THE EUROPEAN SPIN-OFF & RESTRUCTURING REPORT

March 19, 2020

Electrolux AB (Pre-Spin)

Current Share Price (3/18/20): SEK 106.50
Fair Value Estimate: SEK 124 per share
Shares Outstanding: 308.9 million
Market Capitalization: SEK 32.9 billion

Ticker: ELUXB SS
Dividend: SEK 8.50
Yield: 7.9%

Electrolux AB (Post-Spin)

Fair Value Estimate: SEK 105 per share
Shares Outstanding: 308.9 million
Market Capitalization: SEK 32.4 billion

Ticker: ELUXB SS
Dividend: SEK 8.50
Yield: N/A

Electrolux Professional AB

Fair Value Estimate: SEK 19 per share
Shares Outstanding*: 308.9 million
Market Capitalization: SEK 5.9 billion

Ticker: TBD
Dividend: TBD
Yield: N/A

TBD – To be determined. N/A – Not applicable.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin Electrolux AB.
1 USD = 10.27 SEK

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Investment Thesis

On December 5, 2019, Electrolux AB (ELUX-B.SS) announced its intention to spin off its Professional Products business as an independent publicly traded company, to be called Electrolux Professional AB. Distribution of the shares and the first day of trading in Electrolux Professional is scheduled to take place on March 23, 2020, on Nasdaq Stockholm. In 2019, Electrolux's Professional Products business, which consists of commercial kitchen and laundry equipment, generated SEK 9,281 million, which represented 7.2% of consolidated Electrolux sales and an organic sales decline of 0.3% year-over-year. The separation follows Electrolux's previous carve-outs of lawnmower maker Husqvarna in 2006 and seatbelt manufacturer Autoliv in 2005. Following the spin-off of the Professional Products business, Electrolux can focus exclusively on its consumer appliance business, while working toward improving operational efficiencies and increasing its investment in the North America market.

As an independent company, the Professional business should be in a better position to accelerate organic growth and access capital to pursue mergers and acquisitions, which has been challenging for the company, given the significantly higher valuation multiple in the Professional space. As a standalone entity with a higher multiple, Professional's growth should be able to create more value going forward. Management has indicated that Professional could seek targets in areas where it has had a smaller footprint, such as North America and quick-service restaurants, and those areas that would accelerate its business in growing emerging markets.

ELUX shares have declined approximately 44% year-to-date, versus a 24% decline for the OMX Stockholm 30 Index over the same period. In recent years, the company has improved its profitability through increased efficiency and by cutting lower-margin products, but the U.S.-China trade war has inflated raw material costs (e.g., steel and aluminum), forcing appliance makers to increase prices. As a result, overall market demand in North America has declined, and the company has forecast that rising costs, coupled with reduced demand in North America—owing to bankruptcy at its largest North American customer, Sears Holdings Corp.—would result in reduced operating efficiencies. In recent months, Electrolux has been working to offset higher costs and the negative impact of currency fluctuations by increasing prices as well as by honing its product line to focus on higher-margin appliances. In addition, the company is investing heavily in new and more efficient manufacturing facilities with increased automation. Price increases have allowed Electrolux to partly mitigate the impact seen in North America from higher raw material costs and tariffs and from lower private-label volumes after Sears, its biggest regional customer, filed for bankruptcy. More recently, however, concerns about the spread of the coronavirus disease (COVID-19) have led consumers to postpone appliance purchases.

On a pre-spin, sum-of-the-parts basis, shares of Electrolux AB are fairly valued at SEK 124 per share, consisting of SEK 19 per share in value from Electrolux Professional, and SEK 105 per share in value from the parent Electrolux. Based on our analysis, the current market valuation is assigning minimal value to the Professional business within the context of the current conglomerate structure. If shares of the parent company were to trade at our estimated fair value, this would imply that just SEK 4.58 in value is currently being assigned to the Professional business, which, based on 2021 estimated EBITDA, implies a trading multiple of 2.2x. Following the separation, the parent company's commitment to pay a dividend of SEK 8.50 per share in 2020 should help support the Electrolux share price, which lends credence to the thesis that within the current corporate structure, the Professional business is being undervalued. However, given the current macro environment, including the ongoing spread of the COVID-19 virus, we are highly cautious about the company's future earnings. As such, we rate shares of ELUX a HOLD prior to the separation. In particular, we see the post-spin Professional business at increased risk, as social distancing and other preventative initiatives have already had a significant negative impact on restaurants, cruise ships, hotels, casinos, and other public venues. As such, dramatic declines in occupancy of public spaces and forced closures will likely defer purchase of commercial scale kitchen equipment for the foreseeable future. Further, the potential for a significant increase in unemployment rates may curb revenue trends for the consumer business.

Company Description

Electrolux AB (ELUXB.SS), headquartered in Stockholm, Sweden, is a multinational home appliance manufacturer. The company, with a current market capitalization of SEK 32.9 billion, is the world's second largest appliance maker by units sold, after Whirlpool Corp. (NYSE: WHR). The company's products include refrigerators, dishwashers, washing machines, air conditioners, microwave ovens, vacuum cleaners, and cookers.

