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Dometic Restated Financials for 2019 and 2020

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Dometic Meeting on Restated Financials for 2019 and 2020. 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 note, participants should limit their questions to two questions. Today, I am pleased to present CFO, Stefan Fristedt. Please begin your meeting.

Stefan Fristedt

Good morning, everyone. Thank you for joining in to listen to when we are going through the restatement of the 2019 and 2020 numbers to reflect the now-completed implementation of our new organisation.

So, if we start on the first page here, what are we going to talk about today? We are going to restate, obviously, 2019 and 2020 by quarter and full year. And then, of course, along the lines, all the figures that we are going to present going forward is going to be according to this structure as well.

There are three main changes that we are going to do. The first one is a restatement between the lines in the income statement. Logistic Cost has been moved from Expenses to Cost of Goods Sold and Product Development Cost, which we are now going forward are going to call Research and Development, has been moved from Cost of Goods Sold down to Expenses and will be sitting there on a separate line. We believe that this is going to reflect in a better way how most companies actually are reflecting their income statement.

Number two, we have the sales breakdown into three, go-to-market sales channels. In the past, we have been providing numbers for OEM and aftermarket. Going forward, we will keep the OEM in the way it is. And then we have divided up what we before called Aftermarket into Distribution. And on one part, on Service and Aftermarket, on the other one. I'm coming back to what we are including in this in a second here.

And then obviously we have the segment Restate. We are going from three regions to four segments. And the segments, as you are aware of, are geographical segments - Americas, APAC, EMEA - and then we have a fourth one, which is a global segment.

Moving on to the next. So, starting with number one here and we have basically moved cost between the lines in the income statement so there will be no impact on operating profit or, as we call it, EBIT.

First, talking about product development costs. So, they have historically been included in Cost of Goods Sold and they will now be moved down to a line that we are going to call R&D expenses. And that is a new line in the income statement and it’s 336 million in 2020.

Then, Logistics costs are going to go in the other direction. So, they have been included in Sales expenses historically and they are now going to be a part of Cost of Goods Sold and the logic behind that is that the majority of the Logistic expenses obviously is a variable expense; it's not 100%, but the majority of it.

So, to the right, you have a table that is then going to show how our income statement is going to look, how it looked like before the restatement and how it is going to look after the restatement. And what you will see here is obviously that the gross profit level is going down and the expense level is also going down or is going down exactly in relation to net sales, but no impact on the operating profit line or as we call it, EBIT line

Moving on to the next. As I mentioned in the beginning, we believe it is more correct to describe the three distinct go-to-market sales channels in the way that we are intending to do now going forward, because it's more correctly describing the different parts of it and is also then better describing the potential that we have in these different go-to-market sales channels. On the OEM, there will be basically no change and it is the sales to OEM manufacturers directly or via an OEM dealer. We're talking about RV, obviously; we're talking about Marine; and we are talking about Commercial and Passenger Vehicle, what we call CPV.

Then we have the go-to-market sales channel distribution, and that is basically equipment sales through a distribution channel. It's different steps in the distribution model, depending on, as you can see on the box to the right. But here we are including what we are selling to Outdoor. We are including what we are selling to Hospitality, Residential and Mobile Deliveries.

Then we have the last go-to-market sales channel, Service and Aftermarket. And that's basically consisting of maintenance, subscription services, spare parts and upgrade kits. To be totally honest, the majority of the sales in the Service and Aftermarket channel is related to spare part upgrade kits, but also replacement products.

Then, we obviously have a potential in these areas, but also in what we are talking about, corrective maintenance, maintenance contracts and subscription services where we have not done a lot so far within Dometic.

So, if we look on the distribution, OEM is making up 54% globally; distribution, 11%; and Service and Aftermarket, 35%.

Moving on to the next. Then we have the change of our three regions to the four segments and as you know, we are talking about segment Americas, EMEA, APAC and Global. So, this is in alignment with the organisational change that we announced in February 2020, which is now fully implemented from 1st of January 2021. The organisational changes is driven and in line with our strategy to broaden Dometic's addressable market and increase focus through commercial specialisation for each one of these segments.

