Transcription

Dometic Q1 2025

24 April 2025

Juan Vagues: Hello. Good morning, everybody. Thank you for joining us on this call, where we are going to present the first quarterly report for the year. Moving into the summary, as you all know, the market conditions continue to be tough for some of our main verticals. I would say the market has been very much marked by the situation with the tariffs starting at the beginning of January. As a company, we have spent hours, days, and weeks calculating different scenarios and preparing ourselves. We see that the retail inventories of our customers are lower, and in some areas, they are at very low levels. At the same time, as we still see, due to the market situation, customers are cautious in building up any new inventories. The situation we see is that every second month, we see that people are starting to buy, but then traffic is not as expected, and then they postpone the next purchase order. When looking at our performance, we reported minus 10 percent organic growth.

Juan Vagues: Out of that, we also have one percent negative growth coming from the fact that we left one of the businesses that we already communicated back in December. We saw a situation where all the sales channels are improving in comparison to what we saw in Q4. We also see some, as we already indicated when reporting Q4, some green shoots. We see that our order stock in LVA, North America, is starting to grow. We also see in a subsegment OGV that the order stock is improving even there. We see that mobile cooling, specifically in Europe and in APAC, is showing a nice positive organic growth after a few quarters of negative growth. We see that the section of the market in some of the subsegments is also improving. We saw specifically that the section of the market on the RV side is also starting to grow. In other words, some positive signs of things are starting to move out there. Then, again, we have the tariff situation and the impact that it might have on consumer behavior moving forward. The challenge today is really the OEM.

Juan Vagues: I would say that the sales channels are evolving as we expected when we communicated Q4. OEM continues to see iteration, even if it is less negative than Q4. At the same time, we see slight improvements, both from a servicing of the market and a distribution perspective. We are happy to report what happened. That's perhaps not the right word. We are proud to report a 10.4 EBITA margin. We cannot be happy when we are reporting lower EBITA margins than we did last year. However, I believe that the entire team is doing a fantastic job in protecting margins while the volumes are still very, very low. What we are doing to support those margins is to, on one side, focus on the MIX. As you all know, we have higher margins on the service of the market and distribution than we have on the OEM side, so we are moving resources and adding some more people in high-margin businesses compared to the low-margin businesses. We continue to launch new products, focus on product innovation, and pay a lot of attention to cost reductions.

Juan Vagues: We also delivered negative cash flow for the quarter, 400 million kroner, as we stated, a seasonally weaker quarter. Keep in mind that for us, the lowest quarter is always Q4. Then we have Q1, Q2, and Q3, which are strong quarters for us. Then leverage ended up at 3.3 in comparison to 3.1 in Q4. All in all, 11 percent in negative growth, of which 10 percent is negative organic growth. EBITA ended up as 606 million, leading to an EBITA margin of 10.4 versus 11.8, with EPS delivering 57 ODA or adjusted EPS at 88 ODA, with a negative cash flow of slightly more than 400 million kroner and a leverage of 3.3. Looking at the different segments, Land Vehicles came in at minus 12 percent, Marine came in at minus 13 percent, Mobile Cooling came in at minus four percent, and Global Ventures came in at minus six percent. We will give some more details down the road. Looking at the Sales Channels, we can see that no major changes are going on. It's evident that the OEM is dropping much more into the service market at distribution.

Juan Vagues: You can also see, looking historically clearly, that the OEM side is far more cyclical than the other two, which means that as a percentage of sales is coming lower down, while distribution, especially, is improving. As a reminder, if we look at the RV OEM, Americas stands today for about six percent of total sales for the group. I think these are pretty interesting slides to have a look at, where we can see that in the last few quarters, we're still showing negative growth, but less negative. I'm going back to the green shoots that we see here and there with a backlog, especially in LVA, which is improving. We see as well that the service of the market is moving in the right direction. While marine, on the servicing of the market specifically, is still pretty low. Distribution, as I commented, the hospitality business and residential are both positive. Mobile cooling is negative altogether, very much marked by the US, while mobile cooling in both Europe and APAC has turned to positive numbers. Then, as we also commented, OEM in the Americas looks better, while just now the numbers are very much impacted by EMA and APAC and are still at the same levels as we have seen now for a few quarters.

