Transcription

Dometic Q4 2022

27 January 2023

Juan Vargues: Good morning, everybody. Welcome to the fourth quarter and full year report for Dometic from a sunny Stockholm. Without any doubts in some few minutes that we have a lot to talk about, let's move into our presentation. Q4, challenging environment out there. It has been pretty tough on the marketplace. Retailers are still keeping inventories at a high level. In terms of performance, we showed 11 percent organic negative growth with Marine still very, very strong, 11 percent up.

Juan Vargues: Service & Aftermarket continues to show hefty negative numbers, minus 22 percent. OEM is negative six percent, but very much driven by the RV market in Americas, while the rest of OEM is still positive. EBITA ended up at seven percent versus 11.4 last year, with clear declines in EMEA and Americas. Igloo margins were in line in comparison to last year. We have to keep in mind of the entire Group, but even more specific for Igloo, Q4 is the lowest or weakest quarter every single year.

Juan Vargues: Then we are obviously very happy to report significantly improved cash flow. We saw already a clear improvement in Q3. We had an even more important improvement in Q4. Inventories, we commented a couple of times before, that we are working very, very hard to get them down. Are starting to show that they're coming down and that the trend will continue in months to come.

Juan Vargues: If we move over to Q4 sales 6.2 billion. Total growth of 11 percent, but organic growth at minus 11 percent. EBITA 430 million or 32 percent versus last year, with an EBITA margin of seven percent versus 11.4 for last year. EPS at 54 krona in comparison to 98 krona one year ago. Operating cash flow twice as much as last year, meaning 1.1 billion in comparison to half a billion last year. Leverage at the same level as in Q3, meaning three times versus 2.6 in Q3 one year ago. Then the board has decided dividend or will propose rather a dividend of one krona on 30 percent in comparison to two krona and 45 percent last year.

Juan Vargues: Moving to the full year total growth of 38 percent or very close to the 30 billion ended up at 29.8 with three percent negative organic growth. EBITA even there at all time high 3.9 billion or 17 percent compared to last year, reaching an EBITA margin of 13.2 percent versus 15.6 last year. EPS even their all time high at eight krona of 32 krona and operating cash flow of almost 2.3 billion in comparison to 1.7 or plus 30 percent versus last year.

Juan Vargues: Moving over to size growth. Eleven percent total growth with Americas negative 21 percent, and now we are talking about total growth. EMEA still positive five percent, APAC positive six percent, Marine plus 30 percent, Global plus 66 percent. Still, organic growth was down 11 percent.

Juan Vargues: In terms of application areas, it is really climax where we are seeing the major slowdown and that's very much due to the American RV industry, where we are very, very heavy on climax. Food & Beverage and Power & Control still growing very nicely. They speak in very much driven by the acquisitions in those areas.

Juan Vargues: Looking at different sized channels, Service & Aftermarkets down four percent, and we will get much more into detail in a couple of seconds. While OEM, as you can see, is still up on distribution, very positive, driven by Igloo. This is an important slide. It really shows the transformation of the metric from 2017 to 2022.

Juan Vargues: We have doubled the size of the company, but which is even more important, we have also reduced our exposure to the OEM market moving from 61 percent five years ago to 44 percent this year. If we look at the share within OEM, the RV OEM stands today for 25 percent, Marine 14 percent and CPV five percent. As we commented before, RV OEM Americas, which is about half of the total RV is just now where we see a negative growth. All the rest is positive.

Juan Vargues: Then coming back to Service & Aftermarkets, which is one of the areas having the most impact on Q4 and our margins are totally speaking, where you can see is extremely important. You see obviously that the pattern looks very similar year on year with exception of 2020, where we were hit by the pandemic in Q2, we saw a fantastic bounce back in Q3, Q4 that continued during the entire year, 2021.

Juan Vargues: Worth to mention when looking at the graphs is Q1 2022, where we still saw a fantastic growth even in comparison to 2021. Meaning, obviously, that distributors/wholesalers were still building up inventories on the division or having a strong season 2022 that obviously, never happened.

Juan Vargues: If you compare, on the contrary, the numbers in 2022 with the numbers 2019, if you took 2019 as a base. All of a sudden we are growing four percent in Q2, we are growing seven percent in Q3, and we are growing over 10 percent in Q4. Again, it is important really to understand what is going on, on the market.

Juan Vargues: I'm convinced that most of you have already heard about the bullwhip effect. This is not my graph. This is coming from supply chain experts. What this is telling you is that the small changes in demand at the consumer side lead normally to major swings the more upstream you go. This is a very well known situation in normal cases, but of course, that the pandemic distorted everything. This is really what we are going to see if we move over to the next slide.

