Thule Group

Thule Group Q3 2021 Interim Report

Friday, 22nd October 2021

2021 Jul-Sep Report

Magnus Welander

CEO, Thule Group

Welcome

Good morning everybody and welcome to another fantastic quarter from the Thule Group. We can really say that we had another very strong quarter across the board so we can go to the first slide in the presentation.

Executive Summary: 2021/Q3 Results – Another very strong quarter

On that you can see that we had a total sales of SEK 2,272 million which was a 16% currency-adjusted growth versus 2020. I think it is very important immediately, and we will talk more about that on a coming slide later on, in regards what it means in reality because we also had a very specific comparable period in 2020. As you will remember, in 2020 the second quarter was stifled in terms of sales due to lockdown measures and people not being able to go ahead and do their activities, so to speak. That meant that last year we really had a much stronger Q3 when we caught up with that in the season. We had a very tough comp period. Despite that we grew FX-adjusted with 16% which actually means then that versus 2019, the last normal year, it is a 75% currency-adjusted growth. Fantastic efforts being able to capture the majority of the demand that was out there.

At the same time, as you all are very aware, we have seen increasing costs across the board in the world, so also for the Thule Group. Raw material costs have increased dramatically and freight costs have increased even more dramatically. On top of that of course when you are running to cope with a fantastic demand increase you do have some challenges in running your plants as efficiently as you would normally do. We have in our own assembly plants had more temporary staff. We have had more shift work and with suppliers not being able to fully fulfil orders, we have had to do many more switchovers between various products on our assembly lines, thereby losing some efficiencies. Therefore, in total those things were partly compensated by the mid-year price increases that we did and of course some production overhead assumptions.

As you can see, our gross margin was 40.6% versus 42.9%. As we wrote in the quarterly report, we are feeling very good that with our January price increases we will have fully compensated for those cost increases. Therefore we will see some of those negative effects also in quarter four. The EBIT margin was the fantastic 24.2% which leaves us at the latest trailing period with 23.6% EBIT margin. We had an EBIT of SEK 670 million which was clearly above the SEK 596 million we had in the previous year.

Our scalability in our back end was proven once again where we with fantastic teams and good systems in the background could maintain very efficient cost controls while growing significantly as a business. Overall our operational cash flow was a positive SEK 525 million which was less than the same period last year and that is really attributed to two major effects. One is that we are spending more money on investments in capacity at SEK 113 million this quarter. Another one is that we finally, especially in Europe, are starting to be able to build up some more inventory than we were capable of doing at the same time last year.

2021/Q3 – Net Sales and EBIT development

If we go to the next slide we can see a little bit about quarterly performances because as for most businesses you see a reality of a very weird quarterly reality going on in the business. We see that we have comparative periods that are different. That means that you should focus on the year-to-date numbers. Year-to-date we have shown a 44% currency-adjusted growth and year-to-date we have also then managed to grow our EBIT with 64%. Do not get too fixated on comparing separate quarters. Look at the totality of the numbers. That has meant also that of course we have seen a significant pick up in EBIT margin as the year-to-date first nine months have delivered a really strong performance. Do not be too focused on quarters, look at the more rolling 12-month period.

Thule Group Sales by Quarter (Reported Currency)

If you go to the next slide you can see why. Then when actually looking at the quarters you can see some very strange things going on in 2020. Our comparable period was strange in terms of performance in 2020. You see our track record from 2018 to 2021 there and therefore you can see this effect, as I mentioned in the beginning of the call, that the second quarter 2020 was challenged due to lockdowns and people not being allowed to go out and do their activities. That meant a bigger pickup in quarter three in 2020 and even actually some of the seasonality that normally would be considered late spring/early summer products being sold as far as into quarter four due to backlogs in our business and still a demand that maintained.

When we therefore look at the business in 2021 it has a more normal seasonality. Strong start in quarter one, a very big season push in quarter two and a continued strong season in quarter three. It is a more normal pattern but at a much higher level. Versus 2019 the growth has been 45%, 48% and 75% respectively. When we then now look forward to how we are coping with that demand situation, we first have to look at a very demanding comp period in quarter four but we also feel that despite having done a great job in catching up with some of the backlog, we have not been fully able to meet demand, especially in North America, which showed very good growth in the third quarter.

Also in 2021 we will see some spill over effect of a late season happening in the fourth quarter. Meaning that we are feeling very comfortable in also 2021 quarter four will be delivering but once again versus a very tough comp period. A strong continued performance versus 2019 is something I am very sure that we will show also in quarter four this year.

