Thule Group - Q1 Interim Report - 2022

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2022 Jan-March Report

Magnus Welander

CEO, Thule Group

Welcome

Good morning everybody. Yes, it has been a very strange first quarter for the world. We have lived through things I think nobody would have expected around us but at the same time I am happy to say from a company perspective that for the Thule Group it has been a very good start to the year.

Thule Group 2022/Q1 – A very good start to the year

Sales

If we turn to the first page and look at some of the key financials of what we delivered in the first quarter we can see that we grew sales with 13% currency adjusted in the first quarter. I think it is important to take a step back and realise that that is a 64% growth on a currency-adjusted basis versus what we did the first quarter before the pandemic in 2019. A very strong result indeed. The region that grew the most was Region Americas with 27% growth and Region Europe & RoW grew 9%.

Gross Margin

I am also very happy in these times with rushing and raising prices and costs across the board and many complexities in a global supply chain that we were able to also deliver that growth at a very high margin. Our gross margin was 40% in the period and the price increases we implemented at the beginning of the year has of course a key contributor to being able to deliver that margin. We do see continued higher raw material costs, continued high freight expenses and that has further been impacted by the Russian invasion of Ukraine. What we can already say at this early point of the call is that we will install further price increases mid-year also in 2022 as the costs continue to rise.

EBIT Margin

If we look at our EBIT margin I am very happy to say that we delivered an EBIT margin of 22.8% which is actually an improvement on a currency-adjusted basis versus last year. A very strong result on an EBIT margin level.

Operational Cash Flow

As we have already indicated late last year, we would be seeing a different cash flow pattern than we did in 2021/Q1. That was first and foremost because 2021's first quarter was exceptional. It has been the only quarter in the 17 years I have worked in the company that we were cash flow positive because normally in the first quarter we have a negative cash flow. On top of that what normally would be our pattern we also decided late in 20212 during the autumn to ensure that we would be able to meet the on-time, in-full delivery expectation that we have always been so good at historically and that we struggled with during the pandemic, we needed in an erratic and longer supply chain to build up inventory. I am very happy that we have been able to do that so that we once again can service our retailers at a better level. We have therefore clearly seen an inventory build up ahead of the peak season.

Thule Group Sales by Quarter (Reported currency)

If we turn to the next page we take a look at those quarterly numbers that we have seen over the last few years because I think it is so easy that you get stuck with only comparing with one year back and the previous year period. However, if we look then at what the expectation that we have as a company is that we have a more similar pattern in terms of seasonality in 2022 to what we had before the pandemic, which in this graph is represented then by the 2019 grey numbers. A pattern of a stronger first half and then a slightly slower second half is natural with the type of products we do. Now being able to have a better fulfilment of our supplies and being better at supplying to our customers and to the consumers when they want it. We believe therefore that there will be that logical phasing again.

When we look at it also we have to admit that there is a lot of uncertainty in the markets over the two coming quarters. We all are realising that there is still lots of challenges left in the supply chain with very long lead times and a lot of disruption. It is clear, as I mentioned, that costs continue to increase and we therefore will pass on those cost increases with price increases. There is of course a general situation also with retailers now having come back to a normal stock level after having been for 18 months having too low stock levels and therefore being in a slight backlog. We also see, as we will come back to when we talk a bit about the European region, that European motorhome manufacturers are struggling to get enough chassis from the chassis suppliers to be able to meet the current demand there is for motorhomes. Then of course we have general inflation going on in the market. It is relatively uncertain terms in that short-term perspective but what is very positive to know is that on a more long-term perspective and even for 2022 we still see a very strong local staycation and local travel trend. We still see a big interest in the type of products we do and we are therefore comfortable that we will see a pattern of behaviour similar to what we had been seeing before the pandemic with a continued interest in pursuing those types of activities.

Region Europe & RoW: Continued Strong momentum

Markets

If we go to the next page we will talk then a little bit about the biggest region, Region Europe & RoW. As I said, a 9% growth in constant currency. This is of course from a sales point of view the region that is impacted by the Russian invasion of Ukraine and our decision to cease business in Russia and Belarus and of course the consequence that our Ukrainian partners are not purchasing Thule products from us. On a Group level that will have an impact on around 1% so slightly more than 1% for the Region of course. If we take those markets aside we are very positive to see what is going on in all the other countries. We have a solid start and strong performance in the Central European markets and we saw a very strong ending of what was the summer season in the Southern hemisphere in Australia, New Zealand and South Africa. As I am sure you are all aware there is still a lot more pandemic-related limitations in South East Asia and Asia than there is in Europe. Here we have markets, if you take South Korea and Japan aside, where we see less strong results but still a solid performance also in the Asia markets.

Categories

In terms of categories and subcategories we see that Roof Racks and Roof Boxes have been very strong in the period and there is a natural logic for that with a better winter holidaying opportunity in the holiday season of 2022 than there was in the first quarter in 2021 in some of the Central European markets. The Bike category, as we all expected when the season started, we now have had a slower start to the season versus last year. Last year that was because there was a backlog of us not having been capable of fulfilling all the demand during 2020 and therefore filling up inside stores with some of those bike carriers, bike trailers, etc. We are now capable of having a good on-time, in-full and therefore retail are calmly waiting for the real spring season to come.

