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PRESENTATION

Operator

Good day and welcome to the Amer Sports Second Quarter 2011 Results Conference Call. For your information today's conference is being recorded. At this time, I would like to turn the conference over to one of your hosts, Paivi Antola. Please go ahead.

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

Good afternoon, and good morning everybody and welcome to Amer Sports second quarter results conference call. My name is Paivi Antola, I'm from Amer Sports Investor Relations, and together with me in this conference room I have President and CEO, Heikki Takala; and CFO, Jussi Siitonen.

We'll start with the Heikki's presentation and then move over to questions and answers. So to Heikki please.

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

Thank you very much, and good afternoon, good morning, everybody. Quarter two is typically a low season and low quarter for Amer Sports and it is the lowest of the year.

Nevertheless, we had continuous ongoing improvement on the top line and on the bottom line. Net sales were up 6% in local currencies. However, there is an adverse currency impact as you can see -- you have seen especially the dollar, euro ratio was significantly different versus the same period year ago. But in like currencies, we were up 6%.

The growth was driven by Footwear, as previously, 32% up. Apparel was up 27% and Cycling was up 17%. Fitness continues to drive top line and significantly improved profitability in line with the plan.

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The bad news was on Racquet Sports, which was down 12% and the racquet market was overall globally down and we have good indications that that was really a global phenomenon in most countries.

Geographically, EMEA was our fastest growing business, up 10%, the Americas were up 7%, and the APAC, Asia Pacific business was down by 7%, mostly impacted by the softness in the tennis business.

EBIT improved to negative EUR11 million, this was the EUR6 million improvement versus the same period a year ago, driven by higher volumes primarily.

Gross margin was down slightly. However, we expect that the full-year gross margin to be maintained at last year's level as we have guided previously.

The order book and pre-orders overall continued to be strong. Footwear is up 30%. Apparel is up 23%, and Winter Sport Equipment is up 5%. So, the outlook for the balance of the year is positive.

Cash flow was impacted by earlier productions and the higher pre-orders. So, the order book which we are preparing for, when I say earlier production, I really mean we advanced our Winter Sports production to ensure we can do good and great customer service and we can deliver up to the customers earlier than last year and that will of course ensure that we are in a good competitive situation in the store level.

Hence, you will see that the working capital was higher than a year ago for this quarter. EBIT, if we look at the reconciliation and the bridge from the last year, the majority asset of the improvement was driven by the top line growth.

Margin and mix had a slight negative impact. OpEx was up slightly, reflecting the fact that we continued also investing into the category-based operation and in the go-to-market resources, exactly in line with what we said before.

And then, finally, there is some other impacts mainly from currencies, which had a positive contribution. Winter and Outdoor improved, of course the most, Ball Sports had a negative impact from a business area point of view, and then Fitness and headquarter both contributed positively. Headquarter mostly through direct costs that we have today versus year ago.

Looking at the financial position, our gearing is now at 45% level, which is slightly up versus the closing of last fiscal year, but that reflects the change in the working capital sequencing, specially because of the pre-production or earlier pre-production in Winter Sports and then the higher pre-orders or the higher order book is actually positive, but of course it impacts temporarily especially the well balance sheet.

And from a financial point of view, refinancing needs continued to be covered for the balance of the year and fully for 2012.

Moving on to the actual business areas, Winter and Outdoor, and this is up 18% driven by, mostly by the Footwear and Apparel. Winter Sport Equipment for the quarter were up 3%, but then again it's really the lowest quarter of the year.

So, it's insignificant as a selling quarter. However, the pre-orders stayed or up by 5%. On Footwear, the pre-orders stayed up 30%; and Apparel, pre-orders 23%.

As cycling, I said already, up 17%, mostly behind good selling of our wheels, but equally good development in the cycling softgoods, i.e., footwear and apparel as well.

