Transcription

Dometic Q4 2023

31 January 2024

Juan Vargues: Hello. Good morning, everybody, and most welcome to this final quarterly report for 2023. Let's move to the highlights of the fourth quarter without any further delays. Market condition is still soft. Of course, we are happy to report an increased margin and improved net leverage. We see improvements in the retail inventory levels, both in terms of service and aftermarket as well as distribution. We see as well a continued decline in the OEM driven by Marine, while we perceive as well that RV is becoming more stable, especially in North America, where the last two months the association has published the numbers. They have been positive for the last two months or 2023. Looking at performance, 13 percent down on organic growth. Surveys of the market moving from -5 percent in Q3 to -3 percent in Q4.

Juan Vargues: As we commented last time, we were expecting improvements. This is confirmed. We see distribution coming down more than we expected from the beginning, driven by especially Igloo customers, at the same time as we see that inventory levels for those customers are much lower today than they were at the end of Q3 and a little bit more optimistic about the future. We see OEM coming down by 40 percent for the quarter, very much driven by Marine, I said before, and also Americas. I'm very pleased to see that our margin is continuing to develop positively. We landed at 8.7 percent versus 7 percent last year. Of course, very happy to see as well the leverage is down to 2.7, starting to get close to our target of around 2.5. If we look more specifically at the numbers, sales ended up at about 5.3 billion krona, 40 percent down total growth, and 30 percent down organically, EBITA positive 465 million or 8 percent up versus last year.

Juan Vargues: As I mentioned before, 8.87 percent EBITA margin versus 7 percent last year. EPS came in at 16 ADEN and adjusted EPS came in at 67 ADEN. Operating cash flow continues to be strong and is up close to 500 million. Stefan will get closer later. Leverage as mentioned previously is 2.7. Looking at the whole year in 2023, net sales are close to 27.8 billion or, sorry, 7 percent down totally, or 12 percent down organically. EBITA ended up at close to 3.5 billion or 12 percent down, while EBITDA margin ended up at 12.5 percent versus 13.2. EPS for the year at 4 Krona and 17 ADEN and adjusted EPS at 5 Krona 93 ADEN with an all-time high cash flow of 5.2 billion and leverage ending up at 2.7.

Juan Vargues: If we look at the sales growth for Q4 '23, I believe it is worth spending two seconds just looking at what happened with the post-pandemic effect starting in Q2 2022. As you can see, we have seen seven consecutive quarters of negative organic growth. Started the RV OEM in Americas coming very, very low and servicing off the market. Now during the last two quarters we have seen the variation in Marine, but also the readjustment of inventories in distribution. Looking at organic growth, Americas is coming down 16 percent, EMEA is down 9 percent, APAC positive plus 1 percent, Marine -12, and Global -22. Looking at different application areas, not major changes. We could comment, obviously, that our climate is increasing a little bit due to the launch of the new generation and wear conditioners globally.

Juan Vargues: On the food and beverage, it's very much driven by the decrease in the RV OEM as well as Igloo coming down in the last couple of quarters. Looking at the different sales channels, we see that the OEM side came down to 43 percent compared to 44 percent in the previous year. In time, as a result, the market increased one percentage point to 20 percent versus 27. Worth mentioning as well that the RV OEM side or the total OEM continues to come down as we see a decline, especially in North America so far, while both CPV and Marine increased in 2023 versus 2022. Moving into one of the areas that is very, very important to us is the aftermarket. The positive in this case is that you can see that we are getting close to the same levels that we were in 2019. You see as well that the seasonal pattern has changed. We have seen the last two quarters coming very, very close to the same seasonal pattern that we had in 2019.

Juan Vargues: We also can see again that the inventory levels are starting to fade out, and hopefully, we will see even further improvements in the coming months. Happy to see EBITA margins come in positive for the second quarter in a row. Of course, a consequence of the many different actions. On one side, we keep working obviously on price management. We continue to focus on cost reductions, but also the sales mix obviously has a positive impact on that, with service and aftermarket not dropping at the same pace as it has during the last few quarters. It is clear that we prioritize margin before volume. Extremely important, obviously, in terms of the low-margin areas that we have in the company. We see good margin improvements in EMEA, APAC, and Global. The decline is driven in reality in Marine and Americas due to the lower sales levels.

