

Thule Group»

**Thule Group – Q2 Interim Report -
2022**

Thursday, 21st July 2022

2022 April-June Report

Magnus Welander

CEO, Thule Group

Welcome

Morning everybody and welcome to this quarterly call. We are happy to announce the quarterly results for what I consider a second quarter 2022.

Executive Summary 2022/Q2

Good sales and maintained high margins

If we go to slide two of the presentation we can see the strongest sales ever in the quarter with SEK 3.3 billion in sales. If you look at what that means from a currency adjusted view we did decline by 3% versus the exceptionally strong second quarter in 2021 with Europe & RoW being the declining region with -5% currency adjusted while Region Americas was flat in a currency adjusted result. If you look at it from the very strong North American currency situation we grew 15% reported result in Region Americas.

I am especially proud of what we have managed to do doing the spring and as shown in the quarter's results we have defended our high gross margin levels which came in at a gross margin of 42.2%, the same level as previous years. In fact from a currency adjusted point of view we have actually improved our margin. That has been achieved through two things, price increases that we have implemented and past on to retailers and consumers, compensating for the significant cost increases that have been in the system and in the markets for a relatively long period of time, but also we are getting efficiencies out of those planned investments we have been doing in the last 18 months to handle the higher capacity need versus pre-pandemic timelines.

From an EBIT perspective we have delivered an EBIT margin of 24.7% and if you look at the FX-adjusted that means we have declined 2.2 percentage points. We continue to push heavily with product development. We are convinced that that is, as we have said over several years, the best way to drive top line growth in the coming years.

As announced on the Capital Markets Day that we held on 11th May we are also stepping into two new product areas. Stepping into those we of course then have product development costs also associated with categories that today we are doing sales in but also with these two new product areas categories where we do not have any sales. A strong push in product development is the main reason for why we had a higher SG&A cost in the period.

If you look at the operational cash flow we can see that it was SEK 559 and we have continued to do investments in our plants in more automated assembly.

I did mention the Capital Markets Day which we did in Hillerstorp, Sweden where we were founded 80 years ago. It was a great pleasure to have many of you coming and visiting to see live the world's most modern roof rack factory and the state-of-the-art Thule Test Centre and development facilities. At that Capital Markets Day we really had two key pieces of news. One was our raised sales target where we raised our target from the previous SEK 16 billion by 2030 to now SEK 20 billion by 2030. This was clearly due to the fact that we have had such strong growth over the last 18 months and our conviction going into new categories that we will continue to grow at a steady pace over the coming eight years. Those product area introductions were the second piece of news and we will talk more about those two new product areas later on in the presentation.

Thule Group Sales by Quarter (Reported currency)

If we got to the next page we will see a bit about the phasing between the quarters. Here I think the key part as always is that we are now finally seeing what we believe to be a more normal phasing like we had before pandemic times and like we had in 2019. We have communicated throughout the last 24 months that we have struggled to meet the huge demand increase and therefore have had some backlogs which we traditionally have not had. We have always been a company with very high on-time, in-full, next day delivery performance but during the fantastic growth period of the pandemic-boosted sales growth we struggled to meet our delivery commitment. Therefore there has been some sliding between quarters in the previous time. We see 2022 as a more normal quarterly performance. If you look at that it has meant a very solid and record second quarter once again in 2022 and 43% more than we sold in 2019's quarter two. A very strong growth in that period over time.

We are now stepping into the second half of the year and you see that we have a very strong comp period especially in Q3. We also have to remember that it is still very uncertain times. As all companies we clearly still see some key supply chain disruptions in the marketplace. We also have some specifics with the RV manufacturers struggling to get chassis to build motorhomes on. We believe and see in the clear feedback we have with good data from all our key customers that retailers have good levels or high levels of stock. What we will now see in Q3 will be a situation where we will see how consumers truly behave in the later part of the summer vacation.

2022/Q2 – Net Sales and EBIT development

If we go to the next slide we can see the quarterly performance and the year-to-date performance by the periods. If we look at it we can say that clearly year-to-date we have a solid growth on top line and we are maintaining a good level at high EBIT margins that we have prided ourselves in. We have a target, as you know, of over 20% EBIT and I am happy to say that we are holding year-to-date at 23.8% margin. I am very happy with our performance.

