



# Thule Group Interim Report Q1 2017

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## Interim Report Q1 2017

Magnus Welander

*Chief Executive Officer and President, Thule Group*

### Opening remarks

Good morning, everybody, and welcome to the Q1 2017 call for the Thule Group. It was a very good quarter, so it is a very nice quarter to present the results from.

### Q1 2017 – a very good start to the year

If you look at the first page, you will see that our net sales hit close to SEK1.6 billion. That was in practice a 15.9% sales increase for the Thule Group as a whole, driven very much by very strong results of sales growth in Outdoor & Bags, with more than 17% growth, and 14% if you exclude currency effects, in our Outdoor & Bags business. A very solid start in the US, which is positive to note considering that we have had some weaker quarters in the US, with a growth of 7%, and a fantastic performance in Europe and Rest of World. So, very happy with the start on sales.

In terms of underlying EBIT, we hit SEK280 million. That means we had an underlying EBIT margin of 17.5% compared to 17% first quarter last year. If you take the improvement in constant currency, we improved 0.3 percentage points. If you look at it once again, Outdoor & Bags a very strong driver of that performance. We continue to deliver very good EBIT development.

If you look at the cash flow, you can see – and we will come back to that a little bit later on – that it was more negative than in the first quarter last year. We all know, if you have been listening in to the calls over the past years, that the first quarter is the weak cash flow quarter for the Thule Group as we build up for the big season. Specifically this year, we have a few items affecting that. However, I am still very confident that we will, overall for the year, have a very strong cash flow again.

Our Specialty division divestment is progressing to plan. So, a year with a very solid result, and a year with a lot of other positive things to note. If you look at the net income and our earnings per share, you will also see some very significant improvements there as well.

### Sales growth drives EBIT growth

On top of that, before we go to the more financials: we have had many good quarters actually over the years, but this was a quarter which stood out a bit also due to the fact that, for the first time ever, we had SEK1 billion in underlying EBIT and in actual EBIT on a rolling 12-month basis. So, a very strong year.

Looking at the various parts, I mentioned it a little bit. However, it is of course our core business, the one that we will hold on to, which is Outdoor & Bags, which is the most important to look at. Overall in Outdoor & Bags, as I said, a very strong performance generating a strong growth on both our sales and EBIT lines.

Specialty, I am happy with the way we have been able to compensate, so to speak, the loss of the Home Depot private-label business with cost efficiencies and production efficiencies in the back end, and still deliver the same EBIT level.

## **Net sales and EBIT by segment**

If we go to the next page, you find a little bit more detail on the various segments. If we take then the core business – the one we will be continuing to run, our Outdoor & Bags business – as I said, very positive to note that the Americas region has a growth of 6.8% in constant currency. It is not an easy market still in the Americas region. I know many of you analysts especially, and several investors also, are following other companies in the sport and outdoor arena. You will then have heard that it is still relatively shaky, actually, out there in the sport and outdoor retail world in the US, with several additional Chapter 11s. Most of those are, once again, associated more with clothing-oriented businesses. However, it does still impact the general mood in the category. Bike sales were also not very positive in the first quarter in the US. Therefore, I am very happy to see that, despite a relatively shaky market environment, we generated a 7% constant currency growth.

### **Q1 2017 – key events**

Then, if you add to that strong performance in Americas, the fantastic performance of a 17% growth in region Europe and Rest of World, we really show a very strong result. If you take the 17% growth in region Europe and Rest of World, it has a number of good factors. However, the most important factor is that we grow in every country and in every category, so we have a very positive overall momentum across the board in this region.

However, there are some things that are stand-outs. Our Belgian-based RV products team has done a fantastic job over a number of years in bringing great products to market and supporting the retailers and OEM manufacturers of caravans and campers with some great new products. We have very strong delivery performance and services. That has generated some big market share wins in that category for us over a number of years. We continue to win big market share in that category in the first quarter. Then, when you have such an incredibly hot market, as it is in quarter one in the RV industry, with the OEM manufacturers really ramping up productions heavily, it of course brings very high growth rates.