Juan Vargues: Looking at Americas' organic growth, 16 percent down, with service on the aftermarket still being negative, but showing improvements in comparison to what we have seen in the last quarters. We see that the industry is stabilizing as well. We should see obviously growth during the new year 2024. EBITA margin comes in at six percent negative, impacted on one side by the sales decline, but also showing a negative FX effect, which is quite substantial in such a weak quarter as Q4 is. We have a new head of Americas, Todd Seyfert, who joined on the 9th of January. It's clear the focus in Americas is just now on argin improvements and continued transformation journey versus lifestyle company. Looking at our main organization, organic growth is down 9 percent. Service and aftermarket is still low. Even there we see that the inventory levels are improving. Slightly negative RV OEM, while CPV OEM is still positive.

Juan Vargues: EBITA came much better than one year ago. We see the positive impacts clearly, of course, reductions. We continue to work on price management in a number of areas. At the same time, as the extra logistic costs that we incurred in the second half of last year are starting to become lighter, and we continue to do so. The same is valid with the factory move that we had from Germany to Hungary, where we see efficiency improvements now month by month. Of course, we are, as anybody else, having shipments from Asia impacted by the situation in the Red Sea. We are working on that. We will do anything, obviously, to mitigate or eliminate the negative effects of that crisis. APAC has too many positives considering the market situation still growing at one percent service.

Juan Vargues: Service and aftermarket are in single-digit negative, but even there, we see improvements in inventories. OEM is still driving nicely. With the margin very strong 26.2 percent and the same. We keep working on our cost reduction activities at the same time as we continue to manage pricing. Marine, 12 percent organic growth down. This is the second quarter where we see growth in service and aftermarket. That's positive and has a positive impact on our margins. At the same time, as we see, the OEM side continues to go down, and will continue to do so for a couple of quarters at least. EBITA margins are still very strong at 21.6. We have to consider here as well that this is a weak quarter even for marine. So that means that the fixed cost has an impact. We are happy to see that our margins are as resilient as they are. We continue. That's one of the areas where we continue to invest heavily in product innovation. We have a strong pipeline of products to be launched in 2024 and 2025.

Juan Vargues: Then finally, in terms of segments moving over to Global, 22 percent down in organic growth, very much driven by the situation with Igloo's customers rebalancing their inventories. At the same time, we see that the inventories at the end of the year are down quite a bit in comparison to the same situation at the end of Q3, where inventories were quite high in comparison to the same period the previous year. EBITA is very strong at 6.2 percent, despite the loss on the top line. We are very happy to see the progress that we are making with Igloo and the profitability of that business. Looking a little bit closer to Igloo. What is positive is that consumers are still buying the products. You can see on the upper chart the evolution during the last couple of months, but also during the whole year. You can see consumers keep buying cooling boxes.

Juan Vargues: At the same time, if you look at the entire situation during 2023, we keep taking market share. This is very, very clearly showing that it is not about the underlying market demand, but really the inventories that the channel built up during the last 12 months. What we see is starting to come down quite heavily. This is the final quarter of the year. Just looking a little bit at some of the strategic activities. We see again that the OEM side is down to 43 percent. Therefore, in distribution and service and aftermarket up to 57 percent. Eighteen percentage points down from the situation we had in 2018. Did you see e-commerce sales up 90 percent to 2023 even if we are showing a negative organic growth of 13 percent. Which we feel is very, very positive. It's clear that we are becoming a much more direct-to-consumer business. We are also happy to see, obviously, that all these changes that we have been doing during recent years are starting to lead to higher margins despite a negative impact on the top line.

Juan Vargues: From the product leadership perspective, inventories are coming down. We are starting to launch the products that we have been developing in the last couple of years but we have been very, very careful in launching because of the high inventory levels that we have ourselves. We continue to increase our investments in product innovation. We were up 11 percent in 2023. We have put a lot of emphasis on developing global platforms with geographical adaptation. We have multiplied by four the number of global platforms that we have today. In terms of cost reductions, down SKU 65 percent. The programs that we introduced in 2019 and 2022 have been completed during the quarter. If we look at manufacturing entities, we are down 29 percent in comparison to the situation we had in 2018.

