Thule Group Interim Report Q3-2019

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Interim Report 2019/Q3

Magnus Welander

CEO, Thule Group AB

Welcome

Good morning, everybody, and happy to talk about our third quarter of 2019.

2019/Q3 – Good quarter in all markets except US

As the first slide headline says, it was a very good quarter in all markets, except our biggest market, the US. So, of course, the call will both deal with what is going on in all the other countries outside the US, but of course, also why we did not perform as we would have liked in the US.

Net sales

So if you look at net sales. We had a net sales of SEK1,682 million, which meant a 7.7% growth, and excluding the currency effects, a 3.9% currency growth. And there, the Region Europe and Rest of World grew with 6.7%, excluding currency, while we saw a decline of 2% in Region Americas. Fully contributing the negative effect was the US market.

Underlying EBIT

If we look at [inaudible] million and an underlying EBIT margin of 16.3%. For you who have also read the report, we have also announced the fact that we have initiated a product recall of two types of motorised awnings in our RV Product category. So EBIT effect, as we have made a SEK25 million provision for that product recall, is then that in our EBIT is SEK249 million in the quarter.

Net income

And from a net income perspective, we are at SEK181 million.

Cash flow

Good, solid cash flow in the quarter. And the cash flow from the operating activities was SEK571 million as compared to the SEK499 million for the same period last year.

2019/Q3 – Net Sales and Underlying EBIT development

If we turn to the next page and look a little bit what this quarter versus that year-to-date performance has been, you can see that on a year-to-date performance, we are growing in our sales of 9.4%, that is 4.6% excluding the currency effect. So we are still doing a solid growth. Our growth of EBIT year-to-date is 6.8%. And year-to-date, we are then at a 20.2% underlying EBIT margin versus the 20.6% at the same time last year.

Region Americas – Tough quarter in the US

United States

If we then jump into the regions. So we start with Region Americas. We can clearly say that it was a tough quarter in the US market, which is our biggest market. So net sales were SEK494 million, but it was a 2% decline excluding the currency effect. And year-to-date, we have a 0.1% growth excluding currency effects.

If we look at it, there are some good things in the region, and then there are some tougher things in the region. So if we just highlight in regards to the acquisition we did in December last year of the Tepui branded rooftop tents, where the focus of that market is in the US, it is very nice to say that, that is tracking according to our plan. Sales from Tepui was, in this quarter, SEK14 million. And year-to-date, we have sold for SEK61 million, which means if you would compare to what Tepui as a standalone was doing in that same time period, a 24% growth versus previous year.

We have already announced that as of 1st January 2020, we are re-branding these products to Thule, so they will Thule-Tepui rooftop tents with the Thule as the brand, and we are also bringing them into a global scenario. So it is very nice to see the strong performance of that acquisition continue.

We have also mentioned that for a 18-month period, the choice we made to phase ourselves out some low-margin OE programmes in the US market specifically. The impact negatively in this quarter was of SEK10 million, and year-to-date, we have had a decline of SEK39 million. We are finally coming to an end of this phase-out. So if we look at it in the fourth quarter, we are expecting a slightly bigger decline than we had in Q3, which then, of course, will impact that quarter more proportionately and that is a smaller sales out quarter.

But it also means that we are finally coming to an end of something that over a long period of time has been a drag on the US sales performance.

If we look at then that US market, taking in these things into consideration, the US markets specifically declined 6% in the quarter. I think all of you that are following consumer goods companies, and especially seldom purchase consumer goods companies in the US market, know that the communication in regards to tariffs has been erratic over the year and unclear at times.

But to remind everybody a little bit on what has happened, we had a tariff communicated late September last year. And that tariff was then announced to be a two-step affair with first tariffs implemented at the very end of September 2018 of 10%. The additional 15% were initially planned to be implemented in January, that did not materialise and it was then later on postponed and announced in late May for an true introduction in July, so in the third quarter the additional 15% tariffs.

And then after that fact, there is additional tariffs on some of the products that initially were not included in tariffs on these Chinese produced goods. On a total scale, we have more local US production than our competitors have in these niches where we do. So it is not that we have a competitive disadvantage. If anything, the opposite is true. But what absolutely has happened clearly in the period is with the confusion and the concerns in the marketplace, it is clear that several retailers have both worked on their inventory levels further. There has been clearly some impact also on consumer confidence, especially related to the bike category, where sales numbers, as officially reported in the US market, are very disappointing on sales of bikes.

And the reality is these bikes are, to a great majority in the US, made in China. And if you look at the tariff impact, then in the third quarter, as of July, 25% on a relatively expensive bike, that has meant that a lot of US consumers, I think, partly tax-free, and this is my hypothesis together with our US sales team, are maybe hoping and holding on and waiting for some end of season discounts or some changes potentially to tariffs before they commit to buy new bikes. So there is a tough bike market definitely in the US. There is a general retail concern.

