Thule Group

Thule Group Interim Report Q3

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Overview

Magnus Welander

Chief Executive Officer and President, Thule Group

Strong ending of summer season

Thank you very much, and happy to update you on our quarter three report, everybody. Really happy to say, another strong quarter for the Group as we go in and summarise an ending of the summer season. As you will know, we have a big part of our sales in quarter two and quarter three, and it has been very nice to see that we have continued on a strong performance on quarter three. So, if we move ahead in the presentation, you can summarise that: net sales grew to SEK1,385 million, which was a growth of 8.5% in constant currency, so a very strong performance. What was positive to note was that it was a growth in all product categories, and that it was also a growth in both our sales regions. So, strong quarter, definitely, in terms of sales growth.

Our underlying EBIT improved to SEK258 million, versus SEK238 million the previous year, which meant that we had an underlying margin improvement to 18.6%. Strong net income also in the period, and generally a very positive cash flow as well in the period. Several of you, I believe, were participating in our capital markets day, which we held in September in Stockholm. At that capital markets day, we also announced both the new four-product-categories structure that we will follow up on, as well as, importantly, also raised financial targets for our profitability, from 17% EBIT to a 20% EBIT target for the long term. So, many good things happening, and later on in the presentation I will also share some images from the global key fairs that we have been extremely busy at in the quarter, showing new products that will be important for our 2018 season and beyond.

Strong sales continue in Q3 with solid EBIT growth

If we go to the next slide, you can see the numbers a little bit more visually with, as I said, 8.5% sales growth. We are now, year to date, at a 10.2% constant currency sales growth for the first three quarters. If we look at the underlying EBIT margin, you can see that we moved in year-to-date to a 13% growth on underlying EBIT for the year-to-date numbers. You can also note that we did not grow as much as we had been growing the previous three quarters in EBIT, as we discussed and presented both in the quarter two report and also at the capital markets day. We are currently in the most intensive phase we have been as a company since I joined more than 11 years ago in terms of preparing the company for big introduction, both in the current categories that we are big in, so Sport & Cargo Carriers and RV Products mostly, but also entering heavily into new categories of Strollers and Luggage. That means currently we are spending significant funds on product development and sales launching, participating in fairs, etc. for these categories.

Despite doing all those key efforts, we have actually also in the quarter been able to generate solid EBIT fall-through, thanks to the improvements we have been talking about in distribution and in still being able to create economies of scale in all other back-end functions. We are still able, with all that push for future growth, to generate EBIT margin improvements even in the quarter. So, we are very happy with the performance also on our profitability.

Net sales by region

Americas

If we go to the next page, we can see the two sales regions we report in and the net sales development. Here I am happy to say that we continue, for the third quarter in a row now, to show growth in region Americas. I think many of you follow a lot of other outdoor and sports-related companies and other consumer brand companies that are global players, and you are surely hearing from them that Americas, and specifically US, is a more challenged geography than Europe and Asia at the moment. So, I am very happy to say that we grew in the quarter, with 3.4%, and that we are about 3.8% growth year to date, then, in region Americas. When we talked about the company late last year and entered the year, we said it was key that we wanted and strived for making sure that both regions contribute to the growth, and it is therefore very positive to see that that is the case in the year.

Europe and Rest of the World

When we entered the year, we also talked a lot about how the very strong performance in region Europe and Rest of the World in 2016 would be difficult to repeat in 2017. I am therefore very happy to say we are continuing with a fantastic performance in region Europe and Rest of the World, where we are double-digit growing in all quarters and are growing 11.2% this quarter, and a year-to-date growth of 13.3%, which is fantastic numbers.

The big difference of growth pace, as we have highlighted in previous quarters' calls, is very much associated with exposure to the various categories. However, what I said in the beginning is very important: for the first quarter in a very long time, we showed growth in all the four product categories that we discussed. So, Sport & Cargo Carriers; Packs, Bags & Luggage; Active with Kids; and RV Products all showed growth. They are, however, showing different paces of growth. So, if you look at that exposure, as we discussed also at the capital market day, we have a more positive exposure to the fastest-growing categories in region Europe and Rest of the World. Overall, a very strong performance, actually, in both regions.

Key events

If we turn to the next slide, I can give you a little bit more on what is behind driving this performance, and what are the key things going on. If you look at it, the key for driving growth in this company is that we consistently need to deliver new great products that attract consumers to buy them. Therefore, it is a continuous performance of how well new products are perceived and received by the consumers. I am very happy to say that all our key 2,000[?] product launches that were done in the Q2 period have really fared well and continued to grow very nicely in the summer season. We often repeat that, in the beginning of the year, we will know that our retailers like our products, because they list them and they show them in prominent positions in their stores and on their homepages, but it is only when we have really seen the summer season fully develop that we know the consumers really like them as well. So, here we are very happy to say we have had a very strong positive consumer reception also of the products we launched in 2017.

