Dometic Q2 2022 Earnings Call

Rikard Tunedals: So, hello and welcome to the Dometic Q2 2022 earnings call. My name is Rikard Tunedals, head of investor relations at Dometic. With me in this room I have Juan Vargues, president and CEO, and Stefan Fristedt, CFO. For the first part of this call, all participant will be in listen-only mode. Afterwards, there will be a question and answer session where you can use the phone or the messaging function in the web interface. Please also try to limit the number of questions to two, so let us start with the presentation. Juan, please.

Juan Vargues: Good morning, Rikard. Good morning, everybody, and welcome to the presentation of the interim report for the second quarter. Without any delay, let's move on to the presentation as such. So in terms of the markets, we have seen a challenging microeconomic environment, and not just microeconomic macroeconomic, but even geopolitical environment as a continuation of what we saw in Q1, and as a consequence of that weakening market demand, we experienced that retailers globally started to rebalance their inventories during the quarter, and good news is obviously that all the backlog is still higher than one year ago. When looking at performance, all-time high in terms of sales, 53% up, a slightly negative organic growth minus one, we saw a very strong growth in the OEM side, on the OEM side. Igloo continues to develop very positively in terms of growth and profitability, and we're also very happy to say that all the acquisitions that we did last year are developing in a positive way.

Juan Vargues: And I would like to especially mention our mobile power solutions companies that are performing very, very nicely. On EBITDA, we ended up at 15.7% in comparison to 18.6, and this is very, very much a consequence of a negative-channel mix, and we will go a little bit more in detail into that, but also obviously that some of the supply-chain constraints that we have been suffering from, whole entire world is suffering from, continue during the quarter, having a negative effect on efficiency. We are very happy also to report that Igloo is running just now at a double-digit EBITDA, and again, some more comments will come later. Operating cash flow, 738 million krona, happy to see as well leverage at 2.9. Considering obviously all the acquisitions that we did during the last 12 months, and then of course, what we see when looking at the macro environment, and when looking especially at the RUEM industry globally is that second half is going to be weaker than the first half. And as a consequence of that, we are acting very, very fast. So when looking at the end of June on performer basis, we are 1,000 people less than we were on June 2021. That's telling you obviously that we are starting to reduce capacity.

Juan Vargues: At the same time, we continue to drive our manufacturing footprint program that we introduced in 2019, and as the last step of that program, we announced the closure of our German factory in Siegen and the move, the consolidation into Hungary, our existing factory in Hungary. At the same time as we are also launching an additional cost-reduction program that will affect about 700 people and lead into savings of 200 million krona on annual basis.

Juan Vargues: Looking at our numbers, sales ended up at close to 8.5 billion or 53% total growth with a slightly negative organic growth, minus one, FX having a positive effect of 11%, and MNA contributing by 43%, EBITDA 1.3 billion or 20% up. And as I already commented, EBITDA margin of 15.7 versus 18.6.

Juan Vargues: We are also happy to report obviously a nice EPS improvement growing 36% and ended up at krona 97 [0:04:33.6] ____ Cash flow, 738 lower than one year ago as a consequence of the inventory built up, that we are by a fact, working very hard obviously to reduce in the coming months our leverage at 2.9. If we will look at the half year's result, we ended up at 16 billion, again all-time high, or 54% total growth, with 3% organic, 7% FX lead growth, and then 44% coming from MNA contribution. EBITDA at 2.4 billion or 33% up, with an EBITDA margin of 15.3 versus 17.6, and even here, we see a nice evolution of our EPS at 30% up versus last year. And cash flow is still weak in comparison to last year but we are working, as I said, very, very hard to improve moving forward.

Juan Vargues: When looking at sales, as already commented, 8.5 billion, 53% total growth. Americas showing a nice total growth of 35%. Of course, that we have contribution from the acquisitions, EMEA up 13%, APAC 12, marine 23, and global over 900%. We see organic growth in marine, as well as in global, where the decline happened in both EMEA and APAC. America is standing still. Looking at the application areas, we see already here obviously the effect from our acquisitions, meaning that Igloo is having a very positive impact obviously on food and beverage, really stepping up, at the same time as we are also very happy to see say that our mobile power solutions are affecting the power control application developing very, very nicely, and as you can see also, we see climate in comparison to the others coming down, especially in Europe, where the RUEM is already, on the RV side, is already down in the second quarter.

Juan Vargues: Looking at the state channels, and this is really what explains what happened to the margins, you see that OEM is growing very, very strongly during the quarter, at the same time, our service and aftermarket is weak, and considering the huge margin difference that we have between the two state channels. This is affecting greatly our margins in the quarter, and distribution of course showing a major growth.

Juan Vargues: Looking strategically, I would say channel development, and despite the fact that service and aftermarket was weak in this specific quarter, we have moved the needle from 52% coming from businesses outside the OEM into 59% in one year. Worth to comment that the RUEM, which is the most cyclical part of our business, is today down to 24% despite the fact that we saw good growth in the quarter as well. So in other words, we are a less cyclical company today than we were one year ago, and much less cyclical than we were four years ago.

