Thule Group Year-End Report 2019

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Year-End Report 2019

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CEO, Thule Group

2019/Q4 – End of year in line with expectations

We are ending 2019 and we ended with a fourth quarter which was in line with our expectations. If we look at the summary on slide two you can see that we had net sales of SEK 1.211 billion and that meant that we had a 4.7% growth, a 0.6% growth excluding currency effects. Whereas we have seen throughout the year region Europe & Rest of World was a positive driver with a growth of 4.2% and region Americas as we had previously commented with a decline of 5.7%.

Our underlying EBIT was SEK 71 million and that means an underlying EBIT margin of 5.9%, slightly better than last year in what is, as you are well aware, by far our smallest quarter in the year, which is also then by far our lowest EBIT margin quarter for the year. As we had communicated in our quarter three we took the steps of doing some reorganisations, mostly in our North American commercial setup. During the process of this restructuring work we decided to take some further steps in what we were doing which meant that we took a slightly higher than communicated one-off cost. In relation to that we also communicate a higher ongoing savings effect from that restructuring. The restructuring cost of SEK 24 million was included in our reported EBIT.

We had a net income therefore of SEK 30 million and if you look at the cash flow part of the company you see that we had a very strong cash flow of SEK 174 million, significantly better than the fourth quarter last year. Then finally the board proposes an increased ordinary divided of SEK 7.5 per share which is then SEK 0.5 more than the SEK 7.0 we had last year.

2019/Q4 – Net Sales and Underlying EBIT development

Over the year as a whole we had an 8.5% sales growth and an EBIT growth of 7%, ending the year with a 17.7% underlying EBIT margin. Overall, as I wrote also in my CEO letter for the report, I would say that this is an average year or a rather slower year in terms of top line growth. However, when I look at the number of things we have done in improving the business for the coming years and the fact that we grew in all product categories, which I will come back to you, I still summarise it as a solid year from that perspective.

2019/Q4 – Key Events

Acquisition of niche player in Fishing Rod Vaults

If we go to the next page and talk about some of the key events that happened and what we did in the quarter, in the last days of the year in December we acquired a small niche player in a category called Fishing Rod Vaults, which are shown in the image. What that is, is a way for mostly fly fishermen but also other fishermen, to bring their rods with them in a safe way and protected way when they are transporting them to the riverbeds, on the top of the car in the case of the Denver Outfitters' products.

Denver Outfitters is a small company with sales below USD 1 million but still the leading player in the category in North America. Of course the acquisition will not have a major financial impact on our company but what it does is it matches very nicely with the rooftop tents that we acquired late in 2018 and some other additional products that we have launched in terms of awnings on SUVs and other products in what we call Camping & Adventure Life. It broadens our offer in that category. There will be of course some clear synergies by also rolling the Denver Outfitters business into the Thule Group. With immediate effect, as of the season this spring, the products will be sold under the Thule brand. At the same time we are also rolling out the previously Tepui branded rooftop tents as Thule branded products globally as well.

Communicated restructuring in North America implemented

As I mentioned the communicated restructuring was implemented and dealt with, having one-off costs of SEK 24 million and an estimated annualised savings already from this year of SEK 25 million.

Luggage and Roof Box Launches

We had two very important launches in the quarter in terms of broadening our Luggage category where we rolled out the Thule Crossover 2 luggage collection, all the rolling bags in spinner wheels and other bags. That is our second-largest soft version of luggage, complementing the Thule Subterra collection. In the Thule Subterra soft luggage collection which was launched in 2017 we also took the step to broaden that offer significantly with adding those four wheel spinner solutions also for that collection. That we means that we today ending 2019 and coming into 2020 have three luggage collections, these two soft collections and our hard-sided Thule Revolve that was launched earlier in 2019.

We had a very exciting launch of our premium top-of-the-line roof box, the Thule Vector, which offers both a very premium styling but also a lower wind drag and some key features on what is a truly defining top-of-the-line roof box with a successful reception in the market.

SEK 100 million expansion of global development and test centre

Then we are very excited also to announce, as we did at the end of November, the major decision to further invest in our product development at our global development centre in Hillerstorp in Sweden. We announced a SEK 100 million expansion of our facilities both in terms of development centre but also test facilities. We are already well into the building works and preparation. The entire site will be up and running by the spring next year.

Thule brand recognised at Red Dot awards in November

Then finally as you work with a lifestyle brand as we do it is always nice when that brand gets recognised for its premier position. We were very proud in November when at the very big Red Dot Awards for Brand Communication we won two very prestigious prizes, one in the Best of the Best category and then also as specifically the Best Outdoor Brand of all the outdoor brands in Brand Communications. This type of recognition is of course a sign that all the hard work we are doing both in terms of launching fantastic products but also in how we communicate with the market and how we support retailers to present the brand in the best way, are paying off in terms of creating a strong perception of the brand.

