Transcription

Dometic Q4 Report 2020

{EV00119042} - {01:15:52}

03 February 2021

PRESENTATION

Operator

Good morning and welcome to the Dometic Q4 Report 2020. For the first part of this call, all participants will be in listen only mode and afterwards there will be a short Q&A section. Please note all participants are limited to two questions each. Today, I'm pleased to present you Juan Vargues, the CEO. Sir, please go ahead.

Juan Vargues

Thank you very much. So, good morning everybody and welcome to the presentation of the interim report for the fourth quarter on the full year 2020. As usual, I have Stefan Fristedt, our CFO with me. Without any further delay, I would suggest that we move over to the presentation.

So, the fourth quarter 2020. Well, I'm happy to present what we consider to be a strong performance for the quarter. We see strong market conditions and low inventory levels on the marketplace. We saw a strong development in Americas, growing market demand in EMEA, and a very nice recovery in Asia Pacific after lockdowns back in September/October.

We continue to see difficulties to get access to certain components and we have also experienced that free capacity has been challenging for us, as for many other industries, so this is not an RV or marine industry-problem. It's a general industrial problem. We see Volvo, we see Electrolux, we see many other companies having exactly - facing the same kind of difficulties.

Well, looking at performance. We are very pleased what we delivered during the quarter. 15% organic growth, and I would like especially to mention aftermarket showing plus 22% after a very strong Q3 showing 13% organic growth. Our order backlog has been increased in effect twice [ph 00:01:59] and is considerably higher than what we had when we entered 2020 one year ago. We also see clear performance improvements in our supply chain, so just now our factories are running at full capacity internally, but again facing delivery problems from the supply chain.

Organic sales growth and profitability improvements in all the regions, which is obviously very pleasing. Strong EBIT margin improvements showing 11.1% versus 7.6 one year ago. We're also happy to report that innovation index continues to increase. We ended up the year 22% versus 16% last year, and we introduced a number of new products to the market. Last but not least, we continue to work on our cost reduction [ph 00:02:55] programmes.

If we move over to the full year. On the market, obviously when looking at the year, the year has been unprecedented, showing a very, very weak first half, very much impacted by COVID all over the world. While we have seen as well as strong recovery during the second half. We obviously - COVID also led to a positive impact due to the fact that a staycation is a trend. This strengthened additionally during the year.

And again, we enter into 2021 in a situation where retailers are showing much lower inventory levels, where we feel, obviously, that the market demand is going to be pretty strong in the coming quarters.

Performance-wise for the year, it's clear that we are impacted by the first half. Organic sales growth was down 10%, with a weak first half: 27%, and you may remember we were down 38% in the second quarter, while the second half has been positive, ending up at 8%, which the fourth quarter stands for 15%. Even here we consider that showing a 10% organic growth drop at the same time as we are delivering an EBIT of 12% is a very strong performance in the current circumstances.

The year has been tough to manage. It has been very much about balancing the short-term course of actions during the second quarter at the same time as building up capacity for the quarters to come, and at the same time as well investing long term. So, if you look in the product area we have been investing in an entire year. If you look at our sales organisations we are building up those organisations for the new segments, so again, we are pretty happy with what we achieved during the year.

Cash flow continues to develop very positive. We showed a solid cash flow during the year and I'm also happy to report obviously the leverage ended up at twice, which is also in line with our financial targets. And the Board of Directors proposes thereby a dividend of two krona and 30 öre [ph 0:05:22] per share.

If we move over to the financial summary for Q4. As already mentioned, 15% organic growth. Negative impact by currencies of 7%. Strong EBIT improvement ending up at 466 million or 56% up. And we see improvements of the regions as we're going to see in a couple of minutes from now. EBITDA up 33%. Cash flow, lower down the year on the operating side. Leverage meeting our financial targets, and EPS negative of 54 öre impacted by the tax provision that we are going to discuss later on. Stefan is going to bring it up. When excluding the tax impact, EPS in the quarter ended up at 0.87 öre to be compared with 0.16 one year ago.

Looking at the sales growth. Of course, it is very pleasing to see that after seven consecutive negative quarters, we turn to the positive in Q3 and we see a very clear improvement in Q4, and we expect to continue to see improvements moving forward. Americas: 22% up organically. EMEA: 7% up organically. APAC: 9% organically. As I mentioned previously, aftermarket 22% after a strong Q3 ending up at +13%.

Looking at EBIT margin improvements, we see also the positive trends. Strong Q4, impacted obviously by the volume. A strong mix towards aftermarket. We see also improvements on the tariff situation. As you know, we built up a factory in Mexico. We have been moving volumes step-wise [ph 00:07:19] from China to Mexico and that's what we see now in the numbers. We are about 50% done in Mexico. We still have 50% and it's going to take some time since we're talking about many different products, so that's why it takes a while.

We continue to work on the cost savings and even the combination cost savings all over the company, at the same time as we are launching new products that are more cost-efficient. It's also generating a good improvement on our margins. On the negative side we have FX, which is playing against us clearly, and then the freight cost that I'm sure you have read in the media. Everybody's impacted.

When looking at the entire year, 10% organic growth down and negative FX impact of 2%. EBITDA is up at 12% versus 13.2 one year ago. And of course, the year has been very much impacted by the situation on the COVID. While we have seen underlying business efficiency improvements on pricing across the company, and we continue to see also a positive mix aftermarket, more towards aftermarket, than OEM. EBITDA down 17% by the same reasons, and a negative cash flow impacted obviously by the lower EBITDA and the tax issue.

If we move over. Perhaps to mention obviously that we have a very, very nice drop-through leverage on our growth during the last two quarters. Worthwhile to mention. If we move over to the application areas, as you can see, we are turning the corner in all the areas and these graphs are showing 12 months only in trends. So, we're going to see obviously a step-wise improvements during the coming quarters.