It will also allow a stronger focus on existing and new strategic businesses. We will get attention to the efficiency improvements in a better way with this new organisation. And what we are going to disclose in these new segments is net sales, including organic growth, and net sales broken down by application area. On the profitability side, we're going to disclose EBIT, or operating profit, before and after items affecting comparability.

So, if we continue with the next one. If we talk about the regional defined segments - Americas, EMEA and APAC - in the first step here, it's really to capture the potential in the RV market, the CPV, and the auto market. Another very important point is to accelerate the Service and Aftermarket growth and we are spending a significant amount of time in developing that concept right now. It will also drive the M&A activities and the M&A activities that can add value to each one of the segments. And it is also to reduce complexity in the legacy structure and improve efficiencies.

So, if we look on the box to the right, just to be really clear on what is included in the geographical segments: So, it's RV, recreational vehicles; it's Outdoor; and it's CPV, commercial and passenger vehicles.

Moving on to the next. So, the global segment is consisting of a number of parts: it's Marine, which is the absolute majority of the global segment today, and then we have the part that we call Other Global Verticals, and these are all businesses where we see a strong potential for growth going forward.

Starting with Marine. As you remember, we did the acquisition of SeaStar back in 2017 and that really created the strong global platform as we see today within Dometic Marine. We have potential to develop this business by expanding geographically; it's still a very North American focussed business today, and it's also by expanding and improving on our product offering. And this is, of course, going to be built on the platform that we already have created with the acquisition of SeaStar.

When we look into the customer base in Marine, we see that we have a high level of global customers. We are talking about customers like Brunswick, we are talking about Yamaha, Honda; we are talking about Beneteau, to name a couple of examples.

Then we move over to the Other Global Verticals, and within that subsegment we have Residential, Hospitality, and Mobile Deliveries. And the common denominator is that they are all showing a relevant global market size and they are in many ways also surfing on global trends. And we have a very clear opportunity to grow this business also via M&A.

The biggest part within this subsegment is Hospitality. It's obviously an existing business that we have. We have Residential, which is very much related to products like the wine cellars and also the new MoBar product that we have launched a while ago. But also, the new acquisition of the US company, Twin Eagles, is going to fall into the Residential segment.

Then we have Mobile Deliveries where we basically don't have any sales at all for the time being, but you have seen in social media that we have been launching – or pre-launching – our new delivery box, which is going to fill the function of delivering food from the restaurants to people's home in a good way, in a better way, than how it is happening today. And one of the examples is the corporation that we have with the Swedish company Cake, as you can see on the picture down to the right.

There is also another part within Mobile Deliveries where we are talking about home deliveries or groceries, which is another very significantly growing global trend. And there we are in the phase of developing a product that is going to be placed in front of people's homes and where it will be possible for the delivery companies to basically put in the groceries. And there will be a cooling functionality in this product and then when the family comes home later, they can then take out the groceries and they will be in a good shape to be brought into the house.

So, moving over to the last slide. Here, we have been putting together a summary of the financials and how they have developed between 2019 and 2020.

So, starting with Americas. The Americas segment in this new format was showing almost 5.4 billion SEK in sales in 2019 with a 5.6% EBIT margin and the sales reduced with 17% in 2020 and ended up with approximately 4.4 billion with a too low profitability of 0.9%. If we look on the development during 2020, we can see that Q4 was showing an organic growth of 18%.

We also need to keep in mind that EBIT is impacted by tariffs, which is something that we have seen since back in 2019. And then more related to the latest periods, we have seen costs due to supply chain constraints. That has partially been offset by cost reduction. If we look on the EBIT development in 2020, we can clearly see that there was a year over year improvement in the second half of 2012.

Moving on to the segment EMEA, we see a development in sales of -11% between 2019 and 2020. The profitability went from 12.5% EBIT margin to 11.5. Looking on Q4 standalone, we had an organic growth of 11% in the segment EMEA and then on a full year basis, the EBIT was impacted by lower sales obviously and partially offset by cost reductions.

If we look on the second half, we also in EMEA saw a year over year improvement versus 2019.

