NIBE

TRANSCRIPT FROM INVESTOR- AND ANALYSTCALL
FOLLOWING THE INTERIM Q1 REPORT, 2025

Thursday, May 15, 2025

00:00:01 - 00:00:04
Gerteric Lindquist: Thank you very much. Good morning, everyone out there.

00:00:06 - 00:00:34
Gerteric Lindquist (CEO NIBE Industrier): It's a gorgeous day here in Markaryd. We call it graduation day when we have the annual shareholders meeting later today. We'll use our regular pattern. Hans and I are going to start going through the report, and then we will allow for questions. Due to all the other things that we have to participate in and carry out today, we would appreciate it if we could stop around noon. That gives us an hour in total.

00:00:34 - 00:00:37
Hans Backman (CFO NIBE Industrier): Limiting the questions to two per person.

00:00:37 - 00:02:05
Gerteric Lindquist: That's right. Thank you, Hans. The headline we would like to say is pretty much in line with our own expectations. That's Q1. There are signs of recovery in a somewhat cautious market. At the end of Q4 last year, we saw a change, and that continues. That fills us with optimism. Our action program is in place, and that makes us return to a more traditional seasonal pattern as well, because now the large orders that we had for years are pretty much gone, and now it's back to the ordinary pattern. What's also very pleasing is that the inventories in the distribution chain have come down. We call them more acceptable levels rather than saying that they are ideal levels. We can't really judge that. We now see that the end customer's demand is much better reflected at the manufacturer's level, which has been a difficult situation for all manufacturers in our three different industries. It's always difficult to assess naturally the future with its economic and political uncertainties. However, we believe in a continued recovery and strength.

00:02:05 - 00:03:08
Gerteric Lindquist: We represent ourselves, and we have also come down considerably in interest rates. There's a debate about whether it's possible that it could continue to go down. We also like to say that we are a different company today than a few years ago. We have a different range of products. They have been kept at a steady pace when it comes to continuing to develop them. We haven't cut down there. Also, on the production engineering side, with more rational production and the facilities that we talk so much about, that's now coming to an end. That is an investment. Just this quarter, we finalized a factory in Finland, and as late as yesterday, we opened up our new markets. We can call it the NIBE world of energy. Today, later on, we're going to have the annual shareholders' meeting in a factory that's newly erected and producing tanks.

00:03:16 - 00:04:25
Gerteric Lindquist: That is also being opened up here in a few weeks' time for the shareholders to look at. That's pretty much the summary. Our ambition, with that said, is still there to try to come back to a margin situation for all three business areas within the historical span we can call it. That's a summary. If we don't jump very quickly into the figures, they speak for themselves. It's a modest growth, and it's particularly on the climate solutions side where we have the growth, which is very pleasing. Stoves is a very pronounced seasonal pattern where you have a significant increase during the second half of the year. The operating margin is up quite a bit from the previous year, which was not very pleasing to us. Therefore, we are going in the right direction when it comes to that. That's all illustrated in the graph that's coming up here with the bars, indicating that there is a slight change in the direction, which is pleasing to see.

00:04:25 - 00:05:57
Gerteric Lindquist: If we just swing to the profitability part of it, then I think in the future we're going to switch over to having the EBITDA, here. We also have the financial items. We see that the relatively easy quarters are ones to compare ourselves to, but there's also a change. As the quarters went by, we're going to see a return to a more seasonal, traditional pattern. Having a few words about the climate solutions improved underlying demand here in Europe, particularly in Holland, Sweden, Germany, America, or North America, it's stable. There isn't any real growth to talk about. Also, here we see a more traditional, seasonal pattern and inventory levels. It's the

same thing for all three business areas. It's come down to a much, much better level. The commercial side, which is not as big as we would like, has another resilience in that segment. Overall, we believe in a gradual improvement going forward. The ambition here is to be back on the operating margin within our historical range, as we will show here. Those are the figures.

00:05:57 - 00:07:30
Gerteric Lindquist: Operating margin is still below 10. We are striving to be up to our traditional span, there between 13 and 15, and that's an undertaking. We are not wavering on that or shivering or anything like that on that target. Ambitions are ambitions, and the world is as it is, but that's a very clear target. On the element side, that's a varying demand, depending on which industry we look at. Some are very buoyant, like the semiconductor and rail. Rail continues to be very positive since there is a very obvious change in attitude. People use rail much more, and also for cargo, which means that the railroad systems and the trains themselves have to be acclimatized and heated. The industrial segment is a little weaker. Also, here inventory levels among our customers are a reflection of the element itself. On the heat pump, and on the good side, it's a slightly deferred cycle. Meanwhile, ready-made goods for our customers have come down to acceptable levels. Then, the components that they bought prior to the downturn are still totally empty.

00:07:30 - 00:08:57
Gerteric Lindquist: That's why we have a certain delay in the improvement there. You can say that, overall, there isn't a booming construction industry. I think that's a concern for at least the whole of Europe. The thing is that we need to come back, but that's a political or financial decision by banks to arrive at lower interest rates, and also to be back in the historical range of eight and 11. As we see here now, we are taking a small step up from last year up to 6.2, and we're going to continue as before, put down our hats, and go ahead. Finally, stoves, again, have very pronounced seasonality. We have really taken a lot of activities when it comes to marketing, knowing that the market will remain relatively slow. Also, on the production side, you have to prepare yourself for the peak during the fall. You have to be very alert so you don't come into the next year with overcapacity, meaning that we have to have some temporary people employed to gather or guarantee the volume during the fall.