Moving more in detail into Americas. An organic growth of 22%. Strong growth in all applications. An order backlog at all-time high. That's valid for all the segments, I would say. Extremely strong development in the aftermarket, even there in all the segments. And we are happy to see that we are starting to see how the automotive OEM contracts that we were awarded a couple of years ago are starting to kick in, and we saw a very nice improvement in Q4 as a continuation of Q3.

EBIT up 78%, with an EBIT margin ended up at 11.4, which is considerably higher than what we saw one year ago. And I will not repeat myself. Here is more the same. It is very much about mix, it's very much about lower tariffs and efficiency improvements across the line. On the negative side, we still suffer obviously of events due to COVID, where we have outbreaks in the factories that are contained but still, when you have cases you need to isolate the area, you need to disinfect the area, and send people in quarantine.

Having said that, we are extremely happy to report that we are very much in control of the situation in terms of COVID and I'm very happy about how the entire organisation has reacted on this event. And as I mentioned as well, freight cost and FX is playing just now against us. On the full year margin, 10.4, in comparison to 10.8 last year.

Moving over to EMEA. We see as well a strong growth in all applications. We saw that OEM is coming back in both RV and CPV after a negative first half, some improvements in Q3, but then really coming back in Q4. Still, I guess that you are going to say, 'Yeah, but the numbers of the German Association are showing fantastic growth.' Well, that's totally true, but if you are following the difference between registrations and production, I'm sure that you have observed that registrations are up 36% while production into 2020 went down 7%. So, there is a gap between registrations and production.

When looking at Marine, we had a negative evolution in the quarter in the OEM side, even if we start to hear positive tones from the boat builders, both Italian and the French [? 00:11:52]. And aftermarket, on the contrary, developed very, very strongly. EBIT up 43%, showing an EBIT margin of 5.7 versus 4.1 last year as a consequence of the sales growth, the underlying efficiency improvements on pricing. And in the same way as in Americas, we're still suffering from outbreaks in our factories from time to time, and I have to say this is not just our factories. It's also our suppliers - supply chain all over. In the same situation, freight costs and FX are playing against us in the same way. EBIT margin for the year: 11.9 versus 13.1 last year, impacted by especially Q2.

If we move over to APAC. Another area where I'm very, very happy about, 9% organic with very good growth in all application areas. Double-digit - high double-digit growth in Asia and good growth in Pacific after lockdowns in Q3 and beginning of Q4. And we see a return of the OEM business, especially there, the RV side is coming very, very strongly in the quarter.

EBIT: 31% up with an EBIT margin of 25.9 compared to 20.7 last year. The same, we get a very good leverage in our growth. We see efficiency improvements and we have, on the contrary, as in other regions, a negative impact OEM aftermarket and a negative impact geographically, we've seen, so we have higher margins in Pacific than we have in Asia and even here we are suffering from the negative FX influence. Full year ending up almost the same EBIT margin as one year ago: 21% versus 21.2%, despite the volume drop.

If we look at the strategy, we continue to deliver on our strategy. A strategy that we implemented, started to implement and communicated internally in our organisation in 2018. We see how aftermarket is starting to show very clear improvements. We also feel very positive market conditions among our customers, both on the OEM side and on the aftermarket side. We see how the backlog continues to strengthen, which is very positive. That gives us a very positive feeling about 2021.

And we continue to work as well on our channels, on the implementation of B2C e-commerce, where we're going to go live with a totally new platform, a new software platform, during this quarter. Q1 this year. And as I mentioned previously, we have done a lot to build up our sales organisations during 2020 and we have great expectations on the results moving forward.

On the [? 00:14:44] leadership, I mentioned previously 20% for the quarter versus 15% for last quarter last year. A number of products that have been launched and I will come back to that. Where is even more positive is that we have a very strong pipeline of new product launches during the entire 2021.

On the cost reductions [ph 00:15:02], we continue to work on our SKUs. We ended up the year minus 48% versus the baseline 2018, and if we compare all the SKUs that we looked at, at the time, we end up on minus 55%. So very, very good improvements in reducing complexity.

We announced during the last quarter that we started the implementation of our new organisational structure in EMEA, where we are going to move more from country legal entities into regional hubs, where we can expect that we are going to generate quite a nice saving that we are going to invest in strengthening our sales organisations in front of the customer.

And then, we continue to be committed to the cost reduction targets that we announced. Of course, the situation with COVID and the fact that we have travel restrictions practically all over the world is - in combination with the strong demand - are delaying some of the projects that we have ongoing. It doesn't mean that we're not working, we are working very actively, but of course it's difficult to move factories when you cannot enter a country.

If we look at this a bit more on the front side, we continue to see a very strong growth on the online traffic. We ended up 2020 with 50% more visitors than 2019. Of course, this is the result on one side of the underlying growing trends on this vacation [ph 00:16:36], but also the fact that we are investing in that area and this is going to be extremely positive now when we are moving into more B2C closer to the customers with the new software that we are launching in Q1.

The same is when we're looking at social media, where we also see very nice improvements. This is another area where we are going to continue to get closer and closer to the end users - the consumers - and create pull through the value chain.

If we look at our outdoor initiative, this is a question that we have got a couple of times. 'Guys, you are talking about outdoor but in reality do you have a channel? Do you need to build up new channels?' Well, what we're trying to show here is that we already are present in these channels since many, many years. What we're doing now when launching new products for the outdoor market is we need to become more relevant for many of these customers. As you can see, a number of stores, we had a great growth last year. So, we have 15% more stores with our products that we have one year ago. 3,000 independent dealers. 30 national accounts, and we are going to grow in this area quite a bit in the years to come.

The same is in terms of e-commerce. We are today serving 40 real e-tailers. So, you have today a combination of wholesalers that also have an e-commerce platform, but in this case we are talking about pure e-tailers. So, that's also growing dramatically, and you can see during the second half of the year that we could see an organic growth of 30%, which is very strong. And then the third channel that we are developing is what I already mentioned: the e-commerce B2C channel.

