



**Trading update on the impact of the
current market situation within the
bike retail sector**

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Q3 Bike Retail Trading Update

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Welcome

Good morning ladies and gentlemen. As was announced, it is a trading update, and what we are talking about here in this trading update is what has been happening in the bike retail sector as the third quarter has initiated. As you all will remember when we did our 2022 Q2 report in July we announced the fact that we saw some trends in the bike retailers with too much inventory of some of the low entry level and mid-level products in general, both specifically on the bikes themselves but also on various forms of bike gear. We said that could potentially impact the situation for the Thule products sales. This situation has clearly amplified as the quarter has started and we have seen markedly reduced sales versus the exceptionally strong record year in 2021 which is why we are doing this trading update now.

Positive Long-Term Trend

Logically what is key for us is of course then to look at the situation as to what it means short-term and what we believe could be the potential impact in the mid and longer-term. First of all what is key to repeat is that we do believe very much that the long ongoing positive trends for bikes as a means of transport for commuting and as a means for having fun in recreation is definitely a positive long-term trend. There are more investments being done in infrastructure for bike commuting than ever. There are more investments being done in mountain bike parks, mountain bike trails and other activities than ever. There is a strong interest in activities and events, and general consumer participation is high in these categories. However, what we are seeing is a combination of two very obvious bullwhip effects hitting at different times and therefore creating an extreme comparative period.

Exceptionally High Bike-Related Sales in 2021

Three extreme quarters into 2022

As you will most likely remember we communicated throughout 2021 that we saw a very positive boosted effect of the pandemic on our sales with biking being a key part of what the Thule Group does. The bike sector's fast growth and the bike demand were key contributors to our fantastic record year in 2021. In fact, in 2021 we ended the year with half of our sales being bike-related products. We sell bike-related products in all our four product categories that we present. In reality it of course helped all four. However, if you look at the share of sales, it is clearly the case that the two big categories of Sport & Cargo Carriers and Juvenile & Pet, previously Active With Kids, which are by far our best and highest gross margin categories have the highest share of bike-related products. In fact in Juvenile & Pet roughly a bit more than two-thirds of our sales are bike-related as we are the global market leader in bike trailers and one of the biggest players in child bike seats. In Sport & Cargo Carriers bike-related products, bike carriers for cars, stand for more than half of our sales in 2021.

As an undisputed market leader in these categories with a very high share and with a very extreme growth in 2021, we noted already in our quarterly reports in 2021 that the second half of 2021 was helped significantly by the fact that retail were restocking after long lead times had caused a lack of availability and the huge demand driving retailers to bring in more products. We then also communicated throughout the second half of 2021 that we having our plans close to the market and a strong financial situation were more capable than our competition in capturing that market demand upside by quicker ramping up. A show of strength in our flexibility in our operational model and our capability of ramping up faster and ramping down fast. Therefore, we had an extremely positive second half of the year.

We also started, as we noted after the first quarter report, on a very strong note in the bike retail sector sales in 2022 first quarter. Overall, we had three extreme quarters. If you looked at quarter three historically, bike-related products which normally then are coming to their low season because bike-related products are mostly a spring and early summer sales product, bike-related products were in pre-pandemic times roughly a third of our sales. In 2021, it rose to half of our sales so a huge growth finally catching up with some of the pent-up demand and with retailers being very optimistic of future consumer demand. What was clear was that consumers were buying more product but not as much more as was happening for our sales. Partly because we were winning market share and partly because retailers were stocking back up again.

2022 Q3 Expectations

Three quarters of impact

What we now expect in 2022 quarter three is that bike-related products will only make up a quarter of our sales. We are seeing a significant market drop in purchases of our bike-related products. The reason is that now the bullwhip is hitting the other way. If you look at Google search trends or consumer visits to stores, there is a lower level than in the peak Q3 2021 but not that markedly as the purchases from the bike retail sector is going down. The reason is clearly the fact that after having then not being able to fully meet the demand during 2021, bike retailers were very optimistic about the 2022 season. With the bike retail sector as a whole having also seen extensive prolongation of lead times of their core products, the bikes themselves, they were now needing to speculate.