CMD 2022 Summary – Entry into two new product areas

Dog Transport

If we go into the next slide we will go into those two new product areas that were introduced at the Capital Markets Day. A little bit of a recap but I think it is important for everybody because of course for the future growth of our company these product areas will be key contributors. We announced entry into what we call Dog Transport Products which is a very attractive, growing niche category. We feel it is a very logical extension of the Thule product portfolio. Dogs are more and more becoming close family members. I am sure many of you have dogs or have recently got into being dog-owners. If you do not I am sure you know many friends and family members around that truly see the dog as a much more closely-knit family member. Therefore people are more prepared to spend money on quality products when they do things with their dogs.

There are many ways to transport dogs in a car or on a bike and those are the two parts where we will focus first in creating a portfolio. Currently in the marketplace there is relatively wide price points with some very cheap low-end products but also starting to see a bigger growth in the premium segment of this, which is where of course we will play with the Thule brand. Only in the premium segment where we see the strong global Thule brand that will stand out versus those niche brands that are the bigger players today. There are stricter safety standards and laws being implemented in more and more markets as well but it is not so much the regulatory that steers this category. It is more the consumers' desire to be active with and taking care of their new family members with the dogs they have.

Then if you look from the size perspective we estimate this is about a SEK 2 billion market in the premium segment with a nice [inaudible 09.39].

Child Car Seats

Then the less surprising category or product area that we announced is the area of child car seats. That is something that I think most analysts and investors felt was a very expected addition. It is a perfect fit to our product portfolio having done strollers now for a number of years and having been a strong player in everything around car transport. This is a safety-oriented category where actually regulations play a big role in increasing demand already in place in Europe and tougher restrictions and regulations in North America in the coming years. That segment is also something where we feel very comfortable in terms of where our sales channels are today and where our brand stands out today being a player in that category. If we are looking at it totally we estimate the global market size in the premium segment to be SEK 14 billion.

Our ambition with these two product areas is to continuously add logical extensions to where we touch and deal with our consumers around the world. Due to the logic of what is happening we can go to the next slide of the presentation. We have also decided that with the new additions of these two new product areas we will rename the current category Active with Kids instead to be Juvenile & Pet Products which will then include the four product areas that are in this category today.

Two new product areas with very good fit for Thule

Why are we adding these product areas into what we do? It is a great fit. They are big markets. They are global markets. They are positive market trends. There is high gross margins for the leading players. There is a sizeable share in the premium, definitely so in car seats and clearly growing in dog transport. These products do have a desire for both good functionality but also nice design and both from a retail channel to market perspective and a design and competence perspective there is a strong brand and competence fit. As always when we look at new product area entries it is of course one of those parts where a possible addition of an M&A could speed up our journey and we will continue to look also in these two product areas if this could become a better and quicker way to grow. However, we are setting ourselves up to be successful with a pure organic growth into the product areas.

Active with Kids renamed Juvenile & Pet Products

As I already alluded to, we will be adding these two product areas at new additions to what we currently do within Active with Kids which means we will add this to the strollers, the bike trailers, the bike seats and the child carrier products in what will now be called a bigger Juvenile & Pet Products category. We will therefore become the leading global player if our ambitions pay off in the coming years within this field and also touch the consumers many more daily usages by offering these types of products.

The first product in the new additions is actually already a little bit sneakily added into the market. In the image you see a person cycling with a dog in their bike trailer behind them. That is because we have added a dog trailer kit to one of our juvenile bike trailers that is already launched in the market this year. Otherwise these new product areas of both the car seats and the dog transport products in the car will be coming to market in 2023. A very positive addition and with that positive addition it made sense along with our strong performance in the last two years to also review the financial targets. At the Capital Markets Day we therefore updated them, as I mentioned in the introduction.

CMD 2022 – Summary: Updated Long-term Targets 2030

If we go to the next slide I can then remind you that we maintained our high ambition on sustainability targets that we already presented. We have also maintained our targets in terms of maintaining an above 20% EBIT margin and we maintained the target of a minimum 75% of annual net income in cash dividend. The updated target therefore was the revenue target. Previously we had a target to double the 2020 revenue by 2030 which meant an actual ambition to hit at least SEK 15.6 billion by 2030. We now raise that target to reach at least SEK 20 billion by 2030. The conviction of a strong continuous performance as well

as our conviction of the market trends and the addition of both new products in the current categories, as well as the addition of two new product areas in the bigger product category Juvenile & Pet Products is behind that more ambitious revenue goal.

