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Electrolux Professional AB (EPRO.B.SE)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Good morning and welcome to Electrolux Professional Group on our Q4 and Full Year Results Presentation. My name is Jacob Broberg, I'm Head of Investor Relations and Corporate Communication. With me as always, I've Alberto Zanata, the CEO; and Fabio Zarpellon, the CFO. I leave the floor for you, Alberto, to start. Please go ahead.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob. Good morning to everybody and before going – before moving to the comments of the Q4 result, let me spend a few minutes about the year that we just closed. 2023 was a solid year for Electrolux Professional where we have been step by step building a stronger company. And that is the meaning of that sentence is that in 2023, we delivered the historical high net sales, the historical high EBITA value above of SEK 1.3 billion and historically high cash flow.

So we have been growing the company, profitably growing the company and it is something that happened all across the different business and geographies. We have been growing the customer care that is a strategic priority, more than double than the product sales. It is a quarter where we have been reaching, anticipating the achievement of the 50% reduction of the CO2 emission Scope 1 and Scope 2 of two years. So instead of doing this in 2025 as it was very well planned, we delivered such a result in 2023.

And last but not least, we have been also growing inorganically the company, signing the acquisition of Tosei, the Japanese company, Laundry and Food Company in December and closing it in January. So a year with a lot of things happening that have been making this company stronger than what it was before.

Moving to the quarter, Q4, despite being a solid quarter, it is still a quarter where we have been a declining trend in sales. So what happened in Q3 in some way up and also in Q4, with a slower pace and that is important because the sign of recovery that we were expecting in Q3, they materialize in Q4. Indeed the order intake in Q4 is higher than the one we had the year before. And I can also anticipate that I think January, this trend of order intake improving compared to last year continued. It is a quarter where the margin, the decline of the margin was impacted by the lower volume. We understand that you have to consider the comparison with laundry as we had to do in Q3 and as in Q3, it has been impacted negatively by the currency transaction effect. It is a quarter where we further improve the cash flow.

So also in Q4, we deliver more than 100% cash conversion. And thanks to this one, we have been able to further reduce the ratio between debt and EBITA. Now it is below 1% obviously before the acquisition of Tosei. With all these things together, we also convened to propose a the dividend of SEK 0.80, so improving it, growing it roughly 20% compared to the previous year as it is in our target, financial target.

Moving on to the market dynamics. So if you compare this picture with the one where we presented three months ago after the Q3, you see that the different [indiscernible] (00:03:55) are trending differently and the meaning that they were all down. Now you will still – we see Europe flattening. We see AP/MEA, I don't mean flattening, but with surely not the deep decline and also the decline in the United States is less deep than what it was. This is what we see. And it is confirmed also by the order intake that is improving compared to last year. We still are – we are still sitting on a good order stock. We have two months, a little bit more than two months of orders in house, that is giving confidence of what is in front of us.

Talking about the two segments. So if we start from Food & Beverage. Food & Beverage has been affected again by the decline of the sales in the United States, is mainly United States, a decline that is less deep than what it was in Q3. The reason of the decline are still the same. So it is the tail of the, let me say, readjustment of the market demand that was very strong during the first half of the year. So the [indiscernible] (00:05:12) some way related to what was happening the year before with the missing components, the missing product. The customer afraid not to get the product, stocking the product, and then readjusting their stock, readjusting their demand because the supply chain stabilize and the performance of the manufacturer were improving.

Postponement also related to the uncertainty related, connected to the interest rate, to the inflation. Things are getting better. Some of the tests that we were running with the American chains [indiscernible] (00:05:50) been converted in order, that will not materialize in Q1 or if they will do it, they will do it at the end of the quarter. It will be mainly during the second quarter of the year. Yeah. What is really important is the margin improvement that we reported in food and beverage. The margin was a target to defend the margin and the margin improved thanks to the price contribution, thanks to the material contribution. So it is a good sign also this one.

