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Electrolux Professional AB (EPRO.B.SE)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

Good morning and welcome to Electrolux Professional Q3 Result Presentation. My name is Jacob Broberg, Head of Investor Relations. With me I have Alberto Zanata, President and CEO of Electrolux Professional; and Fabio Zarpellon, CFO.

So I will start with handing over to you, Alberto. Please go ahead.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

We closed the quarter with the declining sales still affected by the pandemic. But that's a factor compared to the second quarter. So sales declined 16% – 16.1% compared to the same quarter of last year, showing a recovery of the market that improved steadily from June. We closed the quarter with the EBITA margin that improved significantly versus the breakeven in Q2, reporting a 9.9% EBITA margin without item affecting compatibility. And we will comeback about this subject.

Such a result has been achieved thanks to, one, volumes. So the sales that declined less compared to the previous quarter. Secondly, the continued reduction of cost. We reduced cost less than in Q2 but still significantly compared to last year. Third, a better mix, mix coming from the new product that we introduced in 2019 during the second part of 2019 and during the first part of this year, and the Laundry product, Laundry sales that declined less than the Food & Beverage.

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An additional word about the cost. So the continued reduction on cost. We reduced cost but differently from Q2. Close to half of the savings that we generated in Q3 are structural savings. So these are savings that we will continue to enjoy in Q4 and along next year.

Let's go back to the sales development because we said that the first element giving us the possibility to deliver the EBITA margin close to 10% was the recovery of the business, recovery of the market and recovering of our sales. We experienced a recovery, I would say, all across the regions.

Europe, that also in Q2, was the best performing region. In Europe, sales declined roughly 10% with a clear difference between the Nordic countries and the South European countries. Italy, in particular, was down 25%, while in average in the Nordic countries, so Sweden, Denmark, Finland, Norway, we delivered basically the same turnover that we delivered last year in Q3. In some cases, for instance, Russia, and mentioning Russia, we had significant increase of sales during the quarter.

I think the significant change is also in the Americas. Americas, overall, were down 30%. But in US, sales were down 15%. I have to say that in September, sales in US were even positive compared to last year, so a recovery of the situation, considering that in Q2 the sales in North America were 65% down. And this is coming from Food & Beverage business but also from the Laundry business, where during the first part of the year, we had – during the second quarter of this year, we had a distributor who was destocking because he created a large stock at the beginning of the year. And then we had, together with him, we have to use that stock. Now, in September, he restarted creating again bringing product to North America.

The Asia-Pacific market region is reporting a 25% decline that is better than what we reported in Q2, but is a mixed situation where we have some regions significantly down, in particular, the Southeast European markets that were already down – that were also down in Q2, while there are some countries, for instance, in New Zealand, where we are reporting even a growth of the sales.

So what we experienced in Q3 is a recovery of the market, in particular, the recovery was good in September. In September, we reported a 10% decline of sales compared to last year, a recovery that continued also into October. In this case, we are – today is the last day of October, so the trend is similar. But we have also to say that the last days of October showed a weakening of the demand. That is easy to explain – to be explained with the situation in the European markets, particularly, in Italy, in France, in Spain, in Germany, in UK.

One note also about the sales trend in Q3 is that, we have been suffering quite a lot for what concern the spare parts, the parts of the accessory – the customer care business, so parts, accessories and consumable because during Q2 we were not allowed to serve our customer. We were not allowed to enter the site. In Q3, we reported a recovery of this business. We can say that during the Q3, sales of part, accessories and consumable, they were declining slightly less than the sales of product. So clear improvement month-after-month during the quarter.

Now, couple of words about the two specific segments, the Food & Beverage and the Laundry. As well as in Q2, also in Q3, Food & Beverage suffered more than the Laundry business. This is something that we have been repeating since the beginning saying that the Laundry business is more resilient than the Food & Beverage.

And also, the Q2 – Q3, when the market recovered, we see that Food & Beverage declined close to 20%; 15% in Europe, still Europe some way the less affected; 30% in the Americas and Asia-Pacific. But I said, also in the Americas, there is a clear difference between North America and Latin America, with North America more positive. In September, US, in particular, was even positive on the same level of last year in term of sales.

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There have been a – we had also other region that have been performing relatively well considering the context, Middle East and Africa was unchanged compared to last year. The EBIT margin without item affecting comparability was on 9% in the quarter for Food & Beverage while the operating margin was more or less on the same level of last year.

