

Q2

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TRANSCRIPT

Atea ASA Earnings Presentation

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ATEA

Corporate participants

Steinar Sønsteby Atea ASA - CEO

Robert Giori Atea ASA – CFO

PRESENTATION

Steinar Sønsteby Atea ASA – CEO

Good morning, good afternoon around the world and welcome to the Q2 presentation for the Atea numbers. It's been an eventful quarter, to say the least with record-high revenue and a good development all around. Many of our competitors are struggling, but we feel well positioned. I also want to remind you that we'll take a Q&A in the end of the presentation, so get your questions in digitally. So, to the numbers. Gross sales came in at NOK 16.8 billion, up 14.4%. I'll challenge you to find any IT company in our industry growing faster. EBIT came in at NOK 268 million, up 10.4%, and net profit at NOK 157 million, up 13.3% from the same quarter last year. As always, I will leave it to Robert to give you all the good news.

Robert Giori Atea ASA – CFO

Thank you, Steinar. Atea reported higher profitability in the second quarter of 2025, driven by strong growth in sales across all lines of business. Gross sales in Q2 were NOK 16.8 billion, up 14.4% from last year. After adjusting for changes in currency rates, organic growth in constant currency was 10.0%. Hardware sales increased by 11%, driven by higher shipments of PCs and data center equipment. Software sales grew by 19.6%, with high growth in sales of office productivity applications, public cloud and IT security solutions. Services sales increased by 8.9% from last year, with higher sales of consulting and product support services. Group revenue according to IFRS was NOK 9.1 billion, up 9.1% from last year. Gross profit increased by 5.1% to NOK 2.8 billion. Gross margin was lower than last year due to lower vendor incentives on software and a lower proportion of Atea's services in the revenue mix. Personnel costs and other operating expenses grew by 4.5% to NOK 2.5 billion. Adjusted for currency movements, these costs were flat from last year. With higher sales across all lines of business and lower growth in operating expenses, EBIT in the second quarter grew by 10.4% to NOK 268 million. Net profit after tax increased by 13.3% to NOK 157 million. We'll now take a closer look at sales and profit performance across the countries in which we operate.

Q2 is another strong quarter of sales and profit growth for Atea, driven by double-digit EBIT growth across all countries except Finland. In Norway, gross sales grew by 1.4% to NOK 3.2 billion. EBIT grew by 11.1% to NOK 108 million. Profit improvement was driven by sales growth, higher margins and a flat development in operating expenses. In Sweden, gross sales grew by 9.4% to SEK 6.6 billion. With strong sales across all lines of business, EBIT increased by 17.8% to SEK 125 million. In Denmark, gross sales increased by 27.1% with very high growth in product sales under new public sector frame agreements. EBIT grew by 19.7% to DKK 11 million based on higher sales and a decline in operating costs. In Finland, gross sales fell by 6.0% to EUR 107 million due to lower sales to the public sector. EBIT was EUR 2.6 million compared with EUR 3.4 million last year. The Finnish economy is emerging from a recession, but market demand remained soft in the second quarter. In the Baltics, gross sales grew by 20.2% to EUR 51.3 million, with very strong growth across all lines of business. EBIT increased by 17.4% to EUR 1.8 million. Atea group functions, which includes shared services and group costs, was a net operating expense of NOK 40 million compared with NOK 31 million last year. The difference was mostly due to changes in internal transfer pricing from group functions towards countries. Now a word on our cash flow and balance sheet.

Atea's cash flow from operations was an outflow of NOK 111 million in the second quarter of 2025. As you can see from this chart, Atea's cash flow from operations is highly seasonal with very high cash inflow at the end of the year. In the second quarter, Atea typically has a moderate cash inflow due to a flat or declining level of networking capital. In Q2 2025, cash flow from operations was somewhat below the typical trend. Working capital levels this year were temporarily impacted by a higher-than-normal level of school PC orders, which were purchased and paid for in the second quarter but scheduled for delivery and collection in the third quarter. This impact is temporary and expected to normalize in the coming months. At the end of Q2 2025, Atea had a net debt of NOK 440 million as defined by Atea's loan covenants. This corresponds to a net debt/EBITDA ratio of 0.2. Atea's net debt balance at the end of Q2 2025 was NOK 4.5 billion, less than the maximum allowed by its loan covenants. Atea has a strong balance sheet and significant additional debt capacity before its loan covenants would be reached. That concludes the presentation of the second quarter's financial results. I now hand the podium back over to Steinar to discuss the outlook for Atea's business for the remainder of the year.