Lead Times

Historically bikes had lead times of anything up to 6-9 months but if you looked at it for a period many bikes had, all of a sudden, lead times of more than a year out with the pure shipment time extending to more than 3-4 months and then with demand issues in the supply chain from the manufacturers of the bikes leading to extremely long lead times. That means that what the bike retail sector has been receiving over the last 4-5 months have been products that they bought or ordered in the peak of the pandemic-boosted Cycling category. That means they have now over a few months when consumer demand returned to a more normal level than in the extreme record year of 2021, they have been receiving very significant amounts of stock.

Consumer Sentiment

One of the problems with that inventory they have been receiving is a little bit during the pandemic they could sell any bike they had in store because retailers were telling the consumers that came into store that they could only offer these bikes but nobody else can offer any other bike either; if you want a bike, grab this one. Consumers were okay with doing that in 2021, desiring to go out and do biking, and feeling that if they did not buy the bikes that were in the shops, they would not get a bike. Now that feeling from consumers is different. As you are all aware, consumers are more cautious with their spending and now a consumer entering into a bike shop wants the right product, the one they really want with the right setup, the right gears, the right look and the right whole package. They will therefore say no if somebody offers a mediocre B or C product.

B and C Brand Inventory

What happened was that when then the bike brands and the bike gear brands started to catch up with capacity the retailers who were quite gung-ho ordered many brands or products. We found ourselves during the first half of 2022 seeing a significant increase in what we would consider B and C brand level of competitive products in store. The problem that we now face is that with retailers having far too much of B and C level things in store and being challenged with a cash flow situation having received those products and with a more selective and cautious consumer entering the store, bike retailers are now trying to focus

on selling out the B and C products rather than trying to serve consumers with the best products. Therefore, we have an issue where we see, as I said, market reductions in orders of our products.

Negative Impact to Thule

We believe that this will continue to impact throughout the rest of the year and into the first quarter in 2023. It will only really be possible to get a better inventory level out in the bike retail sector when the season of 2023 starts in the spring of 2023. Therefore, it will impact our sales. I know I will be getting a lot of follow-up questions on exactly how much. This is too early to tell but as I said, in 2021 50% of our sales in quarter three were bike related. We believe it will be only a quarter in 2022 quarter three. If you look at quarter four in historical terms, which is the lowest season for bike products, normally a fifth of our total sales is bike-related, but in 2021 it was a third. You realise that we are facing some extreme comps and those comps we will not be able to measure up to.

The impact means that we will see both a drop in sales and also a drop in profitability levels because as we have previously communicated, the two categories of Sport & Cargo Carriers and Juvenile & Pet are our highest average gross margin categories. Within those categories, the bike-related products are the highest margin performers. We will see an impact in two ways.

Long-Term Plans Remain Unchanged

What we have decided to do, and I think this is the most important message to you as analysts and investors, is we are not changing our long-term plans. As you are aware, after our Capital Markets Day earlier this year in May, we have very ambitious plans to enter into new product categories and to drive growth as we have done with great new product innovations. We will not hold back on those. That also means we have the highest spend we have ever had on product development here in 2022 Q3 and we will continue to have that in 2024 and beyond. It also means that we have hired and will continue to staff up in our sales channel and in our marketing channel for those new categories that we are about to enter because we are convinced that the bike sector will regain its momentum with a strong underlying long-term trend. We are convinced that the growth that we will be able to achieve in these new categories are key for meeting the long-term financial targets. We are therefore very calm in our long-term financial goals and we are not changing our long-term strategy in any way.

Successful Launch of Children's Car Seats

I am also happy to announce that we were participating at the world's biggest children's products fair, Kind + Jugend in Cologne in Germany this week and weekend, where we introduced to retailers for real our new entry into car seats with very positive reception from the market. That means we are continuing to build out our plans to handle these new products. We are investing in our sales and marketing efforts and we will continue to be pushing on our product development.

Flexible Work Force Model

As always, the Thule Group has proven to be very flexible which means that we will of course not do things from a capacity need if we do not need to. We have utilised the flexibility we have in our supply chain model with a partial fixed work force for Thule, a temporary work force of Thule staff and a temporary work force of outside agency. By reducing the outside agency to zero actually at the moment to handle what is less demand at the short-term. Overall, there will be impacts on our finances. It is too early to tell exactly how much. Our long-term strategy sits firm because we are convinced that what we are seeing now is a combination of two bullwhip effects in bike retail. With that, I open up the floor for questions.

