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# Electrolux Professional AB (EPRO.B.SE)

Q1 2020 Earnings Call

## CORPORATE PARTICIPANTS

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### Fabio Zarpellon

*Chief Financial Officer, Electrolux Professional AG*

### Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

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## OTHER PARTICIPANTS

### Lucie A. Carrier

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### Mattias Holmberg

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### Gustav Sandström

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### Johan Eliason

*Analyst, Kepler Cheuvreux SA (Sweden)*

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## MANAGEMENT DISCUSSION SECTION

### Jacob Broberg

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

Welcome to Electrolux Professional Q1 Result Presentation. And my name is Jacob Broberg, Head of Investor Relations here at Electrolux Professional. With me today, I have Alberto Zanata, President and CEO; and also Fabio Zarpellon, CFO.

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

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### Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

Thank you, Jacob. Good morning to everybody. We closed Q1 with a several line items, several things happening to this company. The first one is that we completed the listing clearly. We completed the listing according to the time. And since March 23, we are listed at the Nasdaq in Stockholm. The second one important is despite all the things happening during the last months of the quarter. All of our operation are up and running. We are able to operate in all our factory, the ones in Italy, the ones in France, in United States, in Asia. Not all of them are currently operating at full capacity, but we are in the condition to develop, produce, and ship the products.

Key highlights in this quarter. The first one, the comment about the development of the sales. The market is clearly affected by the spread of the coronavirus, in particular starting from the end of February, March clearly. And our sales organically went down 13.7%. We have also to consider that the comparison is done with the first quarter of 2019 when we had the Subway rollout in the same period and the difference between the two is roughly a third. So, a third of this gap is because of the Subway rollout. The other one is related to the decline of the demand that increased the speed or the magnitude of this decline increased clearly during the month of March.

The second element is the margin profit. The missing volume determined the decline of the margin. We have been able to compensate this decline of the margin and the full impact of the corporate cost that we had in Q1 with activities on cost. We have been able to mitigate this negative impact, not completely eliminating it. Thanks to the [indiscernible] (00:03:01) the EBITA is still over 10%.

The third element is the cash flow. Cash flow in the quarter is SEK 16 million, is lower compared to the first quarter of last year in particular because of two elements: the increase of credit and the increase of inventory. The increase of inventory is something that we consciously decided to have – because we decided to increase the inventory, in particular in the satellite warehouse to make available product for the replacement business.

The increase of the credit is related to the fact that in many cases, customer had to postpone not only the delivery of the product, the shipment of the product, but also the payment. These are things that we are managing. Cash is king these days. So, we are daily managing the relation with the customers, staying close to them, helping them, and clearly looking and monitoring how this element is developing.

As I mentioned, the market is affected by the COVID and is in particularly affected the segment related to restaurants and hotels. That is accounting for roughly 50% of our business. We see that other customers, they are suffering much less. In particular, I'm saying the hospital, the care segment, in general, the operations where we sell our laundry appliances.

This is the reason why we will see Food & Beverage businesses, we see that the decline of the business is more evident with the Food & Beverage segment than the Laundry one. I already mentioned that all of our operation are up and running. And this is also related to the fact that we took already in February actions to ensure the safety and the health of all our people. In all our operation around the world, we had less 10 people infected. We have in place crisis team to make sure that we guarantee continuity particular for what concern the supply chain that is currently working and providing the condition to operate to all our factories.

As I mentioned, the decline of the sales accelerated during the month of March. And during that month, the decline accounted for roughly 25% less sales compared to the same month of last year. The general market – the uncertainty is so high in the general markets so significant that it is not possible to make a forecast for the financial development also because we do not have clear indication of how the pandemic [ph] will contain (00:06:58) when the lockdown will be lifted and so on.

If we look at the geographies before talking about the segments. The most affected area is North America where we had both Laundry and Food businesses down – Food & Beverage and Laundry businesses down. Also because last year, in particular for Food & Beverage, we were comparing the current performance with the performance of last year when we added the Subway rollout.

Also, in the Asia-Pac region, we have a decline of sales of both Laundry and Food. And in this case, it's because the impact of the spread of the coronavirus came first and in particular affected the countries like Japan, Korea where we have a large presence in the Laundry segment. In Europe, that is, as you all know, two-third of our business, Food & Beverage was down while Laundry in the quarter was up.

