Thule Group

Thule Group – Global Group Meeting with Investors

Wednesday, 12th June 2024

Introduction

Gustav Hageus

Co-Head of Equity Research, SEB

Welcome

Let us get started. With us today, we also have CEO of Thule Group, Matthias Ankarberg, live from Munich, and the CFO, Toby Lawton, live from [inaudible]. So a very geographically diverse management group here. And the way we are going to do this is that we will have a 10-15 minutes run through, and then we will go directly to Q&A. And I have a few questions, obviously. However, if you also would like to ask a question, just raise your hand. All right. So Matthias, please go ahead.

Business Update

Mattias Ankarberg

Chief Executive Officer, Thule

Introduction

Thank you so much, Gustav. Thank you for organising this also, and thank you everybody for joining in. I thought I would do as Gustav said, 10-15 minutes introduction and cover three things before we get to Q&A. I will quickly recap Q1, just so everybody is on the same page. I will talk about the market situation now as we see it, and I will talk about our top priorities. So then of course feel free to ask questions following that.

Highlights Q1 2024

So on the quick recap of Q1, which I am sure most all of you are very familiar with, it was, as we call it, a good quarter in a tough market. Clearly still a tough consumer market as of Q1 2024, generally cautious retailers and consumers. However, we had good sales growth, 8% in the quarter, close to all-time high gross margin for the quarter and a good EBIT margin of 17% versus almost the same year before, despite that we are investing more than ever in product development. So we were pleased with that.

You may know also we have a target to reduce inventory a bit more this year and that was also on track after Q1. So that was good.

Three Trends

New products continue to perform well

The underlying trends that we talked about in Q1, regarding sales, besides the overall message of a tough consumer market, there were three specific trends. One is that the new Thule products continue to perform really well. We clearly see that newness drives sales in this market. That was positive number one.

Bike-related growth; recovered inventory levels

Positive number two was bike-related growth. And we talked a lot over the last 18 months that the bike market has firstly been tough and then recovered as inventory levels have become more healthy. And we saw good growth, strong growth in bike-related in Q1 for Thule Group. So those were two positive.

RV declined – tough period

And the negative one, unfortunately, was that the RV industry, recreational vehicles, is going through a tough period. And we also declined in RV products, as we call that category for us in Q1.

Those were the three underlying trends that we talked about in Q1. And I will get back to all of those soon when we talk about the current market situation.

Record Number of Awards

Another really important highlight, at least for us internally, that makes us proud was that we had received a record number of product design awards in the first quarter 2024. I used to say that Thule Group has won 29 if Design and Red Dot design awards combined, but we received another 23 in Q1 2024 alone, and both for some new versions of bestsellers and some new innovations, and also actually, some of our products in our new categories. So that was actually really nice to see. It made the team and us really proud, of course, and I think great credit to them, they do a great job. So that was really nice.

Our priorities as we iterated or reiterated of Q1 is very straightforward. This is the biggest launch year ever in terms of new products for Thule Group, and that is of course a big focus for us. Even more so, Q1, and particularly Q2, is the sort of peak season for product launches. So that is our focus, to deliver them best we can. While we continue to work on efficiency with both inventory obviously, always also cost efficiency, and specifically, we reduce some warehouse cost services that we have talked about before.

Q2 2024

So that was the Q1 recap in short. Fast-forward to now Q2, a comment on the market situation from our side. The short headline is that the market situation is very much in line with our comments in Q1, and the way we commented that we saw that market trends would continue in Q2. Trends do not turn that quickly. So a couple of comments just to add some colour to those trends.

Then as number one, we clearly see still a tough consumer market. We see that generally cautious retailers with smaller order quantities, higher frequencies later to season, a cautious consumer, quite promotional environment in general. I have personally and together with Toby travelled quite a bit over the last few weeks, both in Europe, where I am in Germany now, heading to Austria, and we were in the US last week and other parts of Europe the week before that. And we meet a lot of retailers and consumers, and we can see it with our own eyes that it is promotional and a lot of our customers are confirming that they see a tough market overall. So that is the situation, still, favourable for us.

Point number two, we are in the premium end, which is doing better, and we are bringing a lot of news to the market, which also our customers, and we see narrow numbers confirmed is driving sales, which is really positive.

Bike is, I think, becoming to be quite undramatic. We have seen recovery of bike-related inventory level in the premium end, Thule product premium end since Q3 last year. So we are in a good, healthy situation there still. And in the US and North America more broadly, retailer inventory is healthy with the bigger retail chains, but still very big or very excessive, I would actually say, strong word, with the independent retail bike sales. That is also very much in line with where we saw things coming out of Q1.

RV continues to have a tough period, and maybe we get back to that with some questions. I know there have been some comments from other public companies in the RV space communicating about that. And lastly, we continue to see that the European consumer, at least in our premium end, continues to do a bit better than the American one.

