Thule Group
2021 End-year and Q4 Results

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Introduction

Magnus Welander

CEO, Thule Group

Welcome

Great to have you on the call to summarise a fantastic historically strong year for the Thule Group. We have never ever grown as much, and we have never ever delivered as much on both EBIT and top line performance. I am extremely happy with the year as a total.

2021/Q4 and FY Results – Sales momentum continues in a very strong 2021

Let us go to slide two, where we will talk a little bit about then summarising the fourth quarter as well as the year from some financial parameters before we dig into some of the more financials.

If you look at it, 2021 fourth quarter has to be, of course, considered to be compared to an extremely strong comp quarter in 2020. To remind everybody, you know that the season was delayed in 2020 and we therefore had both the right type of products in terms of higher margin products being sold later in the year than normal, and also truly a volume of sales that was happening later in the year after a spring lockdown period.

Despite that strong comp, we grew sales with 14% currency adjustment. When you compare that with the fact that we actually grew then the fourth quarter 2021 more than 62% compared to 2019 fourth quarter, you will realise what a strong quarter we really had.

Europe and Rest of World grew 8% and Region Americas grew 27%, a strong continued performance in the Americas region. If you look at versus 2019, the growth rates are more similar, but overall, both regions and actually all the markets in both regions are doing very well.

The gross margin in the quarter was lower than we would have liked. We already talked about that in our third quarter call that we had to realise that the price increases that we implemented mid-year 2021 were not enough to compensate the cost increases that came towards the second half of the year.

On top of that, you all are aware, as we have said a few times, that we decided to target to take market share and meet volume increases even if it meant more costly decisions in our own plants. As you all realise, there has been significant sick leave absenteeism due to the various pandemic situations and quarantines and rules.

We have, despite that, targeted not only to do a 14% sales growth versus 2020 but also to build up our inventory levels significantly ahead of what will be a very exciting 2022. Therefore, we have been running our plants at very high output pace despite then significant challenges in terms of absentees.

The combination of the higher raw materials, the higher freight costs and that effort of running to capture the volume on top of then not having done enough price increases is why the margin is lower than 2020 fourth quarter. It is also lower because, as I said, the exposure which product categories we specifically in the year of 2020 in the fourth quarter sold where we had a higher share than normal of high margin categories like our bike carriers and bike trailers being sold very late into 2020 with a lot of sell-through all the way into Q4, while we, in 2021, had a more normal phasing in terms of share of sales of the various categories, and, therefore, had a higher share of some lower gross margin categories like RV Products and Packs, Bags & Luggage in the fourth quarter.

When comparing EBIT margin with past years, we have to say that we are actually quite happy with the performance because we have historically been on mid-single-digit in the fourth quarter.

Strong overall performance for the full year is the key to remember. It is by far the best year ever in the company. We grew 38% currency adjusted in 2021 with 34% in Europe and Rest of World and 48% in

Region Americas. We also delivered that with a very strong EBIT margin, well above our financial target with an EBIT margin of 22.5% and an EBIT of SEK2,340 million.

We have generated a positive cash flow also in a year where we are aggressively building up inventory and aggressively pursuing CapEx expansions for the future growth. Despite those efforts, we still generated over SEK1.1 billion in cash flow, which is also enabling the Board to propose an ordinary dividend of SEK13 this year.

Overall, I am very positive of how strong the year has been, from a purely financial point of view.

Sustainability: Reduced emissions in 2021 (despite significant sales growth)

If we go to the next slide, slide three, I can also say to you that we are very pleased with what we have been able to achieve from a sustainability perspective. In our Annual Report, you will see loads of various measures and tracking of all of the various parameters from a sustainability perspective. However, of course, one that is a little high on everybody's agenda is the greenhouse gas emissions. I am very proud to say that despite a very challenging supply chain world out there, with lots of extra shipments, lot of extra airfreight and things to cope with the challenges in getting things in, we were able to, both on a total perspective in greenhouse gas emission, reduce it with 1%, but also from, more importantly, if you look at it in terms of the compared to revenue, significantly reduced our greenhouse gas emissions with actually up as much as 26%.

I am very happy that all of the good efforts that we have done over the last few years and the continued efforts we are doing is also paying dividends from a sustainability perspective.

If we then dig into the financials, I will leave it to Jonas to walk you through some of the more financials for the fourth quarter. So over to you, Jonas.

Financial Review

Jonas Lindqvist

CFO, Thule Group

2021/Q4 and 2021 FY – Reported income statement

Thank you very much, Magnus. We are now on slide four. I will, as usual, concentrate on the quarter. I would like to start by saying a few words and stress a few points that Magnus already said about the comparison period.

Q4 2020, which, as you may remember, was quite exceptional with an EBIT margin of 15%. The normal level for the fourth quarter in any given year before 2020, has been an EBIT of 5-6%. And the primary reason is that it is simply a smaller quarter. If you recall, 2020, the first COVID year, we went from a low level in April when the pandemic hit to overheating in the second half of the same year. The entire seasonal pattern shifted in 2020, giving strong bike carrier sales in the fourth quarter. That, in fact, looked more like a normal strong third quarter to us. That is why we had this EBIT margin increase of 10 percentage points between Q4 2019 and Q4 2020. This is the quarter we now compare with. The EBIT margin in Q4 2021 of 10% should rather be compared with the 5% that we have had in all years except 2020, as we are now returning to a more normal seasonal pattern.

As Magnus also said, we increased the sales by 15% in the quarter, primarily from volume increases. However, the gross margin has been impacted by the higher material prices, as well as by the increased transport cost, as Magnus also mentioned. The gross margin in the quarter was 34% compared with 40% for the same period last year, and 38% in 2019. We have been running our production at high levels in the quarter to build up stock ahead of the new season. I will come back to the stock level in a minute.