Q&A

Mats Liss (Kepler Cheuvreux): Hi, thank you for taking my question. The inventory levels in the third quarter seem to have continued up. Then again you mentioned you have a flexible production and then again you mentioned that last year you had 50% bike-related products and this year 25%. Should we expect a substantial increase in the inventories for this type of gear and will it have any impact on your cash flow and gearing going forward and potential to distribute dividends as previously?

Magnus Welander: On your first question on inventory build-up; as you will remember Mats, we said during late last year and the beginning of this year that we had a plan to reduce our inventories during the summer. We will not see it increase but the reduction that we had planned is not taking place. You will not see an increase of inventory because we have already acted and were planning as we had communicated to actually reduce it quite significantly. However, the reduction will not be taking place.

Mats Liss: Great. I do not have to worry about that. The flexibility now, you mentioned sales on bike-related products is about a quarter this year. That's a substantial safe decline, I guess. Could you say something about the fixed cost absorption in this quarter compared to last year? I am very concerned about the margin. Last year we had a 24% margin. I guess you have the 20% target. Should we expect you to end up below 20%? It seems to be a reasonable guess.

Magnus Welander: That is definitely a reasonable guess, you are absolutely right Mats. As we have communicated throughout the last few years one of the key drivers for our successful margin improvement has been an economy of scale, both on our production overheads of course but also an economy of scale of a very scalable back end of the business. If we then see significant revenue drops of our highest margin product, you will clearly see an impact both on our production overhead coverage and our SG&A coverage, especially as our belief is as a long-term company which has been around for more 80 years, we do not run this company on a quarterly basis. We are convinced that the bike sector will regain momentum. We will not be making stupid reductions or incorrect things that would hurt us in the long run. We are diligent of course with spend, so we are not going to do things that we do not need to but generally we are not pulling back on all those efforts that we are doing to be a successful company for the future. That means that a top-line drop of the highest margin products will have a clear effect and we will go clearly below what we were in the past quarters in the comp period.

Mats Liss: Okay, great. Finally, about competition, do you expect them to have a similar situation as yourselves and having too high inventory levels?

Magnus Welander: I think they have a worse situation, to be honest. We have seen the first bankruptcies came just some weeks ago in one US competitor where clearly they have less flexibility and clearly lower margins normally. They are now facing this situation with very long lead times to their suppliers that are making finished products in China. They are still seeing it arriving on their doorsteps while retailers are pulling the handbrake completely. If anything, our competition is more exposed to these very rapid effects. It is never fun but at least we are doing less badly than others are affected by this.

Mats Liss: Finally, I guess your financial position is strong going into this and you see opportunities to grow through acquisition now, and competitors maybe are in a worse shape. You see opportunities there.

Magnus Welander: I would be honest to say within those categories where we are the undisputed global market leader, bike carriers and bike trailers, we have so much better products and such strong positions that it does not make sense to actually acquire anybody. No, it will not open up in those sectors any specific acquisition thinking.

Mats Liss: Okay, great. Thanks a lot.

Magnus Welander: Thank you.

Karri Rinta (HSB): Thanks very much. I missed the first part of the questions so apologies if I ask something that you already have commented on. These references to bike retailers and their high inventories of low-to-mid priced products, what is your sense of their inventory of your products? What is the level compared to normal levels?

Magnus Welander: If you look at the more premium products in the Thule range, the more expensive Thule Chariot bike trailers, the more expensive Thule EasyFold, the bike carriers, etc., they have normal levels. However, also of our product at the lower price points, which is the mid-price point market-wise but our lowest ones, they have more of those than we would like and they would like.

Karri Rinta: Good, that is helpful. Then the comments that you made about bike-related and how much of your sales in Q3 compared to last year, that suggests that your sales in that category were down more than 50% year-on-year and probably more so in volume. What is your sense of their sell-out and what kind of run rate are you seeing in your own direct-to-consumer channel? I am trying to get a sense of what the consumer purchasing levels are.

