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Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Senior Vice President-Investor Relations & Communications, Electrolux Professional AB

Good morning, and welcome to Electrolux Professional Q1 Presentation. My name is Jacob Broberg, Head of Investor Relations. With me today are Fabio Zarpellon, our CFO; and Alberto Zanata, our CEO.

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

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob, and good morning to everybody. Q1 ended with [ph] a quiet mix (00:00:31) in trend and the meaning about safe decline, and with sales also the profitability in the quarter was below last year. But in some way, Q1 had the two different trend along the quarter. The first part, and when I mean first part, I mean January-February and the first – the couple of weeks of the month of March, were more or less in line with the trend that we experienced in – during the last quarter of 2020. So, with many countries into lockdown, a relatively negative mood inside of the industry.

During the last part of the month of March, we have to say also, comparing our performance with the performance of the industry with an already weakening industry in 2020, but during the last part of March, we had a completely different trend with basically all businesses in a positive improvement in every region. This is both for what concern the next phase and even more important, the incoming order. Despite this trend during the second part of March, we have to say that profitability declined and we faced decline, double-digit, and a profitability decline clearly because of the missing volumes, and also because [ph] in the March (00:02:17) we had some negative currency headwinds in addition to the [ph] competition (00:02:23) of spending for the factory in Rayong.

If we move to the geography, [ph] the drag that we experienced (00:02:31) in the geography, we see that what we experienced in Q4 is still there also during the first quarter of 2021. So, the [ph] ASPAC (00:02:43) the Asia-Pacific region is more or less on the same level of Q1 last year, with China, Australia, New Zealand, Singapore continuing the recovery and in the growth of the business, while still the Southeast Asian countries, that are the one that are still locking the borders, that are still countries where most of the businesses is generated by international tourists and international travelers that are not in these days, allowed to enter [ph] declining (00:03:24).

If we want to look at the different dynamics [ph] in charge of (00:03:32) the other countries, so Europe still – South European countries are suffering more than the Nordic one. In general, still Food & Beverage declining throughout all the countries, while Laundry, for instance, in Europe, growing somewhat.

The big difference that we noticed in Q1 2021 is recognized in the Americas, where, while Latin America is – basically there is no business these days, we recognized the growth of the Food & Beverage business in the United States. United States, in some way, is head of the European countries for what concern vaccination, for what concern reopening of the business, and this is clearly seeing that with the restart of the [indiscernible] (00:04:30) also for what concern our industry. That was very good and it was an [ph] antigrowth (00:04:38) obviously for us United States, this Food & Beverage business is relatively small business compared to the rest, but it was very positive.

The Laundry business in United States, I believe, is following the trend of the Food & Beverage, but for us, the comparison was tough because last year, during the first quarter of the year and in particular in March, we have been building the stock to face the pandemic, the challenge of the pandemic during the remaining part of the year. With this said, I would not specifically the two – the analysis of the two segments starting from Food & Beverage.

Food & Beverage, as I already anticipated, the business, Food & Beverage is suffering more than the Laundry. So, this is confirmed also during the quarter, the first quarter, but the good things is that during the month of March, comparing with the [ph] month of the closure (00:05:42), really partially impacted by the pandemic last year, but the sales increased versus last year. This is the first time after more than 12 months. So, it is a positive sign, even if we have always have to look at that one, more in relation to the previous month than to last year.

April and May will be better. Last year, they were terrible months, so the comparison with last year will obviously be positive, but it's even more important to look at how the trend has evolved when compared with previous month. And I have to say that in March, as well as during the first part of April, sales increased and in particular, [ph] the (00:06:27) order intake increased. This is valid throughout all the countries, Europe including. We have to say that during the month of March also, profitability [ph] data (00:06:40) declined clearly in the quarter due to the low volume, but in the month of March, was positive for Food & Beverage.

If we move to Laundry, so to the other segment, Laundry is confirming that it is a resilient business, declining, and in particular, declining because of – compared to last year, because of a compared – the comparison with America – so with the United States. Remember that last year, we built a large stock during the quarter, in particular, in March. So, the comparison is challenging for that one. Other than that, our largest market in Europe, was somewhat positive compared to the previous year. But what is important in Laundry, we have to underline that the margin is in the double-digit despite the negative effect of our currency, and we have also a cost of manufacturing that we have been [indiscernible] (00:07:47) in Rayong.

So, Laundry continued to be – it should be [indiscernible] (00:07:51) March positive during the coming quarter. We do not have any more the comparison or the effect of the building stock in the United States, which is the positive, profitable part of the business at the end.

Having said so, I would let Fabio comment the financials. Thank you, Fabio.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

Thank you, Alberto, and good morning to everybody. As anticipated by Alberto, the EBITDA margin in the quarter was 6.2%. We have been observing in the quarter [ph] at the summer (00:08:33) along 2020, different dynamics between the two segments. Laundry confirmed very solid profitability, double-digit profitability, despite somehow lower sales and one-time cost, as Alberto mentioned, related to buildup of the new Thai factory. If we exclude this one-time cost in the currency, the transaction impact to the profitability of Laundry percentage wise was even better that quarter-one last year.

