

# FINAL TRANSCRIPT

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## **AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call**

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Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

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**Heikki Takala**

*Amer Sports Oyj - President and CEO*

**Jussi Siitonen**

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## CONFERENCE CALL PARTICIPANTS

**Freddie Neave**

*Goldman Sachs - Analyst*

**Corinna Beckmann**

*JPMorgan - Analyst*

**Robin Santavirta**

*Handelsbanken - Analyst*

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**Rauli Juva**

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**Erik Thuestad**

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## PRESENTATION

**Operator**

Good day and welcome to the financial results 2010 conference call. For your information, today's conference is being recorded. At this time, I would like to hand 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*

Good afternoon, this is Paivi Antola from Amer Sports Investor Relations. Thank you for joining us today. Together with me in this Q4 results call, I have Heikki Takala, President and CEO of the Company and Jussi Siitonen, the CFO of Amer Sports. So during the call we'll discuss the 2010 and Q4 results as well as the priorities what we have for 2011.

So we'll start with Heikki's presentation. Heikki, please.

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

Okay. Good afternoon everybody, and welcome from my side as well. 2010 was a year of solid improvement for Amer Sports. Net sales were up 8% in local currencies and were driven particularly by Winter Sports equipment up to 12%, Footwear up 26%, and Team Sports up 8%.

EMEA was the main geographic driver, up 13% and our direct consumer sales were up 14%; however, from a relatively low base still. EBIT reached EUR107.9 million, driven by higher sales volumes and higher gross margins versus a year ago.



Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

We took measures for getting our base very healthy, and we did make some important strategic acceleration spendings, mainly in marketing to fuel the long-term health and to accelerate our progress versus the strategic glide path we have set for ourselves.

Hence entering into 2011, we have a very strong and healthy clean base to start building from. Moving to the next page, there is an overview of the EBIT, the key drivers, a stage where the growth and margin and then the offsetting item was OpEx and I'll get back to the operating expenses reconciliation a bit later.

By business area, Winter and outdoor sport -- and Outdoor was the key driver, but everybody improved. Then looking at the operating expenses and the reconciliation, we have divided our 2010 OpEx increase into three buckets. First one being top-line driven OpEx. So they are coming behind the growth which was EUR9 million, then EUR15.7 invested into the strategic acceleration, into our restructuring, into our strategic priorities towards the long-term targets.

And finally, maintenance OpEx, or maintenance operating expenses which is the underlying operation, the underlying organization, and this underlying organization, we spent EUR16 million more and that included salary increases, that included annual incentives as we reached better Company target and the likes.

Moving on to the financial position, I'll hand it over to Jussi Siitonen.

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**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

Thank you Heikki. So cash flow came back to normalized level, free cash flow being EUR50 million, and this is after exceptional strong 2009 which included special working capital interventions there. Our inventory turnover came down by some 20 days, and receivables also down by some 10 days.

Gearing was practically unchanged at EUR0.37 level, i.e., our balance sheet continues to be strong.

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

Very good, and then moving to page 9, that -- the long-term financial target and our status after 2010. On our target of delivering organic (inaudible) annual growth of 5%, we delivered 8%; so we achieved and exceeded our target with a clear improvement versus last year 2009. On profitability, EBIT of at least 10% of net sales, we delivered 6.2%, which is a significant improvement versus a year ago, but clearly not yet where we want it to be, where we will be for the long term.

On cash flow, we did not reach the same exceptional cash flow as a year ago. A year ago included some extraordinary items and interventions, and this year we are slightly below our long-term target. On balance sheet structure of yearend net debt to EBITDA ratio of 3 or less, we now reached 2.2, so we are already ahead of the target. So all in all it's good development in the right direction, and it has still a way to go.

Then moving on to the short term, looking at the fourth quarter a bit more in detail, the quarter was good, was strong growth, 14% up versus a year ago in local currencies. The spectacular growth was in Footwear which was up 71%. Also Apparel accelerated 25%, and of course Winter Sport equipment up 19%.

Then looking at Fitness, the underlying sales were at the previous year's level. On geographic division, EMEA was up 21%, Americas was quite healthy at 8%, and Asia-Pacific up 3%, mainly impacted by Japan which has been quite soft overall, and that's where our main result is in the Asian region.

