Thule Group Q2 Interim Report

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2021 Apr-Jun Report

Magnus Welander

CEO, Thule Group

Welcome

Good morning everybody and very welcome to a very positive second quarter results for the Thule Group. I am very happy to report that our strong momentum continues. The very strong three quarters in a row we have had, have now become a fourth very strong quarter with significant growth over the previous year.

Executive Summary: 2021/Q2 Results – Very strong momentum continues

If we go to the first page, our sales for the second quarter was SEK 3,229 million which was a 69% foreign exchange adjusted constant currency growth. We grew in both regions, a faster growth in the second quarter in Europe with 74% currency adjusted and 53% in Region Americas. If you take the first half-year the two regions have compared quite closely to each other as a total. Our gross margin continued to be very strong despite some challenges in terms of material cost and we therefore also with the strong and flexible back-end of our business had a very strong EBIT margin of 27.4% versus the 21% we had in this specific second quarter of 2020. That also means that on a rolling 12-month basis we have an EBIT margin of 23.6%.

Also our cash flow was very strong in the quarter and I think most importantly what a lot of people are wondering now is how we will continue to perform. I can say that despite the fantastic efforts of the supply chain team who truly pulled out some extraordinary work to be able to deliver the type of growth we have had, we have not been able to fully meet the demand. There was even greater demand. That means that we overall believe there will be a strong, long season also in 2021, similar to what happened in 2020 and that our strong momentum will continue. We do have a lot of challenges, as all companies have, in terms of supply chain in getting hold of the right materials and components from our sub-suppliers with the high growth we have had. However, overall we feel very strongly about our quarter three as well.

2021/Q2 – Net Sales and EBIT development

If we turn to the next page we can quickly look once again at the growth in the quarter and the growth year-to-date. It is very nice to see that we have year-to-date a constant currency growth of 63% and 100% on our EBIT level, significantly boosting our EBIT profitability margin as well. Very happy with what the team has been able to achieve in the first half.

Pandemic lockdown effects in 2020 create strange comps by quarter

If we go to the next slide we can see a bit the comparative reality because we all know that we did face in quarter two this year an easier comp. Quarter two in 2020 was exceptional. We had severe lockdown measures implemented in most of our major markets in April and the first half of May so it is obvious that although June was very strong in 2020, we were facing a much weaker comp. Therefore, internally we have focused a lot also in our comparisons on how we performed versus 2019, which was more of a normal year. When we look in quarter one we had a 45% currency adjusted growth in 2021 versus 2019 and in quarter two we had a 48% currency adjusted growth.

When we then look forward you can see that already in 2020 we were hitting those types of levels of growth that I am convinced that we will be able to grow in 2021 also versus the extremely strong comp of 2020 Q3. A strong order book in the quarter leaves us positive to show growth also in quarter three, despite the very challenging comp. The same applies in our thinking as we see it today for quarter four. The reason I say as we see it today is obviously that there is still a pandemic going around in the world and there are several reasons to be cautious. There will be supply chain disruptions. To give you one example, in Vietnam where we have some of our bag suppliers, there is some serious lockdown measures being implemented as we speak until the end of July. It is also of course connected not just to various COVID lockdown potential issues. There is also the whole challenge of ensuring capacity at our sub-suppliers.

Overall though, with the strong work that our supply chain has been able to prove and the team's efforts, I am confident that we will show growth although at maybe not the same type of pace as year-to-date because the comps are much more challenging. However, we will show positive development also for the second half.

Region Europe & RoW: All categories perform well

if we go to page six we can talk about the region and we will start with the biggest region, Europe and Rest of World. Here truly it is a case of every category in every market performing well. We have very strong performance across the board and we do know that we had a 12% currency adjusted decline in 2020/Q2 versus 2019/Q2 but still posting a 74% growth in constant currency is of course very impressive. It is not just bike-related products and I do want to point that out. We have had a very strong performance in bike-related products, our bike racks to bring your bike on the car, our bike trailers and child bike seats to bike with your children, and bike bags and bike panier bags. However, it is not only that category. That category has been doing extremely well in the last four quarters and continues to do very well but very nice to note is also the very strong growth rate in roof racks, roof boxes and rooftop tents as a lot of consumers around in Europe have utilised these products when they wanted to go on that shorter weekend trip or those activities closer to their home to spend an active summer this year.