The company has a dual-class share structure; outstanding shares are divided into A-shares and B-shares. A-shares entitle the holder to one vote, while B-shares entitle the holder to 1/10 of a voteIn accordance with the Articles of Association of Electrolux AB, owners of A-shares have the right to have such shares converted to B-shares. T. As of December 31, 2019, approximately 33% of shares outstanding were owned by foreign investors, approximately 61% by Swedish institutions and mutual funds, and approximately 6% by private Swedish investors. Investor AB (INVEB.SS), a Swedish investment and conglomerate holding company, is the largest shareholder, owning approximately 16.4% of the share capital and 28.4% of the voting rights. he total number of shares is 308.9 million, of which approximately 8.2 million are A-shares.

For 2019, Electrolux generated net sales of SEK 119 billion (-1% year-over-year) and EBIT of SEK 3.2 billion (see Exhibit 1). In 2019, following the announcement of its intention to separate its Professional Products business, the company revised its business area structure to create four consumer-focused business areas. The Professional Products segment has since been included in discontinued operations. The company's previous Home Care & SDA business area was combined with these regional business areas.

- **Europe.** (38% of 2019 sales; 7.1% operating margin). In Europe, Electrolux is among the top three players in most geographies, with overall leadership in the Nordic region, with a 39% market share. The company is the second largest player in Western Europe, with a market share in core appliances of 17%, and the third largest player in Eastern Europe, with a 15% market share. In the last five years, Electrolux has gained market share within premium brands, mainly driven by new product innovation as well as by improved brand focus. The company holds the leading position in floor care, with a strong presence in the premium segment. Electrolux has been at the forefront of vacuum cleaning innovation for 100 years and garners strong brand recognition in vacuum cleaners. In 2019, Europe experienced organic sales growth of 1.7%—driven by improved product mix and price increases.

- **North America.** (33% of 2019 sales; 1.4% operating margin.) In North America, Electrolux holds approximately a 14% share in core appliances, predominantly under the Frigidaire brand, which has a 100-year heritage. This segment is the poorest performing of the company's business segments. In 2019, North America experienced an organic sales decline of 8.7% due to lower sales volumes and capacity constraints related to manufacturing consolidation. This segment experienced reduced operating income and margins due to lower volumes and increased costs related to the manufacturing consolidation. The company reduced the number of products (stock-keeping units, or SKUs) by more than 55% by the end of 2019 compared to the start of 2017, eliminating weaker-performing products and focusing on higher-quality products.

- **Latin America.** (16% of 2019 sales; 3.7% operating margin.) In Latin America, Electrolux holds approximately 32% of the combined market share in Brazil, Chile, and Argentina, with particular brand leadership in the refrigeration/freezer segments. Brands include Electrolux in Brazil, Fensa and Mademsa in Chile, Electrolux and Gafa in Argentina, and Frigidaire. The company's local manufacturing presence in the region is a competitive advantage, as several markets, such as Brazil and Argentina, are protected by customs tariffs. In 2019, Latin America generated organic sales growth of 10.9%—mainly driven by Brazil and Argentina. Both price increases and mix improvement contributed to growth, as did higher sales volumes in Brazil. The company has also refined its regional product portfolio, resulting in a more focused and sharpened product offering in the most profitable categories, with successes in multidoor refrigerators and high-capacity washers. This refined focus has contributed to mix improvements, particularly in Brazil.

- **Asia-Pacific, Middle East and Africa.** (13% of 2019 sales; 5.6% operating margin.) Electrolux holds the market-leading position in cooking in Australia and New Zealand, which, combined, account for about half of the region's total sales. The company also holds a strong market position in targeted segments in Southeast Asia, especially front-load washers, where it has gained market share in recent years. The company holds leading positions in floor care in parts of the region such as Australia, Japan, and Korea, and is the largest manufacturer of water heaters in South Africa and Egypt.

Exhibit 1 Electrolux AB: Financial Highlights by Segment for the Years 2015-2019
(in SEK millions)

	2015	2016	2017	2018	2019
Revenue	**123,511.0**	**121,093.0**	**120,771.0**	**124,129.0**	**118,981.0**
Europe	—	—	—	—	45,420.0
North America	—	—	—	—	38,954.0
Latin America	—	—	—	—	19,653.0
Asia-Pacific, Middle East and Africa	—	—	—	—	14,954.0
Major Appliances	108,007.0	106,045.0	105,241.0	107,848.0	—
Professional Products	6,546.0	6,865.0	7,723.0	8,666.0	—
Small Appliance	8,958.0	8,183.0	7,808.0	7,616.0	—
Common Group Costs	0.0	0.0	0.0	0.0	—
Adjustments	—	—	-1.0	-1.0	—
Operating Income	**2,741.0**	**6,274.0**	**7,407.0**	**5,310.0**	**4,244.0**
Europe	—	—	—	—	2,493.0
Latin America	—	—	—	—	1,821.0
Asia-Pacific, Middle East and Africa	—	—	—	—	446.0
North America	—	—	—	—	-516.0
Major Appliances	4,574.0	5,775.0	6,696.0	4,305.0	—
Professional Products	862.0	954.0	1,054.0	1,134.0	—
Small Appliance	-63.0	238.0	431.0	398.0	—
Adjustments	—	—	1.0	0.0	—
Common Group Costs	-2,632.0	-693.0	-775.0	-527.0	—

Source: Company reports.