Within RV Products where we had a very strong first quarter as well there is a clear situation if we look at quarters ahead that although optimistic views from the motorhome manufacturers and there are several publicly-listed companies that I am sure the investors have listened in to and looked at their reports. They all indicate a good demand but some struggle to get enough chassis, as I mentioned. That will be part of the challenge in that category. Luckily we have a very strong position with the dealerships and therefore we sell a lot of products to the RV dealers as consumers come to them.

We continue to do well in [inaudible 09.06] with Stroller sales and from a then lower level but finally picking up we see Packs, Bags & Luggage growing in especially what I would call daily commuting type of products so laptop bags, laptop back packs, etc for people going back and forth to university or to work. We all know that international air travel is still significantly more limited and especially so in the Asian region but of course from the very low levels of the previous year we are growing within the Luggage category as well.

Region Americas: Growth across all markets and categories

Markets

If we then turn to Region Americas on the next slide there we saw a very strong performance for another quarter with 27% growth. All markets are growing in the region with the Canadian market being the star performer with a very strong result.

Categories

Here we see a strong growth across all the Sport & Cargo Carriers categories and it is similar to what we mentioned in Europe that Roof Racks and Roof Boxes are doing well. Here in Region Americas we also had the fact, as we have mentioned before, that we had a longer time to catch up with demand on Bike Carriers and Bike-related products. We did do that during the period so that has also helped the quarter and we are now at more normal inventory levels within retail similar to what we are in Europe in terms of product in retail.

If you look at Packs, Bags & Luggage that is the strongest quarter one ever and that should be the case because we see now that domestic travel is picking up significantly in North America. It is the region where both air travel for work and air travel for vacationing is growing the best. Still not back to the pre-pandemic levels but significantly better than Europe and significantly better than Asia. We are taking nice share in that growth and we continue with a solid and strong growth momentum in Active with Kids. You also know that although our RV Products category is dominated by sales to European markets with more than 95%. We have since three years entered into the North American market with some niche products for vans and some other things. We are continuing to see a very fast growth momentum within that niche. Nice to see that performance.

2022/Q1 Financials

Jonas Lindqvist

CFO, Thule Group

2022/Q1 Reported income statement

We are now on slide number six. We are looking at tough comps from the same quarter last year. Despite the fact that it was the first quarter of the year which normally has somewhat lower sales, it was at that point the strongest quarter in the history of Thule. I am saying that because we are now back to the seasonality Thule had before the pandemic and I would like to remind you that the second quarter is the strongest, followed by the first and third, and the weakest quarter is normally the fourth quarter in a normal Thule year.

Sales for Q1 this year are organically 13% above last year despite all the uncertainties and the general market conditions. There has been growth in all product categories and for example the market, as Magnus mentioned, for recreational vehicles is very strong with long lead times for customers wanting to purchase a campervan. The gross margin is 40% to be compared with 41% in the same quarter last year. This despite the higher costs for components, raw materials and freight. The successful implementation of price increases has offset the negative effect coming from the higher costs.

Operating expenses have increased from SEK 456 million to SEK 522 million but as a percentage of sales it is lower and has gone from 18.0% to 17.2%. Selling expenses have increased primarily because of variable costs relating to the increased sales. As you can see, administrative costs are virtually on the sale level as for the same quarter last year.

The EBIT margin is 22.8% to be compared with 23.4% in the Q1 last year but if we apply the exchange rates for the current period on the first quarter last year it is in fact on the same level or even an increase of 0.4 percentage points. The finance net in the quarter is slightly lower than Q1 last year because of high utilisation of our bank facilities and the tax of SEK 155 million corresponds to a tax rate of 22.7% which is within the lower part of our guided range of 22-25%.

Thule Group Financials 2022/Q1: Cash Flow

Operating Working Capital

We now move to slide number seven and looking at operating working capital. It was SEK 3,460 million at the end of Q1 2022 which is considerably higher than in the previous year and relates primarily to the increase in inventory. Last year's level was too low to meet the demand and we decided to go into this year with higher inventory levels. There are challenges and uncertainties in the product supply chains and to avoid being exposed to shortages we have sourced bigger volumes. We have increased our inventory levels of the products that are sold in large volumes and that are not exposed to obsolescence. Q1 is always the quarter of increased inventory and Magnus will talk more about the inventory and the reasons for the decision to increase it in a minute. The accounts receivable have also increased in the first quarter, like it always does, as the season starts to pick up momentum.

Operational Cash Flow

The operational cash flow for the quarter was negative by SEK 610 million driven of course primarily by the increase in inventory. Negative cash flow in the first quarter is the norm. The capital expenditure was SEK 148 million in the quarter to be compared with SEK 56 million for the same quarter last year. The capital expenditure relates to investments made to increase our production capacity.

