

Thule Group Interim Report Q2 April – June 2024

Wednesday, 17th July 2024

Highlights

Mattias Ankarberg

CEO, Thule Group

2024/Q2 – Modest growth, strong profitability and new product categories

Thank you very much, and welcome everybody to this Q2 call. I am, as previously joined by, our CFO, Toby Lawton. We will get going straight away.

Overall, second quarter was a quarter with a good financial result despite us making big investments for future growth. We saw some sales growth in the quarter, strong profitability, and importantly, have now launched lot of products, but also two new product categories this first half year. So covering some of the highlights and speaking to the presentation material available.

Financials

Financials first. Sales is up 2%, FX-adjusted versus previous year, and fairly the same across the geographies. We will talk about the product categories in more detail in a minute.

We continue to see a tough market out there in general, and in particular, in some specific areas. We also continue to see good growth from new Thule products and from bike-related products.

We have a gross margin, which increased to an all-time high in the quarter, 44.2%, which we are, of course, pleased to see. And that helps us to deliver an EBIT margin, which is in line with last year, despite us making investments, and therefore, higher costs in SG&A to drive product launches and new product categories.

Strong cash flow, again, also in Q2 and helped by EBIT, of course, but also continued inventory reduction and on track to meet our target of reducing inventory by SEK200 million by year-end.

Highlights

Quite a few highlights in this quarter. Car seats has been initiative long in the making, now launched in the first European markets. We have got another recognition for our design team, which we are really proud about. We have a minor acquisition that happened actually in early July, so after Q2. We have also put a new refinancing package in place during Q2, and we will come back to all of these points.

2024/Q2 LTM – Continued profitable growth

But before we do that, on the next page, we will take a bit of a bigger picture view. Of course, this is a quarterly update. But as you know, we at Thule take a long-term view of driving the business and it is therefore nice to reflect on the long term development at least once in a while.

Long term, we have driven profitable growth for many years, and it is nice to see now that after sort of the COVID ups and downs that this year we are back to profitable organic growth again.

On the last 12-month basis, we have a net sales of SEK9.4 billion and EBIT of SEK1.6 billion and an EBIT margin of 16.6%.

2024/Q2 – Bike related and new Thule products drive growth (1/2)

With that long-term perspective commented on, we can turn to keeping the finger on the pulse on the quarterly performance. On page four, as you know, we are a very product-driven company, so I will speak to the development per product category. We have four main product categories, starting with Sports & Cargo Carriers.

In the quarter, it increased very modestly with 1% sales. We do see continued growth from bike-related products, premium bike-related products, specifically. And since almost a year now, bike retail inventory of Thule products have been at a healthy level in Europe and getting there in North America.

In the quarter, we do meet some strong numbers from some good product launches, particularly Thule Epos that was launched in Q2 last year. But overall, there is still a good growth in bike-related products for us in Q2.

We have also launched a new generation or an updated version of the world's most sold rooftop box, Thule Motion, Thule Motion 3, which has been really well received by the market, so very pleased about that. We do see a continued tough market overall in this segment, and with the cautious consumers and retailers and particularly in North America, where we, outside bike-related products, see a decline in the business in the quarter.

Packs, Bags & Luggage stood out in the quarter as the fastest growing product area with 5%-plus FX adjusted for us. And even faster is the Thule branded products, which grow strongly again in Q2, actually even more than in Q1 due to the fact that we now have more product launches in the market this year.

So we have updated the best-selling luggage collection we have, Thule Subterra. We have updated the duffle bag collection, Thule Chasm, really drives good growth for us. In general, we see growth in bike-related and also travel-related bags products. But this is also, as previously, partly offset by us continuing to exit some legacy product categories, non-Thule branded products in this area.

2024/Q2 – Bike related and new Thule products drive growth (2/2)

On the next page, two more product categories. We see good growth also in Juvenile & Pet. Again, it is the new Thule products that drive the growth. We have had a very successful introduction of our upgraded best-selling stroller, our all-terrain stroller, Thule Urban Glide 3, which has continued to deliver strong growth for us throughout the quarter, I should say, very positive.

We have, as you probably know, the first full quarter with a dog transportation product, the dog crate Thule Allax, which, of course, helps, and which I think is a sign of the market characteristics at the moment. We have seen a bit slower sales of multisport and bike trailers as retailers have been cautious with managing inventory ahead of the launch of the next-generation product, which was introduced to the market just at the very end of June. So that I think is an interesting sign of how retailers are cautious, unless there is news in the market.

Car seats also, of course, helps. Although volumes are very small in the first quarter. First products were introduced in the first quarter, end of May, and I will come back to that.

