Thule Group – Q2 Interim Report - 2023

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Presentation

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Good morning everybody and welcome to this 2023 Q2 report for Thule Group, which is also my final as a CEO. The 35th quarterly call since stock listed and actually my 50th quarterly report, I realised. Time flies when you're having fun.

Second quarter

So let's go to the first slide. And when we look at the summary of the second quarter, I think we can happily say that what we expect to happen has been happening throughout the quarter in terms of sales. As you all remember when we summarised the first quarter in late April, we also informed the market that we would have a slow start to the quarter, partly due to the high inventory levels in bike retail and partly due to a late bike season start due to weather. And that was true. We did have a weak first month in the quarter. April was clearly very weak. May got clearly better and June was strong.

So in total we end the quarter with a 15% decline currency adjusted. We're helped a little bit by currency, so it's only 9% down when it comes to reported currency, but 15% down currency adjusted. That is still 23% growth versus the pre-pandemic second quarter in 2019 currency adjusted. And as I said, the monthly trend is strongly positive. When we look at what makes me most happy in the quarter, it is our very strong gross margin at 43.6%. Not only was that a clear improvement versus last year, but it was also the strongest we've ever had. We have never historically had any quarters such a high gross margin. And that was as you are aware and naturally can consider done when we had very low production overhead absorption, because not only did we sell less, we continued to reduce our own inventory levels according to our plans.

So the positive factors that made us deliver the best ever gross margin was most importantly, as we already communicated in conjunction with the Q1 report, the mid-year 2022 price increases are still of course impacting us positively. We still see very significantly reduced freight costs and what was very positive to see is the continued positive channel mix that we see in the quarter. I'm going to come back to a little bit what we see in the growth of our direct to consumer, but there was a general positive channel. We still do have the negative economies of scale and there is still, with reduced bike carrier sales versus historical past in the quarter some negative product mix effect. However, some of the new products like Thule Epos bike carrier on the image are coming in with good volumes, very strong sales of that product and very good margins as being a new best in class product.

What was also good, we kept our SG&A cost steady despite a very aggressive product development push as we continue to do. In fact, on a rolling 12-month basis, we are now up to 7.1% spend of sales on product development. So we're pushing very hard for the future growth and then to be able to still hold on to that same level, in fact, a small decrease even when you look at it in constant currency is strong. Also considering some of those senior management changes impacting costs in the quarter. EBIT margin therefore landed at a very strong 23.5%, which was a little bit down versus the extremely strong 2022 second quarter, but a very strong result overall. And an EBIT of 711 million krona.

As I mentioned, our inventory reductions are following to our plans and even slightly ahead considering that some of that inventory value is also a currency effect. We are currently reducing inventories in line with the plans that we presented already last year. So a reduction of inventory of 308 million krona in the quarter. So a very good plan followed there and a very strong cashflow as we have already communicated, we would have throughout 2023.

Performance quarter by quarter

If we go to the next slide, we can then see a little bit of the performance on a quarter-by-quarter basis. And what goes on in our business. And when we look at the performance on a continuous basis, it is easy to do the classical mistake to only compare with the previous year period. That's why we're showing a few years because we've had, as you are all aware, some very weird swinging quarterly performances throughout the pandemic and also now then due to the bike inventory situation in the beginning of '23.

So when we look at the start of the year, we saw a big gap versus '22. And we have to remind ourselves then that in '22 bike retailers were very, very optimistic in the beginning and ahead of the season, ordering significant quantities after having had very good sales in '21. And many players then slightly or significantly overestimating how much they would need in the season. That impacted our start of the year and now in the second quarter, as I mentioned, we were 15% down currency adjusted versus 2022 Q2, but still 23% up.

The second quarter was the second most difficult comp quarter. The first quarter was exceptionally challenging because we had a fantastic preseason selling. We saw some of that especially at the beginning of the quarter in 22 Q2 as well, so a difficult comp. And now we're coming with a very positive monthly trend with April being very weak, May being better and June being strong. And we're now facing, as you are aware, a very weak comp period in the third quarter where we saw the handbrake being pulled by the bike retailers in July and August last year. And therefore, our profit warning that we did in September as a consequence knowing that that would impact us for a number of quarters going forward.

So now we're starting to see easy[?] comps. I therefore urge you all not to get too excited that we will be beating our '22 results. I think it's more important to look at the continuous performance of '23 versus a more normal season pattern, which you can see in the yellow columns on the 2019 is a more normalised pattern of how our sales should pan out. So a very positive view on a strong second half of the year because bike retail is now back to a more normalised level. And we will be seeing a much more normal performance on a seasonal basis.

Regional perspective

If we then go to slide four and look from a more regional perspective, you can see that the performance actually was relatively similar between the two big regions. But as always, there are some differences. If we take Europe and rest of the world, then first what was similar in the two regions was it started weak with bike retailers having stock still. That is applicable in both regions, so that has been exactly the same performance. What we see also is generally as we already mentioned in conjunction with the Q1 report, is that generally in sporting cargo carriers, the retailers are cautious. They're not placing big orders, they're taking smaller orders with more frequency rather than aggressive, bigger orders. That is also similar across the two regions. What starts to differ is of course a little bit the exposure we have due to historical reasons between the product categories.

So as you are aware in the biggest region, Europe and rest world, the RV product is a significant part of our business because we are the market leader in the niche categories we play [inaudible]. Here we had one further solid quarter thanks to that motor home manufacturers are still catching up with some of the order book backlogs they've had now for several years. And everybody in the motor home industry is very much anticipating. The big question mark that will be more clear in conjunction with the Caravan Salon in Dusseldorf in September is, how many new orders will be filling into the system? What is clear, consumer interest is high in going with motor homes and doing that flexible vacationing. But it is clear at the same time that the cost of these vehicles have gone up significantly and there is of course a concern with some of the inflationary pressures and higher interest rate logic of how many new orders that will be signed.