Region Europe & RoW: Continued strong momentum

If we then go to the next page and talk a bit about the regions, starting with the biggest region, Region Europe & RoW. We can see once again here that you need to be cautious in too much focus on the growth on specific quarters and I would actually say look more at this very strong growth year-to-date. However, in the third quarter we showed 7% growth. Versus 2019 it was a 59% currency-adjusted growth. What happened in 2020 was we had some very big sales period of delayed orders from the spring that truly made a fantastic third quarter in Europe in 2020. Although the growth does not seem so big if you really compare it to a pre-pandemic, normal seasonality, as you can see, we had a fantastic period actually in quarter three.

That was across markets. Strong performance across all the markets. We have a very strong Bike category that continues to perform well and it is clearly aided by a strong momentum in general in more cycling, both bike commuting, active holidaying and active weekends with bikes. However, we also saw a very strong period in terms of roof racks, roof boxes and rooftop tents across our Sport & Cargo Carriers category, with the number of people growing all the time that are taking those short breaks and those short weekend trips closer to their homes.

In the RV Products category, which for our case is very focused on the European market with only a little bit of niche sales in North America, we saw a strong momentum and a strong performance by the team as motorhome manufacturers did increase their production capacity. As we mentioned a few times before, it is clear that these motorhome manufacturers would have liked to be able to manufacture even more vehicles because demand is very strong. However, they are struggling to get enough chassis from the large chassis manufacturers, mostly Fiat and Mercedes, as they are having similar problems as you have been hearing from the truck industry and the car industry with components coming in to this type of assembly, especially semiconductors but also other things.

What is also good to note in this region is that we continue to have a very good pace of growth on our stroller sales and we are becoming a stronger and stronger brand in that product category. It was nice to see, yes against a very weak comp period but still nice to see a solid growth in the Bags business. In this case, as would be assumed, driven more by sport and outdoor packs than luggage or everyday bags. More and more people are returning to work. Ourselves at the Thule facilities have all staff back as of 1st October in our offices. That means that we did not see the normal August/September returning to work, buy a new bag, situation. The same applies to universities and high schools around the world. Having two daughters myself at university, I know that both these two Swedish universities had different dates and different realities when they returned fully. Most of them are coming back to their school, so to speak, later this year, meaning that the normal business of normal backpack sales in the back-to-campus period was definitely less. However, overall nice to see a very strong performance in our Sport & Outdoor Packs.

Region Americas: Growth across all markets

If we go to Region Americas on the next slide, also here very positive to note strong growth across all markets. You are reading daily about the big challenges in some of the Latin American markets with later Covid pandemic effects and a challenged economy but I can assure you we have had very strong growth in both the major market of the US and the second very large market of Canada. However, also in all our Latin American markets. A very strong performance.

You also see that our comparable numbers for quarter three look much better in Region Americas. That was partly because we caught up earlier in 2020 with demand and meeting demand in Europe. The growth was strong in Europe in quarter three in 2020 and less strong in Region Americas so that is part of it. However, it is also the case, which is very nice to see, that year-to-date we have a 57% growth. Very strong demand and the team is doing their utmost to meet that demand. We are at the moment still a little bit more behind in Region Americas in capacity and coping with the fantastic demand we have but we have, as you can see in the numbers, never produced as many products as we are producing also in Region Americas.

As I mentioned, a strong growth across all markets but it was also nice to see growth across all categories. Very strong performance in Sport & Cargo Carriers. Bike carriers of course but also all the other products with roof boxes, roof racks, rooftop tents, fishing rod carriers and water sport carriers. It is truly across a very strong performance. What is also very nice to see is that within Active With Kids we have had for many years a very strong performance with our jogging strollers but we are also seeing growth with other strollers like the one on the image there, our Thule Spring stroller, which is a more city urban everyday stroller. However, also a very solid growth in the bike trailer category in North America, which is nice to see. It has been a relatively smaller category in that region than it has been in Europe but now has picked up very nicely in a reality with more bike commuting and more bike weekend being done by parents.

Also in this region a bag sales growth. Once again we did have a weak comp last year but it is nice to see the performance growth here. The team is doing a very good job in winning a number of contracts in terms of supplying to large companies for their returning staff. We are also seeing a very clear strong performance in terms of a larger pick-up of air travel in North America than you see in other parts of the world. It is clear that the US domestic travel has picked up faster than any other part of the world and that has meant of course that there is a little bit more logic to buy new bags and luggage in that region.

Overall we are very happy with the performance from a sales point of view and I leave it to Jonas to on the next slide speak a little bit more about the rest of the finances.

Financials

Jonas Lindqvist

CFO, Thule Group

2021/Q3 Reported income statement

We are now on slide seven. I would concentrate on the third quarter. The sales for the third quarter amounted to SEK 2,772 million. This is an increase of 14% and excluding FX effect the increase is 16%. When looking at the third quarter this year please bear in mind, like Magnus said, that last year there was a big shift in seasonality. Many of the lockdowns were lifted in the latter part of the second quarter and there was both a pent-up demand and a strong growth in sales for staycation and outdoor products. The inventories helped us to satisfy a large part of the demand increase in the third quarter last year and that is the first quarter of really tough comps for us.