The North America region has been the company's underperforming business segment, having been affected by a combination of falling demand, increased costs, and sales declines associated with its largest North American customer, Sears Holdings Corp., which filed for bankruptcy in October 2018. Electrolux, through its Frigidaire product line, sold kitchen appliances to Sears under the Kenmore brand, which historically accounted for 10% of North America sales. According to the bankruptcy filing, Electrolux is owed $18.6 million.

Lower volumes and manufacturing transition costs in North America, coupled with higher marketing investments, mainly in Europe and APAC MEA, continue to affect financial results. However, in the company's 4Q 2019 interim financial results, reported January 31, 2020, price increases fully offset significant headwinds from raw materials costs, tariffs, and negative currency impacts.

In 4Q 2019, net sales for continuing operations, excluding Electrolux Professional, totaled SEK 32,011 million, which represented a decline of 2.8% on a year-over-year basis, mainly due to lower volumes in North America related to both consolidation of manufacturing and weaker market conditions. Operating income for continuing operations amounted to SEK 960 million, corresponding to a margin of 3.0%. Revenue and earnings declines were partly owing to a slower than expected ramp of its new automated refrigerator and freezer plant in Anderson, South Carolina, which resulted in capacity constraints and increased costs. The new plant, which features a substantially higher degree of digitization and automation, replaces separate manufacturing facilities in St. Cloud, Minnesota, and Anderson, SC. As a result, the company reduced its 2020 cost savings forecast to SEK 200 million, versus SEK 800 million previously, implying that meaningful cost savings will not be achieved until 2021. Management has reiterated its guidance for cost savings of SEK 3.5 billion annually by 2024.

For 2019, consolidated revenue reflected a 3.0% year-over-year increase in net sales for continuing operations (see Exhibit 2). The organic sales decline of 1.0% was related to lower volumes, primarily in North America (owing to inventory reduction at Sears). Operating income for 2019 declined to SEK 3,189 million (versus SEK 4,176 million in 2018) and included non-recurring items of SEK 1,344 million, reflecting lower volumes and manufacturing transition costs in North America. Price increases helped offset higher costs for raw materials, trade tariffs, and currency headwinds.

Exhibit 2 Electrolux AB: Financial Highlights

SEKm	Q4 2019	Q4 2018	Change	FY 2019	FY 2018	Change
Net sales	32,011	32,021	0.0%	118,981	115,463	3.0%
Organic growth	-2.8%	2.6%	-5.4pts	-1.0%	1.2%	-2.2pts
Acquisitions/divestments	0.0%	-0.7%	0.7pts	-0.3%	0.4%	-0.7pts
Currency	2.8%	3.1%	-0.3pts	4.3%	0.9%	3.4pts
Gross operating income	5,756	5,718	0.7%	19,799	20,001	-1.0%
Gross operating margin	18.0%	17.9%	0.1pts	16.6%	17.3%	-0.7pts
EBIT	960	1,670	-42.5%	3,189	4,176	-23.6%
EBIT margin	3.0%	5.2%	-2.2pts	2.7%	3.6%	-0.9pts
Non-recurring items	-	71	N/A	-1,344	-1,343	0.1%
EBIT excl. NRI	960	1,599	-40.0%	4,533	5,519	-17.9%
EBIT margin excl. NRI	3.0%	5.0%	-2.0pts	3.8%	4.8%	-1.0pts
Op. cash flow after investments	2,822	2,656	6.3%	2,280	2,646	-13.8%

Source: Company reports.

In addition to price increases, Electrolux has initiated several efforts to improve profitability, including consolidation of various manufacturing facilities, as well as other global streamlining measures, announced in September 2019. Management's plan calls for a reduction in variable product costs by 3% on like-for-like products, net of inflation (less than or equal to 2%).

Electrolux Professional

Electrolux Professional is one of the leading global providers of food service, beverage, and laundry solutions worldwide. The business focuses on solutions where there is a need for high-performing, reliable equipment, with significant aftermarket requirements over the equipment's life cycle, and where customers are focused on productivity and total cost of ownership. The company's presence in the professional equipment business dates back over 100 years to include companies such as Wascator, Zanussi, and Cecilware, which were acquired by Electrolux. The Professional Products business originated in 1962, when Electrolux acquired professional food company Elektro Hellas. The company subsequently expanded into laundry in the early 1970s.

Today, key food service applications include cooking, refrigeration, dishwashing, and dynamic food preparation. Key products include ovens, cooking ranges, refrigerated cabinets, chillers, cutters, mixers, and dishwashing equipment, as well as specialty accessories. Key beverage applications consist of equipment for hot and frozen beverages as well as soft drink dispensing equipment. Products include coffee grinders, coffee machines (espresso and brewing), hot beverage dispensers, cold beverage and juice dispensers, and frozen drink and soft-serve products.