Sport & Cargo Carriers

Within the Sport & Cargo Carriers, by far our biggest product category, we continue to have a very strong quarter. Generally, I would say every part of the business, aside from one small component, performed very well. So, even if it is not fun, let us focus on what was the small underperforming part. When we sold our Specialty division earlier in the year, we also made a decision that some products were more associated to the rest of what Thule did around accessories to bring your gear on a car. That part was OE sub-supply towards mounted players for pickup truck accessories. These were relatively thin, lower-margin businesses, and we knew, as they were contract-based OE businesses, that it was not a business we would pursue aggressive growth in. Here in the period, we saw some decline, and that type of decline will continue in that small subset category also in the coming quarters. However, overall, all the other categories – the major categories, like bike, roof rack and boxes – are all well, so we are very happy with the overall performance of Sport & Cargo Carriers.

Packs, Bags & Luggage

If we look at Packs, Bags & Luggage, it is still a mixed bag, as we put it there. It is the fact that we, in the new focus category, Luggage, where we have a big long-term ambition to become a serious contender, we have some very nice growth numbers with our Thule Subterra luggage launch, a full collection for the modern business traveller. In what we call Sport & Outdoor Packs, so your hiking backpack, your bike, your transport case etc., there, we also continued to show very nice growth with the new launches we have done over the last few years. Overall, that part of the business is doing very well. In what we call the everyday bag – so, this is the small laptop backpack, it is the small attaché case, it is the small bag that you have to work, and maybe you go to the gym with your gym shoes and some other stuff with it, or when you go to campus if you are a young student – here, we actually did okay. We still want to do better, but we are seeing finally that we are coming to those growth numbers we want to see in this category. We are also launching a number of very exciting new bags in this category, so it feels like we are now finally coming to the point where we see the right contribution from these types of everyday bags.

Then we have a legacy type of product that we have been in for a very long time, where we are a little bit of a last man standing, on CD wallets and small, little cases for hard disk drives etc., under the Case Logic brand, which is very much exposed mostly to the US market. We know that that is a market where we will not see growth, but we are doing a better job in holding down the decline. As, of course, the category is slowly shrinking, it will have a lesser impact in the overall Packs, Bags & Luggage performance. It was therefore, as I said, positive to see that we grew in Packs, Bags & Luggage in the quarter, and it promises well for the mid and long term.

Active with Kids

Within Active with Kids category, we had a very fast growth across all categories – so, strollers, bike child seats and our multi-sport bike trailers – and we are growing very nicely in both regions. So, overall, a very strong performance across the board in what is set to become a key category in the coming long-term years.

RV Products

Finally, RV Products. Fantastic market, it continues to be hot. There is some debate if it is 13%, 14% or 15% growth in Europe, but it is around those type of numbers. As we have said in previous quarters, we are also outpacing that growth with a very strong performance in the market. So, market doing well, we are doing better. Very happy with RV Products.

Global fairs

If you look at the quarter, quarter three is an incredibly important quarter in terms of global fairs. Really almost all of the major global fairs are taking place in this period. So, we have now, over the last three months, been out and about showing our new products that will hit the marketplace in 2018. As I have repeated many times – every year, in fact – we have never shown as many new, exciting products as we did this year. The same applies in 2018 for the 2018 launches that we showed at these 2017 fairs this quarter. We have a fantastic line-up of new products, and it was received very well at the fairs.

Capital markets day

Finally, we did have the capital market day, as I said, and, very importantly for a future growth opportunity, we have told you that we have opened a second assembly plant in Poland, with full operational steps in quarter one 2018, according to plans. I am very happy to say we are tracking ahead of plans, and the plant is already up and running with some of the first of its production line as of this month. So, we are well ahead of plans, and everything has gone very smoothly for the setup of the Polish plant, so that is very good to see.

Trade introduction of new Strollers

If we turn to the following slide, I will now give you a little bit of some taste and feel of what we have been showing at the major global fairs. If we take one of them, we were at the world's biggest juvenile fair, Kind + Jugend, in Germany, in the quarter. At Kind + Jugend we really, for the first time, presented ourselves as a serious contender in the wider stroller sector. Not only did we update our very successful sport and jogging stroller, Thule Urban Glide, to the new generation Thule Urban Glide 2, with a number of new feature improvements and design improvements on an already award-winning stroller; we also presented to the market for the first time our Thule Sleek, a truly city stroller for the family that wants to have the flexibility to have a second child added. So, with a very small footprint, this stroller can then later on be transformed into a stroller for two children with a bassinet and a seat, or even two sibling seats. For us, that means an entry into the much bigger stroller market than the jogging stroller market is. We are dealing at the same time with the update of the Urban Glide 2, also a more approach of a stroller that fits everybody, not just a jogging stroller, so generally we are meeting many more consumers via these new strollers. The Thule Urban Glide 2 will hit the market in the spring, and the Thule Sleek will hit the market in the autumn of 2018. Very positive feedback, very exciting new products. The Thule Sleek will be also a product that we will assemble in our new Polish plant that I just mentioned, so that is one of the new production lines that go in there.

