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| Transcription  Dometic Q4 2021 Earnings Call  {EV00130856} – {01:05:14} |
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| 27 January 2022 |
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# PRESENTATION

## Operator

Hello and welcome to the Dometic Q4 2021 Earnings Call. For the first part of this call, all participants will be in listen-only mode and afterwards there will be a short question and answer session. Please also try to limit the number of questions to two.

Today, I'm pleased to present Juan Vargues, President and CEO; Stefan Fristedt, CFO; Rikard Tunedal, Investor Relations. Speakers, please begin.

## Juan Vargues

Hello everybody, good morning from a rainy Stockholm, and welcome to the presentation of the fourth quarter and the full year report 2021. As usual, we are really grateful for your interest in Dometic, and I would suggest that without any delay we move over to the presentation on the fourth quarter.

We are very pleased with the outcome considering obviously the external circumstances that we are suffering from, as many other industries. We continue to see strong demand. We are ending the quarter with a record high backlog, again. We see [? 00:01:10] inventory levels low across all verticals. And as many other industries, we still suffer from supply chain constraints that are challenging, even if we see that, thanks to the efforts done internally, we have managed to redesign componentry, especially electronics componentry, and started to get more access into chips.

Again, this is not over. We believe it is going to continue, but we feel better than we felt three months ago. On the performance side, very strong growth – 32% – with an EBITDA margin [? 00:01:51] of 12.8 versus 12.7 last year, and then Igloo has of course [? 00:01:57] effects as we already announced in connection to the acquisition.

We see also a positive movement in terms of pricing, cost increases continue to raise, but we have reduced the gap that we have between price and cost increases in Q3, and we have a positive difference in Q4. Innovation index at a very high level. As you all know, the target for Dometic is 25% today. We reached the target in Q3, and we will stay there for a few months at 26%. And then we are also happy to communicate that we are working very hard on the sustainability area, and we managed to reduce the emissions, CO2 emissions, by 24% during the year.

If we look at financials. As I already commented, 32% total growth in the quarter with 2% organic growth, 2% positive effects from FX, and then 27% coming from M&A. EBITDA 771 million or 10% up versus last year ending up at 13.9% EBITDA margin. Looking at EBITDA [ph 00:03:17], we ended up at 632 versus 536 million last year, or 18% up, or an EBITDA margin of 11.4. Operating cash flow 546 million, slightly lower than one year ago, and that's of course the consequence of building up inventories for Q1 and Q2. Happy to report as well leverage of 2.6 which is very, very close to our financial targets and an EPS of 62 öre compared to negative or 54 öre last year.

If we move over to the summary 2021. We have taken major steps in accelerating our strategy, accelerating the implementation of our strategy, and driving our transformation journey. On the market developments, I will not repeat; it’s more the same that we have seen in Q4, but again, very happy to report record high revenues for the year and operating profits. Organic sales growth up 23%, very strong. Nine acquisitions were announced during the year. On one side we had Igloo, extremely important acquisition strategically, transformative acquisition, and then on top of that, eight bolt-on acquisitions.

We are also very happy to see how, what we have been communicating according to the strategy, the shift from the OEM business to the distribution and service aftermarket businesses is taking place. We ended up the year at 50% and of course, if we look at pro forma rates, it will be even lower.

EBITDA margin for the year, 15.6 versus 13.8 last year, which means that we are achieving our second major or higher profitability ever in the history of the company despite all the challenges that we have around us.

And last but not least, the Board of Directors is proposing a dividend of 2.45 krona per share.

Summarising the financials, 21.5 billion, again [? 00:05:31] for Dometic of 33% total growth with 23% organic, 3% negative effect from FX, and then a positive effect of 30% coming from M&A [ph 00:05:42]. EBITDA close to 3.8 billion or 41% up and an EBITDA margin of 17.5, which is 100 basis points above last year. And even [ph 00:06:00] EBITDA strong over 3.3 billion or 50% up versus last year.

Operating cash flow above 1.7 billion, lower again than 2.2 billion that we could show last year and that is very much a consequence of the inventory being down [ph 00:06:12] and then EPS, a strong 5.58 krona, much higher obviously than what was delivered last year, 1.52 krona.

Looking at our trajectory in the last years, again, we are extremely happy to see the levels that we are achieving. And of course, with additional acquisitions this will continue during 2022. Total growth of 32%, with America showing 23% up, EMEA 19% [ph 00:06:47] up, APAC [ph 00:06:48] a strong 26, and even global and very, very strong – 55%.

And then looking at Q4 this year in comparison to Q4 2019, organic growth was 70%. So, that's telling you obviously that Q4 last year was very, very strong and now we are facing a tougher comps moving forward.

Looking at our application areas, we see growth all over the place. We see an acceleration in food and beverage. That’s on one side, organic growth, on the other side that's where Twin Eagles are kicking in. In Power and Control, we see a very strong acceleration as a consequence of the acquisitions that we have been doing in the mobile power solution area, and as you can see, contributing greatly to the evolution. In other applications, that's where you find Valterra having also a major impact, especially in the area of sanitation.