2019/Q4 and Full Year – Sales by Region

If we go to the next page and look a little bit then on the sales by region, I am not going to spend too much time on that. I am going to focus a little bit more on the product category update but if you look at it you can clearly see that region Europe & Rest of World ended the year then with a 6.1% organic growth for the full year and that we showed a small decline in region Americas. it is important to note that the 1% decline in region Americas is of course affected by, as we have communicated already, the low margin OE-contracts that we were phased out in 2019 finally. Without that OE-contracts drag we would have seen a growth of 1.4%.

You can say from a geographic point of view in region Americas we continued our strong performance in Canada and Brazil, while the US market has been the more challenged. Over in Europe & Rest of World region generally we can say we are doing really well across most countries, especially for example South East Asia which has been very strong in the Luggage part. Germany, France and other large markets like UK have been doing really well and the only underperformance have been Russia and a slow start in the Nordic region for 2019. However, that was also due, as we have previously communicated, to the fact that we had a very large one-off business in 2018 at the beginning of the year so a comparative number that was difficult to make[?]. Overall from a geographic perspective we are very happy with most of the markets.

2019 Full Year – Sales Development by Product Category

If we go to then the next page and look at product category performance, you can see that we have a very similar split of the categories as we had last year. 63% of our sales was in the category where we are the undisputed global market leader, Sport & Cargo Carriers. 15% was in what is a very strong European niche market-leading position in RV Products. 12% in our Packs, Bags & Luggage business and 10% in Active with Kids. if I look at those four categories and look at also the big regions I would say we only have one internal disappointment in terms of performance versus our expectations and that is within the Active with Kids category in region Americas where you can see that we posted a decline of 3%, which is clearly not good enough and not according to our expectations.

The major factor there was that we had a big business there mainly with strollers because this subcategory in region Americas which is 7% of the region's sales, is very much focused on today our jogging stroller, the Thule Urban Glide. The jogging stroller Thule Urban Glide, although very appreciated and a great product, has one major competitor in the US market and for reasons known only to that company they decided for the entirety of 2019 to be extremely aggressive on discounting those products. We chose strategically to not follow suit on such an aggressive pricing strategy and thereby we did lose share to that player. We believe they cannot maintain those type of strategies going forward and we are convinced that we will regain growth in that jogging stroller category. On top of that we are also, as you might have seen earlier this week, launching a new stroller that we believe is very suitable for the North American market, the Thule Spring, a small everyday stroller. We are convinced we will turn that negative to a positive in 2020.

Aside from that what stands out is also that in Sport & Cargo Carriers we only posted a 1% increase, knowing that we then had the drag in the region Americas of our phased out pickup truck accessories that will not drag anymore as we go into 2020. You have also heard me talking during the year about some of the factors when we are[?] phasing out of Roof Rack generation etc. Overall I am okay with that number but we of course need to show that we are returning to the normal growth that we have had for all the years in Sport & Cargo Carriers as we go forward in the coming years. I will talk a little bit more about the details when we go into the other pages.

Sport & Cargo Carriers – Stable platform as the market leader

We will start with Sport & Cargo Carriers. If you look at it, we had a 2% growth actually in both of the regions if we excluded the phased out OE-contracts. If you look at that it is not the level we want to be at. We want to be above 5% here but we did have a number of specifics with our choices of phasing out an existing roof rack generation and thereby also seeing some of our distribution partners reducing sales to sell out the existing products they had in stock. We are clearly seeing that the bike carrier market in the US was very much affected, as we talked about in the Q2 and Q3, by the high tariffs impacting the entire bike sector in the region. If we look at those things and combine that with a relatively shaky overall US market I think we did okay in Sport & Cargo Carriers in 2019.

If you look at our focus in 2020 going forward it is clearly to finalise that roof rack generation with the third phase being implemented at the end of the year. By then we will be having a completely fresh portfolio which aside from driving our sales will enable us to really capture those efficiency gains in the factory in Sweden where we make all the roof racks. The number two thing is of course to continue to take up market share with what is now a very fresh and really fantastic portfolio of roof boxes, having launched new good, better and now best products in the market over the last two and a half years. We have a fantastic portfolio there.

It is also to win share in to what we believe to be an okay US bike market. We do not think that the US bike market will be booming in 2020 but clearly we now believe that the Chariot is now the new normal, so to speak, and the market will therefore see a more comparable performance which is okay. In that okay market we have a number of products that we are convinced will enable us to take share.

Then of course with some new stuff that we have added into the company, as I mentioned before, although small the Fishing Rod Vaults and of course now with going with a Thule-branded rooftop tents that will assist this category as well.

RV Products – Continued market share gains in strong European market

If we look at the second-biggest category, RV Products, I am once again very happy to say that the team has done a fantastic job. They have been helped by a slightly better market than I had been anticipating over the last year and here we have estimated the market in Europe has grown somewhere between 7% and 8%. Since 95% of what we sell in RV Products is for the European market that has a clear connection to what that makes for us. As we are growing 13% it means that we continue to win market share and the team has done a fantastic job over the year to be able to both launch great new products but also to handle all the growth challenges with the key accounts. We also have to point out that we have a clear strength, as you can see also on the image, on the type of smaller vehicles, smaller vans and smaller motorhomes where we have a fantastic product portfolio. That is the fastest-growing subcategory in Europe within the types of motorhomes and caravans, which helps us.

