



Thule Group Mid-Quarter meeting with Investors and Analysts

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Introduction

Carl Deijenberg

Financial Analyst, Carnegie Investment Bank

Welcome

Welcome everyone to this Mid Quarter Update with Thule Group. I am happy to have CEO, Magnus Welanders with us today on the call. And as for previous mid quarter sessions, Magnus will start with a brief intro and a general update, where we will later spend the rest of the dedicated time for a question-and-answer session.

So this will be a one-hour event. And if you wish to ask a question, please raise your hand here in the window on the right, and I will make sure to call your name. Alternatively, you can send me an email at carl.deijenberg@carnegie.se. And I will make sure to ask the question out loud.

So with those very short words, I think I leave the word over to you Magnus for a brief intro, which I suggest we can start off maybe what you have seen here in 2023 so far and maybe a general market update.

Overview

Magnus Welanders

CEO, Thule Group

Marketplace Highlights

Absolutely. Thank you, Carl. Yes, you have seen our Q1 report. And I think everybody were relatively aligned what we had already pre-warned the market that we would have a weak sales start due to the high inventory levels in retail in the bike sector, which was also what materialised, and maybe then only surprised.

It was felt from the market was that our gross margin was better than expected from a market point of view, not better than expected from our point of view, because we knew we had taken the steps necessary in terms of price increases, and also the steps necessary in terms of reducing our production staffing levels to both meet a reduced sales as retailers in the bike sector had too much inventory on hand, but also the fact that we ourselves had too much inventory on hand.

So when we entered the year, we enter the year with an expectation that we, by the end of 2023, will have roughly around SEK600 million less of inventory than when we entered the year. And when you do that, at the same time, as you know that retailers also adjusting their stock levels, it, of course, has a significant impact in terms of production overhead under-absorption.

The reason we could meet that relatively well, because we did still have some under-absorption was, of course, all the decisions we took throughout 2022 in realising that we had too much stock on hand, and that is order levels would be low at the initial part. And then the fact as we have explained a number of times that the Thule Group has a three tiered staffing approach with a fixed workforce in the base.

In normal years, we then bring in seasonal workforce employed by Thule anywhere from four to six months periods. And then in the very peak of the period, which is normally then from March until late May, early June, we add on a third level of quite significant levels at times in temps agency third tier.

This year, we are not having any seasonal workforce from Thule. And we have had extremely limited levels of temp staff running in practice therefore with our fixed workforce. At the moment, we are in May. So there we do have, on some of the production lines, some temporary work staff, especially on our newly launched Thule Epos bike carrier line, for example, but are significantly less than we would have had any

normal year and extremely much less than we had in the exceptional preseason in 2022. So totally, we were almost 1,000 workers less in our plans by end of March this year than last year.

Therefore, if you look at it, the single biggest question I am sure the investors have and which was for the market is that when we did our profit warning in September last year due to retailers in the bike sector having too much stock on hand, we said it would take somewhere until the peak season which is the Q2, until those retailers started to have normalised inventory levels.

Then we also said in the Q1 call that there was a question late last year, will it be optimistically at the start of the Q2 or pessimistically at the end of Q2 that you would see normalised inventory levels. So when we did the Q1 report, we announced, unfortunately, it was not the optimistic view, which we never had. We had a more realistic view that it would be sometime in May-June that you would see this. And that is the view we still have.

So what we are seeing on a weekly basis is an improvement on orders from the bike-related sector coming through. It was a weak and slow start of those orders in April, mostly, of course, because of the high inventory levels. And although we are not a company that blame the weather over a full year, we do comment sometime about whether an early or late season start in the spring. And clearly, I think you are aware that we both in North America and especially in the Central European countries had a late and cold spring start.

So we will see this performance being weak startup Q2 and getting better for every week in Q2. And therefore, as we had already communicated previously, also facing much weaker comps than with the extreme slowdown in Q3, Q4, we will have a stronger like-for-like comparison rolling on from July and onwards then in Q3 and Q4.

So overall, that is a little bit the situation in the marketplace.

And with that we open up for questions.

Q&A

Carl Deijenberg: Thank you very much for that, Magnus. And again, if you wish to ask a question, just raise your hand here in the Teams chat, and I will call your name. And I think it is also better if we keep it to a maximum of two questions per participant to make sure that everyone will get their questions asked. And maybe I can start off from my side, maybe on where you were finishing and maybe a bit also if you could talk a bit of how the reception has been on the new bike carrier, the Epos carrier? I mean, when you reported Q1 numbers, I think you had been lot with it is for roughly 1.5 weeks. And now it has been a little more than one month. And the early reviews that I read seem fairly positive. And it will be interesting to hear the reception that you see from customer and also how much of a sanity check is the early reception of Epos of the overall health in the bicycle market in your view?

