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Electrolux Professional AB (EPRO.B.SE)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Welcome to Electrolux Professional Q3 Report Presentation. My name is Jacob Broberg. I'm Head of Investor Relations. With me today, I have Alberto Zanata, who is the CEO; and Fabio Zarpellon, the CFO. And we will kick off immediately and I'm leaving the floor to Alberto. Please go ahead, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob, and good morning to everybody.

During the quarter, we experienced a recovery of the market, a continued recovery of the market, in particular North America, Europe and China growing. While it is still a weak market, we experienced still market condition in Southeast Asia and in particular Latin America, Middle East and Africa. Even if there are clearly sign of recovery, we experienced projects were put on hold, but where we restarted the discussion with the possibility to reactivate the activities. So, market conditions that are improving in general, including the area that are still pretty weak.

If you look at our sales, we grew sales versus 2020, still not at the same level of 2019, even if there are some countries that are already at the 2019 level. What is also very positive is that the order intake, so the collection of orders is pretty strong. It's higher than the next phase what we are invoicing the customer, and this is resulting in record level order stock.

The profitability in the quarter was double-digit profitability and we improved the profitability, thanks the main reason are the growing volume, the benefit from the restructuring we launched in the past years, and the third important element is the mix up that we have been doing, growing the Customer Care sales, so sales of accessories, consumable and service contract more than the product sales. So, remember that one of our strategic target is to improve the mix between the percentage of the Customer Care sales versus the total sales. This is what happened in Q3 after many quarter where we suffered sales of Customer Care because we were not allowed to serve the customer end-to-end at the site.

So, in Q3, we had change of the trend that improved mix. And improved profitability was despite some challenging condition that we faced in Q3, and they accelerated honestly during the last part of the quarter. The first one was well-known and was already communicated earlier that we are rolling our operational cost versus 2020. So, we grew cost in R&D, marketing, [indiscernible] (04:05) travelling. So, the operational costs are back to normal levels, not 100%, but they are obviously growing versus 2020.

We experienced material cost increase. In the previous meeting that we were talking about the impact of the raw material and we already said that we were able to cover this with a contract at the end. That is true, but it is also true that material cost, the increase of the raw material cost is accelerating and sometimes we are forced to buy out of the contract to make sure that we are able to keep the factory working.

A third element or third headwind that we experienced in Q3 are the operational inefficiency. We are forced to reschedule productions to keep the factory working. I have to say that I'm proud to see how our operation have been able to manage the current conditions that are very challenging with the scarcity of some components, in particular electronic components, because we never stop production. We have been forced to have some lines not working for one day, but we never stop production and never disappointing customers because we were not able to deliver the product. And the last headwind still to be mentioned is that the missing government subsidies still during the Q3 of last year, we had government subsidies that we did not have this year.

The last point is that the scenario, the order – as I said, the order intake is very good, is continuing in October and is still in that confidence that the scenarios to be back in 2022 to the 2019 level, it is still a valid scenario. I repeat some countries in the quarter were already back to the 2019 level, just to mention, Italy, Turkey, Russia, UK, Australia, United States. Our sales in the quarter were back to the 2019 level.

[indiscernible] (06:50) that we are talking about geography, a picture about the different geography. So, United States was driving the recovery, strong recovery in the quarter, as well as Europe that was close to 10% while the Middle East and Africa, Asia-Pacific were more or less somewhat in the same level of 2020. We have to remember that that's also the region in particular, Oceania, China that were already we started recovery the last year during this month. In the quarter, we have to say that some country, they are closer to 2019 level [indiscernible] (07:41) UK. There are some countries or some regions that are better than 2019 level, like China, Australia, New Zealand, France and Norway.

If we have a deep dive on the two segments, the Food & Beverage. Food & Beverage is growing compared to 2020 more than the Laundry segment. And the reason is because the Food & Beverage segment went down more in 2020 compared to the other segment. We always say that Laundry performed better, thanks to the resilience of the markets and our business.

The other important element is that Food & Beverage is again providing a double-digit profitability, despite all the challenges that I mentioned earlier, but what concern material, rescheduling and the growing cost. North America

in Food & Beverage is already better than 2019 and that is something that we clearly see happening in the market and our sales are pretty strong in North America in the quarter.

