Thule Group – Global Group Meeting with Investors and Analysts

Tuesday, 7th March 2023

Gustav Hagéus: Yeah, all right. So, quite a big interest on the call here. We will ask you to please mute. I think we are above 100 people attending the call, potentially. So the way we are going to do this is that we are going to have a Q&A. I am going to start with a few questions, and then please raise your hand if you have a question. And we will try to limit the questions, to start at least, to one question per participant, and try to keep them reasonably short, to have everyone given the opportunity to ask a question.

But we will start – obviously, you know why you are here. We have Thule here today with the CEO, Magnus Welander, and Head of IR, Fredrik Erlandsson. I will start, then. And Magnus, just to dust off and shoot the elephant in the room, there was some changes announced, the night before the most recent report, that you are not going to be the CEO of Thule as of August; there is going to be a replacement coming internally from the board with Mattias Ankarberg. Could you please sort of give your short reflections on this situation, what led up to it and how you think we got here and how to read it.

Magnus Welander: Absolutely. Yeah, first of all, you can say that, as the press release states, the board has decided that they think, from a succession point of view, that this was the right time to come with a new CEO into the company. And the reason it did not state, as often happens even when this decision is taken by the board, that the CEO has thought about his future, was that I personally did not agree with the timing. The logic was that I did not see it as an ideal timing, while the board thought it was an ideal timing to do the succession.

From the perspective of what will happen now– I am a very straight forward person in terms of having a very big heart for this company. I am also a very professional person in general, and finally I am a significant investor in Thule, so what I will do is to do my utmost – in fact you are probably going to get the best six months out of Magnus Welander you have ever gotten in terms of running the company until Mattias takes over in August, because I have three very good reasons, as I said. Lots of loyal colleagues that I absolutely want to make sure they are treated well; lots of investors that I have been presenting to in and getting to invest, and myself being a big investor; and then, generally, that is my attitude: you always want to leave on a high.

So I will be handing over to a person that has signed off on the strategy and all the things we have done, which should be, for investors, a good strong signal that you will not see abrupt major changes. I am sure that once Mattias has started, as any CEO when they start and have landed in the job, will tweak and improve on what we have been doing. But because he has been on the board for four years and has given thumbs up on the strategies we have proposed from management, I do not see it as any likelihood that there will be major changes to what the company does.

So that goes back to why, then, the succession. That is really a question for the board, since they took the decision, but I also think you have to take a step back and be logical about it – that, in some ways, best timing is always in the eye of the beholder when the right timing is. Personally, I was very keen to run this company for the next few years, because I see a very bright future ahead. We are stepping into some very exciting categories. We have the biggest launches in the history of the company in the coming 18 months, with very significant launches in new categories and in the existing categories.

We have a very well-invested plant set up and we are coming through after a temporary slow down– which will go back to your whiplash effect – with the bull whip effect. There is a temporary short slowdown in the bike industry, which I am sure will come back. But there is also a brilliant starting point for a new CEO to come in at that time, and that is what I think the board maybe has then more taken on, because we are coming in with loads of new products. We will have very easy comps in the second half of the year. The company is well set up, so for a CEO to join to do his 10 years, or whatever it might be in the end could be also a brilliant starting point. So that is about as much as I can say about that.

Gustav Hagéus: Great.

Stefan Alb, Sierra Global: Can I ask a quick question, just because we will never get this chance to ask to you ever again? Basically, you will be followed, since you are very well regarded. What is your plan? Will you land, after the six months, at another CEO spot, or will you just go board-hopping?

Magnus Welander: So I am very straightforward. I commit to very few things, and then I do them all-in. So, at the moment, in the last 17 years, I have done two things. I have been the CEO of the Thule Group, and I have been the chairman of Mips, and then I have had a brilliant personal life on the side with my family and friends and doing sports. My intention is not to do board-hopping or hundreds of things in the future, I can guarantee you that much.

What I might do is, I might throw myself into – with the same attitude, all in – to a few things. One will be Mips. I have the full intention to continue to be the chairman in Mips. But I have a very big respect for the role of a board and the role of the management, so Max and his team at Mips will run it, and they will get support by the board. So I am not going to put more effort than I already put in that, which frees up a lot of time now when leaving Thule.

When you have got a notification from somebody else and not planning it yourself, you should always be calm and not jump on something. So I am going to go all in for Thule and Mips, and then I am going to have a summer, and then I will decide what I do. I honestly do not know today. I am young enough and energetic enough to jump on a new CEO job, but I have to also be realistic and take a step back. My older sister called me the night of the announcement and said, 'Magnus, I know you will land well, you always do. But remember, you are only one year younger than mum was when she passed away in cancer. Maybe you should have more fun as well.' So now I need to look at what is fun in life. Fun is also working, for me, when you have fun jobs. But I am going to be very picky and do few things.

Stefan Alb: Thank you for that answer.

Gustav Hagéus: Great answer. Greg, do you want to ask your question?

Greg Dean, Langdon Equity Partners: Magnus. I would be curious to hear –
Gustav Hagéus: It is a bit silent, Greg. Could you speak up?