Now, a couple of words about today's businesses in Food & Beverage and in Laundry. Starting from Food & Beverage, sales were down close to 15%, 14.6% to be precise, and the margin went down. And here, clearly, again we have the comparison with the rollout that we had last year on one side. On the other side, organically, we were even more than 14.6% because we are 20.4% down because we reported that the sales of the unique

company that we acquired in the second quarter of 2019. The decline of the margin is mainly related to the missing volumes in our factories.

If we move to Laundry, the picture here is different because you see that the net sales are basically flat. In Europe, we said that we had an increase of sales; a small decline in the US, while the decline is also substantial in the APAC region because of the spread of the virus affected the first of those countries. The margin in this case is higher than the one reported in the first quarter of last year, is above 17% and this is related to the fact that the impact of the volume clearly we don't have in Laundry or marginally. But at the same time, the actions to reduce costs that we put in place for the entire company clearly had a positive effect on the Laundry business. At the same time, in the first quarter of last year, we had the peak of the investment to introduce the new product, the Line 6000 that we didn't have this cost in the first quarter of this year.

Having said so, I would like Fabio comment more in financials.

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## Fabio Zarpellon

*Chief Financial Officer, Electrolux Professional AG*

Thank you, Alberto, and good morning to everybody. Let me start with the sales bridge. [ph] As just seen in the slide (00:11:13), sales overall decline 9% in the quarter. Currency translation had a positive effect, roughly close to 3 percentage point due to the weakening of SEK versus most of our sales currency, particular US dollar and euro. Acquisition contributed close to 2% [indiscernible] (00:11:39) to the UNIC, the coffee espresso company we bought in April last year.

Organically, the business declined close to 14% or roughly SEK 330 million. Laundry, as anticipated by Alberto, was slightly declined 2% compared to quarter one 2019, and so far somehow confirming the largest resilience of the customer segment served by our Laundry segment. And this somehow a good news because as you have seen, Laundry in quarter one was back to the historical level of profitability, 17.7% was the margin in quarter one.

In Food & Beverages, the decline was close to 20%. And as Alberto mentioned, roughly one-third was related to the larger Subway rollout in quarter one last year. If we exclude this larger rollout, when we're looking to the geography, US was somehow flattish on quarter one last year. While the Europe and APAC declined, somehow APAC faster than Europe because starting from China, it was earlier affected by the coronavirus business consequences.

When it comes to the financial overview, we reported 10.6% EBITA margin in the quarter, roughly SEK 100 million below last year. The main driver, as Alberto anticipated, was due to lower sales and production volumes that accounted roughly for SEK 170 million in EBITA. The efficiency measure that we put in place compensated this lower contribution from sales and production for roughly one-third. And we find this benefit both in reduction of the lending cost but also reduction of SG&A. And this, overall, one-third of cost mitigation is including also the additional cost to operate as a standalone company.

But let me also take the opportunity to give you an update about two pillars of our margin expansion. First, the restructuring plan that we launched in September last year is proceeding according to plan. And as anticipated during previous investor call, we expect that in quarter three this year the benefit from the restructuring will fully compensate the merging cost to operate as a standalone company.

On the continuous improvement, when we focus into January and February, definitely we have been able to deliver according to plan on the productivity in our factories, as well as on the direct material cost reduction.

R&D, Alberto already mentioned, we had the peak last year due to the large effort to introduce new product in the market, and we have seen a considerable reduction along the first quarter.

Additional measure have also put in place within the product cost but also SG&A to reduce the running cost, both for what concerned the labor cost, reducing temporary people, reducing or cancelling overtime, asking the people to consume previous year holidays, as much as putting on hold or a majority, I will say, of the external spending. Overall in the quarter, currency contributed positively, both translation and translation in the comparison.

When it comes to operating working capital, reported operating working capital increased roughly 5% year-on-year. This increase is due mainly to about two factors. First the weakening of the sector, boost in fact the value of operating working capital. And secondly, we have in the perimeter this year unique, the coffee beverage company we acquired April last year.

In comparable parameter, meaning excluding from one side of the currency translation impact and the unique operating working capital in absolute term at the end of March was roughly 9% below the same level of March 2019.

When it comes to average operating working capital sales, instead it increased to 18.2% at the end of March. And this is due to the acquired businesses that have higher operating working capital rate on sales. And overall, an increase of the average inventory due in particularly last year due to the overlapping of the phasing of result of new products. Lower sales also in Q1 negative affected the KPI.