The gross margin in the quarter this year was 40.6% compared with 42.9% for the same quarter last year, which was a high number. The reason for the decrease was higher costs for purchased materials and transportation of incoming goods. In addition we still run our production at high levels which are expensive to maintain and we do it among other things with the help of extra shifts and hiring of agency workers. The higher volumes that we have seen have on the positive side also led to good absorption of production overhead costs, which counters part of the increased costs.

The EBIT margin in the quarter was 24.2% compared with 24.4% in Q3 last year, which means that we are on the same level this year. It is primarily the economies of scale that come into play here since the gross profit was SEK 80 million higher and the SG&A costs only showed a slight increase compared with the same period the previous year.

The financial net of SEK -12 million in the quarter is lower than last year's SEK -15 million and it is the lower utilisation of our credit facilities that explains the difference. Tax costs in the quarter amount to SEK 242 million which as a percentage is slightly lower than what I estimate for the full year, where I expect us to be very close to the middle of our guidance of 22-25%.

Thule Group Financials 2021/Q3: Working capital and Cash flow

If we please move to slide eight and look at the working capital and cash flow. Operating working capital was SEK 1,947 million at the end of Q3 this year, which is about SEK 500 million higher than last year. As a percentage of sales, however, we are at the same level, just above 19%. The net increase in working capital consists of an increase in stocks from a very low level at the same time last year. A moderate increase in accounts receivable and countering that, an increase in accounts payables. The increase in inventory must be seen compared to a strange situation with very low level at the same time last year. When many countries came out of the lockdowns, as mentioned, the demand for outdoor products soared. Even though we cancelled furloughs and even holidays, we were not able to meet the demand with our production and the inventories were dramatically reduced during Q3 last year as our products flew off the shelves.

Since then we have increased the production but encountered unsolved other problems such as shortages in some components and materials, as well as a shortage of containers to transport goods coming from Asia. In view of this we have decided to make sure now in the slightly low period of the year that we will not go into the new season without a good capability to meet the demand of our customers. This means that we are now in the process of stocking up ahead of the new season, which we did not get a chance to do last year. We get an offsetting effect on working capital from increased accounts payables and this increase reflects the current high activity in our production.

The development in working capital and the fact that we are investing in increased production capacity have of course had an impact on the cash flow. The operational cash flow of SEK 525 million in the period is lower than the same period last year when it was SEK 777 million. the main reasons for the lower cash flows are, as I mentioned, the stock build-up and also the increased investments in production capacity. Capital expenditure in the quarter amounted to SEK 113 million, to be compared with SEK 32 million in the third quarter last year. As I mentioned, the investments relate to increased production capacity.

2021 Focus

Magnus Welander

CEO, Thule Group

2021/Q4 Focus – Operational focus to prepare for 2022 season

If we go to page nine we can then look a little bit forward. What you can say for Q4 but also of course leading into 2022 is that clearly that we have a strong operational focus to prepare for what we are convinced will be a very good season in 2022. We have clearly proven that our growth strategy with great products but also high on-time, in-full availability for our retail customers and our consumers buying direct-to-consumer is key to our growth. To be sure that we can improve and come back to the very high and market-leading levels of on-time, in-full delivery performance, we are pushing a lot of growth investments earlier than we would have planned two years ago before the pandemic. The reason we are doing that is we are convinced, as many are when you look at the trends in the market, that a lot of the behaviour that you have seen over the last 18 months is here to stay. We simply will have a bigger base business.

What we are doing is significant expansion of capacity at all the main plants. We are continuing our very aggressive product development push for future product launches and future growth. We will be finalising our expansion in our global test facility to cope with all the testing of all the new products and we are also continuing to invest in our own online and direct-to-consumer sales tools. We need to get back to serving both consumers and retailers at the level they should be served and that means that there is both a short-term focus then to meet these demand increases but also a structured long-term plan.

That structured long-term plan means, as we noted in the report actually, that we will see the most aggressive capex since I became CEO in the company with a few years of clearly higher than our average and prior guidance. We will be around the 5% type of capex for a period of time and might even be above that. The simple matter is, it is because we are convinced that we need to be at the service levels and the production efficiencies that will ensure a highly profitable business for us going forward with big growth ambitions.

In the short-term it is a lot about handling mitigation of various smaller issues. It can be anything from the Chinese government deciding that electricity is closed down for certain days of the week at Chinese sub-suppliers, to a complete lack of containers somewhere, as Jonas mentioned. It can be the fact that there is in Vietnam still significant Covid lockdowns of some of technical backpack manufacturers, etc. There is a constant daily challenge.

