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| TranscriptionDometic Q1 2021 Analyst Call{EV00123033} - {01:04:49} |
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| 23 April 2021 |
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# PRESENTATION

## Operator

Hello and welcome to the Dometic Q1 2021 Analyst Call. For the first part of this call, all participants will be in listen-only mode and afterwards there will be a short questions and answer session. Please also try to limit the number of questions to two.

Today, I am pleased to present Juan Vargues, President and CEO, and Stefan Fristedt, CFO. Please begin your meeting.

## Juan Vargues

Hello, good morning, everybody, and welcome to this presentation of the first quarterly report for 2021. Without any delays, we will move into the presentation.

I'm very happy to report a very strong quarter. If we look at the market conditions, market conditions are still very, very strong and we expect to see that moving forward in the same way. We have an all-time high backlog as a consequence, on the one side, of the high consumer demand and on the other side, the fact that inventories used to be very, very low during the last 12 months since the pandemic broke out. We see all vertical end-markets developing in a very positive way, no matter if we are talking about RV or Marine, General Outdoor or Residential. It looks very promising. Even hospitality that is still negative, but much less negative than it used to be some months ago. So, all in all, a very, very strong development from that side.

When looking at our own segments: all the segments are performing very well, and we go through the details later on. COVID is clearly having still an effect and on our capacity to deliver week to week, even if we see clear improvements. We had issues in January in Americas. Americas is doing very well just now. No major breakouts. On the contrary, we had breakouts, pandemic breakouts in Europe in February and beginning of March.

And then for us, like for any other industry as well, we are still suffering from freight capacity and we are still suffering as well from critical components or lack of critical components even if I would like to reinforce that we are not by any means in the same situation as many other companies in other industries like automotive.

When looking at performance: very, very strong. Organic sales growth, 22%. And for sure, the strongest Q1 report, at least since the IPO. Distribution moving strongly, 29%. Service and Aftermarket we are extremely happy about, +34%, and even OEM developing very nicely, 15% organically.

EBIT ending up at 15% versus 10% last year with a strong improvement in all the segments. We're also extremely happy to see that the innovation index continues to develop positively; we are now at 23% versus 18% one year ago. As you all know, we have as a target 25% and we are convinced that we are going to pass 25% already 2021.

And last but not least, we continue to reduce our cost and our complexity. We have been communicating SKU and SKU reductions on a continuous basis. At the end of Q1, we reached 53% lower number of SKUs in comparison to the situation to 2018. So, we continue to work on both complexity and reductions.

Looking at sales: total sales ended up 16% up, with 22% organic. Currency effect did have a negative impact of 7%. And then we got 1% additionally through the Twin Eagles acquisition that we finished off in February.

Very strong EBIT performance, ending up 74% over last year. And we, in my opinion, are very, very proud, obviously, of showing a very strong drop through of 47% in comparison to the performance one year ago.

EBITDA, 54% up, operating cash flow obviously impacted negatively by the build-up of inventories that we have just now in order to be able to deliver the high levels that we expect in Q2 and Q3. Leverage ending up at 2.3 and then also a very strong improvement on EPS being 140% up versus the situation one year ago.

Then, of course, we need to remember that Q1 2020 was impacted during the last two weeks by the breakout of the pandemic across Europe and the US.

Moving over to sales. Again, I will not repeat the global number, but when looking at other segments, Americas up 26%, EMEA up 13%, APAC very strong 33%, and Global up 27%. We will give some additional details later on.

When looking at the Application areas, we have clearly turned the corner. Food and Beverage is up 30%. We see Climate a little bit lower, 18%, and that’s primarily impacted by the market in Europe, the Marine market in Europe, which is still moving up works but not at the pace that the American market has been moving. And at the same time, pandemic breakout that we have in our window factory in Germany, but it’s coming back. The backlog is there, it’s just a time issue. Power and Control very, very strong, 29%. And other applications at the same levels, 27%.

When looking at the sales channels, and as you know, this is the first time that we are introducing sales channels in our quarterly report. We are very proud to show that Service and Aftermarket is growing at a very high pace, 34%. OEM is also running very, very nicely, +15% – and that's valid in all geographies – as well as distribution, growing 29%. So, all in all, very, very strong development in all the sales channels.

Looking at EBIT, I already commented that we ended up at 15% and of course, that we see the strong development in all the sales channels having a positive impact, but also the mix: it is clear that we have higher margins both in distribution and in service that we have on the OEM side that has a very important impact on our EBIT margin evolution. We have pricing. We have as well the tariffs. We continue to work to reduce the tariff impact that we have in Americas and that is developing in a positive way for us. And then we have all the remaining cost efficiency activities around the Group.

On the negative side, it’s clear that we are suffering from supply constraints, even if they are limited, but they are still there, and we still have some outbreaks here of COVID where we need to shut down a line for a number of hours or a couple of days on some occasions. FX is having a negative impact, and Stefan will come back to that later on.

And then last but not least, the very high demand that we have on all markets is leading to higher freight costs, not just delays, but also high cost of freight and raw material prices that have been moving upwards during the last six, seven months.

