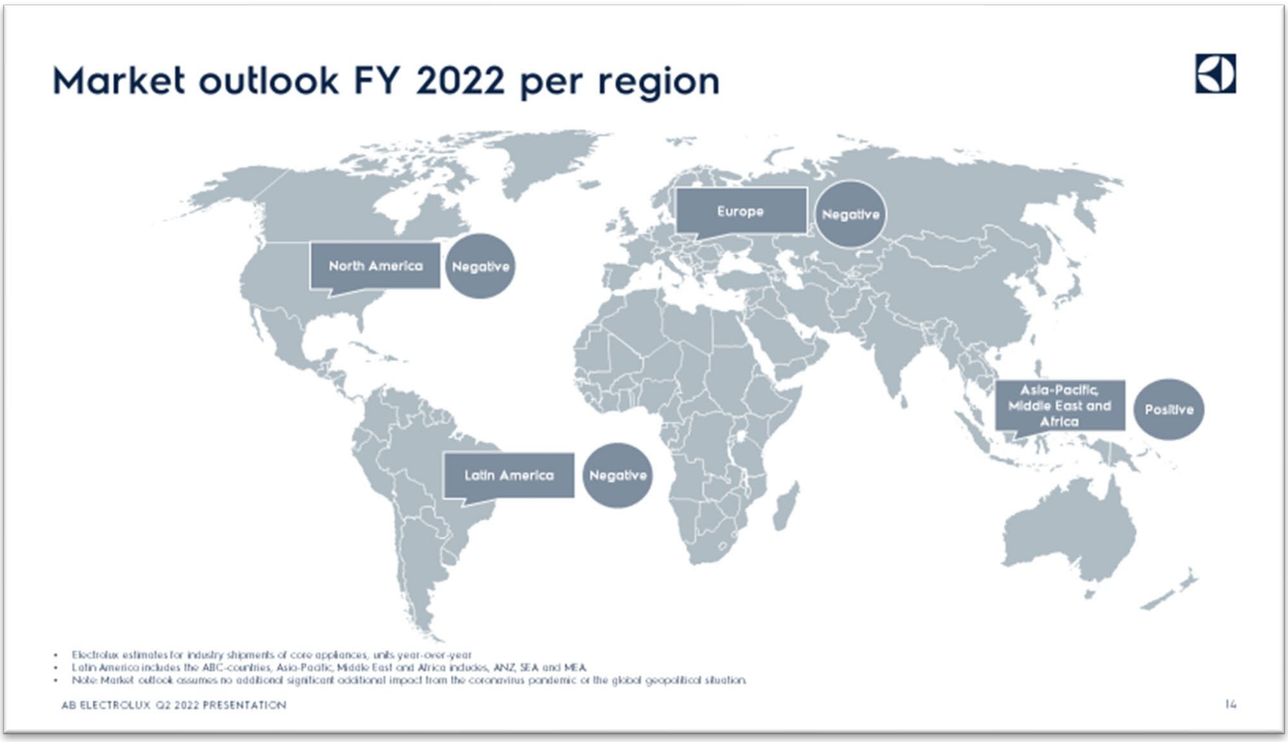
Transcript of comments to outlook slides in Q2-2022 earnings call

Below follows a transcript from the Q2 2022 earnings call held on July 21, 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 market environment has since 2020 been highly volatile and it continues to rapidly change. Inflation soaring to historically high levels, higher interest rates, and supply constraints exacerbated by uncertainty regarding the coronavirus pandemic and the war in Ukraine, results in limited visibility for the rest of the year. We maintain our regional market demand outlook for 2022, with the exception of North America, which is revised to negative. However, we still expect demand to be above pre-pandemic levels except for in Latin America as well as the Russian market's impact on Europe.

In the first half of the year, global supply chain constraints impacted the industry's ability to fully meet underlying demand. In the second half of the year, we expect the slowdown in consumer demand to be the main constraint for industry shipments, while the global supply chain situation is expected to improve.

