Transcription

Dometic Q1 2022 Earnings Call

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28 April 2022

PRESENTATION

Operator

Hello, and welcome to the Dometic Q1 2022 earnings call. For the first part of this call, all participants will be in a listen-only mode and afterwards there will be a short question and answer session. Please also try to limit the number of your questions to two. Today, I'm pleased to present Juan Vargues, President and CEO, Stefan Fristedt, CFO, and Rikard Tunedal, Investor Relations. Speakers, please begin.

Juan Vargues

Hi. Good morning everybody, and welcome to the presentation of the first quarterly report for 2022. As usual, we are very, very grateful for your attention. And with that said, I would like to move on immediately to the report.

So, Q1 2022 became our strongest Q1 report ever. We have a strong backlog. We see retail inventory levels lower in several areas than we have seen historically. We still perceive supply chain constraints and, of course, as a consequence in this occasion, of the Russian invasion, increasing raw material prices again. And, of course, that leads to inflation, interest rate increases, and, due to all of that, an uncertain macroeconomic situation.

Performance-wise, we feel that we are [? 00:01:40] our strategy. We are showing 55% sales growth totally speaking, which is leading to a far improved sales mix. We keep on increasing prices to compensate for the negative effects of the cost increases. We are very pleased to see our EBIT margins ending up at 14.8 which is, in reality, matching what we delivered one year ago when excluding Igloo. And we see Igloo also coming in at a level, which is higher last year. And with that, we mean an EBITDA margin above mid-single digits.

Good to see as well our leverage, ending up at 2.7, despite the fact that we paid for three acquisitions during the quarter. And as we already communicated a few months ago now, when the pandemic is fading away in the Western world at least, we are accelerating our restructuring programme. And that's why we communicated the closure of the manufacturing sites in Elkhart.

Looking at our financial performance. 7.5 billion in total sales, or 55% total growth, with 7% organic, 5% FX, and 43% due to the M&A. EBITDA, strong, 1.1 billion or 39% up versus last year, leading to an EBITDA margin of 14.8 compared to 65 one-year. And the difference is obviously the dilution effects of the Igloo acquisition. Adjusted EPS ending up at 2 krona and 27 öre compared to 1 krona and 85 last year.

Operating cash flow negative [? 00:03:47] 98. We are building up inventories for the strong system that we are initiating now. On top of that, we have a different seasonality profile with the new acquisitions that we completed in recent months. But then, of course, we also have an FX effect and the cost increases that are kicking in in our inventories. And as I mentioned already, leverage ended up at 2.7.

We are very pleased to see growth in all the segments. We are very pleased to see growth in all our sales channels. I will come back to that. Organically, 7% organic growth, with growth in the same way in all the segments but APAC, that came in slightly below last year, and showing growth in all the sales channels, which is very pleasing.

Looking at the application areas, strong growth all over. Climate, driven very much by RV and Marine, Food & Beverage. You have a major effect, obviously, of Igloo but the reality is that we see strong growth in Residential, we see strong growth on the RV side, and we see strong growth in Hospitality.

In terms of Hospitality, we are just now running at higher levels than we were running just before the pandemic. So, that market has recovered for us totally.

Power & Control, also very strong growth on one side driven by Marine, but on the other side driven by the mobile power solutions acquisitions that we have been doing. And then Other Applications is also growing everywhere, even if that's a minor part of the business.

Looking at the sales channels, also very pleasing to see that everything is growing very nicely. So, it's not the market [ph 00:05:41]. As you can see, 30%, the OEM part of the business, 23%, especially in Americas, I would say, while Europe is more affected by the lack of chassis. [? 00:05:57] distribution, very nice growth, very much driven by, as I said, Igloo, but also Residential and Hospitality.

And, of course, the transformation of the company that is taking place is also leading to low exposure to the OEM business, as has been a part of our strategy from the beginning. As you can see, the OEM business has gone down from 55% to 44%, even if we are showing clear growth organically which is, again, very good from a cyclicality [ph 00:06:35] perspective, and that makes us to be a stronger economy today than we were a few years ago. The [? 00:06:43] which is of course, the interest of many of our listeners, ending up at 28% versus 33% one year ago.

Looking at our profitability, 14.8 versus 16.5. Again, the dilution effect from Igloo, we see as a positive the sales growth and pricing activities that we are implementing on a continuous basis to mitigate for the cost. We have cost-saving activities all over the place and we have a positive effect of currencies.

At the same time we have the negative influence of the Igloo dilution. We have a negative segment mix and channel mix in the historical Dometic, meaning that the OEM side is growing faster than distribution and servicing aftermarket. We see freight costs [? 00:07:37] prices continuing to go up and, of course, inefficiencies created by supply chain constraints all over the world. Very good, again, to see that EBITDA margins are in parity with what we performed last year. That, to be clear, was the best Q1 ever in the history of Dometic at the time.