If we look at different sales channels, more of the same. Very strong development in both service and aftermarket and distribution. And again, this is both organically and acquisitively. Organically, we have been building up teams all over the world, both in Service and Aftermarket business and Distribution business, but of course the acquisitions are also starting to play a major role in our development.

You can see clearly the shift that we are doing from OEM standing for 61% for the full year 2017 to 50% on 2021 and if we look at pro forma, we should be on around 42%/43% when moving over to 2022 before we generate any growth. So, a very, very strong shift in the breakdown of the group.

EBITDA ended up at 15.6, as I mentioned previously in comparison to 13.8 one year ago. Excluding Igloo, we should be on 16% and I'm commenting excluding Igloo obviously because Igloo had an impact for two months. Otherwise, we will be higher than that. We will of course from next year not comment Igloo because it's part of the running business, so to say.

Positive impact from the growth, of course, pricing, cost savings activities, and then we have a positive currency effect. At the same time, we also see obviously negative effects by the supply chain constraints, on one side leading to freight cost, leading to inefficiencies in our factories. We see raw material prices that stabilised for a few weeks at the beginning of Q4, but they are starting to creep up again, not at the pace that they used to be, but creeping up anyway. At the same time, again, we have been compensating by price increases.

And then last but not least, we also have tougher comps due to the fact that we were coming Q4 out of the pandemic and we still have a very, very low cost base.

Looking at different segments, Americas up 23%; organic, negative 6%, very much due again to a fantastic Q4 2021. We see growth in all areas, especially in Power and Control and Other Applications. We see both the OEM business and the Solutions and Aftermarket business developing nicely and we also [? 00:10:34] acquisitions are driving a better business mix. EBIT margin ended up at 3% versus 1.9% last year. And again, I will not repeat myself, it’s not about pricing, it’s about working with our efficiencies in our factories and distribution, and then acquisition is also having a positive effect.

If we look at the full year, growth rate, 34% totally, 20% organic and then a clear improvement from 0.9% in EBIT margin last year to 5% this year.

Looking at EMEA [ph 00:11:15], 19% total growth for the quarter or organic 8%, driven very much by the climate application. We are leaving 2021 with an all-time high backlog in EMEA and even here the acquisitions are helping us to get a better business mix in comparison to the OEM.

EBIT margin slightly lower than last year, 5.1 in comparison to 5.9. And as usual, here we have the supply chain constraints playing a role. We have the raw material prices that we are partially compensating by the price increases. And we have also extra M&A transactional costs that kicked in in the quarter. Looking at the full year 24% up, or 22% up organically, and a clear EBIT margin improvement from 11.5 to 12.9 this year.

We are extremely pleased to see our APAC segment continue to develop. Total growth in the quarter was 26%, organic growth 1%, with growth in all application areas and in all six [ph 00:12:30] channels, with backlogs at much higher levels than we had one year ago, and even here acquisitions are playing a positive role. EBIT margins, fantastic 26.3% compared to 25.9%, despite the fact that we had a lower cost base one year ago. And the same reasons: we are working very hard on the pricing, we are working on efficiencies, and against us we have obviously supply chain constraints and raw material prices.

Looking at the entire year, 49% up totally, 34% organically, and very, very strong margin improvement up to 26% in comparison to 20.6% one year ago.

And then finally looking at global, very strong – 55% total growth with organic 5% and here is really where we do have on one side Twin Eagles doing very well for us and then we have Igloo showing also a very strong growth in the quarter.

Very solid growth in Marine as well, leaving also the year with all-time high backlog levels and we see also that the hospitality business has been coming back very, very strong. And we expect that to continue in this year. EBIT margins, 12.3% in comparison to 20% of course affected by Igloo. Excluding Igloo, we would have been showing 19.2% versus 20%. The same reasons obviously: supply chain constraints and component [ph 00:14:06] prices.

Looking at the year, very strong 37% up totally, 24% organic and then a total EBIT 19.2 in comparison to 20.4 last year. But [? 00:14:17] here excluding Igloo 21.4 versus 20.4 last year.

A couple of words about Igloo. Ended up the year very strong as you can see. We are the market leaders in the American market, the prime market in the world. Ended up with a market share of 31% versus 20% last year. And what is interesting here to observe is what’s happening just now with average prices in comparison to the volume. So, we are growing much higher in US dollars than we are growing in number of units and the reason for that is innovation. We're starting to move from a good position into a better positioning. We're starting to penetrate also deeper and deeper the sporting goods market and of course adding 90,000 stores to Dometic that will help also Dometic to penetrate that as a channel.

And then B2C, they started in 2020, at the end of 2020, showing also very strong growth. Still small numbers but showing very nice growth. We are working very hard on the integration process and working both from a product development, working from a graphical evolution all over the world, and then we already have the price increases coming through from Q1 from January, which [? 00:15:49] start seeing clear improvements versus last year.

