Thule Group Interim Report Q2-2019

Thursday, 18th July 2019

Interim Report Q2 2019

Magnus Welander

CEO, Thule Group

Introduction

Good morning everybody on this lovely sunny weather day wherever you and reporting our second quarter report. We go to the first slide of the presentation we can sum up that the quarter was another quarter of profitable growth for this as a group.

Profitable growth

I would summarise by saying that it was an okay quarter in our view. We had a 7.3% growth, 3% excluding the currency effects. And if you look at it we grew in the biggest region, Region Europe and the rest of the world with 3.2% and I will come back to that we did mention already in the quarter one report that we have some phasing in sales early, or late into Q1 that would impact somewhat in Q2, so I am going to come back to that.

Region Americas

Region Americas has had a growth of 2.3%, excluding currency effects. We delivered an EBIT of SEK 568 million, which meant that we had an EBIT margin of 24.1%, so we continue to be a highly profitable company. Our net income was SEK 419 million and the cash flow from our operating activities was SEK 431 million, so a good solid quarter of performance.

Year to date

If we go to the next page you can see that we look, as we always say, this is not a company that manages its business on a quarterly basis; we manage it more long term and I therefore think it is always well worth looking at the year-to-date performance. And if we look at year-to-date we have a 6% EBIT, sorry, a 10% sales growth or a 4.9% growth in currency adjusted. And we are delivering a 21.7% EBIT margin.

We have already discussed in terms of EBIT margins that we have a long term ambition for a 20% performance and of course the Q2/Q3 are [inaudible] come back to what our expectations are in terms of our rolling twelve performance but overall a solid quarter and a strong year to date performance.

Region Americas

If we look at the regions and we start with our smallest region and the one that we have had the most challenges with historically, Region Americas; we had a 2%, or actually a 2.3% growth, excluding currency effect, which means that year-to-date we are at a 1.1% growth, including currency effect.

Chinese tariff

But what is clear is also that we had an announcement in late May that there would be the implementation of the 15% additional tariff on Chinese imported goods, which took effect at the beginning of July and it is clear from the feedback we have seen on retailers' purchases that that truly dented the confidence among retailers in the US.

Order book

And you can see, as we expected, we started the quarter strongly. We mentioned in our Q1 call that we had some orders that were slipping into April and that was a strong month. May was also a good month while June was clearly a big slow down versus what we would have expected.

Retailer confidence

If you look at that we see mostly that being a retailer effect rather than a consumer behaviour, but it is clearly the case that there was an impact on retailer confidence back then. In addition we have already communicated to you several times that we are in the ending part of phasing out some low margin OE programmes and they have a negative effect in the quarter of SEK 17 million; so that is 2.6% decline in the quarter due to those.

Tepui acquisition

What is positive to note is that the Tepui acquisition has been very well, very smoothly and very quickly implemented into our company. And at our big outdoor show that this year happened already in June, normally it is happening in August, but June this year, we announced to the market that we were re-branding those rooftop tents to Thule globally as of next season. But it is nice to note that the contribution year-to-date has been SEK 47 million from that acquisition. But more importantly versus what Tepui was managing at [inaudible] that is a 38% growth by rolling it into the Thule Group performance enhancing network.

Canada

If you look at what we also have as a positive aside from this strong performance of Tepui, has been the fact that our second biggest market in the Region Americas, Canada, returned to growth in the second quarter, after what was a blip. Seven years of strong performance in Canada, we had a weaker Q1, but it is nice to see that as expected it returned to growth in the second quarter.

Latin America

Brazil continues to perform well. Brazil is the only market in Latin America where we have our own sales team and our own company and we are continuing to do very well in Brazil; so that is very nice to see as well.

What is a more challenged reality in Latin America is almost all the other markets, but especially Argentina, Chile and Mexico, which are big markets, have a tough economy and there is quite a lot of instability and we did see some sales have declined in Latin America also in Q2.