Looking at different segments: Americas, very strong 26% organically with growth in all the application areas; all the vertical markets are moving in a very positive way. Of course, I'm extremely proud to see distribution almost double up versus last year, as well as the Service and Aftermarket growing at the same levels.

We have been commenting the awards that we got from Automotive in the last couple of years and we already commented in Q4 that it was starting to kick in. We saw an acceleration as well in Q1. So that's very positive for us. And the backlog remains at a very, very high level.

In terms of profitability, a very strong improvement in comparison to Q1 last year ending up at 7% EBIT with more or less mirroring exactly the same positives as for the Group and the same negatives as for the Group, meaning supply constraints, COVID outbreaks, freight costs and raw material prices. A very good effort to compensate the additional costs that are kicking in with additional pricing as well.

Americas showing an organic growth of 13% with growth in all the application areas, but especially strong in Food and Beverage and Climate. Strong development in all the sales channels. I will not repeat myself. So, this is valid in reality for all the segments. Strong EBIT improvement, +28% or reaching 14.2 and the same drivers as we had for the rest of the segment. So again, I will not repeat myself, but good to see that we are getting a very, very good drop through in EMEA despite the negative effect that we have on FX.

Looking at APAC: extremely strong, 33%. Keep in mind that we had pandemic outbreaks in Australia three times during 2020 and very, very strong underlying demand. That's what we see in our numbers. All application areas developing very nicely, all sales channels developing very nicely, and an all-time high order backlog to be delivered in the coming months.

EBIT at a very, very high level and in the same way as in Europe, we also suffer from negative FX effect, underlying we also have a very positive drop through in APAC.

If we move over to Global. More of the same: very strong 27%, driven very much by Marine. Here, as you know, we have the new vertical subsegments: residential, which is developing very nicely for us. We have for the first time some numbers from Twin Eagles showing as well very nice growth and very nice profitability. The only negative in that case is Hospitality. As I said, it is still negative, but they're starting to creep closer to the same levels that we had one year ago.

And then Mobile Deliveries, I'm also very happy to report that we are testing just now our products with a number of customers around the world, and we should have feedback from these customers in the coming couple of months.

EBIT improvement, very strong, 43%. EBIT margin ended up at 20.6% and then exactly the same drivers as for the rest of the segments. So, growth is one parameter, mix is one parameter, efficiency improvements, one parameter, and then last but not least, pricing also one important parameter.

When looking at the strategy, it is clear that we are showing in our numbers really the effects of the strategy that we took in and started to implement in 2019. So, we see growth not just in RV, but also in the other vertical segments and in the other sales channels. We see obviously strong underlying consumer demand which is driving just now the businesses. Twin Eagles, a steppingstone for us to grow in the residential arena. And we also implemented the new software, the new B2C software in the US and so very nice results during the first two months that we have been running.

On Product Leadership, I already commented and ended up at 23%. We have a very nice pipeline of new products to be launched during the coming 12 months and we will see more of that in future quarters.

On Cost Reductions, more of the same: keep reducing complexity, keep working on all our cost. And of course, as you know, we are running the MFP programme and I will come back to that in a few minutes from now. One of the targets we have is to become much more consumer orientated, and what we can see on the screen is really that we are driving traffic to our website, that we have a continuous growth of the numbers and our ambition is obviously to convert many of these visits into businesses in our B2C channel. But very, very nice development during the last couple of years.

The same is valid on social media where we are investing all over the world and where we see also very nice evolution. We used to have a very strong position on Facebook, now we are growing as well, especially on Instagram and LinkedIn.

On the Outdoor area, which is one of our major emphases in the future to come, we are growing our presence in more and more outdoors or stores as you prefer, around the world. We are today present in more than 4,000 stores worldwide growing heavily, both organically, but also growing through the work that we are doing on acquisitions. So, Twin Eagles brought in another 400 retailers, new retailers into the group. We're also growing on the e-tailer channel, the new e-tailers. And as I already mentioned before, we implemented Dometic B2C channel in the US. We are just now implementing exactly the same package in the Pacific area and we will do the same in EMEA during the second half of this year.

Extremely pleasing, obviously, to see that all the efforts that we are doing in order to build up the Outdoor markets is really paying off. Very happy to see this award bring in recognition [no audio 00:15:51 – 00:15:06].

On Residential, another of the main focuses moving forward: we introduced the Dometic Mobar in Q4 to the market, started sales in Q4. A fantastic evolution during Q1. We believe that this product is going to contribute quite a bit in the coming couple of years. You can see as well that we are getting very, very nice design awards for this product and bringing a lot of attention from the media. And if the international [ph 00:15:37] Mobar was really the first major step into residential, the second major step is really the acquisition of Twin Eagles. So, all of a sudden, we have a pretty broad portfolio for patio applications in Americas. Next step is to emulate that in Europe and in the Pacific area.

Service and Aftermarkets, another of our focus areas, very nice evolution after Q1, but we have seen a very, very positive evolution now for three quarters in a row as a consequence of all the efforts that we are doing. We have a huge network around the world, 35,000 partners. We are driving centrally a project to really create a new ecosystem, to grow service all over the world. It is also clear that our growth on Electronics, Power and Control is going to drive service moving forward. The more electronics we include in our products, the more Aftermarket we are talking about, shorter product cycles and higher margins.