So all in all, tough market still, no doubt about it. And then we are fortunate to be positioned on the more premium end of things and also to bring a lot of news to the market, which helps in this environment.

So that is the short update on the market situation in Q2, again, very much in line with what we communicated earlier.

Priorities Update

Last point for me before we get to Q&A is our priorities, and a quick update on that. And I would focus mainly on the product launches because this is again the heaviest period ever in terms of product launches. As you may remember, we are this year launching three types of new products. We are upgrading existing bestsellers to new generations, we are doing innovations in categories we are already present, and we are also moving into not just one, but two new product categories and talked quite a bit about the Q1 call about, particularly the first one, upgrading existing bestsellers. Where we have we are now out with the new generation of the world's most sold rooftop box, Thule Motion, our bestselling luggage collection Thule Subterra, our bestselling stroller, all-terrain stroller Thule Urban Glide. So most of these came end Q1 or early Q2. So that is positive for us in terms of innovations in existing categories. You can comment on that.

We have just launched a couple of weeks ago to Thule Outset, which is the world's first rear mounted car tent, which is a bit of a unique product but had very nice reception in terms of PR and consumer recognition, and is now ramping up production and out with the first retailers here in the last couple of weeks. Very nicely received and good product design awards as well.

New products

And then I thought I would comment a bit more on the new product categories, as I am sure that is something you, many of you, are curious about. And the first one, dog transportation. We launched the first product. There are two products. First product in Q1 in March, a little bit earlier in Sweden, but otherwise in Europe in March. It is a dog crate called Thule Allax and had positive reception from consumers. It has now won its first consumer test design awards already before launch and well-received by premium retailers. And in the bigger retail chains, in the bigger markets, we also see we clearly taking share and even in some case retailers discontinuing competitive products and moving us into the shelf space. So a very good start for Thule Allax, the dog crate. And then we look forward to the next dog transportation product, which is a dog bike trailer coming later this year. Good start for Thule Allax.

And again it is worth to underline that these new categories we believe a lot in sales and profit for us over time. However, we are less occupied about the immediate impact when we launch the first batch, which are of course smaller volume, but much more concerned about getting the right reception, the right placement and the right reception with both retailers and consumers. That is positive for us that we got a good start.

And then lastly, but definitely not least, then Thule car seats, which has been in the making for I think six years, almost to the day here in June 2024. We are now live with a base, an infant seat and a toddler seat, the European versions. And we started out in Europe's biggest market, Germany, on May 28. We are clearly pleased with the start. We had design awards before launch. We managed to get very nice positioning with the premium retail stores and also got good reception so far from both PR, again, design awards, retailers and the first consumer interactions.

For the pictures below, please see the Appendix for this presentation at
https://www.thulegroup.com/en/presentations

Again, for us, it is about the reception, not the volume at the beginning. However, I thought to give you a little bit of a view of what we mean. We have a few pictures from the launch day in Germany. Thank you so much, Gustav. This is one of the at least two German premium retailers that both have slogans or concepts something to the tune of 'we do not sell child products, we sell child safety'. And this one is slightly hard to pronounce if you are not good at German. However, Zwergperten, as you can see, in the beginning, had a good launch day. This is the shop window. And then we can take the next picture, please, Gustav, this is the display in the store. These are our car seat products. Two of them, the toddler and the infant. Together with the Thule Urban Glide four-wheel on the left-hand side. And on the next page you can see bit more of the store environment. That is myself, the owner and one of my German colleagues. And for those of you with really good eyesight, you can maybe even spot the Thule Allax dog crate there to the bottom right-hand side. However, these are the kind of stores where we have premium consumers come into the store and get advice and service and support with installation of the car seat product. So very nice for us to be here.

I think there are one or two more pictures, Gustav, showing the Thule Impact Protection System sign, which is one of two key safety features for this product. It is tested for impact in any way we can basically. And we are really proud of the results. And then lastly, I think just a celebration picture of the team. Worth the toast for the launch. So a long project in the making. I almost said finally, but we are live in Germany and that is very nice to see. And as we tell the team internally, now the marathon starts. So we are live with product, and now throughout summer and autumn, we will add more markets as we have production capacity ramping up, unless we have more product. And just to recap, this is again the EU, the European version of the car seat launch. Different standards from North America. However, we will focus then on rolling this out across Europe for the rest of 2024 and begin the good work to ramp up sales.

That is it for the car seat, so you can take the presentation down. Thank you so much. That pretty much summarises our intro.

Conclusion

As a quick last comment from me, our long-term priorities are just as we said in Q1 and the previous quarters, the same. We continue to focus on product development and the launches. We continue to focus even more on getting success in new product categories. We still have opportunities to be more visible with the consumer and working on that. And then we are running an efficiency agenda on our supply chain in terms of both inventory and warehouse costs. So that is also the same as before. I think, to the mark, I said 10-15 minutes, Gustav. I think it was 15. However, that concludes the introduction from my side. And then happy to take questions.