Region Europe & RoW

Stable performance

If we go to the next slide we will look a bit into the regional performances once again in the second quarter. If we start with the biggest region, Europe & RoW, what we can say is that we saw a declining sales in products that were related to bikes. That is then noted to be versus an extremely strong second quarter 2021. What we can see in the market in bike retail is that in general there is a very good level of stock levels, even too high in some cases, of cheaper bikes as many of the retailers anticipated a strong bike performance, ordered more bikes and the bike manufacturers were more capable of ramping up the production of lower-end bikes quickly.

Unfortunately higher-end bikes, more expensive, downhill, e-mountain bikes and other more expensive e-bikes the ramp-up has been slower from the main bike manufacturers as Shimano and other players and battery makers have struggled to keep up with demand. If you look at bike retail at the moment they have slightly too high stock of some lower-level products and still some challenges on delivering premium products on time. That is not a perfect mix for Thule either because ideally, as we have noted over several years, the more advanced, heavier and more expensive a bike is from a product use and product price point logic, the higher the share of Thule sales in those products. Overall though it is important to remember that if you look versus pre-pandemic times 2022 Q2 still has shown over time the highest CAGR growth of all the product categories. Bike has been and is very strong still, just that it was comparing to an exceptional second quarter.

The two categories within Sport & Cargo Carriers that are doing well and doing best are roof racks and roof boxes. We see that as consumers continuing to take local vacations and shorter trips closer to their homes. That continues to be very strong. Within the RV Products category that is quite significant in Region Europe & RoW we have a strong demand and strong performance in the dealership channel. The dealership channel is often referred to by people with the RV industry as aftermarket but it is of course much more associated with a dealership similar to the car dealership. There we are doing better because they have various amounts of both used vehicles and new vehicles on their lots and their performance is strong. While the situation for the motorhome manufacturers is more challenged as they continue to struggle with capacity from not getting enough chassis to build their vehicles on. Demand is still strong in Europe & RoW and the lead times and order books are long. However, they are struggling to get enough capacity as many manufacturers of vehicles generally are at the moment.

It is nice to see also that the relatively small product category of Packs, Bags & Luggage in this region continues to grow nicely with both commuting to university and work picking up, as well as some pickup on international air travel in Asia, although from very low levels and very limited. Overall the Packs, Bags & Luggage product category did very well in the region.

Region Americas

Growth in Roof Boxes, Roof Racks and Bags

If we then move to the next page and look at Region Americas, as I said, a flat performance in currency-adjusted with a strong growth thanks to a strong currency in the reported. Here it is a similar performance to the product categories in Europe & RoW with no major difference. The difference is more associated to which categories have the biggest share within the region's sales. Here Packs, Bags & Luggage especially has a much more significant share of our regional sales. Similar to Europe, we had a strong growth in those bags that you use for everyday commuting to university and offices. Also here it is clear that the

North American region has been the region where air travel has picked up the fastest and quickly came up to similar and almost back to pre-pandemic levels which means we have sold a lot of duffel bags and carry-on bags as well in this region. We also have had some very successful launches of new product collections like our full-sustainable, recycled materials Thule Aion luggage collection.

Also in this region the roof boxes did very well, as did roof racks but especially roof boxes. As in Europe & RoW also in this region we have seen across the bike-related categories a weaker performance versus the fantastic 2021 spring. The small niche category of RV Products continued also to grow very strongly as it has been doing for a number of quarters.

If we look at what it means from a financial perspective I leave it to Jonas to walk you through some of those slides.

2022/Q2 Financials

Jonas Lindqvist

CFO, Thule Group

2022/Q2 Reported income statement

Sales growth

We are now on slide 11 and I will as always concentrate on the quarter. As Magnus mentioned, we are looking at the toughest possible comps in the same quarter last year. It was and still is the strongest quarter in Thule history. No other quarter has had an EBIT margin of over 27% and I am sure you remember that the most important reasons for that quarter to be so strong profit-wise was that there was very limited impact from material and transport cost increases. Those came in as of Q3 last year. Reported sales for Q2 this year came in 3% higher than last year but if we apply the current exchange rate to last year's Q2 we get 3% lower sales this year than last year for the quarter.