Summary

So when I summarise the quarter and year-to-date more importantly, I can see that Canada and Brazil are doing well. We have some challenges in some of the smaller markets in Latin America and we continue to have a relatively shaky reality with US retail. We are more positive in terms of consumer confidence than maybe the numbers were for the second quarter for the US because we believe it is mostly a retail-oriented worry but we of course need to see that confirmed into sales growth in the coming quarters.

Region Europe and ROW

If we look at the bigger region, the Region Europe and the rest of the world on the next page, you can see that the headline says, year-to-date performance very strong despite the slower Q2. And I think it is very important to remind you what we actually stated on our quarter one call where we pointed out that we had seen an early spring sales phasing of our single biggest category, bike carriers, into March and we mentioned that would impact clearly our Q2 sales.

Negative impacts

Impact of weather

And we’ve mentioned endless number of times that we will not judge the company on a quarterly performance and that we will see, due to earlier spring weather or later spring weather, sometimes a shift between weeks, which impacts exactly around quarterly closes.

That was an impact that would have reduced roughly 2% our sales growth in quarter one and thereby roughly increased it with about 2% in quarter two. So in a true comparative way it would be more an 8% growth in quarter one and a 5% growth in quarter two. Year-to-date we are at 6.3% excluding currency effect, which we still feel is a very solid and strong performance.

Nordics and Russia

We are delivering that performance despite that we did see some headwinds in some markets. Most markets actually in the region are doing really, really well but we had clear headwinds in the Nordic and Russian markets. And in the Nordics it is related to a number of major retailers that have been going through some challenges and quite a lot of reorganisations and other things, and maybe not necessarily focussed as much as we would have loved to on driving sales in our categories.

And in Russia it is related to a general shaky situation in the financial markets and in some of the retailers there with some of our customers.

In the Nordics we have also on top of that have had a very tough comparables because, as we have mentioned a few times, during 2018 we had a very large roof box campaign with a major car brand that had heavily their PR and media and advertising for a campaign where if you bought one of their four-wheel drive cars you also got a roof box included in that purchase. That drove significant volumes that specific year and therefore makes for a difficult comparison.

We believe Nordics will pick up in the second half of the year, while we have to say that it is difficult to say how Russia will behave as a market in the second half.

New generation roof racks

The other challenge we had in the quarter was that we are now doing a completely new generation of roof racks and we estimated when we went into that very large project that we would see some pipeline effect while we saw distributors and retailers selling out and therefore reducing their stocks of older models before bringing in the new.

We have to say now that when we are nine months into these three phases of launches with the first phase done and two phases just to come that we probably have under-estimated the stock levels both at major international distributors but also out in retail, how much of the older generation roof racks they have.

The roof racks are out of our sports and cargo carrier products and they are more easy to stock up in a store or in a warehouse. They are quite space efficient, while a bike carrier and a roof box are not. So clearly we have under estimated that and that has impacted our first half of sales. We definitely expect to see that improve in the second half of the year as we now see and get confirmations from our distributors and customers that they have started, they have depleted for the phase one and they are starting their depletion for the other phases; so a pick up definitely in the second half for roof racks and going into 2020 as well.

RV and OE manufacture

The third matter in terms of impacting the quarter range of growth, which is still a very solid growth, but slightly slower than Q1 was that we, as expected, finally did see the pipeline cool down in RV product from the OE manufacturers. So if you would look at registration and purchases of RVs from a consumer perspective, that is still doing really well in Europe but there has been a pipeline that needed to be cleansed.

This has dragged on much longer than we thought. In fact strong sales performance all the way until Q2, but if you look at the reports of some of the companies in the RV sectors like the French [inaudible] and others, you will have heard them already mentioning that for the first quarter we have really seen manufacturers in Europe reducing into the levels and production and therefore impacting sales.

That is only a minority of our sales to RV products luckily; so we are not seeing the same type of effect but it did slow down. And more importantly here we have to mention as has been presented by others as well that the European RV manufacturers are now both [inaudible] pipeline depletion of the older models they have, which is really good, good cleansing. But they are also struggling a little bit as all indications are for Q3 to get new chassis with the new motor models that are approved for driving in various conditions; the Euro6D engines so to speak.

