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| TranscriptionDometic Q2 2021 analyst call{EV00125518} - {01:07:04} |
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# PRESENTATION

## Operator

Hello, and welcome to the Dometic Q2 2021 analyst call. For the first part of this call, participants will be in a listen-only mode, and afterwards there will be a short question and answer session. Please also try to limit the questions to two. Today I'm pleased to present Juan Vargues, President and CEO, and Stefan Fristedt, CFO. Speakers, please begin.

## Juan Vargues

Good morning, everybody, and welcome to, as Sonia [ph 00:00:26] has spoken, the presentation of the interim report for the second quarter.

You will look at the highlights for the quarter. We see that the market demand remains very strong in all segments and in all continents. We have a record high backlog for this period of the year. As many other industries and many other companies, or and most companies, I would say, we still see critical shortage of components and freight capacity, and that creates, obviously, challenges. We also perceive the written inventories to be very low, which means that we expect the re-stocking period to be extended. We were discussing some months ago about 2021, perhaps first quarter 2022, we see now, in accordance to our customers and the rest of the industry, that they will take longer time to refill inventories.

From a performance perspective, we show all-time high sales and profitability, organic sales growth up 66% compared with a weak Q2 ’22, where we went down 38%. We have also experienced a very high M&A activity and announced 6 acquisitions during this year, 2021, and completed three acquisitions during the quarter. EBIT margin at all time-high, as well: 17.2%, compared to 10.9% last year. Keep working on our innovation, and innovation index reached for the first time 24% versus 18% one year ago. And we keep working according to our strategy to reduce our breakeven point on continuous level.

If we move over to the financials for Q2. As I mention it earlier, 66% up organically. And then, we have a negative impact of 7% coming from FX, and an addition coming from M&A of 8%. Looking at EBIT before items affecting comparability, we increased our EBIT by 165%, ending up at SEK 955 million in comparison to 361 last year, reaching an EBIT margin, as I said, all-time high of 17.2.

We're looking at operating cash flow: strong improvement as well, ending up at +1, and 81%. As you all know, we had a share issue earlier in June, bringing our leverage down to 1.4, compared to the 3.1 that we were showing one year ago. And also, a strong EPS development in comparison to last year, ending up at SEK 1.85, compared to SEK 0.42 one year ago.

If we move over to the year today numbers: 41% up organically, to be compared with -26% organically one year ago. The FX impact is the same, and M&A will add 4% of growth. Even here, we see that the numbers have developed very positively for us on the year today numbers, ending up 115% up versus the same period last year, or almost SEK 1.7 billion. Or 16.2% margin in comparison to the 10.4% that we were showing one year ago.

Cash flow 75% up versus last year, ending up at 857 million, and EPS ending up after two quarters at SEK3.50, which is more than three times the level that we had one year ago. We are obviously very happy [inaudible 00:04:37 - 00:04:46] hosting site [ph 00:04:47]. We have seen now four quarters in a row with organic growth, and we expect organic growth to continue in the quarters to come.

Looking at the different segments, pretty much even with Americas being up 66%; EMEA, 63%; APAC, 65%; and Global 70%.

Looking at different application areas, we are also happy to report that we see growth all over. When looking at current currencies, we are up 72% on Food and Beverage, we are at the same level - 73% - on Climate. Power and Control, an area where we are investing quite a bit: 124% versus last year. And then, Other Applications, as well: 65%.

Looking at our sales channels, we see OEM at current currencies growing 89%, while Service and Aftermarket is growing 74%; and distribution, 62%. So again, all as all, very pleasing to see that both all channels, all segments are growing nicely.

If we looked and compared to our strategy, we communicated two years ago that we wanted to go distribution service and after markets faster than we were growing OEM, we see that this is really kicking in when looking at the same period [? 00:06:28] months only number same period Q2 2021 versus 2018. We have moved the needle from 39% to 47% coming from service and aftermarket and distribution. And of course, this this will bring more stability to the business, and this will also bring higher margins over time. And on top of that, obviously, most of the acquisitions that we are doing today will strengthen additionally, both the service and aftermarket and the distribution business.

Looking at EBIT, all-time high. We are running just now at a 12-month rolling trend of 14.9 influenced obviously by growth, giving us leverage, but also our price management compensating for raw material prices, compensating for freight cost, compensating for the negative FX evolution that we have seen. And on top of the pricing, we also have less negative impact from tariffs, even if tariffs still play a negative role in Americas, obviously, and then all the efficiency activities that we are running across the company.

Looking at different segments, Americas: up 63 percent, 66%, growing in all application areas, growing both on the OEM as well as distribution and service and aftermarket. And we are very happy after the completion of both Valterra - Valterra is bringing two different businesses: one, which is service and aftermarket, and then another part which is mobile power solutions that we will mention later - and then, Zamp Solar, which is 100% mobile power solutions.

