Q1

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TRANSCRIPT

Atea ASA Earnings Presentation

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Corporate participants

Steinar Sønsteby Atea ASA - CEO

Robert Giori Atea ASA – CFO

PRESENTATION

Steinar Sønsteby Atea ASA – CEO

Good morning and welcome to the presentation of the Q1 numbers for Atea. We're in the beautiful head office of our company here in Oslo. Right after this presentation, we'll give the General Assembly, which, due to pre-voting, I can say will be pretty uneventful. Around us, over a pretty long time, there's been a lot of bad news, and the world has been, I would say, pretty unpredictable. I'm therefore so happy to be the one to give you some good news. Let's take a short look at the numbers. The gross sales come in at a record-breaking NOK 13.3 billion in Q1, and the EBIT is up 10% to NOK 281 million, the best Q1 in the history of the company. The net financial position comes in almost NOK 400 million better than last year. But as always, I'll leave it to Robert to give you all the good news.

Robert Giori Atea ASA – CFO

Thank you, Steinar. Atea reported record-high operating profit for the first quarter, driven by strong sales growth across all lines of business. Gross sales in Q1 were NOK 13.3 billion, up 16.4% from last year. After adjusting for changes in currency rates, organic growth in constant currency was 13.9%. Hardware sales increased by 16.2%, with higher shipments of all major categories. Software sales grew by 21.4%, with strong demand from both the public and private sectors. Services sales increased by 8.6% from last year, driven by higher sales of product support services. Group revenue according to IFRS was NOK 8.6 billion, up 12.5% from last year. Gross profit increased by 5.0% to NOK 2.7 billion. Gross margin was lower than last year due to a shift in the revenue mix towards hardware and third-party services. In addition, margins on hardware sales normalized to 13.0% from unusually high levels in Q1 last year. Operating expenses grew by 4.4% to NOK 2.4 billion. Atea's headcount fell by 2.4% from last year, but this was offset by higher variable compensation, SG&A costs, and the effects of currency and inflation. Based on strong sales performance and relatively low growth in operating costs, EBIT in the first quarter grew by 9.8% to NOK 281 million.

We'll now take a closer look at sales and profit performance across the countries in which we operate. All countries contributed to Atea's solid growth in sales and EBIT in the first quarter. In Norway, gross sales grew by 11.6% to NOK 3.1 billion. EBIT grew by 21.6% to NOK 73 million. All lines of business grew at double-digit rates, while headcount was flat from last year. In Sweden, gross sales increased by 14.2% to SEK 5.5 billion, driven by strong growth in product sales. EBIT increased slightly to SEK 184 million, as higher volumes were offset by a lower hardware gross margin. In Denmark, gross sales increased by 23.7%, with higher product sales to the public sector based on new frame agreements. Gross margins fell from last year due to an increased proportion of hardware and third-party services in the revenue mix and due to lower initial margins on recently won frame agreements. With higher sales partly offset by lower gross margin, EBIT in Denmark was break-even in Q1 2025 compared with an operating loss of DKK 7 million last year. In Finland, Atea returned to growth despite economic headwinds. Gross sales increased by 4.0%, and EBIT grew by 2.6% based on higher sales of software and services. The economic environment in Finland remains the most challenging of Atea's geographies. In the Baltics, gross sales grew by 13.7% to EUR 44.7 million based on very strong growth in sales of hardware and managed services. EBIT grew by 11.6% to EUR 1.5 million. Atea group functions, which includes shared services and group costs, was a net operating expense of NOK 23 million compared with NOK 16 million last year. The difference was mainly due to higher corporate SG&A costs.

Now a word on our cash flow and balance sheet. Atea's cash flow from operations was an outflow of NOK 881 million in the first quarter of 2025. Last year, Atea's cash flow from operations was an outflow of NOK 903 million. As you can see on this chart, Atea's cash outflow in the first quarter is in line with normal seasonal trends. Atea's cash flow peaks in the fourth quarter of the year when seasonal working capital requirements decrease. In the first quarter, Atea typically has negative cash flow as working capital requirements return to higher levels. Based on these normal seasonal trends, Atea expects improved cash flow in the second quarter and a strong cash flow from operations for the full year 2025.