What is also very positive to note is that despite challenges in their more complex supply chains, especially with the semiconductor situation, that motorhome manufacturers have been able to ramp up production very significantly. As investors that follow various companies in the sector, you have seen very positive views on both the performance to-date but also the order books that these companies have for the coming period. We have been able to supply with that growth a very strong growth in our RV products portfolio in the European market.

I am also happy to note that our stroller sales continue to grow at a very fast pace in the region and here it really has nothing to do with any COVID impact. Here it's truly much more about us becoming a household name, becoming a serious player and starting to take space now in a true way with our three different models in the market. I feel very good about our stroller category rolling forward.

Then we had an extremely weak comp in the bags sector in Q2 and in 2021 we are showing growth. What is nice to see is that it is both in the sport and outdoor packs where we are having a very good momentum but also in the more ordinary backpacks that you would use and go back and forth cycling or commuting to work with your laptop and your gym shoes maybe. A good performance also in that category after some difficult quarters.

Region Americas: All categories perform well

If you go to page seven we can see that also in Region Americas actually all markets and all categories performed very well there as well. We posted a 53% constant currency growth. Also here we had a decline last year in the second quarter but still a very strong growth. It is a very similar picture to the one I just presented in regards to Europe. The same things apply that across the board the same categories are performing very well. We also see specifically in North America an even better pick-up on our bag business and the reason we see for that is that as everybody is aware, there was a quicker rollout initially of the vaccination programmes in the North American markets, especially the US. As that happened, also travel picked up much faster and with a greater share of travel totally in US being domestic air travel that rates of travelling has been much higher. The rate of return to work has been higher so those type of products, bags that you bring for your travelling or for your daily work has been picking up very nicely in the region. Also here, comparing against weak comps of course.

Overall, when we look at it I think we see a very strong performance across the board in the company on all aspects of our game in the material of all the products doing really well. If we then look at what that has meant for the business, I will hand over to Jonas who will talk a little bit more about the financial parts.

Financials

Jonas Lindqvist

CFO, Thule Group

2021/Q2 Reported income statement

Thank you Magnus. As you heard, the strong development has continued and even strengthened further during the second quarter of 2021. Like the previous quarter, the quarter is another record and again the highest sales in a single quarter since Thule Group was listed in 2014. The sales amounted to SEK 3,229 million, an increase excluding FX effect of 69%. There are two factors to consider when looking at the quarter and comparing it to other quarters. The first is the second quarter in any given year is the strongest quarter from a seasonality point of view for Thule with normally substantial differences between the strongest and the weakest quarter in the year. However, because of the strong demand that has picked up as of the second half of Q2 last year, and with the demand that puts very high pressure on our delivery capacity, our strongest quarters are to some extent capped and our weaker quarters are where we currently catch up and deliver on back orders. The seasonal pattern has evened out somewhat.

The second factor to bear in mind is that the second quarter last year, as Magnus mentioned, was heavily influenced by the pandemic, at least in its first half. As of mid-May last year the demand picked up strongly as countries opened up after lockdowns. To meet the demand in June last year, however, we sold a lot from stock and the second quarter last year was 12% down compared with a more normal Q2 in 2019.

the gross margin in the quarter was 42.2% compared with 40.6% for the same quarter last year. The higher volumes have led to a higher absorption of production overhead costs and this in combination with a favourable product mix explained the higher gross margin. We have seen an impact from the increased material cost as well as from transportation cost but these have in the quarter been offset by the high volumes.

