

AMER GROUP | Interim Report



2/99

# AMER GROUP INTERIM RESULTS FOR THE PERIOD 1 JANUARY TO 31 AUGUST 1999

**Amer Group's performance continued to improve significantly during the period from January to August 1999. Operating profit amounted to EUR 32.9 million (EUR 12.5 million). Profit before extraordinary items and taxes totalled EUR 22.1 million (losses of EUR 1.3 million) and adjusted earnings per share were EUR 0.79 (losses of EUR 0.06). Net sales were EUR 538.0 million (EUR 504.6 million). The positive trend in Amer's results is expected to continue in the last third of the year.**

## **Performance improved considerably**

Consolidated net sales were up 7% at EUR 538.0 million (504.6) and profitability continued to improve. Profit before extraordinary items and taxes amounted to EUR 22.1 million, compared to losses of EUR 1.3 million in the corresponding period last year.

Wilson's net sales grew by 7%. The strongest growth figures were reported by the Racquet Division with net sales up 13%. Sales of performance tennis racquets increased by 24%. All divisions improved their profitability and Wilson's operating profit increased by 30% compared to the corresponding period last year. Performance improved primarily as a result of increased sales of high gross-margin premium products and improved sourcing.

Despite the soft US golf market and, in contrast to several other manufacturers, Wilson also successfully boosted its golf club sales. Globally, Wilson's premium club sales grew by 24%. In golf balls the company maintained its market position. Team sports equipment sales also increased and Wilson further strengthened its strong market position.

Atomic's net sales increased slightly and its losses continued to decline significantly compared to the corresponding period last year. Atomic brand's net sales were up 28%, fuelled by growth in alpine ski and binding sales. Oxygen brand's net sales declined as expected, due to a reduction in the number of models in Oxygen's range of in-line skates and its greater focus on the high gross margin fitness segment. The reorganisation also helped to reduce the in-line skate business' losses. Because of seasonal fluctuations, it

should be noted that Atomic's deliveries mainly take place in the last third of the year.

Amer Tobacco's net sales were up 6% and profitability improved.

The company's net financing expenses declined to EUR 10.8 million.

The relative proportion of the estimated tax charge for the full financial year has been charged against the results for the period.

## **Capital expenditure**

The Group's gross capital expenditure amounted to EUR 6.8 million during the period.

## **R&D**

A total of EUR 7.0 million was invested in research and development, i.e. 1.3% of period net sales.

## **Finance**

The equity ratio increased from 44% at the end of the corresponding period in 1998 to 48% at the end of August 1999 (49% as at 31 December 1998), while gearing declined from 49% to 26% (38% as at 31 December 1998).

The Group's net debt declined to EUR 93.8 million at the end of August (EUR 131.3 million as at 31 December 1998). Liquid assets amounted to EUR 93.7 million at the period end.

By 30 September 1999 the Group had purchased a total of USD 41.93 million of the convertible subordinated bonds issued in 1993. The bonds represent 1,885,502 Amer Group A shares, i.e. 7.8% of the total number of shares currently in issue. The amount of the bonds outstanding is currently USD 31.82

million, representing 1,430,877 Amer Group A shares.

### **Personnel**

Due to seasonal fluctuations, Amer Group employed 3,731 people at the end of the period under review compared to 3,595 at the year-end and an average of 3,692 during the period. A total of 2,048 were employed in the US, 591 in Austria, 403 in Finland and 689 in the Rest of the World.

### **Share price**

A total of 57% of the Group's A shares in issue were traded during the period under review; 10.2 million were traded on the Helsinki Exchanges and approximately 3.6 million on the London Stock Exchange, in total 13.9 million shares.

The share price low in Helsinki was EUR 8.50, the high EUR 16.85 and the average EUR 12.73 and in London GBP 6.00, GBP 11.06 and GBP 8.64, respectively.

There were 12,586 registered shareholders at the end of August. Nominees accounted for 46% of the shares in issue at the period end.

The Company's market capitalisation stood at EUR 396.3 million on 31 August 1999.

At the end of the period under review the Board of Directors had an authorisation to purchase and to dispose of the Company's shares, granted by the Annual General Meeting on 11 March 1999. The authorisation has not been exercised. The Board had no outstanding authorisations to issue shares.

### **Y2K preparation**

The steps taken to prepare information systems and machinery and equipment for Year 2000 have proceeded according to plan. The final tests will be run by the end of October. In addition, the preparedness of major counterparties has been assessed.

### **Public offer for Suunto's shares**

At the beginning of October Amer Group acquired a 26.3% holding in Suunto Oyj and has decided to make a public offer to buy the entire share capital, offering EUR 10.00 a share. A similar offer will be made to holders of Suunto's bonds with warrants.

