NIBE

TRANSCRIPT FROM INVESTOR- AND ANALYSTCALL FOLLOWING THE INTERIM REPORT 3, 2024

FRIDAY NOVEMBER 15, 2024

OPERATOR

Ladies and gentlemen, welcome to the NIBE Third Quarter Report 2024. At our customers request, this conference call will be recorded. As a reminder, all participants will be in a listen only mode, and after the presentation there will be an opportunity to ask questions via the telephone lines. May now hand you over to Eric Lindquist, CEO, and Hans Backman, CFO.
Please go ahead.

ERIC LINDQUIST

Thank you. Good morning, everyone out there.

HANS BACKMAN

Good morning. Good morning.

ERIC LINDQUIST

And we're going to follow the same procedures before, as I go through a number of slides here and then Hans continues. But on top of that, we'd like to address that have been so many, you know, questions in the past and sometimes there are people that have not been able to put questions. So for the sake of order and some courtesy, we like to address that every individual person that is allowed to come in only puts two questions to allow for other ones to eventually come in and put their questions. And as before, we have to end the discussion at 12 o'clock because then we have other duties, so to say.

With that said, let's dig into the report and without being too selfish, we think that the report is sort of aligned with our own expectations and the market is more stable from our point of view, and of course the adjusted cost structure is also helping us, you know, presenting a margin that is more in line with what we have planned internally. And of course, when we say that the market is more stable, that refers pretty much to the situation where the inventory levels have been or have come down more to the acceptable levels. So more and more we see that the actual demand from the end user out there is reflected also in the production level. And now we talk for the industry and also the, of course the action program is implemented to a large extent. We have another five or six weeks to go and we are very confident that we're going to put that in the operation before we head home for New Year. And the full effect, as we said before, will turn out in 25 and overall comment is also that we see the light in the tunnel, but of course the market remains tough. We're not saying that now everything is over, it remains tough, but we are still fairly optimistic about the future action plan and cost reductions and all that.

And I think it's also important to mention in this context here that what we've done is also a demonstration how flexible we are and the agility of NIBE when we are facing a situation that's rather cumbersome. The whole group is standing to attention, and we attack the problems as soon as possible and as united as possible, and I think that's a very, very unique, should I say, feature we have in our group. That's our DNA setup.