00:08:57 - 00:10:32
Gerteric Lindquist: If the demand weakens a little bit again, if we're back to the seasonal pattern, we have to have them go back to whatever they did before, not to harm the margin in their first half of the year next year. Here you see the figures, and it's a drop in revenue. Despite that, we have been able to maintain the operating profit, but foremost the operating margin, which I think illustrates a strength of the business area. Here, we see the difference between North America and Europe. Europe here has been relatively weaker than North America, which is also filling us with prosperity for the rest of the year. The usual pie charts that I present before I hand over the Hans are pretty much the same. The climate solution is roughly not two-thirds here, but 61 percent, and elements just below 30, and stoves around 10. There's been pretty much the same, and now the profitability extends the climate solutions position into the 71 and elements 23 and six, respectively, remembering now that stoves particularly will have their strong period during the second half of the year.

00:10:34 - 00:11:33
Gerteric Lindquist: Geographically, North America is about a third. In the northern countries, we are less than 20 percent, and the rest of Europe is about 43 percent. Therefore, no dramatic changes, really, but North America plays a big role. We know that there's been a big debate about the customs and things like that. As we say in the report, it's not so sensitive when it comes to customs as some people thought. Our expansion has been built around acquisitions in the past, and also growth on those platforms. We have a very small export from Europe to North America and from the other direction as well. From that point of view, we can say we are fairly robust. Just a few words about that, Hans. How about in 12 minutes?

00:11:34 - 00:13:06
Hans Backman: Perfect. Thank you. I will continue at the same speed to leave room for questions. A little bit of a deep dive into the business areas, and then a few snapshots on the balance sheet and some key numbers. Climate solutions, then again, here we grew, as Eric said, with some three plus percent landing in sales, just above six billion. We had a little bit of a boost at the end of the quarter, you can say. This is a true growth in the sense that it has neither been supported by acquisitions nor currency. It was relatively flat there in terms of support. However, having said that, the currency was helping us in the first two months, and then it switched when the Swedish króna took off in March. Going forward, we see some headwind from the Swedish currency. Nevertheless, we do see an underlying better demand driving this growth, where the commercial segment, as Eric mentioned, has been more robust during a slightly tougher period. We remain with the targets that Eric also mentioned, of returning to our historical margin intervals. What has developed quite nicely here due to the volume growth we've had and also the savings program that we've taken, is that the gross margin now has picked up from 31.2 percent, up to about 32.

00:13:07 - 00:14:24
Hans Backman: On the SG&A side, we've also reduced quite a lot. That's the reason for the growth in profit here, with some 67 percent, and landing in an operating margin here of 9.2. In climate solutions, we have a seasonal pattern as well, where Q1 and Q2 are one phase of the year, where we typically build inventory and prepare for the second half. In the second half, that's really when the margins kick in at another level, so to speak. Suppose we take a quick look at the geographical distribution of sales. One quarter is in North America, and roughly 75 percent is in Europe. No major change from the way it looked a year ago. Heading into the NIBE element. Within the NIBE element, we grew by 6.5 percent, of which a smaller portion came from acquisitions, and in this case, a small portion also came from a positive currency effect. However, just as for climate solutions, we don't see that the currency will help us going forward, as is the way the Swedish króna is developing right now.

00:14:25 - 00:15:31
Hans Backman: Here, we definitely strive towards the goal of returning to the historical margins, and we've made progress here as well. If we look at the gross margin, it comes up from 18.6 to 20.2. That's quite an achievement during this phase. Also, on the SG&A side, we are following the savings program and the actions we took there. The operating profit has grown by some 31 percent, landing in an operating margin of 6.2, up from 5.1. It's obviously not where we want to be, but it's a good step in the right direction to where we want to be. The geographical distribution of sales shows no major changes at all compared to last year. It's our most global business area, as we typically mentioned, with a large portion in North America, some 40 percent, Europe and the Nordics being slightly bigger, but then also with a good portion, mainly in Asia.

00:15:35 - 00:16:53
Hans Backman: Moving on to stoves. Within stoves, sales actually dropped by some 12 percent, mainly as a result of the low level of new construction and renovation that we've seen. We have also returned to a more traditional seasonal pattern in this business area, meaning that here, more pronounced than in the other business areas, the first half of the year is typically rather weak. Then almost everything happens in the second half. This was not the case for a couple of years following the pandemic, when people were renovating their homes at home. Then, when Putin invaded Ukraine, and people wanted a stove as a second heating source, they were away from those phases now, coming back to this traditional pattern. As Eric mentioned, despite this quite steep drop in sales, gross margin has improved. It has come up two percentage points. On the SG&A side, we also held on to costs or even reduced them, meaning that we've been able to land an operating profit almost the same as last year but with an operating margin that is actually higher. I think we're well-positioned here for the second half of the year.