There is a struggle for the motorhome manufacturers to get enough chassis, so we will probably see a weaker Q3 where after a pick up in Q4 and beyond. Because consumer interest in acquiring these motorhomes is still very strong.

Positive impacts

Growth in kids categories

If we then talk about the positives, because as you will expect there are a number of positives, and one of them is that we continue to grow well in our active with kids categories where both our multi-sports trailers and strollers continue a very strong development. We did see some challenges in the smallest of the three, the child bike seats, and one of the markets, the Netherlands, which is the biggest, has had some very price aggressive competitive offers, which has dented a little bit and we have in the quarter lost the market share. We are convinced that our market leading, test winning product will gain back in the future but it did truly impact some market share in Holland in Q2.

Packs, bags and luggage

And then finally if we look at packs, bags and luggage; the growing categories, luggage and sport bags developing really nicely and continuing a solid growth as we are focussing and targeting.

So overall if you look at it once again on the [inaudible] year-to-date is 6.3% growth excluding currency effects. Taking into account the phasing we already mentioned in our quarter one reporting it is more fairly an 8% roughly growth in quarter one and a 5% growth in quarter two performance.

And with that I leave it to Lennart to go through some of the balance sheet matters.

Financial Report

Lennart Mauritzson

CFO, Thule Group

Financial highlights

Gross margins and FX adjustments

Thank you very much Magnus. And starting with slide six, the income statement we see that the gross margins were down in the second quarter. FX adjusted for the prior year was still 0.7% negative. The decrease is driven by the negative effect of the Chinese tariff for our US purchases, negative 0.2% points and an under absorption in our production due to the lower production volumes.

Our [inaudible] expenses was higher than prior year in absolute numbers, and if we exclude the negative currency effect and the fact that we acquired Tepui in December last year, the organic increase in the quarter is only SEK 5 million despite the continued product development in push and promotion initiatives, primarily for the new categories.

Financial net minus SEK 10 million versus prior year minus SEK 14 million; external borrowing cost slightly lower than prior year. This year we were also negatively affected by the new IFRS16 accounting rules, with SEK 2 million extra in our financial expenses this quarter due to that. On the other had we had a one-time cost prior year when we put the new financing in place, an amount of SEK 4 million.

IFRS16

So, as you can see on the right hand side, we have a very little effect on our income statement due to IFRS16 as we commented on the last quarter.

The effective tax rate for the quarter is 23.4% and year-to-date we are at 23.2%, so now you can see that the tax rate is slightly going in the right direction.

Working capital and cash flow

If we take slide seven, looking at the operating working capital and cash flow, you see that in the quarter we ended with SEK 1.7 billion in operating working capital, which is 5.3% of sales; versus prior year 24.3%. Inventory levels are at a higher level than our plans, especially due to the weaker sales here in June.

You should also notice that after the currency adjusted increase year-over-year by SEC 170 million in inventory, almost SEK 50 million are connected to the impact of the US tariff and actually also the acquisition of Tepui. We expect inventory to be reduced in Q3.

That means that we had a positive cash flow in Q2 as expected and we reached SEK 471 million in the quarter, versus SEK 341 million prior year and year-to-date we are now at SEK 396 million in cash flow against the prior year SEK 272 million.

Thank you very much.

Performance vs Financial Targets

Magnus Welander

CEO, Thule Group

Thank you Lennart.

Performance

So if you look at our performance versus financial targets you can see that excluding the Tepui acquisition and currency effects we are at a 3.7% growth. We are on a rolling 12-month basis at a 17.9% EBIT margin and we have a leverage of 1.8 times in terms of net debt EBITDA and, as we've already announced, that was an 86 cent dividend approved at the AGM this spring.

So overall some challenges on the growth but otherwise a strong [inaudible] possibility as well on cash flow.

Strong sales and marketing focus

If you look at the months coming ahead and what we're focussing on, on the last point of the slide, you can really say simply as you would expect at this time of the year, we are in a very strong sales and marketing focus and we are having a lot of exciting projects that we are driving for our long-term profitable growth.

Working with retailers

If you take sales and marketing it is obvious that there is a lot of tension at the moment, especially if you look at some of the more shaky situations like in Latin America and in the US, but also in the markets where we are doing really well, there is a lot of work working with retailers as we are in the peak summer season in helping them to sell through our products in various ways.