Going to the APAC segment, we saw a 12% sales decline in 2020 on a full year basis. Also, in APAC, in the fourth quarter, we saw a double-digit organic growth of 11%. Then, cost reductions and price management have been supporting the EBIT development in 2020 and we ended on a profitability level, which was fairly close to the one that we saw in 2019.

Going over to the Global segment, we saw sales decline on the full year of -9%. We have seen an improvement in the EBIT margin than from 19.4 to 20.4. Looking specifically on the last quarter 2020, we had an organic sales growth of 14%. And Marine is the absolute main part of the business. And the margin is supported by the sales mix, by cost reduction measures that we have been taking, but also not to forget about innovation initiatives where we have had quite a number of product launches within the segment during 2020.

So, I think with that we open it up for questions.

Q&A

Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad. Please note all participants should try to limit their questions to two questions. There will now be a brief pause whilst questions are being registered. The first question comes from the line of Agnieszka Vilela from Nordea. Please go ahead. Your line is open.

Agnieszka Vilela

Thank you. So, I have two questions. Firstly, if you could remind us about the reasoning of putting some businesses into Global. And in detail I would like to know why you still have the Power and Control business of some 500 million in EMEA, but you remove that almost all from Americas. So, what's the reason for this difference between the two regions?

Stefan Fristedt

First of all – sorry, I lost the first question.

Agnieszka Vilela

So, you have about half a billion of Power and Control still in EMEA in the new structure, and I think it's mainly related to Marine business. But then you took out almost everything from Americas and put it in Global. So, what's the reason for keeping some of this Power and Control business in EMEA?

Stefan Fristedt

You know that we have a stronger CPV Aftermarket business within EMEA and where we almost have no aftermarket CPV business in America. So, what is remaining in EMEA is related to the CPV Aftermarket business.

Agnieszka Vilela

OK, so that's under the Power and Control?

Stefan Fristedt

But you actually had a question before— Yes, it's within Power and Control.

Agnieszka Vilela

OK. And then my next question is on the profitability in Americas. Why really is it so much weaker than in EMEA? If you look at the kind of segment structure, maybe with the difference for the Commercial and Passenger Vehicles vertical; it's quite similar but still, if you think about the margins, it's such a huge difference. So why is that and what kind of ambitions will you have for Americas going forward?

Stefan Fristedt

First of all, I would say—

Agnieszka Vilela

Stefan, I think we lost you.

Stefan Fristedt

—compared to the other segments, it's almost two thirds of the Americas business, while in APAC and EMEA the OEM side is less than 50%. You also need to take into consideration the tariff cost that we have had, which we have been working downwards with the measures we have taken, but for 2020 we still have around 200 million SEK, which is almost 4.5% translated into profit margin, basically. So, that is obviously impacting.

Looking a little bit on the infrastructure. Obviously, a majority of our infrastructure is related especially to the RV OEM business and that is what we are working with in our MFP [ph 00:23:25] programmes. Then, I would label that more as a one-off, is related to the cost we have had due to the supply constraints; it's very much related to increasing transport costs, both incoming transport cost from what we still source overseas, but also increasing transport costs related to that we have not been able to deliver all orders in full, so we have had to part deliver orders to a higher degree during 2020. Then we also slowly but surely are also seeing an increasing land transport cost coming through here. But then we also need to keep in mind that the second half was certainly better than the first half. So, improvements are starting to come through.

Then we can talk a little bit about what is our ambition level. It's a number of things that we need to work on here. First of all, we obviously have the tariff impact – that is a clear difference between the other segments. Then, we also have the development of our Service and Aftermarket in comparison to both the media and APAC that is underdeveloped in Americas. But underdeveloped also means a great potential to actually make something good of that. So, the development of Service and Aftermarket is obviously going to be key.

Then, we are also seeing on the CPV side that the contracts that we have won – obviously automotive industry, it's longer lead time in the contracts – so they are starting to kick in now, so to speak. And obviously the profitability is going to be strengthened by that. But then it is also to continue to execute on our manufacturing footprint programme, which is very much related to the RV side of the business and there we still have projects to execute on, as you know.