So with that said, let's have a quick look at the figures and you've seen them of course, and they are at, we are just under the 30 billion. Of course, comparing that to the last year, it's a contraction of some 16, but then it also helped by the acquisition. So in reality we talk about a contraction of some 20% which is of course dramatic and that is naturally also affecting the operating margin. But we see as quarter and quarter go by that we are nearing us the better situation, and I think you see that on the following slide where we just present the quarter itself, where we had a little bit less of a contraction and a little bit less again of the acquisitions. And now we are at a margin that is of course not at 10% but on it’s way up. So I think that's also health sign and the gross margin of course has taken a hit and we are still below what we had last year. And that's very important that everyone understands that it's a delicate balance between what you can reduce cost wise and still remaining in muscle to continue to grow in the future. And we believe that we've been able to fairly well keep that balance. Always cumbersome, painful to cut down on staff and cut down on costs, but we still believe that we have still the strength necessary to combat the market, 25 and onwards. So again, without being too pleasing with ourselves, we believe that we've been able to have that in a fairly delicate balance. And then we have the ordinary bar charts and of course they are, the downturn is very obvious, but it's at the same time pleasing to see that the tremendous downfall we had in Q1 starting to flatten out. And that's of course our ambition going forward to, to turn that the other way. That's the same thing with the profitability, of course, it's a tremendous dip there. Also, of course taking into account the cost we had to take the first quarter and if we just dig into the different business areas, climate solution, which of course by size is very important to follow by you out there and also for ourselves. And as we say, we sometimes been using normalized inventory levels, we have decided to call it more acceptable levels because it's difficult for us to judge what is normal for all the actors out there. But we believe it's very much coming down, except perhaps for Germany where they have still some work to do on their Inventories, because they were fairly heavily built up. But the action program again here is according to plan, giving results, and going forward, we expect the improvements to continue, and of course, here again, we have received so many questions regarding our ambition to be back at the operating margin level within the historical range. And that's exactly what we are aiming at. We don't have a different agenda externally compared to the one internally. These are the targets that we work with internally, and it's very important that the employees of all our companies around the world be the same target. And they are sort of familiar with the targets like we announced here. So there's no secret internally by any means. What we tell you here is exactly how we work. Anyone or no one out there to say could promise, you know, that that's exactly where we're going to land. But we can tell you that our ambition is very clear and determined. And then, of course, again, looking at just a figure very quickly, Hans is going to dig into the more detailed ones. The operating margin taken into account, of course, the cost set aside in the first quarter, it's eight and a half. So of course, it's an operating profit that's not even, should I say, 50%, it was a year ago. But we see, as we said, a tough market light in the tunnel, and we are taking step by step towards our final target of being back within that the span of operating margin. On the heating element side, of course, we have many positive things there, but they've been, of course, following the heat pump downturn sort of violently. And also the wind turbine or the wind power industry has also had a downturn, and it's been tough for them or for us to compensate within that business area. But then there are other sectors that have more positive signs, like the rail and semiconductor industry. So, you know, it's like pros and cons. And again, we just have to survive in a tougher environment. And we feel, again, very comfortable with the fact that everyone is struggling like crazy to manage the situation we are in. And as we say here again, to come up to an operating margin within our usual range, no secret, everyone is very determined to be there. And I must say, personally, I'm very proud of all the people picking in or kicking in when it comes to helping. I mean, Hans and I, we are only two individuals. It's up to the more than 20,000 employees we have to be determined, to be proud, to try to be back on track already next year. And here again, of course, the margin again, hasn't taken that dramatic drop as a climate solution we are from 8 and a half down to 5.3. So that's an indication that there are some positive sectors as well. And when we talk about semiconductor industry, we're very proud of being able to serve that very advanced industry with our products. And that has a different cycle than the other sectors, we end up new construction is very dependent on naturally interest rates and so forth. Whereas the semiconductor industry is more into new products being launched like different new computers and new artificial intelligence or whatever we call it. And those are other factors, you know, they have their own lives sort of, and it's very important and good to be in a sector that has its own cycle rather than new construction and interest rates. And having a look at stopes they also hit pretty hard by the downturn, ad a little bit unusual to see that all the, not all of them but quite a number of our retailers kept stock which is not very common. Here, we don't have it in an in between wholesalers. It's just a regular outlet stable stocking. But I mean we are very certain that they are gone now. And now our production will reflect more the actual demand at the end user level. And here again we believe that the interest rates coming down going to be an asset. The action program is well under its way and the same target here again is the other two business areas to return to operating margin that we are used to within the historical range. Of course they're pretty bold statements from us. But we believe that with the strength with the platform we have, with the tradition we have, we are fairly certain that can be achieved by us as an organization. Having said that, I think we should just look at a few more graphs. Perhaps having a look at the margin of course that's taken a dramatic drop. I think it's worthwhile before we go back to the Hans story here that the seasonal pattern is different or has been different. It's back more to the usual pattern in the prior to the pandemic was always in the fall and early winter where we had the strong season during pandemic and during the war starting and the energy prices escalating. People were more and more consuming more than we were used to, of course and we had delivery problems. And now we believe that the demand is more back to the ordinary seasonal pattern. And that's something we also are very certain that they're going to continue now when the inventories of or back on ordinary levels. So just a quick look at the pie charts that we typically look at. We haven't Seen that much of a change. Climate still about 2/3 and adamant about one better than a quarter. And so it's of course just under 10%. Looking at the operating profit, since Climate Solutions has a history of having a higher margin, then of course that's some 75%. An element is 21. And stoves of course being hit fairly hard is down to four. So that's as it is geographically. We of course are very strong in Europe where we have some 2/3, but also in North America 30%. And we've been working very determinedly over years to establish ourselves in North America and we feel that we have a fairly good balance where the Nordic countries being our home market, so to say, and allowing us to have a good strong foothold here and then being very aggressive of course on all the other markets out there in Europe and also in North America. And on the Edelman side they've been fairly successful also in Asia, but that's the only business area that's been really attacking that part of the world, despite the fact that there are so many people down there. I think, Hans, that gave me 15 minutes. Perfect.

HANS BACKMAN

Thank you.

ERIC LINDQUIST

I hand over to you.