Store launches

We also are prepping for some in store launches that are happening at the very beginning of quarter four, so we're ramping up production of for example the Thule Vector, a completely game changing roof box in the premium segment that is coming in the very beginning of quarter four.

Roof rack phase two

We will also do phase two in our new roof rack generation that is coming and then quickly thereafter phase three at the very beginning of next year, so that is of course a big focus as we speak.

Luggage portfolio

And also happy to see the broadening of our luggage portfolio, where we now will launch our third full luggage collection, this is the Crossover Thule, with spinners, carry ons, with check in bags, duffles, et cetera, which is hitting the market in quarter four this year. So a lot of new products hitting stores in the end of the year.

Fairs and events

And then of course, as we are in a number of product categories and the image shows one of those fairs and events; this was from the outdoor [inaudible] event in Munich some weeks ago, where we are in the midst of going to all those fairs to show the 2019 product offer in what we would show to market. And there of course we will be bringing the now Thule branded roof box brands globally in 2020. And if you are a keen observer you will see quite a few new bags also in that image that will be hitting the market in 2020 as well.

Operational activities

We also of course do a lot of things in a Thule operational way in the coming months; we have a very high focus on delivering on time in full and, of course, as we did end June with widely higher inventory due to the drop in sales in the last few weeks, we are very confident that we will be able to deliver on a very high on time performance to our retail customers.

Roof rack plant finalisation

We are in the phases of finalising our global roof rack plant in Sweden. The investments for those final roll ups to the second and third phase of the new roof rack generation. As you know, we have done a number of major projects in our sites over the last 18 months, and what will be a key for our ability to deliver a strong profitability in the second half of the year and beyond is of course that we are now seeing some of those efficiency gains of those investments and changes in layouts, et cetera we have done in the plants, which were really done late '18 and early '19 so we will pick up some of those effects in those plants in the second half.

Raw materials

As always you never know with the raw material market but we expect with everything we see and all the numbers the way they are and trending, the purchase prices, that we will see some positive tailwind helping us in the second half of the year. And on top of that you can rely and trust us that we are very clearly continuing our long-term ambition and focussing a lot on an aggressive product development push for both 2020 and beyond.

And in the report I did mention one of those key new projects is the presentation at the fairs this autumn and then the roll our next year of a third stroller model that we think is one of those many examples.

So with that we leave it for questions.

Q&A

Operator: Ladies and gentlemen, if you would like to ask a question that is star followed by one on your telephone keypads now. The first question from the phone lines today comes from Peter Reilly from Jeffries; so Peter your line is now open.

Peter Reilly (Jeffries): Good morning gentlemen. Could you give us a bit more colour on what is happening with the City? You haven't really talk about the City in the presentation and in the report you talk about the importance of the new models coming, I guess [inaudible] in September and you, I get the impression overall you are a bit behind where you expected to be on the City and previously you had talked about the first year being a sort of consolidation year with maybe an acceleration in the second year as you start to get word of mouth referrals and we are only a couple of months away from the anniversary of the launch. So can you help us understand what is going on? Whether you are ahead or behind and what you think, what you see coming as the model gets more established in the marketplace?

Magnus Welander: Yes, morning Peter, yeah, I can. We are behind what we would have liked to be, so you are getting the signal right there in [inaudible]. We are of course growing very fast as you would expect since we've been sellers before and we are in some of the regions doing very well, both in terms of listings that we are getting into and sell through in those listings. While in others we are not getting the same traction as we would have wanted.

That doesn't mean luckily for us that retail is as frustrations as we are with our sales numbers. They are actually more saying that that was in line with what they would have expected and seen for a newcomer in a city stroller segment. So maybe it is possibly being slightly too over ambitious or over positive in us feeling that we are not fully up to track. But we are a bit behind where we would have liked to be despite this developing very strongly in month over month growing, it is not growing as fast as I would have liked.

