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Electrolux Professional AB (EPRO.B.SE)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Good morning, and welcome to Electrolux Professional Q3 Presentation. My name is Jacob Broberg. I'm heading up Investor Relations. And with me, as always, I have Alberto Zanata, the CEO; and Fabio Zarpellon, the CFO.

And I start with handing over to Alberto. Please go ahead, Alberto.

Alberto Zanata

President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB

Thank you, Jacob, and good morning to everybody. Q3, in summary, it is another quarter with continued sales growth with the margin and earnings expansion and development. It is a quarter where we had to face some challenges that limited the development of both the top and bottom line, in particular, the supply chain that is much better than what it was a month ago, but it's still creating some disruption in some specific area and production facility. We had to face the increasing energy cost that is not impacting the material way our business, but obviously, it's impacting the business of our customer and we had to face the logistic transportation costs.

The third element, limiting the expansion was also the inefficiency in our factory, inefficiency due to the – strictly related to the supply chain challenges.

On the other end, the negative elements that we mentioned have been compensated by positive activities. The first one is the price. The price is now offsetting the material cost in the quarter and in the right direction, as we mentioned already beginning of the year to have a complete offset of the negative development of the material cost along the entire year.

We had a positive effect of currency and we had clearly a positive effect of the recovery of volume and sales in Laundry. Last quarter, we had the Laundry business underperforming our expectation because of missing components, and the electronic board that was not made available because of the lockdown in Shanghai in China. Now the components are available. We mentioned that – in that quarter we pre-produced product to make sure that we were in the condition to increase production as soon as the component were made available. It is what happened and during the Q3, we have been increasing significantly the sales of Laundry appliances.

The other element to know in the – during the quarter is the development of the cash flow, that is still limited, and this is mainly because of the growing operating working capital, in particular, accounts receivable and inventory. One comment, and then Fabio will go deeper into the analysis about the inventory. The inventory is also increasing because we had a significant increase of this safety stock of components. So the components that creating problem – created problem in production during the previous quarter, now we increased the safety stock and this has an impact, obviously, on the inventory.

Still high is the inventory of booked products. So products that are already sold with the name of the customer, but we still have in our inventory because of delay in completing the setup of the place where they have to be delivered.

The third element in the inventory development that is, I would say – I would call it a positive one is that, we increased – we finally increased what we call free stock. So stock of products that are not booked for customers but that we can make available to – for the replacement business. This is important, in particular, if we have to prepare for a possible downturn, [ph] when (00:04:41) typically the replacement business is the one prevailing on project and other kind of business.

If we look at the development of the sales, I would say that it is strong in every area. I would point out, obviously, the development in North America that continue to be far above the development of the other region, and the development of Laundry, partially pushed by the recovery of the volume of the production that we didn't complete in Q2, but also because it is a good business development all across the continent in a quite good way.

The area that presented a softening of the development of the sales is Europe and in particular, Food & Beverage. The order stocks – so the order that we have in-house and that we have to deliver to customer is still good, higher than last year, significantly higher of last year, and it is still equivalent to roughly three months of sales. Again, as a reference, last year, it was two-and-a-half months and in the pre-pandemic as a normal time, let me say is typically one-and-half month.

Order intake, compared to last year, in particular, in Europe, Food & Beverage is softening compare to last year, but it's still in – on the level of the pre-pandemic period level.

Other comment about the market because we just received the result of market research, the official data that are reporting the development of the out-of-home market, the out-of-home spending. So what we – as consumer spend out-of-home for traveling, eating, sleeping in the hotel and so on. And we see that on a yearly basis, so considering from January 1 to December, to be expected of December of 2022. It is a market that is still not completely back to the 2019 level, but the gap is clearly closing.

And the closing of the gap is mainly due to the fact that also the segment that beginning of the year suffered or didn't restart the growth business traveler, for instance, in premise, they are now recovering pretty faster. Airports are full, not only with tourists, but also with people traveling for business.

Entering the detail of the two segments about the Food & Beverage. Food & Beverage developed very well in North America. We are pleased and I repeat this one and during the Investor Day in a couple of weeks, we will have the possibility to further comment the result of the recently-acquired operation of Unified Brands, but we are very pleased of the development of the business in North America.

