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| TranscriptionDometic Q3 2021 analyst call{EV00126563} - {01:04:52} |
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# PRESENTATION

## Operator

Hello and welcome to the Dometic Q3 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 question and answer session. Please also try to limit the number of questions to two. Today, I'm pleased to present Juan Vargues, President and CEO; Stefan Fristedt, CFO; Rikard Tunedal, Investor Relations. Speakers, please begin.

## Juan Vargues

Hi, good morning, everybody. This is Juan Vargues speaking. Welcome to the third quarter report for Dometic 2021. Without any delay, I will move over to the presentation material, starting with the highlights for the quarter.

So in regards to the market situation, we continue to see a very strong demand. We see [? 00:00:56], ourselves. We also see a record high backlog for the period. At the same time, we also report constraints in the supply chain that are continuing during the quarter.

Looking at performance. We have a nice milestone we just passed for first time – 20 million SEK in 12 months rolling revenue. We achieved a 25% sales growth totally of which 11% organically. We continue to see high M&A activity. In the quarter, we consolidated six acquisitions and then we announced another two additional acquisitions.

EBIT ended up at 14.2% versus 15.5% last year. One of the reasons for that is really timing in offsetting the cost increases primarily coming from freight and raw material by new pricing. I think we did a fantastic job in Q1 and Q2 where we were always ahead of the cost increases. In Q3 we were a little bit late, and we have implemented new price increases to reduce that gap and eliminate that gap.

I'm also very happy to communicate another milestone. For the first time also in our history, we also passed the Innovation Index of 25% by reaching 26% in comparison to a 21% mark last year. We continue to reduce complexity, and by that, our cost.

And then last but not least, we are also very happy on the job that we are doing from an ESG perspective, reducing the CO2 emissions by 17% in comparison to the situation in 2020.

If we move over to the financials for the quarter. We ended up 25% in total growth, which 11% organically, which had a negative impact of 2% coming from FX and then on top of that we also added 15% in M&A.

EBIT before items affecting comparability [ph 00:03:19] ended up at 785 million krona, or 14% up. EBIT margin, I already mentioned previously, 14.2 versus 15.5 one year ago. EBITDA, 987 million or 14% up. Operating cash flow of 346 million versus 1.43 billion last year, very much driven by the high inventory levels that we see just now. And also, as a consequence of the longer lead times that we see on freight, on sea especially.

Leverage down to 1.5x versus 2.8 one year ago. And a nice EPS improvement to 1.50 krona in comparison to 95 öre one ago.

Moving over to the year-to-date numbers – 30% up totally, of which 5% FX, 8% M&A, and then 30% organic. EBIT almost 2.5 billion or 68% up and an EBIT margin of 15.5, which is a very nice improvement versus where we performed last year 12.3%. EBITDA past 3 billion krona for first time, or 53% up. A good operating cash flow considering obviously the inventories. [no sound 00:4:43 – 05:00:00].

Looking at our sales growth. Very pleasing to see that the organic growth continues and is complemented as well with M&A. We have very nice growth in all the segments and when comparing with last year, I already mentioned previously 11% organic growth. But also, when comparing with 2019 the same period, 2019, we're up organically 13%.

Looking at our application areas. All time high in all areas, but climate affected by now the recovery of the volumes that we lost in connection with one of the factory moves in America one year in [? 00:05:42]. We are working hard to get to the same levels as we had one year ago in that area. [? 00:05:47], again, all time high all over.

On the same channels very nice development as well. Service and Aftermarket up 19%, OEM sales up 23% and Distribution a strong 50%, which is also leading us to how the sales channel are evolving and what we see here is obviously the consequence of a major transformation of the company towards less OEM orientation. We are 12 months numbers we are just now at 48% of Service and Aftermarket plus Distribution in comparison to a 39% that we're coming from a few years ago. This is very, very important for us as part of our strategy, our main strategy, to becoming less dependent on the OEM side, something is going to lead to margin expansion and reviews cyclicality over time.

On EBIT side, we see obviously a good performance on the sales growth. At the same time, we also see improvements on the tariffs like-for-like. But on the other side, we also see a mix, a negative mixed influence coming from RV OM where we have the lowest margins. We also have a negative FX impact in the quarter. We are investing in a number of areas to build up both e-commerce and the new vertical segments. And then, as I mentioned previously, we also had some time in offsetting the cost increases that we will see improving in the coming months.

On top of that, we also need to keep in mind that we are comparing obviously with a very low quarter in Q3 2020 when looking at cost. Just to give you some flavour, Q3 2020 was 14% down in SG&A versus Q3 2019.

Moving on to what’s going on in the markets. I think you all are very familiar with raw material prices. You see how some of the commodities are affecting us, did develop over time; the steel prices at extremely high levels in comparison to what we have seen historically. The same is valid for aluminium, and the same is valid with plastics.