Juan Vargues: Of course, we have a few more factories that came through acquisitions. We are down almost one-third. Looking at product launches, exciting product launches during the year, starting with the Marine, where we saw a fantastic development in the first half, and then obviously the market contraction during the second half. We launched a new global platform for air conditioners that is growing nicely. Igloo launched the first generation of active coolers with Dometic technology inside. We have so far seen a very, very positive evolution in our customer meetings. Then last but not least, last quarter, we also introduced the NRS refrigerator, a new platform for smaller refrigerators.

Juan Vargues: In terms of cost reductions and our restructuring programs, we deliver what we communicated previously. Finally, we booked 68 million in additional costs in the quarter, totally speaking, at 960 million, which is the million above what we communicated at the start when we communicated different programs. Totally speaking, some people have been impacted by these changes. We are running just now at a rate of 525 million Krona in savings. Of course, the volumes are lower, and we expect to be on the 600 million that we communicated once the volumes are turning back. Lots of progress from a sustainability perspective. We are better than we targeted in all the parameters. Injuries ended up at 1.9 versus a target of two. A little bit higher than one year ago. T

Juan Vargues: hat's still really to the much lower number of work hours in 2023 versus 2022. Female managers kicked in and ended up at 29 percent versus 24 percent one year ago. Major change. Even in CO2 reduction, a lot of progress. Really happy to see how we are equipping all our factories with solar panels. By that, reducing the negative impact on nature and on audits is better than the target. A lot of progress in all the different areas. With that said, I would like to hand it over to Stefan, please.

Stefan Fristedt: Thank you very much, Juan. Starting to look at the Q4 EBITA development. As you have read, we went from seven percent to data margin in Q4 last year to 8.7. This is very much driven by an improvement in the gross margin, going from 23.4 last year to 27 percent this year. Sales mix is an important contributor to this development, price management, and cost reductions. We are step by step enjoying lower raw material costs as we are turning over our inventories. Then we also have seen gradually declining negative effects from the logistic cost. As Juan mentioned before, the manufacturing efficiencies in EMEA are improving. Then in Q4, we had just a minor impact from the Red Sea situation. Looking at R&D and SG&A expenses, they are going up partly driven by the negative organic growth development, obviously, but we are also continuing to invest in structural growth areas. It's also partially offset by cost reductions that we have been running.

Stefan Fristedt: FX has had a very limited effect on the margin. Not even worthwhile mentioning. Moving over to our cash flow for the period, 488 million, which is lower than the same period last year. As we have communicated previously, it was a very, very good quarter last year. Still taking the development of net sales into consideration, I feel that we have seen a robust performance on operating cash flow. Then we also have had a temporary increase in fixed assets, which I'm going to come back to in a couple of slides. Income tax paid almost on the same level as last year. We have a full-year penal tax rate of 29 percent, which we communicated already in the last quarter here.

Stefan Fristedt: Then they're very happy with the full-year cash flow development and 5.2 billion in operating cash flow. You also need to take into consideration that we did pay uh, €300 million back in a bond in September. Looking at operating cash flow over time, as I said, 488 million is equivalent to 69 percent cash conversion. We had a cash conversion in Q4 last year of 166. If we look at the previous quarters there, the quarter in 2023 is more in line with what we have seen. Moving over to the different working capital components, first of all, comment on total working capital. On an LPM basis, we are on 31 percent of net sales. I would like to draw your attention to the fact that if we look at the quarter isolated, we are down to 25 percent. We are moving this in the direction of the 20 percent, as we say, as the first target to aim for.

Stefan Fristedt: Inventory has been coming down from 9.3 billion to 7.3 billion, almost 2 billion. That has been a sequential decline since Q3 in 2022. We obviously also see that the number of days is starting to turn down. We have continuous actions and plans on how to optimize working capital towards the target of 20 percent, which we will continue to drive into 2024. Looking at CapEx and research and development CapEx ended at 5.1 percent in the quarter, which is higher than the previous year. As I mentioned before, we took a decision to execute an option for a building related to mobile cooling in Texas. That is amounting to 140 million Swedish Krona. The full-year CapEx is 2.1 percent in relation to net sales, which is slightly up versus last year, but in line with what we have communicated.