Greg: That might be better. I appreciate you guys organising this. In terms of succession, to what extent was there sort of a – would you say, an array of internal candidates that were considered? And given your tenure there, were you sort of grooming people to kind of subsequently take over, or was that not really part of your remit in your mind?

Magnus Welander: I think it is always part of a remit of a CEO to groom at the right time. And that depends very much, I think, on how a company is structured. When I became the CEO, we were, at that time in 2010, a business unit driven with very separate types of businesses. Most of those we sold off. We then focused, which is a choice you can do, to drive a business with a global supply chain, global product development, global branding and localised sales and marketing efforts of deploying that branding effort, deploying those product categories, deploying that supply chain set-up.

When you do that, by default, you have fewer general manager type of roles. So we are not like a huge company with several very large business areas with all functions within them. We are therefore more functionally oriented, with localised regional sales. Thereby, grooming somebody for a CEO position is a bit difficult from that perspective. The thinking was therefore, if it would have been myself looking at a retirement type of situation, it would have been bringing somebody in for some time, but not for too long, because I know myself, if I was being groomed for too many years as a potential CEO, I would leave and become the CEO somewhere else. So there is only so much grooming you can do when you have the set-up that we had.

So, therefore, I do not think anyone – I am convinced, in fact, that not anyone in the management team consider themselves ready to be a CEO of this size of company at this point of time. I think some of them could have potentially, and some of them still can potentially – take a step to be CEO of a smaller company. But there is a certain degree of complexity in Thule. We are not huge, but we are very global, and we have very many different products and we have own supply chain set-ups.

Gustav Hagéus: Perfect. If I can stick in between with a question more related to your operations, then, so 2022 was very much marked by what you referred – just the bull whip effect. Anyone who did not know that word certainly learned it in 2022. Can we discuss a little bit what you have seen thus far into March in terms of green shoots or comment from retailers or your sales personnel in terms of underlying demand and where the inventory is currently with bike-related products?

Magnus Welander: Absolutely. I think, if you look at it, as always there will be some differences by geographies, and I am going to mention some of the biggest ones. And there are a lot of differences at the moment, more in perception, among individual retail companies. What you can say in general is, this is the low season for bike-related. This is the lowest low, it is snowing outside in Malmo at the moment. So it is not a normal high normal season.

In 2022, we had an absurdly strong bike selling period, so it was very weirdly strong with the comps reality. If you look at it in 2022, we were 63% up versus 2019. So, forgetting this extreme comp and more looking at normal foot traffic, normal bike sales, how many people are going into bike retailers to look at bikes? What are the lead times, and how much is the overstock reality?

You can say, if you look at it, the worst market in the world, at the moment, in bike is the UK. The UK had effects of being outside the EU and longer distribution times, truck drivers and many other things, and a slightly tougher economy. They have the most pessimistic view of anyone in bike retail at the moment, is the UK market.

If you take the European markets, aside from the UK, you can see that clearly there is good foot traffic in the stores, but very few retailers are placing any significant order of anything to the brands. And that is now a natural thing to do in a low season. They are waiting, waiting. So if you have heard me and others in the bike sector say, we will either see the starting of a normalisation in early April, or in a pessimistic case, late May. I think everybody in the bike industry is looking at some time, if they are optimists, beginning of April; and if they are pessimists, end of May; inventory levels will have normalised.

That is a huge difference, of course, for both the retailers and all the brands, because those are normally two big months. So it will be very difficult to say. We had a meeting with two big German retailers just one week ago, and the same city, the same foot traffic, the same sales out, actually, if we look at them, but completely different views due to personalities, I would say. Cash flow situation maybe, on, yes, it will be okay already in April; no, it will not be okay until late May. The same situation.

So I honestly cannot give you anything more than there are some green little shoots coming up in terms of specific products and specific signals, but truly, it will be when we present the Q1 report, which we do late April. By then we will be able to say, 'The bike season seems to be…'. Before then it is so individual speculation levels and so little proof of data points that it would not be actually worth mentioning. Because we do well in certain products, in certain markets, but I would argue that that is no proof at the moment. It is more, anecdotally, we happen to have one retailer who liked that one product, maybe.

The traffic is not bad. It is not brilliant, we want to be clear on that. It is what it normally is in a low season when it is not brilliant spring weather yet.

Gustav Hagéus: So, if I understood what you communicated in the past, you usually run on three shifts in the high production season, and we should have been in the high production season right now, but, as you want to reduce your own inventory, and there is retail de-stocking, you are currently running on one shift, sort of your fixed employees.

Magnus Welander: Right.

Gustav Hagéus: At what time do you need to push the button if you want to scale up production? What is the lead time from you making that decision to having production in line with what you have had in the past during these – say, into Q2?

