Thule Group

Thule Group – Global Group Meeting with Investors

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Welcome Remarks

Carl Deijenberg

Analyst, Carnegie

Introduction

Thank you. It's time to kick it off then and welcome everyone to this management update call with Thule Group. My name is Carl Deijenberg. I cover Thule on behalf of Carnegie and with me today, I have Fredrik Erlandsson from the IR side. I have Mattias Ankarberg, CEO and also Thule's new CFO, Toby Lawton. Considering that Thule quite recently reported Q4 figures on Friday, actually, this is going to be a session that is more focused on Q&A and strategic direction going forward. Also considering the amount of people that we will be on this call, I would be thankful if any questions could be forwarded through me either via email that is carl.deijenberg@carnegie.se or you can, of course, raise your hand in the chat box and I will call your name out loud, or you can write your questions also in the chat, but again, it's a one-hour session and I think for kicking it off, I'll leave the word over to you, Mattias, just if you want to give some introductory remarks, maybe just conclusion on the Q4 numbers and maybe some 2023 highlights as well.

Quarterly Perspective

Mattias Ankarberg

CEO & President, Thule Group

A good quarter in a tough market

Sure. Thank you, Carl. Hi, everybody. Happy to. I'll set the scene with three main points, and then we'll open up for questions. Firstly, with the quarterly perspective, it's the smallest quarter for us and may not move the total financial needle so much, but still, interesting in terms of momentum and where things stand. The heading is *a good quarter in a tough market*. Going into the quarter, we knew that the RV (recreational vehicle) industry was in a weaker period. We saw that in Q3 and our sales is clearly declining in that product category in Q4, but except that, we are growing in both our geographical regions.

We have good profitability and really strong cash flow. The sales trends are actually the same as they were in Q3, but the mix is a little different due to seasonality. For us, it's a very undramatic development, which we can get into later if we want to. What makes us most pleased or even happy, is that we continue to see that new Thule products continue to drive growth, even in tough market, that newness seems to clearly resonate with the premium consumer also during these times. That's great to see.

Cash Flow

Second point, if we zoom out to the full year, the highlight or the main point that stand out is really the cash flow, which was all-time high in 2023. The year started out on the weaker side, clearly, both because of comparables but also in a historical context it was weaker in the first half of the year, improved a bit during the second half to modest, very modest growth in reported currency and a small decline in constant FX but a better trend at least.

Good profitability, particularly in the second half, largely in line where we were before the pandemic, strong gross margin, but still investing a lot in R&D, which weighs on the profitability for that time period.

Are we happy? Well, given the market situation and the big investments in R&D, we are pleased, but of course, we would like to be better going forward. Cash flow, again, very, very strong almost 2 billion SEK from operations, 1.85. Due to that, we're making good profit EBIT, but also we took down inventory a lot, 800 million year on year, which of course is nice cash release and that cash situation or cash flow development together with our view of 2024 led us to propose a dividend of 9.50, 9.5 Swedish kroner per share and management ourselves, me definitely, so we're still very confident we can make the investments and growth initiatives we want in 2024. There is that headroom if to use that word, which is of course positive.

The Biggest Product Launch Year

Lastly, thirdly, 2024 this year is the most intense, the biggest product launch year we've ever had in the Thule Group history, which we are super excited about, of course. In the coming period, short term, we expect the market trends to be largely the same as they were in the last two quarters, which we can again talk more about if we want to. Besides that, we are really coming with a lot of products now and three main types of launches.

Firstly, we're upgrading several of our best sellers or replacing several best sellers with new generations, and that cuts across several of our really big products. Secondly, we're coming with some real innovations, world new products in existing product categories. Then lastly, but not leastly, we are entering two new product categories. They exist in the world, but we are not in them yet, but soon we will be the car seats and the dog transportation. In the short term, we have super clear priorities product launches and continue to reduce inventory to release cash also in 2024. That's the quarter, that's the full year and that's the forward looking.

I'll stop there and let you Carl moderate questions.

Q&A

Carl Deijenberg: Thank you for that introduction. I can maybe start with a few from my side first, and maybe taking a little bit of a step back here. You've been the CEO now since the beginning of August. You've obviously been on the board for a couple of years beforehand, so you knew the company before you came in, but now when you had the time to do the identification and had a couple of months, could you maybe share some additional impressions on both weaknesses and strengths that you see now and that you're going to focus on here in the medium term?

Mattias Ankarberg: Your description is of course completely right and I have to say that it's a lot more fun to be full-time and operational although I liked my years on the board. Thule is a very successful company, a bit of a success story, a story with many chapters, but I think the colleagues around me, Fredrik, my predecessor and others have done a great job the last decade or so developing the company. That of course means that we should build on what works well and not change things just to change things.