That is also why we are mentioning a lot of the feedback from those retailers where we are feeling like we would want to see more sell through than they are happy with, is their reference, and that's why we are mentioning the importance of a third stroller, the second stroller was a more typical city strolling type of reality. They are just saying that the brand has to be out there more and the more models you have the more names you get out there. Every new stroller sells two more strollers nine months later on so to speak when people have seen them and are plumping for them. And that I think is a valid point on getting more space.

We have had an army of one in a jogging stroller, but really we have an army of one in terms of city strollers at the moment with so to speak; we will add them an army of two and then hopefully combining that with a good pick up is what we're hoping for. But we are slightly behind plan, that's the fact.

Peter Reilly: And is the main issue not so much what consumers think of the product, it's more a case of getting listings with big retailers? Because you also mention in your report that you've seen I guess what's, maybe it's a heightened level of competitive activity with more new products coming out from a competitor, so it is mainly a listings issue or because the retailers want to have a wider range, or is it also a competitive issue where consumers have got maybe a slightly wider choice than you anticipated six to twelve months ago?

Magnus Welander: It is a combination of both I would say. Because in some countries we have got fantastic listings and distribution and fantastic sell through; in some countries we have got good listings but not enough sell through and in some countries we haven't got enough good listings. So it's a little bit of a combination of all factors. And the reason I do mention the fact that there has been a very significant amount of activity; and that was to be expected now 18 months after [inaudible] you would expect them to come with new strollers and do more aggressive marketing activities and other things to get back some of the momentum they lost and there are some other brands that have also done some good stuff as well. So I think it is a positive growth; we are doing really nicely, we are just not doing as nicely as we ambitiously had hoped. That's the reality.

Peter Reilly: And if I can switch tack and ask about sport and cargo carries, and particularly bicycle carriers in the US; you've been talking about the impact of the US tariffs and you were talking previously about one of your fears being that bicycles would become a lot more expensive because of the tariffs and that would hit your roof rack sales. The tariffs are now here, are you getting any indications from your channels about what you think might happen to bicycle sales and hence bicycle rack sales as the tariffs hit fully?

Magnus Welander: Yeah and you can see that, if you look, there is a statistics official in the US, which is partly only covering actually bike sales. It is all the independent bike dealers in the US have a wholesale organisation where they track exactly the number of bikes sold in that channel. Nowadays you have to acknowledge there is also bikes sold in more online and other realities that aren't fully captured, so it's not 100% correct mirror of the bike industry overall but it is the best statistics that is readily available. And we have to say it as a very negative quarter two where we had, May was 15% down in bike sales versus May last year and May last year wasn't fantastic either to be honest.

So in that channel, which is the hardest hit channel because they do the more expensive bikes, has had a very soft ending of the spring and especially May and June were not strong at all. There are some pick up in other channels but generally the bike category in the US is one of the ones actually used as an example in various presentations towards US government on what the tariff does impact in terms of the sales for consumers.

Luckily we are not doing nearly as low as that I can tell you but it is still, because there is as I said some pick up on direct to consumer sales and other channels, which aren't captured in these statistics.

Peter Reilly: Okay, and then lastly, you were talking already in the third quarter last year about the potential impact of the new roof rack range where you thought there might be some excess inventory, which would take time to clear out and we are obviously nine months later now and you have been taken a bit by surprise. So what has happened over the last nine months that firstly you got taken a bit by surprise and how confident do you feel you've got a handle on what is going on? I guess it must be very difficult to work out what is out there when you've got lots of small retailers, but I am slightly surprised that you're surprised that the issue is cropping up now and I am wondering what your real visibility is like for the second half?

Magnus Welander: I did look at it, we have 35,000 doors in the end and what I think is the case here is that these have relatively low value per unit. It is a specific adaption for models for example for specific cars; so they might not even have always disclosed those things for us in details and they wouldn't have. But what we have is not significant percentages here, I want to point that out, but it's a few percentage points on a large category like roof racks makes a lot of dent in the growth position. So it's not like we've seen huge drops or anything, it's just slightly lower than we would have expected. That slightly is a lot of money if it is roof racks.

