



Transcription

Dometic Q3 Report 2020

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23 October 2020



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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Dometic Q3 Report 2020. Today I'm pleased to present Juan Vargues, President and CEO, and Stefan Fristedts, CFO. For the first part of this call all participants will be in a listen only mode and afterwards there will be a question and answer session. speakers, please begin.

Juan Vargues

Thanks very much. Good morning and welcome to the presentation of the interim report for the third quarter. In Stockholm, I have Stefan Fristedts, our CFO, and Rikard Tunedal, our Head Of Investor Investor Relations. So, I would suggest that we start immediately with the presentation without any delay. As usual we will have time for a Q&A session.

So, starting with the highlights for the third quarter. After a very, very tough second quarter, we saw a very fast recovery in Q3. As a consequence, obviously, of the shutdowns during Q2, but also the fact that the retail inventory levels have been very, very low. Of course, the [? 00:01:11] has accelerated the underlying trend that we have seen for outdoor activities.

And from a negative perspective, after a strong July month in Australia, we saw a new lockdown coming in August and September, having a negative effect on our numbers. We are happy to see a very high backlog, strong order intake, during the last few months. We reached for the first time since seven consecutive negative quarters an organic growth of 3%, driven by aftermarket.

However, in margin, showed as well a strong improvement up to 15.5% versus 13.5% last year. Of course, that's after really pulling the brake heavily in Q2 as a consequence of COVID and seeing a very fast recovery of the customer demand at the beginning of Q3, that creates a lot of strain in the supply chain. In all the supply chain, our suppliers, and it takes a while before we are reaching again normal capacity.

Innovation index is something that continues to improve. We ended up the quarter over 21% versus 60% one year ago. On top of that, we continued to work on our cost reduction activities where we can mention that the restructuring programme that we initiated in Q3 last year, in this quarter, we added another four locations. And in terms of complexity reaction, we continue our programme. We are down now to 44% meaning that we have more than achieved the target that we had for 2020.

If we move over. The financial summary. Net sales ended up at a negative 3%, but we're looking at organic growth is up 3% with a negative effect on currencies of 6%. EBIT ending up at 690 million or 11% more than one year ago, leading to an EBIT margin of 15.5 or 200 basis points better than one year ago. From a positive perspective, we have a positive official mix OEM/aftermarket in the quarter. For the first time, aftermarket reached a 50/50% versus OEM, and that has obviously a positive impact on the margins. But we also continue to work on our cost-saving activities.

And as you all know, we have been working with that now for a couple of years and see the results of all that hard work that we have been doing. As you remember, we had 25% tariffs starting in July one year ago. That means as well that Q3



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started to match the Q3 on the 25% at the same time. So, we have easier comps on one side at the same time as our factories in Mexico and the production that we moved from China to Mexico is starting to have a positive effect on the tariffs.

EBITDA, as a consequence, ended up 6% up versus last year. Our operating cash flow was very strong even if we are showing 20% down versus last year. The fact is that last year, we released a lot of inventories that we had previously, and now we are building up inventories to catch up with the capacity needs. EPS ended up at 95 or 24% down versus last year. And Stefan will comment later a little bit more in detail, but it's very much the effect of finance net and taxes.

If we move over to the year-to-date numbers, I will not go in detail. The bottom line is really that, organically, we are down 17% with no effects from FX or M&A. EBIT margin, we are just now reaching 12.3% year-to-date versus 14.7% last year, of course, very much as a consequence of the COVID effect but also that we had the negative tariff impact during the first half, moving from 10% to 25%.

And then again, we have seen during the year a positive mix effect from aftermarket - more aftermarket in comparison to the OEM. And then we have, as I said, still today, the negative effect from the tariffs, where we are working very hard to reduce it even more, but it will take a while. If we look at EPS year-to-date, [? 00:06:18] very much, again, depending on the finance net and the taxes.

If we move over to the application areas. Of course, it looks very negative, affected primarily by the COVID effect. But when looking at Q3, we could say that Food & Beverage is up 7%. The Power & Control is 2 digits or 17% up. And even Other Applications are up 18%, while Climate is one of the areas where we are suffering in supply chain constraints and is down 10%.

Looking at total sales growth. As you can see, after seven consecutive negative quarters, we are back to the positive, with Americas growing 5% organically; EMEA, 4% organically; and Asia Pacific, as a consequence, again, of the lockdown in Australia, 15% down in the quarter. And we have seen a positive - very positive development on the aftermarket, ending up at 13% up organically during the quarter.