The situation in Food & Beverage is somehow different. As you have seen, we have low-single-digit profitability because of the large sales decline. In the Group common cost, there is substantially no change in term of cost year-over-year.

When we look at the Group overall, the reduction of EBITDA value margin was driven mainly by two factors: Lower sales and production volume; and negative [ph] constant (00:09:41) currency. Contribution from price was positive, in particular, in Laundry and Beverage, and we did continue in quarter-one, the cost containment action, that overall mitigated significant the impact on volume compensating close to 40% of the negative impact from the volumes.

When reading through the P&L, what we can see is that gross margin decline over three percentage point year-over-year, [ph] means the tractor were (00:10:21) as I mentioned earlier, the negative volumes development and the currency. Productivity and logistic cost somehow negatively impact the margin as well.

When it comes to the development of raw material, I have to say that despite what is happening these days in the market, raw material did not impact the profit and loss of the group, but there are risk that if the situation stays as it is, we may face negative impact, I would say, starting more on quarter-three of this year, considering that we have a pretty good coverage for the first two quarters.

When it comes to the selling, administrative expenses, as overall cost, we declined year-over-year, whilst the weight of sales administration expenses on net sales somehow increased due to [ph] the risked use of sales (00:11:37) in the quarter.

Now, let me give you also an update for what concern the structural cost-reduction initiative. As you know, in the last 18 months, we have launched two restructuring plans. The first one in September 2019 to compensate the increasing cost as a listed company, that was expected to deliver a full impact from quarter-three next year. A full-year impact of SEK 100 million. The second restructuring we launched September last year, that is expected to provide yearly saving of SEK 110 million already from the quarter-two of this year. I'm reporting now that the execution of 2019 plan is now completed and the [ph] one from (00:12:45) 2020 is absolutely on schedule. As you see from this chart, the two restructuring plan did provide SEK 100 million saving in 2020, fully compensating the merging cost that we had as a listed company. And looking into the future, in particular in 2021, additional SEK 100 million of cost reduction – of structural cost reduction are expected from these two restructuring plan.

Now, few words about the cost in quarter-one. Overall, the cost of reduction reported both in gross profit and SG&A was around SEK 60 million, or roughly 6% reduction of our cost base. Around SEK 30 million of EBITDA are structural cost reduction, coming from the structuring plans I mentioned earlier. We had no material cost variation in term of standalone listed company and the remaining SEK 30 million are what we call short-term saving. This amount of SEK 30 million includes both roughly SEK 15 million additional government subsidies. We enjoy, this quarter, roughly SEK 20 million government subsidies contribution, we had more or less SEK 5 million quarter-one last year and roughly SEK 10 million of one-time cost related to the factory in Thailand.

Market demand is improving. Alberto mentioned about order intake, that is improving. We will – we are monitor carefully the situation development and we will still continue to be somehow discipline in term of cost management, also in the most [indiscernible] (00:15:10) in order to secure that together with sales recovery we have also a profitability recover [indiscernible] (00:15:18) when we will look into the development of posting quarter two, I would expect increase of cost in the second quarter of this year compared to the second quarter of last year and this because we had a pretty low comparable last year when we reduced the activities [indiscernible] (00:15:39).

Operating working capital, a few words here I would say, pretty positive development also here. At the end of March operating working capital in absolute term was down close to 20% compared to last year, the same currency. Operating working capital as a percentage of sales increased to 19.4% compared to the peak we reached in September last year that was over 20% – 22%. And this improvement comes from reduced receivable in comparison to sales as well as longer payment term with supplier. We are working also on the inventory and if we take the picture at the end of March of this year compared with the same period of last year, same currency, inventory is down 13% as well.

Our overall financial position remain pretty solid. Net debt at the end of March were SEK 546 million in line with the level of December and let me say half of the level we had in March 2020. Meaning that we have been able during the last fourth quarter, despite a difficult market condition, to generate good cash flow and repay half of the capital that we had.

Overall, situation in term of liquidity of the group, it is confirmed that solid, we have cash for SEK 630 million and the revolving credit facility that is now of SEK 175 million in term of availability. Credit facility that is overall of €200 million and that in the first quarter of this year we took also the decision to prolong by an additional year up to 2026.

Last word on the development of the cash flow. Cash flow in the quarter was SEK 23 million compared to roughly SEK 16 million we delivered in quarter one last year. We have been able to deliver this cash flow despite an [ph] EBITDA (00:18:38) that was significantly behind last year. And this was achieved, thanks to reduce – increase in term of working capital as well as reduce capital expenditure.

When it comes to – particular to the capital expenditure SEK 34 million was spent in the quarter with majority of it close to – around SEK 20 million related to the buildup of the new production facility in Thailand; production facility construction that is expected to be completed overall in term of spending in the second quarter of this year. Once this initiative will be over as we anticipate in the previous calls, I expect that the CapEx of this group compared to sales will go back to more the historical level, around 2% on the sales.

When it comes to the cash flow and the monitor of the situation [indiscernible] (00:19:52) of the group, I would add a last comment that we are strictly monitor the development of the financial capabilities and capacity of our customer and our supplier because we want to continue to preserve the solidity and the quality of the balance sheet also going forward as well as the reliability of our supplier base after a long period of business slowdown.