We could perceive a stabilisation of the cost increases in May/June, but then, coming back from vacation, the cost increases started to climb again. The same is valid for freight costs. While we have seen a massive increase during the last 18 months, even there; again, we saw a stabilisation this spring, but came back again after holidays. At this point we don't see any mitigation. We see Q3 still going through the roof. And this is obviously what is leading this time in difference between cost increases and price increases.

If we will look at the different segments: Americas, 9% up organically driven by Power and Control and other applications. We see very strong sales in all the OEM vertical segments, and we see as well good evolution in Distribution and Service and Aftermarkets which is also supported by the new acquisitions Valterra and Zamp Solar.

EBIT, 60 million in comparison to 79 million last year, and a margin iteration down to 3.5 coming from 6.3 – very much driven again by timing in offsetting the cost increases and raw materials, but also the delays, inefficiency caused by the delays that we see in the supply chain and then on top of that, we also suffer from FX negative impacts in the quarter.

Moving over to EMEA. Very nice organic growth, 10%, driven by Climate and Power and Control. Here we saw RV OEM coming very strong in the quarter and it is clear that the OEM suppliers are preparing themselves already now for 2022. [? 00:10:16] OEM was impacted by a stop of deliveries by our customers simply because they are lacking components from other suppliers. And then we are happy to see that Front Runner, Valterra are now part of the Dometic group. At the same time that we also announced the acquisition of Cadac that should be completed in Q4.

EBIT-wise 243 million versus 218 million last year, or 14% in EBIT versus 14.4. A little bit of the same, FX are impacting our numbers, meaning the timing on the pricing, we had the supply chain constraints, we have the FX negative effects in the quarter and on top of that in the quarter we also have some M&A transaction costs.

Moving over to APAC. Fantastic organic growth but then we need to keep in mind that Q3 last year was impacted heavily by the pandemic in both Australia and New Zealand. Still underlying we see a very strong demand. We see also at all the sales channels are showing very strong growth and we have record high backlog. Very strong EBIT margin, 24.5 versus 16.2 or 126 million krona versus 45 last year. Here we have also positive impact of geographical mix between Pacific and Asia where Pacific is growing much faster than Asia. And then basically the same negative FX in the quarters we have for the other segments.

If we move over to Global. 6% organic growth driven by Food and Beverage and Power and Control. Even here, backlog at all-time high. Hospitality is also starting to move to positives. We saw really a stabilisation in Q2 and now we saw for the first time positive growth during the last 18 months. We also see a very strong demand on our Dometic Outdoor residential offering, driven very much by, on one side, organically our new residential approach, but also clearly by very nice growth in Twin Eagles, the Twin Eagles acquisition.

EBIT, 354 million in comparison to 347 last year, or 22.5 versus 24.5 last year. The same in this situation is really about timing. It is the supply chain constraints. Here we are lacking semiconductors for marine operation and of course Marine has very high margins for us. And then we have also a sales mix where with more OEM sales that we have on our service and aftermarket sales.

If we look at the long-term strategic approach at Dometic, we see really that we are kind of walking our talk. Important for us to move more sales into Distribution and Service and Aftermarkets – 48% on 12 month rolling number in comparison to 39% in the same quarter 2017.

Already mentioned eight acquisitions, and then implementing just now our B2C platform for e-commerce in Europe after implementation in both the US and Australia earlier this year.

Innovation. I already commented earlier before. Very strong pipeline of new product launches coming for the remaining 2021 and 22.

And then, we keep on working on the complexity reduction and SKUs are down 59% versus 2018, which is much higher than what we had as an original target of 40%. We keep investing in our social media efforts and we see a steady increase, up 12% versus the same period last year and now moving more and more into Instagram and LinkedIn.

Another area where we can see the progress that we are doing strategically is really the number of stores where you can find Dometic products. Nowadays, we are today after Q3 in 4,300 stores worldwide, increasing our presence by 42%. But of course, Eagle will have a massive impact in those numbers.

If we look at e-tailers – a little bit of the same pain. We have 54% higher presence today than we had at the end of last year, and our e-commerce sales is also growing from very small numbers, though, but we see a strong growth of 66% after implementation of the new platforms. And again, we are working just now, rolling it up in both.

So coming back to acquisitions, very intensive period for us, obviously, and as a consequence of that we are working intensively on the integration of all these companies starting with our branding and what you see already now is that we have implemented branding in, I would say, six of the eight acquisitions that we have completed. Remaining is Valterra that will be double branded in a few months from now. Other than that, we are very much advanced in this area. Which is also something very important, since we want to build up a strong outdoor consumer-driven Dometic brand worldwide.

Another two acquisitions that were announced in the quarter. Cadac, barbecue company, a South African barbecue company turning 70 million in sales with a strong presence across Europe. As well as Igloo that we communicated mid-September, an iconic US brand which is the major company, the global leader in terms of [? 00:16:35] coolers. And we expect also Igloo to join us in Q4 this year.