We see from our order patterns for the second half of the year for the major distributor market and we see all the indications having dug deeper with a number of the shops that we will see a pick up in the second half already, which means that the majority of the cleansing has already happened.

There is some cleansing going on now for the second and third phase, as we already mentioned we were expecting, and we have now taken a more conservative expectation on how long those cleansings will be. But despite that, due to the size of the first launch, we are confident that we will be growing some roof racks in the second half of the year.

Peter Reilly: Okay, great. That's very helpful. Thank you very much.

Operator: Thank you for that. We now have a follow on question from Fredrik Moregärd from Pareto Securities, so Fredrik your line is now open.

Fredrik Moregärd (Pareto Securities): Good morning everybody; a couple of questions from my part. We touched on it just briefly with Peter's question but returning to inventory and your visibility with regards to that, I was also a bit surprised that you had, of your visibility into dealer inventories; how are you working with dealers to ensure that you have correct or as correct a view as you can on what inventories they are having?

Magnus Welander: Yeah, we have presented I think all along, every single time we've discussed about inventory clarity, that the four major international large chains we have a very good see through on inventory levels. So if you take any of the major US customers we even have their sales through data, so we have an exact situation of where we stand.

But when it comes to all the smaller distributor countries, and we are the number on in roof racks in the entire world in 140 countries and it is the category we sell most spread geographically in all those 140 countries, so what we don't have is a dealer detail in countries were we go via distributors to a lot of small dealers in Chile, Taiwan, the Philippines or anything like that.

And as we are mentioning it is not in the markets where we are forward integrated that we have seen this effect and we are honestly only talking about a few percentage points here; so it's not like we completely guess wrong but a one or two per cent growth not happening is of course significant.

So honestly, if you look at inventory holdings in all major international large customers in all the forward integrated market it is very good understand of what the true levels are; and, as we've openly said numerous times, it's in small faraway distributor led countries we do not have that detail.

Fredrik Moregärd: Okay, great. That's helpful. And you also touched upon the order book indicating that you will have sort of a turning situation in the second half of the year. How far ahead can you see with regards to your orders and what is the, how reliable are these order books?

Magnus Welander: Well once again there it is the same thing there, for the major international large customers that dominate our sales we are in forward integrated market where honestly our order book is one or two weeks up. But for the international distributor countries, so if we're going to shift a full container load of something to a Chilean distributor, a Pilipino distributor, we of course want to work with them to do that both as cost efficiently and as environmentally friendly as possible by packing full containers, which means we plan much further ahead to discuss exactly how many bike carriers, how many roof racks, et cetera in a much longer planning horizon because we want to make sure that happens.

So if you look at our order books for the majority of our sales, extremely short because we are a next day delivery to retail in all the major countries. But if you look at our order book for those markets that we specifically were taken by surprise for by the roof racks, there we have a longer order book, which is why I can say that we see a much better order book specifically for those markets where we were surprised so far and before.

Fredrik Moregärd: Okay that's helpful. And moving over to Tepui, you mentioned that you will have, you are due to rebrand on Tepui with the Thule brand in 2020 and you say that there will be global roll out. I was curious to know about what global plans you have for the brand and for the products and are you able to gain any new listings outside the US for this product category?

Magnus Welander: Of course, we have said a few times that this is a relatively niche product in every country but specifically it has some major volumes only really in North America, Australia and South Africa. Then there is a niche market opportunity in lots of other countries. You have Swedes buying these products, you have Germans, you have Koreans, you have Japanese; so there is of course a small volume in a lot of countries.

Our plans are therefore that the majority of sales will definitely come from the US and North America going forward but having a very cost efficient ability to distribute this product into other countries we will be differently from what Tepui could ever do, able to offer this product to a number of markets and therefore grow more than we would if we only concentrated on America.

It will not have a significant impact on our growth numbers but it will be a nice edition in bringing a limited assortment. We will not offer all the models that we offer in North America because it would not make sense for a market where we might sell 50 or 100 of it; but it will be a more curated assortment than we offer in North America, but that curated assortment will start hitting the market as of February 2020 under the Thule brand.

