



Thule Group Interim Report Q1-2020

Tuesday, 28th April 2020

2020 Jan-Mar Report

Magnus Welanders

CEO, Thule Group

Welcome

Good morning everybody and first I have to make a practical announcement since unfortunately our service provider managed to put up the link to quarter one report 2019. I think it is a little bit like when everybody is staying at home in lockdown. I am watching old Superbowl games, the old Champions League Final between Liverpool and Milan and we are watching old reruns. Although that might bring us back to a brighter feeling at the end of quarter one 2019 than we currently have, I still need to ask you all to go out of the web conference. If you see the 2019 presentation then open up the link again because then you will see the 2020 presentation. If you already see the 2020 one you do not need to go out but if you see the 2019 you need to go out and click on the link again.

With that I will give you a few seconds to do that and talk a little bit about the beautiful weather in the southern part of Sweden. If you think back a year ago and think about all the good things, it has been a very interesting quarter where the first part of the quarter had all those same aspects of a great start to the year and great expectations. Then, as we all know, the world and the Thule Group have faced a very different reality in the last two weeks of the quarter.

2020/Q1 – A quarter with two distinct phases due to the coronavirus pandemic

Hoping that everybody got the instructions that they needed to go out and go in again, I will then go onto the first slide in the presentation. The first slide in the presentation is a summary of the quarter. If you look at the quarter it is a quarter with two very distinct phases, as I said. A very good start to the year where we clearly were hitting those growth ambitions that we saw. The Stroller section at the very start of the year not performing as strongly as we wanted was due to the coronavirus. We have been growing very nicely in our Luggage area in the Asian region and as the Asian region was the first region impacted by various forms of lockdown and stay-at-home measures, we did see quite early a very rapid downturn in travel and therefore travel luggage. That started impacting relatively early.

As we saw those signals we of course started acting and considering our various levels of spend and that is one of the reasons why you can say also that we managed in the quarter despite a big downturn in revenue at the end of the quarter to deliver an 18.7% EBIT margin in Q1. Sales dropped 5%, 7.5% excluding currency effect. In Region Europe and Rest of the World we reduced by 5.7% and Region Americas by 13%. All of that reduction came in the last two weeks which meant that some of you analysts already have very quickly calculated that that means we almost saw a 50% drop in sales during those two weeks, which is normally actually the peak part of the first quarter as we normally go into a strong spring season towards the end of March.

We have delivered an underlying EBIT of SEK 326 million and we have also generated a positive cash flow of SEK 8 million compared to a cash flow SEK -145 million in the first quarter last year. Also there we were on track. As you know, we have communicated that we intended to have an improved inventory level, a reduction versus our levels of last year because last year we were in the ending phase of having done some major layout changes to several of our largest plants. Also on the inventory level we were tracking very well to those plans to mid-year but then of course if you have in two weeks a very rapid decline of sales versus not being able to act as quickly on the incoming goods, there was a little bit of a build-up at the very end of the quarter still ending the quarter better than the same period last year.

2020/Q1 – Net Sales and Underlying EBIT development

If we go to the next slide we can then look at how our sales and EBIT grew. I think the thing we can be most proud of in a quarter where it was very difficult to foresee what would be coming towards the end, that we still could deliver an 18.7% EBIT margin. The wise of course quickly then assume that would it not have seen such a significant volume drop at the very end of the quarter we were on track on our strategic plan to continue to grow our EBIT margin. That growth was then generated until the mid-March period by efficiency gains in our plants, as we were estimating having done some significant improvements in those plans last year. It was due to a better price versus incoming cost of goods sold situation. However, then we also saw some mix changes slightly negative and we saw some under-absorption coming at the very end of the quarter when you see revenues drop significantly. Overall though I am happy with where we came in from a financial perspective considering the circumstances.

Region Europe & ROW

If we go to Region Europe and Rest of the world and looked at the performance there, it is very clearly in relation to how hard the measures were implemented by various governments and states that really impacted sales. You can clearly track that as various countries took varying levels of lockdowns and stay-at-home orders in the region, that is the sole impacting factor of our performance. We see that countries that took the biggest and most decisive and dramatic measures of lockdown and stay-at-home, like France where it was even prohibited to go outside for exercise and where almost all businesses were closed, we saw very dramatic declines. Whilst in countries that kept more open we could even see growth, like for example in South Korea. However, also in Europe markets like the home market for the company, Sweden, a small market to the Thule Group, you could see that there where the market was kept more open our sales did decline a little bit in the last two weeks but not nearly as much in those places where shops were closed and people were told to stay at home.

This also then of course in a logical way will mean that if we look forward towards the second quarter and beyond in Europe, very much of a correlation will be on how quickly in which steps and to which degree the various countries will open up from their lockdowns. Which is also why, even if I am sure I am going to get a lot of questions from people in the coming Q&A on our speculation going forward, it has relatively little to do with what this company is doing and very much to do with what the governments do in terms of lockdown measures.