If we move over to the products, a lot of things going on. I already mentioned 22%. Products are critical for many different reasons. On one side, it's really about giving our sales organisations the opportunities to show up innovation when meeting the customers. But then at the same time, we shouldn't forget that with every single product that we are launching, we also have very clear targets in terms of sustainability, in terms of cost reductions, in terms of delivering, serving more features to the market. We see innovation as one of the keys to reducing environmental impact and improve resource efficiency across the entire value chain.

We are revamping the entire product range for the traditional products, the traditional industries where we were in. At the same time, as you know, we are also entering new markets. And we are fully convinced that we are going to reach the 25% target on innovation index that we have in 2021.

When looking at some of these new products, we are introducing a totally new generation of air conditioners for the RV industry. It's the first generation of air conditioners that we're launching, which is totally modularised. We are reducing the number of decibels by five decibels, which is a lot in terms of noise. We are increasing cooling capacity by 10%. We are reducing weight by 14%. We are reducing SKUs by 50%. So, in reality what we're doing is delivering more for less.

Another product that we have great expectations is our new food delivery box on the mobile delivery side to be installed in mopeds and motorcycles. We introduced this product to the market. We showed the product to the market in combination with CAKE, our partner in this project, and got very, very positive impressions. We are in a situation just now where we're talking to all the major delivery companies, food delivery companies in the Nordics just now, at the same time we also talking to a number of vehicle manufacturers. The product will be available for sales during the second half of the year.

On the outdoor side, which is one of the others where we invest in. We introduced the new range of passive coolers, the new Patron [? 00:20:52] boxes, which is complementing obviously the active side that we have. We have always been in passive. But what we're doing just now is taking passive just to the same level of importance as active, especially in the American market, which is typically a passive cooling market. We have great expectations now where we're building this outdoor organisation that is an important step to become more relevant for customers. The product is available from December last year.

Then coming to Twin Eagles, we were extremely happy to announce the acquisition yesterday. This is for us really, not just a company, it's a growth platform for residential in the largest market in the world, the US.

As you know, we launched MoBar a few months ago. We have been developing the distribution organisation in the US. We have today 250 different distributors signed just for MoBar, which is a fantastic development. We're starting to get very nice orders, but of course all of a sudden, we are acquiring a company having a strong brand name, a strong reputation, very good products and a distribution network of another 400 distributors across the country. So, on one side looking at the company as such, it's a fantastic company having very nice growth, very nice profit margins; at the same time, we see as well that Twin Eagles is going to help us to get pull to move our new residential products.

Two main brands. Twin Eagles and [? 00:22:24]. 130 employees and on sales, 34 million US dollars. And as we communicated yesterday, EPS accretive from scratch.

Then moving over to the cost side, the restructuring programme. No new locations affected in the quarter, but a number of employees and existing locations were affected during the quarter, ending up totally, so far, close to 880 people. We booked 18 million more in the quarter ending up, or giving us, 232 million booked so far since we initiated the programme in Q3 2018.

And with that, I would like to leave over to Stefan, please.

Stefan Fristedt

Thank you, Juan. So, starting off commenting on the COVID-19 impact for the full year on the net sales. We of course have seen a significant impact, but mainly related to the first half of the year. EBIT-wise, a noticeable impact on profit, but that's of course also mainly related to the first half of 2020.

We saw significant lockdowns during Q1 and Q2. And then we have seen a very strong demand coming back in the second half. And we have not seen any significant impact from the lockdowns in parts of Europe during Q4. However, we have seen a recovery, as Juan mentioned, in the Pacific area after the lockdown in parts of Australia.

If we go over to government grants and other support measures, you can see that they have been very small in the fourth quarter: 14 million in government grants. Then you have to take into consideration that we, every quarter, have had a certain level of government grants also in the past. Other support measures; it's almost insignificant. So, the government grants and the other support measures, they were - it's absolute majority-related to the second quarter 2020.

So, if we look at the key activities, as you have heard before, we had closed factories and sales offices during the first half. We took measures to address our cost base, ended contracts with consultants and temps and immediate hiring freeze. We did the agreement on the new loan facility, as you know, and we have been managing supply chain and inventory build-up.

The second half was a totally different picture. Staycation was driving a very strong market demand, as you know. We had to work very focused on increasing capacity in our supply chain and we have also had outbreaks in our own operations, which we have had to handle and which we have handled in a good way. And then we have managed a second and third wave market lockdowns in Australia and parts of EU in a good way.

Moving on to items affecting comparability and taxes. If we start with items affecting comparability, they are positive; 48 million in Q4 compared to minus 60 million in Q4 last year. Behind that, we have a gain of 66 million related to a sale of fixed assets. It's a sale and leaseback transaction. The queue for cash impact of that transaction is 436 million, as you can see a little bit further down our cash flow statement. Then related to the global restructuring programme, which is the normal content in items affecting comparability, it was minus 80 million in the quarter.

Moving over to tax, as you have all noticed, we have a significant negative tax cost in the quarter. That is driven by that we have put in a provision for an ongoing foreign tax dispute. And it is related to previous periods and it is of a one-time nature. That is important to underline. Yeah, we have based the provision on the most likely outcome. It's an ongoing dispute, so - but we have used internal and external expertise to arrive at this number. We expect the cash impact to come sometime in the first half of 2021, and so this means that we end up with a full-year tax rate of 67% compared to 28% last year. Important to mention here is that going forward, we estimate the effective tax rate to be somewhere around 27%.

Moving on to cash flow. Operating cash flow; you can see we had a cash conversion in the fourth quarter of 103%. It was positively impacted by the improved profitability, obviously. Working capital has been on the other side, negative, and it's very much driven by the build-up of inventory to be able to safeguard our delivery performance.

If we look on cash flow, net cash flow for the period, we have, as I mentioned before, the 536 million as a positive impact, and we also have had lower CapEx, as I will come back to in a second.