Juan Vargues: When looking at our Service & Aftermarket we have three different channels. We have the DTC, which is very much driven by our own platforms. Then we also have small dealers all over the place. We have in principle about 35,000 dealers, and then we have wholesalers/distributors. If you look at the upper graph, well you can see that when we are talking about dealers, meaning companies closest to the consumers that are not building up inventories, our sales is very much in parity with 2021.

Juan Vargues: On the contrary, when you see distributors, our sales is coming down after Q1 started to see. Again, distributors, wholesalers built up inventories expecting a strong season 2022 that never happened. This is just now what is leading to this negative growth on Service & Aftermarket that we believe is going to be flushed through during the coming couple of quarters.

Juan Vargues: In terms of profitability looking at EBITA, we ended up at 13.2 for the year versus 15.6 last year. Then when excluding Igloo, we ended up at 14.5 in comparison to 16 percent last year. Looking more specifically to the quarter, seven percent is very much due to the fact that Igloo is having an effect for three months this year, two months last year. As you all know, Igloo has a dilutive effect on our margins.

Juan Vargues: We have a clear negative effect of the volumes and also the product mix both in EMEA and Americas. On top of that, we have also lower FX tailwind in some of the segments. On the contrary, Marine is still performing very, very nicely and having a positive effect on our results. We have been obviously working very, very hard to reduce our cost everywhere.

Juan Vargues: Having a look at the different segments, starting with Americas, organic growth down 41 percent with RV OEM very much down. We got the numbers from the American Association the day before yesterday showing that Q4 was down 47 percent, as a continuation of Q3 that was also down 37 percent. It's tough times for the RV manufacturers and for us as a consequence.

Juan Vargues: On the contrary, we see that automotive is still doing very well. We invested heavily in building up a CPV organization last year, and is showing very nice growth still, from small numbers and then Service & Aftermarket we already commented. I would say that no matter the segment, Service & Aftermarket is still going through this rebalancing of inventories.

Juan Vargues: Negative EBITA at 60 million with an EBITA margin of 5.1 down versus 4.7 positive last year. Again, very much impacted obviously by the sales decline, both from an OEM perspective, but also on AEM perspective. The couple of acquisitions that we completed last year developing in a nice way are contributing positively to our EBITA margins.

Juan Vargues: Moving over to EMEA, negative organic growth or six percent growth in OEM, primarily driven even there by CPV, while RV OEM is stable, but even here Service & Aftermarket showing pretty negative growth. EBITA margin 3.8 and this was for us the major disappointment in the quarter. Very much as a consequence of higher logistic cost effects play negative in comparison to positive in Q3 last year. Then we have obviously a clear negative impact from product mix.

Juan Vargues: If we look strategically, we are working on the move from Seagen in Germany to Jaszbereny in Hungary, and we expect the entire move to be completed mid 2023. Looking at APAC, even APAC we showed negative growth of two percent. OEM same. OEM is still being very stable while both Service & Aftermarket and Distribution going down. EBITA ending up at 22 percent versus very strong 27.3 percent one year ago. We have even here a negative impact to the sales channel, meaning Service & Aftermarket being down and OEM going up. Negative effects in comparison to last year and even here, slightly higher logistic cost. Of course, we are adapting capacity, especially in our Chinese factories that are feeding the Pacific area.

Juan Vargues: Looking at Marine, very, very strong. Eleven percent organically driven by OEM, where we see that the technology shift that we have been describing now for a couple of years continues, while Service & Aftermarket is also down. The difference between Marine and the rest, is that Marine started then slow down in reality already in Q3 2021, and Q4 2022 shows a lower decline than we have seen in the year. Hopefully, this is giving us the indication that the Marine Service & Aftermarket is going to show improvements in the months to come.

Juan Vargues: EBITA very strong, 25.5. It is clear that this is happening. We are improving with margin despite the fact that we have a negative product mix. We completed acquisition of Treeline in Q1, and that acquisition is doing very, very well. Moving over to Global, where the vast majority is Igloo, organic growth of three percent. In this case, the negative organic growth was driven by potential increase and hospitality showing a stable development as well as Igloo. EBITA margin 0.1, slightly lower than last year, but here you need to consider that Igloo was with us two months. In this case, it was with us three months, and they have a clear dilutive effect on our margins.

Juan Vargues: Strategically Igloo is still doing very well, developing in a nice way for us and working very much with integration, which is going according to plan. I'm getting a little bit deeper into Igloo. We have perform organic growth of 16 percent in the year. We see also a very resilient business. Historically, we continue to gain market share in this market. We see even that retailer week of sales is still at the lower levels that we saw in 2019 and 2020.

Juan Vargues: Very good EBITA improvements in comparison to what we saw. We are happy to report that we have higher margins than what we announced at the time of the acquisition in September last year. As we already commented, we got a lawsuit from the former owners of Igloo. We are fully convinced that it lacks merit and they have no case.

