

31-Jan-2023

Electrolux Professional AB (EPRO.B.SE)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Alberto Zanata

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

OTHER PARTICIPANTS

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Karri Rinta

Analyst, Svenska Handelsbanken AB

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)

MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Good morning and welcome to the Q4 presentation of Electrolux Professional Group. As always, I have Alberto Zanata, the CEO; and Fabio Zarpellon, our CFO, with me. And my name is Jacob Broberg. I am Head of Investor Relations.

So, with that, I hand directly over to Alberto. Please go ahead.

Alberto Zanata

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

Thank you, Jacob. Morning to everybody. Straight to the result of the last quarter of 2022. During the fourth quarter of the year, the last quarter of last year, we continued to grow the business organically and, obviously, inorganically, thanks to the acquisition of Unified Brands, and improved our earning and margin.

In the quarter, we basically doubled the earning, moving from SEK 164 million to SEK 324 million, with a double-digit margin compared to roughly 7% of last year. This quarter completed a full-year recovery of the business where if I account to the full year, we went over the SEK 11 billion in sales that is the record results in term of sales, over SEK 1 billion in earnings, one of the highest ever, and back to double digit in margin.

If I look at the quarter, that is something that I can also recognize along the year, we continued to hold the price in the fourth quarter, fully compensating the Delta material, so the Delta cost on the material. We completed something that we announced since the beginning that of the Delta would have been negative in Q1, more or less

breakeven. So breakeven in the meaning with a zero gap in the second quarter and positive in the third and more positive in the fourth one.

That is exactly what happened at the end. If I look at the gain after the full year, the price fully compensated the Delta cost. The other highlight of the quarter is the operating cash flow. It is one of the area where we are not performing for several reason and also we can go also into the details and I'm sure Fabio will comment about that later on, is the operating cash flow.

Operating cash flow in the fourth quarter was very strong in some way as predicted and expected. It is normally very strong in the last quarter of the year. So in some way, no surprise about that. But thanks to this stronger cash flow, we have also been able to reduce significantly, reduce the ratio between net debt and EBITDA that moved from 2.3x to 1.5x at the end of the year.

If we move on with the development of the sales, I mentioned the fact that the growth continued, the organic growth did – the highlight of the quarter compared to others is that these more or less – the percentage of the growth or the growth came more or less from each and every region. So you see that the 14% in the United States, that is restated numbers, so considering three months of Unified Brands, so the full Unified Brands, so in order to have a comparable number showing the growth in the market is more or less the same that we had in Europe and in the Asia-Pac region. Asia-Pac region is still slightly behind in terms of growth to their other two regions because China is still that for us is the most important country in that region, is still behind but the signs of reopening are very stronger and very promising for us.

If we move on to the food and beverage, food and beverage organically increased close to 10%. Also in this case, the growth is quite similar in the different part of the world. Also in this case, when we talk about Americas, we are considering a restated number for the Unified Brands in order to have a comparable measure. You have to say that Unified Brands grew lot, 20%, roughly in the United States.

So, just in North America, so Unified Brands, we are very pleased about the performance of the acquired company. It is another highlight of the quarter, if you want, in addition to the price execution, because the company that we acquired in December 2021 performed very well, separation from the group was completed on time, integration completed on time, and in addition to all these things, we have been also able to deliver according to our target both in terms of growth and in terms of earnings. So, very good that also from this point of view. Profitability of the food and beverage segment also improved significantly because it's close to roughly four times what it was the previous year.

If we move to the Laundry segment, here we have in some way star performances, I would call it. We have been always talking about Laundry as a resilient business, highly profitable business. And it's proven that despite what happened in July, during the spring/summer last year, when we had in some way decrease of the performance due to the problem with the supply chain, we have been able to recover, recover very well, both in terms of growth and in terms of profitability. So, we are ending up a quarter with a margin that is above 18%. So, very positive, increasing both the earnings and the margin.

The other comment is that – and it is valid for Laundry, for Food, the order intake during the past weeks and months has been improving. We were commenting also after the Q3 that we would expect a significant decline of the order intake in December because of the comparison with 2021 when we received a lot of orders from customers, dealers and users that we are placing the order to avoid the price increase or because they wanted to book production being afraid of not receiving the product.