So, let's move over to the different components in working capital. On the DPO side, you can see a significant increase of number of days, ending up with 67, and it is the result of that we have been focused on working on extending our payment terms and the most important contribution to this is that we are using bank promissory notes in China.

Moving over to DSO. Here we have ended slightly higher than the same period last year. On 41 days. That's very much driven on the mix effect, as we have had a higher share of aftermarket where we typically have longer payment terms than to the OEM side.

DIO ends on 103 days and is underpinning what I just said; that the priority for us now has been delivery, performance and meeting the strong demand, and that has ended that we have had higher inventory levels than what we have seen in the past.

Okay, moving over to CapEx and product development. CapEx ended on 72 million in the quarter, 1.7% of sales, and I think we have been prioritising hard how we have been allocating the capital expenditure resources, and we feel that we have been able to invest where it matters, and so we don't feel that we have had to compromise significantly here, but we have had a good effect on the CapEx that we have been spending.

Looking on product development, ending on 2.4%, 102 million, and you can see that we have gradually been increasing product development spend during the year. And I really think that we have had a high effect on the spend, which is underpinned by the increase in the innovation index.

Moving over to net debt and leverage, you can see that we are now down to leverage of 2.0, which is exactly on the financial target that we have. It's driven by the strong profitability improvement, both in Q3 and Q4. We have had a decent cash flow in these periods as well, and then we have had some help of the currency. So, and the acquisition of Twin Eagles is going to increase the leverage with not quite though 0.2 times - between 0.15 and 0.2 times.

Moving on to the debt maturity. You are familiar with this, and the only thing that is close in time is bond denominated in Swedish krona, which is maturing in February and so we are in the process of deciding what we're going to do with that, but we also have an unutilised revolving credit facility of €200 million. We also have an MTM programme established and ready to be used, if we see the need of that.

Moving on. As we have been communicating and we also have to delay it because of the COVID situation here, the implementation of the financial reporting related to the new organisation. So, as earlier communicated, that will happen from Q1 2021. So, we're going from three regions to four sectors and that is totally aligned of course with the organisational changes that were announced in February 2020.

Then we are - as I have also mentioned earlier, in terms of sales channels, the OEM channel is going to remain as it is and then what we have been calling aftermarket, we're going to divide that up into two parts. The first one is distribution, and that's basically equipment sales through distribution channels. It's outdoor, hospitality, residential and mobile deliveries. Then we have what we are calling service and aftermarket, which is related to maintenance, subscription services, spare parts, accessory upgrade kits and replacement products.

So, the sales distribution is approximately 55% on the OEM side. Around 10% on distribution and 35% related to service in aftermarket. We're also going to make some other changes in the classification in the income statement. Up to now, we have had outbound logistic costs sitting in SG&A. We are now going to move that up into the gross profit margin and R&D, or product development as we call it within Dometic, they have been sitting up in the gross margin and we're going to move them down to SG&A, which is following what most companies actually are doing. It will not have any impact on EBIT.

So, for your information, we are going to of course restate previous periods and we will be distributing historical numbers around mid-March, so that you will have some time to review them and potentially ask questions, and then when we're publishing our Q1 report on April 23rd, then we will do that according to the new structure.

Plus point [ph 00:35:13], it's the dividend proposal. As Juan mentioned, its two krona and 30 öre per share proposed by the Board of Directors. That's equivalent to 38% of the combined net profit of 2019 and 2020, and this proposal takes into consideration the current market conditions as we see it, and also the prioritisation of a continued solid balance sheet to support growth ambitions.

So, with that I hand back to you, Juan, to make your final summary.

Juan Vargues

Thank you Stefan. So, during Q4 we have seen how market demand continues to be very, very strong. We ended up at 15% organic sales growth and a very strong order backlog. We see then using the appetite for staycation and other activities continue to be strong, and therefore consequently we see and foresee coming quarters to be strong.

Strong margin improvements, driven by aftermarket but also loss of efficiency improvement activities that we have across the company. Leverage hitting our financial targets. [? 00:36:37] and supported by a solid cash flow as we are used to and then, as Stefan mentioned, a dividend proposal of two kroner and 30 öre.

Strategy-wise, we continue to move according to strategy that we introduced a couple of years ago and we see how KPIs are supporting our evolution in a number of scenarios. And we continue to be fully committed to [? 00:37:00] agenda and the financial targets that we communicated in connection to the Capital Markets Day in May 2019.

And with that, I would like to open for the Q&A session.

Q&A

Operator

Thank you. If you do wish to ask a question, please press 01 on your telephone keypad. If you do wish to withdraw your questions, you can do so by pressing 02 on your telephone keypad. Please note: all participants are limited to two questions each.

Our first question comes from the line of Daniel Schmidt from Danske Bank. Please go ahead, the line is open.

Daniel Schmidt

Yes, good morning Juan and Stefan. Two questions from me then. Last time we spoke in connection with the Q3 report, you did provide some numbers when it came to the order backlog and you also provided some numbers when it comes to sort of lost sales due to supply chain issues. Would you care to do the same this time?

Juan Vargues

To my knowledge, we never provided we lost sales. On the contrary, we discussed and the backlog and the backlog situation and the backlog, I can comment, is very much in parity with what we have seen on the market and what our customers are communicating both, I would say on the RC side and on the Marine side and if anything, it is stronger in Q4, at the end of Q4, than it was at the end of Q3.

Daniel Schmidt

If I remember correctly you said that the backlog was up 20% last time and you're basically saying that it's -

Juan Vargues

No, no, no, no. You need to multiply by 10. About. I'm sure that you are, Daniel, following the [? 00:38:51] and the [? 00:38:52] and the trigger [? 00:38:53] and our backlog is very much in party with their backlog.

Daniel Schmidt

Okay, and then sort of, but clearly sort of improving then and that's of course encouraging. Then in terms of the supply chain issues, I do remember actually you saying that it had an impact on invoicing. If you wouldn't have that sales would have been up 10% in Q3. Would you give any quantification on that today?