On net debt, we have reached SEK 1.088 billion at the end of March, roughly SEK 60 million higher than December, ending up Q1 with a ratio, net debt on EBITDA below 1 conforming a strong point of the company that we are a pretty low leverage company.

In Q1, as anticipated, we have put in place a long-term loan for SEK 600 million and a revolving credit facility for €250 million. We have repaid the loan to Electrolux Group the financial loan for roughly SEK 1.2 billion. And at the end of March, Electrolux Professional Group had enched SEK 643 million and additional available revolving credit facility for SEK 190 million. Cash flow in quarter one was SEK 16 million, roughly SEK 200 million below last year.

I've also touched about already about EBITDA that was the first ingredient roughly SEK 100 million lower than quarter one last year. He mentioned already about the development of inventory. Let me elaborate more around CapEx.

CapEx in the quarter was SEK 100 million. SEK 70 million is referring to the finalization of the acquisition of the production site of SPM. SPM is the cold beverage company that we bought in 2018. And in quarter one, we finalized the acquisition of the real estate that we consider a key location for the future development of the cold beverage within the group.

When it comes to the investment in Thailand is continuing according to plan. The Thai investment is a major investment that we are running this year. This is about the buildup of a new production facility in Thailand, where we are going to consolidate the existing manufacture operations of laundry and beverages into a unique site, where we are going to implement the state-of-the-art for what conserved manufacturing with a clear expected benefit in term of service level to the customer average you've seen the running cost.

The project, as anticipated, is proceeding according to plan and is expected to be finalized in quarter one next year. Once this project is completed, we expect that the level of CapEx on sales will be back at the historical level.

Having said so, let me also touch about specific action that we are taking in this moment to preserve the balance sheet and cash in this difficult environment. Alberto already mentioned about what we are doing on receivable. We are strictly monitoring the development of the receivable both of what concerned the collection activities as much as continue to review our customer assessment.

We have are reviewing the planning for what concerned the inventory level to secure from one side of the front as to the availability of the products but also monitoring the development and driving the development of the inventory value.

Last but not least, we have taken action to reduce not only the running costs, but also the level of CapEx for this year. And management has decided to keep few strategic projects. One is the ones related to Thailand, and a few selected development projects. This is key for us because we want to have the same time to reserve that cash short time because cash is really important in short time but also continuing that on few selected strategic initiative for the future.

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## Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

Thank you, Fabio, and before summarizing the point that we presented during this call and opening for question, let me talk about also the opportunity that we have as a company, not only to get business but also to contribute positively to what is happening around us all around the world. In particular, I would focus on the laundry solution that we already offer but we are also developing to address the increasing demand of hygiene, sanitization, defined clearly in the healthcare segment, in the hospital [indiscernible] (00:24:12). This is going to happen everywhere.

You already saw that the laundry business, during the first quarter, was flattish compared to last year and this is because we have been able to react very quickly to the increased demand coming from hospital for solution providing laundry installation with a high level of hygiene.

Here I'm giving you a couple of example: Moscow and Turkey, Montenegro and France, Germany, Dominican Republic. So, as you see, basically, all around the world, we're in a very short time, typically, on a hospital project as a layout of some months. Here, we received a request that we deliver and we answered to the request in some weeks. This is also because of the increase of the availability of product that I mentioned at the beginning.

This is again, I said had this is a business, in the case of laundry that's also a profitable business, but it's also a way to help all this operation to addressing an efficient way a problem that is clearly affecting all of us.

So, summary, during the first quarter, we experienced a decline of the sales. Decline accelerated during the month of March, decline that initially touched the Asian region, the APAC region, but then basically spread all around the world. The two segments were affected differently because of the customers that are using this product. Laundry was stable compared to the first quarter of last year while food also with a tougher – also because of a tough comparison with a quarter where we added [indiscernible] (00:26:38) a decline around 20% organically.

Laundry not only was stable in sales but also improved on the margin, that of the volume that we had but also to the fact that the cost to launch the new product that we add the last year were not present in the first quarter of this year.

Action to strictly control the cost are in place. We control the cost, all discretionary spending, all the investments, and clearly we are strictly monitoring the cash both for what concern the outstanding credit but also for the incoming orders that we receive.