Moving over to the different segments. Americas, 1.9 million or 49% total growth with organic growth 9%. Growth in all application areas, very strong OEM business. We see growing order intake including on the RV side, and a backlog which is at higher levels than one year ago. EBITDA, 130 million or 22% higher EBITDA. EBITDA margin, 6.8, driven by sales growth and pricing efficiency improvements. We've continued to work to lower the impact of the tariffs, and we see, as I said, a positive currency effect or a negative [ph 00:08:43] sales mix since OEM is growing much faster. And we see as well supply constraints and [? 00:08:53] and freight costs, as usual. And in this case I would like to mention or to pay special attention to the shutdown in Elkhart, where we used to manufacture refrigeration for the American market. That has just now moved to other plants in Americas.

Looking at EMEA. Strong growth. Again, 30% organically, 9% with growth driven in several application areas. Very strong service and aftermarket growth. But in this case, the lack of supplies from the chassis manufacturers to the OEMs is slowing down our growth. We see positive effects of the recent acquisition of CADAC and NDS. Strong EBIT improvements, 385 million or 56% versus last year, with a very, very nice EBITDA margin improvements of 300 basis points. I will not repeat myself. Basically, we are influenced by all the same parameters as we were mentioning for Americas.

And a special mention I would like to make to, obviously, the situation in Russia, where we have stopped all the business activities and made an accrual for that.

APAC, same thing. 535 million SEK or 25% totally. Organic growth though [ph 00:10:28] -2% after a very strong Q1 last year. Q4 2020 was weak for APAC because of the pandemic, Q1 was strong, and that explains the negative in Q1. Other than that, very nice development driven by Power & Control and the Enerdrive acquisition. We see a backlog higher than the last year as well. And in terms of EBITDA, strong improvement, 31% up versus last year ending up at 136 million krona, with an EBIT margin ending at 25.3, which is also very positive to see when we already have very high margins. And, again, basically the same parameters affecting our margins in APAC.

Moving to Marine, and this is the first time than we are reporting Marine separately. Almost 1.5 billion SEK in sales, 12% total growth organic, 3% growth driven by [? 00:11:32] systems and Power & Control backlog higher than last year. And we are very happy to have completed the acquisition of Treeline, another step in this mobile power solutions area that we will come back to in a few minutes. EBITDA ending up at 371 million or 12% up versus last year. And, once again, the same situation. The shortages of electronics is having the most impact on the Marine business in comparison to the other businesses.

Some more data about Marine since this is the first time that we are reporting separately. We used to have a historical business in Dometic both in the air conditioning area, but also refrigeration. And then we did the SeaStar acquisition at the end of 2017. All we can say is that we have seen a fantastic development and evolution since the acquisition. We have been growing nicely, showing a CAGR of 7% and especially we have seen some very, very nice profit improvement profile during the last years.

We are today present in [? 00:12:39], mobile solutions, climate control, and food systems. And we see good opportunities to keep growing in these business areas.

What is driving this growth is very much the growing number of engines per boat and more effects. We see also a clear technology shift from mechanical systems to hydraulics and electronics, which is going on. We have a much heavier content from service aftermarket. So, service aftermarket stands for 45% of the entire [? 00:13:07] business and that will continue as the systems are becoming more and more electronic, more and more service and upgrades, which is very positive for us. And we see also very good opportunities to upgrade the huge installed base that we have with on the Marine side.

The big opportunities that we see on top of that is obviously to really develop globally. We have an extremely strong market position in America, in the rest of the world, but we see even more opportunities in the rest of the world, both organically and through acquisitions.

Moving over to global where, as you know, the huge part of global today is Igloo ending up at almost 1.4 billion totally and organic growth of 12%. Igloo developing very, very strongly on the top line when looking at the pro forma development of Igloo but also very nice growth in the other [? 00:14:11] verticals, meaning today primarily Residential and Hospitality.

EBITDA, 91 million or 600% over last year. And again, I will not repeat myself. What I can mention specifically in the case of global is that Igloo is coming in with margins above the margins than we were showing in Q1 last year. And Q1 last year was not impacted by the negative evolution on the [? 00:14:39] prices that we saw from the end of Q2 and for the rest of the year. So we see a very good performance in that business.

A couple of words about the Igloo. Where is that growth coming from? It is on one side modern [ph 00:14:56] growth but it is also the consequence of the increased average sales prices that we have been implementing as a consequence of both from the prices, but also product innovation. And I will come back to that in a couple of minutes.

Profitability. I already mentioned. We see rising prices after the Russian invasion coming up again. We have already implemented new price increases to compensate for the new price increases. So, we feel that we will see a good evolution even in the coming quarters.

The integration is progressing very nicely and a very, very active and continuous contracts on a daily basis. And then we have taken an important decision to further invest in building up or strengthening our existing platforms, mobile cooling, which means in this case that we are expanding capacity, we are going to move our active cooling production from Asia into Americas to boost both Igloo but even most especially the Dometic brand moving forward in the American markets.