If we move to Laundry, the decline also in Laundry here is a consequence also of the comparison with the previous year performances. I repeat what I said in Q3, in 2022, we had a bunch of order, SEK 220 million of order that had been moved from the first part of the year to the second one because we had no component. We pre-produced the product that were on finish. We finished them and delivered to customer during the second part of the year, third in Q3 to third in Q4. So the comparison was even tougher than in Q3 and Q4. So this is the reason why I'm confident that we are continuing to grow the business of laundry. It's a resilient business. Also, the drop on margin is related to the fact that the sales of this product that have been moved from the first to the second part of the year was very high because they were – we produced them earlier. So the cost in some way were the cost that – the operating costs that we had in Q4, they were the ones where we had on top these sales. And in addition to that one, we had also the currency, the currency transaction factor that was negative in Q3 and

it is negative and it was negative also in Q4. Also for Laundry, we are reporting a positive order intake. So with this said, I would let Fabio comment or comment a little bit more on the financial aspects.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto and good morning to everybody. As anticipated by Alberto, Q4 was a solid quarter with an EBITA over 10% or SEK 300 million in the quarter. All along 2023, if you look at the trend quarter-by-quarter, we were stable over 10% EBITA generated quarter-by-quarter. Despite declining sales, primarily in US as anticipated by Alberto and let me say, material impact from currency transaction, we have been able to maintain the profitability also in quarter four despite the declining volume. Positive contribution came consistently along the year from price, more than compensating the inflational item like the labor cost and [indiscernible] (00:08:59) since the summer of last year, we see positive contribution from material and the reduction of logistic cost.

Our focus on growing customer care is definitely paying off. Alberto mentioned the faster growth of customer care on total sales compared to total sales and clearly you understand this as a positive mix-up on the margin development. Then a few words about the currency. Currency, there was an element highlighted already during the last quarter three presentation. During 2023 SEK, our reported currency, weakened against our major trading currency that are euro, US dollar and the Thai Bhat. If we look into the two ingredients of the currency, currency translation, currency transaction, let me start giving a view about the currency translation first. Currency translation positive contributed for approximately SEK 500 million in sales in the top line and SEK 55 million in EBITA.

Therefore, with no material impact for what concern the margin development. At the same time, currency transaction, due to the weakening of the SEK, had a small positive impact on the net sales, on the top line, an impact that is below SEK 50 million on a full year basis. But quite a negative impact for what concern the EBITA. Let me say when I look into the impact on the currency transaction on a full year basis, the negative impact was around SEK 100 million. Let me say majority of it, equally impacting quarter three and quarter four performance and margin. What are the reason behind this currency transaction impact and what are the action that we have put in place? During last call, I was mentioning about the business, Laundry, where we have a large production facility here in Sweden and several raw material that we buy for production at Eurobase. The weakening of SEK versus euro clearly create an increase of the purchasing cost of raw material. In Thailand, we have a large operation, producing Laundry and Beverage product. The strengthening of the Thai baht against our major sales currency of this product that is SEK, that is euro, that is dollar clearly increase the sourcing cost of this product.

What are we doing? What did we already do? Considering this increase of the sourcing cost, we act selectively and we adjust price, we increase price. We expect benefit already to start positively contributing quarter one with the full effect in quarter two of this year.

Then few words on the finance net, happy to report that despite the increase of the interest rate that we faced in the market 2023, thanks to the reduction of the debt we have been able to reduce the finance net to SE 24 million, significant lower than the same quarter of last year.

Here we see the development cash flow. Let me say Electrolux Professional is back to historical good performance. You see that also quarter four, we generate a strong cash flow and we are back to a normalized cash flow generation. Overall in 2023, we deliver as Alberto anticipated record operating cash flow generation and it was over SEK 1.4 billion. Here is about operating working capital. Let me say during 2022 and 2023, we have increased operating working capital on sales. Last 12 months reported data the end of December show an index that is at 18.1%, higher than last year, but started to see somehow an improvement compared to September that

was 18.2%. It is a rolling 12-month index. But when we look into the quarterly performance, the picture is definitely better and it is proven by the fact that we are actually reducing year-over-year the operating working capital. In December, it was SEK 1.8 billion, 4% below last year at the same currency. So, activities of operating working capital reduction are starting to pay off.