The second strong contributor in the strong performance in region Europe and Rest of World is we are strong in what we call multisport trailers. The multisport trailers are those products where you can bike with it behind it, with your kids sitting there. You can then put on the strolling wheels and walk in the shopping mall and bring out some bags, etc. However, you can also transform it into a jogging stroller. Or, even if you are living in the Nordics or in the Alps, you can go cross-country skiing with it. It is a fantastic kit. We bought that company six years ago now, in 2011. It was called Chariot. We have since rebranded that. In 2017, here in quarter one, we launched a complete new family collection of products that has hit fantastically well in the market. So, a very strong growth in that category. Those products are simply the best. I wish they were around when I had small kids. They are also winning design awards left and right and, among them, the very prestigious iF Product Design Gold Award, which I will come back to later.

Those contributors of RV products doing fantastic in a hot market, a very solid and strong launch of the multisport trailers, and the initial – although very early, but still promising – steps with our luggage collection, Thule Subterra, were the top drivers in an overall very strong performing region Europe and Rest of World. Overall, very happy with the start of the year.

I will say that we have to be realistic in how much we can then extrapolate the performance of these strong performances. We have to be honest and say that the first quarter, as we have noted many times, is more of a quarter of selling into retail. Of course, it will be quarters two and three proving sell-out success with consumers. However, it is always better to start well.

If you look at the year overall, and look at one of the key things that a lot of questions have been around, has been, of course, for our Bags for Electronic Devices. If you look at the Bags for Electronic Devices, we have said that we needed to slow down the decline in the US and we need to grow in some of the new categories. If look at that category, you can say that what we have been able to do in Europe and Rest of World is that we have shown growth also in Bags for Electronic Devices, which is very nice to see, and that we are slowly but surely starting to reduce the declining performance in the Americas. We are seeing an end of the tunnel, but it is a long way to go still to be performing at the levels we want.

### **2017/Q1 – key events: award-winning design**

Now, we can move on to our fantastic designs. If we look at the next slide, you will see two products that both received the highly prestigious iF Product Design Gold Award. Every year, there are about 1,000 products receiving an iF Product Design Red Award. Out of those more than 1,000, 75 products on a global basis get the Gold Award. Very few companies over the years have won more than one award in any year: Apple, Samsung, Audi, Philips are a few of those companies. In fact, this year Apple won three awards. However, I am extremely happy to say that two out of those 75 awards were won by Thule.

What I also think is extremely cool is that we are winning these awards not in what we are the dominant market leader in – our core category, Sport & Cargo Carriers, where we, of course, should always have the best products and always do – but it is in a completely new category for us, so to speak, the child-related products. The Thule Chariot multisport trailers and the Thule Yepp Next child bike seats are both Gold Award winners; something, of course, that will help to sell those products, but also that shows the skill set that we have in a fantastic design and development organisation.

With that little business introduction, I will leave it to Lennart to go through some of the numbers in a little bit more detail in the reported income statement. So, over to you, Lennart.

## **Financial Report**

Lennart Mauritzson

*Chief Financial Officer, Thule Group*

### **Q1 2017 reported income statement**

Thank you very much, Magnus. If we look at the next slide, the reported income statement, we delivered a gross margin in Q1 this year of 40% versus 40.7% last year. That is a decrease by 0.7 percentage points, including a 0.3 favourable currency. Decrease in gross margin is mainly due to product and customer mix within the various product categories. We also saw a limited impact on rising raw material prices.

Financial net was minus SEK11 million in the quarter versus prior year minus SEK7 million. Prior year, we had a positive currency effect on our cash pool accounts, which is the main effect for the slightly higher financial expenses this year. If we then look at the taxes, it was

SEK66 million this quarter; that is equivalent to 24.6%. Prior year tax-affected rate was 24.9%.

