



**Thule Group – Virtual Investor
meeting following
Q2 Interim Report - 2023**

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Introduction

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Welcome

Welcome to this Teams meeting with Thule today. My name is Stefan Stjernholm, and I cover the consumer space here at Nordea. And I will be your moderator during this session. Magnus will start off with an introduction. And after that, we will open up for questions. So please, Magnus, the screen is yours.

Opening Remarks

Magnus Welanders

CEO, Thule Group

Introduction

Thank you very much, Stefan. So my 35th and last quarterly report as CEO of Thule, actually my 50th quarterly report as a CEO, but the 35th as a stock listed CEO.

So if you look at it, I can say that what happened on sales was very much in line with our expectations when we presented the 2023/Q1 report late April, which meant that the 15% in constant currency sales decline versus 2022 was very much in line what we expected. This was still a 23% increase versus 2019/Q2. And if you look at it, it was as we have noted in the report and as we were forecasting already in late April, due to a very weak April, an OK May and a quite strong June, with every week in June getting better and better as we saw the month passing on.

That means we feel good about, also having talked with a lot of retailers and tracked a lot of data over the months, that we are now back to a relatively normalised level of stock of Thule products in the retailers in the bike channel, which has been our big channel challenge over the last four quarters.

So we feel very good about entering 2023/Q3, now with normalised inventory levels in bike retail. So our expectations were met on that.

What was slightly better, even than we ourselves expected, is how strong our development on the gross margin was. This was the best ever gross margin we have had in any individual quarter in the history of the company, ending at 43.6%. And that improvement and strong result was reached through a combination of factors and happened despite the fact that we still, in the quarter, have had a significant production overhead under-absorption. A production under-absorption not only because we sold less, but also because as according to our plans, we reduced inventories with more than SEK300 million in the quarter, SEK308 million to be exact.

So if you look at that performance, it was driven by the price increases we implemented mid-2022. They are impacting, of course, in a positive sense. We are also seeing a significant reduction in freight prices. As you are all aware, they were extreme in 2022, at the tail end of the most absurd pricing ever done on freight. And now they are back to more normalised level. And that has quite a significant positive impact.

Thirdly, we see a positive channel mix with our own direct-to-consumer¹ continuing to do very well. And of course, if you combine that with a retail community in the bike sector that had too much on hand and bought less, and then we do well on direct-to-consumer, it meant that the share of sales of direct-to-consumer increased very nicely in the quarter and was 9% for the Group, 16% in Region Americas and 6% in Region Europe and Rest of the World.

We also saw that the new products we launched as to expectation have a better margin. So the fantastic world's best bike carrier for the towbar, the Thule Epos was a nice boost in terms of margin position.

Overall, we had still a very negative impact from our production under-absorption. We do partly to a small extent at least compensate that by a more efficient running of the plants. As we discussed throughout the pandemic, when we went from SEK7 billion in sales to SEK10 billion very fast, we were coping, which I thought was a fantastic job to do that capacity increase. But it was coming at an inefficiency cost by having to run at weekends and three shifts and with temp staff, etc.

Now with producing so little, we of course have a negative absorption on the overhead. But we are running it with very efficient plants with very good throughput, those limited hours we are running them. So a little bit compensating with efficiency gains.

So overall, a very strong gross margin. On top of that controlled SG&A spend, as we actually are a few million SEK down in the quarter if you look at constant currency. And that is despite a continuous aggressive product development push. So I feel very good about that.

And speaking of the product development push, we are, I think personally, that is probable probably peaking in what is as a share of sales at 7.1% on a rolling 12-month basis spent on product development. This will now for quarter by quarter, as we grow sales versus the same weak comparative quarters, start going down to a more reasonable level.

Our choice has been to push very hard for all those cool new products that we have already shown or are going to be showing to trade and have launched in stores because we have the best ever product assortment on both high-volume products in our current categories, as well as entry into new categories. So very exciting product portfolio launching in the period.

From a cash flow perspective, a very strong cash flow, as it should be, because we were reducing our inventory levels. And we are having good EBIT level at 23.5%.

So with that, I open up the floor for questions.

Q&A

Stefan Stjernholm (facilitator, Nordea): Thank you, Magnus. So if you have a question, please use the raise your hand function. But I can start off with one question. As you mentioned, a very good progression during the quarter. If I remember right, I think you said in conjunction with the 2023/Q1 report that you expected organic sales to be down some 30% in April. Is that meaning with the quite strong June that you have actually had organic growth in that month?

Magnus Welander: Let us not go into too much monthly detail. You have tempted me before, Stefan. I am not going to do that mistake again now, my last report. But what was clear was that for every week we are going on, clearly now you are going to see growth. There is no doubt that we will have growth in 2023/Q3 vs the weak 2023/Q2. We are definitely going to grow in the second half of the year.

¹ DTC

Stefan Stjernholm: And then this has been very much focused on course of the inventory at your resellers, and if I interpret you right, this inventory correction, is that done as of Q2? And can we expect a more normal situation from here?