Juan Vargues: Looking at our EBITDA evolution, down, as I commented, very much on one side due to the dilutive effect of Igloo, that was expected from the beginning, and then the surprise, I would say this quarter, is really the mix, the negative mix that we experience that we believe is going to be corrected over time as the inventories are being rebalanced at retail level. And on top of that, as I also commented, we have some inefficiencies due to the supply-chain constraints primarily on the ports, loading and unloading of the containers, we have all over the place.

Juan Vargues: Sometimes it's good also to take one step back and look at the evolution of a time, and what we can see on this picture is obviously that during the last five years, we have doubled the size of the company. We have also doubled our everyday earnings, and especially obviously that the company is fundamentally different in terms of exposure to the RUEM industry.

Juan Vargues: We move over to the segments. Americas was up 35%. We saw a flat organic growth, very strong growth on the OEM side, while service and aftermarket was weak, and we see everywhere, this is not just Americas, I will comment that in all the segments, that for the first time ever, I would say we see strong growth on the OEM side, but negative growth, and even pretty substantial negative growth on the service and aftermarket that we believe is really rebalancing all the inventories, meaning that due to the supply chain issues that the entire world suffer from during 2020, 2021, and having customers obviously expecting a strong 2022, everybody was early on buying their inventories, preparing ourselves for a strong 2022, and 2022 is not becoming as strong as expected, and thus leading to excessive inventories that they are just now acting on.

Juan Vargues: If we look at EBITDA, 160 million or 8.2% margin versus 8.9%. We saw an improvement in this quarter in comparison to the first quarter, and hopefully we will see this improvements coming through as now we have also moved, we have taken the last step of the move from Elkhart into Mexico, and that should give us the additional savings that we have been calculating with.

Juan Vargues: IF we move over to EMEA, some similarities on the situation, but also some differences. While the RUEM industry in America has already filled in the inventory levels at retail level, that's not the situation in EMEA. EMEA and the negative RUEM numbers we see are the consequence of our customers not getting chassis from the chassis suppliers, meaning that they cannot finish their own vehicles, so at the same time as inventory in EMEA are still low, so the question here is obviously, what is going to happen in the second half? When talking to customers, they expect also a weak second half simply because chassis suppliers will still be suffering from problems. On the contrary we saw a very, very strong development on CPV OEM.

Juan Vargues: And so it is an aftermarket exactly the same, as for the rest of the segments very, very weak and unusually weak, I would say. Even here, we have seen very nice development of all the acquisitions that we have made. EBITDA margin 15.2 as a consequence of the very negative sales size mix, and then on the strategic highlights, the fact that we announced, the last step of the restructuring program announced 2019, which means the move from Siegen in Germany into Jászkisér in Hungary.

Juan Vargues: Moving over to APAC, 12% up totally, but organic growth of 10%. We need to remember as well that Australia and New Zealand did apply very, very strong lockdown measures in connection with covid during Q1. The previous year, Q2, was extremely strong and we have very difficult comps, but at the same time, we also see a little bit of the same effects as we see in EMEA, meaning that RUEM manufacturers have difficulties to get hold of chassis and components, which is slowing down our deliveries, at the same time, our expectation is that this will continue during the second half. And on the positive side, very, very strong evolution of mobile power solutions in the segments.

Juan Vargues: EBITDA margin very strong, and still today 26%. It looks lower than one year ago, but then we need to consider that one year ago we have the net profit coming from the sale of a building in Hong Kong that had a positive impact of 21 million.

Juan Vargues: As I commented at the beginning, we have been acting very, very fast on the weaker market conditions, adapting our capacity in APAC, but also in the rest of the group. Marine is still very strong, 23%, totally speaking, with organic growth of 5%, primarily driven by OEM, while service and aftermarket is showing negative numbers exactly in the same way as the rest. EBITDA, a strong 485 million or 27.7, which is an improvement versus the situation last year, despite the negative sales mix that we got. And then the acquisition, the treeline acquisition that we announced in Q1 has been developing also very, very nicely during Q2. Moving over to global, strong growth obviously through the Igloo acquisition, but not just the Igloo acquisition, we see both hospitality and residential developing very, very strongly for us. Hospitality business is already now above the numbers that we saw pre-pandemic, which is good since the hotel industry has just started to invest again. EBITDA-wise $197 million, which is 10%, versus the 15%, as a consequence of the dilutive effect of Igloo. Other than that, the margins are better than one year ago.

Juan Vargues: We spend a couple of seconds on Igloo, very, very, very, strong organic growth, organic proforma growth, I would say, not organic, but proforma, and what we saw as well is that rise in prices went up severally after the Russian invasion of Ukraine. We adapted prices already in the beginning of March, but it takes 60 days, which means that we had lower results in April and May, and came back very strongly in June once the prices were already in place. On the strategic lights, we keep investing obviously in other global verticals, product development, and we keep receiving also awards on our products, and Igloo integration developing very nicely. On e-commerce, need to see, I'm fully convinced that you are reading everywhere in the news that online business has is suffering from difficult times.

