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Electrolux Professional AB (EPRO.B.SE)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Good morning and welcome to Electrolux Professional Q2 Results Presentation. My name is Jacob Broberg, Head of Investor Relations. With me, I have Alberto Zanata, CEO of Electrolux Professional; and Fabio Zarpellon, CFO.

We'll start our presentation with Alberto. Please go ahead, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob, and good morning to everybody. To comment the second quarter, I would start from the industry, a picture about the industry. And, clearly, we can see that the industry had a recovery. The recovery has already started in March and accelerated during the quarter.

The recovery is driven by the lifting of the restrictions and the reopening of the operation of our customers. Mainly, the recovery was seen in North America. And we have – if you remember, recovery has already started in Q1 in North America, and during the quarter, mainly towards the second part of the quarter, also in Europe, with an acceleration that was higher than expected.

The business – not all businesses are up and running. We still have some segments, customer segments, such as, for instance, the business travelers, conventions, exhibition, this kind of customers that are still suffering. But we have to say that all the other segments are moving really well. It is mainly a replacement business, even if we

can see that also, the project business, so the complete renovation of the operations of our customers are coming up and are under evaluation.

If this is the industry, Electrolux Professional captured the opportunity offered by the growth or the recovery of the industry growing phase. We developed sales compared to last year. We have to say that the second quarter of 2020 was a – that quarter, I remember, one – if not the worst, for sure one of the worst of the history. So, very impacted by the pandemic, while in 2021 the second quarter, we developed sales mainly again in Europe and North America because of the recovery of the industry. Still not at the level of 2019.

We have some countries and some businesses, for instance, the Laundry in the Nordic, that are very close to the 2019 level. But still in general, our sales are not on the 2019 level. Even if we have to say that the order intake, so the collection of the orders and the order stocks, so the order that we have in-house at the end of the month of June are higher than 2019. The third point is that, thanks to this volume development, also our profitability is back over 10%. So, we are again over 10% with the cash conversion more than 100%.

If now we go into the geographies. I think I've already introduced the fact that the sales was particularly strong in Europe and in North America. Again, if I look at the comparison with the same quarter of last year, it's very strong in South Europe, but also because the South Europe was the most affected in 2020 by the pandemic, by the restriction imposed by the different countries. The same applies to North America where the percentage is very high both in Laundry and in the Food and Beverage. But in the Laundry, last year, for instance, we had the distributor in North America that was destocking during the second quarter. And as a consequence, the comparison is not a fair one.

The growth is lower than in North America and Europe in the Asia-Pac region – Asia-Pac and Middle East region because that is the area that started earlier the recovery already during the second part of 2020. And now in some ways they're suffering. A country like Japan, for instance, we all read what is happening with the Olympic Games, is suffering. And Japan for us is an important market. China is doing extremely good. It's a – the market that is not the most – the market that is developing faster but surely is doing very well in [ph] the end (05:18).

A good comment about the business development, in all of the region, in this case, is also – is that also Customer Care. So, all our business that is coming after having sold and delivered the product to our customers is growing at this stage and same level of the product, Customer Care was suffering all along the period, all along 2020 and during the first part of this year, because you remember we were not allowed to enter the site of our customers. Now, with the reopening, with the restart of the business, with the need to restart the product, also the Customer Care business develop and is back to a trajectory that is very positive.

Couple of words about the two different segment, starting from the Food and Beverage. Food and Beverage was the one suffering more during the pandemic. Also, the recovery is more positive, obviously, for what concern this segment. Good development of the sales across the whole region, I would say, in particular, again, the South European – Europe in general and South European in particular because they've been the ones more affected last year. Also in Food and Beverage, we have a situation where we are collecting orders and we are sitting on an order stock at the end of June that is on the same level of 2019.

If we go to Laundry. Laundry, in this case, the development of the sales is more softer. We have to consider that we always said that during the bad and good times that the Laundry business is a good business that is developing, that is less impacted by what happened during the pandemic. The good thing to show the Laundry business and it's nice to see also in this chart about the profitability. You see that, all along the period, we have

been always keeping the Laundry business in a double-digit area. So, it's a highly profitable business that is developing nicely.