And here I would like to spend a few words about one major offender in 2022 and 2023, that was the inventory development. With improved situation in the supply chain and the dedicated program we put in place, we delivered a significant, remarkable improvement for what concern the inventory. And at the end of December, inventory was roughly SEK 400 million lower than the peak we reached in the middle of this year and 13% in value below December last year. And the action we have put in place and the stabilization in the supply chain are really creating the condition that this improvement is going to stay. Overall, as anticipated by Alberto, our financial position is pretty solid. We have a ratio net debt on EBITDA below 1, 0.9, and we have cash availability at the end of December close to SEK 1 billion.

When it comes to the recent [indiscernible] (00:15:52) net debt on EBITDA, clearly it has been influenced positively by the improved EBITDA generation combined with a reduction of the net debt close to SEK 1 billion compared to December last year. And this remarkable improvement that you see from the graph has been consistent deliver in the last five quarter, has been down after having paid a dividend of SEK 220 million. In December, we announced the acquisition of Tosei. We closed the acquisition in January. Acquisition that has been initially now financed with average finance. But we are evaluating the fact that we are going to finance it long-term with, let me say, long-term solution with access to the capital market. So overall, I would conclude the here that Electrolux Professional also from a balance sheet perspective and a cash flow generation capability is confirmed as definitely a solid group with a means to further support the profitable business growth.

And with that, I'll give you the word back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio, and let's reconnect to what Fabio just said, the acquisition of Tosei. Tosei, Japanese company, the leader in Japan in laundry, the leader in Japan in the category vacuum packaging machine, that is an important category. It's not obviously as large as cooking or refrigeration [indiscernible] (00:17:56), but it's a key category in a trendy way of cooking, that is [indiscernible] (00:18:01) every time you have a vacuum package or every time you have a combo when you have normally a vacuum packaging machine close to it. I believe in every kitchen today, modern kitchen you have vacuum packaged machine. So it is an important product and this company is the leading player in this field in Japan, so very happy to have this company. [indiscernible] (00:18:27) acquisition or inorganic growth was one of the reason to have – to separate the [indiscernible] (00:18:35) profession from the group. We are delivering above that. It is a sizable acquisition. It is an acquisition that is growing roughly 8% at the top line equivalently, the bottom line, but in particular it is an acquisition that I value so positively because we believe we can create a lot of value with this company.

We believe that this acquisition, as soon as we are able to materialize all the ideas that we have to create value with the Tosei part of the group will generate an EBITA margin above our target of 15%. We already started to work. I personally was there already in January and also our colleague leading laundry and the regional food sales in the [indiscernible] (00:19:27) were there, meeting with people. We found the people in Tosei very engaged, coming proactively with the idea how to create value.

Easy things, if you think above that are related that obviously to organization, the product. But the most important one is to make use of the product. And as I said, Tosei is the leading company in laundry, in particular in the

[indiscernible] (00:19:57) segment. And to lead this segment in Japan, you need to have the so-called combo machine, it's the machine that you see in the picture. It is a washer and dryer, a combined washer and dryer, a product that we do not have in our portfolio. It is mainly not only sold in Japan. Currently, we are buying this product. This is the leader in that segment and this is the leading product in that segment. You can already imagine the opportunity that is offering such an acquisition.

The other category that I already mentioned is the vacuum packaging machine. Here you see the table top model. There is a complete range, including the big machine for central kitchen, for mass production. But the freezers for this product, the tabletop, that is the one commonly used in every kitchen, in every restaurant. We are already buying hundred and hundred and hundred of this product, selling them inside of our portfolio, mainly in Europe under the Electrolux Professional brand for the reason that I mentioned earlier, because it is part of the system that you have to deliver when you sell Combi Oven, when you sell Rethermalizer, when you sell [indiscernible] (00:21:21). So it is a core product. I personally had a look at the product that this company is producing and they are pretty much advanced with the features that can be used also in our market and create even a technological gap. So very happy also to have this product, not only the organization, not only the network, not only the service, not only the showroom and the presence in Japan, but also the product that can be surely used, not only Japan, but outside that market.