Magnus Welander: Yes, I definitely would say so. There will be, as there is always, actually also pre-pandemic times, individual retailers that might be sitting on too much inventory. But let us be honest, that happened in 2019, 2018 and 2017 as well. That always happens. The general trade in bike retail are back in our categories with our products back to normal inventory lines.

Stefan Stjernholm: I can see that we have a question. I cannot see the name, it says *boardroom*, but please ask your question.

Speaker (Christopher Barker at HENGISTBURY Investment Partners): We just had a few questions, if that is okay. And we will just go through them one by one quite quickly, if that is okay. Obviously, it was very useful last year when you split out your business into bike versus non-bike related segments. So I guess our first simple question was, just in 2023/Q2, whether you can give us any sense of what percentage of the total sales was bike versus non-bike in the quarter, if that is possible?

Magnus Welander: What I can do is, since we gave you a rolling 12 month logic, I can confirm that the bike share has continued to decrease. We are at our lowest ever bike-related after Q2, despite the strong June in bike related sales, due to the retailer inventory correction. So we never, on a rolling basis, have been as low as we are today. And it is only from July, that we will, quickly go the other way around. I am 100% sure that we will see a significant pickup of the bike share in July, because we almost sold nothing in bike in July and August 2022. And now we are having solid normal performance.

So now bike, as a share, will be going upwards. And I therefore think that roughly when we end the year, we are going to be back up to where we were pre-pandemic times, which was about 37%-ish type of thing. But we are clearly below that now, having decreased even further in Q2.

Christopher Barker: You cannot tell us what percentage of bike the rolling.

Magnus Welander: I could, but I choose to not. Those are two different things.

Christopher Barker: Okay. And even if we were trying to have a guess at what the bike sales were in Q2, should we think that the number sequentially in Q3 goes up? Or would normal seasonal dynamics apply that?

Magnus Welander: No, we will significantly increase our share of bike in Q3, significantly.

Christopher Barker: Okay.

Christopher Barker: But in absolute terms, are you going to start make bigger bike revenues in Q3 than in Q2?

Magnus Welander: We will do similar levels, because in the third quarter we normally would do only a post-season replenishment. But this year, we did not have a preseason fill-up or an early season start in the second quarter. So in that sense, we are going to see a more like-for-like logic that is higher than normal this year.

Christopher Barker: Yes, got you. And I guess I do not know if you can give us any indication in Q2 of where bike was versus 2019 levels. And I know you were saying that the bike market overall from conversations that you had.

Magnus Welander: We were clearly lower than 2019 in bike related sales in 2023/Q2. So the rest of the business is the one that has generated the growth of the 23% versus 2019, and even beyond that.

Christopher Barker: Yes. Okay, that is helpful. And then just moving quickly to the RV products, if that is okay. I think you mentioned that it was a solid or strong quarter, but obviously, we do not get any real segment detail in the quarters. We only get that on a full year basis. Are you able to give us any colour on just exactly the level of growth that you have saw in the RV products?

Magnus Welander: There is a reason why we do not share this on a quarterly basis, because it comes and goes a bit. But if you look at it, we had a stable quarter, otherwise we would have highlighted it as standing out. Let us put that. So the choice of semantics will indicate that we did not see any significant growth in a quarter that compared to fantastic numbers already same quarter in 2022. I remind you of that fact.

So we have had very strong RV Products sales throughout 2022 and first half of 2023.

Christopher Barker: Yes. And so was there something specific that was very strong growth in non-bike related products?

Magnus Welander: Yes, we are growing very fast in luggage as a percentage. We are growing fast also in some smaller categories, such as rooftop tents and some other things. But if you look at it, rapid growth only in those two relatively smaller categories for us luggage and rooftop tents. So there was not any large categories that had significant growth, as *significant* is a big word.

Christopher Barker: Yes. Okay. And just to clarify, I think you said that you were seeing retailers having some weakness in sports products. And I guess when I think about sports and other products, I am thinking, the non-bike related chunk of your sports and cargo related segment, which is quite a big chunk of your sales.

Magnus Welander: I did not say *weakness* to be clear on semantics again. I said that they are *cautious* in their ordering patterns, that is what we said. And what I meant with that, and to clarify, is that normally in this part of the season, the behaviour is different than it is in March and April. So in March, April, May, it is the beginning of a season, and retailers normally place large orders because they know there will be loads of people coming to their stores, and they are filling up big chunk orders.

And then when you come to this period of the year, June, July, August, they normally do more detailed replenishment orders. One of that, two of this, one of this, is the type of logic they normally follow. This year, having been so gung-ho-ish in 2022, they have generally not placed that type of big chunk orders. So instead, we are having more individual order lines than ever, but they are individually smaller quantities each one, which therefore is normal now when we go into July and August, but has not been normal during what would be Q2, where we normally see bigger chunks of order. But they have preferred to rather than pay it in one big order on the Monday, they have that one small order Monday, one small order on Tuesday, one on Wednesday, a different behaviour.