In this case, in particular for Food & Beverage but also for Laundry, during the quarter, during Q3, we have been invoicing a lot of the project that we had in order stock, so a contribution of the good sales performance. I'm mentioning this now because we were commenting Middle East and Africa that is exactly an area where we invoice some large project. I think we, already in Q2, we mentioned the fact that we did not experience order cancellation but postponement on orders. And this is exactly confirmed by the result in Q3 where we have been able to start invoicing the order stock that we had.

Looking to the Laundry. Organic sales in Laundry declined 9.8%, so basically, half of what Food & Beverage decline. And in Laundry we had, in this case, I would say, a very good result in term of margin. The margin is even higher than the one we had in Q3 last year. And such a result is coming from surely the sales that have been declining less, but in particular, by the action on cost that we have been taking. We have been taking the same in Food & Beverage. But clearly, the decline of the sales was much larger in that part of the business.

And clearly, also on the mix, this is also a result of the new product, the Line 6000, that we launched end of last year, beginning of this year. That is a very good product having good success in the market and with a good margin.

Laundry sales – I'm changing next in Europe with the growing sales in the Nordic country, in East Europe and with the – and declining much less in Asia, in Middle East, in Africa. Still significant is decline in North America because, I repeat, the activities about the destocking basically stopped in August, so we had a good September and we restarted [indiscernible] (00:12:27) also on that part of the world.

With this said, I would like Fabio to comment about the financials.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

Thank you, Alberto, and good morning to everybody. As you have heard from Alberto, sales recover in quarter three compared to the level of quarter two, reaching SEK 1.7 billion in term of sales value. The combination of higher sales and the continued execution of the cost reduction measure allow us to deliver a 10% EBITA margin this quarter, excluding the items affecting comparability.

Profitability was pretty good in the Laundry segment where we deliver a 15% EBITA margin and was 9% in Food & Beverage. Quite a recovery compared to the negative profitability in quarter two for particular this segment. Gross margin was somehow stable year-over-year despite lower sales and production volumes. Good contribution came from price, direct material and productivity in the quarter, especially coming from the Laundry segment.

Selling and administrative expenses have also been reduced in the quarter and fully compensating the incremental cost coming from the additional cost that we had in the group related to the fact that we operate as a stand-alone organization, like a function that we created and we did not have [indiscernible] (00:14:22) like tax, legal, IT-specific cost.

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In the P&L, we report item affecting comparability. These items refer for both quarter to the restructuring provision. We provisioned SEK 77 million for restructuring in September this year and we booked SEK 122 million in quarter three last year. As I said, action on cost continued in Q3, generating SEK 75 million saving. And [indiscernible] (00:15:05) anticipated, this saving compensated more than 50% of the declined margin due to volumes.

When looking to this cost reduction initiative, roughly half of it, SEK 35 million are structural. What does it mean? It means that they are really a structured cost reduction of our organization coming from the two restructuring plans. The first one that we launched in September last year and now is fully executed, plus the contribution, the second plan that we anticipating during Q2 call that we were working on it and this is already under execution.

The second plan, on top of the first one we launched September last year, is expected to generate additional yearly saving of around SEK 110 million from the second quarter of next year and will be fully in place with SEK 130 million of contribution from quarter two 2022. The second piece of this saving is coming from government subsidies. Around SEK 20 million is the contribution that we got from this area and is mainly, but not only limited to three major countries; Italy, Sweden, and France.

The remaining SEK 20 million is coming from the management of the discretionary spending and we continue a strict monitor of the spend, in particular, when it comes to travel cost, consultancy cost, marketing cost, whilst happy also to report that our R&D activities really picked up in quarter three, creating really the condition to really develop and continue the development of key innovation for our market and our customers.

At the end of September, as you see in the start, operating working capital was down and was down roughly 10% year-over-year, the same currency. Account receivables declined in line with sales. And happy also to report that [indiscernible] (00:17:59) was reduced compared to the peak we had at the end of June, where as I was reporting, we faced a request from the customer to prolong the payment term, in particular in the South European countries, payment terms [indiscernible] (00:18:20) prolonged payment term that so far have been respected by majority of our customer. Inventory was also reduced, both compared to last year, but also the level we had in June. And these results has been achieved, whilst at the same time, improving the product availability and the service level, in particular for the replacement business, that is a clear ingredient of competitiveness, in particular in these days.