What is also the case is that every time when you have a outsized performance that is not promising to quickly change into the better, US and organisation have to challenge if you have done everything in your power and with the right ways in this organisational setup that you have. What we have decided to do is that, we, together with the US management, are going through a detailed review on our commercial organisational setup for the US market specifically, and we will be announcing some changes to that setup during the fourth quarter.

To give you an indicative thing, because that easily sounds like we are doing major restructurings, that is not what we are doing because we have a lean and well working overall organisation. But at the same time, as some flows of who we sell to and where we sell and to whom we sell, we work with, as often is the case in the US, a combination of own sales people to major and national accounts combined with independent sales rep groups for specific smaller shops around the US market. And as flows and growth rates change between these type of accounts, there is opportunities to reorganise and reshape the organisation.

At the same time, we also are in the final phases of an implementation of one global ERP system, where we, by quarter one next year, will be ready with that implementation. And that, of course, also enables some synergistic efficiency gains in how we operate the company globally. That will impact the US setup.

So what we are talking about, to give you a sense of scale, this is a rough number. But it is a sense of scale of a one-off cost hitting in the fourth quarter around SEK15 million, and with an assumed annualised savings when fully implemented of around SEK20 million. So the focus is not, as you can hear on those numbers, the financial as much as the operational efficiencies of a slimmer, better operating setup in the course of structure that we are at. So that is for the US.

Canada and Brazil

If you look for the rest of the markets in the Region Americas, Canada kept on performing really well. Brazil, which is the third market where we are integrated forward to sell direct to retail, continues to perform well, which is very nice.

And as many of you will have remembered, in the rest of the Latin American markets and the Central American markets, where we operate with distributor setups, has been quite erratic performance during the first two quarters of this year. It was therefore very nice to note that we had a growth in the rest of Latin American markets also in Q3.

I personally still believe that the Latin American markets will continue to be volatile, but it is nice still to see that we have a strong Q3. So overall, outside of the US, a strong performance.

Region Europe & ROW - Solid performance ending summer season

If we then go through Region Europe and Rest of World, there we can clearly say that our performance was very solid in the ending part of the season in Q3 as well. So we had a sales of SEK1,188 million, which was a 6.7%, excluding currency effect. And year-to-date, we therefore have a 6.4% growth, excluding currency effects. And what is nice to note here clearly was that this really applied to all major markets and in generally to all markets actually.

And especially here, once again noting to previous quarterly calls where we have communicated a weak start in the Nordics region and in the Russia region in the first part of the year, it was nice to note, as we had expected, that Nordics returned to positive performance. And it was also good that Russia did the same. So we saw a good development in both of those two regions as well.

We have also commented previously in the roof racks, where I remind everybody, that we are doing a very big generational shift that we have commercially decided to make life easier for all our retail customers around the world being the undisputed market leader globally on roof racks, which is a very complex category to serve all the different car types and car roof types and car models.

We decided to do that launch in three phases. We are just about to go into phase two in this region, and the Region Americas will follow soon. And as the keen observer of the Thule Group, you will remember, we have announced that the phase-out of the old systems for phase one was slower and with bigger inventory stake holdings in some of those distributor markets than we had expected, which therefore dented our sales in the first half.

That is why it is nice to see the confirmation that, that hypothesis that we said that, that would be mostly a slower and slightly larger pipeline depletion as a whole. It was nice to note that we started growth again in the third quarter of roof racks.

Then finally, the category that we also have discussed a lot in the past calls where we will probably be accused of Cry Wolf Syndrome, is that we have been quite cautious for a number of quarters in a row on the RV market. And then, as you may remember, that we commented that the second quarter started well for RV Products after a strong first quarter, but then ended abruptly at the very end of the second quarter with clearly a lot less production from the RV manufacturers.

We were a little bit positively surprised how strong the RV market continued in Q3 after that rapid decline in Q2, so it is not nearly as bad as we had expected. In fact, it was pretty good. So that means that some of the manufacturers started in Q3 to get some of the capacity limitations they have had on the new Euro6D chassis and engines, the new eco-confirmed engine's tractor[?] set up. They must have been getting slightly more than we were expecting.

However, if you look at the reports on the various companies in the sector and commentary, there is probably still some concern definitely in Q4 that all of them will not be getting all of the quantities that they may have even consumer orders for those vehicles. So I do not think it will be a very strong Q4, but still surprisingly holding on well in Q3.

If you then look at the remaining two categories, the newer categories that we are having a long-term ambition to go in, it is nice to know that Active with Kids continues to perform well and that we now saw a very good growth in packs, bags and luggage.

We are a very small player in a huge market in luggage. And when you are a very small player, you have to realise that it takes time to do things but you have to have wins all the time. So it is very good to note that in the key Asian market, which is steady of course, a very small region for sales of the Thule Group, but where in the global sense for luggage, it is a very key region. It is nice to know that we are getting a lot of good listings, both at airport stores, department stores and luggage specialists.

It is from a very low base. So we should not prepare[?] ourselves blind on percentile growth, but it is good to see that we have a good traction with those bags. And we are, of course, continually broadening our assortment.