Gross margin

The reported gross margin of 42.2% is on par with the same quarter last year and if we apply the same exchange rates, as we did for sales, we actually get an 0.5 percentage points higher gross margin than in the same quarter last year. It is very pleasing to be able to show this maintained gross margin under the current market conditions. The successful implementation of price increases have offset the negative effect coming from the higher cost of materials and freight.

EBIT margin

The EBIT margin of 24.7% is compared to 27.4% in Q2 last year and to put the lower margin in the quarter into perspective the 24.7% is higher than in the second quarter of any of the pre-COVID years. The selling expenses, if we move down the P&L, have increased from SEK 409 million to SEK 487 million or 2 percentage points in relation to sales. As a percentage of sales it has gone from 12.7% to 14.7%. Selling expenses have increased primarily because of spending on product development and costs for handling our increased inventory levels. There is also an item under operating revenue and the comparison number for Q2 last year relating to the release of a provision created when we acquired the Tepui roof tents business.

The finance net in the quarter is lower than Q2 last year because of higher utilisation of our bank facilities and higher interest rates. The tax of SEK 180 million corresponds to a tax rate of 22.3% which is in the lower part of our guided range of 22-25%.

2022/H2

Operational focus to handle challenging market

If we move to slide 12 and look at the operating working capital and cash flow, the operating working capital was SEK 3,914 million at the end of Q2 2022 which is considerably higher than at the same time in the

previous year and relates primarily to the increased inventory. Last year's level of inventory was too low to meet the demand and also to be better able to meet the challenges that we face in the supply chain we decided to increase inventory levels. Our capacity to provide short delivery times to our customers is now restored and this is an important part of the Thule business model, as Magnus also mentioned. We are also less vulnerable to further disruptions than we have been in the past two years. What we said when we decide to increase our inventory was that the products that we stock must be core products that we sell in large quantities. They must have very limited exposure to obsolescence which means we have not stocked products where we are planning to release new models or new collars that will make the ones in stock obsolete.

The operational cash flow for the quarter was SEK 559 million to be compared with SEK 801 million last year in Q2. When comparing these two isolated quarters the main drive behind the difference is accounts payable that had a positive effect on the cash flow statement last year when we increased production and a negative effect this year in the quarter when we returned to a more normal level of production. The capital expenditure was SEK 113 million in the quarter and it relates to investments made to increase our production capacity primarily through [Inaudible 27.11]. Thank you.

Closing Remarks

Magnus Welander

CEO, Thule Group

2022/H2 – Operational focus to handle challenging market

Proven growth strategy with opportunity to push growth investments earlier

If we then go to the last page of the presentation, as you have heard, we see a strong continued performance and we are realistically looking at what will be very significant challenges in terms of the short-term flexibility and short-term management of the business. We will therefore continue our focus on the second half of 2022 on the long-term strategy which is pushing growth investment via a significant product development push. To fuel that future growth with the biggest-ever introduction year in 2023 we have ever had. We will be bringing key new products into all our current product categories and, as you heard me mention, also introduce towards the end of the year into the two new product areas of child car seats and dog products. A very strong launch year with a very busy autumn showcasing these new products to retailers for then the bigger launch and sell-outs of the stores in spring and autumn of 2023.

That means also that the capacity expansion that we have been undertaking over the last two years to catch up with the increased demand levels and the higher revenue is now coming to a good position during 2023. We announced already way back in 2020 in the autumn that you would see 2021, 2022 and 2023 clearly being higher capex years to catch up with the increased demand levels as well as preparing for the new product categories, which we will assemble in our own plants in Europe. With that we also are taking steps to automate our new production lines for products that are key volume products in the current product categories.

We also continue our online B2B solutions to simplify our collaboration making life easier for retailers in how to work with us. The most important aspect of that is always ensuring a very high on-time, in-full service which I am happy that we have restored. Of course, you also have other tools in terms of marketing, ease of ordering, etc. I am very happy that our new B2B tool that was launched during the spring is definitely creating some good efficiency gains both from a retailer perspective as well as for us. We will continue to also push our direct-to-consumer solutions and tools.

Protecting margins in challenged supply chain situation

What we are also focusing on is protecting the margins in what is still and is expected to continue to be a very challenged global supply chain situation with significant disruptions still going on. We should not forget that there are still very long shipment times versus pre-pandemic levels. There are still some very significant global logistics bottlenecks. I have just read some reports in the last few weeks that when you look at the biggest players in both European and North American industries many people expect that the very challenged supply chain situation will continue throughout 2023 and well into 2024.