00:16:56 - 00:18:28
Hans Backman: Also, in terms of the geographical distribution of sales, no major changes have taken place. It's the same picture as before, with North American operations being 38 percent. They've actually grown a little bit compared to last year. They have also shown better resilience and stronger performance than the European side. It's North America, and it's Europe, including the Nordics, where we are active with this business area. Then, we move into the balance sheet, cash flow, and so forth. There are no major changes here. The total assets and total liabilities have come down from some 70 billion to 66 billion. From year-end up till now, there's a good portion of a currency conversion effect in that, but we've also amortized loans. Depreciation has continued as normal, and also as a consequence of the savings program, some projects have been written down or written off and taken off the balance sheet, so to speak. If we look at the cash flow, we generated 658 million, compared to a large minus number from last year, minus 318. Again, a lot of that has disappeared in changing working capital.

00:18:28 - 00:19:40
Hans Backman: Beneath that number actually lies a continued reduction of inventory. I mentioned before that we typically build inventory during the first half of the year. Here we've really continued our focus on reducing inventory as much as we can, both on the component side and on the finished goods side, and that has been successful. Also, the payables have actually increased, meaning they have contributed well. The sole effect of this negative change comes from accounts receivable. We have not changed any payment terms that would not benefit us. We don't have any more overdue items than before, and we have very few of those. This is more of a timing issue. We had this boost of sales at the end of the quarter, which I mentioned. It's very much related to the phasing of those receivables. Then we've continued to invest in our operations. That might stick out a little. 619 million compared to 470 million. However, we have not launched any major, larger, or new investment programs.

00:19:40 - 00:21:08
Hans Backman: This is all linked to the very large program that we launched some five years ago now. This is also a phasing question of factories now being completed. We have done the last bits and pieces in Markaryd, where we're standing right now. Also, in Finland, we've completed a factory. It's all in line with this program. Financing activities. We've also amortized some loans, but then there is an exchange rate effect on the working or cash flow that hits us as a consequence. Working capital is not really where we want it to be. It's coming down. It's 22.7 percent. As a midterm target, we have to bring it down below 20 percent as a first step and then go below that as well. We're on our way, but would also benefit from a more buoyant market or a vivid market. As a consequence, we're moving in the right direction, with a slightly challenging market, the key financial numbers are not obviously where we want them to be, but we are definitely now heading in the right direction.

00:21:08 - 00:22:04
Hans Backman: I see now, when I look at the picture there, that the little star that we have on the first two key numbers, their return on capital employed and return on equity, is not in for 2025. They should be there. The numbers have been adjusted for the savings program for items affecting comparability so that we can compare apples with apples. All in all, I would say we're very well positioned. We're not exactly where we want to be in terms of numbers, but still, landing in the 9.2 at climate is not too bad, if I dare to say. We're well-positioned for what is to come. We have made some investments over the years now, and I think you can add some color to that in the coming pages, Eric.

00:22:05 - 00:23:05
Gerteric Lindquist: By all means. We have very professional photographers around our company. The first picture here is an illustration of yesterday when we opened up the world of energy and the market. That was a very, very important happening here because the building itself is very extraordinary for customers to visit us and installers, wholesalers, house builders, specifiers, but also for training naturally, and meeting our suppliers, and meeting all categories of people giving a statement that we believe in the future, this is where things happen, and NIBE

World of Energy has a double meaning. We oriented the energy sector, but we are also filled with energy to move forward. Here we have what's called the county governor.

00:23:05 - 00:23:06
Hans Backman: County governor.

00:23:06 - 00:24:45
Gerteric Lindquist: Maria Arnholm. In Sweden, we have counties, and she is the highest principal for that district. Being an arm for the king historically. She called this the crown in a jewel. She gave a very nice speech. Touching, and on the slide below, you see the number of people standing in front of her just before we cut the ribbon. Another slide also illustrates that we have not slowed down in our activities at the [inaudible 00:23:49-00:23:50] in Germany. We have all been represented by our bigger brands. NIBE, Alfano [inaudible 00:23:56-00:23:57] and Ross, on the commercial side, and railroad, it's going on, and there is hope. We are not responsible for the railroad system, but we can just say that the investments are coming up. Sit still and be angry when your train stops. From our part, it looks fairly buoyant because the politicians or whoever is governing this understand that things have to be improved all over Europe and also in North America. That's a very good thing. Also on the stove side, we had two very important shows, one in Leipzig, Germany, and another in New Orleans.

00:25:01 - 00:25:08
Gerteric Lindquist: Here you see the Contura brand in Europe and in North America, the only other brands represented there, which also underlines what we said before, that the North American products Contura doesn't sell anything to North America, and neither the other way around. I think that's pretty much what we have.

00:25:08 - 00:25:12
Hans Backman: Oh, you got a little bit more time.

00:25:12 - 00:25:12
Gerteric Lindquist: I was quick.

00:25:13 - 00:25:18
Hans Backman: Twenty-six minutes now, we are ready for questions.

00:25:23 - 00:25:27
Operator: The next question comes from Christian Hinderaker from Goldman Sachs. Please go ahead.