Q&A

Gustav Hageus: Perfect. And just wanted to highlight that this call is also recorded. So just be aware of that. So I will start with a few questions. And again, if you have questions, please raise your hand and you get your chance. However, you mentioned it. However, perhaps we can go back to it a little bit with the US market retailers, the discrepancy perhaps between the larger concepts having, I think Dick's Sporting Goods put it as clean and well-positioned inventory now, while some other parts of the markets are still struggling with too much inventory. Could you elaborate a bit on what is the normalised level now in this new interest rate environment? What is the net? I know it is a hard question, but if you put together these larger concepts with better inventory situation than the ones that are still struggling, what is the net, and how many months do you think excess inventory there still is? And I appreciate it might not be Thule products, but it still probably affects you. The inventory cycle, perhaps in US, is basically what I am after.

Mattias Ankarberg: Sure. No, I think the US market is in a bit of a different place there than Europe. It takes a bit more time to get inventory back to a healthy level in some parts of the US retail market than it does in Europe. And I think to simplify things, and the way you alluded to Gustav, we could almost split the US retail space in two. The sort of large established chains, Dick's in team sports, to your point, or the REIs, or the MECs, or some of these bigger chains as it comes to outdoor, Amazons, of course, and the market, which is more smaller, mom and pops, enthusiast store, independent smaller onliners, etc.

The bigger ones, I think in general, speaking from our categories, and then just my general impression from having spent time there recently and meeting some people in the stores, is that the bigger ones are fairly okay on inventory. They have too much in some categories and a little bit, maybe too little sales in others, but overall, reasonably healthy levels. I perceive them, this is personal opinion, to be a bit cautious still with inventory levels, placing orders later, smaller quantities. Again, personal opinion. I would go into some of the flagship stores, and they do not look as great as they maybe they have to, which is maybe a sign also, something is maybe not top-level in terms of performance. However, I think overall, the big retail chains are in fairly healthy shape in the US.

When it comes to the independents or the smaller niche players in US retail, they are typically category-focused or product-focused. And here I can pretty much only speak for the space that is relevant to Thule because that is what we interact with and that is what I see, and that would be outdoor and those related spaces. Bike specifically is probably one of the worst when it comes to inventory levels. And Toby and I meet bike retailers, some independent single shop ones, and some with few dozens of shops that basically say, we have bikes until 2027, but then do you have all the other accessories? Do you still need new Thule products? Yes, we have a bit too much, but we probably will order some, and we are out of this and out of that, but too much of this.

So in general, they are struggling financially with a lot of inventory. And then of course they are financed differently depending on who you are. However, those are in a much more challenging space, I would say. Toby, you can feel free to add to any flavour that you feel I missed.

Toby Lawton2, CFO, Thule Group: No, but I think you covered it well.

Gustav Hageus: Okay. And in terms of the sort of sell-out then because Dick's, then if we return to them, they singled out outer categories as perhaps one of the categories that have not really taken off to the same extent as perhaps apparel and those sort of lower ticket items. Is that your feel too, that there is still some drag on sell-out? So, actual demand in the States still?

Mattias Ankarberg: Yes, I would say so. I would agree with that statement. I think we see it as the consumer demand and the strength of the premium consumer, if you call it like that in the outdoor space, is stronger in Europe than North America. And we see sell-out data from some of our biggest partners, big retail chains in the US. And there was just a big promotional holiday now ended at end of May. And I think a lot of that would resonate with our comment that Dick's had. That outdoor is still a bit challenging. Again, just a little macro statistic, but keep an eye on the consumer sentiment data I think is quite interesting in the US also for some reason turned quite negatively just in the last month or so. There seem to be maybe some of these larger ticket items that could be more related to outdoor, I would guess, seem to have a bit tougher time. You may know this better than me, Gustav, about some of the investors on the call, but just anecdotally pick up some of that as well. When it comes to other higher ticket or discrepancy, higher ticket durables products in the US with boats and a couple of other product categories.

Toby Lawton: Just to add in, but I think we have mentioned it before, but worth reminding that REI is more of an outdoor-focused retailer, and they are not expecting to grow this year, and they are having a tough time, and they have taken some restructuring costs, and reduced personnel. So, I mean, it is a sign that outdoor is in a tougher place than, like you say, apparel and other sectors.

Gustav Hageus: And I got a chat message here from one of the participants, and you are always, all of you, happy to chat with me if you do not want to ask your question out loud, but it was relating to the split then in the US market. So if you could share a bit on your US sales, split by retailer size, i.e., larger retailers versus independent retailers, what is your exposure?

Mattias Ankarberg: I would say that Thule is, in our main product categories, we are the global and the regional market leaders, so we pretty much reflect the market, I would say. And if you take for example, then bike, which is our biggest exposure, I would say, and this is a little bit of an estimate, but the last time we did the exercise, large format retail versus independents is probably 60-40 in the US in terms of market. And I would say we reflect that more or less. So about the same.

