Thule Group – Global Group Meeting with Investors and Analysts

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Introduction

First of all, let us go back to the reason for this call. It is of course that we, about now 1.5 weeks ago or two weeks ago, did a profit warning for the Thule Group on the situation that had clearly amplified in what we were stating at the end of the Q2: that we saw a worrying situation with bike retailers' inventory levels. We grossly underestimated what would happen in the quarter.

Before we go into anything about what that meant and what it will mean, clearly we have to take a step back as management in our company, and myself specifically, to look at how could we, who are very close to so many retailers and so many bike brands in this sector, be so wrong only a few months out.

When we look at it, it is I think a classical situation of being worried but still seeing a lot of good things going on. You sometimes underestimate your worrying feeling. We did have a negative view on a Q3 performance versus the exceptionally strong Q3 in 2021, but we were not even close to estimating how much it would slow down and how rapidly it would slow down in the beginning of the quarter. Since it was so significant, we chose to go out very early. We did not even have the full books for August in, in terms of impact of the business, but we saw the sales numbers for August and therefore we went out and made a clear profit warning to all of you as investors and analysts, because it was such a significant different image than we had seen only a few months before.

In the press release and in the subsequent discussions, we have then walked through some of that combination of two bullwhip effects: a fantastic and extremely successful 2021 as a whole in the bike category, with specifically the third quarter being the exceptionally strongest quarter, versus then an exceptionally weak third quarter now in 2022, but we have relatively seen, from a consumer purchasing behaviour, smaller changes, although changes not nearly as big as the changes are in the ordering that retailers are placing on various brands, including Thule, than in bike-related product categories.

I know that there has been a lot of frustration with me and us, of 'You thought it would go much better. How can you be so wrong?'. I can take that frustration on my shoulders. I am equally frustrated that we were that wrong in our assumptions about the bike market, but we cannot do much about the past of our mistake of not being pessimistic enough on a very rapid retail reaction with a very aggressive handbrake pull on orders. It is a fact. We are now in it, and now it is more about what it means for us as a company and what we do about it.

Questions from analysts and investors

So the questions we have been receiving in front of this call have been about how much more we can detail on what is going on. First of all, when we did the profit warning, it was clearly early days. We are still in the quarter, so we are not seeing a ready picture in any shape or form at the moment, but clearly what we saw was so significant that we needed to communicate it. In the subsequent investor-analyst call we had on the Monday, we outlined some further facts that I want to repeat and clarify, which led to some of you already having done either very analytical macro Excel calculations or back-of-envelope calculations on what the sales drop has been, so I am going to walk through those same statements we did on that investor call and also then refer back to the logic of what that means from a short-term perspective.

Then I am going to be walking through the two other main question areas that you have been posing, which are, 'What do you now believe for the bike sector? When will it recover?', so this is the big €10,000 question. And then the third one, 'What does it mean to the profitability and EBIT margins, short-term and mid-term, for Thule Group, and, more importantly, what are you doing about it, or are you just sitting still in the boat?'. So, those have been the questions. I have noted, as I said to Fredrik, that when the times are tough, the questions are posed a little bit tougher. We like that, so we can deal directly with them.

Retailers are overstocked

If we look at the first point, then, the bike retail sector has a very challenged situation in estimating what they are going through, because they had their best year ever in 2021, despite having their worst delivery performance ever from their suppliers in 2021. So in 2021, all bike retailers were extremely frustrated with all bike brands and all bike accessory makers and bike-related product makers for their inability to send them products when they would have liked them. That meant that they had overperforming performance over a period of time, despite not getting good delivery performance.

What is interesting to note is that even today in 2022 Q3, when they have very limited sales out and are pulling the handbrakes on every order from almost every brand, in a recent review done by the German IFO institute only a week ago[1], 96% of bike retailers still complained on delivery performance and on-time, in-full delivery from bike brands. That sounds almost like an oxymoron. It sounds impossible. If they are ordering that little and if they have so much inventory stock, how can they be so incredibly frustrated with the inability of the players in the bike brand industry, or bike industry and bike accessory industry, to support them?

Simply, it is because they have the wrong products in stock and premium bikes and premium bike-related products, mostly the premium bikes, are still a struggle to get with decent lead times, because despite many bike brands ramping up their capabilities, the premium e-bikes and the premium downhill mountain bikes and the premium road bikes are not delivered in the best type of delivery performance still. What was able to be ramped up was very significant volumes of more ordinary bikes: children's bikes and basic bikes.