Electrolux Professional products are sold in over 100 countries to a wide range of customers, including restaurants and hotels, healthcare, and other service facilities. In 2019, Electrolux Professional generated revenue of SEK 9,281 million, which represented 7.2% of consolidated Electrolux sales and an organic sales decline of 0.3% year-over-year (see Exhibit 3). Operating margin in 2019 was 10.7%.

Exhibit 3 Electrolux Professional: Financial Highlights

	2019	**2018**
Net Sales, SEK millions	9,281	8,666
Organic Growth, %	-0.3%	3.5%
Acquisitions, %	4.0%	4.7%
Operating Income	991	1,134
Operating Margin	10.7%	13.1%
Operating Margin, ex-non-recurring items	12.0%	13.1%

Source: Company reports.

In recent quarters, demand for professional food service and laundry equipment has shown growth year-over-year, but at a slower pace than in previous quarters. Professional customers, including foodservice chains, have tended to prolong decisions on new purchases. In addition, the business is seeing lower food and beverage volumes in the U.S. due to fewer restaurant chain rollouts. Although Electrolux expects some new chain rollouts in the first half of 2020, the company faces a tough comparison from a very large rollout in beverages in the prior year. This will put some pressure on the overall growth rate in the first half of 2020. In addition, APAC and North America have been affected by relocation and consolidation activities related to the upcoming spin-off. Volumes have decreased in the food and beverage segment, although price increases have helped offset declines.

Acquisitions, including SPM Drink Systems in October 2018 (a beverage dispenser manufacturer) and UNIC S.A.S. in April 2019) (a manufacturer of professional espresso machines), had a positive impact of 4% on 2019 sales. Notably, with cooking suites, ovens, dishwashers, and refrigeration already an established part of the company's portfolio, these recent acquisitions now extend Electrolux's Professional offerings to hot, chilled, and frozen beverage products. An expanded foodservice offering that incorporates beverages also establishes Electrolux as a single point of contact for those in the foodservice market, which provides consistency and helps to overcome issues associated with having multiple suppliers.

Transaction Structure and Rationale

On December 5, 2019, Electrolux announced its intention to spin off its Professional Products business as an independent, publicly traded company. Electrolux will be separated into two listed companies: Electrolux AB for household appliances and Electrolux Professional AB for professional appliances. The separation will enable both companies to focus on their respective opportunities to drive profitable growth, with distinct strategies for innovation and customer focus, as well as a high level of capital efficiency. Electrolux Professional is expected to be listed on the Stockholm exchange on March 23, 2020. The business has been reported as discontinued operations as of the company's 2019 full year report.

The separation follows Electrolux's previous carve-outs of lawnmower maker Husqvarna (2006) and seatbelt manufacturer Autoliv (2005). As an independent company, the Professional business should be in a better position to accelerate organic growth and access capital to pursue mergers and acquisitions, which has been challenging given the significantly higher valuation multiple in the Professional space. As a standalone entity with an improved valuation that can pursue growth through market consolidation and product development, Electrolux Professional should be able to create more value going forward. Management has indicated that Professional could seek targets in areas where it has had a smaller footprint, such as North America and quick-service restaurants, and those areas that would accelerate its business in growing emerging markets.

Outlook: Electrolux AB (Post-Spin)

The household appliances industry is expected to benefit from several long-term demand drivers, including urbanization, rising income, improved living standards, changes in consumer lifestyle, and the need for greater household comfort and efficiency. Demand for rapidly accessible and remotely monitored home appliances has increased, coupled with the need for more high-tech devices, embedded with smart sensors and Internet of Things (IoT)-enabled technology.

In 2019, market demand for core appliances in Europe increased by 2% year-over-year. Growth was comprised of an increase of 3% in Eastern Europe and 1% in Western Europe. In the U.S., market demand for core appliances declined by 2%. Market demand in Brazil is estimated to have increased in 2019, while demand in Argentina and Chile is estimated to have declined, due to an unstable political and economic environment. Overall market demand for appliances in Australia declined due to a weaker economy, a slowing property market, and a weak Australian dollar. The markets in Southeast Asia as well as in Middle East and Africa are estimated to have shown growth.

Following the separation of Professional Products, the consumer business has set the following financial targets: operating margin of 6% or greater; sales growth of 4% or greater; and return on net assets of at least 20%. Given the higher profitability of the Professional business, post-spin Electrolux intends on expanding profitability through cost improvements, product innovation, and digital initiatives. The latter include: (1) a digitally integrated supply chain and manufacturing operations; (2) increased direct consumer contact by digital consumer service interfaces; and (3) expanding the company's range of connected products based on a global IoT platform. The company has also set a goal to improve its position in the high-margin aftermarket business by doubling aftermarket sales to 10% by 2025.

A new global consumer experience organization and improved service offering (i.e., extended warranties and fixed-price repair models) are expected to generate incremental growth. Management has previously quantified the potential out-of-warranty potential service opportunity at EUR 11 billion. The company's fixed-price repair service, initiated in 2017, allows consumers to make an informed decision on whether to repair or replace an appliance based on a quote from Electrolux.