I discussed in the last two, three quarters the risk that people would be stepping out of line, so that they had committed to buy a motor home some years ago, but when the cost went up and the backlog finally was starting to be filled up that they would step out. That is not a pattern what we're seeing, which has been good for the industry and for Thule. But it will now be more of a question mark for the '24 season how much new orders that are signed so to speak by the European motor home manufacturers in conjunction with the Caravan Salon. In juvenile and pet, which is also bigger in this region than it is in region Americas, thanks to our strong bike commuting trend with children in Europe and it's specifically then the German market, Germany, Switzerland so to speak, and the Benelux and the Nordics where people commute to kindergarten with their kids. That is a significant chunk. And here we're very happy to say that we saw an earlier normalisation than in any other category in terms of the bike trailers where we are the European market leader. So already in Q2 we saw growth in our bike trailers in the region because there was an earlier normalisation than there were of some of the other bike related categories. Which is also a sign that the trend, that young parents want to bike commute with more and more commuting opportunities done in municipalities around the world [inaudible] investments is definitely a trend that will continue.

In the packs, bags, and the luggage category, it was the luggage and duffle that were the best performing sub-catalyst. From a regional market perspective, we saw France being our weakest of the bigger markets. And the main reason here is we have a few very large retail chains that are positioned slightly lower, so more mid-priced products and they are still comparably the most conservative and also sitting on slightly more inventory in the quarter than in other markets. The best performing markets were the UK and Poland.

As I mentioned, direct to consumer, nice to see from a very small base in this region but a very strong growth. And now in the quarter it was 6% of sales. You have to remember that we do not ever consider to do the RV product sale direct to consumer because the consumer won't be buying those products that way. So as a share of the possible business, it's still growing very nicely.

Region Americas

If you go to slide five and then look at region, Americas. As I mentioned, many of the patterns are the same. So the picking up month over month is absolutely the same. The high inventory levels in bike retails at the beginning of the quarter exactly the same. And also what is similar is this general cautiousness of placing large orders for sporting cargo carrier product, but with this lot of continuous smaller orders. What differs a lot is this exposure to RV product, where it's a significant category in Europe, while it's a tiny niche category for us in region Americas.

And in this case that was lucky because if we talk about the European motor home markets being stable by catching up with backlog, as I'm sure you've been reading a lot about then North American motor home market was weak. And so, we had a similar performance with our niche category in RV product.

Within packs, bags, and luggage, we took a decision some time ago as you know from years ago, but also specifically now some quarters ago that we had still in our legacy categories that we play in some OE business where we do direct business to business of other, more simpler bag solutions. We decided to step out of this business and phase it out. That is impacting us quite significantly in this quarter and will impact also the next quarter. What is good about that is that that was very low margin business. So from a mixed point of view, it helps us from a mixed margin point of view and it isn't the business we want to be in long-term, but from a sales perspective, it did hurt the packs, bags, and luggage category in Q2. And we'll do so partially in Q3 as well.

What is going well is very similar to Europe. It's the luggage and duffel bags especially, that continues to grow nicely. From a geographic perspective in this region, the two big North American markets of the US and Canada had a similar performance while we strongly grew and it was nice to see some growth in Latin America. So here clearly Latin America, the better performing of the geographic spread. Here direct to consumer continue to grow at very strong pace. And in the quarter in the region, it was now 16% of our sales. So as you understand from that, from a gross margin percentage point of view, the strong growth of direct to consumer of course continues to help us.

Business

If we go to slide six then and look a little bit more on what's going on in our business. In general, as I said, many patterns are similar across the regions and also patterns in terms of what's going on in our trending on things.

So if you look at the financials on an operating working capital point of view is the key message, the inventory reduction. Despite a currency effect of making the inventory being SEK 186 million higher purely due to currency, we are now seeing that planned reduction of inventory as we announced already late last year. In fact, we would be slightly ahead of plan if it wasn't for those currency effects. From an accounts receivable and an accounts payable, if you look at from a trending point of view, obviously, as we mentioned with a slow sales start in the beginning and then stronger and stronger, we see accounts receivables going in the right direction. And what you can see is also key that on an accounts payable basis we are still not buying a lot of product and components in, thanks to the fact that we still are planning to reduce our inventory also clearly throughout the third quarter of the year.

So overall I am happy with what we've been doing in terms of reducing the inventory. And that is what the key contributor to what we knew would be a very strong operational cash flow in the period. And as you see a lower CapEx in the period than the previous year, but that is not just the previous year. We are in fact doing things over time to get back as we said after a heavy investment phase to a more normalised investment phase.

Business performance

If we go to slide seven and look at how the business unfolds, as I said, some strong positive trends and some good things happening. And when you look at what this company first and foremost does great is new products. So of course it's important for you to realise how many new products we are coming with in the 18 month period that started more or less from April this year.

So we've already, this spring, helping us especially in the Q2 but will be helping us also throughout Q3 and 2024 is a number of key launches that have already taken place. You've seen the fantastic Thule Approach rooftop tent. You've heard about our brilliant Thule Arcos rear car box solution with very good energy efficiency. You've seen the very cool Thule Caprock premium lifestyle roof platform. And you will definitely be hearing a lot more over the coming years about world's best rear car bike carriers. So we launched the European version of towbar mounted in the second quarter. And now in the third quarter we're going to start to see volumes also in North America for the hitch mounted version. The Thule Epos has already won multiple awards and won also a gold award at a recent EUROBIKE event. And is clearly already taking a clear place as the best in the market.

