

# FINAL TRANSCRIPT

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**AME.HE - Q3 2010 Amer Sports Oyj Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Paivi Antola**

*Amer Sports Oyj - Director IR and Financial Communications*

**Heikki Takala**

*Amer Sports Oyj - President & CEO*

**Pekka Paalanne**

*Amer Sports Oyj - EVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Maria Wikstrom**

*Handelsbanken - Analyst*

**Freddie Neave**

*Goldman Sachs - Analyst*

**Martin Sundman**

*FIM - Analyst*

**Erik Thuestad**

*Orkla - Analyst*

**Corinna Beckmann**

*JPMorgan - Analyst*

## PRESENTATION

**Operator**

Good day and welcome to the Amer Sports third-quarter 2010 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Paivi Antola, Director IR and Financial Communications. Please go ahead.

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**Paivi Antola - Amer Sports Oyj - Director IR and Financial Communications**

Thank you. Good afternoon, and good morning everybody and welcome to Amer Sports Q3 conference call. Together with me in the call, I have Heikki Takala, President and CEO of the Company. We also have the retiring CFO, Executive Vice President Pekka Paalanne and today-appointed new CFO, Jussi Siitonen, with us in the call today.

So in this call we will discuss the Q3 results and some other current topics around the deployment of Amer Sports' new strategic priorities which we announced in September. So Heikki, please.

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

Good afternoon, everybody and welcome from my side as well. We'll start from slide three. And in quarter three, we continued to drive growth and improvement in the Company's profitability. Net sales were up 5% versus a year ago, and we increased especially Apparel and Footwear which was up 10 points, Team Sports up 11%, and cycling up 14%. We did decline in Racquet Sports which was down 8%. Overall racquet market globally declined and I'll comment that a bit later on.

Geographically, EMEA was up 8%, Americas 4% and Asia-Pacific was down 4% and that was largely driven by the Racquet Sports decline. Our EBIT was EUR55.8 million and that includes a non-recurring expense of EUR3.5 million. That was an import duty dispute which we settled in Brazil, clearly a one-time event.

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The EBIT improvement was driven by high gross margins, and the increased sales volume and margin improved in all of the three reported business segments. On the outlook 2010, we expect to reach topline sales of EUR1.7 billion, and we expect our EBIT margin to be approximately 6%, that's excluding nonrecurring items.

The next page we have a bit more in detail, the key figures. And the key highlight there is the gross profit improvement of 3 points versus a year ago.

Moving on to the next page, we have the reconciliation of the EBIT. First is the improvement driven by growth and margin and mix slightly offset by OpEx. Then other items which mainly include a foreign exchange translation impact, and then on recurring item, which is the EUR3.5 million imports duty dispute which was mentioned, with Brazil.

By business unit, the biggest gain was the Winter and Outdoor, but all others or both Ball Sports and Fitness included as well.

Page 6, we have the quarterly cash flow, and the key comment there is cash flow was in line with our plan and was in line with historical pattern. Looking at last year, the same period, there was an extraordinary impact coming from the measures taken to improve the cash flow. But that was mainly once-off impact, and -- versus the historical pattern, we are exactly in line.

Our financial position continues to be strong, and both equity ratio and gearing are at a good level and the Company overall is in a good position to cover our short and mid-term financial needs.

Then moving on to business segment highlights, first Winter and Outdoor. That would be page 8. Winter and Outdoor net sales were up 7%, and Winter Sports equipment up 4%, which means that we are now preparing for high shipment, high volumes in high deliveries for quarter four. Apparel and Footwear were up 10%, Cycling 14% and 14% is mostly high deliveries of 2011 preseason orders.

Sports instruments were up 5%. Then looking at the EBIT, we reached -- EUR58.2 million and that was driven by higher gross margins, sales growth and then offset [by decline] -- by increased OpEx.

Ball Sports, we had our net sales at last year's level. Racquet Sports, as mentioned, were down 8% due to the overall softness in the global tennis market. We had a decline in all regions. We don't have market share data. Yet we do have indications we, at a minimum, held market share as the overall market was really down.

And we do have also quarter three statistics from North America where the TIA, the Tennis Industry Association, has published the sell-in data. According to that data as well, we are minimum in line with the marketplace.

And just to give an example, the total tennis racquet market, the [in-selling] seemed to be down by approximately 12%. So it is significantly down and that was quoted in dollars.

Anyway, moving on to Team Sports, we had a good quarter, up 11%. And all of our major product categories were up there and growth was flat. EBIT remained at EUR3.5 million and no major highlights, basically which is improvements through higher gross margins.

Then moving on to Fitness, net sales were up 7%. Main gain in EMEA which was 27%, Asia 7%, and Americas 1%. Basically the strong growth in EMEA and APAC were or was in line with our plan.