On EBIT, we are very pleased obviously to show what I would consider to be a strong profit improvement in the quarter of 200 basis points. And again, I will not repeat myself, it's a consequence of cost reductions, the sales mix aftermarket/OEM and then the impact from the US tariffs. And then we have to remember that we have quite of a negative effect from FX but also a negative effect from COVID-19 on one side on the top line but, on the other side, as well on the bottom line.

Moving over to the different regions. Americas ended up at 5% organic growth. We have a very strong order intake, and we have a record-high backlog. Aftermarket developing nicely especially in the Marine area. And we started during the quarter deliveries to the automotive OEM contracts that we commented already in connection to the Capital Markets Day in May 2019. And this will keep growing during the quarters to come.

EBIT, up 30%, ending up at 383 million krona. And even there, a pretty hefty margin improvement of 400 basis points as a consequence of the same that I have been commenting before, the mix of aftermarket/OEM, efficiency improvements and then the lower US tariffs. Just commenting on the tariffs, we had a cost of 55 million krona in the quarter versus 81 million krona in the same quarter 2019.



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If we move over to the EMEA region, up 4% organic. A couple of comments here. I commented already a couple of months ago that we were starting to look at our European operations on how to reduce complexity. We have communicated internally a new organisational structure, which is - and what we are doing really is that we are moving from many small markets into five regions, meaning that we are going to see higher efficiency coming from the five new hubs. At the same time, that will give us the opportunity to invest even more in our new growth areas.

Aftermarket even in EMEA was double digits. And what we saw in EMEA, on the contrary to the US, is that Marine - the OEMs in the Marine area are still in negative territory. On the EBIT side, up 6% and ending up at 253 million krona despite a pretty hefty negative effect in comparison to the situation we had one year ago, where we had a positive FX effect last year and a negative effect this year. And of course, even here, we have been working on efficiency improvements, and we see that kicking in month-after-month.

Moving over to APAC, negative growth in all application areas. A very clear difference between July and the rest of the quarter, we saw really a strong recovery both in Asia and Pacific in July, while the new lockdown took place in the middle of August in Australia, obviously, where we have most of our revenues in the region.

The good news is that the pandemic is evolving now better in Australia, and the markets are expected to open up in the coming weeks. In Asia, on the contrary, we had organic growth during the entire quarter. EBIT ending up 36% down versus last year or 53 million krona, with a margin deterioration of about 450 basis points. And even here, very much driven by the high margins that we have in Australia that slowed down at the same time as we also have a pretty hefty currency effect - negative currency effects. On the restructuring program.

Another four locations were affected in the quarter, so we are just now at 21. At the time of communicating the program, we were talking about around 20. And we might see a couple more of them. In terms of employees, we are just now 740 in total or around 20 more during the quarter. And cost was impacted by 14 million in the quarter, ending up at 214 million in comparison to the 750 million that we provisioned for in Q3 last year.

We are very happy to see our innovation index growing all the time. And I'm very happy to see as well that we are seeing the first products of the new generations where we have the modularity built in into the products starting to kick in.

[no audio from 00:12:14 to 00:19:09]

Operator

Ladies and gentlemen, we apologise for the pause in your presentation. We will try to get this sorted for you shortly. Thank you. And once again, thank you for holding. [inaudible 00:19:30 to 00:19:45]

Okay, speakers, your line is now open. You can go ahead.



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Juan Margues

So, slide 14, where were we? Okay. So, then we go back to slide 14, where we were lost. Is that one? Two slides back. Yes. Okay. There we go. Okay. So, sorry for that. Technical problems, obviously.

So, commenting to strategy, I will stay short. We continue to work on our strategy. We see progress in all the different three areas and very much moving exactly according to the strategy that we launched in connection to the Capital Markets Day one year ago.

Let's move on, so we have time for the Q&A. So, coming back to our outdoor lifestyle trend that has been our trend there for the last 10 years. And already one year ago, we introduced to the market our VBA concept or vehicle-based concept. We are developing solutions and packages for daily activities, staycation and vacation. The outdoor lifestyle trend that we have been commenting before has really been very clear when looking at our Dometic.com, our website.

We have year-to-date, after nine months, over 70% more visitors than we had one year ago. And what's really interesting to see is how the demographic is changing. One year ago, the larger - the largest visitor group was people between 45 and 55 years old, while in the last months, we see a change towards people between 25 and 34 and between 34 and 44. So, it is clear that the market, the industry is attracting younger customer group's new entrants.