Gustav Hageus: Perfect. And I will go on here. I do not see any more questions or any questions. We turn to Europe then, as you mentioned, been a bit of a positive turn for you, excluding RV, now for a few quarters. Can you share a bit the recent development in Europe in terms of the start of the season? The weather has been great here in Sweden. I do not know if that has an impact on how it is been in the rest of Europe. Consumer sentiment, as you alluded to in US, would be interesting to hear your thoughts on the consumer confidence momentum in Europe in this aspect and the inventory. Any other trends in Europe that, do you think one should consider when thinking about it?

Mattias Ankarberg: Now, we can expand a bit on that. I think Europe is a bit better than North America or the US. And I think the premium consumer is also doing better than the other side of the pond. Things have not changed much since Q1, or since we talked then. So I think consumer sentiment, if we start there, is gradually picking up. If you look at the EU as a whole, for example, or in the big markets, but slowly and still clearly quite far behind where we were pre-pandemic. So I mean, better, but still quite a way to go, to be back to some kind of, I think, yes, more normal situation for the consumer wallet, at least judging by that metric.

We see retailers being quite cautious in Europe as well, placing smaller orders than we would be used to, closer to holidays and long weekends. And what we think is season starts that we see as a sign that they are waiting a little bit and not want to hold products and take risk more than they need to. Bike retail is more healthy, or is healthy, which is nice. Not in general for bike retail, I should say. Sorry, just on the premium Thule end products. So more positive. However, I think some people had expected or maybe hoped that the positive momentum or the turn of the charts, sort of conceptually speaking, would have happened a bit faster by now. And I think if you would ask a lot of people two, three quarters ago, when do we see interest rate drops, for example, many people would maybe have hoped that it would be quicker, so in the right direction, but taking some time?

Egor Rybakov (Penserra): Mattias, could you elaborate a little bit on the experience with the previous cycles regarding the consumer preference for discounting and particularly in Europe? If I remember correctly, please do correct me if I am wrong, the European consumers have always been less. Or, I remember you saying they were less driven by the discounting versus the US consumers, right? However, if we are dealing with a situation when the consumer, let us say, is very promotionally incentivized over what, 18 months or so now, is this approach to buying outdoor products here to stay? And how much pressure could it put on the pricing of the category, kind of in the medium, long term? And maybe you can extrapolate on some of the experience from the past.

Mattias Ankarberg: I can try. I think I will try to separate a little bit what is my or our general experience or view of these phenomena with European consumer and what the impact is for Thule because I think it is quite different. I think, remember that we are the global and regional market leader in our core categories, so we have maybe a different position, which is a bit stronger than in general. However, I think the US and the European markets, consumer markets are a bit different also from a regulatory perspective, where the US is more working on a map of a recommended retail price, if you like, with the European terms and then quite distinct promotional periods. And what my experience is very generally of 20-plus years in consumer industry, what happens in a tougher economic climate is to consumers wait when there is full price time, and then they buy when there is promotional time, whereas the European market works a bit differently. There is more freedom to price and cross-border trading. And with the whole rise of the e-commerce across Europe and the EU, there is a lot of discounters and price comparison sites and trading going on that crosses to a different level. So it is a bit different.

I think typically what happens in any downturn is polarisation increases, so the value or the discount grows and the premium and the really sort of strong players, the great products take some share and the middle decreases the most. As far as we are concerned, we do not really play in that discount or low end. So I have to be honest and say I do not have the same view or clarity or best guess on that segment in Europe right now. We play in, if we say good, better, best, we play in the better, but particularly the best part of the market. And where we see, as I commented on in the last couple of quarters, the strength is in the best part. So the top end of the market, for us, is doing better than the mid-end. And particularly, where we bring new products to the market, newness clearly helps drive sales. So, yes, I think that is the overview comment on your question.

Gustav Hageus: If I can add to that. And then we have a question on RV. However, Thule, from what I remember at least from following the company, Thule has almost mechanically raised prices each season by one or 2%. Then during the pandemic, obviously, you did several price increases that were much bigger, like many companies. However, perhaps looking at Thule versus most other companies, I would argue at least that Thule probably raised prices more than most consumer prices. And now this year, as I understand, at least you did not do these broad price increases for the first time, as far as I can remember, which would make some people nervous that perhaps you have gone too far, you are too high, maybe you lost a bit of addressable market share. What would you say to these on someone worrying about this? Is there some truth to that? Or why did you not raise prices this year?

Mattias Ankarberg: Yes, we did not raise prices for two reasons, and this is always a commercial sort of balance. However, there were two important things for us. One is, of course, retailers in this climate are pushing a lot for decreased prices, and we do not want to play a part of that. And we do not want to play part of the promotional game, and we want to maintain the premium positioning of the product, the brand and the price position. However, at the same time, of course, we have partners we work with for decades, and we want to have some understanding of the situation as well. So flat seemed like it was a good sort of conversation starter and a good level for us to put in the market to recognise that it is a bit tougher, and we have raised a lot, but we are still not declining. That was reason number one.