Electrolux has also implemented an SEK 8 billion global product architecture and automation program to further strengthen competitiveness. These re-engineering investments, coupled with additional streamlining measures, are expected to generate approximately SEK 3.5 billion in annual cost savings, with full effect by 2024.

With a more consumer-focused organization and several initiatives to accelerate product development and operational efficiency, post-spin Electrolux should be better positioned to generate increased profitability.

Looking into 2020 and beyond, appliance demand is expected to be relatively flat in North America and positive in Latin America. Demand in Europe, Asia-Pacific, Middle East, and Africa is expected to be slightly positive. For 2020, management estimates a positive year-over-year impact from raw materials and tariffs in the range of approximately SEK 0.0-0.5 billion, although negative currency headwinds are expected to continue.

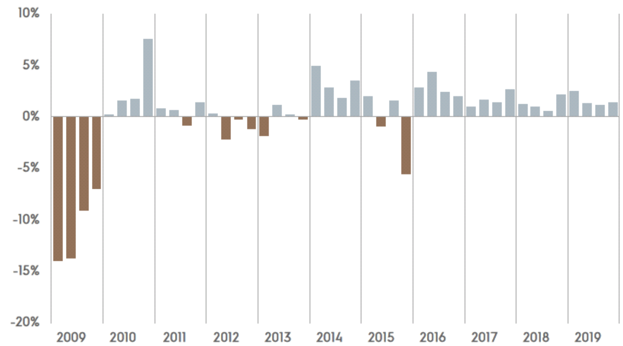
Outlook: Electrolux Professional AB

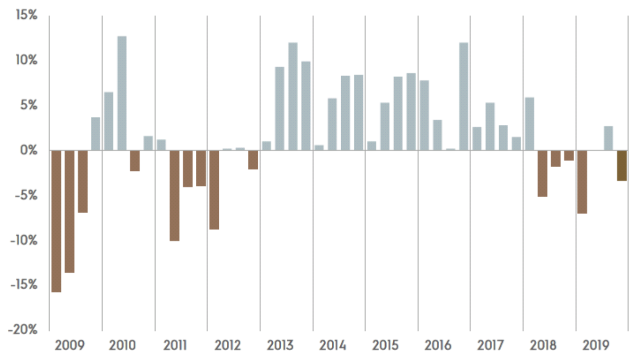
For 2019, market demand for professional food & beverage and professional laundry equipment is estimated to have shown growth, although at a slower pace than in the previous year. Electrolux Professional reported a slight organic revenue decline of 0.3% for the year. Volumes decreased in the food & beverage segment, while price development contributed positively. The acquisitions of SPM Drink Systems (October 2018) and UNIC had a positive impact of 4.0% on sales. (See Exhibit 4.)

Exhibit 4 European and U.S. Core Appliances Market

Total European and U.S. shipments, quarterly unit comparison, year-over-year

Europe U.S.





Source: Company reports. Electrolux estimates.

Operating income and margin declined year-over-year, primarily reflecting lower volumes, partly relating to preparation for the separation of Electrolux Professional, but also associated with increased investments in marketing and product development. Operating income included initial costs for setting up a new IT infrastructure and higher ongoing costs for operating as a standalone company, as well as a positive impact from a pension plan settlement in Sweden. In 2019, an efficiency program was launched to offset the additional higher costs expected as a standalone company.

Valuation Analysis

Regarding the rationale for the transaction, it makes sense given that the two classes of ELUX's business (consumer vs. professional) trade at significantly different multiples. Peers to Electrolux Professional include The Middleby Corp. (NASDAQ: MIDD), Welbilt Inc. (NYSE: WBT), and John Bean Technologies Corp. (NYSE: JBT), which currently trade on average at 7.0x consensus 2021E EBITDA (see Exhibit 6). Conversely, more consumer-focused appliance manufacturers currently trade on average at 5.9x consensus 2021E EBITDA. Consumer-focused peers include Whirlpool Corp. (NYSE: WHR), SEB SA (SK FP), and De' Longhi SpA (DLG IM). For its part, Electrolux currently trades at 3.2x the consensus 2021 EBITDA estimate. It is worth note that given the current market volatility the peer set has declined with the market; professional peers recently averaged 11.5x while consumer focused peers averaged 7.5x. While difficult to predict the lasting impact on both the home and professional environment, while acknowledging that both will see pressure through at least 2020 based on looming pressure on consumers and the restaurant industry, longer term investors could look for the historic spread on trading multiples to return, albeit maybe not to the degree that recently existed.

Given the current environment, where balance sheet strength is likely to be considered an asset and differentiator in terms of valuation, investors could look at the leverage level of peers versus the post spin entities in an attempt to gauge a fair multiple and value for the post-spin companies. Notably, leverage levels for professional peers is higher than that for consumer focused peers. Professional leverage (net debt to trailing EBITDA) of 2.7x, 4.2x and 2.3x for MIDD, WBT, and JBT, respectively. WHR and SEB carry leverage of 1.7x and 1.9x, respectively, while DLG carries a net cash position. ELUX's current net debt to trailing EBITDA stands at 3.9x, with management targeting lowering both post spin entities to be below 2.5x through debt repayment.