Our cycling category is our biggest. I like to do a cycling similarity here. I do not know how many cycling fans there are on the call but if you saw this year’s Paris-Roubaix one-day classic, it was a brilliant reality of what life looks like in the supply chain today. Paris-Roubaix is always a tough race. You have the famous pave sections with cobblestones that make it incredibly hard to cycle fast, mixed up with pretty straight and easy road bits. That is the reality we have today, a constant intermingling of some production lines, some products being quite smooth and at a very high pace with somebody at the lead of the peloton really pushing and pulling. Then all of a sudden you turn into one of these pave sections and it starts to get difficult even in easy years. This year at Paris-Roubaix it was pouring down and on those pave sections you had mud so it was the slipperiest anybody has ever seen. There has never been as many falls. Not only that but you were also getting sprayed with mud from other people around you. Then there were people in the way so people were falling and having to pick themselves up.

The great cyclists like the Italian Sonny Colbrelli, who won in a fantastic fashion, is a little bit what Thule is. We are better than most, definitely better than our competitors, at avoiding those obstacles on the pave, taking that slipperier road, keeping our legs moving and just pulling ahead when the flatter sections come. That is what we will be doing also in the coming 6-12 months because life will not be easy in supply chain in 2022 either. All of the people that hope for that are already realising and smelling the roses. It will be a hugely challenged 2022. Why we feel so good is we have taken capacity expansion decisions much earlier than most. We have a fantastic supply chain team that has shown their flexibility to handle obstacles better than most. We have a brilliant product portfolio so we feel very comfortable when we look ahead.

However, it is clearly the case, there are some bigger challenges. There is the cost challenges. I have never seen price increases like the ones I am seeing in raw materials at the moment. I have never heard about increases like some of the freight costs increases, which therefore forces our hand to pass on those costs to our customers and in the long-term to our consumers. We decided, as we communicated before, to do that in two steps and with the price increases that are being implemented in January we feel comfortable that we will have mitigated those cost increases.

In closing, it is a little bit like the race in Paris-Roubaix. Do not take your eyes off the road. Keep peddling. You will fall down. You need to get up quickly and we will do that better than most. With that, I open up for Q&A.

Q&A

Daniel Schmidt (Danske Bank): Good morning Jonas and Magnus. Thanks for the bike race analogy. It was very good. A couple of questions from me then. Magnus, you said that you are still not able to totally meet demand during the third quarter and you said the same thing in the second quarter. Am I right in believing that this is more related just to the Americas rather than both Europe and Americas? If we start there.

Magnus Welander: You are right that it is mostly the Americas but we have had during the quarter, especially in the beginning of the quarter, some challenges still also in Europe. As we have for every month been catching up stronger in Europe, I feel pretty good in Europe now. We are still not at the level in terms of on-time, in-full that I would have wanted but we are close to that and we will be at good levels when we now enter 2022. While we will see some challenges in Region Americas still for a few months, even if we are actually building a new plant and opening up a new plant as we speak in the early part of next year to further add space for some of those assemblies.

Daniel Schmidt: Looking back to Q3 last year, this probably was maybe more widespread, you talked about a prolonged cycling season. Is there a little bit less of that in Europe now this year?

Magnus Welander: The interesting thing is from a consumer perspective the prolonged season is still there. You have never seen on the mountain bike trails this late in the year so many new cyclists and so many cyclists. You have not seen on the roads so many cyclists and you are seeing more bike commuters even if it is pouring down in Malmo city most days of the week. The last week there are more bike commuters as well. From a consumer perspective demand has not decreased. What has changed is we did better at supplying so we did not have the same bottleneck and backlog of orders. However, the actual new orders with cyclists is very strong still as a trend. The cycling season is longer from a consumer perspective, not with the same we need to fill the backlog slipping into Q4. Aside from then the US where we do still have some of those backlogs to fill.

Daniel Schmidt: Is it then fair to assume that the product mix is normalising a little bit in Europe in Q4 then? Is that impacting in any way the profitability mix?

Magnus Welander: No, I would argue that if you see it is a very similar structure in what we sell versus 2020, which has then some skewing versus 2019 because historically Bags had its one big quarter in Q4, still very small in Europe. Otherwise, I would say it is a relatively similar performance while you then in Americas have more cycling products and some other products coming into quarter four than we have historically had.

Daniel Schmidt: Yes, okay. Talking about mix, you said pushing the direct-to-consumer channel is of course high on the agenda and you have said that for some time. Do you have any numbers you can update us on where you are in terms of how much of your sales is going through direct-to-consumer now compared to a year ago?