00:25:29 - 00:26:20
Christian Hinderaker, Goldman Sachs: Morning, Hans. Thank you for the opportunity. I've got two, as noted. First of all, maybe for Hans on the free cash flow side and specifically the working capital development, because I think the other inputs are relatively as expected. You made some good progress, reducing inventories by 780 million versus last quarter. The consensus that assumed an increase in receivables looks like it has changed little, and that's sort of consistent with the consensus. You then have this current liabilities and provisions line that was down 700 million. I think represented an outflow in cash terms versus expectations for an increase and hence a cash inflow. Can you just talk about what drove that cash outflow? Are there any provisions in there, and how do we think about this working capital line assuming growth continues through the rest of the year?

00:26:20 - 00:27:42
Hans Backman: Well, I think the challenging thing when looking at the cash flow and comparing it with what you have in the balance sheet, so to speak, is that there are quite a few currency exchange effects in there. We have continuously worked on reducing the working capital. As I mentioned before, we have been able to do so on the inventory side. There is a portion of currency in there as well when you just look at the balance sheets or the balance sheet numbers. Also, on the liability side, or the payable side, we've actually been able to increase stoves. It's

more of a continued work in addressing this, and I think we've talked about that before, that has also been more in focus for each individual manager in the local companies, that this needs to be addressed more meticulously. Other than that, there are no major changes that we have made on this side that stick out or that should have been common to the bone. I don't know if you're happy with that answer or what it is you're actually after, so to speak.

00:27:44 - 00:28:04
Christian Hinderaker, Goldman Sachs: Thanks. Maybe we can go into that separately in a bit more depth. The second question is a little bit shorter. If I look at the Europe x Nordics revenues, those were down year-on-year in all three segments. Can you just add some color on what you think is behind that, and in climate solutions specifically? Maybe add some context on country-level growth dynamics.

00:28:06 - 00:28:12
Hans Backman: All right. Is it down, you say? I thought that the figures for the first quarter were up.

00:28:15 - 00:28:16
Christian Hinderaker, Goldman Sachs: For Europe?

00:28:26 - 00:29:16
Hans Backman: The thing is that North America represents like 25 percent, and the rest of Europe some 75 percent. It's in Europe where the growth is taking place, whereas in North America, it's been more stable, as we mentioned in the report. In all fairness, North America stood up 24. We didn't have that downfall in the 24, so they kept up pretty well. Now, the US is expected to come back, which you also see. You can say that the 75 percent in Europe would carry the climate solution as a whole, meaning that, in particular, Holland, Sweden, and Germany, being important markets, we've seen a positive development. I don't know whether I answered your question correctly.

00:29:17 - 00:29:46
Christian Hinderaker, Goldman Sachs: I guess I'm a little confused because you had 4413 as your Europe revenue number in Q1 of last year? In Q1 of this year, it's 4213 and hence is lower. All other regions were up. I'm trying to understand that when we think about if heat pump sales last year had declined 51 percent, and this year presumably growing on an easier comp, while your European revenues are lower year-on-year.

00:29:48 - 00:30:11
Hans Backman: I guess you caught me on one foot there. The way we have risen is that... I think I have to explain that more specifically, perhaps in separate meetings, so we don't do anything incorrectly here.

00:30:11 - 00:30:13
Christian Hinderaker, Goldman Sachs: Okay. No problem. Thank you.

00:30:18 - 00:30:22
Operator: The next question comes from Carl Deijenberg from Carnegie. Please go ahead.

00:30:25 - 00:31:07
Carl Deijenberg, Carnegie: Thank you very much. Hi, Hans and Eric. I have two questions from my side, and I'll also start on the inventory side, and maybe more specifically on your own inventories. Then, as pointed out here, they're coming down again here sequentially in Q1. I just wanted to understand a little bit how you look at this going forward. At what sort of levels do you see your own inventories being more normalized relative to where current demand is right now? I guess what I'm trying to understand is, given that you're likely suffering a little bit on the gross margin on underutilization here, for how many more quarters, do you see that progressing? Thank you.

00:31:26 - 00:32:08
Hans Backman: In terms of the inventory we have as a target, we need to have an inventory turn of five, which we think is a good measure for us, so to speak, to strive for. What happened during the COVID phase, and when demand picked up so drastically, was that we sourced a lot of components because we were in a situation where we couldn't deliver and had very long lead times. That's an inventory that we're working on step by step. At the same time with volume, hopefully continuously picking up here, we will have a better flow through in our factories, giving us the possibility to increase the turnover and also sell out those finished goods that we have had on the shelves.

00:32:11 - 00:32:45
Carl Deijenberg, Carnegie: Fair enough. Thank you. My second question would also be a little bit about the sequential development here in Q1 on a monthly basis. I understand that there's seasonality, March being a very important month, but have you seen any underlying market change in Europe here in E1Q? I guess some of your listed peers have talked about the better exit rate. Also, what was the entry rate into the quarter?

00:32:45 - 00:33:51
Gerteric Lindquist: There is a bit of transparency. Before, it was a little bit of a hide-and-seek. What was coming in on our end was going out on the other end. As we say, then report that already last year, in the first quarter. The latter part showed that things were improving and continue to improve, relatively speaking, in the quarter. Then, as Hans said during the last month, order intake and so forth were pretty decent. Then, the currency will work in the other direction if you just break out one individual month. That's what we have to combat. We don't know what we're going to land on for the full year when it comes to the currency situation. We send some signals, but it's our task to lead the company, whatever currency, whatever political turbulence out there.

