

19-Jul-2024

Electrolux Professional AB (EPRO.B.SE)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Good morning and welcome to Electrolux Professional Group Q2 Presentation. My name is Jacob Broberg. I'm heading up Investor Relations. As always, I have Alberto Zanata, CEO; and Fabio Zarpellon, CFO, with me. And as always, we start with Alberto. Please go ahead, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Jacob, and good morning to everybody. I'm pleased to report the Q2 results that are showing, as we said in the highlight, another step up towards our margin target. It is a quarter where organically, we declined – we slightly declined 0.7%, that if you compare with the first quarter is showing a sequential improvement of the business across the different businesses. Total sales were up, thanks in particular to the acquisition of TOSEI, even if the second quarter was – is the weakest quarter along the year. And likely also thanks to the contribution of Adventys, the new company, the French company, technology company that we acquired in April this year.

We improved in the sales, but we also improved in the profitability. I would say that this is even more remarkable because the EBITA in absolute value increased, including also the acquisition cost. So, moving from SEK 385 million to the SEK 410 million. This is despite the acquisition related cost for Adventys and TOSEI that amounted to roughly SEK 8 million. This improvement connected with the development in sales is also resulting in improved EBITA margin, EBITA margin that moved from 12.2% to 12.5%. If I exclude the integration related cost, it's even close to 13%, so 12.8%.

The other financial, important financial obviously that we follow up is that the operating cash flow also in this case is lower than what it was in the second quarter of last year. But in any case, it's a solid operating cash flow that is including the payout of the dividends and is including also significant investment that we are starting to do to prepare for the new lines that are going to be launched during the coming years.

Last comment about the quarter is that we confirm an increasing order intake. So, order intake, the collection of order is still growing compared to the same period of last year. Last comment on this first slide. The overall one is that in the quarter, we have been – we delivered sales above the SEK 3.2 billion. That is the highest quarter that we reported. And in detail, if I go to the rolling 12 months, we are for the first time above the SEK 12 billion in sales.

Geographically, you see that Europe is up, flattish in Food & Beverage, growing in Laundry. America is just minus 1% with the Laundry well up. Remember also that the Laundry in the US, we have this large distributor. So, it is more on related also to the shipment that we are doing and the different dynamics, including the stocks. And in the APAC, we are down both in Laundry and Food & Beverage, but we will comment later. That is mainly related to one region of the APAC or APAC-MEA region. That is related to the Middle East and Africa in particular.

If we go specifically to Food & Beverage, Food & Beverage, organically we decreased by 4.3%. But it's important to see that the decline is limited to some specific area of business, because in reality, we have been quite flat in Europe, and Europe had a super strong first half last year. So, to be on the same level, I would say that is a good achievement, also because the order intake is very strong in Europe, so quite promising. And Europe is our second largest business after the Laundry. We have been growing the US chains, and it is a sequential improvement because we have been growing in the month, in the quarter, and in the first half of the year. So, we see clearly and we always said that the chains, we had a long pipeline of tests with the chains in the United States. And it seems that gradually, they are now unlocking the orders and we are starting to get the benefit.

We have been growing also in Southeast Asia, in India, in Beverage in general. So, the decline is limited basically to two areas; Middle East and Africa, and the US, the so-called general market or institutional market. So, they are two areas. I don't want to neglect the importance, but they are two limited areas where we have a decline of the business. EBITA, we improved the margin. We improved the margin from 12.2% to 12.3%. Without the integration cost, the integration-related cost, it moved to 12.7%. So, also in this case, also EBITA in absolute value was down compared to the same quarter of last year. But without the integration related cost, it present an improvement also in this area. Last comment is that also in this case, the order intake is up compared to the same period of last year.

Let's move to Laundry. I think also in Laundry, we have to underline because we have an organic growth of 6.7%. Now, Laundry, Laundry in the quarter is above SEK 1.2 billion. That is 50% higher than what it was in the pre-COVID. And we know that in Laundry, we even suffer less than Food during the COVID period. So, Laundry is really developing well, is growing in Europe, in the Americas. Slightly declining in the APAC-MEA region, as I said, specifically related to the situation that there is in the region of the Middle East and Africa. With the growth, we are also improving the EBITA in absolute terms. Also, in this time, we are for the first time above the SEK 200 million in a quarter. So, we are improving the EBITA, and that is now at 16.5%, but that is including the cost. So excluding the cost, it would be above 17%.