The public offer is subject to acceptance by shareholders holding a minimum of 90% of Suunto's issued share capital and shares that can be issued as a result of exercising the company's bonds with warrants. Amer may, however, choose to exercise the offer with less than 90% of the shares.

The offer is 39% higher than Suunto's trade volume weighted average share price during the past three months (EUR 7.19) on the Helsinki Exchanges. The total value of the share capital and the bonds with warrants will be approximately EUR 56 million.

Suunto develops, manufactures and markets products such as wristop computers for outdoor activities, diving computers, compasses and products related to telecommunications technology. The Suunto Corporation's consolidated net sales totalled approximately EUR 65 million last year and operating profit was EUR 2.5 million. The Corporation employs some 600 people.

### **1999 prospects**

Sporting goods sales are still not expected to grow in any of the major markets. Regardless of this soft market situation, the positive trend in Amer's results is expected to continue during the last third of the year. Moreover, the Group is expecting to further strengthen its relative position in the sporting goods market.

All Wilson divisions are forecast to improve their performance compared to last year. The North American golf equipment market is expected to continue to decline, as is the Japanese market. In Europe and in other markets demand is likely to remain unchanged.

The global tennis equipment market is forecast to continue to grow slightly in the last third of the year. Wilson's Hyper Carbon racquets, now available to customers worldwide, are expected to further strengthen the company's leading position in performance racquets.

Demand for team sports equipment is estimated to remain around last year's level. Wilson is expected to increase its net sales and to gain market share, fuelled by new product introductions.

Atomic is expected to move into the black this year. Alpine ski and binding sales are

growing in Europe, in part due to the favourable weather conditions last winter. Atomic's alpine skis are expected to continue to gain market share in all key markets.

In-line skates as well as alpine and mountaineering boots will not yet be profitable this year, but their impact on results will be significantly smaller than before.

Amer Tobacco is expected to maintain its strong market position in the Finnish market and the company's export sales are expected to continue growing rapidly. The company's results are forecast to improve compared to last year.

Amer Group's 1999 results will be published on 9 February 2000.

## **Divisional highlights**

### **Wilson Golf**

Global golf equipment markets continued to decline. The value of the US golf club market is estimated to have declined by approximately 10% and the golf ball market by 2%. The trade and major manufacturers continued to carry high inventories and close-out sales had a negative impact on the entire market. In Europe demand for golf equipment remained at last year's levels, whereas in Japan the market continued to decline.

Despite a shrinking market, Wilson Golf's net sales increased by 4% and its profitability improved. The company boosted its premium golf club sales by 24% compared to the corresponding period last year. Sales were fuelled by the success of Fat Shaft irons in the US, Japan, Europe and Canada. Commercial club sales declined by 12%, however.

Overall, the golf ball market continued to be very competitive due to new competitors entering a declining market. Wilson's premium ball sales also declined slightly, but Staff Titanium balls maintained their market share. New product introductions boosted commercial ball sales by 21%.

Two new premium products, Smart-Core golf balls and Fat Shaft Hyper Carbon irons, were introduced in August. As a result of its unique core composition of soft urethane and hard titanium, the Smart-Core ball reacts differently depending on how hard it is struck. For example, off the tee, it reacts firmer for

longer distances, but with shorter shots on and around the green it reacts softer.

With the Fat Shaft Hyper Carbon irons the most important modifications have been made in the club shaft and head. The shaft is made of Hyper Carbon® which is stronger and lighter than regular carbon fibre. In addition, the club head's centre of gravity has been shifted and tip diameter increased, making the golf club even more accurate. Shipments of both new products will start in the US in October and they will be in global distribution next spring, available in pro and speciality shops only.

Luke Reese, previously General Director of Amer Sports Europe in Munich, was appointed Vice President & General Manager of Wilson Golf in July.

The most successful Wilson Staff Advisors were Vijay Singh, John Huston, Glen Day and Paul Lawrie, who in June won the British Open with Wilson's Fat Shaft irons.

### **Wilson Racquet**

During the period the global tennis equipment market grew slightly compared to last year.

Wilson Racquet's net sales increased by 13% and profitability continued to improve as a result of higher sales of Hyper Carbon racquets and tennis shoes. Gaining market share in all key markets, Wilson continued to strengthen its position as the leading tennis brand worldwide. In the US Wilson had six out of the ten best-selling tennis racquets, five of which were Hyper Carbon racquets.

The Hyper Hammer 5.3 Stretch and the Hyper Pro Staff 5.0 Stretch, launched in the US in early 1999, are now available worldwide.

Wilson's tennis ball sales grew by 5% compared to the corresponding period last year.