EBIT: a strong improvement up to 7.3 coming from losses one year ago. And on the factors influencing, is very much similar with all the other segments. So, we have obviously leverage on the sales growth. We have a channel mix. We have lower impact from the US trade tariffs. We have also been working hard with our price management, and we have the underlying efficiency improvements. On the contrary, we are suffering from supply chain constraints, from the raw material prices and the freight cost, which is just now impacting all over the place and then negative FX.

Looking at EMEA, very similar, 53% up organically. Growth in all the application areas. Growth in the OEM side of the business, but also equally on the distribution and aftermarket. And in this case, we have not completed any acquisition, but we announced the Front Runner acquisition, but in June, and then Büttner, that was announced and completed in the beginning of July.

EBIT: 343 million. Looking at the EBIT margin: 16.7 versus 12.9 one year. And I will not repeat myself. Basically, exactly the same factors as we saw for Americas with the exception of the tariffs. We have leverage. We have price management, and we have underlying efficiency improvements. And playing against us, we have obviously still there, the supply chain constraints, we have raw material prices and freight costs, and on top of that, FX and M&A transactional costs.

Looking at APAC, in a similar manner, 65% organically up, growth in all application areas, growth in all the same channels all time-high backlog, and we completed another exciting acquisition, Enerdrive, which is also 100% mobile power solutions.

EBIT margin at all-time high: 29.5. Two factors: on one side, we have the net profit by the sale of our warehouse in Hong Kong, at the same time as we have a negative transaction cost of 13 million against those 21 million of net profits. And then, if you exclude those two, EBIT margin would have ended up at 25.5, which is still a very high level. And then, on the factors, exactly the same factors as for EMEA and the rest of the segments.

The Global segments: 70% up growth in all application areas. We have an all-time high in Marine, but we also have an all-time high in Residential. Hospitality is turning back to growth. We see also mobile deliveries where we are finishing off our field test and we are opening for orders, and we are optimistic about that vertical market moving forward. In terms of profitability: ending up at SEK 370 million, or an EBIT margin of 22.9% versus 18.2 one year ago, and the same factors influencing: we have leverage, we have efficiency improvement, price management. And then, against us the headwinds: we have the supply chain constraints, raw material prices, freight costs, and then our mix.

If we move on, we continue to deliver on our strategy. As I mentioned earlier, we see a very nice movement with distribution and services and aftermarket growing faster over time than the OEM business, standing today for 47% versus 39% a couple of years ago.

We have announced six acquisitions year-to-date, and we keep working on that area, and we also see rapid growth on our B2C channel, still small numbers, but we are twice [ph 00:12:28] as much as we were one year ago.

If we look at our Product Leadership, innovation index on 24%, all-time high. And what is even very pleasing to see is that we are continuing to launch new products and just as a reminder on one side we are revamping all the existing process areas that we have historically at the same time as we are launching new products for new vertical markets. And we have a strong pipeline, and we expect the product launches to continue. Cost reductions, keep working very, very hard. The number of SKUs is down now 57% versus the level that we were showing in 2018. But it's not only that. We are working on supply reduction. We are 25% fewer suppliers. We are working on space, 13% [ph 00:13:22] down, and so forth.

We have also announced the closure of one more site, and we are totally committed to our course of action targets that were introduced in connection to the Capital Markets Day.

Looking a little bit on the growth side. We pay a lot of attention to our website. We have implemented a new website. We see in the quarter an organic growth of 18%, and this is important for us, obviously, since we are trying to communicate more and more with the consumers, and is also one of the fundamentals to enter into the B2C channel.

If we look at social media, we also show similar progress: 19% versus the situation one year ago with a nice evolution on all the different medias. And the same, this is going to be crucial to develop new ambassadors, to have more traffic on social media for our B2C channel.

Looking at outdoor, we launch our new cooling boxes and drinkware in both EMEA and Americas during the quarter after the introduction that we had in Australia one year ago. This is a very important area for our future, moving the perception from high ticket discretionary spending to low ticket discretionary spend. We also launched a new generation of minibars, and in this case, is not just for launching business, but also for the healthcare business and elderly care. And what I think is impressive is that we managed to improve performance at the same time as we are reducing energy consumption by 40%.

We are finishing off the field test on our deli box on the food delivery market. We are receiving very positive feedback from potential customers, and we expect to start getting orders very soon now.

We are investing in introducing ourselves into more outdoor channels. What you see on the slide is really our presence on the Liverpool Outdoor show that took place between June 29 and July 1st where we are showing our vehicle-based outdoor activity approach. As you can see, we have rooftop tents, we have the [? 00:15:58], we have the coolers. And we are going to be launching a totally new generation approach during the first quarter all next year.

Looking at acquisitions, we have been very active. We continue to be very active, and what I would like to mention is, obviously, that we didn't start working with acquisitions the 1st of January. This is really the consequence of one-and-a-half years where we built up the organisation. We have people in the different continents, and we are starting to harvest the hard work that we have been expending.

Looking at what we're looking for, for acquisitions is very much on the distribution side and on their service and aftermarket. On the left-hand side, you have the residential business, which is a distribution business. Then, we have front runner which is a 100% outdoor company. Valterra, on one side, is a service and aftermarket business, but they also own Go Power!, which is 100% mobile power solutions, and then we had the three additional acquisitions in the same area. Mobile power solutions.

