03-Feb-2021

Electrolux Professional AB (EPRO.B.SE)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

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

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG

OTHER PARTICIPANTS

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

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Fredrik Moregard
Analyst, Pareto Securities AB

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

So, welcome to Electrolux Professional Q4 Presentation. My name is Jacob Broberg. I'm Head of Investor Relations. With me, I have Alberto Zanata, CEO, and Fabio Zarpellon, the CFO.

I will now leave the floor to Alberto. Please go ahead, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Good morning. Thank you, Jacob, and good morning to everybody. Q4, I would summarize the quarter saying that, along the quarter, we had a strong cash flow generation despite the turbulent times that we have been facing during the last part of the quarter. Sales declined by 13.2% with an EBITA margin stable compared to last year. Considering the situation, we have also to say that the board proposed to pay no dividend. And we have also the other highlight that I want to [indiscernible] (00:01:10) in the quarter is the fact that, we continued in our strategic initiatives.

Strategic initiatives, in particular, the factory in Rayong – the 28th of February, the factory will be completed and there will be the final handover to give us the possibility to start moving into the factory and the digital investments in product, but those in digitalizing our company.

But let's start from the market. As I said, a turbulent time and also here we see two different dynamics. First, clearly, the most affected segments are the hospitality ones, restaurant, hotel bars. And this is reflected on the performance of the Food & Beverage segment. The second is the geography and the meaning of that the second wave in particular Europe, so in particular the south part of Europe. And also this one will be reflected on the performance considering the presence and the [ph] market position (00:02:40) that we have in the South European market in particular [indiscernible] (00:02:44) is concerned.

At the same time, we experienced a recovery of the business [indiscernible] (00:02:54) with Laundry growing and Food & Beverage basically flat and in particular in some parts of Asia, China and Oceania, so Australia and New Zealand. In Asia in particularly is the countries that are still suffering, considering the dependency of the business, of the hospitality business on the tourism and considering that those countries are still in a lockdown mode.

So, as I said, sales heavily impacted by the second wave. Customers react differently compared to the first one because they were more prepared. So, restaurants, hotels are already ready to face this kind of a challenge. But sales declined, in particular, during the second part of the quarter, this kind of trend that is still going on also in January.

The sales again are mainly impacting the Food & Beverage business. Food & Beverage declined close to 21%. And between Food & Beverage, Beverage is suffering much more than Food. Beverage is suffering much more than Food for two reasons. The first one is the type of business and the meaning that while many restaurants adapted to delivery, to takeaway. This is more difficult for the bar, the pubs, the cafés.

And secondly, the geography that – because our – large part of our Beverage business is developing countries that are heavily affected like Italy, just to mention France, where there are the two companies that we recently acquired, but also the business of our US operation in Mexico that is heavily affected by the lockdowns.

In the Food & Beverage scenario, the positive element there is the US that after quite a negative development during the summer and early fall recovered and the decline between brackets only 5%. So, this decline of the volume impacted negatively the EBITA. That was around 1%.

The other element is that our costs are lower, but the savings are less than before because main activities that have been put on hold during the second quarter in particular the really negative period of the pandemic were started. And in particular, I'm talking about the product development that is preparing us for a lot of very interesting and hopefully successful launches during the quarter we are in right now.

As it has been all along the year, the dynamic of Laundry are different. Laundry was basically flat compared to last year Q4 growing in Europe particularly the northern part of Europe and growing also in the US. So, a couple of words about US because during Q2 and Q3, we have been always commenting the decline of the sales to US and explaining that because they were building the stock – they've been building the stock in Q1 and then depleting or using the products that were stocked in the US by our distributor to generate the sales of – low sales that were during the Q2 and Q3.

Once the stock was over they restarted the ordering and restarted building in the stock with good result as you can see. Clearly, in Q1, this year, we will face the opposite because this was, last year, the quarter when we have been building the stock that was used in Q2 and Q3.

Other element about the Laundry business, very positive is the EBITA data, with [indiscernible] (00:08:24) thanks to the cost efficient activities. Thanks to all [indiscernible] (00:08:30) with a new product brought to market, the EBITA improved and this is quite significant and quite remarkable.

