Thule Group

Thule Group – Q3 Interim Report - 2022

Thursday, 27th October 2022

Introduction

Magnus Welander

CEO, Thule Group

Welcome

Good morning, ladies and gentlemen, for the third quarter call in the Thule Group. And what a quarter it has been to say the least.

Executive Summary 2022/Q3: Rapid slow-down in bike related categories

So we move to slide two in the presentation. And it is clear that what we have seen in the third quarter as the quarter started has been a surprise to us. If we remind ourselves, first and foremost, what we said after the second quarter call was the fact that we saw a clear worry in that bike retailers were sitting with significant stock levels.

However, we grossly underestimated their decisions to act in a very abrupt and very decisive manner to ensure that they didn't continue to build up inventory rather that they aggressively reduced inventory. So when we entered into the third quarter, we started seeing signals in July, and those signals became very strong in beginning of August, which is also why we then announced a warning that we saw a significantly different behaviour in the bike retail sector.

The bullwhip effect that we then discussed and have walked through after that announcement. So we end the quarter with SEK2,139 million sales, which is a 29% decrease versus prior year.

When you think about that, you also have to, of course, remind ourselves, as we pointed out numerous times that we had an exceptionally strong 2021 third quarter. That third quarter in 2021 was boosted from the fact of catching up with backlog and on top of that with a very optimistic view from retailers with consumers buying a lot, thus catching up with backlog and retailers wanting to fill up. So we had a fantastic third quarter.

When we compare it with 2019, for example, we have to remind ourselves, still even with this weaker result in this quarter, 23% up in sales versus the same quarter just before the pandemic. The performance was equally weak in both regions. We were 29% down in both regions. And what then happened, despite having a very flexible operational model in terms of how we staff our various plants, we were underestimating the incredibly fast slowdown and a rapid decrease of sales. Therefore, we are ending up with a very clear volume impacting hit on our gross margin.

So you get an impact on the fact that we actually could not handle a decrease as fast. And we also have a number of activities in building up our plans for future categories undergoing at the same time. So there was a volume negative economies of scale of our production overhead.

On top of that, there was a negative product mix because the categories that we sold less of in the quarter, so the bike-related products like bike carriers, bike trailers were and are higher average gross margin product, while the product that we actually did very well with and grew in the quarter, Packs, Bags & luggage and specialty RV product had a generally lower average gross margin. So there was also a negative gross margin effect due to product mix.

And then finally, there was, of course, a clear negative FX effect. And on top of that, we still are encountering high cost for raw materials and freight, where we have done the right levels of price increases. But if you look at the total combination of all these factors, we saw the gross margin drop down to 33.9%.

We had decided that we would continue to invest for the long term in terms of product development efforts and that we absolutely did in the quarter. And we've also decided that we continue to push forward in preparing our sales and marketing efforts for entering into the new categories of car seats and dog transport, participating in a number of fairs and events and producing marketing material for these new categories.

So that meant that our SG&A spend actually on product development than we were actually in the quarter at 6.7% of sales versus 3.8% in the same quarter last year. And that was also partly due to that, as you might remember that we announced that in 2021 with all the challenges in the supply chain in terms of getting components from suppliers and longer lead times on tooling, etc., for new products we decided to delay a number of product launches as we were not sure we would be capable of mass manufacturing in the right way in 2021, moving those costs now into 2022 for big launch year in 2023.

So a very significant additional spend on the EBIT margin due to that higher product development spend.

So if you look at it from all of those ways, a tough quarter definitely financially. The operational cash flow was positive in the quarter. So we look still a business that we are okay with when you compare with 2019, but of course disappointed with when we compare with the exceptional 2021.

2022/Q3 – Net Sales and EBIT development

If we go to page three in the presentation, and also then not only talk about the quarter, but actually also the year-to-date numbers, you can see that year-to-date, we are 7% down on sales and that we have a margin to decline on EBIT margin level from 25% to 20%. And clearly, it is an economies of scale logic that is hurting us as you see in this, combined with a long-term ambition growth that is driving a higher product development spend and some staffing that we are bringing in for the sales and marketing efforts in our new categories.

Thule Group Sales by Quarter (Reported currency)

If we turn to slide four and look at quarter-by-quarter performance during the first three quarters, and then also compare with the historical past, you see, as I mentioned, how this year has been a very challenging year for the company in managing expectations internally on what we are planning to be able to produce and what we have then seen happening in the market.

We started the first quarter with a fantastic performance as retailers, especially within the bike sector, we are very optimistic about the season to come. After also us despite doing better than most brands had struggled a little bit during the pandemic growth year to be on time in full delivering in our traditional ways. That meant that bike retail especially, but also other retailers in the late autumn and the autumn of 2021, going all the way into the first quarter of 2022, wanted to assure themselves of having enough product and stock, should they have difficulties in getting deliveries during the season.

So we had a fantastic start with quarter one, both versus the very strong 2021, but of course, even more so against 2019 with a 64% growth versus 2019. We then saw a solid second quarter with a performance, which was 43% above 2019 and 3% above the very strong 2021.

And then we came into the third quarter. And where we then see, as I said, once again, a 23% growth versus 2019, but a clear decline of 23% versus 2021 in reported numbers. What then that means for us was, of course, that we were in a situation where we needed to adjust staffing levels. We haven't talked so much about that in previous reports. But considering the significant sales drop, it is, of course, important that we walk you through what we have acted upon and how we have done that.

So historically, we presented many times that the operational setup in the plants that we have in the Thule Group and nine owned plants we have is built on a three tiered level with fixed workforce that is there to be full year there. Temporary workforce employed by the Thule Group for those big seasonal uplift that we need to have in our plants in the first half of the year to ramp up production to be able to cope with a on-time and full next day delivery reality that we face with retail.

And then a third level with an even shorter flexibility taking in outside agency workers for those more simpler tasks in those plants, at the very peak of the season, where we could then adjust quicker if there are certain models, certain versions or certain plants that need more or less staff.