We have also hired a new product management for service to develop the service area. We never had a product manager for service; it was always part of the different products. And of course, M&A acquisitions will play a crucial role and it is really in this context that I would like to introduce Valterra, an American company having a strong position on the Service and Aftermarket business in the US, focussing primarily on the RV business, but also doing CPV and is starting to look at Marine as well. That's part of the business. The second part of the business is really solar and energy-saving driving applications, an area that is going to be crucial for our future. The more we talk about electrification moving forward, no matter if we are talking about Automotive or if we are talking about Marine, the more you will need to have these kinds of solutions in your vehicles. The same is pretty much about electronics, it’s shorter product cycles and it will drive our service additionally, moving forward.

The company reached 94 million USD last year, showed enormous stability in the numbers in 2018 and 2019 when, as you know, the RV industry, American RV industry, was shrinking quite a bit. Two thirds of the revenues is pure Service and Aftermarket and a good profitability level, and we expect to close this acquisition during Q2 this year.

Moving to Products: we launched the first series of drinkware products to the market. This is also one more step to supply the market with so-called low ticket, low margins, low tickets, high quality products. We have seen very good acceptance in the market. And it is early days, obviously, but the last couple of weeks in March and we starting to show sales in a number of markets. So happy to see that we are getting there.

Another series of outdoor products is our new series of tents, bringing also a number of new features and that we are introducing globally from March this year as well.

We have the intention to be the driving force in sustainability in the industries where we participate. We are implementing sustainability in all our processes in the day-to-day business. We are committed to be leading these efforts, as I said, in our industry and as a consequence of that, we are committing Dometic to reduce the CO2 emissions by 50% by 2030. If we look at the first quarter, we reduced 3% in comparison to sales, in comparison to the same period last year. We have also included sustainability targets in our long-term incentive programmes for senior managers.

And as I said, we are raising the bar; in reality, that’s what we are doing. When looking at the four KPIs that we are going to be reporting quarterly to the markets: Injuries is coming down heavily. We have reduced the number of injuries by 30% from Q1 2020 to Q1 to 2021. We are on 24% of female managers, something that we are not very happy about and we have a number of initiatives to increase the number to our target.

On LCC audits, we are also improving heavily. We were at 75% one year ago, we are at 84% after Q1 this year, and we will be reaching 90% at the end of the year. And then, as I mentioned previously, we have a reduction of 3% on CO2 emissions in comparison to Q1 last year.

Moving over to the restructuring programme: no locations or employees were affected in Q1. We took another 10 million krona in the quarter as restructuring cost. We are working very, very hard. We are building up our local social organisations, we are building up our supplier network in new countries. And obviously the fact that we still cannot travel is delaying our process. We still stick to our targets that we have communicated. We communicated already at the end of Q4 that we see a delay of two to three quarters before we see the expected debt [ph 00:21:49] of 400 million krona in [? 00:21:51] savings. And we will, of course, as soon as the vaccination is all over the globe and we can start travelling, we will accelerate the programme as much as we can. And with that, I would like to hand it over to Stefan. Stefan, please.

## Stefan Fristedt

Thank you, Juan. So, I move directly into the Net Sales and EBIT bridge, which I hope you will find useful. So, if we start from Q1 2020, we see that in Q1 2021 we have had negative currency effects impacting 303 million on net sales and 94 million on EBIT before items affecting comparability. So, quite significant the fact. They have been levelling off slightly at the end of the quarter.

M&A is related to Twin Eagles and it’s related to, let’s say, a long month, of the Twin Eagles operations since we took over the company. And as you can see, it's a company delivering nice profitability here with about 24% EBIT before items affecting comparability. Then we have the third column related to volume, price, mix, cost and other. Some colour to that: first of all, all segments have been contributing positively to this development – all four segments. It's related to leverage from organic sales growth. It's leverage you will find in overhead structures included in cost of goods sold, but certainly also overhead structures in SG&A, including R&D. Then we have had a favourable sales mix. As you have heard, Service and Aftermarket has been growing 34%, Distribution with 29 and OEM with 50%. So that creates a positive sales channel mix.

Tariffs continue to come down according to plan. So, 21 million lower than the same period last year. Then we have two effects that we need to look on in combination. First of all, we have significant increases in raw material and also in freight and transportation cost. That's approximately 80 million combined. And a majority of that has been able to be offset by price increases from our side. So, we are happy with the performance of that so far in Q1. It's something that we will need to keep very close control over going forward to see if something additionally needs to be done there.

So, with that, I’m moving over to operating cash flow. And as you know, Q1 is normally not a very strong cash flow quarter for us. And despite an underlying strong development in the EBITDA profitability, we see more or less zero in operating cash flow, and that's completely related to working capital development.

So, I will flip sides here, so we can take a look on the different components in the working capital. So, starting on the bottom left chart, DIO, we see that the inventory levels is up to 118 days and that is very much driven by, first of all, a ramp up for us to be able to meet the delivery performance that we need to see. But another very important part of this is lead times. We have more or less double the goods in transit, which means inventory sitting somewhere on the ocean or in a railway wagon somewhere. So that's very, very significant.