RV products has been in decline for several quarters, and the RV industry continues to go through a challenging period. Net sales increased less in Q2, only 1% negative, which, of

course, is nice to see. It is really a mixed picture in the quarter where we do see a decline now in sales to OE customers or manufacturers, vehicle outfitters, but nice to see this partly being offset by a return to growth in the sales to the aftermarket channel or the dealers in the quarter.

Car seats launched in first European markets

Then I would like to cover some of the highlights a bit more specifically, and we can start with car seats on page six. Car seats is a much awaited launch with several years in the making, and now we are live. We launched in three countries, German-speaking countries, in Europe, Germany, Austria and Switzerland at the end of May with three products: a base, an infant seat and a toddler seat.

We are really proud of the products, innovative products, safety in focus, easy-to-use, Thule design language and really putting safety in left, front and centre, so to speak, with our approach also being making sure that it should be easy for the consumer or the user to make sure the product is installed correctly and safe to use.

We have got good reception from the industry and from our premium retail partners. We have got good placement with key retailers, premium retailers in these countries. We have had a positive reception from media. We have got no less than six product design awards from iF DESIGN and Red Dot even before launching the products in the market. So it is a nice start for us.

Now the long-term work to build market positions in this category has started. We will continue to roll out these products to more European markets throughout the half year two of this year, two countries in Q3, but most countries commence sales in Q4. Then we, of course, have more products in the making, both for the European markets and also for North America.

Thule named Red Dot Design Team of the Year 2024

I also wanted to highlight another recognition for our design team. We were named the Red Dot Design Team of the Year in 2024. You may remember that at the previous quarterly update, in Q1, we were proud to see more product design awards than ever before, 23 design awards from a combination of iF DESIGN and Red Dot with both being awarded for upgraded versions of our bestsellers, some new innovations and products in our new categories.

Now, we also, during Q2, got the award Red Dot Design Team of the Year, or best of the best as it is sometimes called. It is really nice to see, really proud of the team. We cannot apply for this award. It is really something which is awarded through an independent jury. Nice to see the Thule design team being mentioned in the same category as Sony or Apple or Philips as some of the earlier winners. So proud of the team.

Minor acquisition of Reacha to enter water sport and cargo bike trailers

One more highlight from me before handing over to Toby for some financials. We have done a small or a minor acquisition in the beginning of July, thereby entering the category for water sport and cargo bike trailers, a German company called Reacha. It is a small business, but it is an interesting niche category of water sport and cargo bike trailers, which is emerging and fast-growing in Europe and basically any sort of infancy in North America.

We are a very product-oriented company and want to have the best products in the categories where we operate. And we often find that in these new categories, the best products are often done by real enthusiasts. And in this case, it is the inventor with a passion to surf and needed to find a solution to transport his surf boards to the French Atlantic Coast when he was surfing, and invented this product and has developed it over time. And it is really a high-quality bike trailers for this kind of products and holds a strong market position in this little niche in Europe.

So we will integrate this business fully into Thule operations. It will be a Thule product. It will be Thule branded, and it will be distributed and manufactured throughout Thule channels. And it is small, but quickly provides a starting point for us to continue to grow in this niche. Good fit with our existing portfolio.

With that, I will hand over to Toby to cover some financials in more detail.

Financials

Toby Lawton
CFO, Thule Group

2024/Q2 – Income statement

Thank you, Mattias, and good morning, everybody. We can turn to slide nine on the income statement. And here, you see the income statement is by quarter for both 2023 and also the first half of 2024. Focus here on the quarterly development, which is the recent news.

We had sales in the second quarter of SEK3.1 billion, which was a growth, as Mattias has said, of 2% versus last year. You can see then the gross margin here was strong and it is an all-time high at 44.4% in the second quarter. That is close to 1% up versus Q2 last year. The driving factors here are favourable product mix and lower material costs, driving the improvement in gross margin.

When it comes to the EBIT margin, it is more or less flat. It is 23.6% for quarter two this year, and it was 23.5% in quarter two last year. This is, of course, helped by the higher gross margin, but the selling and administration expenses include investments to support the new product launches which means we end up with a flat EBIT margin for the quarter.

Absolute profit then is SEK732 million of operating income versus SEK711 million last year. So profit EBIT is up as well.

When it comes to the net interest expense and effective tax rate, I would say they are both stable. You can bear in mind that last year, there was a one-off positive in the net interest expense related to foreign exchange. But otherwise, it is very stable in terms of net interest expense and effective tax rate, which is slightly better this year than last year, all in all, resulting in net income for the quarter of SEK559 million or net income for the first half year of SEK858 million.

With that, I can click on to the next slide, slide 10.

2024/Q2 – Sales by quarter

Here, you see a bar chart showing the sales by quarter. First of all, I think you can see from this chart that we are, of course, a seasonal business, and the second quarter is the largest quarter, so you should bear that in mind that our business is strongest in the second quarter.

