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Electrolux Professional AB (EPRO.B.SE)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Welcome to Electrolux Professional Fourth Quarter 2021 Result Presentation. My name is Jacob Broberg. I'm Head of Investor Relations. And with me, I have Alberto Zanata, who is the CEO of Electrolux Professional; and Fabio Zarpellon, who is the CFO. And we'll kick off immediately with Alberto.

Please go ahead, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob, and good morning to everybody. Q4 is confirming the recovery of the market and the continued recovering of our business. For the third quarter in a row, we delivered roughly 10% underlying profitability, despite the increasing, challenging – that we had to face, the increasing headwinds related to the inflation cost that we had to face in Q4. So we closed the quarter with an organic growth, a quite significant organic growth, 4% – 14%, mainly driven by the recovery of the Food & Beverage business that during the pandemic suffered much more than the Laundry one.

The [ph] highlight of (00:01:18) the quarter is that we had record level – our order intake, so collection of order, bringing up our order stock again to a record level. We said that this very high [ph] order incoming (00:01:36) was probably driven also by two elements in addition to the recovery of the business. One was the fact that customer anticipated order with the understanding that from January 1 the price increase was announced. And the second one is that in these days, there is the understanding that lead time and availability of product – there are uncertainty on lead time and delivery of products. That they wanted to book product to make sure that they were available when they were needed.

So we were expecting also a decline of the order intake in January. While confirming the recovery of the market, in this case – the continuous recovery of the market, in this case, we still have a good order intake in January, not at the level of December, but confirming that despite the increase of the price list, we are still getting good order coming in.

Consequence of the growth is the improving profitability. I said it [ph] underlying (00:02:48) is 9.5%, close to 10% as it was in Q2 and Q3. The actual one is lower because in the quarter, we completed the acquisition of Unified Brands, a great addition to our business. And in the quarter, we reported all the acquisition cost.

Important element is also the cash flow, very strong cash flow, with a cash conversion much higher than 100%. That is confirming the strength of this company [ph] for what concern (00:03:23) the management of the operating capital. All in all, we are also proposing, in line with our policy and with our target, the dividend – to distribute dividends this year.

I think I already mentioned the fact that the recovery is ongoing. These are our sales, growing in the different area. Flat in the Asia-Pacific where we have different dynamics in the different regions, but very strong recovery in the Americas region, mainly North America. North America is a market that is back to the pre-COVID-19 level, probably even above that level. And indeed, our sales in that part of the world are very high, and particularly in Food & Beverage, and we will see this later on.

Europe is slightly behind the Americas, but quite close to the 2019 level already. And we expect that this should be [ph] already (00:04:38) the beginning of this year. The Asia-Pacific area and Middle East is behind. Still some area in the Southeast Asia are closed. Japan – still difficulties. But what we see during the past days is that also these area are in the – in a recovery trend. If not that at the end of last year, even if also in Q4, the Food & Beverage had a recovery in the area. Beginning of this year, we see many project revitalizing and getting orders also from these areas.

So all in all, a positive market environment. The fourth wave seems to be not impacting so significantly this business. Personal experience is that still suffering at travel business. So whatever is related to travel business, because still a lot of company are working, are keeping – people working from home, but the outlook is positive.

Going into the detail of the Food & Beverage and then the Laundry business. Not unexpected. The Food & Beverage reported a very strong growth, organic. And to the organic growth, we also added the acquisition, the net sales of Unified Brands for the month of December. So it is only one month. Later on, we will give you more details about Unified Brands performances.

Sales, very stronger. I mentioned Europe. In particular, some countries in Europe, Italy first [indiscernible] (00:06:26) even stronger the United States 50% growth in the quarter is an amazing one. But as you can see, differently from the past reports, even the Asia-Pacific and Middle East area delivered growth in this part. Margin in this case is affected significantly by the acquisition cost that have been reported in the quarter.