Fredrik Moregärd: Okay, interesting plans. And lastly, on the Thule Revolve, what is your, how is that product developing in the Americas and in the rest of the world compared to your expectations and are you still seeing positive spill over effects for the Thule [inaudible]? You talked about having an army of one on that category also before.

Magnus Welander: Yes, if you look at the Thule Revolve that is developing to our plans, which is very positive to see and it is helping still to drive sales of the [inaudible] as well. So in addition, or coming now with a third, we are hoping of course that there will be a recognition factor of seeing more and different levels of different versions so to speak of luggage with the Thule brand on it. So, yeah, that one is developing very well according to our plan.

Fredrik Moregärd: Okay, does that mean that you are seeing actually growth then in back packs and luggage in America?

Magnus Welander: Yeah. If you look at luggage we are seeing a fantastic growth but then, as you know, in Americas we have some very basic [inaudible] and we have a relatively large legacy. But if you look at luggage we see a very big growth in the Americas.

Fredrik Moregärd: Okay, so positive for the category as a whole?

Magnus Welander: Yeah.

Fredrik Moregärd: Okay, thank you very much. That's all from me.

Operator: Thank you. We now have another question from Gustav Sandström from SEB; so please go ahead, your line is now open.

Gustav Sandström (SEB): Thank you, very good morning guys. Sorry for being a little bit late into the call so apologies if you've already answered this but my question relates to raw materials. Did you mention the impact if it was positive or negative in the quarter year-on-year to margins from raw mat and is it a fair assumption there should be a material impact in a positive manner for the remainder of the year? Thanks.

Magnus Welander: We didn't go into deep detail on the second quarter but it was flattish and you are 100% right, it will help us definitely in the second half of the year.

Gustav Sandström: Perfect, and looking at mix, how much of a mix impact did you have from sort of new product launches this year and should we see that also being sort of a second half story, where we have a lot of new launches coming into the market sort of Q3/Q4 this year?

Magnus Welander: Yeah. If you mean the mix impact in terms of average margin there is a lot of factors of course in margin happening. Generally you would say that a lot of our new products are high margin products but also it is always comparable to other high margin products maybe in a different category.

So a total mix there, I think most people realise for example if we are not seeing the same growth we would have liked in roof racks, that is not going to be great for our growth margin. I think that most people will realise that being the undisputed global market leader we have a pretty high cost margin on roof racks, so there are effects like that also playing in.

But generally if you look at mixed effects, one that is obvious of course is that we are facing out some low margin [inaudible] business and they are starting to disappear and as we unfortunately have to realise that some of our legacy categories in packs, bags and luggage will continue to decline and are declining, they are low margin, hopefully with some of the other things not happening, so if we do pick up in roof racks, et cetera it should help our gross margin in that sense also for mix effect.

Gustav Sandström: Yeah, I was mainly referring to perhaps the, some price increases through the new product categories and the renovation of the roof racks, but I get your answer there. That's all from me. Thank you.

Magnus Welander: No more questions I assume operator?

Operator: Sorry there, my line was on mute. We now have a question from Daniel Schmidt from Danske Bank, so please go ahead.

Daniel Schmidt (Danske Bank): Yes, good morning; [inaudible]. Sorry I was sort of kicked out of the comms call so I might have missed this but the sort of, the situation in the European RV that you write about and that we also heard about yesterday from the message[?]; what is the, again you might have mentioned this, but did you continue to grow in the quarter despite what had happened in the markets and what are you seeing going into the third quarter?

Magnus Welander: Yeah, small growth in the quarter; still growing, small growth mostly driven by the fact that we sell the major share to a dealership structure and not to manufacturers, which is a small part of our business because the manufacture part wasn't growing in the quarter.

But if you look at it, due to the Euro6D engine chassis issue they are not getting chassis enough from [inaudible] and others at the moment to be able to manufacture as many as they would want of the new type, which I think possibly might be only good for the industry because they are going to cleanse out better the pipeline of the old types, which is necessary. But that will definitely impact the whole category in Q3 and I hope still that we will be able to at least be flat or a small, ideally some small single digit growth, but it's going to be a tough Q3.