That is normally for me an indication that they are slightly worried about their cash flow. And therefore, they want to be sure that they are selling out and also part of that, that they have been burned on maybe not necessarily our products, but potentially some other products that they are sitting on too much stock of. Which is why I mentioned the many small orders rather than a gung-ho behaviour of ordering big.

Christopher Barker: Yes. So you would say if we were looking at non-bike sports and cargo, which is predominantly roof boxes, I guess, if we think about it logically.

Magnus Welander: Roof racks and roof boxes are roughly the same size.

Christopher Barker: Sorry, roof racks and roof boxes. Sorry. Yeah, definitely. There is still some growth there.

Magnus Welander: Yes. Once again, we do not share, on a monthly basis, all these subsets of numbers. You are not going to trick me into that in my last 35th quarterly call.

Christopher Barker: Sorry. All I was asking whether there is some growth versus negative growth. There is still positive growth and I am not asking for a number just.

Magnus Welander: Yes, but once again, we do not give quarterly or monthly numbers. On a rolling basis, we are seeing very solid growth in all these other categories. Yes.

Christopher Barker: Okay. Sure.

Stefan Stjernholm: Maybe we should let Dan in and then you can get back later, if that is okay.

Dan Whitfield (TT International): Just a quick question I wanted to ask you was on Thule Epos and basically from what you sort of said then on bike related sales for Q2 and considering that success that you seem to have had an Epos with the high ASP that that carries, quite a big proportion of the bike revenue in Q2 will have been in Epos. Is that sort of the right way to think about it? And then I guess, is there anything that you can share it insight into Epos because it is a new product sub-segment, the higher e-bike carrier that you have not really targeted before?

Magnus Welander: Actually we have targeted the e-bike before with Thule EasyFold as a big product in both regions as well. But Thule Epos comes in at a more premium price point and with even stronger feature set. So Thule Epos is our most premium carrier in the market. And it has already won lots of design awards only a few months into it, and a lot of test awards.

So it is doing extremely well, as we were expecting it, but it was launched only midway through the quarter in Europe only. So even as it did well, it did not impact the numbers that much. There is a lot of other bike carriers that needed to be sold to make up that revenue as well.

Thule Epos will be more important for us in Q3 I can say, because now we are selling it in both regions. We are up and running. It is out there. So it will be a significant contributor definitely in Q3. It comes at a good margin at the highest price point. So it is, of course, very nice for us as an accretive product in the assortment.

And as a market leader in premium bike carriers, we should have the best one in the market. And it was time to come with a new one. So it is nice that it was very well received. We have limited distribution so all retailers are not getting it. It is select retailers that are getting it this first season. And that is similar to any other strong premium brand. You want your key stores to feel that they are getting something extra for investing their time and effort in giving you a lot of space in their stores and giving a lot of focus on you.

So there is a number of retailers that have not, who have desperately wanted it but they have not been provided, given quantities this year. They will be given quantities next year for it.

Dan Whitfield: Okay, so there is a good runway for it to contribute continuously over the next 12 months then as it [inaudible]

Magnus Welander: Significant contribution effect in the coming 12 months, definitely.

Stefan Stjernholm: We can hear that your new products, high-priced products are doing very well. But you have not noticed any signs of consumers trading down in any category?

Magnus Welander: No, and I think this is once again, because we have not historically played where the consumers are truly feeling the squeeze of their personal economy. And this is not nice and not completely politically correct subject, but the truth is that most of the consumers that are buying Thule products today, even if they see a higher food bill and a higher energy cost may for their apartments and houses and slightly higher interest rates, they still can go on their holidays. They go on a holidays, fly to Marbella and they still drive to their country house.

So they are not changing their behaviours as much. And therefore, when they are not changing the behaviour, they are, to a greater extent, maybe even the contrary, where they say I need to buy the best stuff, I do not want to buy something mediocre. This is the best in the market. So from that perspective, we are not seeing that behaviour.

Stefan Stjernholm: Another topic, we go over to the gross margin, which has been impressive in both Q1 and Q2. And that despite that you are talking about under-absorption in production also some negative sales mix. How optimistic can we be looking in the coming quarters? I mean, there are things, under-absorption should be better and better I do assume. And also when it comes to sales mix that should also improve from Q3. How should we be thinking about the gross margin going forward?

Magnus Welander: I would be very confident on the gross margin of the Thule Group going forward, because we have a very well invested plans that already now have a slight overcapacity versus the moment, right, because we are producing so much less having so less and reducing inventory. And we have a strong portfolio of products that combination of the new products coming in at good margins with a better absorption will be a key driver for a very solid gross margin going forward as well.

Stefan Stjernholm: So the gross margin, is it fair to assume that that will be the main contributor to reaching the 20% operating margin target?

Magnus Welander: I want to be clear; the main contributor is the top line sales growth that we will see because the top line growth makes both a production overhead absorption contribution, and of course, an SG&A percentage of sales decline as you pick up your top line revenue, even holding on to the same product development spend and marketing spend and administrative costs.

So the single most important driver is the top line that we will see by far because it will contribute to both percentages.