HANS BACKMAN

Thank you. Yeah. Before jumping into the individual business areas, I would just like to come back to the group result quickly, hopefully answering a couple of questions that might come in the Q and A later. And that is that on the elimination line, when you look at the group. There is a positive effect of, you know, 2, 3 million and usually that is around maybe minus 35,40 million. And the simple reason why it's positive now is that we have finalized a couple of acquisitions, you know, we always buy them in pieces, so to speak, and a second tranche, a third tranche kicks in and we buy the remaining part and then we need to settle the final purchase price and of course dissolve the reserve that has been made. And in this case we've had a slightly positive effect coming from those of around 25 million. So the underlying cost there right now is around 2025 rather than the 35 as well, due to the fact that that's also a line where a lot of acquisition costs typically end up. When we look at many acquisitions, due diligence work and stuff like that, which there has been slightly less of. So that's the reason for that. And then we also have a one time effect of 36 million coming from the finalization of the purchase price allocation for Climate for Life. It's pretty well described on page 12 in the report. So I'm not going to dwell upon it, but due to the fact that we moved intangible assets from customer relations for which we depreciate to pure goodwill, for the reason mentioned in the report, we needed to reverse 36 million of such costs and that has had a one time effect in the quarter. So that's just trying to be as transparent as possible. We have nothing to hide. Not trying to hide. We apologize if we are unclear sometimes, but that's not the intention. If we then just head on to the business areas, as Eric mentioned. I mean, obviously we're not back at previous levels, but we are in a way in line with expectations and where we expected ourselves to be. Both with the cost saving program kicking in and holding up on prices, the Nordics have been performing decently recently. The North American market is keeping up pretty well, whereas the German market and surrounding countries has been slightly weaker. So sales came in at just below 19 billion, down from 23.7. So it's a decline there of some 20%. We were helped a little bit by acquisitions and then coming in with the gross margin for the first 3/4 of 31.5, obviously much lower than where we used to be, but it's still a slight improvement from Q2. So we're step by step moving up in the right direction. And then for the reason that I just mentioned around Climate for Life and the finalized PPA, the underlying operating profit here is rather 1528 as opposed to the 1564. So a margin of 8.1, if we are to be very correct, so to speak. n the third quarter, as such, sales came in at 6.5 billion compared to 7.8 last year, which of course also is a strong decline there of 17%, but much less of a decline compared to what we had in both Q1 which was more than 30% and Q2 which was far more than 20%. So that's also slightly moving in the right direction step by step. And also here to be fully transparent again, the one time effect from Climate for Life came in obviously on the operating profit line. So the underlying profit there is rather 690 as opposed to the 726, meaning an operating margin of 10.6. In terms of geographical distribution of sales, the largest share if you compare to a year ago is that North America has 26%. A year ago it was rather just above 20. So that's the market that's kept up. Europe, excluding the Nordics, has been fairly stable and the Nordics has also been a little bit weaker compared to a year ago. If we then move on to NIBE Element, I mean as Eric mentioned, we have had big variations between different segments. And where the majority of the negative impact here has come from the HVAC sector and especially heat pump sector, you can say, but also white goods, whereas others actually have been performing reasonably well. And where we've seen an underlying growth as well here sales came in at 8.2 compared to 8.9. So there have not been. The swings have not been as dramatic here as within Climate Solutions. But we operate this business being a B2B business with a lower gross margin coming in at 19.8 and which we're of course working on to increase step by step and then the operating margin landing at 5.3. And also here, for the sake of transparency, I would just like to mention that because there has been one or the other question here this morning on a number in the report also on page 12, related to deliveries of deliverables recognized as revenue over time. That's related to project reporting where we have a number of 489, but we didn't have anything in the last report. And one could suggest that we have had a one time effect coming from, from a big project, but that's not the case at all. We have very few companies within the group reporting according to percentage of completion. They've been doing that the whole time. There's been no change at all. It's rather that the information to this specific table in the report has not been fully up to date, but now it is complete, it's the correct way, but there is no one time effects in there whatsoever. In the individual quarter, sales have basically moved sideways or actually slightly down from Q2, so came in at 2.7 down from 2.9 of last year and Q2 was at 2.8. But thanks to the cost program kicking in and us working on the cost structure in general, we've been able to slightly improve the operating margin coming in now at 5.9. And the gross margin has actually also taken a step by step up in the right direction in terms of distribution of sales. As we have said many, many times, this is our most global business area with operations in most parts of the world, you can say. And during this period here, if we compare to a year ago, it's clearly been the North American and the other portion there, which is Asia, that has gained on behalf of the Nordics and the European part, which again has been suffering mostly from the decline in HVAC and white goods. Moving on to stoves. Stoves have struggled for quite some time after the two very strong periods we had following the pandemic or Covid, when people spent a lot of time at home renovating their homes and investing. And then the invasion of the Ukraine by Russia, which led to people wanting to have a stove for security reasons. Now we're heading into this more normal seasonal pattern that Eric mentioned. Sales came in at the 2.7, down from 3.4. So that's, of course, a dramatic drop there of some 21%, a little help from acquisitions and a gross margin of 33.6. And then an operating profit coming in at 86 and a margin of 3.2. Obviously far from where we want to be. But with the program, the action program kicking in, savings program, whatever you want to call it, we see good possibilities for the future to bring that up again. And in the third quarter, as such, we've seen a slight improvement on the cost side. Sales have been down some 22%, so that's still moving on the same level. But gross margin has, step by step, taken a little step up. And the operating profit here came in at 24, the margin of 2.8. But where we see good signs for the coming quarters and years. In terms of distribution of sales for NIBE stoves, the North American side has gained on behalf of the Nordic countries, you can say if you compare this to a year ago, whereas the European business has been rather stable. Then some words on balance sheet and cash flow. No major changes at all. On the balance sheet side. We ended the year 23 there with the total assets of some 68 billion. That's basically where we are today. Within the intangible asset side, there has been a shift that we talked about, but it's still within intangibles. You can say on the equity side, no major changes either. We will come to the key figures soon, where we can see other effects instead. So let's head on to the cash flow. I mean, obviously with lower sales and lower profit, we also generate less cash. We're down to basically 1.8 billion for the first nine months, down from 5.1. So it's, of course, a dramatic change, but with much less of a change in working capital. Whereas we burned, so to speak, 3.5 billion a year ago, it's only been 250 million now. And if we look at the individual quarter Q3, we actually had a positive change there. We've actually been able to release some working capital, mainly from inventory. Investments have slowed down, although they are still at close to 2 billion down from the 2.3. And we are very much at the very last part of our ambitious investment program. The 10 billion that we announced a couple of years ago, we have completed it to more than 80 or almost 90%. So that will come down going forward. If we then just quickly look into some key financial figures here before we open up for Q and A. We just pick a few of them. I would say that the unappropriated liquid assets, that's an advanced word for cash that has actually been increased and improved. We've generated some more lately. Interest bearing liabilities in relation to equity have obviously increased somewhat but are more manageable as is the net debt to EBITDA. That's also come up as a consequence of the situation. But we feel comfortable with that as we do obviously with the equity assets ratio being above 42%. Working capital that is definitely on the agenda. It's being focused upon in every business meeting and also very much now. So for the business plan for next year, of course it's hovering around the 25%. We have made improvements on the inventory side, been able to move out products out the door. But of course we're not helped right now by day's payables outstanding, not buying as much as we did before. And with the market that is still challenging. It's of course to bring out products as quickly as we would like to and bring down working capital. And then the very last page here, I mean key financials, they are of course a consequence of, of the performance right now. Return on capital at 7.6, far from where we have been and want to be. But we have no doubt that we will come back return on equities equally hit so to speak. But we've generated there a profit per share and have a decent equity per share still. And as always I won't comment upon the share price as, as such. Yeah, that leaves my part of the presentation.

