

FINAL TRANSCRIPT

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Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Martin Sundman

- Analyst

Robin Santavirta

Handelsbanken - Analyst

Jutta Rahikainen

SEB - Analyst

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Amer Sports First Quarter 2011 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Paivi Antola. Please go ahead, Ma'am.

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

Thank you. Good afternoon, this is Paivi Antola from Amer Sports Investor Relations. Thank you for joining us today. Together with me in this call I have Heikki Takala, President and CEO of Amer Sports; and Jussi Siitonen, the CFO of the Company. So in this call, we will discuss the Q1 results, and we'll start with Heikki's presentation. Heikki, please.

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

Thank you Paivi, good afternoon everybody. And we just go directly into the material. Quarter one was a good quarter and was mainly driven by our softgoods improvement. Net sales, we achieved EUR449 million, which is up 12% in local currencies. Sales, the most significant growth was in footwear, apparel and then followed by fitness, which was up 14%.

Geographically, EMEA, our European business was up 16%, the Americas 9%, and APAC, the Asian business, 4%; 4% was significantly impacted by the earthquake and tsunami in Japan, which impacted especially the Racquet Sports where the season was just about to start.

On EBIT, we increased across all the business segments reaching EUR25.7 million, which was up from EUR9.5 million a year ago. The drivers on the improvement -- to the improvement were mainly growth and to some extent the gross margin. And gross margin we held and actually improved versus a year ago.

On operational expenses, we invested or spent about EUR15 million more versus a year ago and that was both to drive organic growth and continue investing into the future growth, mainly on the strategic choices of category based operations, to go to market and customer service.



Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

On the next page, is just simply the table, reconciliation of the key numbers side by side, and the one comment to point out is really the gross margin which has been a challenge across the industry, but where we managed and continued to maintain and slightly build the margin.

Moving to the next page, we have the EBIT bridge, and there we see the impact of the top line growth, which was the biggest driver together with the margin and then the OpEx impact. And more importantly, if we look at by reporting segments, all of our segments improved versus year ago. The biggest individual gain was in Winter and Outdoor segments.

Moving to the next page, we look at our financial position, which continues to be strong. The cash flow continues to be at a very healthy level. Gearing is at 35%. And if we look at our refinancing needs for '11 and '12, we have all these needs covered. So all in all, we continue to be in a strong and good financial position.

Then looking a bit more in detail, the reporting segment, net sales in Winter and Outdoor were up 20%. Winter Sports Equipment, our key business mainly, was up 6%. But of course, quarter one is a small reordered quarter. The biggest growth came from Footwear, 34% and that came from the segments of hiking and trail running.

And on Apparel, we were up by 28%, and the growth came from all geographic regions and was driven by the entire brand portfolio. On Cycling, we were up by 8%. And the most notable comment is the strong continuous growth in apparel and footwear in cycling. Finally, Sports Instruments up 7%, mainly driven by outdoor and training; EBIT at EUR9.3 million, which was a good increase versus a year ago.

Then moving on to Ball Sports, Ball Sports net sales were up by 2%. Racquet was down by 3%, and especially Racquet was impacted by the Japan disaster. And as I said, tennis season was just about to start, and clearly the event impacted the category sales.

Team Sports was strong at 9% growth and there the growth was very strongly spread or evenly spread. Golf, this is really before the actual season had started, we were down slightly. But now the season is on as of more or less April. EBIT in Wilson or in Ball Sports continue to improve. We are now at EUR17.7 million, which is a good improvement versus a year ago.

Then looking at Fitness, and in Fitness, our strategic role for the business is really to return back to profitability, towards the target profit, and we had a good profitability improvement in the quarter. Net sales were up nicely, 14%, but especially EBIT was up by just about EUR4 million. And this came behind the sales growth and to an extent behind higher gross margins and then with the sales growth came some OpEx increases. But the overall net impact was also there.

So then looking at the outlook, we expect that our strategic development programs continue to contribute positively to our performance and we also continue investing into executing the new strategy to keep up the growth. And that means that exactly in line with our plan we have the building blocks in place, but we continue also executing them for increased capabilities and resources behind them.

In Footwear and Apparel, the pre-orders for the rest of the season are strong. So the momentum is expected to continue. In Winter Sports, especially the internal efficiency measures, the operational efficiency measures are expected to have a positive impact especially on our profitability. On the sporting goods market, we don't expect major recovery; however, the modest recovery, which we have been evidencing in the past quarters is expected to continue.

In 2011, we expect our net sales to continue to clearly exceed the Group's long-term financial target of 5%, which is the annual currency-neutral growth target we have for the long-term. On EBIT, excluding non-recurring items, we expect clearly to improve from the level of 2010.



Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

On the strategic priorities, just a couple of words. We are moving forward. On the clear portfolio roles and synergies, the new category-based operation is well underway. We are now operating Footwear, Apparel, Winter Sport and so on and we clearly started to have programs and building blocks in place coming out of the category operations model.