Juan Vargues: Moving over to another positive area, Mobile Power Solutions, where we see very strong trends. We have seen a very strong trend and now, we see even stronger trends moving forward, where we have completed six acquisitions and ended up the year at 2.3 billion krona in revenues, and high margins. This is an area, obviously, that where we will keep investing heavily moving forward.

Juan Vargues: From an innovation perspective, we continue to invest in our products. Marine is launching now a new series of electric actuators for inboard applications. We have been launching many actuators for outdoor. Now we are also moving into the inward side, and then launching as well our Marine gateway, directing all the devices that we have within Dometic Marine.

Juan Vargues: We are also launching a new patented heat recovery system that will become the entry product in our air conditioning program, that we believe very much in. Looking to the cost reductions, the third strategic block. We have two ongoing programs all together, adding up to 600 million in savings and 900 million in total restructuring cost. We booked 20 million in restructuring costs in the quarter, which means that we are now running at 870 million total speaking of restructuring costs and a run rate on savings of 325, which means that we still have 275 more to go.

Juan Vargues: We continue to drive our strategic agenda, 2022 ended up showing total growth of 38 percent, organic growth down three percent. We have changed totally the channel mix in the company, and we ended up at 56 percent when you combine Distribution and Service & Aftermarkets. Very strong growth organically and acquisitive in Mobile Power Solutions, and also investing in developing our DTC channel where we ended up the year at six percent in a market that, as you know, is slowing down or has been slowing down for a while.

Juan Vargues: From block leadership, we ended up last year at 26 percent. Then we had difficulties in launching new blocks because of the component constraints that we were suffering from the last 18 months. Q4 showed again, the first step to recover, and we are fully confident that we will get back to our target of 25 percent. We're also happy to see, obviously that innovation is also reflected in a number of IP rights that we are fighting with more than doubled in the last four years.

Juan Vargues: Then cost reductions, as you know, we have these two restructuring programs that we are running. SKUs are down 65 percent in comparison to the situation we had 2018. We will see these numbers coming step wise additionally, as we are introducing new products. Comparing to the situation at the end of Q4 last year we are 1600 FTEs less, which is obviously a reflection that we are adapting our capacity to a new situation in the last months.

Juan Vargues: From an ESG perspective, I'm also happy to report we continue to do a lot of progress. Looking at injuries, we are down 35 percent in comparison to the situation that we have one year, and we are already over the target that we had for 2024. The EMEA managers, that's the area where we have had the most difficulties. We went down to 23 percent in Q3, we are back to 24 percent.

Juan Vargues: Again, this is an area where we work very, very hard, but we so far have not seen the results that we were expecting. On the contrary, on CO2 reductions. A lot of job and good success. Then we also paid a lot of attention, obviously, to suppliers and happy to report that we have audited 100 percent of our suppliers. With that said Stefan, please.

Stefan Fristedt: Yes. Thank you, Juan. Starting off with our Q4 EBITDA bridge, and on the organic plus effects side, the main drivers in that is the decline mainly related to Americas, where the volume is the main driver minus 41 percent organic. Then EMEA, where it is mix effects, logistic cost and inefficiencies in our manufacturing operation. Overall, where we have a negative sales mix, minus 22 percent organic sales decline in Service & Aftermarket. Then we have had cost reductions that has contributed positively in the quarter.

Stefan Fristedt: Concerning FX, we still have a tailwind, but the tailwind is not as strong as it has been in previous quarters. It's approximately 100 million less tailwind in Q4 compared to Q3. On the acquisition side Igloo margins they are in line with last year. As you know, they are consolidated from November 2021. Then the other acquisitions, which is Kodak and the a sentry line, they are all accretive to Dometic margins.

Stefan Fristedt: Really happy to be able to report a strong end of the year in terms of operating cash flow. We ended on a little bit more than 1.1 billion Swedish krona in operating cash flow with a cash conversion of 167 percent. That really completed a strong second half in terms of operating cash flow for the group. If we look on the different components on in working capital, we see that the accounts payable is stable around 60 days, where we have seen a gradual improvement over time. The same thing to be reported around accounts receivable stable around 45, 46 days.

Stefan Fristedt: Then we obviously have the inventory development, which where we have seen that the inventory in absolute terms has started to come down here in Q4. If we take a look on the inventory, we have a total increase of 2.3 billion, 2.2 million of that is related to acquisitions. Then we have an FX part around 1 billion, and then the remaining billion is a mix of that we have seen reduced demand, especially on the Service & Aftermarket side. We have raw material prices and we have also taken certain strategic decisions to secure critical components. Then we have obviously have had the longer lead times trade.