And with that turn back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. Thanks a lot. And let me spend a couple of words on the things that we are bringing to market that we brought during Q1 and we will – also help us to develop and to capture the regrowth of the business. In Q1 we started the production of – we completed, let me say, the Line 6000 washer and dryer range. This is a very successful line of washer and dryer that gave us the possibility to perform well in 2020. With this [ph] completion (00:21:02) we are increasing the features for what concern the connectivity, the digitalization of the appliances that is far ahead in the Laundry, you remember that our target is that by next year we will have more than 90% of the Laundry product that would be connectable, a large portion is also connected, we have to say, particularly in the United States where we have this large coin shops that is performing, I would say, very well.

The second product that we have been launching is the line of the frozen beverage dispenser. This is good for the season, good for the recovery. We have also to say that during the month of March we finally saw a change of the trend at least in this part of the business, and for sure new product are helping in this recovery. And this is a product besides giving more quality of the drinks that are served is also ensuring the higher hygiene and safety. This is the idea to add the UV lamps for the sanitization of these appliances. It is something that came up during the innovation challenge last year when during the pandemic we involve all our people to generate innovative idea, and I'm very proud to say that our people came up with a lot of good innovative solutions that now we are bringing to market to become a unique selling proposition.

In addition to this one, we have to say that – Fabio already mentioned and I did so – during the month of March [indiscernible] (00:22:40) old factory – the old Laundry factory, all the Laundry lines are inside of the new factory in Rayong, and during the month of April we started to move also the beverage lines into the new factory, and we are going to complete this move by the middle of May. So we will be ready the 1st of June to do the official opening of this new factory. We will not be able to do this in-person because of the travel restriction that are in place. For sure, we will connect with our team and we are very proud of that, they've been able to complete SEK 220 million investment that that is, if not the largest, one of the largest investments that we did, on time and respecting the cost despite all the challenges that the pandemic pose to us. So very happy for that because this is an important investment not only because we have been able to concentrate two factory into one but also this is – could become a house of many new product that we are going to distribute globally.

On the positive side, I want also to spend a couple of words on the trade show. For the first time after roughly a year I would say, there have been two physical events in our industry, one in China, one in Dubai where we attended and customer came and visited our booth as well obviously the others. In these events we took also the opportunity [indiscernible] (00:24:17) in March – we took also the opportunity to introduce the new ovens and also the SkyLine ovens that we launched just two years ago but is already in the second release, most of the innovation are related to building connected features. All the investment, I believe, will be in this area and not only our investments but investments in this industry to provide customer with connected solution for the product but even more for the entire kitchen or Laundry operations.

[indiscernible] (00:24:55) at the right time now to give us the possibility to be even stronger during the recovery.

With this said, that I would like in some way to summarize the Q1 in few words. Sales improved in March, and this improvement continues now in April. Also, the order intake was relatively good in March. When I mean relatively I mean improving compared to previous month clip, still obviously lower to the level that we had in 2019.

The other positive sign is that the order intake was higher than the net sales. So this means that we restarted to build the order stock. Majority of the order stock is in relatively short term in the – meaning that we see the market – the market that is recovering means mainly the replacement, and so operators that are reopening during this month and they are looking for [ph] simple (00:26:01) product to replace products that are down – broke down or that are completing already existing installation. There have been some project but not as much as everybody used to see. This

With this kind of trend, so both for [indiscernible] (00:26:21) sales order intake and older stock apply to Food & Beverage and Laundry. I have to say that – and it is normal I would say. The recovery is faster and it is expected to be – or better, higher in the Food & Beverage market because it was the business that was suffering the most. During April and May and partially June, the Food & Beverage business was markedly down, less than half of the business was away.

With recovery in China [indiscernible] (00:26:54) we see the sign of recovery [indiscernible] (00:26:56) most of the geography even if we clearly see that United States is faster than the European market to recover, while Asian country, Oceania are confirming the positive trend [indiscernible] (00:27:13) during the last quarter over last year.

On the costs side, structural costs are coming in place and that is good. At the same time – and I believe Fabio was pretty clear with that chart – all the temporary cost or majority of the temporary cost that gave us the possibility to maintain a profitable level last year are fading away clearly with reopening of the activities we will also reduce the number of government subsidies obviously and at the same time also the working time reduction of this kind of activities, traveling or other things will – discussed – will restart already in Q2.

We are continuing to invent. I was talking about the product. I'm talking about the factory. During the Q2 we will complete the move of the beverage line in the factory in Thailand. We will not only [indiscernible] (00:28:24) the first one was in the French factory. We will have the second one in the beverage Italian factory. We will continue to add connected features to our product, in particular the SkyLine and we will continue to with also other product to market in addition to the one that I just mentioned.

This is what is going to happen. And before closing I also want to take that opportunity to inform you that since we have been listed a year ago March 23, 2020, we didn't have the possibility to travel to visit, and to meet with you all and with the financial community in general. And this is the reason why we are thinking to organize the Capital Market Day in September in Ljungby, that is the place where we have our Laundry factory, I believe is the correct place where we can see and we can give to whoever want to join us in that place an important idea of what the Laundry business is, why the Laundry business has been resilient – so much resilient during this very challenging past year, but also why we believe that we are leading the market through innovation and through the solution that we offering to our customers.