Looking at strategy, I will make it very short. At Dometic we are working our strategy, walking the talk, what we communicated to you in the Capital Markets Day 2019 we see clearly the shift that we have done in terms of Distribution and Service and Aftermarket. We have our acquisitions kicking in and accelerating the process. We see also our B2C efforts again still very low numbers but growing dramatically as we are implementing it in more countries.

Product leadership [ph 00:16:24], very happy. 26%. Very, very strong level and great evolution the last few years. And we have a strong pipeline of new products coming through in the coming years as well. And then working hard on cost reductions. I think we reduce complexity massively. As you can see, SKUs are down 59% since 2018 and we are accelerating now the restructuring programme that slowed down due to the pandemic in 2020 and 2021.

Social media, another area where we are investing. As you can see, Facebook is starting to slow down big time, but we are shifting more and more towards Instagram, showing a very strong growth, and LinkedIn also showing a very strong growth.

Outdoor, that’s our main area moving forward. A dramatic change in number of presence – in number of stores worldwide. On one side we moved organically quite a bit from 3,500 to over 5,000 stores and then we got the Igloo [ph 00:17:30] acquisition kicking in with another 90,000 stores. So, I would say a massive change in how Dometic looks like moving forward.

We see also our efforts, as I mentioned previously, on B2C and e-tailers. E-tailers growing organically in the quarter by 89%, and looking at our own channels, our own ecommerce channel growing in the quarter 52% and growing for the year 93%.

Acquisitions. Hopefully the slide is self-explanatory, how we're integrating companies and that all the companies but [ph 00:18:09] Igloo are integrated into Dometic. We are using double branding already now after a couple of months and Igloo will be separate as they stand for something different. You can see as well where the acquisitions are coming from. Most of the acquisitions are in Mobile Power Solutions. We have Service and Aftermarket. We have the vehicle-based, Outdoor market. And then finally, Residential Outdoor. So, 100% according to the strategy that we communicated.

And talking about acquisitions, NDS we announced at the end of the quarter and will be completed during Q1 2022. It is another very important step in our Mobile Power Solution entry. It is a company, again, contributing with 75% of the sales in the Service and Aftermarkets. Complements geographically acquisition of Büttner perfectly, so Büttner is obviously a tackling the north of Europe while NDS is tackling the South of Europe. And as I mentioned, completion is expected in Q1.

Looking at product development, a lot of new products flowing through here. We have some examples. Our front runner did launch during the quarter. Different solutions, heavy duty solutions for overlanders especially. You see as well as the new barbecue grill making it easier to pack and unpack when you are on the road.

Marine, another very, very important area of our business where we have invested in the last few years and showing a fantastic development. We're starting to develop the products also for other geographical areas and investing even more in developing the service and aftermarket part of the business where I have to mention that if you compare the RV vertical and the Marine vertical, the Marine vertical is much more service intensive than the RV vertical. And that's also one of the reasons for the Marine business to be very important to us.

On the restructuring programme. A lot activities behind the scenes but no location affected in the quarters. So, 22 locations up to now since we started the programme. The number of employees affected so far, 804. We added another 56 [ph 00:20:31] million in the quarter restructuring costs, bringing the total figure to 319 and we are accelerating now our pace in terms of implementing the programme.

And then I'm also very happy to report our progress in the sustainability area with injuries coming down dramatically in the year by 26% with a lot of activities in all our segments. We increased our number of female managers from 24% to 25%. Unfortunately, we didn't reach our target of 26% but we are working very hard to achieve and get higher than even the target that we see just now of 26%.

Audit [ph 00:21:18], despite the pandemic and all the restrictions to enter, especially China, obviously, but we ended up at 88%. Also, a lot of progress in comparison to the situation one year ago, and another very important area for us. And then CO2, we moved to green electricity in a huge number of countries and even here we expect also further reductions in the years to come.

And with that said, Stefan, I would like to hand over to you, please.

## Stefan Fristedt

Thank you, Juan. Moving directly over to our [? 00:21:55] EBITDA bridge. So, the three components here, starting off with currency. We had a 99 million positive effect on net sales and a 30 million positive effect on EBITDA. I think there have been some questions around this. So, to clarify where does this currency effects come from. 50% is translation related and 50% is transaction related. A part of the transaction-related effects are sitting in other operating costs and income and the other side of this is sitting in the gross margin. So, you have to put them together to get the total effect.

Moving over to M&A, contributed positively with 1.132 billion in net sales and 103 million in EBITDA. Igloo has been dilutive on our margin. They have posted a slight EBITDA loss in the quarter and it's a little bit above 40% of the sales that is related to Igloo. That means that the other acquisitions are accretive to margin.

So, moving over to the last column volume, price mix, cost, and other. We obviously have had a positive sales growth. If we look on pricing and combine that with the effect on the cost increases on freight and raw material, as Juan has mentioned before, we are seeing that the price increases are coming through and they are not quite double the size compared to Q3, but almost, but then they continue to be offset by further cost increases. And one thing too specifically, which has been a driver here in the quarter, is that we are increasing the level of spot price [ph 00:24:17], and that's really a measure to mitigate the constraints that we have had on the component side. So, there is a cost related to mitigating this effect.