Steinar Sønsteby Atea ASA – CEO

Thank you, Robert. As we all know and have experienced, the last many months and quarters have been influenced and dominated by uncertainty. This is the reason why we guided for a full year for the first time in a long time after Q1. And so, to be predictable, we'll keep our guiding. This is based on solid profitability and growth through the whole year as we see it. It's also based on the contracts we have won during this year, but it's also based on changes in the industry and the region that favors Atea. So, our expectations given after Q1 will stay the same. Gross sales in the interval between NOK 57 and 60 billion, actually in the higher part of that interval,

and EBIT between NOK 1,330 and 1,450 million, up between 10% and 20%. I want to remind you when we compare to last year that Sweden had a tough second half in 2024. And so, it makes for a little bit of an easier comparison on EBIT. When you look at the business and the outlook, we see healthy business in the customer mix that we are favored by. We see Norway, Sweden and the Baltics delivering solid numbers, having a solid backlog into second half and a forecast that gives optimistic views. We see that we have work to do in Denmark and Finland and let me comment briefly on both of them.

So, Finland is the area or the country where we absolutely have seen the weakest economy as Robert alluded to. At the same time, we have won over the last 12 months several large and some smaller contracts and we understand that the information between economy being weaker than we had hoped and Finland had hoped, and we are winning some contracts can be contradictory. But you have to understand the contracts are still there. People are buying on the contracts, just not as much as we had hoped. Many of these contracts are more capped by the euro than by time. That means that we expect a sharp rise over the next three to four years in spending on these contracts in Finland. When it comes to Denmark, I am, as many of you know, spending quite a bit of time in Denmark and we will update you more in detail after Q3 on findings and actions. And we absolutely expect to turn both these countries into growth both on revenue and EBIT in the quarters to come.

If we go further into business outlooks and look at the four growth drivers that we have spoken about over the last 4–5 quarters, I'll briefly update you on all four of them.

Defense/NATO. First of all, for the first time we have started to actually work with NATO in Central Europe. This is something we haven't done before. I said we have worked with NATO in our region, which has been expanded as you know by Sweden and Finland. But we are now having sales towards Brussels and other parts of the EU in Europe. Defense is the biggest single sector for us these days. It grew by 28% in Q2. But at the same time, you have to remember defense always spends more money in the second half than the first half. Actually, more money in the last four months of the year than in the rest of the year. So, we have expectations for the rest of the year, as you can understand.

IT security is a hot topic, but I must say I'm a little disappointed on how little growth we have in IT security compared to the threat picture that we see out there. We are growing double digits, so the growth is absolutely there, but I'm afraid that we have to see some real damaging episodes before the real spending goes into IT or cybersecurity.

On the other hand, AI is picking up. We are massively working with Microsoft and with IBM. On the Microsoft side, Copilot, of course, is central. It's not the only thing Microsoft does on AI, but it's well known to people around the world. Copilot sales in Q2 grew by 38,000 licenses. Some of that is renewals since we're now into more than one-year-old licenses, but there were 38,000 licenses either recommitted or committed, which is sharply up from 21,000 in Q1. We have also developed some really cool and useful solutions based on or together with IBM, based on what's next, especially against the municipality sector with health, with education and also with welfare. We'll talk more about these solutions as we are rolling them out to the more than 1,000 municipalities in our region.

And then Windows 10, we are getting closer and closer to the end of life in October 2025, only a couple of months away. And there are still 2.5 million PCs in the Nordics which are in use but are not ready to run Windows 11. There is a massive job to do still and the end of life is actually coming. We don't believe that all these PCs will be upgraded before October or during October 2025. We believe this will happen over the next 12 months and are happy to see that PCs over the last 12 months is by far the fastest growing individual product group with more than 20% quarter after quarter. And that 70% of the PCs we sell is what we would call AI-ready Copilot+ AIPC or whatever you want to call them. That increases the average spending per PC and there are 2.5 million that has to be upgraded the next somewhat 12 months.

