

FINAL TRANSCRIPT

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Maria Wikstrom
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Jutta Rahikainen
SEB Enskilda - Analyst

Corinna Beckmann
JPMorgan - Analyst

PRESENTATION

Operator

Good day and welcome to the second quarter 2010 results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Paivi Antola, Vice President. Please go ahead, sir.

Paivi Antola - Amer Sports Oyj - Head of IR

Good afternoon and good morning everyone and welcome to this Q2 results conference call. My name is Paivi Antola, and I'm the head of Investor Relations at Amer Sports. And together with me in this conference room I have Heikki Takala, President and CEO of the Company, Pekka Paalanne, Executive Vice President and CFO of Amer Sports, and Jussi Siitonen, our Senior Vice President for Finance.

Heikki Takala will first go through the highlights of Q2, and after that, we will take questions from you.

Heikki, please.

Heikki Takala - Amer Sports Oyj - President & CEO

Well, good afternoon from my side as well, and good morning. On the front page, we have, in a nutshell, the quarter two result, and the overall message that we have attained improvement versus a year ago.

Our net sales are up 5% in local currencies driven by mostly Apparel and Footwear, Team Sports and Golf, and from a geographic point of view, EMEA, which were up 9%.

Our EBIT was negative EUR16.9 million, which is -- in fact, it is the seasonal nature of our business. However, we clearly improved versus a year ago with an improvement of EUR13 million just about. The improvement came from higher gross margins and

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increased sales volumes. And the improvement also came from all of the business units apart from Fitness, which went down slightly.

Looking ahead, the next season pre-orders in Winter Sport Equipment are up significantly just about 15% and the fall/winter pre-orders in Apparel and Footwear are also indicating an increase in the strong sales growth for the second half of the year. But we expect our 2010 net sales to reach approximately EUR1.7 billion and EBIT margin to improve to the mid-single-digit level.

The next page, looking at the key financial figures, the key highlight is the gross margin improvement. We improved our gross margin by 5 percentage points versus a year ago, and that is a significant achievement of growth reflecting one of the interventions and improvements across the business units and country, region.

Another highlight is the net cash flow, which, in the third half of the year, significantly ahead of a year ago, now at EUR94 million.

The next page gives you the P&L reconfiguration and of the EBIT reconfiguration. And we see that about EUR6 million of our EBIT improvement was driven by top-line growth. EUR15 million was driven by margin, the gross margin improvement, some negative OpEx involvement reflecting, of course, the growth. And then the EUR1.5 million includes mainly the net impact -- the net EBIT impact of foreign exchange.

Looking at business areas, we had a EUR5 million improvement Winter and Outdoors, a almost EUR10 million improvement in Ball Sports, as already mentioned, a slight decrease in Fitness. And then we had a slight negative coming from the headquarters. But that's the reconfiguration of the EBIT picture.

From a financial position point of view, we can say that we are today in a very strong financial position and are gearing low at 34%. The key highlight for the quarter is EUR150 million bond, which we issued in June, and that will be used for our refinancing and overall corporate purposes. Plus our balance sheet is in a very strong position looking at the needs we have, refinancing needs we have, for this year, next year, and the year after.

A bit more deep dive into the business area, starting from Winter and Outdoor, our net sales increased by 4% in local currencies. Winter Sport Equipment, quarter two, you could see, very low. So like -- so we'll focus there more on the pre-orders.

In Apparel and Footwear, we had very strong continued growth with net sales up by 10% versus a year go driven by especially Footwear. Cycling was mainly at last year's level from a top-line point of view reflecting a [surprisingly] late season as far as -- because it's a long winter and late spring.

Sports Instruments improved by 4% mainly from Outdoor products. EBIT [sales] was about EUR5 million and the reconfiguration showed an improvement in gross margin, sales growth, then some EUR6 million OpEx.

Looking at the pre-orders in Winter Sports, as mentioned, they are up by 15%, and especially Europe doing pretty well. From a category point of view, the strongest growth comes from cross country, ski boots, and helmets. But overall, the [focal] category for us is performing really well.

Traditionally, if we look at the gaining pattern, the sales follow a 10-80-10 principle, with 10% of the sales coming at the beginning of the year, then 80% coming from the pre-orders. We now have a visibility of 90% of our year volume, and there's another expected 10% from re-orders, which then may be and will be impacted by this part of the ski season this year. There's still some (inaudible) there, of course. But overall, looking really good.

Moving on to Apparel and Footwear, as stated already, the second half order books indicate increase and strong growth and especially in the European, Canadian and Asian markets. Ski segments, which are growing with Trail Running, Outdoor Performance



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and Skiwear. We do have already plans in place to meet the higher demand and we have upgraded our capacity planning and capacity should be secured.

Moving on to Ball Sports, the net sales increased by 6% versus a year ago. Racquet Sports were up by 2 points, but especially the performance, tennis category performed really well, behind our [PLX] initiative, which was at the double-digit level.

