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Electrolux Professional AB (EPRO.B.SE)

Q1 2024 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 in our First Quarter of 2024 Result Presentation. My name is Jacob Broberg. I'm heading up Corporate Communication and Investor Relations. And with me, as always, I have Fabio Zarpellon, our CFO; and Alberto Zanata, our CEO. I leave the word for you, Alberto. Please go ahead.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob and good morning to everybody.

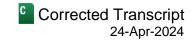
Three highlights from Q1. The first one is that the comparable profit increased. If we exclude the integration related cost for TOSEI, the margin improved sequentially. I would say we are constantly improving the margin. And this is coming because of this is a quarter where we have not an easy comparison with the last one. Now, many things have been different.

So, the first one, obviously, and the large one is the acquisition of TOSEI. As you know, we acquired TOSEI in January, so we have a full quarter of contribution, both in sales and in earnings, in profit. And this has been a positive contribution because we added roughly 7% in sales and the margin of the business generated by TOSEI was higher than the average of the entire group. But, at the same time, we had the acquisition-related cost and in this case, clearly, the contribution was negative, the SEK 38 million, contributed negatively to the overall result.

The other thing to be said in the difficult comparison is that we reported a decline of organic sales. So, this decline contributed negatively to the result. But it is a decline that has also to be seen in lieu of the different – to the fact



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that we were ahead of last year until February in term of organic development, and then the gap was created in March. And March last year was an extraordinary strong month with between 10 to 15 more working days than March of this year. So, comparable profit increased.

The second highlight of the quarter is that we clearly see sign of recovery in the US. Still, sales in the US are down compared to Q1 last year, but the order intake is higher. The pipeline with the chain business is increasing. So, we see sign of recovery in the US.

The third highlights is about Laundry. In Laundry, we decline volume and we decline margin, beside the fact that in Laundry, majority of the integrated related cost for TOSEI are in Laundry. In any case, also excluding [ph] this, caused (03:16) the margin decline, and this is mainly because of the missing volume.

Same comments I made in relation to the overall picture of the group. Until February, we were ahead of last year, then in March, we created a gap. That in Laundry was even larger than for the Food & Beverage business because we had some delays in delivery of some specific product, not months of delays. They've been some days or weeks of delays, but enough to create the gap in the month of March.

[ph] Lastly (03:56) as in the past quarter, we had a strong cash generation.

Comment about the sales, I already made it. So, organic sales, as I said, are down. They've be down mainly in the month of March. I would like just to underline one area, that is Europe Food & Beverage, because whatever is said about working days, about the length of the month of March is valid, obviously, also for Food & Beverage in Europe. But in this part of the world, we have been flattish compared to last year and this is a remarkable performance also because we were expecting a decline business in Europe because of the missing incentives from governments. In reality, the business is holding very, very well. In all this area, despite the decline of the business, order intake is up compared to last year.

Now, let's have a deep dive on that Food & Beverage. Food & Beverage, also in this phase, comparable business, the margin is up. In this case, it is up even considering the acquisition cost. So, it is a sequential improvement of the profitability of this part of the business. It is a good one. Europe is the one performing strongly. But also, the other two part of the business, United States and the Asia Pac and MEA, improved the margin compared to last year. You know that we have a lot of focus on improving the margin and this is proved by what is performing in Food & Beverage. The order intake is higher than what it was last year across the different region, and in particular, we are seeing in North America.

Laundry. Laundry is the area where we had a decline of the sales and a decline of the margin independently from the negative contribution of TOSEI. And this is explained mainly because of the missing delivery during the month of March. As I said, it is related to some product, specifically our semi-professional product and some product coming from the Ljungby factory that, by the way, are the high margin product. But it is delays that we already recovered. So, it is not something that has to worry us in the coming future. The order intake is significantly higher than a year ago.

With this said, I will let Fabio comment the financials.

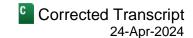
Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody.



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As anticipated by Alberto, quarter one was an important quarter for Electrolux Professional, where, from one side, we have finalized another important acquisition with TOSEI in Japan. But also, we have been able to further strengthened the comparable profitability before the integration cost. Thanks to TOSEI, the top line has been increased by 2.9%, compensating the organic decline of the traditional business of roughly 4%.

Reported profitability was at 10.7% in the quarter. And this amount include, from one side, SEK 6 million acquisition cost. [ph] In term of the (07:44) onetime event when you run an acquisition, that was a SEK 32 million of cost in term of inventory step-up. Without this, let me say, onetime cost, the comparable profitability was SEK 364 million, 11.9%, let me say 0.5 percentage points better than guarter one last year and plus 7% in value.