With this said, I would like Fabio comment the financials.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

Thank you, Alberto, and good morning to everybody. As anticipated by Alberto, EBITA in the quarter was 10.1%. Food and Beverage, with the recoveries of sales, show a continued recovery of profitability that was 9% in the quarter. And as Alberto just mentioned, Laundry confirm the good and stable EBITA margin ranging around 16%.

When it comes to the group common cost, we had no material change year-over-year. In absolute term, operating income increased by roughly SEK 200 million in the quarter. The main contributor was increased sales and production volume but also price as well as the recovery of the high-margin Customer Care business, that Alberto just mentioned, were the main contributors for this – to this SEK 200 million.

While reading through the P&L, we see a significant increase of the gross margin. Gross margin was 5.5 percentage point higher than quarter two last year, and it's now running, let me call it, at a more normalized level. The improvement in gross margin was mainly driven by higher sales and production volume, but also happy to report that we have a significant increase in the productivity across our plants in Food, in Beverage, and in Laundry.

When it comes to the raw material development, as well as transportation cost, we have had no material impact for what concern quarter two profitability. Nevertheless, as we anticipated during last call, we expect an impact from increase of raw material in the second part of the year. Because of this, we have already implemented an additional price increase for orders to be received from 1st of July. Price increase that we expect to fully compensate the direct material and the transportation cost increase.

Few words on the operating costs, both in gross margin as well as G&A. Cost increase compared to the low level we had in quarter two last year where most of the activity were put on hold. And this increase is a deliberate decision to support the restart of the activities. Overall, and this is what is matter to secure productivity in our organization, the weight operating cost on sales decrease.

Few words on the balance sheet. At the end of June, operating working capital in value was roughly 10% below June last year at the same currency despite 38% higher growth in term of sales. When it comes to the operating working capital on sales, we are now running at 17.4%. I will say quite an improvement compared to the peak we had in September last year when operating working capital on sales were reaching 20%.

Main improvement came from inventory management. But also, happy to report that one-off spend that was the increase of past due that we had during the pandemic period in 2020, now is normalized, I would say, moving towards the pre-COVID situation. As you see in the graph, now we are running operating working capital back at the level we had in 2019.

When it comes to the financial position, the financial position has been further strengthened in the quarter. Now, the – we are running the business with a net debt level that is just above SEK 400 million. And it has been reduced by 80%, 8-0, compared to the date of the listing.

Our group has liquid fund available for SEK 750 million. We have a revolving credit facility available for €175 million, confirming that we are well-equipped to support the business development of this group going forward. Happy also to report that current level on net debt [ph] on (13:02) EBITDA is at 0.5 times.

A few words on the operating cash flow, as Alberto anticipated, we delivered a good cash flow in the quarter, SEK 223 million was the amount, with over 100% cash conversion on the EBITA. No material change on operating working capital. CapEx for the quarter was around SEK 20 million, roughly one-third are related to the completion of the Thai new plant. Going forward, we expect, as we anticipated also in the previous call, that CapEx on sales will be in line with historical level, around 2% of sales.

So, my conclusion, overall good quarter. We delivered double-digit profitability, good cash flow generation and we delivered all these whilst continuing to invest for the future development of this group.

And with that, back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. I would like to reconnect to the last words of Fabio, meaning that the investments we are doing to grow the business, to organically grow the business. During the quarter, we introduced new products. I mentioned two ones that are in the Food and Beverage area and that are significant. The first one is what we call LiberoPro, is a new product, is perfectly addressing the need of the customer today, where, for instance, in the hotel, in the breakfast area, you cannot have any more the buffet area where people around are selecting the food by themselves, but they are served. And this can be done in – with a lot of freedom, around the swimming pool, during the – in the hotels in any kind of area. It's a good product. It's a great product. And in particular, it is representing also what we mean and what do when we develop new products.

The cooking solution inside of this product, they have up to 90% energy efficiency. So think traditional burners, they have a 50%. So this means that we can generate significant savings in terms of energy consumption, in terms of polluting, and all these things that are around sustainability. So, great product and we expecting a lot from the sales of this unit.