In Food & Beverage, we could have done even better because, in particular, Unified Brands had the most significant supply issues in the quarter, missing components, we had exactly the same problem that we had in Laundry component missing and we pre-produced product that we're going to finish deliver to the customer mainly change during the coming weeks, not of the magnitude of Laundry, but still significant for the business – for our business in North America.

The other area that deserve a mention is the Oven. The daily production of our Combi Oven is close to double than what it was before summer. Also here, we are paying the significant increase of the demand and the output with some inefficiency because the supply chain is not stable. It doesn't allow us to further increase production as we would love to do. On the positive side, material cost increase are compensated by price and we are in line with what we said that we have the overall [ph] delta (00:09:37) offset by year-end.

Comments about the Laundry quarter. In this case, I have to say that the development of the sales is strong. It was expected because it was expected to have a strong development of the Laundry business because in addition to the, let me say, day-to-day business, we have also the recovery of the pre-produced product – of the sales coming from the pre-produced product.

Also, in this case, as well as in Food, the North American market deserve a mention as the market where performance have been significantly higher than in the other region. Also, in Laundry, in this case, finally, the price is compensating the cost of the material. In Laundry, we clearly had to report inefficiency. So this means that we could have done better. The inefficiency are related to the activities to recuperate the product that we pre-produced during the last part of spring, beginning of summer.

Last comment about Laundry is one of the offender of the increase of the inventory because, in particular, in Laundry, we significantly increased the component safety stock of the electronic parts, the ones that we are missing during the spring-summer this year.

With this said, I would say that Fabio, up to you to enter into the detail of the financials.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody. As you have seen the material, Electrolux Professional reached 11.4% EBITA margin in the quarter, over SEK300 million in value. We need to go back to the first part of 2019, so meaning pre-pandemic to see such a level of EBITA generated in a single quarter.

Food & Beverage further strengthened the profitability, reaching the 10.5% and Laundry delivered strong quarter over 17%. Unified Brands, the recent acquired company delivered also a strong quarter being accretive for the Food & Beverage, but also for the overall Group profitability. And we did report no material change in the Group common cost.

When we move from the quarter into more year-to-date picture, if we exclude the provision for Russia divestment, year-to-date we delivered over SEK800 million in EBITA. We are over 10% – 10.2% is the year-to-date profitability compared to SEK499 million of last year year-to-date, meaning a growth of 65% in EBITA year-on-year.

When we look into the P&L structure, we face a decline of the gross margin. The gross margin was 33.2% in the quarter compared to 34.9% in the quarter last year. I would bring to your attention two components of declining of gross margin. One, or let me say, half of it is related to the fact that now we have a Unified Brands as part of Electrolux Group. As I mentioned earlier, from a profitability perspective, Unified Brands is accretive for the Group, but has a different P&L structure.

Larger part of the business of Unified Brands is [ph] chain and we changed (00:13:57) so we operate with a lower gross margin, but I would say with a pretty lean cost to sale. That is bringing the profitability of this organization and the chain business that we know at a very attractive level.

The remaining part of the decline of the gross margin is back to what Alberto mentioned. Even if in these days, the disruption of the supply chain have been significantly mitigated. We suffer for it into the quarter. And this has affected the productivity and the product cost into the quarter. On top of it, we also face increase of the transportation cost.

Back on price, price in the quarter more than compensated the material and the booking product cost increase both in Food & Beverage and in Laundry. In quarter 4, the positive gap between price and material cost is expected to further improve, delivering what Alberto already anticipated a full coverage by year-end of the price with all the material [ph] bought (00:15:13) in product cost increase.

On the selling and administrative expenses in value, they increased year-over-year because also the add-on of Unified Brands, but the [ph] weight (00:15:25) on sales reduced below 22% compared to 24.6% of last year. The investment of the company continue, in particular, the investment on the digitalization of our product offer, as well as the digitalization of our process in the companies.

When it comes to the structure of our balance sheet, at the end of September, our operating working capital on sales was 15.6% on sales compared to 16% of September last year, slightly up compared to the level we reached in June. We continue to operate with, let me say, low utilization of operating working capital on sales.

When we compare the two quarters, I mean, the quarter of September this year to the quarter of September last year, we have a significant increase in operating working capital or roughly SEK1.1 billion. There are, let me say, four components behind it. Two, let me say, are not daily operational-related, meaning we have a significant impact from currency translation, SEK getting weaker against other currencies that contribute to roughly SEK100 million.