So in the third quarter, we launched our third collection, which is called Thule Crossover 2. It is a soft luggage collection with various types of both rolling bags as well as smaller bags. What is also meant was our first soft bag luggage collection with what is called spinner wheels, so four wheels, which is a key category.

In quarter four, we will be broadening that solution with spinner wheels, four wheels, also to our best-performing luggage collection, Thule Subterra. So later on in Q4 now, there is coming also spinner solutions into the success of Thule Subterra collection. And that means that we are starting to really truly be able to offer two full soft goods collections with spinners, two wheels, smaller bags and larger check-in bags, as well as the Thule Revolve hard case collection. And finally, by that, we are starting to be a real player, not an army of one or 1.5, but really start to have a broader assortment in luggage.

If we then move on to start the financials, I leave the word to Lennart, who will walk you through that.

Financials

Lennart Mauritzson

CFO, Thule Group AB

Welcome

Thank you very much, Magnus.

2019/Q3 – Reported Income Statement

So on slide six, where we have the reported income statement. You can see that gross margins declined in the third quarter, FX-adjusted versus prior-year, with 1.2 percentage points. Decrease in the margins, driven by the negative effect, we have talked about, from the Chinese tariffs with US purchased goods, equivalent to approximately 0.2 percentage points.

Primarily, driver was the under an absorption period[?] in our assembly units due to lower production volumes. We did see, and it is good to note that we did have small favourable push towards variances on commodities as we have estimated should come beginning in the second half of the year.

Looking at our SG&A expenses, they are higher than prior year in absolute numbers. But if we exclude negative currency effect, and the fact that we acquired Tepui last year, the organic increase in the quarter was SEK11 million, and that is due to the product development push and commercial initiatives[?], as you can see, we are still very lean from the [inaudible] expense line.

Also the line items, selling expenses, worth mentioning is that in here, you see the hit of a SEK25 million of product recall provision that we have mentioned. Financial net, minus SEK12 million, that is flat versus prior year. However, this year, we have the IFRS 16 accounting rule change, which broadened this financial net to SEK3 million in the expenses so actually like-for-like we would have been SEK3 million less.

And mentioning then the IFRS 16 impact, as we have also have several times mentioned, that is almost no fixed on our income statement. As a matter of fact, in this quarter, it is zero. The EBIT help we got with SEK3 million, we do not have the financial expenses on SEK3 million. Effective tax rate for the quarter, 23.7%. So year-to-date, we are at 23.3%

2019/Q3 – Operating Working Capital and Operational Cash Flow

If you then look at the next slide, which is the operating cash flows and operational cash flow. We see that operating working capital, we ended the quarter with SEK1.446 billion, which is 20.7% of SEK. As we said in the Q2 report, we expected inventory, because that is the main driver for this, to be reduced in Q3, and we did decrease it between Q2 and Q3 with SEK144 million.

If you then look at the currency adjusted increase of inventory of SEK70 million, which means half of that is SEK35 million, is because of the acquisition of Tepui, which we did this time last year and the tariff impact on Chinese purchases. That means that we had a very good operational cash flow for the quarter, so we reached SEK600 million versus SEK515 million the prior year, and year-to-date we are close to SEK1 billion accumulated versus SEK800 million last year.

So improvement due to increased earnings, improved working capital and less capital expenditure spent this year. Thank you.

Conclusion

Magnus Welander

CEO, Thule Group AB

2019/YTD – Performance vs. Financial Targets

Thank you, Lennart.

Organic Growth

If we then look at our performance versus the financial targets, we are constant currency net sales, excluding the Tepui acquisition, at 3.5% versus our target of above 5%. And considering that the fourth quarter is by far the smallest sales quarter, it is clearly the case that we will not be able to reach the 5%. We believe that quarter four will be in line with roughly what we did in quarter three in terms of sales growth.

Underlying EBIT Margin

If you look at underlying EBIT margin, we are at a rolling 12-month basis at 17.7% and year-to-date at 20.2%. So therefore it is worth noting and reminding that the fourth quarter is not only our lowest sales quarter, it is also clearly the one with by far lowest EBIT margin. So if you look at that, that also where we believe from an EBIT margin point of view, we will be in line with what we did EBIT margin-wise in 2018 in the fourth quarter.

Net debt to EBITDA

If you look at the leverage, we are at a net debt to EBITDA at 1.4 times. and we have, of course, done the dividend of the SEK7 per share this year, which was 86% of net income.

Ending the year with focus on growth for coming years

So if we then look forward to the coming months, the commercial focus for the coming months, it is, as always, for ourselves to make sure that we support our retailers to get the true sell-out traction of those new [inaudible].

And I mentioned already the broadened luggage portfolio with Thule Crossover 2 soft-sided luggage collection that started coming into stores already in Q3 in some markets and it is continuing to roll in and hopefully then roll out of the stores as well in Q4. We have now, in Q4, the launch of our new premium rooftop box, the Thule Vector, so that is a positive to bring into the fourth quarter.