The reality is that the order intake was lower than what it was the year before, but it was a very healthy level. So it seems that the demand for our product continued both for laundry and for the beverage in all the region, including Asia-Pac and Middle East, so including the region that suffered the most the previous year. The only area with a relatively softening of the demand is still Europe. That's the reason why we are still, obviously, cautious in our planning for the coming weeks.

With that said, I would let Fabio comment on the financials.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody. As you heard from Alberto, we have delivered 10.7% EBITA in the quarter without the items affecting comparability, 9.4% for the full year, or over SEK 1.1 billion in EBITA value.

We need to go back to 2018, meaning pre-COVID but also pre-separation to find over SEK 1.1 billion EBITA delivered in a year. 2022 was also a year with, I will say, the highest historical performance in Laundry. We delivered close to SEK 630 million in EBITA with a margin at 16.7%. Also, in Food & Beverage, the margin for the full year was close to 10% and 9.5 percentage point.

You heard Alberto talking about Unified Brands, a successful acquisition. Unified Brands is part of Electrolux Professional Group since the December 1, 2021. And the performance of Unified Brands have been accretive to the group margin both in the quarter, it is last quarter, but also for the full year.

One final note when it comes to the group common cost, we have an increase in the quarter and this is related to project and advisory cost.

Going through the P&L, what we can observe is that the gross margin in the quarter declined roughly 1 point compared to last year. There is one item it is Unified Brands. As I said earlier, Unified Brands is accretive to the group in terms of EBITA margin, but generating a larger proportion of – compared to remaining operations of a business, which is we operate with Unified Brands with a lower gross margin but also a lower cost of sale. That is the reason behind the accretive performance of the Unified Brands.

Alberto, comment regarding price, price contribution was important in the quarter, we catch up the negative gap that we have between price and the raw material for the full year. Now, the gap is positive, so we have more than compensating the direct material cost increase, and additional low-single-digit price increase are already in place since the beginning of this year. The disruption in their supply chains have been somehow slightly down along the years but they are still somehow affect in the productivity of our plants.

When it comes to the SG&A development, we increased the SG&A in value. But I believe that what matters is that we reduce the ratio from over 26% we had last year, 26.6% to 22% this year. Such a reduction is coming from three main factors. First, last year, we had the one-off cost. If you remember, we reported a SEK 56 million onetime acquisition integration costs related to Unified Brands.

Unified Brands, as I mentioned earlier, is operating with lower cost to sale compared to the many parts of the business. But we have also seen a reduction over the SG&A weight on sales also on the traditional business and this is, I would say, a pretty remarkable results because we have been delivering this whilst continuing to invest in the digitalization of our product offer as well as the company processes.

We closed the year with an operating working capital loss of sales at 16.7%. I believe that during the previous call, we have been [ph] commenting (00:13:35) the disruption that we face on the supply chain and the need to take also conscious decision to increase the reorder point of our components, the safety stock for finished product in order to serve the customer. That was the main reason behind the development of the operating working capital ratio.

At the same time, I'm happy to report that with the improvement that we have seen in the supply chain, the action that we have been able to put in place to work on the safety stock, for example, in December, we reduced operating working capital value compared to September by over SEK 300 million and we are going to see the positive impact in the cash flow.

The second remarkable improvement we had in the quarter is related to the net debt. If you remember, before the acquisition of Unified Brands, we had no net debt. We generated net debt to buy the company. We reached a peak of the net debt on EBITDA at 2.3 times at the end of September. But thanks to the good performance in the quarter four, now, net debt are at SEK 2 billion and our ratio on net debt is an healthy ratio of 1.5 times.

We are operating with pretty solid balance sheet. As you see from the document, the company has SEK 1.1 billion in cash. We have a revolving credit facility of €200 million fully available. We have no covenant. We have no reimbursement obligation for 2023. So, we are, let me say, pretty equipped to support the business development of this group in 2023.

Last few words on the cash flow as Alberto anticipated, cash flow was pretty strong in the quarter over SEK 0.5 billion generated both from a solid EBITA performance, but also from a significant reduction of the working capital.

With the stabilization in the supply chain, with the action we put in place on the operating working capital management, not only on the inventory, but also even a more strict monitor on the receivable, I'm looking for the 2023 where I count that we are going to see a more normalized cash generation in-line with the historical performances.