So that is a model we have been working with in years. We discussed it a bit during the beginning of the pandemic period that, that stood as well when we needed to quickly act and step up.

When we look, therefore, of entering into 2022, we were optimistic buoyed also by a very strong start, as you see in quarter one, exceptionally strong start, but we were feeling that as we had communicated, we had a clear plan to reduce our inventory levels throughout 2022 because we were feeling, we were getting better on top of a more stable supply chain from a supplier base and also a better invested right capacity levels in our own production plans to handle also a higher output in the peak season.

So we had the peak of staffing in mid-March. If we now compare versus mid-March, we are 1,150 people less in the company today. We are about 530 people less than we were exactly one year ago. So that means we have truly deployed the first flexibility layer throughout the last two quarters of taking out all the agency workers. We are furthermore not taken in and earlier stopped all the temporary work for Thule, and we have even taken steps to lay off some of our fixed workforce in some of the plants, specifically where more automation have been implemented for new products to come.

So throughout this period, 1,150 people less than when we were peaking in mid-March. That is what has enabled us to not grow inventory. So normally, if you would have seen with such a significant volume drop in sales, as we have had to see in 2022 quarter three, you would have expected that our inventories would be going up significantly, but we were already acting early in an ambition that we had to actually reduce them. We have now just kept them at the same level.

Realistically, therefore, we are now looking at a near future with many uncertainties. We have a clear uncertainty in when the bike retailers will start to ease up on the complete break they have put on ordering, and of course, there is also in the general world economy today, more worries in general, not only in bike retail, but among all retailers of how much inventory should they sit on. And there is, of course, also a worry among many consumers. That means we are clearly aware of many uncertainties in the coming quarters that we need to be acting and be very agile or flexible.

We are in a low season in our business. In the low season, therefore, normally, we would start to ramp up production. We are not doing that. As I mentioned, we are more than 530 people fewer today than we were at the same time last year. And that is because we are not planning to ramp up production. And the reason for that is we have inventory in hand to be able to handle that upside and those volumes as they come.

The good thing is that inventory we are sitting on is a very fresh inventory. It is high volume products that will sell out fast. We have no worries about that inventory freshness whatsoever. So we feel very good about that. But what it does is, of course, it has been a very tough period for all of our plant managers and all of us in senior management having to announce and inform so many people that we do not need their services until we come into a peak season again in 2023.

When we come into that peak season again in 2023, we will once again deploy our flexible model of adding temporary workforce, and then adding agency workers in the right way to handle the season of 2023.

But due to a very, very strong comp period, as we said about fourth quarter 2021, an exceptionally strong first quarter 2022, we will be facing some very tough quarters in the coming months. And then we will see how well the market will pan out. We are extremely confident in that bike and bike retailing will go back to normal levels. Exactly when, will be the more bigger questions.

We have said that we have had a strong performance on the RV product side. And we continue to have a very strong performance in the third quarter. The European motorhome manufacturers enjoyed a strong quarter, and we enjoyed a very strong quarter as they were finally getting access to some chassis.

In their order books, it looks brilliant still, also for the coming quarters. The big question mark here, is this erratic delivery of chassis from the large chassis manufacturers? All indications are positive. So we see strong quarters coming ahead in RV, but it is dependent on that chassis supply.

Thule Group Sales by Quarter (Reported currency) – Bike related to Total

If we turn to slide five, and look at a slightly more detail than what we normally would have shared in terms of exposure to various categories, we can see the importance of the bike-related products that we have within all our four product categories. So we have announced and talked about many times have been reviewing it again that we have a high share of bike product in two of our product categories, the highest share within juvenile and pet as the global market leader in biking solutions, a premium biking solutions for your kids with bike trailers being the biggest one, but also bike seats.

And we have a high share in Sport & Cargo carriers with Bike Carriers as well being the biggest category within that. Within RV products, we have a relatively much smaller share as the Awnings and Tents part is the biggest, but still quite a significant one. And then a very small share of our Bike Panniers packs, Bike Hydration packs and Bike Transport cases in the small Packs, Bags & Luggage category.

If we look at the separate quarters in 2021, which was once again been an exceptionally strong year across all categories, except Packs, Bags & Luggage for Thule Group, but even more so within the bike-related. You can see the share levels that were peaking in second quarter, but still also very high in 2021 for the bike-related business in all the four product categories.

We then continue to see a very strong performance in 2022. As you can see, in the first quarter, very similar levels with a similar performance in bike, but a stronger performance in the non-bike-related in the first quarter. You then see that we started to have a smaller share of our business in the bike-related as we outgrew in the non-bike. And then you can see the very significant drop of bike-related business in the third quarter versus the exceptionally strong third quarter 2021 for bike-related.

So if we look at it, it is clear that we have seen that bullwhip effect hurting us by far the most in the third quarter. It will continue to be very bad from a bike-related sales in the low season that we are now facing in the fourth quarter, and also you have to remind yourselves or I can remind you that the first quarter 2021 and 2022 are exceptionally strong for bike because retailers were worried in not getting inventory in the first quarter in 2021, we were still filling backlogs after they had sold out of our product during the end of the pandemic season.

And in 2022, we were selling very big amounts of product for them having a very optimistic view on how the market would develop during 2022. That will obviously not be the case now the coming two quarters. So we will see a very much smaller business in our bike-relating for these two quarters.

Region Europe & RoW: Bike retail hits the brakes

If we go to the next slide, we will see a little bit of breakdown on the European and rest of world region. The message is really the same for both regions. It is the bike-related business, first and foremost, and its very rapid slowdown that is hurting both regions. But there are some differences in terms of what we are exposed to in the other categories.

So if we look at it, we had a strong start for Roof Racks and Boxes during what I would call the summer vacationing period with very strong sales growth, especially versus 2019, but also clearly so versus 2021, but a slowdown in the ending part of the period.

