

NIBE Industrier's (publ) CEO and MD, Gerteric Lindquist, comments on first half year, 2024

First half characterized by large adjustments

The action plan is being implemented as a result of major destocking in the distribution chain, continuing high interest rates and historically low housing production – at the same time, we expect a gradual improvement in demand in all three business areas in the second half of the year.

The Group's sales declined by 16.8% during the period (compared with growth of 27.6% in the previous year), of which the organic decline was 22.3% (compared with organic growth of 22.1% in the previous year). Operating profit adjusted for items affecting comparability declined by 67.1% in the period compared with the corresponding period in the previous year, and the operating margin declined from 15.3% to 6.1%. Adjusted profit after net financial items fell by 82.7%, while the profit margin declined to 3.0% (14.3%).

Moving towards more acceptable inventory levels

As in the beginning of the first half of the year, the rest of the period was also characterized by distributors' efforts in the distribution chains to reduce their inventory levels, particularly for heat pumps and stoves. This means that order intake among manufacturers remained weak and did not reflect the number of products actually installed by consumers. However, we believe that the inventory adjustments in the distribution chain, which have been going on for more than nine months, are now largely completed in the vast majority of markets. This, in turn, should mean that manufacturers' production volumes will in future better correspond to actual consumer demand. However, the German distribution channels are an exception and are expected to need another quarter or two to come down to acceptable levels.

Background is familiar

The steep and rapid increase in interest rates at the end of 2022 and throughout 2023, particularly in Europe and North America, has had a significant dampening effect on consumers, while new production of housing and commercial property has slowed down considerably. This has mainly had a negative impact on demand for heat pumps and stoves. Some of the central banks cut their key interest rates in early summer and the general consensus is that both Sweden and the rest of Europe and North America now face a number of relatively rapid interest rate cuts. It is reasonable to assume that this will have a positive effect by stimulating general consumption willingness and interest in investing in new production of property.

Crucial to achieve climate targets

The phase-out of fossil fuels is still progressing too slowly for the world to be able to achieve established climate targets. One of the major obstacles in the transition is the lack of political clarity concerning transition subsidies for the installation of heat pumps as well as the disproportionately large price difference in several countries between fossil fuels and electricity in terms of price per kilowatt hour.

Positive outlook for semiconductors

The semiconductor industry, which has suffered a significant setback mainly due to US trade sanctions against China, is now seeing some signs of improvement. Several new semiconductor manufacturing plants are under construction, mostly in the USA but also in Europe, which is expected to have a positive effect on equipment manufacturers and their suppliers towards the end of the current year.

Our overall view

To summarize, our assessment is that demand at manufacturer level has largely bottomed out in the first half of the year and will gradually improve in the second half.

Action plan launched

As previously announced, on March 18 we launched a comprehensive action plan in order to adapt the business to prevailing demand. The annual savings are estimated to be around SEK 750 million and the cost approximately SEK 1,095 million.

Business area NIBE Climate Solutions has successfully and almost fully implemented its parts of the action plan. The measures taken to streamline the organization and reduce overheads in both the short and long term have already had an effect on operations in the second half of the period. At the same time, we are continuously launching new heat pump models based on environmentally friendly refrigerants and advanced controls in order to further strengthen our market position. The brand-new product program for commercial property ventilation, NIBE Flow, developed in-house and launched in April, has been very well received in the market. With this new program and our complete product programs in heat pumps and district heating, we can now provide complete system solutions for commercial property climate control.

Stability in the US heat pump market has been completely different from the European market, but it too has seen some reduction in installations in the single-family home segment due to high interest rates in the first half of the year.

The business area's ambitious investment program has almost been completed, save some machinery equipment that has been postponed pending an increase in demand.

The sharp and rapid fall in sales in the first half of the year resulted in a significant decrease in both operating profit and operating margin. The ongoing action plan, combined with a recovery in demand in Europe in the second half of the year, will enable us to gradually improve operating profit. Our clear ambition is to return to an operating margin level within the business area's historical range in 2025.

Business area NIBE Element is, like NIBE Climate Solutions, nearing the completion of its action plan. While the market for products for the heat pump segment has seen a sharp downturn, as have products for the rest of the construction industry, we see that the electrification of vehicles, together with the market for rail-based transport, is creating new opportunities for growth. There are also positive signals from the semiconductor industry, which expects to see an upturn as early as in the second half of the year. In addition, the wind power industry expects to see a recovery in 2025 after a couple of weak years.

The action plan, combined with increased sales, will gradually improve the operating margin in the second half of the year. Despite some cyclical lag in the business area's sales as a component manufacturer for production customers, our clear ambition is to return to an operating margin level within the business area's historical range during 2025.

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Business area NIBE Stoves, like the two other business areas, is in the final phase of implementing the action plan described earlier. As in the case of previous statements, product development and the respective marketing initiatives are exempt from cost-cutting measures. A concrete example is the launch of the Contura Zero Emission stove, a groundbreaking innovation that almost completely reduces particle emissions from wood burning in the stove. The product will be launched to end consumers in the fall of 2024.

NIBE

The action plan covers NIBE Stoves in Europe. A similar action plan was carried out in the North American companies in the previous year in order to adapt their operations to lower sales volumes.

The decline in sales has reduced both operating profit and the operating margin, but, with the implemented measures, the aim is to gradually improve them as early as in the second half of this year. Our clear ambition is to return to an operating margin level within the business area's historical range in 2025.

Investments for the future

The Group's total investments in the first half of the year amounted to SEK 1,263 million, compared with SEK 2,144 million in the previous year. Of the investments, SEK 29 (726) million related to acquisitions of operations, which means SEK 1,234 (1,382) million comprised investments in existing operations. Excluding leases, the depreciation rate was SEK 749 million, compared with SEK 579 million in the corresponding period in the previous year.

Of the investment program of SEK 10 billion decided in 2020, the bulk, or just over SEK 8.5 billion, has now been completed. The remaining investments in buildings will be completed in 2024/2025, while further investments in capacity expansion have been postponed pending an increase in demand.

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