Then a lot of acquisitions, what we are doing is really to develop our outdoor vehicle-based activity concept which is really a series of outdoor self [? 00:16:57] products forming a new outdoor category. We have already put together a relevant product portfolio and we will continue to develop this portfolio both organically and through additional acquisitions. But this is going to have a major impact in Dometic’s future, since, again, we are moving from being a [? 00:17:20] supplier to the OEMs into more of an outdoor lifestyles-based company.

If we move over to Innovation. Again, a new milestone for us reaching 26%. Just a couple of samples of the approach that we launched during the quarter, we are entering the heater markets in EMEA with a first combined heater, using separate burners for air and water heating leading to high performance and higher energy efficiency. This is also completing the system together with a new series of AC that we're launching at the beginning of next year.

If we look at the Aftermarket side, this is a sample of one of the aftermarket products that we are launching. It’s a hand wave contactless toilet flush switch, ideal for retrofit and very easy to install for Marine applications.

And then even in the Marine area, we are launching a new series of air conditioners for smaller boats as a continuation of the product launch that we had about one year ago for the bigger yachts. And in the same way, this is also reducing energy heavily for the same applications having as well higher sustainability degree by demanding less maintenance and higher lifetime or longer lifetime.

Moving over to our restructuring programme. A lot of preparation work is going on. We didn't have an impact on number of sites or employees this quarter, but we had just now, we took another 70 million in restructuring costs in the quarter, ending up at 283 and we're running just now savings at a pace of 150 million krona after Q3 this year on an annual [ph 00:19:25] basis of course.

From a sustainability perspective, we continue to drive these questions. We have seen a very positive evolution in terms of injuries. We are down 40% versus the same period last year. We, on the contrary, are not happy with our progress on female managers. We’re standing still at 23%. Even if we see progress at lower levels, in different levels in the organisation, but still totally speaking, we're not moving the needle and we need to have even bigger effort to get there.

From an audit perspective, we are up to 81% in audits in low-cost countries, suppliers in low-cost countries, versus 78% despite the fact that again it is still very difficult to travel in Asia and parts of Americas for making progress. And then very happy to communicate, obviously, that we have reduced emissions, CO2 emissions, by 17% that we added another site that is used in renewable electricity, and we will continue that work.

And we also committed in the quarter to reduce our emissions by 50% in 2030.

And by that, Stefan, could you please give us some more insight?

## Stefan Fristedt

Thank you, Juan. I'm starting off with the net sales and EBIT bridge. And currency continues to be negative to us, -42 million on EBIT level in the quarter – equivalent to -0.5% on the EBIT margin.

M&A, positive contribution, 686 million in net sales, contributing with 15% of our total growth in the quarter, 113 million in EBIT equivalent to a 16.5% EBIT margin. So, contributing 0.3% on our overall EBIT margin.

Then coming into the last bucket: Volume Price Mix Cost and Others, which is contributing with 496 million in the quarter, but only 24 million on the EBIT line, so that means a negative contribution of 1.1% on our EBIT margin. What is behind this then? The sales growth is contributing positively, less negative impact from US trade tariffs, in absolute terms. They are almost on par, but as we have higher volumes, it's in relation to net sales going down.

Then we have cost-saving activities. Thinking about what Juan just talked about on our manufacturing footprint activities contributing positively. Then we have the timing in offsetting rising freight and raw material costs with price increases, which is contributing negatively with approximately -04%, per cent units. Then we have the business mix in the legacy Dometic business. We have a higher amount of OEM business in the quarter contributing with -0.6% units.

Then Sales and Marketing investments in strategic areas, talking about B2C and Service and Aftermarket and Outdoor, -0.4% units. And then we also need to keep in mind that we came into Q3 last year with a low-cost base and the activity level in general was obviously driven by the pandemic lower.

Moving on to the next. Some more information around our acquisitions, I’ve already mentioned, the contribution of net sales which is 15% of our total growth. EBITDA margin is 20%, which is above the Dometic Group average of 15.9% which is in line with what we have been communicating earlier.

Then we have M&A transaction cost, the material M&A transaction costs, which is equivalent to 6 million, has been booked as Items [? 00:24:15] in the quarter. On top of that we have 5 million which is included in the normal EBIT which is related to the smaller acquisitions.

I'm not going to go through the table on when the different acquisitions have been announced and from when they are included. It is for your information.

Moving on to operating cash flow. We have a cash conversion of 34% in the quarter, which is obviously low compared to what we have seen in in the third quarter historically. It’s working capital driven. Inventories is on its way up. And we also have a higher business volume, of course, which is driving the build-up of working capital as such.

