Transcription

Dometic Q3 2023

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Juan Vargues: Hello. Good morning, everybody, and welcome to the presentation of this Q3 report. I suggest that without any delays, we move over to the highlights. Obviously, the market didn't help us in Q3 either. We still see challenging market conditions, and not just the market conditions as such but also a geopolitical situation affecting oil markets. Despite that, we reported an improved EBITDA margin and a very strong cash flow.

Juan Vargues: On the positive side, we see retail inventories coming down after a complete year of negative growth. Finally, we see improvements moving from -10 percent in Q2 to minus five percent in Q3. We also saw a decline in the OEM, driven primarily by Americas and the marine business. When looking at performance 12 percent down organically, with service and aftermarket minus five, which is an improvement in comparison to the minus 10 that we saw in Q2. Distribution went down by 13 percent, which we perceive to be a short-term decline in Igloo as a consequence of inventory adjustments in some of our customers.

Juan Vargues: Finally, the OEM business went down 16 percent, as I mentioned before, due to Americas and marine. Strong, EBITDA, ending up at 14.3 percent versus 14 percent last year. With improvements in three segments, EMIR, Global, and APAC, Americas was back to profit after a couple of quarters of negative profit. Marine, we are very happy, obviously, to see that marine margins held up very, very well despite the sales decline

Juan Vargues: Finally, we are extremely happy to see as well that cash flow came in as we expected, a very high level of 2.1 billion, which is the second major cash flow quarter in the history of the company, which supported the leverage to come down to 2.9 in comparison to the 3.2 that we got in Q2 this year. We move to the summary for the quarter. We ended up at 6.8 billion kroner, which is 2% down organically. EBITDA ended up at nine 973 million, or 14.3 percent in comparison to 14 percent last year. Strong operating income of 2.1 billion, leading to leverage of 2.9 in comparison to three times last year, and 3.2 in Q2.

Juan Vargues: EPS reached one kronor and 29 öre. Looking at YTD numbers, we ended up at 22.5 billion kroner, which is also a 12 percent organic drop versus last year with very close to 3 billion kroner or 13.4 percent in everyday margin. Very strong cash flow even for the whole year, 4.7 billion, and then an EPS of four kroner on one over. Looking at sales growth, we see clearly in the chart that the negative growth has started really with the RV industry in the Americas coming down, and we have seen a clear iteration now for a number of months.

Juan Vargues: Again, moving forward we will go back to but we see a mixed bag. Looking at the quarter Americas was down 18 percent, EMIR was down seven, APAC was down five, Marine was down 15 and Global was down 12. Looking at the net sales by application area, no major changes. In reality, it is power and control on the 12-month rolling number, and that's very much driven partly by mobile power solutions and partly by the Marine business. Has been doing very well until Q3. Looking at net sales by channel, the same, no major changes apart from the fact that distribution.

Juan Vargues: Until now, we're looking at the 12-month rolling number, which has been doing better than both the OEM channel and distribution channel. Also, perhaps as a reminder, the RV OEM that has obviously the most cyclical of all our verticals, today represents 22 percent of total sales in comparison to 49 percent in 2017. Moving over to a very important slide, for us, which is service and aftermarket. We clearly see that our retailers are destocking now or continue to destock. They have been doing that now for three quarters.

Juan Vargues: We see a gradual improvement ending up at minus five percent. As you can see on the lower chart, it has been a tough journey that we have never seen before. I would like to repeat that. You see that we hit the draft in Q4 last year, and since Q4 last year, we have been improving step by step. We will continue to see that improvement moving forward. One of the very, very positive results is obviously to see the EBITDA margins. Now, moving into better numbers than we had one year ago, driven very much by gross margins. Despite the fact that we had a negative impact in the quarter, we see three segments showing improvements, EMIR, APAC, and Global.