And we are, in the European region, doing the phase two of our new roof rack generation. If you look at it from a point of view more of mid-term on what we have shown because quarter three is still the biggest quarter for us showing to retailers what will come in the 2020 season, we have a number of both fairs and events, as well as customer meetings showing a lot of new products.

And the image on the slide shows the new Thule Spring compact three-wheel city stroller, which becomes then our first stroller in the stroller category, which we showed at the world-leading Kind & Jugend Fair and it is currently showing in the US at the US leading ABC Kids Show. That stroller has garnered a lot of positive attention, so it will be a key addition to our stroller portfolio.

We will start launching some new, as always, bike carriers, etc., and here I think worth noting is that US-targeted Thule Helium hitch-mounted bike rack, I think, will be a key addition in a challenged and tough bike carrier market. We are also launching a number of updated and refreshed backpacks and luggage in the next year.

So if you look at it, continuing a very long-term focus of bringing great product to market also now as we speak looking for the coming months.

From a more purely operational focus, we have already mentioned that US restructuring programme. So I remind that it is not a huge endeavour. It is more of a targeted for the flexibility and the new setup we have from a customer point of view and combining that with the goal of having one common global ERP system, enabling some synergistic savings, while of course, estimated around SEK15 million and then annualised savings of around SEK20 million after that.

If you look at it, it is clear also that we have a continued push for big product development efforts both for those products that are hitting in 2020 but also for those that will come in the years after 2020. And we continue to do lots of effort there. We can, therefore, be happy to say that we are doing a big effort and a big growth effort in our Hillerstorp product development facility, where we will be expanding over 2020 and 2021 as well, to handle all of those growth initiatives projects.

In our factories and in our nine assembly plants around the world, we have communicated over the last two years, a number of major initiatives, where we have focused on more efficient assembly setups. And, of course, we are aiming to start really capturing some of those efficiency savings that those type of investments should be giving as long as we see that volume growth that we are targeting.

So with that, I leave it to the operator to open the floor for questions.

Q&A

Daniel Schmidt (Danske Bank): A couple of questions from me, starting with the cost side. Selling expenses in the quarter were up by 19%. And I assume that, that has been pushed by product development spending kept elevated. Given what you said on the last final slide in terms of product launches in the coming quarters and years, should we expect selling expenses to stay elevated also for the coming quarters, i.e., product development spending, is that going to be above 6%, how should we pencil in that in the coming quarters into 2020? Start with that one.

Magnus Welander: Yes. So, if we started with, I think, the most important thing, as Lennart did mention and I also pointed out, selling expenses in the quarter specifically that is where we have the provision of SEK25 million for the product recall. So, of course, if you then take away the SEK25 million, you do an FX adjustment, which is the key because that happens.

In addition, we have now the SG&A or selling expenses of the acquired Tepui organisation, which is roughly SEK5-ish million. Actually the true organic, so to speak, FX adjusted SG&A increase in the quarter was only SEK11 million. So that is just to clarify a little bit of what the reality was for Q3.

If you look on your more long-term mid-term question in terms of are we starting to spend more than 6% on product development? No is the answer. We feel very good that we are going to make sure, as we have seen already with growth in the newer categories, we will continue to do big product development efforts of our luggage and strollers. But like what happens always, when that proportionate starts growing, your percentage proportion becomes more normalised.

At the moment, we have clearly overspend proportionally by running several parallel stroller products and luggage products versus a relatively small revenue. Luckily, those revenues are constantly growing. On top of that, we have, of course, a continuous spend in other categories but also there, the revenues are growing. So no, it will not go above 6%. It will slowly but surely decrease rather than increase.

Daniel Schmidt: And this is, of course, changed over time and a lot of things have maybe sort of been altered since you had the CMD a couple of years ago. And you have been very clear that it is going to stay elevated for this year. But when you say decreased, is that sort of looking a couple of quarters ahead, that will be basically in the second half of 2020 then or how do you look at it?

Magnus Welander: Yeah. Since we do not run the company, which we have repeated a few times on a quarterly basis, it means, of course, there is no rapid change to this because it is a phasing in on various projects. But you are right, slowly but surely you will see it. It would not happen in Q4 because by default with Q4 also being such a small revenue quarter. So it is more when you come into the bigger revenue quarters in Q2 and Q3 next year. At the same time, as we will continue, in a like-for-like sense, in pure money, spend more money, I am sure but with the growth, therefore you will start to see the percentage slowly declining as you say versus the second half of the year.

Daniel Schmidt: Okay, good. Second question on Active with Kids. You mentioned it on the call and you said that you did well. You stated in Q2 and Q1 that sort of you were lagging slightly behind schedule or plan when it came to Europe in Q2 and the US in Q1. Are you feeling that you are catching up on your sort of budget when it comes to Active with Kids in strollers in the Thule Sleek?