So, if we look at this, our VBA, vehicle-based activities, what do we mean with that? Well, historically, we have been working very, very close to the RV industry. Once we achieved a pretty strong position, we started to develop the Marine business through a number of acquisitions. We also took a very strong foothold on that market. We have seen a trend towards smaller vans, and that's a trend going on all over the world. At the same time, we believe that it's important for Dometic not just to be on what we would - I would call for high-ticket products or solutions but also to develop more toward lower-ticket products and solutions.

So, what we are doing just now is developing packages for people to use together when owning a normal passenger car. And the reason for that is obviously that we believe that there is a market for those kinds of products and solutions. We would like really to use anybody having an SUV, a station wagon, to use the car as a normal car during the week but as a mini RV during the weekend.

And the reason is obvious. If we compare the RV market, being about 800,000 to 900,000 units per year, and the SUV market, the SUV market is about 29 million vehicles per year, an installed base which is just massive, and we see lots of opportunities to start introducing our products and our solutions into that market [? 00:24:00]. And with all that said, I would like to hand it over to Stefan. Stefan, please?

Stefan Fristedt

Thank you, Juan. So, starting off, commenting on the COVID-19 impact. And as expected, we saw a significantly lower impact of COVID in the third quarter. The estimated impact on the P&L is 130 million on net sales and 30 million on EBIT, which is the net of a whole handful of different effects.



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Then looking on government grants, they are almost half of what they were in Q2, and this is governmental support that we have been receiving and recording in our own income statement. Then we have other support measures, which is mainly made up of the short-time work compensation that our employees have received from various governments around the world. And as you can see, that has been almost nothing during the third quarter.

Moving on to cash flow. Cash flow is returning back to the healthy levels and closer levels that we have seen in the past, and that's, of course, driven by improved earnings. Working capital has also given a positive contribution but not so strong as we saw in Q3 2019, still we see a cash conversion of 118% in the quarter.

Moving on to some of the details in the working capital. As you can see, DPO is moving up from 45 days in the third quarter last year to 55 days. And that is the effect of that we are continuously focusing and working on extending our payment terms in different ways around the world. DSOs is up from 42 days to 50, and the underlying reason for that is a couple. First of all, we have had a mix towards aftermarket in the quarter.

And aftermarket versus OEM means longer payment terms. Then of course, we see a general delay in payments due to the whole COVID situation. However, it's worthwhile commenting that we have no indications of any material bad debt at this point in time. Looking on DIO, they are slightly higher than what it was at the same period last year. And we are seeing a shift that we have lower finished goods but higher components and work in progress. And of course, this is impacted by the supply situation that Juan has been commenting upon.

Moving on to capex and product development. We are starting to invest a little bit more. The trend is continuing, that we are investing less in machinery and equipment and more in product development, IT and other similar areas. We have also, of course, during the year been holding back but are now starting to open up for increasing our investments again.

Looking on product development. It's nice to see that the innovation index is continuing to come up. And we are also in this area starting to invest more, but we are very selective in which projects that we allocate resources to. It's actually underlying fewer projects, but it's projects with higher effect, and Juan was showing you a couple of examples of new products that we have been launching.

Going over to net debt and leverage. You see that our leverage is continuing to come down. It ended in the quarter of 2.8. It's, of course, due to the strong cash flow and the improved earnings that we have seen. And interesting to note is that we are almost back on the level that we were in Q3 last year, where we ended on 2.7. Our favourable debt maturity profile, you are - you have seen it before. There are no changes, but this debt maturity profile has, of course, helped us in these difficult times that we have seen here in Q2 or in the first half of 2020.

Looking into the financial net and the tax position that has been impacting the EPS during Q3. On the financial items, it's exclusively FX-related effects that has taken up the financial net. As you can see, the interest on external bank loans is actually down somewhat versus last year. On the tax line, it's one effect. We have been creating a provision for an ongoing foreign tax dispute, which is alone the reason for - that we are seeing the effects on taxes here, ending up with 242 million versus 129 million last year.

So, with that, I hand back to you, Juan, to summarise the third quarter.



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Juan Vargues

Thank you, Stefan. So, in a couple of words, a very rapid increase in market demand. We see the staycation and outdoor - the outdoor trend continues to grow and is accelerated partly due to the pandemic, obviously; an organic sales growth of 3%, first time that we get back to positive after seven consecutive negative quarters; a record-high backlog that obviously secures our revenues in the coming quarters; and then what we consider to be a very strong performance, showing a 200 basis points EBIT margin improvement.