Team Sports improved by 7%, thanks to baseball, and baseball will continue really performing extremely well. In golf, net sales were up by 16%, driven especially by the US. However, need to say that the Ball Sports is part of a relatively small (inaudible) but still a very positive growth development.

Looking at the EBIT, we improved by EUR10 million coming from EUR7 million from gross margin and EUR3 million from sales growth.

Finally, Fitness. Net sales increased by 5% driven by EMEA and Asia Pacific, which more than offset a slight decline in the Americas market. The growth was overall driven by various categories, mainly the cross-trainers, bikes and strength as well as consumer treadmills. EBIT, as mentioned, was down by EUR1.5 million and that reflected from increased warranty costs of EUR2 million and some of that EUR2 million entries was the -- was then offset by [dues].

Back to the outlook for 2010, we expect our net sales to reach approximately EUR1.7 billion and EBIT margin to improve to the mid-single-digit level. We do expect the sporting market to recover moderately, but with significant disparities between the different business areas as well as the regions.

The two highlights are Winter Sports and Apparel and Footwear, and of course, they keep us confident of the growth numbers for the year.

Finally, our strategy is to drive profitable growth. We do continue to focus on improving our profitability through gross profit and tight cost control and we come to the [improving] and having a good control over our overall working capital.

Looking at the -- finally, looking at the focus for the second half of the year, connected focus areas; first one would be continue our organic growth, now started to grow and the focus now the main thing, the momentum. We want to do that by protecting and further enhancing our gross margin. And from our commercial footprint, we want to continue gaining selected distribution, adjusting the quantity, which means the number of stores as well as the quality, and the quality meaning here, the way we look at point of sales, as well as the range we have in the doors where we are a participatory person.

We also want to drive operational excellence through clearly defined key performance indicators to lay a foundation for a continuous and sustainable development to clearer targets and clearer strategy. And finally, we continue checking some selected capability increases in the organization.

So here is the overview of quarter two and the outlook, and we can now move to the Q&A session. I will go back to Mr. Paalanne, and Mr. Siitonen will join me in answering Q&A.

Paivi Antola - Amer Sports Oyj - Head of IR

Okay, we would now be ready for questions.

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QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator instructions) We will now take our first question today which comes from Maria Wikstrom from Handelsbanken. Please go ahead.

Maria Wikstrom - Handelsbanken - Analyst

Yes, this is Maria Wikstrom calling from Handelsbanken, Helsinki. My first question is on the marketing and selling expense, which amounted to EUR105 million in Q2 this year, up from only EUR92 million last year. Is there anything specific in the marketing spend for the Q2 and what will be the guidance of the level of the marketing spend for the remaining part of the year?

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

It's really two months that have the most -- most of the growth we [raised] driven by the growth in the top-line and our sales and marketing expense. Sales are now included. Now for the second quarter this warranty costs increased around EUR2 million with other things. It can be considered as a one-off. Other than that, it was quite normal.

Maria Wikstrom - Handelsbanken - Analyst

Sir, may I repeat? So you said EUR2 million of the marketing spend was more of a one-off, and otherwise it is in the level that it's going to be where we should expect for the coming quarter as well.

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

So selling and marketing also, we just did not combine any -- any young marketing expense we had. And the increase in this actually is coming mostly from sales. So sales increase is driving also in the marketing expenses. In that number, we also had EUR2 million warranty costs, which one would consider as such.

Maria Wikstrom - Handelsbanken - Analyst

Okay. Then I have another question on the Racket Sports division, that the 2% sales growth in the local currencies was a bit of -- or less than expected given the capacity constraints were sold in the Q2. So do you see that the sales will pickup for the second half of the year from the level -- from the growth seeing the small growth seen in the first half of the year?

Heikki Takala - Amer Sports Oyj - President & CEO

The 2% increase actually hikes or includes the various significant deviations by markets. For example, the Japanese market is down significantly, and the whole market is down more than 10%. And as such, they are impacting it on us as well. We look at the [PLX], the performance records specifically, we reached double-digit growth on that one. But then on the baseline, the growth was much more modest. And of course, when a key significant market such as Japan is performing poorly overall, it's difficult to maintain a growth in this.

Having said that, we don't have a visibility of the market development in the future. But we don't expect the rapid decline nor a rapid growth. So Rackets mostly likely will continue performing at the lines of today or in the same line as today.

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Operator

(Operator instructions) We will now move to our next question, which comes from Jutta Rahikainen from SEB. Please go ahead.

Jutta Rahikainen - *SEB Enskilda - Analyst*

Yes, hello, this is Jutta from Enskilda in Helsinki. I actually have a question on Fitness and the profitability for that major division, because it still appeared weaker than last year. And then as well then weaker and I think worse than it had expected. So do you dare to take a stance on the full year resource already on Fitness, i.e., will it be in profit, profit and loss making. And then in relation to that, do you actually have visibility on the fourth quarter already or are you still waiting and seeing what's happening?

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

On Fitness, the market is still unpredictable. We have now delivered a few quarters with flat or slightly increase in top-line, which gives us confidence that the market decline as such should be over. We are looking for areas of growth. And if we look now at the quarter two result, as commented, we do grow significantly in EMEA and in APAC.

