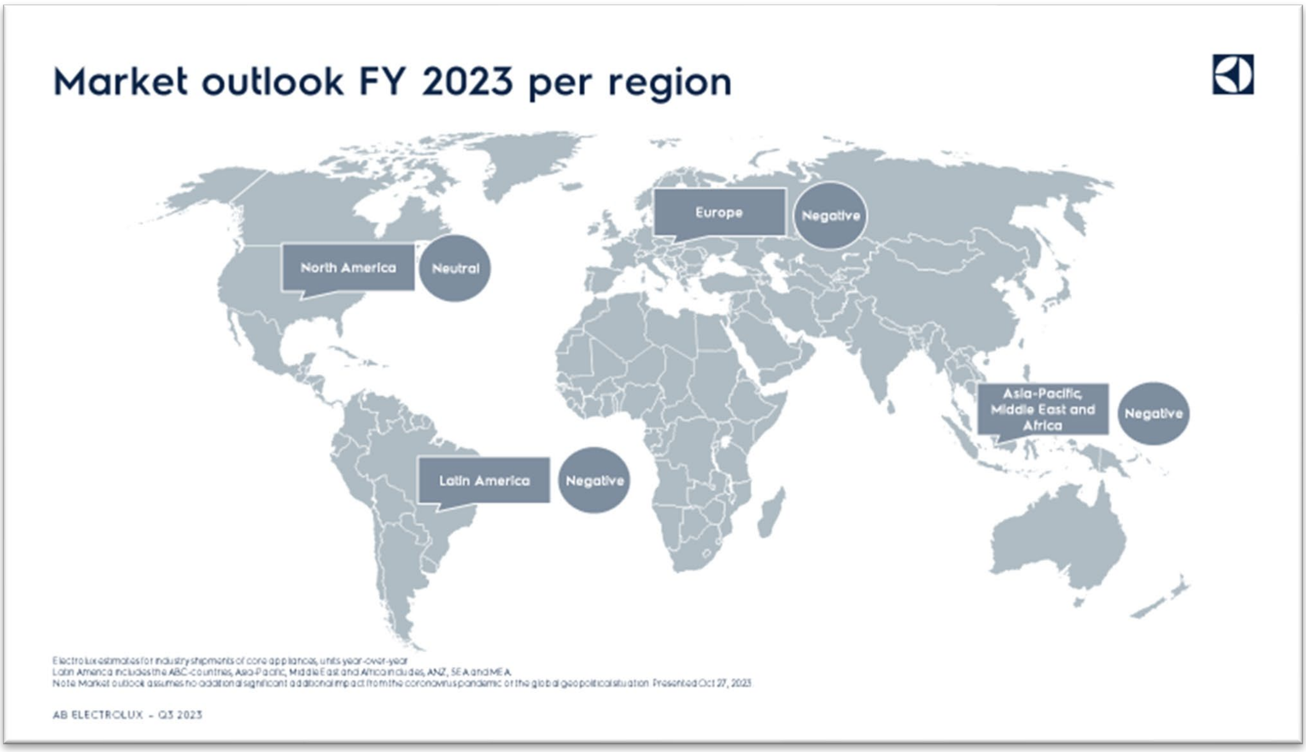
Transcript of comments to outlook slides in Q3-2023 earnings call

Below follows a transcript from the Q3 2023 earnings call held on October 27, 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 related to consumer durables purchases to remain negatively impacted by the high inflation and interest rate environment throughout 2023, although with regional differences. Forced replacement is expected to continue to be the main demand driver throughout the year. 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 discretionary purchases. The market for new and existing houses which is a key driver for appliance demand in mature markets like Europe and North America, is expected to decline in 2023. The demand growth seen in Latin America in the third quarter was primarily driven by Brazil and is explained by weak baseline and retailers shifting focus to push sales of white goods.

On back of this we maintain our regional market outlook for Europe, Latin America and the Asia-Pacific, Middle East and Africa region and expect demand for appliances for these regions in 2023 full-year to be negative, compared to 2022. However, given high promotional activity we revised the market demand outlook in terms of units for North America for the full-year 2023 to be neutral compared to our previously negative estimate, while we continue to expect total market value development in the region to be negative. The highly volatile macro and market environment across regions limits, however, the visibility for the rest of the year.

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 turned negative in Q3 2023, expected to be negative also in Q4 2023
Investments in consumer experience innovation and marketing[2]	Positive approximately SEK 6bn, combined	Benefits from the Group-wide cost reduction and North America turnaround program, including additional cost-saving initiatives
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. Presented Oct 27, 2023

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JS: Based on our market outlook, 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 lead to weaker market demand within the for Europe and Australia important built-in kitchen category also for the remainder of the year. This in combination with postponed purchases of certain appliances such as dryers is expected to lead to a less positive seasonality than normal also in Q4. For North America specifically, as Anna mentioned, the border situation between the State of Texas and Mexico, that emerged towards the end of the third quarter involving lengthy vehicle inspections, is anticipated to have a negative impact on the availability of our high-value products manufactured in our Juarez factories in Mexico in the fourth quarter. To what extent is hard to say now as this depends on how long the situation continues. As we previously communicated, the plan is to finalize the transition of cooking manufacturing in Springfield from the legacy facility to the new one in the fourth quarter. Similar to previous manufacturing transitions, we also this time expect some additional costs and impact on product availability. It is great to see how well-received the new products from Springfield are and provides us with a great platform to drive mix going forward.

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. A challenging macro environment with more consumers shifting to lower price points and demand driven to a larger extent by forced replacement is, however, limiting our ability to drive mix improvement fully. In the third quarter, mix was positive and we anticipate this to also be the case for the fourth quarter.

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 second half of the year compared to the first half. As expected, price turned negative in the third quarter as promotions increased significantly year-over-year and we anticipate a negative price impact also in the fourth quarter. This as promotions are expected to remain high also during the remainder of the year in all major markets. Normally the second half of the year, and particularly the fourth quarter, is a more promotionally heavy period compared to the first half, especially in North America.

As mentioned, we expect External factors be negative for the year, driven by energy and labour inflation as well as currency headwind. This was also the case in the third quarter despite raw material turning positive from being negative in the first half of the year. Lately, currency has further deteriorated, especially in Latin America with the situation in Argentina. Hence, we expect External factors to be negative also in the remainder of the year and the magnitude is hard to assess since it depends on these currency movements.

I am pleased that the Group-wide cost reduction and North America turnaround program is progressing well. However, the ongoing cost reduction progress, while ahead of plan, is, as mentioned, not sufficient to restore margins given the continued weak consumer demand and competitive pressure in the market, which is significantly exacerbated by the large discrepancies in input cost inflation between Europe/North America and certain parts of Asia. We are, as mentioned before, therefore stepping up our cost reduction efforts and focus commercial growth on selected mid- and premium categories with our main brands and an even more targeted portfolio management. This means that the cost reduction target for 2024 vs 2022 is increased to 10-11 billion SEK compared to the previous target of over 7 billion SEK. The new target comprises net cost reductions from Cost efficiency and Investments in innovation and marketing, combined. For 2023 the target is to reach cost reductions from Cost efficiency and innovation and marketing combined of approximately 6 billion SEK, year-over-year, compared to the previous target of at least 5 billion SEK. Given the time lag before the actions now put in place will have full earnings impact, we do not expect sequential improvement of underlying operating income in the fourth quarter.

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

Factors affecting forward-looking statements

This transcript contains 'forward-looking' statements presented in the Q3 2023 interim report and earnings call held on October 27, 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.