Magnus Welander: Yeah, if you look at it, I think very simplistically, we had a clear mention of something, which was the child bike seats in one specific market, which has dented a little bit our performance there. If you look at it in the Region Americas, we did have a very weak quarter one in Active with Kids, where we did not see with some of the existing stroller models which is our [inaudible] with some of our competitors being extremely aggressive price pitches. We did not see the performance we would like. That has already turned.

So in Europe, the performance is slightly better but it was actually quite good already, while in the US, it was a bad start of the year and it has been better since. So yeah, slowly but surely, we are getting towards where we want to be.

Daniel Schmidt: Okay. Good. And then finally on the recall, could you say anything more? You are stating that there has been no accidents. Has there been any backlashes in terms of the brand and the consumer perception of the brand in any way on the back of this recall?

Magnus Welander: I think, first of all, a product recall is never good for anybody, so that we need to state. The decision that we have taken to do a product recall is because of our very high focus on safety. There has been very, very few incidents. But due to the fact of how those incidents in an absolute worst case scenario could mean something, it has not meant any accidents. We have decided to take the most stringent thing you could decide to do, and that is the product recall together with then our RV manufacturer and RV dealership customers and offering the consumers an upgrade to make sure that, that risk does not continue.

I think if you do that well, as a brand, and you have a fantastic historical track record, it will not damage you. If you would not do it well and did not manage it and work all that for having snuck away to get away from it, I think that would have potentially definitely damaged it. So it is never good. Product recall is always bad. It takes time. It takes focus. It costs money.

But from a brand perspective, I am not worried because we have done the exact thing that anybody would expect from a super professional high-quality company.

Gustav Sandström (SEB): If I may start with a quite simple question. Did you have volume growth in Q3 excluding Tepui?

Magnus Welander: Yes, we did.

Gustav Sandström: Perfect. And then do you engage in any price initiatives in Q3 in Europe related to roof racks and roof boxes? If so, does it refer only to your old models or also the new launches?

Magnus Welander: The answer is no, we did not.

Gustav Sandström: Perfect. And also could you remind us, in Americas, how big of a share Case Logic and camera bags make up of your US sales and what the year-on-year decline is in Q3?

Magnus Welander: Yeah. So I would not call it Case Logic because to simplify it, what we had called legacy and OE bags because we do sell also Case Logic newer backpacks and other things, which we do not consider to be declining categories. So if you look at it, what we call then the legacy and OE bags are those categories which simply are shrinking away.

And you are right, Gustav. They are, by us, today sold under the Case Logic brand in that sense. But we do also sell the Case Logic brand and product in some of the growth categories.

But if you look at legacy and OE, we had, as a total last year, and we said it was roughly about 40% of the US business, and much, much smaller in the rest of the world, where we have not had the historical success with those categories. That have now declined clearly, and I think by the end of the year, it will be more around 30% of the business. So that means for the total packs, bags and luggage, we are now down clearly to a lot less than 20% of that business to finish[?].

Gustav Sandström: Perfect. That is helpful. And referring to Daniel's question on the stroller side. With Thule Sleek, are you now on par with the Glide series in terms of units sold, would you say, or are you still catching up to that number?

Magnus Welander: Yes. We do not disclose numbers of units of anything. So I can say that, and that is not the case that we disclosed. But no, we are not at the same level as [inaudible] might be.

Gustav Sandström: Okay, perfect. Lastly on capital allocation. As you mentioned in the report, you are trending below your target range for indebtedness. How do you think about capital allocation? You mentioned some initiatives internally, which I guess also would imply some CapEx going forward. But in terms of [inaudible] versus acquisitions is concerned?

Magnus Welander: I understand your question, with the low leverage rate of 1.4 that we have, which is below the range we have communicated, will we see some differences in our approach? We have communicated that our first and foremost focus is to clearly work with making sure we drive organic growth. There is no need to do anything dramatic there because we continue to do that.

We have then said we have some opportunities with M&A. We have constantly looked at that. And then, of course, we have the third, which is how much do we dividend out? That is going to be communicated in conjunction with the Q4 report. But it is, of course, clearly the case if you see our strong cash generation leverage ratio. Unless we have some bigger news on some acquisitions, it looks promising for what will be proposed by the Board in terms of dividend.

Stellan Hellström (Nordea): Magnus, you mentioned that you see the sort of same development in sales in the fourth quarter as in the third. And just looking at the comparables here. You had quite a little bit weaker sales growth in the third quarter last year and quite strongly actually in the fourth quarter last year.

So that seems to indicate a sequential improvement quarter-by-quarter. And I was wondering what do you see there? What areas do you think will do better in the fourth quarter?

Magnus Welander: You are absolutely right. And to clarify it then, that is on top of them having actually a bigger proportional impact of those OE contracts that are hurting us more proportionally in quarter four than they did with the SEK10 million decline in quarter three. So you are actually right. And the reason is that we do have some launches, specifically in quarter four this year, which are products that we did not have at the same time last year. And that, of course, helps.

