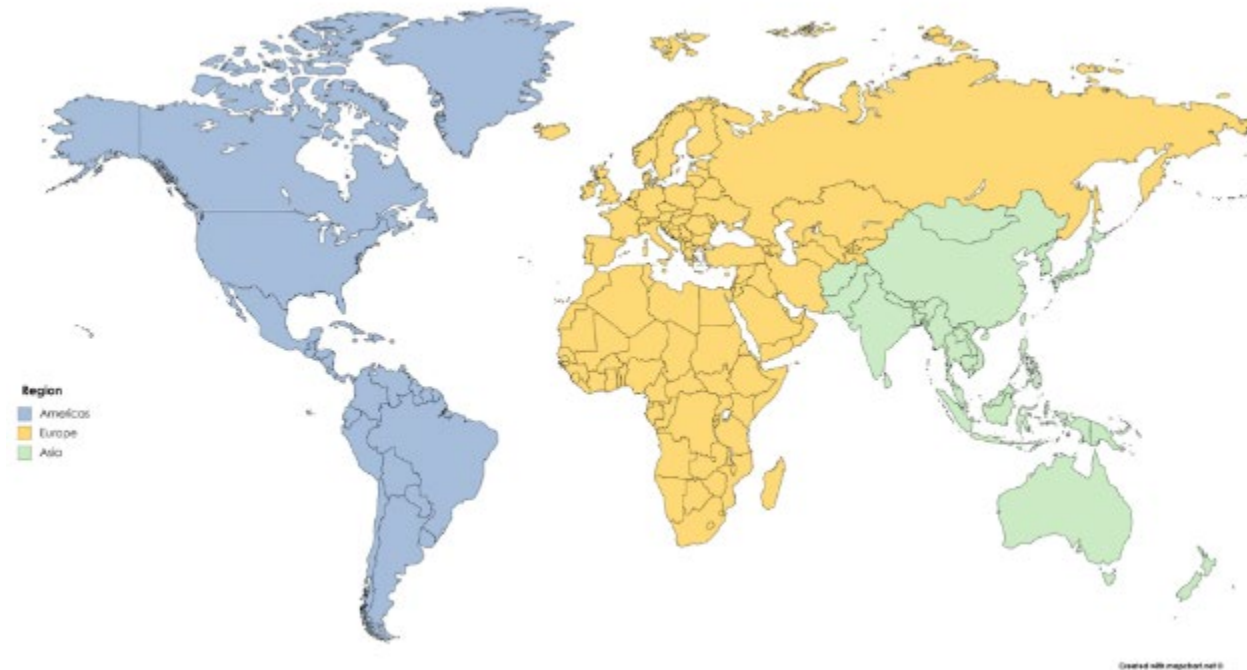
## EMEA

- AirTech – good development driven by the battery sub-segment
- FoodTech – growth driven by orders for controllers to the US broiler segment

## Asia

- AirTech – strong growth in APAC driven by the battery sub-segment in Industrial segment and Services. Component business grew, partly offset by a weak development of Mist Elimination
- FoodTech – decline in APAC on the back of very strong growth in the swine segment in China last year

Regional split	Americas	EMEA	APAC
Share of total order intake	40%	36%	24%
Y/Y change in %*	17%	10%	12%
Y/Y FX-adj. change in %	35%	15%	20%



# Market trends – AirTech

Customer segment	% Order intake H1 2021	Trends	Market comments
Industrial	48%		Battery segment good growth; other segments solid development
...whereof Battery	20%		Continued rapid growth driven by APAC, increasing activities across EMEA and Americas Growth will come in waves as battery producers step up to meet demand
...whereof Food processing	7%		Good underlying market – however weaker during pandemic
...whereof Other	21%		Solid underlying industrial markets with recent boost in Pharma during pandemic
Data Centers	13%		Continued increasing demand in Hyperscalers and Co-Location operators
Components*	12%		Main end markets Data Centers and Battery producers strong demand
Mist Elimination	6%		Power segment and Marine relatively weak, positive trajectory in Process
Commercial	4%		Solid replenishment market for Supermarkets
Services	17%		Growth of installed base and increasing interest in energy upgrades, etc

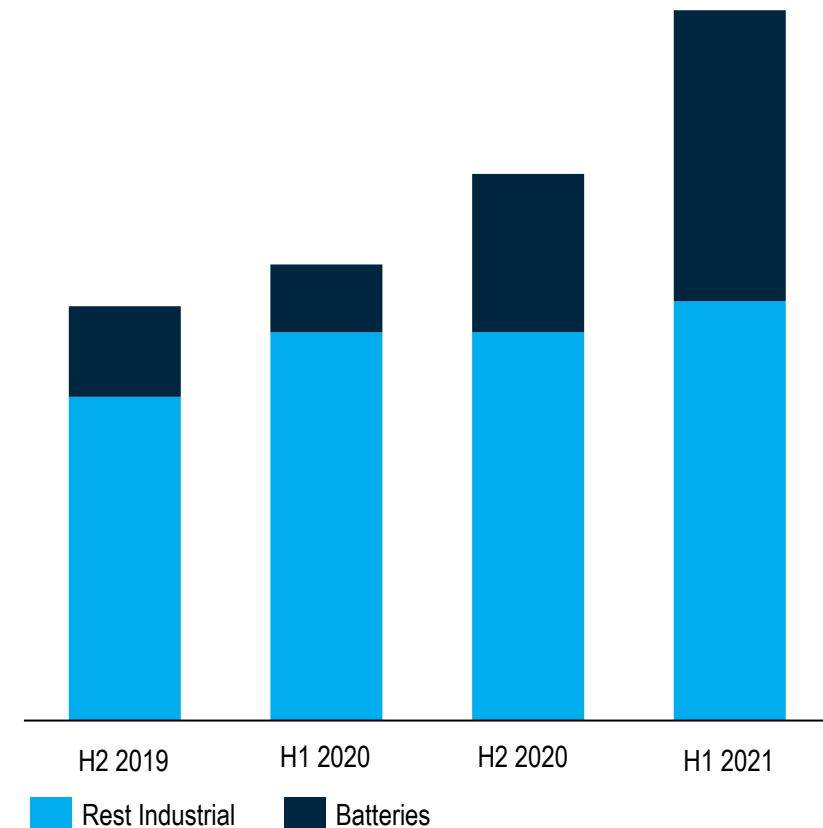
\* Dehumidification rotors and humidification pads sold through OEM channels