Let's move now to Fabio, to the financials.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

Thank you, Alberto. Good morning to everybody. As anticipated by Alberto, EBITA margin in the quarter was 7.3% close with the one that we delivered in Q4 2019 but down SEK 40 million in value. We have reported pretty different dynamics between two segments. Laundry was up SEK 30 million in the quarter and we delivered a strong profitability really close to 17%. While in Food & Beverage, EBITA in value declined SEK 70 million compared to same quarter of 2019. No material change we had in the group common cost.

When it comes to the dynamic of the profitability, we had two main factors that reduced the EBITA value: sales and production volume; and the negative currency impact. On the other side, we continue to report a positive contribution from price, direct material cost reduction and the impact of the cost measure that in the quarter [indiscernible] (00:10:15) roughly 80% of the impact of the low volumes.

When reading through the P&L, we see a decline of roughly a couple of points in the gross margin, and this is mainly related to the lower volumes and the negative impact of the currency transaction. And, as I mentioned earlier price, direct material and production efficiency, in particular, in Laundry, have positively contributed to sustaining the margin. Selling and administrative expenses declined, both in value and also in weight on sales.

Let me, at this point, take the opportunity also to give you an update on the cost reduction initiative that [indiscernible] (00:11:11) generated also in this quarter a pretty remarkable contribution to the profitability of around roughly SEK 90 million. This initiative can be clustered in three main buckets. Around SEK 30 million are what we call the structural ones coming from the two restructuring plans, the ones that we launched in September 2019 and now have fully executed, and the ones we launched in September last year that is under execution.

The second plan that we anticipated during the last call is expected to generate around SEK 110 million already from the second quarter of this year, plus an additional SEK 20 million from the second quarter of 2022. Second bucket is coming government subsidies mainly related to two countries, Italy and France. And the remaining SEK 40 million, the third bucket, is coming from the reduction of the discretionary spending to be considered that in this third bucket, last year, we had a onetime cost related to separation that represented more or less SEK 30 million.

These cost measures are not over. We are continuing with these cost measure also in this first half of 2021. Benefit are expected to come, but at lower scale than the previous quarter and this is because as Alberto mentioned a while ago, we are increasing the investment in our strategic initiative, the digital product and solution, but also we will have in quarter one and somehow in quarter two some specific onetime cost related to the consolidation of our operation in Thailand that will develop in a while.

Happy to report that in Q4, we have a further strengthened our balance sheet. At the end of December, operating working capital was down 23% in same currency compared to December 2019 and down 28% compared to the level we had during September where we started also to revert the trend of average operating working capital of sales.

Receivable is significantly down, but also inventory has been progressively reduced in Q3 and then in Q4. And I believe that this is a pretty good achievement because we have reduced significantly operating working capital while at the same time increasing the service and the delivery to our customer, in particular, [indiscernible] (00:14:32) sales.

We closed the year with even a stronger finance position. Net debt, as you see from the reporting, has been reduced to SEK 0.5 billion, half of the level we had in December 2019. And as of December, we have a liquid fund for SEK 810 million and revolving credit facility available for additional €210 million. Our net debt-on-EBITDA ratio is below 1 at 0.8. So, significant improve to what we reported in quarter three and in quarter four. So, pretty strong finance position.

This strong finance position has been achieved, thanks to very strong cash flow in quarter four. We reported SEK 460 million cash flow generation and overall for the full year 2020, SEK 570 million. Operating working capital reduction represented a major contribution in the cash flow generation.

CapEx in the quarter was close to SEK 70 million with the majority of it, SEK 50 million, is related to the construction of the new operation in Thailand. That confirms our focus on delivery on the strategic priority whilst maintaining great focus on cash flow generation and sustaining profitability in the short-term.

Now, Alberto, back to you.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. So, as Fabio mentioned, again, a strong cash flow generation, but at the same time, continuous investments in new products and improving productivity and efficiency of this company.

Let me start from the products that we've brought to market in Q4 and we are going also to bring during the first part of 2021. And here you see that I'm not talking about the physical product as such. But as I believe it is the future for many products in this industry and probably also in other, we are investing a lot on the digitalization of our equipment and – because the service, the additional service and the additional solution will be offered through an enhancement of the digital capabilities.

I think I already announced that one of the uniqueness of Electrolux is the ability to provide one connected solutions for whatever you have in your kitchen or your own laundry operations. Considering that we are the only company bringing to market Laundry, Food & Beverage product. We are also giving the possibility to the customer to have one connected solution to manage, control and get additional services from the product.