Stefan Fristedt: Looking at R&D, 2.8 percent in relation to net sales, which is a bit up from Q4 last year. We are continuing to make investments in structural growth areas like Meridian Mobile Cooling and Mobile Power Solutions. The full year ended on 2.3

percent of net sales, which is also up a little bit versus last year. Moving over to net debt to EBITDA leverage, it ended up with 2.7, which is nice, but we are continuing to move. This was driven by an improvement in EBITDA. Also, we had some support from the currency development. I would still say that the total currency impact for the full year is still negative on this KPI. It's still important to keep that in mind. We are, as we have communicated clearly before, committed to driving towards our target of around 2.5.

Stefan Fristedt: Looking at our debt maturity, as I mentioned before, we did repay €300 million in September in 2023. The average maturity is 2.5 years. If we are including the one plus one option, we have 2.8 years of maturity. We don't have any maturities in 2024. Then we have that undrawn revolving credit facility of €200 million, which is formally maturing in 2026. Here we also have a one plus one extension option. With that one, I'm handing

Stefan Fristedt: it back to you to summarize.

Juan Vargues: Thank you, Stefan.

Stefan Fristedt: Oh, sorry. I almost forgot about that. The dividend proposal, as you have been writing, it's one Krona 90 compared to one Krona 30 last year. It's 46 percent of the 2023 net profit. This takes us to an average of 39 percent over the year 2016 to 2023, which is very close to our policy, which is at least 40 percent of that profit over a business cycle.

Juan Vargues: Thank you. Then I will try to summarize the year. For most consumer businesses, 2023 became another tough year where consumers were obviously very, very cautious with the money. We ended up at 12 percent negative organic growth. I'm happy to show how reliant the companies ended up with EBITDA margin of 12 percent versus 13.2. What is even more important is that we are starting to see improvements in the last six months and should continue to see those improvements moving forward as well. Operating cash flow at an all-time high of 5.2 billion. We are getting close now to our leverage target of around 2.5. In terms of the future, we see service and aftermarket recovering state-wise. We are starting to get very, very close to the levels we are coming from pre-pandemic.

Juan Vargues: In distribution, we have seen two pretty tough quarters. We believe that the inventory levels now are low and that we should see gradual improvements I would say in the coming couple of quarters. Then on the OEM side, we continue to see weak demand, a little bit of change in shape from the RV OEM Americas to Europe and Marine. Then strategically, we continue to walk the talk and implement our strategy as we have been doing since 2018. We have very, very clear financial targets and we will continue to move on to prioritize margin before volume. That takes me to the next step. If we look historically at the situation in 2018, when I joined the company and we communicated strategy, we came from three different regions. That's what the organization looks like.

Juan Vargues: In those three different regions, we were in charge of all the products, all the channels, and all the markets. Since then, we have more than doubled the size of the company. We have added a number of different industries. As a company, we need to evolve with those changes. We can see how the Marine business developed as soon as we started to put even more emphasis on that. We have seen how Global has been growing as well. For us, we believe in specialization. We believe that focus pays off. That takes us to the next step. After the Igloo acquisition, we see that we have a lot of synergies between the Dometic brand and the Igloo brand from a cooling box perspective. That leads to a situation where we are building those organizations together.

Juan Vargues: As we communicated last time, one common signal infrastructure is to differentiate teams. Since one is premium and the other is a better product. We also take in mobile power solutions. As you may remember, we completed six acquisitions of these companies in the last couple of years. We believe that this is the right time to put those businesses together under one global MPS or Mobile Power solutions organization that will become part of Global. We are moving Mobile Cooling from Global to become one single segment at the same time as we are renaming Global to Global Ventures, and moving all the Mobile Power Solution businesses into Global Ventures. What remains is really the three geographical organizations that will be in charge of land vehicles. Which means we are looking at the structure.

Juan Vargues: If you look at the chart from the left-hand side to the right-hand side, again, the historical regions will be renamed to land vehicles. Americas Land Vehicles, EMEA Land Vehicles. APAC, one question you could raise is why don't you put that together under one? The reality is that the product ranges are pretty different. Apart from Thor, we don't have any global customers. It doesn't make any sense at this point. Of course, that would be the ideal situation, but there is no balance in between. On the contrary, all the rest are substantial businesses with growth opportunities and high-margin businesses that we would like to develop even faster. That demands focus. We are working hard just now on the numbers. Of course, as soon as we are ready, we will communicate it to you. That's all from me. With that said, I would like to open for the Q&A session.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. Please mute your line when you have asked your question, and please limit yourself to only two questions. You can also write your question on the webcast page. The next question comes from Gustav Hageus from SEB. Please go ahead.