We have been able to offset some of the EBIT margin reduction in the quarter by capturing economies of scale. If you compare SG&A cost to sales, it has come down from 25% in Q4 2020 to 23% Q4 2021. The finance net in the quarter continued on approximately the same levels as in previous quarters of 2021.

The tax cost in the period and the full year amounts to 22.3% and is well within the guided range of 22-25%.

2021/Q4 and 2021 FY: OWC and Cash Flow

If we now move to the next slide, that is slide number five, which is operating working capital and cash flow.

Operating working capital was SEK2,326 million at the end of Q4 2021, which is considerably higher than in the previous year and relates to the increase in inventory. Last year's level was too low in relation to the increased demand volumes that we saw at that point. This year, we decided to be well stocked ahead of the season to be able to catch the demand levels we expect during the spring and to be on the high delivery capability that is part of the Thule business model.

As you can see in the slide, the level of accounts receivable is not high and represent one-month sales, and the overdraft situation in accounts receivables is also on quite normal levels.

The increase in inventory levels is planned and was also communicated last quarter when we said that we were in the process of stacking up ahead of the new season. The increase in inventory and the increased level of investments in production capacity have, of course, had an impact on the cash flow in the quarter.

The operational cash flow was minus SEK381 million in the quarter compared with plus SEK371 million in the fourth quarter last year. Capital expenditure was SEK156 million in the quarter to be compared with SEK54 million in Q4 last year.

For the full year, investments have gone from a level of SEK170 million in 2020 to SEK503 million in 2021, and it relates to investments to increase our production capacity. The investments have been in our plants but executed earlier to meet the increased demand levels in the market. Thank you. Then I will return to you, Magnus.

Business Overview

Magnus Welander

CEO, Thule Group

Thule Group Sales by Quarter (Reported currency)

Thank you very much, Jonas. If we then turn to the next slide, slide six. We will look at the sales by quarter. The reason we want to do that is to highlight also that sometimes when you do this error of just comparing with previous year, you miss out on some of the anomalies that might have been the previous year rather than this year.

We have therefore decided internally continuously as we see a return to more normal seasonal pattern coming now in 2022 to look consistently during the pandemic at comparing also with 2019, not only the very abnormal 2020. Looking at the quarterly sales development, you can see clearly that we have had a very strong development versus 2019 across all four quarters, with:

- 45% growth in the first quarter;
- 48% in the second;
- 75% in the third; and
- 62% growth in the fourth quarter.

A fantastic performance versus pre-pandemic in all four quarters.

As we now look ahead at 2022, we actually believe that this will normalise even slightly further, because, as you know, we have commented that we did not enter 2021 with enough inventory on hand to capture and deliver when the consumers really absolutely would have liked and preferred to have the products which was earlier in the season.

We are expecting to see therefore, in 2022, a heavier load and strong performance earlier in the year as we have now geared up, both in terms of inventory levels and production capacity, to capture the demand when it happens in the spring period.

2021 FY: Sales Development by Region and Product Category

If we go to the next slide, we have summarised the performance by the various categories in the two regions. Very happy to say that when you look at the sales development both by region and by product category, it is green everywhere. There are no red numbers in our business. It is always nice when you see growth across all parts of your business and in all markets.

The growth has been phenomenally strong in our Sport&Cargo Carriers, which I will speak soon more about, but also growth in all the categories. Of course, the one with the easiest comp is the Packs, Bags & Luggage category but it is still nice to see that we did see some solid growth also there in 2021.

Sport&Cargo Carriers – Winner in strong bike and outdoors market

If we go to next slide, we will talk about the various categories and we start with Sport&Cargo Carriers, the biggest category, representing 66% of sales in 2021. What is very positive to note when we look at that slide eight, you can see that we had 43% currency adjusted growth with strong growth in both regions.

We grew, thanks to the same things that we have always been doing well:

- Great products;
- A very strong global brand; and
- A very flexible supply chain.

I have mentioned a few times that we did not deliver to the same high On-Time-In-Full next-day delivery approach that we normally do, but we did it better than our competitors. We are now gearing up to be able to be back at our high normal service levels in 2022.

If you look at what we were further boosted about, you have heard about the biking trend and the biking boom in the market. Yes, bike racks were a very strong performing sub product group within Sport&Cargo Carriers; and we had a very strong market momentum from all bike-related products in all major markets. However, I am happy to say that also extremely strong performance in both roof racks, roof boxes, rooftop tents, as well as water and winter sport products. It was across the entire portfolio as consumers chose to do active vacations and active weekend activities with bringing their gear and their car with our products.

When looking forward now then in 2022, we definitely are convinced that we will continue to drive growth using the same core strengths. We have built up our inventory levels at the start of the year. I have mentioned a few times and I reiterate it now that we feel very comfortable with our inventory levels and capacity in Europe. We are still a little bit behind in North America and six months after in terms of build-up, but we have a higher capacity than ever, and we are building up that ability to have a great service level in North America as well.

We are quicker than our competitors act. Most of those competitors' source in Asia as Thule final product while we have our own assembly plants close to the market. We are, of course, with those investments we are doing both at our suppliers and at our own plants more capable than any other to capture those demands that we are actually convinced will come in 2022.

We will continue to work across that portfolio of that offer, and we feel very comfortable with our main core category starting off 2022 in a very good way and being a strong year also in 2022.