So, why is mobile power solutions interesting to us? It is clear that we see sustainability, electrification trends that are leading to increased use and user demand for all three products. We have observed a number of these companies growing very fast, showing very nice margins, and this is very, very appealing because we believe that the underlying trend of people deciding to spend more time in nature is going to continue to grow. At the same time, nobody today wants to give up the convenience that we have at home, so that's where we play a role.

And of course, in a future with electric cars, is going to be even more important to have access to electricity, and you will not be able to take that electricity or that power out from the car. So, that's why, when we are talking about solar panels, when we are talking about battery packs, when we are talking about generator, power generation is extremely important for our future. On top of that, we see obviously the more electronics you have, the shorter product cycles you are going to experience, and the higher margins we are going to have. So very, very interesting to us.

Sustainability. We are totally committed to lead the sustainability in our industries. As you know, we have four KPIs that we are following on a continuous basis, that we are communicating. In terms of injuries, we are down 23% towards the same period last year. We are spending a lot of time to increase the number of female managers in our organisation. We cannot show that in the numbers yet, but we will see it. We are implementing our previous plan to elevate those numbers.

In terms of audits in low-cost countries, we have moved to 84% versus 77% one year ago despite, as you are aware of, the travel restriction restrictions that we still have around the world.

And then, we are also investing in renewable electricity, and we have a reduction on our consumption of CO2 tonnage of 12%. We have as a target 5%, but we have invested faster to accelerate the progress in that area.

In regards to restructuring programme, we announced the closure of one more site during the quarter, which means that we are down to 22 sites affected so far. Another 26 employees will be leaving us, or a total of a little bit more than 800 employees so far.

On the cost side, 24 million accrued in the quarter, or 266 since the beginning of the programme.

And again, we hope now when the travel restrictions start to ease up that we will be able to accelerate our programme.

With that said, I would like to handle over to Stefan, please.

## Stefan Fristedt

Thank you, Juan. Starting off with the bridge for the second quarter, and as you can see from this, the currency continues to be a negative impact for us: 34 million in the quarter on EBIT. Then, we have the M&A transactions that we have been completing. I'm coming back a little bit to more details here in a second. But totally, in the quarter, we have 270 million of net sales included related to M&A, and EBIT of SEK 39 million.

Then, we have the last column, which is, of course, a combination of a number of different things. And it's obviously sales growth is an important part in this one. Juan has already talked about price management, which we have been successfully implementing to mitigate some of the negatives, which is related to raw material prices and freight costs.

Then, we have continuously less negative impact from US trade tariffs, not in absolute terms, but in relation to the business volume. Obviously, operational leverage and cost savings are important factors driving our portability, and then, except for raw material and freight cost increases, we also are obviously facing, as the rest of the world, supply constraints and increasing lead times.

Moving to the next. Here, we have some more details on our acquisitions. As I said, 270 million of net sales, related 8% growth from M&A. So, if we look on this before amortisation of intangible assets, which comes with all acquisitions, we are showing in our data a margin of 18.9% for the acquired companies and 18.66% for Dometic as an average.

We have also taken a decision to handle M&A transaction costs of bigger materiality and book them as item affecting comparability. And that is a total of SEK 29 million.

Then, in the box below, you have the acquisitions we have done just to help you understand when we are announcing them and when they actually are included in our accounts. So, Twin Eagles was announced in February and included from February as well, related to the Global segment. Valterra, announced April 22nd, and has been included since May. I should, however, highlight it’s since the last week of May. So, it's not the full month of May we're talking about. Valterra is belonging to the segment Americas. Enerdrive announced on May 18th, and included from the 1st of June, related to the APAC segment. Front Runner was announced May 20th, and has not yet closed, and is expected to close in Q3, and this acquisition is related to the segment EMEA. And then, we have Zamp Solar, announced on May 26, and is also included from the last week of May, and belongs to the segment Americas. And then, we have the latest announcement of Büttner Electronics, July 2nd, and will also be included in our accounts from July, and belongs to the segment EMEA.

Let’s move on.

Going over to the operating cash flow, satisfying development in the quarter: 875 million in operating cash flow; 80% cash conversion rate. And so, the cash flow is making a bit of a comeback, we could say. So, that's nice to see, and expected as well.

Moving over to the next page to talk a little bit about the different components in working capital. Starting with the accounts payable, as you can see, number of days are moving up, and we have been driving in China, especially a programme using bank promissory notes. But also, the rest of the group is now moving up terms in the agreement, so that's a nice development. DSO starts to come down to levels we have seen historically, so I think, all the days, those [ph 00:25:49] situation we see things stabilising here.

DIO are obviously higher, especially if we look on the graph that is the short-term view of DIO. And that's driven by that we need to build inventories to secure deliveries and we also have new product introductions that we need to build up inventory more, and then we also have significantly increasing lead times, especially from Asia to the rest of the world. So, if we look on the total level, we are actually working capital in relation to net sales are now on a historic low level.