Stefan Fristedt: If we take a look on our CapEx and R&D spend, normally Q4 is a large CapEx quarter. We ended up on 3.3 percent in relation to net sales. The investments, they are focused around Mobile cooling and Marine in the quarter. Then if we look on an average for the full year, we are on 1.9 percent of sales. As you know, we have communicated that the ambition level is two to three percent. We are in the lower part of that span.

Stefan Fristedt: The R&D spend for Q4 is 2.4 percent of net sales, and that includes capitalized development of 23 million. Also very much focused around the Marine segment. The full year average, 1.9 percent, which is also in the lower span of our ambition level of two to three percent.

Stefan Fristedt: If we take a look on our financial leverage, it ended up at 3.0, which is the same as we had at the end of Q3. The strong cash flow has contributed positively on the cash position. Then we have seen a positive effect of the revaluation of our debt, but then the rolling 12 EBITDA has been coming down somewhat and that is making the leverage stay flat versus Q3. As you know, our target is to be around 2.5 times, which we are committed to move towards.

Stefan Fristedt: Taking a short look on our debt maturity profile. We have a bond expiring in September 2023. Then we have an average maturity of 2.8 years. Then we also have our undrawn revolving credit facility of 200 million euros. We obviously are continuously working with our financing, as we always do. We end the year with 4.4 billion on hand cash, and we are expecting a continued strong cash flow development in 2023. Then obviously we are continuously evaluating various external sources of capital.

Stefan Fristedt: Moving over to the dividend proposal. As Juan earlier mentioned, the board is proposing a dividend of one krona and 30 [inaudible 00:26:11- 00:26:12] compared to two krona and 45 [inaudible 00:26:14- 00:26:15] last year. That is equal to 23 percent of the 2022 net profit. When the board has been considering this proposal, they have taken the current uncertain market conditions into consideration, as well as, that we are coming from two rather extensive years in terms of M&A activities. As you know, our dividend target is that we should pay a dividend of at least 40 percent of net profit over a business cycle, and Dometic stays firm to that dividend target over time.

Stefan Fristedt: We take care a little bit of an overview of how the financial development is moving. Due to that, we are driving our strategic agenda. We can see that the net sales ended up from 29.8 billion Swedish krona. That's equal to a figure of 16 percent, and the average annual organic sales growth is two percent.

Stefan Fristedt: In terms of the data, we end up on 3.9 billion in a data equal to 13.2 percent EBITDA margin in 2022. If we take out the diluting effect of Igloo we would have been on 14.5 percent. Then we obviously compared to 2017, have a negative impact from tariffs of approximately 170 million Swedish krona.

Stefan Fristedt: In terms of net debt leverage, as mentioned before, we are on 3.0 at the end of the year. The increased working capital has been driving that. I mean, if we would anticipate some type of normalization of that, that would impact the leverage with somewhere 0.5 to 0.7 times. Then obviously, as I also mentioned before, we are coming from a two year period where we have completed 10 acquisitions. With that Juan, I hand the word back to you.

Juan Vargues: Thank you, Stefan. Summing up, we see a challenging macro environment affecting consumer demand. We have experienced during Q4 the RV OEM drop in Americas. We believe as well RV OEM situation will continue for the months to come. At the same time, we also see a stepwise recovery in Service & Aftermarkets in the coming quarters, and we are expecting as well distribution to be stable during the coming quarters.

Juan Vargues: Our focus just now is obviously on cash flow, releasing and reducing our working capital, increasing cash flow and reducing by that our leverage. Again, we're extremely happy to report twice as much operating cash flow as we had one year ago. We are taking additional measures to address the situation in EMEA and Americas. The Board has proposed a dividend of one krona authority over there.

Juan Vargues: Strategically, I would like to start by commenting that we have doubled the size of the company in the last five years. We have double the profits of the company in the last five years. We are running at lower leverage level than we had five years ago. A lot of things have taking place. We are a more diversified and resilient company than we were five years ago. We are just now experiencing the Service & Aftermarket, but we have to remember that this is a new and unique situation that we had never seen before in the history of the company, and it's very much driven by the pandemic.

Juan Vargues: We are optimistic about the trends, the long term trends in the mobile living industry. We will continue to drive our agenda. At the same time, obviously, as we will adapt our capacity to the new situation as it comes. With that said, I would like to open for the Q&A session, please.

Operator: If you wish to ask a question, please dial star five on your telephone keypad, to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. Please limit yourself to only two questions. The next question comes from Gustav Haggis from SEB. Please go ahead.

Gustav Haggis: Thank you, operator. Thanks for taking my questions. Two questions then. Firstly, if you could give us a little bit of an update on the recent development in the markets, not so much about channel inventories, but end demand, how is that changed if you compare it a few months ago, how you felt about end demand as of lately and into Q1? Thanks. That's my first question.