With this said, thanks a lot and, yeah, we are back to possible questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Lucie Collier (sic) [Lucie Carrier] (00:30:17) of Morgan Stanley. Please go ahead.

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

Q

Good morning, gentlemen, and thanks for taking my question. I have three question and I will go one at a time. The first one I wanted to come back to the comments you've made on March, and the fact that March was growing in Food & Beverage, you said that the trend was still quite positive in April, but I was hoping you can maybe help us understand the sequential trend between April and March, whether you were seeing an acceleration or whether the year-on-year acceleration was maybe more due to the [indiscernible] (00:30:55) just for us to be able to calibrate maybe a little bit better the magnitude of the recovery?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. So, thanks for asking. At first, I'm talking about comparing to the previous months, so more than comparing to last year, where you rightly said the percentages are becoming big in these days, because if I look at the net sales in April compared to last year, we can be, in some way, yeah, let me say, we can be misled considering that the business last year was really low during the month of April and May. I was talking mainly compared to the previous month, so compared to the beginning of March, January, and February; we see likely increase of the net sales and even more an increase of the order intake. So the order that we are receiving that is what is going to come in the following month. So that is the sign of recovery that I'm seeing, I'm not only comparing that to last year because it would be a little bit misleading, I believe.

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

Q

Thank you very much for that color. I was hoping maybe you could also give a little bit more – I think you did but the sound was very good, so apologies if it's a reiteration but I was hoping you could maybe give us some indication of the nature of the recovery you are seeing. So is it equipment, is it maintenance where you are seeing an acceleration, is it kind of upgrading existing setting. And also, do you see that across all of your markets in Food & Beverage or is it focused maybe on some specific part of the market or some product type as well maybe?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. So first, what we call Customer Care that is the maintenance – what you described as maintenance that in March declined lesser than the sales of product, and that is a very good sign because until now we have Customer Care declining more than the sales of the product because our customers didn't allow us to enter the site, their operations were closed. Also this one you can consider a sign of [indiscernible] (00:33:21) recovery because this also means that many customers started to prepare to restart up their kitchen or their laundry operations. So, Customer Care in particular in March recovered, still not on the level of 2019 but we saw sign of recovery for this one.

For what concern the product, I said clearly Food & Beverage are recovering more than Laundry but that is not because of the differences because Food & Beverage had sharp decline during the past month and the past [indiscernible] (00:34:01).

I don't see major differences among the different categories. Clearly where we see – we have new product, SkyLine ovens and Blast Chiller, and the Line 6000 in Laundry, this new frozen beverage product – yes, we have something more to say to our customer, something more to say in the market and this is making it easier to have something to say – an opportunity to talk to a customer.

There is one area that is suffering more than any other – still suffering quite heavily, it is the area of the coffee, but this is more related to the fact that we are [ph] unbalanced (00:34:49) towards France in particular in a specific roaster that is operating in France. So, it is our customer that is really suffering, and as a consequence our business is significantly down. It's the only one where the sign of recovery are much weaker than in all the other businesses. Other than that, I would say that in general we see pretty flat and well distributed recovery of the business.

I mentioned United States and as a consequence the product that that are restaurant chain customers, during the past year I mentioned more than once that this kind of segment was suffering, because they were [indiscernible] (00:35:38) all the investments and they were not allowing us to visit even [ph] the best sites (00:35:43) as we started during the fall, this went on during the winter and now they are coming to the season, so there will be an acceleration over there.

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

Q

Thank you very much for that. And I guess my last question to Fabio please on the savings. Thanks for the helpful table you included on slide 7. I just – I was hoping you could remind us, you had SEK 60 million of savings in the first quarter, based on – on that how much do you expect for the rest of the year, and will you expect a different type of phasing as we go into 2021, i.e., with some quarters having higher savings than others.

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG

A

Okay. Here let me talk what I expect that to happen in the remaining part of the year. As I mentioned earlier because of the restructuring plan we launched in 2019 and 2020. Structurally, we are going to reduce our fixed cost base going forward. At the same time when comparing starting from quarter two last year, I expect overall the group cost to increase quarter on quarter because we are comparing with a pretty low – I would say the historical low level in quarter two last year.

What will happen in the remaining part of the year? In remaining part of the year as we did in the last quarter we will continue to monitor strictly the cost development. But I would say that if – as we see the market recovering, we will restart investing, because our goal is to – to profitable growth this business. So we will monitor the situation. We have reduced fixed cost base that I would say it has been an important move to reduce the breakeven point of this group. But for the future I would look more into what we are going to invest to profitable grow this business.

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

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Mattias [indiscernible] (00:38:08) of DNB. Please go ahead.

Mattias Holmberg
Analyst, DNB Markets

Q

Hi. Thank you. Mattias Holmberg from DNB here. I have one question perhaps on the proposed combination of Middleby and Welbilt. How do you see this changing the market dynamics. And I recall you talking a lot about part of your strategy being – to become a sort of recognized US player, if you see any obstacles or opportunities from these two players combining?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. First, I would say that it is quite early to comment about that one. Meaning that as it is clear they have to go through [indiscernible] (00:39:01) approvals and all the other process that are normally in this kind of things.