Sport & Cargo Carrier products

If we move into Sport & Cargo Carrier products, we were at the world's biggest bike fair, Eurobike, and at Eurobike we presented loads of products, actually, so I will only mention two of the most key ones. One was the Thule VeloSpace XT. It is actually, in my opinion, the best bike carrier in the world for heavy bikes sitting at the back of your tow bar on your car. The Thule VeloSpace not only can carry heavy bikes, it is very easy to bring out to your car, attach to your car, and it is very easy to load the bikes. With that bike carrier, we also have the opportunity to actually place a small, flexible cargo box and not only the bikes. So, you could actually combine it with bringing, for example, your golf bags or strollers or something, in a very nice cargo box that can be placed on the Thule VeloSpace XT.

On top of that, we also introduced our most premium, no-frame-touch bike carrier for the roof mounting. So, today there are a lot of new models of downhill mountain bikes where it is actually difficult to grip around the frame, and with the carbon frames of modern bikes a lot of people would like to avoid to grip around the frame. We have therefore developed a model called Thule UpRide where you actually grip around the wheels only, and lock the bike securely in position that way. That new model was also introduced at Eurobike.

Trade introduction of new Sport and Outdoor Packs

If we go to the next slide, we show some images from the big fairs in the outdoor industry, which are the outdoor market/outdoor retailer both in the US and Europe, and the image is from the European fair. At that fair, we showed some of the new hiking packs. We have launched a new Thule AllTrail, which is typical for the everyday person, not necessarily hiking for weeks up in the mountains. We also introduced the Thule Vital, a series of bike hydration packs with some patented solutions of how you can make sure that the drinking hose is not in the way when you are biking fast. Easily accessible, but at the same time attaching to the bag. So, a lot of nice, positive feedback and press around some of our new hiking packs.

Trade introduction of new everyday bags

Moving forward to the next slide, we also participated at the world's biggest consumer fairs for consumer electronics, and we were at the big European consumer electronics fair, IFA, in the period, where we actually displayed both brands next to each other, the Case Logic brand and the Thule brand, for those types of bags. There were a lot of new bags, actually, but some of the things were some new day packs for the category of Thule, but also from some new bags in the family of Case Logic. So, continually broadening our offer also in those categories to really make sure that we offer a wide assortment, both for the business consumer as well as for a back-to-campus student.

Trade introduction of new RV products

Finally from a fair point of view, we were also at the world's biggest RV fair, the Caravan Salon in Cologne in Germany. If you look at that, we feel that we have a really key advantage to our competitors: we are a true active company, so when we now see a trend with the RV consumers becoming younger – you might have already been briefed if you listen in to Dometic and others – it was interesting to see at the Caravan Salon, we had almost 30% of the 200,000 participants were actually first-timers. The age has gone down in who are coming to this fair. There is a younger generation interesting themselves in a much more movable, flexible way of doing RV, where you travel to a place, you go biking, you put the bikes back on, you do to another place, you go surfing, then you drive to a city, and you do not stay for weeks and weeks at a camping lot.

For that type of consumer, we are so incredibly spot-on with our brand. At the fair, which you can see in the image, we showed one of our Thule Crew-sponsored athletes, former world champion in freeride snowboarding, Aline Bock, and her fully-kitted-out van that she has been travelling around Europe with in the last six months, where she showed her real life with all her accessories, all her gear, her mountain bikes, her surfboards and everything, and how practical all those new Thule products are in what we call the Thule Van concept. We got a lot of press follow-up, because it is a true active consumer, and we fit our brand beautifully there. We also had the Thule VeloSlide, a new bike carrier for what is called 'garage style'. So, in the inside of the bigger RV, there is often opportunity to put bikes. Many times, that has been dumping them just in; we have an innovative, patented solution where you can easily slide in and slide out, put your bike or bikes on it. However, you can also slide it away for those times you want to pack other things, so that garnered a lot of positive attention at the fairs.

Capital markets day

Then finally in terms of update, before I hand over to Lennart, we did have the capital markets day. I hope you have had the chance to at least see the material that was highlighted there. We had a lot of participants, but the two main focus areas for you who were not there, or did not have the time yet to look at what we stated, we talked about two things, really: a new product category structure, which I have already been referring to in this call, with Sport & Cargo Carriers; Packs, Bags & Luggage; Active with Kids; and RV Products. We will, on an annualised basis, give you more details on those, but also on a more anecdotal basis in the quarterly calls. Then we also updated our financial targets. We raised our ambition level on the long-term EBIT margin from 17% or greater to greater than 20%. So, we feel, with the tracking we are above 18%, and with all the good initiatives that we are under way with, that in the mid to long term a 20% target is the right target to aim for. We also changed our leverage target to define it as being 1.5–2.5 times net debt to EBITDA, versus previously around 2.5 times. Overall, we then also kept the two other targets of having an organic growth in constant currency every year of at least 5%, and having a dividend policy of at least 50% of the net profit.

So, a lot of good things, a lot of exciting things, mostly maybe for the future. We have repeated many times that we are not a company that runs our business on a quarterly basis. Even though we report to you on a quarterly basis, we do run it on the long term, and I am very happy how that long term is both performing and looking going forward. With that, I will leave you to Lennart to walk you through some of the more financial slides.