To be noted that the comparable – the improvement of the comparable margin came both from TOSEI that was in quarter one accretive for the group profitability, but also in the remaining part of the business. While despite the decline in sales primarily in US and in Laundry, profitability improved.

Positive contribution continue to come from price, more than compensating the inflational item like labor cost, but also from a lower direct material cost. Customer Care, that the group significantly last year, continued to grow also in the quarter. Also on the positive side, currency transaction that, if you remember, negatively affected the profit and the profitability of this group, in particular in the second part of last year positive, contributed this quarter.

Few words then about the impact of TOSEI on the group. As I mentioned earlier, the contribution was positive and accretive in term of margin in quarter one to be said that historically in term of seasonality mainly related to the business of laundry of TOSEI, quarter one and quarter three are the largest quarter in term of sales and, therefore, the most profitable quarter within the year.

But also, I believe that is remarkable, the rebalance of the group, thanks to TOSEI, from a geographical and business perspective, meaning if you look into the performance of the quarter in term of sales, currently, the dependency in Europe is below 60% and the remaining 20% are equally – remaining 40% are equally split between Americas and APAC and MEA. So, definitely a much better balance from a geographical perspective, but also remarkable is the weight of Laundry business that is now close to 40% of total group sales.

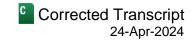
Still in the quarter, despite the higher borrowing, we have been able to reduce the finance net debt to SEK 32 million. SEK 38 million was the spending last year, thanks to our reduced funding cost structure. Tax rate for the quarter was at 28%, slightly above the historical average, mainly related to country mix. Earning per share reduced year-on-year, but this is, I would say, only due to the onetime cost related to TOSEI.

As anticipated by Alberto, and this graph is showing really the consistent delivery on the cash flow. Operating cash flow was over SEK 180 million in the quartet and also TOSEI, acquired company, contributed positively to the cash generation.

When it comes to the balance sheet structure, first, all these data for this year include also TOSEI. Overall, starting from the operating working capital, the rolling 12-month operating working capital on sales reached 17.7% in the quarter, down to over 18% that was already at the end of last year. The major part of the improvement came from inventory, where, as we anticipated during the previous call, the action we put in place to reduce inventory, inventory weight on sales are really now paying off.

Our finance position, also after the acquisition today, remains I would say pretty stronger with the ratio net debt on EBITA at 1.9 times. And the group at the end of March had a cash available close to SEK 900 million.

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Last event, let me say, related to TOSEI acquisition on the funding side was the launch in March and the successful launch of an NTM program in the Swedish debt capital market. The overall frame was SEK 5 billion. We got a pretty good response from the market and we issue SEK 900 million, a part of three years and five years duration. And this successful response was show by an order book that was three times the available issuance we put in place. Definitely with this program, we provide an additional diversification of our funding source. We increase our refinancing capacity, strengthening our credit profile.

So, overall, even after this recent acquisition, thanks to a pretty solid balance sheet, consistent cash generation, diversified funding, we have the structure and the means to continue to support the organic and inorganic development of this group. And with this, back to you Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio.

Few words about TOSEI. As we have been saying since the beginning, the result that we've been reporting included TOSEI. TOSEI in Q1 had a positive contribution, obviously in sales, but also in term of earning and margin. At the same time, we had the acquisition cost during the quarter, in particular, what Fabio described as the step-up cost that are only in Q1. The other acquisition cost, we will continue to have some way along the years, but not in a significant way as they've been in Q1.

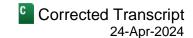
The comment I want to make is that, first, Q1, the seasonality for – in TOSEI Japan is different compared to the remaining part of the group. And Q1 is historically the strongest quarter of the company. So, what we are expecting in Q2 is not to repeat the same contribution from TOSEI that we had in Q1.

Secondly, the activities both to integrate the company, we reported all the data, so it seems that it's proven that they are going well. But also the activities to create value are proceeding very, very well. I've been there a couple of times during the quarter and I found the team engaged, enthusiastic and willing really with the desire to work together. So, we are still confident that as soon as this synergy will be generated, we will have TOSEI contributing to more than – to contributing not only to achieve the 15% target, but also above that one.

The other thing still in Asia is that for the first time, we presented Electrolux Professional Group all together. So, both the Electrolux Professional brand and the Veetsan brand at the major exhibition in China, where we presented a lot of new things, our innovated dishwashing program that we sell under the Veetsan brand in the Chinese market, produced in China in our factory in Shanghai. But even more important, we presented the horizontal cooking range or, as we call, modular cooking XP range. That is a product that we started to produce in our factory in Shanghai, but it is the product that we sell basically all over the world. This is to further reinforce our leadership on the Western cooking product category in that part of the world. Very well-accepted by the market. Now, we are ramping up production and improving and enlarging the range of product to manufacture there.