Moving on to the next, talking about CapEx and research and development. As you can see, and what we also basically have been communicated, we are hovering around the level between around 1.5%, equating to 77 million in the quarter. And even though we are doing more things, we stated that we are doing different things now that we are getting higher efficiency out of the investment that we are doing.

Looking specifically on the resource and development spend: 1.8% in relation to net sales, 102 million. And as you can see from the development of the innovation index, the investment that we are doing are certainly driving and renewing our product portfolio.

Next step.

Cash flow for the period. Some highlights are worthy of mention. The operating cash flow improved: 875 million. We have done acquisitions of around 1.6 billion in the second quarter. And then, there has happened a couple of things within financing. As you know, we did the directed new shares issue here in the beginning of June, which brought almost SEK 3.4 billion. And then, we have also paid out our dividend of 680 million.

Looking on our debt portfolio, there has been one change in the quarter, and that's the two billion facility provided by EKN, which has been extended with two years to 2025. Then, we also have our undrawn revolving credit facility of €200 million.

So, looking on our net debt. As was mentioned before, it has been coming down to 1.4x, obviously driven by the directed new shares issue, and as you also have noticed, we have changed our target to be around 2.5x over a business cycle. So basically, taking that to the level where we have seen it on an average for the last couple of years. So, this obviously means that we certainly have capacity to continue to execute on our M&A strategy going forward.

So, with that I'm handing back to you, Juan.

## Juan Vargues

Thank you, Stefan. So, let's summarise the quarter. So, on the business side, all-time high sales and EBIT. We feel confident about the future. We have an order backlog which is record high. We continue to see strong underlying market demand. Again, we see that with that backlog, with the underlying demand, we see that we have a positive outlook for the coming quarters. And we also believe that is going to take longer time than initially expected to refill the inventories on the market side at the dealer side.

Looking a little bit more internally, we continue to work on our innovation index. We are improving quarter by quarter. We have a very high focus on our cost and efficiency improvements. We are very happy to see how the company is reducing our exposure to one single segment by increasing on distribution, increasing on the service and aftermarket side. We’re standing close to 50% and, as I mentioned previously, with the new acquisitions, once we are reporting all of them, we are pretty convinced that we would be close to 50%. Six acquisitions announced year-to-date. We keep working on more acquisitions, more opportunities out there. And we're happy, obviously, about the share issue, giving us the muscles to continue that journey.

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

By the way, I forgot to mention obviously that we're going to have a Capital Market Day on the 30th of November in Stockholm. So, please save the date.

And now, we open for the Q&A session.

# Q&A

## Operator

Thank you. If you have a question for the speakers, please press 01 on your telephone keypad. Please also try to limit the number of questions to two. Our first question comes from Daniel Schmidt, Danske Bank. Please go ahead. Your line is now open.

## Daniel Schmidt

Thank you, operator, and good morning, Juan and Stefan. Just two questions from me, starting with the operating leverage in Americas. All regions are basically back to the margin levels that you had in Q2 ’19, or even above, apart from Americas. And I, of course, appreciate what you said in terms of the impacts, and maybe the impact from the US dollar and the mix is probably bigger in America than EMEA and in other parts of the world. But is it also fair to say that supply chain issues continue or has been a bigger problem in Americas than any other regions?

## Juan Vargues

Yeah, I would say so, but you have a couple of components more. Keep in mind that we are talking about Q2 2019. The 10% tariffs was implemented during the second half of 2018 whilst also we were building up inventories at 10% tariffs that we were consuming in the first quarters or 2019, and then during the second half of 2019, the 25% tariff started to kick in. So, in reality, we are also still today penalised by that.

Then, you have a clear mix, as I feel we have mentioned a couple of times, that our UEM [ph 00:33:04] is the lowest margin area that we have, and we are growing faster on our UEM [ph 00:33:10] in Americas at lower margins than we are driving in the rest of the world. That has an impact. If you look also at the weighting of our UEM [ph 00:33:19], in Americas, it’s higher than for the other regions. So, you put everything together, it’s very much mix driven.

Then, we have, as you just said, some more impacts on delays. We know that a number of manufacturers started to run longer weekends during the last six to seven weeks, so we expect to see a little bit more leverage in the quarter to come, if everything goes as we expect.

## Daniel Schmidt

You also said that you are totally committed to the cost-reduction targets, and you hope to be able to accelerate the cost- cutting programme now travel restrictions are easing. Is this more related to Americas than the rest of the group, or is it equally distributed in terms of your focus?

## Juan Vargues

It is obviously high-cost country driven. We are sitting with a number of factories in Americas, and we have still today a few factories in Europe, as well. But, of course, we're talking about priorities. Americas for us is a priority because we see that in the numbers, clearly. So, we want to get to the same average numbers that we have in EMEA. There is no reason for not believing that we should not be delivering that.

But then, we also need to work on the mix, as I said. We have more exposure to the RVUM [ph 00:34:43] business in America than in the rest of the segments.