Closing Remarks

Magnus Welander

CEO, Thule Group

Thule Group: Inventory levels increased to cope with erratic supply chain

As Jonas said, we thought it would be good to talk a little bit more about our inventory and what we are doing and why we are doing it. If we turn to the next page you will see a graph showing our inventory situation by quarter and our rolling 12-month sales as well. On top of that there is an arrow indicating green and red. The green periods in that timeline is the times when the Thule Group has not been delivering to what we historically have had as a very key strategic focus which is to be a very high on-time, in-full delivery performance with next day deliveries to our retailers. We have always said that to service a retailer it is great that you start with the market's best products which we do in the category we play in. However, also another key factor is to make retailers' lives easier by not having to forecast, spend a lot of time thinking about what you need to have in stock from Thule, knowing that Thule can make it available for you in a very short notice. We have always built on that parameter.

When we had this situation in spring of 2020 it was natural that with first demand plummeting in March 2020 when the first initial fingers of the pandemic coming and plants being closed, etc we could of course deliver because the little things we had orders for we could deliver. However, then came the situation of plants closed, distribution centres closed so we started to have low deliver performance. Then when the pandemic sooner than most expected started to ease up and we started to pick up orders already at the second part of Q2 in 2020, our delivery performance started to be challenged because of the high demand versus the situation we are in. Then we have to admit that for the entirety of the rest of 2020 and the first half of 2021 in both regions we were simply not at a good on-time, in-full delivery performance. As you have seen on our sales numbers and as you can see on the graph with the rolling 12-month sales, we managed to produce more than ever in a very strong way. We managed to capture more of the demand out in the marketplace than our competitors but we are far away from the levels of on-time, in-full that we prided ourselves with before the pandemic.

It was only towards the end of the third quarter last year 2021 that we in Europe started to be at the same type of levels of delivery performance as we want to be and as we intend to be in the future as well. Whilst in North America, as we mentioned, we still struggled well into and throughout the fourth quarter with stronger delivery performance and it has only been now in the first quarter this year that we are starting to have what we would consider better delivery performance on-time, in-full again. That then has been happening at the same time as our sales have grown very significantly over the period with approximately 60% and therefore we have also of course done a lot of work, as you can understand, where we actually are very proud of what the supply chain team have done in being able to handle all the complexities in a struggling global supply chain. However, what is the case is that just normal lead times at the moment for components are significantly longer than they were before the pandemic, partly due to longer freight times but also partly due to suppliers struggling with being able to capture the global demand, not only from Thule but from other growing companies.

With longer lead times and on top of that more erratic situations and more disruptions with already longer lead times we took a conscious decision in 2021 to, as Jonas mentioned, both invest in our capital expenditure in our plants to enable better flexibility and higher capacity, but also actually on inventory of components and subassemblies so that we can service with the high on-time, in-full. We have decided strategically that we will have to maintain higher than historical inventory levels in order to have this great service of on-time, in-full with a longer and more disruptive supply chain going on. As Jonas mentioned, we feel very comfortable that these products and components that we have in stock are not fashion items. They do not pose a significant obsolescence risk in any shape or form. It is just the way of ensuring a better delivery performance in a more uncertain supply chain reality and with once again giving retailers the opportunity of not needing to order long in advance with us. Returning to that strong performance of next day delivery on-time, in-full approach. We feel very comfortable with the decision in holding those higher levels to capture the long-term upside.

2022 Focus – Continue to drive our growth-oriented strategy

If we then go to the last slide before the Q&A we are looking ahead a little bit for what is the focus for 2022 and the rest of the year. It is always easy to say that we remain following our plan but it is the truth. We have not changed our approach of driving a growth focused strategy. That is unchanged. What we have had to do in the meantime is due to what is going on in the marketplace we have had to implement price increases to offset cost increases. As I mentioned at the beginning of the call, we will implement another price increase in July because once again we have to admit that we underestimated the cost developments. The price increases we did as of 1st January will not be enough. we will do additional price increases 1st July.

Our focus also is to continue to have those great products, come up with new products. We are winning constantly new awards for our new stroller, Thule Shine that is being launched in Q2 for the child carrier back pack Thule Sapling and for many other products. That remains a great focus going forward. We will continue to strengthen the Thule brand in all the ways we communicate with the marketplace. We are utilising the strong back-end organisation to handle that growth in a cost-efficient way. We are continuing to support our retail partners with better solutions across the board.

Product portfolio approach and product development is crucial to this company. It has always been that. Of course now coming up to a Capital Markets Day on 11th May I can already say I hope as many as possible can join us either physically in Hillerstorp or digitally for this event because we will talk a lot about products. In a company that product is king you would not be surprised with that. Specifically this time we will share news about both the existing categories but also the fun thing of launching into two completely new product categories. We have just opened in the last few weeks the new expanded Thule test centres so those that will be joining us or the ones watching the digital event will see a fantastic world-class, state-of-the-art facility for testing all of our products and our new development centre as well as the world's best by far roof rack plant.

What we are also doing in the meantime is we are continuing our big efforts to improve our supply chain setup. We still are doing significant capital injection into our plants to be able to handle the capacity. We are doing that with more automation focus than ever and therefore as we have already announced, we will be running at the higher capex level this year and the coming two years in order to both handle the new categories we are going into and the capacity increases for the current categories. Although you might not believe so after the first quarter, we will be generating strong cash in the company throughout the year as well.