Financial Results

Lennart Mauritzson

Chief Financial Officer, Thule Group

Reported income statement

Thank you very much, Magnus. So, if we look at slide 12, the income statement, I will shortly comment on some of the figures that Magnus has mentioned. So, if we look at the gross margin, in this quarter three it was 41.1% versus prior year 41.8%. Year to date, we are at 41.5% versus prior year 42.1%. Both Q3 and year-to-date decline is due to slightly unfavourable currency development, and the major remaining part is explained by a small increase in raw material prices.

If we look at the financial net, it continued to be low, with minus SEK14 million in this quarter versus minus SEK10 million in last year's quarter. That was a SEK4 million difference, but it is linked to the negative currency effect on loans, cash and cash equivalents. That is the reason for that this year.

If we look at effective tax rates, we were at 24% this year's quarter three versus 22% last year if I exclude the German one-off tax payment we did last year in Q3 of SEK20 million. Year to date, our tax rate is 24.4%, well in line with our guidance of 22–25%.

Operating working capital and operational cash flow

If we then turn to slide 13, where we show the operating working capital and operational cash flow, we continue to have a very good cash conversion. End of Q3 this year we ended with approximately SEK1 billion in operating working capital, which is 16.7% of last 12 months of sales. So, a slight increase in absolute number versus prior year, but as a percentage, an improvement. It is good to see that inventory is at the same level as prior year. We have maintained good delivery performance from our factories and distribution centres, in spite of increased sales.

All in all, if we look at the operational cash flow, the combination of good control of the working capital and a good overall financial performance, it has been clearly once again a very good quarter, this third quarter. We had an operational cash flow of SEK558 million, that is SEK74 million higher than prior year. Also, year to date we are having a CapEx of SEK115 million; that is SEK50 million more last year, but mainly driven by the building of our second assembly plant in Poland Magnus just mentioned.

Summary

Magnus Welander

Chief Executive Officer and President, Thule Group

Performance vs. financial targets

Thank you, Lennart. If we then summarise our performance versus the newly updated financial targets for how we are tracking year to date, we are well ahead on our constant currency net sales growth, with a very strong performance excluding acquisitions, the Yepp acquisition we did in 2016 mid-year. If we exclude that, we have still a 9.3% growth. If you look at then how we are tracking to our long-term underlying EBIT margin target of about 20%, we are, on a rolling-12-month basis, at 18.2%, so I feel very good in how we have performed in the rolling-12-month basis this year and continue to perform this quarter. We feel good that we are definitely driving towards the long-term target. If you look at our leverage target, we are at the moment at 1.5 times, so in line with our structured long-term target. As you know, since also the second payment has been done on our dividends, we have this year had an ordinary net dividend of SEK3.40 per share, and we had an additional extraordinary dividend of another SEK7.50 per share in May. So, overall, performing well to the targets.

Focus areas for coming months

If we then conclude by looking at what is this team and what are all the people in the Thule family doing at the moment, if you look at Q4 it is of course, although being clearly the smallest quarter that we have in the year, very important that we continue to drive growth as we have been successfully doing now for a long period of time. What is the difference with quarter four versus other quarters is it is the quarter where we have the biggest exposure to Packs, Bags & Luggage, which despite growing in Q3, as I said, is still for the full year the slowest growing of our categories. So realistically, we have a proportionally bigger part of the least-performing category in Q4, but we feel good about still a strong performance.

The second big thing, of course, is to make sure that we are pumping out all the things and preparing for the years to come, and specifically for 2018 launch programme. So, both from a sales and marketing, as well as the final touches and final steps of preparing mass production, and actually also, for some of the products, starting to step into mass production for this key of making successful rolling into the Q1/Q2 period, we are really pushing hard in all of those aspects. So, we have a lot of new, interesting products; I have already mentioned them, I am not going to repeat it. However, it will be now key, of course, to get all of those ready in our various assembly plants and distribution centres for the coming 2018 season.

We are continuing to spend more money than ever, and we will continue to do that also in the coming three quarters, in enabling that long-term growth entry into new categories while continuing to spend very much money also to drive growth in the traditional categories. Luckily, we are capable, thanks to all the good work we have driven in other parts of our cost structures – distribution centre setups, efficient back end – to still deliver a strong EBIT performance as we go on, but we will spend more money than in the recent years in product development.

Really it is also, of course, key that we do get other big strategic initiatives that we are looking for the future. So, although having been opening the plant in Piła, Poland, before time, we now need to make sure all the ramp-up work works well ahead of the season. Also, we continue to have a number of key initiatives as we are trying to open up opportunities in new luggage and juvenile retail, with launches coming for next year.

So overall, we are very excited. As I said, I am very happy with the performance of quarter three, and with the positive general trends that we have at the company I feel very comfortable about the coming months and quarters, although they will be extremely busy.

Q&A

Stellan Hellström (Nordea): First, I would like to ask about your new product launches for next year, if you can give some quantitative or qualitative comment on your view on which could be the largest sellers in the next years?