And coming back to these average prices. This is really – you look at the lower part of slide. That's where you see the old product range that we used to sell the Walmart. You have the average prices for every single product. On the upper side, you see, if you look at the Overland 25 [ph 00:16:24], for instance, a $59 average that you should compare with what we have [? 00:16:31] today for the Laguna 16 or 28 [ph 00:16:31]. So we're moving in reality from average $20 to average net $59 for the same model.

You can do the same exercise yourselves when looking at the different products. But that's what we are doing through innovation. We are really upgrading the entire product range, really rejuvenating the products, and offering many more benefits to the customers. And that innovation drives the average price and the margin at the same time.

Acquisitions. Treeline, we communicated. This is another step in order to on one side grow the service aftermarket business through more electrics but also the mobile power solutions in the Marine industry. So they are doing what we have been doing in the outdoor business and on the RV side, [? 00:17:20] for Marine applications. We are very, very happy. It is [? 00:17:25] with nice profitability as well.

I'm talking about mobile power solutions. We are extremely pleased with the evolution in the last 12 months. We have moved from turning a few hundred krona into almost a 2 billion krona business. And after six acquisitions we see very strong growth. We see that this underlying trend will be there for many years, driven very much by sustainability and the demand for electrification. So, the more electrification we see, the more mobile power solutions are going to be needed. Profitability for these businesses is above Dometic's average, meaning that has also a positive accretive impact moving forward. And as I said, what is really positive is the underlying growth trend in that business.

If we move over to e-commerce, B2C, we also see improvements. We continue to roll out new software platforms. So it is implemented in the US, it is implemented in Australia, we implemented in Scandinavia during Q4, we implemented in four new European countries during Q1. We continue to do it during the rest of the year. We have moved over 12 months from 2% of the revenues we have in service and aftermarket and distribution into 4%, which is doubling the business, and even here we are [no audio 00:19:00 to 00:20:36].

Operator

Yes. Apologies for the delay. We will now go to our next question is from the line of Fredrik Ivarsson of ABG. Please go ahead.

Rikard Tunedal

[? 00:20:51] Hello? You hear us?

Operator

I can hear you. Yes.

Rikard Tunedal

We're not done with the presentation. We got disconnected.

Operator

Please accept our apologies. Please continue with your presentation now.

Rikard Tunedal

B2C. [inaudible 00:21:27].

Juan Vargues

First of all, I would like to apologise. I don't know what's happening with the technology, but we are back. And, what to say? B2C, I was on B2C, and just mentioning that it is not [inaudible 00:21:46 to 00:22:1].

Juan Vargues, back, and I apologise terribly for what happened. I don’t know this technology and we don’t know. We need to look after the call.

But I was moving to the restructuring programme where we have announced during the quarter the closure of Elkhart and with that that means that 23 locations have been impacted since we started the programme. The cost that we took during the quarter is 136 million. That brings the accumulated numbers to 455 million since we announced in October 2019. We are working obviously to accelerate the programme and we are fully convinced that we will deliver what we promised by mid-2023.

Looking at the strategy progress, we are very happy to see obviously that the distribution in service and aftermarket is today 56%. We communicated a couple of years ago that our target to start with was 50%. We are already above that, and we continue to move the needle even more.

Organic growth in all sales channels. Organic growth in four out of five segments, three acquisitions completed during the quarter, and happy also to show that B2C is doubling in comparison to one year ago. Innovation index [ph 00:23:46] is slightly below last year's numbers and this is really impacted by the shortages that we see on the supply chain. We are full convinced that we will recover that in the coming quarters.

We have won a number of design awards during the quarter, and we see a strong pipeline, as I mentioned, for 2022. On the cost reductions, I would like just to mention that we keep working on complexity and we are down to 65% in comparison to the number of SKUs that we had 2018 despite the fact that our innovation index is growing big time and we have more products on the market than ever before.

And then sustainability, another area where we are paying great attention. We see injuries coming down and we are very close now to achieving our targets of being below 2%. On female managers, we are unfortunately standing still even if we have a huge number of activities behind and we'll continue to work very hard to achieve that number as well. CO2, good job. We are implementing renewable electricity in all factories, and this is what is kicking in [? 00:25:04] quarter by quarter. So, we have done 29%. We have a target of 30% and we will beat that target as well.

And then we also communicated a new KPI, which is the 90% implementation for all new suppliers that we are taking in and we have been working during Q1 in putting in place all the processes and will be reporting from Q2 our achievements.

And with that said, Stefan, I would like to hand it over to you, please.

Stefan Fristedt

Thank you, Juan. I just want to go into the P&L here and highlight a couple of things in that. Going to the items affecting comparability which is total of 159 million in the quarter and the majority of that is related to the acceleration of the cost reduction programme and then we have the 22 million related to the closure of our Russian operation. Approximately 75% of this is non-cash items.

So, to go a little bit faster here, I go to the next slide, the EBITDA bridge. On the organic and the currency related effects, we see that sales growth and pricing is contributing positively, cost saving activities. On the other side we have inefficiencies in our own operations due to supply constraints. We have faced cost and raw material price increase and we have a negative effect of the channel and segment sales mix. Obviously, the currency translation transaction affects our positive in the quarter.