So, if we add it all together, we have a slight improvement versus Q3. And as you remember, it was minus 0.4% on the margin in Q3. So, there is a slight improvement to that here in Q4. We have to also mention that we have further price increases coming through here directly from the beginning of Q1, so we will see a further development in the right direction here during the first quarter.

Then, as you know from before, we have been investing in sales- and marketing-related activities and that is to strengthen B2C, it’s to strengthen outdoor service and aftermarket as we have mentioned in previous quarters. Then we also have to recognise that we had a low cost base in Q4 2020 coming out of the pandemic, lockdowns and all the effects that the pandemic had in 2020.

So, those are the main effects in that column. Moving over to the same view but for full year. So, as Juan mentioned before, we are moving from 13.8% EBITDA margin to 15.6, despite that we have negative currency effects in the full year. So, they are 143 million on the EBITDA level. And it's also approximately 50/50 between translation and transaction here.

M&A has been contributing with 2.1 billion in sales and almost 300 million in EBITDA. As we mentioned, Igloo has been dilutive on this margin, related to their November and December and then the other acquisitions, they are accretive to the average Dometic margin.

Volume price mix and cost, we have seen a growth of 3.7 billion, and we have had a drop-through of a little bit more than 25% on that, and that's driven for the full year; pricing has had a better effect than in the last two quarters. We have been continuously to execute on our cost-saving activities. And then obviously, we have some negatives on supply constraints, freight costs, and raw material prices. And then, we have the investments that we have decided to do, which is approximately 130 million.

So, let's move over to the next. To give you some better flavour to how the acquisition has impacted Dometic in 2021. Reported we have 2.1 billion in net sales, and we have 298 million in EBITDA. If we would present that on a pro forma basis, as if we would have owned all the acquisitions for the full 12 months, then that would equate to 6.6 billion in sales and 661 million in EBITDA. And of that, Igloo is approximately 3.8 billion in sales and 110 million in EBITDA.

Total amortisation of acquired related intangible assets including not only the acquisitions we have done during 2021, but the totality that we have, is going to be around 0.5 billion to 0.6 billion SEK.

Looking on the distribution of sales, all these acquisitions that we have done is taking down the cyclicality of Dometic, but we are still seasonal. So, you can see Q1 is 23%, Q2 is 31%, so by far the largest and most important quarter, and then 25% in Q3 and 21% in Q4. And then in the table below, you can see when they were announced and from which month they are included in our accounts, and in which segments they are reported.

If we move onto the next. Operating cash flow – 68% cash conversion in Q4 and cash flow in general has not been coming up to the levels that we are used to seeing and that’s very much driven by working capital. There is a very clear volume-driven component of the build-up in working capital, but we also have significantly longer lead times, more than double from China to the rest of the world, for example. We have product launches, as well, impacting the number.

So, we are moving over to actually the details of the working capital. Here you can see that on the accounts payable side and the accounts receivable side, we are improving on accounts payable quite significantly, which is according to plan. We are focusing on this, and then on the accounts receivable side, we see a very stable development. Then, you can see the development of inventory that I was mentioning. But on the total working capital point of view on a 12-month moving average, we are on 87 days, which is not significantly above what we have seen in the past.

Looking on CapEx, and R&D. CapEx came out higher in absolute terms in Q4, very much driven by capacity investments, in Igloo and in EMEA. It came out on a percentage of net sales around 2.8%. On the R&D side, we see an increase in the absolute spend, but a decrease in relation in net sales which is really related to the growth in the organic business, plus obviously the acquired businesses here. But we are going to stay in the range that we communicated on the Capital Markets Day of 2% to 3% on R&D.

Moving over to cash flow. Operating cash flow is slightly below last year, and it is driven by changes in working capital, as I mentioned before, and we also have obviously the acquisitions included. So, we have a seasonal inventory build-up in Igloo. Then we have investment in fixed assets which I have already mentioned, what they are related to. And it's mostly related to investments made by acquired companies. Then we obviously have finalised acquisition of the Igloo, thereby the 5.8 billion in acquisition in the quarter.

So, let's move on.

This one you have seen before, but nicely we have now 3.8 years in average maturity which is an improvement from 3.3 one year ago. And then we also obviously have the undrawn revolving credit facility available of 200 million euros. In terms of net debt leverage, we have been ending up, after the acquisition of Igloo, on 2.6x, and that's close to the target of around 2.5x over a business cycle. And as you know from before, Dometic has a rather strong deleveraging profile, which we are assuming is going to continue in the future.

So, Juan has shortly mentioned, and we have also mentioned in our quarterly report that we are from Q1 2022 going to change our financial reporting. This means that we are going to break out Marine as a separate segment so that will leave segment Global and be a segment of its own. And why are we doing this? First of all, segment Global will be too large to manage in an efficient way. It will also not be very transparent from a financial reporting point of view, but then the most important thing really is Marine itself because it’s a strong and prioritised global platform and it has attractive margins and this is certainly an area which we want to continue to grow and capture the potential that we have also in other parts of the world than North America, talking about EMEA and APAC.