A strong 2021 for Thule

What was happening then, to go back to it? In 2021 we got the question from some relatively newer investors: 'Did you really say that bike was your biggest growth factor in 2021?'. I can then calmly say, since I am now seeing a lot of my quotes being snippetted out - that 'You said exactly this', and then there is a part of my quotes to make it sound certain ways – I want to be clear, we did repeat many times throughout 2021, in every quarterly report, that we were generally performing well but that all the bike-related products were performing exceptionally well.

So yes, we were sure and confident that we had an exceptionally strong 2021. We then stepped into the first quarter of 2022 and had an exceptionally strong bike-related category in the first quarter of 2022. That quarter was well above any other quarter in bike-related products. We did not expect that we would have an exceptional 2022 in bike, but yet quarter 1 was exceptional. The reason was this fear that many retailers had that, since they could have sold even more in 2021, they felt, with many visitors coming back and forth to the shop asking for specific products, any retailer wanted to avoid that issue in 2022 by ordering earlier. All retailers did that almost across the board, not only with one brand but with all brands, and at that time most brands were catching up better, except Shimano, which still struggled for the premium bike accessories, gears, etc. Therefore, the premium downhill mountain bike or gravel bike makers, but most retailers, most brands were catching up in bike gear and in bikes in starting to deliver good quantities.

So, in 2022 Q1, we pointed out that we had an exceptional start of a very strong bike season. It actually continued with strong performance in April and May, which means that we were seeing a strong, knowing we would be facing very difficult comps with early sales. We therefore had communicated to the market also clearly that our ambition was to lower our inventory levels that we had been building up to be able to better supply in a complex and longer-lead-time reality, and our ambition was already before this happened,

[1] https://www.ifo.de/en/press-release/2022-09-20/german-retailers-concerned-about-getting-hold-supplies

therefore, to reduce our temporary workforce that we take in normally during a period of peak performance or peak sales. That was more luck than skill, because it means then that we had already sent messages to our factories and started to reduce our workforce long before we saw this dramatic decline coming in Q3. Our reason for doing that was to reduce inventory levels. It was not because we were expecting the drop to be as significant as it became. So that has then two consequences. One, we will not be reducing our inventory levels in the way we were estimating. We expect to end the quarter at similar levels as we were before in the previous quarter, rather than reducing it. Secondly, those impacts were good in a certain sense because we of course did not have the temporary workforce in direct wages, but we still have a bigger organisation that does not see the top-line volume coming through.

Impact on margins

To the follow-up question that a lot of people have asked, of course that will have an impact on our margins.

To give you an idea then of what has happened in bike, we also in the subsequent call on the Monday after the profit warning informed you that in 2021, which we had already presented, approximately 50% of our sales were bike-related products, while in the years before the pandemic it was very close to 40%. So, clearly, the share of business going to bike-related has been amplified, where we were growing in other categories but we were growing faster in the bike category during the pandemic. Specifically, it was the third quarter and the fourth quarter which had an absurdly much bigger share of bike during the pandemic than it did before, because normally, historically bike was very dominant in the spring and then became much smaller in the autumn, when people did not buy as much bike products. However, due to inability to fully meet demand and a very strong market, we sold more products in the second half of the year to retailers, and there were more consumers that were patient to wait and buy the products in the autumn when they got their bikes throughout the pandemic. So, we in fact in Q3 2021, 50% of our sales were bike-related products.

I then presented on the Monday that that was now going to be only 25% of our share indicatively. So, smart analysts did a quick back-of-envelope calculation and yes, their estimations were right. That must mean that you are dropping 60% of sales on bike-related product, because we had communicated that we were still growing in other categories. So that is a pretty good guess. I mean, there are still 10 days left, but we are going to be approximately 60% down. If you do that logic of the share sales, as we have communicated, you are correct in that assumption in bike.

When we presented that 60% down, therefore, we also clearly communicated, which we have done before but we repeated it again, that these are high-margin categories for the Thule Group, as we have communicated before.

Within the Thule Group, out of the four product categories, it is Sport & Cargo Carriers and Active with Kids, as it used to be called – it will be called Juvenile & Pet going forward – that are the two highest-margin categories, which has been communicated on repeated occasions. Within those categories, these bike-related products are more significant. It is more than two-thirds in Active with Kids and it is more than half in Sport & Cargo Carriers. So clearly you understand that it is high-gross-margin products that we are also seeing the significant volume drop in. By default, it will therefore have an impact on our average gross margin, even without taking in account any economies of scale on product overhead.