Igloo, EBITDA margin above Q1 last year and it's above mid-single digits margins on Igloo. And the other acquisitions are contributing nicely, and they are delivering above Dometic average margins in the quarter.

Going onto the cash flow for the period, highlight a couple of things. The operating cash flow is negative 398 million. This is obviously driven by a strong sales demand. We also have a seasonal build-up in acquired companies. We have to prioritise that we secure availability of critical components. We have the lead times that are still long. And then CapEx is up in absolute terms, but it's reduced somewhat in percentage of sales. Acquisitions is contributing to 628 million in the quarter and is related to CADAC, NDS and Treeline Capital.

Moving on to the next slide, operating cash flow in a serious year. Here you see Q1 is our weakest cash flow quarter and it's even negative now and as I mentioned before, it's driven by some of the newly acquired companies that have an even stronger seasonal pattern compared to the historical Dometic. But we are now moving into the strong cash flow part of the year.

Working capital, the different components. Accounts payables. We are making good progress in extending terms with suppliers. On the accounts receivable side, we see a stable development. And obviously on the inventory side, that's where we see the biggest build-up and that's driven a lot by the longer lead times and the supply chain constraints.

Moving onto the next. The acquisitions that we have done, the ten acquisitions we have done over the last two years, as you can up to the right, the seasonal pattern is stronger than if you compare it to the historical Dometic profile. So, where Q2 and Q3 are accounting for significantly more than 50% of the total annual sales.

So, if we look on where we have done the acquisitions, it's mainly in distribution and service and aftermarket. So, they have a stronger seasonal pattern but on the other hand, they are contributing with reduced cyclicality in Dometic.

Moving onto the next, CapEx and research and development. CapEx is stable and going forward, we are going to see somewhat increased CapEx levels due to some of the acquisitions that we have done but it is in line with what we communicated on the Capital Markets Day. R&D, innovation continues to be in focus in Dometic, so we are up 20% in absolute terms. A little bit lower in relation to net sales but in absolute terms, we continue to invest in innovation.

Moving onto to debt maturity profile and leverage. We have a well-diversified profile with an average maturity of 3.5 years, and we will also have our undrawn revolving credit facility of €200 million. Our net debt leverage ended up on 2.7 which is aligned with the targets of around 2.5 times over a business cycle. And we completed three acquisitions in the quarter. They contributed with 0.1 on the leverage. We still maintain a strong de-leveraging profile – 0.6 to 0.8 times in a year.

Final slide from me. Just putting Dometic in a four year perspective. I think it's important and if we reduced or if we look on the left hand table, we have the reduced leverage in line with target of around 2.5 times. So, right now 2.7 times but back in 2018, we were on 3.4. Keep in mind, 2.7 is still with the fact that we have completed ten acquisitions over the last two years.

Net sales is up 80% and important thing is that we have a much more diversified mix, so the share of OEM has gone down from 65% to 44% in the last quarter. We have a healthy debt maturity profile, as I mentioned before. We had 2.6 years back in 2018 and we are now at 3.5 years. Looking on the efficiency and the organisation, expressed in LTM sales per employee, it has increased with 20% and it's now 2.9 million per employee.

So, with that, Juan, I'm handing over to you for a summary of this year.

Juan Vargues

Thank you very much, Stefan, and I will try to be very, very brief here in order to have space for the Q&A session.

So, strongest quarter ever. Strong order backlog. Igloo showing a strong growth and margin improvement. On top of that, we see the distribution and service and aftermarket is today 56% of exposure to the OEM business is coming down, despite the fact that we are growing. High focus on cost and efficiency and on the less obviously on pricing. While we have announced the closure of Elkhart, we also believe that it is important for us to be present on the major market in the world for mobile cooling, and that's why we are investing in our platform in North America.

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

Q&A

Operator

Thank you. If you do have a question for the speakers, please press 01 on your telephone keypad to register. Please also try to limit your number of questions to two. Once again, it's 01 on your telephone keypad to register.

Our first question comes from the line of Fredrik Ivarsson of ABG. Please go ahead. Your line is open.

Fredrik Ivarsson

Thank you so much. Good morning everyone. First question on consumer behaviours then specifically in the US and Igloo if you can comment on what you see there. Have you seen consumers holding onto their money a bit harder maybe during the last couple of weeks or if at the moment it's still good? That's the first question.

And second question on the inventory situation and any potential component constraints given that inventory was up, I guess, 20% Q on Q and assuming that the overall demand holds up, will you be able to deliver on the majority of the orders in Q2 and onwards?

Juan Vargues

Yeah, good morning, Fredrik. So, on the first question, whether we see anything especially considering Igloo, we don't see anything. We see we are following the sales through every single day. We get information every single day and just now we don't see anything. As I said Q1 was very, very strong and the beginning of Q2 looks still strong.