Magnus Welander: We will do that when we summarise the full year but I can also say that in general we decided in 2021, which we have been very clear with our retail customers. Some companies chose to aggressively pursue their own direct-to-consumer because that is a nice way if you have limited demand that you allocate more to yourself. We actually did the opposite. We took a conscious decision, knowing that we are very strong retailers that we are convinced we will grow very well with in the coming years. Having prided ourselves historically to have a very high on-time, in-full and now not having it, we decided to not penalise retailers but rather actually penalise ourselves in 2021. Our bigger push will be in 2022 when we will have strong availability. That is when we will clearly see from our point of view a likely higher, bigger pickup in direct-to-consumer. It is still around double-digit in the US. That has not changed on an overall picture. We have still low single-digit in Europe because the big markets have just come on board but in terms of truly picking up more significant it is from 2022 and beyond we see that picking up.

Daniel Schmidt: Okay. What is reasonable to reach, do you think, or maybe that is not a goal in itself? Have you thought about that?

Magnus Welander: Of course but I do not think a goal in itself is the logic. We will sell where consumers think it is right to buy. We will be very profitable in all channels and we will clearly have a hugely dominant share of retail for a very, very long time.

Daniel Schmidt: Yes. Then maybe finally on the gross margin, you are writing and stating that it will take until maybe the start of January till you get full compensation for the raw material and freight costs and there will be some in fact in Q4. Is that insinuating a slightly less impact in Q4 versus what we saw in Q3 given the price increases in Q3?

Magnus Welander: Yes, we have been clear that if you look at the price increase that we communicated as of Q3, we also were clear in communicating also to you as analysts and investors that we did not push that through on existing orders. Since we had a backlog of existing orders at the beginning of quarter three there were quite a lot of products sent out with prices from before the mid-year 2021 price increases. As those orders now have been fulfilled all the orders we are now towards the end of the third quarter and as we will do in the fourth quarter, they are with their prices as we had them from mid-year, which are higher prices than we had before. There will be in that sense a little bit of the price effect. At the same time we have to say that costs are also continuing in the wrong direction so that will depend very much on the cost part. The prices are now fully rolled out at the mid-year. We already anticipated that we would need, so there is also a very clear price increase as of 1st January, which is where we are feeling comfortable that we will be in the right space.

Daniel Schmidt: Yes, alright, good. Maybe just a final one. There has been two announcements I have seen at least when it comes to the RV side with RV producers saying they are forced to have unplanned production stops on the back of the shortage of components during Q4. Is that something that you have experienced? Do you have any insight into that? How will you fair in that particular environment in the European market?

Magnus Welander: The RV business in Europe is booming. They are manufacturing more than they ever did. Sometimes you are missing out the logic because it is clear they will have issues. no doubt. As I mentioned, the chassis manufacturers are having issues, then the RV home manufacturers that need those chassis have issues. However, it is a little bit of a misconception if you believe that that means that they will do less than they did same quarter last year. It is just that they are producing so much more that the issues are coming on a higher platform. Therefore the RV business is doing great for us. If you do not grow in the European RV business at the moment you are doing something wrong because there is a fantastic momentum in it. I am sure we will have a very good momentum in Q4 as well but it could have been even better. I think that is what they are saying. What they are alluding to is the demand is even higher than their increased output and due to that they are running, running to capture the demand. When then some of these components do not show up they will have a little bit like the truck companies and for Swedes that is easy to think about when we hear so much about Scania and Volvo. The same issue. They are pumping out vehicles but sometimes when they are pumping out that much and there are limitations they will have weeks of closure. Same thing for the RV manufacturers.

Daniel Schmidt: Yes, thanks. It makes sense. Thank you. That is all for me.

Magnus Welander: Thank you.

Gustav Hagéus (SEB): Good morning guys, thanks for taking my question. I am a bit curious on the Americas. It is quite an extraordinary growth you posted. Organically you almost doubled the business in two years then. Looking into next quarter then just from the past three years you have been averaging 14% lower sales sequentially in Q4 versus Q3 in the Americas. You now alluded that there might be a shift of seasonality into Q4. Is that a good rule of thumb also this year in terms of sequencing for the year's business?

Magnus Welander: I think in the US business you have to realise also, as you know, we have a significantly higher chunk of Packs, Bags & Luggage historically. It has been almost 20% of the business and Packs, Bags & Luggage is normally very big in the fourth quarter. There are some negatives for that for us because Packs, Bags & Luggage is the category doing least well, if you look at it pace-wise. I am convinced that Region Americas will do very well. I am not going to say because there are so many uncertainties still around what exactly that percentage will be but it will be a strong quarter in the fourth quarter as well.