Magnus Welander: So the big difference we have this year is that, in 2023, we will not have any seasonal employees from Thule. That logic that we normally have with one very clear base of fixed employees we have, they are the one shift operations now. Normally, we then bring in, in the beginning of the year, and run until May/June, with a temporary seasonal workforce employed by us for relatively long periods. And then we top up in the Q2 period with very much at certain production lines, certain dates, certain weeks, agency workers on top as a third layer.

We are skipping the second layer completely in 2023. We will not be bringing in seasonal workforce. The reason is, we do not need to ramp up, as you said, Gustav, because we have too much on stock ourselves. What that means is we have extreme flexibility, because we are skipping the second layer. We are going to people that we can take in on extreme short notice and we also do not need to have for more than the days we exactly need them.

We will, 100% guaranteed, need some of that workforce during Q2, no doubt. We need to ramp up on some of the production lines, we are sure we will need temporary workforce, and we have already set up all the contracts and agreements with those agencies that we can get them in. They are already trained, we have already had in those, and we will have the fixed workforce as shift leaders for those work cells etc. So we will have no issue to handle what we need, and we can wait and wait and wait, which is what we will do. So, depending on, as I said, how it starts in April, earlier or later, the number of people we are bringing in might be very fast or slowly bringing in people to handle the volumes as we need them.

Gustav Hagéus: So reducing inventory and going on lower production seems brilliant from a cash flow perspective, but perhaps not as brilliant from a margin perspective with the fixed costs absorption and what have you.

Magnus Welander: You are absolutely right. You are absolutely right. It is both are correct. It will be a brilliant cash generation period. We will have strong cash generation, but it will mean a clear under-absorption on some of those workforce and some of those facilities we have as we are not filling up those inventories, we are reducing them down and we are not running as efficient, therefore, as we would have liked.

Which is why I think it is important to look, when you look at what we are doing in terms of gross margin is we have compensated costs very well with our price increases, but we are not driving price increases to offset our temporary under-absorption, as we did not do it the other way round when we had an over-absorption in 2021, we did not lower the prices. We are not going to increase the prices due to our inefficiencies, if you put it that way.

That is why we will see some under-absorption, hopefully then compensated, as we hope, partly at least, with some of the right volume and mix effects going on later in the year, by selling the right type of products at a higher quantity and a higher share.

Gustav Hagéus: So, Chris, you have a question?

Chris: I do, yes. You know, I live up in the northeast and, every time I go up skiing, it seems like every car on the road has a Thule carrier on top of it, so my question is about penetration in key markets. What gives you confidence that so much demand was not pulled forward that, you know, everybody or most of the people that would get a carrier already have one?

Magnus Welander: I think, luckily for us, it has been like that: when you have gone up to the northeast the last 20 years, you have seen mostly Thule on the cars when you came to the ski resort, luckily, because we have been doing it very well. And the reality is that what you see is we have had a fantastic season in roof boxes all over the world, because people have been going winter vacationing, even in the relatively – your skiing has not been brilliant in the northeast, when I speak to my colleagues, like it has been the northwest or southwest. But, if you look at it, the reality is there is a constant feeding in of people wanting to do these activities. There is a constant feeding in of people wanting to upgrade and having better. We have never, ever seen huge unit growth. So, even in the pandemics now, it is not the unit growth that has been the factor that we are doing so well in roof boxes. There is a higher price point combined with a higher average net sales price by people buying, luckily for us, better roof boxes and more advanced models rather than the basic ones.

So, if you would have compared with 15 years ago in the northeast, you would have seen many more Sears type of basic roof boxes. What has happened is the community has moved upwards. Now then, on the classical question that comes, what happens if now economy is weaker? Will you see a lot of people moving down? All the signals we are getting is, no, that is not the case, because actually, what people will do, if they can afford this type of skiing vacation and if they want to do this, they actually want a quality product that lasts them many years. So we see a confidence that, in a numerical number of units, it has never been a huge growth. It has been a pretty constant small growth, which was then always boosted further by some market share growth by us and some price increases. In the pandemic, we price increased much more than historical, and we have also then seen a bigger market share gain, and I think that will continue.

Chris: And, just as a follow-up, do you have any sense as to how much of the sales are replacement demand or, 'I changed my car out and I need a different one', or [inaudible] –

Magnus Welander: So the only thing that changes indirectly with the car is that you might change your roof rack type because it fits differently on your car. The box you do not change just because you change. You can put it on any roof rack. It could be a competitor roof rack or our roof rack. What changes is the actual car, but what is – a car rack. But what is interesting there is it has very, very much not a correlation to car sales. Because we can see car sales booming and us going on with the same way; we can see car sales plummeting. What triggers you to buy our roof rack is not the fact that you got a new car, it is the fact that you are a skier, you are a mountain biker, you are a kayaker, and you need it to bring your gear.

When that then means is that the new activity that you might want to pursue, or the change in family condition – you do not have space in the back of the car so you need to load the stuff up on a box, because now you have two children and the dog. And when you do that, it is therefore that behavioural change rather than the car replacement. Of course, if you are an avid person, already having all of that gear, and then you change your company car or buy a new car, you might buy a roof rack, but it is still triggered when you, 'Oh shit, we are going on vacation, so I am going to need to go and do it', and then you would buy your roof rack, so to speak.