00:33:51 - 00:34:31
Gerteric Lindquist: It goes up and down, as we say, from day to day, changes. That is like the weather, rain one day and then it's sunny the next one. That means that it's not raining every day. Therefore, we just have to assume that we will arrive at some kind of stable situation. What they're going to look like, we don't know. We believe that we have come to a position with our assortment and our capacities that is well in line with what we have anticipated, but there is always going to be some kind of unexpected thing arising.

00:34:34 - 00:34:38
Carl Deijenberg, Carnegie: Thank you very much. I'll get back in line.

00:34:41 - 00:34:45
Operator: The next question comes from Carl Ragnarstam from Nordea. Please go ahead.

00:34:48 - 00:35:17
Carl Ragnarstam, Nordea: Hi. It's Carl from Nordea. I have two questions from my side as well. When I read the report, you said that you haven't seen a noticeable increase in demand in Germany, i.e. a sluggish market. Is that correct? On the other hand, we are seeing industry numbers indicating a 35 underlying market growth. Is it the reason behind the discrepancy, or did I just misunderstand your comments in the report here? Thanks.

00:35:18 - 00:36:18
Gerteric Lindquist: No, you didn't misunderstand it. It's a growth in Germany from a very low level of the previous year. In that particular case, we would have liked to have a much bigger market share to benefit from that growth. The market is growing with some 12 or 13,000 heat pumps. Had we had 50 percent, it would have been significant, as we all know, our market share is significant, but not of that magnitude. If you just assume 10 percent, it would mean a growth of some 12 or 1500 heat pumps in that particular quarter. It's positive, and that's what we see in

other markets as well. It's not like it's changing the whole world, and then taking into account, North America is very stable. Those increases are what is really lifting their business area.

00:36:21 - 00:36:26
Carl Ragnarstam, Nordea: Therefore, do you feel that you kept your market share in Germany then, or did I just understand?

00:36:26 - 00:36:30
Gerteric Lindquist: Yes, that's right, but it would be difficult to gain anything. We have to admit that.

00:36:33 - 00:37:03
Carl Ragnarstam, Nordea: Okay. Very clear. The final one, if I may. Then, if not the Dutch market, which you also wrote about and said is a good market right now. Obviously, we see some pre-buying effects. On the other hand, we also see growth in inflexible housing. Do you think that the growth in flexible housing, as one example, would be enough to potentially offset the potential whiplash from the previous?

00:37:07 - 00:37:12
Gerteric Lindquist: I don't know whether I fully comprehended that question. If we repeat that a little bit, please.

00:37:13 - 00:37:34
Carl Ragnarstam, Nordea: Yes, sure. In the Netherlands, the government is planning on lowering the subsidy schemes, which, according to the trade decisions, has led to a pretty big effect, as we saw in Germany. On the other hand, we also see a good demand for flexible housing. Do you think that flexible housing demand will offset a potential whiplash, depending on how you look at it?

00:37:35 - 00:38:34
Gerteric Lindquist: I think that we've been living with uncertainty in Holland for some time. What we see is also that the demand is not as tremendous as it was two or three years ago. The water comes down from the hillside, and it looks like the market is perhaps returning to a more realistic rate of growth. Perhaps we all would like to have some support, but perhaps the subsidies were too much in a fair sense, and it's becoming more of a market where the end user decides what to use in the future. I think we believe that the Dutch market will remain strong, but not at the level that it was two or three years ago.

00:38:34 - 00:38:38
Carl Ragnarstam, Nordea: [crosstalk 00:38:33-00:38:35] That's very good. Thank you.

00:38:43 - 00:38:46
Operator: The next question comes from Vivek Mehta from Citi. Please go ahead.

00:38:49 - 00:39:30
Vivek Mehta, Citi: Thank you very much, everyone, and good morning. My first question is about the US. Clearly, it's an important market for you. While nothing's decided, there has been a draft of the new US reconciliation bill, which does propose to eliminate some of the section 25C and 25D tax credits under the Inflation Reduction Act. You've said in the report that you don't expect any major changes in the near or medium term. Could you maybe talk about or expand on those comments and how you see the political situation potentially affecting demand? Thank you.

00:39:51 - 00:40:30
Hans Backman: We believe there'll be a long haul of negotiations regarding that, just like the previous time when the administration changed in 2017, and similar discussions ended up in a compromise. We don't really like to dwell on the outcome of such a potential change. We know that those discussions are going on, and that was expected. However, to have any theory, we can just lean against history. There, the industry was able to come to an agreement with the

government and the administration. It was fairly favorable and balanced, in a way we can say, and they're going to continue now as well for the rest of the year. We understand with our colleagues over there and the associations.

00:40:34 - 00:40:58
Vivek Mehta, Citi: Thank you. My question is, again, expanding on the question earlier about Europe. I think France and Poland have been weaker markets recently. You're sounding in the reports more optimistic about those. What are you seeing there that gives you confidence if relating to some of the subsidies in Poland coming back? Thank you.

