Market outlook FY 2022 and FY 2023

**JS:** The market environment has since 2020 been highly volatile and it continues to rapidly change. Inflation soaring to historically high levels, increased interest rates, and supply constraints exacerbated by uncertainty regarding the coronavirus pandemic and the war in Ukraine, results in limited visibility. We maintain our regional market demand outlook for the 2022 full year.

In the first half of the year, global supply chain constraints impacted the industry’s ability to fully meet underlying demand. In the third quarter, the slowdown in consumer demand was the main constraint for industry shipments, while the global supply chain situation improved. This was in line with our expectations, and we anticipate this to also be the case in the fourth quarter.

Let’s look at our 2022 full-year volume demand view year-over-year for the specific regions:

In **Europe**, we expect market shipments to be negative. High general inflation, rising interest rates and Russia’s invasion of Ukraine have resulted in a sharp drop in consumer confidence and hence also in consumer demand. Replacement is to some extent mitigating this demand decline.

In **North America** market shipments are estimated to be negative for the full year compared to 2021 but above pre-pandemic levels. The year-over-year decline is mainly driven by slowdown in consumer demand as soaring general inflation and rising interest rates negatively impact consumer sentiment. Lately, we have seen a slowdown in new home starts and expect that to continue into 2023. However, on the positive side, we expect support from existing home remodelling as homeowners are expected to remain in their homes and utilize equity to drive home improvement and kitchen remodelling.
In **Latin America** we expect consumer demand for 2022 to be negative, driven by Brazil and Chile. In both Brazil and Chile, higher general inflation and increased nominal interest rates combined with reduction of government aids and uncertainty on the political situation contribute to the negative demand view. In Argentina, consumer demand growth is expected to continue in 2022 but we have to bear in mind that it is from a weak baseline from several years that is starting to catch up.

And finally, we estimate market demand in the **Asia-Pacific, Middle East and Africa** region to be positive for the full year 2022, mainly driven by our two largest markets Southeast Asia and Australia. In general, underlying consumer demand has been solid across most markets in the region so far, even if we have seen some signs of slowing in growth lately. The uncertainty going forward is mainly around potential pandemic restrictions and impact from higher general inflation on consumer demand.

Looking at the full-year 2023, we estimate industry shipments of core appliances to be negative in Europe and North America. This as consumer sentiment also next year is assessed to be negatively impacted by inflation and higher interest rates. A complete Market outlook for the full year of 2023 will be provided in the 2022 Year-end report.

**Business outlook FY 2022**

*JS:* In 2021, the combined contribution from **volume, price and mix** to operating income was nearly 9 billion SEK. We expect this organic year-over-year contribution to be even higher in 2022, mainly driven by price increases that already have been implemented.

Through strong **price** execution, we have in the first nine months of the year offset significant cost inflation, primarily in raw material and logistics. We remain confident to do so also for the full year, as we have done for the past four years. In an inflationary environment, price increases are more accepted in the market. This, combined with an attractive product range, makes us well-positioned to continue to be successful in raising prices if needed.

If we shift focus from price to the other two levers within organic contribution, we expect the combined contribution from **volume and mix** to be negative for the full year. This is fully driven by volume given the current demand situation and also as a consequence of the supply chain.
constraints we experienced mainly in the first half of the year. We still expect a strong earnings contribution from mix for the full year and 2022 is our most launch-intensive year ever, partly enabled by our re-engineering investments. I am very pleased with how well received the product launches have been so far, also in this more challenging environment we have experienced lately. This gives us confidence that we have a great platform to drive mix improvements from. In recent years, mix improvements have contributed an average of 1 billion SEK annually to operating income.

Investments in innovation and marketing are for the full year expected to increase. In light of the weaker market environment, we are optimizing our R&D and marketing activities and started in the third quarter to reduce discretionary spending primarily within marketing.

The constrained global supply environment has resulted in cost inflation especially for logistics, in particular ocean freight, but also for electronic components. Global supply chain constraints are expected to sequentially improve also in the fourth quarter, with continued risks of disruptions relating to the resurgence of the coronavirus as well as consequences of the war in Ukraine. The increased geopolitical tension has so far mainly impacted logistics through higher fuel prices and lately the availability of and price for both gas and energy have emerged as an area high on our agenda.

TF: Looking at the line Cost efficiency, we expect this to be negative for the year. Main drivers are cost inflation on logistics, finished goods, and components as well as operational inefficiencies related to constrained environment, especially in North America. As already mentioned, we in September initiated a Group-wide cost reduction and North America turnaround program. We expect to see some traction of these activities already in the remaining part of 2022 in areas such as air freight and spot buys. As we continue to start up additional production lines and new product platforms in our factories that are part of our 8 billion SEK global re-engineering investments, we will also see an increase in depreciation.

With one quarter left of 2022, the estimated negative full-year headwind for External factors is narrowed to be in the range of 8 to 9 billion SEK from previous estimate of 8 to 10 billion SEK. The year-over-year increase is mainly driven by raw material, especially steel prices.

Investments to strengthen our competitiveness through innovation, automation and modularization continue in 2022 and total capital expenditures are expected to be in the range of 7 to 8 billion SEK. The increase compared to 2021, relates mainly to some timing of investments from 2021 and raw material inflation on equipment.

Factors affecting forward-looking statements

This transcript contains ‘forward-looking’ statements presented in the Q3 2022 interim report and earnings call held on October 28, 2022, that reflect the company’s current expectations. Although the company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations prove to have been correct as they are subject to risks and uncertainties that could cause actual results to differ materially due to a variety of factors. These factors include, but are not limited to, changes in consumer demand, changes in economic, market and competitive conditions, supply and production constraints, currency fluctuations, developments in product liability litigation, changes in the regulatory environment and other government actions.

Forward-looking statements speak only as of the date they were made, and, other than as required by applicable law, the company undertakes no obligation to update any of them considering new information or future events.