The second one, this is something that we have been already commenting during past quarters, that after two years, after the introduction of the new line of Combi Oven and Blast Chiller, we are relaunching the two lines with a slightly changed aesthetics, but in particular working on the IoT functionalities, whatever is the electronics.

So, we added the solutions that are allowing this product to be connected, to provide additional features to their customers, both of the ones that are using remotely or the ones that are using the product on the [ph] site (16:18). So, also in this case, important product that will surely help us to improve the margin, to improve the business and to capture the opportunity offered by the recovery of the market.

Also, Fabio mentioned the investments to complete the new factory in Thailand. I think this is a subject that we had been mentioning all along the year. June 9 is the day when we completed the move. We completed the setup. We had the official opening. Now, the factory is up and running, is already delivering results during the year when things will be stabilized. We will surely talk more about this one also to show the improvement that we are getting. And we have to remember that this state-of-the-art facility that we have been building in Rayong is not only providing efficiency because we merged two factories into one, but it's also space where we invested for future development because we know that the environment is very competitive, the infrastructure is very competitive, and we can get the benefit from this one.

A couple of words also on something additionally that we have been doing within the Food and Beverage segment. Selecting some food product and some beverage product, coffee product, we also recognize that in addition to develop the business through the Electrolux Professional channel. So, having these products the part of the package that or the full solution that we are able to offer to our customers, there is a possibility to generate a lot of business addressing different segments from the one that are traditionally served through – by our dealers, by our partners. To do this, we created a dedicated group of people, dedicated division in this case, with an integrated functions that is in charge to further accelerate the business of this product. Again, we are talking about specific product in the food and in the beverage segment.

So, before going to the summary and the conclusion, let me remind you that September 15 we are going to organize an Investor Update Day. It will be done in Ljungby, Sweden where we have our laundry facility. The idea about this event is to give you the possibility to better understand this Laundry business that, as I said also earlier, is a nice business. It's a very high margin business. It's a resilient business that didn't decline so much during the pandemic and could drive also the recovery during these days. So, please register to this event. We're really looking for finally meeting in person with you in Ljungby in Sweden on September 15.

Summary of the quarter. I would summarize what happened in Q2 around four – five points. The first one, the industry is recovering. It's not back to 2019 level. But when we discuss about how fast the business is recovering, we have been always referring to a fork between an optimistic view and a more pessimistic one. Optimistic view showing a recovery beginning of 2022. The more pessimistic towards the end of 2023.

I would say that the speed and the sign of recovery are positive. So, probably we are tending towards the most optimistic one. We don't have a news about this kind of research. But surely, the sign of recovery and the acceleration that we experienced during the month of June and beginning of July are in this direction.

Second point. Sales in June were up, still behind 2019. But with a good and positive collection of order, what is called order intake, and a good order stock. So, orders that are in-house and that we are going to deliver during the coming months.

Third point, with the growth of the volume also our profitability significantly increase. This is a business where the volume are playing an important and significant role to generate profits. So, our profitability is back on double-digit. Laundry, you saw, very positive, but also Food and Beverage is in the right trajectory.

Fourth point is that, as we did during the pandemic, we still continue to invest. We invest because new product are the future of, I believe, every company but, in particular, our company. We bring innovation to the market, innovation that are making the life of our customers easier and more profitable and truly sustainable every day. This is what we do and what we think every day when we wake up, and all the products that we are bringing to market are representing this statement.

Last, there is optimism clearly, because of the industry, because of our – of the development of our sales, the order that we are receiving and the order that we have in-house. But we have also to be realistic that there are still some clouds, let me say, up in the sky. So, there are some headwinds. The COVID situation is not clear yet. Yes, we see the light at the end of the tunnel, but I cannot say that we are out of the tunnel yet.

The raw materials, Fabio mentioned that one. The issue of the material is not just the price that is increasing, but is also the scarcity. And the same apply to the logistic and transportation containers, where there is scarcity of containers and the price is up.