RV Products – Staycation trend creates high demand

If we look at the second biggest category, RV Products. RV Products on next page is 14% of our sales in 2021 and we grew that with 34%. That vast dominating share of RV Product sales in the Thule Group is dedicated to the European market, in Region Europe and Rest of World stands for almost 95% of sales. In that region, we grew with 30%.

What is very nice to note is that those niche more premium product categories that we targeted towards the more smaller premium van segment, where we believe we have a strong product offer and can make good gross margins when we sell our products and nice profits, we saw a growth of 113% in those niche categories in Region Americas.

What happened in 2021 in the RV Product category? You are all aware of the strong consumer trend with more young couples wanting to have that small van to live and travel in their own little personal bubble or to be active and going surfing one day, mountain biking another day and sleeping by the beach in their small van. There is also a continued strong trend with a 55-plus, my own generation being more active than ever in utilizing motorhomes as a flexible way to travel around in Europe. There is a continued huge demand for these vehicles.

What the biggest challenge has been at the second half of 2021 and will be, as I am sure you have heard from some of those motorhome manufacturers, as they have had their various quarterly calls, is that there will be a challenge in terms of getting enough chassis to build RVs home on. Motorhomes has a very strong underlying market demand, but the manufacturers of the vehicles are struggling to meet those demands because they are simply not getting enough motorhome chassis to build their motorhomes on.

That will be, I believe, the biggest challenge in 2022. Demand is great, and the challenge will be not ours as much as the motorhome manufacturers in being able to capture as much of the upside as possible.

We will still believe in a positive performance from the Thule Group. We are, in our own business, ramping up our capability to service. However, it will be, in other product categories, shakier due to what is going on in the general market in terms of motorhomes.

Active with Kids – Another very strong growth year

If we then look at the third biggest category, Active with Kids, on the next page. Active with Kids, 12% of our sales in 2021, and another very strong year in this category, with a growth of 33% in Europe and the Rest of World and 43% in Region Americas.

You all understand that if you are a big provider of bike-related children's products, it is likely that in a biking boom with commuting or biking and biking in general, we will do well. So that is absolutely the case. We are growing with the world's best bike trailer portfolio, and we are seeing a very strong momentum, which we have seen for years, long before the pandemic. And we are growing very nicely with our child bike seats.

However, what is even nicer to note, one category that did not get any shape or form of help from the pandemic, our stroller category was the fastest growing product group within Active with Kids, where we now have three well established models in the market that all grew in a nice way.

When we look at 2022, we are targeting and expecting to continue to take market share with a broadened offer and distribution. In 2022, we are launching one new bike trailer model and also our fourth stroller model, actually the one pictured in the image on the page, a from birth stroller called Thule Shine, which has both a bassinet and other solutions, as well as the seat when the child grows.

If you look at that offer and our brand within the juvenile channel, we are starting to become a very serious contender, and we feel very good that we will continue with a strong momentum of continued high level of growth within Active with Kids in 2022.

Packs, Bags & Luggage – Recovery from weak 2020

Then finally, the smallest category, 6% of our sales, Packs, Bags & Luggage. Yes, a very difficult 2020 for any company in the Packs, Bags & Luggage category. We do recover from what it was a weak comp and we finally returned to growth, with a growth of 12%, with Region Americas being ahead with 17% growth.

That is not so strange when you think about and consider tracking how much people travel and have gone back and forth on travelling in Americas versus Europe, and especially Asia, where the travel has been much more restrictive. Region Americans and North American, especially US domestic travels grew quite fast from very low levels of 2020 in 2021.

If you look at 2021, you can really say that we had one very strong performing category, it was what we call our Sport bags & Tech packs. As you would assume, every other category that was associated with an active outdoors close to your home did well, so did the hiking packs, the bike hydration packs, bike bags, etc. All of those type of products did really well for us in 2021.

If you look at our single biggest categories, what we call the everyday bags. So those are the small backpacks that somebody brings their gear, their computer and some other stuff back and forth to campus or back and forth to work. As you all know, most campuses were closed or at least partly closed. A lot of workplaces did not allow their colleagues to come back into work. That has then meant a challenge for that whole category to perform well as people were not buying up new stuff as they were not travelling as much and back and forth commuting to work.

Of course, the Travel sector is still at extremely low levels, especially in Asia, but also in Europe, slightly less bad, if we can call it like that, in North America, where actually it picked up quite a lot in 2021 versus the extremely low 2020.

When we look at 2022 then for this category is it is not only Sweden where people are allowed back to work, now here in where restrictions are eased now, this today. There is, around the world, a lot of easing on the various restrictions. We believe therefore, and are seeing signals that the everyday backpack type of world is becoming more and more normal, and it will help that category.

We still see the trend of active outdoors in an active environment. And we will do well in our Sports bags and Tech packs. In Luggage, the travel sector will be slow to recover, but it will be recovering. From a low base, we will see some positive market momentum.

2021 Full year: Another fantastic year for the Thule brand

If we then move on from the categories to our fantastic Thule brand on the next page, where you can see that 88% of sales was from the Thule brand in 2021. We continue to do fantastically well. If you look at the top line growth in total and then realising that also the Thule brand continue to take share, the Thule is now doubled in size in sales what it was four years ago; a phenomenal performance of what is truly becoming a global lifestyle brand. Very happy with all the efforts we are putting in behind that brand in terms of social media, our own homepages, how we work with retailers both brick and mortar and online to further promote and build that lifestyle brand.

2022 Focus – Continue to drive our growth-oriented strategy

Then in closing, let us talk a little bit about forward direction in 2022, focus on the last page.