00:40:59 - 00:42:14
Hans Backman: I am just one reflection. One thing that gave the market a bit of a hiccup, on top of inventories being too high or inventory levels being too high, was that a new list said that there was a new sort of certification required just for Poland that deviated from the European certification. That meant that there was an uncertainty there, and that cleared out now. That's why we believe that uncertainty is taken away. That's one of the reasons that we didn't specifically write about that. Then in France, we are launching our exhaust heat pumps down there. We are quite successful in doing that. That is also adding to our optimism, although the market is not so buoyant, as you say. However, there is always room for a small operator to come in, because we are not a major operator, but we are still a relatively small one.

00:42:18 - 00:42:18
Vivek Mehta, Citi: [inaudible 00:42:17-00:42:18] Thank you.

00:42:23 - 00:42:28
Operator: The next question comes from Karl Bokvist from ABG Sundal Collier, please go ahead.

00:42:30 - 00:42:55
Karl Bokvist, ABG Sundal Collier: Thank you and hello. The first one is on gross margins compared to the operating margins. You've made your ambition to get back to historical operating margin levels very clear. My question is how we should think about the efficiency we can make on the SG&A Line compared to an ambition to get back to historical gross margin levels.

00:42:58 - 00:44:08
Gerteric Lindquist: Who starts? Me or Hans? As I said, it's always a balance with how much you should cut down on your costs. If we were assuming that we're never going to handle growth anymore, to really exaggerate the dark scenario, then we could cut down further on sales and marketing efforts and also on the R&D. However, we don't believe that. We believe that volume eventually will go up and gradually come back. Then you have to be ready. You can't wait until the market comes back. We must develop products. Now we have to be present in the market. We cannot say that we're going to cut down those costs just to please the operating margin. However, with the combination of both, we've cut down on cost, and the combination of a slight increase in volume, we believe that we can be back within the bracket that we've promised and talked so much about. I hope I have given you a better picture of that.

00:44:10 - 00:44:22
Karl Bokvist, ABG Sundal Collier: Yes, I understood. Then, if I interpret you correctly there, the benefits on volume you expect to become visible also on a gross margin point of view.

00:44:23 - 00:44:28
Gerteric Lindquist: Absolutely. Both are in focus for us, obviously.

00:44:29 - 00:44:44
Karl Bokvist, ABG Sundal Collier: Understood. Then just on new construction, anything you see here on the lead times from improving activity in that segment up until it results in more sales for you.

00:44:46 - 00:45:54
Gerteric Lindquist: New construction typically has a long lead time. We all know that to erect a new building, whether it's a residential home or a bigger building, takes a number of quarters. There, the market is still relatively weak. That's why we talk about the interest rates coming down, which gives a better flavor for the end users. As much as we would like it to come down, that also makes people possibly a bit hesitant. You wait another quarter or two to really carry out the investment. It's a balancing point, and that's of course affecting all three of our business areas. We like to see the new construction increase or come back to, if not a dramatic increase, but come back at least, because that's important not only for our two industries, but for the whole society. Construction drives practically everything but new construction. That's more a philosophical one, rather than...

00:45:56 - 00:45:59
Karl Bokvist, ABG Sundal Collier: Okay. Understood. Thank you for that.

00:46:02 - 00:46:07
Operator: The next question comes from Rajesh Shah from HSBC. Please go ahead.

00:46:09 - 00:46:42
Brijesh Kumar Siya, HSBC: Hi. Good morning, gents. I have two as well. The first one is on the demand assessment. You say that there is a gradual recovery coming in. If I recollect previously, you were expecting this year heat pump volume growth of around low to mid 18. Has that expectation changed, or do you see anything different now compared to what you were expecting at the beginning of the year? That's the first one. The second one. Okay, I'll come back on the second one a little later.

00:46:43 - 00:47:09
Hans Backman: As we said initially, the quarter is pretty much in line with our expectations. We did not foresee that. All of a sudden, things were bouncing back to tremendous growth. However, it would come gradually, and I think that's what we've seen. In that respect, it follows our own internal expectations. All right.

00:47:09 - 00:47:43
Brijesh Kumar Siya, HSBC: Okay. Fair enough. Thank you. The second one is on margin progression. You talk about the margin ambition to reach the historical level. At the same time, you say that it will be a second-half weighted recovery in the climate solution. Putting all this together, how should you think about the margin progression as the year goes on? Is it kind of you to hit these margin targets towards Q4? That's how you should think about it, or on a full-year basis, you are going to hit two targets.

00:47:50 - 00:48:38
Hans Backman: You know that we report our margins on a yearly basis, and that's a gradual improvement. When we are now at a certain level, we expect, particularly the second half, to be considerably better than we are now. When we sum it up, we hope to be within those spans that we've talked about. Otherwise, you say, it won't be so difficult to arrive at a line with a return and one particular month or one particular quarter. That's why we always refer to the year. That's why we believe that we are sticking out there next, and we keep that ambition. It hasn't deviated. All right?

00:48:38 - 00:48:40
Brijesh Kumar Siya, HSBC: Fair enough. Thank you.

00:48:40 - 00:48:41
Hans Backman: Thank you.