There was one category that we managed to grow despite that category also having a decline in growth pace at the end of the quarter, and that was Active with Kids. We are very happy with the performance of Active with Kids. It is a combination of the successful launch of our new Thule Spring stroller and actually a good continuous performance of the rest of the product portfolio in Active with Kids as well. Active with Kids is also the portfolio which we believe from a category perspective will have the least impact on Q2 performance in terms of lockdown measures. It is a product category more associated with maybe what people will start to do immediately as they are let out of their apartments while some of our other product categories we believe will take some weeks before people start thinking about those things, after they have been sitting inside locked in an apartment.

In terms of our sites in the region and our assembly plants, they are all up and operational but in all of them we have due to the reduced demand already implemented various levels of short-term furloughs at all the sites.

Region Americas

If we then go to Region Americas and look at the performance there, the same thing applies, meaning that also there we saw growth until mid-March and then all of a sudden a dramatic drop in sales. When you look at Region Americas you know that we have a significant exposure to North America. Within North America there are certain regions that are very dominant in sales, not purely linked to the number of inhabitants in those US states and Canadian regions, but also to what type of activities people pursue in those regions. Very important regions, both in terms of number of people living there but also activities and athletic outdoor-oriented audiences. We can see that our core markets unfortunately in North America were those states and regions that implemented the most aggressive lockdown measures and the most restrictive measures. States like California, the states around the New England area, Quebec and Ontario region, all implemented very restrictive lockdown measures with shop closures and stay-at-home orders, which clearly then impacted in the end of March and also have been impacting here in April.

The same thing here, it will be very important now to see what the various those exit-from-lockdown scenarios mean. Similar to Europe where Germany, Austria, Czech Republic and others have already been starting to open up, we start to see Colorado and Connecticut as of this week. However, there are other states like California and Quebec which are still presenting very severe lockdowns for quite some extensive time to come. The best-performing market in the region was very clearly linked to the country taking the least aggressive measures in terms of lockdowns and stay-at-home, Brazil, and there our performance was solid.

Also here in the Americas region, Active with Kids showed very nice growth. Here it was a combination of two factors. Also here the Thule Spring launch is doing very well but also a good comeback to growth after a slightly disappointing 2019 for our jogging stroller, Thule Urban Glide. As we did mention a few times last year, we had some competitors doing what was in our opinion extreme pricing actions. They have done less of those and then immediately our sales have picked up in the first quarter. Also in the very small, niche segment of RV Products in this region, which we remind you is a little bit more than 1% of sales in the region, we continued to do some wins in, what is otherwise a quite challenged RV reality in the North American market. Also here our sites are operational and short-term furloughs have been implemented in the Americas region.

2020/Q1 – Reported Income Statement

If we go onto the income statement normally here I would throw our CFO as presenting it but since Jonas, who is with me today, is so fresh in the company I thought I would help him out this time and then next quarterly report you will hear his beautiful voice when we talk about the income statement and operating working capital. If we look at the income statement in a little bit more detail you can see that we did see a positive FX effect on our gross margin which was the driving factor for why that margin was slightly up. As I already mentioned, we were tracking very nicely on our efficiency improvements in the plant as long as volumes were there. Then with some very dramatic volume drops of course that could not be maintained at the very end of the quarter.

We also continued to see a positive effect of our price increases versus the cost of material coming in. However, as you also remember, we have a negative tariff impact in the China to US tariff. The second phase of those tariffs were implemented as of July 2019 which means on a comparable basis now when we compare quarter one against the same period last year this is having a negative impact as we are only passing on the tariff itself, not with an additional margin on top of it.

If you look at delivering an EBIT margin of 18.7% which was the same as last year, I am very happy with that. It means that we have a rolling 12-month level of 17.7%. We continue to push product development

and we will continue to push that. It is obvious with expectations going forward of a tough second quarter which is our biggest quarter, that we will do that in a planned and smart way. However, we will not hold back. We will continue to invest in product development.

You will also remember that in quarter four we announced the restructuring of our North American organisation a bit. We announced a one-off cost and then an annualised saving of approximately SEK 25 million in 2020. Those savings first quarter came in on a quarterly basis so part of our reduced spend was those targeted savings. Then we did, as I mentioned in the initial part of the call, start acting on some of the measures of how we tactically could make sure we did the right things, considering some concerns over what was going on in Asia with the COVID-19 pandemic.

Some of those savings, to be honest, are not so much to clap yourself on the shoulder about because if there is not [inaudible] happening you will automatically get some savings. If you cannot travel you are saving a lot of money on travel. I consider those automatic. On top of that we are of course taking some other smart measures to ensure that we do the right thing both short-term and more importantly definitely also long-term. Tax rate in the quarter was within the guidance and it was at 23.5%.