We will continue to drive our current and very well-established growth-oriented strategy. That growth-focused strategy remains unchanged. We are not changing our approach. We will, however, as you know, and did already implement price increases above and beyond what we normally would do because of the cost increases that happened in 2021.

We have implemented new price increases to re-establish the margin levels we want to be at. But aside from that, you can see that it is the same momentum that we have had for few years. We will focus on product first. Product is king. We are continuing to push our efforts with those products. But we will also continue to build that lifestyle brand with its motto, Bring Your Life, and continue to spread the wings that way to create a consumer base that is loyal and returning to us.

We have a very strong back-end organisation, and it will enable us to cost efficiently see those economies of scale, handle that growth that will be coming. We will also continue to work, as we have done in the last two years, when more and more digital sales tools, but also physical for brick and mortars to ensure that they sell out products well, and we will continually steadily roll out a growth of our own direct consumer sales.

Product development is key to our future and product portfolio approach is key to our future. We will continue to spend around 5% of sales to fuel that long-term growth. The expanded Thule Test Centre will be opening up for business now in April. It is a very well invested SEK80 million for all those various products we will bed testing, both new and old.

We feel that we truly have a world-class development and test centre facility. As we mentioned a few times, we will continuously improve in our supply chain setup. We are at a higher CapEx level than in past years. That is, one, to catch up with the demand and quantities we already need to have, but it is also, of course, prepping for future growth. That means both in our plants, in our DCs, but even also in development facilities, we will continue to have an above average CapEx in 2022.

We are dialling up our automation focus. We have been doing that a few years, but as we are growing, that becomes even more important. There is a number of major investments in production lines with higher automation grades. That is a key part of that capacity expansion that we are doing. As Jonas said, we want to be back to our high service level of high On-Time-In-Full with very short lead times, which has always been one of the strengths of the Thule Group.

Together, that means that we are confident that we will have a very strong cash generation that will enable us both to continue to drive top line growth, as well as strategic M&A, and as well as increased dividends for the coming year.

As a closing, I think it is important to remember there are many uncertainties around the world and we are not underestimating those. I am sure you have been all hearing and talking to friends about the Omicron in the last few weeks making absenteeism being at record high levels, etc. That is just part of the game we have to play these days. We are coping very well with that. We are proving, once again, as we did in 2020 and 2021 that we are nimble and fast to act flexible to handle those challenges that will be around. There will be many of them in terms of constraints in both supply and challenges with various pandemic measures, as if we did in 2021.

Finally, we are very much looking forward to our Capital Markets Day in May, where we will actually introduce two new product categories to you. I thought that would be a good hook to end the meeting with the fact that it is not just one new product category we will introduce in May. It is two.

With that, we move on to the last point of questions and answers on the next page. Opening the floor.

Q&A

Daniel Schmidt (Danske Bank): A couple of questions from me then and starting off with product mix that you did touch upon quite a bit in the presentation. It is, of course, clear that it has been quite skewed during the pandemic but you talk about a normalisation of seasons and that will continue into 2022. If we would see a continuous opening up of societies, which seems to be most likely now and people start to travel and you see sort of a quite good swing back in your Packs, Bags & Luggage business, how much do you think that will impact the gross margin? Or put it this way, how much do you think that you have benefited from a favourable product mix during the pandemic?

Magnus Welander: Hi, Daniel. Yeah. Honestly, if you look at the size of Packs, Bags & Luggage, you realise that it is 6% of our sales. Even if there are some gross margin differences, a small shift in that does not have a major impact on our total performance. I am therefore very confident that we will continue to have very high gross margins in 2022 as well.

Daniel Schmidt: Given that scenario, which you are alluding to, where do you see sort of what should be the base when we look at the gross margin you think given that it was a little bit more elevated in 2020? Was that exceptional than you think and the one that you report in 2021 and 2019 is the normal gross margin, even if we would see sort of a mix shift continuing to normalise in 2022?

Magnus Welander: I mean, our ambition is always to ensure that we have a very high gross margin and always there is an effect of economies of scale also on gross margin because you do have some fixed production overhead costs. With a strong top line growth, our ambition is to increase our gross margin versus what we had in 2021, because you know, as we mentioned a few times and especially it was clear in the fourth quarter, we did not raise prices enough versus the cost increases, which hurt the margin in the second half of the year.

If you look at the first half of the year, I think we had good margins in 2021. In the second, we did not, because we did not do enough on the pricing.

Daniel Schmidt: Okay. You are saying basically that these price hikes will more than neutralise a normalisation on mix basically?

Magnus Welander: I always say you said price hikes last call also, Daniel.

Daniel Schmidt: Price increases.

Magnus Welander: I am very keen to point out it is a reasonable price increases as to the market.

Daniel Schmidt: Okay. Following on that and given what we talked about during the summer, and you made these price increases at the start of July, but you also highlighted that you did have a backlog and there was lot of orders placed before 1st July that you needed to deliver on the old pricing. How do you view that going into the start of this year? Is the situation around the same, or is the backlog a bit more normal now and that is an effect on that topic?

Magnus Welander: We feel very good in Europe. It will impact positively directly. As I mentioned, we have done a good job in ramping up capacity and building up stock levels in Europe. And as I mentioned also, we are a bit behind in North America because we have not been able to fully ramp up. If you look at the effect, I feel very comfortable that the pricing effect is immediate in Europe and there is a little bit of delay in the full impact in North America.

Daniel Schmidt: We have not gone that far into this year yet. Of course, it has only been six seven weeks, but the price increases that you did implement, I assume, was by 1st January. Has anything changed in the underlying reasons for that increase versus what you expected at year-end?