If we move to Laundry, the Laundry growth is lower than the one we had in Food & Beverage. Also this one not unexpected, but I have to say that Laundry in most of the country is already on the 2019 level in Q4. So we are expecting that to go over the pre-pandemic situation in the full year 2022.

So sales were driven mainly by Europe and United States again. And profitability is in line, I would say, with the good profitability we had in the other quarters, despite the headwinds. In particular, the material was affecting more Laundry than Food because of the kind of material that is used in the different products.

With this said, I will let Fabio comment the financial results.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody. As anticipated by Alberto, since quarter two last year, we have been able to increase consistently both the top line, but also the EBITA value quarter-on-quarter. In Q4, EBITA grew close to 16% year-on-year.

Like-for-like meaning excluding Unified Brands and associate integration acquisition cost that accounted for SEK 56 million in the quarter. EBITA was approximately SEK 210 million, meaning SEK 70 million better than quarter four 2020, with a quarterly margin close to 10%. Volume growth as well as the benefit from 2020, the [ph] structural plan, cost saving (00:09:00) were the main driver of this EBITA increase.

When reading through the P&L, gross margin increased to 32.7%, 1.6 points higher than 2020, thanks to higher sales and production volumes. Productivity in the factory, also positive, contributed to the improvement of the margin.

The impact from price was positive in the quarter. We had a positive contribution from price, but it was not enough to compensate the material and transportation cost increase. And the gap between the contributions from price minus the additional cost in material and transportation cost was negative by SEK 35 million.

When it comes to this year, we expect material cost as well as [indiscernible] (00:10:11) transportation to increase during the first part of this year. We anticipated during last call an additional price increase since January 1 of this year. The price increase is in place. Such price increases should bring the company to compensate the direct material cost increase from quarter two; already quarter two of this year. But we expect still a negative gap between the contribution from price and the increase of raw material in components in an area of minus SEK 60 million to minus SEK 70 million in quarter one.

When it comes to [ph] selling and administrative (00:10:59) expenses, they increase in value quarter-on-quarter, even excluding the additional acquisition cost, but the weight on sales was reduced to roughly 24% on sales [indiscernible] (00:11:17) to support the volume growth and the SG&A includes also year-on-year the additional accrual for the variable pay.

In the quarter, the government subsidies was around SEK 10 million compared to [ph] SEK 18 million (00:11:37) of quarter four 2020, and the benefit from the restructuring contributed with additional SEK 16 million in the profitability of the quarter.

When it comes to the development of operating working capital, at the end of December, operating working capital was reduced by 5% year-over-year, the same perimeter, meaning excluding the Unified Brands. That was a remarkable achievement considering the sales growth that we reported for the quarter and the full year.

Average operating working capital on sales, therefore, was decreased to below 15%. We reported 14.9% at the end of last year, a result that is in line with our financial targets, but also, as you see from the graph, showing a pretty consistent improvement quarter-on-quarter since September 2020.

After the acquisition of Unified Brands, our financial position remained pretty solid with a ratio of net debt on EBITDA below 2 times, meaning at 1.9 times. And at the end of December, Electrolux Professional had liquid funds for SEK 849 million and revolving credit facility available for close to €100 million, meaning that we are fully equipped to support also from a balance sheet perspective the development of this group.

As anticipated by Alberto, cash flow was pretty strong in the quarter, but I will say pretty stronger also for the full year. During 2021, we deliver over SEK 1.1 billion cash flow. I would call it quite a remarkable result that is bringing this group to the cash generation we enjoy before COVID in the year 2017, 2018 and 2019.

So overall, I would call it a positive quarter where Professional deliver a significant EBITA and strong cash flow. The balance sheet remains strong and adequate to support the business and the margin expansion of this group, even after Unified Brands acquisition.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A couple of words about Unified Brands that is now part of the group. So you can understand that I'm personally very happy to have this company becoming part of the group because it's clearly addressing one of our strategic priority, that is the development of the business in North America and the development of the business with the chains that are mainly or at least the largest one are [indiscernible] (00:15:16) in North America.