At the end of Q1 2025, Atea had a net cash balance of NOK 250 million, as defined by Atea's loan covenants. This was NOK 367 million higher than last year and corresponds to a net debt EBITDA ratio of -0.1. Atea's net debt balance at the end of Q1 2025 was NOK 5.1 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 first quarter 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 Robert said, I would like to say a little bit more about the rest of this year. We normally don't guide for a full year but give more of a soft guidance for the next quarter or two. But in the situation we have and considering all the questions we get constantly, we felt it's better to be predictable to all of you in this presentation. So, let's take a look at how we see this full year. As we have said many times, revenue in the normal situation for Atea and the industry we're in will be between 5% and 10%. We predict this year that the growth will be a little bit higher than normal, and I'll explain better in a second. This will give us a possibility of some scaling on the EBIT, and we predict EBIT to grow between 10% and 20%. This would give us a revenue between NOK 57 and 60 billion and an EBIT between NOK 1,330 and 1,450 million. So that is our prediction. So, what is this due to? Well, there are several reasons.

First of all, the market is growing. IDC is predicting 5% to 8% growth in our industry. Secondly, we are absolutely taking market share. When we grow more than 16% in Q1, that is not the average market growth. So, we are taking market share. And of course, the growth areas that we have spoken about now for about 12 to 18 months are still there.

We have won the frame agreements that we've gone after in all countries, and many of them have taken a little bit of time to become active, as we've seen both in specifically Denmark and Finland. The frame agreements are there, they are firm, and we do see that they're starting to give.

We are only six months away from end-of-life in the most used and most popular operating system in the history of mankind. That are driving and will drive both projects but also hardware. And we see that in the PC growth in Q1, where we grew 33% on PC revenue in that quarter.

And the public, and specifically the defense, will and have already started to grow their investments. In Q1, we grew our defense sales by 20% across the group. And, of course, that situation, which grows the need for defense spending, is also driving the need for investments in cybersecurity as the world, as I said in the beginning, has become a little bit more complex over the last several years.

And AI absolutely is something that will drive the revenue going forward. Talking about AI, we get a ton of questions, and we get it. AI created one of the biggest hype cycles that we have seen in our industry for many, many years, a couple of years ago. This is very typical when new technology is being introduced to the masses. The hype gets ahead of the investments. The very few, the large and rich, go out and start investing. The early adopters start testing, and that is what we have behind us. What we have ahead of us is reality. That means it takes longer than most people think, but we do see a lot of POCs, or POCs as we call them, where people are testing. We see, as Boston Consulting Group says on this slide, that about 1/4 of our customers in the Nordics are testing or have started testing. Very few of the enterprises can honestly say that they've started making money on their investments. I don't think any of you think that that is what we'll see 5 or 10 years from now. And we absolutely see that our customers are starting to move out of the gate. But this is a long run, and my prediction is not very as we should not come as a shock when I say - AI will absolutely change the world in the long run. We also see that in Q1, we had higher sales of Copilot, which is a small part of the industry, will become a big part of the industry, but it's a good measure, just like PC is a good measure on how the industry moves. Copilot is also somewhat a good measure on AI. And in Q1, we sold almost 25,000 licenses, the highest quarter so far since the release of Copilot. We invest in AI ourselves, and I will come back in later quarters to go more into details on how we see the specific customer solutions and how we deal with the opportunity of AI.

We get a lot of questions about the uncertainty in the world in general, but also with tariffs and other uncertainties that we and our customers need to deal with. So let me tackle a couple of them. We have spent quite a lot of time - myself, I've been to the US three times in the last six weeks, to discuss with our partners, the biggest tech companies in the world. We do not see any reason that the tariffs, small or large, coming back or not, will directly influence us. We are not buying from the US and we're not selling to the US. And so that part should be pretty uneventful for us. It's also true that if you have followed Atea over some years, you've seen that in a little bit of turmoil, Atea is excelling. And the reasons for this are several.