If we go to the other segment, Laundry, Laundry is confirming profitability that is above 15%, so high profitability, a growing business and growing turnover in the quarter. And in this case, we also mentioned the fact that the market went down less in 2020. And as a consequence, the recovery is less than in Food & Beverage during this year. In this segment, we have two big regions, North America and Europe, that are better or equal in the quarter compared to the 2019 levels. We have to say that year-to-date Europe is better than 2019 levels. So that is proving again the resilience of the business and our position in Europe where we have a leading position we can capitalize this kind of situation.

With this said, I would let Fabio comment the financial result.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody. As Alberto anticipated few seconds ago, EBITA margin in the quarter was 10.3%. Food & Beverage while the strength of the profitability reaching the 10.5% in the quarter, whilst the Laundry confirm the historical and the recent quarter with EBITA development over the 16%. We had no material change in the group common cost, which we exclude around SEK 6 million acquisition costs that we'll book in the quarter in the group common cost.

When we look into the profit development and if we exclude the item affecting comparability that were affecting the quarter, if you remember, last year we booked a SEK 77 million restructuring cost. The year-over-year group EBITA improved, as anticipated by Alberto, was mainly driven by three factors, higher sales and production of all manufactured product and mix up and mainly related to higher growth of the Customer Care business and the benefit on the cost base coming from the restructuring program.

We're reading through the details of the P&L, if we exclude the impact of item affecting comparability, gross margin reach close to 35%, 0.7 point better from last year. Main driver was volumes and the mix up Customer Care that Alberto mentioned. When we look into the product cost in the quarter, a clear really raw material component as well as transportation growth to secure continuity in our production base has increased in the quarter. And they were, I'll say, mostly compensated by price increase.

When I look into the [indiscernible] (12:56) in particular in quarter four, we expect the raw material cost to increase as well as the common cost. And we see already now in October, they needed to continue to have a spot trading in the market to have continuity in our production line and these spot purchasing are mainly affecting the electronic component.

As we anticipated during the July call, we have proactively put in place an additional price increase with effectiveness July 1. Unfortunately, due to the speed in the – in particular, the component and the stock market purchasing cost increase, we will not be able to fully compensate at least in quarter four these material and component cost increase. If we do a sort of production what will happen is that currently we estimate a negative impact in quarter four between the positive contribution from the price increase and the negative contribution of the component material cost increase in the area of roughly SEK 20 million to SEK 25 million for quarter four this year.

Moving on to the selling and administrative expenses, they increased in value in the quarter, but now we are running below 25% on sales. When comparing year-over-year, we needed to consider two main dimension. First,

this year in quarter three, we had a positive contribution from the divestment of part of an old site in Thailand that positively contributed with SEK 13 million in the quarter. But at the same time, we have booked acquisition cost for roughly SEK 6 million. So, the net impact of these let me say is not recurring item was around SEK 7 million positive in the quarter. And we said that also in quarter four we expect to finalize the acquisition of Unified Brands. We expect additional acquisition cost to may go approximately SEK 40 million.

As anticipated earlier, when comparing the two quarter, we have to say that 2020 quarter three we were running with a quite reduced activity level. If you remember what we presented last year, we were significantly reducing the discretionary spending. SEK 20 million was the reduction compared to 2019. This is a low activity level we've seen the subsidies for roughly SEK 20 million and there was, let me say, no material accrual for the variable pay of the people.

This year the picture is different. We are somehow back up to a normalized level of activities. We invest on product development, on the digitalization of the company, and the labor cost improved also the accrual for the variable pay. So, within this picture, what [indiscernible] (16:47) sales is clear that the company restart to invest and this cost increase that we face in quarter three is expected also to continue in quarter four were also really not expect as in quarter three any contribution or any material contribution from government subsidies.

When it comes to our financial position, happy to report that at the end of September, despite the growth of sales, we have been able to reduce in value and in terms of weight on sales the operating working capital. In value operating working capital was down 19% year-over-year [indiscernible] (17:44) and the weight of sales was 16%, meaning we are really very close to our financial goal of 15% operating working capital sales. So, we are managing also from the asset perspective very effectively our balance sheet.