Strategy-wise, we'll continue to work in our areas. We are, as I mentioned before, on one side, revamping the entire product area for traditional Dometic but, at the same time, investing more and more in building up the new areas. Starting with outdoor, we will see mobile deliveries and hospitality, residential kicking in step-wise.

We see a very strong growth on number of visitors to our website, which is a fantastic asset moving forward now, where we are implementing a B2C channel as well. Innovation index continues to grow at a very nice pace. We feel that we are very well positioned for growth and for our margin expansion. And with all that said, we are fully committed to reach our financial targets in the years to come.

And with that, I would like to open for the Q&A session.



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Q&A

Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please pres 01 on your telephone keypad now. And our first question comes from Daniel Schmit from Danske Bank. Please go ahead. Your line is open.

Daniel Schmit

Yes. Good morning, Juan, Stefan and Rikard. A couple of questions from me and starting with, of course, maybe the supply disruptions or supply chain and production ramp-up difficulties that you've experienced in the quarter especially in Australia and the US, if I understand it correctly. And you state that the order intake is, of course, much higher than the invoicing. Where are we in terms of sort of sorting out the supply chain issues, if I start there?

Juan Vargues

Yes, improving every day. Obviously, when you are dropping 38% in one quarter, everything is about reducing cost and protecting the interest of the company when it turns and all of a sudden it becomes very high-growth numbers, you simply need to have some time to recover from that. And this is not about just our factories, it's obviously our suppliers, our suppliers' suppliers, so it takes a while.

And we see improvements, as I said, practically every day now. In Australia, it's a different story. In Australia, we are totally depending on the lockdown. It is getting lighter, so the expectation just now is to open up on the 2nd of November. And if that happens, what we saw in July when Australia opened after the first wave was a very, very, very strong growth already in July. So, we are expecting a positive evolution as soon as they open up.

So, I think that you have to understand here. On one side, you have a clear, growing underlying demand, in combination with low inventory levels at retail level. At the same time, we still see that the pandemic is there, and that's affecting us in the short term; while in the medium term, we are very optimistic.

Daniel Schmit

Yes. No, no, but everyone, I think, can clearly see that there's a lot of sort of things speaking for you. Just a matter of how you can execute on this very strong demand. But can you say anything about the spread between the order intake and the invoicing in the quarter? So if invoicing was up 3%, was order intake up 15%? Or what's the spread?

Juan Vargues

It's more than that.



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Daniel Schmit

20 or - it's about 20? Just to get a feeling for sort of -

Juan Vargues

Yes, yes, I understand. I understand. Obviously, you are also following our customers. You have seen the numbers about the backlog. Our backlog is in the same - of the same magnitude as their backlog in comparison to the backlog that we had one year ago. And again, it's - yes, sorry.

Daniel Schmit

If you had a lot of problem this quarter, do you expect those problems to halve basically if you look at Q4 and look ahead; and then as you enter '21, those supply chain issues will be gone? Or what's the lead time?

Juan Vargues

I think, as I said, we are - we see improvements every single week. We see - if we look at our revenues, already after Q2, I commented that June ended up at the same level as June last year. Then we saw an improvement in July. We saw an improvement in August. And we saw another improvement in September. If you excluded Australia from the September number, we would be two digits.

Daniel Schmit

Okay. Okay. Okay.

Juan Vargues

So, we see - it is clear that it is coming.

Daniel Schmit

Yes. Yes. Yes, absolutely. Okay. But is it then fair to assume that once we enter '21, you think most of these things will be behind us if you - if we don't get sort of a very sharp increase in lockdowns?

Juan Vargues

We are working for that, yes. We are working for that without any kind of doubts.



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Daniel Schmit

Yes. Okay. And then another question. I think you said that sort of the modularity that you're building into production is starting to have a positive effect on efficiency and economies of scale and so on. Could you - sort of at what pace are we seeing that improvement if you look into the coming quarters?

Juan Vargues

I feel we will see a step-wise development, obviously. It takes between two to three years to develop a new platform of products. And we have started pretty fast after I joined the company, and we see obviously the first products coming out. We have a lot of exciting products kicking in during the coming quarters. As I mentioned today, we have a new generation of refrigerators. We have a new generation of air conditioners that will start kicking in at the end of Q4 and during the first half of next year. We have a new generation that we launch of mobile delivery products.

So, just to give you some flavour, if we look at some of our product areas, we are already above 35%. That's telling you at which pace we are moving. Then of course, you need to introduce the products. Your customers need to accept the products. It takes a while because you are introducing products in the middle of the model year, so it's not always that they take it immediately after.