We have also, since we announced the Q1 report, had a number of other trade introductions, and we are seeing some of those that will be hitting sales already positively in the autumn[?]. The Thule Alex[?], the world's safest dog crate for the car trunk is coming into market at the end of the third quarter. And it's in the upper right corner of the image. I'm sure that will be a significant contribution. And at EUROBIKE, where we in June showed all our new bike related products, we also launched a second dog transport product. The Thule backseat[?] dog bike trailers. Which is shown in the top left image. So with those two, we'll start to have two big products in dog: the Thule backseat at the beginning of next year. While the Thule Alex dog crate comes in the end of the third quarter.

We have also in autumn launches on a number of very nice bag collections that I feel very strongly about. We are hitting it spot on in terms of design and recyclability and sustainability on those bags. And styling is, as I've joked a few times, it's always good when my daughters and their boyfriends steal the bags that I have home for testing. And so, it looks very, very positive. But what is also important to know is that we sometimes do more money than anything else with an upgraded generation of a key volume product. And at EUROBIKE we launched Thule Chariot generation three. So Thule Chariot is the world's most sold premium bike trailer for children. And at EUROBIKE we launched an even better version with the same iconic design and look but with multitude of big improvements that got raving reviews from all our importers. As I mentioned, we already saw bike trailer sales starting to grow in Q2. And with the trend that is in the market and this fantastic new product, I see very positively of this high volume product having a significant impact in 2024 as it hits the market at the beginning of '24.

And what is also nice to say is that when Mattias Ankarberg, who takes over as CEO, will be doing the quarter three update, he is going to have a lot of cool news to tell you about in that quarter three update as well, because there are some still upcoming fairs and events. And as we've always said, we don't tell you investors before we tell the retailers and consumers that will buy it, but at those upcoming later in this quarter then events, we will be announcing some other key volume driving product launches for next year. So not just niche little product launches but some serious volume launches with brilliant new products. So, we feel extremely strong about our product launch assortment coming for the coming 18 months.

Drive for future growth

If we go to slide eight, look at what this of course means, it's not always completely free of charge to drive for future growth. And when you do that you will need to invest and spend but it keeps the focus going in the long run.

So our focus for the second half is a strong growth focus strategy. That remains unchanged. We are pushing new products and new solutions to the market for a good reason. We are convinced we will be able to drive growth.

From a pricing point of view, we are keeping the prices stable after those multiple increases we did in '21 and '22. So it will be by new units, new volumes that we will generate top line growth coming into the near future. We are also doing that by continuing to strengthen the very strong global lifestyle brand pillar. We are going to see now, despite doing a second or continuous phase of inventory reduction also in Q3, we will now start to see as we produce more the possibility to utilise a very well invested backend to drive cost efficient growth in the coming quarters. And we're continuing to boost our direct-to-consumer sales and that will of course drive a margin improvement as well. But it's not only around direct to consumer sales.

Our big improvements that are noticed by retailers as well is on for example our Thule.com solution and our other merchandise solution, is to generally drive growth across all channels. The product portfolio push I've already talked about. The fact is that we will continue with extremely lower levels of production staffing throughout 2023 Q3, because we are reducing inventory levels. And it will only be when we start to be into 2024, we will see more normalised levels. We have been continuing our investments as you are aware of high, heavy investments in automation and efficiency gains for our plants. So when the volume comes, I feel very confident that we will be able to meet those capacity demands and we will be able to do so in a very efficient manner. And the strong cash generation will continue throughout the year, which is always good because that enables us the freedom to spend where we should.

So all of that is the focus going forward. A reminder is of course also that we will now face some very easy comps, especially Q3 is very easy and Q4 is also relatively easy. Shouldn't get too carried away internally or with investors because we should be beating and will be beating those quarters. But it's nice to see that we have that momentum. And we have to remind ourselves, the world is the most uncertain in many ways. There's many things going around. So our ability that we've proven once and again to be flexible will be key and we have proven that throughout recent years.

Cost of product development

If we go to slide nine, one of the questions we've been getting quite a lot from investors over the last few months or since beginning of the year has been around, "How much are you really spending on product development and when will it normalise and how much have you been spending on CapEx and how will that normalise?"

So looking a bit on those two things, you are completely correct that we have had an extremely aggressive product development push. That was already planned. When we then saw bite retail slowing in sales and us seeing them reduce sales, we were faced with a choice of pulling back on some very good product development initiatives that we were sure would drive future growth, or take, so to speak, the rolling 12 month hit of increasing our R&D spend. We correctly, I'm convinced, chose to be pushing very aggressively for future growth and future performance with fantastic new products to hit to market. That means with the reduced sales we've been seeing as retailers were selling down inventory, that in fact on a rolling 12-month basis we are now up to 7.1% of sales in product development.

Now I won't be running this company in the future and you all know that I'm slightly a glorified product developer and product manager, but even I would not consider 7.1% at the right level for Thule in the future. I think as I've said a few other times that the levels should be normalising somewhere in the range of slightly above five over time. So that of course will happen from two reasons. One, this has been an extreme push with loads of new products. But two, we will see, no doubt, a pickup on a rolling 12-month sales, as we're now facing several quarters in a row with very weak comps. Q3, Q4 in '22 and Q1 especially, but partly also Q2 in '23 have been weak. So the rolling 12 month sales will be stronger. But also the absolute spend will be more normalising. So we will be going down from these extremely high levels. When we do that, we will also do that partly because once you start actually selling in new categories – and as I said we start selling dog products at the end of Q3, beginning of Q4 you start to see volumes hitting. And when you roll into '24 you will therefore see a natural offset to our dog spending so to speak.

And the same will happen for the car seats in the second half of '24 and beyond. You will get a offsetting of actually doing revenues in categories where we have been hitting the P&L with heavy development spend.