The EBIT margin in the quarter was 27.4% compared with 21.0% in Q2 last year. Here we clearly see the fall-through of increased sales and gross profit to operating earnings. The increase in selling expenses is to a large extent driven by variable sales costs and launches of online and direct-to-customer sales. Administration expenses in the quarter are approximately on the same level as last year. There is an item, other operating income, of SEK 50 million in the quarter and this comes from the release of a provision that relates to the acquisition of the roof tent manufacturer, Tepui. The financial net of SEK -6 million in the quarter is considerably lower than last year and this is because of lower utilisation of our credit facilities, where we last year decided to secure funding in the view of the great uncertainty that was caused by the outbreak of the pandemic. In addition, there are exchange rate differences compared to the same quarter last year that explain the difference. Tax cost year-to-date amount to SEK 346 million and the tax rate is on our guided level and the same as for the full-year 2020, that is 23.6%.

Thule Group Financials 2021/Q2: Cash flow

If we move over to the next slide, the working capital and cash flow, before going into the numbers for the current quarter we need to remember that in Q2 last year, as I said earlier, we met the increase in demand both by increasing our production but also by selling from stock. The level of inventory at the end of the second quarter last year was as a consequence of that, low and despite the higher level of stock at the end of Q2 this year, SEK 1,267 million, our operating working capital as a percentage of sales has gone down from 24% to 19% at the end of Q2 this year. The operational cash flow of SEK 801 million in the period is considerably higher than for the same period last year when it was SEK 559 million. The main driver behind the strong cash flow is the increased profit.

It is also worth mentioning that despite us being on the current high production level we are still somewhat on the low side when it comes to inventory. Capital expenditure in the quarter amounted to SEK 182 million which is quite a bit higher than last year when it was SEK 37 million in the second quarter. The investment related to increased production capacity. Thank you, Magnus.

2021 Focus

Magnus Welander

CEO, Thule Group

2021/H2 Focus - Operational focus to meet strong demand

Continued focus on proven growth strategy with opportunity to push growth investments earlier

Thank you Jonas and then we can go to the final page before the Q&A about the focus for the coming second half of the year. It is truly a very strong operational focus to meet the strong demand. You just hear Jonas finalising the comment on there is a need for additional capacity expansion. You can in general say that we are anticipating programmes we had in place to ramp up production output in all our major plans and working with a lot of our suppliers to do the same. We see this demand level as sustainable going forward. Our main focus is to continue on the proven strategy that we have which is organic growth driven and we are now pushing for an expansion at all plants. We are continuing a very aggressive product development push. We have to say that as a percentage of sales it is going down because we are not just throwing money at something without having a plan. With the significant top line growth as a percentage therefore the already ongoing and planned efforts mean that our percentage of sales is going down a little bit lower than normal but we are pushing very hard on the product development push.

We will be opening our new Global Test Centre in the first quarter of 2022 and the building works are going on very nicely there. As also Jonas mentioned, we do continue our push to support both our online retailers and our own direct-to-consumer with some significant investments and push in that channel.

Short- and mid-term focus on supply chain to meet significant demand increase

For the supply chain team that has done a tremendous job in the last 12 months in handling both the second half last year and the first six months this year, actually their focus remains the same. We have a lot of daily stuff to do to ensure that we can handle all the various logistics and supplier bottlenecks that we do have. At the same time they are working hard on the bigger capacity ramp up efforts in terms of the investments and additional equipment for the mid-term situation.

Efforts underway to mitigate cost increases

Overall, as we know, raw material prices have been extremely high and, as I mentioned early on the call as well, that is something that we therefore decided that we needed to mitigate. We have implemented a price increase as of July with some partial effect depending on when orders were placed. Then there will be another price increase as of 1st January 2022 because we believe that unfortunately the higher cost levels, although maybe not as extreme as some in the current place, will be significantly higher than they were 12 months ago.