We have Unified Brands that are now part of Electrolux Professional perimeter, adding on another SEK400 million. The remaining SEK600 million comes from, let me call it, the remaining business part and two area to point it out. Receivable increase, yes, receivable increase because of sales increased significantly year-over-year organically.

What I'm happy to report is that, the quality of our receivables is and expect it to remain good. Inventory increased as well and the increase was part of a conscious decision to increase the safety stock for components, as well as to have higher stock of finished products to secure product availability.

On top of this, let me say, business decision clearly, as you may guess, the value of the stock increased also because of the higher material cost that is incorporated into it.

When it comes to our capital structure, our ratio, net debt on EBITDA is at 2.3x and value that is still well below our financial target of 2.5x. Clearly, net debt increased compared to the same quarter of last year. And let me say the main reason behind it is the spending, the cash out that we had with – for the acquisition of Unified Brands.

I have also to report that in the quarter, we have had a further pushed up of the net debt value because of IFRS 19 adjustment of the Swiss Pension Fund that we have. And this adjustment is roughly SEK256 million. It is an adjustment – is an accounting adjustment that has no impact on the financial net debt of the Group on the cash flow, as well as for the income of the Group.

I was mentioning earlier about the acquisition of Unified Brands back in December, we acquired a company, leveraging the cash available, as well as the utilization of the revolving credit facilities. As we announced in September, we have replaced the utilization of the credit facility with a term loan of EUR140 million, that has a pretty interest duration of 18 months with the possibility to extend two times additional six months and six months.

As per today, October 27, we have completely reimbursed the revolving credit facility. So we have in place the full extent of revolving credit facility that is EUR200 million. As you can see from the chart, we have a pretty sound financial adaptive duration. We have no covenant in place and we have a situation that allow us to enter 2023 with strong financial power and no maturity obligation for what [ph] concern (00:20:58) our loan.

Last comment on my side is on the cash flow, Alberto already mentioned, we have had a limited cash flow for the quarter and for the year-to-date. Despite the good EBITA performance, the operating working capital increase absorbed majority of the cash generated. My expectation is that, now that the supply chain is stabilizing. We are already started to review the safety stock requirement. This means that already in quarter 4, I expect a reduction of operating working capital, as well as a return to a solid cash flow generation already from quarter 4.

And with that, back to you, Alberto.

Alberto Zanata

President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB

Thank you, Fabio. Obviously, in the current situation, I think I mentioned that if the energy cost is not materially impacting our operations, this is impacting our customers' operation. And as a consequence, the sensibility about sustainable solutions product that are reducing the consumption of water, that has to be warmed up water, electricity, gas is growing. The concern about how to use these resources is growing both for environmental reasons, but even more for economical one.

I've already said that sustainability means to be economically conscious, environmental conscious, and socially conscious. And that is what we have been putting ahead of our development, keeping in mind every time we were developing and bringing to market a new product. This is clearly paying back.

And with this chart, we want to represent that in each and every product category family segment, we have been, during the last month here, introducing product that are significantly reducing the consumption of energy. Energy, in general, that means electricity or gas. This subject is on the table every time we talk and we meet with customers. And these are things that we can prove with fact in front of them when a discussion arise. There have been many tenders recently where the valuation about consumption of energy is becoming the most important element to select the winner of the deal.

Concluding and trying to summarize the big things during the quarter. A quarter where, I repeat, we had development of the revenue, development of the earnings and the development of the margin. As Fabio pointed out, in particular in terms of margin, in absolute terms – the earnings in absolute terms and the margin are back to pre-pandemic levels.

Organic sales are developing, mainly in Laundry and in North America with Unified Brands. Order intake, order stock, in particular, is still strong and is giving us confidence about the short-term development of the business. We have roughly three months of sales in-house and the order intake is still coming. But, obviously, there is uncertainty in front of us. We all read and listen to what is happening in the world. So there is uncertainty for what is going to happen in 2023.

I mentioned to you the result of the research of the survey about the out-of-home industry or the hospitality industry, that is the one where we operated. And the fact that it is still in a recovery phase is different from other industry because we didn't have a 2001 booming year. 2001 was still a year where we were far away from the 2019 level and we have been gradually catching up and that we are still catching up. In particular, in some segments that are recovering lately during the past month.

