Thule Group - Q1 Interim Report - 2023

Thursday, 27th April 2023

Thule Group 2023/Q1 Headlines

Magnus Welander

CEO, Thule Group

Welcome

Good morning everybody. Welcome to this Q1 2023 report and as we had expected it was a slow start to the year.

2023/Q1

Slow start due to high retail stock levels but good profitability

We knew that we would be facing a tough bike retail situation with bike retailers having significant stock on hand. On top of that of course we are also facing in reality a very tough comp period because last year in 2022 during the first few months of the year there was an extreme stock build up by bike retailers. Our sales ended up 31% down FX-adjusted which is very much in line with our expectations. It is a small growth versus 2019, the first pre-pandemic year of 12% so it is not catastrophic from that sense. Of course clearly we are feeling the situation of bike retail placing very limited orders as they instead sell down their stock.

What I am very happy with in the quarter is our ability to still deliver a very strong gross margin. Our gross margin improved to 41.2% which is a 1.2% improvement but actually 1.5 percentage points currency-adjusted. The key contributor to that is of course the fact that during 2022 we implemented price increases also mid-year because of the situation of costs out there. If you look at a positive situation as well is that we see freight costs are returning to a more normalised level after having been extreme during 2021 second half and 2022. We also see a clear positive channel mix as retailers are having an inventory sell-down period and therefore are buying less product from us. We do not have that impact in our own direct-to-consumer where we therefore have grown our share of sales that goes direct to the consumer. That was happening anyway even without retail inventory adjustments. The channel mix would have gone to direct-to-consumer anyway because that is the winning and fastest-growing channel we have. However, that was accentuated in Q1 then when retailers sold down stock levels.

There was a negative effect in the fact that we still have a significant under-absorption in our factories. That is of course because we have decided not only were our sales limited but we are also on the journey of reducing our own inventory levels, which did go down in the quarter with SEK 158 million. The fact that we are seeing an inventory reduction plan going ahead at the same time as we are selling less means we are producing significantly less hours in our plants than we did at the same time last year. In fact at the end of the quarter we are 900 people less in our plants than we were at the same time in 2022. That has been done because we have a very efficient three-tiered staffing level in our production facilities and we could not react fast enough during the second half of 2022 with a very rapid and significant slowdown in the bike orders. However we could then act anyway during the second half and now we see the positive impact from that.

From an SG&A cost point of view we are at a steady level. In fact we have a cost reduction in terms of constant currency of SEK 17 million and that is despite a very aggressive continued product development push and an earlier than normal push also in marketing efforts as we see a number of key launches and also fairs and events coming earlier than they used to do in the past. Overall that meant that we delivered an EBIT margin of 17.2% which is of course down significantly versus 2022 but still a strong margin considering the negative sales development and the under-absorption of our factories.

Thule Group Sales by Quarter

If we go to the next slide we will talk a bit more about the timing logic in what will be an extreme year once again to compare to. If we look at slide three and talk about what we are seeing in terms of sales by quarter we knew when we stepped into the beginning of the year that we would be facing the toughest quarter in terms of the comp reality in the first quarter. The logic is clear that that was due to the fantastic sales in 2022 as especially bike retailers were aggressively filling up inventory expecting a fantastic bike sales year. Now we are seeing the absolute opposite of that but therefore we see also that if you look from a comp period now going forward the second quarter is also a challenged quarter which had 43% growth versus pre-pandemic times whilst the first quarter had 64% growth. Then we have two clearly weaker quarters which only grew 23% and 28% respectively versus 2019 as we then already saw a dramatic and rapid bike retail slowdown on sales. A tough first half and a very easy second half comp-wise.

We therefore have had a lot of discussions and I know there has also been among investors and analysts a lot of attempts and speculation to try to find where that point is when bike retailers will find their normal inventory levels. If you remember what we stated already way back in September last year when we did a profit warning for the coming quarters, we announced that we felt it would not be possible for the bike retail sector to normalise their inventory levels until some time during the peak season, which is always in the spring of the following year. We said already at that time and we have reiterated that in the last two quarterly reports that this is going to happen some time between April and June. The most optimistic people in the world were saying April and the most pessimistic people in the world were saying around end of June. When we now look at April it is clear that the most optimistic people were wrong. We were not among them. We did not believe it would materialise in April and we are starting to see finally towards now the end of April some good bike orders coming in. We know that the situation will be improving from a retail inventory level on a weekly basis now because we see the sell out starting to happen. We are starting to see orders picking up so by the end of the second quarter I am convinced that we will have seen a normalisation of those inventory levels. That will mean also on a comparative basis we will have our worst-performing months versus comparator last year in the beginning of the quarter and then as sales of bike-related products started to slow down towards June we will towards the end of the quarter see stronger comparable numbers with bike retailers having now adjusted their inventory levels.

It is of course in general though still uncertain market conditions out there. I know all of you speculating in the same way as to what will happen in total with the concerns that consumers have in terms of what their spending can be. We will be needing to be very flexible on various product models and be very much on top of the trends that happen also in the coming quarters.