## Daniel Schmidt

Good. And then, the second topic. You talk about a prolonged period of re-stocking. And, of course, we've heard this for some time, but it does sound that you were highlighting this yourselves a little bit more. What are you seeing in terms of retail demand? It's one thing that, of course, inventories are low entering ‘21 and there's been some supply chain issues, but what are you seeing in terms of the end market demand as we enter Q3 and during Q2?

## Juan Vargues

It’s very positive. And that's what is driving our assumptions that obviously the demand is still there, it is clear that the OEM dealers are not refilling the inventories at the pace that was expected before. Because of that, when you have the combination of higher demand, which continues at the same time as you have inventory levels that are not growing at the pace that was expected, that means that the period that this will take to refill is going to be longer.

## Daniel Schmidt

Yeah. And do you feel that it’s been an equal impact in terms of supply chain users and higher demand than expected that are keeping inventories low? Can you shed some light on that?

## Juan Vargues

It is clear that that people are still not taking a flight to the Caribbean or to Thailand. I think that this is obviously supporting the industry without any kind of doubts. If you look at camping in Sweden or camping across Europe or in the US, it’s difficult to get today space. They are fully booked. I don't think that's just going to go away either. Of course, we will see sooner or later that we cannot be at these levels forever. But I see it as an acceleration of the underlying trends for outdoor life and lifestyle that we have seen in the last ten years.

## Daniel Schmidt

Yes, OK. Thank you. guys. Thank you, Juan.

## Operator

And our next question comes from Lucy Carrier, Morgan Stanley. Please go ahead. Your line is now open.

## Lucy Carrier

Hi, good morning, gentlemen. Thanks for taking my question. I was hoping you could help us understand how much price increase you were able to pass in the second quarter, and how much you estimate the impact from raw materials and supply chain constraints to remain a tailwind in the second half, please. Because I think it would help us to understand whether you see maybe an acceleration of that headwind or maybe a deceleration.

## Stefan Fristedt

Hi, Lucy. It's Stefan here. So, what we can say about that is, if we see the map of these effects, obviously the price increases that we managed to pass through, less the raw material price increases and the inbound freight increases, I would say that it's more or less even. We were a little bit below in the first quarter, and now we are a little bit above in the second quarter. So, so far so good. But this is things that is evolving almost day by day, week by week. So, we know that there are going to come more price increases here a little bit further into the year here to mitigate the continuous cost pressures that we have from different sites. So, I would say, so far we are satisfied with what we have been managing to do here.

## Juan Vargues

Just to be clear, our intention is to be ahead. That's our clear intention. And of course, what you can see is that where prices are increasing, and the cost is increasing, and then we need to increase prices again and then costs continue to increase, as for any other industry.

## Lucy Carrier

Understood. So basically, what you're saying is actually in the second quarter you were able to mitigate the headwind, so the margin overall was not disproportionately impacted by the headwind. Basically.

## Stefan Fristedt

Correct.

## Lucy Carrier

Thank you very much. My second question was around M&A and the M&A envelope. I appreciate that M&A depends on timing of closing of acquisition, discussion with targets, and so on, but are you expecting something equivalent to be achieved in the second half versus what you've done in the first half in terms of spend or something higher, something lower? What can you give us on that at the moment?

## Juan Vargues

What we can give you is that we keep working exactly the same pace as we have been working the last, I would say, 18 months. We’ve got the pandemic in between. So, we started and restarted our activities again in Q3 last year, and during the first half we harvested some of that, and we keep working exactly the same pace. So, it is clear that this is crucial for us to accelerate our journey, our transformation journey to become less exposed company to one single segment. That's the target. We want to see less exposure, and we want to see higher margins.

## Lucy Carrier

And just on the margin, the new reclassification you are making from M&A cost into items affecting comparability, is that a new classification that you look at acquisition by acquisition? Or is that when you see that the total M&A cost is exceeding a special threshold, you're making the reclassification? Because obviously, that makes it a little bit more difficult to compare EBIT margin versus history.

## Stefan Fristedt

Correct. If we take the acquisitions we have done now, the acquisition that qualifies to be taken as the item affecting comparability is Valterra. So, it’s that size of acquisition. But it, of course, has to be evaluated case by case. Then, the rest of the M&A costs, they are included in EBIT because we also believe that this is going to be a part of our normal businesses, of course, going to be a little bit up and a little bit down, but it's part of our strategy. Everyone knows that you don't have 100% achievement for all your M&A efforts, of course, sometimes. That will be something that is [? 00:42:03]. But depending on the materiality, then it will be included in items affecting comparability if it's more material. So, that's the way we have decided to do it.

## Lucy Carrier

OK, thank you. I'll get back in the queue.

## Stefan Fristedt

Thank you.

## Operator

Our next question comes from Rizk Maidi, Jefferies. Please go ahead. Your line is now open.

## Rizk Maidi

Yeah, good morning, Juan and Stefan. So, the first one is really on the supply chain bottlenecks and component shortages. So, if I look at your organic revenues excluding FX and M&A, looks like it was sequentially stable from Q2 to Q1. It does feel that those headwinds are actually getting worse. I'm just wondering if you could comment on this and whether you can assess what could have been your organic growth if you were able to deliver or ship your products.

