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## AMEAS.HE - FULL YEAR 2011 AMER SPORTS OYJ EARNINGS CONFERENCE CALL

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## CORPORATE PARTICIPANTS

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

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

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**Jutta Rahikainen** *SEB Enskilda - Analyst*

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**Robin Santavirta** *Handelsbanken Capital Markets - Analyst*

## PRESENTATION

### Operator

Good day, and welcome to the Amer Sports quarter 4 results 2011 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Paivi Antola, Group Communications and IR Director. Please go ahead.

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

Thank you. And welcome, everybody, to Amer Sports fourth quarter and full-year results conference call. I have here together with me in this call, Heikki Takala, the President and CEO of Amer Sports; and Jussi Siitonen, the CFO. We'll start the call with a short presentation by Heikki, and then continue with your questions.

So, Heikki, please.

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

Thank you, Paivi. Good afternoon, everybody. And just for the agenda of the meeting, we thought we'd start with a full-year overview of 2011; then we'll take a deep look at October/December, the quarter 4 numbers; then the outlook, as usual; and then, at the end we look at the progress across our strategic priorities.

So, overall, for year 2011, the overall message would be that we delivered the year, and we delivered spot on versus the guidance we gave, with a 9% top line growth and a 1 percentage point EBIT improvement.

2011 was an all-time high year for the Company in terms of sales and EBIT, so we head into the right direction.

Net sales, as I said, up by 9%, driven by Footwear, the highest growth at 31%; Apparel, solid 22%; Fitness improved significantly with a 17% top line; Cycling, again a good improvement, 14%; and Team Sports at 11% up.

The decline we faced on Racquet Sports was 7%. Was a difficult year and the global tennis market was soft. And we further were impacted -- or we were further impacted by the difficult tsunami aftermath in Japan.

Geographically, EMEA was up 8%; Americas 12%; and Asia Pacific by 4%. And, again, in that Asia Pacific number, we do have the Japan impact.

Softgoods is now -- of Footwear and Apparel, Softgoods is now the largest category for the Company, representing almost 30% of the net sales. So there's a significant growth in that area.



Gross margin was solid at 43.5%, which was almost a full point improvement versus a year ago. It's driven partially by growth in own retail; but then quite a lot, or mostly, by operational efficiency in Fitness and Winter Sports Equipment.

EBIT was up by 26%, and that's the 1 percentage point improvement versus year ago.

Looking at the cash flow 2011, on the next page we actually have the key numbers again. So cash flow is the one to pick up, and we see that the cash flow was down versus year ago. That's driven by higher working capital, partially behind the higher growth in Softgoods, where we have budget already the next season products and they are in our inventory; but then partially, of course, by the late winter. So quarter 4 re-orders were lower than we initially expected and we were left with somewhat higher inventories than planned, so that's basically driving the working capital situation.

Going then to the EBIT development, just the reconciliation of the bridge, so versus 2010, the biggest driver was growth; and then of course the margin improvement on operational expenses.

Our operating expenses, we of course -- we are confident to reinvest back into the business. Jussi will take you through the exact reconciliation of the OpEx a bit later, but you see the bridge, how it takes us to the current year EUR135 million.

By business area, the biggest improvement was Winter and Outdoor. We went back slightly in Ball Sports, driven by the tennis situation; but then also Fitness improved nicely. And then Headquarters, we had a good, good improvement. We'll talk about that in a second, as well.

I'll actually pass over to Jussi to go through the OpEx situation.

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#### **Jussi Siitonen - Amer Sports Oyj - CFO**

Thank you, Heikki. So I'm now on slide 7. So last year was a logical continuation of our three years' investment plan into strategy, execution. And our OpEx spend, i.e., so-called investment OpEx into skills and capabilities, especially category based operations, business to consumer expansion and [distribution overall was] EUR26 million; i.e., roughly half of our total OpEx spend in 2011, which is roughly EUR10 million more than a year ago.

