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Electrolux Professional AB (EPRO.B.SE)

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MANAGEMENT DISCUSSION SECTION

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

Good morning and welcome to Electrolux Professional Q2 Presentation. My name is Jacob Broberg, I am Head of Investor Relations. With me today are Alberto Zanata, President and CEO of Electrolux Professional and Fabio Zarpellon as CFO. And I'll start with handing over to Alberto. Please go ahead, Alberto.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob. Good morning to everybody. Going straight to the quarter results, we had a challenging quarter with the sales dropping 40% and with challenging quarter that we closed breakeven and with a positive cash flow thanks to basically three major areas of our activities. The first line is the swift actions on the cost that we took in Q2 with the SEK 200 million of saving in the quarter.

The second is that we captured the opportunity offered by the recovery in June with a strong development considering the situation during the month. The third one is the Laundry business, the resilient Laundry business that have been performing again in relative term, well, along the entire quarter.

Before I enter in the detail, let me say that our people reacted quickly and showed a lot of commitment and dedication, passion and I'm particularly proud for this. The crisis that we are living is presenting that unprecedent challenges. And the way we reacted shows that we can stand stronger also in the future. Now all our operations are up and running. The supply chain is up and running. We are managing all the operation in the office in a way to guarantee the health and safety of our people.

How we're developing the quarter geographically? Let's start from a geographical perspective. As you see also in the map, not every region perform in the same way. We have the Asian or part of the Asian region, China, Japan, Korea, that are the country that had been affected early the year that declined less in Q2 than any other region. On the opposite, we have the North America region that had a deep decline in Q2 being late in the spread of the virus.

Also, Europe had the different dynamics with the Nordic Central, North European countries declining less than the Mediterranean in general. But there are also region and countries where we even performed better than last year. I like to mention Turkey that is in the Mediterranean area but where we performed better than last year in the quarter in the months, capturing the opportunity in the healthcare segment where we deliver large projects for both food – kitchen and laundry installation.

Also, in Germany, with the rental business that we acquire when we acquired Schneidereit a year ago. Also, that business had been growing all around the quarter.

And in some country like France, Sweden, and Switzerland, in the month of June, we have been performing better than what we did last year. So, it's a very scattered picture this one that is confirming also the uncertainty that is present in the market these days.

Looking at the sales, so, we said that sales were down roughly 40%. Food & Beverage, deeply affected than Laundry, 48% down Food & Beverage, 22% Laundry. With an improvement, a clear improvement of the trend after two months like April and May where we are roughly 50% down compared to the same period of last year in June where we close 20% down.

So far, July, in July, we can see that the gap versus the same month of last year is in line, the decline is in line with the one we expected in June.

Looking at the two segment, the Food & Beverage, as we said was the most affected. And also here geographically we can see that the decline was pretty deep in Europe and United States but less in Asia, Middle East and Africa that as I showed earlier are the region that had been affected at least the Asian one earlier in the year.

We have also to consider that in particular this is referring to the US performance that we are still comparing the result of the performance of this year versus last year not only the difference is due to the spread of the virus, but we have also to consider that last year we had a large rollout. It was the tail of the large rollout that we had in Q1 [ph] or better Q4 (00:06:52), Q1 and partially Q2 2019. Also here in June, also for Food & Beverage, we reported a recovery of the business and a recovery of the business that gave us the possibility in the month to deliver positive EBITA.

A few words about Beverage. Beverage is the part that is more affected inside of this segment. And that is related to the fact that Beverage has a higher seasonality than the Food and the Laundry businesses. It's related to the characteristic of the product, the kind of customer that are using this product. And the high seasonality in terms of production and delivery of the beverage product is between February and May typically. So, those were the month where the lockdown didn't give us the possibility to deliver to the customer, to get to the customers. We have to say that also Beverage in June showed sign of recovery.

If we look at Laundry, I define it as steady, resilient business. And we can see that the decline in Laundry was much less than [indiscernible] (00:08:37) was around 10% in Europe with some region, I mentioned Sweden but the Nordic and the Central Europe basically unchanged compared to 2019. The decline was particularly significant in North America. And here, we have to say that the reason is one, clearly related to the spread of the virus in that part of the world, but is also related to the fact that as I mentioned earlier, we have been building stock to make sure that we are able to serve the customers as we did by the way in June and we are doing in July with prompt delivery.