So going over to the details of DPO, DSO and DIO. You can see DPO is increasing, but in the-shorter moving graph it's going down which is very much driven about timing of purchases and where these purchases are actually happening as we have the highest DPO days in China.

DSO – we're happy with that development. It’s a stable development and I feel that that is well under control. DIO, as you see, is increasing with the quicker moving graph on 130, but also the last 12 month rolling graph, 106, and it's of course driven by longer lead times. We have a lot of inventory on the ocean. And then we have some strategic decision where we are securing stock so that we can ship it when we are going into the high season and the beginning of next year.

Then you can see total working capital – 87 days is obviously not anything that is extremely out of the picture looking historically.

Moving over to CapEx and Research and Development. As expected, we are increasing in both areas and still steel in relation to net sales, 1.7% on CapEx is still moving in the areas that you have seen historically. And investments is, as an example, driven by B2C investments and other miscellaneous IT investments.

Moving over to R&D – 1.9% in relation to net sales and there is a clear connection, obviously, what we are spending here and that we are driving our innovation index, which is now on 26% as Juan mentioned, and its investments in driving our outdoor ambition in global platforms and also in the Marine segment to mention a couple.

Moving over to the cash flow for the period. You can see what I mentioned before, we have a change in working capital contributed negatively with 474 million, for the reasons I mentioned before. Investments in fixed assets is up compared to the same quarter last year.

And then looking on acquisitions – 549 million related to Front Runner and Büttner which was closed in the quarter. Then we also have a strong positive contribution from net cash flow from financing and I will mention a little bit more about that on the next page.

So, moving over to our debt maturity profile and leverage. As you have seen, we did successfully issue a seven-year Eurobond of €300 million to 2% flat rate, which was received very successfully in the market. So now we have improved our maturity profile quite a bit here.

Looking on leverage, 1.5 in the quarter, and it has been increasing slightly from Q2 driven by the two acquisitions that I mentioned before of Front Runner and Büttner. And you know our target is to be around 0.5x over a business cycle. So, with that I'm handing over to, Juan, to make some concluding summary.

## Juan Vargues

Thank you, Stefan. To summarise then, [? 00:29:39] performance despite the supply chain constraints and the freight and raw material price increases. We passed for the first time the 20 billion-mark. We see a record-high order backlog for this period of the year. We also see the underlying, strong underlying demand, on the markets and low inventory levels at the same time.

And the main question, moving forward, is obviously supply chain and what is going to happen in the months to come. Obviously, we believed six months ago that it was going to improve. We believed three months ago that it was going to improve, but just now nobody can say when it is going to improve. So, I think that we need to live with the situation and mitigate as much as we can the negative effects of that.

We are happy about our strategic agenda and the progress that we are doing in that area. We see Distribution and Aftermarket, Service and Aftermarket just now at 48% LTM. We are happy with the acquisitive journey that we are driving. We continue to improve our Innovation Index, standing just now at 26% and that's always a good tool to see how things will be improved moving forward. We keep working on reducing complexity and we're down to 59% in SKUs that we also lead into savings [? 00:31:08] and we will continue to drive our agenda to reach our financial targets.

With that said, I would like to open for the Q&A session after Rikard’s reminder.

## Rikard Tunedal

Just a reminder: we will host a Capital Markets update in Stockholm, November 30, so please look at this link for registration and more details. Thank you.

# 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 is from Lucie Carrier of Morgan Stanley. Please go ahead.

## Lucie Carrier

Good morning, gentlemen. I have two questions and we go one at a time. Thank you for the data on raw material and freight, but perhaps could you help us, or provide us, with a breakdown of your cost base and how that relates to the increase to this number, because I think it would be helpful for us to have maybe a bit more visibility around the breakdown of course, so we can forecast more accurately some of the potential headwind.

## Stefan Fristedt

So the breakdown of the different— We were not envisioning to actually go into that level of detail, but as I mentioned before, in the quarter itself, we have a negative effect. Also, the arbitrage between rising freight costs and raw material costs and our mitigating price increases of -0.4%.

But if we look in the near term, the big driver in this is obviously transportation cost, which has been increasing, or taking a taking a jump up to the next level, basically. Talking about the ocean freight from China to Europe and from China to US in particular. On road transportation, which is more the outbound side of things, there is a cost increase as well, but not as significant as on the ocean freight.

Then another big cost driver in this is obviously electronics, and where you have to operate on the spot market, and there are single examples where you're seeing certain components. I would say that that is the normal, but the extreme cases, we're looking at even 60 times compared to what it was before the pandemic. I don't say that that is the general, but it's an extreme example. So I think that's how I would like to summarise it.

## Lucie Carrier

Thank you, and just maybe if I can have a quick follow-up on that question if you cannot provide a breakdown of cost. Are you able to provide how much of your procurement in [? 00:34:26] production is subjected to this long-distance freight that you're mentioning?