2020/Q1 – Operating Working Capital and Operational Cash Flow

If we then go on and look at the operating working capital and our cash flow, as I mentioned on inventory we had a plan. We have communicated that plan clearly that we would reduce inventory levels in smart steps during 2020. We will continue to do that. We hold true to that overall statement. The challenge we had at the end of the quarter was of course obvious as I said. If sales drop unexpectedly and very dramatically, you struggle in a few weeks to compensate as much but still our inventory levels did go down. If you look at our performance also excluding the currency effect, our operating working capital would be at 22% versus the 24% we had last year. It ended with FX effect at 23%. We were progressing very well, still despite the drop in sales we feel good about what we will do on operating working capital.

Cash flow from operating activities was positive in the quarter and we kept on investing for the future. The majority of the capex in the quarter is associated with the construction of our large new facility in Sweden in Hillerstorp next to our big plant where currently our global head office for product development sits. We are constructing a purpose-built product development plant and in that site we are investing. We continue and plan to open it in quarter one 2021 still.

2020/Q1 – Performance vs. Financial Targets

If we then go to what this meant to our financial targets, yes, it is obvious we were tracking ahead of our organic growth target until 13th March and then things started happening. We were on an organic decline totally in the quarter of 7.5%. Our underlying EBIT margin is on a rolling 12-months basis 17.7% with 18.7% in the quarter. We had a net debt to EBITDA leverage of 1.7x which was 1.9x at the same time last year. I feel very calm about where we stand in terms of cash position and finance position for the company. As you are aware, the board announced on 22nd March that they withdrew the previous proposal to today's AGM of a dividend due to the uncertainties in the short-term caused by the coronavirus pandemic.

2020 Focus – Managing new reality with lockdown impact in peak season

If we go to the 2020 focus of the company and we look at what all of you who are analytical already have concluded and which has already been reported in the media, this company has never hidden the fact that we have a very clear spring/summer exposure due to the type of products we sell and when people want to pursue the activities that those products are used for. You can really simplistically say, as we have done many times and announced on numerous occasions, around mid-March until early August is where the chunk of the business is done. Everybody is impacted very clearly from a situation around the world with

the pandemic. When you are sitting in that it is obvious that our company as all senior management and serious management did focus first and foremost on the health and safety of your employees, making sure we did all those right steps, organising work-from-home, travel bans, social distancing at workplaces etc. However, when you have done that first step, the second step is of course to look at what is potentially impacting the short-term for your business.

From a business perspective I have to say, as terrible as the whole COVID-19 is from a generic perspective, the timing was exceptionally brutally wrong for the Thule Group. We have to say that because exactly when we normally pick up the most in sales, mid-March, most nations around the world went into aggressive lockdowns, closing stores, closing the opportunity to go outside. If we look here on the slide you see our reported sales and reported underlying EBIT by quarter in the prior three years as well as of course for Q1 2020. It is clear that if you had a third of your sales and close to half of your profits in quarter two, and in quarter two you started with some nations being completely closed down, like France, and other nations being quite far closed down, we will have a very tough quarter to be able to deliver a full year at the levels that we would have expected.

The key question which I would not be able to speculate even on is depending on when nations open up and to what degree they open up it will of course still be a very tough Q2 with significant reductions in both sales and EBIT. However, it will also impact the opportunity of how bad or not the third quarter will be. As I mentioned before, we believe speculatively from what we work with, not any more about when nations open up because that anybody else could be as good at speculating as I could, but more in terms of our product categories and what we believe consumers from our vast knowledge of how we have been interacting with them in the past, there are certain product categories where you earlier will start to see sales picking up as soon as the lockdowns and stay-at-home orders are eased. Whilst others will take some more time which means that depending on when the whole thing opens up more during Q2 it might also impact more or less significantly in the beginning of Q3 which is the lion's share of our sales in Q3. We will have to come back after the second quarter to also be able to say more on what we can expect for the rest of the year.

However, Active with Kids is the category we believe will suffer the least. It is also obvious that travel luggage is the category that will suffer by far the most. We have seen numbers already from some other players in the industry and from industry statistics that sales of luggage have dropped more than 70-80% and up to 90% in March in some countries. It is clear that that very small category for us but still growing will not see that same path as we had hoped. Our Sporting & Cargo Carriers and RV Product categories are products we believe have a very good opportunity but are not the first thing day one when you are finally let out of your apartment quarantine that you might go and buy. Unless you are a very avid cyclist and you have been yearning for the opportunity to go out.

