

FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Pekka Paalanne

Amer Sports Oyj - EVP & CFO

Heikki Takala

Amer Sports Oyj - President & CEO

Jussi Siitonen

Amer Sports Oyj - SVP - Finance

CONFERENCE CALL PARTICIPANTS

Fitz Peters

Goldman Sachs - Analyst

Maria Wikstrom

Handelsbanken - Analyst

Eric Dorstad

Orkla - Analyst

Carina Beckman

JPMorgan - Analyst

Sasu Ristimaki

Carnegie - Analyst

Manu Rimpela

Deutsche Bank - Analyst

PRESENTATION

Operator

Good day and welcome to the first quarter 2010 results conference call. Today's conference is being recorded. At this time I would like to turn the call over to your host today, Mr. Pekka Paalanne, EVP. Please go ahead, sir.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Thank you, and welcome to Amer Sports' Q1 webcast and conference call. So my name is Pekka Paalanne and I am the Executive Vice President and CFO of Amer Sports. I was the acting CEO during the first quarter. With me here are today, Jussi Siitonen, our Senior Vice President, Finance; and Heikki Takala, our new President and CEO, since 1st of April. Heikki wants to say a few words to start with.

Heikki Takala - *Amer Sports Oyj - President & CEO*

Yes, good afternoon, ladies and gentlemen, and welcome from my side as well. I started in Amer Sports effective a few weeks ago and I am in the middle of an onboarding session and analysis stage. As you can expect I will not make any specific comments or remarks concerning the Group's strategies or results at this early stage.

The results and fiscal year outlook will be presented by Mr. Paalanne and he was responsible indeed for running the Company during the quarter which we are covering here now. Mr. Paalanne will also handle most of the questions concerning the results which are coming in the Q-and-A sessions afterwards.

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So without further ado I just pass the word back to Mr. Paalanne.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Thank you. So Amer Sports' key priorities in 2010 are, one, to improve the profitability through gross margin improvement and continued tight cost control; and two, continued focus on strict working capital management. We stayed very focused in executing these key priorities during Q1.

So I start with the highlights of the first quarter and then I move on to look at flows of the different business segments and then in the end there are some cash flow and balance sheet related issues and outlook and then we will finish up with the Q&A.

So the key highlights for Q1. Our net sales were up by 5%; this time the currency had no impact to our topline so it was the same in local currencies. When we look at where this 5% came from, so Winter and Outdoor segment continued to have the fastest growth, the growth was 9%; Ball Sports grew 3%; and Fitness stayed flat, basically flat compared to previous year.

From a geographic regions point of view we could see that overall for us Americas stabilized, EMEA grew 8%, and Asia Pacific 16%. I will come back to this -- all of this more in a minute.

EBIT was EUR9.5 million, up EUR16.4 million, and our earnings per share was up EUR0.01 (sic - see Press Release) which is basically not too much. Our EBIT improvement was driven by gross profit percentage improvement and gross profit percentage was up by more 2 percentage points, which is absolutely -- very much in line with the priorities we set to ourselves.

Also was to be noted is that profitability increased in all segments and also that the biggest improvement was in the Winter Sports Equipment.

Strong cash flow development continued, our cash flow from operating activities was close to EUR100 million driven by the result improvement and continued good progress in managing working capital.

Then if you look at the sales development by region, first, Americas -- so by region, by segment, first Americas, as I said already, so overall Americas was flat compared to previous year same quarter but again with very big differences between different segments. In Americas, Ball Sports is by far the biggest part of the business for us and the growth was 6%. Fitness remained very soft in USA during the Q1.

In EMEA region Winter and Outdoor is by far the biggest part of the business and we continued at a very growth in this segment in total 11% compared to previous year. Ball Sports were of course flat in Europe and that was mainly due to the fact that a long winter -- it had a positive impact to Winter Sports, but it had a little bit negative impact to golf and indeed some golf shipments were postponed to second quarter as a result of the weather. And Fitness grew 4% in EMEA.