Juan Vargues: I have to say that, that's what we are trying to show on one of the graphs on the Service & Aftermarket. If you look at our dealers on the Service & Aftermarket, they are the closest to the end users. As you can see, they are running still at the same levels, in 2021, despite the fact that we have inflation, that we have concerns about interest rates.

Juan Vargues: We don't see the consumers from our Service & Aftermarket having an issue. We still see obviously, that we have an inventory built up. I think that the closest you can get to the consumers is really retailers and dealers. There, we are in parity with 2021. No changes from that perspective. I believe that the challenge here is when are the inventories distribution side going to be flushed out?

Juan Vargues: Then you have the situation in Americas. Obviously, when we are talking about RV, meaning high ticket discretionary spend, where the RV manufacturers really push for volumes during 2021 and part of 2022 where we are seeing a major correction, obviously, and I do believe that is going to be very much dependent on inflation rates and interest rates, how consumers react in the months to come.

Juan Vargues: The expectation is that retail in the RV industry is going to go down about 15 percent in 2023, while shipments are going to go down 20 to 25 percent, then that's very much RV. If we are talking about Marine Steel, we see a good push in the value chain. If we are looking about distribution, still very positive.

Juan Vargues: I think this is again, keep in mind that as we said, RV is 25 percent of our business. After the RV, RV OEM Americas is about 50 percent. Obviously, the market is dropping 47 percent by default, that's six to seven percent down organically for the group. We cannot just see that everything is black because it is not. It is defined into two different areas RV OEM Americas and Service & Aftermarket, where we are optimistic that we will see Service & Aftermarket back in a number of months from now. The question is when exactly?

Juan Vargues: We know that we had a very strong Q1 in 2022, but we know as well that Q2 2022 was down 16 percent versus Q2 2021. I think that Q2 will be critical to really estimate when are we going to be through this trough.

Gustav Haggis: Thanks. One more question then. You're above your gearing target and you're below your dividend target. I assume there was a discussion on what to prioritize and not with the Board, but could you give us, Stefan said that in a normalized working type situation, we're looking at 0.5 to 0.7 leveraging on that EBITDA. Is that the base case for you or you're looking at, just to be clear, is the normalization of your working capital your base case or is equal that your expectation 0.5 to 0.7 times the leveraging 2023?

Juan Vargues: Yes. Go on.

Stefan Fristedt: No, about there, absolutely. Then obviously, we also have to take into consideration that we have some other commitments during 2023 as well in terms of the earnout payments and what you see that we have recorded in the books now for the end of December. Then that is what we believe is going to be the maximum. Can it be lower? Yes, it can be lower. Absolutely, the 2023 is holding a working capital release, no doubt.

Gustav Haggis: Just to understand, the earnouts are in that direction of 0.5 to 0.7 [inaudible 00:36:31- 00:36:35]?

Stefan Fristedt: No, that was working capital only.

Gustav Haggis: Okay, That's clear. Thank you, guys.

Juan Vargues: Thank you.

Operator: The next question comes from Rick Maddie from Jefferies. Please go ahead.

Rick Maddie: Yes. Good morning, gentlemen. I'll start with the follow up on the Service & Aftermarket. What we see here is a geographical or maybe a business unit divergence in the sense that you said Marine, Service & Aftermarket started to behave a little bit better, but then it looks like on Americas especially, and even Europe, you've seen a leg down versus Q3. Just perhaps, can you talk about the reasons why? My calculations are correct, we're seeing something in the decline of high thirties in Americas on the Service & Aftermarket versus high teens in Q3. Why have we seen that weakness? Also what gives you the confidence that we should see a normal behavior here in the next season of service?

Juan Vargues: I mean, it's two things. I think perhaps I expressed myself in the wrong way or you misinterpret it. I didn't say that Marine Service & Aftermarket was flying. I said that it was better than it was in Q3, meaning that they faced a slowed down on the Service & Aftermarket earlier than the rest of the business. They seem to be getting through earlier than the rest of the business. If you look at Service & Aftermarket in Europe, Americas or Pacific, they are all negative. Marine is negative, but less negative than they are coming from.

Juan Vargues: While the negative side in the rest of the areas was emphasized in Q4, Marine went the other way around. Our interpretation is that they again entered the slowdown earlier and they are starting to show more positive signals. Why do I feel confident? Because I see, as I mentioned a couple of times, that dealers which are the closest that are to the consumers are flat in comparison to a situation to something they want, and they have been flat during the entire 2022. The problem has been wholesalers. Wholesalers build up inventories and of course, at the pace that we are talking about, minus 16, minus 17, minus 22, we believe that they are going to come through in the coming months. Hello. Are you still there?