Sports Instruments were -- had a -- also had a underlying growth quarter. However we divested two businesses during the quarter and hence we see a slight decline. We divested the diving suites and we divested a marine technology business units, both of which were non-core businesses for (inaudible). So, we could say that (inaudible) is now much more focused and concentrated and hence we can better up and drive the underlying growth.



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EBIT in Winter and Outdoor improved solidly versus year ago. And Ball Sports, just repeating the situation on racquet, we were down by 12% and again the tennis market was soft basically everywhere and we can also see that participation is most likely not falling.

We have all indications that participation is holding up and that we can see that for example tennis ball sales were up. However, specially racquet sales were down and that can reflect either lack of significant new product innovation and introduction in the market and/or the fact that people have bought new racquet earlier and did not so during the quarter.

At the same time, Teams Sports, mostly our American ball sports, baseball, football et cetera were up solidly at 8% growth, which is ongoing very solid game and then golf at minus 10%, reflects overall sluggishness in the golf market and especially in the North America.

EBIT, kind of subsequently was down in Ball Sports versus year ago, driven by both top line but equally lower gross margins, especially in racquets sports and that goes partially back to selling of lower margin items, not so much racquets, but balls and other items.

Moving on to Fitness, as said, we had a good supplying gain of 9% and EBIT improved from almost negative 4 million a year ago to almost break even and that's ongoing improvement reflecting the programs we have in place in Fitness where the category portfolio role is to return target profitability and that's the prime focus there.

On the outlook, we expect that our own programs continue to contribute positively and we continue to invest in those programs to make sure that our new strategy and building blocks lead to sustainable improvement. In footwear and apparel and in fall/winter pre-orders in winter sport equipment, we have a good outlook. We see that there -- good momentum will continue, and in Winter Sport Equipment especially, the internal measures for production efficiencies and flexibility, they are contributing positively. So we expect profitability to improve there.

Hence for the full year, we expect the full year net sales local currencies to grow at a similar rate as the first half of the year. And EBIT margin as excluded in the non-recurring items to improve by just about 1 percentage point from 2010.

Moving on to quick look at the strategic priorities, the five priorities which we defined a year ago that continue guiding us in our way forward and we making good progress on the clear portfolio growth and synergies, the categories are functioning well.

We are now operating into new categories-based model. We can see that it's contributing already both to the top line and to the costs and we can expect that with the [real force] for the future as well.

On the business side, all of the portfolio areas are improving logically versus their long-term targets and they are executed programs which we have in place. And just to give an example of that, we continue growing faster in footwear apparel that's their role.

We continue improving our profitability in fitness, that's fitness role there, and that we continue driving profitable growth in cycling that's exactly what we're doing. Now the exception happens to be now racquet and golf and of course we'll take the right measures there to return back to the portfolio role. In the growing faster of the softgoods evident the numbers are speaking for themselves.

The strong growth is continuing winning with consumers, we have good and solid future pipeline of the innovation. It in the market in the coming quarters and in next year and we believe that we are closer to consumer than ever before.

We then go-to-market, we continue driving distribution in the existing markets and in new markets and we also expanding our own retail and we continue expanding e-commerce.



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From a geographic point of view, we have ongoing focus in countries like Russia and China, and capability, development of course significant part of that. We're putting in place the operations and structures to operate and win for the long-term in the go-to-market side.

Finally, in operational excellence, customer service is a key focus area, and we of course, same into provide excellent customer service. We are pre-producing a bit earlier, and making sure that we can meet the market demand in a very accurate way.

At the same time, the Winter Sport Equipment flexibility program which we call "Focus" is progressing well. We are re-engineering the production system. We're seeing the benefits coming through. We are driving increase flexibility and we are confident that wins for the equipment continues to improve, also its profitability.

Finally, just a reminder, we have a long-term program, which is the prioritized sequence year-by-year. Life path which is based on clear building blocks. In 2010, we set ourselves to defining the Company's future and make the choices which would guide our way going forward.

In 2011 and '12, we now build in the categories. We're putting in place critical capabilities and allocating resources, mainly softgoods, in the category-based development. I think go-to-market side, we also driving organic growth in softgoods, Russia, China, B2C and so on.