And in the case of United States, we have been building the stock during the months of February and March. And so now, our distributor is using that stock. So in that combination of market condition but also the fact that we are destocking in the United States.

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

Fabio Zarpellon

Chairman-Supervisory Board-Electrolux Professional AG; Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody. As you heard from Alberto, sales declined 40% in the quarter, but [indiscernible] (00:10:14) cost measure allow us to deliver a breakeven in term of EBITA. And I believe that this is somehow confirming our historical capabilities to promptly react to adverse market conditions. While reading through the P&L, we reported a declining gross margin, and this is mainly because of lower sales and production volumes. Whilst happy to report that the price increase in direct material cost reduction have a positive contributed [ph] also in this quarter (00:10:57).

Selling expenses declined over 30% year-over-year. While the administrative expenses were up, as expected due to the additional cost to operate as a stand-alone corporation. We added a new function that we received as a service from Electrolux Group before [ph] like tax, EYAR (00:11:27), legal, and so on. And we add additional cost in IT to operate as a stand-alone corporation.

To be also added for comparability two things, UNIC, the espresso coffee machine we bought last year, was not yet reporting in term of P&L in the second quarter; and also for comparability reasons last year in June, we had a large positive one-off for roughly SEK 90 million related to the pension scheme transaction in Sweden.

As Alberto anticipated, the strong action on costs generated approximately SEK 200 million saving in the quarter. This SEK 200 million compensated more than one-third of reduced margin due to volumes. We find this saving both in the landed cost and through the SG&A.

To give you some more flavor on this saving, we have roughly SEK 20 million that we consider absolutely structural, and these are generated from the restructuring plan that we launched in September 2019, last year. Happy to report that the execution now is completed, and we expect that the benefit of this plan will fully compensate as planned the merging costs from separation already in quarter three.

Additional SEK 50 million are coming in from government subsidies mainly, but not limited to, three major countries: Italy, Sweden and France. The remaining part is coming mainly from two area. First, reduction of R&D and marketing spending. I have to say for comparability that in the second quarter of last year, we had this some like peak of spend in this because we finalized two major projects. One in food, the launch of the new SkyLine Ovens and one laundry that was the launch of the new generation 6000.

But I'm also happy to report that in this context, we have been able anyway to bring forward few selected project of innovation as well as introducing the market, new solution to meet new customer requirement that Alberto will elaborate in a while.

The second bucket comes from reduction of cost related to people via previous year solely the consumption, stop of overtime, hiring freeze, and so on.

Operating working capital was down 9% year-over-over the same currency. Account receivable significantly decreased in the quarter compared to last year and compared also to March and some other licensees. And this was somehow anticipated because we face a further request of prolongation, the payment term especially in the South European countries. When doing this, and this is a decision that we take case-by-case, our focus has been the ones that when granting longer payment term to secure the protection of this receivable.

Inventory overall was slightly up compared to June 2019 due to, I would say, two main factor. One that is coming from the market because we have received along the quarter particularly in April and May request of customers to postpone the delivery due to the fact that their operations were not up and running and the infrastructure are not yet ready but also our conscious decision to secure good product availability for replacement sales. Having said so, I'm also proud, let me say, very proud to report that the financial position of the group remain very solid through this difficult time.

Net debt value is unchanged compared to December and somehow even lower than March this year. After June 30, we have more than SEK 800 million of liquid bond. And still available revolving credit facility unutilized for SEK 168 million. Definitely, with this picture, we had a pretty low leverage company with a ratio of net debt on EBITDA of 1.3.

Cash flow, as Alberto said, we delivered in the quarter a positive cash flow of SEK 31 million. CapEx in the quarter was SEK 43 million, somehow higher than last year, but the majority of the debt close to SEK 30 million is related to the project that we anticipated during the previous related to the construction in production site in Thailand, where we are going to merge our two operation, one in Laundry and one for Beverage, create a state-of-the-art plan. This investment is proceeding according to plan and it is expected to be completed in quarter one next year.

Overall, once this project is completed, I expect that the ratio of CapEx on sales will go back to the historical level of roughly 2% on sales.

Overall, also in this area, I believe that this is confirming our financial capacity to invest also in difficult market condition on key strategic initiative while continuing to generate cash and keep a strong balance sheet.