Still many uncertainties around the world so we need to continue to be quick to act and flexible

if you look at therefore as a conclusion, overall I am very confident that we will post a very strong second half of the year, that we will go into a very positive 2022 but on the shorter-term there are loads of uncertainties and specifics that mean that we need to be as good at being on our toes as we have proven to be and that there will be some challenges in terms of costs to meet certain things. However, we are doing our utmost to be able to meet the demand of our customers and consumers and thereby being prepared to sometimes have to sacrifice short-term cost effects to meet that. Overall, we are very happy with the results and very happy with where we stand going into the second half of the year. With that I leave it open for questions.

Q&A

Daniel Schmidt (Danske Bank): Good morning Magnus and Jonas, very impressive results this morning. Do not get me wrong, by asking the first question and listening to you. The numbers that you have been delivering have of course been astonishing but at the same time compared to the call earlier this year, I think you were still quite hesitant on the development in the second half of this year. Now Magnus, of course I appreciate what you are saying on Q3 in terms of a prolonged high season and price hikes but what gives you confidence that demand will remain very elevated and grow in Q4 and also looking into 2022? What has changed?

Magnus Welander: Morning Daniel, I think what has changed is clearly that as every month goes and you have lots of discussions with retailers that were very concerned last year and maybe the least convinced that the market would continue while we as a brand were much more convinced. As these retailers have now seen very good sell-through and are continuing to see good sell-through, they and many investors have carried out lots of studies and lots of communication with consumers. It is clear that they have changed their mind also in a more positive sense. It is not just us saying it. I think if you listen to any of the outdoor brands like a YETI Outdoors or The North Face [inaudible 22.27], they will be more positive now because there is a broader positive consensus from their outdoor retail partners as well. We were one of the ones that were optimistic but now there are more people that are seeing more strong signals of continued interest in those activities.

Daniel Schmidt: Now are you then seeing a permanent change in behaviour when it comes to cycling maybe and the use of your bike. However, at the same time you are also seeing a recovery in bags. Does that make sense or is there contradiction in there?

Magnus Welander: I think permanent is a very strong word to use anytime. I think there is a long-term trend. To say it is permanent is difficult but I think there is a lot of realities that have happened in the bike-related sector, which is huge infrastructural investments, a huge under-capacity in bike manufacturing with a lot of demand and very, very strong e-cycling trend enabling people to cycle more without getting as sweaty or tired. All of those things have come to light via the pandemic situation and have been extrapolated and augmented by it. I think that will continue. It does not mean that the growth rate as a percentage will be the same but it is not that the base will go down. That is the difference of view. There is a bigger installed base and that installed thing is also a bit of you see your friends cycling more. There are better bike lanes. There is more cycling. It will tempt more people to cycle.

Daniel Schmidt: Yes. Do you think that you would have had a different discussion with the Board if you have had these indications a couple of months ago when you laid out the new financial targets for 2030?

Magnus Welander: I think as always, it is a valid question. I think you need to be careful of extrapolating things for too much. As we have always said, we want to beat our targets and if we beat them we will change them in the future.

Daniel Schmidt: Alright. Okay. Moving on then maybe, if I get you right you have not had any additional price hikes during H1. You had one maybe the end of last year, start of this year and then you are having another one as of three weeks ago. Still during Q2 we are seeing the gross margin being up versus Q2 2019 and versus Q1 2021. Is there any chance that you will over-compensate the [inaudible 25.25] price in your latest price hike at the start of the year?

Magnus Welander: First of all, I actually do not like the word price hike because it sounds like we are doing something extreme. We do price increases. We did one 1st January and we are doing one 1st July this year which is not our common approach. it is all related to very, very obvious for all parties in terms of incoming material costs and incoming logistics and transport costs. The situation is that we have over a number of years done very smart investments in our supply chain and in our setup. We have proven to have a very efficient and flexible back-end of our business. We have now since more than a year one global ERP system. We have a very well-functioning back-end of our business. We have always said that that would contribute to an EBIT margin pick-up as if there was a top line growth. Now the top line growth has been exceptional and with the exceptional top line growth you get both production overhead absorption and very much so SG&A absorption, if you have like we have a very scalable and efficient setup.