For Laundry, also the order intake for Laundry is higher. One comment about the order intake for both Food & Beverage and Laundry. We are now at more or less two-third of the July. And I can report that the trend of the order intake that we saw during Q2 is still positive, is still holding also during the month of July.

With this side, I believe we can enter the financial comment, and I leave it to you, Fabio.

Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Thank you, Alberto, and good morning to everybody. As anticipated by Alberto, quarter two was another step [ph] to (00:09:08) our margin expansion. EBITA margin moved from 12.2% to 12.5%. To be said that the underlying margin before the acquisition integration cost of TOSEI for roughly SEK 8 million reached the 12.8%, close to the 13%, plus 8% in value. The improved margin came mainly from an increased gross margin, thanks to the contribution from pricing more than compensating inflationary items like the labor cost and lower material cost.

Remarkable was in the quarter, the contribution of our Laundry. Laundry business grew close to 7% organically compared to already a strong quarter of 2023 when if you remember, Laundry grew 28% compared to 2022. So, the comparable was stronger, and we deliver giving higher sales, generating overall more than 80% in EBITA compared to quarter two 2023. Overall, currency transaction that was an offender for along last year, overall positively contribute in the quarter. This margin expansion was delivered despite of the fact that in the quarter, the acquired companies had a dilutive effect on margin.

TOSEI as anticipated during the previous call, have in quarter two and quarter four the seasonally weakest quarter in terms of sales and therefore lowering margin. Adventys, the professional induction cooking company, was acquired in April and contributed in terms of sales and profit only two months in the quarterly data.

The overall impact in terms of EBITA was negative, and this because of the acquisition and integration cost. To be said and confirmed, the underlying profitability, meaning excluding the acquisition setup cost, is confirmed very good and higher than the group margin. Finance net in the quarter was SEK 40 million, higher than last year in quarter one, and this is due to the additional borrowing we had for the acquisition.

Few words about the tax rate. You see somehow an increase in the quarter to roughly 27%. And this is due to the country mix. Overall, the earning per share was [ph] SEK 0.86 (00:12:14) per share, somehow below last year, and this is – was driven by higher interest cost and taxes. When it comes to cash flow generation, we generate close to SEK 400 million in operating cash flow, confirming somehow the strong cash generation power of this group. And this remarkable result has been delivered despite an increase of capital expenditure related to innovation project scheduled to be launched in the incoming years.

When it comes to the asset management, happy to report that the rolling 12 month operating working capital on sales is now reduced to 17.4% on sales, lower than December, lower than March this year. So – and improvement came mainly from inventory, where as anticipated, the action we put in place to bring down the inventory value are definitely paying off. We are very proud of this achievement, because also in this area, not only in terms of margin expansion, but also in terms of asset management, we are step-by-step moving our – towards our financial target.

Our financial position [ph] even (00:13:49) after the acquisition of TOSEI and Adventys remain strong, with the ratio of net debt on EBITA at 1.9 times. That is exactly in line also with the level we had at the end of March. I'm very proud also of this achievement, because we were able to keep the ratio equal to March despite in the quarter, we paid a dividend for SEK 230 million and we have SEK 240 million of payment related to Adventys acquisition.

So overall, also from a balance sheet perspective, cash flow generation, we are entering the second half of the year with very solid situation, with means to support the sales and the margin expansion of this group.

And with that, back to you, Alberto.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

Thank you, Fabio. And reconnected it to what just Fabio mentioned about the acquisition of Adventys, a couple of words about this company. It's a small company, but it's strategically important company. And we have been talking about electrification of the kitchen and the big trend that is already ongoing in Europe and is starting also in the United States for many, many reasons clearly that we all know and I don't have to be back to that one. And we believe that the electrification of the kitchens will come or will be driven also by a change in the way of heating or of warming the pots in the horizontal cooking, and the induction will be instrumental to accelerate this growth.

So this is the reason, the strategic reason to get into this company. We know these products are very good, highly performing, highly efficient, so wide range. We have been already working, evaluating to integrate these technologies in our product. We are already having – or obviously, we already have induction inside of our modular ranges, where we have a leading position in the major markets. But with this one we believe we can further improve our leadership in the category.

And what's important to say, and I think it has been underlined, is that these products are highly profitable. I would say they are what we call star product. So, more we will see induction, let me say, penetrating into the kitchen, the cooking blocks in the kitchen more evidently, there will be the possibility to do the mix-up to improve the profitability of an already profitable product line.

Due to the fact that we have been talking about the acquired company and the activities that we are carrying on to create value with the technology offer or with the opportunity offered by this company, I want to spend a couple of words also on the integration of TOSEI. That is proceeding very well. And again, the second quarter of TOSEI is the weakest all along the year. So they have been dilutive to the group results.