We've done a bit of work here during the first six months to actually try to pinpoint what is it that we do really well, both qualitatively and quantitatively, and some really interesting discussions. There are many points, but if I would zoom out and summarise them. I'd call out three things that I think make Thule so strong.

The first one is, we are one of those fortunate companies that have market tailwind over time. Simply put, more and more consumers want to live active lives. More and more people want to be active and outdoors. That of course helps us. Secondly, we have really strong market positions. We are global market leaders in our most important product categories, which just gives that solid business, solid knowledge and ability to drive and build the market. Then thirdly, we do a lot of what I call investing in ourselves, so investing in our own capabilities, particularly for innovation and quality.

Yes, we invest in products and initiatives and all of that, and that's fantastic, but we are increasingly competitive. We have really strong facilities that we continue to expand in Hillerstorp with R&D, test labs, crash test centres, arctic climate test, desert test lifetimes and all of that. I think we operate no less than 26 to the test protocol standards, which are above and beyond any government regulation or ISOs. There's a lot of things that we have just set in place that allow us to innovate and drive these market niches forward. There's a lot there to continue to build on.

Our challenge, or our task, is that we have quite ambitious goals, particularly financial goals, and particularly the sales growth goal, which is to get to 20 billion SEK in 2030. We also have margin goals to get to at least 20% EBIT and dividend goals as well. If we're going to reach those goals, it's about growth. If we grow, the rest of it follows. We could focus on the EBIT margin growth and cut back R&D and all other costs, but if we want to do the sustainability, we need to grow faster than we've done historically so we will continue – based on that, I've set a couple of priorities that we can go through, but in short, continue to what we've done well, but complement with some more growth initiatives to drive growth in more ways going forward.

Carl Deijenberg: I think we can come back to many of those topics later on, but I'll give the word over to Eleanor Lee, I think you raised your hand, so if you want to unmute your microphone, please go ahead.

Eleanor Lee (Polar Capital): I wanted to go back to a comment you made on the call about the US consumer being more cautious. I wonder if you could dig into that a bit deeper in terms of what you're seeing in ordering patterns, behaviour compared to the European consumer or retailer, which you seem to be a bit more positive on.

Mattias Ankarberg: Our general market view, Eleanor, hasn't changed since Q3 and since we met now in early Jan and spoke. I think generally it's a cautious environment, both retail and consumer. Some geographical differences, but even more importantly, some category differences, which we may get back to soon but to answer your question then, we see a more positive trend in Europe, a better performance in Europe for us and for the consumer in general still. To me, it's a bit of a puzzle that the North American, specifically US macro is fairly solid with jobs and the income and all of that and they seem to be spending money like crazy on travels and Taylor Swift and restaurants and whatnot, but less so on products it seems. We do see some consumer sentiment numbers starting to pick up but from very, very, very low levels.

Our view is that retail is also very cautious. We have very little pre-order programmes or order books, but for specific things in certain circumstances only, but they are much thinner in the US than they used to be, but we see that the orders are coming in, but it's just spot orders rather than pre-booking, so cautiousness. If we take an example, we could take REI, which is the biggest outdoor retailer in the US maybe in the world. Very good one also, they had pretty big layoffs in October and then now they announced in January just a couple weeks ago that there will be another round of layoffs, several hundred people in the head office quoting a tough year ahead. There is a general cautiousness around the North American consumer and retailer, which is a bit tougher than the European one.

Eleanor Lee: Perhaps you have less of the bike commuting trend in the US versus Europe.

Mattias Ankarberg: Less of the bike commuting trend, although it's growing in some cities but a big bike enthusiast community with downhill mountain bikes and look at Maine, Colorado, Washington, even up in Canada, in Vancouver area, etc. That is a pretty good indicator where the bike industry is on the enthusiast side. I think we continue to see good underlying interest in consumers but cautiousness on the retailers, the consumers. What is doing well is the very top end, the premium part, the top premium part a thousand dollars bike rack for us, for example, that works well. That premium, that passionate enthusiast, I think has the money and is willing to spend the money, but we are also in upper medium, so to speak, or lower premium where there's also volume that is weaker.

Eleanor Lee: While I have the mic, if I can just ask one more? In terms of the declines you've seen in the RV, am I right that RV is about 25% of sales in the quarter and if so, that would suggest a significant drop in that distributor side possibly? Is that sharper than you've seen in the history of the Group in terms of the drop you've seen in RV and does that frame how you think the cycle will be maybe deeper and shorter?