Gustav Hagéus: Looking at the stacked growth, adding last year's growth on top of this year's, it is quite extraordinary. Do you anticipate that trend to continue? It is quite interesting. If you analyse that trend, myself and others had expected a bit of a drop down in the growth now that you are facing much tougher comps in the US.

Magnus Welander: We are very comfortable in both regions with all that larger macro trends underlying various activities that we deal with, that we have a higher platform with continued growth. The pace will not of course be the type of pace we have had in the last 18 months but it is clearly the case that we are convinced that we will continue to grow. It will not be stagnating or flattening out. We feel very good about 2022 and beyond.

Gustav Hagéus: Yes. Then I guess you had probably put a lot of effort into thinking about capex and so forth. It seems like you now had to accelerate those plans, if I understand your communication correctly.

Then I am curious about all the other assumptions going into your targets that you released not that long ago. You are hitting quite a big base now in 2021. Looking at your target now, it is shrinking to below 5% CAGR. It seems like since the base for 2021 is so big going forward and given that you are also running on a much higher margin than the 20% floor that you anticipated the implicit EBIT CAGR for your target is now 3% or something going forward. Magnus, I am sure that cannot be your internal goal so will you care to update us on what your actual plan is going forward?

Magnus Welander: Yes, I think in general you should not do a financial target update in the midst of a quarterly report in the third quarter but you are absolutely right that there are two logics there, Gustav, no doubt. We have said all along it is more the 7% CAGR you should focus on than the doubling of sales. If you look at how we presented the sales growth it was like we should at least be doing 7% CAGR. I would focus on that aspect rather than the doubling of sales by a certain year.

Then of course if you look at EBIT performance we have clearly said for us the biggest focus is true EBIT growth on the bottom line, rather than an exact margin percentage. That does not mean, as we also clearly said, that we want to give away hard-earned nice EBIT margin at a higher level. However, we will focus on ensuring that it is this above 7% CAGR that happens rather than being too focused on an exact decimal point in the EBIT.

Gustav Hagéus: Alright. By the assumption of CAGR you are referring to revenue CAGR or also EBIT CAGR.

Magnus Welander: Yes. If you looked at when we presented the financial targets we said if you do at least 7% top line growth every year we will hit double sales by this year. You can keep the if we do at least 7% CAGR every year part in that equation.

Gustav Hagéus: Okay. With the 5% capex then to sales, it is a bit higher than I had in my assumptions but I recognise that you want to grow and capture this opportunity. You have not talked about R&D to sales. How is that looking do you think going forward?

Magnus Welander: If you look at this year, as we mentioned, the top line growth has been beyond our expectations so we never throw money at product development. It is of course the right development projects, the right people and we have hired more people than ever. However, we will not be at the 5% level this year but in the rest of the coming years in the strategic near few years, we believe we will be back at that 5% level.

Gustav Hagéus: Where are you running do you think this year?

Magnus Welander: We will end at a high 4% this year rather than a 5%, so to speak. We were at 6%. We said we would be around 5.5%. We will instead be high 4%s in the end but we will be running around 5% in the period. You need to also remember, if you look at the 5% capex that we are talking about, we will see a few years of a limited period with a higher spend. Then our strong belief is after catching up with the capacity, you have to remember we are currently not as efficient as we would like to be because we are having to run shifts and weekends that are less cost efficient. We are not being able to be as flexible to capture upsides. What we are doing in the capex spend is partly to catch up with the capacity we should have already had because the growth was faster than we expected. We are anticipating plans spending more to catch up and then we are also spending to prepare for the next steps. If you look, I would say it is a three-year period of a higher than average spend and then we hope and expect that we have caught up, as well as prepare for the future. We will return back to a more previous guidance in terms of capex.

Gustav Hagéus: Right. Then finally you highlight quite clearly in the report that it is tough for you to fully compensate for external inflation now in this year but you also highlighted with the ordinary pricing increases next year from January next year that you were going to be back. Is that basically guiding for Q4 that margins in Q4 probably should be a bit lower than they would have been? Is that what you are trying to say?

Magnus Welander: I think we are being very clear and that is also how I answered Daniel just before. We said all along that we would be seeing some of the pricing effects price increases that we implemented during Q3, all of them in Q4. However, clearly what has happened is that raw material prices have gone up more than most people believed and definitely a little bit more than we thought. Freight is continuing to increase so we are not at the level I would have liked to be but that is why we are confident that our price increases for January will make us at the level we want to be. Yes, there is some effects on Q4 and the total margin will be more related then to a lot of other things. Will there be those intermediate frustrating stops and frustrating effects from suppliers that are forcing us to do more production shift overs? One of the underestimated things, aside from huge material increases and freight, is that if you want to run efficient plants you do not want to have to do switchovers because certain components do not show up. Switchovers between different products or different things are always cost inefficient. Therefore these constant small interruptions, which are very difficult at the moment to foresee, are one of the impacts also on our gross margin in our own assembly plants. That one is a little bit of an uncertainty but yes we are saying there is some challenges on gross margin in 2021 Q4.