You can conclude by saying, yes, the world is definitely an uncertain place around us and there are lots of things happening. We will need to be very agile and quick on the feet. I think we have proven that extremely well during the pandemic that we are but on a more long-term basis we feel very comfortable with the efforts we are doing and the markets we are in as being positive for the growth of this company.

With that I will leave it open for questions.

Q&A

Daniel Schmidt (Danske Bank): Good morning guys, I hope you can hear me. A couple of questions from me and coming back to what you talked about Magnus on a couple of slides, the inventory build-up of around SEK 500 million quarter-on-quarter. You got this question last time as well and I just wanted to ask it again. It does sound like this is more a sort of critical component that you have sourced to have as big a safety stock and maybe not as much finished goods. Has it had any impacts on sort of absorption of fixed costs during the quarter or rather the opposite like you saw in Q4?

Magnus Welander: Yeah, Daniel, not any effect on our absorption cost because if you look at our mix of what we hold it is mostly components and subassemblies. We do have finished goods of course, as we always have, so no it has not impacted in any shape or form our margin performance or absorption.

Daniel Schmidt: Okay, good. You do mention sick leave or sick absence as a negative. I assume that is related to the pandemic and if that is true, was that mostly at the start of the quarter? How is that looking entering Q2?

Magnus Welander: Yes, you are absolutely right, it was that we had at a number of our plants relatively aggressive Omicron spreads. It is not always necessary your own staff at your plants but maybe their children at their schools and they then with the rules that of course applied, needed to stay home. We had at a number of our plants in Central Europe, both in Germany and Poland, a relatively high sick leave due to those reasons of Omicron pandemic in the beginning of the quarter.

Daniel Schmidt: Did that coincide with the end of government support when it comes to sick leave?

Magnus Welander: If you look at it I think it looks very different in different countries on what worked out in terms of sick leave and support etc. It was not a direct cost due to people being sick in that sense. It was an inefficiency impact that happens when you have to bring in temporary staff, etc for the ones that are not coming in to the offices or the plants.

Daniel Schmidt: Okay but would you say that that sort of sick leave number is that back to normal now entering Q2?

Magnus Welander: Yes. Yes, it is.

Daniel Schmidt: Yes. Then just moving on to the next topic, and I heard you mention this with the media this morning, that of course like every other year before 2022 this is going to be the best year ever and that you should be at least in line with your long-term financial targets when it comes to top line growth, which is at least 7%. At the same time of course we have had quite a lot of price increase in January and you have been stating that you have further price increases at the start of July. Could you give any indication of the magnitude of those price increases and how do you see the profile given those price increases? How should we relate to the 7% that you sort of mentioned this morning as some baseline or maybe the floor, I do not know? Could you shed some more light on that?

Magnus Welander: Yes, it was a long question but I will try to summarise. If you look at it clearly it is the case that we have a long-term target of 7% CAGR over a long period of time. We believe that we should be able to deliver on the target over a long period of time, it is better to deliver on it every year. Therefore the significant impact of this year we have already communicated before would be price increases are going to be a big contributor because we are coming after a fantastic growth year of 2022. The actual growth was always expected to be a price driven growth more than a normal year. We have already indicated that it is high single-digits so you are right the majority is price. I cannot announce what we are doing on price because I have not told my customers yet what we are doing on prices on 1st July but it will not be as significant as what we did on 1st January. It will be more specific by product because there are very different behaviours on what cost patterns are going on with the material costs.

Daniel Schmidt: Yes. Although we do not know what the price increase will be, do you expect volume growth throughout the year?

Magnus Welander: I think if you look at it mathematically to say that there will be hopefully some volume growth. Our expectation was not that it would be a significant volume growing year in 2022. We have a lot of new products coming in 2023 and beyond but in 2022 it is mostly the same products we had. We had a fantastic 2021 so relatively limited volume growth is what we expected all along for 2022.

Daniel Schmidt: Yes, okay. Coming back to the price increases and the need for further price increases comes back to of course the situation that we have in the world and the war that has been breaking out in the past 6-7 weeks or it is two months actually, which has of course taken everyone by surprise, including you. I guess that is the reason why you are seeing the need to further increase prices and that is as of 1st July. Does that in any way mean that entering Q2 you will have less of a neutralising effect on the input cost over a very short time period?

Magnus Welander: Yes, I think that is a natural thing of course. We will be more challenged towards the end of the quarter as we are using up materials that we bought and components that we bought. That is clearly the case that you are more challenged but at the same time we are of course working hard on our way to meet that with efficiency gains and other measures. Overall I think we have to admit for the third time in a row we were not pessimistic enough despite believing we were, which is why we are then adjusting on some products as of 1st July. There is an impact of that, that we are trying to offset as much as possible with efficiencies. I think also it is a nice way to tell your customers, 'I need to do it.' It is we decide to do it because we are a market-based pricing company. We are not a cost-plus company. When the markets move on and the markets are moving on in some categories, we are the one triggering the market to move on. In others we are actually following the market that is moving on. It is more a decision than a need, to be honest. It is a decision to right the price.