Mattias Ankarberg: Let's see. A couple of questions there. Let me see if I can try to address them all.

Yes, RV is a significant part of the quarter and it is less seasonal business and Q4 is the smallest quarter for us. It is around those numbers, I won't say exactly, but it is of course and higher than year average. Yes, it's a big share of Q4. It is a clear drop that accounts for more than all of the decline in the quarter and the decline is a bit bigger than in Q3, but the big difference is rather that we sell less bike in Q4, which is strong in both Q3 and Q4. Net of those two trends, we came out on a small positive in Q3 on the sales, but minus five, six fixed adjusted on net in Q4.

Yes, our RV is going through a tough time. Last time we saw a real – and it is our only exposure to a historically cyclical industry. Last time we saw a real downturn and Fredrik can add to this, it was after the financial crisis of 2008. It was just over two year's downward low situation, so to speak. Tough spot, we think and the industry thinks that it's going to be a shorter cycle this time around. There are several reasons why, but to pick out two, which I think are the two most important ones, one is there's quite a lot of new RV models being introduced to market in 2024, which adds OE sales and puts RVs with the dealers, and that helps the OE side, but it also helps Thule. We sell both to OE and aftermarket with the RV.

Then the industry is seeing still strong consumer interest. There's a fairly big fair now in January in northern Germany, for example, high attendance people were actually quite excited, but not a lot of deals closed and the anecdotal comments from consumers is that yes, when interest rates go down. I think the industry is also hoping that with interest rates declining, hopefully sometime around summer, you guys are investors probably have your own views, that will also lead to a bit of a consumer uptick. If we would read where the industry is in our own views, we would say that our best guess it is maybe more of a one-year, maybe one-year-plus downward situation, rather than a two-year-plus, which was last time around. We've had two quarters already, so hopefully, it won't last that much longer.

Eleanor Lee: Helpful, thank you.

Carl Deijenberg: Thank you, Eleanor. There are multiple questions via email, but I'll take one in between and that's around the direct-to-consumer (DTC) sales. I think it's become quite clear that your focus have started to increase there. I think you have to correct me if I'm wrong now, but I think now Q4 was the first time that you actually disclosed a fixed contribution target also referring to the financial group sales target that you have, I think you said 15% of sales 2030, and I think you're at around 7% today with quite some variations in your regions. Maybe if we start on the first question reaching 3 billion versus around 600 million in sales today, how is that going to happen? Secondly, what will it require from you as a company? Does it require extra 3PL warehouses, because I guess the standards or requirements from end consumers are also coming up if you're going to increase your presence geographically by launching thule.com in more markets.

Mattias Ankarberg: Let's put DTC in some context and then I'll address all the points you said. To reach our targets, we need to grow a bit faster and we will continue to invest a lot in product development. Product is king and that has built a lot of Thule success. We will focus even more on being successful in more categories at the same time. We're entering two now organically and we can talk about ways to add to that going forward. Then thirdly, we would like to be more visible and have a more direct channel to the end consumer to accelerate that product pipeline, so to speak and that newness.

For us, DTC is maybe a little different than for some other consumer companies in that we're not so much about it to drive the absolute top-line growth. Yes, it will probably a bit, but it's rather to have that direct relationship with the consumer. We know that a lot of people really like Thule products, even our fans, but very few are aware of the full breadth of the offer or even big parts of our offer. It's not so strange when you think about it because we've added a lot during the last couple of years. The way that this industry works is it's pretty channel or category-specific channel, the distribution. You don't buy a rooftop box where you buy a jogging stroller, I mean, largely, right?

Having that direct relationship with the consumer, bringing out newness where common stuff now would be a good plus for us. If we go down that route, we need to have a clear channel strategy in total, in place to work with the best partners. Simply put, you could say that our ambition is to have an increasingly good marketplace with increasing premium distribution that represents our brand and our product in a good way. What does that mean? Nice display and presentation if it's physical. Full price selling, consumer service return point, so all that good premium feeling also in the shopping experience.

By having our own Thule DTC, we enable that in all markets and we are less in need of, let's call it distribution that does not adhere to those high-quality standards. The conversations we've had with our retail partners is that the good guys, the guys that partner with us, the REIs, the Lucky Bikes, they like this because there are more players driving full price and brand awareness. Whereas if you are a cross-border, online player driving promotions or tactical digital marketing dependent, then maybe, yes, that's not your favourite cup of tea to have more competition like this, but that's completely fine with us. That's that.

It does have the, will we sell more rooftop boxes because we have more DTC? Probably not. Will we be able to faster introduce the new dog products? Yes, so it's acceleration and engagement more than anything else. It does financially have the nice benefit of having better margins. You don't give away the margin to the retailer. Gross margins is clearly better. Some SG&A is needed, but net is better.