## Stefan Fristedt

I would you say about 50%, 40 to 50%.

## Lucie Carrier

Thank you. My second question was—

## Juan Vargues

If we look – just to fill in, sorry – if we relate to the legacy Dometic, obviously it's smaller on the new Dometic. But if you look at the legacy Dometic, it’s about 40%.

## Lucie Carrier

And so you said the old Dometic— Sorry, I got confused.

## Juan Vargues

40%.

## Lucie Carrier

40% on the new Dometic?

## Stefan Fristedt

No, no, old.

## Juan Vargues

The new Dometic is much more local companies where we have a lower impact.

## Lucie Carrier

Okay, understood. Thank you. My second question was around the backlog and the visibility you have regarding how firm this backlog is versus the OEMs or the dealer, because we seem to understand from Winnebago that they say that the dealers can cancel orders in the backlog without penalty at any time. So how does that work for you? Do you see a risk maybe that the OEMs or the dealers are over-ordering to make sure that they will get the supply they need ultimately when they need them?

## Stefan Fristedt

You’re breaking up a bit Lucie. I think you need to repeat the question, please.

## Lucie Barrier

Sure, so my question was regarding the backlog, and I was just wondering what your visibility on how firm this backlog is because we understood this week from Winnebago that they were saying the dealers can cancel orders in the backlog at any time without penalty. And so, I was just wondering how that works for you. Whether you see any risk that dealers or even OEMs are over-ordering because there's so much pressure and constraint and they want to make sure that they have the components or the equipment whenever they need it.

## Juan Vargues

The risk is there and that’s valid for all the industries, I would say, no matter if you are talking about RV, Marine industry, CPV, it’s all over the place. It is clear that all of us, including us, we are ordering just now in advance because if you don't place the orders, you will not get the deliveries. If we're talking about electronics, we have lead times of between 12 to 18 months. So of course, there is a risk. At the same time what we can see is that the underlying demand is there; that all the forecast for the future at this point are positive. So, it’s a delicate balancing act, obviously, between waiting and making sure that you are going to have the componentry in place.

And just now, I feel the entire world is trying to secure the deliveries for the coming quarters and then we will obviously need to adapt our forecasting on a weekly basis, I would say.

## Lucie Barrier

Thank you. I'll go back in the queue.

## Operator

Thank you. Our next question is from Agnieszka Vilela of Nordea. Please go ahead.

## Agnieszka Vilela

Thank you. First, I would like to ask you about the headwinds to the margin that you mentioned for the quarter, including obviously cost inflation, but also business mix, even to a large extent, and the sales investments. How should we think about these headwinds getting into Q4 and even H1? Will they still persist, or will they ease in your opinion? Thanks.

## Juan Vargues

I mean, if we're talking about the investments that we're doing in building up the segments, they will continue as far as we are optimistic about the future. It is clear, of course, if the situation deteriorated moving forward, and we saw that the economy is deteriorating, that the verticals are getting more pessimistic, then we will need to adapt our costs. But at the same time, we need to build up our outdoor business, we are building up our e-commerce; so that will continue.

Then of course, on the timing that we have between cost and pricing, I believe that we have proven now for a couple of years that we're doing a good job in that area. Then this time we really had a delay over a number of weeks, simply because our estimation back in in May/June was that cost was stabilising. And then came back again. So, we will do anything we can to eliminate that gap in the coming quarters.

Then we have FX, difficult to evaluate as well. I mean, we have seen the currencies moving back and forth during the last 12 months.

## Stefan Fristedt

But the comparatives is getting somewhat easier going forward.

## Agnieszka Vilela

And lastly, maybe on the business side—

## Juan Vargues

The sales mix. Sorry, Agnieszka. Then what we didn't mention yet is obviously the sales mix and of course, as you all know, our lowest margins all over is in the RV OEM side and we see very strong growth just now on the RV OEM side. Then you could raise the question, Could you do less? Well, I mean there is a link between the OEM side and our Service and Optimised market side over time.

So, what we are doing, as we speak, is that we are really looking at every single piece of the OEM side and starting to analyse how much Aftermarket is each of these areas bringing. And should we be even more careful in where to invest more from a product perspective within OEM and where we should invest less. OEM is having a major impact in our numbers in Q3.

## Agnieszka Vilela

All right, perfect. And then my second question is on the acquisition of Igloo. I calculate that it will also be a drag on your margin of some one percentage point, or even maybe a bit more than that, at least initially before the synergies just kick in. So, you said that you will close the transaction in Q4. When should we start consolidating that in the model? Do you know already when it will be in your book, so to say?

## Stefan Fristedt

I mean, it's obviously not totally in our control, but the best estimate we have right now is that from November, from November and December, it will impact Q4. Then you also need to keep in mind the seasonality of Igloo because Igloo’s historical sales pattern means that approximately 14% of their yearly sales is happening in Q4. So that's obviously something that you need to take into consideration. And also, historically in the fourth quarter, they have been making losses. So that's something that you need to factor in when you evaluate this. But that's of course something that we have been aware of and it's a normal seasonal pattern that they have.