Daniel Schmidt: Then the final one from me and you did mention it with meet this with further efficiencies. Operating expenses as a percentage of sales came down quite a bit in Q1 versus Q1 last year. Was that exceptional or is there anything in that number that you cannot extrapolate?

Magnus Welander: No, that was not exceptional. We are and have always prided ourselves to be having a very efficient back-end of our business to handle when we have volume growth. No, that was not anything specific in that quarter.

Daniel Schmidt: Okay. Thank you, that is all for me.

Magnus Welander: Thank you.

Gustave Hagéus (SEB): Good morning guys and thanks for taking my questions. I had two follow-ups. Firstly on this de-bottlenecking of primarily the US production, as I understand it, was that at all a limiting factor this quarter that you had not yet de-bottlenecked that production? Do you expect volume growth sequentially in the US from these levels following expansion of production? If you can comment on that, that would be good.

Magnus Welander: Yes, I think we are now in line. We mentioned a few times during the autumn last year that we were about six months behind Europe in North America in catching up with capacity. We are caught up and I think therefore you can say that what we have seen being helped partly on the results in Q1 in Region Americas was a later catching up with some of that demand that was there than we did in Europe, which was why there was a difference in terms of growth numbers. If you instead take a big step back and look at 2019 performance versus then 2022/Q1 performance the two regions actually performed quite similarly. It was just that Europe had been catching up a bit before. We are going into Q2 with a relatively I would say balanced inventory levels, logical inventory levels with retail in both regions. Aside from some very specific products we feel good about our capabilities of delivering on-time, in-full overall in both regions.

Gustave Hagéus: Okay. Regarding volume growth, you say you hope for some volume growth in this year. Is that also true beyond Q1? Do you see volume growth Q2-Q4 or was this what we got, do you think, in terms of volume growth for the year?

Magnus Welander: I have said a few times we struggle to give forecast to anybody generally. Even in good times we do not do forecasting on a quarterly basis. To do that at the moment you would be mad because the world is so wild. What we believe is that there is a strong underlying global trend for our categories. What we have said is we believe that underlying trend is not a trend different from what it was before the pandemic with a few %s growth. The big challenge in that period will be defined over the second half of Q2 and the first part of Q3 which is when the peak season happens. Honestly, talking to even retailers they do not know very much about what will happen truly this summer season. That is going to be the big question mark.

Gustave Hagéus: When talking to retailers do you get any sense of shifting consumer sentiment on the back of everything that is going on with energy prices, inflation and all that? Do you get any sense of mixing down?

Magnus Welander: No, I think the only strong signal there still very positive signals that people are planning to do their local vacation and are planning to be active also this summer. Planning to do things. I think the single biggest change is [inaudible 37.37] that some of them were so strapped with capacity from their various brand suppliers that anything sells. If you would ask a sport and outdoor or bike retailer a year ago or nine months ago they could have sold any bike from any brand at any time. It has started now finally becoming more normal again. It is the right bikes from the right brand at the right time. It is becoming a more normal situation. There was a little bit of an opportunity for retail to sell anything. That is not going to be applicable. When we talk to them they feel that consumers again will be more picky. They want the right bike, not any bike of any colour with any gears from any brand but the right model with the gears from the brand they chose, etc. That is more a normalisation of behaviour but with a general positive outlook.

Gustave Hagéus: Yes and just to double-check there is no element of your new categories in the working capital build, right?

Magnus Welander: Correct.

Gustave Hagéus: Okay. Thank you, those were all my questions.

Magnus Welander: Thanks.

Mats Liss (Kepler Cheuvreux): Hi, the inventory build-up here in Europe compared to last year when you lost sales because you did not have sufficient inventory, could you give some flavour about those two components to get a view of year-over-year growth?

Magnus Welander: I think generally when you look at that situation Mats it is a question about often in a category it is you versus others. You might not even lose sales if nobody else is doing it better than you did and last year we did it better than our competitors in terms of supplying to the demand that was out there already. Even if we were not capable of doing it with the same high on-time, in-full as we normally do, we did it better than most of our competitors. What we are wanting to ensure is that that happens also in 2022 which we are convinced it will because we now have a very good capability of supplying on-time, in-full. What that gives us is of course if the season is positive we sit in a very good situation to capture those upsides. I would not say from a competitive point of view that we see any difference or losing sales last year or winning this year. It is just more of expectations on any brand is to do a better job in supplying on-time, in-full which [inaudible 40.33] lead times in 2022 from consumers and from retailers than it was in 2021. We have prepped ourselves to be able to meet up to those higher expectations. That is what we have done by building up the inventory.

Mats Liss: Great. Then much more is happening in Europe compared to the Americas. Could you bring the position, the inventories towards Americas at this stage or is it too late?

Magnus Welander: I think if you look at it, as I said, our inventory situation is strong in North America as well. What we generally do, so to be clear, is there are certain amount of products that we manufacture in Europe. All roof racks, for example, are made in the Hillerstorp roof rack plant where we are holding the Capital Markets Day, including the ones that we are selling in North America. Of course while that is components we do not have them shipped over there. They are still sitting in European manufacturing facilities as components. Some of the bike carriers that we sell in North America are assembled in our Polish assembly plant, etc so there are some aspects on that. Aside from that our inventory is in a positive sense built up in both regions now.