So I'm very happy to have this team on board, a great team of people that is in the business, very experienced in the business with strong and well-recognized brand in the market. We're talking about a company with roughly 600 employees, with the two facilities, one in Michigan and Mississippi, R&D capabilities. Both have – obviously to develop the product, but also to serve chains with customized solutions. That is important and strategically important to address this kind of customers.

It's a company with more than SEK 1 billion of turnover. Fabio will give us more details. And with two major brands that are growing [indiscernible] (00:16:07) that are typically serving the institutional market with cooking solutions and the chain market with customized prep tables. So a lot of the big chain company are now our customers. We are a trusted supplier of this company and we surely intend to leverage this organization to develop the business in that part of the world.

But Fabio, please, with some additional figures about the financial of this company.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Yes. Thank you, Alberto. So as you heard from Alberto, Unified Brands was quite a sizable acquisition for Professional. On a pro forma base, assuming Unified Brands was part of Professional for the full 2021 year, this would mean to increase group sales and EBITA by approximately 15%, meaning increasing significantly the presence of Electrolux Professional in US market as well as delivering, I would say, a better geographical balancing.

Sales of the company grew 21% year-on-year compared to 2020, and the growth also in quarter four was pretty remarkable. Underlying profitability of the company in 2021, excluding the acquisition cost, excluding the integration cost, was around 9% with a significant improvement compared to the previous year.

The company has managed pretty well, also from an asset management perspective. And the operating working capital on sales of Unified Brands is [ph] likely (00:18:15) below the rest of the group average. As the rest of Professional, Unified Brands also enjoy quite an increase of order intake during last year and [indiscernible] (00:18:30) the year with a pretty good order stock.

So I would say I can only reiterate the message from Alberto. Pretty – pretty happy about this acquisition that can make a change in our present US market, and also from a financial perspective, an acquisition that has [indiscernible] (00:18:54) to deliver a good 2022 as well.

And with that, back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. And if we move on, on the things happening in the quarter, I would say that Q4 was a quarter pretty full of important event, taking most of our strategic priority. First, for instance, we have been growing for the third quarter in a row our customer care business. That is an important one.

We suffered the missing growth of this part during the pandemic because our technicians were not allowed to visit customer now for the third quarter in a row. Despite the high growth of the product, the customer care business grew more than the product sales. And we all know how important is this one, and this is one of the cornerstone of our strategy.

We brought a new product to the market. We are not commenting this right now, but we will do it in the next [ph] step of that product addressing change in particularly and mainly (00:19:59) that will surely deliver positive impact to our business.

We completed the rollout in the first three countries of our digital OnE platform. That is a new platform connecting product, customers and the company in a digital environment that will make the customer life easier and our performance better, both in term of service, but also in term of [ph] efficiency (00:20:33) and productivity.

But mainly, we have been – I'm very proud to say that we received the first – for the first time, the rating from the CDP. This is important because we are the only company in this industry with a rating in this one. It was the first time that we disclosed our climate impact through the CDP. We got a B rating that – I have to say that it is a good one. It is a very good achievement, also, considering that it is the first one.

And why I'm underlining this thing so much, because despite the overall importance to be a sustainable company, a company that deliver sustainable product, I believe these days our focus on this matter is making us even more competitive than what we were. We all talk about the dramatic increase of the cost of energy, the cost of gas, the

general cost, and with our range of being so focus on the lifetime cost and not more on the just purchasing price of [indiscernible] (00:21:49).

So providing long-term benefit to the customer on the savings that the usage of our product can provide [indiscernible] (00:21:57) even more competitor than before because energy and gas increasing are important elements in the running cost of our customer and with the possibility to cutting off this cost, thanks to the performance of our product. I believe this makes them even more attractive and more competitive. So very good thing, things that is making me proud and I'm sure is just the first step in a journey that will make us better and more sustainable as a company.

With this said, if I have to summarize what is behind us, but at the same time what is in front of us, the recovery of the market is continuing and with the recovery of the market, our growth, our sales have been growing in the quarter and we expected to have the market back in – to the 2019 level at beginning of this year.

