Operating margin target achieved for 2017

OPERATING MARGIN

6.1%

Electrolux made significant progress in 2017. I am very pleased that we took an important step on our journey toward profitable growth by reaching an operating margin of 6.1%, an improvement of close to 20%. This was achieved through our consistent focus on driving sustainable profitability, resulting in improved earnings across all business areas. During the year, a revised company purpose was launched – Shape living for the better – that sets the direction for Electrolux for years to come.

In 2017, we reached our operating margin target of at least 6%, for the first time since 2010. This was an important milestone. Our focus firmly remained on achieving sustainable profitability with key areas being product portfolio management and cost efficiency. Our product portfolio management has focused on our most consumer-relevant and profitable product categories while exiting unprofitable product categories and markets. Hence, the organic sales for the Group declined slightly as a reflection of that. With operating margin now restored to our target level, our focus is shifting towards profitable growth. Our constant work to increase cost efficiency throughout the Group made good progress and our cost structure improved significantly. We also managed to improve product quality to a new record level.

A purpose-driven company

During the year we also updated our strategic framework, connecting our business model and path toward profitable growth to a clear and revised company purpose – Shape living for the better. We will achieve this by reinventing taste, care and wellbeing experiences for more enjoyable and sustainable living around the world. I feel very strongly about the importance of clarifying our company purpose as it sets the direction for Electrolux for years to come, and in 2017, a large number of new innovative products were launched to create best-in-class consumer experiences.

All business areas improved results

We experienced an overall positive demand trend across most of our markets, and the market volumes in Latin America recovered after several years of decline.

In EMEA, the favorable earnings trend continued and I am very pleased that our strong focus on new innovative products is paying off and that our premium brands gained market share. We continued to successfully launch our new product ranges under the AEG brand, including the new AEG connected washing machines. Operating income improved and the margin increased to 7.2%. During the year, we completed the acquisition of Kwikot Group, a water heater company in South Africa and Best, a European manufacturer of innovative kitchen hoods. These acquisitions enable us to further drive long-term profitable growth.

In North America our operating margin improved to a record high 6.8%, thanks to product portfolio management and increased cost efficiencies. We executed the strategically important launch of the new Frigidaire product range, which received very positive feedback from retail and consumers. The Frigidaire Gallery Freestanding Induction Range is the first affordable induction range in the U.S. market.

Our operations in Latin America accomplished a strong turnaround with an organic sales growth of 8%, following a decline of 11% in 2016. A favorable market trend in major markets such as Brazil and Argentina contributed to the positive development as well as launches of new consumer-relevant products in several markets, such as high-capacity washing machines and microwave ovens with new technologies. Operating income and margin also improved significantly. In 2017, we acquired the Continental brand, an acquisition that will enable us to further expand our market coverage in the region.

Asia Pacific delivered a high margin of 7.5%, coupled with strong organic growth of 6%. Sales volumes grew across most product categories. I am pleased to see that we are gaining market shares as a result of our efforts to develop innovative products tailored to the consumers' needs in a highly competitive region.

In Home Care & SDA, operating income and margin improved significantly to 5.5%. Organic sales, however, declined by 4% as our strategy to exit unprofitable product categories had a short-term negative impact on sales. We launched the robotic vacuum cleaner Electrolux PURE i9, which has a smart navigation system that can detect obstacles and manoeuvre around them. We also completed the acquisition of Anova in the U.S., the provider of a connected sous-vide device that enables restaurant-quality cooking at home.

Finally, I would like to highlight the performance of Professional Products which continued its profitable growth journey and yet again delivered a strong, solid operating margin of 13.7%. For the first time ever, operating income exceeded SEK 1 billion. We continue to grow this profitable business with targeted investments in new products and channels, and in 2017, we acquired Grindmaster-Cecilware, a manufacturer of beverage products. This broadens our offering and increases access to the important U.S. market.

On the path to profitable growth

Developments in 2017 have strengthened my conviction that Electrolux is well positioned for further progress in 2018 and beyond, as several important prerequisites for growth are now in place. The digital transformation is changing not only Electrolux, but the whole appliance industry, as well as consumer behavior. This offers both opportunities and challenges. We will continue to accelerate the use of digital solutions to streamline operations and increase interaction with consumers.

I expect the demand growth across most markets to continue in 2018. We aim to make the most of this market growth as our innovation for Best-in-class consumer experiences is bearing fruit with new improved products that are being very well received by the markets.

Sustainability leadership also continues to be crucial to delivering Best-in-class consumer experiences. For the past 16 years , Electrolux has been a signatory of the UN Global Compact, and we are recognized as industry leader in the prestigious Dow Jones Sustainability Index. We intend to improve further and to make smarter, more resource-efficient solutions available for everyone.

Continuous improvements are at the core of our mindset at Electrolux, and are absolutely essential to remain competitive over time. We will continue our work to improve cost structures, methods, processes and skills.

Investments in innovation

We are also enhancing our ability to drive growth through investments in innovation for new competitive products, as comprehensive re-engineering programs have been initiated at our refrigerator plant in Anderson and cooking plant in Springfield in the U.S. as well as our refrigerator plant in Curitiba in Brazil. In 2018, we are stepping up investments to SEK 6 billion to support further profitable growth.

The expertise and passion of our employees will, of course, continue to be crucial to our success, and I would like to thank all our employees and stakeholders for their important contributions throughout the year. The Board's proposal to increase the dividend for 2017 to SEK 8.30 per share reflects our focus on shareholder value, and I firmly believe that we are well positioned to continue to deliver further value.

Stockholm, February 2018

Jonas Samuelson
President and CEO