Juan Vargues: Americas is back to profitability after a couple of negative quarters. Marine showing what we consider to be very strong results despite lower net sales. Looking at the different segments, the Americas is down 18 percent with organic growth of 18 percent as well. We were back to positive growth in terms of the market and distribution, and we have seen a lower drop in the RV OEM industry. We got the numbers from the association yesterday, and the numbers are valid for the month of September, showing an iteration of 13 percent in comparison to last year's end-of-quarter, -20 percent.

Juan Vargues: We have to remember that we are coming from -49 percent in the first half of this year, and -47 percent in the second half of last year. Again, the comps are becoming easier and we should expect that to continue moving forward with positive results and then leaving an EBITDA margin of two point eight versus five point eight last year. Clearly, we are still impacted by the decline in the business, but we see on one side a better service mix with service and distribution starting to grow where we have higher margins.

Juan Vargues: At the same time, we keep working on cost reductions and holding our prices, and going to see that acquisitions in the mobile power solution area are still performing very well. Moving to Europe, sales are up one percent, but organic growth is down 7 percent. We still see pretty low numbers assumption of the market and distribution. At the same time, we see that the situation in the value chain is improving, meaning that retailers continue to restock. At the same time, today we still see very nice growth in the channel.

Juan Vargues: Clear improvements every day, landing at 11.7 percent versus eight point six last year with a little bit of the same factors that we have seen in all the other segments, meaning we keep working on reductions, and we hold our prices. At the same time, we see that some of the inefficiencies that we have been suffering from are starting to be less, which means that our gross margins are starting to come up. Statistically, an extremely important move from our factory in Germany to Bahrain has been very successful.

Juan Vargues: Now, we start seeing efficiency gains month by month. Looking at APAC, five percent down organically, very much driven by distribution. We also have a decline in service and aftermarket at the same time as OEM is still growing in the segment. Very strong EBITDA despite the negative growth ending up 27.1 percent versus 26.6, and a little bit the same. We keep working on our cost-improving efficiency, at the same time, we hold our pricing.

Juan Vargues: I'm also happy to report that we have launched the first series of Igloo products in APAC, and the results are very positive so far. Marine is 15 percent down in the quarter, showing service and aftermarket as the stable position, while at the same time, we see that the lower retail numbers that we have seen for a number of quarters started to have a clear effect on production numbers as well. We see a decline in the power and control area, meaning the steering systems are primarily in the US. At the same time, we also see that we are growing on the bigger yachts, which is primarily a European product.

Juan Vargues: Looking at the EBITDA, a very strong 23.8, despite a 15 percent decrease in organic sales. Again, once we have a positive mix, meaning that we have stability on service and aftermarket at the same time, is coming down. We have also shown to be very, very fast in taking down our costs, and at the same time, we still see higher margins and higher sales coming from the technology shift, meaning more electronic systems in comparison to mechanical systems.

Juan Vargues: Finally, looking at Global, a 12 percent organic drop. In this case, we saw a drop in the Igloo business due to a couple of retailers in the US rebalancing their own inventories. At the same time, we have to remember that Q3 last year was showing a growth of 70 percent. We have difficult comps in this case, while the rest of the distribution is showing stability. EBITDA has a very nice improvement ending up at 13.3 versus 11 percent last year with margin improvements in other Global verticals, and Igloo at the same level as last year despite the volume drop.

Juan Vargues: Even in this case, we are just now introducing the new pros for the season 2024 to our retailers. The first impressions are very, very positive. If we move over from the segments to cost reductions, as you all know, we have been running two manufacturing footprint programs and that should lead to total savings of 600 million kroner when they are finished. An estimated cost of approximately 1 billion. We took 25 million in the month leading the year today number to 74 million.

Juan Vargues: The run rate that we have in savings just now is on the 475 million level. As you know, we will continue to drive the savings in the quarters to come. Also, very happy to report improvements in sustainability with all parameters below the targets that we have for 2024. We have a minor pick-up on injuries, but it's very temporary in one market, so we will see improvements moving forward. Female managers are developing very positively in the same way as CO2 reduction and outage.