I also want to upgrade the information that you have on the Microsoft incentives or the change of the programs that Microsoft started from 1 January 2025. It's been massively talked about globally and also with some of the Norwegian publicly traded companies. Let me be very clear, the changes that have been put in front of us by Microsoft about a year ago have a negative impact for everybody that are partners of Microsoft short term. Microsoft wants us to change behavior. Changing behavior takes a little bit of time. We, and I guess everybody else who works with Microsoft, have a plan on how to recover, recoup those dollars, but you are not able to do that from day one. It has to do with length of contract, it has to do with renewal dates, and it has to do with how fast you are able to change your own and the customer's behavior. In Q1, we did not recover everything. In Q2, which is the toughest quarter of the whole year every year with Microsoft because it's the end of year and the fiscal year for Microsoft where most people renew their EA agreements. And so also this year. And as you know, EA agreements are the ones where the most incentives have been taken away. So, we have just delivered that one single quarter in the first most difficult year where this will influence the most. When we look at the plan we have with Microsoft, we've actually recovered 50%. When we look at actions, 50% of this year's loss, we're 50% into the year. It's just that it's not all in our numbers as EA agreements are lost that one month when you sign them, while CSP is month by month, and that's why recovery takes longer than the actual decline.

In summary, the changes have come, they have influenced the whole industry. Short term for the bigger partners it has a negative impact, long term it has a good impact. So, with that, we delivered the Q2 numbers. Let us look at the summary for the first half. Gross sales up to NOK 30 billion, a growth of 15.3%. I am really, really proud of what we've done first half. EBIT at NOK 549 million, up 10.1%. We are well in line with our guidance and there is no reason to be scared about our future numbers. With that, we'll go to Q&A.

Questions and answers

Unidentified Company Representative

Thank you, Steinar and Robert, for that presentation. We have several questions here. The first one here is for Steinar. As I understand, you're now the country manager in Denmark also. Can you give some initial observations and some actions?

Steinar Sønsteby Atea ASA – CEO

Yeah, so I've been the country manager and the group CEO now for about four months. And as many of you know, we have not been able over the last several, or I should say many years, to improve our business in Denmark. And so, stepping in, I first of all wanted to understand what is the deep-down reason for this and I certainly understand the reasons today. And as I said, we will get more into details with this after Q3. But in short, we are selling at too low margin, too low price and we are big enough to influence the whole market. Secondly, we're not cross-selling. So, we're not selling servers to customers that buy PCs and network to customers that buy servers in the extent that our strategy outlines. All of this lowers the margin as you can see in the numbers. So, we are changing the sales approach and hiring more engineers, that is the short-term actions. I will get back to more details, but I'm confident that we will turn the situation in Denmark around.

Unidentified Company Representative

Thank you. Weaker cash flow in Q2, you are normally world class in this category. What's happened?

Robert Giori Atea ASA – CFO

Yeah, we have a long track record of very strong cash flow through tight control of working capital. But still from time to time, we'll have fluctuations in working capital which are above or below the normal or expected levels. As long as these fluctuations are temporary, it's really no big deal. It has no impact on the longer term. In Q2 2025, we had a temporary impact on working capital by higher-than-normal level of school PC orders, which were ordered and paid for in the second quarter, but to be delivered and collected in the third quarter. This is a high volume of PCs that we do every year to the schools, but this is just simply the timing of the payments versus the collection dates on a very large project volume that we do with school PCs. This impact is temporary. The same impact is expected to normalize in the coming months. And I just want to emphasize there's no structural change in either our inventory management, collection or payment terms that should impact our business over the longer term.

Unidentified Company Representative

Thank you. New question here. It's a bit surprising to see the local currency decline in revenues in Finland during the quarter, given that we understand you have frame agreements in place that are double the size of the previous frame agreement. Can you help us understand the weakness in Finland and how the frame agreement is performing?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, as I touched on in the presentation, the Finnish economy overall, the economy in Finland has been the weakest. And this is not our prediction or our numbers of all the seven countries we do business in. So, we are influenced by a general low spending in Finland. When it comes to the frame agreements, the frame agreements are absolutely there. They're long term, they're buying on them, but not the volumes that we expected and that we talked to the public about when they were signed. We expect that volume to pick up already in the second half of this year and the contracts are valid, the EUR numbers that we have given are valid. So, let's see what we can do over the next three to four years, which is the duration of the contract that we have launched.

Unidentified Company Representative

Thank you. You've grown your EBIT 10% year over year in the first half. Is there anything pointing towards an acceleration in the second half?

Steinar Sønsteby Atea ASA – CEO

We believe that there is, but more to the later part of the year than Q3 when it comes to accelerating the growth. Sweden was, as you can see when you look at last year, not as strong as they normally are and as we see first half of this year. So, we expect Sweden to outperform, we expect Finland to start growing and we expect Denmark to accelerate its growth. Overall, we believe we are well within the guided interval.