ERIC LINDQUIST

All right, thank you. Now we open up for questions. Thank you.

OPERATOR

Thank you. We're now beginning our question announcer session. If you have a question for our speakers, please dial star one on the telephone keypad now to enter the queue. If you find your question is answered before it is your turn to speak, you can dial star two to cancel your question. One moment please for the first question. Our first question comes from the line of Carl

Ragnerstam from Nordea. Please go ahead.

CARL RAGNERSTAM, NORDEA

Hello, it's Carl from Nordea. Two questions from my side. Firstly, we have heard some of your peers commenting on improving mark, especially from an order intake point of view. Partly. Also I guess driven by the growing subsidy applications in Germany. You said in the report that you see glimmer of optimism in the German market, for instance. But would it be possible to give any flavor on what you see there in terms of order intake during or after the quarter or in other important markets for that matter? Thank you.

ERIC LINDQUIST

All right, well, was that one question or were there two hidden in there?

CARL RAGNERSTAM

No, it’s just one, order intake development, if we summarize it. Thanks.

ERIC LINDQUIST

I mean optimism. Yes, that's true. Of course they came to a permafrost situation when nothing was practically ordered for a while due to obvious reasons of the stocks being overfill. And when now they are diminished, of course that sends a positive signal that we start to produce for the market again. But then coupled with that, of course is the fact that there's still the political uncertainty. We see, of course, the applications for new heat pumps coming in, increasing. Those are all positive signs. But to say that Germany is out of it already now, we think that's too far fetched. Germany is absolutely more positive but still lagging as we see when it comes to comparing their inventory levels to many of their peers outside Germany. That's our picture. But certainly we, as we say here, a few more months, one or two more quarters, they would be out of that as well. So that's as far as we can comment. I mean we can't comment on what the order intake in Q4. We just presented how it looked in Q3, so I think that's, that's important. I don't know whether I was too much of a hide and seek there, but that's I think pretty much the answer you're going to get.