Magnus Welander: If you take our direct-to-consumer, we of course need to compare with only the markets where we have been doing it for a few years because it is easy to forget that 2021 was exceptional in many ways with a lack of demand and therefore selling more in Q3 catching up. We always admit that you do not go to a bike retailer or you do not commit to a bike trailer because you like bike trailers. You commit to it because you love biking and you bought a bike or you bought bikes for the family and you intend to do something. When those bikes became available later in the year in Q3, that also helped our sales in the direct-to-consumer. The best comparison is therefore the markets where we were doing direct-to-consumer already before the pandemic such as the US. If you look at that, we are actually performing at a strong level. I think that is partly due to the fact that we mostly sell premium products on Thule.com and we do not sell the lower end so much because you can find that in other more basic stores. I would say if you looked at it, bike is better in sell-out than in 2019. It is not as good as in 2021.

Karri Rinta: Okay. Then there are two parts to this story. One is this high inventory but then of course there is this other part that you also referred to the consumer confidence and the upcoming recession. First, can you remind us how your different categories performed in 2008 and 2009? Of course, it is never exactly the same as it was in previous cycles, so besides the inventories and besides the pandemic, how should we think about the pure impact from weaker economy this time round?

Magnus Welander: Absolutely. We did not do anything in Active With Kids, so that I cannot compare for you because we did not do any product back then. However, if you take Sport & Cargo Carriers which is still two-thirds of our business today, it was a business I was already running back then and we grew those years. We had growth in Sport & Cargo Carriers, we had growth in bike carriers and we had growth in roof racks throughout that period. If we look at the only product category that we did not grow in that period that we still have as part of our portfolio, it was the RV Products. At the moment it is still growing very nicely and here it is because the bullwhip did not happen. As you are keenly aware Karri, I know you look at also the RV manufacturers that are stock listed, they have struggled to ramp up to meet demand and they are still struggling. There is still this pent-up demand for motorhomes which has meant that we can see that it has been more comparable. Even if there was a huge demand in 2021, they could not get the vehicles out, so you did not see these extremes in comp periods. It is flatter. The only category that did see due to the financial situation of consumers a decline in the downturn in 2008 and 2009 was RV Products, and we always say that is because it is related to a very large purchase of vehicle. Since the consumer will not be installing the products themselves, it gets more associated with the acquisition of a large vehicle. Here if we look at a tougher economy, and, you took the word Karri, recession, I did not, if we were to speculate on

your word Karri that there is going to be a financially tougher time, it is clear that the category that we would be more concerned about in that situation is the RV Products due to the connection with a large financial commitment.

At the moment if you look at forecasts from the industry, they are still quite bullish. I was crying wolf long before the pandemic and was wrong all the time, that I felt that there might be a slowdown. We will have to see. We believe that there are some challenges because if you do not get the vehicle now when you ordered it and in the meantime your total financial situation changes, you might be considering whether you should still be in this queue for getting a vehicle. That is the big question I think and for us as well.

Karri Rinta: Alright, thank you. That is very helpful. Those were all my questions.

Magnus Welander: Thank you.

Andreas Lundberg (SEB): Good morning. You touched on RV Products, but what about the other products you have in your portfolio? Can you give any comments on those ones?

Magnus Welander: Yes, if we take Sport & Cargo Carriers first, which is our biggest category, in non-bike related we are seeing growth in the quarter. We are performing well here. The big difference as to why that is still happening is of course we did not see the same pandemic boosted growth in 2021. It was growing nicely but not nearly to the level of bikes so we have a fairer comp and it is a continuous strong performance that we have had for a number of years in the rest of those Sport & Cargo Carriers at a normal growth rate. We then have our best-performing category at the moment, as you would assume, is Packs, Bags & Luggage because here it is the opposite effect. In 2021, people were still not going back to universities, travelling or doing as much as they are doing it at the moment so that is the category where we have very strong growth rate versus what was then a relatively weak comp in 2021. Within Strollers, we are growing because we are slowly but surely becoming a bigger player. There it is not so much about comps or trends because honestly people were buying strollers at the same pace throughout the pandemic that they were before. There our growth is related to the fact that we are just simply becoming a broader and better-known player. Then in RV Products, as I mentioned, we do have bike-related products in RV and we can see that even there, there is a slowdown for the bike-related products because they are sitting on too many being a little bit too optimistic on that as well. However, the rest of our RV Products business continues to do well in the quarter.