The third point is that the uncertainty in the market is high. There are signs of – that are showing that the lockdown is going to be lifted but the uncertainty remain. And for this reason, we don't see possible to make a financial result and a financial forecast.

The last point that was underlined by Fabio, we have a strong financial position that I think is very relevant to these days that can give us the possibility to handle a longer buildup of downturn.

With this said, Jacob, I would turn to you again to open for Q&A.

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## Jacob Broberg

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

Thank you, Alberto. Now we open up for questions. You can ask questions via the phone but you can also ask questions via our Web by typing in your questions there. So I leave it to the operator. Please go ahead, operator.

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## QUESTION AND ANSWER SECTION

**Operator:** All right. Thank you. [Operator Instructions] So our first question, Lucie Carrier from Morgan Stanley. Please proceed.

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### Lucie A. Carrier

*Analyst, Morgan Stanley & Co. International Plc*

Q

Good morning, gentlemen. Thanks for taking my question. I have a couple that we go one at a time. The first one is around the current trading. Thanks for providing us with the 25% number for March. Are you able to maybe qualify a little bit how the 25% was played between Laundry and Food & Beverage and more specifically as we were in April and we just ended the month of April. Can you maybe quantify or at least comment qualitatively on how April has compared versus March? So, that's my first question.

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### Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yeah. As we said that due to the uncertainty that is in the market, we do not provide any forecast related to the quarter – to the coming quarter, the quarter two. For what concerned the March, the acceleration of the decline with different level, with different effect but affected all the geographies and all the businesses.

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### Lucie A. Carrier

*Analyst, Morgan Stanley & Co. International Plc*

Q

Okay, all right. Well, I was asking about April, which is already behind us. That's a fair enough issue. You cannot provide an indication. On the saving side of things, you said that you've started different measure in terms of cost

saving last September. Can you maybe help us to understand which magnitude of savings you are targeting? What's the cadence in terms of the savings to come through? And are you able to provide how much savings you benefited from in the first quarter, please?

**Fabio Zarpellon***Chief Financial Officer, Electrolux Professional AG*

A

Fabio speaking. First of all, let's distinguish two lines of action. The first one is about the benefit of the structuring plan that we launched in September last year. That was the foreseen reduction in the group of over 130 people. As I mentioned earlier, the execution is going according to plan. For overall this year, we expected close to SEK 100 sack benefit coming out to – from this plan. And as I mentioned from quarter three, we expect the benefit to compensate the additional cost as a standalone company.

Secondly, for what concerned the other action that management is taking to reduce their running costs, we already provide earlier an order of magnitude out of SEK 170 million lower contribution for volumes in quarter one, roughly one-third has been compensated through reduction of running cost, either related to labor cost or related to external spending.

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

Q

Thank you. Maybe then in this case, can you remind us the overall size of the program that you said you've provided data for earlier?

**Fabio Zarpellon***Chief Financial Officer, Electrolux Professional AG*

A

You mean about the restructuring program?

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

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I mean, about the newly launched initiative to compensate from the effect of COVID and so on.

**Fabio Zarpellon***Chief Financial Officer, Electrolux Professional AG*

A

Okay. I mean the initiative that we put in place to compensate for the impact the COVID-19 refers to running cost and the further to liquidity. On the running cost, we act on the labor cost, meaning, we release temporary people, we stop overtime, we ask the people to consume holidays, so to reduce the running labor costs. We have a hiring freeze in place. For what concern the external spending, we put on all the majority of marketing external spending. We have stopped all consultancy activities, so we work also on this line.

The second layer is about the balance sheet and the cash flow, and here I mentioned before the activities that we are doing focused on credit collection as well as the [indiscernible] (00:34:13) CapEx. When it comes to amount, as I mentioned, in quarter one overall, these activities for the P&L had impact of roughly around SEK 60 million, SEK 70 million. And we find it both in the lending cost and the investments.

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

Q



So, shall we assume that this SEK 60 million to SEK 70 million of savings is a reasonable run rate for the rest of the year in terms of the savings?

**Fabio Zarpellon**

*Chief Financial Officer,  
Electrolux Professional AG*



I mean, we are not going to give a forward look about the saving on the quarters to come. It is clear that, in the current environment, management is taking action that does, at best, compensating the impact on the volume. But we are not going to disclose how much the expectation for both the reduction on the coming quarters.