# Booming battery industry drives order intake in AirTech

- Currently, electrification is continuing at a high speed
- High expansion of battery factories in need of cooling and dehumidification solutions
  - primarily in Asia, but also in Europe and Americas
- Munters total order backlog has continuously increased during the last four quarters, driven by AirTech
- Battery segment, similar to Data Centers, receives orders for larger solutions with longer lead times than the rest of Munters operations

**Strong order backlog in Munters driven by AirTech and the sub-segment Battery**

Order Intake, Industrial segment in business area AirTech

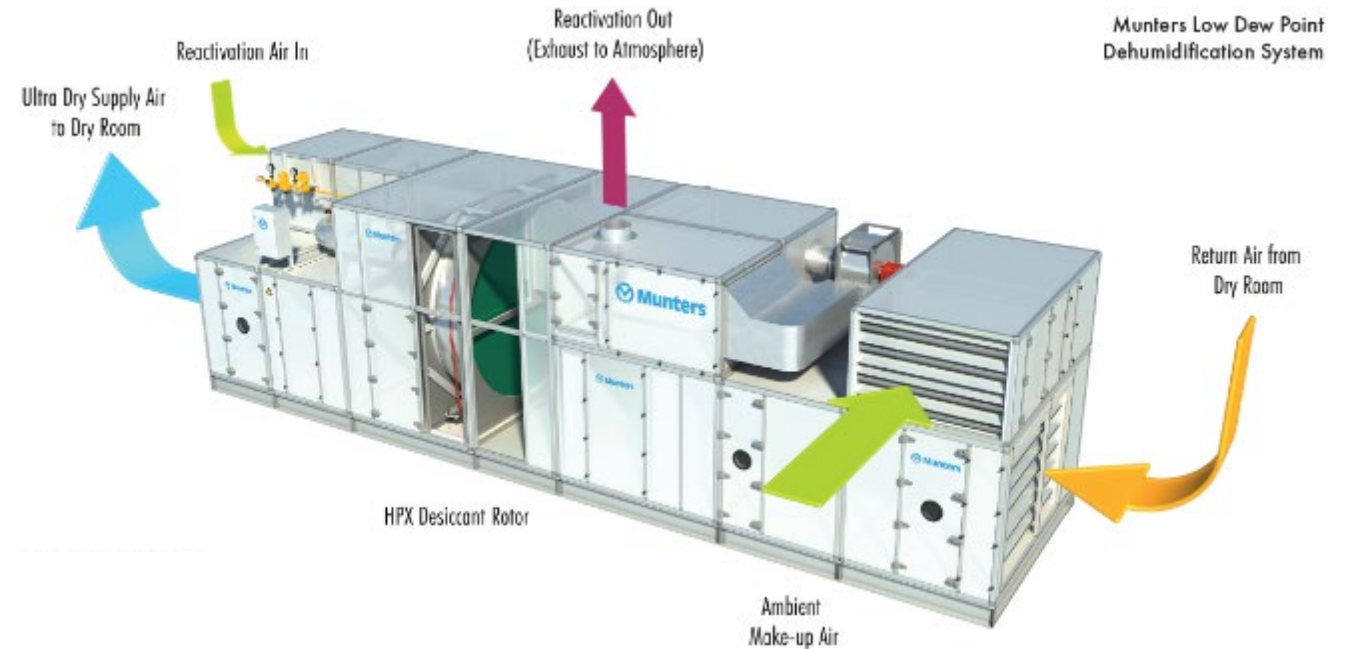


# Dry, cold air needed for lithium battery production

- Lithium battery production requires strictly controlled ultra-low humidity to ensure process consistency, storage capacity and maximize quality

Munters Low Dew Point Dehumidifiers provides:

- Maximizes operational flexibility through performance 24/7, during all seasons, all production modes, and varying numbers of personnel
- Precise control of humidity and temperature ensures high quality, repeatable products
- Consistent low dew point improves cycle life, product yield and storage capacity in batteries



**Munters product design can save significantly on energy requirements**



# Service major opportunity in battery sub-segment

- Munters products are installed in most production lines of top battery manufacturers in China
- Evolving opportunities of daily maintenance and after-sale service

- New retrofit PlugFan introduced, achieving reduction of operating costs
- Power consumption in test installation was reduced and pay-back of new installation only 2.1 years

**Power consumption reduced by appr. 30%**



# Market trends – FoodTech

Customer segment	% Order intake H1 2021	Trends	Market comments
Broiler	~45%	➡	US market showing signs of turning
Swine	~30%	➡	Lower growth in China, stronger sentiment in US
Layer	~15%	➡	Higher global steel prices lower cage-free driven growth
Greenhouse	~5%	➡	Growth driven by increased demand
Dairy	<5%	➡	Good milk prices continue to support investments in US



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# Strategic priorities – second quarter 2021

<i>Strategic priorities:</i>	<b>Focus areas</b>	<b>Q2 achievement</b>
<b>Customers</b>	Improve go-to-market models and pricing strategies	Consecutive price increases in 2021, more efficient pricing because of improved go-to-market models
<b>Innovation</b>	Focus investments in R&D and product portfolio alignment and adjustment	Acquisition of IP to strengthen core-business in AirTech, product portfolio alignment well on track
<b>Markets</b>	Growing in prioritized markets and strengthen Services	Expansion of Services into two new markets, growth in prioritized areas e.g. Batteries and Services, new FoodTech organization for Connected Farms
<b>Excellence in everything we do</b>	Continuous improvements, lean activities in complete value chain, manufacturing footprint and working capital	Progress of implementation long-term strategic measures for increased efficiency in AirTech and FoodTech, continued solid cash generation
<b>People</b>	Leadership and competence development in line with strategic priorities	Change management training on-going, Management Sustainability training launched