Gustav Hagéus: Magnus, can you talk a little bit about pricing? I find it interesting that you talked about how – you have not lowered prices, obviously, but you are not raising prices except for in your bags division, if I understand it correctly, this year, which you usually do, following a very big price hike during the pandemic, obviously. And then, at the same time, you previously pointed out that there is a lot of inventory, but that it mainly relates to lower-priced categories rather than the more premium ones that you represent.

Magnus Welander: In the bike industry, it is the lower-priced category. What we decided to build up was high-volume premium product. So our inventory is not so much in total value on low end, because we do not do much low end. Our inventory, the SEK 3 billion we have, is more at the high end.

Gustav Hagéus: Right. But my question is that, if there is a lot of inventory in retail, the lower-price products that are likely going to be discounted, then, to some extent to bring inventory down in retail, and you have been raising your prices, is there any price elasticity when that rubber band between the premium segment that you represent and the discounted low-priced segment is too big, so that you would actually have to think about campaigns or killing specific categories or sub-categories to stay with your pricing?

Magnus Welander: Yeah, it is a good question, and the reality is there is not any issue with our mid- to premium-priced products versus the low end, because their difference is so huge already that they do not play in the same consumer audience. What we are seeing is that during the pandemic, we, as we commented a few times during 2021, actually captured more than our fair share of sold products at the low end, where normally the consumer would have preferred to buy a cheaper competitor product. But, because all of those competitors make all their products with sub-suppliers in China, that took longer for them to ramp up to demand, and we, with having our own plants in Europe and the US, were a bit earlier to offer our products. Our products then came in at a higher price, but it was our low end of our portfolio, which is mid-price in the market, was grabbing more than its fair share against what would have been cheaper competitors.

If you saw, then, in 2022, the opposite happened. Already in 2022, we did not sell any of those, so we already phased out a number of those products in 2022. They are therefore not sitting in our inventory either, and we will not be getting them back in 2023 either, and, honestly, not in 2024 either, which is why we are focusing at the mid- and higher end of products, where we can play with the right pricing, with competitors that also have raised prices.

Gustav Hagéus: Fiona, you had a question.

Fiona: I was going to ask about the pricing, but I think I will ask about something else. To some of the inventory and pricing points, Magnus, if we are here in a year with Mattias, what would you say is the probability that he takes a different view and there is a big inventory write-down?

Magnus Welander: I think there is zero, and I mean truly zero, percent risk of that because, clearly, as you would assume, a board member, when you sit with higher inventory than you have had before, has been detailed out all the logics, all the things in very intricate details, and they have fully bought in to the strategy of what we are doing. So I would argue there is zero percent likelihood of him taking any significant stock write-down.

Fiona Xu, AKO Capital: Okay, thank you. Can you just remind us, in terms of increasing production capacity, the level that we are at in 2022 versus 2019? What has been the capacity expansion?

Magnus Welander: So, if you look at it, I think the biggest complication when you present our business, and which is always going to be complicated, is that we have assembly production. Assembly production is a type of production where you do not want to run ever at full capacity. It is weird, because in process-oriented manufacturing that most people think about when they say, ‘What is your utilisation capacity thing?’, you want to run 365, 24/7 because you have invested very heavily in processing equipment.

When you run assembly plants, you have a lot of components coming in on trucks and you have a lot of finished goods that need to go out, which means that if you are running, as we had to do during the pandemic in 2021, five shifts, which means 365, 24/7, night and day, every day of the week, that means that you have truck drivers from all over the world of suppliers checking up at your site in the middle of the night, otherwise you are stocking up and cannot move in and out stuff. That is highly cost-inefficient in assembly. So, theoretical capacity is, of course, to run it madly, wildly, three shifts all the time. But it is costly to have quality, it is costly to have logistics pick-up and a lot of our white-collar staff around those plants at those times. Which therefore becomes a factual thing that, if you would look at it coming from the processing world, you would say, ‘They are mad, these assembly companies. Why is not the utilisation higher in their plants?’.

So capacity is never a true constraint in a normal world, and we do not want to run in many of the lines more than one shift. In some, we want to run two and three shifts because it is efficient enough to do it, which therefore means that, if you look at it from 2019, we were good at that SEK 7 billion turnover level with the plants we had. In 2021, at the SEK 10 billion, and 2022 at the SEK 10 billion level, we did not have enough capacity to run them efficiently.

And then, when we ramped up, the orders did not come in, so we filled out our inventory in the second half of Q2. We are therefore going to underutilise our capacity, as we said, in 2023, just because we have too much on stock. Otherwise, I would argue that we have a very good, balanced cost-efficient set-up, if it was not for our high inventory level, utilising some lines during some of the peak periods several shifts a day, but many lines only one shift per day.