And with that, back to you Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio.

And connected to what you just said about investments, because despite the savings that we've been delivering along the quarter, we continue to invest, to invest in building the new factory that will give a surely competitive advantage starting from Q1, Q2 next year, but also on products. And during the past weeks, we introduced in the market new solutions that we continue to develop despite the need to take down the cost. We continue to develop addressing the rising needs of our customer such as hygiene, sanitization, remote monitoring of the appliances.

We'll be introducing a new line of dishwashers, warewashing, hygiene&clean that are able to guarantee higher level of sanitization of the cutlery, of all the stuff that are used into the kitchens. We introduced what we call Serenity cabinet, cabinet that can be used in shops, in retail malls, whatever, to sanitize the clothing after having used. You know what the regulation that are imposed in the shopping activities to make sure that if you try a dress, a shirt, whatever, then it has to be sanitized.

And last but not least, we also work hardly to speed up the digitalization of our offer. In many cases, they've been suffering the need to serve our appliances without the possibility to enter the site. And that is the reason why during the past month, we developed the so-called, Two Pair of Eyes (sic) [Two Pairs of Eyes], where we have been able to serve our appliances from remote.

And talking about customer care or what we call serving our appliances, I want to make a special note about this one because from the past experience, we always saw that during the crisis, the drop of the demand of the market, normally customer care was performing better. So, customer were trying to keep going with the product, repairing them, maintaining them. This crisis was different, which had unprecedent challenges because reality is that our technicians were not allowed to enter the site. So, we suffered even more on the customer care side during the past months.

While June was recovering not only for the sales of the product, but was a recovery also for our customer care business because we've been free to go with the lift of the different lockdown. And with this product and the existing one clearly is – here is how we see the coming months, even if the uncertainty is pretty high. We said clearly that the opening in the countries is having a positive effect on our customers, some more than other; in some geography, more than others. The order stock that we have is still good and it is related to the fact that, yes, the site reopened, the lockdown were lift. But in some case, there is a delay of what was supposed to be installed last quarter that is going along the year.

The other good thing is that the order that we have in-house that we confirm we are not experiencing order cancellations. As we kind of mentioned the other time that we had some order cancellation beginning of the crisis, but not now. So, as I said, so far, July is trending like June. But the uncertainty is still high and that is the reason why we really started to transform some of the temporary cost reduction activity into structural cost reductions.

We really started in the US in the industrial operation and we have an ambition to define a plan during the Q3 for a total amount of roughly SEK 100 million, SEK 150 million. We don't know it yet, but we are clearly reviewing the plan also because most probably it will imply one-off cost that we will communicate later.

With this said, I would say that, again, thanks to the commitment and the dedication of our people because the quarter breakeven despite the large drop of sales, focusing on the cost reduction, capturing every possible opportunity offered by the market mainly in June, when the market reopened, and clearly, at least, the first weeks of July. But we also started to work to prepare this company to the uncertain situation that are in front of us, starting to define a plan that has the ambition to transform temporary cost reduction in structural saving that will be defined in the coming quarter.

With this said, Jacob, back to you for the Q&A.

Jacob Broberg

Senior Vice President-Investor Relations & Corporate Communication, Electrolux Professional AB

Thank you, Alberto, and thank you Fabio. With that, we open up for questions and I leave the mic back to the operator. Please go ahead, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. Our first question comes from Mattias Holmberg from DnB Markets. Please go ahead. Your line is now open.

Mattias Holmberg
Analyst, DnB NOR Markets

Q

Hello, everyone. Thanks for taking my questions. When you say that you saw sales decline in July being in line with June and that you interpret this development as a sign of recovery, I'm just curious why is not the year-on-year decline in July smaller compared to June. This, to me at least, sounds more like a stabilization rather than a recovery.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

The stabilization of the market, I can imagine, or the demand [indiscernible] (00:26:28). The point is that right now, you see that by geography, there are pretty big differences not only in the month of July and August and they are, I would call it, a special month in the meaning that some countries, in Europe at least, they are closing because of the vacation period, at the Nordic mainly during the July, and the South European and Mediterranean during the month of August.