Juan Vargues: We have been investing in the last couple of years, and we are just now running a 5% of our non-OEM business coming from e-commerce. We have implemented... We implemented in the US... Or North America, rather, Australia, and we are just now up and running in eight European countries, and some more countries to come as well, and here we are also getting support from a number of the acquisitions that we did in the last couple of months already having a strong online business.

Juan Vargues: Happy to report as well that we have our first store, in-store shop in Stockholm, participating together with Haglöfs in central Stockholm, and where we are showcasing our domestic outdoor standalone products, something that we believe very much in. We have been launching the product range during the last couple of months all over the world, and we have very good expectations that that's going to be growing in the quarters to come.

Juan Vargues: On design, I already mentioned, I will not go through any details, but we keep receiving design prices and we keep working on introduction of these new products to the market.

Juan Vargues: Looking at our cost-reduction programs, as I said, we already adapted capacity during the last couple of months, we are down 1,000 people less than one year ago. At the same time, we announced the shutdown of Siegen, which means really that we are running just now at this point at a run rate on savings of 250 million krona, and as you know, the expected amount is 400 million by mid 2023. And we are fully convinced that we will be there.

Juan Vargues: At the same time, we are also announcing a new program at a cost of 200 million krona that will also generate savings for another 200 million, affecting 700 employees, and Stefan will give you more specifics in a couple of minutes from now.

Juan Vargues: On our strategic execution, again, we keep moving the needle from the OEM, the once dominant OEM business, into both service and aftermarket and distribution. We are just now at 59%. We see a very, very nice development on mobile power solutions, that I commented a couple of times. We are running just now at a sales number of 2.2 billion on proforma basis. And this is becoming one of the most important businesses that we have moving forward.

Juan Vargues: On the pro-leadership, we are still suffering from the supply-chain constraints and semiconductors and the fact that we need to test, and then when we change semiconductor, it takes months obviously to be on the safe side, and we don't want to launch a new product in a new product category and run into mistakes, so that's moving slower than we expected when we launched these programs, obviously. But we keep investing on innovation, this is one of the most important areas that we have to grow organically the company, and we will see the effects coming back.

Juan Vargues: Cost reductions, obviously reducing complexity on continuous basis, and I already commented a couple of times the new steps that we are taking. Sustainability, another area where we have been working very very hard in the last couple of years, and we are happy to report that we are just now lower, below the target that we have for 2024. We have reduced injuries in our factories by 42%, so a great improvement and ensure we know obviously that investments that we have been doing in health and safety are paying off. On the contrary, we are still not happy with how our share of female managers is developing. We are standing still, even if we are running a number of programs, but we have not seen the effects yet.

Juan Vargues: On CO2. That's another area where we are making great progress. We have all the factories in Europe just now running on renewable electricity. We have a few factories in Americas, and we are also investing in China to do the same, so we expect additional improvements in the months to come. And then on ESG, we did what I consider to be a very good job in terms of audits in [0:19:44.4] **____** countries for the last couple of years, we are a pretty high level, and now we're also starting to look at our acquisitions and how to get all these new suppliers to be 100% audited. And with that said, Stefan, please let's listen to you.

Stefan Fristedt: Thank you very much, Juan, and taking the first slide here, talking about our data development from Q2 last year to Q2 this year. The first bucket here concerns the asset gain that we had in Q2 2021 related to a sale of a redundant building in Hong Kong, of 21 million. Second bucket, the organic development plus the FX effect. We have seen positive currency translation and transaction effects in the quarter, north of 100 million SEK. Then we have had negative effects of SEK channel and segment mix, and then we are continuing to suffer from inefficiencies due to the global supply chain constraints that we have in the world for the time being. In terms of price versus cost increases, we are on a total group-level neutral on that in the quarter. However it varies slightly from segment to segment.

Stefan Fristedt: Third bucket is Igloo, and we are moving on in the expected direction and we are showing double-digit margin in the quarter. We have seen a negative impact all due to the rising cost increase driven by the conflict in Ukraine, and that has then been compensated by price increases, as Juan mentioned before, effective from June 1, and we also had the expected significantly improvement in margin in June standalone. Then we have the fourth bucket, it's the other acquisitions, and they are developing very nicely and they are delivering over above, or above average domestic margins, as we have seen in the past as well.

Stefan Fristedt: Going to the next, talking about our cashflow for the quarter. We have had an operating cashflow of 738 million, and yeah, the adjustment for non-cash items are related mainly to depreciation and amortisation, of course, driven by the acquisitions, but also ethics components. Then we have the negative effect of the change in working capital, and that's mainly driven by the increase in Inventory, and I'm going to come back to that a little bit more in detail in a couple of slides. Moving down below the operating cashflow, we paid the dividend of 783 million. We have also taken up, 1 billion SEK in a private placement bond in May, and that makes the net cashflow from financing more or less neutral, so total cashflow for the period of 358 million.