During the quarter, we launched what we call OnE Connected. That is the platform that is aggregating not only product features but also services that the customer can get. And we really started to have the first installation. We are really proud for that, even if it is just at the beginning of a path. Another important thing that is a cornerstone or something that is really at the base of our DNA is the sustainability. During the quarter, we published our strategy and the targets that are reflecting again our legacy, but also what we do every day.

When we said that our mission is to provide the customer solution that are making life easier, more profitable and truly sustainable every day it is because we are investing on products that are sustainable and with innovative, low-running cost solution. And we do these, producing them in factories that we operate in order to reuse or use recyclable energies and, clearly, the base of everything we are looking for our people, but also for whoever is working for us to make sure that we have ethical practices. So, these were already part of our way of working. But we have been detailing this one in our sustainability strategy and setting the targets for the years to come.

As I mentioned earlier, despite the challenging time, despite the decline of the business, thanks also to the solid financial position, we have been able to continue to invest, invest to prepare this company for the recovery. We still believe that the short-term, obviously, the pandemic creates challenges. A lot of our customers and particularly in Europe these days are in a lockdown mode. But we also believe that when the largest part of the population worldwide will be vaccinated against the coronavirus, we are confident that the business in restaurant, hotel and bar will come back.

We see this talking to the customer that are preparing for the summer. We saw this last year when, after the first wave, the summer came and people went back to [indiscernible] (00:21:19). And it is important to be prepared for this restart, and we are doing this, as I said, investing on product. As I mentioned earlier that Q1 will be a quarter with new products, solution and features brought to market, but also investing in our infrastructure. But this one is the [indiscernible] (00:21:43). We are basically – at the end of the building process as I said, we already entered the factory at least some are in the factory and by 28th of February the handover of the factory from the construction company to us will be completed.

It will take another three, four months. But we are expecting to have the official opening June the 1st with a new facility, fully operating with all the Laundry products and the Beverage products that we have we have been moving and concentrating in this new facility from the other two that will be, obviously, at the same time closed.

The other important investment is again related to the digitalization of this factory. I mentioned earlier what we are doing on the process side. This is more on the improvement of our ability to run the company. So the plan is a multiyear plan to convert to all the IT systems, the different IT systems that we have in the factory, they are different because they are coming from acquisitions or from historical solutions that were back in the history of this organization to a new one, a modern one, [indiscernible] (00:23:12) so a well-known and worldwide user system that for sure will improve our performances, will give us possibility to be more efficient and more cost effective.

We already implemented the system in the first plan, January 1st. Implementation, the rollout went very well. I have to give credit to the people because we had to do it with – normally, when you have rollout; you have a lot of people on site to support the local management during this critical phase. This was done locally but also remotely. This means that we have been learning a lot during this month how to do things without being physically present. I think it's an important learning of this difficult situation. And we have been doing this, this means also that we can run the rollout or we can run the implementation of business system pretty quickly also in the other sites around the world.

So, [indiscernible] (00:24:33) so, let's have a summary of what we saw happening in Q4. The first one is that the recovery that we experienced in Q3, in some ways, halted during the last months of Q4. It was mainly Europe and partially United States. But Europe is the most affected area and you know that a lot of our business is in Europe. We have to say that this market condition is – we experienced it towards the end of the quarter, and we are still experiencing in January the same trend.

In the quarter, Food & Beverage business were more affected than the Laundry one. It happened also in Q2 and Q3. The Laundry business is more resilient also because the segment served the specific one like apartment house laundry, car and shops, basically, only with laundry products are less affected that than the ones that where we have common laundry and food businesses there.

We continue to reduce our running costs. So we continue to have cost savings, positively contributing to the EBITA. But the short-term savings are decreasing. So we have more benefit from the structural savings, the one that Fabio described and that will be an even increasing impact in Q2 this year. But the short-term are reducing the impact because we restarted invested and as I said in preparing for the recovery.

We continue to invest for the future product, the Thailand factory and the IT infrastructure. And then despite all the things happening around us, we also came out – published our sustainability strategy and target.

With this, Jacob, I will come back to you and open for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Lucie Carrier from Morgan Stanley. Please go ahead.

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

Q

Good morning, gentlemen, and thanks for taking my question. Actually, I have three questions and I will go one at a time. The first one was more around kind of current trading and what you are currently seeing in the market because, on one hand, you have spoken about some cost, especially in the Food & Bev division related to kind of restarting the activity. So, it seems that you are kind of picking up on that front.