Region Europe & RoW

Bike category still hit hard by high retail stock levels

If we go to slide four we will talk a bit more about what has happened in the region Europe and RoW. If you look at region Europe & RoW we saw a 26% decline versus the very strong 2022 in constant currency. It is the bike category that was hit very hard but we also have seen a relatively cautious retail in the total outdoor arena. People that have followed Thule for many years and have been investors in Thule for many years know that in the months of March and April we have always said that due to when the Easter season hits and how good the weather is you might see sales moving between those ending of the first quarter and beginning of the second quarter. What we clearly have seen is a cautious retail sector being a bit worried about what will happen in a consumer pattern and also never blame the weather. It is just facing its timing differently but it did not help us that it was a weak and late spring.

When we look at the RV Products category in Europe which is the dominant part of our RV Products sales with more than 95% of sales in that product category happening in the European region. It was a strong solid quarter with positive growth thanks to the fact that the motorhome manufacturers are now starting to catch up with those order book backlogs that they have had for a very long time during the pandemic. Despite everybody's concerns about what will happen when motorhomes are significantly more expensive since the last few years and also the discretionary spending opportunity for consumers, there is a very healthy backlog that now finally the motorhome manufacturers are filling up and sending out.

As our products are mounted and assembled either by the manufacturer or at the dealership because the consumers will not trust themselves to quickly attach it, that means that we are partly connected to that performance. We are outperforming the market once again as we have been doing for the last 17 years and I am sure we will continue to do that. However, we have to be aware as we have noted a few times that the most interesting point for the RV Products sector in Europe will not be what the order backlog is at the moment. There will be solid sales. It is more how many new consumers are filling up at the end of that order book now when there might be more concerns about the financing of those vehicles.

We also had a very strong Packs, Bags & Luggage performance but that is logical, to be honest, because if we talk about the tough comps we can also talk about easier comps. As most of you will remember 2022 Q1 there was still significant limitations on travel opportunities for people in Asia and Southeast Asia. Those have been loosened up and when people are commuting back and forth to work and commuting back and forth to university they buy lots of backpacks and other things. When they are starting to travel internationally they buy carry-on bags and duffel bags. We are seeing a solid sales growth driven by more of a return to normal in Asia but also by very strong collections in our new luggage series that have been receiving very positive reviews in the marketplace.

If we look at it from that point of view you also naturally can follow as a consequence which geographies did best in the region. It was the Southeast Asian and Japanese markets and also China because those are markets which had limited sales last year and are also markets where we had a higher share of our sales in the Packs, Bags & Luggage category and less in the bike-related categories.

We also had a very strong performance, same thing, due to a weak comparable last year in all the markets close to Ukraine. We saw a significant and very natural concern after the Russian invasion of Ukraine and consumer market concerns were significant in 2022. Now there is a positive normal momentum actually in those neighbouring markets which means that we have a strong performance in Eastern Europe in the quarter.

As I mentioned for the total Group and it is also applicable specifically for region Europe & RoW, our direct-to-consumer sales shows a very strong growth in actual numbers. Then if you combine strong growth in actual numbers, albeit from a very low percentage, it still impacts us positively as we also saw a clear retail slowdown in ordering as they were selling down inventory. Our path of growing direct-to-consumer will definitely continue in the coming quarters.

Region Americas

North American retailers reduce inventory levels

On the next page we look at the Americas region so on slide five we can see that the actual number in terms of comparative versus the fantastic 2022 was a 45% decline. The reality is that in North America we were catching up much later as we have reiterated a few times in our ability to fulfil the orders during the pandemic. We were still, more than in region Europe & RoW, selling bike-related products into early Q1 2022 that had been already ordered for 2021 which means the comp is extreme. If we would go all the way back to the 2019 comparator it is actually a very similar performance between the two regions.

Now, as I said the bike category is also here the one that is hit the hardest and also here similar to the major retailers in Europe, there is a cautiousness in how much they are bringing in orders ahead of the spring. In this market the very small niche RV Products impacted very little. We have had fantastic growth numbers there for a while. You will not be surprised me telling you that if you looked at motorhome sales and the whole caravan and motorhome industry that was not the case in the first quarter of 2023 because it has been very slow in general in that market.

Within Packs, Bags & Luggage we continued to grow as the commuting back and forth to work and university started to pick up and as people fly around more. In terms of geographies it was the Latin American distributor markets that showed the growth, the smaller markets we deal in, and that is partly once again if we are honest, as we always are, it is due to the fact that we saw a relatively weak ordering in 2022 in those markets in the first quarter. Also in the North American markets, US and Canada where we do direct-to-consumer sales we saw a significant share increase of our sales in direct-to-consumer. Once again a combination of us continuing to show actual growth and then as a share of course with retailers adjusting and balancing inventory it became also a higher share of sales.

If we then go over to the financials I will leave it over to Jonas.

Thule Group 2023/Q1 Financials

Jonas Lindqvist

CFO, Thule Group

Reported incomes statement

Thank you Magnus. We are now on slide number six. The sales of SEK 2.226 billion in the quarter was 31% below the sales for the same quarter prior year excluding FX effects. This is on an expected level and as in the previous quarter sales of bike-related products continued to be slow. Please bear in mind that we are looking at tough comps from last year's first quarter and part of the strength in that quarter was because of sales of bike carriers at the end of 2021 spilled over into the comparison quarter. Q1 2022 was due to delays that we had in 2021. As Magnus said, our customers are still reducing inventory so our sales do not reflect end customer demand. On the positive side we saw an increase in sales in Packs, Bags & Luggage and a continued good level of sales in the area of RV recreational vehicles.