Valuation: Electrolux Professional AB (Spin Company)

For the professional business, management has set out a top-line growth target of more than 4% annually, derived from organic growth, with potential opportunities for additional growth via acquisition. Further, the company is targeting an EBITA margin of 15%, with operating working capital at less than 15% of sales. The company looks to operate with net leverage (net debt/EBITDA) of less than 2.5x; however, management would be willing to exceed that level temporarily in the case of acquisitions (see Exhibit 5).

Exhibit 5 Electrolux Professional: Annual Operating Targets

Target	Description	Average performance 2017-2019
Sales Growth	Organic annual growth of more than 4% over time, complemented by value accretive acquisitions	3.1%
EBITA Margin	EBITA Margin of 15%	13.1%
Operating Working Capital	Operating working capital below 15% of net sales	15.9%
Net Debt/EBITDA	Leverage ratio below 2.5x Net Debt/EBITDA. Higher levels may be temporarily acceptable in case of acquisitions, provided a dear path to deleverging.	

Source: Company reports.

Considered as a standalone company, Electrolux Professional generated revenue of SEK 9.3 billion in 2019, representing a 7.1% year-over-year increase. Notably, the Professional business experienced an organic sales decline of 0.3% while the acquisition of SPM Drink Systems and UNIC contributed a sales benefit of 4.0%. Professional's operating margin of 10.7% was a 240-basis-point decline from the 2018 margin of 13.1%.

Prior to the current worldwide COVID-19 outbreak, management had commented that both its professional and consumer sales trend had begun to show weakness towards the end of last year, which resulted in the above noted organic sales decline at professional. Further it was commented that the weakness was likely to continue into 2020. Based on this commentary and the likelihood that customer purchasing will further slow, we assume that following a 6% decline in revenue in 2020, followed by a 3% decline in 2021, Electrolux Professional would generate sales of SEK 8.5 billion in 2021. Modeling an 9.5% operating margin, an decrease from 2019 levels on lost operating leverage efficiencies, and incorporating SEK 285 million in depreciation & amortization expense, the company could earn SEK 1.1 billion of EBITDA in 2021. Applying a multiple of 6.0x, Electrolux Professional would be valued at SEK 6.5 billion on an enterprise value. Assuming just over SEK 1 billion in net debt (sourced from the company's latest annual report's disclosure on discontinued operations and the Electrolux Professional informational brochure, which includes lease liabilities), and accounting for 308.9 million shares outstanding (based on a one-for-one share distribution ratio for both ELUX class A- and B-shares), Electrolux Professional would be fairly valued at SEK 44 per share (see Exhibit 7). We apply a discounted multiple to the peer set to try and account for downside risk to our revenue and earnings estimates.

Exhibit 6: Electrolux AB: Peer Comparbles
($ in millions, except per share data; shares in millions)

3/18/2020	Electrolux AB	Whirlpool Corp	SEB SA	De' Longhi SpA	Middleby Corp/The	Welbilt Inc	John Bean Technologies Corp
Ticker	ELUXB SS	WHR	SK FP	DLG IM	MIDD	WBT	JBT
Price	$108.10	$90.54	$106.30	$14.48	$51.64	$4.04	$70.43
Shares Out	300.7	62.7	50.3	149.5	56.2	141.5	31.7
M Cap	33,532.7	5,674.8	5,347.6	2,164.8	2,901.6	571.2	2,230.3
Net Debt	3,751.0	3,964.0	1,877.9	(351.8)	1,778.6	1,273.6	659.7
EV	37,283.7	9,638.8	7,225.5	1,813.0	4,680.3	1,844.8	2,890.0
Revenue							
2019	118,981.0	20,419.0	7,353.9	2,101.1	2,959.4	1,593.9	1,945.7
2020E	120,534.7	19,678.0	7,485.8	2,128.0	3,039.7	1,583.7	2,007.8
2021E	124,308.5	20,154.9	7,832.8	2,262.3	3,168.8	1,647.4	2,083.0
2022E	128,393.9	20,727.0	8,255.7	2,108.0	3,323.5	1,718.7	2,129.0
EV / Sales							
2019	0.3x	0.5x	1.0x	0.9x	1.6x	1.2x	1.5x
2020E	0.3x	0.5x	1.0x	0.9x	1.5x	1.2x	1.4x
2021E	0.3x	0.5x	0.9x	0.8x	1.5x	1.1x	1.4x
2022E	0.3x	0.5x	0.9x	0.9x	1.4x	1.1x	1.4x
EBITDA							
2019	9,640.5	2,308.0	980.6	291.9	662.7	303.6	292.0
2020E	9,628.6	2,022.3	907.6	285.3	673.8	296.3	314.0
2021E	11,630.6	2,140.0	990.4	305.9	704.8	328.2	327.5
2021E	12,667.3	2,283.7	1,056.3	278.0	699.0	354.0	
EV / EBITDA							
2019	3.9x	4.2x	7.4x	6.2x	7.1x	6.1x	9.9x
2020E	3.9x	4.8x	8.0x	6.4x	6.9x	6.2x	9.2x
2021E	3.2x	4.5x	7.3x	5.9x	6.6x	5.6x	8.8x
2022E	2.9x	4.2x	6.8x	6.5x	6.7x	5.2x	
EPS							
2019	$5.11	$17.35	$8.70	$1.09	$6.52	$0.68	$4.96
2020E	$11.72	$15.34	$8.55	$1.02	$7.29	$0.70	$5.16
2021E	$16.93	$17.22	$9.56	$1.14	$7.89	$0.88	$5.66
2022E	$19.32	$18.46	$10.83	$1.09	$8.43	$1.01	$6.05
P/E							
2018	6.8x	6.5x	12.0x	12.2x	8.6x	5.6x	16.5x
2019E	21.2x	5.2x	12.2x	13.3x	7.9x	6.0x	14.2x
2020E	9.2x	5.9x	12.4x	14.2x	7.1x	5.8x	13.7x
2021E	6.4x	5.3x	11.1x	12.7x	6.5x	4.6x	12.5x
2021E	5.6x	4.9x	9.8x	13.3x	6.1x	4.0x	11.6x
P/B	1.4x	1.8x	2.2x	1.8x	1.5x	2.3x	3.9x