Unidentified Company Representative

Another question on Finland here, why are you growing OpEx materially in Finland in both Q1 and Q2 despite top line and gross profit losing some momentum and slightly declining?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, we are investing in value add to our customers in Finland. It's not a short-term thing, it's a long-term thing and something we have talked about over the last 3–5 years and it's both on managed services and on consultancy. It's not a huge initiative and of course we are trying to balance it, but we expect Finland to start growing in the coming quarters. So, we are very confident on the strategy in Finland.

Unidentified Company Representative

Further question on Denmark, if you can give us more of an update on Steinar's work in Denmark. What actual activities are prioritized and what margins do you expect the region could reach in a 12 to 18 month period?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, when it comes to margins and expectations, I'll save those to after or on the Q3 presentation. But when it comes to actions, what we need to do is to represent the whole of Atea in Denmark to every customer in a better way. And so, we're changing the sales approach by strengthening account management and the very deep knowledge that those salespeople will be helped with in the sales process. In that way, we hope to utilize each one customer touch in a better way, and we can sell more on the actual value of Atea, which we do in all the other six countries, than just on price. This is the most important part of it. But we're also strengthening the system engineer/consultant work that we do in Denmark, which will increase the total margin of course. But again, we'll get back to more details after Q3.

Unidentified Company Representative

Thank you. You mentioned Microsoft, but do you expect further headwinds in 2025 or 2026 for the year from legacy enterprise software contracts?

Steinar Sønsteby Atea ASA – CEO

Yeah. First of all, I just want to say we're focusing on Microsoft because Microsoft is way the biggest one. Most, if not all, software vendors have or will change their approach and long term or mid-term, this will strengthen the Atea relationship with the vendor but also with the customer. We are forced to build more knowledge and more services that we can invoice to the customers. It's just that it takes a little bit of time to get over that hump. We are well on our way to neutralize and that is the first stage—to neutralize the negative effect of those changes. We've seen them with VMware or Broadcom, we've seen them with others. We now see them with Microsoft. We don't see the same type of headwind in 2026 as we see in the first half of 2025. And we see that we'll get a little better and a little better at neutralizing or closer to neutralizing the numbers as further out we get month by month in the coming quarters.

Unidentified Company Representative

Thank you. The new question on gross margin was soft especially in software and services. What are your expectations on gross margin development going forward?

Steinar Sønsteby Atea ASA – CEO

So, if you look at the gross margin in total, it's down by a little bit more than one percentage point from last year. There are two main reasons for it. One is the softer margins that we now have spoken about several times today. And secondly, it's because product revenue grows faster than services revenue, which you know is obvious when you look at the numbers and is as expected as services revenue will not—we're not able to grow services revenue double digit in a single quarter. So, it's the mix and it's the software topics around incentives with Microsoft. We expect both of them to normalize just as you have seen over the last couple of quarters that hardware margins have normalized. They were a little weak in Q4 and we talked about that after Q4 when we said it's going to be in the interval between 13% and 13.3%, which it has been for 10 years and that is exactly where we land in Q2. So, we are working on normalizing both hardware—which is kind of checked that—software and services and there is no structural change other than the incentives with Microsoft that we talked about.

Unidentified Company Representative

Certainly, some interest in Microsoft, how much of a headwind in terms of EBIT margin were the EA agreements this quarter?

Steinar Sønsteby Atea ASA – CEO

So, it's difficult to do this without a chart and so on, but I'll try. So, if you look at Q2 last year and Q2 this year and think that the volume and the contract types would have been exactly the same, which of course is not true. The volume is higher, and the contract types have changed a little bit. But if they were the same, we would have lost approximately USD 4 million of profit in this quarter. It isn't as much, but it is in the interval between USD 0 and 4 million in Q2 by itself.

Unidentified Company Representative

Thank you. The final question, you choose to keep the guiding in somewhat large intervals. Can you elaborate somewhat more on this please?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, I guess if we hadn't guided, we would have been criticized. We guide and some people think the guiding is not what they like. We believe that we have a sound guiding interval and a sound guiding, especially when you look at the uncertainty around in the world and all the changes that happen even in our industry. We are firm on our guiding, and we hope it gives a little bit of predictability. As I said, the revenue will be in the high end of the interval and we will update the guiding after Q3. I guess that's the last question. And that concludes the presentation from us here in beautiful Oslo. I hope everybody has a fantastic summer. Mine will be spent on Mallorca. I'm so much looking forward to it. Thank you.