Stefan Fristedt: The next page is just showing the operating cashflow development over time, and we are seeing the expected pickup in Q2 2022, however not to a level that we are satisfied with, so we have a cash conversion of 48% in the second quarter, which is below our expectations for this time of the year. But then moving over to working capital, where you have the three different components on the account payable side, I'm really happy with the job we are doing there in improving payment terms. So it's steadily moving up. Accounts receivables is showing a stable development, and then we have the last portion, which is inventories, which is now up to 137 days. If we look on the increase between Q2 last year and Q2 this year, which is approximately 5 billion, 1.5 billion of that comes from acquisitions. 1.3 billion comes from the weakening Swedish krona. Then we have 1 billion that is driven by raw material, price increases, also increases in inbound logistic cost, and then we have 1 billion that is related to securing critical components and also longer lead times, where we see more than double the lead times for shipments between Asia and Europe and Americas. We are driving actions across all segments now to get back to our inventory efficiency, which is natural, so we are expecting improvements of that to come through here in the coming quarters.

Stefan Fristedt: CapEx and research and development, we are in absolute terms spending more, as Juan mentioned, we are spending money on innovation, which is important to us. In relation to net sales, we are either slightly down or flat to previous periods. Taking a look on our debt maturity profile which I consider to be a well-diversified debt profile. We have an average maturity of 3.3 years. As I mentioned before, we did the private placement of 1 billion SEK in May to a rate of 5.1%. It's, of course, higher than what we have had before but I still see the average financing cost in our portfolio to be satisfactory. We also have an undrawn revolving credit facility of 200 million euro. As you saw, the Q2 net dept leverage ended at 2.9 compared to 2.7 in Q1 2022. We have paid the dividend, and then we also have the weakening Swedish krona, which is contributing negative with 0.1 here on the leverage. Then we, of course, also have the continuous buildup of working capital. We are still in the position that we have and the leverage profile that is strong and we are working very focused on improving that during the coming quarters.

Stefan Fristedt: Juan has already mentioned the restructuring program, starting with the one from 2019, and as mentioned, we have now basically entered into the final step in that by the announcement of the closure of the manufacturing in Siegen, in Germany. As you remember, in Q1, we announced also the closure of the refrigeration manufacturing in Elkhart in US, and totally 24 locations have now been impacted since the start, and 243 employees affected in the quarter, and 1,200 since the start. As mentioned, the targeted savings, 400 million, we are expecting to achieve that mid-2023, and the run rate so far is 250 million. We had 13 million in cost in the quarter, and that is 468 million since the start of the program, and the total cost estimated to be around 750 million, and the most of the remaining spend there is expected to come in the coming three quarters. And the majority of that is going to be cash out.

Stefan Fristedt: Turning to the 2022 restructuring program. That's the next step in our efficiency plan, and the scope of that is continued optimisation of locations and right-sizing of resources very much driven by the digitalisation effort that we have been putting in over the last couple of years. We have started the journey in bringing the number of ERP systems down, where we have started with US and have now continued with IMEA. We have invested in eCommerce solutions for B2B and B2C, and that is now starting to to pay off in terms of more efficient, transactional flows. It concerns all segments and all functions, and it is going to impact approximately 700 employees. The savings will amount to 200 million, and they are in addition to the 400 million from the 2019 program, and we will start to see a gradual impact from Q4 this year, and will be fully realised by the end of 2023, and the cost, as mentioned, 200 million SEK, and the majority of that is going to be cash out.

Stefan Fristedt: As the times are getting a little bit tougher, if we look in a historical perspective on how domestic has shown resilience in downturn scenarios in the past, in the upper graph, you can see the profitability over times in 2016 to 2021, and also how it has been performing, for example, during 2019, when we had a 16% reduction of RV production in US, but also during the covid-19 outbreak in 2020, so we have been clearly showing that we have been able to keep up the profitability level and that the sales development have been coming back rather quickly.

Stefan Fristedt: Also our ability to generate cash in a historical perspective is something that we feel is contributing to our resilience in tougher times, and we don't see any changes to that profile, so levers to pull is of course that we are continuously doing various types of scenarios on the future development. We have recent experience of handling downturns. We are accelerating our restructuring program, as we have been talking about, we have less infrastructure today in terms of number of sites, number of factories. The sales mix is clearly turning towards service and aftermarket and distribution. Approximately 20% of our total workforce is temps, so that makes us flexible to adjust to increasing or decreasing demand. We can of course limit or freeze capital expenditure, and historically we have generated cash from a reduction of working capital when we go into a downturn.

Stefan Fristedt: Moving on to, what have the acquisitions then contributed to the resilience of the group? All the acquired businesses, more than 85% of them are outside the cyclical OEM business. Looking into the structural growth areas, we have six acquisitions in the last 16 month in mobile power solutions, which is a structural growth area driven by the electrification trends and sustainability. Also looking at our largest acquisition, Igloo, historically they have been showing a strong resilience also in tougher times, so they have low single-digit sales growth during the financial crisis in 2007 and 2008, and they have had growth each year from 2019 with a Kager of 6% since 2010, up to 2021. So with that, Juan, I hand back to you to summarise.