CARL RAGNERSTAM

That's very helpful.

ERIC LINDQUIST

Yeah.

CARL RAGNERSTAM

The second question from my side is I guess on data we have seen products with old refrigerants are seemingly discounted or lowering pricing ahead of the refrigerant transition. Have you seen a material impact or an impact on your gross margin from this in the quarter? And also other comments on pricing would be super helpful. What you see in the market currently. Thank you.

ERIC LINDQUIST

Okay. When it comes to pricing, I mean we could dwell on that for a long time. I think that we've been able to pretty much sustain our price level due to the fact that we specify the products according to the price segments we're into. And what we see as far as price reductions are typically when the inventories are being emptied and of course everyone typically out there on the distribution chain, they would like to reduce their inventories for many reasons. Capital of course, to release that. And also the risk of sitting with, if not obsolete, but a bit more old fashioned products like 410A or something like that. I don't think that that would be on the manufacturer's levels. And now I'm talking on behalf of all the producers. I think it's more phenomena that we've seen in the next distribution level or the two next ones. So I think that's the answer to that from our. From our view.

CARL RAGNERSTAM

Very helpful, thank you so much.

ERIC LINDQUIST

Welcome.

OPERATOR

Our next question comes from the line of Uma Samlin from Bank of America. Please go ahead.

UMA SAMLIN, BANK OF AMERICA

Hi, good morning everyone. Thank you so much for taking my question. So I guess my first question is about the margin progress into 2025. I guess you made very good progress this year already. And you say in your report that you would like the margin to come back to the historical ranges in 2025. The first, I was wondering what are the historical range you're referring to? Is that like the more like 13% like in the last 10 years or is it more like the 14.5% in the last three? What are your building blocks to get there next year?

ERIC LINDQUIST

Well, to be very precise, I think that it's a clear ambition. I tried to cover that in the first section of the presentation here that we are all very, very determined to arrive at the span. And the span should be between as you say, not including a specifically good year, 23 and 22. I think that you should look at with perhaps from 13th up to 19, 2019, I think that's eight or nine years back. Then there you are with the three respective business areas. They are there between the span that we talk about. You should say 13 to 15. I think that's a pretty good description of that. We believe that the 23 was an extraordinary year as we could also pick an extraordinary on the other side this year of course going to be a bad year compared to where we've been in the past. So of course that will eventually affect the comparison figures. But stove is going to be back to their span from 13 to 19 and also elementary, no secret again to chisel out today you sign a contract. This is exactly where we're going to land. But we're going to do our utmost to arrive there. And we don't write these figures because we're just going to please someone. These are our very determined targets internally. I hope I answer clearly on that one.

UMA SAMLIN

Thank you very much. It was very helpful. I have just one more follow up on pricing. So you know, how should we think about pricing especially for, I understand that you know, we've been talking about the older product that's getting reduced. How should we think about the pricing for the newer product you're pushing out into the market? And how should we think about, you know, your expectation for pricing going into next year versus the volumes?

ERIC LINDQUIST

Well it's again it's a 10 million dollar question. But as I tried to explain a little while ago, each segment of the market has to have its own specification and price structure. And of course there are always, just like in the automotive industry, whatever industry you take there are more, you know, qualified specifications or higher range or whatever you call it there. You pay a certain price and if you like to go for mid range car then you pay a different price. We don't believe that we can reduce the price on a premium one or even any segment. But you rather have to segment your market and have a corresponding specification. That's how we've been able to meet the market in the past. Not by reducing prices because that leads nowhere. In the long run you can win a certain market share in a quarter but that's not the way to run the business because that automatically going to damage your profit and loss. The only way to really be sustainable when it comes to profitability is to be very rational internally and also have an assortment and have a price structure that allows for not only one category of customers to buy but several categories of customers to buy. Okay?

UMA SAMLIN

Okay, thank you very much. Thank you.

OPERATOR

Our next question comes from the line of Viktor Trollsten from Danske. Please go ahead.

VIKTOR TROLLSTEN

Yes, thank you operator and good morning Eric and Hans, thank you for taking my questions. I'm actually hoping that you could help me a bit with my math book here and specifically talking about the cost savings program within climate solutions. I guess you're obviously lifting the operating margin in climate quite impressively now in Q3 without any additional volumes compared to Q2. So I guess the first question, would the 185 million uplift a little bit is that fully from cost savings? And also, you know, given what you're saying about finalizing the program in Q4, are there some more cost savings to come in Q4 for climate solutions? That would be the first place.