What we need to do is to have three things. We need to have the supply chain set up, we need to have technology and we need to have the people. Supply chain, we pretty much have. Thule has a very retail-like supply chain model. I can comment more detail if you want. Technology, we have the basic infrastructure in place and these days with modern systems, it's more about integration and all of that, so no big investment needed there either. People is we have some really good people and we will add to the team as we need to we continue to grow. It's nice examples to see.

We opened two new markets for DTC, two little com sales in Q4, Austria and Spain, and just looked at the numbers today. They're contributing nicely to the DTC growth just from the get-go because consumers are there and want to shop from the brands directly to some extent. Long answer, Carl. I hope I've got some of your points down.

Carl Deijenberg: No, but absolutely. I'm just going to follow up on one follow-up question before I let someone in from the call. I can see there are a few hands being raised, but I just wanted to follow up on, you talked a little bit about the profitability difference or at least confirmed that it's higher and I think what would be really appreciated if it would be possible to quantify, how much better is it? It's obviously a category difference in between everything that you're selling, but if you just take the Epos as a reference. If you sell that through a retailer, the contribution margin is X, and if you sell it through your thulee.com channel, is that the plus 2% better contribution margin for you? Or is it a plus five or how significant is the net difference if you would put it as a whole?

Mattias Ankarberg: We've never disclosed that figure before. It'll be not correct to do it here and now, but we can definitely bring that with us and to shed some light. You can say that obviously, the gross margin is clearly better because just think about the retailer OPEX that is needed and then that is what somebody else needs to have out of our margin, so to speak. Well, there is some SG&A handling costs, mainly in warehouses, but there's a little marketing, there's credit card fees stuff like that that add to the to the SG&A part but we'll bring your comment with us, Carl, and see if we can find the right time and place to shed some more transparency on this topic.

Carl Deijenberg: I think I'll let in the hands here from the call. I think Julia Scheufler, you were first, so please unmute and go ahead. I think you're still on mute as we can see it.

Julia Scheufler (Janus Henderson Investment): Sorry. I listened to your call the other day after the results, and I wasn't quite clear on the margin trajectory, so if you could elaborate again, maybe big picture how we get to the 20% and the phasing of it because you have in the near term the big drivers of still higher costs, ramp of new products but at the same time capacity utilisation. If you could give me a feel of what outweighs what, so what will be the driver in the short term and then longer term, so are we going to see more flattish margins and then a pickup once the R&D is coming down and capacity digitisation is taking off as well? Or is it a fairly step-by-step margin uplift?

Mattias Ankarberg: I can start and then Toby, you can add or correct me. A couple of points there Julia, to your question. Maybe four factors as I start to think about it. First of all, we are in a little bit of an R&D plateau at the moment. We have a very long-term and quite costly initiative called car seats coming out here in Q2. We expect R&D costs to be at the same level as last year in absolute terms, also in 2024 but over time, we would like to get that down from where we are at 6.9 last year to historical around 5.5. That of course is a nice contribution to that if we can.

Then secondly, we have been clear that on the gross margin side, we are underutilising our production capacity quite significantly. Look, we took down inventory by 800 million Swedish last year, so we sold what we had rather than producing new, so to speak, to simplify things and we will continue to take down inventory also in 2024 still by 200 million and that's net of the effect that we are of course adding quite a lot of inventory with new products and particularly new categories. The production of existing product lines are still going to be less than what it could have been otherwise, which will still weigh negatively on the gross margin for that year, for 2024.

Then in terms of other leverage on other SG&A, we hope, believe, plan that our sales-driving efforts will add to the sales growth and get leverage on the other SG&A port as well, admin and sales and marketing cost. Also again, we talked about the market being in a very cautious stage and the top premium end of the market is maybe as strong as it once were, but the other parts of the market, we do believe should pick up as the consumer sentiment increase, so a couple of factors that should help us on the growth side, on the cost side, on the gross margin side going forward.

When do all these kick in? Well, the things that we plan for, and we are not a quarterly-driven company. We're long term and we make fairly good profitability and strong cash flow, but want to make sure we are on track towards the long-term target. We will have high R&D costs also in 2024 and something, that some of you're aware, but just to reiterate this, we also take – we expense our R&D initiatives, even the tools that we produce ourselves to go into the equipment that we use in our factories. That's all SG&A to us, that's OPEX and that means that with a very heavy product launch calendar in particularly spring, there's a lot of tools that come out, particularly before spring, whereas we ramp things up. That means a quite R&D cost-intensive first half of this year.