Juan Vagues: Looking at our EBITA, I'm happy to report that gross margins are improving, and I feel especially proud of those margins when considering that we are dropping more on our high-margin businesses, both in LVC, as you remember, Land Vehicles Pacific, where we have very high margins and marine. The underlying gross margin improvement is better than that. It shows that we are a pretty resilient organization when considering the cyclicality that we are supposed to be experiencing now. We continue to invest in pro- development and continue to invest in the sales organizations in what we consider to be the growth areas just now. This means service aftermarket, mobile cooling, and mobile power solutions. When looking at tariffs, this has been the theme, I would say, of the quarter for many companies, including us. About 50 percent of our sales today go into the US market. Out of that, about 60 percent is produced today in the US, and the other three countries where we are producing for the US market are Mexico, Canada, and China.

Juan Vagues: We are ruled under USMCA for a major part of what we produce today in Mexico and Canada, which gives us good protection in comparison to the major competitors that we have today in the American market. We have commented a couple of times in the last couple of years that, specifically, for the Land Vehicles, America's on the other side have been exposed quite a lot to Chinese competition. That has been a changing factor for us in the last couple of years. Now, looking at the tariffs implemented at this point, it is clear that we have a competitive advantage over many of our main competitors in recent years. Again, we are not happy about the tariffs. I don't think that anybody can be happy with the tariffs, but at the same time, from a competitive perspective, we are well-positioned. We are working on pricing, and we have already issued new prices in all the segments in the US, but that's a short-term support. In the long term, we are evaluating and working on different scenarios to change both logistic flows and add more local production in the US.

Juan Vagues: The problem just now is that you cannot start pushing buttons without knowing, with some kind of certainty, what the end game is going to look like. Now, again, it's very much preparing the next steps, but from a long-term perspective, we cannot just start pushing buttons. Looking at different segments, land vehicles are down 12 percent, with a low single-digit decline in the service of the market. Then, if we are looking at the CPV side, the commercial and passenger vehicle side is, from a service and aftermarket perspective, negative, while the RV side is positive for the quarter, which is good. We have seen a positive trend in the last couple of quarters. We see good stability in America, and again, we are pretty optimistic that the situation created now with the tariffs might bring us some competitive advantage from an RV perspective, which is positive. EBITA margins ended up at 5.9 or 150 million kroner. I would perhaps mention specifically the reduced losses in the Americas as a result, both on efficiency gains, but also the fact that we are running, as you know, the restructuring program that we announced in December.

Juan Vagues: Looking at marine, organic growth down 13 percent, we decline both on the Service and the Aftermarket, and on the OEM side. We are very pleased with the product launch that we announced in connection with the marine boat show in Miami in February, and we are hopeful that the new product range is going to support our growth moving forward when the market starts moving upwards. EBITA ended up at 256 million kroner, or an EBITA margin of 19.7. Mobile cooling had a negative organic growth of four percent. We see the same situation as we saw during Q4. It's a little bit every second month, we see retailers building up inventories, and then being cautious every second month. Good to see, though, as I commented earlier, that both EMA and APAC are showing pretty nice numbers in Q1 after a number of negative quarters. EBITA had a good positive evolution, ending at 123 million kroner, or 8.6. Even here, supported by pro launches on one side, but also cost reductions.

Juan Vagues: Finally, Global Ventures ended up with an organic growth of six percent, so the difference between the 13 and the six percent organic growth is the fact that we exited one of the businesses that we communicated back in December. We have nice growth in both hospitality and residential, as well as negative growth in mobile power solutions, but part of that, again, is the exit of one of the businesses that generated the business that we had. Then the fact that the business is partially linked to the RV manufacturing. EBITA ended up at 78 million or 13.3 versus 14.2 last year. We are also happy to report good progress in our sustainability scorecard, with injuries at 1.2, versus a target of 1.5, with a share of female managers reaching the target of 30 percent already in the quarter, with renewable energy ending up at 34 percent. We have a target of 35 percent for the year. We are working very hard as well to audit our major suppliers on that material. We have already done 48 percent, while we have a target of 65 percent. Innovation index is at the same level as Q4 at 21 percent, and we are confident that we are going to see that percentage grow during the quarters to come.