If you look at in region Americas, as you realise if it is 95% in Europe then region Americas is tiny. What we do there is we specialise in those type of niche products for those more premium smaller vans where there is a possibility to have a good margin on these types of products.

The focus for 2020 is to continue to beat the market, as we have done for the last 14 years in a row, in what we believe to be a slightly less positive market. Here actually you can really start to look in more detail at the big European market because as was noted already in 2019, there are clear differences between the markets. The German market was a very strong performer in 2019 and is by most people in the industry expected to continue to be a very strong performer. Whilst there were markets actually with clear declines in 2019, mostly in Sweden and the UK for example and there were other markets like France, Spain, Italy and Benelux which were slow with only a tiny growth. We believe those markets will be performing similarly but maybe the German market will not be as booming as it was in 2019. We believe a low-single digit growth in the market and we are convinced that we will continue to take share in that market.

Packs, Bags & Luggage – Growth in categories where focus for the future is

If we then look at Packs, Bags & Luggage it is really positive to note that finally the category grew and of course what is driving that growth is the growth in what we call our future focus categories. If you look at those categories, which is luggage, it is then those more everyday backpacks that you use going to your university or your work and it is in our sport specific bags like tech packs, bike hydration packs or boot bags and ski bags, those types of products. If you look at those categories together they grew by 10% and in Luggage that is of course driven by the fact that we both grow in our existing product collections but also that we did launch at the end of the year some new ones. In everyday packs it is a continuous growing with listings and product launches and refreshes. In sport and outer packs it is a continued growth with a broader assortment and also a stronger recognition as a brand in those types of product areas.

If you look at the legacy and OE, as we call it, these are the camera bags, tablet folios for small tablets, GPS cases, CD wallets still and of course there are then some specific OE-contracts. If that at that business it declined with 12% in 2019 and the only good with that bad is proportionately these categories that unfortunately will continue to decline are now when we look at it much smaller than they used to be. They are now at the end of the year 29% as we enter 2020 out of the entire Packs, Bags & Luggage category. Although we believe they will continue to decline the impact of that drag will of course impact both the category and the global sales of Thule less. It will specifically of course impact region Americas' drag less because the majority of those legacy businesses are US-based.

That means that the focus for 2020 is definitely the focus to grow on those what we call future categories, the luggage, everyday backpacks and sport & outdoor packs. In luggage we will roll out two additional luggage collections and we are coming with a number of new everyday laptop backpacks. We are also coming with a number of new sport and outdoor packs. In our legacy and OE business it is about smartly managing the decline cost efficiently and some of the subcategories it is truly a last man standing effort. We are the only ones still selling some of these cases at a decent margin. In others it is a little bit the fight with the right product offer and limited spend ensuring that we hold on in the right way on that business.

Active with Kids – Strong growth in Europe

Finally if we go to Active with Kids, as I did mention, the disappointment of an underperformance in the region Americas but still a strong growth continuing in the region Europe & Rest of World. Here there is also a little bit of an exposure difference which is why we have chosen to show the image of that bike trailer. The bike trailer segment is continuing to do fantastically well for us in the European region, while that type of product is very small for the Americas region. The bike trailers and strollers did perform very strongly with continued broadened distribution in the European market.

I did mention already the stroller disappointment with the jogging stroller competitor doing some very aggressive price discounting. We also have to say that we did not get the Thule Sleek as established in the Americas region as we managed in Europe. We are coming with a new stroller model which I will come back to but that is of course a key also to continue to do in this category.

If you look at it the Thule Spring, our first true global everyday stroller, the big launch happened on Monday. If you go in and look at Instagram you will see a lot of images already. It is a very broad launch with a lot of excitement and of course a continued belief in how we establish the brand in strollers is very much connected to now adding a third collection as well.

The Thule brand continues to grow and become more recognised globally

If we then go to how that made us sell by brands, we have clearly communicated that the focus is to drive the growth of our premium very well-known lifestyle brand Thule. The brand in 2019 stood for 83% of sales which also means that we grew 6% in constant currency in the Thule-branded products. If you look at it by default since we are going to implement the Thule brand on two categories where we did not have it in 2019, the previously Tepui-branded rooftop tents and the Denver Outfitters-branded fishing rod vaults that we only acquired by the end of the year, that will of course generate the Thule brand growth as well, apart from all the other products we are doing in the Thule brand. The other Thule Group brands where Case Logic is the biggest one, in 2019 you would have found Tepui in there as well at 8% of sales. Our OE business mostly then to RV manufacturers in Europe and premium car brands in Europe was 7%. A small private label focused business to a very limited number of customers was 2% of our sales.

What is great is the continued recognition the Thule brand is getting. Not only those Brand Communication Red Dot awards as I mentioned, but numerous other design awards, customer event awards and selections by all the consumers in the industry. For example, the Konig Kunde award which is given out by the biggest RV magazine in Germany where we continue to be the best brand in both awnings and bikes. It is a great confirmation. As I said, a number of product design award wins continue to show that we know what we are doing in driving the Thule brand's value.