Juan Vargues: Thank you, Stefan, and I would like to summarise... I would like to start by stating that Q2 is once again all-time high in terms of sales and earnings, that we showed a total growth of 53%, and the backlog is higher than one year ago, that the market conditions clearly are starting to get tougher as a consequence of the situation on the market. We see decline in OEM production, especially on the RV OEM side. We see that already happening all around the world even if the backgrounds are a little bit different. As I said, Europe and Australia are driven just now very much by the lack of access to chassis, retailers are clearly rebalancing their inventories, that did have a negative effect on our margins in Q2, and hopefully we will see that levelling out during the coming months, and at the same time, I'm very, very happy to see, obviously, that all the experience that we have been collecting for years as organisation is paying off, is paying off when looking at the acquisitions, and the areas where we acquire these companies, that they are giving us a totally different mix moving forward.

Juan Vargues: And strategically, we are becoming more resilient as a company. We continue to execute on our strategy. Efficiency is an important part. We need to become more and more efficient so we can finance as well our growth in new areas, and that explains obviously the step with announcement in Seigen as the final step for restructuring program 2019, but also the start of a new program to be run in the coming 16, 17 months. And finally, we are very optimistic on the future of mobile living. We believe that this is an underlying show in an underlying growth trend despite what we are experiencing just now on the short term. And we have introduced our strategy in May 2019. We are very, very confident that the strategy that we are driving today is going to pay off in the long term, and we have set record. Please let's open for the Q&A session.

Rikard Tunedals: Yeah. Thank you very much, so operator, over to you.

Speaker 4: Sure. Thank you. As a reminder, to ask a question, please press star one and voice prompt on your phone line to indicate when your line is open. Please go ahead. Your line is open.

Speaker 5: Yes. Hello. Can you hear me?

Rikard Tunedals: Yes, we can.

Speaker 5: Hello.

Speaker 4: Please go ahead.

Speaker 5: Yes. Hello? Can you hear me?

Juan Vargues: Yes. Yes, we can.

Speaker 5: Hello.

Rikard Tunedals: Hello.

Speaker 5: Hi. Can you hear me?

Speaker 4: Hello? Your line is open.

Rikard Tunedals: Yes. Yes, we can hear you. Can you hear us?

Speaker 5: Yes, hi, good morning, gentlemen. Yes, I can hear you. Sorry, there's a bit of an echo. Yeah, I'll start with... I'll stick to two questions. Firstly, Juan, we've moved from last quarter, you mentioned in the past release that retail inventory levels being below historical levels to now talking about rebalancing, maybe if you could just spend a little bit of time here on what has happened in the quarter, clearly it caught you by surprise, and also there, do you have any sense of the whole pull-forward demand that you've seen last year and how long this weakness in the service and aftermarket should last?

Juan Vargues: I think we need to split it up into the OEM business and the service and aftermarket business. The comments last quarter were very much on the OEM business. The OEM business was showing still very low inventory levels. The inventory levels have been filled in the US, which is not the case in Europe and Australia. In Europe and Australia, inventory levels are still low, but on the contrary manufacturers, our customers do have difficulties to complete vehicles because they are lacking chassis from other suppliers, so that's one. The second one is that we have never experienced an aftermarket going down in one quarter, as we saw this time.

Juan Vargues: And the only explanation that we have at this point is really that our retailers have been loading with inventories in preparation over the 2022 year's season, and the season didn't start in the same positive way obviously at 2021, and they have been sitting on excess inventories. Again, if we look at historical numbers from 2005 and forward, we have never seen the aftermarket business, a service and aftermarket business, dropping as we saw in this quarter, so for us so far is a temporary slowdown and we believe that it's going to be levelling out as months go by.

Speaker 5: Understood. Thank you, and was this performance, was it throughout the quarter or did it get worse as the quarter progressed?

Juan Vargues: I would say that the first three weeks in April were good, but then we saw a change during the last week, and then it has been pretty stable during May and June. You see? I mean that's something perhaps that I can comment is that if you look at some of our customers reports, I mean you can look at Camping Wall. They were commenting their Q1, where their own business, service and parts, was down 20%. If you look at another important customer like Keystone, they were also showing 10%, so it is clear that they are just now working on their own inventories, that the sales was not in Q1 as good as they expected.

Speaker 5: Okay. Thank you very much. And Last quarter, you helped us with the split of organic revenue growth between pricing and volume. I was wondering if the pricing element was still 5%-5.5% in Q2.

Juan Vargues: Yes. Around those numbers. Yes, absolutely, and again, of course, what you can see is that raw material prices are coming down, but keep in mind that what we see just now on all the statistics is something we are going to see in our numbers in six months from now, so if you compare the raw material prices in the first half of 2022 with the first half of 2021, they are still very, very high.

Speaker 5: Thank you, and if you look at the history of how sticky those price increases are in the elasticity of demand, especially when you have a weak environment, has pricing historically been sticky?

Juan Vargues: We have been pretty resilient. Yes.

Speaker 5: Okay. Thank you very much.

Juan Vargues: Thank you.