From a CapEx perspective, we told you several times throughout the autumn '20 and '21 and '22 that you would be facing, we were facing a number of years, three we in fact said, of significantly higher than average CapEx. '21 and '22 partly also because we did very large investments in a completely new development facility that some of you saw and visited at our capital markets day in '22. But also a fantastic state of our new test centre. So those two above and beyond investments that we don't do very often came at the same time as we needed to do significant capacity investments having gone from SEK 7 billion in sales to 10 billion in a very rapid rise. And then on top we did investments to be able to optimise more in some of our high-volume products, and then finally investment to prepare for production in our own sites of these new categories. As you can see on the rolling 12, we are now starting to normalise. So we are already on a clear downward trend and I'm sure from '24 and on [inaudible] to a normalised slightly above 2% type of CapEx spend in the group.

Looking backwards

If we then go to the final slide, slide 10, and look at something, I take this opportunity, 35th time I do this. So I've always been and will continue to be a forward looking person, but sometimes when you are told to leave you can also look a bit backwards. So I've taken the liberty to do a bit of backwards looking. And I can tell you then, I'm a very proud person in what we have achieved, my colleagues and myself over the 17 years I've been at the company and having been a CEO since 2010. I can strongly say that Thule is today a stronger company in every single aspect than it was when I took over. We have successfully divested a number of underperforming car industries, sub-supply divisions. Most of them were actually divested even before we got stock listed and a few after. We've changed from a complete wholesaler model to retail-oriented sales. And as you've seen in our last few quarters, an exciting quick growth of our D2C journey. We have no doubt a true world-class product development with more design and test awards than any other player in our sector. We have a modern and very well-invested supply chain with capacity expansion opportunities. And what is in these days so important, we have a true sustainability mindset with very high ambitions, both science-based target and net zero, and also a very strong track record on actually delivering those plans, not just talking about them.

What I'm extremely proud of is also that Thule is today a very well-established global lifestyle brand. I notice that wherever I travel in the world, and the difference is phenomenal versus when I go back to 2010 travelling the world. Happy to say we'd done this while delivering very strong financial bill results and also with very big dividends paid to you, investors. If we include the October dividend payment, in fact, we will have paid in dividends as much as our total market cap was when we got listed in 2014, 7 billion.

We've also – what I think is very important now as we have a new CEO taking over, we've had very strong internal people growth. And we have a lot of internal promotions of people that have done a phenomenal job. We have some people that have for various reasons left and have had fantastic and are having fantastic careers at other companies. And we are today a very attractive employer in all our markets. You have seen and heard about all the new great products coming in the next two years, and what is good is they're coming in sectors with long-term positive market trends. Because it's always easier to sail with the wind in your back. So with all of that I feel very proud. But we know in the end, especially you, analyst, and investor, will judge a CEO mostly in the end almost solely on how the investment has grown under my or their management.

So I have to say I'm also proud there. We have created a fantastic return on investment both as an unlisted entity and since 2014 with an impressive share price development as a public company.

So Elizabeth, as I joked with my friends being an ex-soccer player, it feels like in the 80th minute we get a penalty and you're looking up because there is a substitution. You are surprised that it's your number coming up on that board. You look around and you go like, "Okay." Then you go around and realise, yeah, they decided they'd replace you. You go on, pat the backs of all your teammates, pump them up. You go out, you take off your captain's bendel and you give it to the new guy. You pep them up and you say, "You go in and put that penalty in. Let's make a fantastic future for this company."

Thank you

So in closing, I want to give a huge thank you, because I do know that there is a lot of colleagues that are investors as well in the company and are listening into this call. I want to give a huge thank you to all my fantastic colleagues. There is a great team at Thule. And it's been a pure pleasure working with you for the 17 years I've been here. I am also convinced that with your help, Mattias will in the same way contribute to the successful future Thule journey. So I wish you all the best. And although I normally don't single out persons, I want to do one singling out now because it is an investor and analyst call. I want to thank specifically Fredrik Erlandsson, our head of IR, who is a brilliant IR person. I know you know that as investors and analysts, but who has made my life extremely easy to work with all of you investors and analysts. I send him a special thanks also for being a very fun person to work with.

And with that we open up for questions.

Q&A

Operator: Thank you. Our first question is from Daniel Smith from Danske Bank. Please go ahead.

Daniel Smith (Danske Bank): Yes, thank you. Good morning, Magnus. A couple of questions from me. And starting maybe with the sort of tagging on the commentary that you had when it comes to bike retail as inventories, which has been a big, big, big focus over the past 12 months. And also during the spring. And you're saying that you're more or less seeing a normalisation of those bike retailers' inventories as we go into the second half of this year. Could you shed some more light on what you've seen? I think you've mentioned that trailers are ahead of carriers and so on, but also from a geographical perspective, and also maybe a bit more on product perspective what you're seeing?

Magnus Welander: Yeah, morning Daniel. Generally, the trend is the same. So what we're seeing is I would say as we exited June, most retailers are back to normal levels. So it's not geography based at all. It's specific retailer-based. There might be specific retailers in a specific market that have still a little bit too much. They are few. Most of them are back to normal levels. However, if those few are relatively big, which is what I mentioned about France, where we have a few very big retailers and that are selling at slightly lower price points, more mid-price, there is a higher likelihood that they still had a little bit too much throughout the quarter.

But generally, with the good sales we saw in the last few weeks of June, we saw a clear normalisation across the board. And the logic for why certain product categories have then performed better from a inventory normalisation is more due to how many different models was there available in the market when they built up inventory.

So if you look at, for example, premium bike trailers where we saw a normalisation a little bit earlier, there it is because there isn't that many players and models up at the very premium end. So even if there were too many, there were too many of relatively fewer models. While there are more models at the mid-price bike carrier for example, there are more brands, more models. When you go upwards in the price points, fewer models, so less build-up of inventory. So you can say that's the trend. Not geographic as much as retailer and price point specifically.