When do the consumer sentiment pick up and interest rate come down? Is it by Q2? Is it by second half this year? Is it first half next year? It's hard to guess specifically and we are less concerned about that but those are the main components of getting to the target and at least the timings of things that we control and as we see them. Again, Toby, feel free to add to it if I missed anything.

Toby Lawton (CFO): No, I think you've covered it all Mattias very, very quick but I could just say when you look at the history of Thule through the pandemic, you saw the margin uplift when you had the top-line growth. You can see the impact of growth on margins from the history as well and that term.

Carl Deijenberg: Maybe I could follow up on a question on that, on the margin. Because gross margin, I guess that was as surprising as primarily positively here in Q4. Volume splitting down year on year, but the gross margin development, obviously from a low base in Q4 2022, but still, a quite good uplift. I think now for the full year you were at 41% on a still quite negative organic growth number. I know that you don't have explicit gross margin target, but in a steady state scenario, if you want to put it that way and your production facilities being normally utilised and on the price points that you're holding today, and based on freight and inbound cost prices, what should a steady state gross margin on a full year be on the new portfolio and the new products coming out? Is that 43% plus, or how important would that be for reaching that 20% little bit margin target?

Mattias Ankarberg: No, but it's going to be an important element and we haven't given to your point a specific number, but let's look at some of the factors in play here. We are underutilising our production capacity, which obviously holds it back and to your point, Carl, we still came out very well in 2023. We are driving an increasingly premium product portfolio should everything else be better gross margin, so at least how we are delivering and we are driving a DTC agenda with better gross margins as well. Of course, that's going to contribute to all of those factors.

What could hold things back in the short term is of course when you start producing new products, particularly completely new categories, you don't have the same efficiency as you do when you are ramped up and have trimmed in production lines and are running things at higher utilisation rates. That will hold things back a little bit. Then input factors, of course, and we all were really happy freight cost came down and then came the Red Sea situation. Now maybe that isn't so bad, but you can't really predict those events. Gross margin should be an important part of the equation, for sure.

Carl Deijenberg: I'll let in also Quentin from Candriam. If you want to unmute your microphone, please go ahead.

Quentin de Streel (Candriam): I have questions regarding the RV product division. You differentiated between the aftermarket and the original equipment market in term of dynamics. Apparently, the aftermarket was the first part to decline before the original equipment segment. Could you explain a bit the dynamic that you see there that explained that one segment is falling before the other and in term of recovery, what is the part that you expect to recover faster than the other when the recovery will look recur in this market?

Mattias Ankarberg: I will do my very best and Fredrik, Toby again and Carl, if you think it's needed, but if we take them one by one, you're right. We have the setup where we serve both the OEs or the vehicle outfitters, converters and the aftermarket, the dealers if you like. The OEs have had a more positive development throughout also the second half of 2023 and the reason for that is that there were still order backlogs from all these disrupted supply chains post-COVID.

Now, we might all think that's a long backlog, and the answer is yes, that's a long backlog. There was a lot of orders still being delivered. That is fairly done, so there's no backlog to speak about as we move into 2024. However, forward-looking on that channel is that there is new models being brought to market, which it's being produced to inventory and sold into dealers and then we'll see how fast it goes out to consumers. That's the OE dynamic. There's more details, but I'll leave it at there for now.

The aftermarket dynamic is different. That started to decline much earlier, much faster during 2023 signs earlier and clearly in Q3 and in Q4 because there are some inventory issues, but let's skip those and take the big pieces because largely consumers are hesitant to buy or demand is low. Again, correct me Toby if I got it wrong, but let's say a suburban van or one of these van life, compact vans who used to be €40, €50,000 and you buy it on financing at 2.5% interest rate maybe and now they're €75,000 or somewhere in that range and you buy it at 6.75% interest rate. There's a lot of less consumer demand.

The forward-looking part there is that the industry expects that some of this newness, some of these new models will trigger some purchases. Some consumers have held out for that and may even be able to get a pretty good deal this year and that when interest rates start to decline, there's a little bit of holding out to get the new vehicle at the better financing costs. That should help also. Those are the different dynamics that hopefully makes this downside not to be too long this time around.

Quentin de Streel: A follow-up just to understand, I suppose profitability is different in the two segments. You do better profitability in aftermarket. Is it also the same type of product that you sell in the two categories or there are some products that you sell more in aftermarket and/or other that you sell more in original equipment?