00:48:44 - 00:48:48
Operator: The next question comes from Victor Persson from Danske. Please go ahead.

00:48:52 - 00:49:20
Victor Trollsten, Danske Bank: Thank you. Hello Eric and Hans. First to you, Hans. Perhaps, but you mentioned, boost to sales by the end of the quarter in climate solutions. I guess the first question would be if climate had organic growth of three percent in Q1. Could you give an indication how much the growth was at the end of the quarter? Was it double-digit or no?

00:49:20 - 00:50:02
Hans Backman: I don't think we can get into those details, but this is also a little bit of a human touch. We actually experience it every month. At the end of every month, the last few days, that's when the shipping really takes place. There was no difference, so to speak. Now, when coming to a quarter end, and perhaps a little bit boosted by the fact that it was a quarter end. That's when our companies really make sure to get the products out the door. It's more of a human pattern in a way. When we're close to closing the month, the shipments are made.

00:50:02 - 00:50:04
Victor Trollsten, Danske Bank: There were orders.

00:50:05 - 00:50:06
Hans Backman: Of course. Yes.

00:50:07 - 00:50:40
Victor Trollsten, Danske Bank: I guess if I try you on the same topic but from another perspective. I think you're right in the report that there is a better correlation between orders and billings now than in the industry. Does that go for Q1 as well as three percent sales growth in climate solutions? Is that reflective of the order situation in Q1. Would you say that orders are higher than that figure in Q1?

00:50:42 - 00:50:47
Gerteric Lindquist: It's a very intricate question, as the political person would say.

00:50:49 - 00:50:51
Victor Trollsten, Danske Bank: Let's hope for a good answer.

00:50:53 - 00:52:25
Gerteric Lindquist: We try to answer that, but you should view our wording. It's always a delicate thing. The transparency is not that, or the visibility is not very long. Now we are back to the visibility of two, three, four, or five weeks. The customers, wholesalers, house builders, and whatever they have already installed know that we can deliver, and the whole industry can deliver, which means that what we saw before, when everyone tried to compensate themselves, that pattern is totally changed. Now it's the other way around. They know we are very eager to deliver, and consequently, the visibility is very, very short because we don't really know what's happening out there. What we've seen here in the first quarter corresponds to what we assumed, that demand is slowly going to come back. We can deliver, our colleagues or competitors can also deliver, and that means that we cannot really say we're going to happen in June as an industry, unless you have long orders for new construction, when you build apartment buildings, then you have a different situation. Therefore, it is more positive, but visibility is very short, like it was prior to the pandemic as well. There's even more back there to that pattern.

00:52:28 - 00:52:36
Victor Trollsten, Danske Bank: Okay. Fair enough. I fully agree, but so I guess orders were a bit higher than sandstone, or should I?

00:52:38 - 00:54:00
Gerteric Lindquist: As Hans said, we could not have. With the ability to deliver, we don't sit on our little fannies, not delivering because we deliver whatever is asked for. Then, at the beginning of the year, after New Year, everything is always a little bit slower before the wheels start to roll again. Again, if you use the microscope, start to look at the first six weeks versus the latter six

weeks during the quarter. There is a difference there as well. I guess that's what Hans was saying, that we like to get the products out the door, and judging everything from one quarter is very difficult. We try to convey the message that we believe the market will gradually increase. With the seasonal pattern coming back in the second half of the year, you're going to recognize the pattern that you saw before 19. Now it's up to us to really make sure that we can deliver properly during the second half of the year, because that's when stores will traditionally have the majority of their earnings.

00:54:01 - 00:54:38
Gerteric Lindquist: It's also very important that we now fulfill our promises when it comes to delivery and accuracy from climate solutions, because they're also going to be a step-up due to seasonal change. It might not sound that big, but if the first six months have like 46, 47, or 45 percent, and then the second half, the remainder. That's a pretty good jump percentage-wise. That's where we are preparing ourselves for.

00:54:40 - 00:54:45
Victor Trollsten, Danske Bank: Well understood. I appreciate it a lot. Thank you very much.

00:54:45 - 00:54:46
Gerteric Lindquist: Thank you.

00:54:49 - 00:54:53
Operator: The next question comes from Axel Stars from MS. Please go ahead.

00:54:55 - 00:55:22
Axel Stasse, MS: Hi. Good morning, everyone. Thanks for taking my questions. I have two, and I will do one by one. The first question is about the EBTDA margin in climate solution and your 2025 guidance for the division. Could you just maybe elaborate on how you want to reach this guidance and how much volume we actually need to reach this 13 to 15 percent EBTDA margin guidance. That's the first question, please. Thank you.

00:55:24 - 00:57:08
Gerteric Lindquist: I think someone else answered the question for you. As you know, we don't give any specific answers. As we said implicitly a few times here, we expect the volume to increase. That's why we really believe that the market can arrive there margin-wise, had we not anticipated that, but we should have cut down costs even further. However, we believe that we also have to be very frugal with the present cost level. There's always something built into a budgetary plan. Therefore, we also make certain that if volume doesn't materialize, then we have costs that we will not activate. We will not employ that, and that person will not initiate a certain program. We'd like to ensure that the volume, cost structure, and frugal attitude will enable us to arrive there. To give you a certain percentage is difficult. Someone else mentioned that it was in the high singles or something. We have to come back to a better growth than the 3.2. It's very clear that we have to grow on the other side of those figures. That's a little bit of a hide-and-seek answer. However, I don't think that we are really willing to add anything further.