Gustav Hageus: Thanks for taking my questions. If I were to start with the OEM channel, you wrote in your CEO letter in the Q3 report that you foresaw stabilization in the US RV during Q4. We obviously saw RV shipments up in December, eight percent, if I recall. I didn't see it in this report. In contrast, you wrote that the OEM should be expected to be weak in the coming quarters. Could you just be a little bit granular? Do you still expect US RV to stabilize or is that a comment on EMEA? That'd be helpful. Thanks.

Stefan Fristedt: No, obviously when we were talking on the earlier report was all together. We expect it clearly and stabilization on the RV OEM Americas. As you know, the American Association is expecting to have a growth of 15 to 20 percent in 2024 versus 2023. We have seen over the last two months become positive in North America, at the same time as we see the European businesses and the businesses in Australia are starting to show weaknesses, which is very much according to expectations. Again, mixed Bag. Americas is coming back, at the same time as EMEA and APAC which has been positive until now is starting to move into negative territory. Then we have Marine. Marine has been now negative for two quarters. We are expecting to see negative marine for a couple of quarters, and then we are expecting to see an improvement versus the second half. That was the OEM. CPV feels positive. That is also perhaps worth mentioning.

Gustav Hageus: The follow-up on that, the growth numbers you referenced there in the US, 15, 20 percent, perhaps given that you have reduced SKUs and given that there are some discussions in the states of lowering content per vehicle to make RVs more affordable, perhaps, is that a relevant number for you do you think volume-wise, 15 to 20 percent?

Stefan Fristedt: No, it is not. First of all, you have a slightly different situation in the US today in comparison with some years ago. During the pandemic, you had a situation with a number of Chinese importers taking standard refrigerators. They had been kicking in. Of course, we want to increase our margins in the US. Refrigeration is one of the areas that is driving very little service. We are selective. We will be more selective. If the market grows 15 to 20 percent, you shouldn't expect automatic is going to grow on the other side in North America by 15 to 20 percent.

Gustav Hageus: That's great. Lastly, into 2024, from what you can see now with all the parameters on the external costs, Red Sea, other freight, and raw materials, and whatnot, do you have any sense of if things stabilize at this level, if you're still going to have a tailwind from external costs supporting your margins for 2024.

Stefan Fristedt: We expect it to be seen. It's clear that we have a situation in the Red Sea, but as we discussed, you have two different impacts. One is obviously on lead times and that might have an impact in Q1, in terms of revenues in the first quarter.

Then you obviously have extra charges. Every single company just now is implementing surcharges. Of course, our intention is not to be sitting in the middle wing. Our intention is clearly to pass that to the markets. At the same time, we see that raw material prices are down versus the situation one year ago. We have been sitting on inventories. As the inventories are coming down, we are starting to invoice material that we purchased at a lower cost. Then we have all the efficiency activities that we have been running during recent years. Just to give you some kind of flavor, our number of FTEs is down 22 percent versus December 2021. We have been doing a lot of activities to become more efficient and to become more resilient.

Gustav Hageus: Thank you. Thanks for taking this question.

Stefan Fristedt: No problem.

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

Agnieszka Villella: Perfect. Thank you. Just coming back to Americas, I just wanted to know if you could reflect on your performance in Americas in 2023. You mentioned the portfolio optimization that it was a burgeoning growth. If you could quantify that. I'm also looking forward, what's your strategy? What kind of headwind from further reduction in SKUs or products or where you are in the US, could we expect in 2024?

Stefan Fristedt: We are talking about products. In Americas, I don't think it's just not about SKUs or reducing the number of SKUs in that way. The reduction of SKUs moving forward is much more in reality by implementing global platforms, as we are doing with air conditioning, as we have been doing with some of the other products. I think in Americas, it's just clear that after two years of market contraction, we have overcapacity. We have been adapting very, very well in terms of FTEs. We still have factories. We still have fixed costs. That's kind of the next step where we are looking at how we reduce that. At the same time, even in Americas, we have extra warehouses that are costing extra, simply because we have loaded for a good 2022 that didn't happen. This is the kind of course that we can still take down during the coming months as the market is coming back. I don't think is about reducing, as we did, SKUs by 130 percent just by cutting the tail. Just now is much more about global platforms as we have been working on.