So if you take, for example, the Thule Vector premium roof box line is a real strong addition that we are expecting to have and boost our performance in that category. We have then, as I mentioned, just launched our third luggage collection line, the Thule Crossover 2 into stores, and we are doing some extensions to our best-selling luggage collection line. It is Thule Subterra with some spinner wheels. So the reason for that is mostly associated with some of those new products that we did not have at the same time last year helping.

Stellan Hellström: Okay, good. And then I was also just wondering on the gradual launches here of the new generation of roof boxes. I take it that you think that the biggest impact of those inventory reductions happened in the first phase and would not really recur in phase two and phase three. Is that correct?

Magnus Welander: Yeah, roof racks, not roof boxes. But you are right. Yeah, but those three launch phases were built on the logic that launch phase one roughly represented, roughly half of our revenue was those models we replaced of the traditional historical revenue in total in roof racks was that first launch. Those were also the most complex roof racks. So these are the roof racks with a lot of special adaptions for very specific car models, where you need a lot of SKUs to cover those type of cars with all those different connections you need to.

Launch phase two and three jointly then represents the rest of the half, so one quarter each roughly of our historical sales. But they are also representing that with many fewer SKUs, so a significant reduction in number of SKUs needed to serve those models there. If you then have fewer SKUs, as our distributor[?] there is a less risk. They are just sitting on a lot of old ones for some specific car models.

Secondly, of course, with some learning, we do learn as we go, we have been communicating very, very extensively now with all those distributors in regards to making sure that they have continuously made sure that they are not sitting on too many of these racks that we are now replacing in two and three. So that is why you are right, our assumption as that the most significant of these negative pipelines, in fact, was associated with the first phase that we now, when we look at a growth in Q3, seems to be out of.

There will still be pipeline depletions of the old generation also for phase two and three but to a smaller effect and that is why we believe we are, so to speak, through that part of the change.

Stellan Hellström: Good. Then also a question on the margin decline in the third quarter here. If you can maybe elaborate a little bit on the various items here, the mix should be under absorption on, what was it now?

Magnus Welander: Yeah, the third one is that there is a negative impact due to simply [inaudible] on the tariffs itself without a margin on top of the tariffs. So as Lennart mentioned, that was 0.2 of the minus 1.2. That means there is minus 1-point left. And there is vast majority of that is under absorption in our nine assembly plants. And the logic for that then, any analytical mind like yours, Stellan, will quickly jump to the conclusion probably that means that you saw a later than you could act on in getting rid of people in your factories or a combination of that and the fact of saying if we do not believe it is a long-term decline but rather a dip, are you going to fire people to hire them a few months later on?

And it is a combination of those two. We are convinced that these volumes will be coming. So we are not going to take stupid short-term measures with stat structures, etc. And secondly, the performance was weaker in some of those volumes than we quickly could have reacted on anyway. So it is very much dominated by that under absorption. And then there is a little bit of product mix effect as well. But the majority is clearly under absorption.

Stellan Hellström: At this under absorption, that is related to that. It has nothing to do with the new facilities and the efficiency gains that you expect that there are not coming through as expected?

Magnus Welander: Well, actually you are, of course, right, that if you have done new facilities, that costs you money because that is the fact. Then if those new facilities are very efficient, which they happen to be, so that is good, but it still costs you money. And if the top line does not happen as much as was expected, then that is part of that. So it is an under absorption, partly driven by a few years of expanding, putting robots in place, etc. that didn't materialise. But still the majority and the big chunk of our cost is associated with things we have had for years, the staff levels that we have had for years. So that is where the biggest money comes from.

In terms of how efficient the plants are performing, I feel very good about that. I see the new roof rack assembly, I see the new lines that we have done in Norway[?], we feel very good. But at the same time, if our total volumes do not come in, there will be some under absorption. And as we believe, the volumes will come, we have not taken rush quick to make a specific quarter look better and then throw a cost on taking in the same people somewhat later on. That is not how we act as a company.

Stellan Hellström: Good. Then just finally on the product launches that you have been announcing this autumn here. Are there any of those that you expect to be volume products going into next year?

Magnus Welander: Yeah, of course. If you look at some of those key bike carriers, etc., like the Thule Helium and by default since we are so big in these categories and these are coming in, clearly we will see some big volume drivers in those. But also we clearly believe that adding a third stroller in with the Thule Spring versus the other two strollers we have in the category, it adds another step in something where we now already have distribution. So we expect that we will gain some good volumes with that stroller model.

The same applies to the same luggage collection. Once we have opened a lot of doors with luggage, it is easier to quicker get up some volume growth with additional collections that move into maybe not all of these stores, but to many of those stores where we sell other luggage collection.

So I think across several of these categories, it is clearly product that we expect will have some significant input. But we are not a company, in general I can say, where it is one product that makes a huge difference for our total revenue. We have a lot of different products that have to deliver to make up those numbers.