There are still some localised challenges with the Asian supply base and I am sure you still read about entire cities or regions being closed temporarily due to COVID, etc. Then of course we need to be, as with all other companies, quick on our feet in ensuring that we can handle that. One way to do that is to have higher than historic inventory levels. We have already informed you that we are implementing further price increases as of July. They are already in place as of 1st July and those are on certain product categories where we have seen continued increases of input materials and freight. We will continue to work with all of those assembly plants where we have made investments to get out those efficiencies we have planned.

In closing, as I said, many uncertainties in the short-term and a very strong conviction in the long-term is how we see our business. With that I hand it back to the operator and open up to questions.

Q&A

Daniel Schmidt (Danske Bank): Good morning guys, a couple of questions from me to start with. Coming back to what you finished off by saying about many uncertainties in the short-term, could you shed some light on what happened towards the end of the quarter? You talked about the bike-related business coming down of course and you also said there has been a lack of high-end bikes but maybe too many low-end bikes which is a negative mix for you guys. Are you seeing any sort of better restocking of high-end category looking into Q3? Is that going to help in that case or is it more about the consumer sentiment? If we start there.

Magnus Welander: Yes, I think if you take the bike category Daniel you can say that it is still the one where retailers are the most confused, so to speak. They are sitting on too much of certain products and that is never good because that means that they will likely focus a little bit on selling out cheap bikes, etc. Unfortunately that might also then mean that they will prefer to sell out a cheap bike trailer rather than selling one of our premium ones because they sit on them on stock all throughout the year. If you look at Q3 I do not think we will see an improvement in terms of how the Bike category will be doing versus what we saw in Q2. It will be a challenged quarter and that quarter will then serve as a little bit of a balancing in terms of retail structures ahead of the 2023 season. If you look at the other product areas and product categories you can see that generally we have a very good momentum in other products around active travelling and active vacationing. That is partly because they did not grow as wildly as Bike did in 2021. There was still very strong growth in 2021 but continued growth in 2022 as people have chosen to do those vacations. I think the bike industry will still have a challenged quarter three and we will still have a challenged quarter three in all bike-related products which will serve as a little bit of a balancing for coming into 2023 in a better way.

Daniel Schmidt: Yes and it is still the high season when it comes to bike-related equipment in Q3 but that is also changing quite a bit entering Q4 where you will have more Packs, Bags & Luggage which is likely to be in recovery mode. Is that how you should view it?

Magnus Welander: Absolutely. You are absolutely right. We have a much better category exposure in terms of performance in quarter four than we have in quarter three. That is correct.

Daniel Schmidt: Yes. Trying to stack that up, that to me will be a bit more of a negative mix in terms of product category weight into the total Group sales compared to last year. However, at the same time you are also seeing raw material prices and freight costs coming down quite a lot now since March. I do appreciate that you have longer lead times and you have higher inventory now than you had the previous year so it will take a bit longer for that to filter through. However, you are also raising prices now again since 1st July and you showed very strong pricing power in Q2. When do you think that you will see the benefit of lower raw material prices and freight costs coming into the P&L numbers?

Magnus Welanders: That is from 2023 onwards because as we clearly have highlighted we have been building up inventory as well. When you do that there is a bigger lead time aside from pricing falling into cost structure before you sell the product. If everything aligns in the right way, which we hope, with our efficiency gains, etc and with the right product mixes that should help us if anything from 2023 and onwards.

Daniel Schmidt: Okay. Another question on the inventory. You write that you have higher handling costs now due to the inventory situation and given that you exited with the inventory versus entering Q2, I guess that is still going to be the same. Also given what you said in terms of keeping high customer service in terms of deliveries, that is also going to be true for the second half of this year. Is that a fair assumption?

Magnus Welanders: That is correct. The reason is that we do own some of our own larger warehouses that we also have due to cost efficiency reasons over time and flexibility. For Western Europe and for North America we also have outside warehouses. When you keep more stock and when you have more handling of that stock you therefore do have higher costs. We will continue to have that in the second half.

Daniel Schmidt: Out of those 200 basis points that Jonas mentioned in terms of SG&A how much is related to what we just talked about and how much is product development, do you think?

Magnus Welanders: Significantly bigger on product development and sales-oriented costs. This is a smaller part of it but it is clearly a part worth mentioning. It is definitely smaller than the product development push and the increased sales and marketing efforts.