Asia Pacific, we had good growth in Winter and Outdoor segments again and this was also very much driven by Winter Sports Equipment development in -- also in Asia Pacific. Ball Sports, actually we went a little backwards in Asia Pacific and that is because Japan which still remains by far the biggest market for Amer Sports in Asia actually is not really developing yet in a positive way and the Fitness also grew in Asia Pacific.

If you look at then this, where are the business made in each and every segment. So we can see that Winter and Outdoor -- in Winter and Outdoor EMEA region represent by far the biggest part of the business. So 71% our overall Winter and Outdoor business during the Q1 was actually done in EMEA region.

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When we look at Ball Sports, Americas was the biggest area and was 64% of sales during the quarter. And in Fitness Americas is by far the biggest area where we operated and the share was 75% of Fitness overall sales during the quarter. When we then look at the Amer Sports overall then the picture is looking more balanced between the two strong regions, EMEA and Americas.

When we -- then we move to EBIT and development and so here we have two ways to look at the development during Q1. First, looking at it from the -- a little bit from the P&L point of view so as you can see the growth was really driven by two factors or the improvement was driven by two factors both growth in sales and the improvement in gross profit. Also, as I said, we kept corporate expenses tight under control so that also contributed a little bit to the improvement and then we had a -- then some smaller items. So that is how we brought this from minus EUR6.9 million Q1 last year to plus EUR9.5 million Q1 2010.

The same thing if you look at then at -- from the business segment point of view so we can see that most of the improvement was coming Winter and Outdoor segments.

Then if we move to Winter and Outdoor segment and the highlights. So Winter Sports equipment net sales increased by 13% and profitability improved significantly both due to internal measures taken and due to the good weather conditions in most of the key markets during the first quarter.

Sales was up in all product categories. Apparel and Footwear net sales increased by 7% during the quarter. The growth was very much driven by geographically, by Europe, Canada and Asia Pacific and by product line it was very much driven by good in-season orders in Footwear.

Cycling net sales increased by 9% and recovered from weak Q1 a year ago but we need to [assure] that the negative trend in OEM sales continued. So OEM sales meaning Mavic selling wheels to bike manufacturers.

Sports Instruments net sales improved by 7% and the growth was very much driven by outdoor product sales increase and more specifically the Core and Elementum product lines.

Ball sports -- Racquet Sports net sales were at last year's level. We introduced in the -- towards the end of January the new BLX tennis racquet line, so a premium racquet line where we has -- which we tend to renew every two to three years. So this was quite a big -- a new introduction for our Racquet Sports division.

The line was very well received but the shipments were limited by capacity constraints during the Q1. So we expect that the situation will improve during the second quarter.

Team Sports net sales increased by 7%. The increase was very much driven by trade distribution gains in the US, and the good development in sales in Korea in particular. From the product line point of view, the DeMarin is -- that's where we are really making good solid progress.

Golf sales that were at last year's level. Sales, however, increased in the US, again due to distribution gains mainly. But then, as I already mentioned, the long winter then had a negative impact to shipments in Europe. And hence the overall goal for Golf stayed light.

Moving on to Fitness. Fitness Equipment sales remained at last year's level. Most clubs and institutions were still holding off on expansion plans. So the openings of new clubs are very much still being held back and also the -- also replacing the existing products cycle has increased and so nothing really has changed as yet in that sense.

However, the ancillary revenues earned by clubs providing services for their members increased and that -- with ancillary revenues, I mean like personal training type of services as an example. Of course, now if this trend continues then, of course, then hopefully then we see then some impact in our business also going forward.



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With a broader trend of reduced discretionary spending the market for premium consumer equipment remained at repressed levels. So these were the -- maybe the highlights from business segments, and we move on to financials.

Some key ratios. We have already covered quite a lot of these so I have got to make few additional comments here, our financing income and expenses which were EUR9.5 million. As was first commented that our net interests were EUR3.2 million during the quarter compared to EUR8.2 million a year ago. So our financing costs are going down significantly. What is included in EUR9.1 million is EUR5.9 million unrealized foreign exchange losses.