The financial position of Electrolux Professional remains very solid. As you see here from the chart, the net debt has been further reduced compared to the level of March and the level we had in June and is now equal to SEK 1 billion. At the end of September, we have a liquid fund for close to SEK 650 million and revolving credit facility available for €188 million. We are still – and we are a low leverage company with the ratio of net debt on EBITDA around 1.4 times, slightly up compared to the level that we had in end of June that was 1.3 times, because of the lower contribution from EBITDA.

When it comes to the cash flow, we delivered SEK 63 million operating cash flow in the quarter. That is becoming SEK 110 million when we look at the full year base so far. CapEx in the quarter was SEK 57 million with a majority of it, roughly close to SEK 40 million, is related to the construction of the new production site in Thailand that we anticipated during the investor meeting and the quarter two call. This project is a project where we are going to build a new production site in Thailand, where we are going to consolidate our operation in Laundry and our operation in Beverage, creating a state-of-the-art facility to serve the Asian market and the market globally.

This investment is proceeding according to plan and is expected to be completed by quarter one next year. Whilst this investment will be completed, our plan is to proceed with our investment. But, clearly, we will see going forward weight of CapEx on net sales more in line with the historical average, around 2% on sales.

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And with this, let me say back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. Few words about the product that we brought to market in Q3. In Q2, we focused on quickly adjusting ranges to the rising needs of hygiene, sanitization and we came out with product that were serving the healthcare sectors or any other sectors that were – that was in the need of this solution to address the pandemic – the problem presented by the rising pandemic – the spread of the pandemic.

In Q3, we restarted focusing on our product road map to bring to market product and solutions that are addressing the growing segment and strategic segments that we are targeting. On the Laundry side, we brought to market solutions that are still in line with the need of hygienic solution but, they are specific product for a sector that had been working continuously all during these months and clearly in the need of a specific solution. It's showing our capabilities to develop specific solution with the competencies that we have or we develop together with external partner.

The second one, the NitroChrome3 high productivity fry top, is a product that is typically used in the quick service restaurant. We all know that among the different kind of customer segment, the quick service restaurant chains are the ones that have been recovering faster than any other. And this is a beautiful product with unique features, in particular, this NitroChrome3 top that is giving us the possibility to serve a growing segment, a growing part of the market.

The third one is in the Beverage area and it is a new espresso coffee machine that we bring to market. Going back to the pillar of our product development, that is the one that is addressing the lifecycle cost. So, to try to reduce the cost of running the product, that is a growing way of thinking, I would say, among all our customers, because they are not just focusing on thinking about the ticket price of our product, but they are thinking about the impact and the usage of the product as entire economy, but also on the world of environment, where they are used along the entire life.

With this said, we going to the summary. How I can summarize a quarter? A quarter that – first, let me say that I am proud how the team reacted to the pandemic. We had to make a lot of sacrifice or our people had to sacrifice during this quarter, personally and professionally, obviously. But, all of our operation had been up and running. They are today, all up and running and that is very good. And thanks to the team – to the strong and engaged team that we have.

It is a quarter where we recovered sales and we despite – or in addition to seeing the business coming back, we also focused on reducing the cost, of keeping the cost down. The market, where we operate, is still heavily impacted by the pandemic. We had a clear recovery during the summer ending with a good September – relatively good September. This good trend continued in October. We see these days, obviously, we are little bit worried for what is coming, at least in the South European market.

At the same time, we see other markets that are developing positively. Japan, Korea, China, Oceania in general, Singapore are all countries that are going back to a certain kind of normality and, as a consequence, we could expect a recovery of the business in that area. United States presented recovery of the business, but is still, I would say, an area where we have quite high level of uncertainty. In this scenario, we continue to see the Laundry business suffering less or being less affected than the Food & Beverage and this is something that we believe will continue along the coming quarters.

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The short-term savings are less than in the previous quarter. But, at the same time, we have been proactively launching the restructuring in September and that started to provide some benefit. And, as Fabio said, half of our cost activities are coming from structural savings. So, these are savings that will gradually then grow during the coming quarters. And thanks to these savings, at least in Q3, we have been able to compensate half of the losses generated by the drop of the volumes.

And in this scenario, we have been continuing investing to bring new product. And I'm expecting that in Q4 and even more, beginning of next year, we will bring a new product to the market that will give us the possibility to address the rising needs in the growing segments.

With this said, Jacob, I give you back the mic for Q&A.