For what concern our position in the United States, obviously it's not impacting the Laundry, one, for what concern the Food & Beverage, we have sort of pretty focus approach in the United States, this one, we're not going [ph] today (00:39:25) to the market, we're not serving the market with the full portfolio as we do in Europe or in Asia, Oceania. We have a pretty selected number of product that are targeting specific customer segments and in this case I would not say – I would say that this is not changing so much, it will not change our approach to the – to the customers this kind of merger. That could be impacted then related to what is happening according to regulation, according to the dynamic of the distribution, surely yes, but in this moment I would say that is relatively too early to comment about that.

Mattias Holmberg
Analyst, DNB Markets

Q

Great. That's a clear answer. And one follow-up. You discussed a bit about the sales decline in Laundry and you talked about the comps effect from last year where you had a customer who did some pre-buying – or stocked up. Can you first of all make any comment on if – if that compare from effect is isolated to Q1 or could we see any of that in Q2 as well? And also if you could clarify the 45% sales decline that you had in Americas in Laundry, is that entirely related to that specific effect or is there anything else in that?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So first, last year just after the – let me say the first sign in Asia of the spread of the virus, together with our distributor in the United States it was decided to build up stock in the United States. Remember that in February/March, United States was not affected from the virus or at least there were not – the effects were not so clear in the United States, as they were coming to be clear at least in the South European countries. So with this said, everybody was afraid about lack of component and lack of products coming from Asia, from China, [ph] with us (00:41:50) having a factory in Thailand it was a conscious decision to build stock in the United States to face the demand of this product in case there were disruption during the supply chain disruption but in reality didn't happen honestly, but it is what it is and during the – in particular the month of March and it was pretty minimal I would say, Fabio, in April, if I remember well. So we [indiscernible] (00:42:17) so much in April. We built up stock in the United States, stock that in the United States that we have been, in some way, depleting because then [indiscernible] (00:42:27) the United States. So after the end of demand in the United States [indiscernible] (00:42:31) significantly also in Laundry, so we have been using these stocks for a quite long period of time. This is the reason why we are saying that that our performance in Laundry in the United States are quite significantly impacted so we've reported a drop because last year [indiscernible] (00:42:55) so we should see this not happening in Q2 and Q3 and so on.

Secondly, the drop in the Laundry in the quarter is mainly due to the United States, if not entirely, because in Europe in reality somewhat we have been growing there in Laundry. In Asia Pac, in some countries, we have been growing the Laundry business. Still we have Thailand [ph] obviously (00:43:29) Southeast Asian countries, that are important market by the way for us; Thailand, Indonesia, Philippines, they are good markets for Laundry, Malaysia. Those markets are still very low levels because I think I mentioned earlier these are market where the business is good around international travelers and in this moment you cannot enter this market.

So, other than that, I would say the Laundry business was somewhat better than last year, but with this tough comparison with United States we reported a decline.

Mattias Holmberg Q
Analyst, DNB Markets

Thanks for that clarification. That's all for me.

Operator: Thank you. Our next question is from Gustav Hagéus of SEB. Please go ahead.

Gustav Hagéus Q
Analyst, Skandinaviska Enskilda Banken AB

Thanks. Good morning, guys. Thanks for taking my questions. I'm wondering, I think you previously stated that sort of input costs and raw material costs is not a major factor to you this year because – if I understood you correctly, you have agreed terms on those input costs at an attractive level. But I'm – I understand it's a difficult question, but if you were to try to look into 2022 and assume that raw material and input costs were flat from here, what roughly would be the impact to earnings as you see from those items in 2022? Thank you.

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

I believe Fabio, you can...

Fabio Zarpellon A
Chief Financial Officer, Electrolux Professional AG

I can give some flavor of how we see the situation. First of all, I confer what I anticipated earlier. When we look into quarter one, raw material price develop in the market did not affect the profitability of the group, nor I expected that this would happen in quarter two. It is because we have, let me say, cover our purchasing in the first part of this year. In this – exactly these days, we are working with supplier to negotiate new conditions for the second part of the year, and I would say that somehow today is too early to give an overview giving on the second part of the year. I would – let me say bring this topic in term of to give you more color during the quarter two call. I would say that in these days it's too early to make an assessment giving on the second half of the year. It's clear that if price remain at this level they will have an impact in the business, in the profitability of the group. All the rest equal, I would say not really material overall for the P&L of the group based on what we know today.

Gustav Hagéus Q
Analyst, Skandinaviska Enskilda Banken AB

Okay. And – thank you for the table for the temporary and structural cost savings overview. That's super helpful. If you try to assess sort of – that the share of the temporary costs that our government support, how do we see that – do you see that unwinding in H2 or in Q2 or is your preliminary assessment that that's going to be something that you could probably maintain throughout the year, or if you could give a little bit color on that, that'd be helpful, too. Thanks.

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AG

A

Yes. Okay. Let me develop furthermore around it. So, we have a – let me divide our cost bucket into three parts. We have from the one side the structural cost that are coming from the two restructuring plan and the execution of this initiative is according to plan, and I expect overall in 2021 additional SEK 100 million compared to what we had in 2020. That was another SEK 100 million.