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 and the few words about the some highlights of the coming quarters in the year. Last year, we celebrated a 120 years or the 120 anniversary of our Laundry business. This year, we are celebrating the 100th anniversary of our Molteni brand. The Molteni brand, it's surely not a larger part of our business. It is a niche product – a niche portion of our business in the Food & Beverage segment. But it is also something that is giving a lot of visibility.

We have to remember that a large portion of the Michelin star chefs use – want to have a Molteni in their kitchen. It is in some way we call it the dream for the lovers for the guys who are in this industry because it is the one used by the most famous chef and in the most famous schools.

So, the second highlight is something we announced during the Investor Day is the introduction of the Electrolux Professional Group brand. It is the way to some way endorse all the brands that are part of the family. It is part of the evolution of this company that through acquisition acquired the companies with the strong legacy brands that they have a long history in this industry and that we went to leverage to further develop our business in the different area.

In the picture, you see the example of the SPM, about the super important moment will be in some way tomorrow when the NAFEM Show in the United States opens, where we will introduce the Electrolux Professional Group brand to replace the Unified Brands that was the one putting together the strong brand that we have and we acquired in the United States, the Groen, Randell, Power Soak, CapKold. So, all important brands that now are, we show to the market, belonging to the Electrolux Professional Group.

Last but not least, we continue to repeat and this will be something that we will continue to repeat all along 2023 because we continue to be recognized as a leader in our industry for what concern sustainability. We also started and we submitted our target for the science-based target to start measuring our performance under scope three.

We already started the actions to significantly reduce the impact of our product for what concern the CO2 emission. It is important because more than 90% of the CO2 emissions are coming from the usage of our product. We have ambitious targets both with the existing product, but also with the new products that are in the pipeline and that are going to come to market during the coming years. It is something that makes me personally very proud, but makes whoever walks in a lateral professional very proud to know that we can contribute to a more sustainable world.

With this said, if I have to summarize the quarter and the year, I have to say that, again, the quarter confirm our performance along the year. We closed, as Fabio said, with record high sales in the full year with one of the highest in earnings, doubling the earnings in the quarter, and growing more than 50% all along the year. It is important also the earnings development because thanks to this one, we improved significantly the earnings per share. And this also means that it gave the possibility to the board to propose a dividend that is roughly 50% higher, dividend per share higher than what it was the last year.

The order intake during the quarter, but improvement started basically in September, so after the summer, improved month-by-month. Again, in December, it was not at the same level of last year for the reason that I explained also. But this is giving us quite a positive – yeah, we are quite confident about the coming quarters. This also means that we are not considering what is happening around the [ph] wave 1 (00:22:26) actions to reduce the discretionary spending still in place because we need to be cautious of what is happening around us.

As the highlight of the quarter and we already said repeating the price execution, this was important in 2022 to compensate or to fully compensate the Delta material, but in some way is giving us an edge in 2023 for the beginning of the year, because we have been executing an additional price increase January 1, not at the same level of the one we did at January 1, 2022, clearly. But an additional price increase, that is giving us to compensate also the other inflationary item that have been coming against us, specifically the increase of the labor, the transportation cost, the energy cost.

Unified Brands is now fully integrated. As you clearly understood, it is one of the things, in addition to the price execution, that makes us proud of the operational performance. Now, we are expecting the value that we can create through synergy, cost, and sales synergies in 2023. At least during the last Investor Day, we said that the first step would have been the integration of the IT system. In the United States last year, we were running the operation with three system, now they are already two, and we are planning to move that one IT system during the summer of this year.

We continue to be a leader in sustainability. For sure, other companies will move in the area. But at the same time, our plan are such that we believe we will continue to move ahead and to improve our performances in this area.

Concluding, I'm still optimistic on the future that is in front of us. The order intake is supporting this basically all over the geography. We see also China moving after the New Chinese Year. But at the same time, we continue to keep the different scenarios under control. We continue to look around us. We continue to have in place the [ph] wave 1 (00:25:02) actions, so actions to reduce the discretionary spending, to postpone whatever is postponable in order to face – to be prepared for what it could come particularly in Q1. That typically, it is the weakest quarter of the year because of the seasonality and because of the characteristic of the quarter.