The gross margin is slightly higher than for the same quarter last year and the improvement comes from our ability to quickly adjust variances in production volume, drastically reduced freight costs and effects from price increases. Regarding freight costs last year we had to accept container prices from sea freight that were almost ten times the current level.

Operating expenses have increased slightly from SEK 522 million to SEK 534 million but excluding FX effect it is a reduction of 3%. Savings are coming primarily from sales and marketing costs as a consequence of the lower variable costs relating to sales. We are continuing our spending on product development. As a percentage of sales the operating expenses are 24% compared with 17% prior year Q1.

The EBIT margin of 17.2% is 5.6 percentage points lower than last year's 22.8% but only 1.3 percentage points below the average for 2017-2019, that is before Covid. The finance net in the quarter is lower than Q1 2022 because of higher interest rates and higher utilisation of our banking facilities. Tax for the quarter of SEK 84 million corresponds to a tax rate of 23.3% which is in the middle of our guided range of 22-25%.

Cash flow

We now move to slide number seven and operating working capital was SEK 3.418 billion at the end of Q1 2023. Excluding currency effects the inventory has decreased by SEK 200 million compared with the same time last year which is line with expectations since the first quarter of the year is not a big quarter for bike-related products and that is what we stocked up last year. Inventory levels on these products will come down substantially during the coming two quarters. Accounts receivables are SEK 1.85 billion and are lower as a consequence of the lower sales and so are accounts payables compared with prior year. As a percentage of sales the operating working capital is 36.6% at the end of Q1 2023.

The operational cash flow for the quarter was much higher than last year primarily because of the increase in inventory in Q1 2022. The stock build-up we usually have in the first quarter is going the other way this year. Capital expenditure was SEK 59 million in the quarter to be compared with SEK 148 million for the same quarter last year. The capital expenditure relates to investments made in our production. As we have communicated, the capital expenditure for the full year will come down in 2023 but proportionately not as much as in the first quarter. Thank you.

Thule Group 2023/Q1 Strategic Review

Strong marketing push to drive brand building and sales in coming period

Thank you Jonas. If we then go to page eight and talk about what is so key for a true global lifestyle brand. We are in a very positive momentum in terms of strengthening the Thule brand and one of those key efforts that has been recently implemented is that we made a significant upgrade of the most important consumer interaction point we have, Thule.com. In March 2021 we went live with a significantly enhanced Thule.com. We do that mostly because it is our most important channel to drive sales in all channels. We also will get we are convinced a help and boost in driving more share to direct-to-consumer by having significantly improved the site. It was not like the site was bad before. It was actually according to many a very good site but we have taken all the learnings we have had over the last years and new expertise into a truly user interface designed approach because we with very different product categories, some more emotionally easy buys like a good looking Thule Aion carry-on bag and some where you truly need the technical advice to make sure you have bought the right product like a roof rack for a specific car. It means that the whole approach that we guide the consumers through is needing to be different in terms of how we assist them as an online expert advisor. At the same time we have one global brand with a fantastic lifestyle positioning so if we correctly, like we do better today on the refreshed Thule.com, show and cater for that feeling and propose other new products we are convinced it will drive sales in all our channels.

What we also are doing significantly is using our great product offer to now when the world is back to a more normal place and everybody is allowed to travel around and be at fairs and events is we are once again with all the very exciting launches that we are doing for trade for next year but also for consumers in stores this year. We have dialled up our efforts and as I said have some earlier than normal seasonality phasing of some of our marketing spend. The image on the lower right is an image from the Copenhagen airport where we showcased during the big Swedish and Danish winter sport holidays our new Thule Caprock roof platform and a lot of other cool Thule products to showcase the lifestyle that our brand enables.

More new products than ever launched in the coming 18 months

If we got to the next page I will talk a bit more about the new product launches as we are on page nine. We are doing some key consumer launches in the spring 2023. We quickly have mentioned some of them here but I can tell you there are many more. The Thule Approach tent is the most spacious rooftop tent in the market. It is also recently awarded with a new Red Dot design award.

Also if we look at our fantastic Thule Arcos rear-of-car premium hardshell box it has garnered significant attention in the marketplace as not only is it great looking and very practical, but it actually enables the reduction of the famous range anxiety for all those e-car buyers. In fact in several studies proven both by ourselves but also external third parties and media, with a number of car models if you put a Thule Arcos at the back of your car on the towbar and load your bags in that one versus having the same bags in the trunk of your car it actually reduces battery consumption. That has been a very big PR and media attention.

I already mentioned the fantastic Thule Caprock. That is something for the true outdoor enthusiast. Those people that used to love the Land Rover Defender and nowadays maybe are already drooling about the

Grenadier coming out with very cool vehicles. However, it actually works for a normal vehicle like a Subaru or a Volvo also to create that platform for new adventure and put a lot of gear on top.

Then, as I will show you more soon on another page, a fantastic launch of Thule Epos, a revolutionary premium rear-of-car bike carrier that hit the stores as of last week. A fantastic step up on what is today the world's best, the Thule Easyfold XT, and now we are taking another level with the Thule Epos.