The order stock is record level. I said it that probably it grew so much during the last months – weeks of 2021 because of the announced price, because of the concern, I'm not receiving the product. But it's also true that it didn't drop in January. So we still see orders coming. And also, the market that didn't move during 2021, are now restarting activities.

The performance of the company are solid. So the underlying business is for the third quarter 10%. Also, considering that we experienced an increasing headwinds related to the inflation [ph] in general, inflation (00:23:57) energy transportation material, that was only partially offset by the price increase that we did 2021. And this is the same for the first quarter of this year. As Fabio said, we still see that even if the price increase that we announced and we implemented from January 1 will mitigate this inflationary cost from Q2 with a growing positive impact [ph] everything equal (00:24:28) we see that in Q1, we will still suffer the higher cost, general cost to run the operations.

The acquisition of Unified Brands has been completed. This clearly strengthening our position in the US market. That is the one with the fastest trend in the recovery. That is the home of the largest commercial restaurant chains. That is a third of the global market.

So all in all, I see the quarter closed with solid results. I see still the mention of the challenges in Q1 that we are set to offset [indiscernible] (00:25:18) and the outlook for the medium, long term is a positive with the recovery of the market and all the things in place to continue to deliver solid result.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Thank you, Alberto. And with that, we open up for questions. Please go ahead, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, then we will now begin the question-and-answer session. [Operator Instructions] We received the first question. It is from Karri Rinta, Handelsbanken. The line is now open. Please go ahead.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Yes. Thank you very much, and good morning. I just wanted to ask a few questions about the Unified Brands. If we look at your North American business before Unified Brands, it was probably quite a bit of Laundry and Beverage. So specifically about the Food part of the business, how much bigger will Unified Brands make you in North America compared to what you – the position that you had before? That's my first question.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. Unified Brands is making us significantly larger than what we were before. We are not disclosing the separation between the Beverage and Food. But you're right that Beverage was an important part of – a significant part of our Food & Beverage business in North America.

And the Beverage business is the one that we got through the acquisition of the Grindmaster Cecilware. And I would say that the acquisition of Unified Brands is bringing us to a level that is much higher than what it was, is bringing us to a different level also in terms of relevance in front of the reps, the dealers the network in North America, the distribution network in North America.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Perfect. And then the higher underlying margin that Unified Brands had last year compared to what you had in Food & Beverage, is that – or maybe more specifically, have you said anything about what percentage of Unified Brands or their sales comes from aftersales or from customer care?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

No, we did not disclose that one. We can say that there is room to improve also the percentage of sales coming from customer care in Unified Brands. So we know that the margin of the company was higher in the pre-pandemic period. The company went through a restructuring in the years before the pandemic period, moving from consolidating in the two current factories. They have also some disruption related to this consolidation that resulted in some problem that [ph] have been (00:28:55) addressed.

So now quality of the product is great. Service to the customer, despite the current, obviously, long delivery time related to the components' availability, the problem that everybody has, are okay. And the trajectory to grow back the profitability is good and we are expecting this to be delivered by the team that came together with the company.

Karri Rinta*Analyst, Svenska Handelsbanken AB*

Q

Thank you. And then finally, what should we expect to be our key priorities for Unified Brands in 2022? I guess in the early part of the year, it will be a lot about sort of technical integration of systems and so. But will there be any scope for trying to – I know that there will not be any cost synergies and even the cost selling synergies are a bit way off. But – so what will you focus on this year when it comes to Unified Brands?

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

A

Yes. So the first part of the year, you rightly said, the focus is to complete the separation from [ph] The Dover Group (00:30:03). We have been going through a separation from a group being [ph] a division of Dover (00:30:08) and becoming independent. So focus is on there, complete the temporary service agreement, completing the separation, getting a stand-alone operation model with all the function operating in the proper way.