More competition

Then the other thing that was noted specifically, which I have received a lot of follow-up questions on, is that we made clear in the call on the Monday that we are seeing clear trends that it is at some of the mid-to-lower price points for Thule, which means for many other brands relatively higher price points, but in the market our lesser expensive products, that are seeing the most significant negative impact in sales, while more expensive products are actually performing significantly better comparably. To give you an idea and as an example, we can look at our bike trailer segment, as we are the number one in the world in bike trailers and very, very strong in the more extreme premium bike trailer segment, with our Thule Chariot product. We also sell some much more basic, lower-priced bike trailer products, where there is a significantly more competitive environment. In the premium bike trailer segment, there is only one strong competitor, which is a German brand called Croozer, that also sells volumes of a premium bike trailer, while if you go down to a more basic, entry-level type of bike trailer, you will find seven or eight different brands doing quite okay products.

What then has happened during the pandemic – you are all aware that material costs and prices and freight have gone up. As Thule should do, we have ensured that we put the right price in the market to continue to be price-effective and to be profitable. So clearly we had raised prices more than the competition, because they had been less focused on that or less aware or less capable of doing that. When we then entered 2022 and all the retailers were worried that they had not been getting enough products, they bought a lot of products from everybody – from us and from other brands. If you have one main competitor, it meant that they bought too many in the beginning, in the pre-season, of two brands, so too many of ours in the premium and of our competitor, Croozer. If it was a product level where there were seven competitors, you might find it weird, but actually the right retailers bought too many of all seven. If you amplify that and put them on top of each other, that means by default there were significantly much more overstock levels at those types of price points, because there were simply more average Joe brands also playing in there. You can see that on our bike trailer segment, where if we look at our performance in the quarter so far, we are then on our most premium bike trailer growing significantly versus 2019 but declining somewhat against 2021.

So we are in decline even in the most premium versus the exceptional, extraordinary 2021, but there is a significant growth of more than 30% versus what the number of units – we are not talking value, because the price has also gone up – of our most premium bike trailers before the pandemic. However, on our least premium bike trailer, we are declining, with 70% versus 2019. Why is that? Because every retailer is sitting with a lot of Thule, but unfortunately with also seven other brands that they had a lot of. When that happens, it takes a much longer time for the cleansing of that to be balanced out.

That whole logic is also why – which is applicable on bike carriers and many other products, but in our case on bike carriers and on bike trailers, which are our two biggest categories by far in the bike-related category – we estimate that what we will be seeing is not just a negative effect of retailers adjusting their inventory levels, because it is not just Thule inventory levels, it is definitely inventory levels of a lot of other products from other brands, but they will be doing that for the coming three quarters, so quarter 3 this year, quarter 4 this year and also versus an exceptionally strong first quarter 2022, they will be a lot less aggressive in pre-season buying. They have not told us that, but I can guarantee that that will be happening, because they are obviously very gun shy now, sitting with far too much stock in many things.

Retail market unlikely to rebalance before spring 2023

That will mean the earliest we will see from a retail perspective a more balanced situation is when the normal season starts in the second quarter spring 2023. That means we need to be realistic, considering that we had exceptionally strong bike-related sales in the third and fourth quarter of 2021 and the first quarter of 2022, that we will see a significant drop in sales in those bike-related categories for all three quarters. That then means clearly, as we said, that there is a negative impact on average gross margin, even before taking into account the economies of scale effect or production overhead coverage and SG&A coverage.

Supporting launches with higher spend

This then leads to the second biggest question, which we have got from a few: why did we not announce a number of saving initiatives when we announced the significant sales drop? Other companies that have come out with profit warnings in this quarter have already announced significant staff layoffs and spending reductions.

So I want to be clear. It is not like we will be spending exactly what we were planning to spend if we would not have seen the sales drop, so I want to be clear on that. It is clear that we are a company that do not take it lightly and do not spend if we do not think it is the right thing to spend. However, there are a few obvious points in terms of what it will still mean from an EBIT margin perspective. We have to admit we were dramatically wrong on how rapid and how significant the sales reduction was in this quarter. So, no matter if we were the world's most active company in reducing costs, we could not have done anything in the speed that it was happening anyway specifically this quarter.

Entering new product categories

Secondly, we are in the mode of pushing the hardest we have ever done in terms of entering into new product categories, with car seats being presented at a large Kind and Jugend show some two weeks ago and with dog products coming as well, on top of a broad range of new launches in all our existing product categories slanted up for launch in 2023.