Magnus Welanders: So we are selling everything we can produce of Thule Epos, which is excellent. It is the world's best towbar-mounted bike care. It is coming as a hitch model in North America, as we speak. It came a few weeks later there because we had the shipment time over to North America. So very strong reception selling out very well, which is the key. So it is not just the selling. It is selling out to consumers.

And I think that is a good sign, as you say, Carl, of what we knew that it is the premium end of the segment, is still performing strongly. And it is at a lower early starting point where there has been too much inventory on hand and a more hesitant consumer. So we can combine if you look at the health of the bike sector with both very strong performance on Thule Epos, but also on our own strong performance of direct-to-consumer, where we clearly do not see this inventory build-up or a replenishment situation. And we see a

very strong, not just with Thule Epos, but across the more premium bike-related product, both bike carriers and bike trailers doing very well.

Carl Deijenberg: And I mean, if you look on sort the inventory in general, I saw a quite interesting article from PeopleForBikes. I think they were talking about a inventory in the US that were going into Q3 roughly three times the size as pre-pandemic levels. And from your point of view, what inventory are retail is struggling with right now? What kind of categories are not selling? Where do we see the largest discounts?

Magnus Welanders: So if you look at it, it is clearly as you have also seen in reports, both from Shimano and everybody that has a broader coverage in the sector. You can clearly see that selling a low-end bike and a children's bike and cheaper accessories is truly struggling. It is not necessarily struggling because there is so much less consumers coming to the stores. But this is where the bloating of the inventory was much easier to take place. There were loads of brands, loads of private label and a lot of suppliers capable of ramping up and they got over-delivered far more on those.

So even if retailers over-ordered most on premium bikes, it was not ever that much because there was a starved supply of those premium bikes. And even if retailers overloaded on premium bike carriers or premium bike trailers, there are not that many brands as Thule, one or two more, which meant that if they had a few too many, those were sold out at a more normal pace.

So the reason for the too high inventory is not that people are not buying bikes, not even the cheap bikes, people are buying the cheaper bikes as well, but they were just so much more over bloated in their inventory levels. If you look at where they kept their inventory, you had a much higher share at the low end, which then balanced especially on low-end e-bikes they brought in which are still much more expensive than bikes used to be. And now they have a lot of low-end e-bikes, for example, that they struggle to find as quickly takers for as they would do on a premium commuting e-bike or a premium downhill mountain e-bike.

Carl Deijenberg: Okay. I mean on that topic, I mean, talking about other channels. I think if I recall correctly, you were talking at thule.com, you were still growing in Q1. And I guess that could be a pretty healthy way at looking at maybe of what actual sell out demand is for Thule products, given that you are not facing the same inventory situation as you are doing among the retail chains. So anything which you have seen through your own channels here in the start of Q2 would also be interesting to hear.

Magnus Welanders: Yes, we are continuing to grow at an even faster pace in Q2 than we did in Q1 in direct to consumer. I think, as I tell my internal team, we should not get too carried away, because we should be growing at a very high percentage point. And for two good reasons. One is we are now live in 11 countries. And that is only in the last few years. And it takes time to build up a knowledge of that factor. Secondly, we did do a big refresh of our user interface in March, right? And we had done already in the year before a big upgrade in terms of the back end and quicker response times, etc. So we have a much better direct to consumer.

That homepage is not just serving direct consumers, because more than 95% of it will go to people buying elsewhere, but they search on thule.com. So yes, we are having a very strong fast pace on Thule direct-to-consumer. I would not over-interpret that, like the bike sector is booming. It is not. It is more that we are taking more than our fair share. And then, of course, as a share of our sales, it is doing even better, because at the same time retailers were selling down their inventory of our product and not ordering as much as normal.

Carl Deijenberg: Great. And I will repeat myself a bit here as well. Again, if you have any questions here on the call, just feel free to raise your hand. I cannot see your hands right now. So I think I will continue a bit from my side. And I will switch topics a bit here. I wanted to ask what you started off on the presentation with the utilisation rates, and you are now entering Q2 here with a significantly drawn down production

force. And I wanted to ask how has the demand played out compared to your expectation as this? If you could call it transformative or not strategy, but adapting to a new marketplace played out well for you. Has there been interruptions or anything with regards to that?

Magnus Welander: Yes, actually, the sales volumes have been very much what we expected, which meant then that the choices we made to be very, very much reducing in the second half of last year and coming into this year have been the right choice, because we are continuously reducing on a monthly basis RV inventory significantly.

The vast majority of those SEK600 million that we will reduce is actually throughout Q2, the peak season, because then we are coming into a year ending part where we will not reduce so much. So this is where the significant part of the reduction is going on, on our own inventory level, which is tracking to plan. So that is good to see.

