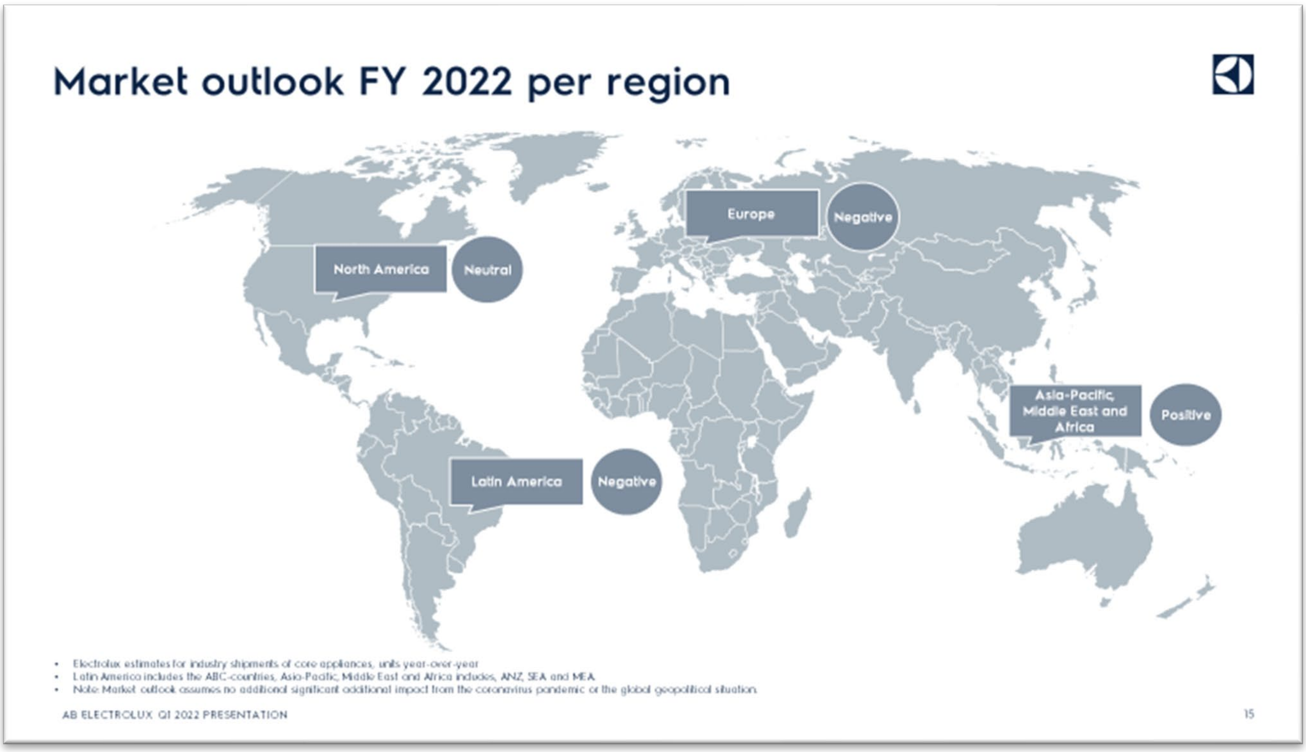
Transcript of comments to outlook slides in Q1-2022 earnings call

Below follows a transcript from the Q1 2022 earnings call held on April 29, 2022, covering the two slides "Market outlook FY 2022 per region" and "Electrolux business outlook" presented by Jonas Samuelson ("JS"), President & CEO, and Therese Friberg ("TF"), CFO.

Market outlook FY 2022



JS: The dynamic environment with the Russian invasion of Ukraine, inflation soaring to historically high levels and supply constraints exacerbated by uncertainty regarding the coronavirus pandemic, results in limited visibility for the rest of the year. We revise our regional market demand outlook for the 2022 full year in North America, mainly driven by supply constraints in the first half of the year, and in Europe, due to lower consumer confidence. However, we still expect demand in these regions to be above pre-pandemic levels. Global supply chain constraints are expected to continue to impact the industry's ability to fully meet demand, with regional variances, limiting availability of certain product categories. Specifically, electronic components with semi-conductors are in very tight supply globally and shortages of containers and vessels and backlogs at major ports result in varying and intermittent supply.

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

In Europe, we revised our view on market shipments to "negative" from "flat". This as we towards the end of the quarter saw consumer confidence being negatively impacted by higher general inflation and Russia's invasion of Ukraine. In Russia and Ukraine, we expect market demand to drop significantly. The replacement market, which in general drives roughly 60% of demand in more mature markets, such as western Europe, is still supportive. In terms of market value, price increases are expected to offset a large part of the decline in market shipments.

In North America demand is estimated to be "flat" for the full year, compared to our previous "positive" view. This is mainly driven by constraints in the supply chain during the first half of the year. Underlying demand remains robust driven by a strong housing market and a labor market coming back to pre-pandemic levels. So far solid consumer confidence has lately been negatively impacted by the high inflationary pressure, especially on gas, and remains a concern. The replacement cycle is supportive, and we see shortening of the cycle due to increased usage during the pandemic.

In **Latin America** we expect consumer demand for 2022 to be negative, driven by Brazil and Chile. In both Brazil and Chile, we see higher general inflation negatively impacting consumers' purchasing power. In addition, reduction of government aids combined with increased nominal interest rates also contribute to the negative demand view for these two countries. 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 catchup. Ongoing pandemic-related uncertainty remains a key risk to the region outlook.