Reason number two is that we bring so many new products to the market this year, more than ever before, right? And the end of the day, that drives the average net sales price for the company and by category up. So when we launch the new generation of, for example, the Thule Motion, world's most-sold rooftop box replaces the old version, it is 5-6% more expensive than the previous one. And it is better, right? Better aerodynamics, better features, all of that. However, in itself, that drives average net sales price up for us and for the retailer and for the consumer. So those were the two reasons why we played it the way we did.

Gustav Hageus: Perfect. We have another question regarding RV then. Is RV getting worse? What is the hardest-hit area and the most resilient areas within RV? And maybe to just say that you are mainly exposed to up and RV market, right? So that is what we are talking about.

Mattias Ankarberg: Thank you, Gustav. You are on top of things. That is helpful. We are, as you mentioned, almost exclusively European RV. And I think our view has been that this is an industry which has a tough time, and consumer interest still seems high, I would not call it like that. I commented on that before that if you look at attendance to big fairs, for example, and if you talk anecdotally to dealers, etc., consumers are still interested to about the same level as we were, pre-pandemic, if not, maybe a little bit more. So that is positive. Obviously, interest rates play a big role here. These products are typically very high ticket items, right? They have gone up talking about price increases, a lot in price over the last couple of years, and they are typically financed by loans. So if you used to pay 225, and now you are paying, I do not know, 525 or more, that, of course, matters a lot.

So the toughest parts, I think now is, if we talk in Europe, the OE parts. So the business that goes directly to the producers of the vehicles or the outfitters of the vehicles, where we have seen public statements from some companies, and we hear from some other customers, OE customers, that production volume is reduced. They are slowing down production to no higher demands to meet, to put it like that, whereas the consumer side of things, the dealer or the aftermarket, as some called it, is better still. However, this is about the point of the year, or maybe in the next quarter, where we had hoped, we all are hoping that with interest rate decreases and quite some new models being introduced this spring and a slower period maybe behind us, that that part of the market would start to pick up again. So that is the overall state of the industry. Still in a downturn, but hopefully for not that much longer.

Gustav Hageus: If I might add to that, it is not the most transparent market to follow from an outsider, but we have seen registrations in Germany, for instance, coming up for quite some time and still, you point out negative development. Is there any effect of consumers mixing out of Thule's other products or market share losses in any categories or delisting that also plays a part here?

Mattias Ankarberg: In RV, absolutely not. I dare to say, while still being humble, we are very strong in a few selected product categories within RV where we have very high market share. Awnings, bike racks or bike carriers are the two biggest ones. And we are also bringing a lot of news, and we feel we are, if anything, taking some share with some players because we are introducing five new products in this climate in RV this year. And I should not promise, but I have not heard anybody doing anything like that in this RV space this year. So we feel we are well-positioned, at least hold our own game in RV in Europe in 2024.

Gustav Hageus: So again, if you have a question, just raise your hand or type on the chat. However, then perhaps you also mentioned this, but obviously a very launch intensive year which you have talked about also going into this year and lots of focus on perhaps categories that will not be a meaningful part of sales just yet. However, if we stick to the ones that will be like the, the Thule Motion 3 that you mentioned, the big roof box, can we talk a little bit about those and the other volume categories that you are revamping and relaunching? How has sell-in sell-through gone thus far versus what you expected? Is there still inventory in the market of the old products? I see that you can still get to the Thule Motion XT, for instance, still out there. How much of old products are still in the market, and how have the launches gone on these revamped volume products?

Mattias Ankarberg: Yes, no, you are completely right, Gustav. These existing big sellers and getting the upgrades in of those, and it varies by category. Some are more need-based and others a bit more want-based, but that is a bigger driver in any case for us in the very short term of sales. So that is a very good catch. There are a lot of dynamics around here, but overall, as I said in the Q1 call, the launch of Thule Motion Generation 3 has been very well received. Great reception by retailers, good sell-in, and we are very pleased with the product. So we think it is going to be there.

There is a little bit, as happens sometimes, of a sort of adjustment effect where some retailers in some countries have stuck a little bit on the last one and the second-hand market wants to move a little bit here. There is some of that. We are, to be really frank, neither concerned nor occupied by that. We try to think about this much more long-term, and we know that if we get the right start and the right placement with the right retailers, it will be a good thing for us in the coming couple of quarters. However, that is very positive.

The other big ones is we have had a good success with Thule-related bags for quite some time where we have made some investments. We are in the packs, bags and luggage category, as we call it, declining in other parts where we actively are moving out. However, that is been really nice for us to see with the Thule Subterra, the luggage collection and the Thule Chasm, which are more duffels and sport bags, which also one was a new generation one was more of an update, but very well-received and drove good growth in Q1. And happy about that.