I think you can then see also from this graph, which shows the development since 2019 and it is important to bear in mind that 2019 was the last year before the pandemic, and we had some large swings during the pandemic and just after the pandemic. So we keep track of that on this slide.

But when it comes to sales growth for the second quarter, as we have mentioned, sales growth was 2% versus 2023, and we had 8% sales growth in the first quarter. But when you look versus the pre-pandemic before these swings, Q2 was actually slightly better versus 2019 than Q1, and is also more in line with the peak pre-pandemic years. So I think it is important to just bear that in mind when looking at the sales development.

If we look specifically at the second quarter, what was driving the growth in the second quarter is bike-related and new products driving the growth. And then on the other hand, it is RV, where we have a decline but it is less of a decline than we had in the first quarter.

All right. With that, I can click on to slide 11, and finally, one slide on the cash flow.

2024/Q2 – Cash flow

We continue to have strong cash flow generation in Thule, and that is driving a deleveraging of the balance sheet. So it is very good to see. We delivered, in the first half year, SEK819 million on the bottom right here of both cash flow from operations, but after deducting the investments. So good cash flow generation.

Then this is driven also by a good performance on working capital. We had a good reduction in working capital in the second quarter, which is really driven by a reduction in inventories. We have an inventory reduction target for the year of SEK200 million. And as I say here, we are on track for that target. We are actually overshooting that target in the second quarter. But you should bear in mind that inventories do normally go up in the fourth quarter due to seasonality.

When it comes to the net debt, we are now at a net debt of SEK1.753 billion versus SEK2 billion at the end of last year. There is some SEK250 million lower net debt, and we have got the positive cash flow, which more than funds the dividend payment, which was also made in the second quarter here. So that leads to a deleveraging.

Our net debt to EBITDA has now come down to 1.0 times EBITDA when measured on a last 12 months basis.

And then a final point here to mention that we have refinanced during this quarter, and that refinancing has basically extended the maturity of our funding. The refinancing consists of an RCF, a revolving credit facility, of €320 million and a bilateral term loan of €80 million. And these new funding basically extends our maturity, but also has diversified our maturity profile. So we have a maturity spread between three, four and five years. We are very pleased to see that our banks have given us good support and really want to continue to support Thule's growth journey. So happy to see that.

With that, I will hand back to Mattias.

Conclusion

Mattias Ankarberg

CEO, Thule Group

Most intense product launch year in Thule history – more ahead

Thank you, Toby. I will round up with just two pages on the bit forward-looking. We are on page 12.

We are this year in the most intense product launch year in Thule history, as I am sure you are aware, and we have done a lot. But the good news is that there is more to come. We have already launched several upgraded versions of existing best-selling products and also several new innovations. More importantly, for the future, we have also now entered two new product categories: one, dog transportation with the first product in Q1, and now car seats in the first countries and first product at the end of Q2.

We have several things coming also for the second half year. We are now just at the sort of calendar moved from Q2 into Q3, launching Thule Chariot Generation 3. Thule Chariot is our multisport and bike trailer, which we are really proud of. And we believe that the world's best child bike trailer just got even better and very pleased about that.

We are continuing to bring innovations to the bike category to market and specifically in North America-specific products coming in. And then we have a few products for the RV segments that is going to help drive excitement and hopefully sales already for the autumn. And also adding to our dog transportation category with Thule Bexey, which is the second product in the dog transportation category and our first dog bike trailer coming in summer.

Focus 2024 – Continue to drive our long term growth strategy

On the page 13, to summarise, forward-looking, we continue to be a long-term oriented company. We continue to drive our long-term growth strategy and do so at a high pace. We are fortunate to have several strengths to build on as a company with market tailwind, strong market positions and making long-term investments in innovation and quality.

We expect that the market which is tough will continue to be tough during 2024 generally, and particularly in RV and in North America. But we are committed to continue executing the priorities that we set for ourselves and that we see make a difference and create value for Thule. So product development, which we just talked about, more product launches than ever.

We now have two new product categories to start building market positions. We continue to focus on consumer visibility or being more visible, including D2C growth, and continue to focus on supply chain efficiency with closures of external warehouses to reduce costs or, I should say, consolidation to our internal warehouses maybe and also to reduce inventory levels, which, mentioned in the beginning, is an effort that is on track.

So, as Toby said, we are a seasonal business. We have just completed the intense spring season and the peak quarter Q2, but Q3 is also a quarter with a lot of activity, both for consumers who want to live their active lifestyles, both for Thule when it comes to sales,

production, operations, but also when it comes to more product launches. So busy times ahead. We will continue now to drive the launches, to build the market position in the new categories and to look forward to a really intensive half year two as well for 2024.

With that, we conclude the presentation part of this call and turn to moderator to take questions. Thank you.