Magnus Welander: Yes. I will start with the qualitative part of it. It is clearly the case, as we are the undisputed global number one in Sport & Cargo Carriers and have immediate access to stores in 140 countries when we launch any key new product in that category, it always will drive significant volumes very fast if it is a successful product. So, the bike carriers I just mentioned will surely be key contributors in terms of growth, because bike is our single biggest category within Sport & Cargo Carriers. If you look within the Active with Kids category, we have one key launch, which is the upgraded Thule Urban Glide 2, in the spring, and then an even more important – not, then, for 2018's financial performance, but definitely for future growth in the coming years – with the Thule Sleek, which comes in autumn. So, although Thule Sleek will have a relatively limited impact on financials in 2018, it will have a very significant impact in the long run. So, from that sense, I would say those are, in two different ways, very key for volume-driving launches.

Stellan Hellström: I had also a question on the temporary step up in product development here: is that affecting you fully in the third quarter? Also, if you can comment on the phasing here; given particularly, maybe, that the fourth quarter is a relatively small quarter.

Magnus Welander: Yes, I think a lot of what Thule is, it will be more in quarter four, one and two, because that is where we see higher, and therefore by default it will have a bigger impact on a lower sales quarter as quarter four in totality, just due to the simple fact of having less revenue, so as a percentage it will impact greater there. There was part of that impact in Q3, and there will be more in the coming quarters, and due to the size of sales in quarter four, a proportional bigger impact there.

Stellan Hellström: Good, that is clear. Then on the development in the US here, it seems that you had now, for the first time in a long time, I guess, positive development in your Bags & Luggage categories. That means, I guess, that there was a slowdown in Sport & Cargo Carriers; is that only reflecting what you talked about in the Specialty business, or also some other weakness?

Magnus Welander: No, it is only the business that was moved from Specialty, this specific sub-supply to a car manufacture business, where we have decided not to hunt for aggressive volume growth, but rather focus on good margins.

Stellan Hellström: All right, very good. Thanks.

Magnus Welander: Thank you.

Nicklas Fhärm (SEB): Good morning. I would just be curious if you could give us some more detail on the actual organic like-for-like developments, which are of course quite extraordinary in a broader context. More specifically, it would be great if you could give us an idea of how that composes in terms of volumes and mix and price, please, the 8.5% reported.

Also, given that we have just learned that RV exposure is about 12% of the Group overall exposure, certainly there is something else moving that number, and if you could give us some more flavour on pockets of demand etc., it would be very appreciated, please.

Magnus Welander: Absolutely. If you look at it, the biggest driver of the 8.5% is the volume, so there is no doubt that it is volume that is driving. If you look at a true price for a like-for-like price, we have commented in the past for a number of years, and it actually applies also this year, that it is in Sport & Cargo Carriers where we have a true price like-for-like increase, which has been slightly above 1% for years, and it applies also currently. The majority of our other businesses, it is when you launch a small laptop backpack, you will launch it at a certain price, and then you will have it at that €99 price for the length of that bag's life. So, there is not a like-for-like increase price. When you replace the bag, you might choose to do something different price-wise, but it is not a like-for-like price increase. So, volume is the main driver, definitely, for the growth, with a limited step of price.

If you take RV exposure, yes, it is clear that with 12% of our business being in RV – and we are exposed to the European market, since that is where we have targeted to sell – if you take the European market, it is growing around 15%. You can always debate, but it is close to 15%. If you look at that and we have, as we said on the capital markets day, outpaced that growth significantly – we are not talking within a few percent, but a lot – that has been of course for 2017 a key driver. As we look forward, as we highlighted at the capital markets day, I think it is only fair to say that that seems to be an unlikely growth to continue year after year, every single year with 15%, from a market point of view. However, it does look, I think, quite solid for the beginning. A market rarely dies very suddenly, so if you look at the first few quarters in the beginning of the year, personally I do not think we will grow 15% in the market, but I do think it will be showing nice growth also in the beginning of the year. Then it is more speculative. If you really go into late 2018, early 2019 on, it is a very speculative thing to say, and we actually prefer not to speculate, which is why at the capital markets day we said, 'Whatever happens in the market, if it grows we will beat that, if it declines we will decline less.' Because it is clearly a question mark that should be posed on how much financial situation could potentially temper a little bit the RV market. However, beginning of 2018, I think it still looks quite good; maybe not as strong as 2017, but it looks promising.

Nicklas Fhärm: Thank you so much for that answer. Still, certainly there have to be other main drivers behind the organic 8.5% growth rate, then. Even if you are outperforming, I am suggesting, the RV market, it is still a limited part of your overall business.

Magnus Welander: That is a very important point.

Nicklas Fhärm: Yes. So, could you give us some more flavour?

Magnus Welander: Yes. The majority of the growth, if you look at it, is that we are outperforming the market in Sport & Cargo Carriers, and we are of course very aggressively, as we said at the capital markets day, growing as a newcomer into what we call Active with Kids. If we did not sell many strollers in the past, and you grow at above 40% rate, that is going to contribute a lot. So, it is a pure volume growth. In the sense that we are selling things that we did not sell before, you could also claim that it is mix, but I would not call that mix. It is a volume growth in a category where we have added a lot of products where we did not use to have them. So, volume growth across the categories is the key driver, definitely.