Stefan Stjernholm: And when it comes to pricing, if I remember right, in the first half of this year, you were helped by two price increases, one in the last summer and then a small price increase in the beginning of this year. How should we think about pricing?

Magnus Welander: Yes, a very small one in beginning of this year because this was only in Packs, Bags and Luggage and major one at the mid of last year. So when you do a like-for-like pick up logic, you will not see a significant contribution of price like-for-like on a quarterly basis anymore. But of course, it will be contained on the high levels it was in Q2 because it is the same prices also in Q3 and Q4.

So versus what we had in Q2, you are going to be seeing price is same. But if you look at the like-for-like comparison, those new prices were in place, to a great extent, already in Q3 last year.

Christopher Barker (HENGISTBURY Investment Partners): Magnus, the gross margin conversation is a pretty fascinating one, actually. Clearly, you are doing a great job on the cost side of things. And then obviously all the other drivers within that are favourable. I guess what is interesting to us is that I think you have always said that bike is a higher gross margin than most of the other products that you sell. And then obviously, we know that bike is very depressed at the moment still. It is interesting that you are achieving these gross margins, while your highest margin product categories are very, very depressed. So I was just wondering as we get to a normal mix of the business, probably in 2024, really what level of gross margin we should actually be thinking about?

Magnus Welander: I am not going to commit on that one in detail as I am not going to be around. I do not want to set up Mattias to something and then he has to be held accountable for it. But, what is logical is I have said in the interviews that I feel very comfortable that we should be able to be back above 20% EBIT level in 2024. And as Stefan is saying, a key contributor is that with very solid performance on a gross

margin, you can keep on spending a lot for marketing your product and developing your products and still make more than 20% EBIT.

So the gross margin work we have done by implementing and improving our plants, launching products at great margins, is a key contributor. But to make it happen, it is the top line that needs to materialise, which I feel very good about that we will see that top line growth, otherwise we do not get this production overhead and SG&A coverage that we expect to see. So that will be the key.

Dan Whitfield: Yes. I just wanted to go back to the points you were making on R&D and spend there. Clearly, you have talked about the relative level will come down and we can all appreciate how that works as a higher revenue number comes in. I guess, you never managed the business on a percentage, you also look at absolute dollar terms. And I guess there is a lot of products that have been refreshed and are continuing to be refreshed over the next 12 months, which you have talked about, plus the new launches that are coming in. So as you think of absolute spend on R&D, how much is going between existing products being refreshed and getting new versions coming to market?

And then the new product launches, by the pets and when car seats comes, etc. Is it simply looking at the delta between 2021 and 2022 and 2023 absolute spend? Or how do you break it down between sort of, I do not want to say maintenance, but a refresh versus a new category?

Magnus Welander: At certain times you have more of refreshes hitting the market at the same time. In this case, partly because during the pandemic, certain things were difficult to get done, etc. So we have a slightly higher spend on the refreshes of existing products because they are very significant products we replace. We are replacing five of the biggest volume products in the Thule Group with new generations. So it is very significant due to that in the existing categories.

But clearly the biggest driver for the above and beyond percentage spend on R&D, as we are saying is the new car seat entry especially but also to some extent the new dog products. The logic is that when we will start to have the revenues also in those two that offset their own continuous product development spend, you are going to see a normalisation, so to speak, down from the overspend for the new categories.

So part will happen only by the simple fact that overall we sell more, the percentage will go down to what I believe is a long-term logical, somewhere between five to six is my view. I do not know Mattias view, he will have to comment on that. But that would be my view in this type of market leading company. The reduction would happen because you see the pickup of revenue, as we will keep on spending money developing refreshes then on car seats and on dog products, but the categories will have in their own revenue to offset it in the future years.

Dan Whitfield: Got it. And just to clarify, so I know you always say you let the trade know as soon as you let us know. But those five high volume products that you talk about...

Magnus Welander: So we have introduced two to the market already, the Thule Epos was one of them. And the other one is the third generation of the world's most sold premium bike trailer for children, Thule Chariot, which was introduced at Eurobike. Those are already communicated. The others, Mattias will have the pleasure in letting you know.

Dan Whitfield: Over the next 12 months or so.

Magnus Welander: Yes, actually much earlier than that, because we are presenting two of them to trade in the next few weeks.

Sander Intelmann (Paradigm Capital): I was wondering if you could share a little bit about COGS here. So I guess what has happened in the last few years is you have increased prices to offset inflation. And actually, inflation has now come off and some of the cost pressures have come off quite a bit. So you are enjoying high prices? Or your costs have come down? I am wondering, could you quantify a little bit how

that actually works in terms of numbers? So manufacturing costs on an index basis versus 2019? Where are we? Are we back to like 2019 manufacturing costs but keeping the new selling prices?

Magnus Welander: Yes, I think I understand what you are after Sander, so I will try to answer it. The logic is this. We do not do inflationary price COGS pricing. We do *market-based pricing*. We will put the price where we think is the right price to find that beautiful mix of the right margin and the right volumes.