With that I will be leading over to Lennart and as I do that I can then also note that this will be the last time I am having Lennart presenting our financials as he is moving on to become a CEO of Backahill AB which I know he will do brilliantly. I will take the opportunity to thank Lennart for all the fun hard work we have done together with this company. I am very grateful for all the things we have done together. I am also sure that his team and our new CFO, Jonas Lindqvist who will join the company at the end of March, will continue to deliver the same strong performance as Lennart has done. With that I will leave it to you Lennart.

Financials

Lennart Mauritzson

CFO, Thule Group

2019/Q4 and Full Year – Reported Income Statement

Thank you very much Magnus for that. If we look at slide 12, the income statement, I will comment on some of the numbers Magnus has not mentioned yet. If we look at the gross margins for the year versus prior year we were down 0.3 percentage points, including a favourable currency effect of 0.3. The decrease[?] in gross margins in constant currency of 0.6 is driven by the Chinese tariffs for import to US, which we have mentioned over the year, of approximately 0.3 points, so half of the deviation. Then also the under-absorption due to both lower production volumes and some planned unused capacity [inaudible] the remaining points. I am very happy to say that in Q4 we are slightly positive, 0.2 percentage points versus prior year in spite of the continued negative effect from the Chinese tariffs of 0.3. We do see the main reasons for the positive purchase price variances which we had communicated as well that we would see a more positive view on prices from our aluminium and steel for the second half of the year. Also that we do have less under-absorption and we see some efficiency gains now in our European plants mainly.

If we look at full year selling expenses this year at SEK 1,315 million this includes the SEK 25 million for the RV Products recall and in Q4 the hit of SEK 24 million for the restructuring. if we include those to items we have a cost increase in like-for-like [inaudible] of SEK 62 million which also includes of course the acquisition of Tepui and the SEK 22 million in added overhead costs due to that acquisition. SEK 40 million in cost increase of selling expenses and then worth mentioning is that product development, where we do take everything directly on our P&L as an expense, we did end the year at 6% of sales, the same percentage as last year.

Financial net we did SEK -14 million in the quarter versus SEK -8 million last year. IFRS 16 accounting change explains SEK 2 million out of the SEK 6 million increase and the remaining increase is due to unfavourable currency effect in our revaluation of our cash pool accounts. We do that at closing dates. We also had some slightly negative currency swaps versus last year when we had positive currency swaps.

Effective tax rate for 2019 is 22.9% where we had 24.9% last year. We did, as you can see, have a low tax expense recorded in Q4 this year where we have been taking a favourable of SEK 11 million due to where we invested in our second plant in Poland a couple of years ago which is placed in what is called the EU Economic Zone where you will get some benefit of taxes when you can show that you have invested and have a number of people working etc. We are now at the stage where we could take the benefit of that investment as tax relief in Poland.

As you can see also on the low right-hand side of this from an accounting change of IFRS 16 it has not meant anything for us on the net income side because we are neutral to that.

2019/Q4 – Operating Working Capital and Operational Cash Flow

If we then turn to slide 13 which is the operating working capital and cash flow, you will see that we ended the year with SEK 1,267 million in operating working capital which is 18% of sales, the same percentage as last year. Though the main focus of the year has been to get inventory down a little, it is actually currency adjusted slightly down versus prior year in spite of our increased sales. More important is that we see now a positive trend on the days of inventory which is good considering the slightly negative development we saw in 2018. We are very happy with that development.

As you can see also we had in 2018 SEK 802 million in operational cash flow and this year we ended very well. We had a strong quarter and reached SEK 195 million in the quarter versus SEK 15 million in the prior year. in total we increased our operational cash flow by SEK 388 million and ended at close to SEK 1.2

billion. That is very good and is of course due to our increased earnings, improved working capital and slightly less capex spend. This year we spent 2.3% of our sales in capex versus 2.7% prior year. With that I will lead over to Magnus again.

Closing Remarks

Magnus Welander

CEO, Thule Group

2019 Full Year – Performance vs. Financial Targets

If we look at the financial targets and our performance we delivered 2.9% constant currency growth excluding acquisitions which is behind what we want to achieve and expect to achieve for 2020, the minimum 5%. We delivered an underlying EBIT margin of 17.7%, as Lennart mentioned also due to the tariffs, which is roughly in line with what we expected. We have a net debt to EBITDA leverage of 1.5x, in line with our target range and the board's proposal of a SEK 7.5 per share dividend means that that would be 88% of ordinary net income and therefore clearly higher than the official policy.

2020 Focus – We continue to drive our growth strategy

If we turn to the last page and look a little bit forward, if we look at then the focus areas of 2020 it is very much about driving our growth strategy. We are very comfortable that we have the right strategy. I am convinced that we are doing all the right things. It is very much about focusing on great products. Key is those great products but it is also about continuing the journey of the Thule brand with the tag line 'bring your life' becoming a true household lifestyle brand.