Then our return on capital employed, which is a 12-month rolling average, stood at 6.1% end of Q1. Our equity ratio increased to 52.9% end of the quarter compared to 36.9% a year ago and our gearing improved further and was 32% at end of Q1. Our personnel was slightly up. There was actually a decrease in all business sections except in Winter Sports Equipment, where we continued to hire more employees in our Bulgaria factory.

Maybe that's enough for the key ratios, and then we will look at a change in our net debt. Our net debt in the beginning of the year was EUR282.5 million. So our cash flow from operations reduced the debt by EUR98.7 million. Our CapEx during the period was EUR4.8 million, and then we paid dividends and the coupon on hybrid, in total EUR26.7 million. And then we had some mostly foreign exchange-related cash flows, cash outflows of EUR18.1 million which then took our net debt to the level of EUR233.4 million.

On the right hand side, there is a guide about the breakdown of our net debt in terms of short and long term and also then the maturity for the long term financing.

Outlook for 2010, Amer Sports expects the sporting goods market to recover moderately, but with significant regional and sports area specific differences.

The group strategy to drive profitable growth, however, in light of the unpredictable market conditions, Amer Sports continues to focus on improving its profitability through improved gross profit and tight cost controls. So, in other words, we stay focused.

Strict control over working capital will continue with the notion that improvements similar to previous year cannot be expected. Amer Sports expects its 2010 EBIT margin to improve to the mid single digit level. So this was the -- our outlook and that was the presentation part of it. Now, we can take the questions, thank you.

QUESTIONS AND ANSWERS

Operator

Thank you for your patience. The question-and-answer session will be conducted electronically.(Operator instructions).

And we move to our first question, which comes from Fitz Peters from Goldman Sachs, please go ahead.

Fitz Peters - Goldman Sachs - Analyst

Hi, good afternoon everybody. Fitz Peters here, Goldman Sachs. I've got three questions. First question talks about the capacity constraints in Racket Sports and do you expect that to improve a bit? Just wondering if that was unexpected, and if you would expect -- how quickly you would expect that capacity to ramp up?

Second is regarding baseball. You underscored Korea in the fourth quarter and again this quarter. Just wondering what is driving the strength in that baseball market?



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And third, I just want to confirm that EUR7.2 million in cash was paid on the hybrid bond in the first quarter. And that it's not included in the EUR9.1 million in financial expenses in the income statement.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Yes, okay. So first question was related to capacity constraints in shipping the BLX racket line. It's a -- in most pockets a combination of two things that we did not maybe anticipate that the growth would be the demand would be so important. And so we reserved less capacity than actually the demand would have actually been justified. So that is basically the reason.

In terms of recovery, we believe that we will catch up then the backorder situation certainly during the Q1 the target is to recover already by the end of May.

What comes -- second question related to baseball and Korea. Korea has actually become a quite an interesting market for us over the last few years and it's really a market for us, not only in one product category actually Korea is a fairly important Winter Sports market. They're also very well represented in all our Ball Sports and also Salomon has a good position in that market not only in Winter Sports Equipment but also increasingly in Footwear and Apparel.

Baseball, I don't think that I have a perfect answer that what is really driving the baseball market in Korea but we are seemingly doing very well. So we must be doing some things right there.

The third one was that the hybrid bond coupon is not included in the financing costs.

Fitz Peters - *Goldman Sachs - Analyst*

Okay, thank you very much.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

But when you -- if you look at the earnings per share for the quarter you can see that actually there is a small minus sign in front of the earnings per share. And that is because the interest on the coupon on hybrid actually for earnings per share purposes is (inaudible) interest.

Fitz Peters - *Goldman Sachs - Analyst*

Okay.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Okay?

Fitz Peters - *Goldman Sachs - Analyst*

Yes, understood, understood.

Operator

Thank you. We will now move to our next question from Maria Wikstrom from Handelsbanken. Please go ahead.

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Maria Wikstrom - *Handelsbanken - Analyst*

Yes, this is Maria Wikstrom calling from Handelsbanken in Helsinki. I also have three questions, which -- first two relate on the gross margin. The first one you saw a more than 2-percentage-point hike on the gross margin. How much of -- or can you a bit elaborate on where the gross margin hike comes from? Obviously, you have a positive currency impact on the Footwear and Apparel side, but where does the gross margin hike come from?