2020 Focus – Managing short-term reality while maintaining long-term strategy

Short-term reality demands focus

If we go then to the last slide, the headline says managing short-term reality while maintaining a long-term strategy, which is exactly what this company has been doing for 78 years and luckily I have been doing for the last ten years as the CEO. We have always worked on those two aspects in parallel. Never forgetting about the long-term just because you have to deal with the short-term. The short-term reality has demanded an incredible focus from this management as from any management in any company in the world. We have definitely had a huge focus on the health and safety of our employees and I am happy to say that we have had no very serious cases of employees having had COVID-19. There might have been, as we all know, in the community somebody having it but not with those serious consequences.

We opened up work-from-home positions wherever that was possible. We have set up new social distancing and hygiene standards in all our plants. We have really had a very structured approach in our total health and safety approach on how to do this. I am very proud of how our site management in the assembly plants, HR teams and experts have worked on them. When we now look at the short-term focus for a second quarter, we are not sitting idly by looking at sales dropping very significantly in end of March and April and slowly but surely picking up in our expectations as we go on. We of course have needed to put short-term furlough programmes in place which we have done in all our plants globally. We have of course worked very closely with our suppliers to look at various order status, planning etc. One of the huge advantages we have as a company here is that we do not order enormous quantities at once because we are a next day delivery focused company with a high on-time, in-full focus which allows us to both work with our suppliers to help them but also to help ourselves in managing the right level of inventory of the right products, while handling then the drop.

Another factor that helps in terms of staffing levels is that normally at this period of the year, especially now at the end of April, we would have the most significant amount of short-term employees employed. That is seasonal staff employed by the Thule Group and it is short-term seasonal staff where we use various work agency companies. That normally adds roughly 600 more people into our production at this period of the year for the peak season. As you can all understand, those 600 are not there now. Our flexible way of setting up that seasonal handling has enabled us to very quickly act on staffing levels aside from the short-term furlough opportunity provided by most governments where we operate. That level of initiatives has to be right because, as I said, we will balance it towards the long-term structure.

We have a very strong cash position and we have very solid financing in place which means we have all the calm working room and do not need to focus on those aspects hindering our decision-making.

Long-term strategy virtually unchanged

If you look at the long-term strategy I can say it is virtually unchanged. The virtual part is two minor adjustments that I should mention first before I remind you what our strategy is for the long-term. The minor adjustments are we had a very successful growth plan and growth phase in 2019 for Luggage, launching at the very beginning of this year two more collections and having a number of initiatives planned for further collections and further things. It is obvious that we will not be spending the same type of money and having the same ambitions in a scenario where people are not travelling. There are some adjustments to our plans in Luggage already having happened. Then we already have been, as we have mentioned many times, as a company focusing to support all our customers, both online and brick-and-mortar. We spend significant initiatives on our online support to retailers and we have in the past two years opened up online sales in the US, Sweden and Denmark ourselves directly to consumers. It is obvious that those are measures in a reality where brick-and-mortar is more challenged than ever that it is a good timing to further speed up those initiatives that were already underway, opening up B2C in more countries in the coming future.

If you look at the strategy that does remain exactly as what we have communicated in the last years, it is a growth focused strategy long-term with a key focus on product is king. We will drive our profitable organic sales via great product. That is what we have been doing for as long as this company has been around and as long as we have been on the stock market. We will continue to expend significant funds on product development. In fact, due to the drop in revenue I believe in the end rather than going down slightly in product development spend as share of sales, which was the plan for 2020, we will probably go up a bit because we have so many good initiatives that we still want to be putting out in the markets for 2021 and beyond.

We continue to strengthen the Thule brand under the motto 'bring your life' and it is of course something where we believe that if you look at what that brand connects to it is a with friends and family in your close vicinity, close to your homes, going on short trips, going on small vacations and the classical concept of staycation is where we are doing best already. I feel we are correctly exposed there. Then of course utilising our strong back-end organisation and flexibility and efficiency in our structures in doing that. What we will do is really to a great extent the same things that we were planning to do. We are just needing to do it with some balancing and a lot of focus on the health and wellbeing of our staff, in adhering to all the guidelines and rules in terms of lockdowns etc. and being very nimble and quick on our feet in supporting retail customers as they come out of those exit scenarios to best be able to serve the consumers.

Q&A

Karri Rinta (Handelsbanken): Firstly about the performance regarding the expected recovery after things normalise. Maybe if you look back at what happened ten years ago after the financial crisis, what can you say about your earnings growth rate in 2010? More specifically, what happened then and what do you expect to happen now within Sport & Cargo Carriers? If you can discuss the different product categories within Sport & Cargo Carriers in a bit more detail, what is your experience of recovery rates?

Magnus Welanders: If you talk about financial crisis you actually have to go back to the end of 2007 until 2010 to look at it. If you look at the growth we had in Sport & Cargo Carriers in those years we had a Cargo growth of around 5%, which is what we have as a target now as well, immediately following the crisis. You need to be very careful on comparing a financial crisis with a lockdown where people are not allowed to go out and do things. Then you might be speculating, Karri, that there is a similar financial crisis and that in its turn might be the similarity later on. We will see about the financial crisis but if it is more about whether people when they potentially have less to spend still continue to buy Thule products? If that is the scenario you are asking and comparing then with the financial crisis might make sense, yes, they did.