Agnieszka Villella: Maybe follow up on that, because when I look at your kind of organic index that I create and say, if we started 2019 and if we are at 100, then I arrive at 60 percent of that in 2023. Then I imagine that there is some price inflation on that. Some volumes obviously probably were cut by half between 2019 and now. Markets were in supportive, yes, but they didn't come down as much. The question really is how much of this volume decline was due to your own strategy to exit some verticals and also how much of that is left, so to speak?

Stefan Fristedt: I believe that we have consciously been selective about the products. As we communicated earlier, there are products that will bring service business down the road and record revenues for 15 years. There are other products that are not. It's difficult to quantify. I would need to get back to you, but it is undoubtedly that we are working on that, especially in North America, considering obviously that is in the North American market, where we have the lowest gross margins that we have always had, the lowest gross margins.

Agnieszka Villella: Perfect. Then my second question is on the Marine business, if you could help us with kind of ins and outs for 2024, what kind of decline do you expect for the OEM business in 2024? What do you see in inventories, what they're doing there? Also, what do you expect from the aftermarket?

Stefan Fristedt: If we start with the lead from Brock Carriers, about 25 to 30 percent of what we are doing in our business and marine business is major yachts. They are sitting on backlogs normally for 2 to 3 years. I can tell you that I was visiting one of our main customers in Australia some months ago, and they had a backlog that was up to 2030. If you order one boat just now, you will get your boat in 2030. Then you can imagine that we are talking about a totally different animal. That's about 30 percent of our business. Then we have 70 percent, which is very much related to the American market. That's very much about the steering systems. That's also air conditioning for small boats. What we see there is that clearly, we have two quarters now in a row, coming down quite heavily at the same levels as we saw in 2019. I personally believe that from an OEM perspective, it's not going to become much worse than that.

Stefan Fristedt: Then the question is, when is it going to turn? If you look at the cycles and think about what happened to the RV and what we saw in the marine industry also in 2018 and 2019, I believe that we have two quarters that will be more or less on the same levels at the same time as we are expecting also improvements there on the second half. On the surface of the market, it's the other way around. Marine servicing aftermarket started to point South or became negative already in Q3 2021. We have seen now two quarters being positive, which is the typical situation, the historical situation when OEMs go down, service and aftermarket go up. As you know, service and aftermarket have been pretty negative for us, which has never happened in the past in the last 18 months. A mixed bag, we expect obviously the OEM to continue to be negative, but we also expect the service and aftermarket to partially compensate for that.

Juan Vargues: Especially in the first half of 2024.

Stefan Fristedt: Then you have the margin difference. Obviously, we have strong margins on OEM marine. We have even stronger Marine AEM.

Agnieszka Villella: Perfect. That's very helpful. Thank you.

Stefan Fristedt: You're welcome.

Operator: The next question comes from Karri Rinta from Handelsbanken. Please go ahead.

Karri Rinta: Thanks for taking my questions. Then first follow up on the Marine OEM, can you give us a more specific ballpark on the OEM decline that you saw in the second half of last year in Q3 and Q4? And if there was a decline in Q3 and then a larger decline in Q4 or how did those two quarters happen?

Stefan Fristedt: The same decline in Q3 and in Q4, from an OEM perspective. Exactly the same.

Karri Rinta: Was it 15?

Stefan Fristedt: It was around, I can tell you the number, 20 percent down. Just keep in mind what we have communicated a couple of times. This is not the first time that we have seen a situation in marine. We saw the situation in '18 and '19. In '18 and '19, the worst quarter we had was -14 percent. We were a -60 percent in Q3. We were a -12 percent in this quarter.

Karri Rinta: Based on your sources, how do you see a sell-in versus a sell-out? How much of this do you think is due to retailers having to adjust their inventories? Is the sell-out to consumers noticeably better, same, or worse?

Stefan Fristedt: I think it's pretty much similar just now as the last couple of months. What is happening just now is obviously that we are close to the start of the season and then we will see what happens.

Karri Rinta: Sure. Then the second question is about this new segment structure. I think it's early days, but do you see some synergy potential from combining these few days of standalone or more or less standalone operations into combined entities?