Then clearly – and I'm not saying that we will do – we will not do this in parallel, but we will start looking at what we can get, how we create value with this company, making sure that one plus one makes more than two. Again, don't think that we didn't think about that already. Obviously, it was part also of the business case to justify the acquisition.

But now that we are all together, we are grouping and understanding how we are able to create value. And I believe there is a lot. The meaning that [indiscernible] (00:30:56) that in the United States we can – thanks to the Electrolux's infrastructure, serve also abroad or thanks to the legacy relation that Unified Brands has in North America with dealer, reps, or chains further increase the business that we currently have.

Karri Rinta*Analyst, Svenska Handelsbanken AB*

Q

Great. Thank you very much.

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

A

Welcome.

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

A

I have a follow-up question from the web connected to Unified Brands from [indiscernible] (00:31:26). He is asking about our expectation regarding normalized long-term EBITA margin of Unified Brands. And if we can explain the difference between [ph] EPRO's (00:31:38) Food & Beverage target margin, is there a difference?

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

A

What we can see and what we can say right now is that Unified Brands is perfectly aligned not to contribute to reach our overall target in term of profitability. So Unified Brands is a company. You see the underlying EBITA that we had in the quarter is aligned with the overall company EBITA. That is a mix between the Food & Beverage and the Laundry business. So I would say that the contribution [ph] of Unified Brands (00:32:22) will be positive in the – even in the short and medium term.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Please operator.

A

Operator: So we go to the next question. It is from Johan Eliason, Kepler Cheuvreux. Your line is now open. Please go ahead.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Yeah. Hi. Good morning, Alberto. Good morning, Jacob. Just a question while we are on this subject of the margin. You obviously have a long-term target to reach 15% EBITA margin someday. And we heard your German competitors sort of saying that they expect margins to improve going forward, but it will take years until they are back at the pre-pandemic margin level. What's your sort of view on the timing of you hitting your target, which is sort of above what you reported or performer indicated before the pandemic?

Q

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

We are not disclosing the timing, but we see that performance are improving. They've been improving, thanks also to the recovery of the market beginning of the year or let me say, since the half of the year before. But then we had these headwinds related to the raw material price increase, to the transportation cost increase, to [ph] all inflationary item (00:33:59) now adding energy cost increase.

A

We took actions with the price both during the summer and beginning of this year. We have to say it is clear, it is in front of us, and Fabio was clear about that that the action taken with the increase of the price didn't offset completely the too rapid increase of the cost that we experienced in Q4, particularly during the last part and are staying in Q1.

So we also [ph] say (00:34:39) that starting from Q2 this action will give us the benefit, meaning that offsetting the inflationary items, and as a consequence, gradually giving us even a positive contribution. If we look – if we remove this effect, the trajectories are positive and Unified Brands will help to accelerate this one because, as I said, it is in line with the total company profitability. Also, Unified Brands has a positive increasing trajectory. And being in the US market with the chain customer, we are – we have good expectation [ph] on the matter (00:35:23).

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Excellent. And your comment on Q1 margin, is that mainly related to that in Q1 you will mainly deliver [ph] of (00:35:36) your current backlog and then the new orders with the new pricing will sort of only hit your revenues by Q2 going forward? Or can you do anything about the pricing in your backlog?

Q

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Obviously, it is harder to get the – to change the price with a back – on order that we already confirmed. Even in particular the order that we received during the past – the last part of the year, we have been clear that if the customers will not get the product within a certain period of time, we are going to apply the price increase. It will be a matter of negotiation, but it is – I think it's important, this one.

A

A majority of the sales in Q1 will be done with orders that have been confirmed with the old price. But it is also true that gradually orders are kicking in with a new price, and this is important. If you look at also the mix, the contribution for price is increasing along the quarter and we are expecting that it will further increase in Q1 and Q2. Sorry to say not enough in Q1 to cover the extremely high inflationary item.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

And then talking about the inflationary item, remind me, do you have any sort of hedging policy regarding stainless steel prices or steel prices or anything else?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yes.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Have you changed that policy this year...