And we got a few questions before on what are the right inventory levels in a post pandemic reality? And I think everybody realises that there is when you go into completely new categories, we are coming with our dog products, those we are building up stock on at the moment, going to retail in Q3. And then we are building up on some other new products that we will announce in the next few weeks in the market. So there is always this factor, but that is why it is the second quarter the reduction there is significant of our inventory, and which is why we are running our plants with so limited staffing levels.

So under-absorption is obvious, still significantly so in Q2, and it is hurting our profitability levels. But it is still the right thing to do, because we need a more fresh inventory level for the right reasons.

Carl Deijenberg: And I mean, coming back to the discussion on your inventories, I think you were ending Q1 at roughly SEK3 billion. And now you also talked a bit here on the expected raw or the reduction here throughout the year. But could I ask you about the composition of the inventory that you are sitting with right now? How much of that is relating to new categories, such as the one that we are expecting in Juvenile & Pet, and also the ones that you are planning to launch here in the coming weeks?

Magnus Welander: So the vast dominant is the current products and its bike-related products. So why we grew so much with the inventory was that we had incoming components and staffing levels last year, and we therefore decided to produce in finished goods. So what we have ended 2022 with was a higher level of finished goods of high volume bike-related products than we normally would have had. That is also why we are not needing to produce almost any of those in the first few months versus normally starting quite aggressive production of those ahead of the season.

And that is also why they are reducing so fast now, if you take the months of April and May, because it is people buying bike trailers and bike carriers that we already have on stock. We don't need to produce them. And therefore, cash generation becomes fantastic for all the wrong reasons, because we have already tied it up. And also in terms of reducing inventory goes fast, because it is high volume runners in the bike-related sector, where we grew the inventory.

Then in a company like ours with a broad product portfolio, and a next day delivery service model, we will always have relatively high inventory levels, so to speak, but where it was bloated throughout 2022 was on finished goods, high volume runners in bike. And those are quickly being reduced.

Carl Deijenberg: And on new categories, I mean, except for the ones that we are knowing coming in Juvenile & Pet by the end of this year and also beginning of next year. I think you talked about in Q1 that you are planning to do a few launches here at Eurobike, which is approaching here in a few weeks. Could you say anything with regards to that? What kind of categories we will be seeing and hands on that will be super?

Magnus Welander: Absolutely. So we actually have one of our most exciting is a relatively small product category, which is Packs, Bags & Luggage but which grew very nicely last year because here you had the opposite effect from the post pandemic reality people starting to go back and forth to work and then commuting working reality and also international travel, of course, helps bags oriented business.

In Packs, Bags & Luggage, we are launching a number of new collections and broadening some of our most successful connections. We had a fantastic assortment of bags. And in the bags related field, there is not any obvious fare or inventory launches, so you launch more throughout the year actually. So there is a number of new collections and collection extensions launching in the Packs, Bags & Luggage.

Then within the RV products, we have two very innovative products hitting the market being shown at the big Caravan Salon in Düsseldorf in the earliest autumn. And then for the more traditional sporting cargo carrier side which is then bike-related, we have launched just recently, some models that are really starting to take volume with our rear of car cargo solution, Thule Arcos, a new roof platform. And there, we are coming with some other new exciting launches in the autumn.

And then in the bike, as you said in, at Eurobike, there are some big introductions both for product coming this year and products then being into the trade in 2024. So by far the most aggressive launch assortment we have ever had it over the next 18 months there will be more high volume running new launches and niche product launches than ever before from Thule.

Carl Deijenberg: And following up on that on maybe on packs and bags, I mean, I have noticed that you have expanded your physical presence here a bit, I mean, with your new, let us call it, a store here at NK here in Stockholm and also a fairly new one in Gothenburg on the West Coast of Sweden as well. Do you have any plans of further expanding with, I know this is a smaller part of you, of course and also fairly small stores. But is there a new strategy? I know specifically here in Stockholm that the store in NK is dedicated to packs and bags, start to relate it to what –

Magnus Welander: So the logic is what we have is we have shop-in-shops with bags in a number of the leading department stores around the world. So if you go to a number of the KaDeWes[?] in Berlin, or if you go to similar types of shops around Singapore's best shopping department stores, we already have had since some time, a bags shop-in-shop in those and we now found the right timing and the right costs associated with doing it with NK because you need to pay the right thing for doing it.

And so that was the right timing to do it. But we are already in many similar shop-in-shops in similar department stores around the world. And for the logic of a third physical store in Sweden, so we have one in Gothenburg now and we had one in Malmö since many years and we have had one in Stockholm since a number of years. It is to be honest because the Swedish retail sector is not brilliant in our category.

And so if you then cost efficiently can service in those three major cities, a consumer group in a better way than the retailers, then it is worth doing it. In the rest of the world, we do not have any plans to roll out heavy in a brick-and-mortar reality. So our direct-to-consumer focus is definitely online-oriented in the rest of the world.