Then on top of that, as we have mentioned, we have seen a positive product mix shift as well in this period and that also moves the needle. The product mix shift we hoped to have happened is that, for example with bags growing faster again, there will be slightly negative product mix shift and average margin, etc. No, I absolutely cannot say that we have done too much or if anything we have been quite cautious with our price increases because we are a long-term player. However, there has been some very, very high price increases from some of our suppliers to us on materials so we had to do.

Daniel Schmidt: Yes. That was of course my reason for asking but clearly you have more followed it so that has actually diluted the margin if anything, given that you have made one-to-one increases. Is that what you are saying?

Magnus Welander: Yes. I think if you look at it definitely the two factors that are making us pick up is a combination of very strong economies of scale with the type of top line growth we have had and a very clear positive product mix shift. Then price increases are only to compensate material increases.

Daniel Schmidt: Yes. Would you say has there been an exceptional development of direct-to-consumer in the first half? Is that driving profitability a bit more than it has done historically? Is that part of the explanation to the gross EBIT margin?

Magnus Welander: I would not say exceptional. it is all according to a logical plan of I think everybody realises when you are starting to do something your growth numbers will look great as a percentage but they are from a tiny level in the beginning in Europe, for example. The pace is not that amazingly different. For example, as we have seen some challenges in supply, we have not focused on our own B2C versus retail. We have been very fair, so to speak. We have been penalised ourselves as well because we see retail partners as a key going forward as well. No, nothing exceptional but of course online sales in general is growing around the world and direct-to-consumer is a preferred choice for many consumers from strong brands. It is a very strong growth pace and will and is helping us from a channel margin perspective. It did in Q2 but not in an exceptional way.

Daniel Schmidt: No, okay. These 23.6% that you have been delivering now for the past 12 months is of course quite above the level that you were last year. Is that a sustainable level? What is your best guess?

Magnus Welander: Yes, the only target we have set is about 23.6% is a long way above 20% and it is clear we always have an ambition to maintain our high margins. There are already factors with the huge cost increases and only partial comping up because, as you said, if we only take the cost and pass it on it actually dilutes our margins. I would say, yes, there are some challenges and it will also depend on the mix but that we will sustain a very high margin no doubt.

Daniel Schmidt: Yes. Then finally from me, you have alluded to a new category being launched and presented to your resellers during the autumn and then being out in the market by the start of next year. Is this still the case or could you give us an update on when?

Magnus Welander: Yes, we will present a new category next year definitely in the market. It will not be a full year of sales because with everything going on and all the focus we will have we do not want to take too much risk on throwing something out and not being able to fulfil demand on a new category. However, we will see it in the market in 2022 and you will definitely hear more about it at our upcoming Capital Markets Day.

Daniel Schmidt: That is before the year-end is it?

Magnus Welander: We have not set the date yet. I think because we do want to show our fantastic new facilities as well so it will be a lot related to simple facts like pandemic lockdowns and travel possibilities. We have not chosen yet if it is Q4 or Q1 next year but it is one of those two quarters.

Daniel Schmidt: Okay. Is it a little bit delayed because my impression was that you were launching and telling your resellers during the autumn? Now it sounds like more the later part of the year.

Magnus Welander: Yes, the actual development project is not delayed but how we communicate in the market we might do it a bit later because there is so much focus on making sure the retailers do not feel that we are not focusing enough on the current business.

Daniel Schmidt: Yes.

Magnus Welander: You know the fact when a retailer is wanting to buy more from you and you struggle to keep up they say, ‘Do not think so much about the new, give me what I already want.’ We need to be balancing that.

Daniel Schmidt: Yes, yes, that makes sense. Yes, absolutely. Thanks a lot, that is all for me.

Magnus Welander: Thank you.