And finally, we're driving the operational excellence in winter sport efficiency and profitability, and once we do that, of course, we have reunited the profitable growth and we are now growing as the outlook in line with the year-to-date so a good momentum which we started 2010 goes on and would improve profitability.

So 2013, we believe, we will have the operational model well executed and then it's just continuing to drive faster.

So, all in all, it is a -- it was a low quarter for us, basis; solid logical improvement in the local currencies, top line and a logical improvement in bottom line and well in line with the program we have. So we continue executing the long-term strategic building blocks and we see the future for the current year, quite positively based on the building blocks which are visible.

So that's from my side, I would like to hand it back to Q&A.

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

Thank you, Heikki. Operator, please we would be ready for questions from the audience.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We will take our first question from Rauli Juva of Nordea. Please go ahead.

Rauli Juva - Nordea Bank - Analyst

Hi. Yes, Rauli here from Nordea. Hi. Two questions, firstly on the racquet sports, can you give a number on how much lower were the sales in Japan on racquet Sports in Q2? And then the second question is kind of on your full-year outlook, you give quite the precise outlook. So can you comment on how the outlook you gave now like reflects the expectations you had in the end of last year, say when you were planning the year, is that -- is that like, exactly in line or how do you see it? Thanks.



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Heikki Takala - Amer Sports Oyj - President & CEO

Right. Japan, specifically at the first question, Japan is our second largest global tennis market. Of course it is a significant market. On the quarter -- on this first half of the year we were down quite significantly and not giving the exact number, but double-digit down and of course that has a big impact and that's just mostly likely reflecting the actual situation in Japan as well as then potentially a softness which was kind of global in the overall tennis market, but we do see that especially the tsunami aftermath is mostly likely, impacting mostly, especially tennis.

Actually we see Japan otherwise in a better condition. So we do expect a faster positive impact and what we first saw as the short-term impact after the tsunami is now much more normalized, but of course if you remember that especially tennis quarter two seasonal item. So tennis business was mostly impacted. Looking forward, we actually looking at Japan relatively positively.

On the second topic, I'm not exactly sure I understood the question, so could you please just repeat it, what you exactly meant versus the same situation year ago.

Rauli Juva - Nordea Bank - Analyst

Yes. I just meant the kind of the outlook for the full year, which you're giving out with the growth and margin you are expecting. How does those reflect your expectations going into the year? So, are the kind of earnings outlook, has it remained intact during the first half of the year from your perspective?

Heikki Takala - Amer Sports Oyj - President & CEO

Last time we said that we expect a similar type of a growth last year, and basically it is unchanged. So the good thing is that we have the pre-orders and we have relatively good visibility always into the next season. And based on that, we can now tighten the guidance. So I would say that it's a relatively expected logical top line, and of course we also have a relatively good visibility on the gross margins and we of course control that for the short-term. So hence, we are able to tighten and continue giving that guidance. So I would say, no surprises.

Rauli Juva - Nordea Bank - Analyst

Okay. Thanks.

Operator

Kalle Karhunen, Danske Markets.

Kalle Karhunen - Danske Markets - Analyst

Yes. Hello, Kalle here from Danske. A question about the cost structure and guidance, if I look at the sales guidance and then you say gross margin should be unchanged and still only 1 percentage points improvement in EBIT margin means that we should see pretty big increase in operating expenses in the second half and they were down a little bit in the second quarter. So, is this a correct conclusion that you are again expecting to spend a quite a lot in OpEx in Q3 and Q4, even more than last year?

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Heikki Takala - Amer Sports Oyj - President & CEO

We continue putting in place the Company structure and operating model in which will bill in the categories, we are identifying the new growth segments within the categories and of course we need to organize for them and that's the work which is ongoing, we actually said early on that it will go on throughout 2012.