## Juan Vargues

I feel you could have added a couple of percentage points more. Without any kind of doubts. And I have to say that is not just one segment. We see that in all the segments. We don't see that in one product. We see it more or less in all products. So, again, we are not vaccinated against what is going on around the world, like many other industries. It is tough. It is tough to deliver 66% of organic when you are chasing every single day. And again, we're talking about componentry, we're talking about containers, the price for a container today. First of all, you need to get hold of a container. Then you are paying ten times more than you were paying one year ago, just for you to get a feeling. So, it is a struggle.

At the same time, I also believe that we, like the rest of the companies, are becoming better and better. I guess that we are getting used to live with this pandemic and the consequences of the pandemic. This is the fourth quarter now in this situation. As you know - you can read the media - obviously that the electronics suppliers are building up new factories. They are building up factories in Asia. We also have Europe, which is starting to invest in that area. We have Americas. But it will take a while. So, I'm not expecting the situation to ease dramatically in the coming weeks. I hope that it becomes easier beyond this year.

## Rizk Maidi

Understood. The second one is really a follow-up on Lucy's question on raw material and print costs. You were helpful last quarter to actually assist those. I think you talked about an 80 million headwind with pricing roughly under 1.5%. I’m just wondering if you could give us those same numbers this quarter, and whether your comments, Juan, on your willing to be ahead as well as a target also applies to Q3, where I think we should get the peak headwind, in terms of raw mats.

## Juan Vargues

I think it does. That's our job. Of course, we are looking at those curves every single week. We are following where we're going on our steel prices, aluminium prices, plastics, all that kind of stuff. And we are reacting as soon as we see that we are moving to the next level. We have been increasing prices already starting in Q3 last year. We have been increasing prices in Q4. We have been increasing prices in Q1, in Q2. Now, we see that raw material prices stabilised during the last couple of weeks. But we don't know what's going to happen in three weeks from now. So, if we see prices coming up on the raw materials fight, we will have to increase prices again.

## Stefan Fristedt

And it's not only raw material prices. Freight costs is also going up to quite extreme levels.

## Juan Vargues

So, even here, I do believe that the pandemic has created an extreme situation, and when you have this kind of situations, you also need to behave accordingly, which means that we need to be on our toes, and we need to be very, very fast on adapting our pricing to our costs. And so far I feel that so far we have done a decent job in doing so.

## Rizk Maidi

OK, and lastly, the mobile power solutions sales of a billion. What normalised growth rate are you seeing in this vertical?

## Juan Vargues

We are seeing two digits, and we are seeing two digits for years.

## Rizk Maidi

Thank you very much.

## Juan Vargues

Thank you.

## Operator

And our next question comes from Agnieszka Vilela, Nordea. Please go ahead. Your line is now open.

## Agnieszka Vilela

Thank you. Starting with two questions that I have. Number one is about what do you feel about your sales in Q3 on an absolute level. Traditionally, when we look at Q3, it's usually slower than Q2, given holidays, *et cetera*. However, now I notice that you did build half a billion of inventories in Q2 versus Q1, and the question is do you plan to shift these inventories now in Q3, or do you feel you need to have these elevated inventories for quite some time? And also, when I do my calculations, I do expect that acquisitions will probably add something like 200 million more in Q3, compared to Q2. So, do you feel that you have potential to actually exceed sales in Q3 versus Q2. That’s my first question.

## Juan Vargues

They have not been calculated in such a way.

## Stefan Fristedt

I’m just considering how I’m going to answer you. We are looking positive into Q3, Agnieszka, versus what we achieved last year. And obviously, M&A is also going to help us here. And what did you say?

## Agnieszka Vilela

On inventories, maybe. If you can just elaborate. You raised your inventory level by half a billion this quarter. Is this inventory to be shipped out in Q3, or do you feel like you need to keep a high inventory level?

## Juan Vargues

In Q3 and Q4 because keep in mind that we have quite a bit of inventory on the sea. So, it takes about 60 to 80 days to reach, increasing, increasing, increasing. In both Q3 and Q4, I would say would be the second half of Q3 and Q4.

## Stefan Fristedt

I said that in Q1 that we have never had so much inventory on the sea, and I can say exactly the same in Q2, so it's the [? 00:49:49]

## Juan Vargues

We are optimistic because we see the backlog, we see our inventories, and it will come out. The question is only when, which week or which month?

## Stefan Fristedt

And concerning acquisitions, keep in mind that's Valterra and Zamp Solar, they were coming in the last week in May, so they were not in the full month of May, and Enerdrive is one month included. And then, of course, Twin eagle is there fully in the quarter, Büttner is going to be almost there for the full quarter, Q3, and then Front Runner is a little bit depending on we are waiting for some decisions to be made by authorities out of our control here, but we expect it to close in Q3, but we are 100% certain exactly when in Q3.