Moving up to the top right, DSO, we see an uptick – 57 days – as we are exiting Q1 here. And that's very much mix-driven, as Service and Aftermarket especially is growing faster than OEM, we see typically longer payment terms for these customer categories.

Moving up to the left top chart, it’s DPO, and there we also see a nice development. We are up to 72 days and that's the result of that we have really focussed on improving that and also working with bank promissory notes in China, has significantly helped up this number

Going over to the next, where we have a summary of our cash flow for the period, and working capital I've already been talking to. Just to give you some highlights on the taxes paid: that includes the majority of the settlement with the foreign tax authority. And that's 603 million of the 685 million. And then the difference excluding that settlement is then purely related to timing.

Then on the row acquisitions and divestments: that's 505 million. That is completely related to the acquisition of Twin Eagles. And then the last row last row to comment on is the net cash flow from financing, where we did pay back the SEK bond of 1 billion in February.

Moving over to CapEx and research and development costs. You can see that CapEx for the first quarter has returned back to levels that we have seen in the past. Two areas that we want to highlight in the CapEx is on the one side on IT, and Juan already talked about the B2C solution which has been implemented in Americas and continue to roll out. So that's one component to highlight. And then it's also investments to bring new products into production and thereby market launch.

Looking at the bottom chart is R&D expenses, including capitalised R&D. It's on 2.2%. So, we continue to invest in R&D and product development. And we also see that showing up in the innovation index, as Juan mentioned before, it’s now on 23%.

Moving on to the debt maturity profile and leverage: the only change in the debt maturity profile is that we have repaid the SEK bond, as I mentioned before, of one billion. And then for your information, there is also an undrawn revolving credit facility of 200 million EUR.

Looking at our net debt leverage, it ended up on 2.3 in Q1, and that's slightly up compared to Q4, and that's driven by two things: it's the acquisition of Twin Eagles and it's the settlement of the foreign tax dispute.

So, with that, Juan, I hand back to you for some concluding comments.

## Juan Vargues

Thank you, Stefan. So, summing up: a regular start to the year with very strong sales growth, 22%; very high order backlog, we see an underlying strong consumer demand that will drive the business going forward as well. We are very optimistic about the quarters to come based on that consumer demand and we have a strong performance having a very, very nice drop through on our growth.

Strategically, we keep up the same pace. I'm extremely happy to see that our organisation is driving change faster and faster now. We see the effects on our performance. Innovation is up; continues to go up. We see also how Service and Aftermarket is having a positive effect on our numbers. It is clear that we are also starting to see the acquisitions coming through. We have been working for two years building up the organisation, building out the pipeline. It is there; it will continue.

And then last but not least, we intend obviously to finance all of the acquisitions with better performance moving forward. With all that said, I would like to open for the Q&A session.

# Q&A

## Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad. Please try to limit your number of questions to two.

The first question comes from the line of Agnieszka Vilela from Nordea. Please go ahead, your line is open.

## Agnieszka Vilela

Thank you. I have two questions, starting with the slide you showed – I think it was slide number seven – showing the progression sales for different sales channels. I was actually a bit surprised seeing the OEM business being still quite depressed. Looking at the last 12 months, sales progression is still some 2 billion behind where you were previously. So, and then when I look at some RV producers, for example in the US, they are already back at the old levels. So can you explain what's happening there? And also when do you expect this business to recover? Thanks.

## Juan Vargues

Well, you have two things: you have obviously delays between – what we have been discussing for a couple of quarters – you have one side registrations, you have wholesales, you have manufacturers and all of them are keeping inventories. And then you have us. We see Americas coming through. We see EMEA starting to build up. We saw in our numbers that we were performing; our sales were higher than [? 00:33:18] in the last few months, so that's a good indication and usually the backlog is growing in EMEA big time.

We have a high backlog in the US, and we continue the improvements, and we share the same situation, so it's impossible to me to say why Winnebago is showing 34/35 and we are showing what we are showing. What I can say is that we are catching up and that we don't feel— it is nothing strange by that. That’s one. The second one is obviously that we have a supply and demand situation and in a situation like that it is important as well that we don't run and sell everything we can to low prices. So, we are of course a little bit selective here and there and that will continue moving forward.

## Agnieszka Vilela

Yeah, so basically a timing effect and this inventory swings that affected your demand and then, your kind of choice of customers.

## Juan Vargues

Yes, absolutely. Which is not new. I mean, this is what we introduced in connection to the Capital Market Day.

## Agnieszka Vilela

Yes, that's correct. And then a second question: if you could help us with thinking about modelling Q2, maybe. I mean it's getting a bit more challenging, given that comparisons are very different this time and you lost a lot of sales last year. Does it make sense in your opinion to look what happened in 2019 between Q1 and Q2 and kind of assume similar performance and even maybe a bit better given the strong demand that you see right now?

## Juan Vargues

I think 2019 is definitely a good reference; 2020, I agree with you it’s very difficult, very difficult to compare with. Even there you have timing issues. We’ve had the pandemic, [inaudible 00:35:08], we have different timing. So, I will look at 2019 as a good reference.

