Transcription

Dometic Q1 2024

19 April 2024

Juan Vargues: Hello, good morning, everybody, and welcome this Friday morning to the presentation of the first quarterly report for 2024. Without any delays, let's move into the highlights for the quarter. If we start with the market conditions, we perceive the market still today to be under challenging conditions. We see as well that inventories are retail level, both in terms of section of the market on distribution are on the way down. However, at the same time, we also perceive that the order pattern, the purchasing pattern of our customers and our customers' customers are changing slightly. It is clear that high interest rate is leading to a situation where capital cost is also increasing and people are waiting until the very last minute to build up inventories for the season.

Juan Vargues: We see this as well in the OEM market, which is declining everywhere, with the exception of the EMEA region in reality. I'm talking about the EMEA region. It's the market and not our organization. However, at the same time, it is also clear that American volumes and the RV industry have been growing but we have to keep in mind that we are still coming from 313,000 at the end of last year, which is in parity with some 12-years levels. It's still a very low level. If we look at domestic now, moving from the market to domestic, we were down two percent organically with service and aftermarket down 10 percent. I would say that that's perhaps the major surprise for us internally. In terms of the report, it is clear that customers, as I mentioned earlier, are still cautious with their orders. At the same time, as you all know, Q1 is a very short quarter for us. January and February are always very slow, and then March is when the season in reality kicks in.

Juan Vargues: This March, unfortunately, we have two factors. On one side, we have Easter, which is coming a little bit early, but then we also have a very wet and rainy month of March, which again is when we have our revenues. That did have an impact and they had negative impacts. I would say that our own estimation somewhere is that you take the weather and the eastern effects and those numbers should be around five percentage points. If we look at distribution, it's down 13 percent, which is a major step in comparison to the minus 20 percent that we were showing in Q4. We already see a positive trend in mobile cooling. We commented that in connection to the last quarter, we saw inventories at retail coming down at the same time as sales from retail to the market were going up. We will continue to see that pattern.

Juan Vargues: I'm very happy to see the AVT margins continue to improve despite lower volumes for the company. It ended up at 11.8, so another 20 base points better than the situation in the same period last year. Then last but not least, we are also happy to show strong cash flow even though it is slightly lower than one year ago but we need to consider that 2023 was extremely high. Then leverage is the standing at level three which obviously is higher than what we were showing in Q4, but then you have even the two factors. On one side, you have effects being two-thirds of the difference, and then one-third is due to the seasonality pattern that we can see every single year.

Juan Vargues: Moving to the numbers, 10 percent down in total growth, 12 percent down organically, EBITA is down by nine percent. Still, an EBITA margin improvement of 20 basis points up to 11.8. Cash flow, operating cash flow. In about 212 million growing up and then leverage three, as I mentioned, and an EPs of 0.85 or 85 earlier in comparison to one growing up, and four. If we move over to sales, we can clearly see that this is the eighth quarter with negative growth. Still looking at Q4, it ended up at minus 13. This quarter ended up a minus 12. We expect to see improvements during the course of 2024. Looking at different segments. America is down 20 percent organically, EMEA is down seven, APAC is down five, and Marine is down by 13 percent. Mobile cooling, the new segment. The first time, we report a segment as 16 percent and then Global is down by four percent.

Juan Vargues: In terms of the sales channels, no major changes. The service and aftermarket channels went down by 10 percent. The distribution channel went down 13 percent and the OEM channel went down 13 percent, which means that we had a balanced drop in the different channels. What is perhaps worth mentioning is that the RV/OEM that represented 49 percent of sales in 2017 represents 22 percent of sales nowadays, even if it is higher, the higher level that we were showing in 2017. Let's have a look at the surface of the market, which I tend to believe is one of the major questions that we have for the quarter. We ended up at 10 percent, as I said, a very rainy March and early Easter had an impact on our numbers. Our estimated impact is about five percentage points. As I also commented before, we see a change in the Order button with our customers, which we have also seen in the distribution channel where companies or customers are pushing their purchases forward and waiting until the last minute and expecting a short time since everybody is sitting today on two high inventories.

Juan Vargues: At the same time, it is clear that inventories are coming down. We are expecting in the same way as we did in Q4 that we will see improvements moving forward. Also, perhaps worth mentioning when looking at the upper part of the chart is that you can see that the pandemic created a different pattern when customers were ordering much earlier than they were normally doing in the past. In 2024, we are hitting the same levels that we had in 2019, and what we are expecting is obviously that we will see the seasonal pattern come to normal levels during 2024. I'm happy to see that, as well, when looking at the evolution of our EBITA margins, that is the third quarter in a row where we see improvements versus the same period last year. We have three segments showing clear improvements: land vehicles EMEA, we see mobile cooling solutions also moving upwards as well as global ventures. We see as well that vehicles APAC is standing at a very high level as well as marine, despite a drop in top line. Then we have the situation in our vehicles Americas that I will come back in a couple of minutes.