Daniel Schmidt: Okay, good. A final one from me, you as always have an M&A agenda but it is not top of your agenda maybe even though you make acquisitions every once in a while. They are few and far between. You do mention now again that you would consider making M&A also in the new categories. Does it cause any conflict at all to make a new acquisition in new categories in the same year that you are launching organically? Is that something that you would be willing to do or is that too much of a hassle or too complicated?

Magnus Welanders: No, we would definitely be willing to do it as long as it is the right company for the right reasons. What we have always said is we want to earn and run our own agenda. If you do things organically you can always enter a category and you can run your own timeline agenda. If you base it on M&A it becomes more erratic. There is a risk that you overpay for something to have it or that it is not available when you want it. The organic growth is our main focus even in the two new product areas but of course as always in new product areas there is a greater economy of scale effect or a quicker to market effect than in current product categories. Those are the areas we would look at but no, I would not hold myself back just because we are doing things organically if the right M&A opportunity in those two product areas comes up. We could time that at the same time as well.

Daniel Schmidt: Alright. Thank you.

Magnus Welanders: Thank you.

Gustave Hagéus (SEB): Good morning guys, thanks for taking my question. I have questions related to the inventory build-up. There is usually a positive impact to margins if you over-produce, helping capacity utilisation. In a way to quantify that effect in H1 and if sales and inventory would have moved in parallel

versus how it was now, do you have any view on the potential impact if inventory turns the way you are hoping for in H2 in terms of margin impact? Thank you.

Magnus Welander: Morning Gustave. No, we will not give you any details on that and actually if you look at the situation on what we have seen with all the disruptions going on, I can probably say I do not see it impacting us positively or negatively in the second half versus the first half due to those reasons. You will not see impacts on our performance due to inventory build-up versus inventory reduction in our performance.

Gustave Hagéus: Was it a material or noticeable effect in H1 margins or Q2 margins?

Magnus Welander: No, because we have such a flexible setup in our staffing levels. What we do is we build all our staffing levels in our manufacturing setup on a very clear three-tiered approach with fixed employees, seasonal employees in Thule and then agency workers adding that flexibility. If you compare a little bit with what goes on with costs and freight, etc and then offset production, our capability of ramping up and ramping down fast means you will not see significant a boost impact in the first half or a negative impact in the second half by producing less in our margins.

Gustave Hagéus: Okay, that is very clear. When we talked earlier this year before the year-end last year I remember you said that your ambition or belief was that you would have volume expansion this year versus last year. Obviously a lot of things have happened but do you still think that there is potential for that to materialise in the rest of the 2022 year? What do you think would need to be in place for that to materialise?

Magnus Welander: If you look at it since considering that the first half is such a significant share of our sales and we have not had volume growth but we have a total year expectation of a price impact of high single digits, you can then realise that we have not had volume growth. Therefore also with a challenged Q3 and an easier comp in Q4 I do not think we will see volume growth in this year, having lost Russia, Ukraine, Belarus sales and with a different market than when I made that assumption.

Gustave Hagéus: That is reasonable. Then I am thinking about going into next year, probably looking at a lower consumer spend, you have raised prices quite substantially and are already quite expensive versus your peers. Obviously better products usually but still. Would you be willing if needs be to sacrifice market share to maintain your price next year or will you consider promotions or taking down pricing in line with the inflation rate to maintain that market position of yours in your key categories? I am referring to roof racks, etc.

Magnus Welander: If you look at it we are always doing market-based pricing, even product by product rather than product area or product segment or subcategory. We have been and will continue to be very tactically smart as we do market-based pricing where we believe we can still keep volumes the way we want to keep them and raise prices because that is what has been needed due to cost structures. However, it is a market-based pricing approach so we are going to be tactically looking at each product and saying what is the right price for those products to keep growing with a strong margin and also driving a strong volume. If you look at that, that means by default we will make some mistakes. We do that every year. It is a high likelihood that you will make some mistakes when it is more erratic and wilder, as it has been. Generally you can say that premium, more mid-price to premium competitors we do have, they have followed suit and made logical steps like us. It is at the lower price points where we have started to see the first bankruptcies from some of our competitors at the lower price points because they have not decided to raise prices enough. When they have not done that sooner or later they start to run into issues. The first bike carrier competitor that went bankrupt was a low-priced US competitor, for example, which according to us when they did not raise prices enough at the mid-year 2021 and definitely not enough when they started the year 2022, we could do a very quick backwards calculation and say they will not be around if they

continue to price this way. Generally we will be selective and market-based also going forward, protecting strong margins but that means strong margins can also only be achieved if you sell volumes. We are going to be very tactical going forward as well.