Due to this uncertainty, we already started preparing on different scenario. We have been working on scenario where the recovery is completed and the start of the historical normalized growth can continue. We have to work on [ph] stagnation (00:26:34) with zero development and, obviously, also a negative scenario where there is a possible recession. We did this when the pandemic hit this industry. We are doing this today. And obviously, the learning is – the approach that we have is that, it's better to be prepared for the worst and hope for the best than to be caught in unprepared in front of a negative event.

In any case, the final comments is that, if I use the analogy of 2009, so the financial crisis that hit the market, the industry, not only us in this case, but every industry, where we had a business decline of roughly 10%. I see that there are different conditions. Our company is different from the one that was hit by the recession on that time.

First, we have a recent experience, very recent experience that is the pandemic downturn. The massive downturn that pandemic determined that we have been able to manage relatively well that massive decline. It is more than double than what we experienced in 2009. With similar dynamic in the meaning that Food & Beverage with a negative or hardly hit by the decline than Laundry that proved to be more resilient.

The second point is that, we are better balanced geographically. What I mean is that, now the business in the Americas is over 34%, if I remember well. So significantly larger than what it was in 2009. And we all know that the North American market, in particular, is eventually faster in being hit by the recession, but it's also much, much faster in recovering.

The third element is that, we are better balanced, also from the customer segment point of view. During the financial crisis, commercial restaurant chains had great years because people didn't change the habit, so they continue to eat out-of-home but they scale it down, choosing to eat in, let's call, places where the menu was more competitive from the price point of view, and these are clearly the offer of the commercial restaurant chains.

Thanks to the acquisition of Unified Brands, but also thanks to the activities that we have been carrying along the year. We are much better balanced today compared to that time for what concern the sales to commercial restaurant chains.

The fourth element is that, we are much stronger than what we were in Laundry. Laundry business developed very well. We had some headaches during the second quarter. I would say, headaches that are [ph] hover (00:29:58). We are well set both from the industrial point of view and the commercial point of view, and the Laundry business is resilient. Also during the Financial Crisis when, as I said, the overall decline of the business was 10%, Laundry declined less than half than Food in that time we didn't have Beverage.

Last but not least, the fifth point that makes me confident that we are better prepared than before possible downturn of the business is that, we invested heavily in digitalizing our company. We invested recently in having a new organization that should provide agility and flexibility as a matter of focus and being closest to the business.

With this said, Jacob, I would pass to you and open for questions.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Thank you, Alberto. And operator, please go ahead for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Hagéus, Gustav of SEB.

Gustav Hagéus Q

Analyst, Skandinaviska Enskilda Banken AB

Thank you. This is Gustav Hageus with SEB. Few questions, if I may. Firstly on sort of geographical outlook. I appreciate you said that the US is thus far a bit stronger, which makes sense given, I guess, higher share of retail chain restaurants there. But I'm looking at bookings data recently from opentable.com and that sort of see some different development where US is actually the weakest now compared to 2019. Is that something that you feel, too, that see the demand while not restaurant demand for your product is starting to come down in US, or happy to hear your thoughts there.

Alberto Zanata A

President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB

Okay. I answer immediately to this question in this case. From the geographical point of view, what we see in this case, so I'm not referring to the research that was published last week, but what we see is that, the demand for our products in North America is still strong. We are – both Unified Brands and the other product lines are having a good development. You see also geographically in Q3 the number that we published earlier, the 34% – 32% growth that is organic. So, excluding Unified Brands, so this means significant development of the sales.

The other area that is still positive and we are expecting that it will be, I don't mean completely not impacted but for sure less impacted than any other is Asia. And the reason is because Asia was declining until spring this year. So Asia just started the recovery. Japan just started the recovery. Southeast Asia just opened the border for travelers. So that is just the beginning of the recovery curve and is expected to continue. We see this with projects and business, in general.

The only area where we see a softening of the business and this is mainly on the order intake more than in the pure net sales is Europe, because Europe was by far the strongest part of the business, in particular, the South European countries during the first two quarters and half, I would say.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB Q

Okay. And could you help walk us back a little, I appreciate you've already done a little bit, but walk us back to the post-Financial Crisis era for you? Obviously, weren't your own entity then, but looking at sort of divisional numbers for Electrolux.

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB A

Yes.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB Q

It seems like you shrank the business 5 years in a row. So could you walk us back sort of what happened? I know you divested something in 2010 and so forth. But what happened, did you lose market share at the time was that the industry declining?