Juan Vargues: Let's have a look at the different segments, starting with LV Americas. Organic growth is down by 20 percent and we see a decline in some of the markets. We also see very low volumes in the RV industry in a very highly competitive market just now, where everybody is fighting for volumes. We are taking a different approach in this case, as we have been discussing now for a number of quarters that we want to be more selective and really differentiate products where we are expecting to see service and aftermarket during the lifetime of the product and products where we see more of a transaction where we should be very careful in dropping prices and instead fighting for margins. Looking at EBITA, despite the fact that we are dropping 90 percent on the top line, we are ending up approximately at the same level as we had one year ago, which drives our EBITA margin to minus 11.5 percent.

Juan Vargues: We see, of course, that this is having an impact on our infrastructure. We still have infrastructure, and we are working to reduce our infrastructure in the Americas. We have, as you all know, a new management in place. It is as the head of the segment, but also developing the new subsegment organization in order to get even more accountability lower down in the organization. If we look at LV in the EMEA region down organically to seven percent. Even there we see a decline in the absorption of the market, and in distribution, we see still. It's an improvement in comparison to where we are coming from in the last four quarters. Again, inventories are definitely coming down. At the same time, the EMEA region is, in reality, the only segment where we see that the VM side is pretty stable so far, which is very much in accordance with what we have been hearing, obviously, from some of the OEM customers across the EMEA region.

Juan Vargues: I'm happy to see that EMEA is coming up after a few weeks in quarters. We see the impact of cost reductions. We see the impact of the restructuring program that we have been running in the last couple of years. At the same time, we are still obviously dropping topline, and that has a negative effect even in the EMEA region due to the size of the region or the complexity of the region. We have also implemented new subsegment structures to really increase accountability and get even closer to business. Moving into LV APAC. It is down by five percent with certain of the market, even in this case below last year. Distribution is starting to move outwards, which is positive to see. We see that the decline in OEM is primarily coming from the RV industry, where the RV industry in Australia is coming down quite rapidly.

Juan Vargues: Of course, the report is that we are keeping our margins despite a drop in top. It is like in all the other cases where we are working on a continuous basis on efficiency improvements at the same time as the mix also contributed positively when we see distribution starting to move upwards. Moving over to marine. It is down 30 percent organically with service and aftermarket that has been stabilized in the last couple of quarters at the same time as OEM. OEM production means our customers, we and customers, are pretty much down. For your information, both manufacturing is down about 30 percent, engine manufacturing is down about minus 30 percent and we are not close to those kinds of numbers.

Juan Vargues: Of course, when the market drops 30 percent is difficult to stay at the same levels as we were one year ago. I'm happy even here to see that our margins are holding up very well. They're ending up at 25.6 percent despite the fact of the lower sales. In this case, on top of all the efficiency improvements that we are doing to mitigate the drop in volume, we also have the technology shift, which is helping as well to keep our margins. I'm referring obviously to the move from mechanical steering systems to electric steering systems. Moving over to the new segment, mobile cooling solutions, or MCS, as we call it internally. It is down organically to 16 percent, which shows quite an improvement in comparison to minus 25 percent in Q4. That's exactly the level that we saw during the course of the entire second half of last year.

Juan Vargues: We see that the inventory levels are retail coming down. At this point, they are down to 20 percent in comparison to the same period last year. We see as well that sales from retail to consumers are up by seven percent. We also see that our market share is still growing. It has been showing improvements at 2.7 percentage points versus last year. EBITA margins are even here coming up to 7.7 versus seven. As you all know, Q1 is even from a distribution perspective, a very short quarter for us. In this case, we are driving sales initiatives. We are, as you know, introducing the new active cooling boxes on the American market. We are also introducing passive cooling boxes in the rest of the world, both on the Igloo brand and the Dometic brand. We are betting a lot on innovation.

Juan Vargues: Just as a sample of that, we communicated in connection to last quarter when we introduced the first active coolers on the Igloo brand with pneumatic technology inside. We are very happy to see that on one side, we are starting to sell in 600 new stores across America. I'm talking just now about Igloo coolers, and active coolers, which is great to see. We also see that sales are starting to happen, meaning sales from retail to the consumers, and are above expectations. We are very happy to see that. We are also happy to see obviously that in the next week, the magazine published a report a few weeks ago where Igloo is awarded position number eight among all the consumer goods brands. That is fantastic for a cooling brand. Of course, we are talking about being behind companies like Procter & Gamble, companies like Colgate. We are talking about major players in the consumer space.

Juan Vargues: We're moving over to Global Ventures. Even here, we see A drop of four percent. We see mobile power solutions being very stable. The drop is real. We see the hospitality business, which is also slightly positive, while we have residential in the US, which is still negative. I'm happy to report margin improvements. They are to extend coming from our mobile power solution business. I'm speaking about mobile power solutions. We are also very happy with the way the integration is taking place. On one side, obviously those businesses are competing within their own industry. However, at the same time, we see fantastic opportunities to create new synergies by really connecting mobile power solutions from Dometic with other Dometic mobile devices. In this case, it is the first 48-volt air conditioner connected to domestic power solutions. It means that you can basically spend the night in your RV off-grid and still have your air conditioning on during the whole night.