Mats Liss: Okay, great. Coming back to the price increase I lost you a bit there. Did you say that the price increases you plan or need to do at mid-year are more limited than the ones you made at year-end?

Magnus Welander: Yes. I do point out need is maybe not the word I would use. We have decided to implement price increases because need seems a little bit greedy when you are a 22%+ EBIT margin company. However, we have decided to implement price increases from 1st July as well. They will be clearly less than what we implemented from 1st January.

Mats Liss: Then about the supply of bike maybe and RV vehicles also, you mentioned the problems with RV manufacturers having producing and you are more exposed to retail. Do you expect the same situation with bikes? The lead times to get the new bike to have a specific one could be long.

Magnus Welander: Yes, the bike industry is more interesting there Mats because what you can say in general that has happened is that the more simple basic low-end bikes the bike industry caught up with earlier in terms of capacity because they were easier to ramp up capacity for. I would say that there is no bike retailer around the world that is lacking cheap, entry level bikes. There are plenty of those in store across the board wherever you go now. It is not the basic most simple bikes that is a challenge in supply chain at the moment. It is actually at the other end of the scale so the more premium e-bikes, the more premium downhill bikes, the more premium mountain bikes, the more premium road bikes where they are still not fully meeting their capacity and where you are correct if you would go into some of those bike retailers today they might give you still a very long lead time for some of those top-end bikes still today. I think it is not nearly as bad as it was a year ago where the bike industry was incredibly far behind. They are in a much better situation and have completely caught up with the cheaper bikes but there is still some way for them to go to create normal lead times for the more premium bikes.

Mats Liss: Great. Just about the RV vehicles, could you remind me the mix there between OEM production and retailers?

Magnus Welander: If you look at it you can say that historically we have had 55% roughly to what I would call not retailers, to be honest. It is dealerships which sell motorhomes and they are often actually even associated with the same manufacturers that is more than the OEM where somebody orders the vehicle from the manufacturer with some of our equipment on it. Since our equipment is mounted on the outside of the vehicle that is a relatively late process even when it is an OEM product. However, then what happens often is that you go to an RV dealership, you point out which Hymer[? 45.22]/Eura Mobil motorhome you want to buy and then you tell them, ‘I want that Thule bike carrier and that Thule awning on it.’ That is when then that split happens as to what percentage goes to both.

In a period where motorhome manufacturers have been having very strong order books and putting out a lot they have tried to standardise their manufacturing lines by designing from the beginning what a vehicle should be equipped with because that way they could standardise and make their planning easier. Now when they have been struggling to get enough chassis what is positive for us, as we have such a strong dealership relationship and sales channel as well, is that we have not been as dependent on motorhome manufacturers deciding what equipment to put on. Instead we have been able to sell to the dealerships and still had a strong performance.

Of course over time if it takes too long for the motorhome manufacturers to get their capacity up and getting chassis, at a certain point of time also the dealerships will be starting to lack too many vehicles. But at the moment we have seen that we have been able to compensate supplying product to those motorhomes, vans and caravans that were already at dealerships.

Mats Liss: Okay, great. Finally about capex guidance, you mentioned that there are lead times for getting the machinery needed to upgrade production. Will that push the capex forward into next year? Could you give some guidance there on capex?

Magnus Welander: We were lucky or correct or a combination of both. We felt there was a risk already in late 2020 and early 2021 that there would be a lot longer lead times on automation equipment, on larger CNC machines, etc and on even building materials. We committed quite early which is meaning what realistically is the case is if you have a comparable automation robot or a comparable thermoformer or bending robot or whatever I would argue that lead times have been extended quite significantly. In that capex plan that we presented on what we would have as capex levels in 2022, 2023 and 2024 we have already taken that into account so there is no major shift in our capex spend. We are running according to plan despite those longer lead times that we have taken into the plans.

Mats Liss: Okay, great. Thanks a lot.

Magnus Welander: Thank you.

Karri Rinta (Handelsbanken): Not surprisingly I would like to ask a few questions about the inventory. Firstly this year-on-year growth that we have seen can you help us understand how much of that is volume and how much of that is value? I am mostly interested about the value part. How much have the increasing costs contributed to this inventory increase?

Magnus Welander: I think you have to do two things. As always Karri you have to step back and say we had far too low inventory entering into Q2 last year. First we are normalising what would be the right type of levels which therefore by default means units because you need to have more units of components in stock to be able to fulfil a greater sales out there. the vast majority of our growth is units of components. Then of course, as we mentioned since we are needing to implement significant price increases, there is a cost increase on those components that we have which is then matching in a logical way, as you have seen, with our gross margin that you can guess what we have done to our prices we needed to do because the costs have gone in a similar way.

Karri Rinta: Okay, fair enough. Then the composition of your inventory because if I look at the Annual Report it says that at the end of last year 70% of your inventory was finished goods. Is that still the case or has there been a tilt towards components and work in progress in the first quarter?