Q&A

Fredrik Ivarsson (ABG): I have three questions. I will take them one by one. First one on the gross margin. I do not think you mentioned better absorption as a key driver for the margin expansion, which is something you have been talking about before. Can you comment on that and also how to think about absorption as we look forward a bit?

Toby Lawton: Yes, I could take that directly, Fredrik. Toby here. But absorption is also positive. We mentioned the two that are really driving the positive effect this quarter is lower material cost and the better product mix. So those are the two biggest effects. But absorption is also, you can say, improving as basically production levels improve going forward.

Fredrik Ivarsson: Okay. Clear. And second question also on the gross margin, lower raw mats, obviously, support. I guess, that is mainly on the back of the lower aluminium coming down obviously from the extreme levels we saw in 2022. Do you see that this is becoming a headwind in the coming quarters since aluminium now is up 10%, 15% versus last year, or is that not relevant?

Toby Lawton: Basically, the reduction is, you are right, aluminium is a significant part of it. It is not just aluminium, but it is a significant part. And the reduction has flattened out, and we do see aluminium going up a bit, but it is much less dramatic increase in prices as we have seen in the past. But you are right that we do see that effect flattening out or even slightly increasing when it comes to aluminium.

Fredrik Ivarsson: And last question from me on the product development cost. We have been talking about those for a while. For the full year, I guess, you guided for same level as last year, which was a bit above SEK600 million. And also that it is going to be tilted towards the first half of the year with, I guess, Q2 being biggest given all the launches you made. Can you give a ballpark number on how much of these costs you took either, I guess, in Q2 or H1? Or just any colour on the phasing of those costs would be helpful.

Mattias Ankarberg: What I can say, Fredrik, we do not give those numbers quarterly, as you say. We give selling expenses, which include product development. But we do expect product development to be flat this year versus last year. That guidance still stands. That is what we expect.

Then it is worth mentioning, selling expenses includes also sales and marketing costs. And there are also investments in sales and marketing costs for the product launches, and that you have seen in the first half year in Q1 and Q2 as well.

And I could just add to that. We expect that impact to be a bit less in the second half, but it is a higher sales and marketing cost this year versus last year because of supporting the

product launches. So we will still be a bit higher in the second half, but less so than in the first half.

Daniel Schmidt (Danske Bank): A couple of questions from me then. Starting off with sort of sales. How did sales develop during the quarter? Because it was my impression when you reported Q1 that you were off to a similar start to Q2 as you reported in Q1, i.e., a good April. Has it tailed off in May and June in terms of growth, and maybe you have put more difficult comparisons because you also had the April's launch and so on?

Mattias Ankarberg: Hi, Daniel. Mattias here. No, I think you are on to an important point when it comes to your last point of the statement that the comparables are really different quarter-by-quarter, but also within the quarter. And I think last year, even the CEO comments said something about weak start to the quarter, but the better end or something like that.

So on a comparable basis versus just last year, there are clearly different patterns, as bike retail recovered and as we launched particularly Thule Epos, to your point, which had a great start already at the end of Q2.

From a more big picture or long-term perspective, as Toby said, quite a few years ago now, pre-pandemic, 2019 is five years out, but you can see that we were stable between Q1 and Q2 or even a little bit better sales trend in Q2 versus Q1. I think that is the reflection we have on a more bigger picture.

Daniel Schmidt: Yes. No, but of course, I understand that we cannot see all the months, of course. But if you look at the April's launch last year, which you highlighted quite a lot, had a terrific start last year, and you mentioned it now as well. And you stacked that up against what you have in the pipeline now in terms of dog crates and car seats. How is that going to look in Q3 maybe? Is that something you can comment on? Is the 2%, is that a good reflection of the comp base going into the second half of this year?

Mattias Ankarberg: Well, a couple of qualitative comments around that. First of all, I think I also said in this quarterly report, but I think even more so in the last one when commenting on the launches for this very launch-intensive year that in the short term, of course, introducing new bestsellers or new versions of existing bestsellers, so upgraded version of categories we were already strong. Of course, that has a big commercial impact from day one.

And building in new categories is the work that takes time. So I think that is an important thing to keep in mind.

Then I think if you want to think more about development specifically by quarters, I think my advice would be think a little bit about the momentum in the market and what we have got going on, but maybe also reference historical numbers, to Toby's point, where you can get another basis for growth.

So we want to grow. We want to grow faster than we are growing, for sure, but we also want long term growth. It may seem like a cliché, but we are not overly focused on monthly or quarterly development. Of course, we want to grow fast all the time, but the most important thing is we are developing in the right direction and getting where we want to be.

Daniel Schmidt: You seem to be happy. I understand that it takes time to build new categories, but you do seem to be happy with Allax and car seats. And car seats are still the very early days. It is only in three markets so far. But I think you mentioned two more markets in Q3. How many more markets are you planning for Q4?