As you read from the data, our financial position has been further strengthened in also quarter three. And we have brought the net debt really close to zero. At the end of September, we had liquid fund for SEK 868 million and we had fully available revolving credit facility for €200 million, meaning that we are fully accretive from a balance sheet perspective to support the organic development of this group as well as to manage the recently announced acquisition.

On top of it, last week, we also announced the signature of a loan with Nordic Investment Bank. It is a seven year €60 million sustainability-related loan agreement with parameter related to reduction of CO2 emission, water consumption and the substitution of the hydrofluorocarbons gases that are used as a refrigerant. And this is, I would say, on top of the financial fact confirming the commitment of this group and this management to the sustainability.

Overall, I expect that when completing the Unified Brands acquisition, all direct equal our ratio, our net debt and EBITDA will range between roughly 2 and 2.5 times, meaning we are operating within our financial targets, maintaining a solid balance sheet.

Let me conclude with a few words about the cash flow. Strong cash flow in the quarter, SEK 400 million, strong cash flow along the year, we delivered SEK 657 million cash flow so far. So really we continue to believe that on the profitable growth as well as generating cash while we continue to invest in the business.

So, with that, let me say, overall, [indiscernible] (20:38) is a good quarter. We did consolidate our profitability, we deliver on an important piece of strategy that is growth as these acquisition and we generate a strong cash flow. So, we are fully equipped also from a financial perspective to manage the organic growth as well as proper management of the recent announced acquisition. And with that back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. Thanks a lot. And you started to introduce another important subject that we didn't talk or at least it was not finalized in the quarter, but just few days after that OnE that is that the acquisition of the Unified Brands. I think it's worth to talk about this one because clearly the work was done during the quarter and even earlier clearly, but [indiscernible] (21:40) is another important step in delivering according to our strategic priority. I mentioned earlier that one of the reason we've been able to compensate or mitigate the headwinds that we have to face in Q3 was the mix up through the growth of our Customer Care business more than product sales, that is one of our strategic pillar. The other strategic pillar that we had and I remember a lot of questions from you during the previous call is about accelerating the growth in North America [indiscernible] (22:23).

This acquisition is an important milestone in our process to grow our presence in North America and our presence with customers of chain customers. Unified Brands is a nice company, well-known in the US market. It's a division that is part of the Dover Group and we are expecting to close the deal during Q4. The cost of acquisition, as Fabio mentioned, are accounting to SEK 46 million and out of this SEK 46 million, SEK 40 million will be booked in the last quarter, so in Q4. It is a nice acquisition because it's sizable in the US market. We expect the turnover, we expect the net sales in the quarter are around \$135 million This company under the umbrella of Unified Brands, we have important brands that are historical brands in the US market, well-recognized brand in the US market without mentioning all of them, but in particular two of them, [indiscernible] (24:06) are well-recognized and they are among the top three player in the respective categories, [indiscernible] (24:16) in steamer, kettles, pans and [indiscernible] (24:21) in the custom refrigeration. So, we believe we can increase the business in particular in the institutional segment. The brand now we believe we can increase our presence in the chain business.

It is also a well-organized company because production is concentrated in two sides. Historical one and [indiscernible] (00:24:54) with a custom refrigeration product while the more standardized production are concentrated in the Mississippi factory where we work again is a new factory where Unified Brands concentrated production from different facilities that they had in the past. And that is the one that is going to be developed. And by the way, it's also offering the opportunity for us to increase production and it can be the platform for new product that are addressing the US market. So, all in all, well-recognized brands in the US market, sizeable business that is changing our relative position in the market, manufacturing and R&D capabilities to further expand the business in the US with the trained customers.

If we have been speaking the strategic priority about Customer Care, even if it is just a first step, so we just turned the trend, now we have obviously continued to grow the business. If we have been bragging also, the growth in North American chain with this significant acquisition, the other important area that we've been always saying is part of our strategic mission is to continuously bring to the market innovative solution. And also during this quarter, we have been introducing a brand new product – it's a brand new product that, by the way, is covering a segment of the food prep market that we just partially served with the old offer because the current is now including this product. So, we were missing this product that is compact, flexible, high performing, that are exactly the three things that the customers are looking for these days. And this is then perfectly timed because during the last call, we introduced the new division that we created to push this kind of product together with the beverage one that are sold, yes, through the traditional Electrolux network because this is part of the Electrolux network, but this product can also be pushed through other channels that are the ones that this new division is asked to open and to enlarge.