And secondly, is there something we should note on the mix of the products delivered that should -- is this the 2-percentage-point hike in gross margin sustainable also for the quarters to come?

And then my final question, it's for the Winter and Outdoor as I saw that you grew the sales 43% there in local currency in Asia Pacific. Was that driven by Korea or can you say something about the Winter Sports market in Japan during this season? Thank you.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Okay. So the first part was that this 2.2-percentage-point improvement in gross profit, where it is coming from? And that is coming first of all -- I think the first thing to note is that it's actually across basically all business segments and business areas. Because it really is -- it has the most important priority and the focus area for every part of the organization.

And then when we look at so where it is coming from and what are the different elements which make it, it's coming from -- it is actually quite a few different sources. First of all, of course, we ended up the year with very clean inventories. So we have been selling products, much more products with fuller margin during the first quarter of this year than compared with the first quarter last year.

Secondly, we took a lot of actions second half last year to reduce our cost of goods sold by going back to our vendors and trying to negotiate lower prices. So now we start to get some impact on -- of these. Now, this specifically relates now to Wilson. They're not -- what has also been driving the margin now in Winter Sports Equipment side is the fact that we are not experiencing a negative industrial variance as we had last year.

So all in, these are the three elements. Then basically and I think what comes to the pricing as such and I think there has not been anything that we can -- or exceptional pressure towards pricing during the Q1. So really the improvement is coming more from this area, what I explained.

Mix is always the question. And I know the difficulties to actually track the impact of the mix. So there could be some element of that also included in that 2% improvement.

Then what was the next? It was the growth in Asia in particular Winter and Outdoor, and it is driven by Korea and/or Japan. I think it's driven by both. So the snow conditions were good also in Japan and we were able to ship more products during the Q1 but likewise there then Korea actually made good progress.

Maria Wikstrom - *Handelsbanken - Analyst*

Can I just quickly come back to the gross margin, that is the 2-percentage-point hike, what we saw in Q1, is that sustainable also for the remaining quarters?

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Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Yes, of course it's a function of again many things. There are still lot of business not being done and so -- but the only thing I can really say that we stay focused and we certainly want to see that the good development to continue also during the rest of the year.

Maria Wikstrom - *Handelsbanken - Analyst*

Okay, thank you very much.

Operator

Thank you. And we now move to our next question which comes from [Eric Dorstad] from Orkla, please go ahead.

Eric Dorstad - *Orkla - Analyst*

Hi, Eric Dorstad from Orkla, I have five questions. So I guess we will take them one by one. First, in Racquet Sports, you lost some sales in Q1 due to capacity constraints. Do you expect to recover those in Q2, and if so how much will that be, ballpark figure?

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

So as I already mentioned then we believe that we will recover this situation in Q2, and but I'm not ready to start to quantify the impact of that but, of course, here we talk about really our premium racquet line, it's a high margin product line. So it is very important that we do catch up the deliveries but I'm not ready to quantify that -- quantify the --

Eric Dorstad - *Orkla - Analyst*

But you are not afraid that customers, well, may cancel those orders and buy from competitors instead?

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

No, it's because the point is that this is a completely new line, it's a new concept. So we are in a good position to catch up then during the Q2.

Eric Dorstad - *Orkla - Analyst*

Okay. And second question is, why do the headquarter costs improve so much in Q1? There are up from EUR4.1 million in Q109 to EUR5.9 million this year?

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

So the head office costs are basically -- it's always a little bit difficult first of all to quarter -- to compare quarters and quarters to be exactly perfect. So there could be some tiny difference between the different quarters. So I'm not expecting that our head office expenses would continue to be on a quarterly basis than close to EUR2 million higher than the year ago. So that is -- but it is really coming from so many different pieces that I know the difficulties to be more specific, unfortunately.

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Eric Dorstad - Orkla - Analyst

Okay. And could you -- third question, could you comment on Mavic's profitability and I see their organic sales growth is quite robust but is the profit improving as well?