Juan Vagues: A lot of product launches in a number of areas. We have been launching under both the Igloo brand and the Dometic brand. We have a very, very comprehensive, broad range, and we will continue. We have a number of new product launches as well, during Q1 and Q2 this year, both in the US and EMA. I think it's a good way of showing as well how the Igloo acquisition was strategically so important to us to get really to the good and the better range of the cooling market while Igloo is also supporting us to develop new products on the premium class for both the pasiha coolers, soft coolers and drinkware, which is, as a matter of fact, something new for Dometic in the last couple of years since the Igloo acquisition. Moving over, this is the way we are showing ourselves as a consumer business, taking more and more space. This is a 300 square meter in-store location in one of the major retailers in the outdoor industry across Europe, which is Go Outdoors in the UK. I hope that you agree that it looks brilliant.

Juan Vagues: Another super interesting area is the Gyro. This is a totally new product range for us. This has been a high-growth, high-margin market that has been evolving over the last ten years, especially in the US, but also coming to Europe and the Pacific area. We estimate the global market to be about half a billion US dollars. We have segmented the product launch in connection with the Miami Boat Show in February. We have won an innovation award already and feel optimistic about the evolution of this range by 2025. We keep paying a lot of attention to innovation in a market which is still tough to gain market share based on our product innovation. Last but not least, we introduced the restructuring program in December. We see good progress in that area. As you may remember, we are talking about the annual savings of 750 million once the program is fully implemented at the end of 2026. We had good progress in the quarter, ending with the closure of one of the manufacturing sites and one distribution center. One hundred and fifty people were impacted by those changes. This is just now giving us a run rate saving of 100 million, and we had cash out in the quarter of 40 million.

Juan Vagues: We continue to work on the divestment plan that we communicated as well. Things are moving. The situation just now, with the tariffs and all the uncertainties, is getting into a little bit tougher negotiations than we had about six weeks ago. However, we are sitting at the table and having those discussions. With that said, Stefan, the stage is yours.

Stefan Fristedt: Thank you. Let's go in and dissect the income statement. It's very good to see that we are keeping up our gross margins and even improving them during the quarter here. That is related to the sales mix and, unfortunately, also the new product launches, but we are also continuously working on adjusting the capacity to the lower volumes, including the effects of the restructuring program that we are running right now. Operating expenses are down in constant currency by around three percent. Then, because the sales are down by 11, the percentage in relation to the net sales is up. Then we keep on investing in strategic growth areas that we have identified. Then the other operating income and expenses are negative 37 million, which is mainly related to ethics hedges, partially offsetting the gross profit margin. If we look at the net financial expenses, the interest on the loan facilities that we have is 138 million, compared to 199 million. It is moving down according to plan. Then we have somewhat higher ethical revaluation effects and other items of 59 million, which is higher than last year.

Stefan Fristedt: If we look at the tax line, the effective tax rate has gone up a little bit to 32 percent versus 30 percent. However, in absolute terms, we are down from 190 million last year to 87 million this year, in the first quarter. Moving over to our cash flow, if we start to look at our operating cash flow, the working capital is seasonally up a little bit, mainly driven by accounts receivable. However, if we look at an LTM basis, the working capital is reduced by over one billion Swedish kronor. I feel that we are doing a great job, and we will come back to that later and talk a little bit about the different components of the working capital. Then the cash effects of our restructuring program in the Q1 are 40 million Swedish krona. Then, we continue to prioritize our investments in fixed assets and product development in the quarter. Q1 last year was an exceptionally low quarter due to timing, so that's why we have a difference there, but nothing that is sticking out. If we look at the free cash flow before M&A, we have income tax paid, and as I said, it has declined by over 30 percent, and then paid interest, or the net of paid and received interest, is also down by 16 percent.

Stefan Fristedt: Then, the refinancing activities are positive 900 million, but that's related to the refinancing that we did here in February. I'm coming back to that. Moving over to the next slide, you see the free cash flow development over a longer time period. As you can see, the first quarter is our weakest quarter, and it might move some 100 million back and forth here, so 406 million, I would still say that is within what we could expect. Moving over to working capital, we can see that the working capital in relation to net sales is down 31 percent last year to 28 percent on a 12-month basis. If we take the quarter standalone, we are down to 27 percent. Inventory balance is now 5.6 billion, and the number of days outstanding in inventory is 131 days, compared to 145 days last year. However, we also see that in absolute terms, the inventory continues to come down in the first quarter, currency neutral, around 350 million. We have a target of 20 percent, which leads us to further potential to reduce the working capital in relation to net sales.