We have – the second piece that is the government subsidies. Government subsidies contributed roughly SEK 95 million in 2020. We report we have had SEK 20 million in quarter one, compared to SEK 5 million in quarter one last year. I have to say that I hope they will decrease in the incoming quarter, but – because this means that the market in our business will go back more towards normalized level. So, to answer to the second piece, I expect government subsidies to decrease as long as we increase the capacity utilization our factories.

The third lag that is that is related to the discretionary spending, as I mentioned we have a low comparable in quarter two 2020 where most of the activities were putting on hold and expect that this discretionary spending to increase already in the second quarter.

Going forward, it is clear our duty to strictly monitor the development and investment in the discretionary spending according to the order intake development. I believe we have demonstrated along 2020 but also in this first quarter and that cost management is top priority of this group.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Thank you. If I could just add one final question relating to what we previously discussed on the merger happening [indiscernible] (00:49:36) seemingly happening in the US then. They explaining the rationale for combining the [ph] two (00:49:50) companies that they aim to increase R&D investments or innovation investments in – specifically in sort of digital and IoT solutions as well as ventless ovens, could you talk [indiscernible] (00:50:05) could you talk a little bit about if you feel that there's a pressure on increased investments in those areas stemming out of this coalition potentially, and whether or not you feel comfortable that you will be sort of [indiscernible] (00:50:20) in front of the market in these areas also a year from now, if the merger is actually happening.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So first I would say that both companies, Middleby and Welbilt, already increased investments in the IoT solution. They are the only two companies that at least for the cooking side of the kitchen, they were already trying to provide customer with a system approach, even if – I have to say I didn't see so many installation but is normal because we are beginning of the stage [indiscernible] (00:51:00) this one and I'm pretty sure that as well as other companies they will increase investments in IoT.

So, I would way we know that. And I believe we have to think to – ourself to what we can invest and how fast we can do this investment and bring then to market. The thing that is positive on – our thinking is that we have been approaching the market as one company already for many years and as a consequence also in term of architecture, structure and design they are in some way already standardized. We are not there yet but we're already in that – in that path, let me say, that is surely important to have a critical mass and to create solutions that are really adding value to the customer. Not only we are linking to this to the program of Ascension, that we call Ascension, so that is our Customer Care program, [indiscernible] (00:52:08) this is – that is not my opinion, it is our opinion, will make the big difference when we will talk about creating value for the customers.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB
Q

Okay. Can I just [ph] take in (00:52:21) one final question? We talked a little bit before with your German competitor about some initial indications of price pressure, in particular, perhaps regarding Combi Ovens. Do you still see that or is that fading now as markets are seemingly improving?

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

Let's say – we have been talking about pressure in general. Even if contribution from price was positive in Q1, so we still have positive contribution from price in Q1. What we see is that – and I think I mentioned that in this moment, we see more replacement, so single unit [indiscernible] (00:53:03) more than and then the full project. Full project are not so many, they are coming, but they are not so many. What we clearly see that being few, everybody wants to get them and there's a consequent competition, price competition on the project is much higher than what it was a year ago, that is what we see.

So, when we talk about project in general, it is the overall price of the entire laundry or kitchen solution that is compared to alternative ones. So, it is not specific on one product, but I would say that is quite – it is more related to the kind of business let me say, and it is because of the current situation.

Gustav Hagéus
Analyst, Skandinaviska Enskilda Banken AB
Q

Okay. Thank you for taking all those questions. Appreciate that guys.

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

Welcome.

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

Yes. Jacob Broberg here, we have a question from Stefan Stjernholm at Nordea, also coming back to raw material – actually three questions. Are we able to compensate raw material with price? That's the first question. The second one, how large will the extra cost for the factory in Thailand be in Q2? And the third question, when do you expect sales to be back to 2019 levels? What's your best guess?

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

Okay. So, I would let Fabio comment about the raw material and the cost in the Thai factory. I can give a comment about the trend of sales. Sales are still below 2019 levels. It is – I believe the next – the coming months will be very important because they will show us how fast the recovery can be. If I look at the market research that have been published a few months of, I believe the middle of March, they are all showing – they are still working on the normal scenario, so we are all working on a scenario where we already have recovery beginning of next year and they are [ph] somehow a little bit later (00:55:22).

One thing in my opinion is clear is that the speed in the different regions will be different in the meaning that I believe the Asia-Pacific market, if we exclude – so Asia and Oceania most probably will be back to the 2019 level end of this year, beginning of next year. United States could be on a similar level considering the speed of the recovery during the past weeks, but it's – I would say that it's too early to say that one. In some ways, Europe that is lagging behind in terms of recovery. We are also talking about [indiscernible] (00:56:08). The US government put a lot of money to [indiscernible] (00:56:12) the investment in the food industry. We are also looking at what could happen in the European market in order to help our customer, [ph] not now (00:56:25) but our customer to restart doing investment.

We have always to remember that this is a business where our customers they have to make investments to renovate the kitchen, to renovate the laundry operation, to open new installations during the coming weeks. Fabio?