On EBIT, we reached EUR56 million which was a good improvement versus a year ago. Sales volumes were up. Gross margins were at previous year's level, and they -- that gross margin actually reflects mostly seasonal pattern.

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

Every year, quarter four tends to be lower than the fiscal year balance. Also we did important inventory clean and we also spent some extra into items such as air freight given that there was overall difficulty in getting transport capacity. So those are, of course, one-off items.

Operating expenses, they -- for the quarter, they include quite significant accelerated spend into marketing and business to consumer, as well as investment into our new Company structure and key capabilities such -- we were able already in quarter four to -- and made some of the investments for spend, which we had further out in our long-term glide path. So it was good to be well in line, now even slightly ahead.

Looking at the EBIT, the reconciliation is on page 12 and there we see the impact coming from growth and then also the item, coming through. The operating expenses which I just mentioned, and then the -- overviewed by business area, with Winter and Outdoor being the biggest contributor.

Moving on to looking a bit more in detail by business area on Winter and Outdoor, net sales were up 21% for the quarter. Winter sports equipment, skis -- mainly skis and boots up 19%, Footwear as said 71% up, Apparel 25%. Cycling was slightly down, but then again for Cycling quarter four is not a big quarter as such, and we were more or less at last year's level.

Sports instruments slightly up again, and we continued to grow our outdoor product category especially. On EBIT we had a very strong improvement driven by sales growth impact, higher gross margins, and of course, the offsetting item there as well was operating expenses mainly following sales growth but also some accelerated spend into marketing and our new capability.

Looking at Ball Sports on the next page, net sales for the quarter were up 4%. Racket continued to be flat, mainly driven by markets such as Japan, but there are important differences within the portfolios. For example, the higher priced, performance rackets continued to grow really well whereas the lower-priced rackets were sluggish, and actually down.

On Team Sports, we had another good quarter; 7% growth driven by basketballs. And finally, if you -- Golf, total -- total year EBIT remains still negative, so we have still a way to go before we are at sustainable target levels.

EBIT was negative 2.7 on Ball Sports. Key drivers were positive, sales growth, but lower growth margins -- somewhat lower gross margins offset that growth. OpEx was up mainly because we fueled the tennis and Ball Sports categories to ensure that we get back into growth and we spent somewhat extra versus the going plan. And just to note, quarter four 2009, there was a positive amount of EUR3.5 million from a revaluation of pension liabilities giving an extraordinary contribution to the comparative of 2009.

Moving on to Fitness, the underlying net sales stayed -- they were at previous year's level. We had a EUR4.5 million assessment in revenue recognition due to extended warranties, so that is an extraordinary item. On commercial business we started to see and we're continuing to see some recovery, but especially the home usage -- home business continued to be relatively soft.

EBIT was at EUR4.3 million, so we delivered a second quarter of profit in a row. On outlook and guidance for 2011, we expect that our development programs will continue to contribute positively to the growth performers in 2011. The market is estimated to continue to recovery and there are of course some regional and sports specific differences.

In Footwear and Apparel, specifically the spring-summer preorders are indicating that the current strong momentum will continue and overall we expect Amer Sports 2011 net sales to increase and EBIT to improve.

And then moving on to -- looking at the progress in the key and strategic priorities we have set for ourselves on the slide "Strategic Cornerstones for Priorities (inaudible)." On the portfolio roles and synergies, an integrated Company, we have the category-based operation well underway and it started to contribute nicely already. All of the business areas and regions have specific improvement targets.



Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

We got the programs in place and we got the key performance indicators which we are now tracking and acting on a monthly basis. On growing faster in softgoods, the organization is -- started to be well in place and the growth is already starting to accelerate.

And in 2010, more than 20% of the Company net sales already comes from -- or came from softgoods and that direction is going to continue. Win with consumers; we've got important capabilities now in place including the Group marketing function with key positions now also obtained.

Winning in go-to-market we got regional and local contribution expansion programs in place and significant capability increases and development. Finally, on operational excellence, we have a major intervention and improvement program on customer service and on complexity reduction.

And on complexity reduction, we're looking at such items as -- you have SKU reduction, low productivity SKUs and the like which typically cause complexity and do not add value to the Company.