Stefan Fristedt: My estimation right now is that we will not be on 20 percent of net sales this year, but we will still take a meaningful step towards our target during 2025. Accounts payable and accounts receivable are equally stable, so there are no big movements there. If we look at CapEx and R&D spend, we spent 98 million, which is in line with the pattern that we typically are spending. Then we had the timing-wise, a little quarter in Q1 2024. CapEx in percentage of net sales right now is 1.7 percent. Regarding R&D spending, we keep on investing in strategically important areas like mobile cooling, like marine, to mention two areas. On an absolute term, the spending is more or less kept on the same level. It's going up a little bit in relation to net sales because of the decline in net sales, and is now 2.8 percent. Moving over to the debt or debt portfolio, as you have seen, in February, we did issue a bond in Swedish krona of 2.5 billion. 1.5 billion of that with a three-year maturity and one billion with five-year maturity. We use those proceeds to pay back an EKN-backed loan of 1 billion, as well as a bond of 500 million.

Stefan Fristedt: As you can see from the maturity here, we still have 0.5 million in SEK bond, and the assumption is that we will also pay that back here during Q2. Then we have also prolonged our half of our USD loan, which was previously maturing in 2027 to 2028, and we now have average maturity of 2.5 years, 2.7, including the extension options, compared to 2.1 years in Q4, 2024. The average interest rate on the debt portfolio right now is 4.7 percent. As you know, I have mentioned it before, a little bit more than 50 percent of the portfolio is fixed, and the rest is variable. Then we also have an undrawn revolving credit facility of €280 million maturing in 2028. We have an updated EMTN program to issue bonds in Euro and Swedish krona. Then we also have a certificate program of three billion, which is more of a source of short-term financing. If we look at the net debt to EBITA, the leverage ratio here ended at 3.3 compared to 3.1 in Q4. It is a sequential natural movement. We have seen a positive effect from FX.

Stefan Fristedt: We have had a reduced EBITA, and then we have our seasonally weaker operating cash flow in the quarter, and we continue to focus on the important things to protect our margins and reduce our working capital. We are continuously committed to taking the leverage towards around 2.5, which is our target. As you can imagine, with the current macroeconomic situation going on right now, it's a little bit difficult to assess the timing exactly. However, I expect that we are going to see improvements over the coming quarters here, with the caveat on what is going on at the macroeconomic level and the tariff situation. With that one, I'm handing over to you to make the summary.

Juan Vagues: Thank you, Stefan. Summarizing the quarter, we feel that we are delivering a robust performance in what, I would say, are probably the toughest times that I have experienced in my professional career after the pandemic. We continue to take action to protect our margins and mitigate the tariff impacts, both in the short term and in the long term. We see inventories coming down on a continuous basis, but we also see customers being cautious in building up new inventories. Considering all together and under normal circumstances, we would expect to see the service market recovering as well as the distribution step-wise. Our expectation would be to see clear OEM improvements during the second half. Then, it's impossible to assess without getting more certainty on how the tariffs are going to impact demand. Strategically, we continue to work on the right things. We continue to invest in the areas that we believe are going to generate growth and high profitability moving forward. We continue to invest in innovation, and we spend a lot of time taking breaks or breakpoints by reducing costs all the time.

Juan Vagues: All together, we are confident that despite the turbulent times, we are going to take the metrics to a higher level of performance moving forward. With that said, I would like to open the Q&A session, please.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. Please mute your line when you have asked your question, and please limit yourself to only two questions. You can also write your questions on the webcast page. The next question comes from Agnieszka Villella from Nordea. Please go ahead.

Agnieszka Villella: Thank you so much for taking my questions. Maybe starting with the gross margin development in the quarter, you improved it despite lower volumes in the quarter. Can you tell us about what the main drivers were, and also, if you could rank them, what was the most important for good margin development on the gross margin side?

Juan Vagues: As we have commented, we have much higher gross margins and EBITA margins on a section of the market, and having a more positive MIX has some major influence on our margins immediately. Then, we are running a restructuring program and already generating savings. It's a combination of both. However, Agnieszka, don't underestimate service and market margins. They are huge for us compared to OEM.

Agnieszka Villella: Perfect. That's very helpful. Maybe just following up on that, I think on page seven you showed the sales growth for different channels. I know that Q2 last year was quite good for both Service and Aftermarket, and Distribution, so should we be a bit concerned with the fact that you are meeting a bit tougher comparables now going into Q2, or do you think that the business will continue to improve sequentially?