Thule Epos

New innovative premium towbar/hitch bike carrier

I think we were a little bit too hot to trot to show the Thule Epos so since we are on the image of the Thule Epos I can mention and show a little bit what it does. It is foldable. It has wheels so you can roll it out to your towbar. You can just tilt it on your towbar. You have a loading ramp. It can grab virtually any type of bike in any type of position on the bike. There is the possibility to add a locking for a key lock for your bikes. There is the possibility to have a bike repair stand sitting on the carrier and when it does not have bikes on you do not even need to tilt it away to open your trunk because you can just fold down the arms.

More new products than ever launched in the coming 18 months – cont.

To go back, the fact is that we are launching also our dog products as expected. We are also coming with a number of key launches as you are aware for 2023 as expected in Q3, the Thule Allax dog crate, the world's safest dog crate. We will also of course launch a number of new bag selections, etc. I also want to use this opportunity to let you know that we have decided to delay the launch of our car seats to the market, which were planned for Q4 in 2023, to the spring 2024. The reason is we have had longer than expected lead times of deliveries of the assembly equipment and some of the electronics for those products and we want to be 100% sure of course from a pure safety point of view but also from a mass manufacturing capability that once it hits the stores we can continue with solid supply throughout the launch period and the ramp up period.

We are entering into a very exciting trade introduction period and that trade introduction period will start with a huge fair that is called EUROBIKE where among other things Thule Epos as you see on the screen will be shown as well as some very high volume driving new products that will hit the market in 2024.

2023 Focus

Continue to drive our growth strategy

If we go to the last page, page 11, that is a key focus of what we are doing at the moment, preparing for those launches. Our growth strategy remains unchanged. We will definitely focus on driving profitable organic growth with great products. We have the strongest assortment of new launches we have every had in the history of the company in the coming 18 months. It is high volume driving type of products so it is not niche products. I feel very strongly about that. We are continuously dialling up the efforts of the lifestyle brand Thule with the Bring Your Life tagline. We are of course capable now of handling growth since we have invested well in the back end of our business. We are under-utilised a little bit with the sales we see at the moment. We are continuing to support those right retailers with the right tools to sell but we will see a much faster growth in our direct-to-consumer sales channel.

When we look at all those exciting bits of news we also have clearly a reality that we have a low level of production staffing. That is a reality. We cannot say anything else because not only do we have less sales but we also have a higher inventory ourselves so we decided to ensure that we reduce that inventory. We will be running with lower production levels but the plants are extremely well invested with modern equipment, modern automation lines and ready for that volume growth that we are convinced will come. As you sell down inventory you of course generate a lot of cash which means we will be very cash strong.

As a conclusion before we open up for questions, it is a tough first half to comp against. We have a very easy second half to comp against. There is a fantastic number of launches hitting the market both for the 2023 season and for the 2024 season. There is however many uncertainties still in the morrow so we need to be quick to act and as flexible as we have been in the recent years. We will be that. I will be around also for one more quarterly report but we are already well underway, myself and Mattias, in ensuring that he is well versed and running fast when he hits the ground running in August. With that we leave it to the operator to lead the questions. Thank you very much.

Q&A

Daniel Schmidt (Danske Bank): Good morning Magnus and Jonas, a couple of questions from me. Starting off with what you said in terms of starting to see orders pick up when it comes to retailers and especially I guess bike retailers after a very slow start to the year and also maybe the start to April. If we would get to a normalisation of bike inventories among retailers in the end of Q2 are you then insinuating that that would lead to growth in that segment in the second half of this year given the comp level that you have?

Magnus Welander: I am not only insinuating it but I am 100% sure that because Q3 and Q4 2022 were so weak in bike clearly we will grow in bike in the second half of the year. No doubt.

Daniel Schmidt: Okay, good. Just trying to get some more details on the slowness of the start to the year and also maybe Q2. Of course, as I said, you are seeing orders pick up but do you feel that direct-to-consumer and the other segments, Bags especially and maybe also RV, and the fact that you are launching you do have a couple of more new models in high runners in the legacy business out and you mentioned Epos. Will that be able to compensate a bit better as we go into the spring?

Magnus Welander: No, I think reality is this. April was such a huge month last year and it is such a key month that a slow start of April therefore means in practice of course that we will not be able to compensate for that in the quarter. It will be dragging us too much. However, when we come towards the end of the quarter the comps are starting to cool down and at the same time retailers will have adjusted inventory fully down so it is actually already today one of those quarters that for every day of the month that we move forward it gets better and better. It started terribly in the beginning of April and for every week that it goes it goes better and better. However, it will be only towards the very end of the quarter that it starts to be okay, so to speak.

Daniel Schmidt: I.e. where we could reach the same levels as last year and then from there hopefully grow. Is that how we should view it?

Magnus Welander: Correct, absolutely.

Daniel Schmidt: Yes, okay. Then maybe given that there are so many moving parts and the gross margin really surprised me in a positive fashion being up 120 basis points despite the under-absorption that you are experiencing in production and also higher raw materials. On the other hand you do have the tailwind from freight. Is there any way to quantify these effects? The freight, the raw material, the under-absorption and how we should view it going forward.