ERIC LINDQUIST

No, I mean as we say we are fairly satisfied with the cost program the way it's implemented and it's not completed totally yet. But of course saying today that we had the 15th of November, that is of course not so much left as of today. To the end of the year majority is already of course in place and that was a major cut we made there. And I think that what you see is really other than what Holmes explained here, that's a one time effect there on the depreciation side which he might answer better than I can. Other than that it's a true internal improvement of course which is very good. Again demonstrating what flexibility and agility we have. I've tried to say that before that what happens out there in the market we can't really influence, we just have to react. And I must say I'm so proud of our organization that's always willing to kick in although painful conditions, they're always there. So Hans and I just 2 out of 20,000 people or more and that's a clear demonstration of our strength right there.

VIKTOR TROLLSTEN, DANSKE BANK

No, but yeah, I fully, fully agree. But would it then be my second question, would it then be fair to say that you are ahead of your cost savings program? Because you said that, you know, the annual savings were estimated to be 750 million in total for the full program when you're not full run rate. If we still, if we just take, you know, this quarter's run rate in climate that would be 740 million. So you know, to middle terms that you're in ahead of those savings. But can you help me?

ERIC LINDQUIST

Yeah, well I think that we should look at, you know, the year as such as we have discussed before and I think that if anything climate solution might have been hit so hard and we understood very clearly at the break of the year, at the dawn of the year that something has had to be done. So I think that if anything they might have started a little bit earlier than the rest of the companies in the group. But then determination doesn't change. It has no difference between or there's no difference in determination between the different business area areas. So no, I think that I can't really give you, we can't give you any more sandwich now. We're going to save billion or anything. We have to stick with this. There are for various reasons it might be, you know, we made a substantial reduction of costs very, very early and that of course coming into effect now being one of the larger units. So that's as precise as I can be, Carl, without playing hide and seek. I think that we have to allow the program to run its full period now and then come back and tell you very clearly these are the results. I'm sorry for calling you Carl, I'm talking to Victor.

VIKTOR TROLLSTEN

No worries, no worries.

ERIC LINDQUIST

I appreciate that you don't call me Yasim because that's quite often. I apologize. I owe you.

VIKTOR TROLLSTEN

We took him in December, I guess those were my two questions. Thank you for that.

ERIC LINDQUIST

Thank you.

OPERATOR

Our next question comes from the line of Carl Deijenberg from Carnegie. Please go ahead.

CARL DEIJENBERG

Thank you very much. Hello, Eric and Hans. So two questions from my side and maybe if I start just coming back to the comments you made there on page 12 in the report. I mean, I appreciate the comments you made with regards to the reversal, but I just wanted to ask also, I mean you are referring a little bit here to lost sales from that specific product. Really cool. In Climate for Life, is it worth mentioning anything of the low sales figures? Is that any tangible figure that has had an impact on that subsidiary or if it's small numbers in the bigger picture?

ERIC LINDQUIST

Well, I mean, you can. I think we should both answer that. Of course, we think again, it's very important to be transparent. Of course it's a little bit embarrassing just to dwell one second on that, to be facing a recall in the market once you've done your due diligence. And I think that's a nightmare to us and we might like to make certain that that doesn't happen again. And when we're going to relaunch, you're going to be a perfect product. Of course, we think it's of such a magnitude, particularly now when the depreciation level is coming down with some 12 million per quarter. That has to be explained to you out there. And again when it'll be launched, it'll be launched with a perfect high quality. So we made a mistake. Let's raise the white flag. We tried to do our damnedest but then we were faced with a recall. Painful. And we take into consequences.

HANS BACKMAN

And if I just may add on, obviously we are then, you know, for some quarters or maybe even years of course, losing sales that we had planned would kick in this year. And that's the reason for having to do this change of the OR when we finalize the PPA. But as Eric said, with this reconstruction of the project and relaunch coming, we are determined to get that sales back. It's just that it's going to be with a delay. But I don't think we're going to dwell upon the individual numbers.

CARL DEIJENBERG, CARNEGIE

Yeah, understood. And then if I could just follow up secondly, also with regards to your own expansion program, and I appreciate the numbers that you gave in the report, roughly 8.8 completed out of 10 billion. But I just wanted to ask a little bit on the phasing here going forward. I mean the remainder at 1.2 is that, would you say that's a fairly variable chunk depending on how demand develops? Or could you already now sort of get us, let's say more of a specific time point in time when that will be finalized just to understand a little bit of the capex development in the coming quarters. Thank you.