On the second one, we have been building up inventories. We have been especially looking for semiconductors, as I said. It looks much, much better than it did in Q3 and even better than Q4 but of course still you have certain chips here and there that will or might lead to problems. But that's nothing that we – just now, the issue again, as you are familiar, as I am with the pandemic situation in China, and the vast majority of the semiconductors that are produced around the world are coming from China. So, you cannot say just now that we are not going to have any issues, but we feel much better than we felt a few months ago and better than we felt in Q4.

Stefan Fristedt

Also keep in mind the seasonal factor [ph 00:36:28] especially in Igloo and in [? 00:36:37] where there is compared to the historical Dometic a stronger build-up in front of the high season where we are going in right now.

Fredrik Ivarsson

Excellent, thank you.

Operator

Thank you. Our next question comes from the line of Douglas Lindall from DND Markets [ph 00:36:57]. Please go ahead. Your line is now open.

Douglas Lindall [ph]

Thank you very much for taking my questions. I'll start with the first one which is basically on the organic growth of 7%. would you mind commenting on how much it's pricing versus volume on that one please?

Juan Vargues

Yes. So, it is of course an average on an average. We have different verticals. We have different products. It's a difficult one. Our estimation is that this approximately 25% that there's volumes and 75% which is pricing.

Douglas Lindall [ph]

Okay. Thank you. And second question is on the balance sheet. You mentioned that you've taken account of the time but how do you view your balance sheet in the context of your financial targets now? Would you see room for additional M&A growth and stretching the balance sheet a bit more? Maybe [? 00:38:00] now that you're entering more cash flow positive seasonality pattern or how do you view that?

Stefan Fristedt

No, first of all, we are coming into the stronger part of the cash flow year right now. And it's pretty significant as you can see from the historical numbers. The [? 00:38:19] as I mentioned we did complete three acquisitions in the first quarter. They added 0.1 in leverage. So, obviously, the bolt-on acquisitions, there is still room to deal with that. But the larger, more [? 00:38:40] acquisitions, we obviously now have to divest Igloo and make sure we are implementing the measures that we have been planning to build out but smaller bolt-on is still in the cards.

Douglas Lindall [ph]

Okay, thank you. If I may, just a third last one on the Igloo. Obviously you're improving profitability year over year, but would you say that this was in line with your internal expectations or did Igloo surprise from the upside?

Juan Vargues

No, of course, we were very disappointed when we announced that the stability in Q4 was lower than we expected. I think that we also announced yearly that we were putting in place measures to improve that stability and that's what we have seen in Q1 and that's what we are expecting to see moving forward. In this situation, it didn't come as a surprise. What was a surprise was the devolution of resin [ph 00:39:44] prices and the fact that Igloo before [? 00:39:53] was too slow.

Douglas Lindall [ph]

Yeah. Okay, thank you very much.

Juan Vargues

Again, that's what I would like to point out. We don't have a [? 00:40:03]. What we can see as Dometic is that we have been pretty good in passing prices to the market. And I'm not talking just about Q4. I'm talking about the last few years, with all these raw material prices outwards all the time.

Douglas Lindall [ph]

Okay, yeah, thanks.

Operator

Thank you. Our next question comes from the line of Chris Mardis [ph 00:40:26] from Jefferies. Please go ahead. Your line is open.

Chris Mardis [ph]

Yes, good morning, gentlemen. I have two. First one, Juan, we've seen some cautiousness in your outlook in the press release and rightly so on the back of the dual political developments and increased inflation, lower consumer spending. I'm just wondering whether you see anything in the business today that points either a slowdown of demand or any discussions you had with customers where you sensed some cautiousness.

Juan Vargues

I think, I believe that we all read the same news. It is difficult to avoid – to prevent thinking how the consumers are going to swallow this inflation which is kicking in everywhere. So, I don't think that our customers are different to me or to you. It is clear and there is a concern on how the future is going to look like. We see – this is also important to remember – we see that despite the inflationary cost increases on the material side, we see still today that the salary raises all over the world have been pretty moderate so far. So, I believe that we need to wait some more months to evaluate.

There is more cautiousness today. Everywhere. This is not about Dometic, this is not about our industry, I'm fully convinced that if you talk to the [? 00:41:59] of the world, they would tell you the same because that's the reality. We are reading about the same news everywhere. So, I think it will be important to mention that the way Dometic looks like today compared to let's go back to 2018, I mean [? 00:42:20]. And that's important to remember. Keep in mind that since 2018, we have already gone through a couple of major slowdowns. One starting in Q3 2018 when the RV market all over the world went down dramatically and then the second during the pandemic. and I think that we have demonstrated that we [? 00:42:47] in reducing our costs and obviously matching our [? 00:42:53].

So, the short summary is we don't have a crystal ball. We can just listen and evaluate in the same way as you do. But we are prepared to act.

Chris Mardis [ph]

Understood. And obviously the Group has transformed quite a bit with more aftermarket and distribution. Just perhaps on this point, Juan, can you just share with us any sort of data points or historical sensitivity of your aftermarkets to the ongoing headwinds that we see now and any data point that shows that the more resilient of the aftermarket is the OEM [ph 00:43:33].