So, [indiscernible] (00:27:00) of the demand also related to this effect in addition to the different speed of opening of the different region. Then we have also to say that what is increasing the uncertainty are the events that are showing some region of the world that are going back into the lockdown or at least partial lockdown. So, we see that the market is recovering, but is really remaining on the level of June, at least [indiscernible] (00:27:35) versus last year. Until now, July is on the same level of June.

Mattias Holmberg
Analyst, DnB NOR Markets

Q

Perfect. Also, to the structural savings that you intend to implement during H2, which is combined with already implemented activities should generate yearly savings of SEK 100 million to SEK 150 million. I'm a bit confused to what these earlier measures include. Is this including the SEK 100 million cost reduction program [ph] lost (00:28:07) in September last year or how should I think about what pieces goes into this sum?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. I'll let Fabio.

Fabio Zarpellon
Chairman-Supervisory Board-Electrolux Professional AG; Chief Financial Officer, Electrolux Professional AB

A

Okay. First of all, we have actually two initiative. The first one that we launched September last year, that was supposed to generate over SEK 100 million saving on yearly base, is the ones that I reported early on that we completed the execution and already in quarter three this year is expected to fully compensate the merging cost from separation.

On top of it and not to mention that we are evaluating additional initiative to reduce the running cost of this group for additional SEK 100 million to SEK 150 million. Part of this initiative have already been – part of this additional initiative are already being executed, in particular in the second part of – in the second quarter of this year through reorganization of our operation in United States and additional cost reduction into the operational area.

So, the sum of the ones already implement in these two area, North America and Industrial Operation, plus the ones that we are evaluating, we are aiming overall as a package to deliver SEK 100 million to SEK 150 million yearly saving.

Mattias Holmberg
Analyst, DnB NOR Markets

Q

That's clear. A final one for me if I may. You mentioned some delayed deliveries. Would you like at all to comment on approximately what part or how big share of sales have slipped from the first half into the second half due to these delayed deliveries?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Let's say that in this moment, the order stock that we have is a healthy order stock that is even higher than what we had in the same period of last year. And this is related to the fact that a good portion of these orders, the order that we were supposed to deliver during the month of the lockdown, they've been moved to the Q3 or Q4 because some of them are not only related to just the installation of the product but some were project where the refurbishment or the rebuilding of the space were done.

So, we don't disclose the exact quantity of that one, but it is a stock that is healthy or the stock that is healthy. And the good thing is that the order, they have not been canceled.

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

A

Okay.

Mattias Holmberg
Analyst, DnB NOR Markets

Q

Thank you so much.

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

A

Okay. Jacob over here in Stockholm. I have a question from the Web from Stefan Stjernholm at Nordea. Three questions actually. Provision for customer losses in Q2, if they have been taken, and also risk in the coming quarter for additional provisions. Order backlog and cancellation, I think Alberto just spoke about, but I mean, how it differs today compared to the Q1 report. And also, the new cost saving program, SEK 100 million to SEK 150 million, are you prepared to say how much of that was realized in Q2? Those are the questions.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. I believe Fabio can answer about the provision and the cost. I can comment again at the order stock even if I already did it. Part of the order stock we had at the end of March was delivered during the quarter, but it didn't change significantly, I would say, because in particular, during the month of June, we started also again to collect new offers.

Fabio Zarpellon
Chairman-Supervisory Board-Electrolux Professional AG; Chief Financial Officer, Electrolux Professional AB
A

Okay. Coming back to the two remaining questions. First of all, yes, we increase the provision on accounts receivable in quarter two. Overall, it is, I would consider not a material amount, but what I can secure is that we have had a deep review of our risk situation taking all the accounting provision that we have necessarily. In particular, on the customer side, and this is from, let me say, for our reporting perspective. From a customer perspective, when requested, we review case-by-case the new payment term, securing that, at least we were protecting or we were keeping the same level of protection that we had before.

Let me also remind the comment that I was making also during quarter one report that is, that I will say that more than 50% of our business is somehow all related to government or state customers. Alberto was mentioning [indiscernible] (00:33:58), for example, to institutions. But also within this large portion, we have a large use of credit insurance. So I will say that at least as it looks today, I'm pretty confident that that the reserve we put in the balance sheet are well-representing the risk we have.

Just to add also some more colors, at least so far we have had few limited bankruptcy from our customer side but this had not any material impact I would say on the P&L of the company.