As we have said, we have three years' plans set up in 2010, so 2012 we still continue to invest in those skills and capabilities.

Top line driven OpEx, i.e., sales and distribution cost, of the existing set up went also up by some EUR10 million, reflecting the 9% top line growth.

At the actions we have taken and are taking all the time, what comes to driving scale [opportunities], you can see some results already here. Our maintenance OpEx was -- our maintenance OpEx growth was much lower in 2011, as it was in 2010.

We go onto the slide 8, so our balance sheet still continued to be solid, even though the net debt increased some EUR97 million last year due to the negative free cash flow of EUR21 million, share buybacks and dividend totaling EUR73 million.

The negative cash flow, as Heikki already mentioned, was working capital driven so that inventories increased by some EUR58 million, and receivables by some EUR56 million. This is partly due to the low start of the season.

In-season order deliveries fell [over]. Of course due to the low sell through in all of our customers, we have some delay in payments. However, the January operating cash flow what we have so far seen is already some EUR30 million positive, so we see that this is more season-related thing, rather than changing our logic of the cash flow.

Net debt-to-EBITDA, one of those financial targets what we have, was 2.3 [times]; well below the maximum 3 [times].



Moving onto the slide 9, we have no significant mid-term refinancing needs at the moment. Cash and unutilized trade facilities were EUR280 million at the year end; and our scheduled payments for this year are EUR219 million, including the hybrid bond of EUR60 million. We have the first reset option for the hybrid in March this year. And, as you can see on the slide, we have pretty payment-free years to come in 2013 and '14.

Heikki, back to you.

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

Okay, so just a synopsis of the long-term financial targets, where we stand today after 2011. So, on growth, you recall, we have our 5% annual growth target of -- to 5%; and now, for the second year in a row, we actually over-delivered the target with a 9% top line now in 2011.

On profitability, the long-term target is the 10% of EBIT of net sales; and we now edge further up to 7.2%. So we marking it still as red. We are not home yet, but we continue getting toward the target, the 7.2%.

On cash flow, Jussi just went through, we were behind our targets for the year, largely because it was also our choice. We said we're going to use our strong balance sheet to drive growth, and that's what we did.

And just looking at the balance sheet structure, we remain within the year-end net debt-to-EBITDA ratio of 3 [times] or less. We are 2.3 [times] so we feel we are well within our targets and within our means.

So, all in all, the direction is right, and we continue moving in a logical way.

Then actually looking a bit more in detail to October and December, so quarter 4, so just a short overview there. As we said at the end of quarter 3, we could have -- we peaked -- our shipments peaked in quarter 3, especially in Winter Sports Equipment, because we chose to deliver earlier. Hence, we already said that quarter 4 will be impacted by that shipment schedule, and that's exactly what happened.

Net sales were up slightly; 2% in local currencies. We had ongoing good broad-based growth on Fitness; Footwear; Cycling; Team Sports; and Apparel.

But then, on Winter Sports Equipment, our sales went down by 14% versus year ago, largely because of the earlier schedule; and also, of course, the lower re-orders that we got because of the worldwide, relatively late start of the winter season. So winter, of course, did have an impact on profitability.

We delivered in line with the target to hold our guidance. And again, versus a year ago, the slight decline is mostly because of the shipment schedule, i.e., the peak in quarter 3.

Reconciliation of the business, by business area. So, in Winter and Outdoor, our net sales were down quarter 4 by 4 points, and that's driven by the Winter Sports Equipment, for the reasons I just mentioned. And everybody else were more or less in line with targets. Footwear up nicely; Apparel, the same; Cycling as well; and Suunto delivered strong, good underlying sales at last year's level.

Moving onto Ball Sports on slide 14, we had a better quarter. Net sales were up 7%. Racquet Sports stabilized, so we had a stable quarter. Team Sports continued to deliver very strongly; and Golf, in line with the market, continued to be on a slight downward trend.