I have to say that we've put in place all actions to mitigate these headwinds. Thanks to the great team efforts, we never stopped our factories. We have been able to manage the logistic flow to make sure that the components were arriving in time and to produce what was needed and requested by customers. Price, yes, are up, but, as Fabio said that, not significant impact expected in Q2 also because we proactively brought to market a price increase that will compensate the raw material price increase.

So, with this said, Jacob, back to you and opening for questions.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

Yes. We open for questions. So, please, operator, go ahead.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from the line of Mattias Holmberg from DNB. Please go ahead. Your line is open.

Mattias Holmberg

Analyst, DNB Markets

Q

Thank you. And thanks for the time. A couple of questions, if I may. First of all, I was just wondering if you could elaborate a bit on the comments you made on the sort of current run rate level versus 2019, which seemed to have been closing versus the 15% lower level that you had in Q2 as a whole. Is it reasonable to assume that it's going to be able to catch up to 2019 levels anytime soon, say, within the next quarter, or is that too optimistic? That's my first question.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So, the net sales are still below 2019. In the quarter, they were 15% below 2019. So, the gap is still significant compared to 2019. During the quarter, as I said that, the order intake was higher than the one we had in 2019. And we closed the quarter, so at the end of June, with order in-house, what we call order stock, higher than what it was in 2019.

The point is that, we have to say that this number could be inflated because of two things. The first one, we announced price increase because we announced the price increase end of May, beginning of June. So, typically when you do it, you have a peak of the demand clearly of customers that are looking to book orders with the old price instead of getting the new one.

Secondly, there is also an effect that is driven by the scarcity of components. It's something that you are reading on the papers. So, there are customers that are trying to, again, get the product ahead, order the product, book the product. Because they are afraid that not to get them in the future. So, I'm not obviously answering directly to your question, but there are surely positive signs. Optimism is there. But there are also elements that are still creating some uncertainty on what is coming in the quarter and in the second part of the year.

Mattias Holmberg*Analyst, DNB Markets*

Q

That's clear. Thank you. My second question would be on the price increases that you've announced. Given that they are effective as of 1st of July, I'm just wondering what the impact could be on the margin in the near term given that the orders in the order book is not affected by these price increases. So, is it reasonable to assume a shorter-term margin pressure from this?

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

A

You are perfectly right in the meaning that the impact of price increase will be mainly on the second – on the Q4 more than on Q3. So, again, this is a business where we – yes, it is true that these days we have the replacement. So, if you place an order today for a single product and you wanted to have it tomorrow morning, you paid already this product with a new price, but as I said, we have a pretty large order stock. So, booked orders that are typically booked with the previous price and this is what is covering a significant portion of Q3. We have also to consider that in Q3 you have the summer breaks in the big regions in Europe and Nordic are basically closed on these days. The South European countries will not operate during the month of August or some weeks at the beginning of the month of August. So, it is a quarter, the Q3, yeah, quite particular typically historically. So, the seasonality is what it is.

So, I'm expecting that the real impact of the price increase will be on Q4 more than on Q3. Do also consider that in Q2, we still have a positive impact from material price. So, we are – because we locked the price already last year. And as a consequence, the real need is at towards the end of the year.

Mattias Holmberg*Analyst, DNB Markets*

Q

Perfect. And finally, if I may, I think that you've said earlier that we should expect slightly higher capital expenditure this year compared to earlier years due to the investment in the plant in Thailand. But it seems like the run rate in the first half is below historical level. So, any help here would be great.

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

A

Yeah. I would say, Fabio, probably...

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AG*

A

Yes.

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

A

...you can comment here.

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AG*

A

And this is not by change in the sense that we set priorities. And as you know, the priority in the recent quarter was to drive two major initiatives. One was the completion of the Thai plant, and the second was to drive our digital agenda. So, we have focused our investment in these two main area in the recent quarters, so – and the

major contributor to CapEx was the Thai plant in absolute term. Overall, we kept CapEx on sale at, I would say, pretty low level, deliberately weighting the development of the market.