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

We as we -- as you know, so we are not really disclosing in detail the profitability of the different business areas under Winter and Outdoor segments. But what I can say is that the profitability improved also in Mavic. And so that's the absolute fact.

Eric Dorstad - Orkla - Analyst

And could you also comment on whether it was positive or negative?

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

It was positive.

Eric Dorstad - Orkla - Analyst

Okay. Thank you. The fourth question is on Winter Sports Equipment. Could you comment on the level of your -- I know, it's early, but could you comment on the level of your order books on the next season's products, the pre-orders, if you will?

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

So as usual now that the timing of this Q1 is not the best possible in terms of really giving comments about the pre-order situation in Winter Sports Equipment. And indeed nothing has changed in that respect. So we are right in the middle of the pre-order season, and we need at least another four weeks to start to draw any conclusions on the levels. Unfortunately, just we are really -- each and every week we have a -- last few weeks and the coming few weeks are all big weeks. So things still move around quite a bit. So therefore I am reluctant to be more specific at this point.

Eric Dorstad - Orkla - Analyst

Thanks. And the final question is on Fitness. Your competitor, Life Fitness, owned by Brunswick came with their results today, and they were very good. And they cite favorable effects from lower material and freight costs and other cost efficiencies as reasons for those strong improvements. Their operating margin was 8%. Do you see the same effects in Precor?

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

So of course not -- I have not seen yet the Life Fitness results and what they have disclosed and said. So I have no idea. So I cannot really comment on that. And what comes to Precor so the Precor's profitability improved and was -- when we look at overall the market whether it's Life Fitness or Precor, when we talk about the commercial fitness market, the market is yet to show clear signs of recovery.

So we are a little bit in (inaudible). For that we have been reducing our cost base over the last two years. We believe that we will improve the profitability irrespective of actually whether there is a topline growth or not this year.

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Eric Dorstad - *Orkla - Analyst*

And have you seen, as they have, lower material prices and lower freight costs in Precor?

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

I have not seen and I cannot really comment on that.

Eric Dorstad - *Orkla - Analyst*

Okay. Thank you.

Operator

Thank you. And we now move to our next question which comes from [Carina Beckman] from JPMorgan. Please go ahead.

Carina Beckman - *JPMorgan - Analyst*

Hi, yes, good afternoon. Just a couple of questions. You guide for mid single digits EBIT margins. And I was just wondering in terms of the dynamics between Fitness and Winter Outdoor are you factoring in maybe an over proportion of higher Winter and Outdoor, and then maybe more low-single-digit EBIT margin in Fitness?

And then also specifically on the tax rate. The tax rate was at 25% and you had guided for 20% for the fullyear for 2010. And should we expect it to be more towards the 25% for the fullyear of 2010?

Then another question on net financial expense; it included a large unrealized FX loss. Maybe if you'd just be able to talk a bit about where that comes from and also whether we should factor in what we should factor in and expect for the remainder of the quarters.

And then also in terms of your gross margins, sorry I didn't get the last point on the Winter and Sports Equipment and that you mentioned regarding there were three factors and the last one was Winter and Sports Equipment. Thank you.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Okay. So there is a lot of questions there.

Carina Beckman - *JPMorgan - Analyst*

Right.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

So let's go to the first one then, really you were trying to understand this mid-single digit, where does it come from in terms of which business segments and in terms of the recovery and the profitability. So unfortunately we are not disclosing more details now on that. So it means that the close up in all the -- what we see is that all our business segments are going to improve their profitability. And we are very -- we very much believe in that and are very focused in achieving them.

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But I don't want to start making more detailed development scenarios for each and every one of them.

There was a question about tax rates. Tax rate is 20% for the year, and so that's what we said when we announced in Q4 and we stick with that.

Then there was a FX and this unrealized -- do you want to --

Jussi Siitonen - Amer Sports Oyj - SVP - Finance

Yes, thanks, Pekka. It's Jussi here, this unrealized part of hedges is what we have there in financial items, it's very much related to our cash flow hedges. And that's the valuation at the end of Q1. So therefore we do not speculate where it would end up materializing but that's the situation at the end of March.