Juan Margues

Yeah, if you look at the [? 00:43:36] I can give you two data points. The first one is on the historical aftermarket business in the old Dometic, so to say. We used to have a difference of 10 to 15 percentage points in growth rate difference on the way down between the OEM business and the aftermarket business. So, that's the kind of resilience you had in the old business.

Now, we have [? 00:44:00] that don't have any OEM exposure whatsoever. And that includes Igloo. Igloo [? 00:44:10]. They have been extremely stable. Not even in 2020, they went down. So, we believe that for sure Dometic's exposure today is much lower than the exposure we had a few years ago. And even comparing Q1 this year with Q1 2018 – Rikard, can you remind me – we are on 28% now, we were in 2018, the RV OEM exposure was 40%. So, we have reduced our RV OEM exposure by 12 percentage points in four years.

Chris Mardis [ph]

Understood. Yeah, and then the last one is quickly on price costs which was 40 bps down in Q3. I think it was slightly negative in Q4. Can you just update us on Q1 and in the face of the ongoing higher cost inflation, are you still going for year round price increases [ph 00:45:17]?

Juan Margues

Yes, we are. So, we, as you are obviously calculating, Q3, that's what we lost, about six weeks of price increases. We implemented price increases at the end of Q3. We got a positive impact in Q4 but for the entire Q4 we were slightly below the previous year. In Q1 this year, we are slightly above so we are ahead of the cost increases. And our intention obviously is to be ahead.

If I can give you any guarantee obviously that we can miss some weeks because it's not easy to get back to customers every three weeks or every four weeks with price increases, but the intention is clear, we said after Q3 that we were going to get back, and we are back.

Chris Mardis [ph]

Perfect, thank you.

Operator

Thank you. Our next question comes from the line of [? 00:46:20] of SEB. Please go ahead. Your line is now open.

Speaker 1

Thanks, Operator. Thanks for taking my questions then. Return a little bit to demand in retail. You mentioned that inventories are still on the low side, but I assume they've come up a little bit sequentially. Do you expect sort of – how far of a distance do we still have to go until they are at a normalised level, as you see it? Is that a material addition to your growth potential for Q2?

Juan Vargues

I think it's very difficult. I guess that the [? 00:46:58] one to look at, I guess you are speaking about this again, the RV OEM. On the RV OEM, it is clear that you have the situation with chassis in Europe, that's one, and then you have also – what we hear just now, or we read from the reports that are coming, we are looking at [? 00:47:23] that their inventories are just now more than the same levels than they were in February 2020 just before the pandemic. And at that time, they were still lower, and they normally are. So, we believe that there is still some space, but it is clear on the RV OEM – Americas, so I guess that's what you're referring to – it is clear that the situation today is not the situation that we had six months ago.

Speaker 1

I was more referring to your entire business mix because as I understood it you see low inventories across categories. So, the RV is one thing. Obviously that's quite visible. But I'm more curious maybe the other categories for so many peers that have perhaps indicated more of a normalised situation.

Juan Vargues

Yeah, so we see marine, we don't [ph 00:48:15] see at this point any issues again marine situation just now. It is more the other way around. It's a bit like the chassis in Europe. It's much more supply problems for the industry, getting materials for the industry, which is not Dometic, and which is really just now delaying the pace of refilling the inventories. If we look at our distribution businesses, we don't see yet any signals, so to say, of slowdown. So, I mean if I take the entire business, entire Dometic, I don't see any signals that this will stop tomorrow. On the contrary of course that I feel more cautious today than I was six months ago without any kind of doubts. But of course six months ago, we didn't know about Russian invasion, we didn't know about additional inflation cost increases, so a number of factors kicked in. Six months ago we were still interesting about increasing interest rates. Now, the interest rates are a reality.

Speaker 1

Thank you. And my second question is regarding inventory. If I remember correctly, you called out higher share of goods in transit as a driver to your inventory growth last quarter. I didn't hear you say that today. Is that situation improving or is that still a material factor in Q1?

Stefan Fristedt

No. The situation is still the same and I mean now it's not only on the ocean, it's also on getting it to the port and getting it on the ships. And you probably have seen the pictures of Shanghai, for example. It's [? 00:50:14], I would say. So, there is no improvement on that side for the time being.

Speaker 1

Okay, that's helpful. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Kari Winter [ph 00:50:30] from Handelsbanken. Please go ahead. Your line is open.

Kari Winter [ph]

Yeah, thanks. Thanks for taking my questions. The first is the FX impact on EBITDA. Would you care to help us quantifying that a bit more specifically? So how much was your EBITDA boosted by FX in the first quarter?

Juan Vargues

Approximately 100 million.

Kari Winter [ph]

Okay. That's helpful. And then second you mentioned the divestment on one of your slides and you discussed the potential for acquisitions and maybe bolt-on but no transformation but when it comes to divestments should we consider this to be more in terms of bolt-off acquisitions or should we expect something transformational, and should we expect something to happen already this year?