Juan Vargues: Moving over to the other side. We introduced a new platform for smaller refrigerators that will be present in all the verticals. What is new here is that we are really achieving major energy savings with that in comparison to all available products on the market. The other very positive result is that we have been working on modularity and bringing common platform similarities across the different regions, and this is leading to a reduction or a complexity reduction for this product range of 63 percent in comparison to previous products.

Juan Vargues: During the quarter, we also launched a new patented air exchanger with a heat recovery system for the RV industry, which is offering savings of up to 20 percent of the energy consumed in an RV and also leading to improvements in the air quality. This product is meant to be the entry product for our AC range. The target in this case is that we're looking especially at the European market, but also at the rest. It is still not a standard function that you have air conditioners. We see this as a really a way of selling this product and then upgrading this product to air conditioners after a while. With that said, Stefan, could you please enlighten us?

Stefan Fristedt: Absolutely. Thank you, Juan. Taking a look at our Q3 EBITDA development bridge, it is positive. We are improving our gross margin with 3.3 percent units, driven by a number of different components, and the sales mix is one of them. Price management and cost reductions in relation to our MFP programs. We are also gradually enjoying lower raw material costs as we are turning over the inventory. We also see a gradually declining negative effect from the logistic cost and manufacturing inefficiencies in EMEA.

Stefan Fristedt: On the R&D and SG&A expense side, it's going up in relation to net sales to 15.5 percent, and we are continuing to make investments in structural growth areas. However, SG&A expenses are trending down in the quarter. We have a small negative year-on-year impact on FX transactions in the quarter, and there is no effect coming from acquisitions in the quarter. Highlighting some other items in the income statements, we have items affecting comparability, 33 million, and it's mainly related to the ongoing global restructuring program here.

Stefan Fristedt: The large number in Q3 last year has to do with the closure of the silicon factory. Looking at net financial expenses, 184 million on the interest cost, net of financial income is 198 million. It's up versus last year, which is to be expected. We then had a rather significant FX revaluation effect in the financial net last year of 160 million, which is almost nothing this year. From a tax rate point of view, we have 32 percent in the quarter, which is of course significantly up versus the same quarter last year. The two drivers for that are that we are seeing some limitations of interest cost deductibility.

Stefan Fristedt: We are also seeing a change in the country mix, where we are earning our money, basically. The year-to-date tax rate of 29 percent should be reflective of the estimation of the full-year tax rate. Moving over to cash flow. It's really positive to be able to report another record quarter in terms of operating cash flow of 2.1 billion, significantly up versus last year. It's driven by the reduction of working capital in the quarter. Acquisition-related cash flow effects, 107 million. That is according to plan, and we have another 200 million to come in 2024, in the first half of 2024, not taking any consideration of Igloo.

Stefan Fristedt: Net cash from financing. As we have said all along, we did repay our 300 million euro bond using cash at hand in September. We have then paid and received interest of 288 million in the quarter. Here you see a time series of the development of our operating cash flow. You can see that we have been posting to record quarters here in Q2 and Q3, and we achieved 176 percent cash conversion in Q3, which is very, very positive, even if it was according to our expectations.

Stefan Fristedt: Looking into the working capital, the development of accounts payables and accounts receivable is either slightly improving or stable. Everything is about inventories. Total working capital is 32 percent of net sales related to inventories, but we also actually have a 12 percent organic decline in year-to-date net sales. Inventory is down by 2.3 billion, and we have seen a continuous sequential decline since Q3 last year. The number of days is now also turning down. We are going to continue to work relentlessly to continue to optimize working capital going forward. The long-term target is to take it down to around 20 percent of net sales.

Stefan Fristedt: Looking at CapEx and research and development spending, CapEx is staying pretty stable, around 100 million and one point six percent in relation to net sales. R&D is at two point three in relation to net sales in the quarter. It includes capitalized development expenses as before. We are continuing to make investments in instructor growth areas Marine mobile cooling and mobile power solutions. Taking a look at our net debt to EBITDA leverage, really happy to be able to report that we are coming down to two point nine or even two point eight eight, if we should be really down to the point.