We are adding tools to our toolbox to become a serious contender in both strollers and luggage. Not just great new products or great new marketing material but also specific sales staff. In the US organisation we have added expertise from the field to further strengthen our own organisation. We have done the same in other countries and we continue to focus on having all the different parts in place to become a serious contender in both those two categories.

We continue to use a very efficient strong back-end of our organisation to make sure that we do drive this growth cost efficiently. The product portfolio push also continues, not only in this SEK 100 million investment in Hillerstorp or the increased [inaudible] we have had but the fact that we have several parallel large ongoing projects in both strollers and luggage as well as of course in all our traditional categories where we plan for some key ramp-ups as we go forward. We believe our spend will be just below 6% of sales also in 2020.

In our supply chain we continue to see improvements but of course the key here is a lot the classical statement that the proof is in the eating of the pudding. We have now over a few years done a number of major layout changes, major automation implementations and efficiency projects. We started to see, as Lennart mentioned, towards the end of the year some of those but of course it is the capture, the upside of those initiatives in 2020 that will be key for our performance.

In terms of what we do to support our retail partners around the world, we continue to focus first and foremost on consumer-driven online but the reality is that is of course always combined with great support also in a bricks and mortar reality. We continue to roll that out and we are convinced that that jointly will make sure that 2020 will be another year of very strong cash generation which will be an opportunity to both ensure that we can do further M&A but also to have an increased dividend as we go forward.

The image to the right, as I mentioned it before, is Thule Spring our new fantastic stroller, hitting stores as of Monday and really already getting a lot of attention in both awards and in a number of sales already as we speak.

Coronavirus

I think I would be remiss as any CEO would be at the moment if I did not bring up the subject of the coronavirus and the potential impact on our business. I will take that myself even before I get to questions. Generally if you look at our company we are very much focused on doing most of the product assembly ourselves. We focus on being close to the market and we pride ourselves on having a high on-time in-full capability. That also means, as we communicated several times over the last few years, that we do not try to win brownie points with the board or investors by having super-duper low inventory holdings just for the sake of it, especially not as we enter the season. Which means that we do not have a panic because we do have product on hand.

However, any company realistically if you look at it depending on the scenarios, what all serious management teams around the world in companies are doing at the moment is saying, 'How long will this coronavirus impact production in reality?' Although we only have a few tier one suppliers that are Chinese companies. We do have, as everybody else, a lot of tier ones in Europe that are dependent on things like fasteners and other things that are really only made in China nowadays[?]. For me, should a coronavirus mean and lead to longer disruptions than what is currently expected, we will be affected later on. We are working closely with all our key suppliers. We are monitoring it daily. We are in very close contact with them and we are planning accordingly in our plans of what we can do. It is clear that it is not good for business so that is obvious. The impact is not very significant if it starts to get up into production this week and next week.

I know that all of you analysts at least are reading this media more than I am doing even but when I talk to my supply chain team and their discussions with suppliers we estimated about two thirds of our suppliers are up and running. They are not all up and running at full capacity. Some may be only about 30-50% but they are back and running. As long as that continues to go in the right direction we feel we will be able to come through this quite okay. If it would continue of course we will have to come back and say what the potential impact could be. With that I leave the floor for questions.

Q&A

Daniel Schmidt (Danske Bank): Good morning Magnus and Lennart, a couple of questions from me. Starting with what you mentioned a couple of times in the report, the price aggression is relating to the US and Central Europe. You also said that this cannot continue and that you are convinced that you will regain market share. Have you seen this sort of price aggression dying down at the start of 2020?

Magnus Welander: Yes, I would not be as convinced if it would not have already happened because you never know how other managements are thinking. However, yes you are right, the US player has already moved pricing up as we start 2020 so that puts us on a much more even footing which I am sure with the strength of our product offer and our sales organisation will mean that we will regain growth again.

Daniel Schmidt: Are you seeing that dynamic already then?

Magnus Welander: Yes, otherwise I would not be as convinced of that.

Daniel Schmidt: No, okay. Is Central Europe the same thing?

Magnus Welander: Yes, in Central Europe it was in regards to a smaller category, bike seats and specifically actually not even all of Central Europe. It was one market, the Dutch market, which is a big market for us in bike seats. There I think it is more some have and some have not. There is a slightly tougher reality there. There is still some that are doing quite aggressive steps so not as clearly changed as the US.

Daniel Schmidt: Okay. Then another here and now question. Weather conditions in the Nordics have been lacking winter. There is massive destocking on some larger retailers like XXL and so on. I know that your exposure is very small to those guys but first of all has that had any impact during the start of this year? Then on top of that speaking about the coronavirus do you see any risk of Asians travelling to Europe and the US diminishing as a consequence going forward?

Magnus Welander: If we take weather and impact on our business we always say that we love clear seasons, as does anybody in the outdoor business, because it makes life easier in the mind of the consumer. It is time to buy this. It is time to do skiing. It is time to go biking. We do appreciate that. Differently though from the clothing industry in the outdoor sector, it is more the fact that people are still planning to go on their skiing holidays and they are not cancelling those trips. Some of them are slightly frustrated that there is not as much snow as they would have loved maybe but they still go on the trip. We are more therefore associated with that it might not be helping us one month but they will do it another month. We are not nearly seeing anything similar to what the clothing industry is doing. However, we would love that it was a better, clearer winter as we also love it when the spring comes clopping one day with fantastic weather for the rest of the spring. That is life. It does not happen any year in all the countries so there will always be some that have a nice winter some that don't, so it is good. It is nothing specific in our case. Not specifically good, not specifically bad. It is a normal reality for us, I would say.