Gustav Hagéus (SEB): Morning guys, a very strong report indeed. My question is on leverage. When I look at the incremental EBIT margin for the two final quarters of last year, incremental EBITDA or incremental sales, incremental EBIT margin was close to 50%. Doing the same exercise now in H1 it is closer to 35% so that makes me wonder if the economies of scale are fading off a little bit with these type of volumes if you are closing up on some type of capacity constraint. How do you feel about that? Is it other factors such as the increases in price of input costs that are behind it?

Magnus Welander: You are absolutely right there, Gustav, in your analysis that as we have highlighted in both Q1 and especially now in Q2, we always try to have our plants being able to take additional capacity and have our suppliers being able to fulfil those capacity increases. However, when we have seen the type of volume growth that we have seen with a very challenged supply chain with longer lead times than ever and more disruption than ever, we at times have not been able to run those additional quantities as efficiently as we would have loved. Therefore the pick-up was easier, so to speak, to see it fall through in the first period or in the pandemic situation, second half last year, than it has been now. That is also one of the reasons why we are so capex heavy at the moment. We are truly ramping up to have that additional capacity flexibility. We are not a company that is matching exactly the output level in our capacity. We want to have over-capacity because we want to be able to have very short delivery times and huge flexibility. Historically, we have had that. It meant that we could definitely get that pick-up very nicely through our plants and our suppliers’ plants. Now in some of the cases we are running 24/7 and some of our products and lines both us and our suppliers are running 24/7 on some of them at the moment. When you are running 24/7 you cannot get that much more out of it so that is why we are adding capacity. You are right in your analysis.

Gustav Hagéus: There is no problem by adding capacity. What do you do to do that? To change do you install more robots in your [inaudible 34.58] more of a new facility?

Magnus Welander: No, that is exactly what we are doing. It is a combination. As we mentioned already before, we have constructed some facilities in the past that you always have the space to add lines. Also, those type of products actually unfortunately have longer lead times than normal and sometimes you are getting delayed. There are some of the things we wanted already in the spring that we are only getting deliveries on now, ahead of the autumn, for example. Those companies have also struggled to keep up with the capacity. We are combining. We have already created space that we are putting additional lines in, additional welding robots, additional laser cutters, additional thermoforming equipment, etc. However, we are also actually extending facilities and building new space for additional things to come in 2022 and 2023 because we always want to stay ahead of the bump that might be coming up otherwise.

Gustav Hagéus: You do some sourcing, especially with Active With Kids, if I recall correctly. Could you update us a bit on what your share of production is now done internally in Poland and Sweden? How much is sourced?

Magnus Welander: If you take all the nine because it is not only Poland and Sweden. We have two big facilities in the US, one huge one in Belgium for our RV Products, two smaller ones in Brazil and in UK for roof boxes and one big one for roof boxes in North America. If you take all those nine facilities it is about slightly above 80% actually due to product mix with Bags going down. It is more than 80% of what we sell is assembled in our own plants. That is still the case. Due to product mix having done extremely well in Sport & Cargo Carriers, several of the Active With Kids products are also assembled in our own site and all the RV products, means it is more than 80%.

Gustav Hagéus: That is helpful. When you look now past your obviously exceptional margin, could you quantify roughly what the temporary cost savings have been or semi-temporary from less fairs, less travel and incentive programmes maybe? Do you have a number?

Magnus Welander: Actually, incentive programmes I can tell you we have done well as a company financially and therefore people have achieved their bonuses, etc. to a similar extent to normal so we did not see any specific savings as some companies might have. We had a very strong performance and we met many targets. If you take fairs and events it is a very small minor saving you are getting and you are taking on an additional cost because you are organising many more digital events. We have constructed studios to do our digital events and other things, to do them really professionally. I would say the only clear saving that is a like-for-like true saving has been a lot less international travel but we are talking about rounding errors in the totality for the Thule Group. I do not see any huge savings realisation for the Thule Group because, as we have mentioned, we have paid back what we got from [Inaudible 38.19] support and we had very limited furloughs in total last year anyway. I would say we have a very true like-for-like logic picture of where we stand as a cost base going forward.