Commercial business continues to be up in all regions. However, the premium equipment home sales, consumer sales continues to be slow and sluggish. EBIT was clearly improved, driven by higher gross margin and the sales growth, and also OpEx constituted positively in Fitness.

We do see in Fitness an improvement. However, there is no flat recovery expected, and the market volatility is still a reality there.



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That's basically the key numbers. Then just a few [words on the] new strategy which we published in September. And the key thing for us is reigniting profitable growth. We talked about our five Group development priorities, starting from clear portfolio roles, portfolio targets, including synergies in scale and clear integration approach.

We also plan to grow faster in softgoods, that's Footwear and Apparel. The third pillar is winning with consumers, and that's clearly getting closer to the local consumer to make sure we have products and marketing meeting his or her needs.

The fourth pillar being win in go-to-market, which includes both our distribution expansion and our programs for direct to consumer. The fifth pillar is our operational excellence, which includes basically all of the five operational programs and KPIs, key performance indicators, to run the business in a well-controlled manner.

In the next page, 13, we have -- shows an update on the key strategic priorities. And we are currently now moving to category-based developments across the key brands, starting now in Footwear and then following up in Winter Sport in Apparel. And product is -- there we are looking for scale through R&D, product-line management, sourcing and manufacturing. We are significantly strengthening our resources and capabilities. And just to give a few examples here, we appointed Andy Towne as the president of our Apparel business a couple of weeks ago and Andy is already operational in the business.

We appointed the regional general managers, members of the Company Executive Board, and that is reflected in our attempt to bring the consumer and go-to-market at a higher level in the Company.

Just one key highlight on Own retail or direct to consumer. We opened 11 stores in quarter three, and that 11 includes also partner stores as we continue expanding our own retail footprint.

Page 14, just a quick overview on the prioritized, sequenced program we are following in current year 2010. It's really focused on delivering the year, clarifying our priorities and ensuring we have the programs in place, and continuing to drive improved operations including margins improvement.

Next year, 2011, and reaching forward is about building capabilities to grow faster in softgoods, to move towards category-based development, and improvement in go-to-market, equally driving organic growth through softgoods, and then starting to grow in Russia and China and business to consumer. And finally, continuing operational excellence with focus on Winter Sports Equipment where we want to continue bringing down our breakeven points preparing for all weather conditions.

Finally, then with the long term, 2013 and beyond, it's all about profitable growth and exploration, and as such these are the priorities we are following. So that's the quarter three in a nutshell.

Thank you for joining, and I now hand it over back for Q-and-A. And for the Q-and-A, Pekka Paalanne and Jussi Siitonen are joining me to handle the questions.

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**Paivi Antola** - Amer Sports Oyj - Director IR and Financial Communications

Thank you, Heikki. So Operator, please, we are now ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) And we will take our first question from Maria Wikstrom from Handelsbanken. Please go ahead.

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**Maria Wikstrom** - *Handelsbanken - Analyst*

Yes, hello. This is Maria Wikstrom calling from Handelsbanken, Helsinki. I wanted to ask you on your outlook on the 6% EBIT margin about -- obviously, you have a quite a good visibility on both on the Winter Sports profitability as well as on the Apparel side -- Apparel orders and their profitability as well. So where would you see that there is currently the risk or where the uncertainty around the -- your current outlook? And then my second question is on the tax rate that how should we look at the tax rate for the full year?

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

Maria, hi. Now, we have good visibility of the outlook. We reconfirm the topline, EUR1.7 billion. And we now have visibility of our bottom-line sufficiently, contrasts the EBIT at 6%. On the second part of the question, I'll just pass out to Pekka, please.

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

So tax rate last year, we are seeing now in the report, this actually was 6% and also we have guided in the past that our ongoing tax rate is 20%, and that tax rate remains as an ongoing tax rate. So now we have during the quarter -- we have increased the amount of deferred tax assets. And annual impact of this increase in deferred tax assets is around EUR11 million reduction in taxes, so that when you calculate it by the full-year tax rate, then the underlying tax rate is 20%. And then at this point, we estimate that there will be positive taxes of EUR11 million coming from these deferred -- changes in the deferred tax assets.

**Maria Wikstrom** - *Handelsbanken - Analyst*

Thank you very much.

**Operator**

Our next question will come from Freddie Neave from Goldman Sachs. Please go ahead.

**Freddie Neave** - *Goldman Sachs - Analyst*

Hi, thank you very much. Just coming back to your earlier comments in the presentation, you mentioned sales volume and better gross margin helping the EBIT improvements, and then you said it was offset by increased OpEx. I was just wondering if you could talk us through the increased OpEx.