Then the second question is, how much of the SEK 100 million and SEK 150 million of ambition in term of cost of reduction did we have into quarter two? I will say still a limited portion because as anticipated, the actions that we implemented in United States and industrial operation were being executed during quarter two. So I expected that we will start to see the benefit of this action from this quarter, meaning quarter three.

Jacob Broberg
Senior Vice President-Investor Relations & Corporate Communication, Electrolux Professional AB
A

Thank you. Operator?

Operator: Thank you. [Operator Instructions] Our next question comes from Gustav Sandström from SEB. Please go ahead. Your line is open.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB
Q

Thank you, operator. Good morning, guys. Thank you for taking my questions. I have a few if I may. Firstly, on the cost savings in Q2, you broke it down but if we could perhaps elaborate a little bit. Firstly, did you – I didn't quite hear if you said SEK 15 million or SEK 50 million from governmental subsidies, so if you could clarify that, that would be helpful.

And then secondly, on the remaining parts, to what extent do you think these savings will carry into Q3 and longer or if they were solely related to Q2?

Fabio Zarpellon
Chairman-Supervisory Board-Electrolux Professional AG; Chief Financial Officer, Electrolux Professional AB
A

Okay. So [ph] out of this (00:36:24) bucket of SEK 200 million cost saving in the quarter, SEK 20 million are structural cost reduction that are coming from restructuring plan we launched in September last year. The plant is completed and I expect full saving from this quarter, meaning quarter three.

The second piece roughly SEK 50 million, 5-0, is the contribution we had from government subsidies. And we had three major countries that by the way is also the one where we have the large manufacturing operation in Italy, Sweden and France. The remaining part comes from two main area: R&D and marketing post the reduction compared to last year where we had as I mentioned earlier at peak related to the launch of the new ovens and the new generation of washer.

And the remaining part is coming to overall reduction of personnel costs that we put in place, hiring freeze, not replacing the people. We stop overtime, we release temporary people, and we consume the previous year holidays. And this one has had a clear effect to sum up to the SEK 200 million that we reported in the quarter.

When it comes to what is happening about this cost saving in the quarter three, I will say that the part are related to the SEK 20 million are structural will continue, and it will become somehow eating larger because full action will be in place.

The SEK 50 million about the government subsidies is difficult to predict the amount. But at least I expect at least that according to the legislation we still have some benefit. I cannot judge and I will not speculate on it. But we will continue to leverage all possibilities that we have according to the legislation in the different countries. In fact, what remain cost back as we did proactively already at the end of quarter one. And we extensively applied in quarter two. We will continue to manage the discretionary spending in marketing, in R&D and for the labor costs in order to preserve our P&L.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you. That's very clear. And sorry for coming back to the order stock, but perhaps one more question, and interesting to hear, you say you have hadn't had any real cancellations, but if you could quantify perhaps how much of your June and July sales relate to orders that had been taken in Q1 or earlier, and perhaps to what extent you have gotten new orders this year?

Fabio Zarpellon
Chairman-Supervisory Board-Electrolux Professional AG; Chief Financial Officer, Electrolux Professional AB

A

Okay. Let's say that in particular June, I would say, it has been a month where we have been using part of this order stock. Now the exact percentage, I don't have it here but we have been using the order stock, yes, also because the order that coming, and this is something that we would have expected clearly, are mainly for replacement business. And meaning that we are expecting that with the reopening of many size but the uncertainty that is in the market and in the needs just in general, our customer will be more inclined to replace part of their operation, either in laundry or in the kitchen. And as a consequence, the product availability is strategically important and this is the reason why we've built the inventory.

So part of this is that one but in June, we delivered a good portion of the order stock. But as I said, if I compare March and the order stock we had at the end of March and the end of June, we've been able to rebuild, let me say, part of this order stock within the order so the difference is not be in particular on the food laundry side I would say. The beverage have been depleting more the order stock than in the other two.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB

Q

Great. Thanks. And lastly, perhaps coming back a little bit to your saying that you decreased R&D spend to protect your earnings, two of your main competitors launched sort of compact and very versatile tilting pans during Q2. I guess your assortment here relates to the thermaline but mainly focusing a little bit larger volume. So do you see this product category – they seem to have high hopes for it to partly subsidize other parts of the kitchen, but do you expect also to get into this niche category or do you feel good about your assortment here?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Sorry, you are talking about the dish category or the pressure braising pan category?