I believe, with this said, I will let, Jacob, check with questions.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Thank you, Alberto and Fabio. And with that, we open up for questions. Operator, please go ahead.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Hagéus Gustav from SEB. Please go ahead.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you, operator. This is Gustav Hagéus with SEB. A few questions if I may. First would be going into 2023, the cost of delta you had in Q4 regarding price versus raw mats. Is there a reason to assume that H1 will be also positively impacted? Or are any of those price increases rolled back into 2023?

Alberto Zanata

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

A

We are talking about the delta between price and material that we expect to be positive in Q1 during the first half of 2023, right?

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Yes.

Alberto Zanata

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

A

Okay. So, yes, we expected that the price will continue to be there. So, as I said, we implemented another price increase January 1. With this new price increase, we are expecting to be able to compensate also the other inflationary item. I believe now we should not limit our analysis about the delta cost. The general delta cost increase just the material. Cost material is stabilizing. In some cases, it's slightly going down but less than expected I have to say. But we have all the other things, energy, labor, in particular, transportation costs that obviously they also increase in 2022 and they are expected to be there in 2023.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

So, is there still a reasonable assumption that the 3% to your top line will be the impact on price in 2023?

Alberto Zanata

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

A

It can be. Again, we didn't disclose the price increase. It will not be in the high single-digit as it was last year. It would be on the low single-digit as of 3% can be a guess. As usual, it is not – typically you don't have a flat price increase all across the geography and all across the product categories. The only time that we had something flat was when in May last year we implemented that surcharge. In that case, it was a flat because it was specific for the cost.

But now we are more, let me say, surgical going into the different geography and different product categories. But you can keep it as a reference if you want. It will be at low single-digit, the price increase. It was a low single digit the price increases that we had at January 1.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah. Okay. And regarding the order book momentum, which seems to be then strong in Laundry and sequentially improving [indiscernible] (00:29:10) level in Food & Beverage, do you see the same trends at the start of the New Year in terms of order book momentum...

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

...in this month?

Alberto Zanata

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

A

Yes, it is – the trend that we saw in November-December is continuing also into January with a stronger – in Laundry, is surely positive. Order intake, I have to say that is a positive order intake also in Food & Beverage, a little bit softening or softer in Europe, but it is a positive order intake.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

And finally, could you just remind us what a typical order book length is for you, is it like three months or something?

Alberto Zanata

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

A

The order stock, now is shorter. I believe last year I was talking about a healthy order stock because too long order stock was not so healthy, because this also means that, that we are having too longer lead time to our

customers. So we're bringing back to basically normality. But it is still longer than one and a half months as it was before COVID. So, we still are sitting on a good order stock or order book, as you call it.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you. Those were all my questions.

Alberto Zanata

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

A

Welcome.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

And then I have a follow-up question from the web, it's Stefan Stjernholm at Nordea, who asks about the net impact from raw material, transportation cost and general cost inflation. Is there a need for further price increases after the one implemented in January this year?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

I mean, I can answer this question. I mean, we have monitored the situation because we are operating in a pretty volatile environment, as you know. As it looks today, we are confident that with a price increase, we have put in place at January 1, we are in condition to cover not only the direct material development labor and any other inflationary cost increases like the energy. So we are, let me say, pretty positive in that respect, as you have seen in late 2021 and 2022. We are carefully monitor the situation and we are ready to take additional measure, meaning additional price increase if the inflationary situation is accelerating compared to what we foresee today.

Alberto Zanata

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

A

Sorry. To complete also Fabio's answer, in some way, if it is related to transportation cost, as you said, or energy cost, one thing that we didn't use up, we never use before that. But in May last year, we implemented the surcharges. And the result is that it worked very well because it was immediately impacting. It was effective. They want, let me say, without any delay. And it worked pretty well through the distribution chain. So we have the tools to eventually compensate big difference, even if we don't see them today.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

I have a few more questions from the web. It's [indiscernible] (00:33:03) asks why we are so cautious on outlook.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

We are cautious about outlook because in some way our industry is driven by investments. And the meaning of that, if I look at a particular Laundry, 50% of our Laundry business is a consumer-operated machine. So apartment house laundry, coin shops, that means that there are individuals that are or companies that are investing, and normally they are borrowing the money. The interest rates are increasing. So at least, this is making us cautious that demand is costing more.