All of the businesses and geographic regions have clear targets and clear programs to deliver those targets and we have started to see good progress toward the targets; example being Fitness, which is now improving profitability, or which improved profitability in quarter one.

Grow faster in softgoods, well, that was clear; that's what the numbers. Winning with consumers; consumer-centric product creation process is now in place in the Company and we continue putting in place marketing resources and capabilities today as an investment and organization of building going on.

In the Go to Market, we are continuously building our distribution of market presence, both in existing markets as well as emerging markets and channels. And there equally we're putting in place capabilities behind new and incremental investment.

On operational excellence, the most notable comment goes to the program Focus -- the Focus project, which is our reengineering of the Winter Sport Equipment where we are pulling down the breakeven points by increasing flexibilities and taking out the fixed cost of operations.

On the next page, it's just a repetition of our long-term program, which started in 2010 from -- started with the definition of our future program and the future direction. And we did that. We stated that we wanted to deliver the year, which we did.

2011 and 2012 is all about building the capabilities to grow faster in softgoods, to put the category based operation in place and improve and develop our Go To market, and then continue to drive organic growth in softgoods, in emerging markets, in business to consumer and the like; and then, as I said, driving operational efficiency and profitability, especially in Winter Sports.

And then after a few years, we believe that we will start to be in shape for continuous accelerated future growth. So it's all about continuing to put the machine in place and getting the machine in shape and preparing for continuous profitable growth.

So that's the base presentation, and I suggest we move directly to the q-and-a's.

Paivi Antola - Amer Sports Oyj - Director IR & Financial Communications

Thank you, Heikki. So I mean we would now be ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator Instructions). Martin Sundman.

Martin Sundman - - Analyst

Congratulations on the great gross margin improvement. That was a great achievement. I was going to ask how you see the remainder of the year. Do you expect to see a similar gross margin improvement also during the upcoming quarters or is there some change, either positive or negative? And maybe you could also comment whether you have actually increased prices or improved your mix; what's the main driver here between the improved gross margin. Thank you.



Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

Jussi Siitonen - Amer Sports Oyj - CFO

Hi, Jussi here. So I can start with this gross margin issue here. So as you saw, 0.6 percentage point increase now in Q1. And we definitely know that there are certain cost pressures especially in oil driven products plastics, polyesters and in also rubber. But what we stated already in Q4 that in 2011 we will safeguard our 2010 gross margin levels. That's the statement we are still keeping.

Martin Sundman - - Analyst

Yes.

Heikki Takala - Amer Sports Oyj - President & CEO

And let me just build on that. When it comes to the mitigation programs, we, of course, we try to project how the raw materials, how the China or Asian labor cost and the likes are developing. It is a very volatile market. So what we do is, of course, we try to lock down the prices as much as possible. We try to become more efficient in the manufacturing operation and drive internal efficiencies and then we drive long term pricing programs where we are looking at our opportunities to safeguard margins through commercial means.

And we have ongoing price increases wherever feasible. Now, the slight uncertainty on where exactly the gross margin is going to be is that the volatility is very fast. And sometimes your pricing ability is not immediate. So you need to plan it well in advance. We think we have it safeguarded. But of course, some surprises may happen. Hence what we say is we aim at minimum safeguarding the historical level now.

Martin Sundman - - Analyst

Okay. So it comes mainly from internal efficiency and pricing; not that much mix. Did I get it right, or is that a wrong assessment?

Heikki Takala - Amer Sports Oyj - President & CEO

Well, of course mix plays an important role. If you look at the growth of softgoods especially footwear, that has a positive mix impact. And as softgoods, as percentage of the Company continue to grow, that has a positive mix impact of course.

Martin Sundman - - Analyst

Okay, thank you.

Operator

Robin Santavirta, Handelsbanken.

Robin Santavirta - Handelsbanken - Analyst

Yes, hello. This is Robin Santavirta from Handelsbanken. I was wondering about the weak USD-euro currency rates at the moment. If I understand correctly, that will help you to drive your gross margin and also earnings. I think a year ago you said that 10% weaker USD versus euro would drive your EBIT by some 4%. Is that still a correct assessment today?

Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

Jussi Siitonen - Amer Sports Oyj - CFO

Hi, Robin, Jussi here. So what we studied there is it's roughly still on the ballpark figure. And end of March this year, we had fully hedged the next 12 months euro-USD cash flow there with the weighted average cost of something like 133, 136 there. So therefore weakening US will benefit us, but with certain details because we have now hedged ourselves for the rolling 12 months.

Robin Santavirta - Handelsbanken - Analyst

I see. Then about the Winter Sports equipment cost base. Again, assuming that the volumes would remain on last year's level for the rest of the year, is the cost base already now trimmed so that the earnings would be better compared to last year, assuming flat volume for the rest of the year.