Rick Maddie: Okay. Interesting. The second one is maybe on the profitability. Maybe can you help us with the-- Yes, can you hear me?

Juan Vargues: Yes, we can.

Rick Maddie: Yes. Can you hear me?

Juan Vargues: Yes.

Stefan Fristedt: Yes.

Rick Maddie: Can you hear me?

Juan Vargues: Yes, we can.

Rick Maddie: Hello?

Juan Vargues: Hello. Yes.

Rick Maddie: Yes. Second one was on the profitability of EMEA. Can you perhaps help us with the extraordinary logistic costs, and the inefficiencies in operations? Just to separate what could be perceived as extraordinary versus the underlying profitability, please?

Juan Vargues: Yes. Is two things primarily. On one side, we have, again, the situation on Service & Aftermarket as we were expecting. Obviously, our customers were expecting a strong season 2022 we order that after, then we saw the slowdown coming from distributors and wholesalers in Q2, Q3, and Q4, meaning that we are sitting on high inventories. Instead, for having a couple of locations we have too many locations just now holding material, that should have already been sold, obviously, according to our provisions one year ago, that's leading to a lot of inefficiencies. That's the first factor.

Juan Vargues: The second factor is that we are moving from Seagen in Germany to Jaszbereny in Hungary. Of course that when you are moving a factory you have always additional inefficiencies. We are hiring people, we are training people, and of course we cannot expect that they are just as efficient as people that have been working for the company for the last 10 years. Those are the two main factors.

Juan Vargues: Then on top of that, you have effects having a negative impact on the EMEA numbers. Those are in reality. Then you have obviously the sales mix. We are still growing on OEM at low margins, and we are dropping quite a bit on Service & Aftermarket when we have very high margins. Those are the factors.

Juan Vargues: Then, of course, we have a short quarter for us for entire Group. I commented before that Igloo is even more extreme, but for the entire Group, Q4 is about 20 percent of our annual business. Any deviation will have even more impact percentage wise in Q4. Hello?

Rick Maddie: Understood. Just quickly, the sales of the Group has more than doubled over the past five years. You've done a lot in terms of manufacturing, footprint, reduction of SKUs, etc.. Juan, what's your approach in terms of divestments? Is this something on the agenda, a way to actually improve the sales mix within the Group and also reduce the leverage?

Juan Vargues: Correct. We are working on that. We announced that about one year ago, and that's still part of our agenda. Then, of course, is two things having an impact just now. On one side, obviously, you have multiples, market has been coming down and sellers. In this case we are sellers, we expecting to get well paid, while buyers are still a little bit bargaining on prices. That's kind of having an impact.

Juan Vargues: The second impact is that part of the business is that we are going to divest have been integrated for years. You need to come out and put together a business before you can sell it out. We are working very, very seriously to divest areas that are not interesting anymore without any doubts, that will happen. Hello?

Rick Maddie: Okay.

Juan Vargues: Yes.

Rick Maddie: Understood. Thank you very much. By the way, there's a massive lag. That's why we couldn't understand ourselves. Thank you.

Juan Vargues: Understood. Thank you.

Operator: The next question comes from Carrie Renata from Handelsbanken. Please go ahead.

Carrie Renata: Yes. Thanks for taking my question. Following up on the Aftermarket. Sorry about that. Can you give us a number on how much of your total Aftermarket business comes from Marine? Where you do sound like you expect sales growth for 2023? Will this be then enough to offset the what, most likely will be a decline in the non Marine Aftermarket business in 2023?

Juan Vargues: I cannot give you a number here now. But if you look at Marine, is about 565, 570 million dollars. That is about 42 to 45 percent Service & Aftermarket. As we recommended, we see that Q3, Q4 was down minus 14 percent. Sorry, Q2, Q3 was down minus 14 percent, Q4 is minus eight percent. They started a slowdown, as I said, already in Q3 2021.

Stefan Fristedt: That means that after the Service & Aftermarket portion in Marine is larger than on the RV side.

Juan Vargues: Absolutely. It is.

Carrie Renata: All right, great. I can do the math. Then secondly, just wanted to clarify that this lawsuit from the sellers of Igloo, that's related to the earnout. Then I wanted to understand what is the timing of this earnout? Is it based on which year's numbers? When will would you need to pay this, if you would need to pay this?

Juan Vargues: The earnout was for the year 2022. From that perspective, it's over. You need to audit the numbers before you pay the earnout. Normally it would be during the second part of the first half. I would say from April on forward, now we have this claim as we are commenting as well. We have filed a claim to dismiss their claim. Our opinion, obviously, is that it will take a while. I mean, these kind of cases are lengthy, so it's impossible for me to say when exactly it's going to happen, but it's not going to happen in the coming couple of months, that's for sure.