Within RV products, we have seen a very strong business as the motorhome manufacturers now have getting finally a better okay delivery of their chassis and are catching up with those big, long order books they had, which enables us to sell more awnings to those new vehicles coming out to the market. So that was very strong in the quarter.

And in this, considering that all our RV product business almost is in Europe, that was significant for the region.

In the Juvenile & Pet category, we are very strong in all those markets where you commute a lot with your children to and from kindergarten. And in that business, as we have mentioned already before, it was a situation with a lot of other brand levels of B, C and D brands, bike trailers and bike seats also in the market. So that has been a tough part of our business.

But the stroller business has pushed on very nicely in the quarter. But here, the bike trailer business is still much bigger. So it still was a negative quarter for the Juvenile & Pet.

In our smallest category in this region, Packs, Bags & Luggage, we see nice growth. Once again, that is also partly due to what you compare with because we all need to remember that 2021, we are still struggling to recover in terms of people going back and forth to work. Many people are still working from home. Many schools were not fully opening up, and, of course, also less international travel.

There is still a relatively limited travel in Asia, but also there, it is now starting to pick up. So we see very positively about this category in the coming quarters.

The Southern Hemisphere in the quarter was actually performing better than the Northern Hemisphere on a like-for-like basis, but it is significantly small.

Region Americas: Bike categories hit hard

If we look at the next page and look at then what the region Americas performance was, similar situation in terms of bike carriers. Here, we had a very strong box sale period, once again, many in North Americans doing local vacationing buying new roof boxes, so a strong performance there.

In this part of our world, the Juvenile & Pet has significantly less bike-related products because people simply do not bike commute as much with their children in Canada and the US, some in Canada, very limited in the US. It is more a weekend exercise. Therefore, our stroller business is more important. And here, I would say that our biggest internal disappointment of all, sometimes it is difficult to sail against the wind. But in Juvenile and strollers, we are not happy with our own performance in the quarter in North America. And we have taken some actions, changing some of the senior management and sales staff and marketing staff due to that situation and announcing those changes actually in the first week of October.

If you look at the small niche category of RV products, it continues to grow strongly from a very small base as the smaller vans with more premium Thule products are becoming more prevalent. But it is still a very small business. Also here, the Southern Hemisphere with Latin America performed better than the large markets in the North American part of the business.

Here, Packs, Bags & Luggage is much more significant. So here, that was clearly helping us in terms of commuting at universities often started to pick up and also air travel. So overall, a good performance in the Region Americas for Packs, Bags & Luggage, and I'm sure that, that will continue in the coming quarters.

I now leave it to Jonas to talk a little bit more about the financials.

Financial Review

Jonas Lindqvist

CFO, Thule Group

2022/Q3 Reported income statement

Thank you very much, Magnus. We are now on slide number eight. And I will concentrate on the quarter. There are a few things that I would like to emphasise and reiterate some of the things that Magnus said.

We are still looking at very tough comps for the same quarter last year and with a substantial increase caused by staycation and increased cycling. A more normal long-term trend of comps is found in the years preceding 2020.

Reported sales for Q3 this year came in 23% lower than last year. And if we apply the current exchange rate to last year's Q3, we get a reduction of 29% this year. And it is the drop in bike-related products that is the main reason for this. The gross margin is 34%, which is 7 percentage points lower than in Q3 last year. The big difference compared with the same quarter 2021 is that the volumes are much lower, which has an impact on gross margin through lower absorption of fixed costs.

The lower volumes are in the bike-related products as we heard, where we have higher than our average margin. For this reason, we also see a negative product mix, where non-bike related products, thereby automatically get a higher share of sales. Overhead cost has increased from SEK455 million to SEK531 million or 8 percentage points seen in relation to sales.

However, half of the increase in the cost, SEK40 million, relates to unfavourable exchange rates and the remaining increase relates mainly to R&D costs for the new product launches as well as costs for handling the currently high inventory level.

The EBIT margin is 9% to be compared with 24% in Q3 last year. To put the lower margin in the quarter into a bit more of perspective, the average margin in Q3 for the years 2017, 2019 was 17%. The finance net in the quarter is lower than Q3 last year because of higher utilisation of our bank facilities and the higher interest rates. The tax of SEK39 million corresponds to a tax rate of 22%.

Thule Group Financials 2022/Q3: Cash Flow

We now move to slide number nine, working capital and cash flow. Operating working capital was SEK3,557 million at the end of Q3 2022, which is considerably higher than at the same time previous year and relates to the increase in inventory. After having difficulties to meet the demand in the beginning of last year and also to be better able to handle the challenges we face in the supply chain at that point, we decided to increase inventory levels.

We did, of course, not foresee the drop in sales of bike-related products. We expect to see the inventory to go down during 2023 as the next bike season takes off. The ability to provide short delivery times to our customers, which is such an important part of the Thule business model is now, of course, restored.

What we said when we decided to increase the inventory was that the products that we stock must have good margins, the core products that are sold in large quantities and they must have low risk of obsolescence.

The operational cash flow for the quarter was SEK490 million to be compared with SEK525 million last year in Q3. The main driver of the cash flow in the quarter has been accounts receivables that had a positive effect in the cash flow statement as a consequence of the lower Q3 sales.

Capital expenditure was SEK116 million in the quarter, which is on the same level as last year and relates to investments made in the production. Thank you.

Outlook

Magnus Welander

CEO, Thule Group

Coming quarters – Operational focus to handle challenging market

Thank you, Jonas. We turn to slide 10 and the focus for us in the coming quarters. The coming quarters will be very much about daring to look the long term but being agile to act in the short term. The volatility that we have been seeing over the last few years has struck me starting to get old now, but as a 55-year-old and 30 years of working, I have never seen as much volatility we have been seeing. Actually, there has been more volatility in 2022 than there was even during the pandemic period in terms of order levels between various products, various retailers, various models.