Nevertheless – the market is still relatively soft. But on the other side, we believe that already in Q3, we will start to have some of the value creation projects that we initiated just after the acquisition, providing some value. So this is important, and we see that the TOSEI team is very eager to demonstrate what they can do and the value they can create.

Other important thing that happened in – during the second quarter, not only for the quarter, but I believe it is one of the things that will give us confidence that we can gain growth and accelerate, these findings that we finally introduced and made available in the market, the AUTOFILL. The AUTOFILL is a device that we have been testing with chains for months and months and months.

And finally, we unlocked this product for the market. It is an important device that is opening many opportunity, because when you get this one, the payback is in really few months. So, it's very, very interesting for all these customers that are looking for a high margin product to be sold to their customer with a device that is providing them automatic – automatization of the operations, availability of the product, continuous availability of the product, and with a very, very short payback. We already started the rollout with one chains, half in June, half in July. It's not a super big chains, but it is in any case an important American chains. And I'm confident that many others will come.

With this said, in summary. So, we develop sales thanks to the acquisition, but we grew sales organically. We have been improving compared to the previous quarter where we are minus [ph] 4%, this quarter, it was minus 0.7% (00:19:32). And the decline is mainly limited on [ph] these days (00:19:40) to some specific regional business. I repeat, Middle East and Africa. And I would say that the Middle East is where the things remain because Africa, we already got some large project that are going to deliver during the second half of the year.

And in the United States, for what concern the institutional fee there. So it's a small portion of our business, but still remains the market and the demand very soft in that area. While in the other area, Europe, that is – I believe it is an outstanding performance, the one that the team provided in Q2, in particular in comparison with the previous year. The chains in North America and Southeast Asia, India, so these countries that are growing country, we have been growing market share, I would say even above the market.

With this developing sales, despite the organic decline, EBITA improved. So this is confirming that all the activities that we are carrying on to have a profitable growth are working. So the EBITA in value improved and the EBITA in margin improved. And so the comparable, in the meaning without the acquisition and integration-related cost, we are very close to the 13%. We see – we continue to see an order intake positive, growing even during the first weeks of July. And this is across the different businesses, not in Middle East as I said because of the specific situation.

So, all these comments, including the new product that we have been bringing, including the integration activities that will start to create value, are confirming that we are making another step towards the financial targets that we have.

With this said, Jacob, back to you and open to questions.

Jacob Broberg

Chief Communication & Investor Relations Officer, Electrolux Professional AB

Thank you, Alberto. As said, we open for questions. Please go ahead, operator.

QUESTION AND ANSWER SECTION

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

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Thanks. Good morning, guys. Thanks for taking my questions. I have a couple if I may. Firstly, on your last comments there, Alberto, on the order intake growing in July excluding Middle East, but do you see any relief also in the institutional on the Food & Beverage side in US on the institutional side, is that still weak going into Q3, as far as you can tell now? And if you could elaborate a bit on the margin discrepancy in that US business between the institutional side and the Food & Beverage – and the chains side, which seems to be developing a bit better? Thanks.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

So, we see a sequential improvement also in the institutional side, but we still see the market that is relatively weak in the institutional side in the US. We are talking about US obviously. So, sequential improvement, yes. To say that the market is back, because I believe it is a market condition now, improving but not back to what it should be. Completely different stories, the chains, where we clearly see a sequential improvement, not only in the order intake, but also on the sales.

I told you that we are up in – we are up year-to-date. We are up in the month, we are up in the quarter. So it is clearly getting better. And the long list of tests or businesses that have been under test, the process for chains is a long one where you have a long test and then it has to be released and [ph] becoming (00:24:38) order, it is still there. So, some are unlocking and we are expecting – hoping that many other will come and finally we'll move on.

About the margin, the margin is – the margin, we already said that in the margin, more we grow the chains, in some way better it is for the margin. And not because we are selling at higher price to chains, not at all. You know that chains are a very good buyer honestly. But when we have this volume and we are talking about hundreds of thousands of units, a single product, thousands of units that can be delivered in batches.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

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Thanks. That's helpful. And then [ph] and just (00:25:28) you have now a period of improving order books. And have you seen any cancellations or withdrawals from that order book, or is that order book just filling up? And then historically, you haven't had much cancellations, but do you see...

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

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No.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

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...any of that or is that – there's going to be a catch-up effect at some point?