Gustave Hagéus: Yes, that is very clear. Then on the topic of price you raised prices now in July but the year over year impact in H2 versus H1, is that going to be a bigger or smaller number in percentage terms?

Magnus Welander: To remind everybody as normal we did a January 2021 price increase. Then we had to surprise the market, as many companies decided to do, in the spring of 2021 and do more or less a semi-force majeure pushed-through price increase for 1st July 2021. We then chose as a company, not all companies did that, to say that we were struggling to keep the normally high on-time, in-full delivery performance and we did have a backlog at the spring time when we announced the July 2021 price increase. We therefore informed customers that had they already placed orders even if they would get the shipment after 1st July they would get the price that they had ordered at. Some companies decided to raise those prices as well. We did not which meant that it was not a clean 1st July price increase that implemented. It fell throughout Q3 in 2021. We then raised prices again, as we always do, 1st January 2022 and at that time we announced that the prices for 2022 would only be valid for six months. Therefore our 1st July price increases are absolute from that date. When you do all these comparisons because we have raised prices on a market-based pricing logic you can say that the effect we are expecting totally with everything going on is similar between the two halves of the year on pricing. Similar comparative effect between H1 and H2.

Gustave Hagéus: Okay, that is very clear. Lastly from me, there has been a few peers of yours that have reported a belief of an improving supply chain now in H2 and you have indicated similar. Are you willing to take down your tactical inventory in H2? Is that something which we should expect to see or are you still going to hold some of your components in the event of a further supply disruption in H2? How do you feel about that now?

Magnus Welander: Maybe I was not clear enough. I may be a little bit less optimistic than some of my peers but I actually believe that there will be continued disruptions. What has improved is the length of shipment times temporarily which peaked at more than 110 days from Asia to North America. That has been going down slightly but if one looks back at historical performance around Black Tuesday, Christmas and then Chinese New Year they tend to go up again quite significantly in those months. I believe there will still be very long shipment times and continued disruptions. We will therefore hold higher inventory levels than we have historically done. As we have ramped up our capacities in our own assembly plants we will be able to handle a little bit more ramping up and down temporarily ourselves which will allow us to still work with reducing calmly and slowly our inventory levels but we will not see significant reductions on inventory levels. We simply do not trust the supply chain enough.

Gustave Hagéus: That is very clear. Thank you.

Magnus Welander: Thank you.

Karri Rinta (Handelsbanken): Thank you, three questions please. Firstly about the bike-related products, as you singled out in the report. If we focus on the biggest categories there, the bike carriers and bike trailers, volumes were down 20% compared to last year. Would that be roughly the right ballpark? If so, where were volumes compared to 2019? That is my first question.

Magnus Welander: We do not give those clear indications but you are not too far off. You are off a bit and there are huge differences between products within those categories. We have certain bike carrier models that we are selling more units than we sold last year and others where we are selling significantly less than we sold the same period last year. If you look at it and do a comparison realising that we are at a total for the company of 43% above what we were in the same quarter last year. If you then do the maths of what

our price increases have been you realise that we are running at volumes that are as a total company well above 20% more than we did and Bike has performed the best in that total. That gives you an indication of where we stand in volumes versus pre-pandemic levels.

Karri Rinta: Alright, that is helpful. Then marketing costs or selling expenses, you mentioned that there is some extraordinary costs right now related to the inventory but going forward do you still believe that you can keep the selling expenses to sales at below 15% even in 2023 when you have this very significant launch year?

Magnus Welander: Yes, if you look at our long-term target we have always said an EBIT margin well above 20%. We are holding very true to that. At times when we go into new things we will push heavier with marketing costs but at the same time we also have at the moment a very significant product development and product management cost for those two new product areas which is then not offset with any sales at the moment. We will be selling products next year so there is a natural offset also in an SG&A realistic logic for new things coming. Yes, we will be able to hold to similar levels that we have had.

Karri Rinta: Great. Then finally your own direct-to-consumer e-commerce sales, how have those developed in the last year? Have you seen the same sort of fatigue as many online retailers have been reporting in the last month or are you still up on a year-on-year basis?