So a key focus, of course, on the company side now is to be daring to be long term, but also acting very agile in the short term.

We are facing some exceptionally strong comparative periods, two fantastic quarters the 2021 Q4 and 2022 Q1 comps. So that is a reality. We are also facing a very cautious retail sector dominated by the extreme portion and overstock levels that we see in the bike retail, but also generally, as I am sure you are hearing from all retailers when they are announcing their numbers and their views, a very cautious view on how much do I want to sit with inventory ahead of the season, ahead of anything.

And now as we have restored a very good high on-time in full that we, of course, will not drive behaviour in a negative sense to retailers to stock up in case Thule cannot supply because they know we can supply. Then obviously, with the global market reality out there with the concerns about many things in mind the general consumer that is also going to be a very uncertain difficult thing to judge what will and may not or may happen.

So what we have done, as I mentioned, due to the fact that we do have very high inventory levels is that we are significantly fewer than we were at the same time last year and more than 1,100 persons less than we were only by March. That is a fact that we need to be dealing with. The fact is also that we will see due to the types of categories we will be selling in the next two quarters, especially a negative product mix in terms of our gross margin behaviour because the better performing categories at this point of time are the ones with, in average, lower margins than the ones that are not performing well.

What we can then say is, I can assure you, we are very focused on dealing with those agile short-term decisions that were equally and if not more so also focused on being convinced that our long-term strategy is right and delivering on those things that will fuel the long-term growth.

Being a product testing focused company, product development is, of course, key here, not only to enter into big new categories as car seats as we are doing next year with very significant spend this quarter and the coming quarters for that or in dog transports. But also, of course, we are coming with some very important new volume driving models across all our current categories as well within many of these that will be key for the coming years in volumes.

We are actually also continuing with capacity expansion with automation for those key volume products, where we will have lower levels of staffing and more automation on the new products that will come to market than the similar products that they are replacing. And of course, we are beefing up our capabilities of mass manufacturing car seats in our own plant in Poland.

But we have already been adapting in an agile way versus the capacity CapEx on other things like vending robots, welding robots, etc. For more general capacity needs, we have already decided and acted on the number of reductions versus what we were previously seeing. Simply, we do not need that specific capacity at this point of time.

We are continuing to spend efforts and time and money or improving our B2B solutions. We have just launched a complete new extranet solution for all our retailers. We are doing a big upgrade project at Thule.com for our direct-to-consumer tools, and we will continue to push those because we are convinced they are the right for the business in both in the mid and long term.

We have also decided that we are not implemented additional price increases in January. The logic is this. We are now seeing a more stable reality in terms of input materials. We will be clearly seeing inflationary pressures on the more value-added part by suppliers in staffing levels and energy costs as well as in our own plant. But that is something we have always said that is our job to be able to efficiently compensate for, and it has been the direct material and direct logistic cost increases we have been passing on.

Therefore, with the price increases we have done and as recently did do in the 2022 midyear, we are comfortable with the level of what we are getting into the year. Should that change, we will, as we have done in the last two years, need to adjust by midyear, but our view is that we will not need to do that as we see the business now, and we would not be doing price increases in January.

There will, of course, still be some positive price increase effect coming because of the midyear increases this year with less volume than expected are going to have next year a full year effect. So there is some positive still from this midyear price increase.

I have been getting questions from Board members and others about how supply chain going. We are actually starting to feel it is in a relatively stable [inaudible].

So you were talking during the pandemic about difficulties in terms of simply getting things and in possibility even at times. We see less of that. We acted very agile in finding more material specs and more suppliers on all things. We have a broader base of opportunities to handle any potential bottlenecks, but here, the bigger issue is now simply that every single part of lead times are longer. So reality is you just need to be coping with that, but it is at least much more stable now. So that is good.

We are seeing improvements in efficiencies in our assembly plants. But as we mentioned a few times, if you see a very rapid decline in top line volume, you do get a negative economies of scale effect. So you are not seeing that in our current numbers, but we are very happy with those automation implementations and performance we are getting from them. We are just not at the moment with the reduced sales running them enough.

So it is a total situation where we feel good in what we are doing there. And of course, still many uncertainties around the world. So we will continue to be quick, act and be flexible. You would not be hearing us talking about big programmes over the coming next years. We prefer to do the actions in the quarters that have already passed in smaller steps. That is the way we have always operated and that is the way we will continue to operate.

And then, therefore, I think many people will ask this big question. Do you still believe in your long-term targets that you presented in the spring?

Still convinced about Long-term Strategic Plan and Financial Targets 2030

If we go to page 11, I want to reiterate and remind you that we absolutely still believe in our long-term targets and our financial plans for what we should achieve.

So on slide 11, as we remind you, we are still convinced that our revenue should be SEK20 billion by 2030. Now it means that we need to, of course, with a more stumbling start out of the starting blocks, we need to overperform more, but we are confident that the long-term trends with people wanting to live active lives close to their homes with biking, growing as a sector and with our entry into brand new categories, where we believe that we will be able to take significant share that we will be able to meet that growth.

If you look at it from a profit point of view to maintain a 20% plus EBIT margin, we will need to then improve as volumes come in and come back, and we will get back to those levels.

And in terms of cash dividend, yes, we are convinced that we will be able to still do a more than 75% of annual net income every year in the coming years. We are also committing heavily not only to Science Based Targets, but we will be updating you about our net-zero ambitions as well. And we are tracking very positively on our ambitious plans in terms of sustainability measures.

So with that, I hand it over to Davy and open up the floor for questions and answers, and we can go to the next slide, which shows one of our new products that we just announced, the Thule Shine Air Purifier Canopy, which allows a person moving in inner city environments with smoggy air to have a child breathing clean air.

So over to the Q&A session. Thank you.