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

No.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

[indiscernible] (00:37:20)?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

No. We are hedging the stainless steel, the base of the stainless steel. So we have been hedging the price of the base for the first six months, because clearly the hedging was done during the last part of the year when the price were already pretty high.

The point is that, for instance, the nickel that you cannot hedge and that is impacting mainly the stainless steel is – it was touching the record the level, I would say, in the past days. So the big [ph] parties hedged (00:37:58), but there are still variances. And the hedging, I repeat, is for the six months. The uncertainty is still high. So we don't know what is going to expected in the second part of the year, possibly better situation, but that is our policy and [ph] we are sticking (00:38:17).

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

And then just on components. Do you have any specific components like the car industry talks about semiconductors that is causing you supply disruptions or is it just the general cost inflation and logistics cost, et cetera?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

It's general cost inflation, but – so components, I would say that in some way we have the electronic components in general. There is scarcity. In this moment, we are able to run production at normalize full capacity, meaning that we are working on one shift in every factory as normal, let me say.

The thing that we have trouble to do is, for instance, to plan further increase of capacity that in some cases they love to do, because I repeat, we have a record order stock. So we could increase – further increase capacity. I still believe that we have to wait some weeks, not months, but some weeks to go for that plan because of the uncertainty for what [indiscernible] (00:39:34) is much better than what it was at the beginning of the last quarter.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Excellent. And then may be a bit more forward-looking coming back to [ph] Unified Brands (00:39:45). They seem to have a pretty broad product portfolio, but I understand part of the idea is that it will be a sort of a access to distribution network also for some products you have already. Are there specific technologies that you already had before that you think will fit quite well to this customer segment, the big chains that [ph] Unified Brands (00:40:11) now give you access to or will it has to be developed by using your larger R&D platform?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

No, no, no. I believe we have everything that could match the needs of the customers and, as you rightly said, we can leverage the strength of this organization to further expand the business in North America and with this customer. Then in particular, when we talk about chains, many times chains are looking for customized solution, but that would be independently from Unified Brands and independently from us. [ph] For what concern the product (00:40:51) technology, as you rightly said about technology, I believe that everything is [ph] set (00:40:57).

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Excellent. Many thanks.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

Before we move to the next question, operator, I have a follow-up question from [indiscernible] (00:41:09) and it's also related to price and raw material cost. And his question is, if we can comment on how we see January price increases are accepted by the market and how much of the raw material cost increase we expect to offset? It's related to what, I think, Fabio discussed before. If you can repeat that cost range, how much we expect to have extra cost in the first quarter.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. I believe Fabio, you can comment again about that. The only comment that I can say about the customer accepting, obviously, it is different customer by customer. There are customers with whom we have long-term contract that is more challenging. There are customer that wants to negotiate as usual. At the same time, we have

to say that there is a general understanding that everything is costing more. So the general understanding and – is there. So from this point of view, I don't mean that is well accepted, but at least it is understood. Please, Fabio.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

Yes. So let me just remind what happened in term of material and price increase during 2021 and now beginning of 2022. As a reminder, we have put in place a first price increase in July 1, 2021. And then we proactively took a decision to communicate to the market the second price increase in the autumn of last year with effective date January 1 this year.

The raw material and together with transportation cost at the same time have had an accelerated cost increase, in particular in quarter four of last year. As I mentioned earlier, in quarter four, we reported a negative gap between additional price, positive contribution and raw material and transportation cost in area of SEK 35 million. So quarter four results in term of EBITA was negatively affected by this amount when we look into the margin.

These direct material cost increase is expected to further enhance during this first part of this year. Price will start to kick in. As Alberto anticipated earlier, the majority of the sales of the quarter one will be at the 2021 pricing, meaning that the gap between price and cost will be enlarged to – from SEK 60 million to SEK 70 million year-on-year. At the same time, we are confident, and Alberto commented earlier about the price [ph] stickiness (00:44:20) that already from quarter two of this year, the additional contribution from price will be able to compensate the material cost increase.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

Thank you, Fabio. Operator, please go ahead.