Jacob Broberg

Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

Thank you, Alberto. And I go back to the operator. So, please go ahead, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Mattias Holmberg from DNB. Your line now is open. Please go ahead.

Mattias Holmberg Q

Analyst, DNB Bank ASA (Sweden)

Thank you. Hello, everyone. A question, thinking back to the Q2 results, when you commented on the order book saying that it was up year-over-year, could you make any comments on the status of the order book now? And also, perhaps, if you still have any pent-up demand for deliveries that's been pushed into the later part of the year or, as you mentioned, some of this had already been materialized in Q3, if sort of that is done by now?

A

Okay. So, yes, we still have an order stock. It's a healthy order stock because it is on the same level of last year. So, while we had higher order stock at the end of Q2, now, the order the stock is on the same level of last year. And this is clearly because we delivered a large portion of the order that we had in stock during Q3. I can add also that the mix in the order stock is different, in the meaning that we still have a very high order stock in Laundry, higher than what we had last year.

This is confirming that Laundry is doing very well and it will continue to do well. The order stock on the Food product is more or less on the same level of last year. Most of the project that we delivered during the summer period, so during Q3 were for food, for kitchen installations. The order stock that is weaker than last year is Beverage, the Beverage order stock and it is a combination of the fact that that last year, we had in-house order for some chains and the fact that the Beverage business is suffering much more than the other ones.

Mattias Holmberg Q

Analyst, DNB Bank ASA (Sweden)

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Thank you. And one more question for me, if I may. Reflecting a bit on the on the Laundry in Q2 – sorry, Q3 now with the 10% organic sales decline and you've depicted here what's happened in the US with destocking, could you elaborate a bit on how big the destocking effect has been to help us understand sort of the underlying demand environment a bit better? And also, perhaps, if you believe that your customers are happy with the inventory levels at this point or if there could be any further risk for destocking?

A

No. We are working with our distributor. We are weekly discussing the situation. Now, there is – the level of stock is okay. We already planned the full year and also the beginning of next year. So – also because the lead time to serve clearly the customer in US is pretty long. So, I would say that the stock level is now the appropriate one. We are okay with the stock level that we have in the United States and we are constantly delivering container of product to our distributor in the United States.

Mattias Holmberg
Analyst, DNB Bank ASA (Sweden)

Q

Thank you so much. That's all for me.

Operator: Thank you. Our next question comes from the line of Lucie Carrier from Morgan Stanley. Your line is open. Please go ahead.

Lucie A. Carrier
Analyst, Morgan Stanley & Co. International Plc

Q

Good morning, gentlemen, and thanks for taking my question. I will have three question, I will go one at a time. Actually, the first one is just to follow up on the previous question on the Laundry side and the destocking effect. Do you think that the third quarter has been impacted still by this destocking operation? And I guess, if it is the case, what would you see as kind of the effect of that destocking or what would have been the underlying demand from your standpoint?

A

What I can tell you is that, July and August, the sales in the US – the external sales in the US, they were done using product that we had in stock, while during the month of September, we started to deliver the product to our distributor. So, I would say that, also September, the external sales in September were done using the local stock, because we have to consider roughly three, four weeks to get the product there. So, we restarted the delivery, no direct filling of the stock basically in the middle of August, end of the month.

Lucie A. Carrier
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. So, is it fair to [indiscernible] (00:34:10) is it fair to assume that you are saying that the performance you have reported in the third quarter, i.e., the minus 10% organic could have been a little bit better if you hadn't been impacted by this kind of stock – destock effect?

A

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Yes. Yes, because we should have delivered product to our distributor much earlier.

Lucie A. Carrier
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Understood. That's really helpful. My second question, Alberto. Thank you for being quite transparent around the current trading. I think you've mentioned that September and October were recovering in the hospitality industry, but maybe the end of October starts to be a little bit more under pressure. Can you maybe describe the type of conversation you are having now with your customer on the hospitality sector? Is it that you are seeing them postponing orders or you are seeing them canceling orders or are they trading down, maybe for equipment which are a little bit cheaper and a little bit kind of lower range than what they normally get?