Carl Deijenberg: Okay, very well. And I received a question here through the email, and that is with regards to the plan inventory reduction here, and also here in Q2. The question is, does this reduction come with discount on pricing? Clearly, they were not giving or Thule did not have a massive discount effect in Q1, given what we saw on the gross margin.

Magnus Welander: You will not see any massive discount effect on our gross margin in Q2, either. You can be calm about that.

Carl Deijenberg: Okay. And maybe following up on that, I mean, on price adjustments, I understand there was quite a good contributor in the gross margin here in Q1. That was the implementations implemented at mid-2022. Price adjustments here in 2023. I know previously, you communicated that you are not planning for such.

Magnus Welanders: You are right, Carl. Aside from Packs, Bags & Luggage, which was where we and everybody else in the market actually have done price adjustments upwards. But aside from that, the ones we did mid-year 2022 we felt were the right levels, which means we are getting the contribution of a like-for-like effect also in Q2. And then luckily, we will get the effect of a significantly better production absorption in Q3-Q4, compensating for not having that pricing comp effect in the second half of the year.

Carl Deijenberg: Okay. And maybe if we can stay with a question on the gross margin. I mean, as you were saying, I think that was surprising, me and my colleagues here as well, covering Thule the development in Q1, but maybe also, if you could talk a bit, if you look throughout when the sales were accelerating significant for you in 2020 and 2021, the gross margin was actually not coming up that much. And I know you had a lot of cost increases and supply chain issues and factors impacting you like that. But could you elaborate a bit maybe if you look a bit medium to longer term, and how important is the gross margin development from what we saw in Q1 to the EBIT margin target also, if you look more mid to longer term?

Magnus Welanders: Yes, you are absolutely right, Carl. And I think we highlighted that numerous times throughout the pandemic, already from the second half on 2020, that we chose to strive to capture that upside that the demand gave. We knew that was coming at a cost. We were freighting more expensively. We were running very expensive shifts. We had to overpay certain suppliers to ramp up to send those things. And we chose to do so because we were convinced that we were still going to be very profitable, and that it would create and capture a space in the market that we did the right choice.

So we were clear that that volume upside came at a non-efficient way of utilising our supply chain. So the logic was then to calmly ramp up capacity, automation and other things to better play at the SEK10 billion plus level than when we had to rush after it. And so clearly, our expectation that gross margin is a significant contributor to ensuring that we will be well above 20% again, and that will come from now being able to capture that volume in a very efficient manufacturing setup rather than running at it with three shifts, five shifts and night work extra shipments.

So clearly, the gross margin is actually, from our side, a very expected development. What happened in the second half of 2022 was that we were not able, even if we are more flexible than most companies to as abruptly reduce those labour costs and internal costs we had, and some external ones with the dip in volumes. And then when they took after a number of months that those had been happening, that is what you see a little bit effect in Q1 and we will continue to see. And that will be a key driver going forward without any doubt.

Carl Deijenberg: All right. And I also received one more here throughout the email and that is with regards to the overall capacity utilisation in your factories currently and what is the normal for you?

Magnus Welanders: So I would say, and I do repeat this all the time. So it is not to try to avoid the answer, but it is important to think about our production facilities, our assembly factories. And assembly factories are not factories like in an operational world, where you have process-oriented factories, you want to run 365 24/7. I would be responsible for such plants as well. It is a very different reality, because then you often have huge infrastructure investments, and relatively limited staffing costs. In our plants, we have a lot of people working around as securing components and logistics around it. So normally, you want to have a cost-efficient operations, is not running on weekends and middle of the night because you then need to have trucks coming in and out and doing many things.

So therefore, the percentages is shocking for any analyst why do you have so much overcapacity. And the reason is we choose to normalise a next day delivery at high peak season production needs, right? So if you look at it, I can summarise it with shockingly low utilisation at the moment. It is a sad thing to go to our plants at the moment, because they are currently with the high internal inventory we have. And at the same time bike retailers are selling down. We are very much not utilising our capacity at the moment.

And therefore, you can say that the only lines where we really are pumping is roof boxes, there has been on Thule personnel, there is selected lines that we truly pump out. And the rest is very much we run them at the lowest I have seen them in ten years in the company. And that is when you reduce your inventory, your own inventory the SEK600 million. At the same time you have retailers, it is a logical nature of thing. You are compensating more than a billion on things you do not need to produce.

So I am sure we will need that capacity in the coming months already, ramping it up for 2024. And you will get a more normalised efficiency. But even so in a lower end of the season on one of our product lines, you will see our plans running relatively few hours a week. And then you will see them running in several shifts a week when you are in peak season.