Fabio Zarpellon A

Chief Financial Officer, Electrolux Professional AG

Yes. On the two questions, as we've anticipated earlier for what concern raw material, discussion are going – gone exactly in these hours, in these days with our supplier base. I confirm what I anticipated earlier, so we – we will not see any material impact in the first part of this year. I expect, if price will remain at the – the market price will remain at this level also in the quarter to come to have an impact starting from quarter-three this year and in quarter-four, but I will say it's somehow too early to give you an overall magnitude because from one side, there are requests from our supplier base, on the other side, we have strongly negotiated to keep the cost increase to the bare minimum.

During, I believe, quarter-two call, we will be in condition to give you more flavor on what it means in term of impact, in term of profitability, that I expect will be, all the rest, equal, negative, but I will say not material for 2021 profit level of the Group.

For what concern instead the Thailand initiative to – information – the initiative will be completed by quarter two. In quarter two, we are going to have a roughly – a remaining CapEx of around SEK 20 million and as I mentioned earlier, once this initiative is completed, CapEx level will be back around 2% of sales going forward. For what concern is that the one-time cost that will affect the P&L, I expect to have more or less the same level of cost that we had in quarter one, that was SEK 10 million, in quarter two, and then I would say from a negative one cost impact, the initiative is, I will call it completed, and we should start to see the benefit coming out from the consolidation from quarter-three onwards.

Operator: Thank you. Our next question is from Johan Eliason of Kepler Cheuvreux. Please go ahead.

Johan Eliason Q

Analyst, Kepler Cheuvreux SA (Sweden)

Hi. This is Johan Eliason. Just a short question coming back on your comparison with your German oven here that's sort of guiding for a minus 10% decrease in Q1, I don't see what it's done so far, but you ended up obviously at minus 21%, you talk about Beverage being very weak, but how about your ovens, the SkyLine? Are you sort of performing in line with this or do you think someone is gaining share on the back of new products introduced?

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

So, if I look at the single category of the ovens in general, I would say that at least during the past quarter, so we are being – we've been performing in line with the competitors. So, I would not say that we have been losing market share, again on the opposite, as I think I mentioned earlier with the new things we're bringing to market, we want to gain market share. There is also difference between the geographical differences, clearly, we are pretty strong on the South European markets, North European markets, competitors have a [ph] briefly (01:01:10) large of the sales also in the United States that is recovering faster.

So, if I look at the past results, again, [ph] the demand (01:01:19) were very similar following in some way, the market of the – the market branding of the products.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Then if I may, you, at the Capital Markets Day now two years ago, you talked about this new SkyLine offering and integrating ovens with a blast chiller. Have you sort of seen a good take-up of this combined offering [indiscernible] (01:01:43)?

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

Yes, yes [ph] mostly they are doing (01:01:48) very well also because they are – [ph] adoptions (01:01:51) of the blast chiller is increasing. So, this means not in every kitchen where ovens are used there is a blast chiller, but the increase – there are more and more operators that are looking for both the oven and the blast chiller. And we are the one offering and you've rightly remembered the two-year-ago presentation when we had been talking about the [ph] tower (01:02:19) we call it, where there was the oven on top of a blast chiller. In fact, the two product were connected and you could operate both product from one panel only and this is doing very, very well. So, we are very happy about that.

I'm really looking for the reopening of the market because this could be a very compact, saving space in the kitchen and high performing solution for many customers.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Okay. Thank you very much. That's it all for me.

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

Welcome.

Operator: Our next question is from Karri Rinta of Handelsbanken. Please go ahead.

Karri Rinta
Analyst, Svenska Handelsbanken AB

Q

Yes. Thank you. Thank you for taking my questions. Two, if I may. Firstly, if we look at Laundry Europe, you had 1% growth in the first quarter and I think you also had growth in the first quarter of 2020. So, the question is that, is there any reason to expect that you wouldn't see growth in Laundry Europe for the whole of 2021? And then secondly, do you have any other sort of pockets where we actually might see 2021 sales higher than 2019? That's my first question.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So, Laundry, overall, compared to 2019, we were not clearly on the same level. So, we will see an improvement of Laundry. Yes. The Laundry business – we are also bringing new product to the market, so the Laundry business will increase. I don't see a reason why this brand should change. I think, I mentioned also, the effect on the US where we were relatively – we were weak during the second quarter with Laundry US, while this year, we should have a positive trend in this area.

One comment, and I think is important to make this reasoning is that if you look our year-end result, the portion of the business from Laundry became relative in term to the overall professional business much larger than the Food & Beverage. Not 50/50, but we were very close to be 60/40 something like that.

With the coming month and the coming quarters, we are expecting that there will be a recovering on Laundry, but there will be a much higher recovery on Food & Beverage because in the previous year, the decline was sharp. So, I'm expecting also that. Already in Q2, we will have a [ph] gradual (01:05:14) rebalance of the mix between Laundry and Food & Beverage product.

Karri Rinta
Analyst, Svenska Handelsbanken AB

Q

Okay. But specifically for Laundry Europe, is there any reason to believe that, that part wouldn't be up in 2021 compared to 2019?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

There are no reason to see a change of the trend, let me say, but I mean, it is still something that I will not comment so long along the year.