**Lucie A. Carrier**

*Analyst, Morgan Stanley & Co. International Plc*

Q

Okay, understood.

**Fabio Zarpellon**

*Chief Financial Officer, Electrolux Professional AG*

A

What I can confirm is that the action that we have put in place in quarter one will continue until we see a recovery in the market.

**Lucie A. Carrier**

*Analyst, Morgan Stanley & Co. International Plc*

Q

Okay. Thank you very much. And my last question I guess was around the receivables and I understand that there are some pressures here. I'm assuming mostly coming maybe from your food and beverage customer, I mean, can you maybe comment on what are the leverage you have to actually get paid and how much visibility you have on the credit situation of your customer, whether this is the distributors maybe or some of your largest customary in the food and bev sector?

**Fabio Zarpellon**

*Chief Financial Officer, Electrolux Professional AG*

A

Okay. Let me say I believe that first of all it's somehow pretty early to judge key customer behaviors. But what we started already to see March and somehow also in April is that customer – has keen for adding prolonged payment terms. This is somehow the learning that we are having so far. We are considering the requests per customer. We are reviewing and assess case by case new payment condition but continue to protect the balance sheet and the guarantee that we have in place.

Let me add in this respect that historically, Electrolux Professional has a large majority of the receivable that has some sort of retention. What I mean is that we have in most of our countries the credit insurance in place and part of our customer base is government or [indiscernible] (00:37:51) state related. So in term of impact in the P&L of the situation, we may have some attention but I would repeat that a large portion of our receivable is protected.

**Lucie A. Carrier**

*Analyst, Morgan Stanley & Co. International Plc*

Q

Thank you very much.

**Jacob Broberg**

Senior Vice President  
Investor Relations &  
Communications,  
Electrolux Professional AB



Jacob Broberg here. I have two questions from the Web. The first one is from Johan Eliason at Kepler Cheuvreux. It's on second-hand market. How much of our sales in competition will be the second-hand market? And how do you think this will play out in the coming years I mean when products might be flooding the market of used products? That's the first question.

The second I guess as far back to the second one is on administrative expenses that are up SEK 46 million year-on-year. What is driving the increase of administrative expensive? Is there any one-offs in relation to the listing? And when should we expect the costs for the new corporate functions to be fully offset? Those were two questions from the Web.

**Alberto Zanata**

President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So I can take the first one. We shared a lot about this second-hand market of likely use appliances that should flood the market. Our experience is that in general, the second-hand market is relatively limited because of the user that is made of the appliances. Normally, if there is an operations going out of business or a restaurant that closing and not reopening, the new operator is taking over the appliances that are there. If you want to consider this as secondhand market, yes there is.

How we can work on this one? The thing that we are doing is to be prepared, for instance, for what concern the customer care business. That is an important element of our business both in terms of net sales and in terms of margin. During the past weeks, the location were locked down. So ,there was not even the possibility to access this location. But we are expecting that with the reopening of the activities, there will be an increased demand of the maintenance, service, repair, and other things.

Even more in case these appliances are used by other customer than the original owners. We are preparing a specific program that is offered to everybody for what concern exactly the restart of the different operations. Fabio?

**Fabio Zarpellon**

Chief Financial Officer, Electrolux Professional AG

A

Yes, when it comes to the development of the administrative expenses year-over-year, first from the presentation, as on sales also here, we had an impact of the currency translation. But let me park it for a while. The majority of these SEK 46 million increase is related to the standalone cost as a corporation, meaning we have created new function that we did not have before, like for example, legal, Investor Relation, tax, that we were receiving from the group. Then second piece of the increase is related to UNIC that was not part of the parameter of Electrolux Professional in the first quarter of last year.

When it comes – you asked about any specific cost related to liquidation, yes, there are some, but I will say is not really material into that increase.

**Jacob Broberg**

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

Okay then, we open up for more questions from – please go ahead, operator.

**Operator:** All right. Sure. Next question from Mattias Holmberg by DNB Markets. Sorry. Some problem. Our next question from Gustav Sandström from SEB.

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Gustav Sandström with SEB. [indiscernible] (00:43:10).

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yeah.

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. So this is Gustav Sandström with SEB. I have a few questions if I may. Firstly, if you could give us a remainder about the phasing of the Subway contract into Q2 but indication of roughly shared sales last year for food and beverage would be very helpful. Thank you.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

You want to answer immediately or do you want to make all your questions?