Carl Deijenberg: All right, very well. And I see Daniel Schmidt has raised the hand here. So please go ahead, Daniel, with your question.

Daniel Schmidt (Danske Bank): Thank you, Carl. And good afternoon, Magnus. Just maybe two questions from me then. And just on the topic that you are now talking about, Magnus, you have made these structural changes, as you said in the second half of last year. And we clearly saw that in Q1 with the gross margin being higher. And then I guess you are alluding to the underproduction being more accentuated in Q1 versus Q2 and then coming back up again. At the same time, you still have these changes that you did made to staffing, which I guess is helping you neutralise that under-absorption effect in the very short term and you also had freight moving your way? Would it be fair to assume that the freight component could be even more accentuated and help you neutralise some of that under-absorption, it sounds to be more severe, or more accentuated in this quarter?

Magnus Welanders: In a like-for-like, only comparing one year back here, right, Daniel, we had very high freight costs both in Q1 and Q2 in 2022. And we have much more normalised having fallen down. So we will continue to see Q2 a positive like-for-like comparison with 2022 and 2021 on freight clearly. So that is a significant also from a factor of now selling down our stock levels where it is a lot of things that are already there and adjusting that. So you see a clear help from a clearly lower freight.

Daniel Schmidt: Yes. And then looking a little bit into the future, and given all the investments that you have done, as you mentioned, when it comes to automation of production, I guess especially in Poland, but also in other markets, how do you think that the structure will look like when you get to a situation where you have normal production running than when we have done this sort of destocking? And are you going to let people on to the same extent or will this be something that we will see savings in terms of COGS per unit coming through towards the end of this year, beginning of next year? What is the timeline?

Magnus Welanders: You will see the most significant aspects only happening in 2024 due to us still reducing inventory, right? And when you reduce the inventory, you are taking products out that you produced in more costly way. So you are not getting the full impact of a more efficient operations, partly because we are underutilising the current capacity, but also partly because the things you are selling were produced more expansively, because you already had them on inventory.

One, you now produce them more efficiently because you are putting more things throughout your factory, which we will do in 2024. And on top of that are producing them in a more efficient setup, you are going to get a positive effect in two ways of that average production cost.

Carl Deijenberg: And I will take a few more here from the email. There is a question on the OpEx development here. When you have the new launches here coming in, I guess this relates to the new categories in Juvenile & Pet. Will you have a significant ramp up in marketing costs? And will there be a possibility to guide anything on the magnitude here that we can expect here in H2 and H1 2024?

Magnus Welanders: So I can calm everybody down. There will not be a significant ramp up on OpEx cost. And I will explain why. In the Juvenile category, there are some OpEx costs but we have already been having those because we have been doing a lot of those efforts already in terms of having done lifestyle movies, lifestyle photoshoots, and many fairs and events in both the car seats and other juvenile products.

We have all the product managers, the local marketing people, PR people already on our bills. So that is not an addition that is coming now.

And on the Pet part, and mostly also because it is actually a very much more of a grassroots marketing push that you do in the Pet category. So we will be doing lots of more grassroots events that are relatively low expense, where we have also there done all the nice lifestyle photoshoots. We have done all that nice filming, and all of that done already spent the money on that and taking it in our P&L.

And now it is more the local staffing, which we already have staffed for and already paying there that will go out. So to give you some an example, we will be at a number of agility competitions and other things showing up during the summer ahead of the launch, being in those, but this is very cost efficient guerrilla type of marketing rather than the big blown marketing expense. So no, no significant ramp up in OpEx.

Carl Deijenberg: Okay. And on that topic, I mean, you announced on the Q1 numbers that you are delaying the launches of the child car seats slightly to the beginning of 2024. Anything new or different to say?

Magnus Welanders: No, that is still valid, and we underestimated some of the prolonged lead times that you have on some of the automation assembly production. And we are not the only company, unfortunately, that have underestimated those. It does not make us any better. But we have to realise that there has been long lead times on a lot of things longer than we thought and longer than what was promised. And therefore, we do not, as it is such a child safety product, want to stress anything, and we do not want to start to launch and then starve the market on products in a category where you are new, because that would be very frustrating. So that is the same logic applies on why we have postponed it.

Carl Deijenberg: Okay. And taking a few more here from the email, and that goes back to what we talked about on the pricing and on the gross margin. And the question, I guess, relates how can you keep your pricing and your gross margins while I guess a lot of your competitors and retailers in particular, are doing so much discounts right now.

Magnus Welanders: I think if you look at all discounts happening in the marketplace, they are done dependent on how quickly a retailer believes they can and potentially have to try to get rid of those things. If you have a very strong brand with premium products that will sell over time, also the retailers will discount it less. So Thule's products are currently discounted much less versus many of our competitors than you would have seen some years ago in comparison.