## Agnieszka Vilela

That's my point, that you should see stronger contributions from M&A in Q3.

## Juan Vargues

Absolutely.

## Agnieszka Vilela

And then my second question: can you just help us to understand what are the building blocks for you improving margin in Americas? What can you do?

## Juan Vargues

We have to do a lot. One side is obviously the mix is crystal clear. It is clear that we have activities to reduce our costs as well. But I feel one of the main contribution factors that we have in Americas is the mix. It is too much RVUM [ph 00:51:54], and as you know, RVUM [ph 00:51:56], it's no secret. We communicated several times, but that's where we have absolutely the lowest margins in comparison to anything else.

## Stefan Fristedt

And both Valterra and Zamp is obviously addressing that and helping up, but even with them, compared to the other segments, still more weight towards a way up [ph 00:52:13].

## Juan Vargues

So, now we are investing in building up our service and aftermarket business. We're investing in developing our outdoor business, where we have very nice margins, so it’s very much about exposure. Americas have historically been problematic very much about one segment. One vertical market segment. If you compare both with APAC and EMEA, where we are much more fragmented, which means that we are obviously reducing exposure. As I said, we're working a lot on reducing the tariff effects, and that's coming step by step, and we are obviously reducing, on top of that, in reducing our cost base, our infrastructures.

## Agnieszka Vilela

Right. And if I may, very short housekeeping questions. Did you have any costs for the direct share issue in your financial cost this quarter?

## Stefan Fristedt

No. That is melted down. It's according to existing accounting principles.

## Agnieszka Vilela

All right. And then, also, the CapEx guidance for the full year. What can we expect?

## Stefan Fristedt

You see the levels that we have been hovering around for quite some time, maybe with some lower levels last year. I think you should expect us to stay around these levels. We don't have any plans to take that up in any dramatic direction.

## Agnieszka Vilela

And then the last one on the amortisation of PPA. If you could guide us there. What kind of kind of run rate should we expect, say, per quarter in the coming quarters and years?

## Stefan Fristedt

That is obviously going to be a little bit depending on the various acquisitions. They look slightly different, and you can see yourself that it was 12 million in the second quarter. related to acquisitions, so obviously that is not the full quarter for Valterra and for Zamp Solar. But I think, the acquisitions to come, are they going to be significantly different? No. They're going to hover in the same ball park in terms of all the amortisation. So, I think you can use this information that we have provided with you combined with when you know that they have been coming into our accounts here to make your view.

## Agnieszka Vilela

Yes, just looking at the purchase price allocation that you have in 0-10 in the report. I can see that you have trademarks of 67 million, and then other intangibles of 621,000,000 for the acquisitions. And maybe to ask a question a bit different: what's your accounting principle when it comes to amortising this kind of PPAs? How many years do you usually amortise that?

## Stefan Fristedt

It's between two to 15 years. And trademarks, it's depending on, two to four years typically. Customer relationships ten to 15 years typically, and technology that could really vary. But let's say five to ten years, depending on what we're talking about here.

## Agnieszka Vilela

Thank you.

## Operator

Our next question comes from Johan Eliason, Kepler Cheuvreux. Your line is now open.

## Johan Eliason

Yes, good morning. This is Johan. Thank you for taking my question. I was just wondering if with all these acquisitions you have now done, you’ve added dealers. Could you mention how big your dealer network is today versus where you were at the beginning of the year?

## Juan Vargues

I cannot tell you just exact numbers simply because we are just now in the process of integrating the components. Difficult to know exactly how many dealers each of these companies do have. But if we started on somewhere around 36,000 dealers around the world, I would assume that we are today adding another 1,500 or so. We're looking at the companies and looking at information that we have received during the disease [ph 00:57:21], that will be my assumption: 1,500 more.

But what is important is that the vast majority of dealers we had in the past obviously were more on the RV aftermarket side. Now we are adding stores. We are adding distribution. So, we're opening a channel. If you look at Front Runner, that's an outdoor company. A pure outdoor company with a pure outdoor channel that we are very interested in. At the same time, obviously, as we are organically working with the [? 00:58:11], with [? 00:58:12], with Globetrotter [ph 00:58:13], with all these outdoor companies around the world.

## Stefan Fristedt

Also, keeping in mind that some of the acquirer [ph 00:58:17] comes to actually have a rather high share of the business to consumer.

## Juan Vargues

Absolutely. So, just to give you something that you might be interested in, you look at this company, Front Runner, they are 50% B2C.

## Johan Eliason

Good. Then, one thing. Obviously, the acquisitions you highlighted came with quite good margins already in the quarter. A number of those have sent that basically around, to my understanding at least, the same technology in this solar space. Will you be able to take out synergies basically from common technologies going forward on all these smaller acquisitions you are making in this-?

## Juan Vargues

Obviously, it takes a while. And these companies are not companies having big factories and big infrastructures, but our expectation is obviously that we don't need to have four different set of suppliers when we are supplying to the market similar kind of products. So, that will happen over time. We don't feel like we're done by any means. That's the good news. Being a new market and being a fast-growing market, what happens obviously is that that you are getting new start-ups. So, we see this area as a very interesting area moving forward for the years to come.