Magnus Welander: If you look at it, it is natural that we are doing better than a general online reality because we are fresher and newer. It is always easier to grow if you are relatively new in something and have not been doing it for that long because over time people realise that we do sell direct to consumers. From that perspective we are not performing as we have seen some other generalist online retailers struggling more. We can talk about how good we are but it is also partly from the fact that we are relatively new into it and we are still in a growth momentum thanks to that.

Karri Rinta: Alright, thank you very much.

Magnus Welander: Thank you.

Mats Liss (Kepler Cheuvreux): Hi, thank you, a couple of questions. First just to get a feel about performance during the quarter, could you say something about April through June whether it was a deteriorating trend or was it stable on the same level?

Magnus Welander: If you look at the Group level it was a similar performance throughout the quarter.

Mats Liss: Yes. You mentioned the price increases and it seems that you are breaking [inaudible 54.35].

Magnus Welander: Sorry, could you repeat that again Mats?

Mats Liss: Regarding the price increases, you previously had mentioned that you increased the prices by high single digit at 1st January and 1st July it seems that it is somewhat less. Could you give some indication there about the increase?

Magnus Welander: Yes. What we have said is that full-year effect with those price increases that we have done will be high single digits. If you look at it we then have much fewer price increases now 1st July because we have not seen the same growth of cost structures as we saw ahead of the 1st-January one. For some products there are price increases being implemented clearly also here now in July but it is not across the board in the same way and it is not nearly as much. Total impact, as I indicated to Gustave, for the year is similar in H2 to what it was in H1 on price.

Mats Liss: Yes, thanks, got it. You have a negative organic growth here in the second quarter and you mentioned that the third quarter will continue to be demanding a year-over-year comparison. This is at the same level or similar to the second quarter, the organic outlook.

Magnus Welander: Yes, if you look at the product category exposures, as I mentioned to Daniel and as Daniel was correctly assuming, if you look at what we normally sell as we now see a more normal phasing we have a category exposure in quarter three towards less-performing categories that are similar to Q2 while in Q4 we have a category exposure more to well-performing currently in 2022 categories. Logically if you look at challenge in comp logic versus current 2022 performance the challenge is bigger in Q3 and it is a more positive category exposure in share of sales in Q4.

Mats Liss: Thanks, got it. You launch a new business area later on this year and just looking at retailers do you expect to use the same retailers or do you need new ones for those new product areas?

Magnus Welander: If you take the product area of Child Car Seats it is very much the retailers we already sell either strollers or other car-related products to. We feel very good about having the right channel for our car seats. For the Dog Products it is the right channel in parts but there is also a specific juvenile retail channel online-dominated where we will need to open up some new accounts. We feel very comfortable because we have already started discussions with those accounts that we will be able to enter [inaudible 57.53] into those new retailer channels for the Dog Transport Products.

Mats Liss: Just to get a feel for the launch, do you come to the market with a full assortment or are you just entering the premium, premium segment with some special products? Could you say something there?

Magnus Welander: For Dog Transport we will enter at the very top-end and then we will broaden downwards. In 2023 you will see very premium products in Dog Transport and then in 2024 and beyond you will see more of a broader assortment. If you take the Child Car Seats we have decided to focus on one region first which is Europe. Regulations for car seats for children are significantly different by region and we will do [inaudible 58.46] launch in Europe first with an infant seat and a toddler seat sharing the same base. That is also a premium offer but a relatively broad offer. Then we will follow with a North American portfolio and additional products in Europe the coming years after that.

Mats Liss: That is great. Finally about cash flow, you used some working capital in the second quarter. Will this improve in the second half? Could you say something about that?

Magnus Welander: As we have said, we have a similar phasing performance as pre-pandemic levels. We are very comfortable knowing what our choices have been on inventory but the rest of our cash flow situation we are very comfortable that it will perform in a normal seasonal pattern as in historical years.

Mats Liss: Okay, great, thanks a lot.

Magnus Welander: Thank you. Thank you everybody for taking time this hot July period in listening in to our Q2 report which I am very happy with what we have been able to do in terms of margin performance in a challenged reality. We step into a very exciting autumn in terms of what we will be sharing with our retailers in terms of new launches that will come to market in 2023. A challenging third quarter ahead of us but we feel very confident on our long-term strategy. With that thank you and have a great summer.

[END OF TRANSCRIPT]