And the logic is simply that they overbought more on those companies that supply everything from a sub-supplier in China and the entire container loads. And then secondly, those products maybe are from brands that do not hold up as well in a tougher market, and therefore the retailers are more prepared to discount them and maybe also get brands that support that.

So it takes a slightly longer time then to reduce our inventory, but it is the right thing to do. And then, as always, also I think a very key part of ensuring that the gross margin holds up is of course to constantly

launch new and better products, which we have a very aggressive rollout of new and better products coming in. And that is always the best way to keep that margin high.

Carl Deijenberg: Okay. And jumping to another topic again, I think we touched upon it in the beginning. I think I recall from the Q1 report, you were still growing in packs and bags and also in RV products. Did not quantify the magnitude, but I wanted to ask you, I mean when I look at German registrations caravan registrations here year to-date, which I guess is a fairly okay indicator for the overall European markets. I would say they are holding up fairly okay, I mean, slightly down versus last year and also versus 2021, but still well about 2019 also here year-to-date what we are seeing here April May as well. So yes.

Magnus Welander: I think the whole RV products category has been very difficult for most people to follow because historically normally a registration logic was a pretty easy saying how is the whole industry holding up. But then throughout the pandemic, the producers of the motorhomes because it is mostly motorhomes today and less of caravans. But if you look at motorhomes and caravans, and especially motorhomes, what happened with the motorhomes is they needed a lot of semiconductors, they needed chassis to build them on.

And what then happened was that demand continued to grow on as good solid pace as it had been during from the pandemic, plus a little bit of pandemic booster people wanted to travel in their own little bubble. With that demand growing and at the same time huge issues in all vehicle producers supply chains, also for the motorhome manufacturers, they did not get semiconductors, they did not get chassis. What happened was that the dealerships were the strong channel. So we did very well supplying components and products to the dealership. So our products were higher share than normal. Normally, we have around 60% of our product going to dealerships. But all of a sudden, when the manufacturers could not make enough new vehicles, it was dealerships able to be selling more or less anything they had on there lots and buying a lot of accessories and products from us.

Then over the last six to nine months, it is actually the other way around. The dealerships are not selling out, as you said, also looking at the German numbers. They are holding up very nicely, but they are not booming anymore. But what is now is happening that some of the OEMs so the manufacturers have ramped up and finally catching up with the backlog filling up the lots again. And anybody who has been around and knows that I have a few times joke that I am normally not considered as a glass half empty personal. I am a glass half full. I have been a glass half empty a little bit on the RV products side because I struggle with industries that constantly do overfilling of lots and depletes lots.

And I have sent the message that I believe that once now the lots are starting to be more balanced, there is a more balanced, still a good demand. But the demand we have to be honest is now for vehicles that are clearly more expensive than they were before the pandemic. You can talk about vehicles going from €55,000 to €70,000. That is quite a significant difference.

So I think you will see a slowdown, but only in the second half of the year. So Q2 will still be strong for everybody in the European because we sell 96% in Europe. So I am talking about Europe. It is already struggling in North America. But in Europe if you are a provider to the motorhome manufacturing industry, you will do really well in Q2. And then I think you will see a cool down in the second half of the year compared to a strong second half. And everybody will be very, very nervous at the Caravan Salon in Düsseldorf to see what is the true expectations for 2024 with vehicles clearly having gone up a lot in pricing and a slightly or much tougher private economy for a lot of consumers.

So I think it is a sector that is still positive definitely at the moment, thanks to the manufacturers catching up a bit. But then there will be the more question, the true sell out numbers. So those German numbers and the other industry association numbers how will they truly develop throughout the summer and early autumn will be key.

Carl Deijenberg: Yes. And I mean also what we have been discussing on several of your earnings call on this topic as well, I guess, that is related to cancellations. And I know when you reported Q1, we had not seen that many cancellations.

Magnus Welander: And still actually very limited. So it feels like all of those people that truly committed in 2021 and early 2022, they have been so keen to get their vehicles so that the spike that what they actually needed to pay in the end has gone up. They have stayed in the queue. So that has been a positive signal for the motorhome manufacturers. And I now think it is much more the question on how many new entrants now knowing it is €70,000 rather than knowing it is €55,000, for example, for a vehicle are prepared or not, depending on what is going on.

So actually, very few that have stepped out of the lines. But the key question will be this summer period, how many step into the line and new ahead of next year?

Carl Deijenberg: Yes. And I will take another one here through the email. And I guess that comes back here to, again, on the topic on the under-absorption. There is actually three questions here. And the first one is, is there any way to quantify how big of an impact the under-absorption has had on your gross margin? And second question is for how many quarters have you had a under-absorption?