Stefan Fristedt: Absolutely. This is nothing new. If you look at the Igloo acquisition, this was the plan from the beginning is simply that, first of all, you need to integrate Igloo to become part of Dometic. Then you can integrate the igloo side and the Dometic side. That's why it's so important. We see a common infrastructure and a common management team, but two different organizations. The synergies are crystal clear. If you go to YouTube and look for ICF, you will see the launch that we are doing just now of Igloo products, totally branded, totally new product range for active coolers under the Igloo brand that we are launching. That's a clear synergy after what we have been doing together for the last 24 months. The integration of companies like that is the same as when we did the system integration. You have two different steps. You have the first step, which is to integrate the new company into Dometic. The second is how you run it moving forward.

Stefan Fristedt: We did that with Marine. Keep in mind that we acquired Marine in December 2017. Then we communicated the new Global Marine in 2020. Now we are doing exactly the same with igloo. To me, the Marine is a growth platform. Mobile Cooling is a growth platform. Then just to fill in, what we are doing with mobile power solutions is a little bit of what you're saying. We acquired six companies around the world. They were companies turning 20 to €40 million dollars. Now, we are putting those companies under one single umbrella to start looking for synergies from a broader perspective. We have already been working on the branding perspective, so that allows us to move into product design and process.

Karri Rinta: Great. Thanks for taking my questions.

Stefan Fristedt: You're welcome.

Moderator: The next question comes from Jemma Permalloo from J.P. Morgan. Please go ahead.

Jemma Permalloo: Hi. Good morning. Thank you for the presentation. I just wanted to come back on the registration. You mentioned that you obviously had a minor impact in the fourth quarter. Are you able to quantify this at all? What should we be looking at? Is it a low double-digit impact on sales? Any rough indication will be helpful. I'm just wondering now that we are already in January, how are you thinking about or internally in your forecast about how much are you assuming that delivery charges or some of the surcharges will go up too? Then my second question is just guidance for 2024. You mentioned that you will be having some new products in the pipeline for Marine. Any guidance in terms of housekeeping or for modeling purposes will be super helpful. Thank you.

Juan Vargues: If we start with the Red Sea situation, I would say that a very limited impact in Q4. Keep in mind that the crisis started somewhere in November after the attacks at the beginning of October. I would say from a group perspective, it's not a massive effect. On the top line, we are going to have, as recommended, some lead time delays. Everything will depend obviously on what happens moving forward. What we are seeing just now is, again, a couple of weeks of additional lead times and extra surcharges. This is our first kind of estimation, but around 50 million Krona during the first quarter, I think it's quite realistic what we can see just now. Keep in mind that this is moving targets. Depending on the number of attacks, that could change as well. That's what we see just now in terms of surcharges. We are working, as we speak, implementing surcharges on our customers in the same way. Our customers obviously won't like it, in the same way as we don't like paying for those surcharges.

Juan Vargues: I think we are a little bit back to a similar situation that we were two years ago. It takes some weeks before we can implement all these surcharges, but once they are there, then we get compensated. Sorry, that was the first one and then we were talking about-- Were you referring to Marine specifically?

Jemma Permalloo: Yes. Thank you. Marine, and if possible, any guidance for the group as well, whether that's Revenue Directorate or [crosstalk 00:47:03-00:47:04].

Juan Vargues: As you know we are very very careful with guidance since this is moving all the time. Our expectation just now is that the first half will continue to be tough. A little bit mixed bag. Some of the segments in some of the product areas will be improving, some will be deteriorating. We see that it is going to continue to be tough while we are expecting improvements during the second half. Of course, what happens with interest rates will have a major impact. We have been suffering from a negative sentiment on the market now for two years. You remember what happened with share price just two months ago.

Stefan Fristedt: These comments were for OEM, and then we have the service and aftermarket that we are expecting gradually to continue to improve.

Juan Vargues: Distribution has been negative for us for half a year as well. Of course, if you look at service being negative, distribution being pretty negative for half of the year, and now we're expecting improvements moving forward, thus 53 percent of our revenues. Even if the OEM is tough still, we expect improvements on 53 percent of the business moving forward gradually. Improve the second half in comparison to the first half.

Jemma Permalloo: Thank you.

Juan Vargues: You're welcome.

Moderator: The next question comes from Henrik Christiansson from Carnegie. Please go ahead.