Magnus Welander: No. We feel good that we have done the right price increases. Now, of course, what we will have to monitor because the world has been more volatile than ever in the last two years, we will need to see what goes on in the springtime. We have already announced early during 2021 that in 2022 we will have two occasions where we potentially do price increases in our products.

We have already announced to the market that there is not a full year price. It is first half year price because we wanted to have a clear communication with our customer base that if costs continue to develop in a wrong direction for us, we will need to pass on those cost increases as well. But if you look at where we stand today, we feel right about what the pricing increases we did.

Daniel Schmidt: Finally on the product launches that you mentioned, two new categories. Should we interpret that as those categories being at your dealers/retailers by the summer or is it more that it is now being introduced before the summer at sort of exhibition and those will be in the market later in the year or what is the timing?

Magnus Welander: They will only be in the market in 2023. We are announcing them to trade in 2022. They will only be sold to consumers in 2023.

Karri Rinta (Handelsbanken): Firstly, about Sports&Cargo Carriers, which is, as you say, your biggest category and the one that grew the fastest in 2021. Now looking ahead, this sort of help us support from new entrants is probably going down quite a bit, given that the pandemic is receding. I wanted to ask more specifically about how do you plan to work with this larger installed base that you now have after the pandemic and any specific strategies for 2022 in this category? That would be very helpful.

Magnus Welander: Karri, it is not really a specific strategy. We believe actually differently maybe than you that there is a lot of people that are still getting their bikes that did not get their bikes in 2021. There is a lot of people that did not get all the equipment and all the gears. There will be a lot of people doing local vacation and that do not feel 100% inclined to do all their vocation bookings for international travel already this year, and there is a lot of people that have positively been surprised about how nice it was to do some of those local vacationing versus necessarily flying half the way around the world. We are therefore very positive about Sport&Cargo Carriers in general as a total market momentum, and we are even more positive about our capability of really delivering when the consumer wanted the product, which we will do better than our competitors, I am sure. We see ahead of us a very positive year for Sport&Cargo Carriers in total.

We will always continue to do other efforts in terms of how we communicate and how we reach out to the consumer base and product launches, etc., but that is nothing different in 2022 than we have done in past years.

Karri Rinta: Okay. This phase of pull forward that you hear quite often, which means that there was a lot of pandemic-driven purchases in 2021 and that is why that will go down. It is more about supply chain disruptions pushed these sorts of volumes forward and that is why you can have this sort of solid outlook at least for the first part of the year?

Magnus Welander: Absolutely. I agree with you. There is, I believe, maybe differently from what we see, and that is up to each person, it is difficult to forecast the future, but we believe there is a stronger positive market momentum and less of a temporary effect in this trend because there was a trend already before the pandemic, and it was not like half of the world all of a sudden started biking even if people seem to believe that. It was not that many more bikes that were sold, but there was a positive momentum and people did more activity. You are right. We are believing that the disruptions, delays, etc., means that a normal return of a season also is that we should have a very strong first half of the year.

Karri Rinta: Then about Active with Kids. I mean, you had a strong growth even before the pandemic, I think. You have grown by in double digits quite some time and you outlined which new products you would launch this year. However, I was curious about this increased distribution and maybe more so, would you expect to put more effort in your own digital distribution in Active with Kids than what you do in some other categories, or when you look at your own direct to consumer sales, do you see Active with Kids being overrepresented or underrepresented in those sales?

Magnus Welander: If you look at it actually, it is slightly overrepresented. It is not dramatically different. The logic is, of course, that RV Products, you do not see in our direct consumer to any great extent, because as we often mentioned, it is a type of product that they often want a dealer or somebody else to attach to your motorhome.

If you take out that share, you then can see that, of course, by default, other product categories will have a greater share. Also, with even sell, Active with Kids take a slightly bigger approach. What we are doing in terms of our communication in various social media and performance marketing efforts, there is a greater share of spend in driving that in Active with Kids. Therefore, we expect our growth pace will be highest in direct to consumer within Active with Kids.

Karri Rinta: Finally, these two new product categories. Are both of them for an existing Thule customer, or is there an element of a new customer segment opening up with any of these two?

Magnus Welander: It is always a definition what is a customer segmentation. It is products that fit the brand, so it is people that want to be active and bring something. I do not mention what it is. However, I therefore would say they are in the same universe. It might have been people that for what they were doing, not needing to buy some other Thule product, but now with these, it fits their interests of what they want to be active with more. However, it is the same type of consumer. It is not going to be a big diversion from the brand. It will feel very logical, I think, when you hear the categories.

Gustav Hagéus (SEB): If I might start on the 2022 outlook. In a situation, Magnus, where you are not growing volumes in 2022, do you still expect margins to be maintained here at the current run rate of 22.5%?

Magnus Welander: If you look at it, first of all, I am convinced we will grow volumes. Even if we would not, we will be running at a very good and high EBIT margin. I would not be able to say if it is exactly 22.5%, but it is a very high EBIT margin also, even if we would not grow our top line, which we will significantly.

Gustav Hagéus: On the top line, would you expect sort of mid-to high-single digit growth also if the top line does not grow via volume? Is that a fair assumption?

Magnus Welander: I mean, we have communicated that we have done high-single-digit price increases. Even if we sell exactly the same amount, we will get high-single-digit growth by just selling the exact same contents we sold in 2021.

Gustav Hagéus: Then a few nitty-gritties to the R&D, to sort of R&D investments 2022 versus 2021, do you see that being maintained?

Magnus Welander: We will spend more monetary amounts than we did in 2021 because we are doing more efforts in more new categories. However, if you look at as a percentage of sales, it will all be dependent on how strong the top line growth is, of course, but relatively similar levels in terms of percentage of sales, but more monetary amounts.