Carrie Renata: Okay, and the reason that, why you still have this 1.9 billion in the books is because it needs to be audited. It's not--

Juan Vargues: First of all, is because it's not just for Igloo. We have some more earnouts. Secondly, it's our obligation to have a careful approach to that. After a lot of thinking and discussions, we have considered that's the right amount to have still in the books.

Stefan Fristedt: Yes, and you should consider that to be the max.

Juan Vargues: Absolutely.

Carrie Renata: Okay. Then finally, I think this was already discussed, but I missed it. Is this part of your net debt or not?

Stefan Fristedt: No, it's the current liability.

Carrie Renata: All right. Thank you very much.

Juan Vargues: Thank you.

Operator: Please state your name and company. Please go ahead.

Frederik Ignatius: Frederik Ignatius, ABG.

Juan Vargues: Good morning.

Stefan Fristedt: Hi, Frederik.

Frederik Ignatius: Morning. Sorry, I was talking away with the Operator. Sorry if I'm making you repeat yourself. I came in a bit late here, but to get back to the dividend and I guess some might argue that actually paying a dividend could be a bit aggressive given the current leverage ratio, and also the limited visibility into this year. Could you help us understand how you communicated with the Board around the cash flow and EBITDA projection for this year?

Stefan Fristedt: I mean, we can obviously, not in any kind of detail refer to how we have been communicating with the Board. What I absolutely can say is obviously that, this aspect has also been taken into consideration. You have to see 450 million. That's approximately 0.1 of leverage.

Frederik Ignatius: Okay. Fair. Thanks. Then the second one on Igloo and the synergies. I mean, you have a quite ambitious synergy target for Igloo that you communicated when you bought it. What have you done so far, and what can we expect to be done in 2023?

Juan Vargues: We have done a lot. We have an integration team working on Igloo as part of the business. I mean, everything from product innovation where we are working together with the entire Mobile cooling. That means looking at Igloo, looking at Dometic growth and what we can do together. We have decided to invest in Katy, Texas, to start building up as well Dometic growth in the Igloo factory. We are, as we speak, establishing a European Igloo sales organization. We are of course, working on sourcing. I think that we have some 30 to 33 different work streams with people in charge of different streams working together.

Stefan Fristedt: That way maybe, we should also mention that the part of the synergies was standalone improvements in Igloo. From that point of view, we are on a good track on the standalone improvements.

Juan Vargues: So far, so good. Yes.

Frederik Ignatius: Yes. Would you care to try and take this time to quantify this?

Juan Vargues: This is very difficult to give you exactly a percentage. When we are discussing internally, our estimation is that we are through about 10 percent.

Frederik Ignatius: Okay. Thank you.

Juan Vargues: Thank you.

Speaker 1: Can I step in here with a few questions on the Web. First one, do you intend to continue high focus on acquisitive growth, or should we expect a slowdown on such activities now?

Juan Vargues: Yes. I can answer that question in two ways. Obviously, this is not the time to be aggressive. We keep working on acquisitions, but at the same time we know that is also a discussion about multiples. Just now, our most important focus is to increase cash flow and reduce leverage. That doesn't mean that we are stopping all activities. Not at all. We keep working.

Speaker 1: Then second one. How do you intend to address your debt maturity profile with significant debt to refinance in the short term?

Stefan Fristedt: Yes. No, as I mentioned before, the work with our financing is a continuous process going on all the time. What we know is that we have our cash on hand. It's a 4.4 billion Swedish krona at the end of this year. We are seeing that the cash flow for 2023 is going to continue to be strong. I just want to remind the audience on that Q1 is typically not our strongest cash flow quarter, but that is going to continue. As I also mentioned, a part of that is obviously a release of our working capital. Then we are also evaluating different external sources, as we always do to be a part of this equation. Then not to forget, we also have an undrawn RCF of 200 million euros.

Speaker 1: Thank you. Okay. Operator, back to you for more telephone questions.

Operator: The next question comes from Douglas Lindell from DMB Markets. Please go ahead.

Douglas Lindell : Hello, gentlemen. Thanks for taking my questions. We talked already about a lot of stuff, but on Marine OEM, do you have any additional you could add to that? You seem to be quite optimistic in general is my feeling. What gives you that confidence?

Juan Vargues: Well, we see obviously, the orders are still coming in. We see that still the technology shift that we have been talking about is still there. We know that on every step when we are moving from mechanical products to hydraulic, you have a factor of five. When you are moving from hydraulic into electronic sealing, you have another factor of five. We are still confident.

Juan Vargues: Again, we have not seen any slowdown in the demand. Then I fully understand what you are coming from. We have also consumers and you have consumer sentiment and all that kind of stuff, but I cannot tell you anything that we don't see.