Magnus Welander: I think the most important in the first half of this year is of course that we did do price increases mid-year 2022 that as we now have those prices in place we are getting a positive price effect which is compensating, as you said, for those very significant costs that we saw at the same time last year. Our pricing power is the key positive contributor and that will continue in Q2 clearly but then as we come into Q3 we are now comparing with like-for-like prices because that is when the second price increase round was done in 2022. However it will contribute and help also in the second quarter. The other positive factor is of course a higher share of sales in direct-to-consumer is positive for the gross margin and although from a small base when that channel is growing at the same time as retailers were placing fewer orders due to selling down inventory, the share grew faster than it would normally. That will continue partly in Q2 but then it will be more than normal comparison which means we will grow faster in direct-to-consumer but not at the same extent. That positive contribution will taper off a little bit and be less of a positive contribution.

The freight I am convinced will continue to be a positive contributor but the reality is the worst prices were in Q1 and Q2 so the upside versus last year is less towards the end of the year because freight prices were coming down. Then the product mix, which is negative at the moment as we are doing better with the low margin categories, that will start to be positive towards the second half of the year. I wish I could make it easy for you but as you said yourself there are a lot of moving parts going into this.

Daniel Schmidt: I hear you. Maybe also the raw material. That was a negative in Q1. Is that going to turn into a tailwind as we get to the summer?

Magnus Welander: It only really goes into being a tailwind when we have sold down our inventory because we have to be clear about the fact that we bought that inventory at high material costs so there is no true tailwind utilising the higher cost product that we do have in inventory. We will be driving down inventory significantly in Q2 and Q3 as well so we do not get that positive boost effect of the current market prices. It is not as much maybe as some people think but we are definitely not getting any effect positively on it.

Daniel Schmidt: Okay. Then a final question related to Thule.com and direct-to-consumer. You mentioned that you have done an upgrade of your front office basically. Is there more needed in order to grow that business to become twice as big in terms of investments or are those investments now in place in terms of infrastructure?

Magnus Welander: Yes, we feel very comfortable that we will be able to double what we are doing without needing to do significant investments. Those investments have been done over the last years. In terms of reach you are right Daniel we will add a few more countries but we are in the key countries where we believe we can in a good way at good margin reach those consumers with the service levels that a consumer would expect from a strong brand and in a direct-to-consumer reality. We will add a few more countries in the European region to this but we are really in the core markets that will drive the volume and we do have all those key investments in place. Now it is the tactical and classical utilising those tools on a continuous basis in doing a better job.

Daniel Schmidt: Yes. Maybe a follow-up on that one when it comes to product development spending. You made it clear that that was still quite elevated in Q1 but you also said in connection with Q4 that product development spending in absolute terms if I got you right is going to be lower in 2023 versus 2022. Is that more going to happen in the second half of this year?

Magnus Welander: That is correct. We see a very aggressive spend at the moment. We are bringing some volumes but if you look on a comparative logic as we highlighted 2022 had a very heavy spend in the second half. [Inaudible 39.21] differ. We have at the moment with for example Thule Epos and some of the other products that we are also showing to trade a very significant spend as we speak in the first half. There is a little bit of phasing logic in when we spend it.

Daniel Schmidt: Thank you. That is all for me.

Magnus Welander: Thank you.

Gustav Hagéus (SEB): Hi guys, this is Gustav Hagéus. A few questions if I may, firstly on inventory again. Could you try to elaborate a bit on geographical differences? Is it fair to assume it is a bigger issue in parts of North America than continental Europe or could you help us out a bit on bike-related?

Magnus Welander: Absolutely. Yes, you are right. I saw your study that you have done and it is correct, which is quite normal as historically it tends to be that the swings are always bigger in the USA. They run out of inventory more aggressively and they overload on inventory more aggressively so you are absolutely right. The bike retail inventory situation is worse in North America than it is in Continental Europe. For me it is quite interesting to see how much it can differ even between brands and companies in terms of retailers in some markets making sure that they are really on top of it while others clearly have too much. It is not as clear as saying country A has too much and country B does not. It even is between retailers and even between specific cities for retail chains. However, it is clearly worse in North America. You are right with that.

Gustav Hagéus: Yes, it makes sense. Referencing the same study that we published it indicates that perhaps there will be a swing from too much inventory to perhaps an intention by the retailers to go a little bit lower than what they would consider normal a few years ago. Is that part of your guidance here that you assume that they will go from high to low before they start to reorder? How do you think about that inventory cycle?

Magnus Welander: Yes, you are right, it is already clear for us that retailers are already choosing to go lower than they would normally do at this time of the spring season where they would want to have more. I understand that having been burnt and also needing cash. I think it is clear that they are waiting longer and longer versus what they would normally do in terms of being ready for a season of bikes. It is going to be slower thanks to that or due to that and then I am not guiding in the second half for another bullwhip the other way that they get then overly hungry for inventory. I do not think they will. I think they will run the entirety of 2023 on relatively meagre inventory levels.

Gustav Hagéus: Yes, it makes sense. Another question Magnus, you bring forward the direct-to-consumer opportunity. You invested a lot and revamped it. Is there a risk here that perhaps your business D2C is putting some stress on your relationship with the external retail? To the extent that your products are a by-sale to when someone buys an expensive bike and the guy on the floor is quick to say, 'How are you taking that bike home today?' Is there a risk that that extra sale you get from floor sales are hurt by more competition from yourself?

Magnus Welander: I do not think so because the reason is we are not penalising all the professional and great retail partners we have. We are always selling at full price. On our own direct-to-consumer we are providing fantastic service and assistance to help those retailers as well. I think Adidas is probably the best natural point of comparison where new management have maybe changed the view of how aggressive they should have been and what they are doing. We have never been as aggressive as Adidas was for a while, maybe overly hurting their situation. I do not see us hurting any retail relationships due to that.