# Delivery on our long-term strategy

## AirTech: Growth in priorities markets & strengthened technology



- Acquisition of IP to strengthen technology position in core-business US
- Expansion of Services business through entry into Norway and Ireland
- Mist Elimination to become Clean Technologies; increase focus on renewables in both energy generation and fuels
- Secured frame agreement with larger data center hyper scaler, resulting in increased recurring revenues to this segment
- Decision on delaying some strategy implementation measures into 2022/23

## FoodTech: Taking the next steps



- Digital solutions: accelerating growth in IoT and SaaS solutions by leveraging current strong market position
- Climate solutions: focus on increasing valuebased selling, strengthening market position for equipment by continued innovation, product rationalizations and efficiency improvements
- Implementation started in Q2 2021; new organizational structure and Head of Connected Farms appointed

# Climate change major driving force for Munters

## Progress during second quarter 2021

 <p><b>Quality</b></p>	 <p><b>Environment</b></p>	 <p><b>Governance</b></p>
<p>Decision taken implementation ISO certification 9001:2015 (quality); 14001:2015 (environment); 45001:2018 (safety) for all production sites</p>	<p>Target set: We strive for net zero emissions from our operations by 2030.  We will reduce Green House Gas emissions from our operations.*</p>	<p>Strategy: Solid governance established Sustainability KPIs integrated in strategy framework.  Sustainability training for top managers.</p>

## Munters Lansing now 100% renewable power sources

FoodTech's production facility in the US (Lansing) is now 100% powered by renewable sources using the GreenWise Power program with for example wind and solar power sources



\*Scope 1 and Scope 2 according to the Green House Gas (GHG) protocol

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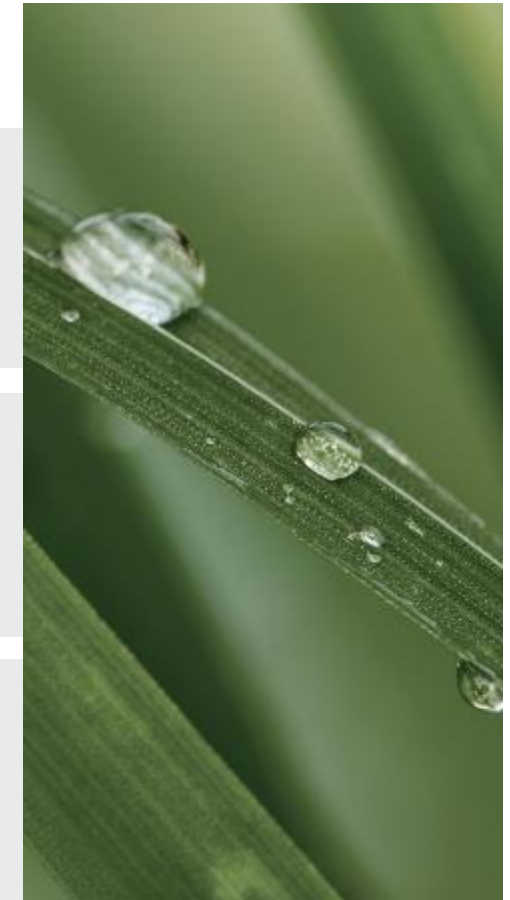
Summary



# Q2 and YTD 2021 vs. Mid-term targets and YTD 2020

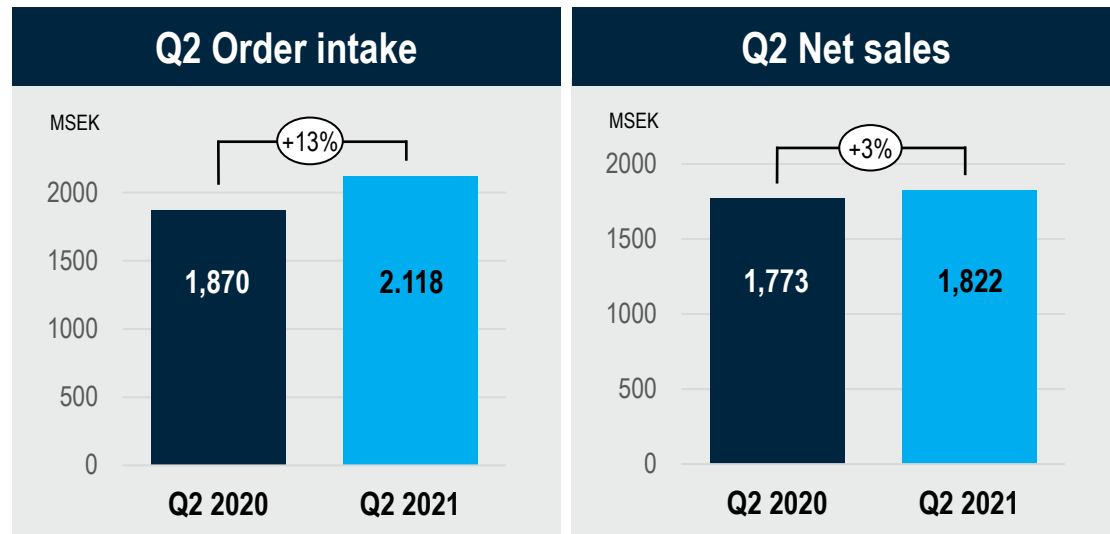
	Mid-term targets	Q2 2020	Q2 2021	YTD 2020	YTD 2021
<b>1</b> <b>Net sales growth</b> Org. growth p.a. over a business cycle	5%	-6%	13%	-6%	13%
<b>2</b> <b>Adjusted EBITA-margin</b>	14%	14.7%	14.2%	11.7%	13.3%
<b>3</b> <b>Capital structure (LTM*)</b> (Leverage: Net debt / adj. EBITDA)	1.5x-2.5x	n.a.	n.a.	2.7x	1.9x