So to be clear, we are not ever arguing with anybody by saying aluminium went up exactly this much. So we have to increase prices exactly this or that. We say this is the price, if you do not want to buy the product, that is okay. But this is the price of the product. That therefore means we do not do a cost plus pricing ever.

We do, of course, look at what the costs are in our total evaluation. But we never do a cost plus pricing. We do a market-based pricing logic, which has meant over the last few years on some of those categories that you mentioned, we have improved the products we sell a lot and taken steps away from competition that we have decided to do more than the cost would have told us to do.

In other categories, where we ever had a significantly tougher competitive situation, we have not been able to fully always compensate even costs during that journey in some smaller subcategories, because we need to be smart enough to do market-based pricing. So when we now look at where we find ourselves, you can say that we have replaced there are since we have about 50%-plus of our sales of products launched in the last three years and we are in 2023, that means 50% of what are selling it now, we did not have that specific product in 2019.

So there is not a pure like-for-like comparison on more than 50% of our business. So that is why I think it is so important that in a product-driven company with market-based pricing, we should never, as I tell my product managers and the sales management, do not ever use raw material pricing as the only logic. Everybody understands anyway that freight was part of the logic the past 2 years. But that was part of the logic, where freight is often paid outside the actual product cost even by our customers as well.

So here in all of this, it is not a cost plus. Generally, what you can say is the pick up has been because the new products have come in at better gross margins than the products they replaced. While the product we have the same, those other 45%, they are running at similar margin levels as they were running in 2019.

Sander Intelmann: Okay. And would you say that your ability to increase prices because of new products is better now than it was in 2016, 2017, 2018, 2019?

Magnus Welander: Absolutely, because we are better at bringing better products to market. So it is not in pushing price that our skill set that has improved. It is that the brand is so much stronger and the products are so much better than what competition is doing that allows you that opportunity. So that means in more competitive categories, our position has not changed.

I think, for example, if you take the stroller category, there are some fantastic stroller brands. We must be clear that we cannot be arrogant and think we can price up in the strollers. There are others doing fantastic things with strollers, right. But in certain categories, where we know we are doing much better products with better feature sets and have a stronger brand and offer a better service to the retailers, yes, we can, in total, bring through a bigger price increase from a market-based pricing perspective.

Stefan Stjernholm: In the quarter, you had support from the channel mix in terms of profitability. And 9% of sales is now direct-to-consumer. If I remember right, it is 6% in Europe and rest of the world, while it is 16% in Americas.

Magnus Welander: Yes.

Stefan Stjernholm: How far can you go? Can you also explain the change between Europe and the Americas?

Magnus Welander: The easiest one is, why is it different? It is because every branded consumer goods company in the world has it that way differently if they business in both regions. The logic is this; in the US, the world's biggest market, it is the only market in the world where you are allowed to dictate prices to your retailers, via the MSRP policy. So what we sell to consumers is sold at the same price point as we allow REI, Amazon and other sellers. We have price parity.

By logic, therefore, a consumer does not need to and cannot go out and search for a cheaper option. It is the same price. That concept is not allowed by competition authority in all other countries in the world, which means there will always be retailers selling your product at a certain discount versus when you sell it on your own homepage. So logically, the shares should be bigger in the US for a logical price reason.

Secondly, there is the reason that we started later in the Europe and rest of world, so that is going to be slower.

But thirdly, more importantly, in Europe and rest of the world, we have a significant share of sales in RV Products. RV Products, we will never sell directly to consumer because the consumer cannot mount them themselves and cannot receive a six-metre-long awning to their home or post office, right?

So the logic there for you is due to the share of sales by category and RV products not being a D2C², in our world, it will be a lower percentage. If you take away RV products, the percentages will be much closer to each other. But in US, due to what is allowed within the Manufacturer's Suggested Retail Price policy and a factual price parity, should and will always be at higher percentage.

There will also be the fact that we, in the two biggest markets in region Americas, US and Canada, we do direct to consumer. And we have more markets that are relatively reasonable size for us in Europe and the rest of world, where we do not find ourselves capable in a business logic way from a supply chain perspective, to be cost-efficiently doing direct to consumer.

So also that reason means percentages will be also in the future lower in Europe and rest of world.

Stefan Stjernholm: And if you compare to other strong brands, where they are, the best in class.

Magnus Welander: I think the most interesting is that there has been a quite a few big so-called best-in-class players that have recently made very new communication. If you take Bjørn Gulden, the new CEO of Adidas saying they will pull back partly from their aggressive push for direct to consumer because they have gone too far. And even Nike indicating they are going to cool it down a bit. So I think if you look at it, some are cooling down their efforts, maybe realising they spent too much money on performance marketing and specific inventory keeping, rebating on their own homepages, etc.

It is possible that Mattias, who in the past he has been working for H&M and responsible for selling clothing online direct to consumers for many years as well as currently being the CEO of a do-it-yourself direct to consumer chain in Sweden knows a lot about direct to consumer sales, might have a different opinion. But from my perspective, I think a reasonable level is not more than 20% anyway, because this is a physical product that people want to touch and we therefore need physical stores. We have fantastic retailer customers where we have good margins selling via them. And people need to be getting accessibility to these products that we will see in physical stores also in the future. So I believe it is going to be a logical split is somewhere around that number.