Gustav Hagéus: Your price point in Europe, will you be price competitive in Europe on your B2C offering?

Magnus Welander: I think there will always be products cheaper than ours. You will always find on Idealo, PriceRunner and [Inaudible 44.36] a retailer prepared to sell at discounts that we do not sell at but as we see it over time what we see with strong brands is that discount level is less than it is with more medium brands. We can now actually already see that in the marketplace this year when we have seen too much inventory in general. I feel that yes if you would go purely on price but if you have done all your search, you have found that perfect right product, you have been guided right then there is a certain number of consumers that are prepared to buy it straight from the brand even if they might be able to find it from another site at a discount. Then there are other consumers that will always prefer to hunt for that discount. We are okay with that as well because we are also very profitable selling to those retailers.

Gustav Hagéus: Then last from me, was it last quarter you said that while the RV backlog in Europe looks big you were a bit concerned about potential recalls and those orders not being backed? Have you seen any recalls from your end from European RV or is that backlog seemingly a true backlog?

Magnus Welander: Recalls is maybe a word that paints everybody bad news. It sounds like you have a product recall. What you mean is somebody stepping out of line and saying, ‘I had an order but I do not want it anymore.’ That is not happening.

Gustav Hagéus: Order cancellations.

Magnus Welander: Order cancellations, yes. When we talk to the three big players we have not seen order cancellations in any significance. I think it is one of those where it honestly is more on how many new ones that fill up because the vast majority of those that sat in the long order book backlog have been very, very keen on that vehicle they are finally getting. It is less of a concern from this financial impact on the ones already in the queue and more of a concern that there are great visitor numbers at all the fairs and events around RV still but are people as prepared to commit when now those vehicles are significantly more expensive than they were a few years ago. At the same time cost of life has become more expensive as well. That is going to be telling I think throughout 2023 from those three big ones, Thor, Knaus Tabbert and Trigano, of how they announce that.

Gustav Hagéus: If I can sneak a last one in, a bit of news that you are pushing the launch for baby car seats then into the next year for Europe. Does that impact your entire rollout? You had North America’s rollout in H2 2024, if I recall correctly, and other regions 2025. Is the whole ladder pushed forward?

Magnus Welander: Yes, I think in practice you want to make sure that everything lands well. I will not be here when they make those decisions but I think it is logical to say that you absolutely want to land well. You want to roll it out. You want to prove your technical solutions. You want to ramp up your production. It is likely, even if I am not going to be the decision maker for that, that the team will postpone all those other markets for the same time period.

Gustav Hagéus: Thank you so much.

Magnus Welander: Thank you.

Carl Deijenberg (Carnegie): Morning Magnus and Jonas, just a couple of follow-ups. I think most of my questions have already been answers. Perhaps to go back to the gross margin development here in Q1. I understand the dynamics here with the price adjustments and freight, also that you adjusted your production capabilities but what was the reason why we did not already see signs of this in Q4? Then you were talking about freight rates already coming down in the second half of last year and I guess the mid-year price adjustment from 2022 also had an impact in Q4. Anything on that would be helpful.

Magnus Welander: There is a number of factors. The most important one is as we said we did not sit and wait on taking decisions to reduce staffing levels but we took the choice, as we mentioned during Q2 and Q3, with incoming components and having committed to seasonal workers to actually use those incoming components and those seasonal workers to fill up inventory. That happened during Q3. In Q4 we were then, as we did mention, in the worst possible situation of very low sales, no production to fill up inventory but still with some of the staffing costs associated because we had not got them all out as quickly as we would have wanted. Q1 we had more time to be ready to have staffing levels in the right way. There is a higher sales and sales do have an impact in economies of scale. We are selling more in Q1 than in Q4 last year so you do get an absorption from that. Those are two key things in the matter and then there is the freight impact because although they started to go down we are now seeing some of those materialise in the full impact of what we are doing. Those are the main reasons.

Carl Deijenberg: Perfect, that is very helpful. Then I wanted to ask you on the D2C development here again. Obviously some nice development here in certain regions. I just wonder if you could remind us of the share of sales for D2C on the Group level today and maybe also the respective share of your sales in Americas and Europe & RoW.

Magnus Welander: Overall direct-to-consumer is a very small share of our sales. We are talking low single digits for the Group today. We have the strongest markets as US and Canada where it is 13% and 12% last year in those two markets. Then we have Sweden as the only other market where it is above 10%. Then we were very new in some of the other European markets, those other seven European markets. Now we are starting to see growth in the bigger European markets being live now in Germany, UK, France and the Benelux region. Of course what we will and expect to see is a strong continued growth in those markets where we are already established. To Daniel's questions before, we are going to add a few more countries as we move on as well but the growth is mostly going to be driven from those markets where we already are live.

Carl Deijenberg: Okay, perfect. Final questions from my side on the inventory development, your inventory development and not among retailers. They are down sequentially in Q1 and you have also been talking about in the fourth quarter last year as well a reduction in the coming quarters. I am just wondering if you could say anything on your full-year ambitions here going out of 2023. Then pre-pandemic years I think your inventories have been around SEK 1 billion. Obviously it is a much larger company today.