Juan Vargues

It’s less than we could see at the end of Q3. It is clear the situation is improving, not on the page that we would like to, and it has nothing to do with our factories. It has to do with the access to the components in the same way as many other industries. We see no capacity issues in our factories at this point.

Stefan Fristedt

But it's important to underline that we are entering 2020 with a backlog that is significantly above the backlog that we had when we left 2019.

Daniel Schmidt

Yeah, absolutely. And if I got it right, improving sequentially as well.

Juan Vargues

Correct.

Daniel Schmidt

And then the second question on Twin Eagles, is this a product that you will bring to Europe or the rest of the world? Or is this very much a US product?

Juan Vargues

As it is very often, I see Twin Eagles giving us a product range that of course we are going to introduce. At the same time, we have different taste in Europe and in the US. So, I do believe that we need to do both. We need to try the Twin Eagles products organically in both continents, but we also need to look for Twin Eagles lookalike companies in two continents.

We need to get a residential - all these markets that we communicated 18 months ago are important to us and they are important to us globally. The difference between the new Dometic and the old Dometic is that the new Dometic tries to build up global operations and global businesses. So, I want to see it residential everywhere. And if you are going to get critical mass whenever you have a number one in Australia, it’s difficult to be the number one in Australia. Just importing a product from the US.

Daniel Schmidt

Yeah, well, good, but a follow-up on that. You haven’t done a lot of acquisition. It's been two now in 26 months. Do you feel that this year is going to be different, given what you already communicated the other day?

© NTT Limited

Juan Vargues

Yes.

Daniel Schmidt

Yeah, okay, good, that's all for me now.

Juan Vargues

Thank you.

Operator

Thank you, our next question comes from the line of Viktor Trollsten from DNB. Please go ahead, the line is open.

Viktor Trollsten

Yes hello, Juan and Stefan. I hope all is well.

Juan Vargues

Good morning.

Stefan Fristedt

Absolutely, yes.

Viktor Trollsten

Good morning. So, my first question is regarding the drop-through in the different regions. I think on a Group level you had around, call it, 26% drop-through but where is [? 00:42:10] was exceptional at around 70% drop-through and just looking through your bridges in the presentation, I can note that the main deviation is regarding, call it, freight costs and negative FX. Is there anything going forward that you should sell [ph 00:42:32] that you can't get higher drop-through in other regions or is 26%, call it, normalised level on a Group level?

Juan Vargues

Well, our ambition is obviously to improve all the time. I believe that of course, when looking at the drop-through, you need to compare our performance this year, but also to look at the performance last year. And of course, things happen all the time. So, I think that there is more to do.

APAC is the region who is going to be the toughest, simply because we have the highest margins as well. So, we have - we need to have - higher aspirations in Americas and we also see opportunities to elevate our margins in Europe. It's also a combination of geographical mix, it's a combination of product mix. And you know that we have a clear strategy to get aftermarket to grow much faster and OEM. We need to follow the situation with OEM globally, at the same time as the growth moving forward has to come from distribution and it has to come from aftermarket, where we see even more potential than on the OEM side. And that will generate higher margins by default.

Stefan Fristedt

Concerning Americas, we have to keep in mind, of course with the delivery situation that we have had, we have had some extraordinary costs too [? 00:44:00] with the supply situation.

Viktor Trollsten

No, that's clear. Just thinking what I'm after is if we take away all the freight cost then and they get FX [ph 00:44:14], is it anything that you can't have the same drop-through in EMEA and the Americas and APAC.

Juan Vargues

Yeah, but again, I'm coming back to the same. If you look at APAC, you are on - if I remember well just now the number, 53/54% aftermarket, 44/45 OEM. If you look at Americas, it's the other way around. In Americas we have 30% which is aftermarket and 70% which is OEM. That's why we're preaching so much about the aftermarket. Aftermarket is, for us, critical.

Viktor Trollsten

That's clear. And just my second question then in terms of the innovation index, now at 22%. Could you comment a bit on pricing and costs on those 22% compared to products and maybe just give some sort of indicative quantification of that. Is it 5% higher pricing, or -?

© NTT Limited

Juan Vargues

5% is pretty difficult, but I would say mid-single-digit price increases, depending on the feature level, and then on the cost side we have clear, clear targets that we haven't communicated externally, but of course when we're looking at our margins in Q3 and Q4, it is clear that the new process [ph 00:45:36] is starting to kick in.

Viktor Trollsten

No, no, that's interesting. Thanks a lot. I step back.

Operator

Thank you, our next question comes from the line of Lucie Carrier from Morgan Stanley. Please go ahead, your line is open.

Lucie Carrier

Hi, good morning, thanks for taking my question. I will go one at a time. The first one I was hoping if you could give us some guidance on how you see the balance between raw material inflation, logistic inflation that you have spoken about already in the presentation and also FX impact as you as you look into 2021 so we can have a better sense of how the bridge builds up on those type of metrics.

Stefan Fristedt

No, but there we clearly saw that we are seeing a pressure on the raw material side. Also mentioned on the - at least temporary - on the logistic side. Our clear ambition here is to, with a combination of pricing and also efficiency gains, that we are going to mitigate that. That's our ambition.

Lucie Carrier

Sorry, and FX, please. How do you see this playing out?

Stefan Fristedt

We can hear you really, but you're very quiet so if you - I don't know.

Lucie Carrier

Are you able to comment on how you see the FX playing out in 2021 on your profitability?

Stefan Fristedt

We have obviously seen a gradual negative effect coming in during 2020 here, Q3 and Q4 in particular, and depending on what is going to happen with the currencies, but if we take the current state, there will of course be a negative effect related to currency here. We have a total negative effect during 2020 of approx. 70 million on the EBIT level, and they have mostly been occurring during Q3 and Q4.

Juan Vargues

In other words, we don't know what's going to happen moving forward, but it is already there in Q4, clearly.