Heikki Takala - Amer Sports Oyj - President & CEO

The cost base is continuously going down in Winter Sports. So we do see some efficiencies, however -- and we do get some gains. However, it is a multiple year program. So we say that we would be finished by early 2013. So the full benefit will be there as of 2013. Nevertheless, of course, we expect improvements already in the current year as stated earlier.

Robin Santavirta - Handelsbanken - Analyst

And then if I may just do two short follow-ups; firstly on Winter Sports Equipment in Japan. How do you see the situation in Japan? Do you think that will impact considerably your pre-orders in Winter Sports Equipment? And then another one on Apparel and Footwear; do you project lower profitability due to sourcing cost and freight cost this year or is it possible that you can maintain last year's profitability in Apparel and Footwear. Thank you.

Jussi Siitonen - Amer Sports Oyj - CFO

When it comes to Japan, everything at this very moment is speculation. So it's very difficult to predict how the consumer especially will behave six to nine months from now. So what we are doing, we be in prudence, and we are, of course, planning for contingencies just because we don't know.

And the situation in Japan in many places continues to be very dire. People are having hard times. So for sure, there will be an impact on discretionary spending. Does it hit these categories, does it hit their behavior, we don't know. Hence we haven't made really a statement there which I think is fair apart from prepare for it and plan for it.

When it comes to the profitability of our soft goods, there is some pressure coming from gross margins. Of course, we had the raw materials, we had the labor costs. We are mitigating as much as possible through our own abilities by becoming more efficient and taking the pricing. But of course we do have other mitigating factors. We can look at our spending choices and the likes.

We don't believe we are operationally yet or structurally yet in a shape where we are organized for the long term growth. And we continue investing. So we believe that operational costs continue to be an important part of the model as we build the operations, resources and capabilities for a long-term growth in these categories. So that's basically where the situation is. It's really our choices.

Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

Robin Santavirta - *Handelsbanken - Analyst*

I see. Thank you very much.

Operator

(Operator Instructions). Jutta Rahikainen, SEB.

Jutta Rahikainen - *SEB - Analyst*

Yes, hello, good afternoon. Just a question on the Winter Sports orders and the pre-orders. Now you don't specifically say anything in this report. Does it mean that there is no growth or that you don't yet know where the trend will be going?

Jussi Siitonen - *Amer Sports Oyj - CFO*

It's basically the latter, which means that we are not yet in a situation where we have good enough visibility to comment it. It's happening right now. It will continue yet some weeks and actually a month, and then we will know more. So it would be speculating at this stage.

We had a good winter in North America, or they had a good winter in North America. Winter in especially Japan was very good. It was good in Northern Europe. So we are relatively confident that the situation is going to be good. How good it's going to be, we'll know once the pre-orders are completed.

Jutta Rahikainen - *SEB - Analyst*

Okay, but are you -- can you just comment, are you still looking for some growth or --?

Jussi Siitonen - *Amer Sports Oyj - CFO*

Well, the answer is we are always looking for some growth.

Jutta Rahikainen - *SEB - Analyst*

Sure. Yes, but just wondering about the comment "good" which probably would mean then some increase.

Jussi Siitonen - *Amer Sports Oyj - CFO*

Yes, I'm not going to comment because it really changes on a day by day basis, but of course we're looking to grow, especially where the market has been strong, we are looking to grow there. But again, still it is for weeks too early to really draw a conclusion. So we'll wait.

Jutta Rahikainen - *SEB - Analyst*

Okay, I understand. Thank you.

Apr. 28. 2011 / 12:00PM, AMEAS.HE - Q1 2011 Amer Sports Oyj Earnings Conference Call

Operator

(Operator instructions). Robin Santavirta, Handelsbanken.

Robin Santavirta - Handelsbanken - Analyst

Yes, this is Robin again. If I may ask one more question about third quarter expenses. They were down fairly significantly in Q1. There are some obvious reasons for that. But how should we estimate and look at the continuing of this year?

Heikki Takala - Amer Sports Oyj - President & CEO

Yes. It -- well, it's a question for some saving actions we have done here at the HQ level but also some timing of expenses. And for the whole year, we estimated operational HQ cost will come down some millions euros there. But we need to know that also that HQ cost, it's not only the HQ Helsinki what we have here, but also the global supply chain. Part of the global B2C functions, then a fair evaluation of our share based compensations items like that. But as I said operational HQ cost down some million or two.

Robin Santavirta - Handelsbanken - Analyst

Thanks.

Operator

There are no further questions in the queue. I would now like to turn the call back to your hosts for any additional or closing remarks.

Paivi Antola - Amer Sports Oyj - Director IR & Financial Communications

Okay. Thank you. There are no more questions. We have finished the call. I would like to thank you all for participating and wish you a nice day. Thank you.

Operator

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

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