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB A

Okay. 2009, we lost the 10% of sales, 11% was Food, 5% was Laundry. I believe in that time 2009, every industry and every region went down. Then in 2010, we had the re-bounce everywhere, including the European countries. It was an important year because there have been a lot of subsidies from – or not subsidies, sorry, incentives from the different government to have the business recovering.

And then, in 2010, we had a big difference compared to our competitors, meaning that from 2010, so 2011 onwards the US market continued the growth. It was a booming period for the American market, that one, while if you remember well, 2011, 2012 and partially 2013, they have been year of the crisis, economical crisis in Europe, in particular, in some countries in Europe where there was, I would say, a deep recession. So, that is the big difference between our situation and the situation of our competitor.

So if I look at globally, you surely will see that competitor grew more than us because they have been growing in North America, while we were based in Europe. That is the reason why I'm saying that compared to 2019 we have quite a different situation because the share of our business in North America is much larger than what it was in 2009, because the Laundry business is much stronger than what it was in 2009, because of the share of our business with the commercial restaurant chains that have been the ones suffering the least is much larger than in 2009.

During those years, the institutional business in Europe, that was, I would say, probably more than half of our business, largely half of our business was completely blocked because government didn't have the money to invest in staff canteen or in other things like that, companies, they didn't invest in staff canteen but invested eventually in machinery. That is the big difference by the way compared to the pandemic crisis, where in reality, a lot of investments have been done in hospitals, so in institutional facilities.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you. And then lastly, regarding those price increases that you now guide for from January, selective ones from January next year. How confident do you feel about net price increases given the macro environment and raw materials coming down and so forth? And do you believe this is something that will be followed by your industry peers or – that would be helpful.

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB

A

Yes. Okay. So, first, the surcharges that we applied since May this year are now consolidated because the surcharges were over at the end of October. So they will be consolidated into the price. And this is justified by the increase of energy, by the increase of transportational cost. Then we are planning another increase beginning of next year to face – to compensate the labor increase that we expect to have next year. It is not defined yet. It will not be on the same level of the increase that we have in 2022. It will be in the single-digit area. So it is what we are planning.

Competitor, they didn't announce – we didn't see announcement yet or here and there something, but I believe as it happened also in 2022, this is an industry that is reflecting in some way inflationary item transferring them to the price. Can the price increases stick, have the positive result that they are providing until now? This is also related or depend on the scenario that we will face in 2023.

It is obvious that in a recessionary scenario, in a scenario when the market will go down, then as it happened during the pandemic, eventually the price leverage is weaker. So, I would say that for the time being, considering the knowledge we have and considering how the things are going, we are sticking to our plan and we are confident that, as we did in 2022, we will successfully apply this price variation in the coming months.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you. That's very clear.

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB

A

Welcome.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

It's all my questions.

Operator: I'm sorry, Gustav, does that conclude your questions?

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Those are those, yes. Thanks.

Operator: Thank you. [Operator Instructions] The next question comes from Johan Eliason of Kepler Cheuvreux.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

This is Johan. Thank you for taking my questions. I also wanted to dwell into what's different today versus 2009, but I think you've done it quite well already. Just a follow-up on this labor inflation, is that geographically different from, I mean, the labor inflation you had was probably mainly driven by the US this year, where do you see it coming through now?

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

Yes, there are big differences from the geographical point of view. It is too early to comment about that. Again, if we read what is in the paper in the news we should expect an increase of the labor cost because it is connected to the inflation – to the growing inflation. I can tell you that we just started to meet also the unions in different countries, at least in the big ones when we have – where we have union negotiation, the one in Europe, Italy, France, Sweden, for instance, these are the big ones in Europe. It is very early to say something, honestly. As I said, we are preparing for an increase of the labor cost with an additional price increase beginning of 2023.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

And talking about Thailand and your new plant in Rayong, that's still yielding, it also in a potentially wage inflation scenario, the expected benefits?

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

Absolutely, yes. Thailand is – I was – finally, I have to say I was in Thailand in September, because remember that we built that factory and I just saw this from video that were posted by the colleague who were there.