## Agnieszka Vilela

And then assume like similar kind of absolute change in sales are a bit better given the demand. And then also, maybe a quick follow up on that. You mentioned the CPV business in Americas. Can you just quantify the potential coming from these contracts in Americas as well for the year?

## Juan Vargues

So, at this point, our expectation in North America is that we would be ending up this year at around 25 million USD. And then the other comment I wanted to make, as you were talking, is really that it is important Agnieszka, to get some more understanding for different vertical markets where we are in. I still feel it is a lot of attention into RV, but we're not just on RV. Some other fact: if you look at the growth, we have much higher growth in many other segments which means the mix a little bit difficult to grasp obviously. So, you have different applications, and you have different regions and then on top of that you have different end markets.

## Agnieszka Vilela

Yes, I understood. And just a clarification: the 25 million USD, that's the kind of incremental sales that you expect to get in 2021?

## Juan Vargues

That’s total sales.

## Agnieszka Vilela

Total sales from the new contracts or from the old?

## Juan Vargues

Yeah.

## Agnieszka Vilela

Yeah, okay.

## Juan Vargues

From the new contracts. Keep in mind that we have many contracts two [ph 00:36:46] years ago.

## Agnieszka Vilela

Yeah, okay. Thank you, Juan.

## Operator

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

## Gustav Hageus

Thank you. Good morning, guys. Two questions I’ll link myself to. Firstly, the longer-term perspective. You mentioned that you had 4,000 doors now with your products on a global basis. I recognise your Swedish peer that reported yesterday, they have 35,000 doors currently. So that makes you think there's substantial upside here for that number if you really start to focus here. Could you talk a little bit about that, Juan? Is it comparable? Could you go ten times the number of doors and what would that do then to your sales? Or do you maybe think that Dometic is [? 00:37:42] to see of if going with global online retailers then it's not really relevant? And also, if you could put a little bit of perspective, a time span, if you think it's possible, what type of time span are we talking about before you start to close up?

## Juan Vargues

I think, obviously Dometic, historically, has been extremely OEM orientated. We put together a strategy two years ago and we are implementing the strategy. It is impossible to me to tell you today that we are going to be 35,000 or 40,000 and when. What we have the clarity upon is that we want to see those numbers doubling [? 00:38:21]. And we are accelerating. We're adding resources. We are launching new products and we have a very, very clear intention to spend time and money building up those channels.

So, I see –and this is why we are also starting to report OEM, Distribution and Aftermarket. So, if we are talking about doors, we're talking about stores. That's very much about outdoor. Keep in mind, we open up for residential. We just started on residential. We have been growing now; Twin Eagles gave us immediately 400 new retailers. So I think the first target – I would be surprised if we cannot double the number of doors in the coming three, four years and then we will double again. B2C is going to be an important channel for us. But of course, if you compare ourselves with Yeti; Yeti is basically one product, one channel. They are today on 50%. We're starting B2C.

We're just now, after implementation in the US, we are kind of running at 2%. If you forget the OEM, the rest of our sales on Distribution and Aftermarket, 2% is coming from B2C. And we have just implemented the new B2C channel. So even there we have great expectations. We are moving from being one unique channel company, to a very high extent, to a multi-channel company, which is – I do believe – the future. I think that more and more companies will realise that you need to be on multi-channel.

## Gustav Hageus

Yeah, okay. Thank you for that. If I could have one more question, I'd like to ask if there's an impact in Q1 already from this rather large launch you have within air conditioners. As I understand it, this year [? 00:40:15] that mainly coming into Q2, if you think that’s a driver to price mix going forward.

## Juan Vargues

It’s coming step-wise [ph 00:40:25]. It’s the same. When you are launching a product, you’re launching a new product which is replacing a new product, you will not get full effect the first month; it’s coming through the entire year.

## Gustav Hageus

But when was the first month? Was that January [inaudible 00:40:39]?

## Juan Vargues

Sorry? Say it again.

## Gustav Hageus

When did you launch it?

## Juan Vargues

We started to launch in February.

## Gustav Hageus

Okay, great. Thank you, those were my two questions. I guess I’ll get back in line.

## Operator

Thank you. The next question comes from the line of Daniel Schmidt from Danske Bank. Please go ahead. Your line is open.

## Daniel Schmidt

Yes, good morning Juan and Stefan. Two questions from me. Could you give us any guidance in terms of what you think about the mix going forward? Of course, you saw the Aftermarket being very strong in Q1 and that of course impacted your profitability a bit. Should we see sort of a more even trend in the coming quarters? Or what do you expect?

## Juan Vargues

My expectation is that we will see OEM coming up, but we will still see a strong Service and Distribution areas moving up. So, I think that the gap is not going to be as big as we saw in Q1, but there’ll still be a gap, positive to higher margin business.

## Stefan Fristedt

And historically, Q2 and Q3 is strong Aftermarket quarters.

## Daniel Schmidt

Yeah, so still a gap, but maybe a bit less. So, do you think that this bit of a less of a gap could be compensated by more savings coming through in the programme?