So, you will see this kicking in during the quarters. And with every single product, a new product that we are launching, on one side, we want to get the extra sales, the extra share of the market. But at the same time, we are also working a lot on reducing the complexity and thereby the cost we have. We are involving our suppliers much more than we ever did in the past. Again, we're not doing anything new, but we are trying to emulate what other industries did 20 years ago.

Daniel Schmit

Yes. All right. Good.

Juan Vargues

And with it, - if you look, Daniel, another way of formulating it is that, if you see our revenue evolution during the last eight quarters, and you see as well our EBIT margins, without all these complexity reductions, efficiency improvements that we have been doing in the last couple of years, we will never be at the EBIT margins that we have today, no way.

Daniel Schmit

No. And speaking of EBIT margins, you finished off by saying that you're well positioned for growth and margin expansion and fully committed to the targets that you laid out in May 2019. And those were quite aggressive, those targets, growing 10% annually over a business cycle and then reaching 16% to 17% EBIT margin. Has COVID-19 in any way sort of delayed your ambitions to deliver on that ambition in the coming three years if you summarise? If you're sort of looking back, is that needed to be sort of shifted out another year to get to that track record? Or how do you see it?



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Juan Vargues

No, we - I mean the target was over a cycle. Of course, as COVID came in and had a negative effect, at the same time, we also see that we are entering a situation where inventory levels both in the RV industry and in the marine industry are pretty low. So, the fact that we are running just now at 3% doesn't mean that we could not be on 10% and above 10% in three years from now.

So, at this point, I cannot tell you. I believe that we need to move down for another year. I still have - or we still have exactly the same targets. Then of course, things happen during the way. That's why it's important not to get crazy about one year. You need to talk about a cycle because things happen every single year, both positives and negatives.

Daniel Schmit

Yes. But if you look at what you can control, do you think that COVID has accelerated your sort of cost or moved forward your cost-cutting efforts or assumptions?

Juan Vargues

In the short term, yes. In the short term, yes, but you have also consequences. If COVID kicks in and you cannot travel, obviously, it's difficult to open up factories if you cannot travel. It's difficult to have [? 00:40:32] when the people in those sites need to teach the people in the new sites, and you are not allowed to travel to one country. So, I think it has accelerated on one side. And I believe that we have shown to the market that we can be pretty fast in taking down cost. But at the same time, you have the next step, which is the long-term changes.

So, I believe that it is a little bit too early. I think that I'm happy with the job that we did in Q2, reducing our costs and delivering what I consider to be a good result. We are very proud of the results that we are delivering in Q3 despite an organic growth of 3%. The good news is that we see the market kicking in. With that market and the additional revenues, obviously, our results will evolve in a positive way.

Daniel Schmit

And then finally, on innovation index, that you mentioned at 21% now or 1 - 21%.

Juan Vargues

Yes.

Daniel Schmit

Is that ahead of plan? Or is that what you felt that you will be at nine months ago?



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Juan Vargues

No, 20%. Yes, we said 20% at the end of this year. We are 21% just now. And we will be somewhere between 20% to 22%, that's my guess.

Daniel Schmit

So slightly ahead maybe moving into '21?

Juan Vargues

Yes.

Daniel Schmit

Yes. Yes. And then by end of '21, you should be at 25%? Or –

Juan Vargues

Correct. Correct.

Daniel Schmit

Okay. That's all from me. Thank you, Juan and Stefan.

Operator

Thank you. Our next question comes from Fredrik Moregård from Pareto Securities. Please go ahead. Your line is now open.

Fredrik Moregård

Thank you very much and good morning, everyone. First of all, the way I read your numbers at least for Americas and for the OEM business particularly is that the weakness is mainly coming from the RV business. And just maybe you could help us understand the bridge between the way shipments for Q3 look to be about perhaps 25%. Obviously, we haven't got the September number yet, but somewhere around there, where you guys seem to have a decline in your RV OEM business. Is it a production mix issue? Or is it OEMs having products under a lot, but they can't ship?



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Juan Vargues

It's both. It's both. I mean if you look at historical numbers and you go back to 2015, 2016, there is a delay between shipments from manufacturers and now with deliveries. So, that's part of the answer. Then of course, you have a shift towards towables from motorhomes. That also has an impact - some kind of impact on the content per vehicle.

And then you have - as I mentioned as well, we had supply chain constraints during the first couple of months. We are catching up. And we believe that we are going to be in a much better market position at the end of Q4. So, it's a combination of them. But look at historical numbers, that you will see that there is a delay. So that's telling you that the manufacturers are also sitting with inventories internally, and they use those inventories to start shipping before they start reordering.