Juan Vargues: From a sustainability perspective, even there is a lot of progress with both injuries developing better than our targets. We see a share of managers by 29 percent even though they're higher than our targets. Also, they're showing a great improvement in comparison to one year ago. We see CO2 reductions. They can also make a step in comparison to our targets that were set in 2020. We see audits for new suppliers also well above targets. Last but not least, a new KPI that we introduced informally is the innovation index where we are happy to report one more step in our recovery innovation Index. As you all know, we have a target of 25 percent. We are coming from 14 percent in Q1 last year and ending up this quarter at 80 percent. We will continue to see improvements as now our inventories are coming down and we are introducing the new products that have been ready and waiting for low inventories to be introduced in the last quarters. With that said, Stefan could you please enlighten us?

Stefan Fristedt: Thank you, Juan. Starting off with our EBITA bridge, where we obviously have a drop in absolute EBITA with 78 million. Behind that is a number of things. First of all, of course, the negative organic growth of minus 12 percent is a clear reason. However, with that in mind, it's actually really nice to see that we still are able to improve our gross margin to 27.9 percent from 26.5 last year. Behind that is that we all have been implementing efficiency programs, including the closure of manufacturing in Siegen. We also gradually see declining negative effects from the extraordinary logistic costs. We also gradually, as we are consuming our inventory enjoying lower raw material costs. As you know, we have been actively working with our price management and we have not very significant impact of the red C6 situation in Q1.

Stefan Fristedt: Then we have R&D and SG&A expenses. They are, in absolute terms, down in constant currency with five percent in the quarter. However, in relation to net sales, they were going up to 16.2 from 15 percent of sales. We are continuing to invest in R&D in the structural growth areas that we see. Then that is partially offset by cost reductions in SG&A in the other stimulants. Then, FX in the quarter has a very limited impact. There is no effect of acquisitions. Moving on to cash flow. Operating cash flow of 212 million, compared to 294 last year, which I see as a solid performance taking the seasonally weak quarter into consideration. The income tax paid was a little bit lower than last year. On this point, I would like to highlight that the effective tax rate is 30 percent in the quarter and it is somewhat higher than what we have seen before. It's driven by the mix of countries where we are paying tax, basically. We are more successful in the higher tax jurisdictions there.

Stefan Fristedt: Then we also have the tax deductibility of interest costs that impact us to a certain extent. Acquisition and divestment impact on cash flow is 103 million in the quarter. It's related to one of our earlier acquisitions. We have left 50 million to be paid in Q3 this year related to acquisitions, and then we are done. We still have Igloo but you know our view on that. We don't think that we should pay anything additional. Financing is minus 993 million. We have paid back 1 billion of an EKN-backed loan here in Q1. Then we have been issuing commercial papers at the value of 299 million. Then their net of paid and received interest is 170 million, which is up compared to 114 last year.

Stefan Fristedt: On the next slide, you just see the development of operating cash flow from a historical perspective. As you can see, 212 million is a rather okay-ish operating cash flow to be the first quarter. If we go into working capital, we see a stable development in accounts payable and accounts receivable. On inventory, which we have reduced to 7.7 billion compared to nine billion one year ago, we see that the number of days of inventory is coming down to 145 days currently. We are obviously actively continuing to work on driving down inventory, and we will see more of that for the remainder of the year. As you know, our overall target of working capital is 20 percent, and we obviously have a gap to the 31 where we are at the moment. However, we should see that continuously coming down during the year.

Stefan Fristedt: Let's go into CapEx research and development. We had a rather low quarter on CapEx. It's mainly timing-related, but also that we are selective on where we are allocating resources. We are on two percent of an LTM level, which is a level that we have been communicating. It should be around. Looking into R&D, we spent 2.4 percent in the quarter. As I mentioned before, we are continuing to invest in structural growth areas like mobile cooling, mobile power solutions, and marine. In the last 12 months, we are on 2.3 percent. R&D is necessary. If we take a look at our net debt development, it ended up at 3.0 compared to 3.2 one year ago. That has been a movement upward from 2.7 in Q4. The main reason for that is the weakening Swedish krona, which contributes with 0.2.

Stefan Fristedt: Then we have the normal seasonality impact in Q1, which is contributing with 0.1. As you know, we are committed to achieving our leverage target of around 2.5 and it will trend down during the year and we will move into the target area during 2024. We then go to our debt maturity profile as of the end of March. There actually happened a number of different things. First of all, as I mentioned, we have repaid an ATM bank loan of one billion, so that is 50 percent of that facility. We have also refinanced the second part of our credit facility agreement with our bank group. As you know, we did the first part in Q1 last year, and on March 27th, we signed this agreement. That is relating to the US dollar term loan of 333 million maturing in 2025, which we now have extended with three years with one-plus-one-year extension options.

Stefan Fristedt: Then we will amortize 100 million of that term loan in July 2024. Then on the RCF side, we have increased that by €80 million. That is now a total of 280 million. As I mentioned, it was signed on the 27th of March. Then we have also issued 299 million in outstanding short-term commercial paper programs with four to six months to maturity. This refinancing activity will increase our average maturity to 2.6 years. With that one, I hand it back to you to summarize.