To go back to the existing product categories, we can remind everybody that we presented already in the autumn of 2021 and throughout 2022 that we were launching fewer new products in 2022. Having struggled so much with supply chain, we decided to postpone some previously planned launches for 2022 into 2023, while also pushing ahead with the already planned launches for 2023. It means it is going to be the biggest launch year by far, ever, in the history of the Thule Group, both in existing categories and then entering into car seats and dog products. Now, with hindsight, that looks like a stupid decision, since top line is not coming at this very moment and we are spending more money than ever in product development and product management and marketing to be able to launch those products. Long term, it is absolutely the right decision, I have no doubt whatsoever. Short term, it looks like this was the worst combination of two things – the highest spend on SG&A you would ever see, with a dramatic drop on our top line in quarter 3. So clearly the quarter that will be significantly most impacted from an EBIT perspective versus past periods is quarter 3.

Now I got a lot of questions – 'Give us the exact number.' We cannot, because we are in the midst of the quarter and we do not give exact guidance, but what we can say is that it will be our highest SG&A spend for a quarter. We will see a gross margin drop due to product mix, and there is an obvious negative effect in terms of production overhead coverage and of course SG&A coverage if you dramatically reduce sales, but no, we are not doing rapid, huge cost reductions in this quarter. Rapid, huge cost reductions are never smart, because you are throwing away projects and money, so we will not be doing that. What we are doing, like we always do, is we are going to adjust and make sure that we do those initiatives that will drive the long-term growth, but in the right way. So, obviously, for example, if you look at CAPEX spend, it will be slower than we estimated only six months ago, because some of that CAPEX spend – approximately SEK600 million – was supposed to be purely quantity and capacity related. We do not need to do those now – we believe we will need to do them some time in the future, but we will not - while others were very much strategically opening up a new plant to be able to make car seats, with all the automatic assembly that that entails. On top of that, there is some other automatic assembly for high-volume products in current categories that will be launched.

So yes, adjustments are happening. You will not see big, one-off adjustments or allocations. We are taking that on the P&L as we sit, because we are not going to do huge reductions or closures or anything like that, but we will do the smart spending measures. However, in quarter 3, that will not be the case. It will not impact, because we are running ahead hard with all those projects. If you then look at the impact in the coming quarters, quarter 4, although being more bike than normal in 2021, is still a quarter where we are less exposed to bike, so therefore less exposed to those categories that are grossly underperforming and more exposed to categories that are performing better. The impact on top line will therefore be smaller. There is also some slightly longer time to adjust some of our spend and therefore we are more comfortable with what will be happening in 2022 Q4. This is not compared to the exceptionally strong quarter 4 in 2021 but more towards historical pre-pandemic levels of performance in quarter 4.

Then the challenge comes to quarter 1 in 2022. As I said, we already at the time pointed out an exceptionally strong early-season fantastic performance. We will not be meeting that, but once again, it will be more possible for us to have adjusted the right spending levels, so therefore not nearly as bad as quarter 3 this year and more in line with historical pre-pandemic types of levels.

Then comes the big conundrum, where you will then say you are probably going to be as right as I have been on estimating the bike industry. Considering how wrong I was only a few months ago, you are probably right on that assumption. I do not know how well the bike industry will pick up again in quarter 2. What I do know is that when I talk to all players in the bike industry, with all the bike infrastructure investments going on, with all the 'It is smarter to travel with a bike than a car' in current terms of fuel costs and other ways, and a still very strong interest in bikes as a fun tool, we are convinced of the bike category in the long term. If that is a recovery already in the season of 2023, we will have to wait and see. I believe, as we have said, that we are seeing an exaggerated and very clearly two parts of a bullwhip effect from a retail purchasing point of view. Sell out to consumers is not nearly as big, but sell out to consumer has been lower in Q3 2022 versus the exceptionally strong Q3 2021. Now, versus previous years, as I said on some of the examples we have, we are actually selling more units of many of our products versus pre-pandemic times.

2023 forward view

Now the big question will be, 'How will 2023 pan out?'.

As a reminder, those bike-related categories represent approximately two-thirds of our sales in Active with Kids, approximately half of our sales in Sport & Cargo Carriers, approximately 15% within RV Products and only about 5% to 6% in the Packs, Bags & Luggage, which also then impacts differently in those categories.

Finally, I got the question on, 'Will this mean that your promised always over 20% EBIT margin will actually be able to be delivered in 2022?'. I got that question from Mats Liss on the Monday call, and he said, 'I guess you do not', and I said, 'That is probably a good guess.' So I can repeat, he is probably guessing right that, with that very big impact that we are seeing specifically this quarter when we are pushing extremely hard, we will see a significant hit on our profitability level in the short term. Am I equally confident and, as some people have expressed now, arrogant, that we will be above 20% in the long run and towards our financial goals? I am equally confident for the long run. I was wrong in being able to compensate for such a rapid, dramatic thing. I was wrong once in the second quarter of 2020, when the pandemic hit - then we could not compensate - and I have been clearly wrong this time when it was such a dramatic impact on bike retail in a very short time frame.