If you take the coronavirus it is clear that with us having a strong momentum mostly in South East Asia but also in Asia in general, impacts Bags & Luggage. That is not brilliant that people travel less because that is a typical occasion when you think about buying a rolling suitcase or a rolling carry-on, is more when you are travelling a lot. It was not good that there was demonstrations in Hong Kong, one of our nice markets, either. I would say that it is negatively clearly to our business, specifically to sales in that region of Packs, Bags & Luggage. In the rest of our business a reduced air travel for Asians or Chinese mainly then coming to Europe or the US does not impact the rest of our business because the rest of our business is more people living in those places going and doing things with their friends and family. It would not be sold to those consumers in that reality. However, it does impact specifically our ability to sell Packs, Bags & Luggage in Asia clearly.

Daniel Schmidt: Okay, good. Then finally on the phase out when it comes to the roof racks and the older generation, you state that that should be completed 2020. Could you give us more specifics in terms of the timeline?

Magnus Welander: Yes, if you look at it, we have slightly different phasing in Europe and US. US is a little bit later so what we are seeing is we are already through, so to speak, phase two in Europe and we are in phase two in the US coming now. Then we have towards the end phase three. The big point to make as we are complicating life for people, we understand that, but it is a big complex category, roof racks. The first phase as we call it had the majority of the old stock. Even if there is some pipeline depletion of the second and third phases there were fewer SKUs for fewer specific vehicles and therefore you flush through the old much quicker than you could in what was phase one. The impact will be much smaller by default than it was in for the first one and then we are already having seen most of that impact in Europe anyway with a little bit more in the US to come.

Daniel Schmidt: The rest of the impact is basically front-end loaded in 2020 then?

Magnus Welander: If you look at it, it is not a huge pipeline filling front-end, loading from that perspective but if you look at it therefore and you know that we had a weak performance in the beginning of the year in 2019 for roof racks specifically in Europe as we communicated, it means that once again the comparative numbers therefore are realistically impacting in a similar way. As we then go into the second half we should have a stronger performance from a true business performance.

Daniel Schmidt: Very clear, thank you so much.

Magnus Welander: Thank you.

Gustav Sandström (SEB): Good morning guys. Let me start with the restructuring initiatives you mentioned. If I heard you correctly you said that they were mainly but not fully related to the US so if you could shed some light on what other initiatives beyond the US you have looked into? Secondly, the SEK 25 million cost savings, is that a year-over-year impact in 2020 or should we expect any of that to spill over into 2021? Thank you.

Magnus Welander: It was Canada as well. I think you have to be clear and a very minor change in the setup of some of the back-end situations in Europe associated with those steps we took. The vast majority is US and Canada and a small amount in Europe. If you take the effect of it, yes you are right, we are saying already as of 2020 those savings will impact.

Gustav Sandström: That is clear, thank you. On raw materials if you could help us out a little bit with the gross margin bridge from raw materials. I believe previous you indicated that most purchases are done in Q4 and Q1 so you should have a fairly good view of the year-over-year impact. Is it fair to assume that your basket of raw materials are down some high-single digits year-over-year? Is that fair?

Magnus Welander: I think there are two things to be made and one is that if you look at it we do not buy so much true pure raw material. I need to point that out to everybody. We are a company buying components, made extrusions etc. so it is easy to confuse a pure materials shift versus the remote raw material combined with the value added efforts that our suppliers do. We always point that out. Secondly, the only category where you can do some hedging, also both positive in that relatively impact how quickly or not and how big or not you see those pricing going through. The biggest one for us is aluminium which is the category you have some hedging so that flattens things out in a positive sense and a negative sense. There is a slight delay in it. Then if you look at it, the majority of truly a big purchasing going on as we speak in Q1 and Q2 because those are the really big production month coming now and have not been done. All that I would definitely not say that you have high-single digits but we clearly have a positive contribution expected if you compare our pricing versus the costs we are getting in. We expect to see a positive contribution in 2020.

Gustav Sandström: Alright, thank you. On Tepui the impact of your sales in Q4, could you help us out a little bit? Is Q4 also a very small quarter for Tepui?

Magnus Welander: You are correct, it is. If you look at the totality then for the year we had a growth of only a few million SEK in the quarter in the total of the year. It was SEK 70 million that we had as a revenue for the rooftop tents this year.

Gustav Sandström: Lastly, I did not see a capex estimate for 2020. Did I miss that or have you announced it?

Magnus Welander: We actually do not do estimates forward looking but what we have indicated is we are saying is around two and a half and as you noticed we have communicated one large one being the SEK 100 million investment which may make it go up a little bit above the two and a half due to that.