Magnus Welander: There is more components and work in progress in the quarter which is natural as we are stepping up. Some of those finished goods that we had at the end of the year are longer lead time finished goods from South East Asia where we always have historically, even long before the pandemic, had some worries about start-up after Chinese New Year and situations around that. We have some of that and then also at the very time of ending the year we had quite a few winter products that are ready to just go out in that peak winter season. There is some of that. Then naturally due to the seasonality we have for the bike-related categories in order to be able to cope with the growth that we have in the first half of the year we do have some finished bike carrier products also. There is a shift more towards components in the quarter as we sold out some of those finished goods that we had as a percentage at the end of the year.

Karri Rinta: Then finally on inventories given that typically you see a sequential decline in the inventories in the second quarter and now since as you say the start to the bike season was maybe a little bit later you would expect inventories to come down sequentially in the second quarter.

Magnus Welander: You are right, what we have to do is we have taken a conscious decision and that conscious decision is to make sure with the longer lead time items and with many disruptions in supply chains we see the peak season as the one where we want to be able to get the confidence back from all retailers that on-time, in-full next day delivery Thule is back to what they have always done so well. To do that we are going to be focused on not trying to reduce too aggressively to just show a good quarterly report, which means if we go back to that normal summer season pattern we want to see it is ending late-August. It is really in quarter three, as historically has been the case, where you will see the true sequential drop of inventory levels because we do not want to jeopardise by trying to be goody two-shoes on inventory reductions and then finding ourselves with still long lead times and potential disruptions in a peak season and thereby frustrating consumers and retailers once again with not good enough delivery performance. It is more Q3.

Karri Rinta: Right, fair enough. Then finally does this have any implications on your own direct-to-consumer efforts given that you now have the inventory? Do you see yourselves being more aggressive and more specifically are you planning to launch or open new countries in 2022?

Magnus Welander: I can take the last question first. No, we are not focusing on new countries. Having during the pandemic period opened quite a lot of large European markets and already being in North America and Brazil we feel comfortable that the focus is on ensuring a stronger growth performance in those. Yes, you are right, we have already communicated that we expect as of 2022, which was the case already in 2021, that the fastest-growing channel to sales will be our own direct-to-consumer but not specifically because we are pushing it as our effort. It is more because it is a natural thing from a consumer trend and as you have pointed out then Karris is we penalised ourselves a lot as we did last year by not having that performance. Over time we believe we will more than have our fair share of growth and the fastest growth in our own D2C.

Karri Rinta: Perfect. Then my final question is related to selling expenses. Pre-pandemic they were about 18% of your sales. Now they are 14% even in the first quarter so how should we think about this going forward? Is this the new normal or are there some costs that will creep back up once the trade shows and physical events of that type are fully back?

Magnus Welander: We are at the type of levels we expect to be. We have always said that when we now have been seeing that top line growth we have a lot of selling expenses that are back-end related functions. Yes, there are already in these numbers quite a lot of local fairs. I have mentioned a few times we do not believe that the return of big local fairs will ever happen even post-pandemic. That is all the indications we are seeing that those really big global fairs probably will never come back. What is taking place is a lot of local events. That is already taking place in Q1. We have had a lot of stroller and bike events locally in markets taking place already in Q1. I think that will continue. In the meantime we have seen that with the growth that we have seen on top line we will be managing at these type of selling expense levels.

Karri Rinta: Perfect. Thank you very much.

Magnus Welander: Thank you.

Peter Testa (One Investments): Hi, I just wanted to come back following up on the inventory cost part. Your inventory lifted in Q4 first and then it stayed high in Q1. You have had material increases coming through that period so I was just trying to understand are you saying that your inventory value component, the price component is roughly similar in Q1 and Q4 or is there still an increase coming through in the price component on value of inventory?

Magnus Welander: I am actually not sure I understood your question there.

Peter Testa: Okay. Say if your cost of goods was 100 and then 110 and then 120 it should be working its way through in time. Your answer to an earlier question suggested that there was not a significant price component in the inventory. It is more reflecting the volume need. I was trying to understand was there any sequential value or price component in there between Q4 and Q1?

Magnus Welander: Yes, there is a continuous value as if any cost increases as time goes by, by quarters the value of course there is an impact over time. What I was saying is it is not a significant difference. That was already happening as we were pursuing throughout the [inaudible 57.07] throughout the beginning of the year.

Peter Testa: Right, okay. Can you please give some context on what you are understanding from your supply chain about their own inflation pressures and how they may have evolved or changed since the last couple of months as we have seen raw materials and maybe labour? Any comments you can give on how that is evolving compared to what you have seen thus far to give it a benchmark?

Magnus Welander: I think in general there is no surprises since we are very standard raw material components. In aluminium, plastics and steel there is very good indication historically on what those levels have been and those you can track and follow yourselves. You see that those are not dramatically changing but when Russia invaded Ukraine you saw some pick ups of some of those materials, especially aluminium for example. When you look at labour rates there was an expectation already from our side that we would see some of those increases. In some countries they are actually slightly higher which is one of the reasons why we are saying we have decided to implement further price increases. Then on freight you have seen some cooling down of the absurdly high freight expenses to the North American markets from Asia but any significant reductions. That is the situation we see. It is mostly the raw materials and in some countries some wage inflation.