Q&A

Daniel Schmidt (Danske Bank): A few questions from me. I heard you say, Jonas, that you expect the inventories to come down in 2023. I was just wondering, is not that true also for Q4? Magnus, you mentioned that you are not ramping up production as you usually do entering the low season, which is Q4 and you are not rehiring those people. Does not that sort of equal inventories already coming down in Q4? Or do you have sort of delayment in terms of shipments working against that?

Magnus Welander: No, what happens is that the product we have much more on the inverse than we would have liked, as you would expect on it, is the products we sold a lot less than we thought, which is the bike-related products. Those would not be moving in a complete low season and especially with bike retailers being extremely cautious in a low season.

So it is the very high levels of bike, which means that we would not be reducing when it is not biking season. Those will be reducing only as we come into March and onwards, you will see the reductions of those bike-related products. So therefore, I would say, flattish rather than reduction in Q4, which was the plan.

Daniel Schmidt: Okay. So that is not compensated by your own destocking when it comes to roof racks and roof boxes and those things?

Magnus Welander: No. If you look at those very rapid declines that it meant that despite doing significant staffing reductions with more than 1,100 people versus the peak, we were still during that beginning of the quarter producing at levels that were clearly lower than the year before, but not as low as the orders came in. So it is the bike-related inventory that is higher, which is meaning that we would not be seeing reductions from that until the early spring next year.

Daniel Schmidt: Okay. And then on the second part of that question, as you mentioned, rehiring these people and you are not ramping up production and you saw quite meaningful underproduction in the quarter. Should we expect that now to have a similar effect in the coming quarter when it comes to under-absorption of fixed cost? Or is that going to be less for some reason?

Magnus Welander: Now, you're right, Daniel. We will see an impact in quarter four and a bit of the beginning in quarter one with having invested in new automation machines having beefed up on our production overhead side. With much less production volumes as we do not need to produce much, we are going to see a negative impact for that in Q4 and Q1 as well.

Daniel Schmidt: Okay. But I guess the delta would be a little bit more sort of the comparison basis a little bit more favourable. Is that true?

Magnus Welander: Yes, especially in Q1, you see because then we start producing more again towards the end of the period and not so much in Q4, but definitely, it is more favourable in Q1, correct.

Daniel Schmidt: Okay. And then also coming back to demand maybe and I think you have been very clear that bike is really what is sticking out and we have heard it from others. But then again, when you look at some of the bigger names like Shimano and Giant Group and those, they do not talk at all about destocking. Do you have any explanation for that?

Magnus Welander: Yes, I think you need to look at Shimano, I am sure you are referring to their Q3 report earlier in the week. I think if you look at what, Shimano – where they sit in, what step of the supply chain they are sitting in, they are seeing great orders from the bike manufacturers for next year's deliveries, and they are dividing it very clearly into three layers, as I am sure you read in the report that there is, as we have also said, unfortunately, still a too low inventory level of the best bikes the really expensive e-bikes, the really cool downhill mountain bikes, etc. There, they struggled to keep up, as they mentioned.

And then they are saying more normalised on the medium level. I would say a little bit too high. And then there are even Shimano saying far too much in the lower end. Shimano does not care that much about lower end because they do not supply that much to the lower end. But the reality is they are talking more about what they are seeing in order basis from bike manufacturers that are actually quite optimistic about 2023.

So there is this time lagging effect of who you sell to. Shimano mostly selling to the manufacturers who have a very long time before. So I think they are more looking at what they believe that normalisation will be ending up more than what it actually is.

Daniel Schmidt: Yes. You are probably right. I just thought that also if you look at Giant Group, their sales numbers look terribly strong actually. And I assume that they are one step ahead in terms of others on the value chain then since they are the manufacturers of the bikes.

Magnus Welander: Yes. But there is an important one there, Daniel. If you look at where Giant do most of their revenue is in Asia and the Southern Hemisphere, where it is picking up differently. So there is a big location difference as well there with Giant.

Daniel Schmidt: All right. Okay. That could probably explain it. But coming back to the costs again. And of course, we have seen this terrible headwind in terms of raw mat and freight. But clearly, those wins are turning quite dramatically and freight is down quite a lot year-over-year and raw mat is coming down sharply. When would that turn into a tailwind for you guys?

Magnus Welander: Yes. Would not you love to have lower inventories where materials are coming down?

Daniel Schmidt: I just think it is going to take some time. I hear you, but still.

Magnus Welander: Clearly, and that is why we are also clearly announcing we have already gone out to retail telling them no price increases in 2023 is because we are starting to see after some very painful times and more normalised and more flattening down, not as dramatic maybe as I hear you believing, but it is at least calming down and going in the right direction. But then you have energy cost. And if you take the value-add component, it will be hurting on some raw material types that where there is more energy.

So I think it is nice that it is going down from the peak and flattening out, and that is the logic why we are not doing any price increases in 2023.

Daniel Schmidt: All right. Okay. And you also talked about the investments, and some of them will carry on all strategic investments, but more general automation investments. You are discontinuing for the time being. Do you have any new number for the CapEx for the full year? I think you have indicated around SEK500 million before?

Magnus Welander: Yes. And I think it is going to be around that number, but it is more for the start of 2023. You see a shift of where we are not needing them to do some of those pure capacity-oriented additions in the same way. So yes, around SEK500 million for the year and then lower than we had previously assumed for 2023.

Daniel Schmidt: Okay. And the final one on product development spending that was 6.7% of sales in this quarter. It really comes back to SEK143 million. Is that a relevant number for the last quarter of this year as well?

Magnus Welander: Yes, that is a relevant level. We are in a very exciting time even if some of my colleagues in the Board were a bit nervous when I used the word exciting about all the cool things we are doing is spending money on. But it is true, we are doing some big new products in all our current product categories, where we are coming with some high volume new products next year. And of course, we are doing very significant spend in the new categories, where we are purely entering for the first time. So there will be a continued very high levels. Actually as a percentage, therefore, higher than we had previously indicated, but only due to the fact that revenue is lower.