Juan Vargues: Thank you, Stefan. Looking at the business, the market is not a lot that we can do about it. It is what it is. Obviously, we have a massive impact post-pandemic in connection as well with interest rate increases and high inflation rates. What I feel proud of is the transformation of the company. Despite this fact, if you compare Q1 2024 with Q1 2022, basically, the top line is down 25 percent, which is less than many other companies in consumer businesses. You look at our profitability. As you can see, we are holding up in a very strong way compared to our peers in the industries where we are present. It is clear that in the last years, we have created a far more resilient company. That's something that we within the company feel very proud of. We have lots of people doing a fantastic job to create and develop a better company every day.

Juan Vargues: On the market, it's difficult. It is clear. Our expectations are largely in line with what we also communicated after Q4. We see that the service market will continue to recover during 2024. We see distribution will also be recovering, and hopefully, we will see this in the coming couple of quarters now. On the OEM side, it is already the same. We see that it's still tough, and we see that some areas will show improvements in the coming couple of quarters. Some areas, and now I'm referring specifically to the EMEA region. It will deteriorate sooner or later, but altogether, we expect the OEM to show some improvements by the end of the year. Strategically, it's more of the same. We have a strategy, and we are working on our strategy, so we will continue to work on the same base and the same direction.

Juan Vargues: We have implemented a new segment structure, as you are aware. We are also on top of increasing accountability in new levels of the organization by creating subsegments in our largest segments. It is clear that we have three segments improving margins. We have two segments, holding margins that are very, very high level. Then we have one segment that we simply need to fix which is the Americas. That's what we are working on. We are also very convinced that we will see the American market growing on active cooling, and that will become a great asset for Dometic in the future. Last but not least, we will continue to prioritize margin before volume. With that also, 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 ask questions on the webcast page. The next question comes from Gustav from SEB. Please go ahead.

Gustav Hageus: Thanks, Operator. Thanks for taking my questions with SEB. If I may start with the US then, which is a bit off-topic today, I guess. With the new structure, it's a bit hard to follow the development in the past now, but could you give us an indication of where you think you are on organic sales now versus the 2019 level? If you could add granularity and have a view on the volume versus 2019, I think that would be helpful. Connected to that, it would be great to get some color on the competitive dynamics in the US. I know that you had some competition on awnings during COVID, and then refrigerators from Asia seem to be a topic now. Some color on that would be great. Thanks.

Juan Vargues: I don't have the numbers on top of my mind just now on the volume in comparison to 2019. We can see that the market just now we are talking about OEM is starting to grow. They are up 50 percent in the first two months. We are still dropping. That's telling you, obviously, that we are on one side, very selective on pricing. At the same time, as you just said, with the low volumes that we saw in the markets, competitors are extremely aggressive on prices and we don't want to follow. That's a little bit all over in terms of products but you said very much right. If we look at refrigeration, we see a new competitive arena that, in reality, was created in connection with the pandemic where the traditional suppliers, companies like Norco or Automattic, and of course, did have difficulties to deliver when the market opened up and at the same time Chinese importers started to kick in.

Juan Vargues: It is clear that the competitive arena in the RV industry has changed in America. Again, I'm referring to AVA or the RV American business. We are talking about servicing up the market, of course, and the numbers that you see are a combination of all the channels. We are talking of the service as an aftermarket business is very much in line with the rest of the group. There I do believe that is much more related really to the inventory levels and the weather. Also during Q1, in the same way as we saw in Europe. Then we will need to come back to you on the comparison to 2019. I cannot answer on my own.

Juan Vargues: That's what we know.

Gustav Hageus: How related to the refrigerators from Asia, then? Could you remind us roughly what the share of your sales in America relates to this? Secondly, have you heard anything because there's been quite a lot of talks from both parties in the States now regarding tariffs and so forth? Could you elaborate a bit on sort of what scenarios you see in front of your own tariffs and whether or not that could change the dynamics for you in the market?

Juan Vargues: If we look at refrigeration for LVA, I believe that is around 10 percent of our revenues for LVA nowadays. We are coming from about 25 percent in 2018, 2019. At the same time, we also need to remember 2018 and 2019, we were growing like crazy since our main competitor at the time, NorCal, did have difficulties delivering. We were taking massive market share in 2018, and 2019. Then, of course, when they got the house in order, they started to recover the market share. Then we have the technology shift from absorption through to the compressor. Historically, the American market has been we are talking about technology absorption. The problem is, again, that in connection with the pandemic, a movement from absorption technology to compressor technology, where you have in-home appliances starting to take place since customers could not deliver to consumers. That transition accelerated in connection to the pandemic.

Gustav Hageus: Global tariffs. Do you have any there?

Juan Vargues: Not more than we have prepared ourselves. That's what we can see.

Stefan Fristedt: If tariffs would come through, as there have been speculations about, then, of course, it's going to be tougher. It's going to be tougher for enforcement.

Juan Vargues: No doubt.

Gustav Hageus: If I can squeeze in a final question before I get back into line, but the media then perhaps may be a bit surprising, positive trends in terms of registrations in Germany as you alluded. Do you think we're out of the woods now in the media or is this a blip? What's your view internally on the market?

