Global trends that affect the industry

The increasing pace of change in the global market for household appliances stems from a number of trends such as increased consumer power, digitalization, sustainability, consolidation and a growing middle class. These changes are placing demands on investments and economies of scale, but also open up major opportunities.

For simplification purposes, the global market for household appliances can be split into two parts. In the mature markets (Western Europe, North America, Japan and Australia/New Zealand), population growth is low and sales are dominated by replacement products. However, growth markets (Africa, the Middle East, Eastern Europe, Latin America, Southeast Asia and China) are characterized by rapidly rising living standards and a large number of new households being able to invest in appliances and other household products.

During 2016, demand for appliances increased in mature markets such as North America, Europe and Australia as well as in growth markets in Southeast Asia and China. Although demand continued to decrease in Latin America a general increase in global demand for appliances was noted.

Growth markets have increased their global share of demand. In 2016, the demand in growth markets represented about 70% of the total market volume compared with 50% in the year of 2000. Growth markets accounted for about 30% of Electrolux sales for the year, and the objective is to increase this share.

Trends
The increasing pace of change in the global market stems from a number of trends that influence volumes and the types of products that are in demand.

- **Consumer power** is growing as increasingly well-informed customers easily can access information about prices, offers and product characteristics. This means that Electrolux, as well as other brands, need to offer transparent information about how the products and offers are differentiated to meet customer needs.

- **Digitalization** plays an important role in increasing consumer power. Mobile solutions and access to the Internet place demands on Electrolux and increase opportunities to interact with consumers in new ways. Digitalization also provides substantial opportunities to develop increasingly advanced products, such as connected products, as well as making the Group’s operations more efficient.

- **Sustainability** is becoming more important for customers and consumers as well as authorities, who demand that manufacturers develop and offer sustainable products. This trend has been apparent for a number of years but development is now accelerating at varying paces in the different regions.

- **A Global Middle Class is Expanding** as a result of strong economic growth in emerging economies. This trend has been visible for many years and will continue.

- **Consolidation in the Sector** is to a large extent, driven by the above trends as they result in challenges that require major investments and economies of scale. Manufacturers and retailers of household appliances are becoming fewer, larger and more international.
**Global Population**

Million

- **640** Million
- **450** Million
- **360** Million
- **1,500** Million
- **1,600** Million
- **4,000** Million

**13%** Population in Electrolux core markets
Western Europe, North America, Australia, New Zealand, Japan

**87%** Population in Electrolux growth markets
Africa, Middle East, Eastern Europe, Latin America, Southeast Asia, China

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**The Pace of Digital Growth Continues to Accelerate**

**Worldwide Digital Indicators**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet Users</td>
<td>3.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Social Media Users</td>
<td>2.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Smartphone Users</td>
<td>2.1</td>
<td>2.9</td>
</tr>
<tr>
<td>B2C Sales World Wide, USD</td>
<td>1.9</td>
<td>4.3</td>
</tr>
</tbody>
</table>

**+21%**

+700 million

**+23%**

+500 million

**+38%**

+800 million

**+126%**

+2.4 trillion

Source: Emarketer and Electrolux estimates.
**Market overview**

**Core markets**

**Western Europe**

The European appliances market is fragmented and characterized by widely varying consumer patterns between countries and a large number of manufacturers, brands and retailers. Structural overcapacity and price pressure has led to ongoing industry consolidation with players aiming to achieve economies of scale. During 2016, markets showed continued positive demand enabling growth in areas such as compact, energy-efficient and built-in kitchen products.

**North America**

A mature, homogenous market with high product penetration that is dominated by replacement products. Large homes allow space for many household appliances, including large appliances. The market is comprised of several domestic and global manufacturers. Four major retailers sell 70% of the appliances on the market. The recovery in the housing sector generates opportunities for growth in the coming years. In 2016, market demand remained positive.

**Australia, New Zealand and Japan**

Japan is the world’s third-largest single market and is dominated by major domestic manufacturers and retailers. Small living spaces have led to consumers demanding compact products, such as hand-held vacuum cleaners. While market penetration is high in Australia and New Zealand, demand is primarily driven by design and innovations as well as water and energy efficiency. Competition between manufacturers from Asia and Europe is intense in the region.

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<table>
<thead>
<tr>
<th>Market Area</th>
<th>Population</th>
<th>Average number of persons per household</th>
<th>Urban population</th>
<th>Estimated GDP growth 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Euro Area</strong></td>
<td>445 million</td>
<td>2.3</td>
<td>78%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td>360 million</td>
<td>2.6</td>
<td>83%</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Australia, New Zealand and Japan</strong></td>
<td>155 million</td>
<td>2.5</td>
<td>93%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

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**Electrolux major competitors**

- Western Europe
  - Miele • B/S/H • Whirlpool • Samsung • LG Electronics • Arcelik

- North America
  - Whirlpool • Haier • LG Electronics • Samsung

- Australia, New Zealand and Japan
  - Haier • Samsung • LG Electronics • Panasonic
Growth markets

**Africa, Middle East and Eastern Europe**

The level of market development varies substantially between countries. The geographic spread plays its part in hindering manufacturers and retailers from capturing substantial market shares. Eastern Europe is dominated by Western manufacturers and a large market for replacement products is emerging. Penetration in Africa is low, but growth is high and in line with increasing household purchasing power. The Middle East offers a base for regional manufacturing but is impacted by political uncertainty.