The same apply for the investment in kitchens. You need to get the money to buy the equipment, in particular, the large installation to buy our equipment and then invest. That makes us cautious. And as a consequence, remaining are quite – trying to remain prepared to different scenario to the possible decrease of the demand.

Reality is that the order intake is still good. So this means that there are still customers, in particular, in Laundry, that are placing orders to get our product. So that is in some way the big things that is in front of us. We see order coming, but at the same time we see the economical environment around us with the same challenges that probably you face.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

Then one more question from web is from Henrik Christiansson at Carnegie. What is driving the increase in group common costs? Is it related to M&A or is it related to integration of Unified Brands? Some more details, please.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

First, it is not related to Unified Brands in the sense that the integration activity have been completed by the summer. And now Unified Brands is operating fully part of the group with additional onetime cost. At the same time, we are working on other initiative on different dimensions and these are the reason about the increase we have seen in the quarter in the group common cost. There are different projects on different dimensions.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

Thank you, Fabio. With that, operator, please go ahead if there are more questions from the phone.

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

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yes. Good morning. I hope you can hear me well. I had just a question on you discussed the [ph] awards (00:36:12), et cetera. Previously, we've discussed a little bit where the orders are versus the 2019 level. How do you see that today in sort of Food & Beverage and Laundry, respectively?

Alberto Zanata

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

A

They are on the pre-COVID level.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Already? Yeah.

Alberto Zanata

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

A

Yes.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. And then just financial net moved up quite a lot in the fourth quarter. You have a very strong cash flow coming in though but I suppose there's some sort of element of floating rates in those interest costs. How should we look at the interest costs into 2023? Should we expect this higher level that we saw in Q4 or how will this pan out?

Alberto Zanata

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

A

There are two ingredients in the development of financial net. There is one relate that is somehow, let me say, also in our control. That is the level of financial net debt. And as you are seeing from our balance sheet, we reduced net debt. But we have also reduced the financial net debt. And let me say, I expect in 2023 to come back to a more normalized historical cash flow generation. So, we will be in condition to accelerate the reimbursement of our loans. So, we will reduce the base.

The second ingredient is about the interest rate in it. I mean, for what we see at the moment, there could be some increase that are going to affect the finance net cost. But let me say in a normalized circumstances, I expect that the benefit from the debt reduction will over compensate the potential increase on the financial cost of the interest rate going forward.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Excellent. Many thanks.

Alberto Zanata

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

A

You're welcome.

Operator: The next question comes from Rinta Karri from Handelsbanken. Please go ahead.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Yes. Thank you. Thank you for taking my question. Firstly, about the organic growth on a full-year basis, it was 16%, 17% for both divisions. Can you give us an idea of how much of that was volume for Food & Beverage and for Laundry. That's my first question.

Alberto Zanata

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

A

Okay. So, for what concern volumes – okay. So, for laundry, we have been growing the volumes compared to the previous year for laundry, we have been growing volumes compared to the previous year and also compared to the pre-COVID level. So, volume means units.

For Beverage, we are not yet on the pre-COVID level. So, the volume growth was not as strong as in Laundry in 2022, and it is still behind the pre-COVID level, not in every product category. We had some product category, for instance, Combi Ovens, where volume grew in 2022 versus 2021 and they are already above the pre-COVID level. It is a product category in itself that is growing more than others.

There are other product category like for us one core categories, the cooking, the horizontal cooking where we are not yet developing. It's more related to the project business, and as a consequence, it didn't develop as much as the other. If we look at the Beverage category, they are all still behind the numbers. They improved in 2023, but they are still behind the numbers.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Right. Thanks. And just a quick follow-up is just you mentioned that Combi Ovens had a good sales momentum, so – but you ended up with roughly the same organic growth for both Laundry and Food & Beverage. Is it because you had higher price increases in Food & Beverage, or because you had, I would say, favorable sales mix development in Food & Beverage?

Alberto Zanata

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

A

Let's say that in Food & Beverage, there is a little bit – a difference between Food & Beverage and Laundry and the meaning of that. In Food & Beverage, we have been able to have the price increase much earlier than Laundry. In some way, this was a comment after the second quarter of this year when we said that Food & Beverage was already compensating the Delta cost material.