Mattias Ankarberg: Largely the same. There are some differences, but largely the same. Our two biggest products in RV is Awnings that we make and different versions of bike racks. Some vehicle outfitters or OE buy it from us and say we want to sell this vehicle fully kitted with premium products to the dealer. Or they let the dealers pack it and they install it at the OE or outfitter lines and some sell it naked to the dealers and then the dealers buy and install to the product. There are different programmes, but largely, the products are the same.

Carl Deijenberg: I'll take the question from my side, maybe talking a little bit on what you alluded to earlier in the beginning of the presentation, the product pipeline here, going into 2024. Obviously, a combination of iterations and completely new products as you highlighted, so maybe my first question will – because you shared this quite a helpful list on the presentation desk on Friday all of the major ones, and my first question is, will all of this be available for the market ahead of Q2, which is the most important quarter for you? Or is the launch timing, I know Q2 2024 is for European child car seats, but I think taking it as a whole, is that going to be online everything for Q2 or is it the gradual facing throughout the full year?

Mattias Ankarberg: It's heavy on Q2, I would say throughout Q2. Some are now in Q1, some are in Q3. I cannot top of my head recall any product that is in Q4, but I could be wrong but a lot of it is in May timeframe plus, minus a couple of weeks.

Carl Deijenberg: Then also questions that I receive quite often because I guess iterations, it's obviously an update on an already existing product, but I guess it's also a way for you to raise prices without needing to announce an official price hike, so to say. Just out of curiosity, how much of a higher price point does an iteration of a roof box, let's say carry versus a previous model? Is that 5%, 6% or is it 10%, or what's the average there, if you would phrase it?

Mattias Ankarberg: When we do a touch-up or a let's say a new colour on collection of bags, for example, or a new set of accessories or so, we don't call that a product launch. For us, it's really, it's a new product. I'll give you a concrete example and the price point. If we take the world's most-sold rooftop box is Thule Motion XT, it is getting replaced by Thule Motion XT Generation 3 and you could say, well, it's the same thing. Well, yes, it's based on the same platform, but the design is updated, the aerodynamics are reworked. It's a 5% less drag, fuel efficiency and range on the new one. The number of accessories are clearly more.

It is the way we think about it, a new and better product, new generation of product and that's 5% up in terms of average selling price. Exact euro amount depends on the size, but it's a significant update for us of course and we are doing that. That category of upgraded best seller, so to speak, is of course low risk because we're replacing something that really works and all is in place. Distribution and set up and retail partners and this year we're doing that across rooftop box, running stroller, bike trailer, bike racks, luggage so there's a couple of these quite big selling products for us that are just getting a new version.

Carl Deijenberg: Following up on that before, we can switch topic a little bit, but I wanted to talk also a little bit about the completely new products, dog crates that I think it's already been launched in a few markets, and you confirmed car seats in Europe coming in Q2 2024. I think North America, maybe we're looking into 2025. I guess taking it together, it's a little bit of a delay primarily on the child car seats. I guess that has a little bit to do with the regulation side in the US and primarily then, but maybe if you could provide an update there what has been affecting the delay, would you say, and have there been any new upcoming problems or development issues that you have seen here that is explaining that? Or is it just a regulatory timeframe?

Mattias Ankarberg: We can start with the car seat one. As you alluded to Carl, there are two new categories this year dog transportation, which is two products and then car seats. Great categories. We believe both have a lot of relevance for Thule but very different dynamics but we can start with the car seat one. It's been a multi-year, quite costly big initiative for us to develop the car seat offer organically. If we look at the size of the price here, we are talking about the premium and car seat market globally of around 15, 1-5 billion Swedish, where the majority of that is in Europe. The rest of it is largely in the US or in North America.

It is at least by our standards, a quite regulated category, I guess not difficult compared to medical devices or something but for our standards, it is, and the regulations are different in different geographies. The two standard setters in the world is the EU and the US. In the EU, the playing field is pretty clear. The rules are set and we have been focused on developing a product for the EU market first because it's the bigger premium market. We are bigger in Europe and it is a clear playing field, and that first part is coming in Q2, so quite soon.

In the US, there has, during the last, I think around 18 months or so, been a discussion at the authority level around future regulations and the standards. The big discussion that remains is around where to draw the line between what is called a infancy and a toddler seat so for the baby or for the small child, so to speak. We believe that we have a pretty good view of how that's going to play out, as do our industry colleagues. However, as we are a complete entrant in this category, we need to steal market share from others and we prefer to focus on Europe and nail that until we know what the playing field is, not just in terms of regulations in the US but how the industry is interpreting that in bringing our products there.

Maybe, Fredrik, you can help us with a link with previous communication here, but for us, this has been clear for a little while and it's no delay in any project that's going on. It's just a commercial decision that we made once we were aware of this regulatory discussion in the US to make sure to focus where it's clear and where we have the biggest opportunity and that is Europe.