Mattias Ankarberg: Rest of EU, so quite a few.

Daniel Schmidt: Okay, good. And just maybe also coming back to top line on RV and you mentioned, or I think you are a bit surprised that it has not fallen more and you have growth again in the aftermarket, and OE on the other hand declining. And you seem to be a bit more hesitant on the OE side, which I think is quite understandable given what we see in terms of the manufacturers in Europe. There is, I think, announced downtime, extensive downtime from one of the bigger ones in August, which, I guess, is going to have an impact on your OE performance. But do you feel that it could be compensated by what you see on the aftermarket that they are neutralising each other for the time being?

Mattias Ankarberg: Yes, you get the nuances very well there, Daniel, I think. And we are positive to see that RV is not declining as much as maybe we had feared during H1, to put it like that. It is also, if we are keeping on the positive, it is nice to see that the aftermarket business is coming back now in Q2, that is a business that is, of course, closer to the consumer. And in general, we maintain the view that consumer interest is still good in this category, in attendance at fairs, etc., but it has been slow due to high prices and high financing costs.

So that is nice to see. But on the other hand, OE has kept up production for quite some time. Now we do see, to your argument, also production stops being announced. And we are expecting to see stabilised or positive aftermarket for H2. And the question mark is OE. If production stops are prolonged or more players do that, then, of course, that would probably be a negative in RV total for another quarter or two. But hopefully, the sign of a recovered aftermarket means that by at least year-end or so, we are back to an RV business, which is more in balance and back to flatter growth.

So it is hard to comment on how this OE production stop game will play out and particularly short term over months and quarters. But that is the factor that will decide the RV industry pace for the coming quarter or two.

Daniel Schmidt: And then just maybe jumping to the gross margin, which you already commented on. I think you have stated fairly clearly in Q4 and Q1 and maybe also in Q2 that you took tooling costs related to production of new products. Is that behind us now as we go into the second half of this year?

Toby Lawton: Yes, I can comment. Basically, yes, it is.

Daniel Schmidt: And were they present in Q2?

Toby Lawton: I mean, we have tooling costs in Q2, yes, absolutely.

Mattias Ankarberg: We had tooling costs for several types of new product introductions, I would just like to add, which we do treat as part of development costs and as part of SG&A that we have done. So yes.

Daniel Schmidt: And I think you highlighted, of course, that raw materials have been a tailwind and also a favourable mix. And then there was a question on under-absorption or absorption of fixed costs. But that was a reference to sequential development, right? Because you are still down SEK800 million in inventory compared to Q2 last year. So the production rate must have been lower this quarter compared to the same quarter last year, but higher than in Q1. Is that the right observation?

Toby Lawton: I mean, absolutely, we have reduced inventory this quarter, so that means we have basically sold more inventory than we have produced. I think that would have been the same in the second quarter last year as well I think. So I am not sure if that answers your question, Daniel. So there is kind of seasonal –

Daniel Schmidt: I got the impression that absorption of fixed cost would have been positive, has a positive.

Toby Lawton: Yes. I mean, as we reduce inventory, we are selling out the products, which we produced during a weak period with worse absorption of fixed costs. So we do expect to see a positive effect continuing from a better absorption of fixed costs in production. Absolutely, that is an effect we see and we expect to continue for a little bit longer.

Daniel Schmidt: Yes. Okay. Maybe just a last question on the new credit agreement. Is that a more expensive financing agreement in terms of the size of it?

Toby Lawton: No. I mean, it is slightly different tenor, but basically very competitive pricing and no material increase. I mean I think we refinanced also at a very competitive time last time, so we are happy to see we can match that cost basically. That was 2018, we set the prices on most of the previous financing. But we do not expect to see an increase in financing costs.

Daniel Schmidt: No. And the total size is about the same.

Toby Lawton: It is about, I would say, slightly bigger, but slightly.

Gustav Hagéus (SEB): Just to maybe get some more input there. With the costs from external warehousing coming down in the quarter, was it positive for margins? And then to Daniel's point, inventory came down, right? And you say that you are ahead of your own ambitions in terms of inventory reductions for the year in the first half, meaning, I guess, that you would produce a little bit more in H2, which should be good then for absorption effect. But can you weigh those points against each other and give us some indications on the delta going into H2 and 2025 from that aspect?

Toby Lawton: Yes. So I think on external warehousing, Gustav, so as we bring the inventory down, we obviously do not need the same space for warehousing. So that drives an improvement in external warehousing, which is good to see a good side effect, if you like, from bringing inventory down. So that is that effect.

But absolutely, as we go into H2, we expect to see production is going to be a bit bigger. It is going to be higher production levels than we had during H2 last year. And therefore, as said before, we do expect to see positive effect in absorption of production overheads.