On that time, we were focusing on closing the gap, let me say while Laundry was not. This also because in Food & Beverage we have been faster than in Laundry to implement, to execute the price increase, not because we were [ph] lazing (00:41:56) one business compared to the other, but because the dynamic of the industries are different, in the meaning that in Laundry, in particular, we have many contract with the public institutions, with a large distributor in the United States that queue a lot by the way. It has to be noticed. This one gaining market share versus competitor in 2022. But at the same time, with this big partner or customers, obviously, the execution of the price increase is slower and it took longer. So, the component of price increase that was lowering Laundry compared to Food & Beverage.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Okay. That's very helpful. Then just to follow up on previous question about the finance costs. So, should we expect that in the coming quarters, the sort of the net number will be similar to what we saw in Q4? Or how should we model finance cost in the coming quarters?

Alberto Zanata

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

A

Looking at the development in particular into quarter one, I believe that the quarter one may look like pretty similar to quarter four 2022.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Okay. And then, if you managed to be leveraged, then maybe the finance costs will be lower after that?

Alberto Zanata

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

A

As I mentioned to you, we expect a normalized cash flow development in 2023 in line with historical. And this will bring definitely strong benefit in reduction of the net debt and then financial net debt. Within this picture, we know that quarter one, we expect to have a solid cash flow. But if you look into the historical performance, the cash flow in quarter one is never the stronger within the year. So, I'm taking this prudent approach when I give you some potential trend in the finance net in the quarter one.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

And finally, you mentioned – when asked about why you're cautious but that Q1 tends to be – and now we talk about order intake tends to be a weaker quarter, so can you give us any flavor on what you have seen, so far, in January? Or is January always such a slow month, so it's very difficult to extrapolate from the early weeks of the quarter?

Alberto Zanata

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

A

So, you are asking a general comment about the January month? So, the characteristic of the month, right?

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Yes. That's correct.

Alberto Zanata

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

A

Okay. Yes. January is the shorter first because of, let me say, the Christmas break where both of the factories typically reduce production, but also many of our customer are clearly off. So, it is a short month in terms of working days, so first.

Secondly, it is clearly a low seasonality in the meaning that many customers have been ordering or getting the product before the Christmas break. But it is also the month where all our customer, distributor or end user are preparing for the springtime. The big months are from March onwards. The order intake in January was positive. I think I already said it, we have been – we are reporting a positive trend in the order intake, both in Laundry and in Food & Beverage.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Well, thank you. Those were my questions.

Alberto Zanata

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

A

Welcome.

Operator: [Operator Instructions] The next question comes from Lindbo Hanna from DNB. Please go ahead.

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)

Q

Yeah. Hi. Thanks for having me. I was wondering if you could give some more color on the supply chain issue, like if you could say maybe how much it impacted EBITA during the quarter and if you have seen that is eased during the first quarter, and when do you expect it to fully normalize?

Alberto Zanata

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

A

Okay. So, the supply chain in Q4 in this case, as you mention, was impactful for the US business more than the other normalize in Laundry and Food & Beverage, particularly the European and Asian factories. Why was still a challenge for our operation in the United States?

The United States, it was mainly October, November, then in December, we have been able to recover quite a lot. We did exactly the same things that we did for Laundry during the spring. So, pre-producing, and then completing the product, obviously not the same quantity of product, the same amount of product, they're much smaller, and that was the case or the reason why we have been able to recover already during the month of December these delays.

Currently, it is not normalized yet, but we do not have any situation now to put, as in an emergency case, in an emergency status. This is the reason why also we started to reduce the safety stock, not at the same level that we had obviously before the supply chain crisis, if you want to call it. We still have a larger than before component stock in our factories, but we are gradually going back in general on the component, also on the electronic component that are being the most critical.

Now we feel that we are better prepared than what we were before to possible other critical situation, because all the critical components now, they have a double suppliers that in some case, we didn't have it in different part of the world. In case there's something happened, obviously on one side, as it did for the Chinese supplier for Laundry. So, the situation is surely better, but it is not normalized yet. Here and there, there are still cases that are in this case producing an efficiency but not jeopardizing production from our factories.