Having said that, our key market is in the North America, and as long as North America continues to struggle or doesn't recover, it is difficult to cause significant performance increases. We expect just about zero profitability from Fitness for the year. And of course, as the market starts to recover, we plan to grow our top-line and profits in line with the market to minimum. And, of course, at the same time, we plan to continue the focus on EMEA and Asia Pacific.

Jutta Rahikainen - *SEB Enskilda - Analyst*

Okay. So can I, just as a follow-up, has that divisions, they performed as you expected or has it been disappointing against your own expectations earlier this year?

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

The division is performing in line with the expectation. Of course, we would like it to contribute more, but we had the expectation that the market is not recovering yet. So the expectations were set initially in line with that.

Jutta Rahikainen - *SEB Enskilda - Analyst*

Okay, thank you.

Operator

(Operator Instructions). We now move to our next question today, which comes from Corinna Beckmann from JPMorgan. Please go ahead.

Corinna Beckmann - *JPMorgan - Analyst*

Hi, yes, good afternoon. I have three questions to you and main house keeping ones and one related to the tax rate. That obviously came in a lot higher, 25%, in the second quarter. Is your guidance still for 20% for the full year and moving forward?



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The second question is on CapEx. It was around EUR12 million, if I looked at it correctly in the first half. Do you still expect it to be around last year's level of EUR30 million?

And the last question is actually on the gross margin, the very strong gross margin. Maybe if you could talk a bit about kind of the drivers behind it, that it's -- whether it's fairly kind of the, mainly the capacity utilization and just bringing it up, and in terms of your expectations that moving forward, that you expect to sustain it at those -- at these kind of levels. Thank you very much.

Jussi Siitonen - Amer Sports Oyj - SVP - Finance

Hello, it's Jussi here. If I may start with your first question and then give it over to Pekka. So tax rate will be (inaudible) in Q1, it's still valid; it's 20% for the whole year. And then also the CapEx, which we have said to be in line with our exchange; that is still valid. Do you know that the CapEx in the first half was quite a low figure, but very much CapEx, which we have in Winter Sport equipments is normal in the second half.

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

Okay, so if I take the gross margin question, which is a general question. And as we're just coming into this year, that's -- one of the key priorities is to improve the gross margin. And so we have such a lot of product growth, but it's really time to backup these days, be slow. And first I got to remind you that so what kind of growth comes and we'll be acting on. First of all, we have now got a better capacity utilization in our own factories, and last year we experienced (inaudible) particularly the winter sports. It also (inaudible) this year. We also, during the second half of last year, we negotiated the global prices of many of our sourced products and we started to see the benefit coming out from those activities.

And then, of course, last year was a very exceptional year. And so we had much more luck. We have had a proposal in more closed down activities last year. In other words, we're still expecting the increase the early part of the year. In particular, with regard to that lower margins.

So this all in all actually is better than behind the crime alert, the current performer. Then when it comes to -- got a more forward looking regarding margins, we actually do not use forward-looking statements regarding our margins. So -- but these are -- of course, they are reflected in our EBIT guidance for the year.

Corinna Beckmann - JPMorgan - Analyst

Thank you.

Operator

We now move to our next question today, which is a follow-up question from Maria Wikstrom from Handelsbanken. Please go ahead.

Maria Wikstrom - Handelsbanken - Analyst

Yes. I have two follow up questions, which first relates to your sourcing in China. That's -- you have -- have you seen any or faced any price inflation on the products that you're sourcing in China?

And the second question comes to Fitness. If the market doesn't start to improve the next year, do you think that there are more cost saving efforts that you can do in the segment or are they pretty much done and you just need to wait before the volume start to pick up?

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Jussi Siitonen - Amer Sports Oyj - SVP - Finance

As to the first question, I think you're asking us inflation in China regarding our sourcing operations. The pressure is there in the market place. There is salaries or wage inflation, as we all know. And now that as the growth market is a bit different for us last year and also raw material, cost pressure upwards, the answer is, yes, there is inflationary pressure.

Having said that, we are focused on protecting the gross margin and our operational managerial capability to -- and responsibility to make sure that we are able to deliver our targets and our result even with the pressures. Of course, we are taking means and we are preparing for professional changes and the increase without letting it have an impact on our current year and future results.

Pekka Paalanne - Amer Sports Oyj - EVP & CFO

And as to the Fitness, of course, it's difficult to stay above the market. We will focus on further growing our business, especially in EMAC and APAC, and we are preparing some growth programs in North America as well. However, if those are not sufficient, we, of course, can keep on looking at the operation and make sure that we can still deliver appropriate results from our Fitness business.

Maria Wikstrom - Handelsbanken - Analyst

Thank you very much.

Operator

(Operator Instructions) It appears we have no further questions at this time.

Paivi Antola - Amer Sports Oyj - Head of IR

If there are no more questions we can finish this call. Thank you all for participating. And have a nice day.

Operator

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

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