Nicklas Fhärm: Sorry to dwell on this, but okay, so that makes a lot of sense. Sport & Cargo business is doing extremely well, of course. To what extent would you link that to the new car registration markets across Europe, and potentially elsewhere?

Magnus Welander: I would link it zero to that. The reason I am saying that is we, of course, track all car registrations in all countries around the world for years and years. What really happens is you do not see it, unfortunately. I would love to say that you see in those markets where loads of people are buying cars, that it helps us a lot; it does not. However, the other way around, it does not hurt us that much when people do not buy that many cars either. What drives us is, of course, like most consumer brand companies, a general economic feel. So, if the general economy is strong, people dare to do more things: they buy a new bike, they go kayaking, they go on more vacations. That makes our products easier to sell.

So, a good economy, which is often then associated with a lot of car buys, let us be clear about that. When you look at car trends, you can say that that is often driven by a relatively strong economy, and hence we will do quite well then. However, it is not connected to the car, really. You buy our products in Sport & Cargo Carriers because you want to do an interesting journey; you want to bring your family; you have another kid; you did not have space enough when you got the dog to have your stuff in the back, so you need a roof box. There are many other reasons.

Nicklas Fhärm: Final question, and then maybe I can come back: could you give us some idea here of the potential hedging and impact of increasing raw material costs, please, going forward?

Magnus Welander: If we split the two, I will let Lennart talk more about the hedging. If you take increasing raw material costs: as we said, we underestimated when we came into 2017 some of the raw material price developments. We were not the only manufacturing company, and that has meant that we have partially been hurt a little bit during the year on that. We have been able to compensate a lot with other efficiencies. We have of course considered those material developments and what we speculate the material cost developments will be going into 2018, which we do not speculate will go up a lot. So, when you say 'rising', it was more that 2017 was rising. However, we have taken it into our speculations in our pricing model for the Sport & Cargo Carrier products, which are the most exposed to raw materials like aluminium and plastic.

Then there is natural hedging we do in our business by which currencies we sell in, and which countries and which currencies we buy our raw materials. If that was what you meant with hedging, that is the case. If you talk more about financial hedging, I can let Lennart answer, but otherwise we do work a lot, which is also why the currency really that we are exposed to is the euro, because the US dollar, where we have a lot of sales, we are also naturally hedged through a lot of purchases of raw materials in US dollars.

Nicklas Fhärm: Thanks. One small question: last year you had about 4.5–4.6% of sales in R&D costs. You were talking a little bit about that in today's results; what would be your key expectation for next year and 2019? Do you expect to maintain that level, or should we put in an increase or a decrease in our forecast models, please?

Magnus Welander: As we told everybody on the capital markets day, and I just mentioned it also to Stellan, you should put in an increase in 2018, we will go beyond 5%. Then our expectation is that, when we come back to 2019 and 2020, we will continue to spend a lot of money, but some of the categories – strollers and luggage – are starting then by that time to generate so much revenue as well that, even if we keep on spending money on developing new strollers and new luggage, we are having a matching revenue growth that will mean that we are going to be around 5% from that point onwards; might be slightly below 5% or above. So, it is really a six- to nine-month push now where we are spending on all the existing big categories, but also spending on categories that are relatively small, but spending a lot of money on R&D.

Nicklas Fhärm: All right. Thank you so much for taking all these questions.

Peter Reilly (Jefferies): Good morning. I am going to start with three, please. Firstly, the new Sleek stroller which is coming out; I am slightly surprised that it is not coming out until quite late in 2018, so maybe you could talk about why there is such a long period between the launch and the product going on sale, and whether that is related to the ramp-up of the new Polish assembly plant, which you said was ahead of schedule?

Secondly, in Active with Kids, you talked about growth in all categories. If my memory is correct, earlier this year you were saying the fastest growth was in the child trailer business. It sounds like the other businesses are now accelerating, and maybe it is not just a trailer story, so maybe you could talk about that?

Then lastly, coming back to this issue of product development costs, I think we all understand you have a bit of a bulge coming in terms of your launch costs and development costs over the next six to nine months. It is maybe a slightly unfair question, but if you look at the overall margin for the Group in 2018, can you still make progress next year, or is next year more a consolidation year where you are focusing on growth, getting the new products to market, and really the margin trajectory is more a 2019-plus story?

Magnus Welander: Three very good questions, actually, Peter. So, let us take the first one. Although we have a fantastically successful jogging stroller which has won a lot of awards, it is a niche product in the stroller category, and some of those strollers are actually today sold in more of an outdoor sporty store then necessarily in a traditional juvenile store. So, when you, as a new player, which we still are a little bit in the stroller category, want to show a product, you do need to create attention with all the Mothercares, all the BabyOnes, all the buybuy BABYs, all of those players, as being a serious contender. There is one fair every year in the world where you get that opportunity to excite people. That fair takes place in Q3 every year in Germany.