Gustav Hagéus: A little bit of a longer-term question, then, which no one will ever be able to hold you against, Magnus. You raised the target during the pandemic to SEK 20 billion sales by 2030, so that is what the board expect, then, as they now reinstated one of their own. What do you think are the building blocks to reach that type of annual CAGR that would be necessary for you to do that from a base of SEK 10-ish billion now? I understand part of it is that you have a better product portfolio now, probably than ever, and part of it is the new categories, but could you be a little bit more granular?

Magnus Welander: Absolutely. I do not think either Mattias nor the board thinks they're getting anything back in their face. They are 100% agreeing with the strategy that was presented at the Capital Markets Day, and I reiterate what we even said at that Capital Markets Day. We never thought the world would be smooth in 10 years' time. I mean, it has never been smooth in 10 years in a row. So it was obvious that there would be some good years and some not-so-good years. Everybody prefers that you do not stumble out of the gate, so it would have been nicer if the first year after new targets was not a stumbling block.

But the reality was, there was always into the perception and the logic from our world that we would see some of those years being less strong and some being stronger. So the 9% CAGR that we now have to deliver, considering where we stand from – we need to have a 9% CAGR to hit the SEK 20 billion – is built on the three core premises, one being we have the best portfolio ever coming, continuing to win market share in our current core categories. So we are replacing all of our key volume-driving products. When we do that, we always drive, historically, volume as well, because you are now not replacing something that is in store. You are coming with something new, you are creating interest, you will continue to nudge the margin there. You will both nudge up the market share and you will also get a trade up [inaudible].

There is somebody from Norway that needs to mute.

So then, if we look at it from that point of view, you will see in the current core categories a continued growth from a very strong product portfolio offer, with a lot of very important launches coming in the near run.

Secondly, it is clear that we now, when we saw 2022, where we saw a dip in volumes in our core category, but they are at a higher than average historical price point. When we get a more normalised situation going, you will get that at relatively high price point, so unit sales is one thing, but it is also at a higher average net sales price.

Thirdly, we are entering new significant categories that will be zero cannibalisation in sales. It is pure added sales, so, even if they are relatively small in the beginning, it is just on top rather than partially cannibalising, so that is one of the other reasons.

And then, finally, we are convinced that, with a go-to-market approach that continues to slowly, according to everybody, board and investor, but very surely, be more and more direct to consumer for every year, you get an average net sales price boost, of course, when you sell direct to a consumer versus when you sold that same product to a retailer.

So those components will be a combination factor driving that growth, with a more normalised – not in 2023, as you said, Gustav; only the bags in 2023 – but in future years, yes, there will be normal average price increases in our expectation, adding on top of it, as it historically has been doing.

Gustav Hagéus: During the pandemic, product companies choose a little bit different routes in terms of what channel to prioritise when supply was scarce. Some, like Nike, perhaps, much favoured their own channels at the expense of retailers, while my sense is that, Magnus, your view was a little bit the opposite: that you first needed to feed the hungry mouths of your retailers and associated distributors, while then taking whatever was left to your direct-to-consumer business. Firstly, is that correct and a correct analogy?

Magnus Welander: It is not 100% correct. I think the first part is correct. There were some companies that clearly favoured their higher-margin direct-to-consumer business. We never penalised it, but we did not favour it either. So we were equally bad in our own direct to consumer as we were in the pandemic to the big retailers. Similarly bad in running out of certain things, not coping. We were not worse, but we were not better.

The reason we did not favour it was very much connected to the logic of how big a share it was and what you want to do in terms of throwing garbage in your own garden, so to speak. If you have a lot of successful retailers, where you obviously have a high margin, otherwise we would not have the EBIT levels that we have, you do not want to point the finger in the eye of them and say, ‘By the way, we are going to go hard on our own direct to consumer’.

You want instead to say, ‘Dear customer, the consumer will choose the one that offers the best service, the best total package for them. If that consumer, with us selling full price, which is what we do on our own, happens to choose us, it is not our fault, it is a trend in the market. Just because we have a fantastic home page, we present it well, that is’ – so, if we would have favoured it, our retail customers could have told us, ‘Well, it is not just about the consumer choosing. You are choosing.’ We did not want to do that, and the main reason was we are relatively small, still, in direct to consumers. If we were already at 20% direct to consumer, there is less of that discussion, and you could have dialled it up more. So I think it was more also where – how far were companies in the journey or how significant their direct-to-consumer business was.

We only have three countries where we are more than 10% of sales direct to consumer: US, Canada and Sweden. And we are growing in others in terms of share of sales; quickest at the moment, obviously, for two reasons at the moment – generally, the trend, and secondly, simply because we do not have the bicycle industry inventory situation in our own direct to consumer; we sell to the consumer that want to buy.

Gustav Hagéus: Different subject a bit, but talking about biking still, Shimano was out with their full year guidance not that long ago.

Magnus Welander: Yeah.

Gustav Hagéus: And if I understood the message correctly, they were quite negative on the second half versus the first half for the full year. Can you help us understand the dynamics in the inventory chain and how that plays into Thule?