First of all, because almost 70% of our revenue comes from the public or from government. That is a more stable base in this kind of environment. The Nordic region is also a pretty stable region. The infrastructure market in this region has always been mature and influenced by early adopters. Our customer base consists of almost 27,000 customers last year, which means that we have no real concentration of buying power around one or a few customers. All this adds up to the situation that we have, which is steady as you go.

We also get a lot of questions, at least most of those from our customers, but also from the finance market, around public cloud and the worry that some in Europe pass around the sovereignty and the protection of our data concerning American or even Chinese public clouds. We're not dealing much with Chinese clouds, as you would understand, but American, absolutely. We are the biggest cloud provider in our region. And I have to say that personally and also Atea as a company, we have always said that the cloud is not a destination but a resource. We advise all our customers to have a hybrid strategy so that they can move load and use cases from one point to another. That goes for strategic pricing and choice of applications and use cases, but it also goes for security and governance. In this situation, some of our customers are worried that the administration in the US will change the laws and the rules for who can look into data. And let me say, it doesn't really matter physically where data centers are. The public cloud is not a place, it's a solution. And so, saying that Microsoft or somewhere else will put a data center in Europe will not change this. When that is said, we have no indication that there will be any changes to the law or to the processes or regulations. What we do advise our customers to do is to always have a plan to move load from one place to another. I wouldn't really call it an exit strategy. I would more call it a strategy for where your resources should be at all times. That is a consultancy that we are helping customers with today. And if there are customers that want to build their own data center or put their load in our data centers, we are more than happy to help our customers with that. But we advise our customers to not get any form of panic. After all, 85% of all data in the world is still on-prem and it's the data that matters.

So, ending, I want to say our value proposition, the Atea way in this situation, is a good way for our customers, it's a good way for our employees, and it's a good model for you as investors. We are the leader in the product business. We can do it on-prem in our data centers or in a hybrid environment. We have the service capabilities to help you from sustainability, security, AI, and traditional infrastructure, and we are where our customers are. The local presence gives us a ton of opportunities. It's always been good to be in Atea in a turmoil, and so is the situation right now. And as you can understand, we are pretty optimistic with a good start to the year. With that, I'll give you the opportunities to do some Q&A, and I'll give the word to you, Chris.

Questions and answers

Unidentified Company Representative

Thank you Steinar and Robert for the presentation. A couple of questions here already. Start with the first one here. You seem to be very confident in the year 2025. What is behind that?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, I think that a lot of people, investors, and analysts forget how close we are to a very broad set of customers in seven countries and even more. So, it's based on, one, a very good start, two, a very good backlog, and three, a very high activity level with our customers. And last but not least, we also get the same input from our vendors. So, absolutely, we are optimistic, and that is also why we are giving guidance for the full year.

Unidentified Company Representative

Thank you. New question here. So why did net financial items increase so much in Q1 2025? Maybe, Robert?

Robert Giori Atea ASA – CFO

Yeah, net financial items increased from an expense of NOK 10 million last year to an expense of NOK 72 million in Q1 2025. The entire difference in net financial items was due to the effect of currency, which positively affected Atea by NOK 28 million last year and had a negative effect on Atea of NOK 35 million in Q1 2025. In other words, this created a negative swing on currency of NOK 63 million on profit before tax. The primary reason for the negative financial item on currency was the decline in the value of the US dollar in Q1 2025. When the US dollar declines, this causes Atea to write down the value of open US dollar hedging contracts.