Now that the situation, as Alberto was saying, is somehow stabilizing, showing sign of improvement, we will start to see an increase of the weight of CapEx on sales, but remaining at, let me say, a pretty manageable level that we gave as a direction, meaning below the – or around the 2% of sales in the incoming quarter and, I would say, also year.

Mattias Holmberg*Analyst, DNB Markets*

Perfect. Thank you so much.

Operator: Thank you. The next question comes from the line of Gustav Hagéus from SEB. Please go ahead. Your line is open.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Thanks. Good morning, guys. Thanks for taking my questions.

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

Good morning.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

I'm also curious about the comments regarding the gap towards 2019 sales diminishing towards Q2. When we modeled in Q3, I note that in 2019 Q3 was 10% lower or something like that versus Q2. Is that a seasonality pattern that – is that a good you think proxy to model into Q3 on seasonality? Or how do you think one – once you think about it or shall we model Q3 2019 equals Q3 2021?

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

The model you are using is based on the seasonality. So, Q3 is typically less strong than Q2 because of what I just mentioned. So, the closure that we have in some markets, September is typically the months of the restart of the businesses that is typically picking up during the last quarter. So, October, November, December.

2019 is a typical year. It is true that was the year when we added the separation process in place. And most of the activities were during the summer. But I would say this did not influence sales, eventually could have influenced operations. So, you can use 2019 as a typical year.

The fact is that the 2021 is not a typical year because we had an acceleration of the sales towards the end of the quarter. We clearly recognize a completely different trend, if I compare April with June, completely different trend. Now, July is running very well. It's not like June because of the seasonality period. So, what we are expecting during these months is, in some ways, still influenced by the uncertainty that I mentioned earlier. We don't know what is happening with the COVID. I believe, this is another element that you should consider in your analysis.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

By looking at the July numbers then, are they currently in line or above July 2019 numbers?

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

A

We are not disclosing this kind of information.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Yeah. Okay. Another question then, you say that you're sort of returning to 2019 levels. So, I reckon that the replacement market is further along that recovery than the project market arenas, and those type of projects, I guess, are few and far in between.

So, does that mean that you had – you are seeing pent-up demand in the replacement market driving this recovery or do you think that you're taking market share in that market or through something else [ph] to (34:21) that?

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

A

No, no. We clearly see a pickup of the demand in the replacement. As I said, we see also that customers are looking at the projects. In many cases, they are thinking to go through the summer with investments done to have the operations up and running, and then eventually think about the new – the total refurbishment of their operations. But, clearly, they are planning that one, and that is part of the order stock, by the way, that we have been collecting.

For what concern the replacement market, again, difficult to say. But I can tell you that, thanks also to the level of inventory that we have been keeping during these days, we are capturing a lot of this business. Because we are able to guarantee product availability, thanks to the stock and thanks to the work done by the people to make sure that our factory are working full time. So, all operations are working full time, are delivering the product. So I would say that we are capturing all the opportunity that are offered by the replacement market.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. And regarding pricing in the market. There's been some comments from competitors suggesting there is some pressure on pricing maybe – in particular, related to projects. Is that something you see as well or is it fading now as momentum seems to be picking up in terms of demand?

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

A

We see this one. And you rightly said, is on projects. In the meaning that, nowadays, for the replacement market, in some way, due to the fact that there is scarcity of product, because there are tensions on making the product available because of the missing raw material, because of the logistics, because of this and that. And because of the high demand of the product, I said that the incoming orders is on the level of 2019 at the end of June. So, this means a pretty high demand in particular compared to the previous month.

So, the tension on price is mainly on the project. Because the project are more long term. So they are projecting this some months from now. And still, there are few projects and everybody would like to have the projects because it's a – the value of a project is clearly much, much higher than the value of the single unit.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

And two short questions, if I may, [ph] just to (37:13) finalize. Firstly, regarding government support. You had some support also in Q2. Is that it or do you expect more to come in Q3 as well?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

I would say, Fabio, you can answer.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