Adela Dashian (Jefferies): Most of my questions have already been answered. But could we please just get some greater clarity when it comes to current trading as it relates to bike-related products, like is the situation getting worse and worse day by day? And how should we think about progression into Q4? And then also, if you can give us what kind of visibility you actually have on the retail level, given that you have such a large customer base?

Magnus Welander: So we can say that bike has been truly brutally terrible since mid-August. It was starting in July to be on a current trading basis, bad. It went very rapidly from bad to terrible levels with certain models, certain products not selling a single thing and others more premium models continuing to sell but at significantly lower levels than any previous quarter.

So we are currently on the bike part of our business. Numbers are anything between 50% to 70% down by model or by SKU is a good indication versus same period last year. On bike, we are even at this low end of the season, lower than 2019 for the first time ever, right? So we have been having fantastic growth numbers versus the pre-pandemic.

But because retailers sitting with stock, they are now, many of them are not going to order anything until the beginning of the New Year. So several smaller retailers and even some bigger ones have confirmed that they want certain models, not all again, but on certain models, certain SKUs will not place a single order more because they feel that they will prefer to sell out our products and maybe even sell out to them and then try to push out some other inventory with some other brands that are sitting even more.

So it will be a very bleak period, both in Q4 and into Q1 until the bike season starts again and consumers really start going into the shops again. So that is the current trading. It is very bleak in bike.

Adela Dashian: Okay. And then on the visibility that you have on the retail level, given the large customer base, how much are you aware of the stock levels that you are [inaudible]

Magnus Welander: Yes. So you can say, in general, since we sell direct to retail to a very dominant share, we have some countries, smaller markets around the world in the Southern Hemisphere that we sell the distributors, right? But if you take all the bigger markets, we have a very clear visibility of the major players that have systems that enable them to vary on a daily basis, share it with us.

So we have a very clear picture with all the major retailers. Then specifically in the bike sector, but generally in the business it has, but specifically in the bike sector, there is a lot of specialty shops. They are called independent bike dealers or IBDs in the bike sector.

They are often very small companies. And honestly, most of those companies have rather rudimentary inventories data, and we would not be reaching out and connecting to them. So we are, of course, doing some typical classical work of dipping our toes and tempering in the water with a few of them and then extrapolating what we are seeing with our ordering patterns and balancing on that.

If you look at it, you can say that it is actually a little bit true even for us, what Shimano is saying. It is clearly our best performing and most expensive products they have less of, because there we have less competition, so they are selling out of ours to those consumers. At the mid-price point, for us, which is often the premium price on over competition, there is a heavy inventory load. And there are some of our lowest price points, which are then mid-price in the market, so to speak.

There are some of those products which we believe we will not sell a single one in the bike sector until the end of the year, considering not only our inventory level, which is what the retailers share with us, but the fact that we know what type or estimate what type of inventory levels they have of their competition as well.

Adela Dashian: That makes sense. I am just thinking about it, now we are in a more challenging macroeconomic environment, would not it stand true that the consumers then would demand those lower price point products rather than the premium products? Or is it more the newcomers that came into the market last year would not have an effect on the reduction in stock levels once we enter into the next biking season in 2023.

Magnus Welander: I think you have to look at it from two factors. One is there is more behaviour. The bikers that bike now in the bleak October weather are the pretty serious bikers. It is not this ongoing biking type of person, right? So that means by default, it is committed commuter or a committed down-home mountain biker or a road biker. They are the ones biking in the winter period and not the average Joe that just got into biking, which by default then means even in great years with normal inventory levels, you will always in the low season sell more of those premium products, so that it would be even normal, now maybe even more so than any time.

So that is why we believe, as we have said a few times that you will start to see true reductions on inventory levels only when the biking season starts.

Adela Dashian: That makes a lot of sense. And then just a follow-up on the previous questions on the elevated R&D spend. You mentioned that it is both a function of high volume, new products and also the entry into new categories. But how should we think about it timing-wise, given that you do enter the large European market of child car seats next fall. Should we expect that portion of elevated R&D costs to be reduced gradually until then? Or how should we think about it?

Magnus Welander: Then we are, of course, following up with entering into the North American car seat market with those models for that market. So yes, specifically, the elevated for the European market, of course, is going down once you have taken that big entry launching our new first new product that we showed to retail this autumn.

But then we are following up with a North American model. So car seats will be a very heavy spend in the coming two to three years due to what is logical for us to do, but it is also a logic to say in the end, we have indicated around 5% of sales is the correct level of spend we should have on product development.

If we do that, we will enable both entry into new categories and maintaining and refreshing the world-leading portfolio products we have. So here, this portion then being higher specifically in this quarter was more associated with an unexpectedly bad sales performance than let us elevate our product development spend.

I think if you take it over time, we will be rounding out around the five over time in both being able to enter new things and maintaining and launching cool new products in the categories where we are market leaders.

Karri Rinta (Handelsbanken): I actually wanted to talk about the non-bike related business, which based on the picture that you showed would seem to suggest that your sales are up quite significantly year-to-date, maybe around 20%, and that is a very unscientific guesstimate based on the graph. So can you discuss a bit about the different contributors to that growth? First, if that 20% is roughly the right ballpark? And then secondly, how much of that is RV, Packs, Bags & Luggage and any other major contributors to that growth?

Magnus Welander: So Karri, your backward calculation is working out pretty nicely. So you are right. We have had a very strong year-to-date performance in the non-bike related. If you look at it, you can really say that as we have said in all the quarter, of course, RV product is continuing to perform very strongly for us. The European RV market is strong. We are doing very well within that strong market, continuing to win share.

We have raised prices, etc. So we have a very strong performance. The team is doing a great job there. RV products being then the biggest of the three smaller categories and doing well is the biggest comps future.