In fact, we saw growth rates in countries like Italy, Greece and Spain also in those years 7-10%. The logic for that was that maybe they skipped some trips to Bali, Thailand and other places but since we do not sell products to the low price point, there are always private label products that are much cheaper than the high quality products from Thule, we tended already normally to sell products to a middle income earning community or a very enthusiastic low income earner who loved their cycling and therefore preferred a quality product, for example. If you looked at it from that perspective we saw that the staycation maybe offset some of the general spend. Our belief is if it is a pure financial situation we will see a similar growth pattern. Now, with a pandemic and global lockdowns and quarantines it changes the game completely. It is not about I do not have the money to do it, I am not allowed to have the shop open, I am not allowed to go on doing things. Therefore that is why I am saying it is very difficult to speculate because I do not think any company has lived through this reality.

If you look at the various subcategories that you asked about in Sport & Cargo Carriers, there are some categories that are more exposed to the seasonality. The most exposed is the biggest one, Bike Carriers, which is clearly the most spring/summer product. There is a good logic for that. Any keen cyclist on the call will know when you are the keenest is when early spring sets in, you see the light, there is not ice on the roads and you are ready to go. You start going out, you have those long pants on and gloves etc. and then as the spring comes you start loving it. Now, again reminding you that the big markets for bike carriers are in Central and Southern Europe and the US, not Nordics. Then when it starts to get up to the high 30°s or low 40°s and you are in peak August season you might instead be down by the beach on a beach holiday with your family and therefore not so triggered on cycling. There is the category in a short-term reality that we are most exposed to how early people are let out of their lockdown.

www.global-lingo.com

Whilst there is a slightly more later reality if you look at Roof Racks & Roof Boxes. Very logically, as we presented in the past, it is a product that people buy when they go on vacation. Once again, many Nordics believe that is on your skiing vacation which of course hits us now ahead of Easter skiing, which is obvious on Roof Racks & Roof Boxes. However, the majority of our roof racks and roof boxes are sold in connection with a summer vacation where you need to pack your stuff to drive to the summer house, drive to the beach or drive somewhere and you do not have enough space. That then comes later on so depending on once again a little bit later on in the season, that then will depend on the seasonality and the opening of lockdown.

Karri Rinta: Okay, that is very helpful. Then a question on your channel partners, i.e. your customers. Do you see any risk of any types of customers having financial difficulties that they cannot survive in this? Maybe independent retailers in the US or some bigger sports chains that were challenged already before. What kind of [inaudible] concentrations do you see among your customers?

Magnus Welander: If you first take the reality that if you have 35,000 doors in a lot of different customers and no customer represents more than 3% of your sales, we are constantly seeing by default, as I tell my two daughters that study at university, when they ask me, 'Dad, do you see any of your customers going bankrupt?', constantly. Reality is if you have a lot of small customers there is always challenges as the world is changing. That of course, you are right, Karri, will be more exposed now. Will some of those that maybe were struggling? I am not so convinced that it necessarily there is any type of significant shift. I do not think you should oversimplify the expectation level that it is one industry being hit and hurt much more than others. For example, one of the things that happened in both the UK and California was that bike shops were considered essential shops to be open to service bikes. All of a sudden the small independent was in a slightly better situation than some of the bigger players. In France they even closed Amazon for almost ten days. You never know, really. It is clear that there is a lot of players that we are in very close consideration and discussions with. We have historically a very, very low level of credit risk and bad debt because we are a next day delivery company which means we generally even to rather big retailers sell in very little at any given time. Of course the bigger the retailer the more shops they have which still means quite a lot of money outstanding but versus many companies we do not dump in a season's worth of winter sports clothing and hope to get paid at the end. We sell continuously which is therefore reducing our risk.

Karri Rinta: Perfect, that is very helpful. Thank you.

Magnus Welander: Thank you.

Stefan Stjernholm (Nordea): I guess you do not want to give a figure for the current trading in April but I would be very helpful if you could say how many of your resellers that are currently closed?

Magnus Welander: You know me well, Stefan. I hardly ever talk about the future but April is almost starting to be the past and I knew you would be asking. April is as bad as the end of March was and then everybody has to do their estimation of how bad March was. If you look around the world it is so dramatically different. France is for us almost no sales at all. It is the most extreme of the European countries in terms of measures of lockdown and France is our third-biggest market which is a challenge. In other markets they are almost fully open and in some markets they are being opened now as we speak at the end of April. If you look at it, we have anything from countries with almost 100% of our retailers and customers not being allowed to do business, to some markets where they are almost fully open. I would say that it has shifted already during the month and it is opening up. The key market, Germany, which is our second-biggest market, is the one which is opening up now as of the last few days. That will then add a lot of store openings in the totality because the German market is such a big market. It is difficult to say. In

the end we can say that probably 10% of shops are operating normally, another 40-50% of shops are operating in some form or fashion and around 40% of the shops are almost or fully closed.