Mattias might have more ambitious targets, but that is my view on where it probably would end up.

² Business to Consumer

Quentin de Streel (Candrium): I have a question regarding the transition process with Mattias. Do you have often contacts together to discuss the business, to discuss what you can communicate with the market or other aspects that you discussed?

Magnus Welander: I have spent a lot of time trying to coach Mattias into the company and what we are doing on a more detailed level. He has been sitting on the Board for several years. So of course, on a high level, he has been already well into the company. But we spent very frequent meetings and he has also met with a lot of other players. So he has very well briefed on what is going on in the company, all the reports and everything like that. So his legs are going to be spinning full time when he works starts the ninth.

He is not going to start a cold start. He is well versed.

Quentin de Streel: And in the process to find the new CFO, you were involved in the choice of the CFO?

Magnus Welander: No, which I should not be in because I am not going to be around. So I am happy that Mattias made that choice, that should be his.

Stefan Stjernholm: You will launch one of the new categories during the autumn, it is dog transport. On which market and then what can we expect from the launch?

Magnus Welander: It will be a global launch. It is definitely going to be a bigger product in Europe, because that type of protecting your dog when travelling in the back of the car is a much bigger consumer behaviour in the European markets, and specifically in Central Europe and the Nordics even more so. So that is going to be the biggest markets. So that is where the higher share of volume due to the consumer behaviour of transporting your dogs in a safe way in the back of your car.

So, as you said, launched in stores in late September, and then you are going to see pick up in sales coming. It is a relatively small category. So you should not be expecting huge volumes, but it is happening with zero cannibalisation. Everything is additional sales at good margins. So it is a nice business to add.

Stefan Stjernholm: And when it comes to resellers, how will that look?

Magnus Welander: Actually, very different resellers in different parts of the world, depending on who are the successful players in this category. In some countries, it is going to be very much direct to consumer, because that is how people buy this product. And in others, there are a few established strong players in the retail sector that sell these type of products. So we are going to be very selective in how we roll it out in depending on where we believe the likelihood of success is the biggest.

Dan Whitfield: Great. I just wanted to ask, on this morning call³, you made a comment around France, as there is that one big retailer in France?

Magnus Welander: There is more than one. There is a few big ones in France, to be clear.

Dan Whitfield: I do not want to put words in your mouth. I am sure you will correct me. But in France, there is obviously slightly slower than other markets in terms of getting through that destocking period and normalisation. How much longer would you expect for that to happen in France? Is that something that lasts for another six months into the summer of next year?

Magnus Welander: It is going to be solved now in Q3 that overstocking. It has already started to happen already in the later part of Q2, but a few weeks later than in the rest of the markets. So we are talking weeks or months, not half a year.

Dan Whitfield: Got it. Okay, so pretty much by Q3, Q4, most markets will be in a similar position.

³ Investor and analyst call following the report presentation

Magnus Welander: Yes.

Stefan Stjernholm: Luggage is small but as I understand, it is quite strongly growing market or category for you. Can you express how the growth and also profitability?

Magnus Welander: It should not be a small category in future years. We would be disappointed if it didn't show strong growth numbers, because we are a very small player in a huge category that is finally growing again with people travelling internationally. So we are picking up nicely.

What we have decided to do is not a run after low margin channels or low margin retail so we are very selective with who we sell with, because we have a number of very nice collections now. And we will continue to see very fast growth, but from a small level. And part of that growth will be because we simply have some very nice-looking collections now. Part of it is because there are fewer players around, some of the competitors went under during the pandemic.

So there are some open spaces in nice retailers created by other players disappearing from the market. That gives us the opportunity to get into those rights stores with these nice new collections. So I am very convinced that in luggage we will keep on seeing a nice continuous growth, but rather than throwing money at it to drive that growth faster, both myself and the Board and Mattias agree that there is a smart way of make sure we make good money at a slightly slower growth pace. Still long-term potentially big but today monetarily relatively small is much better than buying share at a cost.

So we are keeping that same approach of profitably growing fast in luggage without boosting it too much with spend.

Stefan Stjernholm: And when it comes to margin, I understand that low margin category, but can you hear achieve a decent.

Magnus Welander: We already have good margin in that category. Because within Packs, Bags and Luggage, which is as a category on average lower than group average, we are also stepping away for some of those old legacy categories, as we mentioned also in this quarterly report, which are the lowest margin. Luggage actually has a pretty nice margin versus the average. It is some of the old legacy camera bags, sleeves and things that we do not make enough money on, that are slowly but surely dwindling away.

Stefan Stjernholm: We have a question from Rosemary Simmonds.