Then there is a seasonal effect in here, which I am just a bit cautious of how I am answering because inventory comes down in Q2 also because it is also a high sales quarter. So you need to just separate those two effects, if that makes sense.

Gustav Hagéus: Yes. Sorry, skipping to a different subject. You are right in the report about promotional activity in the market being high. Could you elaborate a bit on to what extent Thule participates in those promotions? And second to that, following some quite high price increases from your end during the pandemic, would you say that the price gap now between your products and good and better products from other producers have widened, or is that similar to what it was two years ago?

Mattias Ankarberg: Yes. Good questions, Gustav. I think there has really been a promotional market in Q2. I think we have talked about it little bit before as well. It is our retail partners mainly that decide on the promotional activities, and not us. But typically, we do not see Thule products being promotionally activated to a high degree, particularly not the new products or the more recent products, the premium products. And we also see the premium segment doing better in general.

Now, of course, some of our products are activated, and particularly in some of the markets where there is a bit more clearly defined guidelines around promotions. So, for example, in the US market where you have promotional windows that everybody participate in, more or less.

I would say, maybe phrase it like this, that the promotional activity is high. I think Amazon is a good sign of that with more and more Prime Days and Prime Days extending to beyond Amazon and what is going on just as we speak in the marketplace. I would say that premium stands out still as better and still less promotional intense. We perform better at the premium price points, but we do also operate in mid-price or low price for us, the mid-price in the market. And that is an area where we performed less strong clearly in Q2 than we do on the premium end of things.

Gustav Hagéus: With that as a reference, how do you feel about that? Because you also report very strong gross margins, obviously, now in Q2. How do you think about gross margins versus growth in terms of maybe being a little bit more generous to your retail partners on price with new products and so forth going forward? How do you resonate between the two?

Mattias Ankarberg: Well, we want to think about it from product portfolio perspective, and we think about our products and the market in terms of, let us call it, good, better, best. And we play particularly in the best area and a little bit in the better area. And then our focus is to continue to drive both the best and the better area, and varies by category where we are strong and where we want to develop.

But when we have the best products in the market that are in the most premium or in the best segment, we think that that should also warrant the premium price. Premium product, premium price, and that is our stance on that. There are a couple of areas where we could fill some holes in the product portfolio in the better segment, and that could help us by introducing more products at more mid-priced price points over time. But we are not trading down or actively reducing price or discounting our strong premium products.

We see that that is where we perform as the best. And that is the way we think is the Thule way going forward in terms of both brand positioning and product development.

Mats Liss (Kepler Cheuvreux): Just a couple of quick ones. First, I mean, you mentioned that promotion activities there. Could you indicate what segments you are more affected by those? And also are these promotional activities more related too high inventories that will continue to be built down, maybe not by you, but competitors?

Mattias Ankarberg: Yes. I am happy to comment on that. And then, as a reminder, it is really a retail calendar and retail activity to drive the promotions, where we have some share of D2C. But generally, it is a retailer's game and not our game as a product or a consumer goods company, just to comment on that.

But we do see quite heavy promotional activities in some areas, particularly in North America, but also to some extent in Europe and in some product categories within Europe. And yes, a couple of examples, I think after the Memorial Day promotional period in North America, which is a pretty big one in May, which I think in the auto industry a lot of retailers were not so happy about the outcome, I think the talk is promotional fatigue with consumers.

We have clear examples where inventory is filling up with some of our retail partners and even buying departments at retailers placing orders for Thule products, but their logistics team is not taking it in because the warehouse is full. So clearly, there are some areas where there is too much inventory, to answer your question, in the market, in general, where retailers want to get out of. So clearly, that is the case still.

Mats Liss: Okay. And what product categories are more affected, or is it evenly spread over the categories, so to speak?

Mattias Ankarberg: I would say it is a general phenomenon, and I think, geographically, maybe more different than categories. But if you look at some of the bigger categories we have, we see that clearly in Sport & Cargo in North America. We see clearly within Juvenile products and channels, both in Europe and in North America, a little bit less in travel-related products as that segment is now coming back to a healthier growth.

We see also within RV a bit, I would not say promotional, but maybe a bit back to or a bit steeper discounting from RV dealers to consumers to stimulate demand in Europe. So it takes different forms and aspects, but I think, clearly, that is the one of the tools that the retailers or the dealers have to drive demand and clear out inventory during these times.

Mats Liss: Okay. Great. And just a final one, I mean maybe I mentioned this. About bike-related products, what part of sales have you seen in the quarter? Could you shed some light on that?

Mattias Ankarberg: We do not give figures on bike-related sales per se. But we have stated that it is a big exposure for Thule, and that bike as an activity is the biggest exposure of any activity that we have as a company.