Stefan Fristedt: It is driven by our strong cash flow, and we have adequate headroom for our covenants. As we have said all along, we are committed to achieving our leverage target, which is around two point five, and the different items driving that going forward. It's the development of EBITDA, its continued focus on reducing inventory, and it is CapEx, big and known here. It's the development of the Swedish kroner versus the dollar and the euro. Moving on to our debt portfolio and our debt maturity profile again, we repaid a 300 million euro bond in September.

Stefan Fristedt: It's important to underline that the euro bond market is going to remain an important, long-term funding source for us in combination with other bond markets. We have an average maturity of two point eight years. If we include the one plus one extension option that we have in our bank facilities, the average maturity is three years, and then we have an undrawn revolving credit facility of 200 million euros maturing in 2026, but also with a one plus one extension option. With that, Juan, I'm handing over to you for some final concluding comments.

Juan Vargues: Thank you, Stefan. We've summarized the quarter. Very happy to see improved margins and a very strong cash flow generation in the quarter. The future is still very difficult to predict, obviously. Especially in the short term, we still have high interest rates and we still have a geopolitical situation affecting most markets and most industries, but we expect certain of the market to continue to recover. We expect distribution to show some weakness for some water.

Juan Vargues: At the same time, we also expect margin improvements moving forward. On William's side, we expect a gradual weakening in a number of verticals, but at the same time, we also expect the Americas to stabilize at the end of the year. If we're listening to the industry, the industry is expecting 20 percent growth already, next year. I think that it's important to remember that it's really the RV Americas which is the most cyclical market, vertical of all the markets that we have. We'll continue to work hard to reach our leverage target, two-point-five.

Juan Vargues: Strategy-wise, we are very optimistic about the long-term terms in the Mobile Living industry. We have seen that the pandemic accelerated the trends, but the trends underlying are there. We have seen the company industry, despite the financial situation on the markets, that all camping grounds were fully booked during this past summer and the summer of 2022.

Juan Vargues: The trends are still there. We will continue to implement our strategy. Our strategy has been delivering results and we are fully committed to achieving our financial targets. Last but not least, we will continue to prioritize margins before volume in order to facilitate the achievement of the targets. With that said, I would like to move into a 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. The next question comes from Gustav Hagéus from SEB. Please go ahead.

Gustav Hagéus: Thank you, for taking my questions. Good morning guys. Have a few for me. Firstly, on the Marine side, you say 15 percent negative organic growth while service and aftermarket are stable, which if I recall correctly is close to 50 percent of that business normalized.

Gustav Hagéus: You also reference that the exposure to larger boats is quite okay, meaning that the smaller leisure boat segment on the OEM side must be down quite a lot. Firstly, could you try to give us some color on how much that part of the business is down and whether or not you think that we're starting to see the full effect of that downturn already in Q3. How do you see the near-term outlook for that specific part of the marine business?

Juan Vargues: First of all, I would like I would like to add one more piece of information. India, in the last 18 months, the service and aftermarket of Marine has not been 50 percent. Simply because we were negative on service and aftermarket at the same time as the OEM was growing like crazy. I would say that it is closer to 40 than to 50. That's the first question. If we talk about the mix, it is clear that 70 percent of the marine market globally, this is not domestic but globally, is the US. Retail in the US has been negative for a number of months now and is obviously moving into manufacturing.

Juan Vargues: We believe that what we have seen in Q3 is quite what we are going to see moving forward. I don't believe that we are going to see much worse than this. At the same time, we also expect the service and aftermarket to keep growing. Again, we have seen a stabilization. We're still not positive on this side of the market, but we are expecting to obviously see gradual improvements, which is logical at the same time. This is what happens in every single cycle. When the OEM goes down, normally the service and aftermarket go up.

Gustav Hagéus: Thank you. If I can answer that on the margin side, quite impressive to maintain 24 percent EBITA margins obviously, with a 15 percent decline organically. If you believe that this will not get worse, is this a margin that you feel comfortable being somewhat sustainable throughout this cycle?

Juan Vargues: Yes, we do.

