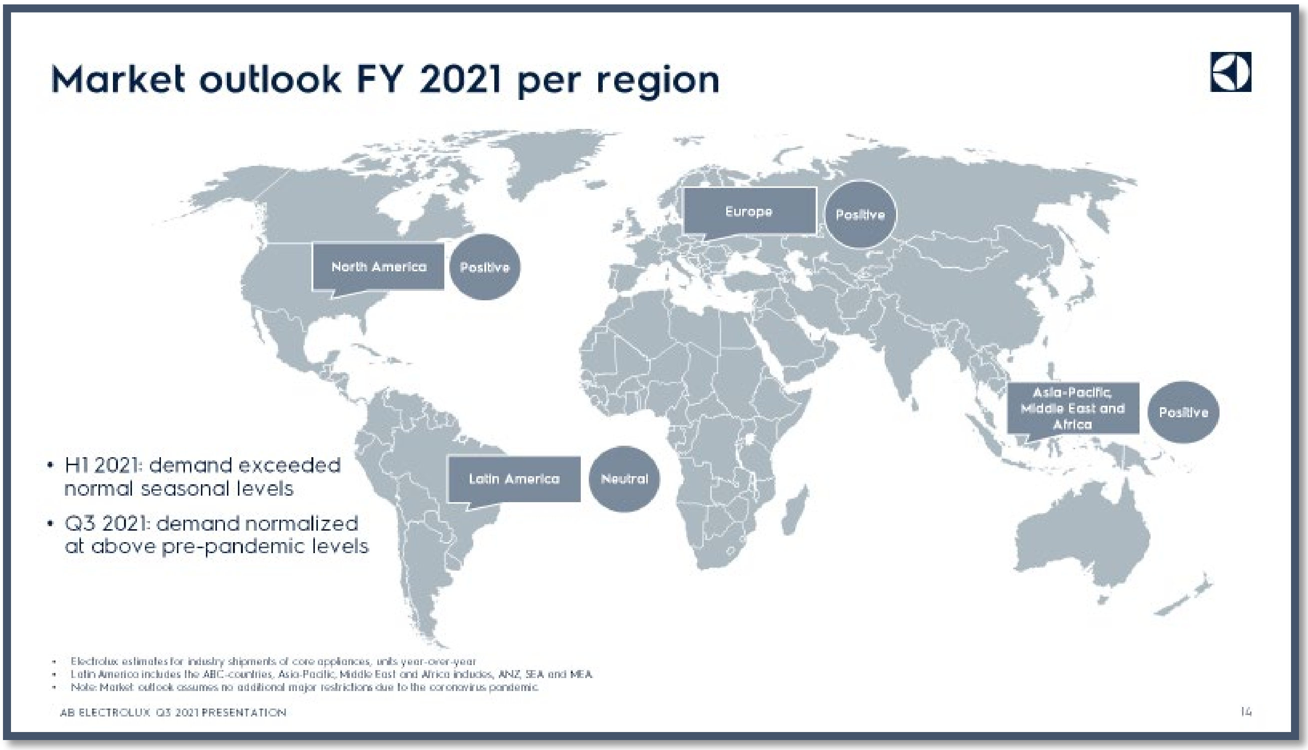
Transcript of comments to outlook slides in Q3-2021 earnings call

Below follows a transcript from the Q3 2021 earnings call held on October 27, 2021, covering the two slides "Market outlook FY 2021 per region" and "Electrolux business outlook" presented by Jonas Samuelson ("JS"), President & CEO, and Therese Friberg ("TF"), CFO.

Market outlook FY 2021



JS: With increased vaccination coverage and eased restrictions, consumer spending patterns, and hence market demand, started as expected to normalize in the third quarter, with market volumes in the third quarter about 8-12% above third quarter 2019 in key markets. As it is likely that many people will continue to work extensively from home, we expect that the normalized underlying demand levels will be above pre-pandemic levels in most markets going forward.

However, we expect that supply chain constraints will continue throughout the year, with regional variances and limited availability of certain product categories. Specifically, electronic components with semi-conductors are in very tight supply globally, which means that we and other actors in the industry struggle to meet the changing consumer demand mix and also incur outright shortages. The same can be said about ocean freight, where shortages of containers and vessels and unloading backlogs at major ports result in varying and intermittent supply. This means that retail inventories are unbalanced in many markets, making it even harder to accurately interpret and meet demand signals.

Looking at the specific regions, we maintain our 2021 full year regional market outlook, even though supply conditions remain volatile.

European market shipments are expected to be positive for the full year, with growth across the key markets. We see a supportive trend from the replacement market and consumer confidence. Consumer spending patterns started to normalise in the third quarter and demand is expected to further normalize, but at above pre-pandemic levels, during the remaining part of the year as household budgets are allocated more to services than during the height of the pandemic. Retail inventories are overall at reasonable levels, but with highly unbalanced mix. Supply constraints had a negative market impact in the third quarter as the underlying demand could not fully be met and we expect that to be the case for the remaining part of the year as well.

In North America demand is estimated to be positive for the full year, partly driven by a very strong housing market and favorable replacement cycle. Government stimuli programs should further support the economy and consumer sentiment, even if these stimuli programs are progressively being phased out. Supply and logistics constraints had a negative market impact in the third quarter as the underlying demand could not be fully met and we expect that to be the case for the remaining part of the year as well.