Daniel Schmidt: Just a follow-up on RV and mix. You also mentioned mix as a favourable factor when it comes to the gross margin in the quarter. And you also said that aftermarket was up and OE down. Is there a big difference in profitability? I assume it is. Or could you shed some light on profitability in each segment?

Mattias Ankarberg: Yes, there is some difference in profitability, of course. And we should remember that RV as a whole is 15% to 20% thereabouts, depending on the quarter of Thule. So shift within that matter, but other shifts also matter.

I think regarding the product mix, two more points, Daniel. I think bike-related being back to growth is good for us, good for margins, in general. And then, look, we had a lot of product launches this year, more to come. But we are focusing and introducing premium products, right, that are top end generally, which also supports gross margin.

Daniel Schmidt: Okay. So it is more there where you see the mix impact rather than the RV side. But I guess, the RV side is also slightly in favour.

Mattias Ankarberg: Correct.

Daniel Schmidt: Yes. But just on that topic then, you have made a lot of investments. You have taken a lot of tooling costs, as we talked about. But you also made investments in automation in Poland and Sweden and so on. Do you see the benefits of those investments coming through in the gross margin that you delivered today, or is that more for later? Or is that gradually coming through?

Mattias Ankarberg: Well, you could say yes and no, to be really transparent. Of course, it helps us underlying. This is more efficient, and it also helps consistent quality levels, we should remind ourselves. But then again, are we running everything at full speed at the moment? No, we are not. So we do think it is good to see all-time high gross margin. We like that one of the big drivers is product mix, which is something we will continue to drive.

And then yes, raw mats can swing a little up and down. But with over time, a market recovering and us growing, and therefore, getting better utilisation of our factories, we, of course, hope that together with investments made to your point, should also be beneficial.

So long term, we are seeing the positive effects of those investments. But right now, with the limited volume, still less so.

Daniel Schmidt: Yes. Makes sense. Maybe just a last question on the car seats, and you were very explicit when it comes to the European launch basically in entire Europe as we get to the end of this year. US is a different story. Could you just update us there?

Mattias Ankarberg: Yes. And a quick reminder for those of you who may not have all the context. There has been a new regulatory framework introduced in the US regarding car seats. We have been waiting for that, and we now know what the playing field looks like, so to speak, as a newcomer into the category. We have also, as mentioned before, said we want to see a little bit how the big players take this into product portfolio specs.

We have a fairly good view of what that looks like. We have a development project. It is underway. It will not be for 2025. And we have not yet commented on more details than that. So we will do that when the timing is right, but it is not for next year.

There will be also more products coming for the European market, which is also underway, and that we will also comment on more in detail within shortly.

Daniel Schmidt: Okay. Is it your expectation or hope that the new regulatory framework in the US will put pressure on price points to move north? And is that part of what you are waiting for?

Mattias Ankarberg: Well, we like when there are higher requirements for safety in such technical complexity, I almost said, but it is not a requirement per se. But when safety standards are high, we think that is helpful in driving price points, premiumisation and high focus on quality, so Thule territory. That is a positive with the new regulations, and we see that moving in that direction. So yes, in a short answer, yes.

Daniel Schmidt: Okay. And given this new regulation, is there a grace period for the producers to adapt, or how does it work?

Mattias Ankarberg: Yes. To be honest, I am not even sure that is fully set, yet. But at least, I do not personally have all those details, as we speak. But there is a timeframe when these new regulatory frameworks are put into place, but I do not have the details of that right now, Daniel. We could follow up separately with some of our teams, if that is important to you.

Adela Dashian (Jefferies): A few questions from me, and I am sorry if you have already answered them. I joined the call a bit late. The first one on this acquisition, maybe if we could get a view on your M&A strategy. Is it going to amplify even more going forward? And are these type of acquisitions typical rationale? Or are there other areas in which you wish to not only strengthen the existing offering but maybe also then enter into new segments? And what are the price considerations on this kind of an environment? And does the market conditions present any newer opportunities that were not present previously? A lot of questions in one.

Mattias Ankarberg: Thank you. I will start, and then Toby can follow up to the second part of your question.

But yes, Thule's history and value creation path has really been organic growth and very product-driven. And of course, that is the foundation for us also going forward. But we do see an opportunity to strengthen our product portfolio in existing and sometimes new categories, and we have done that in the past. We have entered rooftop tents that way. We have entered bike trailers that way and with several things.

So Reacha, as it is called, is small but leading in this niche of water sport and cargo bike trailers. And I think it is a good representative examples of M&As that makes sense to us. I mean size aside, this is very small, but that good fit with where we are strong today in terms of brand, product presence, channel presence, but clearly a niche or a product family that we are not in. So it is something we hope to be able to both get some synergies, but also boost sales of over the coming period. So a good fit for us.

Will we do more? Well, we are clearly looking for the right opportunities. But again, the foundation here is organic growth, and that is the main pillar of the strategy, so to speak.