Daniel Smith: Okay, that's good. And just coming back to sort the products and especially some of the ones that have been very successful. I think you mentioned Thule Epos a number of times. And that launched in mid of April in Europe and mid-June, I think, in Americas. As I assume that given the sort of difference in launch dates that that will probably have a good contribution also to Q3 and the second half of this year in terms of sales in that category. Is that a fair assumption?

Magnus Welander: Absolutely. Thule Epos is a true volume product at very high price points and good margins. So we are selling lots of units and we were not selling any of that because we didn't have it last year. Of course, it's partly taking some share of our previous most sold ones, but as we were selling very few of those as well in Q3 last year due to the holdback, that will be a significant contributor to the growth in Q3.

Daniel Smith: Yeah. And speaking of that and also all these components that impact the gross margin and you've lined them up fairly sort of visually with freight impacting positively, also channel mix and new product share of total sales given that they are sometimes produced more efficiently than the old ones, and I think that goes to Thule Epos, and then you have the price increases that you did last year as well of course kicking in – looking ahead, what should we expect on all these sort different components? You have the raw material working against you in Q2. I assume that's going to be working with you towards the end of the year. And then maybe the channel mix will go the other way, who knows. Could you shed some light on those different components and the gross margin impact going forward, all else equal?

Magnus Welander: Yeah, I think you should always be careful to look at too much gross margin quarter on quarter, because it depends on the production overhead absorption, which type of products are sold more each quarter. So you should be looking more on the rolling 12 performance as we go ahead now. But I'm very confident that we have a very solid base of high gross margin going forward with all the things we've done and with the under absorption we've been having, which has been significant. Not only have we sold less, we've also produced a lot less than we sold due to sitting on too much inventory. When we come slowly but surely back to more normalised production levels, both thanks to sales and not needing to sell down inventory anymore, that will of course be a nice positive contributor being able to offset some other things that is going on within the market. So I feel very confident about our gross margin development going forward.

Daniel Smith: And I assume that... You stated that there will be under production also in Q3 and it will take around '24 until we see normal production. Is there any sort of step change at all from lower levels compared to Q2 running into Q3 on the production rate, if you adjust to seasonality?

Magnus Welander: From a production rate logic, no, but as sales will be higher, you still get the more pure production overhead absorption thanks to sales levels being higher versus the previous year, right? So it's not... Our production levels will still be low because we're going to sell out in inventory but we will sell more.

Daniel Smith: Yeah, that's understood. And then on product development spending, I think you had a good slide on that, but should we expect that normalisation to happen at the start of '24 or is that already happening towards the end of '23 in terms of Product Development spending?

Magnus Welander: So if you look at it, we will be spending a lot, but as we are now replacing low revenue quarters with higher revenue quarters from a rolling 12 point of view, thanks again you get as a share of sales, you're going to see the number going down only thanks to better sales. Spend is heavy still because we're pushing for these new products, but sales will be better so as a percentage of sales it will go down.

Daniel Smith: Yeah. And nitty gritty, I think you actually mentioned that senior management changes had an impact on SGNA costs for the quarter or did I hear you right?

Magnus Welander: That's correct. Replacing a CEO is not free of charge.

Daniel Smith: Any numbers that you want to give that sort of [inaudible].

Magnus Welander: No, I think it's pretty... The annual report shows what my contract is and then there's of course some headhunting costs and some other things around replacing people. So it's pretty easy to do. It's still significant for the administration part of our cost.

Daniel Smith: Right. Good. That's all for me. I just want to say, good luck Magnus, and hats off for the performance that you've been able to deliver together with the team of course over the past nine years at least, as a listed company.

Magnus Welander: Thank you very much.

Operator: We have our next question from Gustav Heje[?] from SEB. Please go ahead when you're ready.

Gustav Hagéus (SEB): Thank you. Good morning, guys. To follow up on the margin discussions. So 23.5% EBIT margin this quarter versus I think it was 24.7% last year, right? So in the same territory despite organic growth being down 15 and volumes then being down more, could you give us some colour on if the volumes would've been in line with last year, would margins then be significantly up or how much is the under absorption effect and how much is the volume effect here in total you think to the margin?

Magnus Welander: So of course, as always, it's always hypothetical. Because you actually need to run the plants as well as efficient as you want to do. But as I reminded everybody, when we did the fantastic volumes in '21, we were doing that by running the plant inefficiently. At shift nights, weekends at a higher cost with a lot of temps that cost more per hour, et cetera. But that was the right choice because we had the sales volume and we still made a lot of money doing it, but it wasn't very efficient plants. Now in the second half of '22 and the beginning of '23, we have efficient, well-invested production plants, but they're running very little.

So therefore they are costing from a more traditional production overhead absorption logic. What would be the ideal, which is what we're hoping should be then taking place in '24 with more normalised sales volumes picking up because bike retailers are not reducing inventory and we are not reducing inventory, we will produce more. Not only sell more but produce more.

You then get two effects. You get the pure, let's say, top line effect of selling a lot, you get the effect of producing more efficiently and if you at the same time do that also by having more automized and better margin products, you're getting three positives, [inaudible] situation in an ideal world. The ideal world has never happened to me. There's always something not going as well as you hoped. But totally that means there should be on a continuous basis seeing a nice gross margin development rolling forward subject to weird things like pandemics, Russian invasions or whatever, not hurting the flow of material and the flow of your supply chain.

Gustav Hagéus: Okay. And then, could you shed some light on the car seat rollout? Now, I'm not sure if you said Q2 before just H1 next year, but it's been postponed, right? But I haven't heard a lot of comments on to why. Has there been technical issues or safety?