I want to talk a little bit about hedging. Some of Atea's products are purchased in US dollars and then they're sold in local currencies. So, in order to stabilize the margin at the time we make the sale to the time the product is delivered, we enter a hedging agreement to fix the currency rate on the goods that we're selling to customers. And so, if the US dollar, after we enter that hedging contract, depreciates against local currencies, we need to write down the value of the hedging contract that we've entered. If the good hasn't yet been sold, the value of the hedging agreement is written off against net financial items temporarily. Then, once the good is sold, we'll reverse the charge to net financial items and we write it down against the cost of goods, and that will stabilize the margin because that's where we get the extra margin with the decline in the US dollar. So, this is a strategy that we do to stabilize our margins. If we have a temporary impact where we have open hedging contracts but we haven't yet sold the goods, you're going to see these fluctuations in our financial items if there's a big movement in the US dollar. In Q1 this year, the depreciation of the US dollar caused a negative impact on financial items. In Q1 last year, we had the reverse impact. It created a positive impact on net financial items, and that swing of NOK 63 million is what you're referring to as the difference in net financial items. Everything else under financial items was down from last year. We had interest costs and bank fees of NOK 37 million in Q1 this year. Last year was NOK 38 million. So, this entire impact is on currency.

Unidentified Company Representative

Thank you. Good detailed answer, Robert. And if anybody wants more details, feel free to write to Robert directly to get more information on that. Got a new question here. Denmark has underperformed for several years now, but there's a question here about Steinar. Have you taken over as country manager in Denmark? And can you extend some comments, please?

Steinar Sønsteby Atea ASA – CEO

Yeah. So, first of all, I do agree that Denmark has underperformed the last two or three years. I'm not going to go way back and explain this, but we have expected more from Denmark over the last couple of years, and the opportunity presented itself for me to go in myself. And so, from the beginning of March, I have also had the position as country manager and spent a lot of time in Denmark and will do so also in the months to come. This gives me and us an excellent opportunity to investigate and understand better the situation in Denmark, as this is one of the really big opportunities of scaling and improving our EBIT in the months and years to come. For the quick person, they would know that I did the same thing in Norway about a year ago. And so, I spent most of the last three quarters in Norway as country manager in 2024. So, it's not a new situation for me to also become operational. So, I'm looking forward to, and I have already enjoyed, a lot of good colleagues and customers and partners in Denmark, and I will stay on as long as it takes.

Unidentified Company Representative

Thank you. Final question here, peers in the industry are complaining about lower vendor bonuses affecting EBIT. You don't seem to have that problem. Can you give some comments on this please?

Steinar Sønsteby Atea ASA – CEO

Yeah, and this is a big topic and has been a big topic. So, let me elaborate a little bit since we get the opportunity here with this question, and I understand it's the last question we'll take. So, a lot of peers in the industry have complained and are complaining, and I understand are losing a lot of margin on the changes. First of all, the changes are mostly on the software side. So, it's software and cloud vendors that have changed their incentives. On the hardware side, the incentives have actually, if you do the right things, increased, and that is what stabilized our hardware margin. The hardware margin this quarter was 13%. Over the last 10 years, not per quarter, but per year, it has been in the interval between 13.0% and 13.3%. So, that is where you can expect it also in the quarters and the years to come.

On the software side, you have had two very big movements. One is Broadcom's purchase of VMware. That gave us a negative effect in Q1 of approximately USD 100,000 on margin. So, real, but something we can live with. On the Microsoft side, which has had a lot of attention, the EA margins, this is complicated, and I'll make it simple, fell, our EA margin fell by approximately USD 2.5 million in Q1. That was replaced almost fully by higher Copilot, security, and CSP sales. And so, we came out of Q1 with a little less than USD 1 million less margin if you try to neutralize the volume change in that quarter. So, with that, I hope we've been very transparent and given you the understanding that for us, this has not been a big thing in Q1, and the Microsoft issue will top off over the next quarters as we have sold more CSP for the coming quarters, and we are not worried about vendor bonuses. I do understand you have to have the opportunity to adapt. You need to have managed services, you need to have consultancy and to add value to your resale to not have the immediate effect. If you don't have those added values, Microsoft, Broadcom, and others will not lean in your favor. So, overall, we're happy with our relationship with our vendors. With that, we conclude the Q1 presentation here from beautiful sunny Oslo, and we hope that you liked it.