Operator: Then we'll go to the next question. It is from William Macaulay, Morgan Stanley. Please go ahead. Your line is now open.

William E. Macaulay

Analyst, Morgan Stanley & Co. International Plc

Q

Hi. Good morning, gentlemen. Thank you very much for taking my question. So for the first, I'm sorry to return to price cost. We have a negative balance in Q1 and then it gets positive in Q2 and increasingly positive through the year. So overall, for 2022, do you think the balance should be positive or negative based on what you currently see?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

With everything staying the same, and sorry to repeat this one, because really the fluctuation that we see in the price of the raw material these days is energy and price is quite significant, but considering stable elements at the current value, we see that the overall impact along the year will not be negative. It will be slightly positive, but it will not be a negative. The purpose was exactly this one [ph] not (00:45:45) to balance with a price increase applied at January 1 to offset the inflationary item that was at our knowledge in place right now.

William E. Macaulay

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. That makes sense. And I know this is a difficult question for you to answer because the price increase is at different levels across different products, and then the net effect you get is always a bit less [ph] than the gross (00:46:11) because of rebates, but how should we think about the overall price increase you have or price benefit you're going to have in 2022? And maybe if you can't give me the actual number, could [ph] be bucket (00:46:23) perhaps between mid-single digits, high-single digits and low-double digits?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

But I think – first, we don't give the element of the price increase, but it's not only because we don't disclose this number, but because it's very different product by product and region by region.

There are different habits. For instance, North America and Europe are in some way the extreme cases, where in North America both of the applications, so the implementation, the execution of the price increase as well as the magnitude of the increase is different from the one you can expect in Europe, where in many case you are – you have limited the possibility because of the long-term contract with the public institution and other things.

So it's very different by region and also by product because – I think Fabio mentioned that the impact on Laundry in Q4 was higher than the one in Food & Beverage. Now we have the nickel going up. That is mainly impacting the stainless steel and as a consequence, the food product. Beverage is mainly plastic. So according to the kind of product, we have a different impact and we apply – we don't go flat on everything, but we do category by category different increases.

William E. Macaulay

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Sure. And maybe finally, are there any further kind of integration cost for – restructuring cost for Unified Brands in 2022? And again, are there any savings you can expect to come through?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yes, there are. And I would let Fabio comment about that.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

Yes. We expect this year to have roughly SEK 10 million between integration cost and inventories [ph] – the part falling (00:48:34) into quarter one. For the remaining part of the year, we expect to have no additional cost regarding the integration.

William E. Macaulay

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. And any additional savings for the business as a whole that we can expect?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

As [ph] that (00:48:59) anticipated, we are working on two side. First are the priority from Unified Brands' management and ourselves is to complete the separation from [ph] Dover Group and have the (00:49:15) Unified

Brands working as a stand-alone operational within Electrolux Professional Group. This is priority together with the business development.

At the same time, we are working to understand which are the additional value we can implement from this acquisition, both on the sales side, but also looking into opportunity on the cost side. I would say that expectation are more going into the top line development, as Alberto mentioned, in particular referring to US and the chain business.

William E. Macaulay

Analyst, Morgan Stanley & Co. International Plc

Q

All right. Thank you very much.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

Please – please, operator, go ahead.

Operator: Yes. The next question is a follow-up question of Karri Rinta, Handelsbanken. Please go ahead. Your line is now open.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Yes. Thank you. Just a simple modeling question. What kind of depreciation and amortization rates we should have for 2022 in – on the back of Unified Brands?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

I can take the question. I will say that in term of depreciation, the weight of depreciation on sales due to the Unified Brands acquisition will not change, whilst we will see somehow a significant increase linked to amortization.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

So significant or insignificant?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

Significant.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

All right. Thank you. Thank you very much.

Operator: Thank you. The next question is from Henrik Christiansson, Carnegie. Your line is now open. Please go ahead.