### **Q1 2017 operating working capital and operational cash flow**

If we look at the next slide for the operating working capital and operational cash flow: as Magnus mentioned, we had a slightly lower cash flow this year. At end of Q1 this year, we ended with SEK1.3 billion in operating working capital, which is 22.2% of the last 12 months of sales. That is an increase of SEK126 million if we exclude the currency effect.

We have increased it due to higher sales costs. That leads to higher receivables, but also higher inventory, which we are very conscious has been driving because of new product launches in Q1. With some of the categories, we have sourced 100% from third-party suppliers, which brings in some inventory. We bring in the Chariot multisport trailers and the Subterra luggage launches.

Therefore, the first quarter operational cash flow was negative. However, as you have followed us, you know that Q1 is always negative and then we have strong cash flow generation in Q2 and Q3. We see no other reason for us not to achieve that this year as well. I will leave it to you, Magnus.

## **Outlook**

Magnus Welanders

*Chief Executive Officer and President, Thule Group*

### **Eastern US distribution centre set-up**

Thank you, Lennart. As Lennart also noted, you know that we also communicated that we would have slightly higher inventory holdings during Q1, due to the fact that we were opening our Eastern US distribution centre, which is then the last distribution centre that we changed in our very comprehensive and broad distribution centre set-up programme that we have done over the last two years. I am very happy to note that for the fifth time with a major distribution centre set-up change, we have been able to do that without any glitches to our supply to customers and with strong on-time, in-full performance; a good sign that our supply chain team has done an excellent job in setting this up. Therefore, we will be able to reduce those inventories now, as we are up and running with the new distribution centre.

### **Q1 2017 – performance versus financial targets**

If we look at the next page, you see our targets and our performance to those targets. As you know, we have said that we want to have an organic growth of about 5% every year. A very strong start of the year, with 11.7% in the quarter and 13.1% in Outdoor & Bags. As I said, it is always easier, if you are to beat 5% in an annual performance, that you start the year well. We should not be exaggerating our extrapolation on these numbers, because the reality is that it is Q2 and Q3 which sell through to consumers. That is the key factor. However, it is of course very promising when retailers like our products so much, and of course there has been some sell-through as well. That has been positive to consumers in the first quarter.

Secondly, we have an underlying EBIT margin target of 17%. We are now, on a rolling 12-month basis, at 17.4%, with 17.5% in the quarter; i.e., a continuous improvement, as we have achieved every single quarter over the last few years. I was happy to see that. We are

utilising our economies of scale. We are still a lean and very efficient organisation, with a strong back-office set-up and a strong supply-chain set-up, so the driver is really the top-line growth here and we will continue to see that. Our leverage is at 1.6 times and we are today holding our annual general meeting just after this call, where the Board is proposing an ordinary dividend of SEK3.40 per share, which would equal 51% of net profit. On top of that, the Board is also proposing the extraordinary SEK7.50 per share as well. It is looking good on all the financial targets.

### **Focus areas for coming months**

Looking ahead, it is a very simple thing. I talk to all my colleagues in the company and I often joke with them, 'Either I am lazy or I am very consistent in messages.' I hope that they realise, from having worked with me for 11 years, that I am not lazy. The fact that we always say, 'Driving profitable sales growth is our number one mantra' is a case of consistency. It is the key driver for us, and we are very happy with the initial start of the new product categories, and with the new products within traditional Sport & Cargo categories, so we are definitely continuing to push there. We are enhancing and driving even more work with supporting our retailers to drive sell-through to the consumers; and of course, when you have such strong volume growth as we have had over the years – and specifically if you, for example, take the RV business, which has been doing fantastically in Q1 – one of the classic challenges to driving profitable sales growth is being able to deliver all the orders you have. Here, our operating team is doing a fantastic job, such that we continue to have high availability and good delivery performance. That is the number one focus.

What is very important, of course, for setting up the future, specifically as we are continuing to broaden the offer of product and product categories where the Thule brand is being used, is to further build on that strong brand. In the last year, 71% of our sales in 2016 came from the Thule brand, so further building on and enhancing that brand value is key. In a number of these new product categories, that means we are trying to get that brand better known and better positioned in new retail channels. We are also considering the typical categories we are now doing, with a lot of child-related products, where social media is important. We continue to broaden our work with social media in various ways, and of course entering into new categories also means new media channels to make sure we get good PR traction in, as well as further enhancing our Thule retail partner programme with some improved merchandising concepts being rolled out. There will be a big focus on that in the coming months of the year.