Gustav Hagéus: Okay. That's very clear. Thanks. If I may skip to cash flow. Again, strong cash flow, as you point out, but with working capital sales of 32 percent rolling. It's still quite a lot of room then to your long-term target of 20 percent. Give us a little bit of granularity. Do you expect another step towards that target already next year? How big of a working capital improvement DC near-term? How long is the long-term target?

Stefan Fristedt: Yes. For 2024, we are still expecting there to be continuous releases of working capital, meaning inventory. Where are we on this journey? We are. We are not even halfway to being able to achieve what we believe is something that we could consider being okay. Will we achieve the 20 percent working capital next year? No, we will not. That is the long-term target and that is what we are setting our activities to deliver. It will definitely take longer than 2024.

Stefan Fristedt: The answer for 2024, we are expecting a continuous working capital release in 2024. For Q4, specifically, you have to consider our typical seasonal trend. Q4 is not our weakest cash flow quarter, but it is the second weakest or the third best. You need to keep that in mind. We had a pretty strong Q4 last year, so if you want to do some benchmarks, please keep that in mind. What you can add to all of this, the demand situation is going to be important here. Up there, I think that I have been clear on what we are aiming for in the short term, for next year, and long term.

Gustav Hagéus: That's great. Thanks. Staying on inventory you referenced that logistics-related costs in EMEA have come down but are still negative. I think that you have previously given us a number on those costs in the quarter. Could you give us an update on where we're at, at the moment?

Juan Vargues: We're still high, but we see improvements. That's what I can tell you. We added a number of warehouses during the last 15 months in order to obviously warehouse all the inventories that were coming from Asia. Just now, we are reducing them step by step. We will see improvements in the coming quarters as well.

Stefan Fristedt: But it is in the magnitude of 35 million SEK.

Gustav Hagéus: Thirty-five million?

Stefan Fristedt: Yes.

Gustav Hagéus: Okay. Thanks. That's helpful. Just a couple of more, if I may. First on capital allocation, as you are now edging closer to the two-point-five EBITDA gearing target. You also now mentioned a few things here, limitations to deduct interest costs in your tax. Obviously, the interest environment is a bit different than when those targets were set.

Gustav Hagéus: Can you please give us an overview of how you think about capital allocation in terms of your debt level and M&A opportunities? Also note that while CapEx at one point six percent isn't very high, maybe to other companies. R&D at two point three is up but it's still below some of your consumer peers, if you would like to call them that. Having a broader discussion would be very helpful. Thanks.

Stefan Fristedt: I think that in terms of capital allocation, we talk about CapEx in absolute terms. We are still spending more than what we have done in the past and also on R&D expenses, where we are also, in relation to net sales, on a trend where we are investing more. In terms of M&A, we are still maintaining and working with our pipeline. It is an important part of our strategy. As we have said earlier in previous quarters, we are committed to taking the leverage towards the target of around two point five.

Stefan Fristedt: I think that we have shown in the quarter that we have taken a meaningful step. I am expecting that we are going to continue with that until we are at the point where we would like to be, and what we have communicated. Even if we haven't done any M&A, it doesn't mean that we are not working on that. We are maintaining our pipeline. It's also an environment where sellers and buyers will have a little bit of a challenge finding common ground interest valuation, and so on. The leverage target, I think we have been clear on that.

Rikard Tunedal: Okay, Gustaf.

Gustav Hagéus: Thank you so much, guys.

Juan Vargues: Thank you.

Operator: The next question comes from Fredrik Ivarsson from ABG Sundal Collier. Please go ahead.

Fredrik Ivarsson: Thank you so much. Good morning all. I just have one question about the distribution business. You guide for weakness, obviously, due to destocking. When do you expect the inventory levels in the trade to be more balanced? Also, what do you see in terms of end consumer demand? Retail sales in the US have been quite, quite strong throughout the whole year.

Juan Vargues: It's still there. That's why we are pretty convinced that this are temporary rebalancing of the inventories. We have seen that we're still taking share. We see that this is not valid for every single customer. A couple of the major customers are just now rebalancing. We are not expecting any collapse. We are not expecting any massive deterioration, but in the quarter it did have an impact. We obviously believe that we need to be cautious for a couple of quarters.