Once they start to get those chassis there will have been a pipeline depletion effect because with this quarter and next quarter there will be more purchases by consumers than there will be manufacturing. So very different from the US where there was an absurdly pipeline fill; here is it was high but not absurd, so these two quarters alone will definitely see quite a lot in bringing it in line while already Q4 should hopefully be picking up a bit but definitely from 2020 and beyond.

Daniel Schmidt: Okay, thank you. So you are basically saying that across you probably had a fairly good start to the quarter and then it sounds like you were flattish towards the end in your business and that's where you entered Q3. Is that fairly well understood?

Magnus Welander: Yeah, it's a good interpretation, yeah.

Daniel Schmidt: Yeah. Thank you Magnus.

Operator: Our final question comes from Peter Reilly from Jeffries, so please go ahead, your line is now open.

Peter Reilly: Morning; just two follow ups if I may? If I take you back to the Capital markets day, at the time you were saying if I recall correctly that you saw faster growth opportunity in strollers medium term; luggage was maybe the bigger market but it was going to be slower to take off. And if I look what's happened since then, the impression I get since then is that you've become a bit more cautious about strollers and a bit more optimistic about luggage. You haven't given us the actual growth numbers for the precise categories but am I, is it fair to say that you are getting structurally more optimistic about luggage and a bit more cautious or less bullish about the stroller category?

Magnus Welander: I wouldn't say that on the long term. We always said it would need a number of stroller models and a number of collections in luggage and a longer period of time. I haven't changed my overall opinion. I think we are coming with a cracking new stroller that we will be presenting at the fairs this autumn that I am sure will drive volume. And in general we are showing strong growth both from the previous launch of the urban wide stroller and of the [inaudible]. So it's not that I've changed my overall opinion on total long-term plan in strollers; I am convinced that we will get consumers to pay for our strollers and win share there over time. So not an overall change, but sometimes it goes slightly faster some quarters, slightly slower some others.

If you look at luggage same thing there; I do not change my mind in terms of under estimating some of the huge behemoths of the Samsonite group and all the money from the LVMH group behind [inaudible] and lots of up and coming direct to consumer brands like Horizon and Away and others. Luggage is a huge category but it is a very challenged category and it takes time to get into retail. I am still confident that we will have some countries where we are incredibly successful in luggage and some where we will be okay and some where we will be mediocre to embarrassing also in a few years time.

So I haven't really changed my mind there. I think some collections will pull, some will not. It's going to be a bumpy ride over a few years. I am convinced by both of them actually, but in terms of a global success, there is a higher likelihood that that will be in strollers but that is a significantly smaller category.

Peter Reilly: And then lastly an unfair question so I apologise in advance, but you talked earlier in the year about having a much stronger second half because of the timing of the product phases, new products coming through and so forth, and obviously you've had a pretty weak development towards the end of Q2 and you've now got quite a few headwinds I think going into the third quarter, so I guess you must be a bit less positive about the growth in the second half of the year and in particular in the third quarter than you were earlier in the year?

Magnus Welander: I am still convinced that the second half of the year is our stronger and more balanced year in 2019 than it has been historically in the last few years in terms of growth during the year. There are a lot of logistics due to what we are launching and when we are launching that, which should see a more balanced growth throughout the year. So that opinion hasn't changed actually; we see some very good products that we are launching.

What you are right with is that it is erratic a little bit in the US with the tariff announcement and what it does on losing the confidence; we don't really know yet. So far it is mostly retail confidence, so in that sense you are right that there is maybe one more worry on it. But otherwise I am still positive that due to a strong growth, the second half of the year is a strong half of the year of growth.

Peter Reilly: Okay, well I will look forward to seeing the new stroller model in September. Thank you for answering all the questions.

Magnus Welander: Thank you very much.

Operator: Thank you for that. As a reminder if you want to ask any further questions please press star followed by one on your telephone keypad.

Magnus Welander: And as there seems to be no additional questions I know you are all incredibly busy with all the reports coming out and I know you will be incredibly busy using Thule products during your vacation periods, so I truly look forward to having a catch up with you after the Q3 report and wish you a great summer. Thank you.

[END OF TRANSCRIPT]