But I was curious to know how that compares with what you are seeing in terms of market demand and whether you are seeing maybe some of your distributors, whether this is in Food & Bev or Laundry starting to kind of trying to increase a little bit the inventory level. So, that's question number one around the overall demand environment.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So, one by one, we take it one by one. So, current trading, as I said, the height of the recovery that we experienced in November, December is still there in January. So, the conditions around that, the fact that the majority of the European market – they are in a lockdown mode is still there.

We are experiencing a recovery of the business in Asia. China, not only China, Australia, also Oceania – sorry not Asia, Oceania, Australia, New Zealand, most of the – Japan, Singapore are showing a different trend. This is still affecting more the Food & Beverage business than the Laundry one. I think we mentioned it. But we have also to say that we see – for instance, we see some customers visiting our facilities to look out or to test the product.

There are operations also in the South European markets that are planning for the reopening late April-May. So, I believe that Q1 will still be challenging because the situation will not be significantly different. The impact of the vaccine – the positive impact, obviously, of the vaccine will not be significant in Q1.

But if I look at what is going to happen thanks to the vaccine, but also looking at the last year when with the summer we had the halt of the first wave and the recovery or the reopening of many businesses, for this reason, if and when people will regain confidence and confident that they will go back to their habits, bringing back again customers to our customers because the problem is this one, obviously.

So, what we see is that it's not only us investing on product to prepare for a possible recovery, but also our customer, so the end customer, hotels and restaurants are doing so.

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

Q

Okay. Thank you. My second question was around the cost structure and I was hoping you could give us a little bit more detail on your exposure to raw materials. I appreciate that you might be mostly buying components made out of metals and plastic, but even those are probably going to face some form of inflation. So I was hoping you could give us some indication on your components exposure how you think about the inflation we are seeing currently in logistical costs considering that you have a fairly, kind of. fragmented manufacturing base around the world.

And lastly as well, you've mentioned a few times during the call that you were impacted by FX headwind on your profitability in the fourth quarter. So I was hoping you could maybe give us some guidance on the FX impact that you expect for 2021.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. Let's split the question. I'll take the first part and probably Fabio can comment more about the FX impact. If we talk about material, first, majority of our material costs, raw material is steel. And we have been hedging – we're purchasing it, basically, for all 2021. So we see movement absolutely. But in this moment we feel confident that we are covered for the largest part of the year. And then, what is going to happen in five, six months from now, is in a way difficult to predict. But we are covered for the largest part of 2021.

And then, you were also talking about the logistic cost and fragmented distribution, in some way – sorry, not distribution, but the manufacturing footprint. In some way, you have to consider that the factory in particular the ones that we have in China, for instance, or also some of the small in Europe are mainly serving the countries where they are located. So, in some way, our global manufacturing plants are the one in Italy, the one in Sweden and the one that we are building in Thailand.

For instance, I mentioned the site that we have in China is not 100%, 90% dedicated to the Chinese market, to the local market. That is important because they are – also the investment we did when we acquired – again, I'm using the Chinese example, the investment we did was to develop the local market and to do this that was strategic and important.

Now, Fabio, if you want to comment a little bit about currency.

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG

A

Yes. As mentioned earlier, the quarter results have been impacted by currency negatively. We have two components. The currency translation, our group is reporting in SEK and year-over-year we have seen a strengthening of the SEK against the other group currency mainly, I would say, the US dollar and the euro.

Within the currency, the second piece is currency transaction. And, in particular, when comparing the two quarters, we have also here seen a strengthening of the SEK versus the US dollar that generated the main impact in the P&L.

Having said so, what about the future or what about this year? I believe very difficult to predict the currency development. We are monitoring, of course, the development and also looking into the possibility where it is possible and commercially reasonable to see what we can do in term of pricing.

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

Q

Thank you. And, lastly, I just wanted to ask around the IT migration program that you've described at the end of the presentation, how we should think about that in terms of costs? And, obviously, is there a risk maybe of a disruption to production procurements as you are executing on those migration because we know that it tends to be sometimes a bit of a challenging process to kind of do that type of migration. So, I just wanted to have an idea on cost and how you assess the risk.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So, for [indiscernible] (00:37:05), the costs, we do this because, we believe, we will then benefit from this one, from implementing this system, eliminating – because we will discontinue at the same time more than one system in the different operation. Some of them in particular when we talk about the acquired company, they were relatively obsolete system or systems that were not giving us the possibility to fully benefit from what the system can give.