So, very good news, I'm very confident that with this product we will have a good push of the business of this new division and we will have another innovative solution bringing the innovation to the customers. The other thing that I'm happy to report during the quarter is that we started the final test of the new digital platform that we are going

to develop. I think we have been talking about this one, the project of digitalizing our offer, digitalizing our relation with the customer, digitalizing our processes. It is a trend I don't think I'm the only one talking about these things, but it is really important that to say that we are progressively doing this.

In UK we just launched the pilot to connect our partners with this OnE platform. We call it OnE, because it will put together all the needs of the customers, the partners and all the features of our product. So in UK, we'll be launching this one to digitalize the interaction with our partners. So, through this platform, the partners can place orders and check the availability of the product. They can ask question, support. They can have access real time to any kind of information. It is a bilateral obviously communication that is very well appreciated and it will be gradually completed also with all the features, the data that we are getting from the product that are going to gradually connected.

So, it is an important investment for us. The benefits are clear to everybody, and we are continually investing to get this OnE fully implemented across the coming months. During the quarter Q4, we will expand the pilot to other country, Germany and Sweden. And then we have a plan to roll it out during 2022 in all the other regions that we serve and gradually connect and integrate also the product with the service provided to customers. So, also this one of the activities that is clearly aligned with our strategic priority and is showing that we are progressing in line with what we have been declaring our strategic guideline, strategic cornerstones to grow the business – to profitably grow the business.

So, all in all, if I have to look at the quarter, the market showed the sign of recovery also the weak market, Southeast Asia in particular, Middle East and Africa, Latin America [indiscernible] (31:26) America is a small market for us, but they are good market that are showing some sign of recovery. Some others are already on 2019 level, they were on 2019 level in the quarter, some also in the year-to-date situation. In this condition, we deliver close to 13% organic growth with roughly SEK 200 million EBITA or more than 10% margin.

The good thing is the order intake is stronger than our net sales. Consequently, we have another stock at high level. We did not experience any order cancellation so it's growing over the stock. We have to say that we have sometimes difficulty to invoice our customers and mainly is because our customers are delayed in preparing the site, it is something that that probably we are experiencing in other industries and also in private lives. In the meaning that there is shortage of manpower or plumbers, electricians, carpenters, and this is delaying the order. It's not cancelling the order. Obviously, the work will be completed, the kitchen or the laundry will be ready, but is delaying, but we are sitting on a very healthy order stock.

The headwinds that we experienced in Q3 are expected to continue. Fabio was talking about the pressure on the high raw material cost that is increasing that would be not completely compensated with the price increase implemented July 1. And for this reason, we already announced October 1 a second price increase effective January 1, but that's a clear element. As well as the stress on the operations are related to the scarcity of some components. Just to mention that one, I believe, is important what we are doing to compensate or to manage, let me say this, challenging situation. We created a task force, including R&D, purchasing, engineering. They meet every morning. They look at the lines, the products globally. That could suffer missing components and they work to reprioritize or resource the critical component. This is giving us the possibility to continue to serve the customers, but clearly boosting the pressure and inefficiency our organization. In Q3, we experienced higher running cost. This is what we are going to experience also in Q4 because the business is recovering. And as a consequence, the entire machine is running and now basically at full speed.

Last point, I already mentioned it, we are expecting to close the Unified Brands acquisition in the quarter. The priority for Unified Brands as well as for our operation will be to work to complete the separation from the group to

another group, we know what it means because we went through such a process in 2019 when we separated from the group. So that has to be the focus because there are clear timelines to do this. As well as deliver the business plan, the ambitious business plan, to profitably grow the business but also our operation Electrolux Professional in North America as the market is growing as we said that our sales in 2009 than in 2000 in North America are already on the 2019 level in full. Remember that Unified Brand is a food company. So, these are clearly the priority, but at the same time, we look at how we can create value, having this company part of the Electrolux Professional family.