## Juan Vargues

Of course, we are working towards our targets. When you have efficiency gains, it’s a little bit of the same, you don't get everything in one go; you are implementing different activities in different countries in different segments. So, it takes a while before you get full effects. But if you look at our numbers, of course, you see a very positive effect just now, Daniel, but it has always been a positive effect. The problem has been obviously that we were shrinking our volumes. So as soon as you get some growth, you get an underlying pretty hefty improvement, which is what you see in our numbers. So, we will keep working on our efficiency gains; we are not done by any means. We will keep working on our pricing, so we don't get hit by [? 00:42:59] prices or freight costs and so forth.

## Stefan Fristedt

Daniel, keep in mind that, as we communicated last quarter, we are two to three quarters late on the programme that we launched in Q3 2019 due to the COVID situation where we cannot travel.

## Daniel Schmidt

Yeah, sure.

## Juan Vargues

Something positive, perhaps, to mention as well as is what we see on the tariffs, that despite the fact that Americas is growing heavily, we are improving on the tariffs in comparison to one year. So that's telling you obviously that when you're running a new factory it takes a while before you get full efficiency.

## Stefan Fristedt

Yeah. There were some start-up costs.

## Daniel Schmidt

Yeah, good. And then my second question, Stefan, Juan, is regarding the acquisition yesterday. You were saying good margins. Could you say anything about if it's at the Group average or above, or a little bit below, or how do you sort of— Can you give us any guidance on that, and any guidance if there's any synergies to be extracted from this acquisition?

## Stefan Fristedt

Daniel, we can say that that's on a standalone basis. It's slightly better margins than the Group average. Slightly better.

## Daniel Schmidt

And synergies going forward?

## Juan Vargues

We expect synergies from a sourcing perspective. We expect synergies from a sales perspective, clearly. We are huge in aftermarket. This company is huge in aftermarket. Together, we should be able to do a little bit more. But the same: we're not calculating massive synergies in one quarter from now. They're coming time after time. The company is doing well, so you don't want to get into the company and start moving things around and then losing part of the management. So, as you know, both Stefan and myself have been working on acquisitions for many years. You will see improvements, but you will see them over time.

## Stefan Fristedt

And the demand situation for Valterra is of course similar to what we see in our own business.

## Daniel Schmidt

Yeah. And sorry for having a sub question. Is it a similar price tag as what you paid for Twin Eagles?

## Stefan Fristedt

We can say that we have been paying multiples for this company, which is significantly below our own valuation. More than that we will not comment on.

## Daniel Schmidt

Thanks guys, that's all from me.

## Operator

Thank you. The next question comes from the line of Fredrik Moregård from Pareto Securities. Please go ahead. Your line is open.

## Fredrik Moregård

Thank you, Operator. Good morning, Juan and Stefan. First off, a question on EMEA. I appreciate the comments that you made with regards to the breakouts that you had in Germany, perhaps disrupting your operations and sales as well. At the same time, there's also been some sort of lockdowns in the markets, some motorhome dealerships being closed. What sort of impact do you think you've seen from that? And is it possible that Q1 is depressed from that, and thereby below the underlying trend in the market?

## Juan Vargues

Yeah, if we would look at EMEA, it’s clear, as it usually is. When you're comparing American market, the European market, Americas is always much, much faster reacting on the way down and on the way up. And that’s what we see in EMEA. In EMEA we didn’t see – even if we were getting the same registration numbers as you were looking at; we saw Germany, we saw many markets and the total number of registrations 2020 reached 20%. At the same time, the manufacturing numbers, the numbers produced by our customers were 6% down in comparison to 1219, so you have a hefty delay between registrations and manufacturing.

We saw the first indications of growing volumes in reality at the beginning November. At the beginning of November customers started – and I'm not talking about all the customers. Some customers started to place orders in November. So, I expect to see an acceleration of the growth in Europe in the quarters to come. And the backlog is much higher now than it was just two months ago.

## Fredrik Moregård

Sure, thanks. Then a follow-up on the previous question on Valterra. It seems to be a sort of technologically complex product in the power segment. At the same time, you’ve been launching the drinkware category that you've been developing organically, the way I understand it. Could you perhaps just tell us something about your line of thinking as to what extensions or expansions you plan to do organically and where you think M&A is a crucial part of the journey going forward?

## Juan Vargues

I think, Frederik, that it’s not this or that; it’s this *and* that. You cannot just wait for the perfect acquisition in order to get into new markets. You need to learn the markets and the best way of learning the market is to become part of the market. But if you really want to get critical mass, that’s where acquisitions are coming in. So in the same way as we developed Mobar, and that was fully organic, we acquired Twin Eagles because all of a sudden we have a product portfolio, but we are also getting access to an existing distribution channel through Twin Eagles. So, I think you will see both. If we are looking at outdoor, the fact that we are introducing drinkware or that we are introducing more products on the outdoor business doesn't mean that we're not going to do acquisitions on outdoor companies. We will.