Over time, I think there are a few things that speak very well of what we are doing. We have defended our gross margins by doing the right price increases. We will not therefore be, as many other brands will be, exposed to a situation when now prices from materials and freight are calming down, that they are realising too late that their gross margins are so low that they will need to do price increases when costs are not increasing. So I got the question ahead of 2023, 'Will you do big price increases in January 2023?'. The answer is no. Most of our product will not get a price increase in January 2023. There will be some. Packs, Bags & Luggage will, because the whole market is going up and we will as well. However, in many of our products we will not do a new, additional price increase on 1st January. We will get some effect of the price increases we already did mid-year this year carrying through and creating therefore a like-for-like price increase indirectly, since we now get a full-year effect of that in 2023, but there will be no additional price increases in our products.

I also got a question, 'Why are you not lowering the prices to get more volume?'. We will not, because if you open that Pandora's box, I might as well check out on my findings of how you defend margins over time, so we will not be doing that.

I then got the question, 'But what if there is a specific opportunity?'. What we will do then is we will take away the current product and introduce a new product with a slightly different spec to hit those price points that we find are right, which is a very different thing than doing a like-for-like price decrease, which is the most dangerous thing you can do in business.

With that, we have hopefully answered some of the questions and we have half of the time left, so I open up the floor for questions.

Q&A

Adela Dashian (Jefferies): I appreciate that this call is more related to the bike sector and what the retail market is currently experiencing, but maybe if we can delve somewhat into the RV market, which you also have exposure to and we are already seeing some early signs of weakness in the US. I know that is not where you are targeting, but still what should we expect for that part of yourselves going forward?

Magnus Welander: Okay. You are right, Adela – 95% of our sales within RV Products is in Europe. The European RV sector is very strong, very positive. We have a great year so far. We have a great Q3. We expect a very strong year overall, so we are very happy with RV Products. The reason there is concern therefore for RV Products is not so much related to the current performance. There were 235,000 unique visitors at the recent Caravan Salon[2]. There were more orders placed than ever before at the Caravan Salon. Therefore, it is not so much about the near future that I would say should be worrying for European RV. Anybody in European RV will have a very strong 2022. However, there is of course a concern from a different perspective, with a reality that everybody is talking about. The three stock-listed motorhome manufacturers - so THOR Industries or their European leg Hymer, Knaus Tabbert and Trigano - are all mentioning the fact that Stellantis Group, the huge consortium which has been the bigger player in supplying chassis historically to the RV industry, is having currently an abysmal performance on delivering chassis, which means that all those three large stock-exchange-listed companies that cover about almost two-thirds of all motorhome sales in Europe, are listing that they have tremendous backlogs and order books. They are at the moment drastically trying to shift chassis volumes to Sprinter vans and other chassis, but that is a complex thing. In reality therefore, the biggest question mark, I would say, about RV is not for the coming two, three, four quarters – that will be very strong, and as I said, 2022 is very strong. It is how long can that situation be allowed to continue and still believe that those consumers that have lined up for a motorhome order that might be even 12 months out now see that the motorhome in itself is getting more expensive and being pushed out and their total economic situation getting worse. So, I would say motorhomes will be very calm, with very strong results in 2022, for us and others, I am sure – at least for us I am very sure – but then the bigger question is more mid-year 2023 and beyond, with a different economic situation, subject to how they sort out the chassis deliveries or not.

Adela Dashian: On entering into new product categories, do you expect the entry into child car seats, for example, to be delayed due to the issues – or maybe it is more related to dog transport actually – that you are seeing in the bike segment?

Magnus Welander: No, we will not be delaying the launch of car seats. We introduced it at the Kind and Jugend show[3]. We have announced that it will be coming next autumn. We are now presenting the

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[2] https://www.caravan-salon.com/en/Visitors/Topics/CARAVAN_SALON_2022

[3] https://www.kindundjugend.com/

product to retailers. We are already aware that we are getting listings, etc, so you will see those car seats in European shops in the autumn next year. If you look at the dog-related products, you will also see dog-related products in the autumn next year, and actually you are seeing some bike-trailer-related dog products already, but you will see a bigger launch of dog-related products next year as well. Car seats of course are a much bigger category and have a bigger potential, but still both will be in the shops by next year.