With this said, I would open for question to all of you.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

If you have questions, you should go to the operator. Please go ahead, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Lucie Carrier with Morgan Stanley. Please go ahead.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc



Good morning, gentlemen. Thanks for taking my question. I have three question. I would go one at a time. The first question I wanted to ask was around the dynamic on cost and the backlog. I think you're mentioning that your backlog is at all-time high, but you're also saying that the contracts you have negotiated for next year in terms of raw materials, the cost of this contract are also higher and you will need to pass price increases into 2022. So I was just hoping you could give us some indication on how the backlog margin currently compare with what you have delivered so far in the P&L if you think about your cost base into 2022 and which type of price increase you're expecting to pass next year to offset some of the headwind on the sourcing side. That's the question number one.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB



Okay. I can start answering and eventually, Fabio, you can integrate if you think is needed. Obviously, Fabio said that the price increase implemented in July did not compensate the raw material price increase, but is gradually more effective month-after-month. We are not disclosing the size of the price increases we are going to implement because it is not one number valid for every market. It is different product category by product category and is different geography by geography. So, there is clearly a lag between the execution of the price increase and the benefit we will get from the price increase. But we have been clear mentioning the fact that we communicated in October that also the order they have to be collected there by a certain time to keep the old price because otherwise this factor that you're mentioning could lag longer along the years.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc



Okay. And in terms of – if you look at the orders you have now in the backlog and obviously the timeframe of these orders, how do the margin compare with what you have now delivered in the quarter, let's say, the 10.3% margin?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

[indiscernible] (39:58) meaning that what we invoice in particular in August was majority was with the oil prices, but the order that we are collecting right now are with the new prices clearly. So, they are all with the new prices, so [indiscernible] (40:17) and this is what we are going to invoice in the coming months.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. I guess, if the orders you've collected now, let's say, in the third quarter with the prices of July, perhaps some of them get executed at the end of 2021 or early 2022 on a higher cost base from your raw materials. Doesn't that suggest that this order are potentially at a lower margin?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

I think Fabio mentioned that we are expecting in Q4 a negative contribution from the delta between material and price cuts. Please, Fabio.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

Yes. As Alberto was anticipating earlier, first of all, the execution on price has been done. Price increase has been done in July and that's about the announce – as said before, we announced now beginning October an additional price increase with effective date January 1, 2022. Clearly, what we are going to face in quarter four is that more and more the new delivery will come at the new pricing level that we announced in July. So that will have a positive benefit. At the same time, if raw material that as we anticipate, the cost increase are coming according to plan. What is not planned is the additional costs that we are facing due to the fact that to guarantee continuity of production in the lines that we have to buy stock on the market. So, that was unpredicted and somehow on top of it to secure also continuity in production we need to have extra transportation cost. The sum of the two parts, the price increase benefit according to plan and the [indiscernible] (42:34) of growing the cost will have a negative impact in quarter four around SEK 20 million to SEK 25 million in the gross margin.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

Operator, you're waiting for Lucie's follow-up question I think because she had three questions.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Yes. The second question I had was around Unified Brands. I was hoping you could maybe share with us the share of service at the company or aftermarket and also some indication around profitability because I think you suggested maybe that after the deal, you expect the leverage to be between 2 to 2.5 times, which seems to suggest relatively modest profitability for the business. So just as we kind of model into 2022, if you could give us some indication around either potential dilution from the acquisition or the normalized profitability of the business please.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

We agree that that profitability is not going to be disclosed during this process between signing and closing, so we'll be able to do this during the Q4 call.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

And the share of aftermarket as a percentage of sales for the business?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

It is the same. So, also the mix between one and the other – other than saying that roughly 50% is chain business and 50% is – roughly 50% is institutional business for the time being. These are the only information we are disclosing about f the company.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Thank you. And just...