And are you seeing this also on any specific type of product? So, it is more on the Combi Oven, it is more on the other kitchen equipment? Just for us maybe to have a sense on whether, first of all, the content [indiscernible] (00:35:32) of this conversation and also if things could go as bad as what we have seen in the second quarter, if you see this as a risk?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. [indiscernible] (00:35:42) yeah, we can describe this as impression that we are getting because everything is pretty recent, I would say. If we would have had this call 10 days ago, probably, this subject wouldn't been addressed in such a way. So, things deteriorated pretty rapidly in some European countries. In my opinion, that is the first thing to consider. Things are deteriorating with a semi or light lockdowns, as they call it, in some European countries. I mean, Italy is an important country, obviously. France is another one. We know Germany and Spain.

So, in these countries, the calls we are getting from the customer are in generally – in general asking for putting on hold activities that we have with them, because they have this month. Until now, remember that what has been declared by government is a month of light or semi-lockdown, if you want to call it, because at the end, all operations are working. Reality is that all these operations are working; are working less than before, but are working. So, we see also that the activities are not stopping as they did in Q2. Service is working because you can access site, you can do – you can run the business. It is pretty different from Q2.

But, at the same time, clearly, there is uncertainty and we cannot neglect the fact that the level of uncertainty is still high and, at least [indiscernible] (00:37:46) is that the uncertainty is, in some way, the worst enemy of whatever we are doing. Then, we have to say that after this same time, we have other region of the world that are opening up. I was mentioning Japan. That is, for us, a very important laundry market; Korea, where we do well, both in laundry and kitchen appliances; China that is very important for us. And in China, I'm also happy to report that last week, we have been awarded with large global chains that were allowed in China that we should start in three weeks from now.

New Zealand, Australia, Singapore is also lifting the lockdown. So, there is a combination of country that are reopening and restarting and other country where the government are imposing restrictions, lockdown. France is the one that in this moment is clearly shutting down restaurants and bars. So, activities that are our customers but, at the same time, for instance, the factory are working. So, we still have the segments, the so-called institutional segment that, for us, is very important that is operating. It is a very mixed picture, I have to say, both from the geographical and the customer segment point of view.

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Lucie A. Carrier
Analyst, Morgan Stanley & Co. International Plc

Q

Understood. And thank you very much for the color. And my last question was around the cost saving just to have absolute clarification. So, I understand the SEK 110 million that you had already started to work on last year, that's going to come – or that's going to be completed in the second quarter 2021. And then, you were talking of SEK 130 million to be completed by the second quarter 2022. I'm guessing the SEK 130 million comes on top of the SEK 110 million. I know you may be able to give us some indication around the savings of this program, I mean, the SEK 130 million, for example, you've just started. So, should we expect most of it to come in 2022 or could we see already a lot of it next year, how should we think about those programs, please?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. I will let Fabio to be more clear on the matter. But first, one thing that I want to clarify is, the program we launched last year has been completed and we have the full benefit already starting from July 1 this year. So, that's a program that we completed and we are already enjoying the savings that are coming from this activity. The activity we launched and we announced in September, we are already enjoying part of the benefit of this one, because there have been activities that were been activated already in July-August. But, part of these activities will have a pretty longer implementation timeline, because it's related to other plans that we have in the pipeline.

But, please, Fabio, can you give more color and details about the cost savings?

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG

A

Yes. We have two plans. The first one that Alberto mentioned, we launched in September last year, fully executed. That plan was aiming to fully compensate the emerging cost coming from the separation. And from July 1, we got the balance sheet, fully executing and put in place and the benefit is into the P&L. As we anticipated during the Q2 call, we launched a second plan that is staging. We partly enjoyed the benefit into the quarter three results and the benefit will progressively come in. The full run of the program will be from second quarter 2022 with SEK 130 million. But, as I mentioned earlier, we expect that already from quarter two next year, we will have yearly running, saving of SEK 110 million. And this stating is due to the fact that that is linked to program that we are running within the group of transformation of specific activities.

Lucie A. Carrier
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. That's very clear. Sorry for the confusion, because I think the two – the old program is SEK 110 million and now, you expect the run rate of the new program to be SEK 110 million by next year or like second quarter 2021. Okay. But, that's all very clear now. Thank you very much, both for your insights and stay safe.

A

Welcome.

Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

A

I'll take questions from the web here. It's Stefan Stjernholm from Nordea asking about, given the slow demand, are there any signs of increase on price pressure? That's the first question.

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The second question, raw material and FX impact in 2021, can you say something about that? That's the two questions.