Stefan Stjernholm: If you look at Sweden, for example, where stores have been open throughout the period, can you see a recovery in April versus the last weeks of March?

Magnus Welander: Yes. You can see in all the countries where there is any type of store opening that has been is that it is not day one. We willingly admit that our product is not the first thing you are thinking about when you are being allowed out from your apartment after six weeks. However, once you have been out there breathing, doing, going to work a little bit you see some of those products being picked up very quickly. A jogging stroller for your kid, a multi-bike trailer, those very quickly picked up sales. Whilst some of the other products are coming one or two weeks later on. You start to see the biker carriers picking up etc. It takes a longer time for our Sport & Cargo Carrier products than it does, for example, for our Active with Kids products. If you look at our RV Products, there we are much more associated with roughly 40% is sold to manufacturers building motorhomes. There we are associated with those motorhome manufacturers going back to operations, which they are at the moment in Germany opening up this week to partial productivity. It will be very difficult to judge but a very interesting next six weeks which will be very telling.

Stefan Stjernholm: Yes. The last question from me is regarding under-absorption in production. Can you give a figure for what that impact is [inaudible] in Q1 to get a sense of what we can expect going forward?

Magnus Welander: No, I could not and I would not speculate on the gross margin impact. What I can tell you is that short-term furloughs will of course be one part playing in this as we have implemented those now. We of course despite being very proactive due to both following professionalism towards your employees but also following how those various legislations needed to land in countries, were not impacting or helping us in any form in the first quarter. They will of course be offsetting some of that under-absorption in the second quarter but it is far too early to speculate on what that would be.

Stefan Stjernholm: Okay, thanks.

Fredrik Moregård (Pareto Securities): Good morning everybody. First of all a question on Active with Kids, basically the only category besides RV in the US which grew in Q1. Can you tell us something or give us some sort of comment on whether or not this is actual sell-through coming through or is it mainly retail sell-in of the new Spring and also re-sell in of other products?

Magnus Welander: I am very convinced it is an actual sell-through as well. We get very good feedback. We see also the orders in April so I am convinced that that was a sell-through. Also Active with Kids actually had a stronger performance until the coronavirus impact started reducing with lots of juvenile stores also being closed around the world. No, I am convinced that that was sell-through.

Fredrik Moregård: Okay, okay, very helpful. Then secondly can you give us some sense or figure of what share of your white collar employees are on furlough?

Magnus Welander: Yes, indicatively of course there are big differences as you can understand. There are some staff that are very much at the extremes to what you can do in different legislations and countries. There are very different laws and very different restrictions. However, indicatively somewhere around 30%.

Fredrik Moregård: Okay. I guess product development would be less impacted as you indicated with the R&D spending probably being up to the percentage of sales. Is there being a risk of delays with regards to your product roadmap?

Magnus Welander: As we said earlier on, we are making some choices on some projects that we will be launching later. Since you do not know what that roadmap is and since we will have so many exciting new products, I do not think anybody externally will notice. This is also part of one of the things you do. It has been interesting. If you follow the outdoor industry there has been five of the most important players in the outdoor industry in the last two weeks that have gone out and communicated that they will not launch new products at all in 2021 almost to support retail. Due to that if you had a fashionable summer or winter jacket and nobody sold it due to COVID-19 and nobody could have their stores open, to support those retailers and their own cost structures, they are not going to launch a new jacket model for 2021. They are going to go with the same one. That is of course very different to Thule because we are not fashion and we do not need to dump in and out. You can use our bike carrier for many years. Sometimes when we launch products it is really a more tactical time to refresh. You will see a lot of new products in all our categories in 2021 as well. Some products that maybe were targeted for early 2022 might be mid-2022 or if everything turns around again and the world opens up again we might speed it up again. That is more how you should look at it.

Fredrik Moregård: Okay, looking forward to those launches then. Thanks a lot.

Daniel Schmidt (Danske Bank): Good morning, Magnus. We touched on the subject in a couple of different questions, but put it this way, if you look at the operating leverage that you did have in Q1 is there anything in there that you think is not relevant when looking at Q2 assumptions when it comes to operating leverage?