Gustav Sandström: Okay and just finally adding on to Daniel's question on the US. 29% is still in decline amongst your categories. What is your confidence level that this number is small enough to overcome in totality to regain organic growth in 2020? Second to that, what is your experience in terms of phasing when it comes to these categories in decline? Is it typically a linear decline towards zero or does it accelerate at some point typically?

Magnus Welander: Yes, if you take Packs, Bags & Luggage which is 21% of region Americas, it is in that we have the legacy and OE part, so it is 29% of the 21% of region Americas. It is important to remember that. If you look at that business it is of course made up of different small little cases and things and you have strange behaviour. I would love to say that I could give you in a simple macro digit it is in but it is actually the case for some, when you become last man standing you can even see growth for some months because there is nobody else selling it anymore and you are the only one selling that simple case in a Walmart store. Although the category is declining you as a brand for one specific product for a period of time might even have an uptick for a short period before it truly dies and then it can be a cliff. If you look at it, our decline in that has been around 15% every year. I do not think it will be very different. Within it there might be one that goes away completely and one that actually is even growing a little bit but very short-lived so we are still considering it a legacy type of product. Around 15% decline on around 29% out of 21% to give you the size of scale on what the drag is there.

While the drag part we had in the Sport & Cargo Carriers, the pickup truck accessories, that drag will not be impacting as we go forward in 2020 so therefore we believe we have a stronger base there.

Gustav Sandström: Those are all my questions. Thank you so much.

Magnus Welander: Thank you.

Speaker (Handelsbanken): Firstly on the expectation that the organic growth would accelerate this year and [inaudible] the 5% target. Then maybe more specifically on the North American market for Sport & Cargo Carriers can you remind us of what happened especially in the first half of last year when it comes to bike sales and [inaudible] i.e. remind us of the comps that you are facing in that business. Then how much help do you need from end user demand in terms of reaching or accelerating growth in Sport & Cargo Carriers in the US this year? That is my first question.

Magnus Welander: If we take expectation, we have an expectation to be able to deliver above 5%. We have done that all other years and we believe that we have a number of key launches and also key comparative differences. Taking that North American comparative difference, if you look at it US retail has been shaky. We do not think that will generally change. I think US retail will continue to be shaky with election year, tariffs and everything going on. However, the biggest specific thing on the bike sector then since bike carriers is our biggest category is what happened in the bike category is you saw a very tough second and third quarter which are normally then the big season for bikes. Not only was it tough that it was two bad quarters, but it is the two quarters when most of the business is done in the biking sector because that is when people buy bikes. Indications by the Bike Federation industry in the US is that bike sales in these periods were down around 15% according to some and 12% according to others because not all shops report their statistics. However, clearly teens of decline in bike. We did not nearly decline as much but we did see a decline in that period. We are then especially in the peak season quarters, quarter two and quarter three, comparing with relatively bad performance in that category. If you then assume, which is of course the key question that you are making about consumer confidence or not, is there is a clear assumption that we are making that tariffs is now the new normal. People get used to new price points due to tariffs, taxes and things. It is now when you come into July, when it was in July that additional tariffs hit on the bike carriers, that we can say that then we have a weaker comparative to start with. Really I would say Q3 will be the quarter where we should see the help in a comparative way. Generally we believe the market has calmed down and now sees the normality. It is still up to us. We can blame communications and the market but we need to deliver it of course and we are doing that with some new products and some new hard work in what we have done in the reorganisation. I believe it will be an okay market for the bike carriers. I do not think it will be a fantastic market all of a sudden but it is going to be versus a bad market last year.

Question: Fantastic, very helpful. Then about roof racks, if you can discuss the impact of this phase out on the profitability of those products 2019, 2020 and maybe 2021 assuming that maybe 2021 is the best in terms of margins. What kind of incremental improvement would you expect in 2020 in terms of profitability for roof racks?

Magnus Welander: We do not communicate that, by the way, but we have communicated as much as saying that if you only run one type of production with highly-automated lines versus running two types of production, more manual, semi-automatic lines for existing and new modern automated for new, you are not getting those efficiency gains in a plant as you will be getting when you only manufacture in one methodology which is the more modern, more automated. Therefore the bigger pickup comes fully in 2021 when all the old has been phased out because that is when the staffing levels and the flow of production is the most optimised. As we are already having implemented two of the three it is clearly some of those gains will happen already in 2020. Then we do disclose exactly the impact but it will help us towards our overall goal to achieve a 20% EBIT margin in the coming years.

Question: Alright, thank you very much. Then finally the Packs, Bags & Luggage if we exclude the legacy part and then Active with Kids, how accretive are those to your EBIT margin target? Are there some subcategories that are at the cusp of becoming big enough that they reach the scale required to have a similar profitability as you have in the Group overall?