A

Okay. So, price, we are still experiencing a positive price contribution in Q3. But, there is an increased price pressure, in particular on the Food & Beverage. That is what we are experiencing, yes. The second one about raw material, we are right now finalizing the negotiation for 2021. We are – it is a situation where we could expect some headwind on the raw material but is not finalized yet.

Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

A

We have another question from the web from Per Jørgensen. He has, in fact, two questions. One, I think, you have partially touched upon that, but if the markets are more resilient now in the second wave compared to the first wave speaking about corona? And also, is it too early to see the start of the replacement cycle from old products that are sort of 10 to 12 years old?

A

Okay. So, is more resilient? Difficult to say, I would say, because the level of uncertainty is high. What we see is that, at least these four weeks when the country entered the lockdown, the situation is different compared to Q2. It could deteriorate but, it could also improve. And again, geography are quite different. It is difficult to give an answer considering the world, let me say, because case-by-case, the situation are pretty different.

Second question, sorry, Jacob, can you repeat it?

Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

A

Yeah, it was replacement. I mean, from old products...

A

Ah, yeah, you are right...

Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

A

... [indiscernible] (00:45:37) 10 to 12 years old...

A

Yeah.

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Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

A

...has that replacement cycle started?

A

It's not too early and we have a problem. I said that that will most probably be majority of the business during the coming months, the coming quarters because the project, the new project, at least the one that can be postponed; in general, the hotel chains, this is what we are experiencing, putting on hold the large investment for large refurbishment of completely new installation, unless they are already ongoing. A majority of the business will be replacement. We are well set, both in term of product availability and also tools to go back – to go behind this business opportunity. So, it is not too early. We are already experiencing a part of this business.

Jacob Broberg
Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

A

Okay. Operator, please go ahead.

Operator: The next question comes from the line of Johan Eliason from Kepler Cheuvreux. Please go ahead. Your line is open.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yes. Good morning. This is Johan. Congratulations to good work on the margin side, I must say. Coming back to the market development a little bit in terms of how the market share dynamics have developed during the quarter or so far during the year, obviously, if that's more easy to sort of comment on. Are you seeing any significant changes here, either in the Food & Beverage or Laundry side?

A

You mean, changing in our presence versus competitors or other things?

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Are you gaining or losing market share, you think?

A

Difficult to say, honestly. For what we can see, at least, from some competitors, I believe in Europe we are performing pretty well. I believe the performance that we are having in Europe are – again, in some part of Europe we are even growing compared to the market. So I would say that in Europe, our presence is becoming even stronger.

In US, clearly, we have a relatively small position compared to the large competitors. So I would say that, in this case, changing in the market share is more among the three big player – three, four big players. In Asia-Pacific, I

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think it will be important, the Q4, because it's the quarter where the market are reopening, and so we could say what is happening.

In the area where we are strong, but that is I believe is true for everybody, every company and not only in this industry, in the area where we are strong, so Europe in the Laundry business I believe we are doing pretty well and reinforcing our position, also thanks to the new product.

What we are very happy, for instance, is the development of the new Combi Oven because that was a – that is a strategic product that we have been launching. And the development of the sales of the Combi Oven are better than the average of the company. And then, here you can judge, how we are doing versus competitor or others.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. I think you have a competitor that's also launched a big product into now induction and Combi Oven.

A

Exactly.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

But you haven't seen any sort of changes there yet. It might be early or...

A

Exactly.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

On the – coming back to the structural cost savings. I noticed you took charges sort of SEK 55 million to SEK 22 million in Food & Beverage versus Laundry. Is this also how we should expect the cost benefits to come through, divisionally?

A

I would say that in term of direction the answer is, yes. There is not a one-to-one approach. But directionally, yes.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Okay. Thank you very much.

A

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Operator: Thank you. The next question comes from the line of Fredrik Moregard from Pareto Securities. Your line is open. Please go ahead.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Good morning, everyone. First of all, just a question on the coming quarter. And obviously, you saw a stronger October and September compared to [ph] December (00:50:39) month. Could you say something about how much of Q4, October normally makes up even though obviously there's no such thing as normality these days?

A

October is, I would say – why Q2? You have – September is typically a stronger month compared to August, that is a weaker one. In October – in Q4, normally the three months are more or less on the same level. Sometimes the month of December is presenting some peaks, for instance, when there are public budget that have to be spent on other things. That is something that we are not – we are not expecting this year in the meaning that if there are this budget will be spent on something else. So I'm expecting – historically, the three months they are more or less the same ways in the quarter.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Okay. Perfect. And then a question on the comparable cost base from last year. I think you had some pretty big product launches that drove some significant cost in H2 last year. Any possibility that you could quantify that for Q3 and Q4?