In Latin America we still expect consumer demand to be neutral for 2021 full year, with demand softening in Brazil, compensating for relatively healthy demand in other Latin American markets. In Brazil, we see moderation of disposable income growth with the reduction of government aids combined with still weak labor market and rising currency and commodity-based inflation.

And finally, we estimate that market demand in the Asia-Pacific, Middle East and Africa region to be positive for 2021 full year. In the third quarter, the surge in coronavirus cases leading to extensive restrictions impacted consumer spending negatively, especially in South East Asia. However, with some recent easing in restrictions, demand is recovering. Uncertainty around Chinese growth and risks related to real estate and energy sectors impact the overall region. For Australia, which is our other large market for this business area, we anticipate a slight decline in 2021 full-year demand compared to a strong 2020, especially in the second half of the year, but still an increase compared to 2019.

Business outlook FY 2021

Electrolux business outlook

Business Outlook[1] y-o-y	FY 2021	Comments
Volume/price/mix	Positive	Driven by all three components.
Net cost[2]	Negative	
Investments in consumer experience innovation and marketing[3]	Negative	Higher investments in innovation, marketing and digitalization of consumer interaction. Low level in 2020 due to pandemic.
Cost efficiency[4]	Negative	Increased costs due to supply chain constraints. Continuous cost improvements and progress of re-engineering program main positive drivers.
External factors[5]	Negative SEK -4.5bn	Primarily from raw material costs.
Capex	SEK 6-7bn	

[1] Business outlook range: Positive - Neutral - Negative, in terms of impact on earnings
[2] Net cost is the sum of "Investments in consumer experience innovation and marketing" and "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 2021 net sales by -6% 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.

AB ELECTROLUX Q3 2021 PRESENTATION 15

Volume/price/mix

JS: For 2021 full year we expect a continued positive organic contribution from volume, price and mix combined, driven by a favorable underlying market demand and higher prices compensating for increased cost inflation. Demand and mix are positively impacted by new product innovation and increases in marketing investments, including a step-up in digitalization of our consumer interactions.

In the third quarter, **volume and mix growth** was negatively impacted by supply chain constraints, mainly electronic component availability. In particular, our North American business area was affected since the congestion at important U.S. ports amplified the supply constraints. We continue to have a tight collaboration with suppliers to mitigate these global supply shortages, but we estimate that the fourth quarter will be even more challenging for the Group than the third quarter. Although we anticipate sequential improvements in 2022, we expect challenging conditions to remain in meeting continued strong demand.

Turning to **price**, which is our main tool to compensate for cost inflation. In 2021 we are on track to fully offset headwind from external factors and inflationary cost increases on electronic components and logistics with price; just as we have done up until now for the last four-year period. As a response to the recent significantly higher cost inflation, mainly on raw material, additional price increases were implemented in the quarter. We are also in the process of announcing further price increases in our main markets as we are determined to offset accelerating cost headwind also in 2022. In terms of promotion levels, which currently are very low, we don't expect them to normalise during 2021.

Net cost

TF: We are increasing our **innovation and marketing investments**, including strengthening our capabilities within aftermarket and e-commerce. And during the past three years, mix improvements from innovation, brand and aftermarket sales growth have in total contributed more than 3 billion SEK to operating income, realizing a very favorable return on investment. We also know that the strengthening of our main brands Electrolux and AEG and Frigidaire are paying off. These brands accounted for approximately 80% of Group net sales in 2020, compared to just over 70% three years ago. The more tactical marketing investments will be sized and targeted based on market opportunities as well as product availability, so this can act as a partial P&L counterbalance against any delivery issues, as has been the practise previously as well.

And cost efficiency, excluding innovation and marketing investments, is revised to be negative for 2021. This as we see further cost pressure on logistics and sourcing of electronic components and finished goods. In addition to the cost inflation that we expect to fully offset with price in 2021, the tight supply chain conditions also resulted in significant temporary cost increases for express logistics and spot buys in the third quarter, amounting to about 300 million SEK, as well as in production inefficiencies. The main positive cost efficiency driver in 2021 are continuous cost improvements and execution of our re-engineering program, particularly improved productivity and output from our new refrigeration facilities in Anderson in the U.S. and Curitiba in Brazil.

All in all, **total net cost** in 2021 is expected to increase.

External factors

JS: As a global appliance company, we are exposed to various **external factors** such as raw materials, tariffs, currency and excess labor cost inflation. For 2021 we revise the estimated negative headwind from external factors to approximately 4.5 billion SEK from a previous estimate of 3.0 to 3.5 billion SEK. This in the light of recent significantly higher cost inflation, mainly on raw material such as steel and plastics as a consequence of the unusually high global demand. Currency headwind also increased substantially driven mainly by Latin America.

As mentioned, we are on track to fully offset this headwind from external factors as well as inflationary cost increases on electronics and logistics with price, even though more temporary effects like excess air freight and electronics spot buys are more difficult to offset through price.

Capital expenditure

JS: Total capital expenditures are estimated to be SEK 6-7bn in 2021, with the range being due to timing towards year-end. Our re-engineering investment program is overall progressing very well and is crucial to strengthen cost competitiveness and drive profitable growth through increased modularization and automation in the Americas and Europe.

Factors affecting forward-looking statements

This transcript contains 'forward-looking' statements presented in the Q3 2021 interim report and earnings call held on October 27, 2021, 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.