Magnus Welander: So if you look at it, we do not share the exact number to be clear, but it has been a very significant negative contributor. It has been that throughout the second half of 2022, so Q3, Q4, Q1 will be so in Q2. So in total, there will have been four quarters with a significant negative impact. We even had some small at the end of Q2 in 2022. And we will have some in the beginning of 2023 Q3 because we want to adjust our inventory levels a bit.

So I would say a normalised level of the now more efficient production truly hits in from Q4 this year. But it goes better for every month and every week, we are speaking in terms of under-absorption at the moment.

Carl Deijenberg: Yes. And the final question from the same participants is on the gross margin. I know that you do not have a gross margin target. But given what you are mentioning now and what we saw in Q1, despite the sales decline, what could a reasonable gross margin level be for you if we look two or three years out when maybe volumes have to normalise?

Magnus Welander: So likely sales, we do not have a target on it. We are not going to say that. But what is clear is that I am convinced that the single most important contribution to be well above 20% EBIT margin, which I am convinced we will be is to ensure that that gross margin allows us to continue to invest 6% on product development and driven the sales and marketing efforts. So it is the most significant contributor to getting well above 20%, again, definitely is the gross margin.

Carl Deijenberg: And another one here that is on the question where we can see the cheaper produced goods coming through in the P&L, those that are manufactured at lower cost? When would that start impacting the P&L? And also, what can we expect on the pricing for Thule, if raw material prices comes down and your competitors start lowering prices in the medium term, how would you work with that?

Magnus Welander: So if you take the second question first on what we do with pricing, we are a market-based pricing company and that means that in some categories, we set the price we do not really care that much what competition does, to be honest. And then there are other categories where we are clearly a follower. So in a new category, like strollers, we look a lot of what the Bugaboos, the Uppababys do. And the same in Packs, Bags & Luggages where we are a small player, we watch the whole industry track and follow what various players do a lot.

So what becomes in reality is it is a reality of where you constantly try to find yourself what is the right volume mix effect on pricing that you are striving for. And in those categories where we are clear market leaders, we need to show the right way. There is a lot of discussions about retailers are tough and that is

why we have bad margins in the company. I am convinced that in any categories up to the market leaders to ensure that the brands have the best margin and hold on to it. So in some categories, we are at that forefront and some we are very happy that the Tumis and Rimowas and Bugaboos do their job. So it is easier for us to follow to do the right thing.

And that will be a constant iteration over the coming years. That is not a simple one-off. That means that certain models within the same category might get price increases, and others might not. That is a constant one. The best way to manage that is therefore to replenish your portfolio frequently, because it does not become a straight price reality. It becomes a new product at a different price point.

So therefore, going into the second point. I think the most important thing, for example, on a Thule Epos, it is not just that it is more efficiently made. It is, because it is the most automatised line we have ever had for a bike carrier, but it is also the fact that we priced it right versus the feature sets and calls from the beginning. So you constantly, when you strive to launch these products, you are going to have some effect from the new thing being launched efficiently made at the right price with the right gross margin from the beginning. Then you have the more real like-for-like I am now finally producing this volume product in an efficient utilisation of the capacity and the CapEx and that I have, and then you get effect.

That second effect, as I said to the question from Daniel, is truly happening more in 2024 because at the moment, we are still settling down inventory that was relatively inefficiently made at relatively high incoming freight cost and material costs. So that is when that materialises out is truly you are going to see the bigger pickups from that aspect only in 2024.

Carl Deijenberg: All right. And I will take a question from my own side, I mean, coming back to the first topic we were discussing on bicycle-related products and the overall bike market I guess. I mean, you are not complaining about weather, but I know the start of the systems was partly fairly weak due to the weather we had in April. And now in May we had you can almost say the opposite. I mean, Sweden has been quite fantastic weather. Has there been any catch-up effects from the weak season? How much has that contributed to the like-for-like?

Magnus Welanders: Yes. As I said, so what we are seeing is, I think it is a combination of both a nicer weather and inventory being reduced when people can go out on biking, they went to the bike shops and shops. So then the retailers saw their inventory going down. They become more interested in selling and buying from us. So you see a continuous positive curve in a reality of their inventory levels are lower, and it is nice weather so people want to be out on bike, which is why I feel comfortable that when we end the quarter, we will be not in every shop not on every single product. But honestly, even before the pandemic, we were not always in every shop with every single product at the right inventory levels either out there in the stores.

There is always going to be issue somewhere. But I believe that the big flushing through in the bike sector is over with, one, we enter into July. It took the entire quarter. I think we will realise all of us before it was fully flushed out. But when we walk into Q3, that will be normalised in most of the categories we are in. There might be at the lower end of some of the most basic products still a bit too much, does not impact our sales, though.

So I feel good from what impacts Thule Group, it will be flushed through by the end of Q2.