Karri Rinta (Handelsbanken): I wanted to start with the US, and you made a reference to the bicycle sales. So do you have sort of a fresh number that would capture what has happened since the tariffs were raised? And then a follow-up on sort of changing channel landscape in the US. Am I correct in assuming that, that you would be sort of retargeting your efforts more towards the smaller independent retailers and away from large sort of centralised chains? I would like to start with that.

Magnus Welander: Sure. Yeah. So if we take the first question, no, there is no official data yet for details fully for the third quarter. That tends to comes a two, three months delay. So if you look at how bike sales are captured in the US market in the official data, there are two different ways of looking at that market. One is what is captured by the Bike Association in the US, which mostly only captures a part of the market because it focuses on the independents and on more expensive bikes. It does not fully cover the typical family like for kids and others.

That one for the first two parts of the year was already down 15% on sales. So that has been a very tough start. We, of course, talk to all the big bike brands in the US and you will see differences between them, etc. But indicatively, I do not think you have seen any type of more positive view that it has been a very tough year.

My expectation is more or less in line with a weak overall performance in bike also in the third quarter with those type of numbers. I think it will be double-digit decline. Exactly how much more than that, difficult to say, we will see.

If you look at then how we are retargeting our efforts. I would actually say that if you look at the independent retail structure in the US, that is not where we are going to focus a lot more essentially. We already have a very good attention. And as I mentioned briefly, as most major brands operate in the US, you focus on independents in that fairly large US market, where California alone is bigger than any European market.

You look at that by serving it with very professional, independent sales rep structures, which you, of course need to manage. So we do have people that manage that. But that is where you work with those independent retail structures. It is more between and within the major national accounts and it is, of course, also in the US specifically our continued fast growth on our own B2C online channel that is partly shifting what is going on there.

So it is more about which one of those major national accounts, the combination of omni-channel players, pure online players, our own B2C, those realities are making us make some moves and allows us to make some changes to how many people we have operating with those partners. So it is a classical tricky game to try to be with winners for the future, not the winners of the past. And in that, we see some changes that are good to do now.

Karri Rinta: All right, good. That was a lot to digest. Shifting gears to the RV market in Europe, seems to be that there is some OEMs that are more optimistic than others and then some of your peers are somewhere in between. But what are your thoughts on Q4 and assuming that these are of the short-term capacity model next years? How should we think about 2020 in Europe?

Magnus Welander: Yeah. This is probably the only comment in my entire life that I have been accused for being the most pessimistic and that has been about the European RV industry. And I have been wrong all the time so far, so you probably should not trust me too much.

But I have been more pessimistic than many others. I have to admit that I have been wrong constantly, that it has not been as bad as I thought. What have been the main reason for why I have been wrong is actually the consumer purchasing had been more positive in some of the very big markets. But you have to remember that it is easy to talk about a pan-European thing and you add all the numbers together.

But if you then look at the biggest market by far, being Germany, and Germany doing much better than the average, you might be slightly fooled. So the question is more about what will go on in Germany? If you break down the European market, you see some very bad performances in Sweden and some weak performances in the UK due to tax in Sweden, due to Brexit in the UK.

Then you see a lot of other countries where it is quite good, and then you see in Germany where it feels very good. My mistake has clearly been about the German market. So I think if you look at the manufacturers, the reason why you will see differences is you probably have read the Trigano report is my guess and some others. And they will be tainted by which country they mostly serve.

And it is clear that, again, they does not serve us as much in the German market as they do in other markets, so they will have a softer view than somebody who serves the German market like the Torm[?] Group does. Now if you put all of that together and knowing and admitting that I have been clearly wrong so far, I am not super positive. I have not dramatically changed my view. But I think Q4 will be relatively shaky but not as bad as I thought only a quarter ago. And if I look at 2020, I will probably join the people that believe it will be a low single-digit year.

Karri Rinta: Great. That was very, very helpful. Then finally on the Revolve luggage collection. So what have you learned because it is a bit of an outlier with being hard case and so forth? So what have you learned so far from entering this category? Any sort of adjustments that you have needed to make? How successful you have been compared to your sort of soft-shell collections? So I guess the question is, are you happy with Revolve so far?

Magnus Welander: Yes, we are happy with Thule Revolve performance so far. And yes, we are constantly learning on all the collections and doing step changes and adding things and taking away things and adding more collections. But yes, happy with Thule Revolve so far. There is a constant learning which we knew when we stepped into a completely new category, both in terms of sales channels, consumer perceptions, focus areas, supplier challenges, etc. So there is consistently some bigger learnings in a new category than anything else.

But what we are clearly saying is that we are on a good path. It is happening a little bit as we have been saying. It is growing much faster in some countries than we thought and much slower in some countries than we would like. That reality is still valid. And that also applies to the Thule Revolve as it has to other collections. But overall yes, we are happy with the start of the Thule Revolve. We are happy with the feedback on the newer collections that we are now launching and it will be a long haul bumpy ride but the direction is good in luggage.