Magnus Welander: No, Gustav, we already [inaudible] the Q1 report a bit clearer actually that it was going to happen in Q2. So that postponement was announced. And the decision as was communicated in the Q1 report is that we have seen much longer lead times as everybody else, still on some electronic components and some assembly equipment. And we do not, on a product that is safety-oriented, one, and most importantly for small children, want to take any type of shortcuts when we're stepping up and ramping up mass production. But also not from a pure brand perspective of coming in as a new player and then starving the market just after you've launched. So that was and is the logic for why we took that delay as we communicated at Q1 report.

Gustav Hagéus: All right, that's clear. And finally, from me, looking into H2 maybe next year in terms of working cap release, cashflow, you had a nice return here in Q2. Where do you think is that... You previously said that you think that lead times and the tariffs and whatnot will keep your inventories perhaps higher than they were in the pre-pandemic era, but can you share some light on the cashflow profile as you see?

Magnus Welander: Cashflow will be fantastic in the second half of the year as well because we're still reducing inventory significantly and we're seeing pickup in sales. So cashflow will be very strong. And then from the direction then what goes on in '24 and onwards, if you look at Rickard Andersson, our head of supply chain, a brilliant guy, he is not going to be stupid in trying to be goody, goody two shoes. And I talked a lot with Mattias, I'm sure he won't be either in trying to show, "Look, how good we are on operating working capital" and taking the risk of saying no to fantastic high margin sales. And the world isn't still fantastically smooth in everything. So I think in '24 and beyond it will be more slowly but surely a reduction. We needed to do significant deductions of inventory because we simply had far too much bike related products in '22, exiting '22. That is being reduced now in '23 and will be done by the end of Q3.

Now it will be more a continuously getting [inaudible] supply chain pickup in sales and then more a continued, slow but sure reduction of inventory to a more normalised level. I think that that's then up to

Rickard and Mattias and others to talk about. I think realistically it would be too optimistic to believe that that can be even at the levels it was before. Because you have to remember we also do more direct to consumer. When you do that, you take on that respondent's ability to hold that stock also for the consumers, which otherwise the consumer stock is held by others. So you shouldn't be fooling yourself that some of these channel mixes also impact other things. So I think it will be, even if we see a gradual decline of the percentage, it won't be going back to the same levels as pre-pandemic. At least not fast.

Gustav Hagéus: Yeah, no, all right. So, thank you. Those were all my questions and I agree with Daniel. It's been again nice time with you here with Thule. Good luck with your future endeavours, whatever they would be.

Magnus Welander: Thank you Gustav.

Operator: We have our next question from Adela Dashian from Jefferies. Please go ahead when you're ready.

Adela Dashian (Jefferies): Good morning. Let me just start off by congratulating you Magnus us on a fantastic career. I think everyone listening in on this call will agree that you'll be greatly missed. Onto my questions – and I'm sorry if this is too repetitive, but I think the biggest topic of discussion today is the margins.

And obviously you proved your resilience and flexibility in this quarter and also in Q1. But should we be worried that the efficiency measures that you've taken or are taking today, you won't be able to maintain them once the volume situation normalises? Or is this 23.5% EBIT margin, is that a level or a new base that you will continue to build upon? It would be good if we could just have more of a clarification on what the... And I do understand that you don't give out guidance, but what a normal base could look like in a normal scenario.

Magnus Welander: Yeah, I think you need to separate EBIT margin percentage from gross margin percentage. So if we take a gross margin percentage logic, that will be driven by how efficient you sell and produce your things, but also of course what pricing you have on them and what mix there is. Both from a channel and product. If we look at the whole logic of how we see it, we believe that the mix going forward will be clearly positive. As you remember, we sold very little of some relatively high margin products in Q3 three, Q4, Q1. We will sell more of those as now bike retailers have reduced their inventories.

So from a product mix, we will see a positive effect in the coming four quarters versus the recent past. From a point of efficiency, we will clearly see a better production overhead, and not in Q3 as I mentioned because we're still reducing our inventory, but as we go into '24, we will be producing more normally. One, because we're convinced, we'll sell more, but two, because we don't need to reduce inventory.

So fact is we're going to get much more efficient utilisation of the investments we've done. And that's why we also shared the CapEx graph, right? We did do a lot of investments that are costing us and we have a lot of fixed staff in our white collar basis of quality and supply chain, et cetera. When the volumes pick up, you get a better coverage for them. So that will be positive impact. I therefore feel from a gross margin perspective, we have a very good situation going forward. For how much that materialises in an EBIT follow through is even more driven by economies of scale because we will be pushing clearly ahead. I'm sure Mattias and the team, Kalle, who's a fantastic senior VP of product development will be pushing Mattias to do more and more cool new things, sales in the future. But as I said, it will go down as a percentage of sales because sales will pick up.

So even if you do a lot of product development, as a percentage of sales, it will be going down. So there you have different factors. You will also have a greater economies of scale on any type of head office SG&A cost as sales numbers go up. So therefore, the EBIT will be helped by that as well. So I would focus, if you look at economies of scale first and foremost on gross margin, I feel very comfortable that we have a very good trajectory. If the sales come, which I'm convinced they will, that will also have a positive economies of scale effect on our SG&A cost. Both will contribute to why I'm so confident with our above 20% EBIT level as a continues basis going forward.

Adela Dashian: Okay, thank you very much for that clarification. And then also a quick question on what the current trading looks like. I do understand that the inventory levels on a retail level are now looking more rebalanced than what they did at the beginning of the quarter, but the logic behind retailers placing smaller orders is that a behaviour that is also improving on a week by week or daily basis as they're now less cautious than what they were just two weeks ago, or are we still seeing that kind of behaviour as we go into the second half of the year and what could the implications be in that case if that behaviour is sustained for more than just one quarter?