Juan Vargues: No. I don't think that anybody knows, I have to say, because we have seen registration numbers coming down heavily during 2022 and then 2023. Having said that, the past couple of months, especially 2023, were positive. The first three months of 2024 are positive. We think the last six months' registrations in Europe is up three percent. At the same time, it's clear the manufacturers have been producing much more. Depending on when interest rates go down or not, that will have an impact on whether manufacturing is going to drop more or less. It is clear that in the last couple of years, we have exactly the same situation as we saw in America. You have much more manufacturing than registrators. I think the key question is going to be when do we see the interest rate decrease, and what is the level of inventories at that point?

Gustav Hageus: Okay. Thanks for taking those questions.

Juan Vargues: You are welcome.

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

Daniel Schmidt: Good morning, Juan and Stefan.

Juan Vargues: Morning.

Daniel Schmidt: Morning. I just have a couple of questions on the second topic for today: service and aftermarket. You already touched upon it quite a bit mentioning early Easter and rainy March and so on. You estimated that might have an impact of five percent in the quarter. Do you see those five percent coming back in Q2, referring to Easter especially?

Juan Vargues: I'm not sitting with a crystal ball, unfortunately but what I can tell you is that we can see until now, in April, it looks better.

Daniel Schmidt: Yes, okay. Good. We talked quite a bit about the Red Sea in the Q4 report and surcharges. I think Stefan mentioned just briefly in his statement. It sounded like you haven't been impacted, really, or could you shed some more light on that and the ability to pass on and so on?

Juan Vargues: No, but we had a negative impact of about €1 million in Q1. At the same time, we are also obviously compensated for the actual pricing. Our expectation is that we are going to cover up for any negative impacts.

Stefan Fristedt: That it is, of course, two weeks longer later.

Daniel Schmidt: Okay, good. Do you fear anything in terms of freight costs? They were coming up quite a bit and then down, but then up again now. Of course, it's nothing compared to a year and a half ago, but still quite a bit more than we saw before Christmas. Looking into the second half of this year, and so on is getting more difficult given the volatility that we have now at least.

Juan Vargues: No, not really. The problem that you have with freight prices, especially on ocean freight, is that you have contracts and you have normally annual contracts. The problem is obviously that when you have a small war here or there, then they apply what is called force majeure. Then you can forget the contracts. If you look at the contracts that we are negotiating just now, they are lower than the contracts that we had one year ago. I know there's more war. Then we don't know. Yes, now we see the contracts are at lower levels than one year ago.

Daniel Schmidt: Okay, good. Then maybe some smaller ones. I think everyone expected one-offs to be behind us, but is there going to be sort of smaller one-offs here and there in the coming quarters as well?

Stefan Fristedt: They're not of any significance, no.

Daniel Schmidt: Then maybe just one more on Igloo, any update you can give us in terms of the dispute? I think you mentioned two quarters ago that there was a court date set for Q1 25. Is that still the case?

Juan Vargues: Yes.

Daniel Schmidt: No changes to that timetable at all?

Juan Vargues: No changes, exactly the same schedule.

Daniel Schmidt: Okay. Maybe just the last one. In terms of improvements, May was quite meaningful. You mentioned Seagen and all that, is that still something that's going to look even better, or are you at the level that you want to be now in Hungary?

Juan Vargues: Oh no, it will keep improving. No doubt.

Daniel Schmidt: Okay, that's all for me, guys. Thank you.

Juan Vargues: Thank you.

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

Agnieszka Vilela: You mentioned the hesitance from some customers to build inventory as it costs more right now ahead of the selling season. Can you remind us what divisions this behavior affects most right now and what is your overall assessment of the channels?

Juan Vargues: Yes, it is really a service of the market and distribution. Those are the two sales channels. OEM is not affected by that. They're always running on very low inventories, so it's really the two other channels. If we are talking about the level, unfortunately, it's not easy to measure that. The American market is always much better than the European market. As I mentioned during the call that you look at retail inventories for coolers are down 20 percent today in comparison to the same period last year. We see as well that both, meaning that sell-through from retail to consumers is up seven percent. We are pretty convinced that not too long from now we are going to see improvements on the top line. We saw, by the way, an improvement in comparison to Q4. Then the inventory correction from retailers started in reality in June last year.

Agnieszka Vilela: All right, perfect. In the slides package you showed 2019's trend improving in Q2. Do you think that we will see this kind of improvement this year also?

Juan Vargues: Are you referring to Igloo or? [Crosstalk 00:43:05- 00:43:06]. This is an apartment. That's always the case, no doubt.

Stefan Fristedt: We're going into our most important quarter on service off to market. It is like you said that the ordering patterns have been building short before the pandemic, then getting longer. Now it is getting even shorter than it was before the pandemic.

Juan Vargues: That's absolutely right.