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

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No, we didn't see any cancellation. You know what, what we see happening more than in the past, more in the past and sometimes its creating some [ph] glink (00:26:01) in the result are postponement. For many reason, because the site is not open, because whatever. Recently, in the month of June, for instance, China was slightly down. But in reality, it was not because, just at the beginning of July, we delivered large orders also in China and now China is significantly up. So there are some postponement, mainly are related to the fact that the site is not ready, plumbing, whatever, carpenters, whatever. But cancellation, I don't recall any order cancellation.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

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That's encouraging. And then if you can give us an update now on the integration costs versus the synergy costs with those acquisitions. You have previously mentioned that the margin targets and so forth. If I recall correctly, you stated that you had SEK 38 million or so in costs in Q1 related to integration costs for the acquisitions and another SEK 8 million now in Q2.

And now you seem a little bit more positive on synergies you may be seeing through already in H2. So could you help us with the dynamics in terms of integration costs? Will there be further costs into H2? And what do you think is a reasonable estimate or guess on the synergy costs in the next year maybe to understand the delta in the margin going into next year from these? That would be helpful.

Alberto Zanata

President & Chief Executive Officer, Electrolux Professional AB

I think Fabio will comment about that. Please, Fabio.

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Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

So, when it comes to acquisition and integration cost, you saw that we had the majority of the cost in quarter one that were related to the acquisition of TOSEI, where the majority of it was related to step-up inventory, step-up cost. In quarter two, the cost of acquisition integration were roughly SEK 8 million, majority of it related to step-up cost. What is the picture going forward? Somehow, we expect still some integration cost, this related to TOSEI for the second part of the year. And they are related mainly to alignment of process and that the infrastructure related to the structure, that we want to bring this acquired company in line with the structure and the tools that we have at group level.

At the same time, both on TOSEI and on Adventys, we already started to work on synergies. Synergy that will come step by step. There are some area, if I think about TOSEI, that we may start to see already some effect in the second part of the year, mainly related to purchasing cost, while bringing together the two organizations, we can leverage the purchasing power of Electrolux Professional. But I will say that the – let me say the material impact is starting to be seen in 2025 for both acquisition. This year is somehow a year of transition where we are facing somehow the acquisition, the integration cost, and [ph] the benefit (00:29:45) will start to materialize next year.

Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

Thanks. And could you address any of those numbers into little bit more hard numbers for H2, that the delta is going to be still negative, I assume, for the integration costs for [indiscernible] (00:30:02) in H2?

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Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

Yes. The delta – yes. The delta will be still negative in the second part of the year. Let me say the order of magnitude probably will be in roughly one-fifth of what it was in the first part of this year. If you sum up the integration and acquisition cost that we – somehow we announced the two quarters were close to SEK 50 million. We may face less than one-fifth in the second part of the year.

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Gustav Hagéus

Analyst, Skandinaviska Enskilda Banken AB

And what about synergies in 2025? Where do you think is a ballpark figure for those, just to understand the delta and profitability year-over-year as we go into the next year?

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Fabio Zarpellon

Chief Financial Officer, Electrolux Professional AB

First, Gustav, we are not disclosing this part. But just to reconnect, first, Adventys [ph] even (00:30:59) small in size is accretive for the group. So, net of the synergy – and of the acquisition cost also in quarter two, it was accretive. Yes, the size of the company is today small in the big picture, the number, but is accretive already and will be accretive for the remaining part of the year. When it comes to TOSEI, if you remember when we announced the acquisition, we said that TOSEI in 2023 delivered an EBITA margin that was in line with the group

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one of last year, above 11%. Let me say with the activities that we have put in place, we are moving towards the – to align TOSEI with the group expectation in term of margin into already 2025. And overall, we are confirming the long-term target to bring TOSEI in line with the group financial target of 15%. I mean, the activity that we are working on both on the cost synergies as well as on the sales synergies are confirming the condition to bring TOSEI in line with the group target in terms of margin.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

Q

And you think the main step will be already 2025 [indiscernible] (00:32:34)?

Fabio Zarpellon*Chief Financial Officer, Electrolux Professional AB*

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Our first step will be already in 2025.

Gustav Hagéus*Analyst, Skandinaviska Enskilda Banken AB*

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Perfect. No, I appreciate the – those answers. Thank you guys.

Operator: [Operator Instructions] There are no more questions at this time.

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

Thank you, operator. And thank you for all of you listening in to us. And we would like to wish you a great summer and hopefully summer vacation too. Thank you, and speak to you next time. Goodbye.

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