[ph] For what concern (00:37:43) the distraction, I think I mentioned that I was really proud of what happened in the first factory. We started with a factory in France, so not one of the largest, but one of probably the most complex because of the characteristic of the products that are produced in that factory. And the migration went very smoothly without any disruption for customers. A lot of the products produced in that factory are made on order, so we didn't even have the, let me say, the [indiscernible] (00:38:22) to have the stock in the between or to create a stock in the between.

So, very happy about that. I'm very proud of the team that conducted the migration. We have obviously a dedicated team. We know what it means. It is something that we already experienced. And so, we learn from – also from the mistakes that we did in the past to make sure that are not repeated.

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

Q

Okay. Thank you very much.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Operator: The next question comes from Gustav Hagéus from SEB. Please go ahead.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you, operator. Good morning, guys. A few questions, if I may. I think we're all trying to understand sort of the lag between when the vaccine is rolled out and people start going to restaurants and when we should start to see a material order pickup for your Food & Beverage business.

So, I guess, a few geographies now, like Australia, where we see bookings at restaurants being well above last year's. And I know you're not particularly big in Australia, but to give us a sense perhaps, what is the market reaction there in terms of [ph] equipment (00:39:43)? Is that a short lag, a few weeks or do entrepreneurs and restaurant owners sort of have a wait-and-see approach rather? That'd be very helpful.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

You rightly said, Australia and in New Zealand are obviously not super large markets. But we have a relatively good presence. And I tell you that already since September, we experienced growing sales in both countries. So, this means that people, as soon as they get confidence that they can socialize again in a safe way, they go back immediately to, let me say, back to the normal life they had before. We were – again, it is just – please take it as it is because I'm also not able to travel so much. So, also, I'm not able to meet so many customers as I was used in the past.

But we started to have customer using what we call center of excellence here in Italy where I'm located. That is the big showroom with a kitchen where customers are coming. And we started to have customers coming to test the products, spending more than one day here with our chef. And we didn't see this in the past. They do this because they are preparing for the spring, summer. Well they believe that customer will come back. Again, this is the trigger for them and for the dealer and then ultimately for us.

And then Food & Beverage [indiscernible] (00:41:38) for large hotel that are already planning opening 28th of April, and last year, they worked between the 15th of June and 15th of September, that was the all working periods for these large facilities. This year they are already planning the 28th of April and they are already having at least three booking. So I believe people believe that they could restart, and I personally think that as soon as you will get this confidence, the recovery will be faster, as soon as we have this confidence. And it is not the case yet.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Just a follow-up on that. Again, Australia, I mean, there might be some effects, temporary effects from pent-up demand in the first few months. But as you mentioned, Australia has been open, I think, since September as well. But you're still seeing a healthy growth in Australia going into this year. So it hasn't faded. And secondly, do you think that it's not you taking market share it's a market dynamic phenomenon really?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So first answer is, yes. We see still the business going pretty well in that part of the world. I would include China, by the way, where we have a much larger presence, a much more significant market share. To talk about, if we take market share or if we keep it difficult to say in particular in those markets, so I would say that in this case I'm not able to answer to you. I'm saying that we are growing more than – our travel sales are higher than the ones that we had a year ago or they were also during the last part of last year.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Okay, great. A few more if I may. There's some – some of your peers have talked about initial signs of price pressure perhaps mainly related to you [indiscernible] (00:43:55) segment. But do you see an indication that there are price pressure in the market and are you lowering prices at all?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB
A

No, is the answer to the second part of the question and the meaning of that I think Fabio was highlighting that we still have a positive contribution from price. So still the contribution from price is positive. In this moment still, let me say, the market is full of uncertainty. We are experiencing some pressure of pricing in particular in Europe I would say, more than any other part.

And again it's related to the speed of the recovery clearly because as soon as the market is quick – if the market is quickly recovery then also the pressure will be released. But in this moment, in particular, on the Food & Beverage, and Beverage because it's the most suffering part of the business, we are experiencing some price pressure, yes.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB
Q

Okay. And, if I may, a follow-up on the question on raw material inflation, obviously, you don't have a big exposure to steel directly. But, by coming back to your components and sourcing, what type of contracts do you have? Do you have a contract where you incorporate increased costs or are they negotiated yearly? So, any additional price inflation for that component provider will not be passed on until later or could you give us some sort of insight on how that price dynamic works given what we see now with price for several raw materials going up quite significantly year-over-year?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB
A

Okay. I can take that question. [ph] Other than anticipated (00:45:57), we are covering directly or indirectly the raw material that are included into also our components. And we have, I will say, a pretty good coverage, at least over the first half of 2021.