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)

Q

Okay. Thanks. That's clear. Then I had one question on Food & Beverage Europe. I think you might have touched upon it, but would you say that the demand in Q4 is stable and if you like demand is softening or do you have [indiscernible] (00:49:50) have softening and if you could say how like the start of the year [indiscernible] (00:49:57) soften?

Alberto Zanata

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

A

Food & beverage, in some ways, the area where...

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)

Q

In Europe.

Alberto Zanata

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

A

...in Europe is the area where we saw a softening of the demand. We have also to say that, in particular, Beverage in this case is very seasonal. So, typically, the last quarter of the year is the weakest quarter of the full

year in Beverage. Also because our Beverage, for a majority of our major products are frozen or cold beverages. So, they are typically the product for the summer.

This is, again, one of the other reason why we are cautious, in the meaning that, we see that our customer in some way are postponing some decisions, looking at what is coming. And this is one of the reasons to be cautious in addition to the one that I mentioned earlier. At the same time, if I look at the statistic about tourism or people travelling, they are not showing any decline. And as a consequence, we are confident that the trend could even change during the coming months.

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)

Q

Okay. Thank you. That's all for me.

Alberto Zanata

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

A

Welcome.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

We have two more questions from the web. The first one is from [indiscernible] (00:51:27). Do you see 2022 as a step to reach your medium-term EBITA margin? Do you see 2023 better margins from better laundry performance and synergies from Unified Brands without any organic sales growth?

Alberto Zanata

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

A

So, first to answer to the first question, yes. The answer is yes. It is a step in the right direction. Earnings improved significantly. We grew organically. We grew also inorganically. And the inorganic acquisitions, so Unified Brands, was well integrated into the existing group. So, the group went above SEK 11 billion in sales as I reported beginning record sales with over SEK 1.1 billion in earnings and back to the double digits. So, it is a step in the right direction to grow the business in a profitable way, not just growing it.

This result has been achieved despite the extraordinary impact of the increase of raw material, despite the fact that we went through the closure of the operation in Russia, despite the fact that obviously part of the organization will also focus on the integration of Unified Brands, despite all the supply chain issues, that means missing components and missing whatever that you can imagine created a lot of inefficiency inside of the operation. It has not been acquired here, if you want to call it from the operational point of view.

So if this is what's happening in 2022, we believe that 2023, there are all the ingredients to continue in this profitable development. Uncertainty still in front of us. So, again, we don't know yet what is happening to the energy cost. We know that there is inflation, inflationary items that are growing the labor cost. We don't see the cost of the material going down significantly. But at the same time, for instance, we have already quite significant price increases that are covering our back.

We have a lot of things, a lot of actions that are in place in 2023. We are expecting a clearly that Unified Brands will create value in terms of cost, but also and probably at least from my point of view, even more significantly from the business point of view. And the meaning of that, there are many opportunity to grow sales, working together with chains or even with distribution.

Laundry is doing very well and during 2023, we will also start to have the first benefits and payback both in terms of cost and business development from the investment that we have been doing on digitalizing the company. During the first half and second half, we will launch our connected solution, the OnE Connected that we presented also during the Investor Day. It is something unique. It is something great. I'm very happy and passionate about that. But we are also complete – not completing because it will be a continuous evolution, but continuously implementing the OnE platform that is on the other side, the tool that is connecting dealer, service agent, customers to us, digitalizing the process. So, there are many things that could help us to continue in our profitable growth path.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

Thank you. The final question comes from [ph] Anna Carlson at Alecta (00:55:42). Can you elaborate on the China sales down in Q4 year-on-year but trending sequentially strong? To the better or what?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

The China sales.

Alberto Zanata

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

A

I get it. China sales, they've been terrible in 2022, and meaning that the factory was constantly closed, I would say. And the people were locked at home, so our customer didn't work. It was the big gap in the Asia-Pac regions. We see now with the reopening of China, a restart of traveling, at least internally.

I believe a lot will be seen during the coming weeks because they are back from the Chinese New Year last Monday. So, they just restarted. Before that, the level of [indiscernible] (00:56:49) also in our factory, you can use this one as an index if you want, it was very high. So, it was still not a healthy situation. But for what we can see and we have good plan for that is that China should be the change maker, let me say, in our Asia-Pac region performances.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Thank you, Alberto. And with that, we finalize this Q4 call. Thank you for today and speak to you next time. Goodbye.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.