And secondly, on the financing costs of your hybrid instruments, I was wondering if you could tell us what the costs were coming through before the EPS line in Q3 and maybe your expectations for the full year. Thanks.

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

Right. On the increased OpEx, it's clearly and simply related to the higher topline. So typically it's driven by higher sales and distribution costs, which go up proportionately as the volume goes up. And that's the main and that's almost the only thing up there. We did have very slight marketing cost expended or increases in a few places, but basically it's all about based on distribution cost.

As to your question on the hybrid, just a second.



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

What was the question about hybrid? Can you --?

**Freddie Neave** - Goldman Sachs - Analyst

I was wondering what the quarterly charge would be? I think you don't include it until the EPS line. I was wondering if you included it as a normal interest charge, what it would have been and therefore what you might expect for the full year.

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

So that's regarding the -- as we have been discussing the past, first of all it doesn't -- it's not included in the net financing cost. The interest is deducted directly -- from equity directly.

However, the impact -- there is an impact on the earnings per share, and the annual target interest is around EUR7 million, EUR7.2 million. And so that's your stats and you can calculate from that the quarterly impact.

**Freddie Neave** - Goldman Sachs - Analyst

Thank you very much.

**Operator**

And we will take our next question from Martin Sundman from FIM. Please go ahead.

**Martin Sundman** - FIM - Analyst

Yes, hi. I would like to continue with a question on your guidance. Now you say that your full year sales will be EUR1.7 billion and the EBIT margin will be 6%. Now, if I calculate this, then it will be an EBIT of EUR102 million. And looking at your EBIT so far, it makes an EBIT EUR10 million below the Q3 level in Q4. And I would like to know why is the Q4 EBIT this much lower in Q4, compared to Q3? Is there some seasonality in Q3 maybe that explains it?

And then another question about your gross margin, which has improved quite a lot this year. Do you feel that you still can improve it going forward or have you reached the limit so far? And maybe you can also explain how you have managed to improve your gross margin? Thank you.

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

On the full-year guidance the -- we focus on the first half and the second half, and the quarterly split is less of our focus. We have good visibility of our second half overall, and the total year guidance is reflecting that visibility.

There is nothing extraordinary there. We feel that the 6% of the bottom-line guidance is appropriate with what we see and what we know today. That's basically it.

On the gross margins, the improvements is driven by a set of actions that includes pricing, that includes initiatives at some level of higher pricing space, that includes tight control of rebates or call it less rebating. And in parts of the business also, favorable outcome of negotiations which we had with vendors, which are still impacting the situation positively.

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The question is about the outlook and looking forward. Clearly, there is pressure in the marketplace in raw materials. There is currency-related pressure. There are labor costs which are impacting. And these are items which do put pressure on the gross margins.

We are working on the mitigation plans and of course we need to continue doing that. We probably will see some shifts and some impacts. But at the same time, we -- that's our job to make sure that we are able to deliver our targets and we are able to manage the business even when those occur.

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**Martin Sundman** - *FIM - Analyst*

Okay, thank you.

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**Operator**

Our next question will come from Erik Thuestad from Orkla. Please go ahead.

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**Erik Thuestad** - *Orkla - Analyst*

Yes, hi, three questions if I may. First, I noticed the number of employees in Winter and Outdoor is up by 370 people since December the 31st. Is all of that in Apparel and Footwear?

Second, if you could please comment on why the tennis market is so slow. And thirdly, in Fitness, do you feel that the confidence of your institutional Fitness customers have increased during the quarter? Do you now expect them to start putting in orders? Thank you.

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

First one on the number of employees, that's mainly driven by our factory in Bulgaria, that's the ski factory, and equally in [Denmark]. So that's really a seasonal impact more than anything.

On the tennis market being slow, it's quite difficult at this stage to give accurate data. Summer was extremely warm. That may have had an impact of course. But we don't have a clear insight yet. We are of course looking into that as it is. But clearly, it happened in many markets at the same time. So we can only speculate at this time; one potential driver being the extremely warm summer.

And then on the Fitness side, you do see stability more than anything. So we've now had a couple of quarters with stable sales and slight improvement as well. The confidence is returning little by little, but we can say that it's still not at a reliable level where we can see that it's clearly picking up.

That's why I was quoting some volatility is likely to continue. However, we do believe that there is -- the bottom has been reached and we expect stable marketplace conditions.

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**Operator**

Thank you, gentlemen. (Operator Instructions) We will take our next question from Maria Wikstrom from Handelsbanken. Please go ahead.