Gustav Hagéus: Could you remind us of what that percentage is roughly now?

Magnus Welander: 5%.

Gustav Hagéus: Lastly, on the RV, what do you see now on the market? Do you expect volume growth also in the RV category despite these supply disruptions amongst OEMs?

Gustav Hagéus: I feel very comfortable that we will continue to take market share. The biggest question, therefore, is this how many chassis the manufacturers will get. If you look at the indications, there have been different ones in the marketplace already from some of the companies that have done their views on what the market will do. There is going from flat to slightly decline to slight growth. There are various speculations. I am not in any doubt that we will take market share. I believe we should be able to grow top line also in RV products.

Fredrik Moregård (Pareto Securities): First of all, the question on the gross margin here in the fourth quarter. A number of factors that you mentioned normalised mix cost inflation, absenteeism, etc., impacting that negatively. Is it possible to size these factors up against one another? Which one is seen the major mover of that bridge?

Magnus Welander: Absolutely. The major mover is that costs in terms of material costs were higher than we did the price increases. Cost increases of materials, because in the first half of the year, we had some of those costs that were from 2020 late, etc., that were lower. In 2021, material cost and freight cost are the biggest impact on that margin.

The second biggest is product mix differences with the abnormal 2020 then where we had a lot of high margin product categories sold in Q4 with bike trailers, bike racks and other things and very low quantities, all the Packs, Bags & Luggage, for example.

Then you have our decision to actively pursue top line growth both for 2021 Q4 but also to prepare in terms of building up inventory has meant that we have run many ships and many weekends and with a lot of temps and more than normal due to absenteeism. If you combine our push and the level of absenteeism, that is also significant, but that would be the next one.

Fredrik Moregård: Then when it comes to SG&A, you discussed R&D just now. I guess other factors coming into that would be investments in your D2C business, marketing, etc. Are there any specific areas that you are looking to invest increasingly in 2022 that would drive SG&A?

Magnus Welander: Yeah. If you look at it, you are right. We will continue to dial up our D2C efforts. Actually, we built out that organisation already in 2021. In general, if you look at staffing levels, a lot of those people that we honestly would have loved to have earlier in 2021 because it has been, as you've seen on the top line growth, a lot of work in a very complex reality, and we have been running slightly lean in the beginning in the year staffing level. They were coming in late 2021, and they are key now as we go into 2022 to deliver that strong top line growth.

It is, as you said, in the D2C teams. It is in performance marketing. It is in a little bit of the logistics management around those things where we are adding some staff, while we are very well set in terms of IT, finance, admin, all of that. We have a very scalable crew, so to speak, and one global system, all things like that. There, we don't need to scale up. It is more those targeted efforts in the D2C and in some of those new product management and marketing roles for the new categories we are about to launch.

Fredrik Moregård: Then just a last question on the new categories. I believe you have previously said that where we were talking about just one category being announced in 2022 that it was not a subcategory to any of your existing Sport&Cargo Carriers or Active with Kids, but a completely separate product category. Is that true also for the second category that you are planning to launch?

Magnus Welander: Yeah, both these categories, we will have an ambition that, as we have said in the midterm, which in real terms is then five to ten years, which you can then say by 2030, we would have the expectation that each one of them should have the ability to be at least €100 million in sales for us.

Fredrik Moregård: Sure, but just wondering if it is an expansion within one of your current product categories, i.e., subcategory to Sport&Cargo Carriers, Active with Kids, or is it a completely new product category that [inaudible]

Magnus Welander: Everything is a definition of what is new. As always, you could say, was rooftop tents new or was strollers new when you did buy trailers. I think it is clearly not something that we do today. It is clearly a zero cannibalisation and 100% addition.

Mats Liss (Kepler Cheuvreux): Well, a couple of ones. First, regarding the market share gains, you indicate you had them in several areas. But looking at the Group as a whole, I mean, did you have market share gains in spite of the problems with supply that hampered your sales during the year? Well, could you say something about that, please?

Magnus Welander: Absolutely. I am very calm to say that we have gained market share in every single category we are in. The main reason was actually that in a very complicated and challenging supply chain reality, due to our historical structure of how we run the supply chain with local assembly in and close to our main markets and a very targeted flexibility approach in our company and a very strong and dedicated supply chain team, then I definitely want the team that I want to pass on my thanks to, they have done a tremendous job in using our strengths in actually being better to capture the demand upside than our competitors were. We have been utilising our strong brand and are set up in a supply chain to capture more of the upsides that were offered via high demand.

Mats Liss: Then, as maybe off to a somewhat philosophical one. I mean, you have had seen this strong interest for outdoor activities, and I guess growth has been very good. I mean, you tried to expand your offerings to some extent. Do you expect to see new competition coming into the market from other consumer-related brands?

Magnus Welander: Absolutely. I think every category that is doing well, there will be companies that have the logical reason to say I could also maybe add this category into my portfolio. As a brand and as a company, it makes sense in the market. It would be strange if there was not a big interest.

Luckily for us, I have to say that if you look at Sport&Cargo Carriers, it is a very, very complicated category to get into with a lot of development cost and a lot of certification costs. Within Sport&Cargo Carriers, I see that as not very likely. If you take RV products, similar situation. There are a few big global players. I do not see any completely new player coming in in any big extent.

If you look in Active with Kids, slightly differently, there has always been historically new brands that have popped up and been successful. Some of them have come and gone. Some of them come and remain. I definitely think there will be brands trying to enter in always as in the past, nothing different during the pandemic within the juvenile category.