Source: Bloomberg.

Exhibit 7 Electrolux Professional: Fair Value Estimate Based on 2021E EBITDA

(SEK in millions, except per share data; shares in millions)

2019 Revenue	9,281.0
Growth	-6.0%
2020 Revenue	8,724.1
Growth	-3.0%
2021 Revenue	8,462.4
Operating Margin	9.5%
EBIT	803.9
D&A	285.0
EBITDA	1,088.9
Multiple	6.0x
Enterprise Value	6,533.6
Net Debt	1,025.0
Market Capitalization	5,508.6
Shares Outstanding	308.9
FVE SEK/Share	**17.83**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Alternatively, investors could look at the Professional business's ability to generate free cash flow in an attempt to value the standalone company. In 2019 the company generated SEK 1.1 billion in cash flow from operations and spent SEK 257 million in capital expenditures. Given the above assumptions that revenue and earnings should decline over the next two years, it appears reasonable to expect that Electrolux Professional's cash flow profile should also decline. Based on a 20% reduction in operating cash flow, which approximates the earnings decline, free cash flow would total SEK 639 million. Based on a one-for-one share distribution ratio, the company would generate free cash flow per share of SEK 2.07. Peer MIDD currently yields roughly 11.5% based on trailing FCF. Applying a free cash flow yield of 10% shares would be fairly valued at SEK 21 per share (see Exhibit 8).

Exhibit 8 Electrolux Professional: Fair Value Estimate Based on Free Cash Flow

(SEK in millions, except per share data; shares in millions)

CFO 2019	896.0
Cap Ex	257.0
FCF	639.0
Shares Outstanding	308.9
FCF / Share	2.07
Yield	10%
FVE SEK/Share	**20.68**
Implied Market Capitalization	6,390.0
Implied Enterprise Value	7,415.0

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Based on the two valuation exercises above, we assign Electrolux Professional a fair value estimate of SEK 19 per share.

Valuation: Electrolux AB (Parent Company)

Excluding the Professional business, in 2019 the parent company generated SEK 119.9 billion, a 1.3% year-over-year decline, and operating income of SEK 4.2 billion, representing a 3.8% margin, which was a 100-basis-point decline from the 2018 margin. Based on management's commentary about the North American market, combined with the anticipated impact from the ongoing spread of the COVID-19 virus, including the approaching term of increased unemployment as industries shutter, albeit temporarily, to prevent the spread of COVID-19, it appears reasonable to assume that the parent company will continue to see year-over-year declines in revenue and experience margin pressure. Assuming a 9% revenue decline in 2020, with another 5% decline in 2021, the company would generate SEK 103.7 billion in sales in 2021E. Assuming margin pressure to account for the lower sales levels, leading margins to decline from 3.8% in 2019 to 3.0% in 2021E, the parent company would earn SEK 3.1 billion before interest and taxes. Accounting for SEK 4.8 billion in depreciation and amortization, Electrolux would generate EBITDA of SEK 7.9 billion in 2021E, excluding the Professional business. Applying a multiple of 5.0x 2021E consensus EBITDA, the parent company would be valued at SEK 39.7 billion on an enterprise basis. Accounting for SEK 7.7 billion in net debt and 308.9 million shares outstanding, Electrolux would be fairly valued at SEK 104 per share (see Exhibit 9). Notably, the company targets a greater than 6% operating margin. If the company were able to achieve that margin, based on the above assumptions remaining constant, that would add SEK 50 per share in value. In our view, it is unlikely that the company will achieve that level in the near term, based on recent performance and the current operating environment.