Equally, we continue, opening new retail outlets and we continue in the e-commerce expansion and overall go-to-market strengthening which means more sales resources in the field. So, that's an ongoing work and what we also said, already last year is that we do that in a well sequenced way which means it's sustainable and we do it overtime so, that we have good control and we get visibility of what's coming and we can ensure that we learn and we build a sustainable model.

Hence, we are not overly aggressive, we want to make sure that we grow top line, grow it fast and grow it profitably, but in a sustainable way. So we truly have the KPIs, we got the recourses, we got the structures, we got the capabilities in place to sustain it.

So, instead of driving to a fast beat, but then, potentially not having a sustainable model. So, we expect to continue to fuel the growth, but equally spending into the capabilities and resources.

Operator

Robin Santavirta, Handelsbanken.

Robin Santavirta - Handelsbanken - Analyst

Yes, hello. It's Robin from Handelsbanken. I was wondering about the ball sports and fitness divisions and about H2 this year, how do you feel about H2 in terms of earning compared to last year. If you saw at ball sports last year's H2, in terms of earnings, it could be challenging to me this year in H2? And what about fitness, you had some good gains in H1 this year, do you feel that the profitability and earnings will continue with similar momentum?

Heikki Takala - Amer Sports Oyj - President & CEO

On the fitness, we believe that we have an ongoing sustainable improvement underway, and for the long-term on the glide path, the improvement is expected to continue. So, that's my -- the base expectation there. Of course, in ball sports, the situation has been a bit challenging because of the softness in the market.

We'll of course take the measures to safeguard our position and safeguard our P&L and make sure that we are operating at the sustainable level. I would say that our portfolio starts to be in a situation where we can take some hits like this.

We are in -- robust enough so that comeback usually can tolerate and you will always have one business or two where it's not going that well. And this year it happens to be so. Nevertheless, we are giving positive total portfolio guidance for the year, both on top line and bottom line and we are mitigating any potentially impacts which we are see going forward in parts of the portfolio which maybe under performing versus expectations.

Nevertheless, for the long-term, we expect to -- the situation to normalize. So, it's not fully abnormal that something like this happens in parts of the business, you will always have some bad news.



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Robin Santavirta - Handelsbanken - Analyst

And then, if I may, just continue with one question regarding the guidance, maybe a bit following call there. Just in a rough calculation assuming 9% constant currency growth 2011, and then if you calculate H1 operating profit and add that with H2 operating profit last year, the figure will not be far away from 1% improvement, 1 percentage points improvement in EBIT margin, then again you have less cost prowl in headquarters improve profitability in winter sports equipment and in fitness, is there something I'm missing here? Or is it just the ball sports, maybe a bit more soft than I believe or then clearly softer than last year? Or is it just the guidance is a bit conservative?

Heikki Takala - Amer Sports Oyj - President & CEO

No, we are looking at the situation with a very realistic eye and you can rest assure we have a lot to do and we are investing as fast as we can, making sure that we deliver the improvements on top line and bottom line that we are targeting and we are not looking at the business on a short-term basis. We are looking at it for the long-term and we can accelerate programs. We can go as fast as we can, spending of course the visibility of the top line and hence our ability to invest.

So, we believe this is a good realistic guidance allowing us to continue driving the programs. And if there is a reason, we'll of course tighten the guidance in the quarter to come.

Robin Santavirta - Handelsbanken - Analyst

Good. Thank you very much.

Operator

(Operator Instructions) Jutta Rahikainen, SEB Enskilda. Please go ahead.

Jutta Rahikainen - SEB Enskilda - Analyst

Yes. Good afternoon to everyone. A question on the OpEx spending and now as discussed earlier it will be high this year and also high at the -- in the two last quarters for the full year, but how is the OpEx for 2012? And now Heikki is just -- as you said, those two years are years of heavy spending, but is it more front-end loaded in 2011? Or should we roughly expect similar investments in 2012?