Gustav Hagéus: Finally from me, with the price increases what do you think is a reasonable number to put in the model for price mix for H2 year-over-year?

Magnus Welander: It is a relatively small number. First of all, because what we have done when you do a mid-year increase that was not planned, we did not take price increases on orders already placed which we were struggling to meet and ship out, which means that the type of orders that I have mentioned that are now coming into Q3 will be with the previous pricing. If you look at it I would do a low single digit still but it is definitely higher than the one that we normally have.

Gustav Hagéus: Okay. Great, thank you Magnus, those are all my questions.

Magnus Welander: Thank you.

Karri Rinta (Handelsbanken): Yes, thank you very much, just two questions from me. Firstly, the difference in the rate of growth in Europe and in the US, is this a reflection of some differences in exposure? I.e. that you have more RV in Europe and thereby probably benefitted from those sales. Or is there any element of pandemic recovery being more advanced in the US that might explain the high but still somewhat slower growth than in Europe?

Magnus Welander: Yes, I think you have to look at the first half and we see that they are very similar. If you take the first half as a total and we did mention that already in the Q1 that we saw the US market especially placing very big orders. There are some major retailers in the US which we have commented to also in the past, like the REIs of the world. They are very big so when they decide to go hard, believe in something and commit to a category they do place very big orders. We had that effect which we sometimes have that you start the spring early, so to speak, in one of the regions and that was what happened in US. There was a very strong March. If you then extrapolate it we had instead an extremely strong April/May in that comparable thing in Europe. If you look at it for the first half they were actually quite similar.

Karri Rinta: Right, fair enough. Then secondly, a broader question and that relates to new products and new product introductions. You were saying that now the only thing that retailers want is what they already have and what they want more of. Then next year when we can assume that international travel will pick up they may be wanting something new so that they have something new to offer to their customers. After this period of first having this pandemic, lockdowns, restrictions, not fairs and now you have to just focus on turning out the products that you already have, how confident are you that by next year you will have a fresh set of new products that you can roll out?

Magnus Welander: We are very confident. We had some good new products this year as well. When I mention the new, it is more about new categories because if you are a big retailer buying a lot of bike carriers, roof boxes and roof racks from Thule, even if you might think it is very nice that we come with something new, you are going to first and foremost say, 'You are the world leader in this. Make sure you can ship me all the quantities of the cool new products you just have launched in that category. We have some very exciting new bike carriers this year that are doing phenomenally well, much better than we could ever have hoped. Timing was perfect. There will be some new bike carriers next year. There will be some new roof boxes, some cargo solutions and some baskets. There will be lots of new products next year actually. It was more related to bringing a broad new category with all that that means. I feel very good about our development team's efforts despite having had to work from home to a lot of degrees. We are going to bring some brilliant products next year as well.

Karri Rinta: Fair enough, thank you.

Daniel Schmidt (Danske Bank): Morning again, just a small follow-up, Magnus. The result provision that you are doing on Tepui, the SEK 15 million, is that a consequence of Tepui not developing as you planned in terms of earnout and so on? What is the reason?

Magnus Welander: If you look at earnout, we always want to pay the right price to somebody. If somebody has a super, super, super optimistic plan in their mind when they pitch it to us we say, 'Okay, we only have two supers in ours. We do not have three.' The category is doing fabulously well. It was a brilliant timing to go into rooftop tents and we are growing incredibly well but the seller had very, very optimistic plans.

Daniel Schmidt: Clearly, yes.

Magnus Welander: We decided that that was not going to be met and then we can release it.

Daniel Schmidt: Okay because as you say, our impression is really that it has been taking off strongly.

Magnus Welander: Phenomenal. We have done incredibly well.

Daniel Schmidt: Okay. He was riding high on other assumptions, I guess.

Magnus Welander: I think every person selling a company you want to get paid too much as a seller and you want to pay too little as a buyer. At times you can construct it in such a way that everybody feels happy that if that absurdly good thing happens then I am happy to pay that extra. That was one of these cases.