Magnus Welander: Yes, I think there are three factors if you look at why inventories will be higher, also in the coming years. I am sure that Mattias and team will keep the inventory levels. One, because we are a much bigger company. Two, because we are into new categories where we do not have a historical long professional track record of being on top of things. If you want to have a good service level, as you do need if you want to take market share in a new category, you are going to need to be a little bit higher stock levels than in something where you have been in forever and can forecast extremely well. Reality due to new categories they will be higher, due to being a much bigger company they will be higher and actually even if people think that supply chains are back to pre-pandemic in reality the world has gotten a lot more complicated. A lot more complicated with longer lead times. If you then choose to be a high service provider with high on-time, in-full, next-day delivery, which is what we do, you are going to need to hold more inventory due to that factor as well.

We have not given an exact figure and I do not want to commit on Mattias and team's behalf but clearly we have a target to significantly reduce down in 2023 and then as we see how things roll out in 2024 I think they will potentially reduce a little bit more but they will be keeping, I am pretty convinced, higher levels than we used to have.

Carl Deijenberg: Okay, perfect. That was all from me so thank you very much.

Magnus Welander: Thank you.

Adela Dashian (Jeffries International): Hi Magnus and Jonas, a few questions from me. The first one relates to timing of your sell-through in the second half. Given that you have such high on-time, in-full delivery times what you are selling in the second half is that going to be delivery for building up stock levels for 2024 or will it be more real time demand?

Magnus Welander: No, what we will sell in the second half of 2023 is what is sold to consumers in 2023. There will be nobody building up inventory levels for 2024. Those build-ups if they will happen for inventory levels will be then as historically done more in the months of February/March/early April where retailers have wanted to be sure they have the things in-house in case the spring hits hard, so to speak, and early. They do not build up and keep inventory in a normal reality during the second half of the prior year. What we sell in the second half is sales to consumers.

Adela Dashian: In that case you do not expect a very strong first half in 2024 if inventory levels are completely depleted.

Magnus Welander: Strong versus a terrible comp because then Mattias will have the discussion and say it was a weak comp because we had very high inventory levels. If you then take it more from a long-term perspective I believe 2024 will be normalised retail levels and normalised sales which is not the extremely strong 2022 numbers. It is not the extremely weak 2023 numbers and you are going to need to go back a bit on that. It is going to be a complicated comp reality because versus the very weak this year it will look good but in reality I think it will be more normalised when we sell products in the year.

Adela Dashian: Got it, that makes sense. Then I have a similar question but related to the RV Products. You have been having pretty good growth for over a year now but at the same time the manufacturers are just seeing that growth in Q4 and now in Q1. Could you explain who you were selling to throughout 2022?

Magnus Welander: Absolutely. Historically our biggest share of sales has gone to big dealerships. As a consumer wanting to buy a small motorhome you would go to a big dealership, you would look a lot of different versions and then there were two ways you would potentially buy it. In normal times when lead times had been working they would have a number of vehicles on display. You would say, ‘I like this vehicle but I want it with this bike carrier, that awning and that tent.’ The dealership would then say to you, ‘Come back next week and I will have assembled it for you.’ They would order that from us, they would assemble it and the consumer would pick it up. Part of the orders were done the other way that that same consumer would go to that dealership and say, ‘I want a cool new motorhome but I want this super-duper cool new one from Knaus Tabbert.’ Then Knaus Tabbert was offering maybe a summer package deal where you could get the fridge from Domestic, you could get the awning from Thule and you could get the toilet from somebody else, etc in a package deal. For us at Thule it was about slightly more than half of this was dealership sales historically and a little bit less. What then happened when the manufacturers were struggling to make new vehicles was the dealerships sat on a number of vehicles so we could sell to those guys much more. We sold very little to the manufacturers. There now with the dealers not having so many vehicles because the manufacturers have not sent them any for quite some time or very few, what we see the good numbers is that when the manufacturers are doing things they are showing up at the dealerships. However, also there are manufacturers now finally delivering those fully kitted out those that some people ordered 12 or maybe even 18 months ago with also Thule accessories on them from the beginning. That is the logic of why we have seen a better split than the actual manufacturers.

Adela Dashian: Does that mean that the inventory levels of your product at the dealerships are pretty high at the moment because you have been delivering your products?

Magnus Welander: No because they have been using those, aside from bike-related actually. Even in RV Products they were too excited about bike. Otherwise it has normalised inventory levels for awnings, tents and other things in that sector.

Adela Dashian: Okay, thank you very much.

Magnus Welander: Thank you.

Karri Rinta (Handelsbanken): Good morning, this is Karin from Handelsbanken. Three questions. I missed the first part of the presentation so I apologise if you have to repeat something that you have already discussed. The first quarter sales stronger in Europe and I expect weaker in Americas. Is this all about the inventory levels that you already discussed or is there something else explaining this?

Magnus Welander: It is also a category exposure where RV Products is doing better and we have a large chunk of sales in region Europe & RoW which is RV Products and a very tiny niche part of it. That product category exposure difference of course helps the European numbers partly but aside from that it is this inventory level situation and also, as I said in the beginning, we had an extreme comp period specifically in

2022 Q1 building up inventories later on, catching up with orders that we had from our retailers that we caught up already in the second half of 2021 in Europe, truly only catching them up in 2022 Q1 in Americas. When you look at the Q1 numbers versus 2019 actually the two regions compare relatively similarly.