\*LTM = Last Twelve Months





# Group: Strong order intake and net sales

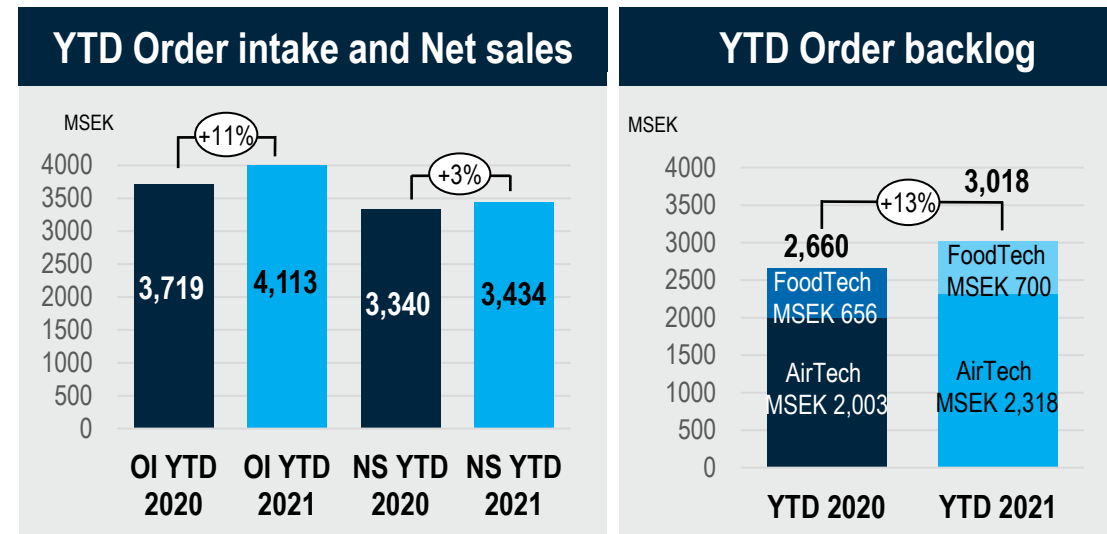


## Order intake, Q2: +13%, FX-adjusted +23% Book-to-bill 1.2

- AirTech: Strong growth mainly driven by the battery sub-segment in regions APAC and Americas
- FoodTech: Decline in APAC on the back of a strong swine segment in China last year. Partly offset by growth in EMEA and Americas

## Net sales, Q2: +3%, FX-adjusted +13%

- AirTech: Strong growth driven mainly by the battery sub-segment in APAC and Americas and Components segment. Services grew in all regions
- FoodTech: Growth in Americas and EMEA; decline in APAC
- Services represented 15% of NS



## Order intake, YTD 2021: +11%, FX-adjusted 22%, Book-to-bill 1.2

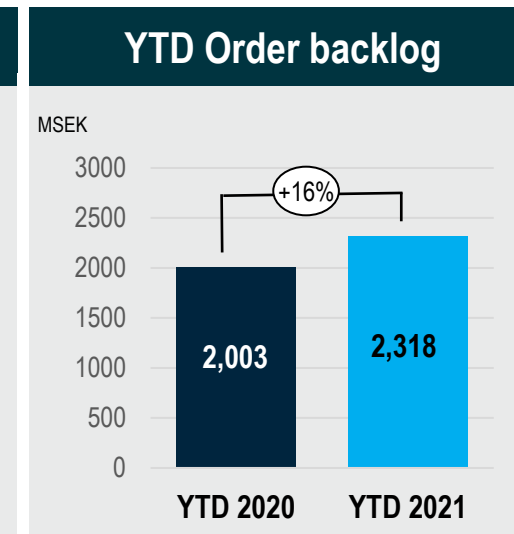
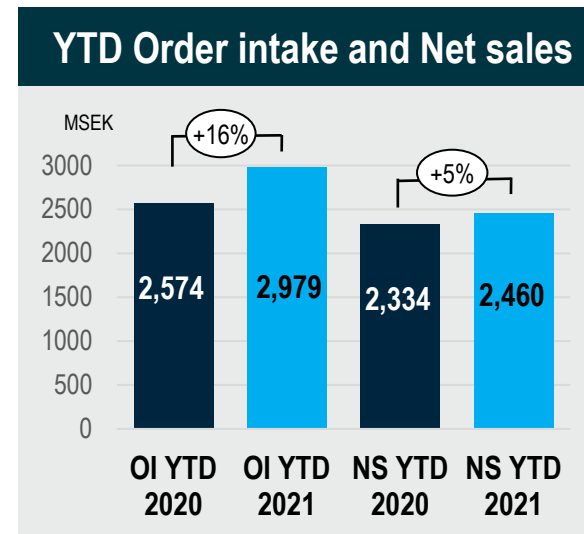
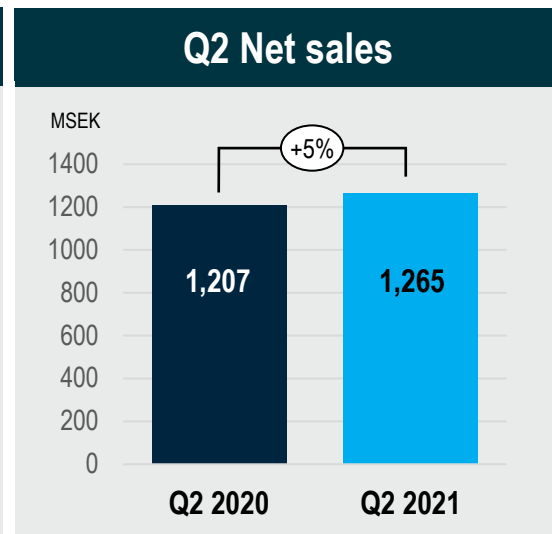
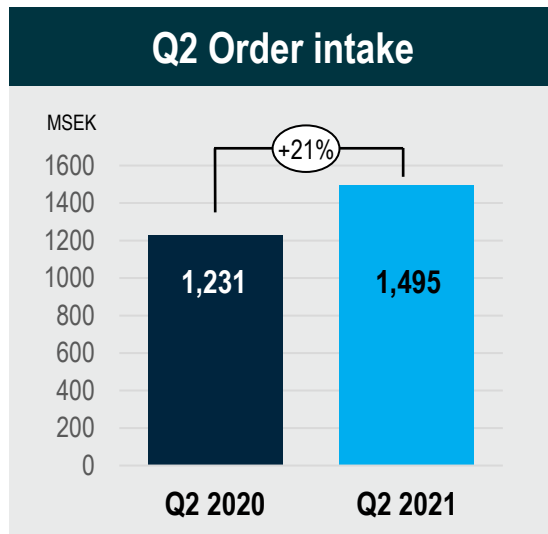
- AirTech: Strong growth driven mainly by the battery and pharma sub-segment
- FoodTech: Americas and EMEA good growth, offset by decline in APAC on the back of a strong Swine segment last year