Gustav Hagéus: Alright. Those are all my questions, thank you.

Magnus Welander: Thank you.

Mats Liss (Kepler Cheuvreux): Hi, thank you, congrats on the solid quarter. I just had a few questions. First, you implement price increases and so on and I guess you are the premium brand in many segments. Do you see that you benefit from more [inaudible 46.20]-related competitors that they need to increase prices more?

Magnus Welander: I think in many of our categories we have very strong local smaller competitors that sell good products. We are the only really big global player in Sport & Cargo Carriers. However, if you take Active With Kids there are some very strong brands as well. We are definitely not saying that we are that different from the rest. We are just much bigger in Sport & Cargo Carriers than all the others. However, if you look at it, everybody is pushing through price increases. It is clearly not just us. Everybody is clearly pushing through price increases. Then there are different levels of percentages, etc so we are not standing out in any shape or form in the market with our price increases. They are relatively in line with what most people are doing.

Mats Liss: Great. Then the margin is good, I guess, but you indicate that it could have been even better if you were able to balance all the cost increases. What is the difference there? How much did it effect your margin?

Magnus Welander: If you look at it and you can see the reduction we have versus last year, last year we had a fantastic one for being that quarter. I think it is always logical to more look at year-to-date reality but if you look at it we were about two percentage points down in the quarter. Part of that is of course raw material costs. Part of it, as I mentioned, is also the inability to be super-efficient in your plants as you are getting constant stop issues while you are trying to desperately catch up with fantastic demand and outputting much more than you have ever done. When you do not have all the capacity that you need, what that means is you are paying people overtime, you are paying people for weekend work and you are taking in agency workers to complement your own staff. All of those lead to inefficiencies. Roughly those two percentage points, so to speak, is a combination of those factors.

Mats Liss: Yes, great. Then we had a question on RVs and so on but I guess the fleet of used RVs is growing quite considerably also. Is this market for you or is it more new RVs that you equip them with your accessories?

Magnus Welander: I think the key logic to understand the RV industry is that almost all RVs when you talk about not caravans, which is a small part and the big part is motorhomes. If you look at motorhomes it is almost always triggered by somebody buying a new home and selling their old motorhome which means if you look at our products in the RV Products category, which is why we have always said from the beginning that they are more cyclical to a large financial investment, is it is products that you do not put on the vehicle yourself. You would be afraid that you would drill into the toilet from the fridge or something so you would not do it yourself. When you then do not do it yourself it is going to be at the time when you go to a dealership, especially if it is a used vehicle, or actually when you order it new from the manufacturer. It is at the time of purchasing of the vehicle. It is change of ownership is good. If it is change of ownership of an old one it can be equally good. They say, 'I like that motorhome but wait, there is not all those cool Thule products I want on it. Please dealership, before you give it to me, put that no.' We are helped by the fact of ownership changes, so to speak, both new or used. Then we benefit equally.

Mats Liss: Great. Yes, I was disconnected. I am sorry. We have talked a lot about the increasing offering with some sort of new product launch. Is this the plan for next year?

Magnus Welander: In the spring next year we will announce our new category. We have not changed that so we will definitely announce what the new category is in the spring next year.

Mats Liss: Great. You do not want to talk more about that it seems.

Magnus Welander: I am surprisingly consistent, as I often joke with Daniel who tried to trap me with some very intricate question. No, we will tell you when we tell everybody.

Mats Liss: Great. One final one, you grew very well and organic growth seemed to work well for you. You seem to generate a lot of cash now and I guess acquisitions are still small bolt-ons.

Magnus Welander: Absolutely. We are convinced that you can win playing different ways. We have I think proven with our top line growth, very nice EBIT margins and our very sustainable performance as a company that this way that we are doing it works very well for us. We will definitely continue that way and in that way we have had some minor bolt-on acquisitions and I am sure we will have some in the future as well.

Mats Liss: Looking at next year, it will be a tough comp and should we expect you to be able to reach that 7% CAGR target you have or is it more like a long-term 2030 target? Could you say something more there.

Magnus Welander: I feel very good about 2022.

Mats Liss: Okay, thanks a lot.

Magnus Welander: Thank you. Is it one of the tricky ones Daniel?

Daniel Schmidt (Danske Bank): I will leave that for later. No, I just wanted to come back the investment pickup that you are announcing and also I think you said that you are being quite forceful when it comes to product development into 2022. Could you try to shed some more light on exactly what you are doing on the capex side? You have been in this process of automating production in Sweden and in Poland and so on. Where are we in that process? What are you adding now? On top of that, could you give us any examples of new ranges or new collections in different categories that you will have in the market next year?