And then just to be clear, segment Americas, Asia Pacific, and EMEA, they will remain exactly as they are. And then we will start reporting EBITDA by segment also from the first quarter. We will provide to you every statement of previous periods which will be distributed in the middle of March, and which will then contain information from 2019 up to 2021. And as you know, our Q1 report is published on April 28 according to the new structure.

Juan has already mentioned that the Board is proposing a dividend payment of 2.45 krona, which is equivalent to 44% of net profit, and we believe that this takes our strategic agenda into consideration under current conditions, market conditions, and that we should be able to continue to maintain a solid balance sheet to support our growth ambition. And as you know, the dividend target communicated says at least 40% of net profit over a business cycle.

So, with that, I hand over to you, Juan, to make some concluding comments.

## Juan Vargues

Thank you, Stefan. Well, we already heard about the dividends, and we have seen the evolution of the dividend pay-outs during the last years. And coming back and trying to link the quarter, the short-term perspective and with long term perspective, when looking at the other financial targets, you can see that the last couple of years we have moved the company from 14 billion in revenue to a full year of 21.5 into 2021 or 26 billion on a pro forma basis. If we forget pro forma and look at the actual numbers and look at the CAGR during the last years, we are above the financial targets with 11% and 4.4% organic. So, not far away from our organic financial targets, so to say. If you look at EBITDA, we have also taken up our profitability quite a bit despite all the challenges that we have seen in the last couple of years in terms of tariffs, in in terms of FX during the time, and then of course the inefficiencies that are that brought by supply chain constraints and so forth. So again, we're still a bit away from our EBITDA targets, but we are working very hard, and we are totally committed to achieve those targets.

And then in terms of leverage, another very important financial target for us, as an acquisitive company, is that despite the growth that we have generated in the last years, we have also made sure to have the finance to move forward and we managed to end up the year at 2.6, which is exactly in accordance to our financial targets.

And then, 2021, again we will end up the year – we have ended up the year – with low inventory levels. We see still customer demand out there. We have a strong backlog. We are happy to report that we see a good start for the Igloo acquisition, both in terms of growth and in terms of profitability above what we expected a couple of months ago. And then we have the negative side – the supply chain constraints, obviously – that are an uncertainty, but I have to say that I feel better today than I felt three months ago. I think we have done a terrific job in that area.

On this big agenda, I will not repeat myself. I feel we are simply walking the talk and totally committed to reach our financial targets in the future.

And with that, I would like to finish the presentation and move over to the Q&A session.

# Q&A

## Operator

Thank you. If you have a question for the speakers, please press 01 on your telephone keypad. Please also try to limit the number of questions to two.

Our first question is from Johan Eliason from Kepler Cheuvreux. Please go ahead.

## Johan Eliason

Yes hello, this is Johan here. Thank you for taking my questions. Just first on Igloo. Did I understand you right, Stefan, that you said the pro forma EBITDA contribution would be around 110 million on Igloo?

## Stefan Fristedt

That is correct for 2021, so what’s important to remember here is obviously that we are expecting a pretty significant improvement on that, and that's also what is built into the [? 00:39:56] that they have. And what we can say is that the main driver behind this is that they have had a negative dynamic between their own price increases to their customers and their cost increases from – their input cost, so to speak, and they were expecting a little bit of a reverse situation of that in in 2022.

Hello?

## Operator

He is not with us anymore, so I’ll move on to the next question.

Our next question is from Agnieszka Vilela of Nordea. Please go ahead.

## Agnieszka Vilela

Thank you, I have two questions. Starting with the contributions from the acquisitions in the quarter. For me, it was surprisingly strong. You had 1.1 billion to sales from acquisitions. That was some 400 million more than what I expected. And I think consensus was more or less where I was. So, the question really is what did we get wrong? Was this season a bit stronger? Or do you see a very good growth at the acquired businesses right now? Or maybe that's just seen some stocking at the distributors right now. If you could explain that. Thanks.

## Juan Vargues

We have both. I believe that that out of the nine acquisitions, seven were completed, Igloo is dilutive, and then the remaining six are accretive. So, we see nice growth in those companies. That's the reason for the acquisitions. I mean we are jumping into growth trends in those areas. Both outdoor, mobile power solutions, and service are growth areas. And they have the right growth profile, and they have the right margin profile. And then we have Igloo and Igloo for us is very strategic and we are totally convinced that we are going to see a very positive evolution going forward even if we don't see that just now. But we are going to see that in 2021.

## Agnieszka Vilela

Okay, perfect. And then just to follow up on Igloo. If I calculated correctly, you had a minus 12 million contribution from this acquisition on the EBITDA line. And the first question here is, is this number including any positive impact from the currency hedge gains? Maybe start there. And that's probably a question to Stefan.

## Stefan Fristedt

So, this specific question is related to Igloo, right? And the answer is no.