Juan Vargues

Our intention definitely is that you will see the first steps this year, absolutely. So we are working as we speak. And on terms of whether they're going to be bolt-on or transformational, I leave you with the same – I would say there's something somewhere in the wind [ph 00:51:45]. The vast majority will be things that don't fit anymore, businesses that are lower margin, or average, businesses not having impact on our service and aftermarket development, and we have a few smaller but we also have some that are sizeable.

Kari Winter [ph]

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

Operator

Thank you. Our next question comes from the line of Johan Eliason from Kepler Cheuvreux. Please go ahead. Your line is open.

Johan Eliason

Yeah, hi, it's Johan here. I was wondering about Igloo. Obviously, the margins continue to develop positively on a pro forma basis year over year, I guess somewhere between 5% and 6%. Now, could you remind me of the seasonality profile on the margin of Igloo? I guess the peak quarter would typically be Q2 or am I wrong there?

Stefan Fristedt

No, you are right. It's like we communicated on the Capital Markets Day that Q2 is by far their largest quarter.

Johan Eliason

In terms of margin as well, and not in absolute.

Stefan Fristedt

Yeah, absolutely. From a margin point of view as well. So, Q2, Q3 and then Q4 and Q1. So, very, very similar, but more pronounced. Very similar to the Dometic seasonality profile, but more pronounced.

Johan Eliason

Excellent. And in this business, have you been able to push through any Dometic branded products yet or -?

Juan Vargues

You have two different sides. You have the entire product management, product manufacturing, and you have the introduction with customers. In terms of introduction to customers, Igloo people and Dometic people just now are visiting customers, so we are getting - exactly as we said - Igloo is helping us to open doors. Then of course it takes a while to start launching the new products. So, just note that we have been spending an enormous amount of time in the last couple of months looking at the full ranges, what is going to be Igloo, what is going to be Dometic, how do we give access to Igloo to our technology at the same time as how do we get access to capacity in the factories. And that's why we are [? 00:54:31]. So, you will see that coming [? 00:54:36]. We have very, very, very tight collaboration and we are driving the integration very, very intensively.

Johan Eliason

But do you think there will be any sizeable numbers already this season or is it product for next year?

Juan Vargues

I think it's too late for this season. I think you deal with next season. This season is very much [? 00:55:00]. Keep in mind that the season in the auto [ph 00:55:04] business is really Q2. So, if you acquire in Q4, it's very, very difficult to get products out. You need to do – the selling for next year is done now, basically.

Johan Eliason

Yeah. And then on the restructuring programme, you mentioned now in the chart somewhere that in total you've taken some 400 million in charges. I think originally you talked about 700 million in total charges for this programme to get the benefits of 400. Is that still valid?

Juan Vargues

Yeah, so we have 750 that we communicated. We communicate now about 400, that's correct. That's obviously telling you that now we have come in with a capital of bigger size. We have started with a smaller size and then the pandemic hit. We have been training for a while and now we are again moving to the bigger size. So, that's why now we do [? 00:56:07] and we have some more.

Johan Eliason

Okay, excellent. Many thanks.

Operator

Thank you. The next question comes from the line of Daria Schmitt [ph 00:56:19] from Danske Bank. Please go ahead. Your line is open.

Daria Schmitt [ph]

Yes. Good morning, Juan and Stefan. Most of my questions have been answered. But Stefan, could you just help us with sort of the growth number for Igloo on a pro forma basis in the quarter and maybe also the absolute top line number? I guess you can almost get it from the global sub-segment but still.

Stefan Fristedt

But I think you will have to take it the way that we have expressed it that it is a strong growth and so it's obviously double digits and that has been [? 00:57:09] and above expectations, I would say.

Daria Schmitt [ph]

Okay. And when you talk about the resin [ph 00:57:17] prices moving up, Juan said that you will also sort of act accordingly when it comes to sort of price increases. Was that also the beginning of Q2 or was that already implemented by the end of Q1?

Juan Vargues

That has been going all the time. So, we are evaluating during our reviews, every month. This is one of the main topics and has been one of the main topics since this project started in August 2020, in reality. Again, keep in mind that we have been delivering really good margins, compensating for cost increases with expectation of Q3 2021. And then that we have always been ahead or in parity. And our intention is to keep doing the same.

Stefan Fristedt

But specifically around Igloo, we have the deal on the resin [ph 00:58:17] price, profile development and after the Ukraine crisis that got changed a little bit, not maximally but to a certain extent and for that, there has been consultation implemented.

Daria Schmitt [ph]

Yeah. Okay. Good. Maybe just – sorry for a third question here – but on the same topic, could you in order - just to help the audience and me - give any sort of average profitability in Q2 for Igloo. I know that you were hit last year by what we just talked about but if you look a couple of Q2s back, what has been the sort of average profitability do you think?