ERIC LINDQUIST

All right, well when it comes to buildings for real estate, they're all there. So the remainder would be Justin Jones(sp?), but there would be equipment, not any additional investments in new construction or new buildings. They are there and they are also equipped with their appropriate equipment. But of course, since these investments at the time the decisions were made like 2020, then of course we were looking at a different market than what it looks right now. So there we just have to invest according to what the market demand is and that can be done fairly quickly. And as much as you can say that we have invested too heavily, we can also say that we are now prepared for an expansion. And the times on equipment varies, of course, from a quarter to 2 at the most 3/4, whereas to erect the building is never less than or lesser than eight quarters. So in that respect we are fairly comfortable what we've got. And we will not continue to, of course to invest at this rate going forward we'd like to complete what we started. And when you see 25 and onwards, we're going to be on a more modest level, of course, always keeping our equipment and buildings up to par, but not investing, you know, phenomenally above the depreciation rate. Because that in answer was.

CARL DEIJENBERG

Yeah, yeah, go ahead.

ERIC LINDQUIST

Thank you.

OPERATOR

Our next question comes from the line of Vivek Midha from Citi. Please go ahead.

VIVEK MIDHA, CITI

Thanks very much everyone and good morning. I'll just stick to one question please on working capital. So as you highlighted, some good progress on reducing inventories, but of course receivables going up. Can you give us any kind of indication of where you expect to end the year in terms of working capital? Thank you.

ERIC LINDQUIST

Well, we don't give forecasts like that, of course, but I think you could see that in the past we've been around after 20 mark rather than the 25 mark. So of course that is more of the long term target. So we are well above that now. But where we're going to land this year, I think that's too precise of a question. But no, as with margins, of course we are striving to arrive at our average level cost. That's exactly what we're doing.

VIVEK MIDHA

Understood. Thank you very much. Actually, another follow up if I may follow up on the capex and the investment program. Where do you see after these investment levels? You say slightly above depreciation but can you give indication of where you think capex stabilizes after this? Thank you.

ERIC LINDQUIST

Well, I think that we've in the past we've always been claiming that the investment rate to keep everything up to pause should be around the depreciation level. And now of course we have invested quite heavily so the depreciation has gone up. And so I think that very difficult to exactly give you a figure. In the past I think we've been fairly much around the 3% mark in the depreciation. I think for an industry of our kind, perhaps three and slightly more, but going to be lesser investments for the foreseeable future. Now we're going to say well now we won't invest anymore, always be up to speed when it comes to the most modern equipment and things like that. But of course to invest in like we've been doing now the last four years, it's extraordinary.

VIVEK MIDHA

Understood, thank you very much.

OPERATOR

Our next question comes from the line of Douglas Lindahl from DNB Markets. Please go ahead.

DOUGLAS LINDAHL, DNB

Yes, hello gentlemen, thanks for taking my questions. I have two as well, just as briefly as possible, I realized time here. Any comments on the sort of political trends you're seeing throughout Europe? Obviously we see the application data in Germany picking up but maybe on the gas debates. More specifically what you're hearing there from countries in general in Europe.

ERIC LINDQUIST

Yeah. You say it's a good question. I try to avoid that also more precisely I think it's as with interest rates, as with fluctuations in currency and the political situation, we just have to combat that, we just have to react. And of course it would be much better to have a very firm government in Germany than now waiting for an election. But again we've been through that before and we just have to combat that situation in America or in North America we always believe that we should be present there. So at least from a customs point of view we believe that we are very well positioned because everything you can say to 98 or 99% sold on the North American market is also produced there. So then of course if someone would say well now we're going to penalize or whatever you call it, heat pumps or any product, of course we just have to counteract and we believe that just in North America in the US is not only the federal government but also on the state level where the local politicians are very positive to heat pumps, for instance. And we shouldn't just base everything on what the federal state does, but also on what other different individual states do. Again, we don't comment so much on the political issue. We have to react and wait for what's going to happen. You have to just where you are.

DOUGLAS LINDAHL

It's a broad question. I realize that, thanks. Maybe then another question on demand for heat pumps. I just want to hear if you've seen a huge deviation in terms of demand picking up for commercial versus residential. Do they show similar trends or is commercial much stronger than residential or the other one around in Europe?

ERIC LINDQUIST

Well, the resilience of course on the commercial side is higher there. You talk about corporations or local communities investing. That's a different sector than when the private individual is to erect a home and buy a heat pump or even refurbish a home. So the commercial side is typically much more resilient. And that's also what we see now.

DOUGLAS LINDAHL

But in terms of just change recently.