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB

Q

I'm talking about the [indiscernible] (00:42:37).

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Both of them.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB

Q

Sorry?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Sorry. Your question is – you said that competitor launched a product in the – I understand that the pressure category or something like that. And we have our therma offer on that matter. But you were talking also about the dish category or did I get you...

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB

Q

No. Sorry. No, I didn't mean the dish category.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

I'm sorry. I'm sorry. Yes. I know what you are referring to obviously because we saw the launch of the product of our competitors. We have to say that in particular on the combi side during the first part of this year, so also in Q2, we completed the launch of our new range of combi steamer and the blast chiller.

So we launched not only the oven but we launched also the blast chiller that is completely in the offer because now I would say it's not that every combi oven, but a good portion of the combi oven, majority of the combi oven is sold together with a blast chiller. And now, we have a very competitive product. Compactor came out with some news, but we still believe that our product is highly competitive with several unique selling proposition.

The other product you mentioned was the pressure pans. We also have an offer targeting medium, large installations. It's still a very competitive product on that one. And by the way, we are working also because it is on the line not only of the pressure braising pan, but in the complete thermaline we call it because it is in some way the high end part of our offer that we consider making a difference in the market.

So, also a comment about the cut in R&D that you said, Fabio has mentioned that one, but we have also to say that it is a comparison between this year and last year where we had a pretty high peak because exactly in Q2 last year we completed a large project in Laundry and in Food, the combi oven that I mentioned, the blast chiller, but the so-called LINE 6000 in Laundry, that are giving us a lot of positive results despite the decline of the market, and we completed exactly in that period of the year, both for both marketing introduction and R&D activities. So it is a comparison on, I would say, little bit skewed because of the timing.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB

Q

All right. Thank you.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Operator: Thank you. Our next question comes from Karri Rinta from Handelsbanken. Please go ahead. Your line is now open.

Karri Rinta
Analyst, Svenska Handelsbanken AB

Q

Yes. Thank you. Thank you very much. Karri Rinta, Handelsbanken. Firstly, about the destocking that you mentioned in Laundry. Can you in any ways quantify how much of the organic sales decline seen in Q2 was due to the destocking impact and do you expect this to continue in Q3? That's my first question.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. First, what happened at that – when the spread of the virus – we had the spread of the virus in China. So we are talking about already January, and there was the risk to have problem with the supply chains. The distributor, and together with the distributor, we also work to build up stock in the United States, both for the products that we are producing at our factory in Sweden. And the risk there was the components, but also the product coming from the factory we have in Thailand where we produce the dryers and some washers specifically developed for the market.

So we have been building this stock in that time considering that at that time, United States was not so much affected by the spread of the virus. So, the combination of the stocks that we have been building and obviously, it takes time to get the product to the United States, and the spread of the virus in the United States basically forced many location to the lockdown left our distributor with a significant stock. We had a talk with that one in the level of the stock and the investment they did and I have to thank them honestly for what they are currently doing is unprecedented. These are stocks that they started to deplete, and we are expecting that already from August, we should restart filling the product for United States.

Karri Rinta
Analyst, Svenska Handelsbanken AB
Q

Okay, thanks. That's helpful. Then, again, on the order stock, you mentioned that order stock at the end of June was up year-on-year. And then, you also mentioned that you have depleted the Beverage order stock quite a bit during the quarter. So, then my question is – and that to me sounds like the Beverage order stock probably is down on a year-on-year basis. So, can you comment on the categories where you actually see higher order stock year-on-year?

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

Okay. So, you're perfectly right the comment about Beverage. You have also to consider that in the order stock that we had in March – Beverage of the stock that we had in March last year, there was still the tail of the Subway orders. So, you're talking about the big orders not only – I think I mentioned that the Beverage is highly affected by seasonality. So, this means that typically you build an order stock already in February. And then, you deliver February, March, April, May, and partially June. Think that we didn't clearly had a possibility to do about that. Comment about that, the few order cancellation that we got at the beginning of the crisis were mainly affecting the Beverage business exactly for this reason because of (the lost) seasonality.