Speaker 4: A reminder. To ask a question, please press star 1, and as a reminder, please state your name and the company name before asking your question. We will now take over our next question. Please go ahead.

Danny Schmidt: Yes, good morning, guys. This is Danny Schmidt from Danske. Do you hear me?

Juan Vargues: Yeah.

Rikard Tunedals: Daniel.

Danny Schmidt: Sorry. Do you hear?

Rikard Tunedals: Yep.

Danny Schmidt: Okay. There's something with the line, I guess it's not only me. Anyway, a couple of questions from me then, so you're saying basically that the raw material prices that we see now has been coming down quite a lot since April, that will have an impact on your business towards the end of this year. Is that correct?

Juan Vargues: True.

Danny Schmidt: And could you shed some light? You said that you've had this historically good resilience in terms of price sticking it but could you shed some light on where you're stronger and where you need to follow the market more and where you can keep your own pricing a bit more? Could you give us some more data on it and sensitivity?

Juan Vargues: Absolutely. I mean, it is crystal clear that service aftermarket is always much more resilient that the OEM business, and that has always been the case.

Danny Schmidt: And what do you think about the new business that you've acquired over the past two years? Of course you don't have any history on that business, but in terms of market position and competition and so on and the need for price increases that you have been conducting, is that gonna be difficult to keep or in line with the average for the group or better? How do you see it?

Stefan Fristedt: We see... I mean, on one side, you have Igloo as Stefan commented, and then you have all the rest. If you look at all the rest, they are underlying growth-trend businesses industries. We see that even today, even the second quarter in the same way as the first quarter, they are showing very strong growth and very strong profitability. Looking at Igloo, we see as well that the prices that we implemented at the end of last year kicked in in June the first quarter this year, again, when rising prices went up in March, we implement the new prices and we see already now in June. And worth to mention as well that there is a lot of statistics on the US on the cooler markets, and Igloo, even considering the price increases, is gaining market share, which is positive. That's telling you, that's giving you some kind of indication that it's not just about Igloo automatic, that everybody just now is forced to increase prices.

Danny Schmidt: Yeah, and speaking about raw materials, looking at the other side of that and the inventory levels and so on, are you then also saying that the downturn in raw material prices should have a positive effect on working capital as we get into Q4? Is that a fair assumption?

Juan Vargues: Absolutely. I mean, that's also what Stefan commented, that although the inventory levels that we see are a huge part, it's obviously prices both on raw material prices, but also on the logistic cost. I mean, keep in mind that we are paying still today 40% more still today, even if container prices have been turning south, we're still paying 40% more that we were paying one year ago.

Danny Schmidt: Yeah, and container prices, is that also a six-month lead time where we compared the spot prices that we see right now?

Juan Vargues: About.

Danny Schmidt: Yeah. I think I lost you there a little bit.

Juan Vargues: No, I said, Daniel, that is about the same. Depending on the port, so you have longer lead times in the US, a little bit shorter lead times in Europe, as an average, I would say this is very much around the same.

Danny Schmidt: Yeah. Alright, and you write that the implementation of new price increases, when it comes Igloo, by the first of June had a significantly positive effect on profitability. I think it's a bit hard to exactly know the mix that you are exposed to when it comes to the Igloo raw materials, but it looks like that raw material component has been coming down as of late, which of course many others have as well, and you raised prices by the first of June. Does that mean that you're looking into Q3 with an improving profitability, even though we're entering more of a mid-season?

Juan Vargues: If you compare with Q3 last year, without any kind of doubts, of course the volumes will be lower in Q3 than Q2. At the same time, you have the new prices kicking in, and the new prices are higher since rising prices went up quite a bit as well, so the answer is yes.

Danny Schmidt: Yeah, and do you agree with the fact that Western prices have been coming down lately?

Juan Vargues: Yes, but again, keep in mind that we have even their inventories, so you will not see that on Q3. You will see that most probably at the end of Q3, beginning of Q4.

Danny Schmidt: Alright. Okay. Thank you. That was two questions from me.

Juan Vargues: Thank you.

Speaker 4: Aniesca Vilella from Nordair, please go ahead.

Aniesca Vilella: It's Aniesca Vilella at Nordair. Thank you for taking my questions. Starting with your comments about the retail inventories being balanced right now, I just wonder how... What do you think about the future demand for you? And here, I'm thinking about age to this year or 2023, and maybe if you could split it and look at both the distribution and aftermarket, when will you think the inventories will be rebalanced and the underlying resilience will appear again there? And also, what do you think about the demand coming from OEMs? Thanks.

Juan Vargues: Yeah, so I think that we need to split it up into the different businesses, so if we look at the RV OEM, it is clear, as we commented before, that already today, American inventories are very much at the normal level, and expectation is that the market will start pointing south, and I guess that you are following RVAA, like I'm doing, so the to-go number is -20 to -25% for the remainder of the year. On the contrary, we look at Europe and Australia. The fact is that the numbers have already been negative for a number of months because of the lack of chassis supplies, so there, what I believe... I know that the inventory levels are still low, and the problem is more to get access to componentry so they can finish off the vehicles.