Fredrik Moregård

Sure. And the shift to towables for motorhomes, is that a short-term production issue? Or is it the underlying demand trend that you're seeing, i.e. should we think about your content per vehicle is probably declining somewhat over the coming years for the entire [? 00:44:04].

Juan Vargues

Yes, but this is nothing new. I think we have seen that trend during the last four/five years. At the same time, the market - of course, the more people are getting access to the market. So, it is true that you have somewhat lower content per vehicle, but at the same time, you have more vehicles. And then on top of that, that's why, Fredrik, for us it is so important to develop new ways of growing the business.

So, we see the RV industry a very important industry for us today and even tomorrow. But we also believe that with this outdoor trend, people wanting to get out to nature and enjoying nature, that there is a very good opportunity for us to use our competencies. We are good at a number of core competencies and technologies, we are good at mobility, and we are good at the small spaces. And when you see the trend on the automotive industry moving towards bigger cars, SUVs, pickup trucks, we see a great opportunity to increase our sales moving forward.

So, I don't think that this has a massive impact for us, and it's not a new trend. It's a trend that has been ongoing but, of course, accelerating now in recent times by new entrants coming to the market. So, if you read what the associations are publishing but also the Fords or the Winnebagos of the world, they clearly see that out of the revenues that they have seen in - or the orders that they have seen in 2020, about 50% is new entrants to the market.

And of course, the first thing that you buy when you're entering the market is not an A-class, big RV. Normally, you enter with a fifth wheel or you enter with a trailer, which is obviously smaller and with less content per vehicle.



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Fredrik Moregård

Sure. Sure. And do you see any opportunity for you? Because obviously, I agree that there's a growth opportunity in other verticals such as passenger cars and so on, but do you think there's an opportunity for you to be innovative and increase the content per vehicle for the RV business as well regarding your –

Juan Vargues

Yes. Yes. We see new technology. It is clear that things are happening as well, and you have the connectivity, electronics. You have energy savings. And we see opportunities to enter into new markets.

Fredrik Moregård

Okay. Sure. Just finally, a question on Australia. Obviously, production constraints with the lockdowns. Could you comment something about the retail environment in Australia as opposed to North America and Europe?

Juan Vargues

A little bit of the same. So, the issue - so you have two issues in Australia. On one side, you have the really manufacturing, of these kinds of vehicles is really - 80% is really in Victoria, not in Australia, but in Victoria. And then the other one is that Victoria locked down, so retailers also shut down. So, we had online sales during the quarter, but a lot of the retail stores were under lockdown as well.

So, as I said, Q2 was very tough in Pacific as well, then they opened up. July was extremely strong. And then we saw the lockdown kicking in middle of August and having a major impact in our numbers. Now we see - if you look, the difference perhaps between the market in Australia and the market in - or the similarity, I would say - and the market in US is that even in Australia, the market has been shrinking over the last couple of years.

And of course, with these lockdowns, at the same time as the outdoor trend continues to grow even during the lockdowns, that means that there will be a gap between market need and production quantities. So, we expect Pacific also to show much better numbers in the coming year.

Fredrik Moregård

Okay. Thank you very much. I'll leave room for the next speaker.

Operator

Thank you. Our next question comes from Gustav Hagéus from SEB. Please go ahead. Your line is now open.



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Gustav Hagéus

Thank you, operator. Good morning, guys. If I can return to the question of the order backlog, which you seem to indicate is 20% or more up year-over-year. Could you just remind us what's your visibility typically? How long is your order backlog in terms of production weeks and whatnot? Thanks.

Juan Vargues

So, normally, we are talking about a couple of weeks. Just now, it's many weeks.

Gustav Hagéus

And by many, you mean, 10 or so?

Juan Vargues

Yes. It's - as I said, if you look –

Gustav Hagéus

Hello? Sorry, guys, I can't hear you.

Operator

I apologise for the interruption. It seems that this line has dropped again. We're just going to see if we can get that back on for you. Again, sorry for the interruption. We should have the line connected to you momentarily.

Okay. Speakers, you can go ahead.

Juan Vargues

Thank you. So where were we?

Rikard Tunedal

You were talking about the backlog with Gustav before the interruption.



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Juan Vargues

Yes, yes, yes. So, I don't know when the line was cut, but I think the question was about 10 weeks, and I said that if you look at our customers, they have been communicating that they are somewhere between 2 to 3x the level that they had one year ago in Americas. And my comment to that is that we are approximately in the same level. That's very much value for Americas.