Magnus Welander: So this is a normal behaviour in the end of the summer season. So if you look at a company like us providing next day deliveries, what normally is done by retailers is at the beginning of the season they pump up and fill up their stores because they will have a lot of people coming in the spring buying their bike stuff and buying their products, going on vacations. Then after the peak period, they normally, even in pre-pandemic times, didn't place big orders in Q3.

Because they placed replenishment orders of smaller quantities of specific models, specific colours. So the pattern is more, for every week that goes, more similar to historical patterns, which should be smaller quantities with frequent orders. We see a very continuous strong trend. If you saw the first three... If you go back to what I said, very week April, okay May, strong June, that isn't changing overnight, right? So if you look at the trend, we feel very good about the orders that are coming in on a daily basis. And now in this part of the year, it is more normal that they place smaller orders. In the spring historically, they would place bigger orders, but because of the situation they didn't. So it's more the spring that was weird. It's not so weird now that it's a continuous smaller replenishment order cycle.

Adela Dashian: Got it. So taken all together, your outlook on the second half of the year.

Magnus Welander: I have a very positive outlook. Yeah, correct. Hello?

Operator: Hi. I think we've lost her line. But moving on to the next question. It comes from Carl Deijenberg from Carnegie. Please go ahead.

Carl Deijenberg: Thank you and good morning, Magnus. Two questions from my side. Maybe first a general one following up here on the comments with regards to inventories in the channels and bike retail in general. If you could provide us or if you have any sense sort of how the overall bike market is doing this year given that we're quite far into the [inaudible]; and now it'll be interesting to hear sort of your sense of the sellout development if you take both bikes in Europe and in the US versus the pre-pandemic period and versus last year. Is the sellout in your view still above pre-pandemic levels? I can see that the participation rates [inaudible] high, but yeah, anything on that would be interesting to hear from your side.

Magnus Welander: Yeah, having been at EUROBIKE, I of course [inaudible] lot of other CEOs in the business and we talk with them all the time, or we talk with the retailers. I think in general people will say that it's clearly higher levels than 2019, but it's – depending on who you talk to, there is a speculation that it's mid-single to 5-10% below the peak during the pandemic so to speak. What is helping the bike retail sector and the bike brands is that average price points are higher.

So if you look at it from that perspective, they're compensating partly because the growth of E-bikes and E-bike being so much more expensive than a bike with no E in it, and the general price increases that have impacted has helped. But yeah, clearly above 2019 levels, but below the peak levels.

Carl Deijenberg: Okay, thank you. And then I have a question on this new product that we're looking ahead of the core set launch share in the beginning of next year. The new bike carrier that you launched here at EUROBIKE. I just wanted to ask, the new products that you're planning to launch here, are all of these being produced through your new sort of more running, or more efficient production line that you've been investing here in the last few years? Is that going to be for all of the new products or are some of them requiring a different process?

Magnus Welander: So if you look at it, for example, the bags, we are launching a number of new bags. They will still be done by Southeast Asia suppliers. So it's not every single product, but you can generally say when it's a high volume product like the Thule Epos, like some of the other products that will be announced soon, they are high volume ones.

That's where an automation setup makes sense of the heavy, true, full-on automation. Otherwise, it will continue for a lower volume products there, which we will also launch a few of course because we need to fully compliment the portfolio. There is more of traditional, semi-automized setups that we will have. But on a number of the key by carrier volumes, some other cool products coming, truly more automized assembly being used with investments we've done over the last few years.

Carl Deijenberg: Okay. Very well. I think that was all from my side. So a big thank you again and also from my side a big, good luck on your new adventures here after leaving Thule. Thank you.

Magnus Welander: Thank you very much.

Operator: We have our next question from Kari Rinter from SHB. Please go ahead.

Karri Rinta (SHB): Thank you. Thank you, operator, for taking my question. First, a clarification on inventories. When you say that inventories have normalised, I just wanted to make sure that you are specifically talking about retailer inventories of Thule products and not their overall inventory levels.

Magnus Welander: That is correct. Inventories have normalised on Thule products. You're correct there, Kari. There is at lower price points for example, still on cheap bikes, many retailers will clearly say that they still have a little bit too much. But it's the categories we play in our inventory. There are some of our competitors that these retailers still have too much but not the ones that we compete directly with. The ones that compete at lower price points that we don't play at.

Karri Rinta: All right, thanks. And then the direct-to-consumer sales that have been growing nicely, and as you said in North America, it's already 16% of sales. Have you changed your view of – on what would be the ambition level for a company like Thule? At what level do you think that you will stable, or that you should strive to reach if we exclude RV products?

Magnus Welander: Yeah, if you look at that one Kari, I think it's one of these where you have to say, we are going to be a – with very few exceptions, Sweden being the one with three own shops, now one in Gothenburg as well, as the one in Stockholm and Malmo. Because there aren't many brilliant retailers in Sweden. But otherwise, our focus will be online. Therefore, we need to be realistic more in terms of when we internally challenge and target and follow up, we look at online sales reality, what share of online sales in any given market should we have. So when you look at it, I think you have to be realistic that this is a physical product that people want to see and touch and do as well.

So you want a lot of stores to be successful physical stores as well. And what you will see is that there will be fewer players online selling Thule products. And some of that Thule online sales will go to us.

I think that's the trend. US will always be the highest share because there you have the opportunity with the minimum sales retail policy to price the same way as your online customers. So you are not going to have that price negative comparison effect, which you always will have in Europe where people will be selling your product at a lower price. So I think there is... We are now getting a CEO who has lived in do it yourself, price driven business, retail. I'm sure he knows a lot more about direct to consumer than I do. So I will let him have fun with that speculation of what he thinks is the right way going forward.