And what kind of expectations should we have on Americas? You could, of course, take some reference points in how other companies are doing. You have Patrick Industries, who are 6 to 7% operating margin. We have Lippert, a little bit higher, but still single digit. So that's obviously a level where we have significantly higher ambitions than that, especially as we are looking to the cost improvement programmes, but also the potential within Aftermarket where we are most likely in a better position than especially Lippert.

So, I mean, we don't give any specific financial targets for the segments, but you should start to expect to see a profitability margin that is consisting of two figures and it should absolutely also be a clear supporter of our overall profitability target of 16 to 17%. So, it does not necessarily mean that you should put it to 16 to 17%, but it's always a portfolio of businesses and the combination of the portfolio should obviously lead to the total financial target of the group. I would say.

Agnieszka Vilela

Thank you, Stefan.

Operator

Thank you. The next question comes from the line of Rowisk May from Jefferies case. Please go ahead. Your line is open.

Rowisk May

Good morning, Stefan. Thanks for taking the question. Just perhaps a little bit of a high-level question on divisional structure. So, I think the aim of the new divisional structure is to increase the focus on the different verticals. Why not push this model even further and have an RV division and Outdoor division, a CPV division and another division where you include the other verticals instead of having it sort of geographically? This is my first point.

Stefan Fristedt

I think that it still doesn't mean that we are not following it on the more detailed level internally, obviously. But I also think that you need to create units that is having a certain critical mass. So, some of these businesses are simply too small to have them as a fully global business as it stands today. But everyone knows that companies are developing over time and what might happen in the future, we will see. But this is now a first step at least to store to start to mirror our strategic ambitions in a more efficient way, I should say.

So, we are happy with that. We are taking this step now and then what is going to happen in a couple of years, we have to see. But the whole argument right now is that there are still clear connections between RV and CPV, for example. It's very much the same technology platform and thereby you also have the same support structure around it and so on. There are a number of parameters that you need to take into consideration. And this is what we have landed in for now.

Rowisk May

Understood. Thank you very much. The other one is really a follow up on Americas. I'm sorry, I think we lost you a little bit earlier when you were answering the Americas division. Just perhaps given the RV market was quite tough in 2019 and 2020 in Americas. Can you just help us roughly set the margin there in Americans going back to 2018? Were you in sort of the high single-digit level?

Stefan Fristedt

I think depending on how far back you actually look, we have been higher than that. But then you have to keep in mind that when we did peak in that business, then we also had the highest year ever on a number of vehicles. Then I think we were peaking at 507,000 vehicles on the RV side. So that's of course a little bit of a volume game as you have fairly costly fixed structures around the RV business. And then you cannot forget that you have approximately 4.5% units in tariff-related costs that we are still seeing. Even if we have taken measures to bring it down, which we also have from 260 million approximately to down to a little bit below 200 million the trend is continuing down here. But that's something that you also need to keep in mind, so to speak.

But it's a little bit, as it looks like right now, it's a little bit of a volume game here. But as you know, we are working on making our cost structures more flexible.

Rowisk May

OK, thank you very much.

Operator

Thank you. The next question comes from the line of Johan Eliason from Kepler Cheuvreux. Please go ahead. Your line is open.

Johan Eliason

Hi, it's Johan here. Just a question – you mentioned you have obviously taken the SeaStar business and put it into sort of the Global sector or segment or whatever you call it. I'm sure that makes sense. But I was sort of wondering with your traditional Marine business, if you sell a fridge to an RV or a boat, will that now basically the boat fridge will come up in Global and the RV fridge will come up in geographic segments or—

Stefan Fristedt

That's absolutely correct. That's correct.

Johan Eliason

So, are you still sort of able to get R&D commonalities, or are we expecting that a fridge for a boat will develop in a different part than a fridge for an RV, or—?

Stefan Fristedt

No, I think R&D is now a coordinated global function. And wherever we have a technology platform commonality of course, we will utilise that to create leverage independently of which segment it is that we are talking about. So, it will not be a separate refrigeration development for Marine only. No.

Johan Eliason

OK. And as I have you on the line, you have this restructuring programme you mentioned, focussing on the structure of RVs. You have a lot of charges remaining. I think you said 750 when you announced the programme and there are sort of 500 million or so remaining on those. How will this play out geographically in the different segments and timing-wise going forward now?