Ram Sampath (TD Asset Management): Thank you. I just had a question on the Sports & Cargo Carrier's non-bike-related part of the business, which is still 50%. You said that you are seeing some growth in that.

Magnus Welander: We are definitely growing there, correct.

Ram: So, versus the 2019 levels or even versus 2019, how fast are you growing, and was there not enough boost, just based on what you saw in bike-related in 2021 and the other part of Sports & Cargo Carriers?

Magnus Welander: There are two major differences here. One was that during the pandemic you did not see the same type of growth in all the non-bike-related Sport & Cargo Carriers as we saw in the bike-related. We had a strong performance, but not nearly as strong because, as I think everybody is aware, there were a lot of different types of closedowns in different periods in some of the key markets and people did not vacation so much in some of the winter periods, etc. So the growth numbers were strong but not as exceptional as during the pandemic, which means the comps are tough but not nearly as exceptional.

The second logic is that that category is served by a different retail structure. Roof boxes is one big chunk of what is not bike in Sport & Cargo Carriers, and the other part is roof racks. If you look at it, nobody keeps lots of roof boxes in store, because they simply could not. It would occupy too much space, so there never was a stock build-up of it – not even when they could have, they would have. So there has not been and there is not this bullwhip effect of retailers doing something. You could theoretically stock up a lot of roof racks, because they do not occupy a lot of space on the shelf, but we have to say nobody wants to. We need to almost force them to have anything in stock, because it is such a boring product for most retailers to have, so it is one of the ones that we really need to convince them all the time to have certain amounts in stock only of the things they should have in stock, and then we supply on a daily basis for the specific car model etc. Therefore, we did not see that type of 'Oh, I am panicking. I need loads of stuff,' one, because we and some of the other players that do roof boxes and roof racks, although we are by far the biggest in the world, actually had pretty good delivery performance throughout the pandemic. Therefore, retailers were not panicking and were not over-buying. Secondly, as I mentioned, the boxes are simply too big to do that. So, we have a more realistic like-for-like comparison. Therefore, with the growth we are seeing, you can say that since the pre-pandemic, we have been growing in low double digits versus what used to be high single digits in those categories – not such an exceptional growth type of thing as we saw in bike, but better than we historically saw before. And we are tracking well also this year in those categories.

Ram Sampath: Just maybe a follow-up on that. Are we maybe just one quarter away from what we saw in bike-related on the roof racks?

Magnus Welander: I cannot say how well we will do, but I can assure you it will not be that type of extreme bullwhip effect of them pulling back in the same way. If we will see a weaker performance in our roof-box sales or roof-rack sales, it will be much more associated with how many consumers actually are buying the products in retail, which is not the factor here for the extreme slowdown in the bike at the moment.

Mats Liss (Kepler Cheuvreux): Yes, thank you very much. All PR is good, I guess, but thank you, Magnus. First, I mean, consumers are sort of in between a rock and a hard place and I guess you mentioned that the bike retailers are overstocked with affordable or second and third lower-priced brands. Could that quality mean that consumers are maybe starting to trade down at those brands, or is there a quality difference still between your brand and the others, so it is not a problem in the medium to longer term?

Magnus Welander: I would argue that on our premium products, there is that clear, very obvious quality, functionality, feature benefit difference that is so clear that it will not be impacting. However, even if, as I said, I might be construed and perceived as arrogant, I am a very realistic guy when it comes to some of our products being not as spec'd out and not as feature rich, because we are offering at a good, better, best. So I am definitely not worried about our better or best still not doing well. They will do well. The biggest challenge we will be facing in general in a tougher economy, which was already the case when I ran that Sport & Cargo Carrier business in 2007 and 2008, is that our good product, which is fighting often against the best product from some of the B and C brands, is not that much more spec'd out. It does more or less what the better products do from the competition. Therefore, if those competitors, for various reasons, do not raise prices as much as we do, or if retail, for various reasons, sit on too much stock of those brands as well, that will impact that part of our product portfolio clearly more, and especially if then, as you say, you have a realistically pessimistic view on consumer spending, it will be at that part of our portfolio we will be most challenged.

Mats Liss: Could a strategy be to maybe launch a second brand, or is that out of the question for you?