Agnieszka Vilela: I think what is important to remember when looking at a chart, and of course, that we are a little bit surprised as well as you are, is that we have seen a clear pattern in the last six quarters. It has been an improvement for the quarter. Then all of a sudden, you get into minus 10 percent. There is no logical reason, and is everywhere. If you had one segment, you could say, okay, something happened in that segment. Now, what you have in common is the weather. It doesn't matter if you look at the weather in the US, you look at the weather in Europe or you look at the weather in Australia. It has been extremely wet. That's the only thing that you find in common. All the markets are coming down. Our speculation is obviously that we will see improvements. As we commented, April has started well. Then, of course, we have another two and a half months to go.

Agnieszka Vilela: Great, thank you. On America, that's my second question. Can you remind us about the split that you have between OE and the aftermarket business? Also, could you tell us what growth this subsegment had in Q1?

Juan Vargues: If we look at LVA, historically has been 65 percent OEM, 35 percent AM or so of some of the market. If we look at just now without having the numbers on top of my mind, I would say that we are closer to 55, 45, 50-50 Since the OEM stILl is very low while off the market, even if it has dropped, it has not been dropping by far at the same pace as the OEM.

Agnieszka Vilela: The quotes are specifically of this minus 20 percent organic growth. How was it split in this segment?

Juan Vargues: It's more on the OEM side that there is an aftermarket.

Stefan Fristedt: Still a double-digit negative on service.

Juan Vargues: In the quarter. By the way, we have the number just now 50-50. It has gone from 65-35. It's not the market to 50-50 right now.

Agnieszka Vilela: Then, just the last one for me on Americas. You had a minus 12 percent EBITA margin in the quarter. It looks like it was the lowest point ever for the division. I understand and I appreciate the fact that the sales collapsed in the quarter. However, my question is, do you believe that you're doing enough in the region and also do you expect Americas to turn to profits during 2024?

Juan Vargues: We will do anything we can to return to profit. We are doing a lot of things, a lot of activities. We are doing what organizationally, I would say that LVA is probably the number one, number two, number three. Then LVMH is probably the number four, number five. I hope that I'm clear enough. It is clear that we are working extremely hard. We don't like the numbers that we are showing. We need to find a way to turn that business into profit again. If you look at our everyday margins and just struck Americas, you will see the effects.

Stefan Fristedt: As you mentioned as well, we have changed the head of LVA, but it's not only on that level, it's one step down as well where we are strengthening the organization. Of course, again, it's easy to have a look in America, looking for losses when we have been making money. However, keep in mind that the volumes are 50 percent down on the volumes we had two and a half years ago, so it's tough.

Agnieszka Vilela: Understand. Thanks so much, Juan.

Juan Vargues: You're also welcome.

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

Douglas Lindahl: Hi, gentlemen. A few questions from my side as well. Thanks for all the answers so far. It's been super helpful. I wanted to circle back to America a bit. Obviously, we've seen the market here grow, and you're not following that trend. Then you mentioned a very highly competitive environment and you saying no to certain orders. Given the dynamics and the growth trends we see, when would you expect your business to turn positive again organically? Maybe not exactly the same questions on here, but more on the top-line side.

Juan Vargues: I cannot tell you a day or date, but it is clear that we are making a number of changes in the organization. One side is we don't want to buy market share. I don't believe that that will benefit us in the long run to buy market share now when the market is still in very low volumes and you have lots of competitors dropping prices to keep volumes. We believe that that's the wrong medicine when the market is in such a shape. Our focus just now is internally looking at our structures, looking at our sales organization, looking at verticals. What can we do in other verticals? For me, LVA has to continue a transformation of the business that we have been driving domestically in the last five or six years. We will get back to growth. I cannot tell you a date, but we will get back to growth. That's no question. We will get back to profits.

Stefan Fristedt: We also need to keep in mind the extraordinary situation here which has never happened before where OEM and service in aftermarket has been dropping double digits at the same time. Normally you have a different pattern there where they are not going hand in hand.

Juan Vargues: We comment on the question. Just now, we have a share which is 50/50. If something that's off the market starts to grow, it will have a massive impact on our margins immediately.

Douglas Lindahl: Okay, I was thinking about the organic portion of things but I realize it's a difficult question.

Juan Vargues: I think it's going to be very much about how the market reacts as well. We have seen, during the first two months of this year, that shipments are up 50 percent. Of course, if that continues, we will see improvements in our numbers as well. You have a backlog in between so it's very difficult to say exactly when things are going to happen. Our job is just now.

Douglas Lindahl: You expected towards the later part of this year, mid or sort of how should we think or how are you.

Juan Vargues: Correct, second half.

Douglas Lindahl: Okay. Then maybe moving onwards, one area we didn't talk a lot about, but you did mention on the marine side that you're not dropping as much as both OEMs and the engine manufacturers. However, it'll just be interesting to hear more about your expectations here for the marine business in 2024, or maybe also possibly breaking that down in service and OEM as well.