Then you have the smallest of the Packs, Bags & Luggage, which we have mentioned, is doing really well, especially in Americas, but generally in picking up then again, honestly, against a weak comp in 2021 we have to admit for Packs, Bags & Luggage, but there is strong growth, but it is the smallest category. So therefore, a bigger contributor here today has been the other parts of Sport & Cargo carriers with especially roof boxes doing very well throughout the year, year-to-date.

So if you look at it as a year-to-date performance, you can say RV products is the biggest, the rest of Sport & Cargo Carriers is driven by boxes, the second biggest contributor. Packs, Bags & Luggage contributing from a small base and then strollers in Europe doing really well as well. So that is the situation.

When we now then look at it, we have to remind ourselves, we internally first and foremost, that we are looking at some very strong comps also for these categories in the coming low season quarters of Q4 and Q1 with a generally very shaky retail sector who does not want to sit on anything too much. So here, I think we have been stronger year-to-date than we expect to be in the coming two quarters also in this part of the business that is mostly retail oriented.

The only exception for that is the Packs, Bags & Luggage because honestly, we have pretty weak comps still to compare with, so we are good there. But otherwise, RV will be the continued strong, thanks to the fact that OE manufacturers are finally getting chassis out.

Mats Liss (Kepler Cheuvreux): A couple of questions. Coming back to the bike, please, again, and I guess exposure reduced quite substantive from 50% to 25% or something like that. And my question is, I mean, in the first and second quarter next year, is it more those quarters – are those more sort of related to build-up of inventory in the retail segment and less end-user demand. So we should expect this bike part to be even lower in those quarters.

Magnus Welander: Yes, Q4 and Q1 in any normal year, even before the pandemic was mostly to those true enthusiasts. It was sales to Southern Hemisphere markets, where they bike a lot as well. And it was sometimes a little bit inventory build-up, especially in quarter one towards March, which is, to be fair, when we take quarter one, March is much bigger than January and February together normally for our bike-related business.

And for those that have been around a long time, we also often mentioned that historically, before the pandemic, some years we got great March sales, some year we got great April sales, because a little bit depends on when the season of spring biking kicks off. So you really start to say, when it is Northern Hemisphere, our core markets, normal season starts from the March.

And therefore some years, if it is great spring a little bit earlier, if it is slow spring, it is in April. So you will really start to see performance of the actual consumer bike market only in the second quarter and beyond. Until then, we are going to be faced with retailers that do not want to stock up versus two years ago or the last previous period when they really wanted to stock up.

Mats Liss: Then about fourth quarter, I guess less important for bikes, and then we have the reduced costs. And again, you also mentioned the tough comps in other segments. But should we expect a more normal margin in the fourth quarter. Are they balancing well?

Magnus Welander: No. As we said, we will see a negative product mix effect clearly in the fourth quarter because we had fourth quarter last year a boosted bike share much beyond any normality and with a higher margin. And on top of that, we are getting less economies of scale coverage, therefore, as well. And on top of that, we have done a number of bigger investments in our facilities, and we have staffed up on the production overhead automation level.

So you will see still negative economies of scale effect and negative gross margin effect due to product mix in the fourth quarter. It would not be as bad as in the third quarter, but it is going to still be a negative impact on our numbers on the margin.

Mats Liss: Then about RV chassis there and the supply is picking up and the builders. So they care[?] not to, I guess, supply the order backlog. And so what about the seasonal impact in that segment?

Magnus Welander: Normally, you would say we are relatively in normal years. We are a higher share of RV products in Q4 and Q1. And then due to their inabilities a little bit to meet demand in motorhome manufacturing, etc., last year, there were more of our dealership sales in that period and less to the OEs.

Now the OEs are building up and we are selling more to those and it is not a secret. That means even lower gross margin, still a very profitable business from an EBIT perspective because also lower cost to service those professional large buying organisations in the various four industries [inaudible] but lower average gross margin.

Now they are performing well. So it is very good overall. We like it. It is a very profitable business. From an average gross margin, it is clearly negatively contributing to mix shift.

Mats Liss: Okay. Very clear. And finally, about the target there. You mentioned that you see the opportunities to grow to 2030 and so on even this is quite a slow start. But do you need more segments or are you working with the same segment, they have sort of.

Magnus Welander: By the end of that period, we will surely have entered one more category. The focus will be on the two ones we are entering now in 2023, the first few years. But eight years out is a long period. I would be disappointed if we do not have at the very end of that period, another new category on the brink of starting to pick up by that time. But in the next few years, clearly, a focus on those new ones we are about to enter now next year.

Gustav Hagéus (SEB): Coming back to the roof boxes that have been doing well. Could you remind us the share of sales from within Sports & Cargo carriers. Last year, there was roof boxes. And if you could elaborate a little bit on whether or not you think this growth is sustainable? Or does it relate to filling back orders? Because I assume I mean these products are quite expensive and does not really rhyme with the macro environment that they will be continuing to grow? Or what do you think?

Magnus Welander: Yes. So there is, I think, three questions in that one. I will try to deal with them one at a time. I could not remind you how much of the share is roof boxes because we never tell you specifically.

But we can say then that we have always said that historically, the biggest category has always been bike carriers and then clear number two at similar size has been boxes and baskets as we call it, because we do a lot of roof baskets as well.

If you look at that business as a whole, if you look at it, we have said that you should look at it as a quarter roughly of that Sport & Cargo Carrier business historically. Then we had a 2021 where you had bike becoming even bigger and so it became smaller. Now, of course, with bike becoming less growing, boxes and baskets and refresh became a bigger share.

If you look at the situation on where we have performed, I think we have performed very strongly throughout 2021 and 2022 as people have wanted to do local vacationing, and the roof box is mostly a way of adding more space to smaller vehicles. So most of our roof boxes are relatively small cars being put on. And then there are a number of roof boxes that are more for the people going on an expensive skiing holiday and having a bigger roof box, where you can put skis on them as well.