We knew all along that we were going to launch it in the second half of 2018, not due so much to the factory but just that this is the most complex type of stroller you can build; you have sibling seats you need to click in, car seats, you can have bassinet and seat. There are many, many things, lots of things to do, and we only want to develop great products. We knew, but then we had an issue: if we did not show it in the autumn of 2017, we would have to try to get the attention of all these big juvenile retailers separately. Now we have that fantastic opportunity to get them excited early on, and meetings are already booked – let us put it like this – in the spring for showing something that hits the autumn. So, I actually do agree with you: in a normal world, we would have wanted to wait to show it until the spring, because that was when it was closer to hitting the market, but due to this opportunity of getting everybody excited early on, it is not uncommon even for very proven brands in this category to show a stroller; UPPAbaby, one of the big brands, did that last year. They showed the stroller at the Kind + Jugend, and it hit the market in August. So, it is not only us, it is quite driven by getting the chance to expose to big retailers.

The second point, yes, you are right: the multisport bike trailers had a fantastic growth in the beginning of the year, and still continued in Q3, partly thanks to a fantastic launch; we replaced the world's best product with an even better one. In the other two categories, we had products already in the marketplace, and we came with some additional models. So, if you take the child bike seats, we added the very interesting Thule Yepp Nexxt ones. There we are performing really well as well, but we had less of a hit of replacing everything, which we did in the multisport. So, strong growth in child bike seats as well.

Then finally, in strollers, we did not really have any new stroller in the market; it was the same Thule Urban Glide we had the year before. Despite having exactly the same product, we showed very nice growth. So, high growth, definitely; not so far behind, actually, the multisport. We are now replacing that model to an updated Thule Urban Glide for next year. So, all three subsets within Active with Kids doing really well, but multisport doing a little bit better. That is the summary on the second question.

Then if you take the third one, I cannot give you too much guidance, but a very smart question, let us put it like that. It is really the case that we run this company – we have said it; we have been around for 75 years – we run it for the long-term win. And if we would want to run it for a quarterly performance, we would need to spread out things. However, at certain times you do not want to do that; you want to push hard, and a year where you will have a very significant push on becoming big in the future in some new categories, but yet have relatively limited sales in those categories, that is going to be a tougher year in terms of getting a significant pickup on margin. We do not really focus that much on margin. It was one of the debates we had as a senior management team in terms of, why should we put the margin target so much as a target? Because in the end, what is really interesting is how many millions of SEK of true EBIT falls down on the bottom line. I feel good about the EBIT falling down also in 2018, but you are right that we see maybe bigger opportunities for EBIT margin enhancement in the years after this push.

Peter Reilly: That is great, that is very informative. If I can just come back on the issue of channel access, and as you said, you need to be present in channels where you have historically been absent or underrepresented. What has your feedback been from these new channels with the Sleek and the other new products? Do you feel you are getting really good traction? I know it is a low-quality comment, but I sit here in London and none of your products are available in John Lewis, which is where most middle-class people go to buy their strollers in London. Is that the sort of account you are targeting?

Magnus Welander: Yes, it would be. You are right, and I think there is a good reason why we do not have any strollers in John Lewis yet: because we only have a jogging stroller, and that does not fit John Lewis. So, to have any chance to be in John Lewis, we needed a stroller type, the Thule Sleek. The reality is this: we have to be very honest internally, and that applies in the same way to luggage. You need to be in certain department stores, you want to be in certain places. We have to be very honest as a senior management team, to ourselves and to you as analysts and to our investors. In the Sport & Cargo Carrier category, where we are the undisputed global number one, and we are number one in all the 140 countries in the world, we are never worried of getting a product listed. In a category where we are the newcomer and there are many other strong players, we will see a more different picture of success. So maybe, out of 140 countries, we will have great listings in 50, okay listings in 50 and pretty dissatisfying listings in 40 in the first few years, and you have to build on it. Therefore, what we will be seeing, realistically, is a more scattered part of success. I would be too bullish if I said I think we will get the Thule Sleek into every great store in every country, all the 140; I do not think we will. However, I feel very good, after having had the fairs and talking to some of the most important retailers from around the world, that in a number of them we will have it. So, it will be a more spotty success, I am sure, but it is such a fantastic opportunity due to the size of these categories and that we have not done anything in them, so even a spotty success is going to be a great, interesting potential.

Peter Reilly: That is great. Thank you.

Nicklas Fhärm: I was just wondering, given the quite substantial consumer shift from retail to online, and in particular the success of Amazon and the like recently and, most likely, expected going forward, could you give us an idea of your pricing power and discussions with your wholesale customers or retailers in the end, please?

Magnus Welander: Yes. First of all, we do not really have many wholesale customers at all; that is a little bit of semantics and wording, right? If you look at it, we have in smaller markets around the world a distributor who then becomes a wholesaler as well. They have then a bigger global distribution responsibility. If you look in most markets, we are forward integrated, sell directly to retail. If that retailer then is happening to be pure brick and mortar or a combined omni-channel player or a pure e-tailer, we will sell directly to them.