When we talk about Europe, we have seen extremely high registration numbers in - across Europe, 17% year-to-date September. Those numbers have not been converted yet into orders. At the same time, I have discussions with our customers, and they are telling me that it is coming out, that the inventories are totally empty and that they are starting to place orders. So, we are moving with the market, in other words. Hello?

Gustav Hagéus

Yes. Can you hear me? The US RV Association guided for some 20% shipment growth for next year in the US. Do you believe us as analysts should have any other view of your organic growth opportunity next year in the US than that?

Juan Vargues

If we are thinking about the RV, the RV market goes by 20%, that's number of units, then you need to take into consideration content per vehicle since we have a trend towards smaller vehicles. So, we should be in the neighbourhood, then it is 20% or is 17%, I cannot answer just now.

But keep in mind that that's valid for the US. And if you look at the RV OEM market, the RV OEM market represents 30% of total revenues. And RV US represents 16% of total revenues. So, I think what is important is that you don't translate the numbers from the RVA into our revenues. But we have many other businesses than just RV OEM, obviously.

Gustav Hagéus

Right. No, I appreciate that. And finally, for me, the - on the European Marine side, you referenced a lower demand in the quarter. Have you seen a turnaround already here in your order book? Or is that more into the future?

Juan Vargues

Not yet. We hear better signals. But I'm sure that you are familiar with Beneteau [ph 00:53:32]. Beneteau [ph 00:53:32] has been obviously communicating difficulties in the year. We have a number of important producers in the UK. I think that Brexit has had a negative impact on them during the last nine months. But again, we hear better signals now, but we have not seen that in our order intake yet.



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Gustav Hagéus

Okay. Thank you. Those were all of my questions.

Operator

Thank you. Our next question comes from Rizk Maldi from Jefferies. Please go ahead. Your line is now open.

Rizk Maldi

Yes, good morning, gentlemen. I hope you can hear me well. I just have a couple of questions. Number one, you talked about the difference in the content per vehicle when it comes to towables or caravans versus motorhomes and also the shift into the smaller sizes of caravans or motorhomes. Can you just give us any numbers there, Juan, just to illustrate this, please?

Juan Vargues

The issue is obviously that this is complex because you have so many different types, and you have content per vehicle for every single type. I would say that between the bigger types and the smaller types, we are talking about 20% to 30% less on the vehicle as a rough average. But again, keep in mind that there are many different types. And the good news from that perspective is that if you compare tools [ph 00:54:58] and motorhomes, motorhomes is a much smaller part of the market.

Rizk Maldi

Understood. Secondly, on the 200 bps margin improvement, which is substantial, I just wanted to hear from you if you could help us any - with any comments on the different bridge items there, like how much pricing added, how much the aftermarket mix was and what are the sort of savings outside of grants and the short-term measures that you've had. Also, any comment on FX impact as well in the quarter, that will be helpful.

Stefan Fristedt

Okay. It's Stefan here. Of course, the mix effect has had a fairly significant impact on the development of the margin, no doubt about that. But then also our very focused work on driving efficiency in all the different areas of the company has been contributing significantly. So, on the positive side, that is, of course, the two factors that is impacting. Then we should not forget that the FX is definitely materially negative in the quarter here. So, with that in mind, it, of course, puts the whole situation that on the two first points, we have been doing a really good job, I would say.



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Juan Vargues

Are you okay with that, Rizk?

Rizk Maidi

I mean I would have liked sort of numbers, but a different way of asking the question is I think you've reduced the cost base quite significantly the last two years. We didn't see it so much in the numbers because of the collapse of RV registrations in North America. Assuming we've passed the trough one, how early do you think you can get the margins back to - or at least get the margins to the 16% to 17% corridor?

Juan Vargues

I mean of course, that will very much be depending on the mix. We are doing our best to increase the mix towards AM. The base will be totally decisive to be in the window that we were discussing, 16% to 17%. In parallel, obviously, we are also working on our cost. As you know, we have the restructuring program, which is running. We see positive effects already now after one year, and those effects will be growing in the coming quarters.

So, I think we are fully committed. We presented those targets one year ago or one and a half years ago. We have another three and a half years to go. And we believe that if the market grows as we are seeing this now, of course, the regional targets will be separated. Then of course, you have acquisitions and what kind of margins we see from the acquisitions, so you have a number of different variables.

Rizk Maidi

Okay. I'll stop here and leave others to ask questions.

Operator

Thank you. Our next question comes from Agnieszka Villala from Nordea. Please go ahead. Your line is open.