Carl Deijenberg: Yes. And I mean, if you look on the overall market and you try to ignore this inventory effect that we are looking at, do you have any sense of how much participation rates are up versus pre-pandemic levels? How much of the increase that we saw in the pandemic is sticking with us when we are here in 2023?

Magnus Welander: Yes, I think there are some. The first annual numbers that you are seeing from various industry associations are starting to come out now because they take quite a long time to end up with what will the bicycle manufacturers say about the German sales and bikes, etc. And I think one of the surprising things for a lot of external people that are not so close to the bike industry was that for example number of e-bikes sold, so not just value but number of e-bikes sold grew in a country like Germany last year would everybody thought was terrible.

But that was because it was the perception of everybody saying we had too much inventory on hand and all the brands were devastated how little they sold in still sell out, for example, for e-bikes in new numbers was higher in Germany last year. And also if you look at people sending in to do in Sweden, Sikilvosan[?] and other type of bike, participation is still very high.

If you look at bike commuting, it is proven also because that is nice to see some major municipalities that took very aggressive decisions during the pandemic has taken once again, Paris being at the forefront, aggressive assumptions on additional expansion on bike commuting. Why? Because they are tracking the numbers and seeing a big pick up on bike commuting, also in 2023 so far.

And any one of you who do bike commuting, I am sure you will agree that you are seeing more people biking on those bike commuting lanes than you saw ever before. So I think the bike is a fantastic micro-mobility tool, grossly underestimated versus all the cool voice and others, right? So it is the one that truly most replaces buses and cars.

Other things mostly replace people walking short distances, brutally honestly. But what the bike does is open that type of reality going forward. So I think there is very healthy signals in the entire bike sector, which has been shaken. All of us in the bike sector have been shaken. Trust me, all of us have been like, that was a tough 2022. But in reality, it is a sector that has great belief in the future.

Carl Deijenberg: And I received a new question here through the email, which I guess is on the same topic, but it is rather on the structural out or trying to maybe not so much on the bicycle trend. The question is, even though consumers are under pressure, it seems that international travel is prioritised and coming back strongly. Was the auto market growth during the pandemic a one-hit wonder or is it structural? What is your thoughts there?

Magnus Welander: I think in terms of growth rate, as a percentage, it is a one-hit wonder. So you are not going to say the same pickup percentage rates as you did see, but what also can be said at the same time as you see all of this international charter tourism, etc., and flights being overbooked despite having gone up a lot in price, you actually also see much later, but actually now see very high rates of going to those outdoor huts and outdoor little cabins, etc., are being booked out.

They are being booked up much later, because during the pandemic years, people were like, I cannot go anywhere. So I already now booked going there in the summer. So we have good data that shows, for example, that if you look at bookings in the Austrian Alps or the Italian Alps, if you would look X number months out, it looked more worrying compared to 2021 and 2022. When you actually hit the week, they were fully booked. So people waited longer. Did not do this, I am going to book now nine months in advance a summer week on this cottage, in Gothland outside Sweden.

They are waiting later, but when you look at how much many people still go to them. So you are not going to see pre-central growth, which you saw during but you still see a very stable position, more like it was pre-pandemic than not this extraordinary pick up everybody who never did any hiking, all of a sudden started hiking. Some of those came and went. But the average number of hikers is growing still.

Carl Deijenberg: And a new one here through the email, which we have not mentioned on today's call. But that is relating to the CFO departure. And the question is essentially, is there anything more to add here than what was said in the press release?

Magnus Welanders: No, I actually do not think so. I mean, I know Jonas well. And I think as always, when you have a change of the CEO, you need to say am I going to commit for many years going forward? Because that is what you mentally have to do in a different way and also with a new long term incentive programme. And I think when he looked at that, and same thing, Mattias looking at it and wanting to have somebody who commits for long term. I think that was a good gentleman's agreement and a smart thing for both, both for Jonas and the company to ensure that there is somebody who wants to do it beyond for a number of years as a key partner for Mattias in running the company.

Carl Deijenberg: Fair enough. So I think I see it is now 2.58. I will see if there is any more question here through the Teams from the participants here on the call. If anyone wants to ask a final question, now is the time. Yes, Daniel?

Daniel Schmidt: Just when you say, Magnus, just coming back to the short term, because it is too much of that maybe on these calls. But I think you were quite convinced when we spoke last time that you will be back to growth in the second half of this year. And if we see the end of destocking as we go into the second half, is there anything that is pointing against that, as you see it right now?

Magnus Welanders: Equally convinced that we will see growth in the second half of the year, no doubt.

Carl Deijenberg: Thank you very much. So I think we will finish the call with that. And thank you very much for that, Magnus, for the great presentation and thank you everyone for dialling in and participating.

Magnus Welanders: Thanks, Carl. Thank you, everybody. Bye-bye.

Carl Deijenberg: Thank you. Bye.

[END OF TRANSCRIPT]