00:57:10 - 00:57:26
Axel Stasse, MS: Okay, fair enough. Thank you very much. My second question is about an update on the volume or order intake you had in April or even for the first 15 days of May. Can you provide an update on this?

00:57:26 - 00:57:58
Gerteric Lindquist: No, we don't give forecasts like that, as you know. We are not embarrassed by receiving the question. I hope that we also gave you a very polite answer. Had we decided to provide those figures, we would have said that in the report. I think something or some positivity could be read between the lines. You know that as far as we go, but we understand your question, Axel. No problem.

00:58:01 - 00:58:02
Axel Stasse, MS: Okay. Thank you very much.

00:58:07 - 00:58:11
Operator: The next question comes from Frederick Agard from SEB. Please go ahead.

00:58:12 - 00:58:55
Fredrik Agard, SEB: Hi. Thanks and hello, everyone. Just coming back to the margin. Sorry for being a pain here. In your ambition, you say that you want to go back to the historic margin range, and take Climate Solutions as an example here, 13 to 15 percent. You're also saying that we're going back to historical patterns and trading. Therefore, H2 is going to be stronger. Historically, that has meant that H2 has had margins that have been two to four percentage points higher than you've seen in the first half. The question here is, is your margin ambition a factor in that seasonal pattern, or is it an ambition to reach 13 percent sometime during the second half?

00:58:57 - 00:59:20
Gerteric Lindquist: No, I think we answered that question before. It's a full-year ambition between 13 and 15. I think everyone understands that it's in a lower region of that one, but it's not like fulfilling one quarter. The challenge is now to bring it up within those brackets for the year.

00:59:21 - 00:59:29
Fredrik Agard, SEB: Sure, I understand that. What you're saying is that 2025 should have at least 13 percent EBTDA margin, if I understand you correctly.

00:59:29 - 00:59:30
Gerteric Lindquist: That's our ambition.

00:59:30 - 00:59:31
Fredrik Agard, SEB: In your ambition.

00:59:31 - 00:59:31
Gerteric Lindquist: Yes.

00:59:32 - 00:59:33
Fredrik Agard, SEB: Okay. Thank you very much. That's very helpful.

00:59:33 - 00:59:34
Gerteric Lindquist: Thank you.

00:59:38 - 00:59:40
Hans Backman: Did you have another question coming?

00:59:41 - 00:59:44
Operator: The next question comes from Gustaf Schwerin from Handelsbanken. Please go ahead.

00:59:45 - 00:59:58
Gustaf Schwerin, Handelsbanken: Thank you. Two quick ones. Firstly, on the inventory reduction sequentially, can you say roughly how much of that was related to FX, the first one?

01:00:04 - 01:00:05
Gerteric Lindquist: Do you take that?

01:00:06 - 01:00:30
Hans Backman: Yes. The larger portion in this respect, since we have IB values calculated at

different exchange rates. You see that in the latter part of the cash flow statement that we showed. There is a good portion of reduction, but slightly more than half is actually currency.

01:00:32 - 01:00:53
Gustaf Schwerin, Handelsbanken: Okay. Thank you. Then secondly, look at the savings program. How much would you say you have realized by the end of Q1? Related to that, have you actually seen an underlying increase in quarter-to-quarter, because in absolute numbers is actually down? Is there an FX effect here, or some seasonal effect, or something? Thank you.

01:01:00 - 01:01:59
Hans Backman: The portion that we had left that would kick in during this year is kicking in as planned because we completed the whole program by the end of 2024. The last bits and pieces came in December, and then we had a portion. I'm trying to recall the number straight ahead in my head. That's kicking in fairly well. We said that depreciation would kick in with some 150 million additionally for the full year. That's basically what's happening now. That's what you need to deduct from the remaining portion of the savings. That was like 450.

01:02:02 - 01:02:23
Gustaf Schwerin, Handelsbanken: Maybe I misunderstand this. If I look at the nine absolute numbers, it's down something like seven or eight million. I think it's a similar development from Q1 to Q4 last year. Typically, SG&A is not that seasonal. I'm wondering if there's something else here because it doesn't look like it's increasing from Q4.

01:02:25 - 01:02:41
Hans Backman: I'm trying to recall or understand your question now. Maybe we need to take this in a separate call. There could be a currency effect in here as well, but I would need to come back to you on that.

01:02:41 - 01:02:45
Gustaf Schwerin, Handelsbanken: That's a wonderful thing. Let's do that. Thank you.

01:02:46 - 01:03:13
Gerteric Lindquist: With that, Gustaf, I think that we have to cut it here if we are not impolite. There are a few other questions out there, but I'm sure you can call us, Hans or Frederick, or any one of us, for that matter, and clear all remaining question marks. Thank you for calling in. Now we can return to the meeting and the annual shareholders' meeting. Thank you once again.

01:03:13 - 01:03:15
Hans Backman: Thank you, everyone. Thank you. Bye-bye.

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