Juan Vargues

Q2 for Igloo was still very good. In reality it happened – the resin [ph 00:59:15] prices kicked in at the end of Q2. So, [? 00:59:20] being negative. But you have 2.5 months been pretty positive. And again, keep in mind our comments during the call. We acquired Igloo because we saw how the company was improving. Then the resin [ph 00:59:36] prices kicked in in June last year and then we saw the duration of three months, as soon as we took over, we acted, and you see the margin improvement coming back.

Stefan Fristedt

[? 00:59:50] if we are above mid-single digits now what's going to happen in Q2, when we are of course talking about the opposite [ph 01:00:03].

Daria Schmitt [ph]

Yeah. And that was maybe what you saw last year before the latter part of Q2, I guess.

Juan Vargues

Correct.

Daria Schmitt [ph]

Okay, sorry. Thank you. That's all from me.

Operator

Thank you. Our next question –

Juan Vargues

Yeah, exactly. Since we were out for a couple of minutes, we can still stay for a couple of minutes more. Do you have any other questions please?

Operator

Thank you. It is 01 just as a reminder and the next question does come from the line of Agnieszka Vilela from Nordea. Please go ahead. Your line is open.

Agnieszka Vilela

Thank you. I would like to ask about the Marine business. You showed on the slide that the retail boat prices are increasing quite dramatically, doubled compared to last year. So, I wanted to ask about your own pricing power in this business. And also if you could kind of put it in reference to the 3% organic growth in the quarter. What was the price impact and how were the volumes affected by the supply bottlenecks that you mentioned?

Juan Vargues

I think, Agnieszka, that either we expressed ourselves in the wrong way or you have the wrong chart because it is not about doubling in a couple of years. It's about doubling during the last ten years, basically [inaudible 01:01:41].

Agnieszka Vilela

Oh, okay.

Juan Vargues

I mean, so that's the different. What we're telling you in reality is that electronics has been kicking in in the Marine business now for a few years and that's why average prices is going up dramatically. More engines, more electrification driving the business. And then what you see just now, the growth that you see just now in the quarter organically has nothing to do with the underlying growth that we have and that's why our backlog is very, very solid.

Agnieszka Vilela

And can you just remind what was holding back the organic growth in the quarter for marine?

Juan Vargues

It's really the access to electronics, both from us but also from our customers.

Agnieszka Vilela

Yeah. And then my last question is on Elkhart. You closed the factory there and moved production to Mexico, if I understand correctly. Can you just say what kind of cost savings you expect from that? And how the margin Americas could develop. And also whether you are a bit concerned that you might lose some market share to your peers that are still in Elkhart? Thanks.

Stefan Fristedt

I mean, we have been communicating that the phasing of this programme is that we have a couple of larger projects at the end, and Elkhart is one of them. So, that's of course going to be an important contributor for us to achieve the 400 million. Obviously, there is still some projects to be announced, which we cannot talk about today. But with the announcement of Elkhart, we are taking an important step towards the total 400 million. But there is a couple of more projects that needs to be announced and we are accelerating, as we said.

Juan Vargues

And in terms of obviously market share, [? 01:03:47] is manufacturing refrigeration in Elkhart. Our main American competitor is [? 01:03:54] and then the rest of the main competitors are importing finished goods from China. So, in theory, Agnieszka, it should be the other way around.

Agnieszka Vilela

Perfect. Thank you.

Operator

Thank you. And our last question is a follow-up question from the line of Chris Mardis [ph 01:04:18] from Jefferies. Please go ahead. Your line is open.

Chris Mardis [ph]

Hi, thanks for taking the follow-up. Just two housekeeping questions which have not been asked. So, obviously electronics was a bottleneck in Marine [ph 01:04:30], chassis comes in EMEA [ph 01:04:32] and potentially other divisions. Can you just help us with the lower invoicing from just the supply chain constraints [? 01:04:40].

Stefan Fristedt

I think it's very much in line with what we communicated last quarter as well. We are talking about a couple of percentage points. [? 01:04:50]. More in Marine than in the other segments. Marine is more than a couple.

Chris Mardis [ph]

Okay, understood. And then the last one is on the 400 million cost saving programme, can you just give an update with where you are, what has been achieved in the quarter, please?

Juan Vargues

So, we are approximately in 210 which is above 53% of what we have planned but that's of course before we get the savings from Elkhart. Including the savings from Elkhart, we should be somewhere between 65% and 70% of the project [ph 01:05:27].

Chris Mardis [ph]

65%/70%, okay. [inaudible 01:05:35]. Okay. Very good. Thanks very much.

Operator

Thank you. And as we have no more questions registered, I'll hand back to our speakers for any closing comments.

Juan Vargues

Thank you very much. Well, thank you very much everybody for paying attention to us. We are obviously very happy with the quarter and as we said, we don't have a crystal ball, but we are prepared. We will be growing, if the growth is there. And we will be reducing our costs if the growth is not there. So, thank you very much, and talk to you soon. Goodbye.

Stefan Fristedt

Goodbye.

Operator

This now concludes our conference. Thank you all for attending. You may now disconnect your lines.