Equally, industrial pre-engineering program in Winter Sport equipment, we have communicated the [Focus] Program which is meant to significantly bring down our Winter Sport equipment breakeven points and make us much less dependent on winter conditions. We are progressing exactly in line with the plan, and we are starting to see the contribution in the year to come -- this year, and in the years to come.

Moving on, just a reminder on the glide path we set for ourselves on the prioritized [sequence] program. On 2010, we delivered exactly what we said was our internal target and we are progressing well on several parts, even ahead of what we set for ourselves.

In 2011-'12, we continue now building capabilities in softgoods on category-based development and go-to-market. We will drive organic growth in softgoods, Russia, China, visit the consumer at the chosen areas, and continue driving the operational excellence, especially in Winter Sport equipment to make sure that dependency on the weather conditions gets mitigated the maximum.

And finally, once we deliver '11 and '12, we get toward the long-term targets we have set for ourselves. So just a bit more practical and pragmatic view on 2011. For us, it's the year of go-to-market, and we do have three-four major priorities, the first one being significantly improved customer service, making sure that we can deliver the cases of customers unless we continue to grow the business, driving commercial expansion which is the geographic expansion.

It is the distribution expansion that means new doors at more categories, the doors and equally it also means the business to consumer expansion which is the new channel for us. Then of course gross margin continues to be a key focus area, and we have the plans in place to continue having a strong gross margin to target minimum maintained and also to be on gross margins.

And finally, operating expenses to making sure that we continue investing in the strategic acceleration areas had we more -- spending increasingly to the areas where we want to grow. And of course, the key intent is to drive scale synergies out of that spend so that the top-line growth we're looking for is very profitable.

So that's basically from my side and I hand it back to Paivi here.

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

Okay, thank you Heikki. And now we would be ready for questions.

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Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) Freddie Neave from Goldman Sachs. Please go ahead.

### Freddie Neave - Goldman Sachs - Analyst

A few questions if I may. First question, in your release this morning, you talk about the impact of raw material cost increases on gross margin. I was just wondering if you could discuss that a little bit. I guess your raw material -- a lot of them are going to have to patch the origin, going to have to discuss that.

Secondly, just discussing for Winter Sports equipment going forward the snow conditions in Europe versus America have been very different this year. Just wondering if you could discuss the lack of snow that we're seeing in Europe at the moment, how that might impact orders for next year?

And thirdly, on your long-term targets, you just mentioned going through the outlook there that 2011-2012, after the go-to-market drive or softgoods drive, then you'll get towards your long-term targets thereafter. So are you expecting 2013 to be the first year best that you can hit those long-term targets at 10% margins? Thank you very much.

### Heikki Takala - Amer Sports Oyj - President and CEO

We'll divide and conquer here, so we'll have Jussi take the first one on raw material reconciliation, and then I'll take the two other ones after.

### Jussi Siitonen - Amer Sports Oyj - EVP & CFO

Yes, hi, it's Jussi. So one big impact also on our gross margin was air freight. We are talking about EUR12 million additional air freight fare impacting negatively on our gross margin. Then what comes to raw material cost, labor cost, but we are now seeing they are not materially impacted yet in our Q4. We see certain impact on future operating margins there, at the same time having a plan to mitigate those impacts.

What I would like to underline here when we are talking about gross margin, if you look back on our quarterly gross margin development you can see a clear trend that normally Q4 gross margin are coming bit down. But this kind of Q4 gross margin level is not a level where we are starting now to 2011. So we are more looking for whole year 2010 levels, and start safeguarding that kind of level there. Heikki, what do you --

### Heikki Takala - Amer Sports Oyj - President and CEO

Okay. On the snow conditions, I hesitate to say that the situation, it's relatively favorable days; it's relatively good winter across in Europe, Japan and North America. However, especially Central Europe, there are some places where winter is not so great. But overall it's favorable.

The preorders we are seeing at the moment, they are positive, but need to remember that preorders is only a fraction of the total year and it's not at all -- they are not at all indicating yet how the total year is going to look like, so when we talk about preorders being the maximum 10% of the total year, so as such is not yet at all visibility how the year is going to be. So we are, of course, expecting the preorders. And once we get the preorders during the spring, we can then tighten the guidance by looking outside and looking at some anecdotal evidence the situation should be relatively positive. So the snow condition is not really helping.