On EBIT, we actually improved quite nicely versus a year ago.

Fitness, on the next page, page 15, had a good quarter. Net sales were up, driven by good solid, broad-based growth. We had a very good quarter in the Americas, but equally in the international markets. And the important and encouraging thing here is that both the commercial and the consumer business continued to pick up so we see good, solid, continuous improvement there.



Of course, our profitability is then responding as well, with especially the total year improvement on Fitness, where we truly are getting to the next level on profit.

Then moving onto the outlook, that's page 17, to say 2012, we continue to invest into executing our long-term strategy and sustaining the profitable growth. So we continue driving our improvement like that.

We expect broad-based improvement across the businesses. In Winter Sports Equipment specifically, the slow start of the season, because of delayed winter and warm weather, in key market is expected to have an adverse impact on the 2012 pre-orders.

Apparel and Footwear, pre-orders for spring and summer are up by 28%, and 14%, respectively, so the good growth continues in those areas.

Overall, we expect 2012 net sales in local currencies to increase from 2011, so 2011.

Then on the next page, I would like to talk a couple of items regarding progress in our strategic priorities, so that's page 19. Basically, on clear portfolio roles and synergies, our number one strategic priority, the category based operation is well underway. We now operate truly as Footwear, as Apparel, as Winter Sports Equipment, and now increasingly, as Active Protective, and we start to see the benefits coming through in both top line and then gross margin.

The businesses, all businesses actually and geographic regions, are progressing towards their portfolio roles. If we look at Fitness, Fitness's role is to return to profitability. We see a good improvement there. On Cycling, it's all about driving profitable growth; that's what we continue to do. For example, in Apparel and Footwear it's all about acceleration of the growth [because] profitable; and, again, that's what we continue to do.

The exceptions for now, I would say temporarily, especially Racquets, which had a difficult year; and then of course Golf has been on a downward trend. But, all in all, I could say that the portfolio is responding well and we're delivering in line with the portfolio targets.

Growing faster in Softgoods. We went through the Apparel and Footwear numbers. I guess the numbers speak for themselves. We now -- indeed, we're hitting the EUR500 million first benchmark, and that was our first target. Now it's all about accelerating that growth further.

Winning with consumers. We have a good pipeline of future innovation, and we increasingly operating with a consumer-centric approach, putting the consumer in the middle. So we talk about skiing; not only skiers any more so we include all of the adjacency around the activity, be it helmet; be it goggles; be it protectives; boots; skis. Equally [intense] is the expansion toward Softgoods, bags, accessories, and so on. That's giving us good returns already now.

The brand and category expansions, we have a lot going on there. We see a lot of potential for our existing brands to enter into new categories; more to come on that.

Then regional consumer operations. That's putting regional consumer marketing people, both in Asia and increasingly North America, to make sure that we have a good understanding of the local, regional, and global consumer needs. And our brands are responding to those needs in a better and more effective way.

Win in go to market. It's all about distribution expansion, growing with our key customers, and growing overall distribution, number of doors, and sales per door in our existing markets. And then, equally, growing faster in the new geographies; mostly in Russia, China, and in Latin America, which have been priority countries. And in all of those three areas, we grew by just about 40%, but admittedly from a low base.

Operational excellence. Customer service; we have improved significantly our key KPIs and we are delivering much better than a year ago and continue making sustainable improvement there.

And then, of course, in Winter Sports Equipment we invested a lot into operational excellence, operational flexibility, including the new factory in Bulgaria, and we are seeing the benefits already there through higher gross margins, especially.



On next page, 20, we call out two specific focus areas for 2012. The first one is actually a continuation on the geographic expansion, with focus on our new expansion markets; Russia, China, and Latin America.

As I said, we had good growth numbers there and they now account, these three countries or areas, for 7% of the Group sales. That's not a lot, but it's nicely up from the 5% just a year ago. So we're making pretty good progress there. But that's not good enough and we will continue driving growth there.