Magnus Welander: I think if you look at it, operating leverage can be covering a lot of things. If you look at our gross margin performance and efficiency in plans it is of course clear for most people when they looked at our books over the years and looked at annual reports etc. that simplistically-said three quarters of our cost of goods sold is material and one quarter is the rest. That means of course that if we believe we did the right things as we communicated on pricing versus cost of materials and if you speculate that it is unlikely that material cost in the reality we are facing will dramatically shift to the worst, then that should mean that a significant chunk of what helps our gross margin will be continuing to do well. Then if you look at the other part of the transformation cost component in cost of goods sold you of course have a balancing of a direct wage component and a production overhead. Some parts of production overheads are fixed because we simply have the equipment in place. Some parts of production overhead are also indirect workforce in terms of forklift drivers that serve a lot of different production lines etc. In a reality where demand is lower you are going to have some of those staff also on short-term furlough. I think there is a reality where we will be able to compensate a lot, also due to licencing[?] some of those state furlough programmes. The challenge on operating leverage is more that if you drop a lot of sales in your biggest quarter it is a balancing act of how much other cost you are taking out on your SG&A cost structure. Also there, there is of course some short-term furlough offsetting but we are a long-term company. We do not run this company for showing something fantastic on operating leverage in Q2 and damaging the business for the next 18 months. That is of course the most delicate and intellectually-demanding situation we have at the moment and we are constantly discussing with our board as well, is to do that balancing, driving for long-term success while being smart about short-term challenges.

Daniel Schmidt: Good. Thank you, I think I can read between the lines. Then just could you by any chance give us the percentage number when it comes to travel luggage as a percentage of sales?

Magnus Welander: I saw your early send-out this morning. You guessed 3%. That is not such a bad guess.

Daniel Schmidt: Okay. When you say that you will cut back on product development spending on travel luggage, which makes sense of course, if it is around 3% of sales how much of that budget has gone into travel luggage would you say?

Magnus Welander: You would never be able to trick me to answer that one, Daniel.

Daniel Schmidt: Okay but put it this way, you said that you will keep product development spending elevated in 2020 and you had this guidance that it will go down in percentage. However, of course COVID-19 has changed the top line trajectory quite a lot since then and now will go up. Do you think that product development spending in absolute terms will be down versus 2019?

Magnus Welander: In absolute terms, yes, but not in percentage terms.

Daniel Schmidt: Thank you, that is all from me.

Gustav Sandström (SEB): Good morning, guys. Could you just reiterate, Magnus, about the 50%? Did you say 50% sales drop in the last two weeks in March or was that just a general discussion of the mechanical impact to reaching that 5% organic drop in Q1?

Magnus Welander: What I stated was that if you look at the factor that we communicated that we had very good growth until mid-March, we started actually seeing the drop 13th March if you exactly want to know when we stopped growing and started to see negative numbers versus same period last year. It is slightly more than two weeks but if you look at it that means mathematically quite quickly that you are landing around that number, that those weeks were at roughly half of sales versus the same period last year, which is also indicatively therefore what I am saying that April is around.

Gustav Sandström: Yes, okay. Was this solely a function of volume or did you also see an element of price mix in this decline?

Magnus Welander: This is 100% volume-related due to lockdowns and people not allowed to do business.

Gustav Sandström: Okay. On raw materials you state that the spread between your price and raw materials have been positive but could you also give us an indicative figure on how much the actual raw material impact is helping your margins in Q1? It looks like it should be quite a meaningful contributor both in Q1 and throughout the rest of 2020 if staying at these spot levels.

Magnus Welander: I think as always, we have mentioned it before, we did not want to blame the spot levels when it was bad. We are not going to thank the spot levels when it is good because we of course buy things at different periods of the year and we have hedging for aluminium etc. In practice you are right, it is expected to help us with the current levels over time. Yes, it did help us and it is of course a combination with what we do from a purchasing approach as well. No, I am not going to give you exact numbers but it is clearly, as we were presenting that we expected it to help us in 2020, that is happening. Therefore that should continue to help us in the rest of the year as well.

Gustav Sandström: Great but would you confirm whether or not both the parameters being raw materials and price that helped or was it solely raw materials that helped that?

Magnus Welander: Both helped. Our pricing helped and the raw material is helping.

Gustav Sandström: Okay. Great. Lastly, how do you feel about pricing in a scenario where we have a little bit of long-lasting effects on consumer confidence? Do you have a plan to be more aggressive to get market share or are you willing to sacrifice market share in a scenario where people start to trade down a little bit more?

Magnus Welander: I think the reality is that as we look at every single product category and subcategory we do a market-based pricing. We do not do cost plus. We do market-based pricing and we would be stupid if we did not continue to challenge market-based pricing which will therefore mean that in some categories where we feel that we are so much better than everybody else why should we then tactically not make sure that we make the right amount of money? In some categories where we are challenging others we just need to be smart about what our pricing levels are. We need to be very savvy on what we do. It is a little bit too simple to make one answer on it but I think generally we always look at a market-based pricing and realistically it is not going to be about this company all of a sudden becoming a discounter selling product [Inaudible] no matter how good [Inaudible] will go next year because that is not what we do. We sell high quality products at a premium price point.