Magnus Welander: If you look at it from a gross margin perspective the Active with Kids category is clearly accretive already, while the Packs, Bags & Luggage you have certain collections that are certainly not. It is also there where you see the biggest necessity, so to speak, if you really want to have the margin contribution to be right, that the volume has to grow in Packs, Bags & Luggage because we are more dependent on suppliers there. Whilst we do a lot of own assembly in Active with Kids and therefore we get to those efficiency more quickly in terms of margin. If you look at gross margin perspective Active with Kids is very good, Packs, Bags & Luggage is not yet there. If you look at what it means in true contribution we have been clear and I want to be clear also now that if you run several parallel stroller projects and several parallel luggage projects you are proportionately overspending on your product development versus what the size of the business is, which we are doing still in 2020 as well. If you look at the rest of our business the majority of the staff is of course the same type of staff in a customer service team, a supply chain team, a distribution centre or a finance team. We do have some product managers and specific sales people but it as a total effect therefore thanks to that efficient economies of scale use of back-end they will be accretive really even before they are the standalone accretive thanks to the fact that we do not have to add all the back-end staff to sell them. There is a positive contribution already as we speak as those categories grow even if there is a lot of potential on having those categories being more profitable than they are today.

Question: Right, thank you very much. Those were all my questions.

Fredrik Moregård (Pareto Securities): Good morning everybody. An impressive year obviously in the RV Products segment but I was a bit curious about how you define your beating the market. The market as you say grew 8-9% while you grew 13% but how are we comparing in the bike carriers and awnings segment of the RV market? Are you still gaining market share there?

Magnus Welander: Yes, absolutely. There is no official statistic so I cannot give you that because as the undisputed market leader we would be sharing too much data. However, I am 100% sure that we are gaining market share there.

Fredrik Moregård: Okay, okay, very good. On the strollers side obviously Sleek has been less of a good performer in the US than you anticipated one year ago. What sort of critique have you been facing in the US market that you were not expecting with regards to the Sleek? I remember you talking about the Sleek being the perfect very good stroller for the European and North American markets specifically.

Magnus Welander: As always when you launch products, especially in a new sector, new channel, new category that you are not the most established in, sometimes you get very clear feedback saying, ‘You should have done it this way, slightly lighter here, a different colour there.' I can clearly say having spoken to some of the most senior people in some of the retailers, one of the biggest US retailers simply told us, 'We do not get it either. We took it in. We like it. We think it is brilliant. Sometimes in a category for no really good reason a certain brand will be very successful with a certain product and you have not had that luck.' Clearly the winner in the US is a brand called UPPAbaby. They have a model VISTA that does the same thing, so stadium seating for two. They cannot seem to not be able to put their foot wrong with that model. We have to give them credit for then having done that work really well and for no obvious reasons in terms of ratings, the comparative tests or anything, we simply have not got that traction among the mums and dads, and mostly mums in the US especially. If you do not then you are not going to see it in the coffee shop. You are not going to see it on social media in the way that it becomes this positive spiral. That is what we have not succeeded in and we of course have worked a lot of thinking into what that means in how we are launching the Thule Spring at the moment. Aside from doing a good product and how we are working on all those aspects. I honestly cannot put a finger on specifically the product. It is more of a reality of the total situation that did not come across. We did not deliver as much as we hoped.

Fredrik Moregård: Okay, so the issue has rather been to get the strollers out of these stores rather than to gain access to the –

Magnus Welander: Yes, I think if you look at it, we got maybe not all of the ones we wanted because that would be a bit arrogant to say but we got the right ones and quite a few. Some of them have been doing well with it but some have not and when we then of course spent a lot of time discussing it because we are very happy that some of those retailers that did not do well with Thule Sleek still have jumped on with commitments that are quite significant for the Thule Spring. That shows that they still believe in us in the stroller. They have struggled to make clear statements on what specifically in their mind was the reason why the Thule Sleek did not succeed.

Fredrik Moregård: Okay, so you are not losing listings then for this season due to the poor performance in 2019 then?

Magnus Welander: No.

Fredrik Moregård: Okay, very good, that is all from me. Thanks.

Mats Liss (Kepler Cheuvreux): I appreciate all the organic growth opportunities but I had a question regarding the M&A opportunities. The fishing rod company you acquired seems to be a bolt-on one. Do you see more like that coming up in 2020 or is it a focus on organic opportunities?

Magnus Welander: I think we can clearly say as a company we always make sure that we will deliver on the organic growth and we have said that we will, as we get more and more established, see more and more opportunities of either additional smaller bolt-ons or potentially bigger category entrants where we can take a bigger chunk of a category. We are constantly evaluating companies and we will clearly do that. There will be as always depending on what is available in the market and how well it fits us and how well we think we could do with it after having acquired it. However, I feel confident that we will continue to do some acquisitions also in the future but the key is we are not going to sit and wait for those. In the meantime we will drive the organic growth.

Mats Liss: Okay, great, thank a lot.

Magnus Welander: Thank you very much then everybody and I look forward to an exciting 2020. I know we are all hoping that all the FX and situations around the world with coronavirus etc. dies down and subject to that happening we feel very confident on what we are doing for the 2020 plan. I also then want to end up by once again thank Lennart for a brilliant and fun time working together and I know he will do very well in his new job. Next time you will be hearing me and Jonas instead presenting. Thank you everybody.

[END OF TRANSCRIPT]