Carl Deijenberg: Following up on that, the questions that I received a little bit as well is that I think when you announced these products that was initially on the Capital Markets Day, the latest Capital Markets Day that you had, and I think that was also, I think maybe Magnus gave a contribution target in terms of the revenue target by 2030, around 10% contribution from these two new product categories. Is that still a target that is unchanged despite what you've been describing now? Or have there been any reason for changing that assumption?

Mattias Ankarberg: No, that still holds and that is to put it very simply, 1 billion SEK sales per four car seats respectively, dog transportation. Again, Europe is the biggest price and most of that 15 billion in the premium end, so we would have to take globally five plus percent share in the premium segment by 2030 to get there. On the dog transportation side, it is a few different products that make up that market but it is a very different market dynamics. It's a much smaller segment. The global premium end of that market is around 2 billion Swedish, although growing well. I mean dog growing well, premium growing well and safety around dog growing well but the good news in that category is that there is no global player or even strong regional player where in car seats there are several.

We believe that this is where Thule can bring a really great product or a set of products. We've started with the dog crate that is launched. We can comment on that if you like and second one coming now in Q2 is a bike trailer for dogs, which is actually quite big product in central Europe and we believe that we can over time build that into one of those categories where we have a really high market share and help to build that market around safety for dog transportation. That's the ambition.

Carl Deijenberg: I received a question here via the email, and that's around the sales target that you're having for 2030, 20 billion. You talked about it in the beginning, and I think translating that into a CAGR from the full year 2023 number that's around, or slightly about 10% now. Obviously, a higher growth rate that you have been, if we look growth averaging before the pandemic, which I guess is maybe a more of a justifiable, a comparable period and also as you highlight that, and as we've seen your cash flow generation is super strong and CAPEX needs giving the investments that you've made here in the production line is also quite limited here going forward, as I understand it. Key question here on the email is M&A going forward, is that something that you're going to evaluate and if the answer is yes to that, what would you be looking to add? Is it a new product category? Is it a new geography or what could that be and is there any sort of, are you evaluating anything right now? That's the phrasing of the question.

Mattias Ankarberg: No, but the context of the first question is firstly correct. We need to grow faster than history if we're going to reach target. Besides hopefully some market recovery at some point, we have three main parts of that equation. One is continued product development. The second one is success in more categories at the same time. The third one is being more visible to accelerate the first two and take a higher share. The M&A to us plays into the second piece of that, which is new categories. I want to be clear that the foundation of our growth strategy is organic but we are now, when we talk about entering new categories this year, we are doing it organically with two new categories.

If you look back at, through this history, we have done a few add-on or bolt-on M&As, not many, and not frequently, but the rooftop tents came that way. The chariot, the trailers, bike trailers came that way. The child bike seats came back, so there's a couple of good examples where we found something which is the right product, the right technology that gives us a quick start, so to speak, to enter new categories and that is an interesting route to actively evaluate. That's how M&A plays into this growth agenda.

Carl Deijenberg: Trying it to boiling it down a little bit on the figures, if we put it simply, we can say around 11% CAGR. If you want to divide that in and maybe if we say, just to draw a number, maybe 1% or 2% contribution from M&A and we say 10 on the Group or more Thule, how much is going to be if you would put it volume in let's say the core business or the roof boxes and the sports and cargo carriers, and how much is going to be from new product categories that we, from the investor side, are maybe not aware of today that you haven't announced? Is that going to be a 50/50 relationship or if you would put that mix into numbers?

Mattias Ankarberg: Well, see, be careful what I share on this call, but obviously, we say we have three priorities. One is continue to do product development and we know we've been growing at just over 5% CAGR or IPO to pre-pandemic and a lot of that is driven by product development. Of course, some other factors as well but that's been the historical trajectory. Adding new categories, we just talked about two where we have ambition of 1 billion each. We talked about we are seeing more growth opportunities organically or through M&A, so that's a clear significant add and then being more visible to the consumer and driving DTC also helps or boosts that.

We believe that all in all, it is possible to do. Is it a walk in the park and we're relaxed? No, we need to perform. It is an ambitious target. We need to stretch ourselves, but it's a doable target and we're growth oriented company and we're going to be one-eyed and grow just because the sake of growing but we believe it's possible and we're going for it.