Thirdly, you all know, listening in to companies over the past few months, that there have been some relatively sharp raw material price increases since January or February. We were estimating – I think like most senior management teams – some price increases in raw materials, and had accounted for those in our prices to the market in 2017, but we have to admit that some of the price increases we saw in February were higher than we had estimated. We have communicated several times to you and to the market that we are a company that does not want to change prices during seasons, because it creates confusion in a retail-oriented customer base, so what we are doing to offset these raw material price increases is ensuring that we capture all those supply chain efficiencies that we prepared for, with a better supply chain and distribution centre set-up and with further improvements in our factories, and then combining our economies of scale effects by selling so well in volumes,

where we of course then cover some fixed production overhead costs. That way, we believe we will be able to compensate and offset those raw material cost increases.

Finally – and, of course, crucially in a company that has been around for 75 years, which we are celebrating this year, and wants to be around for another 75 years – is to continue our journey to really drive those big strategic initiatives. We have had some very significant improvements in our green initiatives in our whole environmental profile. We have now reduced the carbon footprint of our factories compared with 2014 by 45%, while growing our business. We are now up to 80% renewable electricity in our plant, while five years ago it was 10%, and we are continuing to drive the most important factor in our environmental efforts, which is making fantastic products that are built to last, which is our most important impact, versus a ‘buy semi-crappy stuff and throw it away soon’ approach. If you look at it, of course we are going to do what we have done every year over the past ten years: we will launch more new products than ever in 2018. As we do that, we of course have a lot of continuous product development projects running. A lot of that focus is therefore going into preparing those products to be shown at the fairs in the summer. I am also very happy to say that our building works for our second large assembly plant in Poland are well underway and running according to plan, so that feels very good. Finally, we are also progressing to plan on our divestment of our Specialty pickup truck toolbox business.

Overall, we will not be lazy and we will definitely be very busy considering the start of the year, but we have very positive momentum in the company. With that, I open the discussion for questions.

## Q&A

**Stellan Hellström (Nordea):** Thank you. I would like to start with the gross margin, which shrank slightly in the quarter. I was wondering if you could maybe expand a little bit on what mix effect caused that, and also if and to what extent you have changed your pricing strategy?

**Magnus Welander:** If we take the mix effect, there is a product category and therefore indirectly a customer mix effect. What we say is that RV is doing fantastically. Out of all our product categories, RV is the one where we do the most OEM; slightly below half of our business in RV is to the large caravan and camper manufacturers. In that business, our gross margins are lower, so that partly impacts the strong performance of RV on top line. If you look at it, it is mostly within these various product categories; we might have a specific bike carrier model that has a slightly lower margin than another one. I do not think it is a trend; it is just sometimes that these things go on in a quarter. The only one that I would say is significant is the very strong performance with RV, where we have a slightly lower margin than the average business.

**Stellan Hellström:** Alright, very well. Despite having slightly lower gross margins, your strong sales in RV should potentially have significant margin leverage, I would think, in the first quarter, which would imply that you had negative margin development in the remaining Outdoor & Bags business. Do you have any comments on that? Also, what do you see going forward?

**Magnus Welander:** I think we have to be clear that we do not run the business on the basis that we have to deliver a certain result in a certain quarter. We have decided that we will run this on a very focused basis, concentrating on what is best for the business. In Q1 2017, we are entering with luggage for the first time ever, and therefore with that point of view, we have decided to really make sure we have gone to some luggage fairs for the first time and we are doing merchandising with luggage. We are doing a big push in luggage with relatively or very little sales initially. On top of that, we have some very big launches in our multisport trailer, which was the first time ever since we bought the company that we have done a big push there. On top of that, with the retail partner programme being a big push for us, generally, as I mentioned before, we have decided to make some of those new shops fresher and better looking earlier than in past years, because we feel it will help us to sell more during the year. There are some phasing issues related to this, and on top of that we have some very large product development projects that will be shown at the fairs in 2017 for launch in 2018, where simply sometimes those costs slip into one quarter rather than another one. So, I am not worried at all, actually, in terms of our margin development in the rest of the Outdoor & Bags business.