Magnus Welander: Yeah, I think, as always, also being the chairman of Mips, sometimes you have to realise where somebody is in the chain and, when they are saying ‘the season’, what that means. Shimano produces mostly – of course, they do sell spare parts and components also into retail, but their big, big business is selling to the brands that manufacture the bike, that then puts that bike on a boat and then, 50 days later, it arrives in North America and then, 30 days after that, is in a shop and then is getting sold. That whole time lagging means that you should not compare their view of what is a season with those that sell direct into retail with next day delivery. There is a momentum shift.

If you looked at their numbers in the second half of 2022, you remember, they were the only ones who said, 'Ah, it is pretty good business', because they were selling into those manufacturers of brands that were actually producing bikes that are now being shipped in for this spring season. Now they are starting to sense, Shimano, the same worry that we that sell direct to retailers. Retailers are a bit iffy in signal to the brands. The brands therefore tell Shimano, 'Yeah, I ordered a lot from you', which is why Shimano sold so much in Q3 last year, 'and I have now done my bikes, but there is a worry in bike retail. I do not know how aggressive I want to be to replenish during the end of the 2023 season, so I am going to need to get back to you, Shimano.'

So I think it is very logical that Shimano is more pessimistic towards the second half, while most others that sell into retail are saying, 'We are going to have super simple comps, we are going to have a strong second half, because we sold almost nothing in 2022 Q3, Q4'. So that is the shift logic.

Gustav Hagéus: And in terms of seasonality, I believe the in front consensus currently estimates 15% EBIT margin for Thule for the full year, and you have indicated that Q1 will be quite a lot weaker than we usually have seen.

Magnus Welander: Yeah.

Gustav Hagéus: To beat that number, or to reach the number that consensus has for you in terms of margin, do you expect it to be a little bit of a different season this year again, where this second half perhaps will be a little bit stronger, where retail will be perhaps a little bit cautious to reorder early in the season and get gradual confidence towards the end of the season, or how should one view that?

Magnus Welander: I think, as always, you have to compare versus the weird 2022 and then versus a normal 2019, and you have to do both. So, versus 2022 in comps, it is obvious; we have an absurdly strong comp, both in terms of sales numbers and EBIT margin in Q1. It is absurdly strong because it was inflated in 2022.

Then Q2 in 2022 was more normal, but still very strong. Q3 and Q4 of 2022 were very weak, both in terms of volumes, but also in terms of very much our EBIT, because we did not need to produce anything. We sat with too much in stock, so we got extreme under-absorption effects and a very bad product mix effect, because it was relatively high-margin products we sold very little of.

So, when we compare with 2022, we will have a weak start, okay-ish Q2, very strong Q3 and Q4 versus 2022. When you go back versus 2019, it is more Q1 that stands out, because we are at this Q1 not producing almost anything or selling relatively less bike-related and having less production of bike-related, which we normally do some sales and quite a lot of production. So, versus 2019, it is Q1 that stands out a bit comp-wise, then Q2, Q3, and Q4 we will have stronger margin performance versus 2019.

Gustav Hagéus: Again, if you have a question, please raise your hand. If we can skip the bike-related after 45 minutes and have one question on RV, I note that there are a lot of negative comments on the US RV market, but you are mainly exposed to the European market, if I understand correctly. And, looking at all the presentations from the big European RV manufacturers, it seems like they have a huge backlog into 2023, while also saying that component supply and chassis are available to a much greater extent than they were in 2022, so can we talk a little bit about what you perceive there as a reasonable assumption for growth from your end, and how it plays into the inventory cycle as well?

Magnus Welander: Absolutely. You are absolutely right, Gustav. 95% of our sales almost is Europe. So, here you have three very good litmus tests, as you mentioned, in the three stock listed companies that almost take 60% of all motorhome sales in Europe, so Knaus Tabbert, Trigano and the Thor Industries European leg. If you look at them, they have slightly different views. Most optimistic is Knaus Tabbert; they have done the best job in finding more suppliers than the Stellantis Group for their chassis. So they have Mercedes Sprinter chassis and others. So Knaus Tabbert is doing better at the moment in serving that long backlog that exists.

The others are still struggling a little bit, and they are therefore right, they still have very good order books, they have long backlogs and now are getting more chassis and more things, so they will be able to serve well with what is an existing order book.

My only concern in that is I think they might be overestimating that some people might be stepping out of that queue that they are in, because those people that are in those queues of motorhomes are very keen on doing that vacationing. They are really keen on it. They love it. That is, ‘I am going to go RV-ing, I am going to bring my gear, I am going to do all these things’. So that has not changed. You can see that on participation at fairs and events and all that. But what the reality is that those same motorhome manufacturers are now telling consumers that placed an order 18 months ago, ‘Sir, that is now €5,900 more for the same vehicle that you thought you were buying for €45,000 is now €50,000 plus’, or ‘The one that you thought you were buying for €70,000 is €85,000 plus’. That, combined with, at the same time, being a bit afraid about your general financial situation, might make some people in that queue stepping out of the queue. So how strong the queue is is more up to who is quick to serve it, which is why I believe Knaus Tabbert is doing better, because they are quicker to serve it, and people have not started stepping out of the queue.