Fredrik Ivarsson: A couple of quarters. Okay, good. Thank you.

Juan Vargues: You're welcome.

Operator: The next question comes from Daniel Schmidt from Danske Bank. Please go ahead.

Daniel Schmidt: Good morning Juan and Stefan. Two questions from me. Moving on, maybe on the end market exposures. Juan, you mentioned that you had September data for, if I got it right, US RV shipments being down by 13 percent. We've been in this quite clear improvement when it comes to the second derivative in shipment growth.

Daniel Schmidt: Even though it's been highly negative, it's becoming less and less negative month by month. If you do the math, you come to the conclusion. If the full-year forecasts are correct, you should be maybe even in positive territory towards the very end of this year. Are you hearing anything different compared to what I just said? Is that still making sense?

Juan Vargues: No, those are still the forecasts in the industry. That's correct. The latest point reference point that we have for next year, according to the association, is a growth of 20 percent. We then need to consider that the association is normally too optimistic. We are a little bit more cautious than that.

Daniel Schmidt: Just pairing that with what you did operationally in terms of profitability in the Americas. In Q3, you were back to profit despite the top line being down by 18 percent. Just looking at the trend in RV, which is the very dominant exposure that you have in that particular business area. Is there anything in Q3 that has made the profitability abnormally strong in that particular quarter, given the weakness in the top line? Is that a good proxy or a starting point to what we should have as a benchmark, looking into the coming quarters if we do believe that RV is now going to improve?

Juan Vargues: Daniel, what is important to remember is that we have a huge margin difference between service and aftermarket and OEM, and we saw positive service and aftermarket growth in the quarter. As far as we see the service and aftermarket recovering as we saw in Q3, we are going to see those kinds of improvements. At the same time, we have to consider that Q4 is the lowest quarter every year. You cannot just take Q3 and extrapolate it to Q4, that's not going to happen.

Stefan Fristedt: The seasonality as well has to be considered.

Daniel Schmidt: Yes, absolutely. Okay. Cool.

Juan Vargues: This is really totally in parity with what we have been communicating for years. We have much higher margins on the service side than we have on William's side. Just now, we have a positive balance.

Daniel Schmidt: Good. Maybe the second question is on the same topic when it comes to the European market, which if I got you right, you continue to see growth in the third quarter. Listening to some of the OEMs, they remain surprisingly optimistic. What is your judgment of the European market looking into 24? What do you believe?

Juan Vargues: I do believe that we are going to get hit sooner or later. I see registration numbers coming down. They are negative after nine months. We had negative registration numbers in 2022, and I do believe that we should not be naive. The question is, is it going to happen in January or is going to happen in April, or is going to happen in August? but it is going to happen.

Juan Vargues: At the same time, I would like us to remember that we have never historically seen any drops like we see in the US. It's much slower and much less than the Americas. The Americas is always brutal at the same time as it comes back pretty fast in comparison to Europe. This is important, in how we believe that we are going to see iteration moving forward, but it's impossible to say when. I believe that we are a little bit more cautious than our customers. Normally, we have been pretty right on that.

Daniel Schmidt: Yes, that makes sense. Here and now, it does sound like the OEMs continue to ramp up production actually. I guess there is short-term support. We'll see what happens at the start of 24, simply.

Juan Vargues: Exactly.

Daniel Schmidt: Okay. That's all for me. Thank you.

Juan Vargues: Thank you, Daniel.

Stefan Fristedt: Thank you.

Operator: The next question comes from Douglas Lindahl from DNB markets. Please go ahead.

Douglas Lindahl: Gentlemen, thanks for taking my questions. I want to start off with the Eagle lawsuit, which seems like you now have a court date, or is it some preliminary court date? I wanted to get your view on the latest with regards to this, and also how you're handling this on the balance sheet and how this impacts your thinking with regard to capital allocation. Is the court date now Q1, 2025? That's my first question.