If you take Packs, Bags & Luggage, it is definitely the category with the lowest, by far, threshold of entry. Of course, in those more bike-oriented, hike-oriented, more outdoors-oriented bags, you are seeing loads of brands already trying to move themselves quickly in there, either clothing-oriented brands wanting to add some products or maybe not so outdoorsy brands that want to package themselves as a little bit more outdoorsy to get trendy and maybe get the investment community to listen to them.

There I think there will be more movements. However, in the other three, nothing really major difference versus the past.

Mats Liss: Sounds convincing. I will try on this new product categories that you are launching now this spring. Do you go into an existing market? I mean, it is not a new type of product.

Magnus Welander: It is a new type of product, but there is a logical sense both in terms of trade and in terms of brand recognition. I feel very comfortable that most people will say I guess that I was right. Maybe people would not be right on both. Maybe they were not 100% right, but it is not going to surprise people.

Mats Liss: Yeah. It is already a market that exists. There are competitors in that market.

Magnus Welander: Yeah. We are not a completely new. We are not revolutionary. It might be boring to admit that as a CEO. However, Thule is definitely a very strong evolution-oriented company. We do great products. We do them better than most. We continue to grow. However, we will not create a brand-new market. There are players there.

We believe our brand and our ability to develop great product will have a good likelihood of success to become a significant player and a podium contender. Otherwise, we would not consider the categories.

Mats Liss: Great. Then bookkeeping ones here. Post the price increases you have implemented at year-end now, did you experience any sort of a pre-buy impact ahead of that?

Magnus Welander: No, because generally, us and most players in the industry have not had that capability. Capacity-wise, we have struggled to meet demand, even us as we admitted. There would not even have been that opportunity. I think most retailers realise that that was the same for everybody. It is not, as I pointed out and Daniel corrected himself, I heard now, that we did not do any hiking of prices. We did very reasonable, very logical price increases that most people in the industry are doing as material costs have gone up so much. Therefore, they will be passed on to consumers in the end. I see no doubt in that. Therefore, there was not a lot of significant pre-buy, so to speak.

Mats Liss: Then you mentioned the raw mats impact here in the second half. Have that made you change the hedging policy or something like that, that should be more expected going forward?

Magnus Welander: No. Honestly, the only raw material where there are any real opportunities for us to do any type of hedging is aluminium where you have an LME hedging opportunity to tag it to, so to speak. The rest of our business is not a type of business where you can hedge your buys. You slowly but surely move with what in the market happens.

Mats Liss: The final one on production. I guess you invest in automation and so on. Will this mean that during time period, you would run double production lines to some extent and [inaudible]

Magnus Welander: No, not really. What we are doing there is, when we are doing new models or new expansions, they are more automatised. However, it is not like we are running one inefficient old one and an efficient new one. If the new one is up and running, it replaces the old one. On some of our models due to the lifecycle point they are in, it would not make sense to build a brand-new automated line because the product maybe was not designed to be super-automated some years ago, and it might be nearing its end of life. Therefore, we would not automation. It might be a product with very much lower quantities. As you know, we have a pretty broad product portfolio, some very high-volume runners, and some lower volume. We need both of those type of products to serve the market well.

In some of those, it simply does not make sense, it would be more costly to do too much automation. However, it is on the high volume, newer products that we are definitely dialling up the automation significantly. Already at the onset a few years ago when we started those development projects, they have been developed, conceived and conceptualised with automation in the forefront.

Aggie Fang (SPRG): I have some questions regarding the main product capacity. We noticed that you have mentioned you are investing to do additional production capacity. Wondering are there any specific product categories for and also I want to know the estimated increase and when it will complete.

Magnus Welander: Yes. If you look at it, it is in the three largest categories, all of those we have own assemblies. We are doing investments in capacity in Sport&Cargo Carriers, RV Products, and Active with Kids. For Packs, Bags & Luggage, we are sourcing those products. There, we do not do those type of investments.

If you look at it in terms of CapEx expenditure, that is also including some of the building expansions, etc. However, generally, you can say that we are running around 5% in 2021 of sales, and we will be doing that in 2022 as well. Historically, we have been around 2.5%. What we are doing now is partly catching up with capacity increases that have been above and beyond in our plans. Really, it is not new that we have come to think about now.

It is more in anticipation, as Jonas mentioned, of already planned increases in doing it faster and building out our capacity faster. In across all those three biggest product categories, the CapEx spend is going to be around 5%, and many of them have already started to come in place late last year and early this year. In many cases, those are already in production so to speak.

Peter Testa (One Investments): To some extent, extending on the last question. If you look at the inventory decision that you have taken and maybe just to help understand into your view on 2022, when you look at the retail access that you have gained year-over-year in your major markets, is there anything in particular you would highlight in that regard, some context for access, or major client start-ups going into the new peak season that you are now able or are preparing to serve?

Magnus Welander: Actually, it is not a major difference in who we are serving. We are just going to be back at serving them at the type of level that we spoiled[?] them with in the past. One of our strengths was always that retailers did not need to plan very much because we were always able to deliver the next day to them, whatever they ordered, at a very high On-Time-In-Full performance level.

Then, as the pandemic struck, we first had issues, like everybody else, with the plants being closed in the spring of 2020. Demand became very fast, very big. Even if we tried to ramp up and tried to have our suppliers ramp up, we were not fully meeting the demand. We then, you can say, more or less, from June 2020 until very late last year in Europe and still partly in North America, have been running a little bit behind in enabling that very easy life for retail. When you need it, you can call Thule.