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

On the long-term target, I hope I got the question right. We did not say that we have a three -- exactly a three-year glide path. We specified our programs for the first three years of 2010, '11, and '12 and then we continue specifying beyond, but directionally we say that we have a three to five year glide path during which we want to get to the target performance.

What I can say here is, based on 2010, we are in line with our plans. So we are exactly on the glide path. From that point of view, I feel confident that the first milestone has been reached and we have a good base to continue building, and on that I remain confident.

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

Thank you. That's all very great. Can I just come back quickly on the first question, just thinking about input cost? Cotton is not a great input cost for you but I imagine all the materials that you need in your Apparel division and all the materials that are required in your Winter and Sports Equipment, and probably golf clubs and tennis rackets as well, are you seeing impacts of rising prices coming through there as well or is that not something you worry about or are you hedged on that? Thank you.

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**Jussi Siitonen** - *Amer Sports Oyj - EVP & CFO*

Yes, especially rubber, with rubber and aluminum which are key raw materials for us -- there we have certain cost inflation pressure. Those two are, I would say, the biggest points to be mentioned.

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

Thank you very much.

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**Operator**

Corinna Beckmann, JPMorgan.

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

Good afternoon, a couple of questions. First one in terms of the reorders in Apparel and Footwear you said for spring-summer was very strong, what kind of -- whether you could give an indication as to what level we're talking about because you saw 43% growth when I look at Apparel plus Footwear. So are we looking at a similar level or more around 20% growth just to get some indication.

The second question is on the restructuring cost. You had, if I calculate correctly, EUR15 million restructuring cost. So EUR10 million went through in Outdoor and then the balance in Ball Sports and Fitness, whether you can give some idea what these restructuring costs relate to, what cost savings you might be getting from these restructuring?

Then also another question in terms of the payout ratio. It was at a similar level, about 50%, as we saw in 2009. Should we take that as a proxy moving forward, or should we take more at a level of one-third payout ratio that you had previously guided to?

Then just also to confirm, you mentioned air freight was at EUR12 million impact that you said was on gross margin? Thank you.



Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

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

Okay. We divide and conquer again; nobody can handles them all. Not sure I got -- Corinna your -- what is the question on the air freight so you may want to re-ask the question one -- what was the point exactly?

**Corinna Beckmann** - JPMorgan - Analyst

Was there a number -- a EUR12 million, was that the number that you just -- that was mentioned on the call?

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

Okay. Let me take that directly. The number was EUR12 million.

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

Yes.

**Corinna Beckmann** - JPMorgan - Analyst

Okay, thank you.

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

It doesn't mean it's EUR12 million unplanned, of course --

**Corinna Beckmann** - JPMorgan - Analyst

Yes.

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

-- air freight, but it was more than planned given container issues, given capacity issues et cetera. So there was an impact coming especially in the latter quarters from more air freight than we originally had planned. Also partially driven by the higher volumes, so we needed to push-up those volumes.

I go back to the first question which is the reorders in Apparel and Footwear. The quarter four was very strong and we got early visibility of this quarter and first half-year. We cannot say yet what is the rate of the preorders coming in but clearly a good momentum continues. I don't want to give a number yet given that we don't have full visibility, but clearly a good momentum does continue. On the restructuring cost, I pass that over to Jussi.

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

Thank you, Heikki . So Corinna, you were exact correct with your calculation. So net non-recurring items being EUR11 million out of which EUR15 million was non-cash negative items and then plus EUR4 cash positive net basis.

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

Those restructuring, they were mainly imposed let's say non-performing, non-core businesses what we had, they were loss-making business. We broke down those there. So what's the payback for those we are talking that we are improving actually profit cutting down that kind of loss-making businesses there.

Then also even through our receivable-based (inaudible). So we very much cleaned the base for the future so that we don't have that kind of non-cash items in our balance sheet which could be written down in future.

So payout ratio, you said it's 50%, it's correct. It's no -- having no firm dividend policy at the moment, we are very much looking cash flow, we are very much looking our own investment opportunities and balance sheet structure. And based on those different factors we are coming down to dividend proposal. So therefore, I would not suggest that this 50% payout what we have this year would indicate also

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

Thank you.

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**Operator**

Robin Santavirta from Handelsbanken.