Magnus Welander: I think, as always, there is a reason why I call them B and C brands, because they do not make as much margin and are not as profitable. So the challenge here is, I would prefer as a company to ensure that we right-size over time, which you cannot do over two months, but you right-size your spending structure for what is your assumed growth level. When you are going into new categories, you are creating zero cannibalised growth. If you do it with a second brand in a category you are already the world leader in, by default you need to say, 'Am I really only winning against competition, or am I partly stealing from my own very successful, more high-margin business? Am I myself now starting to nudge into a more profitable offer under the primary brand, Thule, just by trying to capture volume?'. Therefore, no, the answer is we will not pursue that path.

Mats Liss: Okay. Secondly, you have the long-term sales target now. Would you say that you are a bit behind the curve now? We get the impression that you were surprised by the slowdown here in bike retail, but longer term it seems that it could sort of recover nicely.

Magnus Welander: It is a little bit like the first curve after just having started on the financial targets that we set in May. At the first corner in the Formula One race, we drove outside the piste, right? Luckily, the car is still intact. We just need to now regroup, get on the track and go again. I do not think anything is destroyed, but we have to admit – it is not guessing – we were absolutely wrong in the assumptions of how quarter 3 would pan out. Does it change our view of our 2030 goal? Absolutely not. Will it make it that we need to make up some and lap some other cars and do some other things for a while? Yes. I am not so sure we will need to lap so many cars. Let us look after when everybody has done their quarter 3 report and what their gross margins look like and how they look in performance, and we will see how much it is other cars we need to lap, but versus our own targets we are clearly off track. We started off track in the first corner. Luckily, that we can still make up, I am convinced, with the strong long-term trends.

Mats Liss: Right. And just finally, about the new products. I guess you mentioned the launch during the fair now and you expect to start deliveries during the second half of next year, but do you have a sufficient amount of retailers, or where are the bottlenecks now?

Magnus Welander: I think we are going to get the listings we want. I am very confident, after the fair, we will get listings. It will not be the listings that will hold us back. It will be winning in the stores that potentially holds us back, because we have to be realistic – we are fighting against some very strong brands that are the incumbents, that are doing a good job, and we need therefore not to be overly enthusiastic and fascinated by ourselves. We need to realise that we are not going to win it on day one. It is going to be a constant gritty fight once we now will get into stores. But the good confirmation is we will have the doors we need to have to be able to do what we want. Then we will need to do that over time, which is not in the autumn of 2023, as everybody realises. It is really starting in 2024 for real, and then it will be how much are we getting that share of the wallets that people do go out? That is one of those product categories that people will go out and buy whatsoever, luckily, because they still get kids and they need to travel safely with those children, and when they are doing that there will be a number of premium brands. We will be one of them. So that is good, but we still need to fight against the other premium brands and they are not going to take this lying down, so we have a realistic expectation level on what it will mean and that we will have to grow it over time.

Ram Sampath: Just maybe one question on inventory levels you have right now. So you did point out about the flexible production in your prepared remarks. I just wanted to know, with the product launches next year, how are you positioned in terms of inventory? And you know that from a retail point of view, there is some sort of thought process where they are not thinking about taking on excess inventory. So what is your positioning right now and, with the product launches, what do you think your position would be?

Magnus Welander: We would have, had we not been incorrect in our assumptions – we were expecting it to slow down, but not nearly as much as it did slow down. So, if we had not gone wrong with that, we would have had a few hundred million SEK less of stock on exiting quarter 3. All of that stock is product we are very comfortable we will be selling in the season of 2023, and we are therefore saying that if you look at our inventory levels, they will be higher than we planned for the third quarter and the fourth quarter. By then we will be seeing a pattern that we were expecting to see already in the third quarter will only be happening as we go into Q1 and Q2. That is when we will be able to reduce our inventory levels to what we believe are the right levels. We have already said before, and I need to repeat that again: the right levels of inventory. Unfortunately, due to everything that goes on with still long lead times and complexities, these are higher levels than they used to be pre pandemic, but they are not nearly as high as they are currently. So we will be seeing an inventory total reduction as we go into the second quarter, third quarter and fourth quarter of next year. We were aiming to do that earlier, but this very rapid, sudden meant that the fact that we had already reduced our production output was not enough versus the huge sales decline we saw in quarter 3 so quickly.

Ram Sampath: If I may, just a follow-up on that. So you are talking about inventory positioning for the next year, so is there any plan to destock your inventory over the next, let us say, nine to 12 months?