Now, let's move. If the acquisition of Tosei was an important move for our inorganic growth, let me go back to this one. I believe you already know that it is one of the things that make me proud of working in Electrolux Professional is the fact – is our commitment to make this world a better place to live and we have been doing – executing the plan, executing the plan as fast as we can and the proof of that plan is that our target to reduce by 50% the CO2 emission, Scope 1 and Scope 2 by 2025 has been reached already in 2023. So two years ahead of time is not only the plan. You know pretty well that our target, SBTi target has been approved. So now we are starting to measure also the CO2 emission for Scope 3.

Their ambition, we know that is important that area because majority of the Scope 2 emission that we can influence and we will work on this, but for the time being, at least – let's celebrate this achievement that has to be only aspirational to make sure that we will get the CO2 zero emission earlier than what is planned in 2030. With this said, I would go for the conclusion. Just to sum up, again, a solid year where we have been – when we deliver historical high and when I mean historical, I mean also when we were part as a sector of the group, historical high net sales, historical high EBITA value, cash flow. We have to improve the margin for sure even if step by step, year-after-year we have been improving the margin, the EBITA margin.

We grew, we expanded organically, but also inorganically with the acquisition of Tosei. Sales declined in Q4 as they did in Q3, but a lower pace and in particular in United States, we are seeing a good sign, the one that we were expecting with an order intake that is growing. And some of the test that we have been running along the year, converting them in approval of our product and orders that we provide benefit most probably in the second quarter of the year. The EBIT margin declined mainly in relation to the volume, but also the currency transaction as Fabio explained.

Cash was at a very high level, that is to be considering some way the standard performance of this business. That is the one that is giving us the possibility to continue to reduce the ratio between net debt and EBITDA and as a consequence of the, let me say, the power, the possibility to invest, to invest organically and inorganically to grow this one. With all this said, we are proposing, not we, but of course, the board is proposing the dividend, improving and increasing the dividend from SEK 0.7 to SEK 0.8 per share.

And I repeat what we said, we are expecting as we delivered in 2023 a step-by-step process to make this company a stronger company than what it was in the past. We expect to continue to see this by step-by-step improvement, also because the macro-economical environment, I don't mean they are different. I don't mean that the uncertainty is over. But there are some sign related to the interest rate or the inflation that are making us looking at the coming quarter in a positive way. Jacob, back to you on the questions. Oh, sorry. Before that, before that, I believe we have been talking about Tosei. I've been talking about Tosei. But Tosei is a big subject. It's an important subject. And this is the reason why I'm pleased to announce that middle of March and March 13 here in Stockholm, we are organizing an Investor Day and the Investor Day will be focused on the Tosei subject. Of course, we will give you an update about the overall company performance and trends, but in particular, we will be focused on the Tosei acquisition as we did for Unified Brand more than a year ago. We will have – we will have Paolo Schira who is the President of the business area Laundry and Richard Flynn who is the President of business area Food, APAC & MEA attending the call and addressing you with all the hopefully possible information about this important acquisition.

With this said, Jacob, yeah back to you.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

With that, we open up for questions. Please go ahead, operator.

QUESTION AND ANSWER SECTION

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

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Thanks, operator. Thanks for taking my questions. Good morning, Alberto, Fabio, and Jacob. If I might start with the comment here that you have order intake growing year-over-year as of, I guess, it's December 2023 versus 2022. Looking at the US markets specifically, do you see underlying order momentum in the US as well? And second part of that, if you could elaborate a bit on, yeah, also the comment that the US is starting to look better, but I guess the destocking that occurred happened in March last year. So naturally, the comps will get better in Q2. But to what extent that comment relates to easier comps or that you actually see an improvement in the market would also be helpful to understand. Thanks.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So yes, the order intake, the improvement of the order intake relates to US too. Absolutely, yes. It was in December and also in January. So also in January, we continue to see the same trend. The destocking, at least for what concern Electrolux Professional business is basically over. So in the meaning that it is a limited portion of our business, the destocking. Still there are some dealers and some customer with the product in house. But I would say that is something that is really the tale of what happened in 2023.