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**Robin Santavirta** - *Handelsbanken - Analyst*

Yes, good afternoon. I was wondering about the inventory cleanups in which -- was it only in the Ball Sports division or was it in other divisions also? And then second question on Ball Sports, this was clearly one of the worst quarters also looking back at previous year's Q4. How do you see the situation going into 2011? Is there more profitability pressure versus, for example, 2010?

And then a third question, in Fitness some of your competitors are talking about improved demand especially in sales -- in commercial sales, also reporting improved profitability. You on the other hand reported actually a worse profitability in Q4 '10 compared to Q4 '09. How do you see demand and also the profitability situation for 2011? Thanks.

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

Okay. On the inventory cleanup, we did it across the Company where it was appropriate. As I mentioned earlier, we did quite a significant SKU reduction, slow-moving SKUs, or SKUs which have very low sales. So we eliminated those and that's typically an inventory cleanup. It's the same, of course, in Wilson and there is some impact there.

On Ball Sports we had -- talking about the worst quarter, well, actually you need to look at quarter in the comparative basis we say that there was an extraordinary item, and also we look at the business on a total year basis. We don't drive the business on a quarterly basis. As such, we had a good improvement on the Ball Sports overall throughout the year including the gross margins.

We then decided in the last quarter to accelerate some of our spend to make sure that especially in tennis the sluggishness doesn't continue. And we fueled the business appropriately and made sure that we are healthy also 2011. So it's not about a quarterly maximization of short-term results.

Finally, on the Fitness, let's see that I get the question right. Again, wouldn't look at only quarter four, I look at the turnaround of the trend, quarter three, quarter four are already on an improving trend. We are starting again to become profitable. And



Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

there's -- competition is having a good quarter. I can't comment on that, maybe it's one quarter, maybe it's a more sustainable trend.

We're looking at improving demand to some extent, but we did not, for example, in quarter four have any major initiatives or innovation of product news. And as such, it's more like business as usual. And once the innovation pipeline hits later on next year, of course, we expect that to continue positively. But I would say that overall what it brought for us was continuous underlying organic improvement especially on the profitability side. And that's where our focus is on Fitness.

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**Robin Santavirta** - *Handelsbanken - Analyst*

Thank you. And if I may follow up with one additional question on the Winter and Outdoor. With the focus program, do you see -- as Amer measures taken do you see that you still can improve profitability in 2011-2012 without huge volume growth for example, in winter sports equipment?

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

Yes, the Focus program will give us improvement and profitability. So in similar volumes -- if we deliver similar volumes that volume will be more profitable because we become operationally more efficient there. And that positively contributes to our bottom line.

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**Robin Santavirta** - *Handelsbanken - Analyst*

Thank you very much.

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**Operator**

Kalle Karppinen, Danske Markets.

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**Kalle Karppinen** - *Danske Markets - Analyst*

Question about the operating expenses, you seem to be quite rapidly accelerating spending as you have mentioned several times. How should we think of this looking forward in this 2011?

Is this a like a step up to a new level or is there some temporarily high spending in -- I know seasonally will come down from Q4, but in terms of like seasonally adjusted figure, will you remain at this high level or is there something temporary in the Q4?

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

The Company is evolving to work the new strategies which we are -- which we have stipulated as such. Those strategies, they come together with capability needs and a different set of priorities and a different set of resources required.

We need to put those resources required in place. So growing faster in softgoods or growing our distribution. For example, they don't come from (inaudible); you need to organize yourself for that, put in place the leadership and capabilities and an end-to-end operation.

Whilst we do that, of course, we'll be looking at same synergies and that comes to the integration. So we're looking for a plan to grow and of course, that growth is -- will be profitable. And initially, there will be some investments in the structure. Then



Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

when we get the structure right, of course, we will also fuel the business or spend in marketing, spend in R&D, but of course in line with the long-term glide path and the long-term glide path does have a specific set of financial targets we are going towards, and that's the way we do it.

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**Kalle Karppinen** - Danske Markets - Analyst

Okay, thank you.

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**Operator**

(Operator Instructions) Rauli Juva, Nordea Bank.

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**Rauli Juva** - Nordea Bank - Analyst

Yes, hi, it's Rauli here from Nordea. Just a follow-up on Kalle's question. You mentioned the OpEx breakdown which had around EUR15 million of this investments to kind of strategic OpEx. So can you elaborate whether we should expect a similar amount of this investment level this year or will it go already down or how should we understand this going into 2011? Thanks.