**Stellan Hellström:** Okay, thank you.

**Erik Gunnarsson (UBS):** Good morning, gentlemen, and congratulations on some great results today. I have a couple of questions. To start with, raw materials prices have increased, as you say, and I am just trying to triangulate how much of the organic growth is coming from price increases due to this. Can you give any numbers on how much the raw materials prices are impacting costs?

**Magnus Welander:** We have communicated over several years now that we average approximately a 1% price increase every year. It might be 1.1%, it might be 1.2%, it might be 1.9%. It is not, of course, that we take every price and just raise it; a specific product might be raised more. Also, going into this year, that is the type of impact that we have on pure, like-for-like price increases. If you look at it, those prices were set for 2017 at the time of the fairs in the autumn of last year. If you look at it, it is of course different material content in different products, as some of the products that we have therefore raised the prices on were because we expected that some of the raw materials specifically used for those products were going to have a more negative development, and that is the reason why it is the blended mix that becomes about a 1% price increase, or slightly above.

If you look at the raw materials prices, it is a very difficult thing to speculate how they will maintain, so to speak. Because I think most people, if you talk to companies, are expecting some of them to start to go down; steel has gone down a bit, and people doubt that you can have aluminium at such high levels. The positive thing from our side is that we do honestly believe that we will be able to compensate in our efficiency gains to offset those raw materials prices during this year. Should they, of course, continue to develop in a negative direction, we will need to raise the prices more than the average in past years ahead of 2018, but I think that is far too early to speculate on.

**Erik Gunnarsson:** When dealing with prices towards the retailers, are the raw materials prices something you discuss?

**Magnus Welander:** No.



**Erik Gunnarsson:** Okay. Maybe I could continue with this: you say that bicycle sales in the US have been weak. I was wondering if you have any views on where you see that going, going forward, and how does that look in European markets?

**Magnus Welanders:** If you listened to the last calls during last year, we had a weak 2016 after a really big pipeline fill of bikes into the system. So, bike sales being low is not bike sales out to consumers; it is actually the bike manufacturers selling in to bike retailers that is low, because there are no statistics yet on how they sell out. Indicative numbers are relatively flat, in bike sales out to consumers, but there is still evidently a little bit too much stock of bikes, or at least some fear among bike retailers in terms of their confidence in what is going on, so they have placed lower orders from the bike brands in Q1. If you look at it trend-wise, biking has not been growing fantastically in the US for years. It has been relatively flat, with some small deviations. Most people I talk to, from the big bike brands and the big bike retailers, as well as our own opinion and our US sales organisation, seem to suggest that it will be an okay year in bike but not a fantastic growing year in bike. Consumer purchases probably around flat is what a lot of people are saying. Evidently, there were some pipeline adjustments in the bike still needed, because if you look at, as I said, purchases from the bike manufacturers, these were lower from the retail side.

**Erik Gunnarsson:** Alright, thank you. I will step back here and get back into the queue, and let other people talk.

**Nicklas Fhärm[?] (SEB):** Good morning. I would just like to go back to the question on raw materials pricing. Just a hypothetical calculation: if we assume that you have about one third of cost of goods sold in direct material or raw material exposure that increases by, say, 10%, and you have a gross margin on an annual basis of about 40%, that probably means that you need to raise prices by 3% to maintain a stable gross margin year on year. Would you care to comment on any of these assumptions, please?