Stefan Fristedt: I think that from our point of view, we have been very clear on what we think about it. We don't think it lacks any merit. We are still at that point. This is the process that you have in the US. We did expect that it was going to take time. Now, there is a date in the first quarter, 2025, and it doesn't really change a lot in real terms for us. We have been clear on what we think about it. We still have an amount on our balance sheet, but I don't want to talk about it. I don't think it is beneficial for anyone to talk about it. That is what it is.

Douglas Lindahl: It's continually in current liabilities, or?

Stefan Fristedt: Current. Yes, it is.

Douglas Lindahl: Okay. Even though the court date is set beyond 12 months. Just to understand the accounting of it. Okay. That's fine. I appreciate the answer. I understand where you stand. Maybe then, moving on to APAC where margins are continually very, very strong, it's obviously slightly tougher there as well. Similar to the question on Marine resilience going forward, how should we think about the resilience in the APAC margin here?

Juan Vargues: I think that we are very resilient. I think it's a little bit of the same. Looking at APAC, it is pretty much the distribution and service and aftermarket. We have higher margins than we have on the OEM. Historically we have been pretty resilient. At the same time...

Stefan Fristedt: The cost base is quite low.

Juan Vargues: At the same time, it's a little bit more of the same. We started to implement a strategy to get this company to become much more flexible than we used to be in the past, and that's what we see now. You see that in reality, it is very much about America. We had some issues in EMEA, one year ago. We're starting to see traction, and we're expecting to see traction moving forward. The market is where it is, but before that, we can do things internally to mitigate the negative effects.

Douglas Lindahl: I personally, am quite impressed by everything you're doing there to protect margins in the group. Congratulations on that. That's the final words from my side.

Stefan Fristedt: Thank you.

Douglas: Thank you very much.

Operator: The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason: Good morning, gentlemen. This is Johan, at Kepler Cheuvreux. I just have a few questions. In the Marine space, you talk about this technology shift going from hydraulic steering to electronic steering. This is probably in the smaller boat categories, obviously. Can you talk about sort of the value shift per boat, or so?

Johan Eliason: I think that your American peers are much more diligent in talking about value per unit, et cetera, that they are managing to get in. Can you give us some details here on what this shift means for you in terms of value per boat and how that could potentially offset the decline in the headline numbers on both? If today 10 percent is with electronic steering, it could be 50 percent next year or whatever.

Juan Vargues: We have seen a continuous shift from mechanical to hydraulic and from hydraulic to electronic. The price difference between hydraulic steering a mechanical steering is five times. The difference between electronic steering and hydraulic steering is five times, again. The difference between mechanical and electrical is about 25 times the price. Now, that you are moving from two percent in one quarter to 25 percent in the next quarter.

Juan Vargues: This is a small shift that is taken step by step. Mechanical steering is still close to 50 percent. You could say that over time there is another 50 percent to go. Again, it's not going to happen in one quarter, but we have seen this shift since we acquired Sister. It's a continuous shift. What is important to see as well, is that normally it takes many years to get these percentages up, but we see that the electric steering is moving much faster than we have historically seen, which is positive for us.

Johan Eliason: Sounds very good. If I got the numbers right, mechanical 50 percent, electronic two percent, and the Delta hydraulic 10 percent, I would guess.

Juan Vargues: I never said electric two percent, again. Today, electrical is a high single-digit.

Johan Eliason: Okay. Good.

Juan Vargues: That's a way to go, which is positive.

Johan Eliason: Yes. That's good. On the tax rate, you're now guiding for 29 percent year to date, and talk about these non-tax deductible interest rates. How should we think about tax rates going forward in the medium term 24 and 25? Is it this 29 percent as well?

Stefan Fristedt: You should think that we will gradually go back to the 27. It will not be 27 next year, but step by step because a part of this is temporary. We can have a debate about the interest rate, but obviously, it's about being on a certain level. As we are taking different kinds of measures, the interest rate environment is going to shift to something else. That is going to reduce over time. The country mix is also going to swing back to something that is more according to history. We should gradually move back towards 27 percent, but like you say, it's more than 25 that we are going to achieve that next year. It's still going to be higher than the history.