Juan Vagues: The underlying thing we should be improving. Then, you are right, Q2 was strong, while Q3 became pretty weak. Remember that we had a strong Q2, and then Q3 became minus 11 percent. It's impossible for me to say exactly with two decimals where it is going to end up, but you see a trend. If you--

Agnieszka Villella: Okay, and--

Juan Vagues: If you look at the quartet is very much marine, I would say, which is ticking down to seven percent, the rest--

Stefan Fristedt: It's CPV.

Juan Vagues: Even if you take CPV and you look at Land Vehicles, Land Vehicles are not in a bad place now. Marine is taking down just now, both from an OEM perspective and a service aftermarket perspective. We are optimistic that it's moving in the right direction and that inventories are becoming lower and lower.

Agnieszka Villella: Perfect. Thank you. Then, my last question is about net leverage and cash flows. Can you help us to understand the potential cash flow impacts in the coming quarters. Here I think Stefan mentioned working capital development, but also maybe if you could tell us about the cash outflows that we could expect both the very probable one or the dividend, as it has happened and then maybe the potential downside related to the, for example, settlement with Igloo seller.

Stefan Fristedt: If we start with the dividend, that's 450 million, and that is already paid now in April, so that will come off. If we talk about the restructuring program, as you remember, we did say that of the 1.2 billion, around 400 million was going to have a cash impact. I would say that we have a program to date. We have seen a bit over 100 million there. The rest is going to impact during the rest of the year, basically also the difference between 400 and a little bit more than 100 so far. Then obviously we are going into our strongest quarter in terms of operating cash flow now in Q2, and Q3 we also know is seasonally a strong cash flow quarter. I still expect us to be able to say that we are improving on working capital. There is more potential, as I mentioned before. As I also mentioned, I don't feel that we are going to be on 20 percent of net sales by the end of this year, but we are still going to take a meaningful step towards that. That gives you an indication that we are still expecting a substantial effect from the working capital release this year. It's still not going to be like in 2023 or 2024, but it's still meaningful.

Agnieszka Villella: Thank you for the answers.

Juan Vagues: You're welcome.

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. The next question comes from Martha Ford from Jefferies. Please go ahead.

Martha Ford : Hello. Good morning. I just had a question about your outlook. I noticed that when you talk about OEM, we now only expect possible improvements in the second half, which you didn't mention previously. Is this because you've seen incrementally more weakness in OEM, or is this to reflect the greater uncertainty that you're seeing?

Juan Vagues: No. In reality, what we see is that the OEMS, I think, are very much in line with what we already communicated. I think that if you look at the European OEMS, especially, we're a little bit more optimistic from an OEM perspective for the second quarter of this year. We were more cautious when we said that our expectation is that it should be improving towards the end of the year. I believe that they are becoming a little bit more cautious themselves as well. Those are the kind of signals we are getting just now.

Martha Ford : Thank you very much. Then, maybe on the impact of the tariffs, how much have you raised prices in the US at any level, and also how much do you expect that you might have to raise prices if tariffs remain as they are?

Juan Vagues: We have already raised prices. Some of the prices went up already at the beginning of April. Then, if we have new communications, for the US administration, we will raise the price again. They are going to be live already at the end of this month. Then we have a new round, which is kicking off in mid-May. Prices have already been communicated to everybody, and then they are kicked in at different steps. As we commented, we are talking about 15 percent above what we are just now selling in the US, which is coming from Chinese factories. We have very high protection levels for both what we manufacture in Mexico and Canada since they are USMCA.

Martha Ford : Great. Thank you so much.

Juan Vagues: You are welcome.

Rikard Tunedal: We have a question on the web, but I think you've probably answered that. However, we will take it, anyway. If we're looking at your sales in the US, 60 percent is produced in the US, and the remaining 40 percent, how is it split between Mexico, Canada, and China?

Juan Vagues: As we mentioned, it is China, and the rest is a combination of Canada and Mexico.

Stefan Fristedt: Fifteen percent is China.

Rikard Tunedal: Back to you, operator.

Operator: There seems to be no questions in line, so I leave the word back to the speakers.

Juan Vagues: Thank you very much for your attention. It has been another challenging quarter, but we feel good about what we are doing as a company, delivering on our strategy, investing despite the tough times that we are facing, and navigating towards some light and some kind of clarity regarding the tariffs. We feel good from a market perspective, from the sense that inventory levels are low, and we feel as well that the underlying trends for the outdoor industry are still there. Then, we have the post-pandemic situation that we are working on. I feel confident about the future. Thank you very much for your attention, and have a great day.