And finally, we estimate market demand in the **Asia-Pacific, Middle East and Africa** region to be positive for the full year 2022. In general, we see underlying consumer demand being solid and the uncertainties mainly around potential pandemic restrictions, which in 2021 impacted consumer spending negatively. In Southeast Asia, which is a large market for us in this region, the recent increase in travel is showing an even more positive sentiment. Hence, we expect demand in 2022 to grow above 2019 levels. For Australia, which is our other large market, the recent flooding is likely to result in forced replacement and contribute to a slight growth this year compared to a strong 2021.

Business outlook FY 2022

Electrolux business outlook

Business Outlook[1] y-o-y	FY 2022	Comments
Volume/price/mix	Volume/mix - positive	Increased sales of innovative high margin products and aftermarket solutions.
	Price – offsetting cost inflation[2]	Price offset cost inflation, mainly in raw material, logistics and sourcing of finished goods
Investments in consumer experience innovation and marketing[3]	Negative	Higher investments in innovation, marketing and digitalization of consumer interaction.
Cost efficiency[4]	Negative	Significant benefits from re-engineering programs more than offset by cost inflation in logistics, sourcing of finished goods and components.
External factors[5]	Negative SEK 8-10bn	Primarily from raw material costs.
Capex	SEK ~8bn	

[1] Business outlook range: Positive – Neutral – Negative, in terms of impact on earnings
[2] Cost inflation comprise of "External factors" and cost inflation in sourcing of finished goods, electronic components and logistics. The three latter are included in "Cost efficiency".
[3] Comprise of costs of R&D, marketing/brand, connectivity, CRM and aftermarket sales capability etc.
[4] Efficiencies in variable costs (excl. raw materials, trade tariffs and labor cost inflation >2%) and structural costs (excl. consumer experience innovation and marketing).
[5] Comprise of raw material costs, trade tariffs as well as direct and indirect currency impact and labor cost inflation >2%. Currency translation effects are estimated to impact 2022 net sales by ~7% and operating income by SEK ~400m.
Note: Business outlook in the above table excludes non-recurring items and assumes no significant additional impact from the coronavirus pandemic or the global geopolitical situation.

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JS: I am pleased with our achievements, where we step-by-step in a consistent way have improved earnings quality through a clear strategy for driving profitable growth through providing the right type of innovations under well-established brands to our target consumers. And delivering these products with high quality and automated production. I am also proud of how we have managed the market volatility during the last years, showing efficiency and agility. These are key success factors also going forward in the dynamic environment we are facing with higher general inflation and increased geopolitical tension as well as continuing supply chain constraints and pandemic.

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 but also increased sales of innovative high margin products and aftermarket solutions.

Price is our main tool to offset cost inflation and we have a strong track record of successfully doing this. We have, in the quarter, implemented additional list price increases in all regions, leading to a total year-over-year effect of over 8% and continuously implement further increases. Our attractive product range and well-established brands are key to continue to be successful in raising prices. In the increasingly inflationary environment, as we now have, price increases are also more acceptable in the market. For the full-year, we remain confident that price will fully offset cost inflation; just as have been the case for the last four years.

Just to be clear on what we mean with cost inflation – it comprises of two parts: Firstly, External factors, which includes raw material, currency, tariffs and excess labor cost inflation. Secondly, the cost inflation in for example sourcing of finished goods, electronic components and logistics, which is included in Cost efficiency in our business outlook.

Starting with External factors, we revised the estimated negative headwind to be in the range of 8 to 10 billion SEK from previous estimate of 6 to 9 billion SEK. This as the uncertain geopolitical situation in Europe has triggered additional cost inflation, primarily on raw materials such as plastics and base metals. The year-over-year increase in steel prices was already largely reflected in our previous guidance.

The global supply environment has resulted in cost inflation especially for logistics, in particular ocean freight, but also for electronic components. The recent geopolitical tension has mainly impacted logistics through higher fuel prices.

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 positive for the year. And this positive contribution is expected to be fully driven by mix as volume is expected to decline year-over-year. 2022 will be our most intense product launch year ever, partly enabled by our re-engineering program. This gives us confidence that consumer demand for our products will remain healthy also in a more challenging environment and provides us with a great platform to drive mix improvements. We aim to invest more in innovation and marketing to support these launches but also to strengthen our digital capabilities in terms of consumer interactions. In recent years, mix improvements have contributed an average of 1 billion SEK to operating income.

Global supply chain constraints are, however, expected to continue to negatively impact our ability to fully drive volume and mix, especially in the first-half of the year, especially in the first-half of the year with an increasing challenge in Europe in Q2. From mid-2022, we expect sequential improvements with regards to the overall supply chain situation. We are collaborating closely with our suppliers to mitigate these constraints, but we estimate that the second quarter will be as challenging as the first quarter, with significant risks of disruptions relating to the resurgence of the coronavirus. Lockdowns in important ports and cities in China, as we have seen lately, adds to the uncertainty. This as we are sourcing a significant number of components from China. The supply chain constraints also resulted in significantly higher costs for airfreight and spot buys of electronic components in the second half of 2021 and in Q1 2022, year-over-year, and we estimate this cost level to remain in the coming quarters.

TF: Looking specifically at the line Cost efficiency, we expect this to be negative for the year. This, as the cost savings we expect from the re-engineering program in 2022 will only partly offset the cost inflation on logistics, finished goods and components. We will also see an increase in depreciation as we are continuing to start up additional production lines and new product platforms in our factories that are part of our 8 billion SEK re-engineering program. In the fourth quarter 2021, we started the ramp-up in three additional factories – Springfield, Susegana and Sao Carlos, on top of Anderson and Curitiba that are already up and running.

Investments to strengthen our competitiveness through innovation, automation and modularization continues in 2022 and total capital expenditures are estimated to be approximately 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 Q1 2022 interim report and earnings call held on April 29, 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.