Henrik Christiansson: Hello. Good morning. Two questions. Let's start with the global divisions if you could give some more color there. Very strong a beat and a big step up compared to the previous Q4. Typical Q4, despite this very weak volume development. What happened there is a sustainable sticky. What does that mean for margins when volumes come back? Let's start with that.

Juan Vargues: What happened is, of course, that Igloo was much better from a margin perspective. It has been a little bit of the same situation during the whole year. It's clear that we are more selective and that we are working on the product mix. We are working on the geographical mix and we are working on a channel mix. We have seen the margin improvements the whole year. Then, of course, you have to consider, Henrick, that Q4 is a weak quarter. Any major deviation from the positive or the negative will be substantial. Not to forget the other businesses that we have in Global. The other businesses that we have in Global are improving profitability big time. I want to reemphasize big time because that's also what is leading us to take the next step in these specializations and different businesses. There is one reason. If you look at marine margins, since we created a global business, they have been increasing the margins big time. We did the same with Global. We see clear margin improvements and growth. Now it's time to take the next step.

Henrik Christiansson: Q4 will not be a loss quarter going forward but it's this type of level of profitability?

Juan Vargues: Henrik, we'll do anything to deliver as you know. Again, it's a great quarter. Any kind of deviation up or down will have a major impact in Q4. Especially Igloo. We know that Igloo is very, very, very slow. It's a very low quarter for them.

Stefan Fristedt: If we look at a longer term period, we are happy with the development of Igloo profitability. It's absolutely also in the longer term, moving in the right direction.

Henrik Christiansson: Good. The second question is on cash flow and working capital development into 2024. If you could provide some flavor there on what you're doing, progress expected on CapEx and R&D levels, and related to that leverage coming down 2.7 times, of course, much driven by FX in this quarter. Part of that has reversed in Q1 so far. At what point will you press the M&A button again?

Stefan Fristedt: If we start with the first part, as we had mentioned before, we still expect that there is going to be a working capital release in 2024. That is what we are having our plans to deliver. As you see, I mean, on an LTM basis, working capital is on 31 percent. If we look at the quarter isolated, we're down to 25. You know that we are driving for 20 percent in the first step. We are on the way, but we still have a way to work until we feel that we are moving into the area that we are satisfied with. From that point of view, that's what we are planning for. I will almost always need to remind everyone of the fact that Q1 is our weakest cashflow quarter of seasonal reasons. Obviously, that will be no different this year. We were slightly positive, 300 million on operating cash flow in Q1 last year.

Stefan Fristedt: That is where we have been hovering between zero and 300 million, I would say if we look back in history with the exception of 2022. Something in that neighborhood between zero and plus a couple of hundred million, I would say. If you also look from a historical development, leverage typically stays flat or goes up a little bit in the first quarter. Then we are more than catching up with that in Q2, Q3, and Q4. I expect us to see a similar pattern here during 2024. With that in mind, so it basically means that we're obviously expecting leverage to continue to come down. To answer your final question, then, as you know, M&A is a part of our strategy execution. We would like to get back to that situation again so that we can start executing. You should maybe not expect there to be another igloo or a Z store. We are mainly having the typical bolt-on opportunities in our pipeline. Slowly but surely but first things first, right?

Juan Vargues: I think what is important is to remember that just now, we are not the only ones, but everybody is just now sitting at the table and talking. We are on one side buyers and at the same time, we are sellers. We see the same from the sales side and we see it from the buying side. Everybody is dancing with everybody. Just now, there are differences on valuation. I guess the point I'm trying to make is that we are not losing any target that is interesting to us just now. We keep working but first things first, sorry, as Stefan mentioned.

Henrik Christiansson: Great. Just a quick follow-up there on the R&D and CapEx for this year. CapEx, you had this building that you opportunistically picked up rate to mobile cooling, but underlying, is there any pick up in CapEx or R&D going to 2024 or should we assume the typical rates?

Juan Vargues: I think you should assume the same ratios.

Henrik Christiansson: Perfect. Thank you.

Stefan Fristedt: You're welcome.

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

Juan Vargues: Thank you. Thank you, everybody, for your attention and your interest in Dometic. The market is nothing that we can do about it. On the contrary, we can do a lot of things to improve our efficiency and to get our strategy implemented. That's where our focus is. We are fully convinced that we will see continued cash flow improvements. We will see inventories coming down and we will see margin improvements. That means that we keep creating a better company. Thank you very much for your attention and goodbye.