## Agnieszka Vilela

Okay, so that's underlying minus 12 million EBITDA in Q4. And if I calculated, it's probably like minus 2% or minus 3% EBITDA margin then underlying for the quarter which, to my understanding, is better than it was in Q3. So if you could explain what's driving that improvement in Q4 for Igloo. Thanks.

## Stefan Fristedt

Absolutely. It's driven by a stronger growth in net sales than expected, and that's a combination of volume and price. So, price increases are starting to come through and that will continue going forward. So, that is—

## Juan Vargues

The main explanation, Agnieszka. One of the most important KPIs that we're going to follow is really the difference between growth in volume, meaning number of boxes, and growth in dollars. So, that's telling you really that we are moving up the ladder in terms in terms of innovation, in terms of penetrating new channels for Igloo, higher margin channels [ph 00:44:00].

## Agnieszka Vilela

Great, and maybe the very last one on the Group level just price cost dynamics and what you expect for 2022. Will you compensate for the price increases?

## Juan Vargues

Yeah, so if we take Q4 specifically, we see that in comparison to Q3 we have positive evolution. We have one more factor that has been kicking in in the last couple of months which is spot buying. If you forget the spot buying and take all the rest – raw material prices, freight costs – we have more than compensated in Q4 in comparison to cost. Then, during the last couple of months, as a consequence, already signing componentry to be able to source new chips, new componentry. We have been spending more money in spot buying and we have been increasing prices during December and January. So, our intention is exactly the same: to compensate. Then you have obviously a time delay. We are very happy to see that the time delay that we have on the underlying raw material prices is gone. Now we have a positive difference and now we are implementing prices to compensate for the spot buying.

## Agnieszka Vilela

Great, thank you.

## Operator

Thank you. Our next question is from Daniel Schmidt of Danske Bank. Please go ahead.

## Daniel Schmidt

Yes, good morning, Juan and Stefan. Just a few questions from me. If you try to sort of calculate what the impact has been from supply chain constraints on organic growth in the quarter, what kind of impact was that, do you think in Q4?

## Juan Vargues

2% to 3%.

## Daniel Schmidt

2% to 3%. And you're also saying that you are still seeing difficulties, but at the same time maybe some easing in several areas. Should we interpret that as that negative impact that you had in Q3 is gone and Q4 is going be a bit less in Q1 and going into 22?

## Juan Vargues

That's what we are working for, Daniel. As I said, it's not that the extent of circumstances are changing. It is really that like other investor companies are doing. The chip suppliers are just now betting on new chips, so they are moving the manufacturer into new chips. So, all of us having chips that are three/four years old all of a sudden do have difficulties to get access. So, what you have to do is to put a lot of engineering resources, a lot of sourcing resources to redesign the old componentry so you get access to the spot market. And that's what we have done. So, we see, in my opinion, a better situation than we had three months ago. I think that the team has done a terrific job. We see light. It doesn't mean that there are no clouds. There are a lot of clouds, but we see much lighter than we saw three months ago.

## Daniel Schmidt

Yeah. Okay. And also coming back to the bridge on Stefan’s slides when it came to the quarter, 98 million came from volume price, mix cost, and other. And I think you said that you had higher price hikes in Q4 than you had in Q3 and Q2. Would you dare to quantify that close to 100 million? Is that basically mostly price overall or could you shed some light on that?

## Stefan Fristedt

You know that we did quantify the price cost effect in Q3 to minus 0.4% on the margin and it’s still a minus sign, but it’s a smaller minus sign in the fourth quarter. So, price increases are coming through. I mean not quite double the rate, but significantly higher in Q4 compared to Q3 but then we also have a continuous pressure on the cost. But then you need to keep in mind that here is coming price increases now directly from Q1 to compensate for, for example, these spot price. So, as we can see them now, we absolutely did these price increases that are not insignificant coming through here now that they are going to be adequate, as we can see. But we will have to have – it’s almost like a weekly monitoring of this situation.

## Juan Vargues

Okay, Daniel

## Daniel Schmidt

Yes, thanks.

## Operator

Thank you. Our next question is from Fredrik Moregård from Pareto Securities. Please go ahead.

## Fredrik Moregård

Thank you and good morning, everyone. So, first a question on the cost inflation side. I mean you've been mentioning raw materials, strikes and spot buying as well. Just wondering what you're seeing on wage inflation and whether or not you've been incorporating any expectations on wage inflation to the price increases you've been announcing to your customers.

## Juan Vargues

Of course, we are considering that but for us, as Dometic, we are heavy manufacturing and when you look at manufacturing, our manufacturing side is very much about raw material. So, I see that as a major hit. We have taken obviously a hit this year in comparison to last year, simply because we had the situation with the pandemic. Now we are starting, we have already been flying for six months. A lot of people are starting to have big trouble in the second half of the year, so on wages, of course, that inflation will lead to higher rates, but again, we are in implementing price increases and our ambition is to have a positive difference and not a negative difference.