So, that is the most affected business even if in June also Beverages showed a recovery in term of collecting new order that were coming in. In thermal category, I would say that the Laundry business is surely the healthy one. But I would say no surprise about the fact it is a resilient business. Whatever was planned to be installed during Q2 something that we started to install in June. If the site was not traded yet because of construction also has been delayed, I would say that it is postponed to July or later on. But the plan is one of the area where we experienced basically no order constellation.

Karri Rinta
Analyst, Svenska Handelsbanken AB
Q

All right, thanks. And then finally the replacement business that you mentioned, can you remind us of what is the typical split of replacement versus new projects both for Food & Beverage as well as for Laundry?

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

Yes. I would say that is – it's typically the same. Normally you have roughly 60% replacement and 40% new project in Europe and in North America. Also in Japan, if you want that area, while you have a way around basically in the other part of the world. So, if we talk about Middle East and Africa, Southeast Asia, Latin America, it's more project – so, new project, new installations and then replacement.

In this period, I would say since the sites – the countries reopened and then lifted the lockdown, we are expecting – and again, I base this one on the experience we had during the past crisis that the replacement could get up to 70% to 80%; instead of being close to 50% to 60%.

Karri Rinta
Analyst, Svenska Handelsbanken AB
Q

All right. Thank you very much.

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

Welcome.

Operator: Thank you. Our next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead. Your line is now open.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Yeah. Hi. This is Johan. Thanks for taking my question. Just coming back to this point about replacement share. Is that typically higher margin than the projects?

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

I would say, majority of our sales, as you well know, they go through dealer and distributors. So, in some way, I would say the margin is not different. Obviously, the margin is different category from category, in the meaning that that – or not all the product that they are delivering the same margin.

But again, going through dealer, the business, I would say, the margin is not the same. If you want to say the cost to sell is different in a meaning that the cost to sell the product, the entire cost to sell the product going through projects, installation and so on is typically higher than – in the project business than in the replacement business, but also the competitiveness. So, this means the discount you do to the end user is clearly different between a project and the replacement one.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Okay. Good. Then just on your Food & Beverage exposure, we are starting to get early channel check from, for example, the US restaurant market where it looks like the fast-food single-serve type of restaurant is recovering rapidly, showing some positive growth in June actually while the full-service restaurants are still seeing run rates 30% down year-over-year in June.

Now, what is your exposure to sort of this fast-food chains like Subway and what are you doing to increase that exposure near term? Is there any particular activities? I know it's a growth area for you but are you accelerating anything to get into this chain in a bigger scale? Thank you.

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

Absolutely. So, what you are reporting is exactly what we are experiencing. Fast food chains or the quick service restaurant segment is recovering faster than the casual dining segment. You know that change is – to develop change in North America but not only is one of our strategic priority. So, we are working both from the organization point of view.

So this means how to approach the chains, how to get to chains, how to get testing the chains, get our product with the chains, but also from the product point of view, so bringing to market product that are specifically addressing the needs of the chains.

So, it is a strategic priority we are focusing. What we are experiencing these days is that many test that we had ongoing with the chains in North America and Asia in particular, that were put on hold I would say since February. They've been very early in reacting to these crisis. Many of these tests restarted, and when I mean tests, the tests in their labs but also the market test where they are installing the product in the field.

So, obviously we cannot comment on which kind of test but I tell you that in terms of product, they are using beverage product in many cases. And that is very good. They are using the SpeeDelight, our product that is reducing the cooking time of toasting and the sandwiches and the other things. They are the [indiscernible] (00:56:25), the one that we have been delivering to Subway is under test in other place. So, we have developed solution together with some chains to have the remote monitoring of these appliances that these are needed that they are looking for in order to guarantee the control but also higher level of hygiene.

So, many products that have been unlocked let me say during the past weeks. And we clearly see that they are planning and they are delivering a faster recovery than others.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

And can you share roughly your overall exposure to them?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

We don't share that one but again we know that considering our presence in North America. That is the reason why we have development of the chain business as a strategic priority. The reason why we acquired a company like Grindmaster that had legacy relation now with chains that we want to leverage it to speed up the growth.