Agnieszka Villala

Thank you. I will start with a simple question, Juan. What would your growth in the quarter be if you didn't have the production issues or supply chain issues? Would it be 10 percentage points higher than what you delivered or even better?

Juan Vargues

This is - I mean with the kind of backlog that we have and the order intake that we have been seeing, we would be most probably north of 10%. Again, the backlog is there, and the order intake is there.



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Agneszcia Villala

Perfect. And your - so you are bullish about the demand, and you have quite good visibility, as you state, for the coming quarters?

Juan Vargues

At this point. Yes, at this point, we are because we see - obviously, we know that inventory levels are very, very low both in Americas and EMEA. We have a backlog. We see our customers' backlog. And at this point, there is no reason to have any doubts. Then as I commented before, whether next year is going to be 20%, 15% or 13%, at this point, I cannot judge. But what I can say is that the backlogs are there, and the order intake looks very substantial.

Agneszcia Villala

Great. And then maybe if we can touch upon then the execution in the quarter, if you're happy with that or not. And also, I mean I also see that you kind of changed your communication about the demand outlook. I remember when we were in Q2 and looking at the conf. call there, you said that you do see a lot of optimism, and you saw that your customers are very optimistic. But you also said that you're a bit sceptical to believe in what they are saying. But now my feeling is that you definitely see that it is happening. You see very good demand that will last for longer.

Juan Vargues

Agneszcia, it's not about feeling. It's that I see the backlogs. It's - now it is real. There are numbers. It's not just feelings anymore. That makes the difference to me. I like facts.

Agneszcia Villala

Yes. And then when it comes to execution in the quarter, I mean how much of that was dependent on the fact that your suppliers could not deliver? And how much maybe was self-inflicted?

Juan Vargues

Quite a bit. Quite a bit. Of course, that we have COVID cases. And whenever you have a COVID case, you need to isolate one area, you need to send people home for 14 days and things like that. The vast majority of the issues is coming from the supply chain. It's a long supply chain, you have lots of suppliers, and it doesn't really matter. You have 95% of all the SKUs if you are missing one part, then you cannot deliver to your customer.

So, that has been improving step-wise, week-after-week, day-after-day. And we believe that we - we believe - I know that we will see a better output in Q4. But then, Agneszcia, it's not just about us, it's that I think that our customers are talking



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about that. I think that our suppliers are talking about that. It is a reality that pulling the brake as rapidly as the industry did six months ago, it takes a while before you get up to full speed again.

Agneszcia Villala

And can you help us and maybe give us some colour on the - your production rates in September and October year-on-year? And maybe capacity utilisation, how does it look like right now? Are you producing close to the maximum capacity? Will you be thinking about maybe expanding the capacity given the kind of structural growth that we see in your verticals?

Juan Vargues

We don't see a massive - massive, that's the wrong word. We don't see a problem in the medium term. It is much more about ramping up from where we came in, in May. Then I mean, of course, if we see this trend, if we are talking about 20% here, then we mean that we are coming back to the levels that we had two years ago. So, we have the capacity at the time, right? Then of course, if you put another 20% in 2020 - '22, that's a different story. Then we will need to start evaluating in Q2, Q3 next year whether we need to add more capacity.

At the same time, Agneszcia, we are talking clearly about outsourcing more than we are doing today. We have been extremely vertically integrated. So, the three here is really much more sourcing and outsourcing than our own manufacturing capacity. And that's what you will see in our capex levels as well.

Agneszcia Villala

Yes. And then the last question from me is on your restructuring programme and factory consolidation. Do you want to proceed with that even now in the times where we see this demand coming back so strongly? Don't you risk that maybe you will miss some sales if you start to address your production in factories?

Juan Vargues

I think that's a very good question, and we will evaluate obviously weekly because, of course, it has trade-off. You know that when you are moving a factory, it takes a while before you get everything perfect. And it's not the same to run business as usual, and when you are ramping up as we are doing today.

So, I don't have the answer just now. But what I can tell you is obviously that, that's an internal discussion that we have, depending on how the volumes develop in - I would say, during the first half, we will need to see whether we need to delay some of these projects for a few months or if we run it according to the plan.

Agneszcia Villala

Great. Thank you.



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Juan Vargues

Any final question from your side?

Operator

I'll hand back to the speakers for any closing remarks.

Juan Vargues

Okay. So, thank you very much, everybody. I apologize for the technical issues that we suffered and thank you very much for your attention. Have a great day and stay safe, all of you.

Stefan Fristedt

Bye-bye.