Exhibit 9 Electrolux AB: Post-Spin Fair Value Estimate Based on 2021E EBITDA
(SEK in millions, except per share data; shares in millions)

2019 Revenue	119,981.0
Growth	-9.0%
2020 Revenue	109,182.7
Growth	-5.0%
2021 Revenue	103,723.6
Operating Margin	3.0%
EBIT	3,111.7
D&A	4,821.0
EBITDA	7,932.7
Multiple	5.0x
Enterprise Value	39,663.5
Net Debt	7,683.0
Market Capitalization	31,980.5
Shares Outstanding	308.9
FVE SEK/Share	**103.52**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Alternatively, investors can look to management's commentary on future dividend payments to derive a fair value for post-spin Electrolux shares. In 2020 Electrolux will pay SEK 8.50 per share as a dividend, equal to both 2018 and 2019 payment levels. As a consolidated company, the shares currently yield 7.9%, while WHR yields 5.2%, SEB yields 2.3%, and DLG yields 2.7%. Given that ELUX currently trades at a discount to peers on a dividend yield basis, it is reasonable to assume that will continue. Further, it can be expected that the loss of the higher-margin, yet far smaller, Professional business may increase the discounted yield. If the shares were to yield 9.0%, based on a dividend of SEK 8.50 per share, Electrolux post-spin would be fairly valued at SEK 170 per share (see Exhibit 10).

Exhibit 10 Electrolux AB: Post-Spin Fair Value Estimate Based on Dividend Yield

(SEK in millions, except per share data)

Dividend SEK / Share	8.50
Yield	8.0%
FVE SEK / Share	106.25
Implied Market Capitalization	32,822.8
Implied Enterprise Value	40,505.8

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Based on the two valuation exercises above, post-spin Electrolux, excluding the Professional business, would be fairly valued at SEK 105 per share.

On a pre-spin, sum-of-the-parts basis, shares of Electrolux AB are fairly valued at SEK 124 per share, consisting of SEK 19 per share in value from Electrolux Professional, and SEK 105 per share in value from the parent Electrolux (see Exhibit 11).

Exhibit 11 Electrolux AB: Pre-Spin Sum-of-the-Parts Fair Value Estimate

(SEK in millions, except per share data; shares in millions)

	SOTP	Shares Outstanding	Post-Spin FVE SEK / Share
Elextrolux Professional	5,949.3	308.9	**19.26**
Electrolux (Parent)	32,401.7	308.9	**104.89**
Market Capitalization	38,350.9		
Shares Outstanding	308.9		
Pre-Spin FVE SEK / Share	**124.15**		
Current ELUXB Price	108.10		
Implied Upside	***14.8%***		

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Based on the above analysis, the current market valuation is assigning minimal value to the Professional business within the context of the current conglomerate structure. If shares of the parent company were to trade at our estimated fair value, this would imply that just SEK 4.58 in value is currently being assigned to the Professional business, which, based on 2021 estimated EBITDA, implies a trading multiple of 2.2x. Following the separation, the parent company's commitment to pay a dividend of SEK 8.50 per share in 2020 should help support the Electrolux share price, which lends credence to the thesis that within the current corporate structure, the

Professional business is being undervalued. However, given the current macro environment, including the ongoing spread of the COVID-19 virus, we are highly cautious about the company's future earnings, and subsequent ability to maintain the planned dividend. As such, we rate shares of ELUX a HOLD prior to the separation. In particular, we see the post-spin Professional business at increased risk, as social distancing and other preventative initiatives have already had a significant negative impact on restaurants, cruise ships, hotels, casinos, and other public venues. As such, dramatic declines in occupancy of public spaces and forced closures will likely defer purchase of commercial scale kitchen equipment for the forseeable future. Further, the potential for a significant increase in unemployment rates may curb revenue trends for the consumer business.

Conclusion

On a pre-spin, sum-of-the-parts basis, shares of Electrolux AB are fairly valued at SEK 124 per share, consisting of SEK 19 per share in value from Electrolux Professional and SEK 105 per share in value from the parent Electrolux.

Based on the above analysis, the current market valuation is assigning minimal value to the Professional business within the context of the current conglomerate structure. If shares of the parent company were to trade at our estimated fair value, this would imply that just SEK 4.58 in value is currently being assigned to the Professional business, which, based on 2021 estimated EBITDA, implies a trading multiple of 2.2x. Following the separation, the parent company's commitment to pay a dividend of SEK 8.50 per share in 2020 should help support the Electrolux share price, which lends credence to the thesis that within the current corporate structure the Professional business is being undervalued. However, given the current macro environment, including the ongoing spread of the COVID-19 virus, we are highly cautious about the company's future earnings, and subsequent ability to maintain the planned dividend. As such, we rate shares of ELUX a HOLD prior to the separation. In particular, we see the post-spin Professional business at increased risk, as social distancing and other preventative initiatives have already had a significant negative impact on restaurants, cruise ships, hotels, casinos, and other public venues. As such, dramatic declines in occupancy of public spaces and forced closures will likely defer purchase of commercial scale kitchen equipment for the forseeable future. Further, the potential for a significant increase in unemployment rates may curb revenue trends for the consumer business.