Let me say we are relatively new in that segment compared to others but at the same time, we are bringing product within our – this solution that clearly appealing to the change as well as the global presence. So, it is a strategic priority. We are focusing, we've got some success not only last year but also this year in the US. We have been at Chick-Fil-A or Chipotle. They are both chains that we acquired beginning of the year. We've put on hold the rollout because of the COVID spread and we restarted right now. These are example. We are clearly looking for many others.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Good. We are seeing some companies restarting M&A activity where they have good balance sheets, et cetera. And you have a fairly solid balance sheet. So what's your view on M&A? Is there an opportunity for you caused by this pandemic or will you wait and see what happens?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Also, M&A is an area where we are – we always said that we've been using M&A during the past year to accelerate the growth, and we will use – we will continue to use banks also, the balance sheet as you rightly said, the M&A and accelerate our growth.

Clearly, during the past months, it was pretty useless to continue to – we cultivated the relation absolutely, yes. But we have also to say that in this moment what we face is that the valuation of the companies is in some way the big challenge in the meaning that clearly with what happened during the past quarters, the turnover, the margin of the company went down. But at the same time, the value of the companies considered in particularly when we talk about privately-owned company is considered the same before the crisis, and this is creating some challenges.

But I think it's the right time to restart all the relations that in some way we put on hold during the past three, four months because opportunity can arise. The dialogue will be challenging. At least this is what we feel it will happen, but it is in our agenda.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden) Q

Okay. Thank you very much.

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

Welcome.

Operator: Thank you. The last question comes from Gustav Sandström from SEB. Please go ahead. Your line is open.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB Q

Thank you so much for taking my follow-up. I'm just curious about the cost savings related to US. You did some restructuring there, if I'm misinformed, a few quarters ago when you consolidated your two facilities into the one in Kentucky. So, is this – does this still relate to that or does it relate to personnel reductions or – and so forth? And the second part of that question is if you're happy with that setup being situated in Kentucky, was there a longer-term plan where you might also look to perhaps move the front-end of your business outside of Kentucky to a more central location? Thanks.

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

Okay. First, yes, it is part of the consolidation of the operations and part is related to activities that we took after the consolidation to reorganize the staff in the operations that we have in Kentucky and in Louisville. For the time being, we are happy with the situation we have in Louisville where we have our factory. We have now all our operations in term of administration, service, customer support, sales.

So, logistically, it's a good place to be, particularly, I repeat we have our manufacturing facility over there. And in our business it's good to combine the two things. So, that is the place where we are. And we do not have other plans. For sure, we have a plan that now that we are together to review how we are set in Louisville in the meaning that we want to have what we call center of excellence. So, the place where we host people and we do the demonstration that are strategically important for our business that we had in Charlotte. And now we are evaluating how to do it also in the new place.

Gustav Sandström
Analyst, Skandinaviska Enskilda Banken AB Q

Great. Thank you.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

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

A

I have one final question or basically a few final questions from the Web from [ph] Peter Testa (01:02:46). The first one is you can give us a view on the different performance of Food & Beverage and Laundry in June and particularly July within a 20% down. I mean if there is a difference in the performance between the segments. Do we have a view on the reorder pattern from our distributors into Q3? And has there been any discussions on price? Those are the three final questions for today.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Three questions in this case.

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

A

Yes. Yes.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

So, okay. Performance in June, recover of the Food and partially Beverage was stronger than Laundry, no surprise I would say, also, because the drop of the sales of Food & Beverage in April and May was much deeper in Laundry. We always said that Laundry is a resilient business in the meaning that the up and down, or the curve, let me say, of the development of sales is much smoother compared to the Food & Beverage business. So, in June, the recovery of the business in Food & Beverage was higher than what it was in Laundry.

The second part was related to the pattern of the reorder, or the – the reorder from our distributor in the United States. As I said, I mean, with this company, we have a relation that go back more than 60 years. They are really working and they are collaborating with us also on the development of the product. It is an open relations where they are weekly discussing the planning of the factory. And that what we see is that it should be after the middle of August that we should restart to refill the stock that is in the United States.

The third part is about price. Fabio was talking about price in the meaning that we have been holding price along the quarter. We have to say that we are experiencing pressure on price, in particular for the new orders because competition is looking for volume. But for the time being, we are holding the price pretty well.

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

Thank you, Alberto, and thank you, Fabio. I think with that, we say thank you for today and speak to you next time. Thank you and goodbye.