Peter Testa: Okay. Then to try to understand your comments around volume, there has clearly been some benefits as your retail customers have caught up on inventory which has helped volume. Are you able to track what you see, how important that has been and maybe what you can see on a sell-out basis as well?

Magnus Welander: I think what is important to take a step back is that since 2019 we are 64% up and the majority of that growth over this period has of course been on top of what was already strong categories. We have been amplified by a situation of people staying at home and doing things. We have therefore not caught that at the normal timing in a season over the year because we could not simply cope with that type of capacity growth. We have had a delay impact of the growth that we have captured later. As I said, a good indication is Region Americas catching up later because we had a longer lead time to get the capacity up. Region Americas catching up doing 27% growth versus Region Europe & RoW where we were already in line, if you look at that we feel that Europe already as of quarter three had the right inventory levels at retail. There has not been any type of stock filling or filling up in stores during that period, while North America still has some of that impact. There has been a delayed reality in North America leading all the way into Q1. That is not the case anymore. We are very nicely filled. We of course have very good track record with all our major retailers on sell-out and we feel comfortable that as we have said sell-out continues to be strong. Otherwise we would not be selling 64% more than we did three years ago in the first quarter. However, clearly there has been a catching up especially with North America catching up later on now in Q1.

Peter Testa: Yes. I was trying to understand maybe on the sell-out maybe Europe is a cleaner understanding but at the same time you sell different products this time of year than you would necessarily had been stocking in Q3 and you were low stock last year so you lost some sales. Maybe if you could give any sort of view on what we are seeing now as basically a sell-in equals sell-out or is there some category mix effect in Europe? Is that a good indicator?

Magnus Welander: Yes it is sell-in, sell-out definitely in Europe.

Peter Testa: Okay, that is great. Thanks very much for the answers.

Magnus Welander: Thank you.

Stefan Stjernholm (Nordea): Hi, I have a question on pricing. There have been quite a few price increases and another one is coming up now in July you say. How do you view the risk for volumes given that end demand seems to have slowed down a bit?

Magnus Welander: I think once again it all depends on how you look at your prices versus competition and how you look at what is market-based pricing. Also in terms of how you look at is this a type of activity that people will want to do this summer as well? How high do they rate the importance of doing those type of activities that we provide product for? If you look at it we are not doing anything extraordinary in the marketplace pricing reality. We are not shifting our competitive position in any direction. We are not becoming significantly more expensive versus competition than we were before but not the other way around either. We are not becoming significantly less expensive than the competition than we were before. On a marketplace comparison basis we are not going to lose or gain anything by doing these price increases. If you look at it from a consumer behaviour and consumer purchase behaviour view I think we have said a few times that we feel confident that the type of consumers we service and the type of interest they have in those activities in wanting to do them that we provide product for makes us very comfortable that there will be many other things that they will start to reduce on before they choose to reduce on this type of activity. On going on their long weekend with their family, cycling somewhere or taking a trip with their friends somewhere during the summer vacation, we believe that those categories and those things will continue actually.

Stefan Stjernholm: Okay, thanks. Thanks for the question.

Daniel Schmidt (Danske Bank): Yes, just a short follow-up from me. Coming back to what we talked about in terms of the investment plan that you are some way into and the automation of production. When do you think that this will bear fruit in terms of increased production efficiencies or is it already doing that? Where are we in that process?

Magnus Welander: Yes, you are absolutely right, this is not a binary that now the investments are in place and it becomes brilliant. There is a continuous rolling in of better production of various product lines and various categories as it constantly is happening. That is much more continuous. It is clear that if you look at some of these things are for those big launches we are doing next year so there will be bigger impacts in 2023 than there is in 2022 because we are doing these big automation investments as we speak. They will then be better utilised when we do mass manufacturing of those products in those automated lines next year. There are some of these that are already happening and there will clearly be more then happening in 2023 and beyond.

Daniel Schmidt: Alright. Then maybe a second topic that maybe you are quite agnostic I guess when it comes to sales channels. Looking at Europe especially and maybe also the US there is quite a shift now back to offline. Is that in any way impacting your sales do you think in either direction?

Magnus Welander: You are right Daniel that I am agnostic in the sense that we make good profit margins with whichever channel we sell in and whichever type of channel. We believe that this type of product that we do which is then a clearly physical item which is relatively large where you truly understand how much better our product is only when you really touch and feel it compared to some of the flimsier, not-so-good competitive products, there is a good importance for us that people can return into stores. It is easier to make a product look good on a digital home page than it is in a physical store so we think it is very good for the long-term that there is this healthy omnichannel mix. From a profitability point of view we are agnostic because it does not matter that much for us in which channel it is sold. In terms of strength with supply we are equally strong in supplying both so our market share and our position is equally strong there. We feel good about that as well.

Daniel Schmidt: Alright, good. Okay, that is all for me. Thank you.

Magnus Welander: Thank you. Then I want to thank you all for having listened into what was a very strong start of the year with a very strong performance. We look forward to hopefully hosting you all for our upcoming Capital Markets Day on 11th May. Thank you very much.

[END OF TRANSCRIPT]