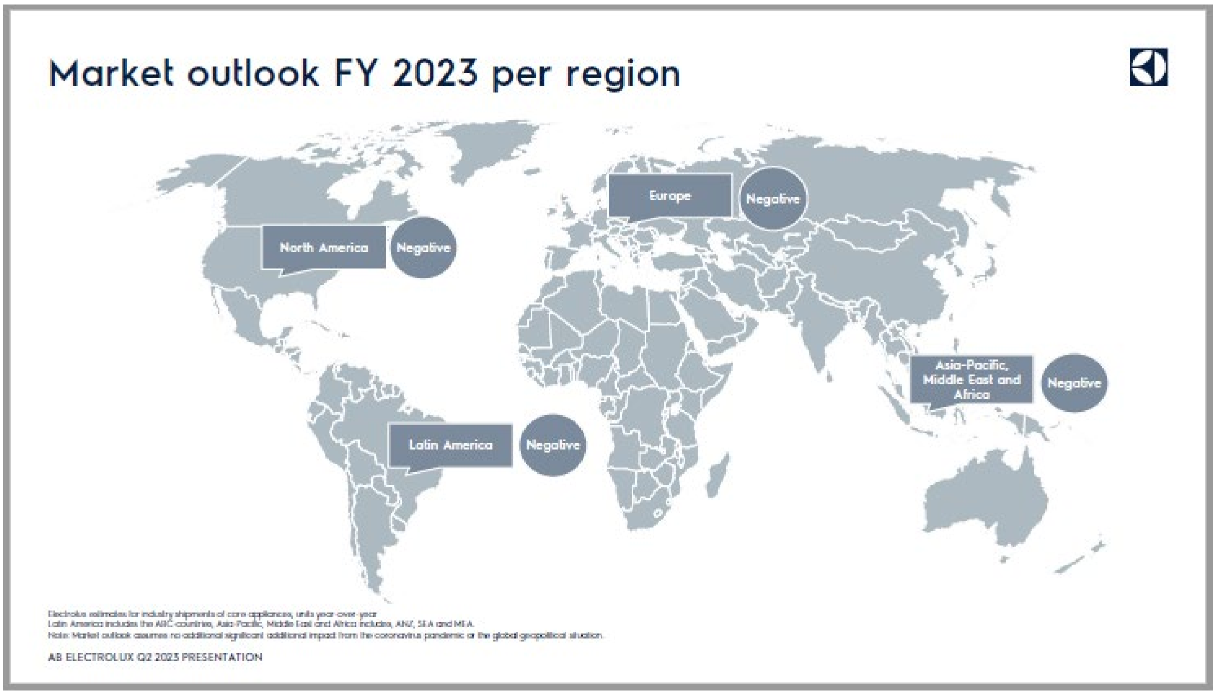
Transcript of comments to outlook slides in Q2-2023 earnings call

Below follows a transcript from the Q2 2023 earnings call held on July 20, 2023, covering the two slides "Market outlook FY 2023 per region" and "Electrolux business outlook" presented by Jonas Samuelson ("JS").

Market outlook FY 2023



JS: We expect consumer sentiment in 2023 to be negatively impacted by a high inflation and interest rate environment, although with regional differences. In Europe, although energy inflation has not been as high as feared overall inflation is running above prior assumptions. In the Asia-Pacific region, where consumer sentiment first weakened considerably in Australia a few months ago we recently have seen the same development in other markets such as Southeast Asia. The housing market, a key driver for appliance demand in mature markets like Europe and North America, is expected to decline in 2023. In the second half of the year, forced replacement is expected to remain the main demand driver since the reduced consumer purchasing power is not only resulting in more consumers shifting to lower price points but also in lower remodeling activity and postponement of purchases not deemed necessary.

On back of this we maintain our regional market outlook for Europe, North America and Latin America and expect demand for appliances for these regions in 2023 full-year to be negative, compared to 2022. We revise the demand outlook for the Asia-Pacific, Middle East and Africa region to negative from neutral.