Finally I was in September visiting the Thai operation. I have to say that I've been extremely impressed by what we have been able to complete in that location. We have a state-of-the-art facility that is producing Laundry products and Beverage products. It is a facility that has been built with the most modern technologies with a lot of automatization along the line despite the very low cost, labor cost. This is a facility that we can expand. So it is not limited as it is already now but also eventually also building additional parts because we have been good in buying additional lands around the building that we have.

But you want – the main thing that impressed me were the people. We had an amazing skill and passionate people. And he will do that. Thailand is like the Asian country, there is an inflation in the meaning that the wages are growing, but I would say that in this moment is probably the most – without probably is the most competitive facility that we have.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Excellent. And then on these price hikes, are you seeing competitors announcing similar ones or are going before or after what you've seen out there in the market?

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

You mean the price?

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Price, yes.

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

It is early. Again, I believe announcement about price are typically coming in the coming weeks. So I'm not expecting big differences, honestly. We saw some already introducing, mainly the American because the American are faster in doing these things and more aggressive, but I'm not expecting anything different than what has been done in the past and what we are planning to do.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Okay. And then finally you mentioned, for example, is Combi Oven, your production volumes are now 2x where they were before the summer. Do you see that you have sort of lost or gained market share because of the supply situation there or how has it played out?

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

I would say that it's hard to say that because also our competitor had a very long delivery time, in particularly during the spring and the main competitor, they had a super long delivery time for the oven.

Now, everybody is coming back to a reasonable time, still a longer than what it was pre-COVID, at least for us, but not dramatically longer. I think – and I mentioned this when I was giving comment to the inventory development that, obviously, it is not good to have an operating working capital that is affecting the cash generation in such a way, but on the other side finally, I believe, it's probably the first time since winter this year that we have what we call free stock.

Free stock means product that we have in stock. We have a selected number of products that we promise availability on hand, that means you place an order we ship the product to you. We finally have some products that are free. So we have been able to create the free stock.

Gradually, clearly, we want to have a good free stock because when you play in the replacement business, you need to have free stock because in the replacement business, not for every product, but if you talk about fridges, the small dishwashers, even the small oven sometimes if you don't have it available, then the customer is forced to go somewhere else.

So, I would say that in the past month, the situation was similar to the one of our competitors. In some cases, we have been proud to say that we were even better. Now, we are – I see a recovery or an improvement of the situation – general improvement of the situation.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Good. And then finally, I mean, maybe it's a little bit early. Obviously, your net debt is still high, but if there would be some acquisition opportunities arising next year in a potentially more cautious market, would you have the ability to do some acquisitions as well? And what areas are you still interested in such a case?

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

Okay. So – and then Fabio can correct me, but if we are going to run an acquisition of the same size of Unified Brands, we are still below the limit that we declared, and the meaning that we will be above the 2.5x. But we said that in case of acquisition, we can go higher than 2.5x. I'm not talking about 10x, so higher than 2.5x in a reasonable way with a limited time to go back again to the 2.5x.

And I believe we are in the condition today despite the, let's call, weak cash generation or weaker than what we were used to do cash generation during the past quarter. So the answer is that, an acquisition in that range is feasible. We have the financial tool. Fabio went through that. And I believe it was a clear explanation about the fact that we can do it.

If it happens to EBIT, we are still scouting the market. We started the day after closing the Unified Brands, it is not something that you can pose. You have to do continuously because you have to be ready the day the company becomes available. Priority are still the same. So still United States is on top of the list, United States and chains is on top of the list because it is true that we are much better balanced compared to the past.

I believe now after the three big companies that are in the United States, there is a handful of companies that are falling with a significant distance. We are among them today, but at the same time, the gap between this company and the big ones is large, so there is room both for consolidation and growth.

So, United States and chains first. Secondly, we always said that if there are companies that are giving us the possibility to further grow the high-margin businesses. So companies that are accretive or that are helping us to accelerate the reach of our target to be a 15% EBITA margin company, they are obviously very interesting for us.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Okay. Thank you very much.

Alberto Zanata
President, Chief Executive Officer and Acting President Business Area Food Europe, Electrolux Professional AB
A

Welcome.

Operator: Thank you. Ladies and gentlemen, that was the last question. I would now like to turn the conference to Broberg for closing remarks.

Jacob Broberg
Chief Communication & Investor Relations Officer, Electrolux Professional AB

Okay, thank you. Thank you for the questions. Thank you for today. So with that, actually, we close the conference call for this time and speak to you next time. Have a good day. Thank you and goodbye.