You rightly said that most probably we will see this happening and having benefiting Q2 more than in Q1. The other element, still talking about US because I understand that the focus is about US business, all the things that

we have been discussing in Q3. So let me say the things that affected our business. So the integration of the IT system, the redesign of the rep organization outside, all these things are in some way over. The organization is stabilized. The IT system is in place. We have all the rep in place. We have the showroom at the rep organization. They have been trained. They are doing demonstrations. And the other important thing is that some of the [indiscernible] (00:30:21) have been turned into orders. So it seems that that they own all the feeling or at least the mood that they had some are Q3 and also the last part of Q4 is starting to get better; that is what I'm saying.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

So in that sense, if we're lucky, then in Q2, you will have the double effect of easier comps relating to destocking no longer being a factor and a little bit better mood within the chains in US. Is that sort of your hopes for Q2? Is that how I should interpret that?

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

A

[indiscernible] (00:31:00) is something, obviously. But again, we should have a relatively positive effect. Yes. If this things – the things that we have been seeing in last part of December and in January continue to provide the result that we see happening, we should have a positive effect, Q2 and I would say what are we see at least, because you asked me also about the market. So not necessary what we see, but if I look at the market, it seems that the market or the indication that we are getting from the customer or other operators is that in particular, the second part of the year will be the one where we should see something happening, positive.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

And then turning to APAC then in Asia, which was a bit slower, I guess, than everybody anticipated in its recovery. Do you see any signs that that trajectory is more positive going into 2024 in terms of demand?

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

A

Yeah. Okay. I believe we should split Asia between China and all the rest of Asia, Asia and Middle East. Let me put together Asia and Middle East. If I look at that one, you have two completely dynamic. So Southeast Asia, Australia, even, if you want to put it Oceania in the equation and the Middle East and Africa are performing well, are performing well, if isolated, those area, we should be very happy. Middle East and Africa, we had the historical high sales over there.

So it is a very positive picture over there with the project in particular in Africa happening. It seems that what is happening in the region, it is not significantly affecting the business, obviously not Israel, because in Israel, we don't do anything or the real – the country over there. But if I look at the rest, it doesn't see affecting our business so much. China is a different story. There are sign of recovery also in this case, a couple of chains. [indiscernible] (00:33:24) I know that is a Chinese hotpot chain that didn't buy anything for one-and-a-half year. It was our customer, they restarted buying product from our facility. We have also KFC that restarted to evaluate the project. So, it seems that there could be some movement, but still China is low and China is very important for us.

Now, we are getting also into Japan and also Japan has similar dynamics of the one we saw in Europe. [indiscernible] (00:34:01) Europe and United States saw a softening of the market during the second part of the year, like in the United States. Again we don't have all the insight that we have in this market because in particular, our kitchen business is basically non-existent [indiscernible] (00:34:19) non-existent in Japan, but those

in that one we are expecting during the second part of 2024 a restart of the business. So, Asia is a big, big geography with quite different dynamics. Japan, similar to Europe and United States. China, still challenging, but with some, something moving. And the rest of Asia, Middle East and Africa and Oceania in reality performing, I would say, quite well.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Perfect. And then if I can sneak one last in regarding sort of M&A opportunities versus your leverage, I guess, [indiscernible] (00:35:02) 0.9 times in leverage here, but I guess adding to say to that would get it closer to 2. I would assume, but still below your target 2.5 then. But firstly, do you see given the comments from Fabio on working capital and so forth. But then again you have a new structure with the new companies – in the company. Do you expect sort of the old cash conversion metric to still be relevant for this year, around 100% or how do you cash for the 2024? And when do you expect sort of leverage to come down to a level where you can look at material targets again towards the M&A.

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

A

I think I would say the answer is yes, in the meaning that we see that cash conversion being above 100% in 2024. And we see that we should be in the somewhat higher 1%, not 1%, onetime, one ratio towards the end of the year. So I don't know, Fabio, if you want to comment above that, about I believe this is.