Karri Rinta: Sure, fair enough. And then just one final question on this topic. If we look at absolute numbers, then the direct-to-consumer sales are roughly similar in Europe and in North America. So how much more margin accretive are the sales in North America, given that it's one country, one language and so forth? And would you say that the European direct to consumer sales are still subscale to be margin occlusive?

Magnus Welander: No, absolutely not. They are at very similar levels because we historically built our setup in terms of how we both do our Thule.com setup with language and translations historically, with all of those normally extra costs. But also from a physical, how we handle the supply chain, we have very efficient handling of our supply chain also in Europe because we were already doing retail sales, which were pick and pack. And we then just slotted in that rather than picking and packing for a small retailer, they're picking and packing for a consumer in those same places. So both regions are equally margin-accretive.

Karri Rinta: All right, great. And yeah, I think those were all my questions. So I would also like to thank you for your service and thank you for making both these conference calls and reporting days to suck less. So thank you very much.

Magnus Welander: I'll take that as a huge compliment, Kari. Thank you.

Operator: Our last question comes from Mats Liss from Kepler. Please go ahead.

Mats Liss: Yeah. Hi. Thank you for taking my couple of questions here. First starting with, well, you mentioned all the product launches, Magnus, and very impressive. I guess if you just could indicate how much of this offering, of your current offering also [inaudible] upgraded... Yeah, that's the first one.

Magnus Welander: So I am not sure I understand the question, but I'll try to interpret an answer [inaudible].

Mats Liss: No, I mean for the whole offering you have in all the four business segments, how much is sort of upgraded?

Magnus Welander: So if you look at it, I think first of all it's important to remember that Thule has always done a lot of product development spend. It's not just this year. So we do, roughly 50% of our sales is product launched the last three years. What is happening now with some high-volume products getting a new generation, you're going to get a big boost to that, but then it normalises over time, so to speak. So I think from a high level point of view, you should be thinking that 50% should be coming from sales, should be coming from products launched in the last three years. And in a short while here in '24, there will be more of it. Because the rolling 12 will pick up and it will mostly pick up the new products of a high-volume product.

Mats Liss: Okay, great. Great, thank you. And all these sort of discussions regarding direct to consumer, in which areas do you see most opportunities to grow there? And do you also expect you need to make investments in that area to sort of handle returns and so on? [inaudible] could you use external suppliers to handle those?

Magnus Welander: Yeah, I think the first key is here, since we do a relatively technical product with a conscious buy rather than a passionate, "I want to buy three T-shirts and four shoes, but I don't know exactly the fits. I bring them all in and I send half of them back." Is not happening. We already have been doing this for a while. We have extremely low return rates. Of course, we are always working on how should we be able to handle it should they increase, but the type of product, and not only Thule, if you talk to other companies that do these type of more hard goods, more advanced products, they have extremely low return rates. So that's not an issue where we are concerned at all that we would need to invest. We are not clothing or fashion or something like that where there are huge return rates. So not a big issue at all. We're not concerned at all.

And in terms of opportunity, it will actually be more than anything, it is already driven by how good retailers do we have in each type of product, and how strong have we been in winning space at those retails. As I mentioned, unfortunately Sweden doesn't have a lot of very good, I would say hard goods physical store for sport and outdoor.

Therefore, we needed to have some stores. In some countries there are brilliant stores offering fantastic assortment of both Thule products and other brands. And if there is, our likelihood of taking a bigger share will be small. So sometimes it's because of the type of retailers that exist. Sometimes it's because we haven't done a good job of winning share in those retailers. So we're needing to sell it more in our direct to consumer.

Mats Liss: Great answer. Then, I mean coming back to inventory. You have the 2.7 billion cost... Well, in the second quarter. You expect it to decline during the second half. How much money do you expect to be able to reduce it with?

Magnus Welander: Yeah, so at the end of last year, we said we wanted to reduce 600 million SEK versus the 3.0 billion we had. That was before currency evaluation started growing it with quite a lot. But as I said, we've actually reduced more excluding that currency effect. And that ambition of the 600 million less than when we exited '22 is still the right ambition to have.

Mats Liss: Thank you. And just [inaudible] there, I mean there are some tough market conditions out there and maybe it'll get worse, but you also have a history of making sort of bolt on acquisitions to speed up growth in new areas like – well, whatever. And now you launched the car seat there. Do you see opportunities coming up there due to market [inaudible]?

Magnus Welander: I am convinced that Mattias will get the same type of pressure as I have been getting from the board to do more acquisitions. And then he I'm sure will have to do the same valuation as I've done in saying it's not always that easy to do those acquisitions. But I'm sure Mattias will do a smart and structured valuation together with the team on which smart additions we could do. Because the ones we have done have been extremely successful. We haven't done so many, but they've been brilliant actually.

Mats Liss: Great. Thank you Magnus. And thank you for all the help during the years.

Magnus Welander: Thank you very much.

Mats Liss: [inaudible] as well.

Magnus Welander: Thank you.

Operator: We have no further questions registered. I will now hand back to your host Magnus for final remarks.

Magnus Welander: Thank you very much Carla. So I want to then jump on the bandwagon of what Karri said. I want to thank all of you analysts because honestly without you asking questions, this would be a very boring monologue. So on Karri's theme, I want to thank you all for you making these type events not suck but actually be intelligent, analytical, and fun, challenging to try to answer your questions without giving away too much, which a CEO should never do, but enough for you to truly make up a clear and good understanding. It's been a true pleasure having these calls with you and I know that Mattias and the team will enjoy them in the future as well. Thank you very much and have a great summer.

[END OF TRANSCRIPT]