## Agnieszka Vilela

That's very helpful, thank you. And then if I may, I'm a bit curious and I don't think I asked that question when you had the conference call about this acquisition. Were there any competing bids for Eagle. So, somebody else that wanted to buy?

## Juan Vargues

Absolutely.

## Agnieszka Vilela

Okay. And then lastly, maybe also on the acquisition capacity after that, how do you feel about doing acquisitions in the future given the fact that you have some so many companies to integrate now and your leverage is going up a bit. So, what should we think about that in the near future?

## Juan Vargues

If we are talking about the integration perspective, what we see is that the vast majority of the companies that we have integrated are local, and of course we have local management in place. We cannot be sitting in a headquarter integrating those kinds of companies. That has to be in every single segment. And of course, if you’re integrating a company in Sweden, it has nothing to do with a company in Italy. So, from that perspective, I see no roadblocks whatsoever to keep on our journey.

Then of course we have Igloo. Igloo is a major bite and that will be my task together with Stefan and together with a team to get it done. So, of course that you shouldn't expect another Igloo in the coming six months. Let’s put it that way. On the contrary, we are not stopping our acquisitive journey simply because we believe that we have, and what we have seen historically, is that we are pretty good at deleveraging. Historically, we have been between 0.5 to 0.7 and the prices that we are paying for the standard company, we are talking about 0.1 to 0.2.

So, again, don't expect a transformative acquisition in the coming months or perhaps not even in the coming year, but you should expect that we will keep working on the smaller acquisitions.

Okay, thank you so much. Great.

## Operator

Thank you. Our next question is from Rizk Maidi of Jefferies. Please go ahead.

## Rizk Maidi

Yes, good morning gentlemen. Two questions here. I'll start with the first one. So, Juan, interesting comments on the backlog earlier. I think it all comes down to retail demand and I think one of the main questions that we’re getting from investors is how much of COVID boost the entire RV industry has benefited from and has now, sort of economies are opening up, global travel, sort of slowly coming back. Do you see any changes in retail demand on both sides of the Atlantic? I think US we see dealership footfall sort of a little bit slowing down. We have some internal data on that. And in Europe, clearly Germany you see demand coming down but that is also due to supply chain constraints. Any comments on retail demand and the boost from COVID?

## Juan Vargues

No, when we’re talking to our customers and we're talking even to our aftermarket customers just now the issue is not lower demand; it’s simply lack of supply. So that's why it’s really stopping even higher volumes. If you ask me, do you see anything in front of you? My main concern just now is really inflation, because it is clear that our customers are passing prices, it is clear that we are passing prices to our customers and it's clear that our suppliers are passing prices to us. And somewhere, sooner or later, the end consumer is going to pay. So, to me, that’s my main concern.

Which is no different to the car industry or the truck industry or any other industry. I think that’s perhaps— I mean nothing keeps me awake. But if there is anything that I reflect about it is where are we going to be in eight/nine months if this continues?

So, from a demand perspective, I don't see it. Just now, as I mentioned before, we are just now in some cases stopping deliveries simply because our customers cannot take deliveries from us since they are missing deliveries from other people. So that has a negative impact on the top line and our margins as well, that we cannot deliver at the pace that we would like to deliver.

## Rizk Maidi

Understood. And then perhaps just if you look at that price to cost equation. I think you gave us the sort of headwind [ph 00:46:40] which is 40 bps in Q3. Given the price increases that are you putting through, how should we think about this item in Q4? And more importantly, as well, sort of 2022 because these cost inflation headwinds are carrying over now into next year's EBIT bridge.

## Stefan Fristedt

Absolutely. As Juan mentioned before, have been responding with strong price increases to mitigate this last jump here, and I mean, just to give you a flavour of what we have been doing this year, it is the range between 5 to 20% depending on which product, which market and so on that you are talking about. And it’s clearly so that we are going to see an increasing impact of the price increases in Q4 and in the beginning of next year. So, depending on what is happening with the cost side here, you take a decision based on something and then the next day that assumption has changed.

But what we can see now is that effect is going to be somewhat less, but it's going to depend on how the costs are moving here. It's a dramatic situation out there.

## Juan Vargues

Our commitment is really that we will mitigate this gap. We have done it historically, that in this case we lost a number of weeks and that we will recover that. And I think the organisation – one of the issues is obviously that you have never experienced this kind of situation historically. So, of course, you're increasing prices to be ahead, but then you have a cost which is increasing even faster.