Juan Vargues: I feel that the marine business has been very negative now for about one year. We are talking about the boating industry. We are expecting that the industry will start dropping far less in the second half. Thereby, we all suspect that our sales to OEMs are going to drop in less than we have seen in the last nine months. Keep in mind that for us, it didn't start yesterday. We have seen very low numbers during the last three quarters, even if our numbers are much better than the industry numbers. In terms of the surface of the market, we see instability. We have seen instability in the last two quarters, which means that it's still negative, but it's slightly negative. In the same way, as we expect on the rest of the surface of the market, we expect it to go back to grow during this year without any kind of doubts. We are a little bit more optimistic on the marine side, simply because the marine side started dropping earlier from a service and aftermarket perspective.

Stefan Fristedt: They were also the most stable ones in the first quarter.

Juan Vargues: Yes.

Douglas Lindahl: Thank you, Juan and Stefan.

Juan Vargues: You're welcome.

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

Fredrik: Thanks so much. Good morning, guys. I'm just tagging along to the aftermarket discussion here. Can you tell us what happened to the margin in the aftermarket given the soft top line?

Juan Vargues: It has been improving. It has been improving on one side due to the mix. When a section of the market in America is dropping more than section of the market in a batch, you have a positive effect on those numbers. Then you as well have the fact that logistic cost is coming down. Logistic costs impact off the market quite a bit so you have individual shipments very often. We see improvements due to that. Then, of course, we are still very keen on our pricing having selected pricing.

Fredrik: Are we always talking percentage points of improvements or basis points?

Juan Vargues: We are talking base points, high base points.

Fredrik: Okay, excellent.

Juan Vargues: We expect that to continue. Again, keep in mind that we're still at very low levels.

Fredrik: That's clear. Then I thought you mentioned improvement potential in terms of infrastructure in the Americas. Can you just give some color on where exactly you see the potential for improvements here?

Juan Vargues: No, but it is clear that is very much about what we expect in terms of growth from the industry in the coming couple of years. As I mentioned before, we are down just now to 2012 years levels. The question is, is it going to take a couple of years to go back to 450, 500,000 units, or is it going to take longer time? How many DCs do we have? Can we consolidate more? Should we be moving to more VPL so it becomes a variable cost instead of a fixed cost? A lot of activities are taking place obviously in order to take down our cost base. Then what I would like to add. Of course, it sounds strange, but keep in mind that we are dropping the top line by 20 percent. We are delivering the same Krona at neutral currency rates as we were doing one year ago when we were selling 20 percent more. A lot of activities are taking place even if the results are bad.

Fredrik: That's good. That's all my questions. Thanks a lot.

Juan Vargues: Welcome.

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

Johan Eliason: Hi, good morning. This is Johan KeplerCheuvreux. A few questions just on this active cooling box you're introducing in the US. Now, you applied the Igloo brand, but my understanding was sort of also that you would also push the Dometic brand business in the US at a different price point. Is that still ongoing?

Juan Vargues: Absolutely, it is ongoing. You will see Dometic branded products in more stores, in more retail chains during 2024, starting in Q2.

Johan Eliason: The profitability level of those for you vis a vis the similar products on the other brand is positive, I suppose.

Juan Vargues: Absolutely. Dometic has higher gross margins than people will have for similar technology simply because of the brand position.

Johan Eliason: Excellent. Then I have a question for Stefan. I'm just trying to understand your movements in the debt. When I looked at the Q4 presentation, you had a maturity profile for the USD part of 3.3 into 2025 and 2.6 in 2026. Now you say that the 2025 dollar-denominated loan has been pushed out to 2027, but in the chart, you show today, it's still a sort of 3.6 25 but very limited to 26 instead. How should I interpret these graphs?

Stefan Fristedt: What does that look like? Yes, exactly. We signed the agreement on March 27, and then it's effective from the 1st of July. There hasn't been anything yet on this, so, it will be effective from the 1st of July.

Johan Eliason: The total debt repayment profile after these contracts for 2025, how much will that be? [Crosstalk 00:57:40- 00:57:43].

Stefan Fristedt: We did repay a euro bond of 300 million last year. Then we have repaid one billion of an EKN-backed loan in Q1. Then we will repay another €100 million dollars in Q3.

Johan Eliason: After this coming into effect in Jul then, what is due to be repaid in 2025 of the 5.6 billion you have in the chart today?

Stefan Fristedt: Exactly. What we have remaining in maturities for 2025 is the second part of this eKN-backed loan which is one billion. Then we have one private placement of one billion as well. That is what is then remaining to refinance or pay back in 2025.

Johan Eliason: We're down to 2 billion in total.

Stefan Fristedt: Yes, exactly.

Johan Eliason: Excellent, and I understand it. Then, the interest cost was maybe a little bit above my expectations in the quarter here. How do you see this item developing for the remainder of the year?

Stefan Fristedt: Approximately 50 percent of our total debt portfolio is fixed and then the other is variable. We have an average of 5.2 percent or something like that right now on our debt portfolio. It's a little bit depending on how the underlying interest development is going to be. I think everyone agrees that it should come down. It's just a question of when it will come down. Over time, I expect that to decrease.

Johan Eliason: In the near term, we should assume the same for Q2 and Q3 unless we have a major development in the interest rates.

Juan Vargues: Correct.

Johan Eliason: Okay, thank you. That was all I had.

Stefan Fristedt: Thank you.