I think the fact is, pricing power is a little bit of a myth generally with e-tailers. Amazon is a player that is incredibly strong and very successful and puts a lot of pressure on their brands, but they do like brands, so the pressure they put is not on pricing as much as making sure that you deliver the thing exactly when you said that you should, that you make sure that they get A+ content that they do not need to spend money on to put on their homepage, that you can do drop shift for them, that you take care of all the data and inputs and questions and anything so they do not have to do so much, they become more a shop window. As long as you do that – which does cost some money, so if you are not efficient at doing it, it does hit your profitability, but it is not due to pricing – they are accepting normal pricing as everybody else.

Nicklas Fhärm: Thank you so much. Could I also ask some nitty-gritty questions on the financials, please? I just noted that net income from discontinued operations reported after nine months this year includes a capital gain, and I was just wondering: you were previously talking about a cap gain of the equivalent of SEK70-ish million; will you be actually including that number, or anything else, in Q4, or has that already been taken or reported as of nine months this year, please?

Lennart Mauritzson: This is actually reported after nine months, and it was approximately the same figure as after the closing in Q2. So, the only thing that will happen is potential small movements. When you do a transaction like this, you always have a time lag between doing all the bookings, capital final adjustment and things like that, but that is the only thing that will move. This is the big bulk of it, so it will be pretty much these numbers also in Q4.

Nicklas Fhärm: Okay. Sorry if I am being dense, but what you are saying is that, by now, you have pretty much reported all the items pertaining to the discontinued operations? Is that what you are saying?

Lennart Mauritzson: Yes.

Nicklas Fhärm: Okay, so what happened to the SEK70-ish million? Why is it SEK22 million?

Lennart Mauritzson: Sorry, why is it…?

Magnus Welander: I think what you are asking is the clarity – and I think it was actually highlighted in our presentation, on page 12 – is when you talk about the SEK70-ish million, you are talking about the expected generated effect of the toolbox dismissal. Then we have also separately reported that there was a potential earn-out clause for our snow chain business, and that earn-out clause did not take effect in 2017. So, the SEK70-ish million has always been associated with the pickup truck toolbox business, and that amount is the same as it was assumed to be. The difference is that there was, unfortunately, not very great snowfalls also the second year of the potential earn-out clause for the snow chain business, and that is the second effect. I think it is on page 12 of the presentation, and in the quarterly report.

Nicklas Fhärm: All right. Thanks again.

Peter Reilly: I have two small follow-ups, if you do not mind? Firstly, on everyday bags, it is very good to see performance stabilising and turning slightly positive. Can you talk a bit about what is happening inside that category? Is that the new Thule products selling well, Case Logic still struggling, or do you feel you have found the bottom with both brands, and now we can hopefully get a slightly more positive performance going forward, notwithstanding the ongoing drag from some of the legacy business?

Then secondly on cash flow, which is better than I expected, I am wondering whether the working capital numbers are clean, or whether last year that includes the discontinued operations? Are there any issues we should worry about in terms of product availability or inventories maybe being slightly lower than you would like? On a related note, where will you go with CapEx for next year? I guess you still have quite a lot of money being spent for the plant in Poland, so I guess CapEx next year stays probably about the current year's level?

Lennart Mauritzson: Yes, I can take the cash flow question. What you see on this presentation, that is clean, so to say, from the discontinued businesses, so it is like-for-like pro forma ongoing. No, we do not see any issues with free cash flow really affecting our capabilities of serving our customers in any way. So, we do not have any words about it.

Secondly, the CapEx: we have said that we are supposed to be about 2–3% of our net sales in CapEx, and I think that is the relevant guidance also going forward, in between that range.

Magnus Welander: To add to Lennart's comments, what we have to remind ourselves of is that we were doing, both in 2015 at the end of the year, ahead of opening up a new distribution centre structure in Europe, and then in 2016 at the end of the year, ahead of our 2017 opening up of a new North American distribution structure, as we highlighted at those times towards the end of the year, we chose in those years to not jeopardise top-line growth by trying to be smart about having too little on stock, because you could potentially always have some issues when opening up new distribution centres. Both years, this went actually very smoothly, so we have the opportunity then, on a comparative basis, to go into proven smooth operating distribution centres where we do not need to have a little bit of safeguard as we did have in the end of Q3/Q4 in 2016, and in 2015 actually. So, we feel very good about our capability of delivering on time in full, and having the right stock on hand.

Then if I take your everyday bag question: yes, you are right, that is our view. We have to be honest and say this is a highly competitive business. We know it, but it seems like we now have found a better balance in both brands in the typical little backpack, little bag you have to go back and forth to school and back and forth to work, where both brands actually have shown better performance now as we have been working on it. Our hope is that the combination of these everyday bags doing better and then entering into luggage will need to, and should be able to, more than offset the decline in some of those very old legacy and OE type of bags which we still have.

Peter Reilly: That is great, thank you.

Magnus Welander: I want to say thank you for listening in and following up on a very good quarter three, and I look forward to talking to you again when we conclude 2017. Thank you very much.

[END OF TRANSCRIPT]