Juan Vargues: So there I don't foresee a dramatic change to what we are seeing already now, so if we look at commercial and passenger vehicles, which as you know, is also one of our businesses, that market is growing big-time for us, so it is clear that you have again the introduction of new technology, the cooling compartments into vehicles, which is generating growth, and the line, even if the automotive industry already now is negative. If we look at marine, we see still very low inventories, we have a strong backlog, so we don't foresee any drama in the coming months.

Juan Vargues: And there you have also a technology shift that you have from mechanical products to hydraulic and electronic, so that's on the OEM side. So again, it's very much just now what we see is the RV OEM, which is of course 24% of our business. Another 24% of our business, about half, is Americas, which is the area where we see the major challenge in the coming months. Then you have the service and aftermarkets. Historically, and Aniesca, we are looking at numbers from 2006 and forward.

Juan Vargues: The service aftermarket has been extremely stable, so when the RV market has dropped 20% for the entire group, the service and aftermarket and distribution has been down 3%, 4%, so you have a gap which is normally 15 to 20 percentage points between RV OEM... Or rather OEM and aftermarket, which is the reason for us being on the believe that what we saw in Q1 with some of the aftermarket customers, like the Camping Walls, the Keystones, that is really that they enter the year with inventories for a high demand that they saw in Q1, and then they pull the brake, and we have been suffering in Q2, but we should see this rebalancing taking place, is that going to happen in August or in September? I don't know, but I do believe that we are going to see this levelling out.

Juan Vargues: Then of course you could say, 'Yeah, but interest rates, consumer demand', still to be seen obviously. But keep in mind that now we have moved the company quite a bit from high-ticket discretionary spend to lower-ticket discretionary spend, so obviously when we are talking about the passive cooler, and as Stefan was showing before, we had not seen Igloo dropping during all these years, and there was a Lehman Brother in the US as well, but they didn't see any downturn, so again, we feel confident... At this point, we feel confident, of course, that we have owned all those companies for a few months. The only thing we can do is to look at other history, and the history proves to us that they are pretty resilient.

Aniesca Vilella: Perfect. Thank you. That's very, very helpful. Could you also maybe quantify the decline of service and aftermarket in the quarter organically? How much was down for year and year?

Juan Vargues: Yeah, it's over... It's two digits.

Aniesca Vilella: Two digits. Okay.

Juan Vargues: Yes.

Aniesca Vilella: Perfect and maybe just a few words on your cash flows...

Stefan Fristedt: Sorry, Anesca...

Aniesca Vilella: I'm thinking about the...

Stefan Fristedt: Anesca, sorry. Just let me... I mean, when you look at our margins in Q2, please consider the mix. It has a massive impact. Do you know that very often we get these questions, 'But what about the margins in-between OEM?' It is a massive difference, and that plays a major role for our margin, the duration in the quarter, so as...

Aniesca Vilella: Perfect. Thank you. And on inventories, I appreciate the fact that you explained what was driving the absolute level, but even looking at the inventories in relation to the days of sales, you can see obviously they are climbing, so when do you expect to take down your inventories and realise sales from that, and will it be also connected to the fact that you will need to break production a bit more?

Stefan Fristedt: Yeah. I don't know I... Am I on the air now? Okay. I think for most of the segments, we have seen the peak now, and as you heard Juan saying, we are 1,000 people less now at the end of Q2 compared to the same period last year. And as we also mentioned in the last quarterly call, that we are continuing to adjust the capacity on what we are seeing in terms of demand, but also, how we are going to manage the inventory. So we are looking ahead for the coming quarters, that we are going to see the inventory level gradually going to calm down, but obviously, I mean we have currency, we can't do much about that. We have the acquisitions, they are contributing with 1.5 billion, and then the raw material price increases and also the longer lead time and the critical component, so they will obviously fade out a bit over time, but we are also driving, as we mentioned, efficiency activities in each one of the segments to improve the situation, so we are looking forward to the coming quarters to a declining inventory.

Aniesca Vilella: Perfect. Thank you. That's all from for me.

Rikard Tunedals: Okay. We have a question on the web it's about Igloo. 'Any change in market conditions for Igloo?'

Juan Vargues: Not really, so what we see is a little bit that if we look at all the statistics that we are getting from the MPD, the retail association, we see that number of units is coming down at the same time as US dollars are coming up, so I do believe that you will see very similar conditions, no matter if we are talking about grills, barbecues or coolers, those kind of products are very much connected, so we see that our growth is there. We had strong growth in Q2. We don't see any slowdown. Then keep in mind that we have been introducing new products now that we are a much more innovative company today than we were two years ago or five years ago, so this is helping us big time. We can see that average prices are going up as consequence of two things, one is pricing as such, obviously, but the other one is innovation. We are repositioning the company from being good and better to better and good, which is leading to high average prices, and we will see obviously high margins over time as well.

Rikard Tunedals: Okay. Thank you. Next question, operator.

Speaker 4: The person from APG, please go ahead.