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

There was maybe one more question and was that Winter Sports margin-related?

Carina Beckman - JPMorgan - Analyst

Yes, on the gross margin and you mentioned there were three factors and what the last points were, I didn't catch them.

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

Well, the one factor which was really specific to Winter Sports Equipment was, this was the fact that we are improving the margin. It's the fact that we are not experiencing the negative production variances this year and that has also positively impacted the margin. That was the third point.

Carina Beckman - JPMorgan - Analyst

Thank you. And sorry, just to come back on to the unrealized FX loss, should we in fact -- would we expect such a large amount for the remainder of the -- for the next few quarters as well? In terms of what we should expect? Or is that too difficult too?

Jussi Siitonen - Amer Sports Oyj - SVP - Finance

Yes, that's something -- as said, it's based on all our hedges what we have now for the cash flow so it's extremely difficult to evaluate. Different hedges mature on different times and so on. So therefore, sorry, I can't give any guidance where this would go.

Carina Beckman - JPMorgan - Analyst

Okay. Thank you very much.

Operator

Thank you. We now move to our next question which comes from Sasu Ristimaki from Carnegie. Please go ahead.

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Sasu Ristimäki - *Carnegie - Analyst*

Good afternoon this is Sasu Ristimäki from Carnegie here. I've got three questions. One is about your Apparel and Footwear. Can you give me an idea what the order book is like at the moment? In other words what kind of growth should we be thinking about for the balance of the year? And I'm thinking about the next season, sales season obviously, here for Winter?

Then secondly you talked already about the Fitness and I gather that it is unreasonable to expect topline growth. You are doing various things on the cost base but could you be more explicit on when do you actually expect this business to make reasonable profits in terms of a timeline?

And then thirdly in terms of the FX hedging, most of that had been talked about, can you just help me understand where exactly in the P&L are we seeing the positive impact of these hedges and then how should we think about that?

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

Okay, so if I take the first two and then --

Jussi Siitonen - *Amer Sports Oyj - SVP - Finance*

Yes.

Pekka Paalanne - *Amer Sports Oyj - EVP & CFO*

-- Jussi will continue with this FX question.

So Apparel and Footwear, and your question was that how does the credit order book in that business look like? And that we really for the Q1 has been -- the growth has really been driven by good in-season orders in Footwear. Of course, now when -- then we look at the full year then obviously, then the full Winter product lines are -- play quite a significant role.

So now the only thing I can say here right now at this point is that we expect good development in our Apparel Footwear business to continue throughout the year. I'm not willing to be more specific in this question.

Fitness, the timeline to improve the business. So Fitness, the Fitness is really made out of two parts as you know. So is the commercial part of the business which is very much a part of the -- is the financing available, first question, there are still issues to have sufficient financing for clubs to open up new clubs and even to [make things] and replacements. So tight financing is still an obstacle in some cases.

At the same time they know of course as the revenues, the club revenues actually were declining last year then also their appetite to open up new clubs or to renew existing equipment actually was reduced. So now as I hinted out that -- and the only indication at this point there was a recovery of the fitness markets, I'm really especially talking about the commercial market, is that the ancillary revenues in the clubs are going up.

So the clubs are doing okay. If you see then during the last year the memberships remained stable. But actually people spent less money while visiting the clubs. So now they exercise and they have started to spend more money again. So that I believe that if this trend continues then we will start to see positive impact in our business. But then if you try to ask me the timeline then I cannot say that. You know that from the history, the Q4 is the biggest quarter in the fitness business.



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So of course I would very much hope that if this trend in the clubs continue that we will start to see some impact for in Q4 but [today] it's too early to say.

Sasu Ristimäki - *Carnegie - Analyst*

Are you saying that if there is no improvement in the topline then we will not see this business becoming profitable? In other words --

Pekka Paalanen - *Amer Sports Oyj - EVP & CFO*

We will --

Sasu Ristimäki - *Carnegie - Analyst*

-- the cost adjustment is pretty much over?