Douglas Lindell : You think that the technological shift is basically offsetting potentially the slowdown from consumers or have we not really seen the slowdown in consumers yet?

Juan Vargues: I do believe that you will. In theory at least, we should see a slow down on the consumer sentiment. At the same time, we also know that inflation, in the Marine business, we are very dependent on America market, the US market. The good news is obviously, that the US market inflation has peaked and now it's starting to move downwards. We see obviously that we are starting to get very, very close to the peak, also an interest rate increases.

Juan Vargues: I believe that we have benefited and we have been benefiting. The Marine industry in the US has been benefiting by a high backlog because of the problems with component supplies for years right after the pandemic. Again, we don't see any slowdown in demand. We have very good discussions with our customers. By the way, I'm going to visit the Miami show in February. I guess, that I will be able to answer the questions in more detail, but so far, so good.

Juan Vargues: Then you have another consideration, which is obviously, that on the contrary to the OEM, the Aftermarket side for Marine has also been suffering like for everybody else. We are starting to see the first indications that we might be seeing some improvements in the coming months. If OEM comes down any time as Service & Aftermarket comes up and we have high margins on Service & Aftermarket, that should be beneficial for us.

Douglas Lindell : Yes. Thanks for that answer. Coming back to the question that was asked previously, but focusing maybe on a different area of the lawsuit. I mean, should we start to include some lawyer fees here going forward or what can you say about that? Also, you seem quite confident that this lawsuit lacks merit. What gives you that confidence?

Juan Vargues: Yes, of course, that we have our advisors, we have our legal counsels and we have gone through all the cases. We are fully convinced that they don't have any case. In terms of the fees, we don't see the fees until now. Of course, that depends a little bit on how the court decides now in the coming months, but we feel very confident.

Douglas Lindell : You said over the coming months, what's the time frame if you have that?

Juan Vargues: I wish I could tell you. We believe that it's not going to happen during Q1. Most probably we might be getting something in Q2.

Douglas Lindell : Okay. That's it for me. Thank you.

Juan Vargues: Thank you.

Stefan Fristedt: Okay, operator, I think we take the last question.

Operator: The next question comes from Agnieszka Villella from Nordica. Please go ahead.

Agnieszka Villella: Can you hear me?

Juan Vargues: Yes, we can.

Stefan Fristedt: Yes.

Agnieszka Villella: Perfect. Great. Thank you. I just wanted to dig into EMEA a bit more. Actually, looking at the quarter, your total sales in EMEA were up by some 80 million year on year, but EBITA dropped by 160 million. Definitely very negative operational leverage here. I understand when you talk about the sales mix and logistics and moving factory from Germany to Hungary. Could we just get a bit more quantification for it? Because probably some of these costs will not be there in Q4 2023, so start there.

Stefan Fristedt: Yes. Honestly, if we take a look on the extra ordinary logistic cost, that's north of three percent units of the margin drop here. Then the under-recovery in factories is around 1.5. There you have two of the important factors here.

Agnieszka Villella: Perfect. Thank you. Then maybe also more on the group level. When we think about 2023, obviously we can have our own idea about demand and what will happen with the markets, but could you help us on any tailwinds and headwinds to the earnings that you see in 2023? What will get better, you believe, profitability wise and what could still get worse? Thanks.

Juan Vargues: Normally we have seen clearly-- First of all, we have our own efforts, which means what we are doing to reduce capacity, what we are doing in terms of becoming more competitive with the move from Germany to Hungary. Then obviously, we are looking at additional measures to reduce our capacity. Then from an external perspective, we have seen clearly that raw material prices are coming down quite a bit.

Juan Vargues: We see also the freight cost is coming down dramatically. Of course, that since we have been sitting on these inventories, it takes a number of months way before they can flash through to the P&L that we have. Those are positives that will be kicking in without any doubts. Then, of course, the mix has a major impact on our numbers.

Juan Vargues: Just as a reminder, we have the lowest margins on the OEM, we have the highest margins on the Service & Aftermarket. If you look to the RV OEM Americas is negative, but the others are still positive. Our Service & Aftermarket where we have very high margins is very negative. We should see these turning to positive during the year.

Agnieszka Villella: Perfect. Thank you.

Juan Vargues: You're welcome.

Operator: That was the last question at this time. I hand the conference back to the speakers for any closing comments.

Juan Vargues: Thank you very much, everybody, for your attention. This has been a tough quarter, but I would like just to finish off by saying that we had all time high in sales. We had all time high in profits, and we are totally convinced about the future and the positive trends that we have in mobile calling. Even if we have dark clouds just now. The good news is that after the rain, the sun always shines. Thank you very much for your time. Goodbye.

Stefan Fristedt: Thank you very much.