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**Maria Wikstrom** - *Handelsbanken - Analyst*

Yes, I would like to have a follow-up question on the gross margin outlook. As many of the clothing retailers especially have been fighting for increased -- sourcing pressure from China, and is that something that you are also facing currently for Salomon Apparel? And what about then on the Wilson products that you source from China?

Can you bit discuss, how should we see the gross margin evolving beyond 2010?

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

Maria, yes, the gross margin does face pressures. And we are not immune. We see that as a constant -- consistent theme from peer companies and many companies who do sourcing in the Far East, China.

There is clear pressure and the cost pressure is upward and as said, we'll need to be preparing ourselves for mitigation plans. I'm not expecting us to face major hurdles, but of course, there can be some temporary hiccups up and down. And the clear target for us is to hold and maintain and continue improving.

But of course in the current situation, visibility is a bit difficult, and we need to work extremely hard to make sure that we do not get negative impacts there.

**Maria Wikstrom** - *Handelsbanken - Analyst*

Thank you.

**Operator**

We'll now take a question from Corinna Beckmann from JPMorgan. Please go ahead.

**Corinna Beckmann** - *JPMorgan - Analyst*

Yes, good afternoon. I just had two quick questions. One was regarding the Apparel and Footwear. You saw a growth of around 10% in the quarter and that was compared to 8% in the first half. You'd guided to the second half growth being faster than the first half. Are you expecting an acceleration in the fourth quarter?

And then my second question was just regarding the gross margins. Could you just clarify again (inaudible) the favorable negotiations with suppliers, but what were the other factors that were helping your gross margin? Thank you.

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

All right. The other points impacting favorably the gross margin were pricing actions. So simply pricing up. The other one, selling less at discounted prices, and basically those were added to other contributors, if you wish. Actually --

**Corinna Beckmann** - *JPMorgan - Analyst*

So did you --



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

Yes.

**Corinna Beckmann** - *JPMorgan - Analyst*

Sorry, so on that -- did you increase prices or is it just the pricing mix?

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

Both.

**Corinna Beckmann** - *JPMorgan - Analyst*

Okay.

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

Increased prices and equally -- broad innovations in the marketplace which had a favorable mixed impact.

**Corinna Beckmann** - *JPMorgan - Analyst*

Okay, thank you.

**Paivi Antola** - *Amer Sports Oyj - Director IR and Financial Communications*

Could you repeat your second question please?

**Corinna Beckmann** - *JPMorgan - Analyst*

Can you hear me?

**Paivi Antola** - *Amer Sports Oyj - Director IR and Financial Communications*

Yes.

**Corinna Beckmann** - *JPMorgan - Analyst*

And in the third quarter, I think your gross was around 10% in Apparel and Footwear, and the first half was 8%. Are you expecting an acceleration, a fast -- much faster growth and much faster double-digit growth in the fourth quarter?

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

We are expecting, if not strong growth, in line -- minimum in line with the quarter three growth. That's basically the key expectation.

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**Corinna Beckmann** - *JPMorgan - Analyst*

Okay, thank you very much.

**Operator**

(Operator Instructions) We will now take a follow-up question from Freddie Neave from Goldman Sachs. Please go ahead.

**Freddie Neave** - *Goldman Sachs - Analyst*

Thank you very much. And yes, one final question. Cycling saw a very strong growth, 14% in the quarter. And I was just wondering what trends you see that was driving that. And thinking slightly more about Cycling division. I think it's -- in past years that's not necessarily been seen as the core division. I'm just wondering what your thinking was on that then? Thank you.

**Paivi Antola** - *Amer Sports Oyj - Director IR and Financial Communications*

Sorry, the line is extremely bad. Could you please repeat your question?

**Freddie Neave** - *Goldman Sachs - Analyst*

Sure. Cycling, you saw 14% organic growth in the third quarter; just wondering what trends were driving that strong growth. And secondly, Cycling in the past, I'm not sure was necessarily seen as a core business unit. I was wondering what your thoughts were on that at the moment?

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

Now, okay, sorry. As stated, the Cycling plus 14% was mainly driven by very strong deliveries of the preorders for spring 2011. So basically they started already during the quarter and that was the key driver for it.

Your second question on Cycling, it's a key part of the Company. It's a part of the portfolio, and we continue driving it as a key asset as we used to do in the past with clear performance targets and clear metrics and clear expectations for growth and profitability. So basically, hopefully that answers the second question.

**Freddie Neave** - *Goldman Sachs - Analyst*

Thank you very much.

**Operator**

And we have no further questions at this time.

**Paivi Antola** - *Amer Sports Oyj - Director IR and Financial Communications*

Okay, if there are no further questions, we would like to thank you all for your participation and wish you all a nice day. Thank you.

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**Operator**

Ladies and gentlemen, this will conclude today's conference call. You may now disconnect.

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