So if you look at it, I think the biggest question is about local vacation in growth. We already had a very strong local vacationing in the ending part of 2021 and beginning of 2022. So we are also there facing some very, very good growth numbers versus historical path. So purely logically, I see less upside now picking up from that point of view.

There is no inventory of those products, right, because nobody wants to carry inventories too big. And so therefore, we have had in North America, a little bit of volume pickup in 2022, catching up with some pent-up demand, but not pent-up demand then from retail, but rather consumers that would have liked to buy it during this summer of 2021, but we could not cope with the quantities then. We did ramp up our production and some consumers then waited. So I think slightly elevated in 2022, thanks for that, that limit itself.

So then comes to the last question, if you look going forward, it is a relatively inexpensive way to make a much less costly car become much bigger the only times you use it. And one of the things that we see clearly on that pattern is that not only roof boxes because we now have a very strong assortment on rear of car towbar-mounted cargo solutions, which is actually the part of our business that is growing faster than the roof boxes in the cargo solutions now when you see e-cars and the battery consumption.

So we have our fastest growing part within what we call boxes and baskets at the rear of those cargo solutions on the rear of the car. And there, I see rather that we have decided from then the very tough comp period now in Q4 and Q1, but is slightly inflated in those two quarters.

I believe we have a solid base where it is a relatively cost efficient way of making more cargo able to go on a trip. So it is more going to be a more will people local vacation. That is a bigger question.

Gustav Hagéus: And then I am thinking about price versus inflation and so forth. I recognise you are saying you're not going to raise prices next year. But is not there a risk that the mid-priced segments will jump the gun and see that costs are coming down towards the end of next year, and they want us lower prices to prioritise cash flow early and thereby distancing widening gap between the medium-priced products and your products needing you to come down? Or do you not see any of those type of trends or scenarios going forward?

Magnus Welander: No, the reason is we have to admit that we have raised prices more than most of our competition. And the reason we have done that is I think we have been more diligent and more focused on ensuring that we sell products at good margins. So now some of those competitors at the mid-price points are finding themselves in a quite difficult conundrum.

They definitely did not raise enough versus the cost increases they have had. We have actually seen several of them announcing price increases now not so much because they want to, but because they have to because they are realising, otherwise they would not be making any money on these products. So I do not think there will be people being very daring. They are just desperately hoping it is coming down, so they make some money on the product again.

I do not see anybody daring to go early. If the trend you are talking about, I would see that more a question about their 2024 pricing rather than their 2023 pricing.

Gustav Hagéus: Okay. And finally from me, we have seen some companies now reporting this week talking about raising prices in January to compensate for assumed wage inflation. Do you have any view on that? Do you expect to have price or cost pressure coming from that end in your operations?

Magnus Welander: I think one of the biggest questions in many companies at the moment is what will the wage inflation be in 2023, that there will be some, it is obvious for everybody how much is. If you would have listened to people in July, they would have said a very high number. If you listened to them in September, they said a lower. If you listen to them in October, they say even lower.

There will be differences by countries. There will be differences by types of businesses. But reality is, yes, there will be some. That is something we have always prided ourselves with some of those efficiency gains and some of the things we are doing with automation should be able to compensate, and that is why we are not doing the price increases.

We passed on the price increases that are purely a market reality of raw materials going berserk for the last few years and logistics costs going berserk. Now we need to step up and prove that we can be efficient and compensate with efficiency as far as possible to those cost pressures that will come.

Adela Dashian: Just a follow-up on the outlook comments regarding the RV products segment. So pretty optimistic still in Europe. But if we just look at recent market data coming from North America, consumer sentiment has significantly shifted compared to last year. Is the pent up demand from the pandemic, the only reason that Europe is holding up better than North America? And should we expect the same weakness that is currently materialising in North America to take place even in Europe as we enter into next year?

Magnus Welander: Yes. I think, Adela, the best logic there, you have those three stock-listed companies that now you look at. You have [Inaudible] and you have got the THOR Industries that do disclose their European business house trading. You are absolutely right. They have admitted, all three of those for a long period of time that they are very frustrated with long order books where they cannot fulfil demand.

And I have, unfortunately, quite told twice before that sometimes in RV business, you wonder when things will hit versus reality. I think, therefore, a lot of consumers are very keen on doing these type of locations with a smaller van, with that freedom, what it does. And they were and they placed themselves with very long order books with very long waiting times. That means that the industry now for quite some time will be having a very keen consumer base waiting for those things to come out. And as they are now getting chassis and getting the vehicles out, the sales will look good.

I am therefore not at all concerned about 2023. I would say we need to wait and what goes on from 2024 and beyond because it depends on everything in terms of inflationary pressure. The trend of people wanting to do this activity is very strong. Of course, if it becomes cost prohibitive or anything like that, there will be less interest but do not focus too much on American numbers. Those are always absurdly swinging aggressively much more than European numbers.

Luckily for us, 96% of our sales in RV product is Europe anyway. So we are not so exposed to it. But even on a general market point of view, I would not say that the swings have never been as abrupt in Europe. They have never gone up so much or down so much. But it is a strong pent-up demand is clearly there. A strong general interest is there. Will there be the strong willingness to actually come up and shot up with the money from 2024 and beyond to the same levels? That is a more open question.

Daniel Schmidt: Just to frame it because you also refer to it when you look at Q3 and you talk about the general margin in Q3 before the pandemic and 2021 was, of course, extraordinary. Looking into Q4, and you think that the margins that you produced in Q4 is a good reference, or sort of an indication, any guidance on how to think?

Magnus Welander: I think if you look at historically, our margins have been low to mid single digit in Q4, pre-pandemic times. And we are saying now on top of that, we are pushing very hard in product development. So you will see very low EBIT margins in the fourth quarter.

So it seems we have no more questions. Then I want to thank you all for the attention and what has been a weirdly challenging Q3, and look forward to chatting with you again after the Q4 report. Have a great week and a great Autumn. Thank you.

[END OF TRANSCRIPT]