Lucie Carrier

Sure, understood. Thank you for the quantification on the FX. Would have been great to have it potentially on logistics inflation and raw mat, but we go with that. Just second question I have was around the inventory level. You've mentioned how you kind of have built out inventory to safeguard level of services.

Does that inventory kind of build-up has had any impact on your margin in the quarter, considering that it was production that you, at the moment have not sold yet, and when you talk about the low inventory level at distributors and the fact that they won't restock, how much visibility do we have in terms of that versus underlying demand? Because in the past we had seen the distributors having very high level of inventories which were not always kind of matching underlying demand.

Stefan Fristedt

So, yeah, no - I mean concerning your first part of the request and it's - I don't see that way that we have had any outstanding affects because of that. So, in terms of the production volume. I'm not totally sure I fully followed your question, actually. If you want to repeat it.

Lucie Carrier

Yes, of course, sir. I guess if you're building up inventory internally, you're producing, but you're not yet selling these items, but obviously the benefits on your cost absorption - [? 00:49:46]

Stefan Fristedt

We are, of course, following the proper accounting principles, so we are eliminating any type of profit that we have made internally as we have not yet shipped there the inventories, so that is something that we are following proper policies on how we are dealing with that, so that profit will come when we ship products and not when we produce the product.

Lucie Carrier

Okay, and relating to - yes, thank you Juan.

Juan Vargues

So, in regards to the second question, transparency. How much visibility do we have into the numbers? Of course, if we're talking to our customers, we are reading anything that we can get hold on, and what we see is that inventory levels just now at the end of the year 2020, both on the RV side and on the Marine side are around 40% of what they used to be during as an average in the normal cycle. So, it is clear, the expectation just now is that we will see a clear restocking and that's what we see in our backlog just now.

So, then of course, RBA is just now forecasting 20% growth for 2021. Of course, that's still a forecast. What we see is a high demand, we see low inventories and we see that the orders are coming in. Are we going to see the orders coming in at the same pace in November this year? I don't know. But we have a clear forecast and a much better situation than we had one year ago. That's something that is clear everywhere. Did I answer your question, Lucie?

Lucie Carrier

Yes, thank you. I'll go back in the queue.

Operator

Thank you I'm next question comes from the line of Rizk Maidi from Jefferies. Please go ahead, your line is open.

Rizk Maidi

Yes, good morning gentlemen. Thank you for taking my questions. I'll take them one at a time. So, thanks for commenting on the backlog, up to 100% which is in line with as you said the order of the OEMs. Can you just comment on the duration of that backlog and do you think most of it can be converted into 2021? And the other question here is can you comment on your order intake growth in Q4? I think you've given us this information in Q3, will be helpful to get that in Q4 T as well. Thank you.

Juan Vargues

So, if we're talking about the backlog situation. We have normally, normally what we see is backlogs of two weeks. Just now we see a backlog of two to two and a half months. Everything to be invoiced in 2021, as we can see just now. And sorry, the second question was?

Rizk Maidi

It was the order intake growth in Q4.

Juan Vargues

Yeah, sorry for that. So, we have seen a similar order intake level in the US, where we have seen clearly improved order intake levels in both EMEA and APAC on the OEM side.

Rizk Maidi

Okay, thank you very much. The second question is on EMEA specifically. I'm quite surprised that now it's the second quarter in a row where the numbers do not match the registrations. You flagged that production in Europe is down 7% at a time when registrations are up, I think in the 30s. Why? We're already at very low inventory levels. Why do you think sort of we're still drawing down on more inventories? And when do you think we did catch up with the level [ph 00:53:20]?

Juan Vargues

I fully understand your question because that's also our question, to try to understand really the dynamics of the marketplace. What we see clearly is that if we go back about two years ago when the European industry was talking about high inventory levels, while we saw numbers coming through, especially from two of our main customers, public companies, we saw that we will continue to deliver, right? While they were down quite a bit. Now we see the opposite. So, it is clear to me that on one side you have inventories or the greeter side, but you also have inventories on the OEMs.

And that's the combination we see. Again, to me, it's a massive difference with registrations and again these are not my numbers. These are the numbers from the German industry. So, registrations were up 36% in 2020, while production was down 7%. So, we aren't talking about some minor numbers. It's big numbers.

And that's really what we see. The good news that I can tell you is that we see the order intake coming in. So now the OEMs as I said are starting to move.

Rizk Maidi

Okay, understood. And really the last one and I'll go back in the line, is on the capacity utilisation at your factories. Currently I think you've added some capacity in Q4 and this despite demand being sort of 10/15% below its prior peak. How should we think about capacity additions in in 2021?

Juan Vargues

I don't think - our problem at this point is not capacity in our factories, it’s getting suppliers to catch up. It’s really as we said. It really doesn't matter if we have people in the factories, if we are prepared and we have 95% of the components if we are lacking one component. So, yes, now it’s exactly the same as for many other industries. It’s really to get the entire supply chain to come back to the levels that we had prior to COVID and it takes a while, especially in electronics. On electronics, very, very often you have little time. So, nine months. And of course, that we as a company, like the rest of the players, were very, very careful back in March when we saw how the world was turning negative. So, it takes a while before they catch up.

Rizk Maidi

Okay, thank you very much.

Juan Vargues

I don't feel that this is by any means - that this is a Dometic issue. Talking to customers, they are telling me they have problems everywhere. And looking again at the report that before that we have seen coming from Volvo or Scania [ph 00:56:04]. All of them are commenting exactly the same, so I think it is simply very difficult to pull the brake, as the entire world did, and then to catch up when the world opens up again.

Rizk Maidi

Thank you very much.

Juan Vargues

Thank you.

Operator

Thank you, our next question comes from the line of Fredrik Moregård from Pareto Security. Please go ahead. Your line is open.

Fredrik Moregård

Thank you operator and good morning everyone. Obviously, you’ve had some delays, as regards to the global restructuring programme, and that's understandable given travel restrictions and so on. But I was hoping you could maybe enlighten us somewhat on how far out these initiatives might have been pushed and how large share of the 400 million annual savings that you're looking at.