It's clear that the recent dynamic – but, I will say, call it really a recent – putting additional pressure on it, but I would wait before coming to a conclusion. So, overall message, the first part of the year, I don't see any material impact for the profitability of the group. On the other side, we are any way activating cost reduction initiative and negotiation activity to mitigate this impact and bring additional saving regardless of the development of the raw material itself.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB
Q

All right. That's very clear. And lastly from me, I'm trying to sort of make out the EBIT bridge year-over-year, and there are a lot of sort of larger items here, the temporary cost avoidance for 2020 including government support, you have the cost-savings program, you have spin-off related costs [indiscernible] (00:47:32) I know you tried to explain but perhaps make it one more try to sort of sum it up what's the year-over-year impact that you see it now from all these initiatives and temporary compare costs and savings for 2021 versus 2020. That'd be helpful. Thanks.

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG
A

Okay. Let me summarize what we have seen in quarter four and somehow all along 2020. The first component in the quarter but also I will say in the – for the year is what – the first bucket was related by the structural cost reduction coming from the two restructuring; one completed and one in execution. And in the quarter, the restructuring has generated roughly SEK 30 million saving year-over-year.

The second piece in the quarter and the full year was government subsidies, SEK 20 million. The remaining market, the third one, was the management of discretionary spending that contributed with SEK 40 million in the quarter and as we reported in the previous call, positive contributed all along the year.

Going forward, I believe that, first, the execution of the restructuring plan is proceeding according to plan. So, what we anticipated in term of saving from future [indiscernible] (00:49:17) are confirmed. I mean, that is our second restructuring plan. As I mentioned, we expected that this plan will contribute with SEK 110 million yearly saving all from the second quarter of this year plus an additional SEK 20 million from the second quarter of 2022. We will see government support at least we expect to have a government support as long as the market will not pick up.

And for what concern the, let me call, the discretionary spending, we are continue with the short-term cost containment measure as we did all along 2020. But as we anticipated earlier, the contribution will be still positive, but reduced in size because at the same time, we increased investment for the future.

On the, let me say, the strategic initiative that Alberto mentioned, the digitalization of the products and the company [indiscernible] (00:50:34) specifically for the quarter one with some tail in quarter two, we will have one-off cost related to the consolidation [indiscernible] (00:50:46) of the factory in China. Just to give you a flavor, this one-time cost for Thai consolidation can range in area between SEK 15 million to SEK 20 million for quarter one 2021.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

That's helpful.

Operator: Our next question comes from Fredrik Moregard from Pareto Securities. Please go ahead.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Good morning, everyone, and thank you, operator. First off on US I think you mentioned 5% sales decline in the US, to me seems very strong given also the weak dollar versus the Swedish krona. Could you give us any insight if there is any larger project or so impacting that figure?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

No, not specific large project or specific chain rollout. It was our presence – I would say majority of this or the product category going better or performing better than the other in the US were the ones are sold through the network, through the dealers for replacement business, for day-to-day business. So it was, I would say, general market sales development.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Okay. So that would be the trend that the US is currently trading at?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

[indiscernible] (00:52:21)

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Yes. Secondly, you mentioned that Beverage is suffering more than Food. Could you just remind us how that could affect your mix going forward?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Sorry. Back one second to the previous question. This was about the Food & Beverage, obviously, only because the development in Laundry was even stronger. And this is related to the fact again that we had the recovery of the sales after having depleted the stock that we built in Q1 2020. So just to make sure that I complete the first answer. Sorry, your second question was about the mix between the Food & Beverage, right?

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Yes.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. So, Beverage is suffering significantly more than Food, I think I mentioned, but two reasons. The first one is that, in the country where there is a lockdown, you have many restaurants adapt to the new reality, doing delivery or takeaway. That is obviously harder for a bar, for a coffee shop, but partially also for a pub. Yeah, there are some, but you don't do delivery of drinks or even less of coffee. And so, this was a – the business, as such, was impacted heavily.