A

Yes. As you see, the government support in the quarter was reduced around SEK 10 million. And I would call it good news because it means that our production facilities now are running at a normalized levels. Considering what Alberto just mentioned in term order stock, order intake, we expect that the government support will continue [ph] somehow (37:54) in the quarter – in the coming quarter, two quarter. But will be really something very tactical and very minor. I would say, lower than we had reported also in quarter two.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. And finally, with these price increases and the current – you said that you've compensated now with price increases for the raw material and freight costs. Should one interpret it as, if prices do not move from here that you're – you don't need to raise prices again to cover for raw material costs into 2022? Is that how we see it or is this more of a Q – H2 thing?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

We are not planning an additional price increase during the second part of the year. We are most probably planning or evaluating what to do on price from January 1. That is typically when also the price list and the other things are changing.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Q

Yeah. Yeah okay. Thanks, guys.

Operator: Thank you. The next question comes from the line of Lucie Carrier from Morgan Stanley. Please go ahead. Your line is open.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Good morning, gentlemen, and thanks for taking my question. The first one was related to the mix of product and, to some extent as well, the seasonality. Obviously, we don't have a very long history in terms of the divisional breakdown of the company. So, I was just, first of all, trying to understand whether you see different type of mix

during the year, for example, in preparation of the summer season, maybe more replacement or upgrade business?

And then, as you were talking maybe of project coming back to the market, I was just curious to understand whether you see a similar type of profitability profile for project businesses, generally speaking, versus the replacement market? So, I'm trying here to kind of see whether in the second quarter maybe we had quite a favorable mix and whether that could shift a little bit as we go forward into the year?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So, first up, seasonality. We have some product that are we call seasonal. I would say, in particular, if we talk about the beverage product, the cold beverage product, they have a very high seasonality during the spring and the summer.

Indeed, within the Food and Beverage segment, also in the past during the pandemic, we always said that beverage was suffering even more than food, okay? During the month of June, beverage was growing even more than food. In the meaning, exactly the opposite because the customers, they wanted to catch up with the – with what they didn't plan during the first part of the year, and the demand of beverage product – also the coffee, but, in particular, the cold beverage product was very, very high.

We have also to think that the investments that the customer is doing to buy beverage product is much lower than the investments that they are doing to buy laundry or food product. So, in some way also, the dynamic to take a decision about investing to buy a beverage product is pretty different compared to the one for an oven, for instance, or a big washer machine.

So, seasonality is mainly related to this product. And, again, it's typically starting during the winter, so February, March going through the summer. I would say that, in this case, it was mainly concentrated during the Q2, so the last part of the spring, and the summer because of the uncertainty that was still very high during the winter, and so the customer didn't invest, didn't feel confident to take decision at that time, and they postponed the decision during the summer.

Then, the second part is about the mixing term of replacement business and project business. Let's say that the selling process and as a consequence all the costs are related to that for the project are typically higher and longer. In the meaning that it takes much more time to prepare the sales of products within a project than clearly to sell the units on the spot having them in stock or with a short production lead time to produce them.

At the same time, obviously, the price is different because when you are in a project, you are embedding all the costs that you are incurring. That is the reason why we had the comment about the price competitiveness that was in some way critical. Because in this moment, there are few projects in the field.

We have also to say that one of the segments that – customer segments that is recovering faster is the one of the chains. Chains are buying not the full project, but they are buying the single units. And in this case, even if the chains are typically great negotiators. So, they are really tough in negotiating price. At the same time, they offer the possibility to have a great economy of scales because they order quite significant volume. And in some way, chains are doing very well in this moment. In particular, in Asia, we are having significant wins with large international chains that are developing pretty quickly.

I think I mentioned during the geographical – the description of the geographical trend, how well is doing China. And in China, we are doing particularly well thanks to the development of the business with chains.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Thank you very much. My second question was more around the competitive dynamic in the industry and particularly on the M&A front, potential consolidation. We've seen, obviously, a lot of news flow on that over the past couple of weeks and months. And I just wanted to understand, on one hand, how do you see maybe these moves impacting you in terms of competition? And considering also your very low leverage, how do you think about your position as a consolidator of this industry and in which area?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Yeah. Yeah. Again, first, clearly during the past months, we've surely been following the big move that happened and – or is going to happen. Because it's not closed yet even if it seems to be finalized between these two large competitors. We don't think it will impacted our approach to the market, our strategy at the market, our competitive position in market, because of the typical strategic approach that they have in terms of sales the two companies we are talking about.