Magnus Welander: Absolutely. If we start with the last question, what we decided to do is that with so many challenges to just be able to produce what we are producing we have really focused on adding only products where we were missing something in our portfolio, rather than replacing a very well selling fast-growing category. If you look at it, we will have a number of new products in rooftop tents. We will have some new cargo solutions. We are adding some bike solutions but if you look at it, I would say, very much more focused on capacity and meeting demand on very well performing product categories is a key focus in

2022, to regain the on-time, in-full and the confidence from retail. There are still a lot of new products coming but if you look at it not any of the huge volume sellers being replaced. The huge volume sellers we are struggling enough to keep up with just making the ones we have. In 2022 a lot of focus on the big volume products being the same and then nice, smart additions around in the portfolios.

If you take where we are spending the capex money, you are absolutely right that we have had some very successful automation projects on our roof rack factory in Sweden and that has not been a bottleneck. This proves out one of those things about doing it the right way. What you can really say is that what is happening at the moment with those big volume increases we have had is that we at all the major plants are anticipating previous plans of extensions. We are doing building extensions at both our Polish plants. We are doing building extensions in Sweden. We are doing building extensions in the US in Connecticut to have more space for more production. That more production is also more automated because it is realistically the case that with big growth ambitions in the future we need to ensure that we do not become too dependent on being able to find enough staff.

It is also the case that when you have certain production lines that are more similar and you have a more modular approach, as we have also in some of our new models coming out from the beginning and how they were product developed, you can merit setting up an automated production. Interestingly enough what people seldom realise is automated production needs much more space because you need the self-guiding robots to drive around. You need more space when you build automatic assembly lines. Therefore we need space in terms of new shells, so to speak, in the plants with a new roof over it. You are seeing across the board both new building extensions and heavier automation investments with robots.

To give you one example, in a near future we will in 2022 have more robots new than we had total robots in Poland in the past. Only the new ones in 2022. If you look at that, we are pushing ahead in automation and space as the two key focuses.

Daniel Schmidt: Yes, okay. I do not know if you can answer this or not but if you are currently at a situation where you can produce corresponding to SEK 10 billion in top line in a year, with these investments what will your capacity be in terms of revenues, if that is possible to measure?

Magnus Welander: Yes, it is a good question actually, Daniel. You need to answer it in two ways. One is that if you would deploy it on a yearly basis, you can add up a lot more millions but what is the key for us is we want to get back in a high on-time, in-full exactly when the consumers wanted to buy the product. That then forces us on an annualised basis to have over-capacity otherwise we are not going to be flexible to meet the capacity when they actually want it during the year. What we are dialling up now is not just the capability of adding in SEK 5 billion in sales with the same capacity. It is actually in practice dialling it up even more to capture those months when truly there is a need for high [inaudible 58.12] capacity. There are two ways you can serve that high on-time, in-full in a seasonal business. One is having endless inventory. We do not want to have endless inventory because inventory for the sake of having inventory actually is not a brilliant thing. It is more cost efficient and more flexible to have the right things going if you increase your capacity opportunity for the peak season. What we are currently doing is not only catching up with the capacity we should have had. It is adding the capacity not only to meet an annualised growth number that is big. It is actually adding capacity to handle a few months growth capacity at much higher levels. That is a little bit to answer your question. We are talking about several billion more capacity if you look at it from that perspective that we want to be able to have in the capacity output.

Daniel Schmidt: Yes. Okay, I got you. I do not know if I got you right or not but you gave us guidance of 2022 in terms of 5% of sales but I thought I heard you say something about a couple of years. Was that right? With elevated capex.

Magnus Welander: You are right. Yes, you are right. I think in your macro models I think it is logical to see in front of yourselves a three-year period of a higher than historical average before we can turn back to the historical average. Due to the huge sales increase we have already had and some ambitious plans of sales increases going forward, plus a new category being introduced that itself triggers quite large capex.

Daniel Schmidt: Okay. Would you say in that three-year period that 2022 is the peak year in terms of percentage?

Magnus Welander: That will all depend on how quick the top line grows as it is a percentage.

Daniel Schmidt: Sure but as you plan it.

Magnus Welander: I think, yes, you could say that actually.

Daniel Schmidt: Yes, okay. Okay, good, thanks. That was all from me.

Magnus Welander: Thank you. Thank you very much and I know you have an incredibly busy day with loads of companies reporting so I wish you lots of fun. I hope all the other companies had equally brilliant reports as we did and look forward to having a nice follow up for the Q4. Thank you everybody.

[END OF TRANSCRIPT]