Quite a substantial one for us, as sort of we are entering now, at least also symbolically into car seats is the stroller category. It is not so big in money, but to have the right portfolio, there is key to be able to play in that segment now. And we have had really good wins with the updated version of Thule Urban Glide 3, which is our all-terrain stroller. Very good start in Q1, and we are very pleased with that. Now we have a couple of bigger ones coming. Thule Chariot is coming soon, the new generation that is a multisport and bike trailer. Sorry, guys, I am using all the Thule products names here, try to explain what it is. However, that is another big category for us that is coming soon and is well expected from the market. So overall, we are pleased with the big new or the big bestselling products that are getting upgraded would have to say.

Gustav Hageus: Just remind me, I believe you were on the board back. Was it 2020 last time you had a big revamp of your roof boxes? And at that time, if I recall correctly, you found out that there was a little bit more channel inventory perhaps than you would anticipate, and that had a short dent in sales. That is what I allude to. Is that a problem we can maybe foresee this year as well, that phasing will take some time.

Mattias Ankarberg: It can take some time. That is absolutely true. I think it is a little too early to tell. Maybe when we summarise Q2, we have a more clear view. However, because we launched the product starting at the very last days of Q1 and then throughout Europe and getting volumes out to all stores with retailers, for example, during April, so it is a little early to say what the follow-on effects are, but it is clearly possible that there is some channel inventory that needs to right-size, if you like, of old products, and they could be a little wobbly, period. However, it is too early to say yet. The only thing we can say with confidence is that the start was good, and the reception was good. And then we will have to evaluate the play out by Q2.

Thomas Brenier (Lazard Freres Gestion): Yes. Hi, Matthias. Hi, Toby. I was wondering if you could update us on your direct-to-consumer approach? I remember last time we discussed that there was about 7% of sales, and you had ambition to double to 15%. So what is the status, what specific actions? And is this a good time, given this market environment, to do it or not?

Mattias Ankarberg: Yes, I know you are right. It is one of the initiatives we are doing to, of course, it helps sales and margins. We talked about that before, Thomas and Gustav knows as well, but also under the umbrella of being closer to the consumer or interacting more directly with the consumer, this is a good strength if you have a direct sales channel. It is easier to introduce new product, for example, that we just talked about if you have direct communication. So it is a priority for us.

We have an ambition to double the share by 2030, to your point. So we try to be long-term about that as well. And one key driver of that is just enabling D2C in more countries or www.thule.com sales in more countries. And I think six months ago, or so, we were at 13 or 14 countries, and now we have opened one or two new countries per quarter. We continue to do that pace second half of last year and start of this year and continue to do that for the rest of this year. And it is quite fascinating actually, because when there are obviously some Thule fans out there, we know we have visits on the website, of course, but as soon as there is a buy button, and you can start shopping, sales start to happen. So it is one of those things that is just nice. And to see that people just do not like looking at your products. They like to shop with you and engage with you as a brand also in a sort of a commercial transaction. So that is a good driver for us.

And then over time, of course, there are several things we can do to become better, both at communicating directly with the consumer and selling directly to the consumer. However, it is important for us, always when we talk about this, to see D2C as one piece of the channel puzzle for us. We have strong retail partners, many premium ones, to do a fantastic job of helping the consumer navigate the category, give advice, repair, service, guarantees, etc. We are not doing this at the expense of any of those. So it is not something that we push at the expense of others, but we invest in it, and we want to be in more countries, and we will have more direct relationship with the consumers, and we are on track.

Gustav Hageus: And added to that, you come back to that, sort of the retailers you do want to sell to. They are basically happy that you are in the market, while the ones that perhaps are not the great ambassador for Thule are the ones that are giving you a hard time about it. However, has there been any tougher discussions with a few of the retailers that you really want in terms of you becoming a competitor, in terms of price levels or anything like that? That would be interesting to hear.

Mattias Ankarberg: I would actually honestly say no. And I think maybe the pictures you showed before, Gustav, you do not have to show it again, but maybe that illustrates a little bit how this partnership works in a way. Because you see that store, right? I think all of us can see that it is a nice store, and they have a variety of products, and they have high-level service. And the consumer walks in, in this case, shopping for strollers or for car seats. And educated staff help them navigate through their choices, what fits their car, what fits their baby, what fits their personal preferences. They do a great job. They have a great database of consumers, and they have 15-20 stores across Germany. And they sell on full price, and we sell on full price. And if we do a good job on our D2C to explain the products, explain what the Thule brand story is about, what the Thule product specs are about, the safety levels and on other parts that we communicate directly or indirectly to consumers and PR and events and store presence, etc. Of course, it helps them to have a more credible and strong argument to sell a premiumly-priced Thule product rather than a mid-priced product. We should remember we are a premium player and these retailers typically prefer to sell the premium product. We build the brand, and we have the D2C presence and educate the consumer on the strength of our product. And that should help these strong retailers to sell the premium product and also make more money.