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

And maybe that at the end of the year.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Thank you very much. And maybe my last question was around the working capital. I think it was a bit surprised to see such a strong kind of working capital inflow into the quarter, considering kind of the high backlog and also a lot of the supply chain constraint. Maybe I had expected a little bit of a building up of inventory of safety stocks. Can you maybe help us understand that the working capital dynamic as you kind of head into executing on this high backlog in the current condition please?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

I can develop around it. I would say that on the inventory side in this moment, our main goal is to secure the condition to fit our production line and serve at best level our customers. So, this is our main goal when it comes to the inventories. To develop around the good development we had, I would say since September last year and being accelerated this year on the overall working capital, I would like to mention two things. Management of receivable. I would say that now you remember that when we enter into the COVID time, I was raising the concern about payment term, financial strength of our customer. I would say that we went through that journey pretty well moving out any material credit losses. And after journey during quarter two and quarter three last year was a part due was increasing, securing the quality of receivable, now also in term of past year we have back to the pre-COVID time. So improvement obviously thanks to reduction of last year. The other leg of the improved operating working capital is coming from the accounts payable side meaning related to IR purchasing volume as well as good management of the payment turnover with our supplier. And overall, we are now at 16% on sales, pretty closer to our financial targets of 15% confirming also, I would say, pretty good management of the asset base of this group.

Operator: Thank you very much. Our next question comes from Gustav Hagéus from SEB. Please go ahead.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you, operator. Good morning, guys. A few follow-ups, corporate costs were higher year-over-year and sequentially. Could you talk a little bit about the delta here and give some indication with a good numbers to put into our models going forward? Thanks.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

Okay. I can take this question. As you see corporate cost in the quarter increased roughly SEK 9 million year-over-year. Let me say, the major I would say increase in corporate cost was driven by acquisition cost SEK 6 million we have been booking in the cost. The remaining part is related to labor cost increase mainly related to the variable part of the salary. As you know, last year, due to the company performance, there was no material accrual for variable pay while this year this represent a delta year-over-year.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

So you think a good number perhaps is to take the SEK 39 million and deduct to SEK 6 million that related to acquisitions and multiply it by four to get a good sense of where you're at going into 2022 or is it going to be a higher number now that you acquired Unified or?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

I believe logically the direction is right probably then the result is expect to be somehow lower than that. As you remember, when we announced the separation, we said that we were going to add roughly around SEK 100 million to SEK 110 million additional cost to operate as a standalone organization. And this was mainly related to central [indiscernible] (49:47) central corporate cost as much as local additional cost to operate a standalone organization. I believe that this data directionally [ph] confirms it (49:58).

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. And then I'm going back to the acquisition of Unified. It'd be interesting to hear a little bit about the process how it came about and found the company since it's been quite a conservation game in the US for some time. How did you end up with this asset and has been for sale for a long time or yeah interesting to hear?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

I think we mentioned that starting from summer last year, we reactivated the connections, contacts. So, we have been discussing this with our contacts in the United States. And then we started – approached the group with this opportunity, or possibility if you want to say. Obviously, we presented the business plan and we set up a business idea that was supposed to give to this part of our division because the Unified Brands is not even a division of group, but is part of a division of the Dover Group. A new form that was to focus on the core business of Unified Brands. So it is still because remember we didn't do the closing yet. So I have to use the right word in some ways. It is still a small portion of the Dover Group. Inside Electrolux Professional is becoming an important element of

our strategic plan and our presence in North America. So, the process that really started after the [indiscernible] (00:51:55) that we have been running before the COVID when we completed some acquisition, is a process that we have to keep going also during the coming months.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. And coming back to the margins, is there an element to this that you're not 100% sure what the actual EBIT margin will be as a standalone company? As it's an integrated part today and maybe it's not 100% clear what costs that need to be brought with them and what other costs that can be left behind or do you feel that you know what the EBIT margin is, you just can't say it.

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AB*

A

You are talking about the margin of Unified Brands.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

I appreciate that you might not be able to tell us, but are you very comfortable that you know what the margin is in this business?

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AB*

A

Yes.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. And then lastly, order book all-time high. You're not able to really deliver them in accordance to – to underlying demand due to the reasons you mentioned. But is order intake also running at all-time high or is it also sort of an effect of not being able to deliver that that brings the order book at an all-time high in the quarter.

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

A

Yeah. Order intake is high. Now to say that is all-time high, I should check honestly, I did not. But I tell you that day after day we are seeing more order than what we invoice continuously and this is the reason why we are growing the order stock in this way. So, order intake is very good. And when I say that some markets are already performing better than 2019 and they performed better than 2019 during the quarter also in this market we have an increasing order intake. So, order intake is good. So, it is clear that the market is showing sign of recovery.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

And finally, in those markets that you see that you're back or above 2019 levels, is that true also for volume, or is it a price mix or price effect that that brings it up there?