Rosemary Simmonds (Baring): Magnus, just following on from that, so it is interesting to hear comments on competition in luggage. But I guess, just maybe some colour on your perspective on the barriers to entry and other parts of the business. So in refracts and bike carriers. Obviously, you have got a lot of IP and a lot of innovation over the years. But I guess, in other geographies where you are not as strong as you are in North America and Canada and Europe, are you seeing new entrants? And if not, why not and how protected? What do you see the competitive advantage period for this business?

Magnus Welander: I think there is always two logics, the same way we look at any business when we want to enter it. I think any sane CEO in another adjacent company probably looks at our category and what we have achieved. So when you look at it, you are going to do three things. You are going to say, is this something we theoretically could be good at? That is the first question. I think there is quite a few companies that theoretically would think they could be good at doing roof racks and bike carriers and roof boxes.

Then you have the second one, is it possible to make great margin? Are there players making great margin? Obviously, Thule is making great margin. Most of our competitors are not, but at least Thule is. So somebody could say, I could theoretically make a good margin. Then you have the third set. Is it a sizable market that is worth spending the money and how many different products do I need to develop to

be taking a sizable chunk? And this is where people say, no, let us not enter the roof rack category, because it is not a huge market. And I need to have hundreds of versions for hundreds of different cars.

And I need to test them according to lots of different standards all over the world always that is going to be a pain. So one of the most protective measures, although we do have fantastic and strong IP, is that we have a fantastic brand position. One of the reasons on why there has not become big players entering our field and taking significant share is simply for the size of market, it is surprisingly technically complex and costly to get into. So that is what is making people say, it was not as big as I thought, shit there. That is a lot of money to spend for a lot of years, maybe taking some share from Thule while they continue to be strong. That is why we, in those categories, mostly have small local players we fight with.

Rosemary Simmonds: And I guess the only market where that is not quite as relevant is in the kind of [inaudible] and buggies and so on. I mean, any reflections on what that business looks like in five years and ten years? Because there are a lot of players and it has not got as much regulatory protection there.

Magnus Welanders: So in all those categories, where we are a new player, there are other companies stronger than us and much bigger than us. So if you take strollers, Bugaboo is the big one in the European market, UPPAbaby is the big one in North America. They are much bigger than us. And we are also very realistic in terms of now entering car seats. You have Cybex, you have other players, right.

So what is going on there is there is a clear trend that you see in these conscious searched buy seldom purchase consumer goods. There is an aggressive death of the mid-level brands. So it is only the best brands or the really cheap stuff that is surviving. As has been going on for the last few years, it is more happening now than ever. Either you are one of the best or you are very cheap. That means that mediocre brands, I do not want to mention some of those stroller brands, but there are quite a few mediocre one ones are having a difficult time.

And then I think there will be a space where this will be captured by either very cheap stuff or by some of the few strong brands that keep on innovating. We want to be one of the winners, not against the other very strong brands in the first few years, but against some of those mediocres that are slowly dying by. We will pick up some of those volumes and become the player in those new categories. So that is what I think is going on generally in those categories.

Stefan Stjernholm: In Q2, we could see that inventory continuing to come down despite that is a price element of course in that figure and also FX element. What is a fair assumption? What are you targeting in terms of inventory end of the year?

Magnus Welanders: So at the end of Q3 last year, we said we should probably be exiting 2023 around SEK600 million less than we exited 2022. I think that is still a viable number, despite the fact that we are, as you said, in a monetary terms, seeing currency driving up that value. So we will have reduced versus what we entered the year with around SEK600 million, give or take.

Rosemary Simmonds: Clearly, you have got a very impressive product launch coming in this half and then also next year. I mean, I have lost count on the number of products you are launching. I mean, the approach that you got, the Caprock, the Epos, the Chariot, and many, many more. So I think you mentioned on the call this morning there was a sort of magic percentage of the number of new products that you have launching, that have been one to two years old. Could you just remind me why that is?

And then secondly, the inventories that are lying around at the moment, either with you or in the channel, I mean, presumably they are going to be the older models, right? I am just kind of wondering if there is any risk that there is sort of people with discount the older models first before they sort of get rid of old stuff selling the new stuff?

Magnus Welander: So if we take the two things, first, we can say, I am not worried at all that we will need to do discounting hurting our margins, because we have been reducing our stock levels very significantly of those models that are being replaced as part of what we have been doing and why we actually have produced so little of those products in this year, because we need you to sell down the inventory we had.

And I am sure there will be some retailers as always at the long end of the tail doing some discounting that is happening already today with some of our products. But generally, no, there would not be a lot of discounting going on of any significance of those high-volume products that we are replacing. So I feel very comfortable with that.

There will always be some short periods with some retailer realising they are sitting on 50 or 100 too many in their network of shops. They might do something. That is up to them then.

If you look at in terms of we are running at a slightly above 50%, as I said on this call, all products that are launched in the last three years. I think that is the right level to the forefront brand that wants to sell high premium products. I think that is the right type of level.

If you look at what that then means in significant launches, there is times when sometimes for various reasons, as I said, that you are launching more really high-volume replacing products. This is a period when we are coming with some several high-volume replacers in a very short timeframe. And that partly is due to what went on in the pandemic and some partly some other cool new innovative things we came to think about. So for a period of time that might even peak up the bid for us now. But then it is going to be normalising around those level.