## Order backlog, YTD 2021: +13%, FX-adjusted +21%

## Net Sales, YTD 2021: +3%, FX-adjusted 13%

- AirTech: Strong growth driven by an increase in the battery and pharma sub-segments and Services
- FoodTech: Growth mainly driven by swine segment in China and the US
- Services represented 14% of NS

# AirTech: Growth in battery sub-segment and Services



## Order intake, Q2: +21%, FX-adjusted +33%, Book-to-bill 1.2

- Strong growth driven mainly by the battery sub-segment in regions APAC and Americas; good growth for Services in all regions

## Net sales, Q2: +5%, FX-adjusted +15%

- Growth driven mainly by the battery sub-segment in APAC and Americas and Components segment
- Data Centers US and Mist Elimination grew slightly.
- Services grew in all regions
- Services 21% of NS

## Order intake, YTD 2021: +16%, FX-adjusted 28%, Book-to-bill 1.2

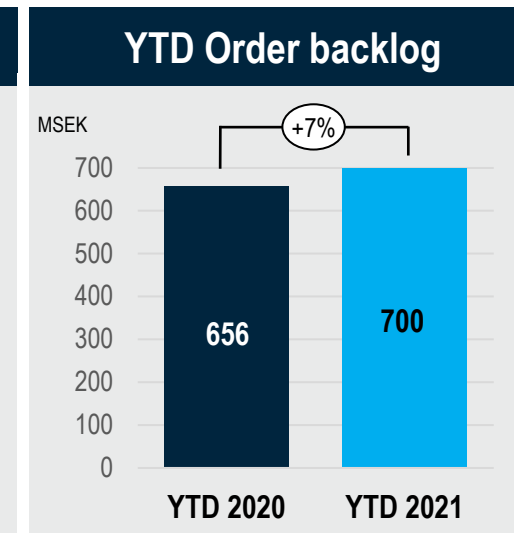
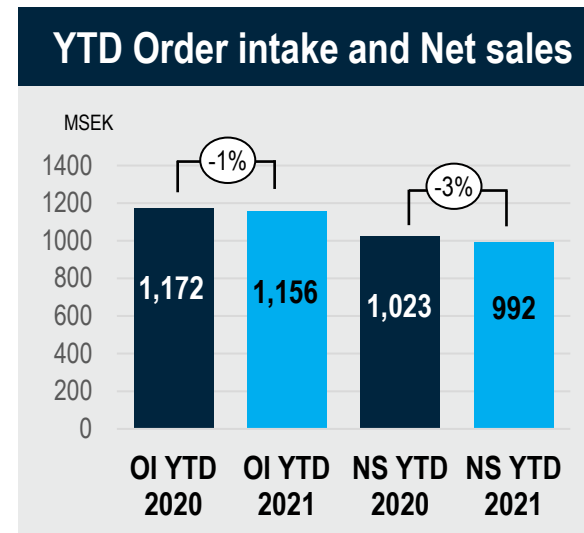
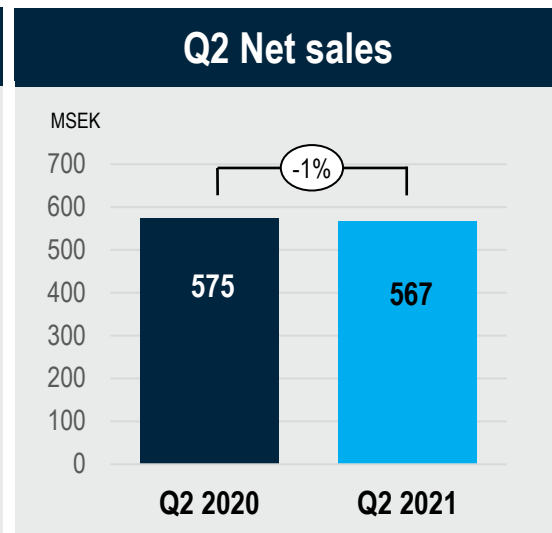
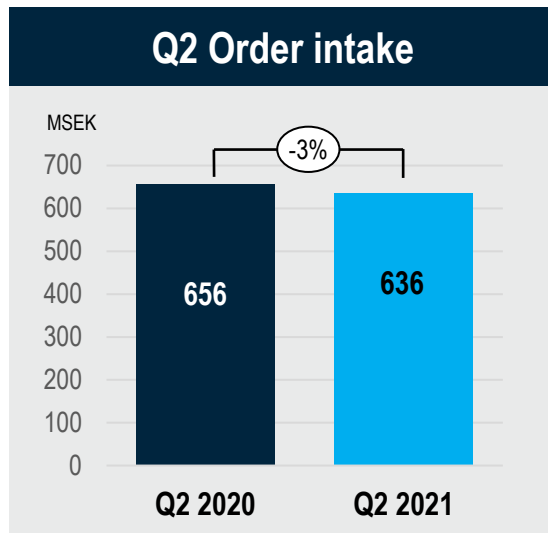
- Growth driven mainly by the battery sub-segment in Americas and APAC and pharma sub-segment in the US
- Components good growth, Mist Elimination continued weak order intake and Data Centers US flat