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

No. Let's start with this one. Thank you.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

I can take it. I mean Subway rollout actually started in quarter three 2018 and ended up in quarter two 2019. In quarter one last year, Subway rollout was in order of magnitude around SEK 100 million, and it was completed in quarter two last year, and the impact in quarter two was somehow lower than quarter one.

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thank you. That's very helpful. And also if you could give us a rough indication of the organic decline you saw in March 25%. To what extent that relates to price mix or if it all relates to volume? Thank you.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

I can take it. I mean, what I would say that majority of, I would say, the decline is related to volumes. So far, we have been able to continue to stick on the pricing overall. And if I look into the quarter one, rise to customer, positive contributing to the development of the EBITDA.

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. And alluding to a previous question, the 25% decline in March, is it a fair assumption that it was a bit stronger in the beginning of March rather than the end when there was slow – more of a full closedown in your key markets?

**Alberto Zanata**

*President & Chief  
Executive Officer,  
Electrolux Professional AB*

I would say that when we look into the development of the month of March, somehow we saw an acceleration of the sales decline in the second part of the month due to what is happening in the major countries where the lockdown was extensive to more and more countries in a much more restricted way.

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Great. So, would you say that sort of the first half of March was more similar to the two first month of the quarter and the main share of that drop related to Q2 – or second half or was it more of a smooth transition between the weeks in March?

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Let's say that. It changed geography by geography meaning that, end of February, we had – we already had the impact in China. During the month of Feb – sorry, end of January. During the month of February, we have an acceleration of the decline in Japan, Korea, that are important market for us, and particularly on the laundry side. Then at the end of the month of February, beginning of March, we added the South European countries. Then gradually, the spread of the virus and the initiative to lockdown operations was extended to all the European countries and also in United States. So, it was a gradual acceleration of the decline of the demand related also to the evolution of this – of the pandemic.

At the same time, in March, we already started to experience a reopening of some operations in China. So, they've been clearly is hard to compensate. The situation in the European market with what was happening in China. But the dynamics are so different in the different geography and they are changing really by the day and that's the reason at the end where we decided not to provide any forecasting in some way.

**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. That's very helpful. Lastly from me, on the inventory side, a bit higher in the quarter but could you also remind us to what extent there are additional intermediate inventory in channels outside of your balance sheet at suppliers or dealers or similar entities and that if you could assess how big of share they are of the total sort of market inventory and the development of those in the quarter?

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

In general, nowadays, a dealer – in particular the dealer in Europe in the larger market where we have really local presence with our organization, with the local warehouses, and so on, they don't hold product in stock. So, they rely on the stock that is provided that is managed by the operators. That is the reason why at the beginning I said we moved – we took the conscious decision already in February to move from the two central hubs that we have in Italy and Sweden, at least in Europe, because then we have the one in the United States and one in Asia. But

out of the two European hubs, we decided consciously to move to the local warehouses, most of these products to be present, to be local, to be close to them.

We have the two hubs in North America and Asia that are, obviously, relevant. And I would say a significant inventory that is hold by, not by [indiscernible] (00:50:14), but by our partner is the one of laundry in North America where we are working with a long-term partnership but with a company. And that company, in that case, is holding the stock for the local market.

The increase of the inventory, if I can elaborate a little bit more, is related to, one, the conscious decision that we took to make the product available, this so-called Class A product, the product that are normally used for replacement; but secondly, also because we started to receive beginning of March, end of February a lot of request of postponement of projects and delivery. And that is clearly related to the decision that the government [ph] were taking (51:06) to lockdown operations. So, as a consequence, we couldn't deliver the product. Our customer were clearly not able to receive the product, but, yeah, to postpone the delivery. And in this case, in a scenario where, clearly, we don't know so much, at least the things that I can say is that we did not receive order cancellation of any significance. So, the order – at least until now, orders have not been canceled by – some, yes, but very, very – in a very limited amount, but they've been postponed.

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**Gustav Sandström**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. Thank you for taking all my questions.

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Thank you.

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**Operator:** All right. Next question from Mattias Holmberg, DNB Markets. Please proceed.

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**Mattias Holmberg**

*Analyst, DNB Bank ASA (Sweden)*

Q

Hello. Can you hear me this time?

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yes.