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AB*

A

Yes, so this is somehow the situation. As you correctly said, Gustavo, consolidating Tosei, we will have raised, sure net debt on EBITA below two times. With initiative, we put in place on the operating working capital, we are going to secure a positive cash conversion and solid net cash generation along 2024 year. Also in term of means to finance possible acquisition, we have activated in September the CP program to finance short-term needs, but also we have in place revolving credit facility for €200 million, fully unutilized. So I would say that from a solid ratio net debt on EBITA with the prospective cash generation and the means activated with our relationship bank. We have the means. I would say some are already in 2024 to take opportunity that may come on our way.

And as you know, also in term of finance guidance, we have also the target to stay below 2.5 times the ratio net debt on EBITA. But we also said that in case that we have M&A opportunity, we can go beyond that ratio provided that we have a clear plan to come back to solid situation, as I believe our performances last year show that we have the capabilities and the capacity to do it.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Appreciate all those answers. Thanks, guys. We now have a question from [ph] Hayden Christensen from the Web (00:38:07). It's about the Tosei acquisition. You say you talk about EBITA margin being well in line with the target. Could you give some financial color on the EBITA margin today of the acquired business or CapEx to sales? Will it be accretive or dilutive to your EBITA margins from start?

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AB*

A

Okay. I can take it. Let me put first of all in the context. Here we talk about a company that generate just short of SEK 1 billion in sales in 2023 and SEK 140 million was the sales of the company last year. Historically Tosei had

higher margin than our group, but somehow related in particular to a weaker performance in quarter four with some of declining market and sales. Tosei ending up the year around roughly our profitability, meaning the 11% in term of EBITA margin. For what concern CapEx requirement, the company is in line with overall guidance that we gave you for the overall Electrolux Professional, meaning the couple of points CapEx requirement on sales. This said, clearly, [indiscernible] (00:39:37) anticipated already some area of potential synergies and we expect that what emerge during the due diligence and what is somehow confirming now after the closing with the dialogue we have with management, we have a really interesting and attractive opportunity of synergies that we expect to start materializing from next year onwards.

To be said also that as anticipated when we announced the acquisition, we are going to have also some acquisition/integration cost in area of SEK 40 million to SEK 60 million that will be partly affecting this year, but I would say mainly next year. So overall, let me say a company that will be a strategic [indiscernible] (00:40:38) add-on to our group with the synergies opportunity that can bring the company profitably in line with our target of profitability of 15%.

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AB*

A

Please, operator.

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

Johan Eliason*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yeah, hi. This is Johan at Kepler Cheuvreux. Good morning to you all. I was just wondering, it's good that you shed some light on orders being up year-over-year. But how does it sort of relate to sales or the order levels you saw in the fourth quarter sort of above sales and is there sort of a pattern for orders that differs from your revenues that we should bear in mind?

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

A

I think they are more or less in line and indeed that we see the order stock, the book stock, that is – I would say that now is stable on the two-month level, meaning they we have order to cover two months, obviously it's not that [indiscernible] (00:41:44) whatever we have in the next two months, but we have two months or more to see now and this is a – I'm just recalling now that it's more or less the same situation that we are having since September, so after the fall. So this means that basically what we get that we also invoice.

Johan Eliason*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Good. And then I was just wondering a little bit about the interest rates here going forward, you will increase your debt, obviously, on the back of the Tosei acquisition. And I guess you have started negotiation there. How should we think about the interest rates assumptions going forward?

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

A

I mean, it's not up to me to speculate how the interest rate will evolve this year. But let me say we are paying market rate considering in particular that we have a solid balance sheet. So I would say we are well positioned in

term of keeping the cost of funding relatively low. What we are doing and I was anticipating earlier is that our intention is that to move up from the short-term financing that we have in place with the bridge finance to more a medium-term sourcing in order to preserve liquidity along 2024 and 2025. But I would say that our [indiscernible] (00:43:22) an area to reduce interest rate is to pay fast the debt. And then, I mean what we have proven, you saw the graph for 2023 and we expect to continue in 2024 is with a quarter-on-quarter cash generation to consistently reduce the net debt and therefore the interest. Whatever will happen in term of interest in the market for sure and with this level of funding, if Central Bank reduce the interest rate, we can only be happy. But this we will perform regardless.