ERIC LINDQUIST

No, I mean that's overall a picture that the commercial side is more resilient when it comes to changes, but it doesn't have the fluctuations as the, as the new construction for residential would have because that pretty much a function of among other things, but perhaps most predominantly by the interest rates. And when the interest rate goes up, the residential or the contraction for residential goes down. It's almost like a physical law.

DOUGLAS LINDAHL

Okay, thank you so much. That's it for me.

OPERATOR

Our next question comes from the line of Christian Hinderaker from Goldman Sachs. Please go ahead.

CHRISTIAN HINDERAKER

Yes, good morning Eric, Hans, thanks for the presentation. My first question is on the climate solutions margin strength. I just wonder what the cost saving delivered from the action plan is in the bridge and whether we should think of that as being proportional to the revenue mix. That is about 75% of the 750 lands in climate. And then also were there any temporary cost reductions during the quarter outside of the action plan?

ERIC LINDQUIST

The second question is we just run the business long term. We don't say now we're going to hold up anything just because a temporary improvement in results. We just charge ahead when we decided to include or to start the austerity program or cost reduction program, whatever you call it. Everyone in the group got the same message. It's not that someone can sail along and say, well, we are not hit as hard. That's not how it works. Even if you weren't hit that hard, you have to contribute. That is how our group works. Not that someone can say, well you know, I'm out of that problem issue. So everyone has to pitch in so that if it's 100% evenly distributed, that can always be argued. But no one is standing outside the program. All companies are engaged.

CHRISTIAN HINDERAKER, GOLDMAN SACHS

Okay, thank you. My second one's on the receivables. I think receivable days went up from 63 to 69 days. I'm just curious if there's any change in payment behavior in the customer base given obviously that the distributors are having to maybe accept lower sale prices or rather discount products to the end customer.

HANS BACKMAN

We don't see any major changes there really. Neither on the payables nor receivables really. It's of course that we're into a challenging market now and it could have some short term effects but there is no major systematic change. It's more a consequence of the situation we're in with a strong drop in sales and where we purchase less and so forth.

CHRISTIAN HINDERAKER

Thank you Hans.

OPERATOR

Our next question comes from the line of Axel Stasse from MS. Please go ahead.

AXEL STASSE, MORGAN STANLEY

Thank you very much for taking my question. My first question is about the seasonality. Usually the last quarter leads to lower margins in climate solutions versus the rest of the year. And given what happened in climate for like in this quarter, how does this change the sequential development heading into the last quarter? Would you say, you know, you have enough cost saving room here to improve the margins or would you say seasonality is actually unchanged versus the last couple of years? On my second question is about the leverage levels. How should we think about the M&A heading into next year? M&A I think has been quite a key pillar to ebay growth in the past. So yeah, how should we think about M&A going to next year given your leverage? Thank you.

ERIC LINDQUIST

I think the first question, of course the margin development, we don't expect any dramatic changes there. We just have to charge ahead as we said so many times now in the presentation and rely on whatever remains on the cost saving program. So I can't foresee that we're going to have any major changes there. And as far as the second question was the leverage? The leverage of course, I mean we would like to come down as quickly as possible to have a more balanced quote there where it's now free and hall that's not ideal, we know that. But our tradition is to fairly well, should I say amortize debt when the result turns around. That's why we are so determined that to demonstrate that we're going to turn the tide of course, as the quarters and the months go by and that's why we precise ourselves or predict, you know, the future so precisely. We're going to come back to where we've been before, margin wise, which means that we're also going to find room for acquisitions, naturally.

HANS BACKMAN

And if I just may add, I mean, we've gone up to this level before, a couple of occasions, of course, more. Well, just as in this case, linked to acquisitions, then of course, we haven't seen such a drop in the market immediately afterwards. But as soon as our wheels start to spin again, we do generate a good amount of cash and can amortize on our loans. So we do see very good opportunities for acquisitions going forward, especially since we also have the option to pay with shares, which we've done as well before. So I think we feel pretty confident about this, although the level is not ideal, as Eric said.

AXEL STASSE

Okay, thank you very much.

ERIC LINDQUIST

All right. I think that we allowed you folks two or two, three minutes even. I think we have to run. We apologize if there's still a lineup of questions, and I think that you could possibly address those directly to Hans and myself or Frederick, and then we take it from there. So thank you for calling in and thank you for all the questions. We hope that we've been able to answer them at least, if not 100%, at least close to 100% in a satisfying way. Some questions, of course, are always of the nature that they cannot be answered. They should not be answered. All right. Thank you once again.

HANS BACKMAN

Thank you very much. Thank you.

OPERATOR

Ladies and gentlemen, this conference has been concluded.