I therefore think, in total, a solid start to the year, as you are right, Gustav, because there is a backlog, and they are getting this started this year. And the bigger question mark for the RV industry will be the second half of the year, depending how many who did or did not step out of the queue, because the backlog is there.

Gustav Hagéus: And it seems also, when you speak to these RV suppliers, that they believe that there is a sort of restocking that is bound to happen in the European RV dealership, then – that there is a lack of maybe two months of production in order just for them to be able to showcase their units to customers. Do you have a view on that, Magnus? Is there, in a similar way that we had the bull whip effect on biking last year?

Magnus Welander: I think there is a risk of them overestimating that because, if a retailer for now, or distributor in this case more than a retailer, for two years have had to live by showing images online and people still have placed orders when they have been at the fair and online, I am not so sure that they are going to be equally eager to fill up their lots as much as they have historically. And therefore, depending on how the queue is, I am not sure if it is those few months. There are clearly not enough vehicles out there, that is true, in some markets, so there will be some filling up. That much? That is the one to pan out, I think, for the second half of the year, because the first half of the year, clearly the distributors will just sell it onto the consumer because there is a backlog. So it is going to be this second half of the year, will the distributors want to have things on the stock for 2024 or not? That is, I think, the bigger question mark.

Gustav Hagéus: Mr Ryan, your question?

Ken Ryan, WCM Investment Management: Yes, if I could jump in with one. Maybe you could talk us through some – clearly you are a huge admirer and have made a massive impact on this company. Mips, I am sure you feel pretty similarly. What other companies out there do you really admire?

Magnus Welander: I think there’s a lot of very, very good companies in the type of sectors we are. Most of them are not publicly listed, because they are relatively often smaller. I think, you know, I had Matt Reintjes over here visiting some weeks ago at Yeti. I think what Matt and the team has done at Yeti is very strong. It is a company that is thinking the right way of, in my mind, how to build for the long run. So there are a number of companies, but most of them are, actually in this sector, relatively small and often not publicly held.

One of the challenging things now, for example, if you are interested in the bike industry is they are all disappearing from the public light. KKR bought out Accell, then you had Cannondale disappearing into Pon. So, actually, some of those small companies are just disappearing a little bit off the public map, but there are a lot of good companies out there. Most of them are relatively smaller.

Ken: Got it, thank you.

Gustav Hagéus: And you obviously took Thule from a private environment yourself into a public one. Looking back, all is equal, what type of connotation would you like to be if you had one more go at being a CEO?

Magnus Welander: I actually – this is maybe weird, because I do not think the difference is as big as people that have not done both perceive. I think the reality is this. It will always be management that needs to have a plan. When you have that plan, sometimes you need to convince a few partners at a private equity firm or a family owner. Sometimes you need to convince a board and an investment community. If you have a strong plan and if you prove out your plan, it is equally easy or equally difficult to convince any of the ones.

I think the only risk with the public environment is this 'comp versus last year' situation. But if we are brutally honest, even a PE player or a family owner has a similar limited memory. 'I only remember what you did last year', right? So I think in reality it is this. When there is too much catastrophe feeling about Thule's 2022, I like the fact that I have been around 17 years, because that was the second-best year ever in the history. It was not nearly as good as we hoped, we are not happy with it, but it was still the second-best year in the history by far. So that is, of course, a reality that would not matter that much.

Then I actually like the fact to speak about the business, your products, so that makes the public fun because, when you are family owners, there is not that many people listening when you speak about your business. So there are pros and cons, but the differences are very small, actually.

Gustav Hagéus: Greg?

Greg Dean: Thank you. You kind of saw this business through its transformation from somewhat of an EE rollup disaster to very focused on organic growth. Given you have seen that sort of life cycle in one asset, one company, where did you find you were having the most fun? So, as it relates to things you might do in the future, do you want to get involved in shrinking, divesting, growing, buying? What is the skill set that you most enjoy deploying?

Magnus Welander: I think in life you can always say, you do a lot of things, and hopefully do most of them pretty okay, and you do some of them because that is part of your job, so you do it. What is clearly the most fun part is to build a long-term plan, together with people, and to actually do it. There are some people who love to talk about strategy. I have to admit that I am 10% inspiration and 90% perspiration type of guy.

So the fun thing was not to theorise, which I did back in 2010, where we could take the company. That you can do over some days and do some nice-looking PowerPoints; I am pretty good at that. But what is the exciting part is then to work with all your colleagues and then, 'Holy crap, we actually made it happen in juvenile products', right? That is an exciting thing.

So, for me, divesting was a must, because those companies did not – those divisions did not fit into what we wanted to do. We did it well, we made sure we got money for it. But that is never as fun as building something and being around to see it on the roads. I was CEO of a then small company, now a US$3 billion valued company, called Envirotainer that does temperature-controlled air freight of pharmaceuticals. When we did the strategy change of that company from sending around foodstuffs to completely change it to do pharmaceuticals, what I am happy with is that now, 17 years later on, when I travel to an airport, I see that container and I know it shipped all the COVID vaccines. That makes me very happy.