Magnus Welander: Absolutely. We will be reducing it by nature of the thing that we are going to be more cautious in production in a number of categories, which we were planning to be anyway, knowing that we had a plan to slowly but surely reduce it. There is a big difference between slowly, surely reducing something and abruptly in two months' time stopping everything. That is never good business, never good economy. So what we were doing was a smart slowdown, we thought, with an expectation of higher sales than we see, to reduce already from quarter 3, then to reduce a little bit further in quarter 4 and quarter 1, and continue to reduce until the end of 2023, which is what had already presented. Now that is delayed with those six to nine months, because bike is not the only thing but it was one of the things. On some other products we are already reducing the inventories, but because of higher inventory than expected in the bike, that reduction as we are now entering – it is low season, and retailers have pulled firmly the handbrake – will only be able to happen as we go into Q2 and Q3 next year.

Daniel Schmidt (Danske Bank): Thank you so much. So two short questions from me, Magnus and Fredrik and Jonas. Just given the sort of situation we are currently in, with a quite sort of unexpected hefty behaviour from these bike retailers, are you happy with that footprint that you have in terms of distribution on the bike side? Secondly, given sort of the massive destocking, what would you say was the behaviour when you looked at Thule.com when it comes to this specific category?

Magnus Welander: I will take the second one first, because it is easier. We grew on Thule.com, because we did not have an inventory situation and in reality you should be growing in these times on any direct-to-consumer of any brand, because we are a relatively new player, so it would be weird if we did not do it, to be honest, and it is still a small share of our sales. And due to the fact that we only sell at full price, we already really, if you look at our take rates, sell the premium products in our D2C. So you would see consumers have a higher share of our sales in our direct-to-consumer. It is the most premium end of our products, where somebody who is wanting to kit out everything often tends to be wanting to buy from the brand, versus maybe at the lower price point where you are going to do more of these Idealo/PriceRunner comparisons and find the cheapest one. Since the more premium products did well and since we are relatively new in direct-to-consumer and since we have no destocking factor, we actually grew in our direct-to-consumer in the period. But it is slightly unfair, as I said, because due to the category mix, due to the relatively newness, it should be that way.

Daniel Schmidt: And then you are also referring to the bikes specifically?

Magnus Welander: Bike-specific, yes, correct.

Daniel Schmidt: Yes, right.

Magnus Welander: So, if you look at the general position of being in bike retail, absolutely, if you are a very big brand and you are not the primary product - we need to admit that on bike carriers. You go to bike because you want to buy a bike, not because you want to buy a bike carrier. A bike trailer, you might want to go to a shop for, because you are thinking about your child and commuting. Therefore, it is important to be in many locations where that consumer goes and speaks to the kid on the floor, they talk about their new gravel bike, they are all into it, they are all gung-ho, they are heating up their credit card to pay for €3,000 for that new cool gravel bike, and that skilful kid on the floor will say, ‘Sir, how are you getting that home tonight?’, and you go, ‘Oh shit, yes, you are right.’ ‘Oh, have you seen the foldable, tiltable one with the carbon frame adapter from Thule? It is a brilliant piece of kit. It has won all these designs. I will show it to you. Come over here.’ And then you are already in it. If you are not in that shop, there is a huge risk that guy says, ‘Oh, that would have been nice, but now I opened up the trunk, I had it half hanging outside. I might go and buy something in the near future,’ but they might not. So we do want to be in a lot of bike retailers. We do realise that, as always, that will mean as a company we will always be in some retailer that goes down or is not the best one or that we see more of this type of situation where lots of them are pulling the handbrake at the same time, but partly it is a cost of the business we have to be in and the risk of the business we have to be in. So it is the right exposure. We need to have it. Otherwise, we would sell less bike product in total.

Daniel Schmidt: Are there any learnings in terms of guidance tools that you are adapting now that you have not had?

Magnus Welander: No, I would say that if anything we have more data points, more sell-out data, more things than we have ever had, and probably it has only made us more stupid, because we still went wrong in June when we estimated things. I can say, with that much data that we have, we are tracking searches on mountain bikes, which were higher in 2022 Q3, not than in 2021 but higher than any year historically, from consumers going in to Google searching on mountain bikes and bike trailers and biker carriers, higher than historical levels, and we were seeing sell-out data that looked quite good from retailers, and we saw their inventory levels, but clearly I understand then they only share our inventory levels. They did not share how much. So, if there is anything about which I have pulled some of my sales guys’ ears, I have to admit - and my own - it has been we underestimated. We could have gone to more of those shops and looked at how many of those other bike trailers do they have in the shop. That is the one learning: being maybe then once again a little bit too arrogant as the market leader, underestimating that at certain price points and in certain realities they were buying up a lot of other brands and lots of products as well.

Daniel Schmidt: Thank you. Thanks a lot.

[END OF TRANSCRIPT]