Speaker 8: Yes, thanks. I think you actually just answered my question, Juan, but just to confirm, because I think you said on Igloo in Q1 that you grew double digits, and now you say that you drove nicely as well. Does that mean continuously double-digit growth?

Juan Vargues: That's totally correct.

Speaker 8: Okay, great. Thanks.

Juan Vargues: Welcome.

Speaker 4: The next question comes from Henrik Christensen, Carnegie. Please go ahead.

Henrik Christensen: Yes. Hello, so Hendrick Christensen, Carnegie, a question for me on the cash flow. You give good explanations on the inventories, why that's gone up and the drivers for that, is there any difference to trade receivables that are also... Or is that similar dynamics there? Is there anything different in trade receivables?

Stefan Fristedt: No. Yeah, no. I would say that we only acquired companies, especially Igloo, there is slightly higher payment terms. We know what type of customers we have on the other side, but other than that I would say it's a very stable development in terms of, if you look number of days as in relation to the business volume, so to speak, so the majority of that increase is basically because we have a bigger business, so to speak.

Henrik Christensen: Good. And then the second question is on leverage, you ended last year with 2.6 times negative EBITDA, leverage has since moved on, and yes, you closed acquisitions in Q1, you paid dividends, FX goes against you, but then you also have cash out from restructuring programming in coming quarters. Are you still confident that you will bring leverage down by this historical 0.6 to 0.8 tons this year?

Stefan Fristedt: I would say that we were going to be on the lower side of that range this year related to the working capital. I mean that will improve but it will also take some time to get down to that historical level but that we are going to see that development in that direction. Yes, that's what we are expecting.

Henrik Christensen: Perfect. Thank you.

Speaker 4: Douglas Lindel from K&B Markets, please go ahead.

Douglas Lindel: Yes. Hello, gentlemen. Thanks for taking my questions. Just a clarification question to begin with. Your comment in the quad report that the backlog is up year over year. I'm assuming you're talking about the organic backlog. Right? And would this also be true when adjusting for pricing? That's my first question.

Stefan Fristedt: Nope. We are just looking at volume, number of units, but that's a difficult question, obviously, because we have 12 different product areas, so you could say in general terms, volumes are starting to go down, but that's compensated by the prices, and then as you know, obviously the backlog is very much driven by OEM, and less driven... So about, I would say, 2/3 is OEM, 1/3 is aftermarket, and as we have already commented, the aftermarket side was pretty low during the quarter, so that has a major impact on the backlog as well. The turnaround on aftermarket is very, very fast.

Douglas Lindel: Yeah. Understood. On the marine business, Juan, you talked a little bit about that, but then you said that you don't expect anything negative over the next few months, if I heard you correctly?

Juan Vargues: Yeah.

Douglas Lindel: Can you talk a little bit about the marine business in terms of your backlog visibility, and also how this business has performed in previous market downturns?

Juan Vargues: Yeah, so we have seen... On one side we see a strong backlog, still today, we see strong sales. We see that inventory levels are still low. It's little bit of the same situation for the RV OEM in Europe or in Australia. The problem for the marine industry has primarily not been demand. It has been really the access to componentry, so we feel still today very confident on the OEM side. Like anybody else, it has been on the aftermarket side in Q2. Then on the backlog, we have a good visibility from an OEM perspective, and then what we see, the positive impact that we have is really a technology shift. If we look at the average price per helmet or per boat, the average price is coming up all the time simply because they are using less mechanical products, they're using more hydraulic and more electronic products, and then the average time goes up dramatically, so if we look at... Historically, what we have seen is, in reality, two quarters at the end of 2019, where we had negative growth, but apart from that, we have seen the company growing all the time. And again, keep in mind that we have quite a bit negative growth on the aftermarket in marine as well. That's telling you that the OEM marine is still extremely solid.

Douglas Lindel: Yeah, and maybe a bit difficult to answer, but in terms of the businesses that you've acquired within marine, they have a bit longer history, I guess here. What can you say about their performance?

Juan Vargues: Very strong, so far, very strong.

Douglas Lindel: I'm sorry. Historically, in downturns, I should specify.

Juan Vargues: Sorry, on the... Yeah. But it has been also quite stable because the historical Dometic has been very much aimed to the larger yachts, and normally there's a less sensitive market than when we are talking about the smaller boats. The American part of the Dometic marine, the sister is reacting on, so I believe that we have very good mix with the larger boats on the historical Dometic marine, and then the smaller boats now with the American part of the marine business, so it's a pretty good balance.

Douglas Lindel: Okay. Okay, great. Thank You.

Juan Vargues: Thank you.

Speaker 4: Thank you. That's all the time we had today for questions, so with this I'd like to hand it back over to Ricard for any additional or closing remarks. Over to you, sir.

Rikard Tunedals: Thank you very much, so before ending, any final words from you, Juan?

Juan Vargues: No. Well, thank you very much, all of you, for showing interest for the company, we keep working on strategy and we will make sure to keep delivering. So thank you very much for your attention. And have a happy holidays, by the way. I guess that for many of us, this is the last day, so enjoy your holidays, and we see you soon. Thank you.