## Order backlog, YTD 2021: +16%, FX-adjusted +24%

## Net Sales, YTD 2021: +5%, FX-adjusted 16%

- Growth driven mainly by the battery sub-segment in APAC and Americas and the pharma sub-segment in the US
- Services 20% of NS

# FoodTech: Good growth in the US offset by decline in China



#### Order intake, Q2: -3%, FX-adjusted +5%, Book-to-bill 1.0

- Good growth in broiler, swine, layer and dairy segments in the US
- EMEA grew driven mainly by increased order for controllers to the US broiler segment
- APAC declined, on the back of a very strong order intake in the swine segment in China previous year

#### Net sales, Q2: -1%, FX-adjusted +7%

- Americas had good growth driven by the layer, swine and dairy segments
- Region EMEA grew because of good development in greenhouse segment
- Sales declined in APAC

#### Order Intake, YTD: -1% FX-adjusted +8%, Book-to-bill 1.0

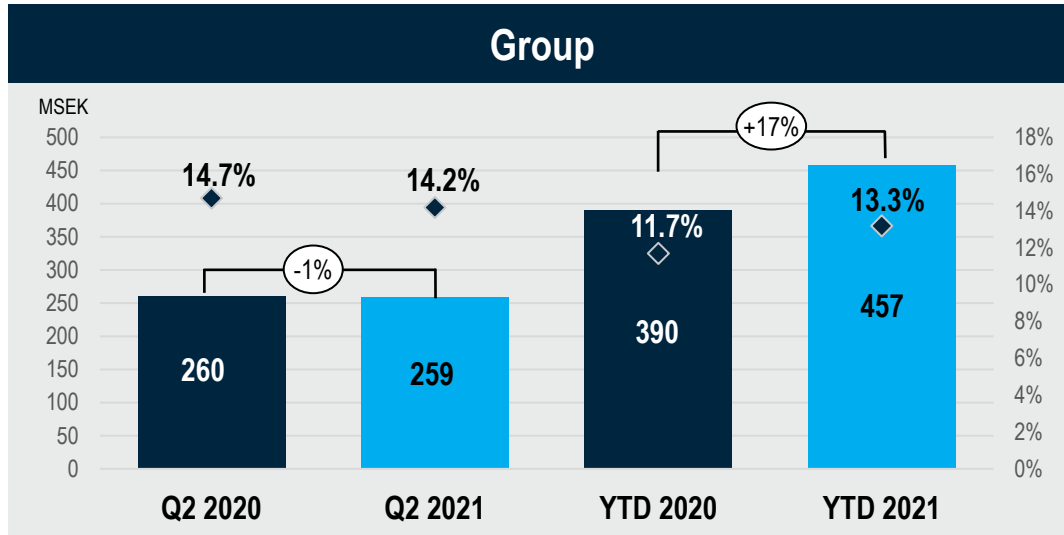
- Americas growth (currency adjusted) mainly driven by US swine, layer and dairy segments
- Region EMEA grew as demand for controllers and greenhouse solutions increased, APAC declined on the back of a strong swine segment 2020

#### Order backlog, YTD: +7%, FX-adjusted +12%

#### Net Sales, YTD: -3% FX-adjusted +6%

- Good growth in equipment business in Americas driven by broiler, swine, layer and dairy segments. EMEA weaker development and APAC declined

# Flat adjusted EBITA Q2 and improved YTD 2021

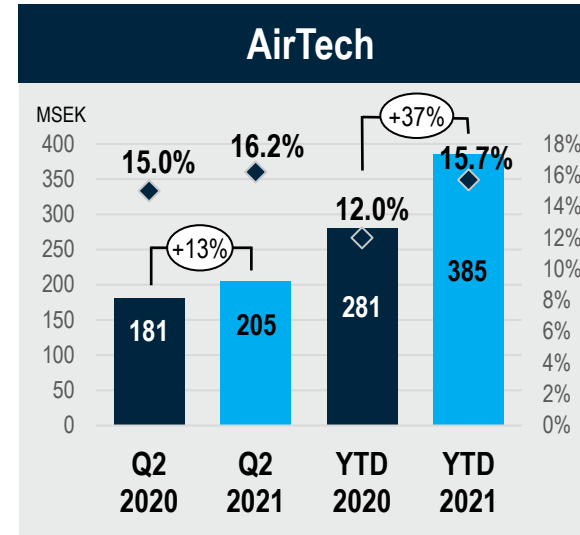


### Adjusted EBITA, Q2: weakened margin

- Increased net sales and high utilization rates offset by constraints in the supply chain, increased freight costs and a changed business mix

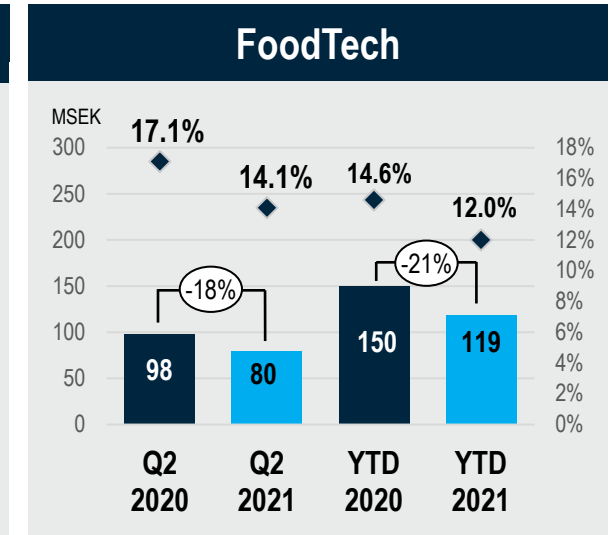
### Adjusted EBITA, YTD: Improved margin