Stefan Fristedt

Yeah, but as mentioned, due to the significant increase in demand but also in relation to the travel restrictions in relation to CPVOD. We are looking to two, three quarters later execution of the programme compared to what we communicated in Q3 2019. What have we been realising so far? If you relate it to the 400 million approximately, we have realised round 30% of these savings on a run rate basis, when we're standing here today. So, we have been happy with the execution so far. But as we also have communicated, we have a couple of larger projects still to run to arrive at the 400 million and these projects are now what will probably be two to three quarters delayed, but we are staying with our ambition that we are going to realise 400 million in saving. It's more about winning time, they will come.

Juan Vargues

And that will be of course very much depending on COVID. We were extremely keen in proceeding. At the same time as I said, with these travel restrictions it's not easy.

Fredrik Moregård

Sure, thank you very much.

Juan Vargues

Thank you.

Operator

Thank you, our next question comes from the line of Agneszcia Villala from Nordea. Please go ahead. The line is open.

Agneszcia Villala

Thank you, I have some questions from that, and I will ask them one by one. So, starting with the outlook. So, before the pandemic hit you usually ventured an outlook for full year, both when it comes to the sales growth and the level of EBIT margins. Now, obviously we have much better visibility for your industry, so the question is why cannot you provide us with a more detailed outlook for the year.

© NTT Limited

Juan Vargues

Because a company like us, as I mentioned Agneszcia, we have normally a couple of weeks in our backlog. Now we have two months in our backlog. Two months is one fifth of the year. So, I simply believe that we need to be careful and we need to see the stability and we need to see that the vaccine is in place and that we are going to be able to commit a little bit more. So, it's nothing more than that. What we can see is what we have in our backlog and the feeling that you have talking to your customers. But to talk about how the second half is going to look like, to me, I think that we would make a mistake because there is still so much uncertainty.

Agneszcia Villala

Alright, but we could hope for in the future for an outlook from you for the full year as well, or will you never return to that, given the nature of the business?

Juan Vargues

At this point it’s nothing that we are discussing. Should we give a formal outlook or not, so we don't have that topic on the agenda at this point. We don't see the stability. We have lots of uncertainties and I do believe that we would- I think we would get the market confused by giving more details in such uncertain markets. I believe that we are very open in talking to you and answering your questions whenever you raise them, but an outlook is a different story. We can communicate what we think. And this is what we're doing.

Agneszcia Villala

Great, thank you.

Juan Vargues

If you realise [ph 01:00:44], we are pretty optimistic about the coming quarters.

Agneszcia Villala

Perfect, and then I'm a bit interested in the solutions that you have for the vaccine transportations. Can you help us and tell us if it affects your numbers in Q1 at all? How big this business can be, and will it be supportive to your drove [ph 01:01:09] in 2021?

Juan Vargues

We see that companies are using some of our products in some markets, but I have to say that we have not developed any product specifically for these vaccines or any other vaccines. If you may remember, we used to have a medical business that was sold a couple of years before during the company. On the contrary, approach [ph 01:01:35] to such is very, very good, and of course in a critical situation, as we are seeing worldwide, companies are using our approach in some occasions, but it is nothing that we are doing on purpose. At this point we have no decision. We have no intention in moving into that market. We have so many other areas where we can grow. So, to put together a business, just now to see what happens in the coming 12 months. I think it would be wasting our resources.

Understand it to mean that we might not be back into medical in due time, but that's not there. This is not the time, not the right time.

Agneszcia Villala

That's perfect, and then just the planning question, what do you plan for CapEx and R&D spending in 2021?

Stefan Fristedt

But I think you should look on where you have seen historically, and that's the level stuff we are going to return back to when you can already now see on product development costs that we have gradually been increasing it over the year and we are starting to come back to the levels that we have seen in the past and if we see that it would make sense and that we believe that that is going to be positive return, we could also consider increasing, for example, product development spend, but as it is right now, I think you should consider the run rate and a little bit the fluctuations over the quarters as well, but I think we are happy with the effect of the investments that we're doing right now.

Juan Vargues

I hear the reason, Agneszcia, if I may support the answer is really that we are getting so much more out of our investments. As I said, we are revamping the entire product range and the historical range as well as we are launching products for totally new areas. So, we are getting much more for the same spend.

Agneszcia Villala

Great and the last one, very short one, on the Twin Eagle acquisition. Is there any [? 01:93:49] note associated with the acquisition? And also, what does good margin mean?

Juan Vargues

Do we have a good margin, Agneszcia? What is a good margin for you?

Agneszcia Villala

Yeah, I mean if you reach your target margins, it will be quite good, so it's kind of targets.

Stefan Fristedt

What we can say is that they are extracting margins that is above the Dometic average.

Agneszcia Villala

Okay. And in your notes you mentioned there will be some, yeah?

Juan Vargues

Yes, it is in our notes. It is a nice earnout. We like to have nice earnouts. So, we get also deliveries.

Agneszcia Villala

Yep, and can you quantify it at all?

Juan Vargues

No, we have not. The problem when you're acquisitive is that you don't want the coming companies to know how much we are paying and how we are paying.

Agneszcia Villala

Yeah, we will probably see the cash outflows for acquisition in the next report. But yeah.

Juan Vargues

Absolutely. But I don't need to make it easier for potential sellers. You know how to find information. How many companies have some more difficulties to find it?

Agneszcia Villala

Alright, I understand. Thank you so much.

© NTT Limited

Operator

Thank you, our next question comes from the line of Johan Eliasson from Kepler Cheuvreux. Please go ahead. Your line is open.