The other thing that I want to show you is that because we have been always talking about the digital tools or digitalization of the business that is creating competitive advantages, this is a tool that we have been developing together with the logistic provider. And I believe nothing new to see the different ships, containerships travelling around the different sea of the world. But the difference of this tool is that independently from the ships, the dots that you see in the map in reality are identifying where our product and the components that are being used or is going to be used in the factories in our product are loaded in the different container in the different ships.

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So, this is giving the possibility to our planning department and to our order processing department to better plan production and to better keep inform our customer about the delivery of the product. This has been very, very helpful in particular on these days with all the trouble that we have been going through due to the Suez Canal crisis.

With this said, I would come to the conclusion, trying to summarize in few words the quarter, a quarter where comparable profit increase, where sales were up roughly 3%, thanks to the acquired business, TOSEI; sales that organically declined, and I already commented, mainly because of the month of March; a quarter where we integrated TOSEI with a positive contribution, both in term of sales and in term of margin; a quarter where comparable profitability, I said at the beginning, increased and got very close to 12%, 11.9%, that is [ph] 0.5 percentage points (19:25) better than last year.

It is a quarter where we have a strong order intake in Laundry and an improved one in Food & Beverage, including United States, United States, where we saw sign of a recovery, in particular for what concern the pipeline of chains business and the order intake. It is a quarter where [ph] also (19:52) operationally and the basic things about being excellent in operation, we improve, reducing the inventory, generating, continued to generating more than 100% cash conversion, and where we launched the MTN program that improved our ability to finance additional activities, inorganic activities for this company.

So, in some way, summarizing everything in one sentence, the improved comparable profit demonstrates that the quarter was another step in the right direction. With this said, Jacob, back to you and open to answer questions.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Thank you. Alberto said we're open for questions, so I leave it for the operator. Please go ahead.

QUESTION AND ANSWER SECTION

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

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Thanks, operator, and thanks for taking my questions. If I may start on the order intake. You're right that it's - I think the wording you used was significantly better in the Laundry. Would you confirm that that would sort of resonate with the number of, say, 10% to 20%, or what is the threshold for that sort of comment, that would be helpful? Thanks.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Yes, I would say that it is a good double-digit order intake growth that is continuing in April.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Okay. And in terms of – because you had, I think, three quarters in a row now of quite negative growth in the US. Is it – from what you can see now, is it a fair assumption that that should sort of fade to, say, flattish in Q2 and then if all goes well, then grow in H2? Or how do you see that phasing of the US, given that order intake [ph] definitely (22:07)?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

We expect in Q2 to see additional steps, sequential improvement, let me say. Still, I believe Q2 will be flattish, probably could be the words. But I'm not so convinced that we will turn completely the curve in Q2, very close to where they're at. More confident about Q3.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

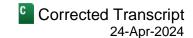
Yeah. And then, if I turn to cash flow then, came in a little bit better at least than we internally here had expected and net debt now below 2 times. So, thinking about sort of M&A now, again, do you think do you have the – is that a priority now this year for additional M&A or do you feel that you have your hands full with TOSEI and that should perhaps more be a focus point next year? How do you envision that both financially, but I guess more with the management focus and so forth?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

[ph] No (23:06). I think, again, we are already working on – or we have been working constantly to build a relation, to scout the market, to look for other acquisition. We didn't stop with the acquisition of TOSEI. You know that it is one of our priority. Then, we have to be ready. The point is that you cannot say now pause and let's start the next year, because these are things that have to be cultivated day by day and the opportunity pops ups and we have

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to find our self ready. I believe that financially and also management-wise, you touch a good point. But also management-wise, we are in the condition eventually to be ready for additional acquisition.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

And then, finally for me is sort of another progression towards your margin target. And the way you look at it now, if you sort of take away the integration cost of TOSEI and perhaps add on what you can see now in terms of synergies for next year, what additional steps do you feel that is necessary for you to take on top of those two items for you to reach that 15% target eventually?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

You know that in the bridge that we have been presenting always, when meeting 50% of the contribution to reach the 15% target comes from volume. So, that is – indeed, it is the point where, yeah, if you want to finger-point something in the quarter, that's the point, the volume. So, volume is the area where we are focusing to growth, volume of high margin product because it's not enough to grow volume generically. The order intake that is growing in such a way is a sign that we are in the right direction to get the volume back.