- Improved mainly because of increased net sales, high utilization rates and continued efficiency improvements



### AirTech: Improved margin Q2 and YTD

- Increased net sales and high utilization rates improved the margin, partly offset by constraints in the supply chain, increased freight costs and for Q2 a changed business mix

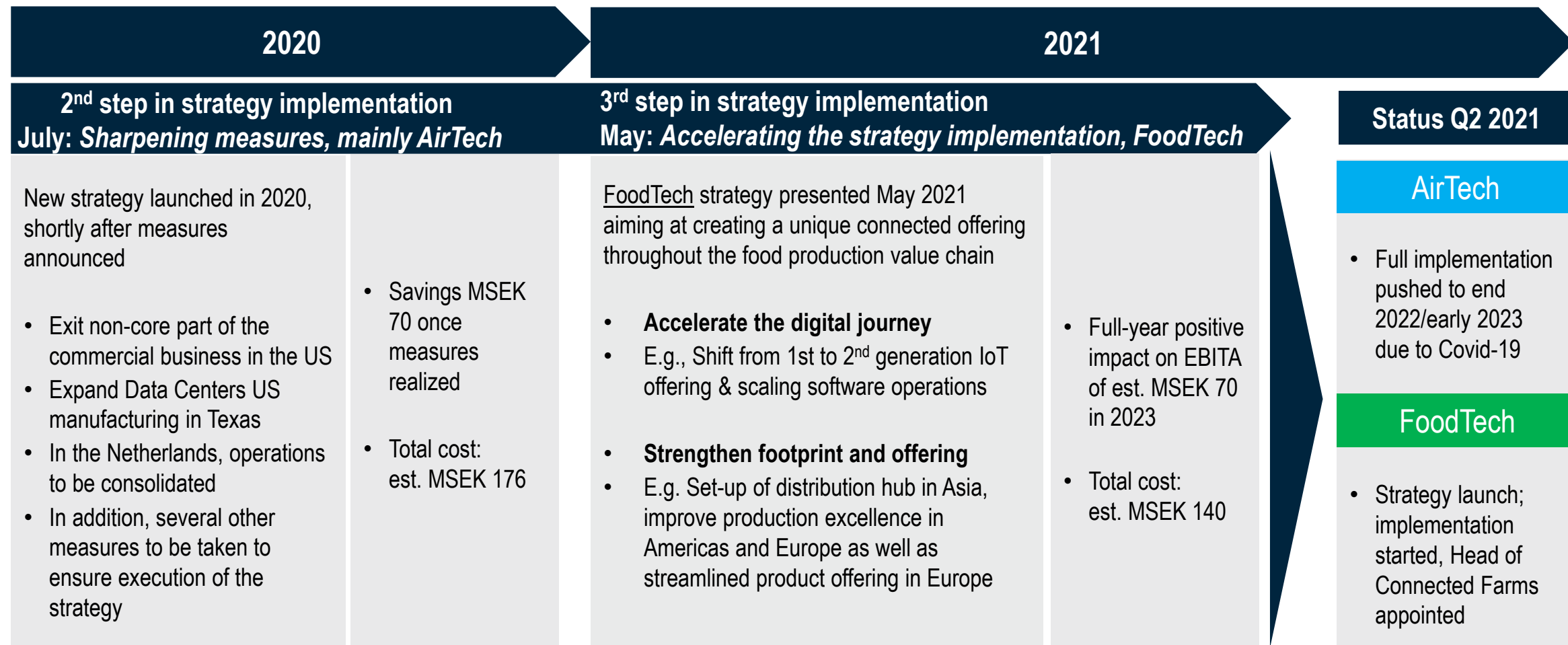


### FoodTech: weakened margin Q2 and YTD

- Margin negatively impacted by increased raw material, freights costs and a changed business mix. 2020 Q2 margin strong mainly because of growth in the swine market in China