Johan Eliason: Okay. Normally, when earnings are at the low end, companies have difficulties in achieving a low tax rate because they are not allowed to recognize some tax assets. There's a question mark, if profits will ever return in that tax jurisdiction. I guess that that's partly also, for you, the situation. Do you think that going forward, the actual paid tax rate could be slightly lower than the reported tax rate because of this? As you return to profit, you might actually be able to recognize some of these tax assets.

Stefan Fristedt: Yes. That could very well be in this scenario.

Johan Eliason: Okay. That's all I had. Thank you very much.

Juan Vargues: Thank you.

Johan: Thank you.

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

Agnieszka Vilela: Good morning. I have three questions, and I will ask them one by one. The first one is on the Marine business. Obviously, you defended your margin in a very good manner in the quarter. I just want to know if you could be more specific, what did you do, maybe especially in your production structure? What did you do to keep the costs low in the Marine business? Do you think that you are well positioned for the weak markets that could continue for some time?

Juan Vargues: If I start answering by your last sentence, I believe that we have seen already quite a bit. We go to history, and what happened during 018-2019, Marine was pretty close to the numbers that we are seeing just now. I think that normally when the cycle hits, companies and OEMs are pretty brutal in reducing their orders dramatically. That's my first answer. The second answer is really that we are very much keeping our eyes on the ball.

Juan Vargues: We are ahead of the game. Whenever we see any trends pointing south, we are reducing our capacity. I think that that's what you see. Look at the number of teams that we have in the company today, we are practically 20 percent down in comparison to the number of teams that we were two years ago, and close to 11 percent down in comparison to the number of teams that we had one year ago. It's very much about acting fast, which is...

Juan Vargues: Agnieszka, according to a strategy that we introduced a few years ago. We wanted to become more agile, and more flexible, and especially reducing, mitigating the risk when you have a negative cycle. You can see just now with Marine, but you have seen that APAC is negative, and EMEA is negative. In reality, for us, just now is the Americas, which is the most exposed to the [inaudible 00:51:37 - 00:51:38].

Agnieszka Vilela: Yes. Perfect. Thank you. Maybe then a question to Stefan. On the cash flow generation, usually, Q4 is quite good for you. I don't know, maybe I interpreted your comments in the wrong way. Do you expect that cash flows will be reduced significantly versus Q3 and Q4? What will drive that? Is that the correct impression that I got, or not?

Stefan Fristedt: No, but there is nothing changing in that seasonal pattern. You should not expect the two point one billion in Q4 if I say so. What I also said is that we had an operating cash flow in Q4 last year that was on the strong side. As you say, Q1 is our weakest casual quarter, and Q4 is still okay.

Agnieszka Vilela: Maybe a follow-up on that, just on the working capital. Do you think that you can release working capital in Q4 or will you start building ahead of Q1?

Stefan Fristedt: It's a little bit of both. We will continue to reduce inventory in Q4, in some other areas due to the season. We are going to build inventory, so you should you should expect a little bit of a different pattern on that, in Q4, which is very normal.

Agnieszka Vilela: All right. The last one. We see some companies writing down the goodwill positions. You have quite a significant goodwill position in your balance sheet. If you could just comment on, what is the performance of the acquired businesses? When did you do the last goodwill test? Are you doing it only annually or are doing it more often than that?

Stefan Fristedt: Yes, we are continuously analyzing that. My only comment on that is that we don't see any need for writing down any goodwill.

Agnieszka Vilela: Thank you.

Juan Vargues: You're welcome.

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

Juan Vargues: Well, thank you very much for your attention, to all of you. I would just like to end by stating where I started. Very, very good margins. We are very happy to see the margin improvements versus last year, and we are expecting to see major improvements moving forward. Very strong cash flow, and we will keep delivering on our strategy since we believe that the strategy we are applying is going to develop a much better company than we had in the past. Thank you very much for your attention. Have a good day.

Stefan Fristedt: Thank you.