Mats Liss (Kepler Cheuvreux): Well, first, I mean, the organic growth of 5%, I guess just to get the feel of the view you have of that going into next year, I guess, you have the product launches will be quite supportive. Then again, I mean, market conditions might be somewhat softer next year, who knows. But well, could you give me a feel about that? Could you reach the target in spite of a softer economic growth next year?

Magnus Welander: Yeah. I think we would not have put in a 5% growth target if we did not truly believe we should be delivering it every year. So clearly, we are not happy with not delivering it this year. There are some very key drags that we will not have entering into 2020. We have to remind ourselves that we have SEK50 million drag that we will have had by the end of the year in those phased out OE businesses in US. That drag we will not have in 2020.

On top of that, we will not have the drag that we saw with the pipeline depletion of the first phase of the roof racks. And on top of that, we have entered successfully and as we have mentioned what is not calculated in our organic growth rate because we just acquired a company in December. But if you look at the acquired rooftop tent business in a true like-for-like, there has been 24% growth, small significant piece of business but still 24% growth year-to-date. So with those things combined, we still believe the 5% target is definitely achievable in 2020.

Mats Liss: Okay, great. And secondly, I mean the changes you make in the USA organisation, is that something that you could sort of, if successful I guess, apply in the European market as well, or it is a completely different story?

Magnus Welander: Yeah, if you look at it, I mean, we constantly do staff changes, organisational set of changes as realities change in every market. The reason why the US organisational change will be happening now is that there has been bigger shifts and higher uncertainties on the players in that market, plus the combination with a finalised ERP system implementation with a lot of advantages in data sharing and other things. There is a much more obvious to do it at one go, which is why we are announcing it in Europe. That has been a more continuous journey constantly doing.

So no, you will not see a similar programme being launched anywhere else. This is very small and specific associated with the US. And the whole reason why we are mentioning it is more about professional versus those people involved that this is one of those things happening.

Mats Liss: And then coming back to the recall, could it be so that those problems are traced back to the supplier and maybe you can pass them on, or is it, well, your own costs?

Magnus Welander: I think, as always, when you look at a product recall, that will be a long story of who is to blame for what and how is the cost. We would not have been put in provision of SEK25 million if we did not think that provision was roughly right. Will we know exactly how right it is and what it will be, that we will know when the product recall is closed, it is just been initiated[?].

Mats Liss: And if your cost, I mean, it is not the supplier that is some –

Magnus Welander: Considering that we have put an accrual provision in, that is the provision we think the cost potentially could be for us.

Mats Liss: And finally, I mean, raw material seems to be well, giving you some tailwind going forward, I guess, is the driver.

Magnus Welander: Yes, as Lennart mentioned, we believe and with current trends of what is going on in the marketplace that we should be seeing some help from our cost setup versus what we have had. And that is, of course, what we are seeing as one way of hopefully performing stronger as we move into 2020 on our margins.

Fredrik Moregård (Pareto Securities): Just a couple of questions. On the luggage business mainly, I mean, obviously, you are having success with the luggage in Asia. But I was also wondering how is that progressing in the US, and how should we think about the growth profile of packs, bags and luggage, or assuming at least that luggage will be the fastest grower across those regions?

Magnus Welander: Yeah, if you look at it, it is clearly the case that luggage will be the key driver for the growth across all parts of the world, including the US, where we are getting good listings and are selling out luggage. So that is not only in Asia.

The reason why we highlight Asia more is that Asia is so tiny in the traditional categories if you look at our regional splits and as we present them. And it cannot be that in luggage if we truly want to be successful because the world market is roughly one-third of luggage sold in Asia, one-third in Europe and one-third in the Region Americas.

And should we then want to be become, over long-term a player, we need to be more successful in Asia, and that is why I am mentioning it, that that it is nice to see. We are having traction in Europe and we are having traction in the US as well and luggage will be a key driver for the entire packs, bags and luggage across all those three regions.

The difference is, as asked before by Gustav and some others, is clearly the case that we have not [inaudible] will continue to be legacy businesses that decline in the US, so there is more of a drag there than there is in Asia, where we did not sell any of those. So that might dense the total percentage number for packs, bags and luggage in the US, but there is no doubt that the luggage percentage is strong also in the US.

Fredrik Moregård: Okay, that is very helpful. And also did you manage to grow that, the packs, bags and luggage business in the US this quarter?

Magnus Welander: Yes.

Fredrik Moregård: Okay, perfect. Sorry, just a final one on the under absorption. You say also that in the report that you were that under-absorption was higher than you had expected heading in the quarter. What took you by surprise on that?

Magnus Welander: What took us by surprise was the weak performance in the US market. No doubt, we did not expect the US to be a minus 6% in this quarter.

Thank you very much then. Thank you there for all the interesting questions. I wish you all an exciting autumn period with lots of travelling, having a lot of views of Thule luggage in airport stores and around the world. And I look forward to talking to you again when we do our full-year report in the beginning of 2020. Thank you.

[END OF TRANSCRIPT]