Pekka Paalanen - *Amer Sports Oyj - EVP & CFO*

We have made our plans in such a way that by taking the costs down and improving -- here again improving the gross margin we will be profitable this year given the current sales volumes. But it's clear that when you talk about the real improvement in the profitability we would need to see market to recover as well.

Sasu Ristimäki - *Carnegie - Analyst*

Okay, good. Then if we can turn to the FX issue just briefly.

Jussi Siitonen - *Amer Sports Oyj - SVP - Finance*

Yes, it's Jussi here. So accounting policy has been so far that all those unrealized hedges which are hedged to cash flow, we are reported in financial items. Whenever they materialize then we lift them up to EBIT no matter whether they are positive or negative. So it's all hedge by hedge when we're coming through. Therefore it's extremely difficult to evaluate what is the expected FX impact in Q4 this year for example.

Sasu Ristimäki - *Carnegie - Analyst*

I'm sorry, I may be a bit slow here but usually if you're talking about hedges you -- and you take up a big loss like this you obviously have a positive gain somewhere. Otherwise it is not a hedge, otherwise it's a straightforward loss. So are we -- and you talk about cash flow hedges but -- and what things actually have you hedged? Is it sales revenues? Is it purchase costs or -- this is pretty much what I'm trying to get at.

Jussi Siitonen - *Amer Sports Oyj - SVP - Finance*

All right, we are hedging net flow. Net flow -- for example, the USD net flow what we are hedging both sales and of course and reported that in EBIT then.

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Sasu Ristimäki - *Carnegie - Analyst*

Okay. And the fact that you now have EUR7 million costs in the FX would imply that you have a net benefit on -- above the EBIT line of some similar magnitude?

Jussi Siitonen - *Amer Sports Oyj - SVP - Finance*

Yes, exactly.

Sasu Ristimäki - *Carnegie - Analyst*

Okay, thanks.

Operator

Thank you. (Operator Instructions) We now move to our next question from Manu Rimpela from Deutsche Bank, please go ahead.

Manu Rimpela - *Deutsche Bank - Analyst*

Hello guys, can you hear me?

Pekka Paalanen - *Amer Sports Oyj - EVP & CFO*

Yes.

Manu Rimpela - *Deutsche Bank - Analyst*

It's on Winter Sports Equipment, I've got a few questions. Could you comment on the inventory situation post the good winter we have had, what do you see at the retailer and wholesale level? Is it lower than previous years at this point?

Pekka Paalanen - *Amer Sports Oyj - EVP & CFO*

Okay, so the trade -- you refer to trade inventories end of the season.

Manu Rimpela - *Deutsche Bank - Analyst*

Yes.

Pekka Paalanen - *Amer Sports Oyj - EVP & CFO*

So -- and of course we don't have a really -- consolidated fact-based opinion about that but with -- of course we understand by talking to the dealers and of course we all know that the season has been good that overall the inventory levels in the trade would be in the lower level that compared to year-ago.

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Manu Rimpela - Deutsche Bank - Analyst

Okay, thank you. And then another question. You talked something about pricing. So how do you see that the pricing overall in the industry, if Winter Sports Equipment has developed -- do you see this has become more favorable and that this price distortion with some competitors giving a lot of discounts would be lower going to the next season or how do you -- could you elaborate a bit on this?

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

Again if you talk about now the coming-up season and how the pricing and the competitive situation and it is evolving of course it's far too early to actually make a statement. But what we see and -- is that the pricing is pretty stable.

And also I believe that, and this is my opinion, that as many of the winter sports equipment companies have not been in a great shape, so there is a lot of sense also now of (inaudible) in the way the business is done. So we believe that the pricing for making major deals is not going to be the key driver for business next season. But as I said this is more like speculation. I really don't have anything which is fact-based.

Manu Rimpela - Deutsche Bank - Analyst

Okay, thank you. I have no further questions.

Operator

Thank you. (Operator Instructions) As we have no further questions, I'd like to hand the call back over to you, sir, for any additional or closing remarks.

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

So thank you very much everybody for participating in this webcast and conference call and -- that's it. Thank you.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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