Daniel Schmidt: Yes. Can I just come back to the inventory? It is still up 34% versus Q2 last year and of course it is on that very day and it can differ a lot between the weeks and days. You are saying that inventories were on the low side leaving Q2 this year. Of course you have guided for demand or top line to be higher even though comps are very difficult. That spread in the inventory year-over-year is still quite significant or is it not telling the true story?

Magnus Welander: You have to realise, as Jonas said, 2020/Q2 was absolutely wrong. We did not want to have that low but we had to take some steps in the spring. You should not compare anything with inventory levels in Q2 2020. It is a useless comparison. The reason why we are saying it is too low is that we are a company that historically have prided ourselves in next day deliveries of every product and a fantastic delivery performance. To have that you need to have inventory. You cannot run your production on a daily planning basis. You do have the inventory to flush that through. At the moment, as I have to remind my own organisation on the sales and marketing side sometimes when they feel frustrated that we do not have everything in stock at any given minute, it is obviously the case that with huge demand, despite producing more than ever, we have never produced as much of any of our product lines as we are doing at the moment, there are days when we do not have available what we would have liked to have available. Therefore that is the situation that there is a lot of things in stock, it is just that the demand is so incredibly high that even so there is not always that next day delivery that we would love to have.

Daniel Schmidt: I hear you. I get you.

Jonas Lundqvist: If I may, Daniel, comment on that? If you calculate days inventory outstanding it is 30% lower now than it has been in the comparison period of previous years. DIO is pretty low.

Daniel Schmidt: Yes, got that. That would make sense, good. Then just a final, as you guys might remember, you said at the start of the pandemic that you were pulling back on investments when it came to Packs, Bags & Luggage. Now of course there has been the recovery in that segment and it sounds like that will continue. Are you redeploying money into product development in that area in the second half or have you done so, so far this year?

Magnus Welander: We have already done so and it is slightly directed differently maybe than we would have said 18 months ago because there is different patterns already coming out in travelling and in what type of things. Luckily for us we feel that it is matching what we as a brand stand for. While there is a growth of the more rolling duffle bags and those types of small smart packing solutions, there is a little bit less of the classical hardcase and rolling it on marble floors at the airport. That trend we believe will continue as well which is good for us because that is closer to our brand. We are deploying some really nice efforts to some very nice collections that are coming early next year, in that type and style of travel. I feel very confident in that. The whole global luggage market will still be in a very tough reality in 2022. We have seen the first bankruptcies. There will be other things going on. There is a lot of discounted bags being sold and will be for a long while. I am not too overly optimistic on the traditional travel but this combined practical bag that you can throw in the car or on the train and in an aeroplane, those types of things are seeing some good positions. We are positive about that.

Daniel Schmidt: Yes. Then maybe just a final one on M&A. You guys have always said that they are few and far between. Has that changed?

Magnus Welander: No, there are a few. We are close to those. We are constantly evaluating and the smaller ones there are more of them to evaluate. I always say that there are different approaches. You can win playing many different ways. We are very clear on that if an M&A should happen it should fit culturally.

It should fit the brand. It should fit what it does because otherwise you are just buying lots of stuff. I think those things are more difficult to do in a professional way in terms of M&A when you are in lockdown measures and pandemics and you cannot travel. You cannot do the cultural aspect. I have read some of the CEOs saying you need to do that handshake over a lunch or something. I am one of those. Many of the sellers in our category, in the true outdoors category, are also more like that, I would say. I think that will pick up now as there is more open opportunities.

Daniel Schmidt: Alright. Okay, thanks guys, that is all for me.

Magnus Welander: Thank you. I want to thank you all for taking the time on this beautiful summer day and listening to a fantastic second quarter. We have a good confidence for the second half of the year so we look forward to picking up after Q3. In the meant time I urge you all to go out, enjoy that great outdoors and use lots of our products.

Jonas Lundqvist: Thanks guys.

[END OF TRANSCRIPT]