Gustav Sandström: That is very clear. Alright, thank you, guys, keep it up.

Mats Liss (Kepler Cheuvreux): Hi, thank you for taking my question. First, coming back to the slowdown of pace in mid-March I had a question there regarding if the [inaudible] sufficient to avoid having excess inventory in [inaudible] that could affect your opportunities to sell-in going forward?

Magnus Welander: I think the key point to make here, aside from RV Products where we do sell 40+% to the manufacturers where they assemble our awnings and bike carriers on the vehicle which is fully readymade on a purpose-built way for a specific consumer. Where there is of course a more classical old style, we deliver in big containers a lot of awnings to a manufacturing plant and they therefore will have some stock. Even there one of the things we pride ourselves on over the last ten years is we become super-efficient in making sure they did not need to sit on too much inventory. Also there we do not have a huge order stock and huge inventory holding at the manufacturers.

If you take the rest of the business which is then by far the majority of our business, 90% of that business goes via retail. We have relatively physically large products and they are seldom-purchased consumer good so they are not sold 15 a day even if we would love if they were. The majority of our products are therefore something the retailers are striving not to have too many home, generally because they occupy space in the store and because we have a fantastic ability to deliver on-time, in-full, next day. That means that what you see is when people stop ordering they stop ordering because they do not need it that day because their store is closed. When they open the store they sell the bike carrier they had or the two strollers they had and they need to order it next day. Generally I do not have any fear of there being an overstocking in the retail market at all.

My whole worry about what will happen in Q2 is more about how will various states go through their exit from lockdown? What will that mean in measures and steps? How quickly will it be? After people have been allowed out of apartments will they day one say, 'Let us go cycling on a bike trip, mate. Let us go'? Maybe not. Some will because they have been longing for it for six weeks. Some might not. They will say, 'I am just happy to be able to walk out in the park and breathe again.' We will have to see if that is going to be the issue, not that the retailers are sitting on inventory.

Mats Liss: It is no use waiting for a good deal on my next bike carrier. It sounds like that at anyway.

Magnus Welander: I think there is always a very good deal. Any time you buy a Thule product it is a good deal in that sense but I doubt that there will anybody trying to dump things out there. I doubt that very much.

Mats Liss: Yes. Then coming back to the Packs & Bags, I guess it is a tough market out there. Do you expect to [inaudible] some restructuring in that area or is it more like wait and see?

Magnus Welander: We have had to be in a lot of restructuring in that business for a lot of years and we are running it extremely slim with third party suppliers assembling the bags for us and us having product design, product development and product management, sales of it with a very efficient use of general central warehouses etc. I do not have either the need or the opportunity to do any significant reduction in terms of taking out a lot of cost because we run it very lean. What we are doing there is a little bit less aggressive on intending to grow, some less product development measures. Otherwise it is going to be about maintaining that slim structure, capturing as much as we can of the market.

Mats Liss: Okay. Finally, the M&A opportunities going forward, you are in pretty good shape and there are competitors out there that may be not. You made some bolt-on acquisitions historically. Are those kinds of bolt-on acquisitions something we could expect going forward? Do you see any bigger ones coming up now [inaudible] essential? Is it more like holding your own structure that is the main point so we should not expect anything going forward?

Magnus Welander: I think in terms of M&A you need to be careful to change your mind just because the world is in a turmoil. We have said that organic growth foremost. We will definitely keep on doing bolt-on acquisition, no doubt. We have said already before there are only a relatively small set of larger companies that we would really be interested in because we need a quality company if we are going to take in a bigger chunk. Then you take on so much responsibility you do not want to have a 5% EBIT company and think it is going to be easy to turn that to an 18-20% EBIT company. Those are relatively few and far between. You are right in that sense, Mats, that it might be that a crisis means that some of those come to market or something like that. I would not speculate too much on that. I still believe that it is going to be the organic growth and bolt-on acquisitions that are going to be the key. If it is one of those right ones that we have been considering as interesting, we would definitely be one of the players in such a process.

Mats Liss: Okay, great, thanks a lot.

Magnus Welander: Then I want to conclude by saying I hope you enjoyed our trip down memory lane, the old Champions League Final, remembering how swell we all felt at the end of Q1 last year at the beginning of the call. We apologise for that. However, I still want to remind you that I think we delivered a fantastic EBIT margin in quarter one despite some challenging end of quarter situations. We will be running this company on a long-term agenda and a long-term focus. I feel very good about the long-term in terms of what we do as a company, our financial strength as a strong position we have there, our ability to very flexibly meet demand, our great products and our continuously growing brand presence. We are maintaining that focus on the long-term while of course being smart about the short-term focus. With that, I thank you for your attention and look forward to talking to you again after the second quarter. Thank you very much.

[END OF TRANSCRIPT]