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

My expectation is that of course we'll find very less synergies going forward at a relatively rapid pace. However, of course, all of the investments we make -- it's not investment, call it all the spend we make, it will be made on payout basis. So we're looking at ROI in both the -- of the spend and where we see in opportunities for profitable growth, we'll make that spend.

And we of course, we learn as we go; we are learning about the size of the prize and then we are making choices, how do we accelerate based on our internal capabilities and based on the opportunity in the marketplace. But clearly, of course, as we say its scale and synergy are the guiding lights for us and that's what we're looking for, and that should make the expansion logical and profitable.

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**Rauli Juva** - Nordea Bank - Analyst

Okay, thanks.

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**Operator**

Corinna Beckmann, JPMorgan.

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**Corinna Beckmann** - JPMorgan - Analyst

It's just another quick question on inventories. I calculated them 29% year-on-year. I was just hoping you may be able to give me the growth rate at constant currency and whether your -- whether that's in line with your expectations?

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

Jussi will give the --

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

Yes.

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

-- numbers. I'll just comment on the inventory levels. The growth we faced and the growth we have delivered of course, has put some pressure on the supply chain and we have made the choice of wrapping up inventories in a targeted way to be able to meet the market demands.

So that is part of the situation of course. And then we do produce -- before we had quite some time before we deliver in some of the categories so there is a logical inventory increase, which sometimes hits a quarter whereas the sales come in the next quarter. So there is logic into it not only that we wrap it up significantly but we've gone forward. As to the numbers, Jussi.

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

Yes. Just to make sure that I understood correctly. So our inventories went up by some EUR50 million, EUR54 million --

**Corinna Beckmann** - JPMorgan - Analyst

Yes.

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

-- year-on-year in 2010, receivables up some EUR31 million and then the net impact after all pay-up was for something like minus EUR19 million overall working capital change in 2010. But inventory is up some EUR54 million.

**Corinna Beckmann** - JPMorgan - Analyst

Okay. I was looking for the percentage at constant currency, the growth rate and whether you have that available?

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

No, I -- may I come back to that?

**Corinna Beckmann** - JPMorgan - Analyst

Okay.

**Jussi Siitonen** - Amer Sports Oyj - EVP & CFO

I don't have that here in my hand.

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

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

Thank you. Thank you.

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**Operator**

Erik Thuestad, Orkla.

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

Hi, I have two questions. First, can you elaborate a little bit on the plans you have in place for mitigating or reducing the pressure on gross margin from the high raw material prices? And second, if you could also elaborate on the adjustment of sales that you had in Fitness?

Are we to -- do I understand this correctly that these EUR4.5 million or whatever it was will come in Q1 or is there something else going on there? Thank you.

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

Yes, let me take the gross margin plans. So overall we run a -- something we call the gross margin glide path. We're looking at 18 to 24 months ahead filling in all of the impacts with incoming on the cost of goods and then translating that into commercial operations and commercial activities. And that's of course the starting point.

When we see pressure coming, we work with our vendors to simplify our operations, to touch the design of our products, to eliminate complexity, and eliminate complex driven cost element in production. So that's of course one thing. And then as we operate more as a category based Company, we're looking for scale opportunities, pooling our purchasing and looking for synergies and hence impact coming from that.

We're planning now for the year to come, very carefully, our transport, to avoid excess -- for example excess air freight. And it doesn't mean if we wouldn't do any air freight, that's the norm in some of the industries, but you can plan it carefully and you can avoid excess cost there. So that's one, of course.

And then on the commercial side, we do drive -- price, overall average price through mix, so the innovation typically comes at higher price and that enables us to move up the market pricing behind consumer meaningful innovation.

And that of course is then -- from a top-line point of view, or pricing point of view constitute an impact. So hence we believe -- and we do have visibility of how it's going to be. And we're planning for the known cost increases and we're mitigating that to our best ability. And as I said, we're planning for a maintained gross margin at least year-on-year for 2011, and looking forward and looking to improve it. And Jussi --

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**Jussi Siitonen** - *Amer Sports Oyj - EVP & CFO*

Yes, coming back to the revenue recognition of sales of extended warranties, so based on those terms and conditions what we have and we are selling extended warranties for our Fitness products.