## Stefan Fristedt

Which we had in the first half.

## Juan Vargues

Absolutely.

## Fredrik Moregård

All right, thank you. And then a second question on the structuring programme that you're running. You think that you're going to accelerate it in 2022. Does that mean that you're pulling forward the full year impact that you said will be implemented from 2023? Should be expect it to be even earlier now? Or is that still the main idea?

## Juan Vargues

I think you should keep it as is, just now, but we will do anything we can to accelerate further more [ph 00:51:06]. And it’s not that we haven’t been working. We have been working a lot. It is simply, as I have commented a couple of times, that if you are going to move factories around, you need have people to meet. You need to spend time in the receiving sites and that's pretty difficult when you are banned from those countries. So the situation is easing up. We see clear improvements and we are travelling – we have been travelling now for six months.

## Fredrik Moregård

All right, perfect. I appreciate that. Thank you.

## Operator

Thank you. Our next question is from Henrik Christiansson of Carnegie. Please go ahead.

## Henrik Christiansson

Yes, good morning. So, two questions, please. First one on the strength in APAC. It continues to deliver a very strong number. What is driving the strength on that? Is that sustainable?

## Juan Vargues

A couple of things. I mean, first of all, you have the reality of the market. The market has been growing very, very nicely for us despite the pandemic. And by the way, as one more comment, additional comment, to the organic growth in Q4, we need to remember that Omicron started to kick in already in Australia in December and December and January are the strongest month for that region of the world, right? But again, apart from that, [? 00:52:22] dynamic, the growth has been fantastic.

Secondly you have a mixed situation where APAC [ph 00:52:29] is growing faster than Asia and you know how the situation looks like in China but also in Korea in terms of lockdowns, as soon as they have one case. So, that gives you a geographical mix difference.

Thirdly, we have the fact that service and after market and distribution is growing faster than OEM [ph 00:52:49], even if OEM [ph 00:52:50] is growing. All those factors together do have a positive impact on margins. Then, is this sustainable? I mean we have been running at 20% plus now for a number of years. Is 26% sustainable? Things move. I mean, our intention is to keep investing in high margin areas, not just in APAC, but in the rest of the world, but in APAC specifically, we have clearly a geographical mix positive impact.

## Henrik Christiansson

Great, and then the second question I noticed a headline here on the newswire where you say that you will definitely be able to increase margins in 2022. I mean, what are the main drivers there in improving margins year over year, and especially, given the dilutive Igloo acquisition.

## Juan Vargues

[inaudible 00:53:44]. I was talking about pro forma. Of course, Igloo is coming in and then taking down our margins pro forma, right? Our intention is to pick them up quite a bit in comparison to our pro forma number. So, just know that we are going to move from the 15.6 to 17. That's not going to happen next year. The first target is obviously to get back to the 15.6 since we are starting much lower.

## Henrik Christiansson

Great, thank you.

## Operator

Thank you. Our next question is from Lucy Carrier of Morgan Stanley. Please go ahead.

## Lucy Carrier

Hi, good morning, gentlemen. Thank you for taking my question. A bit of a battle to log it after all of the cancellation. I will start first of all to try to reconcile what we see in terms of organic growth, which seems to be decelerating in the quarter, and I think this is consistent, obviously, with some of the consumer leading indicators that we are seeing, which are also kind of decelerating, but at the same time we are seeing a massive build-up of inventories which have gone from 5 billion in the third quarter to 7 billion in the fourth quarter, while usually the fourth quarter is seasonally down a lot, so that seems to be a bit counterintuitive. I appreciate the new addition [ph 00:55:02], but the inventories have gone much higher than the M&A addition to sales. So how should we understand the decelerating organic growth and the build-up of such massive inventory?

## Stefan Fristedt

I think yeah. First of all, you also have to take into consideration that there is a value component to the inventory as we are, as you know, seeing cost increases. Then you also need to take into consideration that it is the first quarter where we have Igloo included and Igloo have a seasonal inventory build-up in front of the high season that typically starts late March, beginning of April. So, that is a normal pattern that we are seeing. Then we also see that the lead times are more than double on the shipments from China to the rest of the world. So I think those are basically the main the main explanations.

## Lucy Carrier

Thank you, Stefan. If I can just quickly follow up on that. If the lead time of components takes much longer, how come the inventories is much higher? I would think that effectively if you cannot procure the parts, your inventory shouldn't be going so high.

## Stefan Fristedt

No, but I mean we have approximately the double goods in transit compared to a normal situation.

## Lucy Carrier

I see. Okay, so they are kind of accounted for that. Understood. That's clear. Just also, I was hoping you could maybe update us around the savings you were expecting, the pace of the savings you were expecting for 2022 and 2023, and how does that compare to what you have done in 2021 and again, coming back to some of the questions around price cost, how do you stack that with the cost inflation and also the price effect? Shouldn't we be seeing an element of the price cost or the overall cost being truly kind offset by all of that.