**Magnus Welanders:** I could, though I could also not comment. Generally, you are not off. What you need to look at is that we are not a raw materials purchaser, so I think it is one of the things that is always key to look at. What we do is we buy components made from raw materials, so generally, if you look at this, even what we would present as raw material is only partly directly linked to pure, on-the-market raw materials prices. If we buy, for example, an extruded aluminium, there is a lot more than just the LME price of aluminium that impacts. Of course, in all of those impacts of what we do, is what we work on, both with our suppliers – we do not accept every single price increase either with our suppliers, we work on those aspects – and at the same we work on a lot of other aspects in terms of how we design the product and how we assemble the product. That is why we believe in what we can do with those efficiency gains, that we would be able to offset some of those pure raw material increases and therefore not need to raise the prices as much as you mentioned.

**Nicklas Fhärm:** Thank you very much. I am sure you have tried to answer this question, so forgive me if I am a bit dense, but going back to the US market, could you give us some more insight into the development in the exposure to the sporting retail segments? Just to understand a little bit more the bridge between the negative organic growth rates over the past couple of quarters and the very strong numbers you have reported today.

**Magnus Welander:** I would not consider anybody dense. I think it is a very complex business we are in, because we do several product categories, and that is sometimes what also, of course, fools when you look at the specific quarters. If you look at it in the US specifically, which is by far the biggest market in the region Americas, you have to remember that we have said a few times that we have a much bigger share of our sales specifically in the US market in the old Bags for Electronic Devices business, where the Case Logic brand was fantastically strong on some product categories that unfortunately are slowly dying away from us. Therefore, those rapid declines that we have seen in Bags for Electronic Devices has pulled down Americas, despite growing in Sport & Cargo Carriers and despite growing fast in the new categories of child-related products. Bags for Electronic Devices has been the big, big anchor pulling down. From a quarterly perspective, that anchor is much heavier in Q3 and Q4 than it is in Q1 and Q2, so partially the effect is from a pure exposure to better-performing categories. On top of that, as I mentioned, our performance in Bags for Electronic Devices was not great, but it was less bad than it was in the last two quarters. On top of that, our performance in Sport & Cargo Carriers was stronger than it has been in the last two quarters.

On your first question, about our exposure to the sport and outdoor industry, in the US you would say simply that a very, very large majority of our sales in Sport & Cargo carriers and in Sport & Travel Bags, and in fact even in the juvenile products, is sold to that retail channel in the US, where we have a fantastic, strong presence. So, from a more general, high-level point of view, it is never good for us if that industry is shaky, because nobody wants to have a shaky customer base. Therefore, I would have hoped that there would be more stability, but we can still see on the numbers that we are performing really strongly in a relatively shaky market. I hope that has clarified it a little bit.

**Nicklas Fhärm:** Absolutely. Absolutely, Magnus. Thank you. Also, can I ask you, on the European side: it is a particular organic growth rate in this quarter. I realise that you just said not to necessarily extrapolate the Q1, but could you give us some more flavour on current trading in Europe? On the one hand, there have been some concerns about used car prices, although I know that is maybe not your main direct exposure. On the other hand, the RV market is just flying. Could you comment a little bit more on the major moving pieces from a European perspective as well, please?

**Magnus Welander:** I think the major moving piece for us, we have to be honest, is that people buy our products because they want to do things, not because they are buying a car. So, that is the key driver for us. In some cases, when there has been a booming car market, I wish I could say that we are helped by it, but we are not. We can see that we follow car trends in specific markets very little. What we have seen is that there has been quite good consumer confidence in Europe, and that of course helps us because you then go out and do these activities. However, our purchased items are not high-ticket items in general, because they are not that expensive, and we are targeting a rather well-off consumer base, so it is not that their daily or monthly salary has decreased. So, there has generally been a relatively steady and good market.

On top of that, we have been extremely successful with some of the launches, and we have been that way for quite a long period of time in Europe, if you look at the growth numbers all of last year. That has now also happened in Q1 2017; specifically, for example, with this

multisport trailer which has been a very big hit in the market, and they are much better than the old model, which was already the best model on the market before that.