Second area is learning for the future in the area of Action Sports. Action Sport is, basically, it's snowboard, skateboard, and the like-inspired activity, which is a huge, global market. And we're seeing that that's an attractive market.

Our current brand portfolio needs improvement in order for us to serve these young consumers better. Just before Christmas, we announced the acquisition of Nikita, which is a snowboard-inspired young female brand and that's going to give us a new consumer target group, and nicely complement the Salomon snowboard and Bonfire apparel businesses, which we have. So we're truly able to organize for the action sports market and segment going forward, so that's a key focus area for the years to come.

On the last page, page 21, it's, again, just a reminder of our long-term glide path with the annual roles what we said we would do in 2010. It was all about getting going and delivering the year 2011. It was all about putting in place the capabilities and new structure for the Company, whilst delivering the year.

We delivered the year. We did exactly what we promised with the 9% top line and the EBIT improvement. And we initiated, or reignited growth on Softgoods. We built the categories. We invested in the go-to-market and we're now seeing the benefit coming from there through nice growth in the existing markets and in the new priority markets.

We put in place the business to consumer operation increasingly better, and we continued to open new outlets, and we expanded eCommerce, with good early results in that area as well.

And then finally, in operational excellence, it's all about the Winter Sports Equipment efficiency, and improved profitability, as well as better customer service, which we mentioned as key improvements for the year.

So, all in all, we believe we are well in line with the glide path. In 2012, we still continue building these capabilities and ensuring that the growth continues to be robust and profitable, and we still continue shaping the Company towards this long-term structure and long-term goal that we have.

But that's basically it, so I hand it back for Q&A

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## QUESTIONS AND ANSWERS

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

Thank you, Heikki, and thank you, Jussi. Now we would be ready for the questions from the audience, operator, please?

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### Operator

(Operator Instructions). Jutta Rahikainen, SEB.

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**Jutta Rahikainen** - *SEB Enskilda - Analyst*

Regarding the Winter Sports comment which you are providing on the Equipment side, you say that the warm weather will likely impact, is this now more of a generic comment? Or do you actually know that sell-out has been weak this winter?

Then in relation to the weather, still how do you expect that to impact the Softgoods' autumn orders and deliveries?

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

On Winter Sports Equipment, the warm autumn of course didn't kick off the sell-through well. And especially in the cities, because it was very warm, consumers were not really ski-minded; they were more outdoor minded. And the season simply didn't get going and sell-through was lower. We know that already, throughout the industry, that November and December sell-through numbers were lower. Hence, we expect that, that of course will have an impact now.

At the same time, the winter is now actually, at the moment, it's very good. And we know that bookings in the key ski stations and in the key areas in the world, the bookings are pretty good and a lot of people are doing the activity. The situation -- the situation is good. Now, as the winter continues, of course, every week of good weather, i.e., cold and snowy weather, is helping out. So, of course, it's difficult to say at this stage how it's going to be but, clearly, November and December were lower than expected.

As to the Softgoods' side, of course, when the weather was not very cold especially the warmer clothes and warmer shoes and boots didn't sell through that well. Now we expect that to be improving, of course, as weather is now colder and better from that point of view. But what it's going to be, it depends how the season continues. We don't expect major negative news. But of course there is going to be an impact, and we'll see that as we start to take the pre-orders in a couple of months' time.

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**Jutta Rahikainen** - *SEB Enskilda - Analyst*

Okay, thank you.

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**Operator**

Kalle Karppinen, Danske Markets.

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

I was just wondering if you could give some kind of indication what your assumptions are for gross margin going into this year. Do you still expect to be able to maintain your gross margin level? And what business units are under most pressure? And where do you see room for further improvements?

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

Yes, guidance what we have so far given for 2012 has been [out] 150 basis point/200 basis point gross margin pressure there coming from the cost inflation.