If we talk about ourself that I believe is what I can say more clearly is that, the possibility to add inorganic growth to whatever we are doing organically is part of our strategy. It is not easy. It has not been easy because of: first, 2019, the year of separation; secondly, since beginning of 2020, the pandemic that was in some way putting everything on hold.

We restarted dialog with all the contacts that we have in different parts of the world, clearly with the priority to address the area where we have a weaker presence or a smaller presence, that is the Food and Beverage in North America. Looking at companies that can also give us the legacy relation with the chains, and that is another strategic target that we are having monotonely.

We are still scouting the market, building the relations. We are not yet there, obviously, otherwise we would have communicated things like that. But it is part of our strategic plan to look at this one. And the [indiscernible] (47:00) that we have, and the availability of investing is the tool that we will be – we intend to use.

Lucie A. Carrier

Analyst, Morgan Stanley & Co. International Plc

Q

Thank you very much. Have a nice summer.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Thank you.

Operator: Thank you. We are now taking a web question. Over to the speakers.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

Yes. Jacob Broberg here. We have a couple of questions from the web. There was one from Per Johansson at Bodenholm Capital. That was actually more also related to M&A. Basically the same question as you received from Lucie at Morgan Stanley. But also there is a question, if we would expect to do an acquisition in the US within the coming 12 months. That is the first question. And I have two other questions from Stefan Stjernholm at Nordea. One is if there were any one-off costs or costs related to the new factory in Thailand now in Q2? And the third question is, if we see any risk for supply chain constraints impacting our ability to deliver on the improved demand in the coming quarters?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Okay. So, I would say, Fabio, you can take the question about the cost in Q2, if you want to answer. I can in the meantime answer about the – it is obvious that we are working and we would like to be able to report something about the M&A. I cannot say anything about the closure of an M&A during the coming 12 months. It is an industry that [ph] is a (48:37) way also is moving that. We saw the big move, but that one that was reported a few weeks ago.

We are working for that one, but that is something very, very difficult to predict. For what concern the supply chains, yes, there are difficulties. There is scarcity of material, price up. But, as I said, for the time being, thanks to the great work of our team in operations, we have been able to manage the situation and we did not stop our production. For what I know today, I'm not expecting to see any stop of production and, as a consequence, inability to deliver the product also during the coming months.

Fabio?

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

A

No material cost was booked related to the completion of the Thai operation in quarter two, nor I do expect any material cost going for the remaining part of the year.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

A

And go back to operator, please.

Operator: Okay. So, we have another audio question, this time from Karri Rinta from Handelsbanken. Please go ahead. Your line is open.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Yes. Thank you. Just one question for me and it's about this creation of this new Food Preparation and Beverage unit. So, can you talk a bit more about the rationale? Is it that sort of the [ph] food (50:11) channel logistics, and, i.e., maybe the more direct sales instead of...

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Okay.

Karri Rinta

Analyst, Svenska Handelsbanken AB



...using a distributor? But then, if we talk about the product portfolio, if it – should we think of this as similar to Electrolux's small appliances unit, i.e. smaller products, which maybe are completely manufactured by someone else, and you just sell them further? Or how should we think about this new unit?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB



Okay. So, first, the rationale is that, again, these are businesses. Some of them, for instance, the Food Preparation that had been within our portfolio for many years, some other that were recently added during the past year, thanks to the acquisition. So, it is not just new product or product that we just started thanks to the acquisition. It is a mix of both things.

But all these products, they have a characteristic in common that they are all part of the full package that can be delivered to customers. So, I mean, when we go to a restaurant, to a hotel, staff canteen or whatever, bar, pubs, you can find a product that are in the cooking area, product in the preparation area, product refrigeration, dishwasher, the coffee machine, the beverage machine. So, they are part of the package. And this is what the Electrolux Professional organization will continue to deliver under the Electrolux Professional brand to serve this kind of customer.