A

Not specifically about the quantification of the cost. But you are perfectly right that one of the reason of the significant improvement of the margin performance in Laundry, in particular, during the quarter, is coming also from the difference between the cost we had last year. Cost related to the investment done to complete the development and launch the new product, but also the cost that we in the factory to start up the production of the Line 6000 cost that we didn't repeat this year.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Okay. But no ballpark figure of how much that could be, approximately?

A

No. We are not entering this detail. We are not giving this detail.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Okay. Okay. Thank you very much.

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Operator: Thank you. The next question comes from line of Gustav Hagéus from SEB. Your line is now open. Please go ahead.

Gustav Hagéus
Analyst, SEB

Q

Thank you, operator. Good morning, guys. I was kicked out of the call, so sorry if you already answered some of these questions, and please let me know. But, firstly, regarding – if I understand correctly, if I understood you correctly on the call you had some longer payment terms. And, again, if I understood you correctly, you were saying that the majority were respecting these rather than all customers. So I'm just curious about your internal evaluation process here regarding these payments. Would you typically evaluate any provisions on a quarterly basis or is this something you evaluate by year-end?

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG

A

Okay. I take the question, Alberto. First of all, as we anticipated during quarter two, we have had requests from customers, in particular, in selected country. I'm referring to the South European countries to prolong the payment term. And as a nation, we did it selectively making sure that we got the same protection we had before. And so far, I will say that the [ph] respect of paying term (00:54:17) was on schedule.

I also remind during quarter two call that let me say a large part of our customer base is related to government-related activities, like hospitals, elderly homes and so on as much as we have [indiscernible] (00:54:40) credit insurance. And I would consider that more than half of our open receivable are fully protected, all via credit insurance and the fact that they are government's amount protected.

We have a thorough process in place, very strict. We are evaluating every customers regularly as well as every new orders. And when it comes to calculation of provision, this is done mostly not even quarterly according to IFRS principles and looking into the solidity of the customer. As I mentioned, we have had to put some provision, in particular, in quarter two, whilst if I have to say, in quarter three, thanks also to the positive developmental payment there was no material increase in the reserve for customer risk.

Gustav Hagéus
Analyst, SEB

Q

Okay. That's very clear. And you don't sort of see a bigger risk into Q4 in any way. We shouldn't expect any one-off provisions relating to COVID losses [indiscernible] (00:55:59).

A

As we can see now, no. We have to say that we are at a very early – we see signal coming from the market because of lockdown of our customer activity, in particular, in the restaurants business in some countries. If the [indiscernible] (00:56:22) pretty limited, I don't see this having material impact from us. At least, not today.

Gustav Hagéus
Analyst, SEB

Q

Okay. That's reassuring. And again, sorry if you already answered this, but your exit rate or revenue declines into Q4. Should I interpret that as 10% down year-over-year? And if you could give us a little bit of a breakdown between the two divisions, that'd be helpful.

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A

The decline in Q3, yes, we had – the decline in Q3, you mean in Q3 or in September?

Gustav Hagéus
Analyst, SEB

Q

I mean into Q4 and September.

A

Okay. In Q4?

Gustav Hagéus
Analyst, SEB

Q

Or October, if you could – what's your current run rates? Yeah.

A

Okay. Okay. In October, the decline is more or less in line with the decline we experienced in September. And the decline in September, we said that it was roughly minus 10% compared to last year. And as well as during the past – the previous month, much stronger in Food & Beverage and less declining in Laundry. So, more or less, the trend is similar between the two segments.

In October, we are experiencing a similar performance of the month of September with, as I said, deterioration of the demand during the last days. And this is reflecting the fact that in some countries, in particular, the South European countries, the government are imposing some sort of lockdown.

Gustav Hagéus
Analyst, SEB

Q

Right. And then, finally for me, looking at sort of your order book. I appreciate it's sort of flattish year-over-year. And then you also said there are some projects being pushed forward, which I assume you would have expected delivered on as of now when you got the orders. So could you please also let us a bit on the order intake in the quarter?

A

No. We are not disclosing the order intake data. But as well as for the decline in the sales, that was less in September and October compared to the previous month. We experienced an improvement of the order intake, still lower than what it was last year. But I would say it's more or less in parallel with the recovery of the sales, also the recovery of the order intake. So we have been able to rebuild that part of the order stock with the order that are coming.