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**Mattias Holmberg**

*Analyst, DNB Bank ASA (Sweden)*

Q

Perfect. So, I actually just have one question on the Laundry segment where you mentioned in the report that the mobility restrictions in Japan and South Korea, in particular, had a negative impact on the consumer-operated laundries. So, just looking at your Laundry business in Europe and North America, I'm curious if, say, the consumer-operated laundry is not the significant part of the mix here or how would you explain that you didn't see the same phenomena in these regions? Thank you.

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Okay. So, let's divide. In Europe, a significant part of our Laundry business is the multi-housing, more than the consumer-operated installations. The multi-housing are the laundry operation that you can find in the basement of apartment house. And there, the customer is not related to the limitation of the [indiscernible] (00:53:18) as such.

In the United States, the large portion of our business – of our Laundry business is in the consumer-operated installation, the coin shops or Laundromat. The limitation of the freedom to move has clearly impacted also these operations. The lockdown clearly impacted this business. And the meaning of that, our customers didn't operate their operations, their shops. But it's also true that this is a business that we believe could recover relatively quickly as soon as the lockdown is lifted because it is a business that's generating cash and meaning that when the customer they go there, they pay immediately. And secondly, the investments for whoever is opening a coin shop is normally a very good investment because the return of investment is relatively short.

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**Mattias Holmberg**

*Analyst, DNB Bank ASA (Sweden)*

Q

Thank you.

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Welcome.

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**Operator:** All right. Next question from Johan Eliason, Kepler Cheuvreux.

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**Johan Eliason**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Yes. Hi, this is Johan Eliason of Kepler Cheuvreux. Just coming back to this question about the secondhand market. As we look at the financial crisis a decade ago, you showed negative organic growth for the initially, but then also for consecutive three years. Was that because you saw some impact from secondhand taking away your opportunity or was it just there were fewer sort of projects available for your project business at that time?

Secondly, also taking some lessons from that time, you actually managed to see a pretty decent margin development during these years with negative organic growth. How – were there any specific actions you took at this time to make sure that your margins stayed this solid? Any inputs on that would be very appreciated. Thank you.

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yeah. So, obviously, we are trying to learn as much as possible from the past, meaning that was the previous period, the previous cycle when we experienced a decline. Even if it is a quite different situation in the meaning that on that time it was financially driven. Here it is driven by people behavior, I would say. So, we have also to regain the confidence of the people to go out or to travel and to do all these kind of things.

But let me answer to your question. First one, we had a decline in 2009, like probably every company around the world. Then 2010 we had a rebound and this rebound was driven by the incentives that all the countries gave to their operator to restart businesses. Then, we reported again a couple of year – consecutive year of decline differently, for instance, from what other company in another geography, like United States, because of the financial situation of the European market and in particular the South European markets. Those were the year were – that was a financial crisis that affected in particular some countries and Europe in general much more than

other geographies. So, that is the reason why [indiscernible] (00:57:27) for surely not the secondhand market. If I base – if I think about what happened during those year and I try to replicate this experience in this one, I would say that the secondhand market did not significantly impacted our business.

The second question was about the margin. And in this case, I would say is very similar to what we are currently doing. So, during those years, we immediately put in place actions to reduce the spendings, the daily spendings, the run rate spendings in the same way that Fabio described. We also reprioritized the investments giving priority to the projects that can deliver short-term return, but also the strategic ones, never stopping strategic activities because otherwise they are blocking when everything restart.

I would say that we are replicating the same actions here. In addition to that, we are clearly also preparing as we did, by the way, on that time even for the worst in the meaning that the current activities, they have an immediate impact and you saw this Fabio was mentioning the SEK 60 million to SEK 70 million of savings have generated in the quarter, but we are also preparing to make sure that – preparing action to make sure that we are preparing them for the worst.

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**Johan Eliason**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Q

Just coming back to your comment about the reason for the weak growth was that Europe remained lower for longer. I mean, your German competitor, Rational, also saw a drop in 2008, 2009, but then they saw positive organic growth. And I think they had a pretty Europe – big European exposure as well. I understand they are claiming that there was a penetration game going on for them with their [indiscernible] (00:59:54) taking share from traditional [indiscernible] (00:59:56) which allowed them to have an organic growth also during this period.

Do you see any sort of driver similar to that one that could be sort of offsetting factor for you in the coming years, there's some sort of technology that could imply that your new products will be in demand over old products?