Andreas Lundberg: Thank you. Lastly on bike-related products, are you concerned that there has been too much pre-buying so that when you enter the spring of 2023, are you comfortable that you can continue to grow at that time? How would you view that?

Magnus Welander: I think it is always a definition as to what pre-buying is. We had this discussion also with the Board. If a retailer says, 'I want this product now. If you do not supply it, I will buy it from a D brand or a C brand that you are competing with,' we will always prefer to sell it. We said that when we did the 2022 Q1 that we felt that bike retail unnecessarily so with our very good availability of next day deliveries and having ramped up our capabilities were ordering more than they needed to. That was a communication combined with a very strong Q1 result which was significantly above what we have ever had before. 2021 was from that perspective a pre-buy; not something that we needed actually but it is better they buy from us than from somebody else. We were therefore, as we communicated at the time, expecting to see a slower Q2 and especially a slower Q3 as the season is normally mostly Q2. That was not a surprise. What is more amplified is how hard they are pulling on the handbrake now. That is clearly above and beyond what we expected.

Andreas Lundberg: Okay. Cool. Thank you so much.

Magnus Welander: Thank you.

Mats Liss (Kepler Cheuvreux): A lot of the raw material or the costs you spend to produce your products have come down quite a bit, such as aluminium. Do you expect to see some impact of that in the second half or maybe next year?

Magnus Welander: Yes, considering if you sell too little, which we honestly have to say we do within the bike retailer, you are not going to see those positive effects because it means that we are sitting, as you realise where we talk about how much staff less we are and the fact that we are not growing our inventory levels that it means that in practice we are not going to see that positive effect. What it means however is that we will not need to increase prices in 2023 in the way we have had to do to compensate. Our market-based pricing approach will allow us to be smart about what the price situation will be with a lower material cost. However, it will only start to pan out and roll out in 2023 and then you need to be careful. I did not expect a Russian invasion of Ukraine this year, so I have to say I could not promise that material prices will continue to be good in 2023 and beyond. All indications at the moment, as you correctly point out, Mats, is that it will enable us not to need to raise prices in 2023.

Mats Liss: Great. About pricing, you have announced quite substantial price increases this year. I thought it was some 7-8% this year. You also indicated that there would be price increases at the mid-year. Have you experienced pre-buying impact also with retailers trying to stock up before the price increase? Is that affecting your situation as well?

Magnus Welander: No, I would say that it is actually not due to our price increases because they have been rather market-based and not surprised anybody. They have been very logical. What you can say is more that the reason that bike retailers now are seeing this extreme bullwhip effect is that they had these very much extended lead times. All of a sudden lead times were twice as long as before. It was very difficult to forecast. I have never been so much wrong as I have been in the last 2.5-3 years in forecasting. I think bike retailers have been even more wrong and have overreacted maybe a bit more. They are also buying from many brands and in some categories where they therefore were optimistic, they were needing to speculate maybe a year, a year-and-a-half out on some products. They were doing that speculation when it was the hottest ever situation and they therefore went a bit too aggressive. What then tends to happen with a bullwhip effect is you get an opposite effect. Now they are far too pessimistic. That is life when you supply to retail. They tend to do that, I have to say, retailers. The reality was not that it was triggered by our or anybody else's price increases. It was triggered by their belief in the market.

Mats Liss: Yes, okay, thank you very much.

Magnus Welander: Thank you. As there does not seem to be any further questions, I would therefore propose that we conclude. I want to remind you that we will have our normal quarterly report coming out and that will be coming out on 26th October. We are available of course for any follow-up questions, etc. I also want to reiterate that our long-term belief on our strategy and our long-term financial goals holds very true. We had not changed our mind versus what we stated on reaching SEK 20 billion by 2030 and a long-term ambition of a 20% EBIT margin has not changed. We will see significant impact for the next three quarters to both sales and profitability. We are a very strong, flexible company that will manage that well and we will continue to invest heavily to the entry into new product categories and launches on new product in the existing product categories. With that, I thank you and wish you a great Monday.

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