Stefan Fristedt

If we talk about the timing, first of all, if it is related. We have communicated that we are probably two to three quarters late in the programme, related to the covid situation, because we are not able to— First of all, we are not able to travel in the way that we have to do to execute on such an initiative. And then combined with the very significant demand situation that we are facing right now, you have to put the right priorities, obviously. So, it still doesn't mean— We are staying firm to our commitment, but we are probably two to three quarters late on that.

So that is obviously the first one. Then you should assume that it's two segments that is mainly going to be impacted by the remaining parts of the MFP programme and that is the segment Americas and segment EMEA.

Johan Eliason

And just on these remaining charges, 500 million, is that something we should pencil in against the cash flow this year then?

Stefan Fristedt

That's probably a little bit too aggressive. Now we are probably talking about, I would say that the majority of that is going to end up in 2022. As you remember originally, we said that we are going to be on the traction of delivering the 400 million by mid to second half 2022, and we are probably now more talking about Q1 2023 or something like that. So, by that, also the charges are going to fall somewhat later.

Johan Eliason

Excellent. Thank you very much.

Operator

Thank you. The next question comes from the line of Fredrik Moregard from Pareto Securities. Please go ahead. Your line is open.

Fredrik Moregard

Thank you. Hello, Stefan. Just one question, first off, on the three sales channels. Clearly, OEM is the softest of those when it comes to margins and profitability. Perhaps if you could just place Distribution and Service and Aftermarket, if you could compare those to each other and then also highlight if there's any differences when it comes to the way we should think about those three sales channels and profitability across the four sectors.

Stefan Fristedt

I think in general; you could say if we take the geographical segments, first of all, it's similar in relative to the other sales channels, or the relationship between the sales channels is somewhat similar, but then you could probably say that—OEM is obviously the one with the lowest profitability and Service and Aftermarket is the one with the highest and then Distribution will be up somewhere in the middle. So, as we are not disclosing the exact information that's as far as I'm prepared to go right now. And because we have deliberately decided not to provide that, because we want to focus the communication on mainly the one dimension, which are the four segments, basically.

But obviously you have— then there is a little bit of an interdependency between OEM and Service and Aftermarket because the OEM side is obviously feeding the Service and Aftermarket over time. So, it's a game of the installed base, but the Service and Aftermarket can also not only stop by servicing and selling spare parts and replacement products for your own products. You also have to find a strategy where you are serving basically the competition's products as well. So, I think that's a known success recipe for that business and we actually see it in the Global segment in Marine, where we have been rather successful with that.

Then, I would say that if we look on the OEM businesses as such, we can say that the Marine OEM business is obviously more profitable than the RV OEM system, and there you probably have the scale somewhere as well. So, I think that's the way you should think about the relative performance of these dimensions.

Fredrik Moregard

All right, thank you. And just secondly, on currencies and [? 00:40:26] related to the Global sector. If you could tell us something about what the transactional as well as translational structure for that business looks like.

Stefan Fristedt

As I said before, it's very much a North American business. And when you think about North America, it is like it looks like; the US is the majority of that. So that, of course, leaves us with quite significant US dollar exposure. And if you look on the EMEA side of that business it’s still a minority part of that business as it is right now but has also potential. Then the exposure is basically euro and British pound, I would say.

So, transactional flow, we have a little bit less of an integrated, or should I say, global supply chain within the Marine segment, which means less portion which is sourced from overseas. So that is obviously also impacting the currency exposure on a more or less transactional level. So, on a translation level, US dollar; on a transactional level, probably less exposure than what you have in the other parts of the business.

Fredrik Moregard

All right. Thank you very much, Stefan.

Operator

Thank you. Just a reminder that if you would like to ask a question, please press 01 on your telephone keypad. As there are no further questions, I will hand back for any closing comments.

Stefan Fristedt

OK, thank you, everyone, to join in and asking these questions and I'm sure there will come up further questions as you sit and think about this. But you know where you will find us, and I'm sure you have Rikard’s contact details. So, we will be happy to interact also offline if you have any further questions later. So, thank you, everyone, and have a nice rest of the day.

Operator

Thank you for attending. This now concludes the call. You may now disconnect your lines.