Heikki Takala - Amer Sports Oyj - President & CEO

First we are putting the Company operation, the structure in place, all the critical resources and capabilities are in place, that includes the operating model, the category-based operation and go-to-market resources, et cetera. Then, once those are in place, they are in place, but you don't need to continue investing into those. So, one day this structure is going to be complete, but then, of course, we have great opportunities to continue driving top line as we then move into fueling the growth through advertising promotion spending and the likes.

So, we're looking at the responsible sustainable model, which we can accelerate or not depending on, how we see the future opening up and how we see the programs working.

So, I would say that we drive profitable growth, we improve top line, we also improve bottom line and then the pace, we will then decide based on how well the programs are working.

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So, I will not speculate how exactly it's going to be structurally, but I can still assure that there is a lot of opportunity, there is a lot of potential for our brands, and we are executing as fast as we can, but of course, we need to organize ourselves for that execution. So, that work will still go on quite some time.

Jutta Rahikainen - *SEB Enskilda - Analyst*

Okay. Thank you. And then, a follow-up question on gross margins and now you guide that you'll maintain that in this year and that's of course great. But how is the dynamics or how are the dynamics here? Are you really have, presuming now then that raw material costs would be roughly at current levels, will you have an increase in gross margin pressure in 2012 then?

Jussi Siitonen - *Amer Sports Oyj - CFO*

Hi, it's Jussi here. Based on the current view what we have for 2012 sourcing cost, and so, we are expecting some 1.5 to 2 percentage point negative impact in our gross margin without any counteractions what we are of course taking, but this kind of 1.5 to 2 percentage point for our cost inflation is expected in our gross margin without actions.

Jutta Rahikainen - *SEB Enskilda - Analyst*

Okay. But then, the actions would be better internal efficiency and price increases, I assume. So is the feeling you have that the net impact would be zero then, have [been today].

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

In specific, we are not providing so detailed, but of course we are not waiting just for those cost increases there. Those actions you just mentioned they are all into place and we are acting on those.

Jutta Rahikainen - *SEB Enskilda - Analyst*

Okay, thank you.

Operator

[Cilflak of Tiernes].

Cilflak - *Tiernes - Analyst*

Yes. Hi, good afternoon. Thanks. I just had a quick question regarding the working capital and you highlighted there have been building working capital in the second quarter as you look to improve customer service proposition. I just wonder whether you think that there's more of a structural change in structural increase in working capital, whether this is just a timing impact in Q2? Thanks.

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

Well, the structure, of course, when we grow faster in certain areas, of course we need to prepare for that growth. And in softgoods, in footwear and apparel, the growth levels are such, we of course, pre-buying a bit more. So -- but that fuel into the profitable growth, so it's a very logical one, and of course we've then taken measures to drive our inventory turnover and we're

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taking measures for faster receivables and things like that to make sure that we are driving in a responsible way. But then, on winter sports especially it's a sequencing item. It is not a structural item. We're producing earlier, we're shipping earlier we will collect earlier. So from a year -- total year point of view, you should not see a change.

Cilflak - *Tiernes - Analyst*

Great thanks.

Operator

We will take our next question from Rauli Juva of Nordea. Please go ahead.

Rauli Juva - *Nordea Bank - Analyst*

Yes. Rauli Juva here with one detailed question on the admin and another expenses. They were clearly down about from last year's Q2 and Q1 this year. So can you expand on that? What was the reason behind it and should we expect a similar kind of decrease in Q3 and going forward? Thanks.

Jussi Siitonen - *Amer Sports Oyj - CFO*

Hi Rauli. Jussi here. The plans that we have for this kind of admin OpEx and especially HQ or other costs that was reported there, it includes all valuation of our different option programs and things like that, but it's kind of operational OpEx what we have there. We are expecting some 10%, 20% decrease.

Rauli Juva - *Nordea Bank - Analyst*

Okay. Thanks.

Jussi Siitonen - *Amer Sports Oyj - CFO*

Hopefully.

Operator

We currently have no more questions in the queue at this time.

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

Okay. Thank you. If there are no more questions then I would like to thank -- thank all the participants and wish you all a nice day. Thank you.

Operator

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

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