And then, secondly, in the financial crisis, your focus was clearly not done on acquisitions, and then you only really thought that acquisition game 2015 and forward. How do you consider M&A right now? Obviously, time being cash preservation is the key. But in a year's time, do you think there will be an acceleration of M&A potential for you?

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Okay. First question, without doing any comparison with other company, obviously, but I can tell you that in those years that the percentage of sales are coming from Europe was much higher than what it is right now. Already now, we are 66% of our sales coming from Europe. On that time, it was much larger than what it is today. And there's a consequence where we are really unbalanced towards this part – our home in some way.

The second one, product wise, for sure, on that time, the specific segment of the [indiscernible] (01:01:30) was unsaturated. There were markets where there are many kitchen without those products and that gradually replaced the other, let me say, older technology with [ph] news one (01:01:46) because of the efficiency. We also participated in these – we enjoyed this change of the market because we are one of the leading company also with this kind of technology.

But to see a technology today that could have a similar impact, I would say in the Laundry, we see that there is an increased demand of appliances that can guarantee a unique solution also in the kitchen by the way, so this is a very, very important. We see an increase of demand for instance of dishwashers because clearly, you can't

guarantee a better sanitization of the items that are used in the restaurants. Thanks to well-operated dishwasher. This, for sure, with the restart of reopening of the operation will increase.

In term of new technology, we are starting and monitoring what is happening. For instance, there is a significant increase of restaurant who converted themselves to takeaway activities. So, restaurant that never had or never provided takeaway services or delivery services that are now doing this, together with this increase option that they are giving to the customer. There are also their [indiscernible] (01:03:26) kitchen, so the kitchen that are used by the delivery operators that are growing significantly.

In this case, probably different technology [ph] or probably (01:03:42) – we know that different technology are used. They are more based of high frequency instead of batch productions. And as a consequence, our product ranges has to adapt and to evolve in that direction.

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**Jacob Broberg**

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

I think...

A

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

The last part was about acquisitions. So the third part of your question is about acquisition. Acquisition are still part of our strategy. The strategic pillars, the strategic direction are not changing. Whatever we said in term of priority for us to grow the business, we believe are still the same, is still valid, the customer care is still valid that the innovation, the technology is still valid, the expansion, the geographical expansion to rebalance our presence. And clearly, it is still valid that the acquisition that can help to accelerate our growth.

During these days, it's difficult honestly to talk about acquisitions because of the valuation of the company. But for sure, the subject is on the table and we will be ready if there are opportunities.

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**Johan Eliason**

*Analyst, Kepler Cheuvreux SA (Sweden)*

Okay. Thank you.

Q

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**Jacob Broberg**

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

I think we'll take the last question now for today. It's from the web. It's Stefan Stjernholm from Nordea. He says, can you give some color to your service business? I mean, I guess customer care, how that developed in Q1. And he also says that, I understand that you do not want to give any figures for April, but your competitor, Rational, stated their order intake was down 30% in March and 60% lower in April. Have you seen the same kind of month-over-month drop? Those were two final question questions for the call today.

A

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

Okay. So, the first one is about the service. The second is about April. Again, [ph] other people what they said (01:05:50), we don't give guidance for what concern – product concern on the quarter. So, I will not comment on that one.

A



If I comment about service, service during the month of March presented several challenges, new challenges for us honestly, because during the crisis one of you was mentioning or comparing the present time to 2008 or 2009. During those years, service went up significantly because of people are trying to repair product and keep them going.

In the month of March, in many cases, we were not even allowed to enter the site. So, we put in place actions like remote monitoring of the appliances. Thanks to the fact that a large portion of our appliances is connected. We put in place, what we call double pair of eyes, so this means that in many installation like hospital, or in a case large installation, they have internal technicians and we have been able to guide them with our expert working remotely.

I think I mentioned that we are expecting that as soon as the lockdown is lifted, many customer will need to have the product, let me say, maintained and put in place – putting in actions again. But that was pretty new for us in March, and this is also explaining why the two kind of crises are pretty different and difficult to compare one with the other.

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## Jacob Broberg

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

Thank you, Alberto and Fabio. With that, I would like to round off today's call. Thank you for listening in. This will also be available as a recorded version on our website afterwards. So, thank you for today and speak to you next time. Thank you and goodbye.

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