Johan Eliasson

Yes, good morning. This is Johan here. Just a short question. I think you mentioned previously when we were talking about the Chinese tariffs that you had local competitors is in the US that didn’t need to raise prices, they just [ph 01:05:35] needed to assess their tariffs and that's why you couldn't keep your system, is this also an issue now when you might have a bit more complex supply chains in order to fulfil the strong demand coming in North America right now? Or are you sort of missing out [? 01:05:51]

Juan Vargues

No, as we said our ambition is clearly to compensate for both dramatic price increases and the freight increases. Then he it’s very much about timing. Obviously we had already [? 01:06:09] prices we had not seen that in Q4 because you have inventories in between. While we're talking about freight cost, we already saw freight cost in Q4, clearly. And again, we are increasing prices as we speak all over the world, including US. And even in the US, what I commented before in previous quarters is that we have quite a big difference when looking at Marine and RV. RV is much more price sensitive than Marine.

We have been putting across price increases in Marine to compensate for the tariffs to a much higher degree than we did on the RV side. Simply because it’s a different market. But now we are doing that only on the RV industry as well. Both OEM and aftermarket.

Johan Eliasson

Excellent. Then I found you’re guiding for taxes going forward 27%. I guess you saw lower taxes in the US some time ago when Trump lowered those and now it looks like Biden is aiming at hiking those. What sort of impact on your group tax rate would it be if the US tax rates goes up by 5 percentage points again, or so?

Stefan Fristedt

You know to be totally honest with you, the tax reform driven through the previous president was not favourable for us, actually, because it also contained a minimum taxation. And then we also had another, it's called guilty, where you basically have to pull in earnings from other countries into the taxation in US. And that's actually what they are changing now. So that's also why we're seeing, we went from we had 28% in 2019 and we are now seeing 27 so.

So, it's too early to say. We have to see what the what the new president is going to come up with here to be able to assess that. But obviously US is a big market for us. It's not the place where we have paid the most taxes so far, but it will of course, depending on how it is going and what the actual outcome is going to be for us, because everyone thought that what Mr Trump was doing was going to lower the tax rate for everyone right off. But because of minimum taxation and this guilty regulation that actually did not really happen in the same way for us.

But let's see. We will have to come back to that when we know more.

Johan Eliasson

Okay, then I was talking about new products. I'm actually mainly excited about this food delivery project you talked about to improve the soggy pizzas I get at my front door. Have you tried to sort of quantify any potentially impact from this area? It's on these bikes we saw, but I guess also cars could have some sort of [? 01:09:32]

Juan Vargues

Not yet, so of course we have internal targets, but it's very difficult because a totally new market and as we commented on the press release as well, our intention is obviously not to compete with the people about delivering pizzas or Chinese food. It's much more obviously on the premium side, but as soon as we submitted the press release, we got a lot of attention from all major food delivery companies and we are in discussions with all of them. So, we got a lot of attention both in Sweden and internationally.

So, for us this extremely exciting. This is something that we are good at. And as you know, this is an extremely high, highly growing, fast moving market, so we want to be part of it. And this is- we have introduced a product. But we are just now working on a number of new products, so we can really have a complete product range. So more to be communicated in due time.

Johan Eliasson

Excellent, many thanks for that.

Juan Vargues

Thank you.

Operator

Thank you we have a follow up question from Lucie Carrier from Morgan Stanley. Please go ahead. You line is open.

Lucie Carrier

Oh, thank you so much for taking my follow-up. Juan, I was trying to understand a little bit the free cash flow dynamic going into 2021. Just if I look at the balance sheet, you have a level of payable which is particularly high and obviously you've also mentioned the cash impact of your tax provision, so I was trying to understand how much kind of cash out could that represent as we go into the beginning of 2021.

And my second question I was hoping you could maybe give us some quantification around how much as a percentage of sales, or your kind of new outdoor product. And also, when you think about your online sales, how much does that represent now in the total count of sales that you report?

Stefan Fristedt

Okay, taking your first question as I mentioned, the payable side is something that we have been working with, with a clear focus and by using what you call bank promissory notes in China, you can actually extract the extractor payment terms to 70/80 days, so it's not that it is one-time effect that is going to go away, it will swing with the seasonality of course.

But accounts receivable and inventory will do that as well. I think from free cash flow the coming year here is where you need to consider the inventory. When we are starting to approach the end of 2021, I think we can return back to in a better way, starting to capture potential of improving on the inventory levels again, but it has of course, it needs to go hand in hand with the demand and our delivery performance, obviously.

And then as I said, the tax provision that we have done. We estimate the tax effect of that to come during the first half of 2021 and it's around, yeah, half a billion. If we all sum it up.

Lucie Carrier

Thank you, thank you for that and regarding the exposure to outdoor and online sales, please.

Juan Vargues

Yeah, so on the outdoor, we are a bit above 10% of our total revenues is outdoor and as you know we launch a range of other products in the Pacific area back in June. We are launching new products in EMEA and Americas. So that's an area where we expect clear growth rates moving forward, as we are becoming more relevant for our customers. If we look at- We have put together an organisation for outdoor worldwide.

Then on the second question, how much is B2C. Today it’s very small numbers, so we are talking about a single digit. I would say low single-digit. At the same time as I mentioned as well, we have been working in a very fragmented way where companies in different countries were setting up their own platforms. We are going live with a global platform during Q1, we're going to roll it out in the rest of the year. So, expectation is that we're going to have the same platform all over before year-end this year.

And that's going to be - just to finish off. It's going to be primarily the outdoor segment on one side, but we also see a lot of growth potential on B2C on the new service and aftermarket business, where we have many, many thousands of small customers today that we're serving through our organisations that are, so to say, high maintenance, where we expect to have both lower costs and higher margins through the B2C channel.

Lucie Carrier

Thank you.

Juan Vargues

Thank you.

Operator

Thank you. Sorry, we are not able to take any further questions due to the time restriction. I will hand it back to our speakers for any closing comments.

Juan Vargues

So, thank you very much for your attention. As we mentioned previously, we are very happy with our results in Q4 and we are optimistic about 2021. So, looking forward to talking to you during the coming days. And of course, in three months from now, again. So, thank you very much for your attention, everybody. Goodbye.

Stefan Fristedt

Thank you.

© NTT Limited