Karri Rinta
Analyst, Svenska Handelsbanken AB

Q

All right. Fair enough. Thanks. And then secondly, if you compare your pipeline of potential acquisition targets right now and if you compare that to the pre-COVID times, what can you say about the – maybe about the number of potential target and if you have done any reprioritization between those, maybe between different geographies, between different categories and so forth.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

I would say that there are no major differences compared to the pre-COVID or post COVID pipeline. I think I mentioned already in the past that since August/September we will start the discussion with all the [ph] contracts to be had (01:06:33) particularly in United States because that's the area where we are clearly having a focus [indiscernible] (01:06:42) because it's an opportunity to create value-adding profitable operations to our businesses. We are obviously looking at them. So, no major differences and no major changes I would say.

Karri Rinta
Analyst, Svenska Handelsbanken AB

Q

And then finally the project business that we have mentioned a few times, in which geographies should we expect that to start the first? Is it in the Asian markets, and then maybe followed by the US and then the last one would then be Europe? So how should we expect that part of the market to recover?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

EBITDA, you said it in the [ph] meeting (01:07:24) that the Asian is market is probably the first one. That is really ahead of the curve. More than US, where, I think I mentioned that our approach is more focused on a single solution, so targeting the single solution in particular, the chain ones, I would say Europe. In Europe there are discussions about projects. So, again, Asian first, and then hopefully also the European market then will move back to the project business – Asia and Middle East, sorry [ph] forgot (01:08:00). So that is the area where we see the project business moving faster than in any other region.

Karri Rinta
Analyst, Svenska Handelsbanken AB

Q

Right. Thank you. Those were my questions.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Operator: Thank you. Our final question is from Fredrik Moregard of Pareto Securities. Please go ahead.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Thank you very much, operator. So, just thinking about what has happened over the past year with obviously a lot of restaurants, hotels and so on having struggled, some bankruptcies and perhaps some change of ownership for a lot of those operators. Just thinking about the reopening here, do you think there's a potential for new ownerships wanting to upgrade hotels, wanting to upgrade restaurants, perhaps redesign menus and so on, that could actually be sort of an opportunity for you, or could you just share your thoughts on a potential development in that direction?

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

Okay. There are many different trends, but, yes, in the [ph] meaning (01:09:05) that we saw already that, and particularly in the chain business, there have been aggregations, so, some chains buying different brands that were struggling because of the pandemic. They've been incorporating some of these brands, I'm not talking about the big ones that are well known all around the world, in particular, the regional ones have probably been suffering more than the others. They have been aggregating or collecting this brand and thanks to the – between brackets – economy of scale that the chain is able to create, they are clearly ready to relaunch. [ph] Except in maybe in France (01:09:48) we saw this, that they are investing to relaunch the brand and sometimes is changing also the menu. This is creating opportunity.

The other opportunity is that in many cases, [ph] this will-be (01:10:05) unit operator are looking for – I think you've heard this definition more than once, they call it the [ph] dark (01:10:11) kitchen, so, they are kitchen that in some way are producing food for different brands, also in this case, they are refurbishing kitchens that were for one kind of food production only, to make it more flexible to produce different kind of things, to serve exactly only the delivery. Delivery will not disappear, this was an [ph] EBITDA (01:10:39) that all of us in – I think it was already in place in many geographies, but it became more, let me say, adopted by many other people and I don't think this will be the – [indiscernible] (01:10:53) will continue to be one of the way of doing business for mainly on the catering operators.

So, there will be changes. Yes, there will be reopening. In many cases they will reuse what is left in the kitchen of the restaurants, but this will create, for sure, business for maintenance, Customer Care and for what I was mentioning earlier in the meaning unit sales. In the meaning if you take over, I don't know, an Italian restaurant, but then you want to convert it into a steakhouse, you clearly need those different appliances. This is just an example. Please don't take it literally, but I hope you understand what [indiscernible] (01:11:34).

Fredrik Moregard Q
Analyst, Pareto Securities AB

And just thinking about such a development, is that something that you actually started to see some trends coming through in your order book, or is this sort of still on a philosophical level?

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

Sorry, can you repeat the question?

Fredrik Moregard Q
Analyst, Pareto Securities AB

Sure. So, is this something that we are actually started to see coming through in your order book, these...

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

Yes.

Fredrik Moregard Q
Analyst, Pareto Securities AB

...orders of...

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

I said that the order intake, regarding the order intake, so the order that we are collecting, seems that – I would say [ph] sagged (01:12:10) on the third week of March, started to increase compared to the previous weeks, more than compared also to last year, and it is higher than the [ph] next phase (01:12:22). And that is a – it is still lower than 2019, no question about that, but that is the signal that we are getting that operators, in some way, are re-looking at the business, they are preferring in some cases. The speed is still to be [ph] defined (01:12:42) I don't think it will be full speed, the Q2, but it is something that we clearly see as a sign.

Fredrik Moregard
Analyst, Pareto Securities AB

Q

Sure. That's [indiscernible] (01:12:53). Thank you.

Alberto Zanata
President & Chief Executive Officer, Electrolux Professional AB

A

You're welcome.

Operator: Thank you. There are no further questions. So, I'll hand back over to our speakers for any closing remarks.

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

So, thank you very much for listening in and asking questions. I think this was it for now and I wish you a good day and speak to you next time. Thank you and good-bye.