And then on terms, etc., maybe Toby, you can comment.

Toby Lawton: Yes, I could just make a brief comment really. But I do not know if you can draw any big conclusions from dynamics in pricing for M&A. I think we generally make, of course, a business case and, look, we can be convinced that this is a good value creation opportunity for Thule. That is where we base our evaluation on. I do not know if you can really say so much more than that or draw wider conclusions.

Mattias Ankarberg: As a reference, we did provide some numbers in the report.

Toby Lawton: Yes, there is some numbers in the report. Yes.

Adela Dashian: Yes. But would you ever also consider divesting any of the existing segments? Or do you feel fulfilled with the current product offering that you have?

Mattias Ankarberg: There are no plans to divest anything.

Adela Dashian: Okay. And then a question also on the market development and the fact that the North American market or consumer is continuously weaker than the European. Do you have any idea of why that is? And then are you seeing any limelights in the coming months that could change that around with the high season being in full spring, so to say?

Mattias Ankarberg: It is a very interesting topic, I think the US consumer. And I think maybe we have chatted about it also on these conference calls, but at least with some of you in other sessions. I think on the one hand, for quite some time now, several quarters, the US economy has done fairly well. The consumer should be in a fairly good place, seems to spend tickets on travel and restaurants and Taylor Swift tickets, but less so in other categories.

It is actually not a very positive picture looking, just the data at the moment for the US consumer. I think one example, which is fairly telling is the consumer sentiment data, a very broad, of course, metric, but still a good metric of how the consumer feels about the economy and their own spending.

And of course, it was plummeting during COVID, recovered a bit, and was improving going into 2024. But starting February, March or so, it has really reverted and dropped down into even more negative territory. So there is something about the US consumer, which is not optimistic at the moment.

Fredrik Ivarsson: Just a follow-up on Mats' question regarding the bike-related sales. Just trying to figure out the ballpark figure on growth in this category. And then we see that Juvenile & Pet as a whole was up 4%, and I think the majority of that category is bike-related. And then Sports & Cargo, I guess, is another category with plenty of bike products, and that category was at 1%. So it is difficult to see, I guess, double-digit growth. That seems a bit punchy. But is it fair, I guess, somewhere between, say, 5% and 10% at least? Is that a good guess?

Mattias Ankarberg: Yes. It is really hard to answer if you are a good guesser, Fredrik. But look, as I mentioned, bike-related had even stronger growth in Q1, but so were comps. Right now, we are meeting some bike products that were introduced, and good bike products introduced last year, so it is a bit less. But still is a very good growth in bike-related for us.

And then to the first half of your question or comment, yes, Juvenile & Pet does include quite a lot of bike-related product with child bike seats, multiple bike trailers, etc. Sport & Cargo includes bike carriers, which is a big category for us. But it also includes other big categories like rooftop boxes and roof racks and other things. So it was good growth. And yes, let us hope you are good at guessing, Fredrik.

Fredrik Ivarsson: Yes, we will see. And then one more quick one from my side. Freight costs, I know it is usually not affecting your margins significantly, but it was so during the last couple of years when it has been very volatile. And now we see freight costs coming up quite a bit again. So is it going to be a valid factor to consider?

Toby Lawton: Yes, I mean, freight costs are going up a bit at the moment. I mean, it is particularly freight cost from Asia to Europe, which most of our manufacturing is made in Europe or North America. So it is a lesser impact on us than others, I would say. But it is an increasing freight cost on particularly in things we import from Asia. But like I said, it is not a dramatic or a big increase. Things were much higher during the pandemic. So they have come down to a more normal level, but it is a cost that is increasing slightly.

Mats Liss: Yes. Coming back to inventory development, and I guess, you had a good trend in the second quarter. But then again, you have these car kit launches going on. Could you give some indication how much that impact? You need to have products ready when you do these launches, but maybe it is not of a material impact for the quarter.

Toby Lawton: Yes. Like I said, I think the product launches do not really have a material impact on inventory. I mean, with the seasonal pattern build up inventory for our seasonal sales in other categories, not just newly launched products. So it is not a material effect.

Mattias Ankarberg: You can say partly also. It is not the only reason, but part of the reason why we, for example, with car seats are sequencing this across quarters, the rollout is to be able to build up production and have volumes. So it takes a while to get new production lines trimmed in, get the volumes up to speed and have enough inventory to be able to meet initial demand from some markets. And it has been a positive, I do not want to say problem, but it has been a positive factor for us that we cannot address more markets at the same time in that respect.

But that also means that it does not have a big impact on the inventory as we ship out in the beginning what we build up to meet customer demand.

Thank you very much, everyone, for joining the call. Wish you great summers. We look forward to talking to you again at the Q3 call. Thank you.

[END OF TRANSCRIPT]