**Latin America**

Brazil is the largest appliance market in the region where the two largest manufacturers accounts for a large share of the market. Despite the economic slowdown in the region, there exists considerable growth potential for appliances in the longer term, especially in low-penetrated categories. The growing middle class is expected to drive demand for basic cookers, refrigerators and washing machines. Growing interest for energy and water efficiency may also drive demand.

**Southeast Asia and China**

The region is characterized by emerging economies, rapid urbanization, small living spaces and an expanding middle class. China is the world’s largest market for household appliances and the domestic manufacturers dominate in China. Similar to other emerging markets, consumers prioritize refrigerators, washing machines and air-conditioners as prosperity rises. Energy-efficient products and foreign premium brands are growing in popularity.

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**Market demand for major appliances**

**Market value**

**Product penetration**

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Average number of persons per household</th>
<th>Urban population</th>
<th>Estimated GDP growth 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa and Middle East</td>
<td>1,480 million</td>
<td>4.8</td>
<td>46%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Latin America</td>
<td>640 million</td>
<td>2.8</td>
<td>79%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Southeast Asia and China</td>
<td>4,050 million</td>
<td>3.8</td>
<td>44%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Sources: World Bank, OECD and Electrolux estimates.
**Electrolux market data**

### Core markets

#### Western Europe

**Electrolux priorities**  
Increased focus on the strongest and most profitable product categories and brands, Electrolux and AEG. Emphasis on innovation, often drawing inspiration from the Group’s professional expertise but also increased focus on smart appliances. Examples of growing segments are built-in kitchen appliances and energy-efficient products. Priority is also given to strengthening the small domestic appliances offering.

#### North America

**Electrolux priorities**  
Launch of new innovative premium products within core appliances. Focus is on strengthening and investing in the Frigidaire brand and growth in new channels such as the builder-channel and online. Key focus areas are broadening the range of professional products as well as the offering for global food chains.

#### Australia, New Zealand and Japan

**Electrolux priorities**  
Further strengthening of positions in Australia and New Zealand through the launch of new, innovative products such as the new Westinghouse cooking range but also products with features such as high energy and water efficiency. Prioritization of compact, user-friendly and quiet household appliances in Japan and South Korea continues.

### Share of group sales 2016

<table>
<thead>
<tr>
<th></th>
<th>Major appliances</th>
<th>Professional food-service and laundry equipment</th>
<th>Small appliances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western Europe</strong></td>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td>58%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Australia, New Zealand and Japan</strong></td>
<td>3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Market demand in Western Europe

Market demand in Western Europe has improved during several years, and Electrolux sales have increased. The Group has strong market positions with a particularly strong position in kitchen appliances both for consumers and professional users.

### Net sales in North America

Net sales in North America have been impacted by growth in the market, launches of new products and new distribution channels.

### Electrolux market shares in Australia

39% core appliances  
7% floor care  
Professional: Historically strong position in both laundry equipment and food-service equipment for professional use.

### Consumer brands

**Electrolux**  
**AEG**  
**Westinghouse**

**Electrolux market shares**

16% core appliances  
11% floor care  
Professional: Leadership position with a stronger recognition in the institutional/hotel segments for professional products.

**Electrolux market shares in Australia**

39% core appliances  
7% floor care  
Professional: Historically strong presence in laundry equipment and a growing presence in the food service industry and in the chain business for professional products.
Growth markets

Africa, Middle East and Eastern Europe

Latin America

Southeast Asia and China

Electrolux priorities
Increasing focus on the strongest brands and product categories in Eastern Europe. The aim is to grow profitably in all product categories in parallel with economic recovery but also growing prosperity, especially in Africa. The Electrolux production setup in Egypt will enable growth in the Middle East and North African markets. Product launches in the air-conditioner segment and small appliances will also yield further growth opportunities in the region.

Electrolux priorities
Although parts of the region have experienced tough market conditions recently, there are considerable growth opportunities in the longer term. By monitoring the development in Brazil and Argentina closely, and focusing on cost control and efficiency, the Group can capitalize on opportunities when the purchasing power of households recovers and consumer demand turns positive again.

Electrolux priorities
By targeting new markets, channels and segments and marketing a broad range of appliances, the Group aims to increase its presence in Asia. A growing middle class means higher demand for premium products. Focus on products for professional users in the laundry and food-service segments is also prioritized as well as launches of compact vacuum cleaners and small domestic appliances.

Electrolux market shares
15% core appliances, Eastern Europe
3% floor care, Eastern Europe

Professional: Leadership position with a stronger recognition in the institutional/hotel segments.

Electrolux market shares
Leading positions in major appliances in Brazil, Chile and Argentina.
38% floor care

Professional: Growing presence of Professional Products in the region.

Electrolux market shares in Southeast Asia
5% core appliances
24% floor care

Professional: Reference player with stronger recognition in the hotel segments.

Electrolux

Consumer brands

AEG

FRIGIDAIRE

S.SMP/E.SMP/K.SMP/M.SMP

Electrolux sales in Southeast Asia is growing. The Group’s strong position in front-load washing machines has been leveraged to also expand the business to kitchen appliances.

Weak market conditions primarily in Brazil impacted sales negatively in 2015 and 2016. Net sales in Latin America have previously increased organically over the years due to a strong product offering, market growth and acquisitions.

Electrolux has a potential for growth in parallel with growing markets in Eastern Europe, the Middle East and Africa.