Henrik Christiansson

Analyst, Carnegie Investment Bank AB

Q

Yes. Good morning. Two questions, please. First one on FX effects. You have the Swedish krona weakening quite a lot recently. Do you have any major FX effects or benefits from that or negatives coming through in your EBITA into 2022?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

I'm not going to speculate on currency at all into 2022. We are living clearly in an environment that is pretty much volatile. We are seeing in particular in these days what is happening on the US dollar, getting stronger against euro and other currency. So we are really in a pretty volatile environment. But it is also difficult to give a direction.

If I can give a comment instead on the quarter four, I will say that the overall impact between currency transaction and translation was pretty neutral in term of EBITA, summing up the two, with the currency translation being negative and compensated by positive currency transaction, mainly linked to US dollar.

Henrik Christiansson

Analyst, Carnegie Investment Bank AB

Q

And based on current – you don't have to speculate, but based on current FX, will there be any material impact [ph] over it (00:52:50) similar to Q4?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

Difficult to give a direction at this moment. Let's see how currency will develop along the first part of this year.

Henrik Christiansson

Analyst, Carnegie Investment Bank AB

Q

Okay, great. Second question, I mean, you talk about markets being back to 2022 levels here this year. I mean, could you provide a bit more color around what segments are driving that? If I look around, both leisure and business travel seems to remain at low levels, comp versus big gatherings also at low levels.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yes.

Henrik Christiansson

Analyst, Carnegie Investment Bank AB

Q

Which segments are back or above pre-pandemic levels? And what segments are still to recover?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yes. Okay. In general, the Laundry segment – specific Laundry segments are back to the 2019 level, so the pre-COVID. So the [ph] Laundry segment, Apartment House Laundry, all these funds (00:53:39) are back. I would say even better than the pre-COVID situation.

Another segment that is better – in better condition than the pre-COVID is the one related to the commercial restaurant chains, I would say, all over the world, so not only North America. Even if – this segment is huge in the North America market and this is also explaining the different dynamic of the market in that part of the world.

We see that also the hospitality in general, so the hotel, restaurants are starting investments. So during the summer of last year, the main part of the business was replacement. So these operators are restarting their activities, just replacing [ph] similar items (00:54:36), but postponing the larger investment to – for the complete refurbishment of the kitchen or the laundry operation.

Now, these investments are coming back to life. And as I said, [ph] those are (00:54:52) beginning. Geographically, they are not limited only to the countries that recovered earlier; Oceania, China, North America, some European countries. But these are expanding also to the Middle East, also the Southeast Asian countries.

So the only segment that – the only – the main segment that we still see suffering is the one related to travel. So travel business, restaurants in the airports, hotels also, mainly used by travelers and obviously the restaurant related to travelers, that is still suffering quite a bit. And I will say that also personal experience, if you look at overseas flights before Christmas and after Christmas, before – because in some way the second wave was limiting this move. Not stopping, but limiting.

The other segment that is still suffering, but in some way they converted themselves is the one related to the restaurants that were in the business centers. So with the fact that still a lot of people work from home, the places that were mainly working with the employee going out for lunch during the business hours is still suffering. I have to say that in this case, the segment converted their business to the delivery one. A lot of them are now working more on the delivery. We have been talking about the delivery business growing during the pandemic because people were not able to go out for dinner, for lunch or whatever. That is [indiscernible] (00:56:47) is an habit that didn't change.

People restart going to the restaurant, but at the same time they didn't give up their habit to get food at home. So many restaurants that were not used to deliver and they started to deliver during the pandemic are still continuing to have [ph] this one because this cover (00:57:05) that is a good profitable business. As well as the increasing share of the business that they – the dark kitchen. So the kitchen that are not visible to customers, but are used only by the delivery company is also growing quite significantly.

Henrik Christiansson

Analyst, Carnegie Investment Bank AB

Thank you.



Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Welcome.



Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Okay. Thank you. I think we have no further questions. So with that, I would like to say thank you for today, and have a good weekend when it comes and speak to you next time. Thank you and goodbye.

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