And then it is very, very difficult to say, okay, now we do it again, because obviously it takes a lot of energy to pass prices to increase prices to customers once a month. You can imagine the kind of discussions that we have. On the one side towards our customers, on the other side towards our suppliers. It is there when you have the time gap in this case. But again, historically we feel confident that we have done it many times before and that we will do it this time as well.

## Rizk Maidi

Thank you very much.

## Operator

Thank you. Our next question is from Fredrik Moregård of Pareto Securities. Please go ahead.

## Fredrik Moregård

Thank you very much. Good morning, everyone. Just a follow-up question first off on the previous speaker. Your order backlog is clearly very strong, continues to be strong from previous quarters. Could you please tell us a little bit about the pricing situation in the order backlog? Are you able to raise prices on the current orders or is there sort of a backlog of orders with older prices that they need to work through before you can realise new pricing and compensate on that side?

## Juan Vargues

It is both. So, on one side obviously we have a backlog with high cost. At the same time, we increased prices months ago. At the same time, we are also looking, depending on the customer, depending on the product, we are also going back and reviewing the backlog and going back to customers. So it's both.

And then we implemented new price increases as late as 1st of October again. And we implemented new price increases 1st of September again. So, I think that we will see that gap coming down. Then the question is, is it going to be totally in Q4, or we will see that also in Q1? That depends very much on how the cost increases look like moving forward. Now we have seen a stabilisation of the cost increases the last couple of weeks. Hopefully it will stay there and then we will be able to catch up much faster.

## Fredrik Moregård

Okay, that's very helpful. Secondly, then on the restructuring programme. You've seen some delays on that; surprising, given travel restrictions and so on. Could you just provide us with an update on how far behind you are on the original plan and cost savings related to that?

## Juan Vargues

We are two to three quarters behind our original plan. As we mentioned, we have out of the 750 million that we announced, we are just now running at 283 on cost. And out of the 400 million in savings that we announced on an annual basis, we are running at a going rate of 150. So, we are about 35% of the total plan. And we have a number, obviously, of bigger plants that will be affected moving forward, which doesn't mean that we are not working. We are working on preparation. We are working on the product side; we are working on the supplier side. But as you just said, it is difficult to move factories when you are not allowed to travel into one country.

## Fredrik Moregård

Thank you very much.

## Operator

Thank you, our next question is from Johan Eliasson from Kepler Cheuvreux. Please go ahead.

## Johan Eliasson

Hello, I have just a few questions. I think it's good that you show on the acquisitions you've done so far that they are supportive to the margin as a Group. Now, obviously, this will be the last quarter they will do that, I suppose, when Eagle comes in and dilutes it. But if you look at these smaller acquisitions, if you look at the whole year, because obviously there’s a seasonality pattern to their earnings profile as well. Would you say that they support your 16 to 17% margin target already today?

## Juan Vargues

The answer is yes.

## Johan Eliasson

Good. And then on pricing, are you seeing a different ability to push through pricing in your different channels, OEMs versus Service and Aftermarket and Distribution.

## Juan Vargues

Yes. I mean it is clear that some of the channels are a little bit tougher. You are entering into tougher negotiations, and it is back and forth. No kind of doubts. And just wanted to comment that the seasons are kind of different for different channels as well. If you are into distribution or retail, normally you are discussing prices by now for beginning of Q2, so to say. If you are on the OEM side, you are normally discussing prices in the first half of the year. Now of course we are in a totally different situation where you discuss prices every day. So that was what has changed, so to say. So, it's just now price wise, it’s a totally different pattern that we are used to.

## Johan Eliasson

That is understood, but I think also historically we have seen that you every now and then sort of lag cost inflation in the pricing. I think it’s a fairly normal pattern we see in sort of a consumer group with this type of companies, but that was what I was wondering; your channel mix is changing. Your ambition is to increase Distribution and Aftermarket [? 00:54:53] OEM. Do you think this will improve or make your pricing actions worse going forward?

## Juan Vargues

I can say the following: the less dependent we are on the OEM side, the easier it’s going to be.

## Stefan Fristedt

Then you also need to mention that you have some large counterparts also under the Distribution side, obviously. I mean we're talking about now whether the Walmarts of the world and so on.

## Juan Vargues

But still, if you look at the OEM side, in principle you have 20 customers in every continent, that’s it.

## Johan Eliasson

Thank you very much.

## Operator

Thank you. Our next question is from Karri Rinta of Handelsbanken. Please go ahead.

## Karri Rinta

Yes, thanks for taking my question, and sorry about going back to the pricing in the US, but if I look at the OEMs, the RV OEMs and the RV retailers in the US, they are, and have, enjoyed record high margins for quite a few quarters in a row and for example Camping World Holdings, they have doubled their gross margins from the sale of new vehicles. So, haven't you not been a bit too passive or late with your price decreases then? And who is actually taking those pricing decisions? Is it a local organisation or is it sort of at least overseen by Stefan and you, Juan?