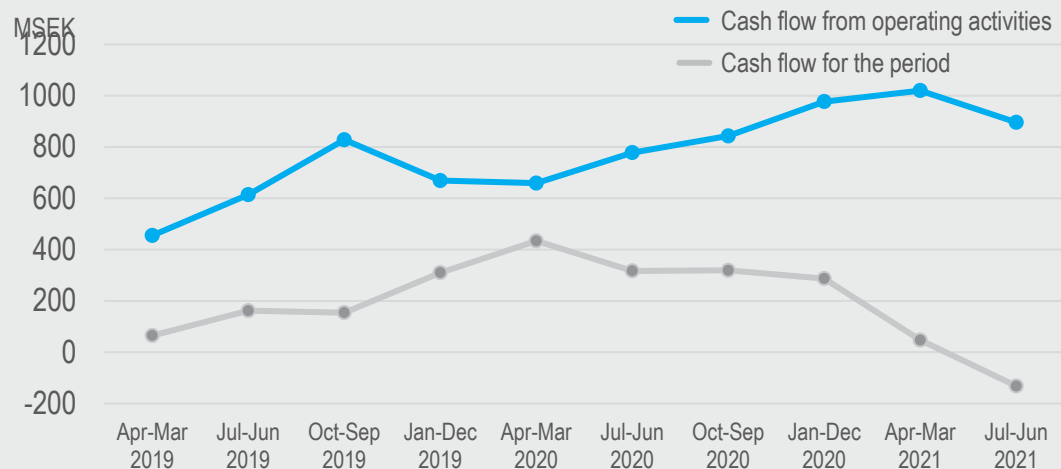


# Delivering on our strategic journey



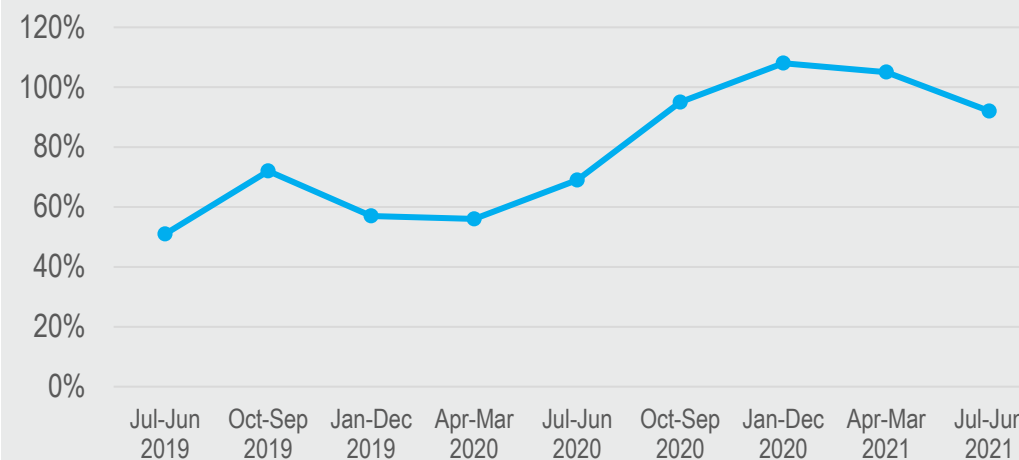
# Strong cash flow development

## Cash flow development, LTM\*



- Cash flow from changes in working capital had a positive impact on cash flow of MSEK 39 (85) in the second quarter and a negative impact of MSEK -99 (28) for the first six months of 2021
- Positive effect from working capital in 2nd quarter from both operational activities and a mix of various other items

## Cash conversion (LTM OCF\*\*/Adj. EBITA)

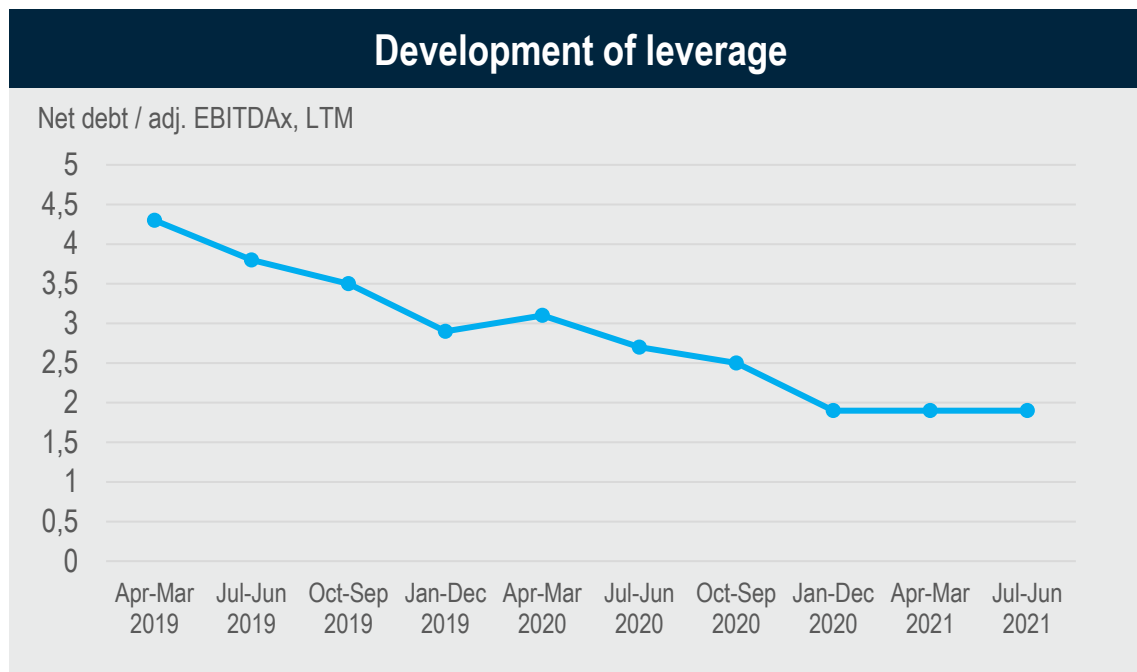


- Cash conversion continued to be at a high level, although slightly lower than last quarter, mainly as a result of intense work to improve cash management and working capital management

\*LTM = Last Twelve Months

\*\*Operating cash flow

# Leverage in line with mid-term financial target range



## Development of leverage

- Net debt at the end of June amounted to MSEK 2,209 compared to MSEK 2,208 at the end of March 2021
- The leverage ratio per end of June was 1.9x which is the same ratio as per end of March 2021 and end of December 2020 despite dividend pay-out and negative FX-rate effect relating to USD/SEK

## Re-financing enables long-term strategy execution

- New primary 5-year financing facilities established
  - MEUR 250 Revolving Credit Facility & MUSD 165 Term Loan Facility; same total commitment as previous set-up
  - One financial covenant – Net debt / Adjusted EBITDA
- Facilities agreement based on LMA\* standard, different baskets under the agreement has been increased and made more dynamic

\* Loan Market Association

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# Continued good demand in the second quarter

## Strong demand



- Solid demand in main markets
- Strong increase of order intake and sales; driven by battery sub-segment in Industrial segment in AirTech and swine segment in the US for FoodTech
- Adj EBITA-margin impacted by constraints in supply chain and change in business mix

## Supply chain constraints to remain



- Constraints in supply chain increased; leading to longer lead times and sourcing related production disturbances
- Increased raw material and freights costs
- Constraints in supply chain expected to remain in 2021

## Delivery on long-term strategy



- Execution of long-term strategy continued:
- AirTech: IP acquisition to strengthen technology position; expansion Services
  - FoodTech: Launched updated strategy; focus on climate solutions and digital solutions

# Questions & Answers