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

A

No, no volume. Also the volume is better than that. So, volume remain [indiscernible] (54:33) higher than 2019.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. All right. Thank you for taking my questions. Those are all that I had.

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

A

Welcome.

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

A

Thank you. I will take some questions from the web. There are two questions. First one is from [indiscernible] (54:47) and it's also related to Unified Brands. Do you expect acquisition to be EBITDA margin dilutive in 2022 and to what extent so dilutive was the question? And then from Stefan Stjernholm, Nordea, he's asking about the shortage of craftsmen to install equipment and how this is developing. Is it easing? Is it getting worse and do we see any risk of cancellation of orders due to the shortage of craftsmen or do we only expect it to result in delays? Those are two questions.

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

A

Okay. So, the first one, sorry to answer again, we are not disclosing the information about the profitability. So I'm not able to answer. The second one about the delay that we are experiencing on completing the site of our customer, it is something that we still see happening today. And I believe it is a challenge that will affect [ph] if it's not the same (55:56) industry, but also other industry during the course of the coming quarter – this quarter. Clearly, if we talk about order cancellation, for the time being, we don't see order cancellation. You have to consider that the kitchen is some way [indiscernible] (56:18). What I mean is that if you are refurbishing or building the structure, a restaurant, a hotel or whatever, the kitchen comes up then the majority of the investment that's being done here we are just talking about the last-mile. So, the plumbers, the electricians, the carpenters for – I don't know [indiscernible] (56:42) the last detail of the environment. So, the investment that our customers have been planning to do in some way, most of it has been already done. So, difficult to say that they will not complete their operation and, as a consequence, giving us the possibility to deliver the product. Also because new market is growing, so for them to stop would be to lose the opportunity to benefit from the development of the demand.

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

A

Okay. Please operator.

Operator: Thank you. Our next question comes from Karri Rinta from Handelsbanken. Please go ahead.

Karri Rinta*Analyst, Svenska Handelsbanken AB*

Q

Yes. Thank you very much. First, a clarification on this SEK 20 million to SEK 25 million negative impact from cost price in Q4. Is that compared to Q3 or is that a year-on-year number?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

It is a year-on-year number.

A

Karri Rinta

Analyst, Svenska Handelsbanken AB

Okay. In that case, how much was the – was that number in Q3 roughly?

Q

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

It was definitely smaller than this, but we are not going to say. As Alberto [indiscernible] (58:16) that we mostly recall compensate the direct material and component cost increase in quarter three with price.

A

Karri Rinta

Analyst, Svenska Handelsbanken AB

Okay. And then these disruptions in efficiencies that you mentioned in that sort of hampered in Q3 related to all kinds of shortages that you have. How do you see that developing in fourth quarter or is that also included in this SEK 20 million, SEK 25 million guidance?

Q

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

First, it is not included in this SEK 20 million, SEK 25 million impact. It will have somehow negative impact also in quarter four I expect. But let me say more than looking from this perspective, I mean, we want to provide productivity improvement and somehow we missed the delivery of the expected productivity improvement in quarter four because of these difficulties on the supply chain. Clearly, in this moment, with the strong order stock that we have, our priority is to secure the service reliable and the delivery to the customer under best condition. Somehow, this will generate or will lead [indiscernible] (59:50) deliver on the productivity targets that we set priority at this moment that is service level to the customer and delivery of the top line.

A

Karri Rinta

Analyst, Svenska Handelsbanken AB

Sure.

Q

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

With major contribution then on the bottom line.

A

Karri Rinta

Analyst, Svenska Handelsbanken AB

Yeah. On that note, then what kind of potential you see from market share gains, given that you are one of the large players in the market and probably especially the smaller players are having even bigger problems in terms of their delivery capabilities. So, are you seeing potential for market share gains and/or are you proactively going after market share in this climate?