The second element – and this is in general, so it is for us and for everybody, I would say. Then, specifically for us, considering that we have been building the Beverage business through the acquisitions and, again, we are in the process of globalizing the product offer of these companies through the Electrolux [ph] matter (00:54:25), but it's still a process where we are, clearly – [ph] so we are beginning (00:54:29).

Majority of the business, of our Beverage business, is still around the home markets – [indiscernible] (00:54:40) home markets of the acquired company. So, for example, the operations that we have in the US, a big portion out of the business was in Mexico, with the larger chains operating in that part. And Mexico is really down. It's not just halved. Whoever is operating Mexico, including our customers, are heavily affected by the pandemic.

The company, the coffee espresso company that we have in France, more than half of the business is in France. And if you talk to the roster that are operating in France, they are declining business even more than us in terms of equipment. It's really the market that is not receiving. And the same applies to the company that we acquired in Italy. That is more than half of the business again in Italy. And I don't have to say the situation of the country considering the lockdown.

So, they are very specific situation, well identified, that is also giving us the confidence that it is not a generic problem of inefficiency or low productivity, but it's strictly related to the specific situation, some specific geographies. And then back again to what I said at beginning that, short-term, the pandemic creates clearly challenges in particular to Beverage. But when the vaccine or the recovery will be over, also we know that this operation will be addressed.

Fredrik Moregard
Analyst, Pareto Securities AB Q

Sure. I appreciate the market dynamics. I think I was mainly thinking about the margin mix that the stronger declining Beverage would have on your profitability.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB A

Yes. And, again, also in this one, I'm sorry. I misunderstood that one. But in relation to the margin, the margin is, I would say, 100% influenced by the drop of the volume. And again, it's mainly the Beverage side.

Fredrik Moregard
Analyst, Pareto Securities AB Q

Okay. Thank you very much.

Operator: Our next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden) Q

Yeah. Hi. Johan here. Thank you for taking my questions. I appreciate you had a decent cash flow, but still decide no dividends for 2020 and in extreme circumstances like this that's obviously not unexpected. Now, you do have a solid balance sheet. And part of your growth story is also related to acquisitions. And I think, for example, we have seen Middleby announcing two acquisitions recently. Are you missing out there or you got the targets you want from your M&A pipeline?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB A

No. We saw the acquisition of Middleby and we – at least it was in China, that is the one in the Food & Beverage business, we didn't – again, it was there. It was not something public, evidently. I think I mentioned earlier that we restarted our activities during the fall. So, we restarted looking around reconnecting, with the connections that we had in the past still following our strategic priorities, so acquisition that can help us to deliver against the pillar of our strategy.

It is still a market that is full of uncertainty. And as a consequence also, the dialogue with the companies are not so easy, I would say. There are some companies that are coming up available for sale but typically, they are not the company that could add value for both the financial performance are concerned and the strategic match is concerned. So, still looking, I think you know that the M&A process is something where it's difficult to predict when you are able to bring result.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden) Q

Yeah. Okay. And just coming back on the Thailand plant, I understand you will have some extra cost now short-term, but I suppose this would yield benefits further down the road. Can you sort of give us some indication and maybe you've done it already. But [indiscernible] (00:59:51) from the Thailand plant if you compare with cost base

2019 for example, and then what you expect for 2022 for this setup? Is it like SEK 50 million improvement or how should we think about it?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Without providing the figures, the values of the different activities, the cost efficiency will come from, first, currently we are running two factory, we will run one factory only. So, it will be one site only instead of two sites where we were operating before. Secondly, we took the opportunity to build a new factory to have a state-of-the-art facility with all the design of the lines, the design of the preparation area. The floor designed in the best possible way in order to have the maximum efficiency.

Third, we will improve – I think I said that, but that will be one of the three global factories, currently global factories, meaning factories that are delivering products all over the world, meaning that majority of the production coming out of that factory will not stay in Thailand, but will go outside of the country. And we took also the opportunity to rebuild the factory, to redesign also all our logistics setup and logistics floor to have efficiency over there.

Fourth one; this is not something that we will achieve in June, but it will come later. This factory is not designed just for what we have, but it is designed to prepare our setup for a future expansion. That means that in that factory we will have additional production pretty soon.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Thank you very much.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Operator: Thank you. Due to time constraints, we will not be able to take any further questions. So I hand back to the speakers for any other remarks.

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

Okay. So thank you very much for today and speak to you next time. Thank you and goodbye.