Karri Rinta: Good, thanks for pointing that out. Then in Europe can you discuss specifically Germany because my hypothesis is that Germany was a really strong market in Q1 last year and then now facing a really tough comp? It is clearly weaker. Is that correct?

Magnus Welander: Actually in the European markets there are not huge differences in the market performances if you look in individual product categories. Thanks to the German market actually being a strong market for us for RV Products, the Germans love their motorhomes, that actually helps the German market's performance. However, overall I would say if you look at various product categories a surprisingly similar performance aside from those Eastern European countries next to Ukraine where that was a complete stop of orders in March last year. That is why we are growing in these markets because March is normally a strong month for us. Then as we also mentioned in Southeast Asia and Asia we are doing well because there we do a lot of bag sales and in those countries they were not travelling in 2022 Q1. Aside from that specific Eastern European focus bike category has a very similar performance in the European markets.

Karri Rinta: Alright. Then going back to this weather comment, is there any difference in how weather impacts Europe versus the US? I have seen some reports that some of the resorts that typically cater to skiers and mountain bikers are still catering to skiers and maybe not open at all for mountain bikers this summer.

Magnus Welander: Karri, it has been a weird reality in North America because it is very much west coast/east coast reality where the snow was fantastic on the west coast so all our ski products did fantastically well in west coast of Canada and west coast of the US down to Colorado. While the classical not so fun ski resorts to be brutally honest on the east coast were struggling. Now they are struggling the other way round. It has been terrible weather there now while it is still very wintery over on the west coast. I think those things normally normalise out a few weeks into the season but it has been a strange start of the season in North America definitely.

Karri Rinta: Great, then finally going back to the direct-to-consumer. This is more of a long-term strategic question because we have seen a trend that some of the pioneers in this like [Inaudible 1.03.58] and Nike when they have pushed hard for the direct-to-consumer that means that they have also quite aggressively cut the number of physical retailers that have traditionally sold their products. Of course I can understand the temptation because in the short-term that will probably mean that your margins will go up. What would be your instructions or guiding words to Mattias to not make this mistake in the long term?

Magnus Welander: I think Mattias is very savvy about direct-to-consumer online versus retail with all of his experience in that but I can say the team here is also savvy and we are not going to be dramatically reducing the number of brick and mortar stores where you can buy a Thule product because our product makes a lot of sense in brick and mortar. What maybe is obvious why we will not be needing as much in the future is mediocre pure online is not the ideal channel for our products. If you have great omnichannel players who have a good online presence and really good store for pickup in store we are very happy with those retailers. If you have strong truly serviced adding high quality online players with a strong presence it makes a lot of sense. However, some of those online retailers that grew 10-15 years ago purely on providing a pretty crappy service and on the logic of the brands could not do it themselves, generally I do not think they will be around that much in the future and Thule should not be with them either.

Karri Rinta: Perfect, thank you very much.

Magnus Welander: Thank you.

Daniel Schmidt (Danske Bank): Just a follow-up from me Magnus. Maybe I got it wrong so correct me if I am wrong but did you bring forward some marketing spend? Was that what you said basically?

Magnus Welander: We did and that was because we actually managed to launch the Thule Epos bike carrier a few weeks before it was planned to be launched. Some of those marketing costs on what is our biggest launch ever in the category of bike carriers, came actually therefore in the Q1 which were planned for and normally historically would have happened in Q2. That was the reason for that.

Daniel Schmidt: Are you saying that this is going to even out in Q2?

Magnus Welander: Yes, over the year we will see it more normalised. We spent it slightly earlier but if you look at our spend that we would normally spend for the full year we will be at normalised spending levels, so to speak.

Daniel Schmidt: Would you care to say how far above normal you were in Q1? Is it a meaningful number or any guidance?

Magnus Welander: No, I would not do that. You tempted me for so many years already to say those type of things Daniel. I am not going to fall for it my last two quarterly reports.

Daniel Schmidt: Okay. Maybe then just a last follow-up on direct-to-consumer. A lot of focus on that today and as we talked about, you upgraded Thule.com. Have you also done upgrades when it comes to delivery capacity or was that already state-of-the-art? Is that needed going forward?

Magnus Welander: That was already state-of-the-art and I reiterate our single most important purpose of upgrading Thule.com was to drive sales in all channels because it is the consumer interaction point. Many of those people will then go to an REI store or a Stadler store or even buy it on a bahaus.ee or something. By us doing a great job it will drive sales in all of them. There will be a natural help also for the direct-to-consumers but in terms of the back end we have already for years been servicing smaller retailers with that pick-and-pack type of setup. That is why we are so comfortable in now rolling out more markets and planning to take greater share because we know we can handle the whole customer service/logistics/payment provider solutions really well.

Daniel Schmidt: Alright and these European markets that you are not currently in when it comes to D2C will they be added this year and could you name them please?

Magnus Welander: Yes, they will come throughout 2023 and 2024 but I think as we have a true online D2C expert coming on as the CEO I will leave it to him to drop some of those fun news when he comes in.

Daniel Schmidt: Thank you

Magnus Welander: Thank you. Then I want to thank everybody for listening in to the Q1 report and look forward to telling you a lot more about how things have developed during the spring in our Q2 report in July. Thank you very much. Bye.

[END OF TRANSCRIPT]