It is not that we are going to serve new retailers. We are going to serve those retail doors we have had better. Of course, in a category like Active with Kids, as I mentioned, we are opening consistently and continuously new retail doors because we are becoming a bigger and bigger player, but it is not a major new thing. It is some new retailers in the same type of universe. It is more about servicing better and in the level we used to do.

Peter Testa: Then sort of related to your point on supply chain and timing of capacity you asked before, when you think about going into this peak season, to what extent did you look at your supply chain and say, well, they are going to be constrained, so we better get going and building all your own capacity, and say, there were certain product and product lines that we will face constraint and high in peak season?

Magnus Welander: We do that all the time. We started doing that already. We did that before the pandemic, and we definitely needed to do it in the pandemic. However, even when we did it in the pandemic, it was very difficult because tooling, for example, we own the tools at all our component manufacturers and then we do final assembly in assembly plants. That is our setup.

Even to get a tool to do additional output and tool owned by us, but sitting in an injection moulded somewhere in Europe close to our plant, was extremely long lead times. What we have struggled with was not the foresight or the insights in where we wanted to have a higher capacity. It was just that it was much slower to get to that point. Luckily, we were then, in contemporary, challenged with a great demand all the time in the current situation.

It was only towards the very end of 2021 that we started to feel a lot better in Europe, having already done a lot of work with our supply base and our own plant that we were starting finally to build up inventory levels again in the last few months of last year, making us feel smartly better situated now to capture upside in demand in 2022.

Peter Testa: When you think about capacity flow or your capacity flow from investment step up last year and this year, how do you think it phases into this year in terms of when you feel you will get the significant step ups for capacity?

Magnus Welander: We already have been stepping up because otherwise we would not have been able to sell 62% more than we did in 2019 in Q4. It is obvious that we have never, and in any given week we have always put out a lot more in the last 18 months as well than we did in the past. That is continuing on a weekly basis. More output capacity is being added consistently all the time and has been in 2021 as well.

I would not call it a step change. This has been a very hard fought, gradual change where we feel really comfortable in Europe now. We still admit that we are a little bit behind on that gradual change in North America capacity output, and not that we are not producing more. We are producing more than ever, but we would have liked to be able to produce even a little bit more. We are working on that to also catch up fully in North America.

Peter Testa: Okay. Last question just on the price increases. When you talk about price increases being reasonable, just are you talking 3-5%, 5-8%, 8% plus? I mean just to get some context of what that mean.

Magnus Welander: High-single-digit is what we said. So that means it is definitely closer to 8% than the 3%, right? If you look at it, what everybody has had to do, not just only us, is of course clearly the case that input materials and freights have increased in an abnormal way. We have done increases in 2021. They were not enough. We admit that we underestimated how that increase would be. Therefore, it is high-single-digit, definitely.

Daniel Johansson (Pantechnicon Advisors): Can I ask, if you are assuming that 2022 is going to be a more normal year in terms of seasonality with the first half a bit stronger, does that also go for your profits or will we see a little bit of lag, given that prices are still to compensate?

Magnus Welander: As we have done the price increases, and they are fully implemented in Europe, as I said, from 1st January because we had good deliverability and there is a little bit of a lag in North America, generally you will see us performing very well across the year with a more normal seasonality. That means that we will see bigger top line growth in the first half of the year. We will see strong EBIT performance, as Jonas referred back to historically.

We have a clear connection to when the top line is bigger, we have a better EBIT performance. If you look at it, you will see a more normalized seasonality similar to historical years or where and when we do the bigger share of both top line and bottom line.

Daniel Johansson: Where the sales is, the profit is basically?

Magnus Welander: Yeah. I mean, we do not overspend, and we have communicated that since 2014. I had already been the CEO four years before we went to the stock listed. Since 2014, we have told the stock market. Do not be fixated about quarterly things because we do not run this business to make it look even as nicely spread out. We do not accrue a lot of things. We take it when it has to be done. We do things when it is logical. Therefore, if you look at that both in terms of when in a year something happens, it is not only because of the sales being big, so you have got an economy of scale. There is also some actual logic that if you do a lot of new development projects, you are going to have a lot of tooling costs and other things towards the end of the year because you are launching a lot of new products in the beginning.

That happens at the same time as we have the least number of sales. However, we do not accrue and do stupid things because then we would have that 10 people fully employed just to sneer out numbers and we would have less control of them. You can generally say that strong profits have always been in the first half of the year and partly in Q3. Then, Q4 will be the weakest performing quarter also in the future.

Daniel Johansson: Yeah. Then obviously you built inventory, as you said, and you ran your factories at a high level, you initially talked about. What was the effect from this on your fixed costs? Did you have a positive sort of over-absorption or how to call it in the quarter?

Magnus Welander: No, it was actually contrary, because what we have to do is when you do this, you can get nice absorption if you are super-efficient in a lot of extra capacity. Honestly, we have been running behind and we have had Omicrons and other things. If you look at it, if I would be running this company to make quarters look good, I would not have built up inventory in quarter four and Thule would have looked much better from an EBIT performance.

I am very confident of a very strong top line growth in 2022. I want to make sure that Thule, as a company, offers the same great service level as we did historically. We therefore took costly decisions to ramp up capacity even if it was not ideal for the quarter because it was definitely right for the future years. We still delivered a 22.5% EBIT, so it was the right decision.

Thank you very much and thank you all for listening in to what has been an historically strong and fantastic 2021. I personally have never felt as confident as I do now ahead of 2022. I know my entire team is stoked and pumped to do an even better job in 2022. I look forward to talking to you all after our first quarterly report in April and then welcome you to an exciting Capital Markets Day in May. Thank you very much.

[END OF TRANSCRIPT]