So, there are some very strong product launches, plus we have some markets in Europe and Asia where we are very green still, and where the growth numbers are potentially very high. These markets are small compared to Germany, France or the Nordic countries, but of course as they grow, their high growth rates help a lot more as well.

Then we specifically have the RV, as you mentioned. There we are very clearly associated with the purchases of RVs, because almost half of our sales go to the OEM. If you look at that market, it is hot – no doubt about it, it is scorching hot almost – and on top of that we are taking market share, so of course that helps specifically.

Also, once again, a little bit like in the US, RV is much heavier for us in Q1 than it is the rest of the year, due to the fact that we are partly suppliers to a longer lead time OEM business, so we are earlier in the calendar phasing. The RV impact will be smaller as the year goes on.

**Nicklas Fhärm:** Perfect. Then a very final, nitty-gritty question maybe to Lennart. I just noticed that there are no other amortisations left in the P&L breakdown as of Q1 this year. Is that so that you have amortised all those intangibles, so that row will be zero going forward?

**Lennart Mauritzson:** Yes, correct. There is actually a small number, but it is a rounding, so it looks like zero in our report. The major part was coming from the acquisition in 2011 from the Chariot business, so basically there will be no difference going forward on underlying and normal EBIT.

**Nicklas Fhärm:** That is wonderful. Thanks so much for taking all these questions.

**Erik Gunnarsson:** I would like to follow up on what you started talking about with regards to the small markets, and China especially. I heard a competitor of yours saying that China was developing more rapidly than they would expect. I know it is low numbers, but how do you see that, and how do you see the opportunities in that market in the longer term?

**Magnus Welander:** I think we have to be very realistic about China. If you are in the clothing industry, outdoor clothing, China is already a huge market, because Chinese people really dress in outdoor sports clothing a lot, although not necessarily doing the activities; we have to be honest about that. We are much more associated with when they actually go and do those sporting activities in reality, or go on a hiking trip etc. It is still very small. It is coming, we have no doubt about it. We have our own set-up in China, we have good retail distribution etc., but for us it will be small for many years to come.

We see a more rapid growth in other markets where there is a slightly more mature behaviour rather than just the purchasing strength, so to speak, and the behaviour is moving faster if you take, for example, what we internally call 'emerging markets', such as some of the Balkan countries, some of the Latin American countries and some of the other Southeast Asian countries, where the activity-oriented things are moving faster. If you take a country like Thailand, for example, recreational biking is growing faster there than it is doing in China, and that is great for us because then they need bike carriers and bike pannier bags and other things. So, I would say that out of all those classical emerging markets, from a potential growth point of view, we believe some others will be moving faster for us in their recent

coming years. However, due to the fantastic size of China of course, it will still be a key market if you look long-term for us.

**Erik Gunnarsson:** Alright. Thank you very much, very clear. Can you comment please on acquisitions going forward? Do you have any pipeline?

**Magnus Welanders:** We have a constant pipeline, I have to say, and of course being listed for a few years now, and with people realising we are not short of cash, theoretically, I think we get a call on every single company which is up for sale in the sector, which is good. We are very picky, and we have been very clear from day one when we became a listed company, at least as long as I am the CEO, that we will first and foremost focus on organic growth. Only if we see a really good fit, where we can bring that company and really do something much better with what we buy, will we do it. I think the Yepp company we bought is a perfect example; a little bit too small, we would agree. We are looking for those types of companies where we, with our development compass, design competence and global platform can quickly take something and make it better. Those are the types of companies we are looking at and, yes, there are a few that we are looking at in the pipeline. They are often a little bit too small for investors' sake, because they are not huge in the outdoor industry, and often maybe have processes that are a little bit strange, because they are often entrepreneurial or family-owned etc., so it is not a straightforward process, but I still hope that we will be able to find some exciting ones to add to what we do organically.

**Erik Gunnarsson:** Alright, thank you very much. That was all from me.

**Magnus Welanders:** I wish to thank you all and, considering that spring seems to be coming, go out there, do those activities and buy some Thule products, and we will talk to you after the second quarter. Thank you.

[END OF TRANSCRIPT]