## Stefan Fristedt

Okay. Starting with the savings programme. We are progressing here on that, and we are not quiet [? 00:57:43] on 200. We were on 200 million since the start of the programme, but we are close to, and so that is a progression over the year and also over the quarter.

And then I was not quite sure on your second question here. Maybe you could elaborate a little bit more.

## Lucy Carrier

Yes, I guess what I'm trying to understand is versus the initial target of savings that you had announced back in 2019, how much has been already achieved? How much is there to come? And how do we compare that with overall cost inflation?

## Stefan Fristedt

I mean, the saving target, as you know, was 400 million, so we are not quite half the way, but we are moving in that direction.

## Lucy Carrier

Okay, thank you. Just maybe if I can ask a quick short one around the backlog. Are you able to maybe tell us some kind of how much higher it is, but also whether that includes M&A and FX or whether this is – just the growth on the backlog is fully organic?

## Juan Vargues

It’s fully organic.

## Lucy Carrier

Any indication on by how much?

## Juan Vargues

We have not commented that so far. It is all time high and it's quite a difference.

## Lucy Carrier

Okay. Thank you.

## Operator

Thank you. Our last question today will be from Risk Medi of Jefferies. Please go ahead.

## Risk Medi

Yes, good morning, guys. Glad I made it into the Q&A. So, the first one is just a big picture one, Juan, on just the RV market. So, it's quite an interesting dynamic that we see at the moment. So, on one hand we see the whole sales figures going up and at the same time you see retail demand measured by registrations on both sides of the Atlantic sort of coming down. What's your read on those [? 00:59:54], and do you think this is all due to supply chain issues or is there an element of demand starting to normalise after the COVID boost [ph 01:00:00].

## Juan Vargues

I think it's basically just a timing issue. If you look just at the European numbers, it is clear that registrations were extremely high in 2020 while production was down, if I remember well now, 7% or 8%. Then you have the numbers in 2021 are the other way around. So retail is increasing [ph 01:00:25] but production is up big time. Now the expectation, and as you most probably have read about, manufacturers do have issues just now in getting material, especially from the [? 01:00:38] suppliers and that of course leads to delays. I mean, what I hear – what you read today is that consumer demand is still there, but when you talk to dealers, they are still telling you that is there. Then of course we are comparing with a Q4 2020 that was simply massive. And we are going to have a Q1 which was also massive in comparison to Q1 2021. So, I mean the fact of the pandemic is clear. It was there. Keep in mind that we were coming from two months without production at the beginning of the season. And then you get these fluctuations. So, I think it’s timing.

I think that the other question that you are raising is obviously much more related to inflation and potential interest rate increases. That, I guess, the one in the medium term that we need to understand what the impact will be. Consumer demand as we can perceive now is still there today.

## Risk Medi

Okay, interesting. And then perhaps the last one, if I could just come back to Igloo. Obviously, you showed some very strong increase in prices there, if I look at the retail sales in the US, they’re up something like 14%. Can you just tell us what's the historical pricing that Igloo was able to implement historically? And if you could just remind us of potentially the rate of growth that we should assume for 2022 or maybe what you see there in Q4. And then perhaps a reminder of the seasonality of this business as well, please. Thank you.

## Juan Vargues

Yeah, so I will start with the last one. This seasonality is very, very clear. So, it's very similar to the pattern that we have for Dometic. Otherwise, Igloo is even more pronounced. So, they have a slow Q4. They have a slow Q1. A very, very strong, a massive Q2, and a strong Q3. So that’s on that one.

If we are talking about prices, you have to keep in mind that you have a management, a new management team in place since the end of 2018. And that's where they started to invest in innovation. That's where they started to work on the pricing. So, you look at the last couple of years, they have seen both a very nice growth profile and very, very good profit improvements. Then you get into 2021, when you have storms at the beginning of the year, having an effect on [? 01:03:10] producers not being able to deliver. As a consequence, raising prices went through the roof and then Igloo took a couple of months to start raising prices and then you have a price difference. Prices have been implemented. We should start to see clear improvements from Q1 this year. Again, 2021 was exceptional if you look at the performance of the management team that we have in place. They have done very, very well in the last three years since they joined the company.

And then innovation, what they are doing in innovation is really to get many more models to start moving also from a channel perspective, from merchandising, doing merchandise and sporting goods, they are investing in B2C, which has also obviously higher average prices. So, there is not one silver bullet. There are a number of activities leading to what we're expecting to see moving forward.

And we have by the way what I have shown during 2019 and 2020. So, from our perspective we see 2021 they have a negative effect from the rising prices, and we are expecting to see a very, very clear improvement in 2022.

## Risk Medi

Great. Thank you very much.

## Operator

Thank you. There will be no further questions at this time, so I'll hand back over to our speakers.

## Juan Vargues

Well, thank you very much for your attention and we are very happy to see strong numbers in the quarter and we will work very, very hard, obviously, to keep moving towards our strategy, implementing our strategy, and to the fulfilment of our financial targets. And with that said, I wish you a wonderful day and thank you for your time. Thank you.

## Stefan Fristedt

Thank you.