## Juan Vargues

I think you have two phases. You have one phase which has been very much in the segments. You have a second phase where Stefan and myself are very much involved, I would say on a weekly basis. No doubt about that.

## Stefan Fristedt

But your first part of the question. This is what we have saved also earlier in the call, that we had a feeling that we were very well on par and mitigating the cost increases up to sometime in Q2 and then when the next level came then obviously, as Juan said before, we reacted a little bit late, but that has been corrected now.

## Juan Vargues

Then I think you have another factor that you need to keep in mind, Karri, and it’s obviously what kind of inventories do companies like Camping World? Of course, if they are carrying a lot of old inventory, they don't have the cost increases. If they pass the prices, they will have a positive effect. So that's another factor to consider.

## Karri Rinta

I just think that you keep referring back to costs, but even that you might sort of – I'm not saying that you are not in that business for the long term, but since you maybe want to de-emphasise the OEM business, maybe you could have moved a bit more sort of opportunistically with pricing.

## Juan Vargues

That's a good point, but at the same time we also need to keep in mind that you need to plan for those kinds of moves. So I think, Karri, it is very much we were a few weeks late in taking another round simply because we saw price stabilisation and that's what we need to recover. Is it a little bit more in American, is it in other places? The answer is yes. I do believe that we were a little bit slower in Americas that we were in other places.

## Karri Rinta

Alright, fair enough. And then freight costs. Just a very quick one on freight costs. What kind of contract structures do you have? When will we see the full impact from these recent increases and is there any difference between Europe and Americas when it comes to your freight cost exposure?

## Juan Vargues

We have twice as many containers going from Asia to the US than going from Asia to Europe, so that's another factor that they rate in profitability in Americas. And then we don't have long-term contracts. We have been thinking back and forth about contracts. We believe that contracts in the long term have more downside than upside. And that's why, in our opinion, we have been doing a pretty good job historically in passing prices because the problem is obviously that when you're sitting on contracts, you will always have a delay. You have normally a much longer delay then when you are passing the prices immediately.

## Operator

Thank you. Our last question is from Stephanie Vincent of JP Morgan. Please go ahead.

## Stephanie Vincent

Thank you so much for answering all the questions on pricing. I just actually have one on CapEx. Given that we're going into a new taxonomy [ph 01:00:02] for things like green bonds, et cetera, just looking through your CapEx for the end of this year and 2022, do you have a number that you're willing to share externally about what percentage of CapEx is going towards sustainability projects, et cetera? I realise everything is going into making things more environmentally efficient, but if you have some numbers, very explicitly, allocated to sustainability, that's helpful.

## Stefan Fristedt

I don't have an exact number for you right here, but what we can see, you can wee when we are reporting the sustainability KPIs, we are ahead of our plans on reducing the CO2 footprint and that's of course also requiring CapEx investments. If we are taking some examples, we are investing in our Chinese factories in solar panels and other measures to improve. And we are also then moving to green energy, which is maybe not always coming up in the CapEx; it's coming through Opex line, or cost to goods sold, obviously.

But then you also have CapEx-related investments in R&D and basically in all our new product launches that we are presenting now there is the clear sustainability target: increasing energy efficiency, material usage, et cetera. But I think your question is triggering something by us that we should probably make sure that we have that number because it's obviously an important number. But today I cannot give you an explicit number more than giving you this comments

## Juan Vargues

We will be prepared for the Capital Market update. That's a very relevant question.

## Stephanie Vincent

Thank you. And just on your net-debt leverage. Arguably, it's been below your 2.5x through the business cycle, even in a pretty weak demand environment, let's say, going into the last year as we recovered from the pandemic. What are your views on capital allocation? You've obviously been putting it towards bolt-on acquisitions. Is there some plan to be more aggressive with the cash in terms of investment cycle, or to shareholders? That would be very useful as well.

## Stefan Fristedt

Absolutely. It's actually, as you know, as we mentioned before, we are going to close Igloo during the fourth quarter here and that will mean that leverage is going to go up to approximately around 2.8x. And then filling in with what Juan said before that we are not going to do another transformation or acquisition in the coming 12 months, but we are certainly going to continue to work with the smaller- and medium-sized acquisitions here.

So I think with the things that is already decided, the leverage is going to go up and, as we have said, around 2.5 and that can vary over time. Going significantly above 3x is of course, something you need to have respect for, and need to have a clear plan if you would consider doing that but the target is around 2.5x.

## Stephanie Vincent

That's great. Thank you very much.

## Operator

Thank you. There will be no further questions at this time. Please go-ahead speakers.

## Juan Vargues

Well, thank you very much everybody for your attention. We appreciate your interest in Dometic and we will keep working in delivering [? 01:04:45] agenda and to reach our financial targets. Thank you very much for today, everybody.

## Stefan Fristedt

Thank you very much.