So I think I will have the same in 20 years' time when I travel around the world and I see loads of Thule strollers and Thule bags; so the enjoyment is knowing that it will be around, rather than, 'I did a brilliant plan and we made a lot of money'. That is a nice context, because the money that you generate creates the opportunity to generate future growth, but it is that future growth that is the exciting part.

Greg: And what would you say is your biggest regret in the almost two decades you spent there?

Magnus Welander: Actually, I had somebody ask me, 'Do you want to do some type of revenge thing now when you were fired?'. I truly can say, and this is maybe my smart 26-year-old daughter that joked about it on the evening I had to call them and tell them, 'Dad was fired, girls', so you know when you do not read it in media. And my 26-year-old, who is finishing her studies as a mechanical engineer, she said, 'Dad, you know, you had a heck of a fun 17 years. If you would not have done it the way you wanted it, you probably would have left after two years and been bored. Enjoy the ride, so to speak, right?'. So I have hundreds of small things we could have done better. I do not have any big regrets.

Fiona: Magnus, when you look at the expectations from the public investors for 2023, 2024 and outwards, what do you think is the biggest misunderstanding?

Magnus Welander: I think, rather than misunderstanding, because that implies that there is a known factual thing that is wrong, there are views of interpretation that, you know, should be different from different investors and me as being very involved in it. I think the single most challenging thing in assuming what is going to go on with Thule at the moment is, what is the normalised real EBIT level as you roll on? It is clear that we said that when people – 2022 plus was too early to be a 2022 plus. That was boosted by pandemic, over-absorptions and a lot of good things going on at the same time.

That 2022 performance is too low to be correct, clearly, because there was weird under-absorptions that we couldn't compensate. So, I think the biggest, most difficult – and it will have to be proved out during 2023 and 2024 – is the 20% EBIT logic level is very logical. We have done the right things to be above that. Now, at the moment, naturally, feeling like, 'Oh, they have lost it, it has gone back', and there's some speculating very pessimistic view on what the long-term EBIT will be – that is where I think the most incorrect perception is.

We have done the right things with the pricing. The new products we are doing are coming out at very good margins. There is the situation of an under-absorption going on, short term. I am very calm that that will sort itself out. So that is where I differ in views. I am not saying they are wrong, but differing views is on that.

Fiona: Fair enough, thank you.

Gustav Hagéus: Might I ask you, you obviously had a fair amount of discussions, with Mattias Ankarberg being in the board for several years. What do you recognise as his main strengths when it comes to leadership, understanding of the consumer market? And what can be bring to Thule, do you think?

Magnus Welander: I think he is a very savvy commercial guy. Everybody has their forte. There is no doubt that this is a very savvy, commercially oriented person, understanding pricing, go to market, product performance type of issues. How do you drive sales? What do you look at? What are the KPIs? He was always by far the most brand understanding in the board, so he will have to carry a big load there, being the most brand savvy, so to speak, now, because he was the speaking party, I would argue, in the board for brand-oriented questions for me.

So I would say that is his strength, so it is on the commercial end. And that is just looking at his history and heritage as well. He has not worked with factories and product development as much. That is not his background. But commercially very savvy, very driven, very likeable person. He is going to have an easy time to get to know all the colleagues. They have met him, most of them have. Both layer one and layer two has met him several times presenting projects and products to him, and they have always liked him. He is very easy to get going with. And, as you would assume of somebody who had a very successful career at McKinsey, he is a smart guy, no doubt. Brains he has, no doubt; he is quick in his head.

Ken: Maybe you could walk us through where you and Mattias butted head the most over the time you guys were both on the board together.

Magnus Welander: I would argue that he is probably the board member that I have had least differing opinions with, I would argue. We are probably the most aligned out of all the board members on how we have looked at things. So he will have had, as he should have with his strong background on commercial, views on, 'Let's dial this up, let's be more aggressive', you can guess on which component of the go-to-market approach owing to his background, etc. But, if you look at it, I do not think we have had a lot of differing of opinions. Pretty well aligned view on how you drive this company forward.

Ken: What is one that comes to mind, if you had to pick one?

Magnus Welander: I think generally, it is obvious that, being a CEO of a retailer at the moment, having been responsible for online sales for another brand/retailer in H&M, he has a hungrier and more aggressive approach on how much you do D-to-C than maybe I have had.

Ken: Got it. Great, thank you.

Gustav Hagéus: All right. With that, it is 16:00 here in Sweden. This was the time that we were giving, so we are going to respect everyone's time. Really appreciate you coming here and talking to us, Magnus, although you are not a long stayer, and thank you for everyone who showed up.

Magnus Welander: Well, I have time to talk about Q1 and Q2, so you are going to be bored with me two more times as well, so that is okay.

Gustav Hagéus: That is okay. All right. Have a good afternoon, everyone.

Speaker: Thank you for all the great work.

Magnus Welander: Thank you.

[END OF TRANSCRIPT]