Q

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yes. Meaning that we see the possibility to gain market share because we know that some of our competitor already declared that if they receive an order today, they will not be in the condition to deliver it within the year because of the shortage of components and the situation. And again, in our case, we are both reprioritizing production in our factory, as we said, and also using eventually the product that are in stock. And a good portion of this product are booked for orders for quick delivery and replacing them pretty quickly from production. So, it is a situation where case-by-case we are trying to handle the situation, we are still able to receive order and deliver within the year. We are still able to deliver also for replacement business using the product in stock. It is a situation that, at least from what I hear also from the market, is giving us the possibility also to gain market share.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

All right. Thank you very much.

Operator: Our next question comes from Johan Eliason with Kepler Cheuvreux.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Hello. Thank you for taking my question. I was just wondering about this 55% growth you talked about in the US remembering that a few years ago we had this big chain order to Subway that propelled organic growth very strongly. And then one day this order was delivered. It is sort of fell away. This strong growth in the US, is it sort of once again one single big order to a chain or it's sort of broad-based just because the comp sales are very low over there.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

It is not related to a single larger chain or I personally would love to have another order like that one. But it is not the case. This is a general market. Some chain allows. But I would say normal business development – organic development of the organization. Did you consider also that last year and also 2019 in the United States, we had a challenging situation? United States was one of the countries where we suffered the most during the separation because we had to move everybody from Charlotte to Louisville and then 2020 was affected by COVID. So, the good thing is that we are in Food & Beverage above 2019 level and this is coming from, I would call it, the general market that is including the chain [indiscernible] (03:45) not a big one like the one we had during the first month of 2019.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Good. And then I was just curious about your brand strategy. You obviously buy a company called Unified Brands, but you have been in sort of propelling that. You have one brand Electrolux Professional. How will you deal with this going forward? I guess, these brands are quite important assets in the US market obviously.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Absolutely. And they are strong brands and, as you said, important assets. So, we will surely grow the brands as they support the development of the brands, leverage the strength of the brand in the market. [indiscernible]

(04:35) mainly recognized for customer refrigeration [indiscernible] (01:04:40) for kettles, steams, pans, power [indiscernible] (01:04:46) for the specific wear washing system. So, they are specialized brands and they will remain as such. Electrolux will continue to be the brand that is collecting under one umbrella all the different products that you need to boast in the kitchen and beverage installation and in the laundry installation. So, they have a position in the market that is [indiscernible] (05:20) position both of them in the right way. In North America specifically we will for sure sit down also with the future colleagues and we will work around the specific brand strategy for that part of the world.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Excellent. Many thanks.

Operator: [Operator Instructions] Our next question comes from Mattias Holmberg with DNB. Please go ahead.

Mattias Holmberg

Analyst, DNB Bank ASA (Sweden)

Q

Thank you. A final question from me. The price increases that you implemented in July and the next hike now coming in January. Is there any reason why there are, say, six months in between those, given how dynamic the cost environment is? Meaning that it seems like you could have had some benefit from doing more frequent price adjustments to stay on par with the underlying cost development?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Sorry. Can you [indiscernible] (01:06:37) I didn't get exactly what you want to know.

Mattias Holmberg

Analyst, DNB Bank ASA (Sweden)

Q

So the question is essentially why don't you make price adjustments more frequently then sort of...

[indiscernible] (01:06:49)

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Got it. Yeah. So, again, first we did that. In some part of the world, we have been implementing more than one price increase, one example is United States. So, there are some countries that are giving us the possibility to do it and when possible we did it, also in Customer Care. In some other parts of the world, in particular the European country is more challenging to do it. So, you need to have certain [indiscernible] (01:07:26) let me call it that, from the announcement to the execution. And that is the reason why we have a formal moment. I believe I answer also to one of your colleague earlier that we don't give a number related to the price increase implemented even if some part of the world, the United States is pretty easy to see how much we increase the price because these are public information, they're going to be the web [indiscernible] (07:56). But it is because category by category and region by region, this price increases are different. So, in some countries, where it's possible we've been more proactive [indiscernible] (01:08:12) in other, we are linked to also to contract for the reasons.

Mattias Holmberg

Analyst, DNB Bank ASA (Sweden)

Q

That's clear. Thank you.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

I think those are all questions for today. So, with that, I say thank you to everyone to listen in and speak to you next time hopefully at Q4 presentation. Thank you and have a good day.

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