Johan Eliason*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

So, you mainly are looking for floating rates and just translating it to what you're paying eventually?

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

A

I mean, this is tactics that we are not going to disclose. The guidance that I want to give to you is that we are paying market rates, considering that we have a very solid balance sheet and a proven cash flow generation. And along the year, from the starting point, we expect to see a decreased rate of interest compared to the starting point pro forma with acquisition thanks to the cash generation.

Johan Eliason*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Excellent. Okay. Thank you very much.

Operator: The next question from Karri Rinta, FHB. Please go ahead.

Karri Rinta*Analyst, Svenska Handelsbanken AB*

Q

Yes. Thank you. Karri, Handelsbanken. I have a few. Firstly, food and beverages, US, can you remind us how much of your total sales comes from this category. And if you can give us a rough growth rate that you saw for this category in 2023.

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

A

So one second that I'm giving you the exact number. So here you have, Food & Beverage in Americas is SEK 2.4 billion out of SEK 7.6 billion in the full year.

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

A

May I add, Jacob here. I mean this figure that Alberto is presenting is now in our quarterly report on page number 18.

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

A

18.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

A

So it's a new split that we have not disclosed before. So you will see the segment per geography presented there, so there we have all the figures.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

All right. Perfect. Sorry, I had missed that. Then the order intake patterns around the year and given that you typically raise prices in early part of the year, so does that typically affect the order intake at the end of the year, either by – that customers have some money over or that they want to make orders before your order intake? And so I guess the question is that you typically see your order stock declining sequentially in the first quarter?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Let's say it happened and it was really a spike effect in, but we are talking about now more than two years ago when we had the increase of pricing in the range of 9%, 10%, even 11% in some countries, I believe it was beginning of 2022 when we increased the price so significantly. And obviously we have to announce this three-year side of that – three years sorry, three months before implementing it. So in that case, during the Q4, we had a spike of order and that was – and that one, let me say, inflated the book order, the order stock [indiscernible] (00:47:31) credible way. I would say that other than that, normally this is not happening because the price increase that we already applied from January 1 in all the countries, then specifically I don't know for laundry, a little bit more in Sweden, little bit more in Sweden because of the weakening of the SEK or [indiscernible] (00:47:59) that they normally don't move so much the order stock, so the book order. So the order intake I would say in this case is not inflated by the fact that we are increasing price.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Okay. That's helpful. Then the gross margin was down a bit from third quarter. Besides currency transaction, was there anything else that was explaining this decline?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

A

I would say that currency was the major offender. And somehow also the fact that somehow in quarter four, we have decreased also production following the development of the market demand. Somehow what are the expectation also going forward? You see that first year-over-year gross margin was up, was up thanks to the combination of price increase, a reduction of directly material and transportation cost and this has been more than compensated the volumes impact and the currency. Going forward, looking into 2024, difficult to judge what they are happening on the currency side. But I expect that the price, combined with the direct material, will continue to positively contribute on the development.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Great. That's very helpful. Those are all my questions. Thank you.

Operator: The next question from Hanna Lindbo, DNB. Please go ahead.

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)



Hi. Good morning – good morning, everyone. I only have one question and see I've talked a bit about the margin of Tosei, but I was wondering if you can comment how it impacts the margins in each division.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB



Okay. Overall, as I mentioned today conclude the 2013 with an EBITA margin around 11%. The two businesses, the two major business, Laundry compared to the vacuum, one represent two-third, the laundry one third. Let me say, in term of margin, at this stage, we don't – we are not planning to disclose, even if we can anticipate, that somehow today the vacuum business is somehow higher in – was somehow in 2023 compared to laundry.

Hanna Lindbo

Analyst, DNB Bank ASA (Sweden)



All right, that's clear. That was everything for me. Thank you.

Operator: [Operator Instructions] If there are no further question, I think we would say thank you for today and hope to see you in Stockholm on March 13 on our Investor Day. Thank you and have a good day. Goodbye.

Operator: Ladies and gentlemen, the conference is now over. Thank you for choosing chorus call and thank you for participating in the conference. You may now disconnect your lines. Thank you.

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