But we also clearly realize that the same customer, because the end customer is the same at the end, in many cases, is using a different channel to get these kind of products. Now, I'm using an example that is very, very, very simple to be understood. If you think about the coffee machine, the customer can buy the coffee machine and then select the kind of coffee that he wants to use, buying them macro or any other kind of food distributor, or they can go directly to the roster, so the coffee brand, get the product in use, so not buying the product, but paying the product basically inside of the cost of the coffee.

So, in some ways, a different way of buying, if you want to call buying, or in many cases, getting the product in use. Clearly, the second channel, so the one going through the rosters is not typically served by a food and beverage dealer or food and beverage and laundry dealer or our organization. So, we have to address this kind of customer using different resources.

I'm using the example of coffee, but it's not the only coffee. The same apply to the ingredient supplier. The same must apply to the distributor that are using the food and preparation products and the other [ph] products (53:34). So, we recognize the possibility to clearly accelerate the growth and capture additional business opportunity having this division within the Food and Beverage business focus only on this product.

I would say that the key word is focus. Then, working with rosters, working with ingredient supplier. Ingredient supplier, I mean, company like Coca-Cola, Pepsi Cola just to give you a big names, requires a lot of flexibility. Most of the products are customized. If you think about this product, sometimes you don't even see the brand of the supplier, but you see the brand of the ingredient suppliers. So, there are some rules of the games that are different and they required a dedicated approach, focused approach.

We believe a lot in the possibility to accelerate the growth of the business with this division that is in building that. So, we announced it. Now, we are building the organization around it. And it will be in place during the last quarter of the year.

Sorry. The second part of question was about the portfolio. The portfolio is equivalent to the Electrolux Professional. There are differences clearly. But in terms of products, as I said, the same product are and will remain part of the Electrolux Professional full solution.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Right. And then just a quick clarification. Some companies have been reporting issues with electronic components to the extent that they're saying that, going forward, at least in the next few months, they will have either inability to manufacture products that they want or that they will have disruptions in their production because they can't plan, because they don't fully know when they get their electronic components. So, I think you already confirmed it, but can you just confirm it once more that you don't expect any such disruptions?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

No. This doesn't mean that we will not have to put a lot of effort, a lot of energy to manage the supplier. But we do not expect – we are not planning closure of the factory for this reason. We do not expect to have major disruption because of this.

Karri Rinta

Analyst, Svenska Handelsbanken AB

Q

Perfect. Thank you very much.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Operator: Thank you. The last question comes from the line of Fredrik Moregård from Pareto Securities. Please go ahead, your line is open.

Fredrik Moregård

Analyst, Pareto Securities AB

Q

Thank you very much. Just one question on my side. So, the major acquisition that is going on in the industry in the way that it seems to be closing now, the way I understand it, the buyer could potentially have to divest some businesses particularly on the cold side of their product portfolio to pass competitive authorities.

Just thinking about that from a strategic perspective, because I think you guys have been sourcing some products on the cold side rather than producing it on your own, such as cold rooms. Is there any reason for why you would not be an interesting buyer if there is anything on the cold side would come out in the market from this – as a result of this acquisition?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

No. There are no reason why we are not – we should not consider the – an interesting buyer. We are interested, but then we will see what is going to happen. But again, these are speculation clearly in the meaning that we could expect and we hear that there could be the possibility that one of the two ice business will have to be

dismissed by the new company. If this is going to happen, I think it's known that at least we would love and we are interested to evaluate the possibility to get it.

Fredrik Moregård

Analyst, Pareto Securities AB

Q

Okay. Thank you very much.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

A

Welcome.

Operator: Thank you. We have no further questions. So, I will pass back to the speakers.

Jacob Broberg

Senior Vice President Investor Relations & Communications, Electrolux Professional AB

So, thank you very much for today. I would like to wish you all a good summer and speak to you the next quarter, if not before, or we'll meet in September in Ljungby hopefully. Have a good rest of the day and goodbye.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Bye-bye.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AG

Thank you. Bye.

Operator: Thank you for attending. You may now disconnect your lines.

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