## Johan Eliason

Excellent. And what’s the strategy with all the brands you're acquiring? Are you keeping them [inaudible 00:59:48] dual-branding?

## Juan Vargues

They will be Dometic. You got it right, so we are implementing double-branding within the coming six months. I have already seen the new logos.

## Johan Eliason

I haven't seen that, but I will look for them. Excellent. Thank you.

## Juan Vargues

Thank you.

## Operator

Our last question comes from Harik Rinkler, Handelsbanken. Please go ahead. Your line is now open.

## Harik Rinkler

Yes. Thank you. The first question is a follow-up of the previous question. It's broadly about your post-acquisition strategy for companies that you acquire. Do you have a certain process that is pretty much the same for all companies? And then, there's, of course, always company-specific variations. And the reason that I'm asking is that at what point do you start to have constraint bottlenecks, either in terms of managerial resources or your systems, either financial reporting or IT systems.

## Juan Vargues

So, if we take the first one, it is clear that we have a number of people. Stefan is coming in front and pushing the company [ph 01:01:16]. I'm coming from opposite [ph 01:01:18] company. We have a number of people coming from that kind of environment. So, we have experience and the means to do that. Secondly, we have a clear plan. It is difficult to be a one-brand company when you have a strong position, so I don't see Dometic having one single brand. But I don't see Dometic having 20 brands either, so I see Dometic having one main brand which is Dometic.

So, if we look at Front Runner, Front Runner will become Front Runner Dometic. If we look at Go Power!. It’s going to be Go Power! Dometic. If we talk about Zamp Solar, it’s going to be Zamp Solar Dometic. And then what happens over time in five years, ten years still to be seen, but they are going to be Dometic-identified, because again, we're buying nice companies, very nice companies in new markets to build up a Dometic brand on the outdoor.

Then the question is more, OK, but what happens if you buy a different company being sizeable in areas where you already have a very strong position. One plus one will never two. So, that's when I see obviously that we might need over time another brand to attack the better segments, but we're not there at this point. Then, if we're talking about systems, this is not about Dometic. Remember, what I'm coming from. We don't have one single ELP [ph 01:02:48].

And of course, whenever you acquire a company, you need to have a plan. Or how are you going to integrate these companies from a financial perspective, from an IT perspective, from a legal perspective? We need to reduce number of occasions; we need to reduce number of legal entities. We need to reduce number of ELPs [ph 01:03:06]. Again, I think that I had a pretty good education in that area. I feel that Stefan has a pretty education as well and we have a few more people that are used to do it. And keep in mind that we are not buying global companies.

So, we are buying a company in Germany, that acquisition will impact the German organisation and EMEA management. That has nothing to do with the US. If we are acquiring a company in South Africa, that has very little to do with American business. So, that's the other one. It’s not just me running the company, or Stefan running the company. We have some people out there that need to be in charge of integrating these companies. And that's very much about building up competence. That's why we need to be decentralised. And that's why we have decentralised the company since I joined it, because I don't believe in being acquisitive and being centralised. It is impossible. You become the bottleneck, as you just said.

## Harik Rinkler

All right. Fair enough. And then, a question related to decentralisation, and maybe you could give an example of some component suppliers that have started to re-shore or build up production closer to end markets. So, your plan for manufacturing footprint, is that still 100% intact compared to what it was before the pandemic? Or have you made some pandemic-driven adjustments in where you want to be in two years’ time when you're done with that?

## Juan Vargues

I think that is quite similar, which is basically what you are talking about. Already, pre-pandemic, the entire process started with the US tariffs, with the US tariffs and the way that China is developing during recent years, it is clear that political decisions are having an impact in the way we are doing business nowadays. And we believe that we need to have assembly plants in Americas, and we need to have assembly plants in Europe, and we need to have assembly plants in Asia.

Then the question is how much? How do you get also critical mass when you are purchasing? So, I think that you have the componentry side. And then, you have the heavy manufacturing side. As you may remember, one part of our manufacturing strategy is that we want to add less value in our factories. We want to become much lighter, which means that we are outsourcing more, and as we outsource more, we are going to outsource more close to the main markets. So, I see our factories in China having less impact in the future that they had historically, and that process already started two years ago or two and a half years ago, and will continue.

## Harik Rinkler

All right. That's very helpful. Thank you very much.

## Juan Vargues

Thank you.

## Operator

And this concludes our Q&A session. I will hand back to the speakers.

## Juan Vargues

Thank you very much for your attention, all of you. We are not obviously unhappy with our results. We will never be totally pleased. We know there is more out there. We know that obviously the shortages did have an impact on our numbers, and we will continue to work very, very hard to deliver on our targets and to deliver on our strategy. And it is coming. That's what we see. And that's something that we are happy about, that we're really walking the talk and making our strategy in reality. So, thank you very much for your attention, and those of you going on vacation, enjoy your vacation. We will see you soon. Thank you.

## Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.