So, volume is 50% of the contribution that we need to reach the 15% margin. The other 15% is coming from all the other elements. And the fact that the comparable profit increase, despite the decline of the volume, is proving that at least that 15% of the target is I don't mean given, but I mean we are absolutely in the condition to manage that part of the contribution. Now is the volume and we know about that, but that is the point.

The other thing that I believe is important to underline is that the volume mixing up to have Customer Care growing 4% in a quarter, where we had the volume down or organic sales down minus 4%. So, we have a gap of [ph] 8% (25:56) of a business that is, I don't need to say so, is a very high margin business.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

And if I can sneak in one final question. I believe you alluded to on the capital markets update that TOSEI was sort of hurting from the currency and so forth in Q1 that you had initiated cost or price measures that would kick in Q2. The Japanese yen, obviously, continues to deteriorate a bit. Could you give us an update if you see – appreciate the seasonality, but underlying, did you see a margin improvement from TOSEI in those price increases and if you think there's room or need for further price increases, given the FX?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

No, but the price increase that we have been announced have been implemented.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

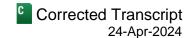
And [ph] did that affect (26:52) already Q1 or is that a Q2 and beyond?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

No, no, no. It's mainly - it will come - it will have a positive contribution in Q2.

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Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Appreciate it. Thank you.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Remember, as I said, Q2, the seasonality is different. So, while for all the other business, Q2 is typically the strongest quarter, for TOSEI, Q2 is typically the weakest quarter.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

I appreciate that. Thanks for taking those questions.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you.

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

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

Yes, good morning. Thank you for taking my questions. I was wondering a little bit, just your gross margin was down slightly. Was that mainly because of the Laundry volumes or were there any of these TOSEI costs in the gross margin as well?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Correct. I would say the gross margin, you see gross margin is somehow flattening year-over-year, but it includes the SEK 32 million step-up cost. Meaning, roughly 1% – like-for-like, in comparable term, gross margin improved roughly 1 percentage point year-over-year. And the improvement, despite the lower volumes, came from the ingredient that I mentioned earlier, meaning good and solid price execution across the different categories, decreased material cost, and also warehousing cost.

Within that, the activities to deliver on the 15% EBITA margin, you recognize these items and on top of it, we started to have also positive and significant contribution from productivity in the major plants.

Johan Eliason

Analyst, Kepler Cheuvreux SA (Sweden)

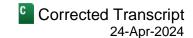
Excellent. And then, while we are on the margin, you mentioned TOSEI is accretive to your EBIT margin. Is that also in both of the divisions and is it also on the gross profit margin?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

So, overall, TOSEI was accretive on the performance of the group in quarter one, excluding the acquisition cost. The underlying performance was accretive for the Food & Beverage business that we anticipate historically is

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above already the average of the group and closer to the financial target of the group. Whilst the Laundry one was somehow decretive for the margin of Laundry in quarter one. But also here, the initiative that we are putting in place to generate the synergies are created means to – that also the Laundry business of todays will be in line with the financial target, where, by the way, it was a – if we go back a few years, TOSEI Laundry business was already on the financial target.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)

Excellent. And then, just finally trying to understand your comments about orders growing in Europe and the US in the quarter and also into April and then you have this working day seasonality this time around. Is it fair to assume that on the back of these comments, we should expect a positive organic growth already in Q2 now on the sales slide?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Let's say that we are talking about the 24th of April. So, in the month of April and during Q1, we had the positive order intake and that the order intake is in value clearly. But I would say that the order intake in value, considering that this year, the price is not so different. So, we had the contribution or the effect of price is not so significant as it was last year. You remember that last year, the difference between value and volume was pretty larger. This year, it is not. So, this means having a positive order intake, we assume that we should grow the business. Now, we are talking about 24 days into a quarter or three months or so.

Johan Eliason
Analyst, Kepler Cheuvreux SA (Sweden)
Okay. Thank you very much.

Operator: [Operator Instructions] Yeah.

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

I have a question from the Web here from Karri Rinta at Handelsbanken. And it sounds like your definition of comparable earnings include the revenue and EBITA contribution from TOSEI, but excludes the integration cost. Is this correct?

Fabio Zarpellon
Chief Financial Officer, Electrolux Professional AB

No. When we look at – exactly. So, we include the contribution of TOSEI in the quarter that we mentioned was accretive to the group performance and this include specifically the SEK 6 million acquisition cost and the SEK 32 million inventory step-up.

million inventory step-up.

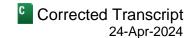
Jacob Broberg
Chief Communication & Investor Relations Officer, Electrolux Professional AB

Any other question from the phone, operator?

Operator: There are no more question at this time.



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Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

If no more questions, I would like to say thank you for today and speak to you next time. Thank you and goodbye.

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