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As I said, at the end of the quarter, so at the end of September, the order stock now is on the same level of last year with very strong double-digit higher order stock in Laundry, order stock on the same level in Food, and a weaker order stock in Beverage.

Gustav Hagéus
Analyst, SEB

Q

Great. Thank you for taking all those questions. I appreciate it. Good luck now.

A

Thank you.

Operator: Our final question comes from the line of Henrik Christiansson from Carnegie. Please go ahead. Your line is open.

Henrik Christiansson
Analyst, Carnegie Investment Bank AB

Q

Yes. Good morning. Two questions, please. Firstly, one point you made, Alberto, there was about visibility and lead times. You talked and said that you ordered different shipments for end of this year and beginning of next year in the Laundry business in the US. Could you just talk a little bit about the visibility and lead times for your products in both of the Laundry business and Food & Beverage? And perhaps if you translate the order book into months of production, obviously, things are being delayed and pushed forward, but the current order book for how long would that fill production?

A

You mean in general, obviously, not specifically about US in this case?

Henrik Christiansson
Analyst, Carnegie Investment Bank AB

Q

In general. Yes.

A

Yes. In general, the order stock is covering, I would say, 1.5 month. This is what present last year, the order stock we had at the end of September was covering 1.5 month. And that is what is in general happening in our business. This doesn't means that we are delivering the order stock in the following half – the following month because clearly part of the order stock is going even longer.

So what we experienced at the end of Q2 was to have an order stock that was coming from the month of March, so the month previous, that we have before the lockdown and that we were not able to deliver. As I've said, during the month in particular of September, we delivered a lot of order in Russia. I could mention Middle East and Africa. So the project that were put on hold because of the restriction imposed by the pandemic.

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Now we are sitting on the same order stock that we had last year. And I would say in term of mix of lead time of the order stock is on a pretty regular base. So there are no big differences, let me say, or things that are looking quite strange or extraordinary.

Henrik Christiansson
Analyst, Carnegie Investment Bank AB

Q

And is there a difference between Food & Beverage and Laundry? I get the impression that you have better visibility on the longer...

A

Yes. Normally, for – more than the business, as such, is the kind of customers. And meaning, the Beverage order stock is lower than last year because we're adding stock chain orders. The chain order is a pretty longer order stock because you get the pretty longer lead times on, because you get the order and then you deliver the product, sometimes even along quarters. So it's more the type of customer than the kind of product. And in this moment, I would say, that there are no big differences between the three businesses, the three product families or categories.

Henrik Christiansson
Analyst, Carnegie Investment Bank AB

Q

Understood. Second question is on product mix. You highlight that new products were positive for the mix and margins. Could you give any more color around that share of sales that you would classify as new? And then, perhaps, also some indication how much higher profitability you have for these new products? Is it 5%, 10%? Any kind of color there would be helpful.

A

Okay. The good things, and that is something that is, again, one of the pillar of what we do is about the innovation, the product innovation. 50% of the net sales in 2019 and now 2020 are coming from products that we've introduced in 2020, 2019 and 2018. So the share of our net sales coming from new product is very high. And this is because we constantly bring new product to the market.

Whenever we bring new product to the market, we are clearly trying to address the benefit that we can bring to the customer. But we have clearly also the good rule to be more efficient, more better also for what concern the cost or eventually the price we can bring if we bring new value to the customers. The stars in this case are the Line 6000 that we introduced last year. And that is providing a good benefit to our performances.

The Combi Oven is another high margin and the Blast Chiller, by the way, that we launched together. You know better than me that these are products that by themselves are very high-margin product compared to other that we have in our portfolio. So all the new product that have been introducing recently are targeting high-margin category. If you combine this one with the customer care business that have been gradually performing better, and as I said in September, declining sales less than the products sales, the combination of these things is what I mean with the mixing positively.

Henrik Christiansson
Analyst, Carnegie Investment Bank AB

Q

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Perfect. Thank you very much.

A

Welcome.

Operator: Thank you. That concludes our Q&A for today. I'll now pass back to the speakers for some closing comments.

Jacob Broberg

Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

So thank you, everyone, for listening in and asking questions. With that, I think, we say thank you and good-bye for today. Have a good day and weekend. Thank you and good-bye.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thanks a lot and good-bye.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

Thank you.

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