Gustav Hageus: And the final one on that topic then. So since you keep the retailer margin, I assume your gross margin is significantly higher, but it also calls for some OPEX, I guess. While you are still ramping this business up in many cases, is this margin accretive on EBIT already?

Mattias Ankarberg: Yes, it is. I do not know how to say this, but were not sort of forcing it through or splashing out money to sort of overinvest that expense of anything else. We have a gradual rollout, which happens at quite a fast pace, but it is accretive to our EBIT.

Alex Simotas (Langdon Equity Partners): You compared the consumer in Europe versus the US, but how are retailers feeling? Is there anything to call out there between the US and Europe?

Mattias Ankarberg: Yes, I think it is a good question, Alex. I think the retailer mood a little bit reflects the consumer, of course. So where again, on this premium side, we see the European one in a bit better shape than the US one. The big difference, I think, between how the retailers feel in Europe and in the US, at least from our angle, is this independent retail segment in the US that has many of them are in a quite tough spot. And if you think about it, it is that small enthusiast bike shop or that mom and pop juvenile shop or what have you, and spending down, durable spending even more down, rent is up, interest rate is up. It is a pretty tough territory to be in for many. And that segment is at least the categories that we are exposed to bigger in the US than it is in Europe.

Alex Simotas: Thank you very much.

Gustav Hageus: If we talk a little bit more about inventory, but perhaps your own inventory. Correct me if I am wrong, but as I recall, you guided for an additional SEK 200 million reduction this year in inventory. Could you help us with the sizes here? I assume the margins will suffer from you under producing while taking down this inventory. However, you should also be having a positive tailwind from starting to then sell through newer product with probably higher mix value and perhaps also lower input costs. What is the delta, and when should we that change to being margin accretive? Is that already happening, or is that more of an H2 story?

Mattias Ankarberg: I do not think we will comment on the actual levels. It would not be right. We can maybe get back to it at the Q2, but I think the drivers, maybe, Toby, you can comment on these and maybe add raw materials to the equation as well.

Toby Lawton: Absolutely. The direction, you are absolutely right, Gustav. We are selling down inventory. And a lot of what we are selling in Q1 and a little bit less so, but still in Q2 is what we produced six months or so ago or more when we had a lower production overhead absorption you could say because we had lower production volumes going through our factories than we do now. So that effect results in an improvement in production overhead absorption and gross profit going forward. I would not over dramatise it because the biggest costs are raw materials and labour basically, and a bit of energy. Production overhead is not the majority of the product cost, but that effect is positive.

Then raw materials were relatively low last year. They have not gone down versus last year, if anything, up slightly, but pretty stable. The one other cost is then logistics cost, which we are keeping an eye on. However, I think you will all be aware of the issues around logistics and the high costs of containers from Asia to Europe, which I think we are exposed to less than our competitors, but it is still an increase versus last year. I think you are right. Directionally, we expect a fair wind, but not dramatic for a couple of quarters here.

Gustav Hageus: Perfect. Thomas, you had a follow-up?

Alex Simotas: Yes. I would like to talk a little bit about the seasonality of the business and just wondering in Q1, we have had a lot of companies that had some calendar effects from Easter moving from Q2 to Q1. I was wondering if that impacted to the sales and if Q1 might have been a bit lower than the normal seasonality. And the reason I am asking is also because when I look at consensus for Q2 sales, there is quite a big jump expected in sequential growth, which might be a bit higher than what we have seen in the past few years. So just wondering if there are any specific differences in seasonality here.

Mattias Ankarberg: Yes, and I think a couple of factors play in if we want to be very focused or short-term in Q2, but we are not really. We are not bringing it up until there is a question at the end, towards the end of the call. However, yes, spring, of course, has an impact. And typically, if there is good weather, spring, and it is early, then it is positive, and if it is bad weather, spring, and it is early, then it is negative because you lose out sort of a big shopping weekend.

So this year we had an early spring, which was good for the earlier part of the year, and then a bit less good for the second quarter. Weather was during Q2 great in the northern part of Europe, but has been not so great in Central Europe and the UK for some time. So that has been, I would guess. We have been not so focused on it, but not positive for us. Then I think on the comparables to us, I think I will not comment on the consensus, but I think it is also fair to say that comparable sales figures in Q2 are clearly tougher than in Q1. Both, I mean, maybe 23 versus 22, is an odd comparison, given everything that happened. However, even if you look back versus baseline 2019 pre-pandemic, then Q2 is much steeper to climb than Q1 was, so to speak. So that is clear.

And then while we are on these short-term financial things, we are not concerned about it. We have also been clear that we have the biggest launch year ever, and we do take costs when we launch products, both to sell and market, but also product development costs that we recognise quite a lot when we launch the product. So we are expecting higher product development costs and launch costs in the first half-year. And it was in Q1, and it will be in Q2. And as we commented in last quarter, we are launching car seats now, which is, of course, a big thing for us, important to get right from the beginning.