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

Karri Rinta: Yes, thanks. Good morning. Thanks for taking my questions. Just two for me. One, the tough competitive situation in the US RV business. You say that you don't want to buy market share, but there are probably players who do want to buy market share. Also, there are probably players who might want to buy market share by making acquisitions. How should we think about this increasing the likelihood that we might see some divestments in your RV business?

Juan Vargues: That's crystal clear. I think we have mentioned that a couple of times. We need to get LVA to a totally different margin profile. They have always been most exposed to the RV industry, especially to the RV industry. As we all know, that's what we have the lowest margins. Either we lift our margins through pricing cost efficiency improvements or we will consider divesting. No doubt about that. We are open and that's no secret. We have been talking about that since 2021.

Karri Rinta: Good. I don't know if the likelihood is increasing, but at least you have been working on this for longer.

Juan Vargues: Are you talking about LVA specifically or other parts?

Karri Rinta: No, LVA specifically.

Juan Vargues: LVA specifically. Not really. I mean, LVA has been very much about increasing efficiency, and it's something we have done. However, at the same time, obviously, when the market is 50 percent of the market that we had two years ago, then it's very tough to see that in our numbers. At the same time, we have been commenting that you have products that will lead to service and aftermarket revenues for 15 years on their approach so they are very transactional. Of course, we will look in the first place at that kind of products that are transactional and we are doing that as we speak. Then the question is, is it about divesting? Is it about increasing or repositioning the products so we have even more high margins? We are working on that. I can assure you.

Karri Rinta: Sure, thanks. Then the second question is that I'm maybe trying to summarize. You have been clear about RV OEM business and that's likely to weaken in 2024. Then if you look at the rest of your portfolio, do you think that you can safely say that the worst is behind you, i.e., that organic growth rates are not getting worse in any of the other sub-segments?

Juan Vargues: That's our feeling. The logic behind that is obviously that everybody overstocked in 2021 and the first quarter of 2022 in the expectation of a good season in 2022. Then we got interest rates kicking in a brutal way. Of course, those inventories are consumed step by step. It has taken longer time than we expected and I guess that you expect it as well when looking at other consumer businesses. Of course, the inventories are lower. At the same time, we're also expecting, as you know, later interest rates are going to come down. We know that the camping grounds are still filled and fully booked. As far as the approach I used, sooner or later you will need to upgrade. Sooner or later you will need to change. We have fully grown. Again, the situation that we have seen in the last two years on the surface and off the market side or on the distribution side, we have never seen anything like that. Never. Again, the last time we had a pandemic was 100 years ago.

Karri Rinta: Exactly. Thank you. That was very helpful.

Juan Vargues: You are welcome.

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

Henrik Christiansson: Yes, hello. One question for Stefan, perhaps. I think you mentioned that there was some impact from lower raw materials. The question then is what was the impact in the quarter first? Then if you look at the spot rates currently compared to the cost you have in your inventories, once that inventories work through and you sound quite keen on keeping prices, how much could that help? On the margin side, is it one percentage point, is it two or any sort of indication that would be interesting.

Stefan Fristedt: Obviously, it's a combination of all the different items that I was listing in the rich here, but there is a dynamic in this with raw materials because even if our inventory has been coming down quite a lot, we still have inventory that has been acquired to a higher cost. Obviously, it's x number of months ago. As we are consuming that, that is then replaced by products that have been acquired to lower raw material costs. Then now we can maybe see some developments in the raw material markets where things are potentially pointing a little bit upwards again. It's obviously a continuous dynamic here but we will continue to see the effects of this both on the logistics side as well as on the raw material side going forward. If I just estimate it here, it's like 50 to 100 basis points or something like that. It's going to be helpful.

Juan Vargues: I think what we have to remember is that even if the raw material prices are lower than they were one year ago, they are still much higher than the situation that we had pre-pandemic. I think that's a reference point again. We cannot speculate about what's going to happen moving forward, but we know that prices have been much lower than they are today.

Henrik Christiansson: Good. The second question is on working capital of 31 percent. The sales target is 20. What do you think is realistic to achieve during this year?

Stefan Fristedt: I think the following, Henrik, that it's always very difficult to have these in relation to net sales KPIs when net sales are developing organically as it does. As a matter of fact, we are two billion lower in working capital now compared to one year ago in constant currencies. I think that is an underlying positive development. Inventories continued to come down in Q1, even though it was not as much as in Q1 last year. As I have said before, I still expect that we are going to have a continuous, meaningful reduction of working capital during 2024. Will we be able to repeat the record operating cash flow that we had last year? Probably not, but it should still be strong.

Henrik Christiansson: Perfect, thank you.

Operator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Juan Vargues: Thank you very much, everybody, for your attention. Again, continuous challenges on the markets but we will continue to work very hard to continue to improve our margins. We are more positive moving forward. We have been until now. The reason for that is obviously that we see that the second half should be better than we have seen lately. At the same time, we continue to work on our efficiencies in order to improve our margins, deliver a strong cash flow and reduce our leverage. With that said, thank you very much for your attention, all of you, and have a great weekend.

Stefan Fristedt: Thank you.