We went it through once more and noticed that we need to accrue based on those terms, it -- for its remaining part of the extended warranted times. So we made this correction of EUR4.5 million there in sales.

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

I would say this was very much a one-time correction. Now you can't see it anymore for the quarters to come. So it was cleaned to base, and now it's corrected.

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

Was it -- did I understand you correctly, was this a change of accounting rules, was that --

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**Jussi Siitonen** - *Amer Sports Oyj - EVP & CFO*

No, actually -- no it did not change in the accounting rule. We have now interpreted those terms and conditions what we have for those sales of extended warranties and ended up that the correct interpretation should be that we need to accrue this income for the remaining life of extended warranties.

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

Okay, yes. Okay, I see. So it was a changed interpretation of accounting rules then, to put it that way.

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**Jussi Siitonen** - *Amer Sports Oyj - EVP & CFO*

Right. Right.

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

Okay, thank you.

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**Operator**

(Operator Instructions) Freddie Neave, Goldman Sachs.

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

Yes, thanks very much. Two follow-ups, if I may. One on the selling and marketing expenses, I think they were up just over 10% from 2009 to 2010. If all goes to plan, how much do you expect to increase your marketing budget? And then the sales cost, I guess, comes through from volume as well, but can you give us an indication of how you expect your marketing budget to improve or to increase in 2011?

And secondly, coming back to my earlier question on the input cost, I think you said rubber and aluminum were your main two. If nothing else were to change, what -- will you be able to quantify the impact that the current rises would have on gross margin and basis points 2011 versus 2010, or if not, can you give us an idea of how much that is a percentage of sales? Thank you.

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

Okay, on the input cost of the rubber and aluminum and the like, yes, the impact would be 1 plus percent one and a bit something like that.



Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

So I don't know if that gives you the kind of range you're looking for, but one, one-and-a-half. On the selling and marketing, I'm not exactly sure what you were looking for, so can you just reconfirm your question please?

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

Sure, just as I understand it, there's a drive for increased direct sales that go to market, the softgoods sales. I was wondering -- I know with -- in your view, demand is coming back in the market environment, the consumer potentially is slightly better.

How does that gear your thinking of marketing costs which rose 2010 on '09? How much do you expect the marketing and things to rise 2011 versus 2010?

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

In principle, as you would say a percentage of net of stamps, most likely relatively stable and where the strategic acceleration then happens as we move forward is mainly on retail and e-commerce which we are building and that has been a choice.

We'll spend as we go, as we learn, and as we prove to being able to prove it, prove they are right, we can then choose to accelerate or not. And that's really the one area which is constantly under revision as we continue learning how to do that better.

Clearly it started to be a significant building block already. So we know a lot. We get 150 out. That's all in all, and we started to have a pretty good model. So no close out, so actually 1 out of the 150.

So we start to know how to run that one and at least confidence in the spend. Then on e-retail, that's an area -- we're piloting our first e-retail, started in November. And we're looking to make that repeatable model. And as we approve the model, then of course we can then accelerate spending on that or make it a choice and de-prioritize some other spending and accelerate there. But today, I will look at it more or less as constant.

We want to fuel to grow and marketing of course is an important part in our brand portfolio. And hence it's going to continue to end that -- be in that in the future.

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

Thank you very much, that's very clear. Just coming back on -- so just if I understand your first answer to the input costs, you're saying, if nothing else changed, current input cost prices could see 100 to 150 basis points impacts on gross margin. Would your mitigation plans lead to that coming back, do you think, or is that your expected level going forward to 2011?

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

If nothing else happened, you would be -- yes, that interpretation is right. But of course something else will happen --

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

Right.

Feb. 03. 2011 / 1:00PM, AME.HE - Q4 2010 Amer Sports Oyj Earnings Conference Call

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

-- and that we'll be planning for and that's what we have. We are out-looking, and that's what we are addressing through the other activities which I described.

**Freddie Neave** - Goldman Sachs - Analyst

That's very clear. Thank you.

**Operator**

As there are no further questions, I would like to hand the call back over to your hosts for any additional or closing remarks.

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

Okay, if there are no more questions, then I think we are ready to finish the call. Thank you for joining us today and have a nice day.

**Operator**

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

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