Of course, we start the year by safeguarding the 2011 gross margin level. However, as already mentioned, we have higher than expected inventories in Winter Sports, which might have some more challenges to keep it. But, of course, that's the target for 2012 also, to keep 2011 gross margin level.



**Kalle Karppinen** - Danske Markets - Analyst

Thank you.

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**Operator**

Robin Santavirta, Handelsbanken.

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**Robin Santavirta** - Handelsbanken Capital Markets - Analyst

I was wondering about the guidance for 2012. You guide for sales' growth, but you provide no guidance on earnings. What's the key reason for that? Is it the late start of winter, and especially the Winter Sports Equipment? Or is there something else that you're concerned about?

Then another question about the Ball Sports. You had solid, good development in Q4, how do you see development going into 2012? Is the pace picking up for your there?

Also, in terms of Fitness profitability, good sales growth in Q4, [invested] some money in growth so margin was not better than last year, do you expect to improve margins in Fitness going forward in 2012?

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

That's three questions, so I'll try. If I don't respond well, you'll correct. So I try to get them right. On the guidance, we continue following our financial targets and long-term glide path and the glide path calls for improvement so we'll, of course, seek for improvement year by year.

Now, at this stage, the visibility is still very low and we don't have sufficient visibility of the pre-orders, and so on, so we'd rather not guide. We'll guide once the visibility gets better and we start to get Winter Sports visibility, as well as a bit more on the balance the portfolio. As said, we plan for growth and our target is to drive profitable growth, so nothing has changed in there. But we'd rather give the guidance once we have a bit more visibility of the building blocks.

On Ball Sports, we expect a good improvement, especially in tennis; that's our expectation. We have better innovation in place. We have better product news. We have good line on Apparel. We have good building blocks there, so we expect tennis to rebound.

Also, in our stronghold, in Team Sports, we expect that the momentum is still good. We look at the progress we had in place, both distribution expansion, as well as the marketing, as well as the product news; it's looking good so we are positive about Ball Sports overall.

As to Fitness, we have now invested quite a lot in our distribution footprint, making sure that we have the structure in place for continuous geographic expansion and growth. The investments we have made into our sales force, basically, they are paying out; we see, in the top line growth. That top line growth will be profitable because, of course, we are getting better capacity utilization; and that will then -- that is expected to drive our gross margins.

So, all in all, the Fitness situation looks good. It's a bit early. It's -- cannot declare that it's sustainable, but looking good. So we have a much better year than a year ago, and already in [2010] we started to improve towards the end so we're starting to see a good pattern. And we know the key business drivers and, as such, we seem to be able to drive a repeatable model. So, all in all, we expect improvement there.

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**Robin Santavirta** - Handelsbanken Capital Markets - Analyst

Thank you very much. If I could just add one question regarding the increasing production in Bulgaria in Winter Sports Equipment, and especially skis. Could you comment just a ballpark figure, about how much that will drive down costs, or improve gross margin 2012, assuming flat volumes



for -- in the pre-orders? I know that could be challenging in this market, but just to get an idea about the cost savings from increased production in Bulgaria.

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

We never actually gave a guidance on that, and we didn't split it up by building blocks. We say that the total focus program, the investment into operational excellence and productional flexibility with the Bulgarian factory was, of course, a major building block would result in a EUR10 million to EUR15 million annual cost saving, mostly impacting gross margin.

So the Bulgarian factory be now up and running, is already contributing. It's running at nice, good capacity. And we see that it's been the right thing to do. So we rather stay at the total focus program cost saving target level, which is the EUR10 million to EUR15 million. Bulgarian factory is key part of that.

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**Robin Santavirta** - Handelsbanken Capital Markets - Analyst

Good, thank you.

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**Operator**

(Operator Instructions). There is no further questions at this time.

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

If there are no further questions then we would like to thank you all for participating in this conference call, and we wish you all a nice day. Thank you.

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**Operator**

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

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