The fact that we are working with Power and Electronics, you can find the numbers in our report, doesn't mean that we're not going to acquire companies doing electronics. We will accelerate those. Electronics for us is crucial for the future. Again, electrification is going to have a major impact on our industries, and we want to be part of that. On top, electronics drives service. The level of service on electronic products when you have product cycles of five/six years in comparison to mechanical products, where you have product cycles of 15 to 20 years. You cannot even compare. So, strategically, it’s extremely important that we increase our growth in Power, Control, energy-saving businesses.

## Fredrik Moregård

Sure, I appreciate that it would be a combination of organic initiatives and M&A. I was basically thinking about if there's any specific way or thinking about prioritising M&A or organic initiatives in any specific categories, but the way you explain it is that it will be fairly opportunistic.

## Juan Vargues

No, that's not what I said. What I said is that if you have two companies at the same time, you're working with a pipeline and normally in your pipeline you have 40/50 companies that you are talking to. And all those 40/50 companies are interesting. Keep in mind that what we did in the last couple of years is really to build up an M&A organisation. We are not waiting any longer for sellers. We are building up relationships and we are working with companies.

Then of course, if two companies equally important to us are to sell at exactly the same period, then you need to have a priority, and that will depend on our market position. Of course, if we have 25% of markets and we can acquire company delivering EBIT numbers of 14%, and we have another company in another vertical market delivering 10%, then of course we will shoot for the 14% company. But if the 14% company is not there, then it's equally important to get the 10% company, when we have the opportunities, when we have the synergies.

So again, I wouldn't say that it’s opportunistic. Opportunistic is, to my extent, when you are buying something in one continent opportunistically, simply because somebody wants to sell, but you have no intention of building up a global business. Anything we are doing today is to try to build up global businesses. Without critical mass, you will not get the synergies. Without critical mass, you will not elevate your EBIT margins. I think that it’s the other way round. I think Dometic, historically, has been very opportunistic. We want to sight [ph 00:52:19] before we shoot. But there are a number of targets. You can hunt moose and you can hunt rabbits. Normally, not the same day.

## Stefan Fristedt

And not with the same gun.

## Juan Vargues

And not with the same gun.

## Fredrik Moregård

Sure, sure. I was thinking about whether or not you were going to do that organically or do M&A for a specific category, but I think I understand your answer.

## Juan Vargues

It’s both. Again, in a way it is difficult to buy companies in a new market if you are not part of the market. You need to be able to judge where are the synergies, how could you possibly calculate any synergies if you are not part of that.

## Fredrik Moregård

All right, thank you.

## Operator

Thank you. The next question comes from the line of Johan Brown from ABG Sundal Collier. Please go ahead. Your line is open.

## Johan Brown

Hi guys. You touched on it just now a bit, but I was wondering if you could put— You’ve commented on the M&A pipeline being very large lately, and we've seen some activity as well, so I was just wondering if you could put the pipeline in historical perspective. How many targets are we looking at currently and how has it looked if we compare it historically?

## Juan Vargues

You can most probably multiply it by ten.

## Johan Brown

All right. Wonderful, thank you very much.

## Juan Vargues

You’re welcome.

## Operator

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

## Viktor Trollsten

Thank you, Operator and good morning, Juan and Stefan. Firstly, just on your pricing strategy, I think very impressive work to compensate for raw materials and freight costing in the quarter, judging from the gross margin development. Could you just comment a bit on the outlook for raw materials and freight costs going forward given that on a year-over-year basis I think that important raw materials will be a hefty headwind for you. Are you still confident that you can defend gross margins going forward also?

## Stefan Fristedt

Yeah, I think when we look on the two components that you're talking about, I think we see that the increases are maybe not increasing at the same pace as they did in the beginning of the year. If that's going to be the end, we have to see, but we are following this very, very closely. So, I think from that point of view, the measures we have taken so far to mitigate that with our own price increases, we are satisfied, but if things would accelerate again, then obviously we have to take a new view on that and maybe adjust the prices a second time.

On the freight situation, I think it looks like maybe that's going to take a little bit longer to get the capacity situation under control in relation to what we thought in the beginning of the year, but there we are working with surcharges and so on so that it's clear for our customers from that point of view what it is related to. So, I think we have found a good structure on how to handle this and also be transparent to our customers what it is related to. So, it’s something that we follow every week, that's for sure.

## Viktor Trollsten

That’s a clear answer. And just a quick follow up on that, just in terms of the pricing strategy, given that the innovation index increases in a very good percent, stuff like that. I'm just thinking, do the pricing increases that you do just to compensate for raw mats, does that sort of disturb the additional price you can take, so to speak, as a growing component.

## Stefan Fristedt

No, that’s a separate workstream, if you want, but it is like you say, if you have a high innovation index then you always have something new to talk to the customers about, new functionality, new features and so on. So, you can have a value-based discussion with customers based upon that.

## Juan Vargues

Whenever we are introducing a new product, no matter if it is a totally new product or if it’s a replacement for an old product, we have two very clear targets: one, to increase prices; two, to reduce costs. And this is a [? 00:57:31] process. We have a clear process to drive product development and already in the early days we have a very clear cost target, and we have a clear price target.