That level then will cost I believe something around 5-5.5% of sales to keep that freshness in the portfolios we have and being able to add into new segments as we go.

Stefan Stjernholm: Perfect. That that makes sense. And clearly, with that 50% of your products in the last three years, that is going to be a massive benefit to the margin in 2024 and beyond, right?

Magnus Welander: Yes, absolutely. I think the key part of always, as I was joking with Mattias about, is to present the quarterly report the same way when you are leaving as you would to be coming in because otherwise you are going to regret it someday that somebody said he tried to dress it up in his last report, which I definitely have not.

Because the logic is this. If you look at it what we are doing is to follow a long-term plan to drive the growth in terms of top line, but also in terms of margin by always coming with products that are tweaking the margin a little bit in the bigger reaction. If you tried to do that too fast, too much, then market is not stupid. They will notice.

If you do it the right way, they will say, more expensive, but yeah, it has all these improved features and benefits. Now it has independent loading and unloading and there is new a torque indicator on it. If it is truly worth more, then you can squeeze in that little margin pick up and get both the volume and the margin. That is a fingerspitzengefühl play, that is slightly more difficult than selling on cost plus pricing. And that is what you always have to train. That is why it is not a cost plus, as I said. It is market-based pricing.

And I can be honest, we do not always get it right. We get it wrong sometimes. And then you need to do tactical adjustments on how you do it. And sometimes you need to even kill a product a little bit earlier than you thought, because it landed wrong. So that is the work that will drive that margin going forward.

Rosemary Simmonds: This kind of follows on quite nicely from the previous points. But [inaudible] categories that was just lifted their margin. And I guess the sort of decision you sort of made in your final quarter now with the sort of lower margin luggage business and aggregating that it is just a continuation of what you have proven very good at doing over your time at Thule. Would you say going forward now for

[inaudible], there is relatively little pruning to do as where are you do kind of feel that the product portfolio as it stands now was ready for the next few years?

Magnus Welander: There is still some parts of there some legacy left in Packs, Bags and Luggage that will decline to zero, I think, first of all. And then secondly, if you look at that, and there is this risk, you always have the less refreshed room in your house. And if you always want to seal off that room, soon in the end, you do not have any house left. I think we have found a very good balance that all those categories that we now have make a lot of sense.

Some of them will still be the lowest margin ones over the group. But comparatively, they will be acceptably low now, right. And it is only last legacy of Packs, Bags and Luggage we need to get out of that we are doing by not spending money on it and letting it slowly die by itself as a last man standing, which is a better way to milk it than to kill it. But otherwise, I feel very good that we have categories that make sense from a gross margin, even if there is a span between the best and the worst.

Rosemary Simmonds: Yes, I understand. And I guess you have been very nice to Mattias because you have left him with a business with a bunch of very well performing fast growth recently launched products, factories fully invested, run efficiently all the rest of it. It is quite easy for him to pick off where you left off. What would you say are the key challenges, if any, that would be facing a CEO for Thule in the next couple of years?

Magnus Welander: So first of all, I have not “left it nice for Mattias”. I will always run any company, as it would be run by me also in the coming years with a fantastic team of colleagues. The fact that the Board decided that I was to be replaced, and Mattias then happens to get the benefit from that. But the company is extremely well set up, as it should be after having a fantastic team to work with for a lot of years with a very clear strategy.

When you now see that strategy, how it is being deployed, my recommendation to Mattias, which he then chooses to do what they will be wants to do with, is to make sure he lands in the company before making rapid changes, because it is very left different to run a price oriented do-it-yourself chain in Sweden and a global premium brand business. When he then gets into the business, then I truly hope and believe that he, after a while, will come back and say I have some new ideas; we should do this, we should do that. But not to rush into it because that is the easy thing to do. Think that you have 100-day plan and show how decisive you are as the new CEO.

I think he is wise enough, having been on the Board for 5 years, to truly get into the business to not do that. And then I hope and believe that he will have some smart ideas that I did not have because that is what a new person in charge should have. And working with the team, I am sure they are going to come up with some cool things in the future years.

But the most important thing is always do not throw out the baby with the bathwater, do not destroy what is good by being too innovative too quick. So get into it. Once you are into it, have your tweaking ideas do the improvements. I had the advantage of running the biggest division in the company for a few years before I became the CEO. So that gave me some runway, and I did not change everything in day one. It took some time and I think surely what the new management will do this time as well.

Stefan Stjernholm: Do we have any final question? If not, I must say it has been exciting to follow Thule and also you, Magnus, since the IPO nine years back. You have truly built a very strong global brand. And I wish you all the luck in the future.

Magnus Welander: Thank you, everybody. It has been a heck of a ride and a true pleasure. I am sure Thule will do extremely well also going forward because there is loads of great colleagues here. And I will be a big cheerleader on the sidelines in the future for Thule’s continued growth. Thanks, guys.
[END OF TRANSCRIPT]