Business outlook FY 2023

Electrolux business outlook

Business Outlook[1] y-o-y	FY 2023	Comments
Volume/price/mix	Volume/mix - negative	Fully driven by volume, partly mitigated by earnings contribution from mix
	Price – partly offsetting external factors	Positive net price in H1 2023 and expected to turn negative from Q3 2023
Investments in consumer experience innovation and marketing[2]	Positive at least SEK 5bn, combined	Accelerating benefits from the Group-wide cost reduction and North America turnaround program
Cost efficiency[3]		
External factors[4]	Negative	Primarily from inflation in energy and labor cost and currency headwinds
Capex	SEK -6bn	

1 Business outlook range: Positive – Neutral – Negative, in terms of impact on earnings.
2 Comprise of costs of R&D, marketing/brand, connectivity, CRM and aftermarket sales capability, etc.
3 Efficiencies in variable costs (excl. raw materials, energy, trade tariffs, and labor cost inflation >2%) and structural costs (excl. consumer experience innovation and marketing).
4 Comprise of raw material costs, energy costs, trade tariffs as well as direct and indirect currency impact and labor cost inflation >2%.
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: Based on our market outlook with negative demand in all regions, we estimate our volumes in 2023 to decline year-over-year. In addition to the general weak market, we expect lower residential construction and remodeling activity to also in the second half of the year lead to weaker market demand within the built-in kitchen category, mainly impacting us in Europe where we have a strong position in this category. This in combination with postponed purchases of certain appliances such as dryers, we expect a less pronounced positive seasonality in the second half of the year, which normally is a stronger period for us as a Group than the first half of the year.

We continue to expect the volume decline to be partly mitigated by mix improvements from our strong offering where 2023 is another launch-intensive year. This challenging demand environment with more consumers shifting to lower price points and driven to a larger extent by forced replacement is, however, assumed to limit our ability to fully drive mix improvements.

Looking at price we expect a positive impact for the full-year, though not large enough to offset the negative impact from External factors. The price dynamic is very different for the first half of the year compared to the second half. As we highlighted previously, the carry-over from list price increases implemented a year ago has mainly benefitted the first months of 2023 and was the main driver for the positive net price impact in the first half of the year. As we saw in Q2, these carry-overs were largely offset by promotions, why net price ended up only being slightly positive. Due to lower consumer demand and resolution of supply-chain constraints, promotions are expected to remain high also during the remainder of the year in all major markets. However, the magnitude of promotions going forward is uncertain as it is much linked to the macro environment and the health of the consumers in different parts of the world, but historically the second half of the year is a more promotionally heavy season compared to the first half, especially in North America. Given this, we expect net price to turn negative from the third quarter and be negative for the second half of the year.

As mentioned, we expect External factors to be negative for the year, driven by energy and labour inflation as well as currency headwind. Although we foresee benefits from lower raw material costs, the positive impact on earnings is reduced as a higher share than normal of raw material procured at last year's rates was consumed in 2023. This lag from entering 2023 with higher inventory levels of supplies than normal, has predominantly impacted Q1 negatively and to some extent also Q2, resulting in flat raw material cost in Q2 year-over-year. The outlook for external factors in the second half of 2023 remains somewhat negative, driven by currency and inflation while raw material cost is estimated to be slightly positive.

I am pleased that the Group-wide cost reduction and North America turnaround program is progressing well. Given the Q2 significant step-up in sequential cost savings, we are now for the full-year 2023 targeting a positive earnings contribution from Cost efficiency and reduced investments in innovation and marketing combined of at least 5 bn SEK. This is an improvement compared to our previous view of cost savings of 4 to 5 billion SEK. In 2024, the aim is to further accelerate cost improvements to achieve over 7 billion SEK target compared to 2022.

Investments to strengthen our competitiveness through innovation, automation and modularization continue in 2023. We revise our total capital expenditures for the full-year and estimate it to be approximately 6 billion SEK, compared to previously 6 to 7 billion SEK.

Factors affecting forward-looking statements

This transcript contains 'forward-looking' statements presented in the Q2 2023 interim report and earnings call held on July 20, 2023 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.