So there are some dynamics around the financials in Q2 that, if one is focused on that one, should you get one's head around. And we try not to be so quarterly focused, but long term. However, you are right, Thomas, there are some dynamics here to consider for the very short term.

Alex Simotas: Okay, thanks.

Gustav Hageus: Then we have a few minutes left, if I take a little bit longer than a strategic question to mix it up, then from the raw mats discussions. So your design team is obviously, or seemingly doing a lot of things right, or have been, I guess because this is the result of, I guess, work that has been done for the past three years or so. And the award won by them, previously won by Porsche and Bosch and whatever, is quite impressive, right, for a company of your size. However, for an investor looking at the management group, which has been a big, big turnaround since you entered, and maybe a little bit worrying on the longer-term about the ability to keep these guys or girls, and how do you do that? How do you incentivize them to be around? Are they still around? What is the next step for them, so forth? That would be interesting.

Mattias Ankarberg: Yes. Now, we have a strong design team, mainly based out of Hillerstorp in Sweden, where people have been with us for a very long time, many of them, and an expanding team where we add specific competences, I would say. And we moved more into textile, and we add people around that. We move more into sort of electronic things, and we add some people around that, then we also add different kinds of, well, more specific roles. So the team has been expanding over the last few years as well. There is no guarantee that they will be as successful in the future, of course. However, of course, it feels very nice to see that they have been recognised increasingly for these awards. Part of why we get so many this year, personally, I believe, is because we are launching so many products also this year, which of course helps the number, but we are pleased to see them. And again, the leaders and the team leaders and many of the core designers have been with us for a very long time. We are keeping extending the team and hope that they will continue to do great things over time.

Gustav Hageus: Electronics sounds interesting, Mattias. What are those people doing?

Mattias Ankarberg: Yes, if you take our bike carriers, for example, you can now buy them with lights, for example, things like that. If you wanted to buy the newest rooftop box, you can get an accessory, which is an LED strip light included. So moving in that direction may sound silly, but our safety requirements, we take very seriously and even if we are going to put maybe sounds like a simple thing, an LED light on a rooftop box or a light on a bike carrier, this needs to be crash tested and needs to be up to Thule standards and there is a lot of safety and quality levels to adhere to. So we do that in-house, and we bring people in that know how to do these things. And, yes, work with the design and the development teams.

Toby Lawton: Mattias, you could add we have invested in the design centre, and we continue to invest. So it is a kind of facility in Hillerstorp where there is some fantastic equipment and capabilities for designers. So I think it must be a great place to work when you have access to all that and access to the kind of the team around you and a company that really invests in new product design.

Gustav Hageus: Okay, so time is sort of running out. I have a question on your financial targets. It seems like whenever we speak financial targets, we tend to focus on your quite ambitious top-line target. However, I thought we could perhaps touch on the margin target of 20%. And so the angle I have here is that in 2021, which was a phenomenal year for sure, but you had a top-line or only SEK 10 billion at the time, but you had EBIT margin of, if I recall correctly, 22.5%. And since then, obviously, there are some levers that should point to better earnings power, not lower earnings power, since you have, as you call out, better mix, you have perhaps better sales channel mix then if D2C is accretive, you have invested in automation, in production capacity. Why would the target still be 20% on a higher base when you already have proven to do better than that on a lower base?

Mattias Ankarberg: It is a good question, Gustav, and we can take that from several angles. However, it is of course, first of all, comforting that we have been at that level above 20% previously. And I agree with you in all transparency and honesty that there are several things that qualitatively are pointing clearly in the right direction here with product mix and with D2C. And once we are through inventory right-sizing and get a bit more volumes through our factories, and then on top of that, hopefully some market uptick once the consumer starts feeling a bit better, should drive volume without too much extra cost for us. So I clearly agree to that. However, let us cross the 20% margin level first, and then maybe we decide that we want to be even more ambitious on that. Or we decide that it is time to invest more in something else. However, I think it is comforting to see that we have been north of it and that a lot of things are favourable or pointing in the right direction in order for us to get there.

Toby Lawton: Maybe I would just add a comment. The margin we have includes the fact that we are investing a lot to drive the growth forward as well. So if you want to fix the margin for a single year and did not worry about the growth the year after or the year after that, there would not be too much of a problem. So I think it is taking into consideration the fact that we want to drive strong growth. And I think growth is really where the value is created in the Thule share. So it is right that we try to maximise growth, but with a good margin. However, growth also drives the margin improvement over the long term.

Gustav Hageus: I appreciate that. So if anyone has one final question they would like to squeeze in, now is the time. If not, maybe a closing remark or two. And then I think we should close the call on time. What do you say, Matthias? How do we wrap this up?

Mattias Ankarberg: Yes. No, thank you very much, everybody. I think it was a good format. And thank you, Gustav, for hosting. You are on top of things, as I said before, that really helps. And thank you, everybody, for joining. Look forward to talking at the Q2 call, which is mid-July for us.

[END OF TRANSCRIPT]