## Viktor Trollsten

That's very clear. And secondly, and maybe more conceptually, so to speak, on the M&A side, now a third interesting acquisition with margins at or above Dometic Group level, is the way I see it, given that your margin target includes dilutive acquisitions, that's the sort of, I’ll call it, really focused M&A agenda [? 00:58:07] upside to that target in mid to long term. Or how should we think about that?

## Juan Vargues

I think you should think as soon as we are in the window 16 to 17, we will get back to you. We are just as keen as you are in making even more money.

## Viktor Trollsten

That's clear, that's clear. Thank you very much for taking my questions.

## Operator

The next question comes from the line of Gustav Hageus of SEB. Please go ahead. Your line is open.

## Gustav Hageus

Thank you, my questions have already been answered.

## Operator

The next question comes from the line of Rizk Maidi may be from Jefferies. Please go ahead. Your line is open.

## Rizk Maidi

Yes, good morning guys. Thanks for taking the question. So, I’ll start one at a time. So firstly, Juan, maybe just a big picture question. Given that your EU, European RV customers production has been sort of lagging registrations, do you see any issues around the European RV sort of players in adding capacity? Is this a capacity issue or do you think they’re just sort of late at putting through the orders?

## Juan Vargues

I think it's just timing. I think it's just timing. When talking to the different customers, they're pretty bullish about 2021, they are bullish about 2022, so I think it's just a timing issue.

## Rizk Maidi

Understood. The second one that I had is on the raw mat and freight, and perhaps I got this number wrong, but I think, Stefan, you mentioned 80 million headwinds in the quarter. How should we think about that in the second quarter and the remainder of the year as raw materials headwinds are actually going to increase? And then secondly, on pricing. You said the majority of that 80 million is covered through price increases, so I guess that's 1.5%, roughly, pricing. Is that the same number that we should expect for the remainder of this year?

## Stefan Fristedt

I think how you should think around this in relation to net sales, at least for Q2, you should assume around the same level, maybe slightly increasing on the raw material side. But then, you should also expect pricing to also kick into a higher rate because there is, for some customer categories, there is always a delay, so due to contract situation, et cetera, so I think the net effect of it you should maybe keep around the same.

## Rizk Maidi

Okay, understood. And lastly just on the mix— Sorry?

## Stefan Fristedt

For Q2. So we have to watch this going forward, obviously for the coming quarters. But that was a comment related to Q2.

## Rizk Maidi

Okay, thank you. And then, lastly, I was wondering whether you could elaborate on the mix in your current backlog from Distribution and Aftermarket. Sorry, I got kicked out of the call earlier. Maybe you’ve tackled this, but just how should we think about the mix between Aftermarket and OEM in coming quarters.

## Juan Vargues

I would say that 75% of the backlog is OEM orientated. The Aftermarket and Distribution have shorter lead time cycles. If something happens to your product, you want to fix it here and now; there is no time to wait.

## Rizk Maidi

Juan, were you surprised by the high mix of Service and Distribution in the first quarter?

## Juan Vargues

No, because we have seen it now for another two quarters. So, this is the third quarter. If you look at our profitability, it has been— You see just now, because you're comparing with Q1 last year, it was even lower. But if you compare Q4 2020 with Q4 2019, you have actually an underlying EBIT improvement. If you look at Q3 versus Q3 2019, you see a clear EBIT improvement. So, I don't think this is a one-off by any means. I think this is the consequence of a lot of activities that we have been driving now for a couple of years. The difference is obviously that when you have, when you move from losing 8/9% of your top line to gaining instead, you have a fantastic drop through.

## Stefan Fristedt

Keep in mind there is a natural cycle over the year, obviously. Q2 and Q3 is more Service and Aftermarket related, but that's of course what we are working on trying to—

## Juan Vargues

And that’s totally correct.

## Stefan Fristedt

—to even out a little bit, but you still need to keep that a little bit in mind, obviously.

## Juan Vargues

So this is one of the reasons. One of the reasons why we're getting questions about why manufacturers are showing some numbers, and we show some other numbers is that manufacturers they are trying to level out the manufacturing. That's why they're building up inventories in the backyard. And that's much more even, so to say, than the Service and Aftermarket. And Service and Aftermarket, you have a very, very clear difference between Q2/Q3 and Q1/Q4. Q2/Q3 is very, very high season and Q1/Q4 are low from a Service and Aftermarket perspective. The underlying growth is there, and we have seen that growth there now for three quarters.

## Stefan Fristedt

Okay, Rizk?

## Rizk Maidi

Thank you very much, have a good day.

## Stefan Fristedt

Thank you. You too.

## Operator

Thank you. We have come to the end of the Q&A, so I will pass back for any closing comments.

## Juan Vargues

Well, I would like to thank all of you for your attention and just ending up by giving big, big thanks to my organisation. It is tough times; one year ago, it was very much about the pandemic, it was very much about shutting down capacity. Now it is very much about being able to deliver despite all the disturbances that we have with pandemic breakouts, with freight delays and so forth. So, I’m extremely proud about what we're doing. I think that this organisation is showing that we can increase the speed, that we are moving faster, and that we have a great future in front of us. So, thank you very much, all of you.

## Stefan Fristedt

Thank you very much.

## Operator

Thank you for attending. You may know disconnect your lines.