Carl Deijenberg: Then I wanted to also take, jumping a little bit in between the topics now, but obviously, what's been in the discussion and throughout 2023, and I guess the main headache for you in the beginning of the year at least, was obviously in the bike related products and the inventory correction that we saw there. You have now been growing in bike for two quarters in a row, and I think or I know that you're facing very easy comparisons here going into Q1 as well. Maybe if you could share, I know it's very early days and the peak system is still quite far away, but what are the discussions there in the industry? I think you've been quite clear that inventories look balanced now, but what does that really mean? Is that the level that is in line with pre-pandemic levels, or should inventories be structurally lower now going forward, considering that lead times are shorter and also considering what happened in the beginning of last year?

Mattias Ankarberg: That's just a good question. There are two parts to that equation. What's the inventory situation, particularly at the retailer side where the issues have been the biggest and what's the underlying consumer demand? I guess you could split the last one into two based, in general, market and driven by our newness and launches. On the inventory side of things, on the bike retail inventory side of things, I should say, things are looking pretty healthy. For us, for Thule products, when bike retail still has too much product, in general, a lot of bike companies would tell you that and where we are out to the stores both in Europe and in the US and Canada here in the beginning of this year, we see it with our own eyes, but for Thule products, their inventory levels are healthy again as of Q3, and we have the data to see that. We also see that we have good growth in those categories, as you said, during the last two quarters.

Now, will newness help? Yes, for sure. We have a full year of Thule Epos still being anniversary coming up in Q2 and we have more products coming being launched in 2024. The underlying consumer demand for bike long term, we believe it will continue to grow. What's the pick-up in 2024? We will know when the bike season starts exactly where that level hits and how keen the consumer is, is still looking to be proven. Volumes are so small now in December, January early Feb compared to where we will be during spring. That's too early to tell.

Carl Deijenberg: I wanted to also just follow up before I'll leave the final words if there are any questions from the audience, but that's around the Epos. Obviously, a really big success for you in 2023 and it continues to be and I guess, key questions that I think that I have and a lot of other people have as well is when you do such a launch and it has such initial big success, is it still achievable that you can grow Epos sales 2024 versus 2023 and how's the lifetime value of such product, you would say over a 3, 4, 5-year cycle?

Mattias Ankarberg: No, for sure it will grow well, you never know, but we clearly expect it to grow 2024 versus 2023. Not the least, just because we don't have a full year 2023 in and I think that's a – maybe I should have commentated that earlier but a lot of these launches that we do this year we get of course the impact also coming here because you get the full year impact. Epos is still seeing a good growth. We sold what we could make for a large part of the year 2023, so we didn't even share it with all of the distribution. The retail that wanted it, which is another good sign that we'll continue to drive growth. It will be an important product in our product category for the coming few years but this is a space where we're also bringing quite a lot of new products to the market and some innovations that we have in our sleeves, up our sleeves, I guess. For sure, it's a key product that will help us for several years to come, but others will join it put it like that.

Carl Deijenberg: Just taking it as an example, if you say, I know that the lifetime value is obviously longer than a five-year, but if you say that the selling revenues for Epos, if you just take an example, is 100 of something. Is that a third contribution in the first year and that trailing down, or is it a fairly even relationship throughout that period? How does that usually develop in such, let's say, core new product launches, if you want to call it that way?

Mattias Ankarberg: It depends on two things. It depends on phasings of new products. For example, if we wouldn't have done the new generation of Thule Motion rooftop box, the old one would've sold pretty well, quite a while longer, probably about the same, but the new one is better and charges a higher price and sets us more apart from the competition. That's one. There other part is, of course, competition. In bike carriers or in rooftop boxes, we have a really, really strong market position. If we talk about the strollers or backpacks, then newness is key independent if it's us or another player. It's a portfolio game, I guess.

Carl Deijenberg: Very well. I see it's 58 now, so I'll give the final chance to the audience. If anyone wants to unmute and ask a question, this is definitely the time for that. Yes, Quentin, please go ahead.

Quentin de Streel: I have a question on the timing of orders that you should receive for the new bike season. When do you have more visibility on the shape of demand? When will you know, okay, it will be a good season and you will be confident on that in term of timing?

Mattias Ankarberg: Seven days after it is 12 degrees in sunshine in Munich……….. When spring comes, we will know. When people start biking and the bike season kicks in, that's when it happens.

Quentin de Streel: That is usually…?

Mattias Ankarberg: March, April time around there. Yeah. Sorry. I am sorry. Not everybody's a biker here, I get it. Around March, April, depending on where you live and weather conditions.

Carl Deijenberg: Very well. I think that concludes this call. Thank you very much, Mattias. Thank you, Toby. Thank you, Fredrik, for arranging this and thank you, everyone, for participating as well and have a nice evening, all of you.

[END OF TRANSCRIPT]