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. Hence, consumer spending is expected to further deteriorate and to what extent is still uncertain. In Russia and Ukraine, we expect market demand to drop significantly. The replacement market, which in general drives roughly 60% of demand in a more mature market such as western Europe, is still assessed to be supportive. In terms of market value, a higher average selling price is expected to offset the decline in market shipments.

In North America demand is estimated to be "negative" for the full year, compared to our previous "flat" view. This is mainly driven by an anticipated further slowdown in consumer demand as soaring general inflation and rising interest rates negatively impact consumer purchasing power. However, on the positive side, we expect support from the housing market, low unemployment rates, and the replacement cycle. We also see a shortening of the ownership 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, 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 Southeast Asia which is a large market for us in this region. In general, we have so far seen underlying consumer demand being solid across most markets in the region and the uncertainty going forward is mainly around potential pandemic restrictions and impact from general higher inflation on consumer demand. For Australia, which is our other large market, we expect solid demand for the year compared to a strong 2021 with a decline for the second half of the year given an expected slowdown in consumer demand.

Business outlook FY 2022

Electrolux business outlook

Business Outlook[1] y-o-y	FY 2022	Comments
Volume/price/mix	Volume/mix - negative	Increased sales of innovative high margin products and aftermarket solutions almost compensate lower volumes
	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	Mainly driven by cost inflation on logistics, sourcing of finished goods and components, as well as by production inefficiencies.
External factors[5]	Negative SEK 8-10bn	Primarily from raw material costs.
Capex	SEK 7-8bn	

[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 +10% and operating income by SEK +700m.
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: The second quarter has been challenging with regards to the constrained environment. In volatile times as we are now experiencing, it is vital to continue on our long-term strategic journey while also being efficient and agile. I am pleased with our achievements over the last years, where we step-by-step consistently have improved earnings quality through a clear strategy for driving profitable growth, providing relevant innovations under well-established brands to our target consumers. And delivering these products with high quality and automated production. These are key success factors also going forward in the dynamic environment we are facing with high 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 increasing 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. Through strong price execution, we offset significant cost inflation in the first half of the year, primarily in raw material and logistics. We remain confident to do so also in 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.

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

Starting with External factors, we maintain our estimate of a negative headwind in the range of 8 to 10 billion SEK. The year-over-year increase is mainly driven by raw material, especially steel prices. Recently we have seen steel price coming down substantially from very high levels in this spring, but not significantly enough to impact second half year's contracted costs.

The constrained global supply environment has resulted in cost inflation especially for logistics, in particular ocean freight, but also for electronic components. The increased 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 now expect the combined contribution from volume and mix to be negative for the full-year instead of positive. Due to the softer consumer demand outlook, we now expect the year-over-year volume decline seen in the first half of the year to also continue in the second half, though at a lower degree. We expect higher volumes in the second half than in the first, with sequentially improved supply outweighing the negative impact of weaker consumer demand. 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 program. I am very pleased with the strong consumer demand for our new innovative products and the earnings contribution from these launches. 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 supporting the consumer interaction. In recent years, mix improvements have contributed an average of 1 billion SEK to operating income.

Global supply chain constraints are expected to sequentially improve from mid-2022, with continued risks of disruptions relating to the resurgence of the coronavirus as well as consequences of the war in Ukraine.

TF: Looking specifically at 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 production inefficiencies related to constrained environment, especially in North America. We estimate the elevated cost level for airfreight and spot buys of electronic components to remain in the second half of the year. We will also see an increase in depreciation as we continue to start up additional production lines and new product platforms in our factories that are part of our 8 billion SEK re-engineering program. On the positive side we expect cost savings from the re-engineering program in 2022 even if the full efficiency gains are dependent on a stable volume and supply chain.

Investments to strengthen our competitiveness through innovation, automation and modularization continue in 2022 and total **capital expenditures** are estimated 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