A new tennis shoe, DST, was launched on the market and was well received by consumers. Wilson's footwear sales were up 10% compared to last year.

Wilson Staff Athletes who have switched to Hyper Carbon racquets include Alex Corretja, Todd Martin, Lindsay Davenport, Sandrine Testud and Conchita Martinez. Pete Sampras and Lindsay Davenport won the men's and women's titles, respectively, at

Wimbledon in July. In August Wilson signed contracts with American professional tennis players Venus and Serena Williams. Serena Williams won the US Open championship in August, with Todd Martin the men's runner up.

### **Wilson Team Sports**

Of team sports products, baseball equipment and American football sales were flat compared to last year, whereas basketball and uniform sales declined.

The Team Sports Division's net sales were up 5%. Profitability improved from the corresponding period fuelled by sales growth and improved outsourcing.

Wilson further strengthened its position in all team sports product categories in the US. Baseball sales increased by 21% and football sales by 11%. Basketball sales were down 12% as a result of reduced sales of low price point basketballs, but sales of high gross margin basketballs continued to grow. Ultra Flex, a new material introduced during the period under review, boosted apparel sales by 19%.

New product introductions included new baseballs and softballs featuring Super Seam technology.

### **Atomic Companies**

Atomic brand's net sales grew by 28%. Net sales growth resulted from higher sales of alpine skis and bindings; ski sales were up 32% and binding sales doubled against the corresponding period last year.

Cross-country ski sales declined by 19% compared to the same period last year, but profitability is likely to remain around last year's level during the whole year, as prices were higher towards the end of the 1998-99 season than the year before. Profitability will also improve as a result of the introduction of Beta Technology in cross-country skis, which will be on sale to consumers by the end of the year. The reorganisation of distribution in the important Nordic market is expected to help Atomic to boost its market share in cross-country ski equipment.

Of the Atomic Racing Team's most successful athletes, Hermann Maier, Lasse Kjus and Mika Myllylä among others, will continue to use Atomic equipment in the coming season.

Snowboard sales were around last year's level worldwide. Oxygen snowboards' net sales and profitability are estimated to be flat compared to last year.

Oxygen's in-line skate sales declined, as expected. Following an operational restructuring, Oxygen will now focus on the fitness segment, seeking profitability from high gross margin products.

### **Amer Tobacco**

Total cigarette deliveries to the trade declined slightly in Finland. Contraband trade is estimated to account for approximately 20% of total consumption.

Amer Tobacco's net sales increased by 6% and profitability improved. Net sales grew as a result of a 2% cigarette price increase in Finland in early April.

Amer Tobacco maintained its strong position in the Finnish cigarette market. At 76%, its market share was at an all-time high. Market share in the roll-your-own category remained unchanged, while market share in cigars declined somewhat.

A new cigarette, Marlboro Ultra Lights, was launched in August.

Helsinki, 5 October 1999

AMER GROUP PLC  
Board of Directors

All forecasts and estimates mentioned in this report are based on management's current judgment of the economic environment and the actual results may be significantly different.

Unaudited.	Jan-Aug 99	Jan-Aug 98	%	May-Aug 99	May-Aug 98	%	Jan-Dec 98
	EUR million	EUR million		EUR million	EUR million		EUR million
<b>CONSOLIDATED RESULTS</b>							
NET SALES	538.0	504.6	7	271.0	246.9	10	745.5
Depreciation	19.3	20.6		9.1	10.1		29.5
OPERATING PROFIT	32.9	12.5		20.1	8.9		22.3
Net financing expenses	-10.8	-13.8		-5.2	-8.1		-16.9
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	22.1	-1.3		14.9	0.8		5.4
Extraordinary items	0.0	-2.7		0.0	-2.7		-2.7
PROFIT/LOSS BEFORE TAXES	22.1	-4.0		14.9	-1.9		2.7
Taxes	-3.2	-0.3		-1.7	-0.3		-2.8
Minority interest	0.2	0.2		0.2	0.2		0.2
PROFIT/LOSS	19.1	-4.1		13.4	-2.0		0.1
Adjusted earnings per share, e	0.79	-0.06		0.55	0.03		0.11
Adjusted earnings per share, diluted, e	0.79	-0.01		0.54	0.05		0.18
Adjusted average number of shares in issue (million)	24.3	24.3		24.3	24.3		24.3
Adjusted average number of shares in issue, diluted (million)	25.8	25.8		25.8	25.8		25.8
Adjusted equity per share, e	14.24	14.00		14.24	14.00		13.90
Average rates used: USD 1.00 = EUR	1.08	1.09		1.08	1.09		1.11
AVERAGE PERSONNEL	3,692	4,101					3,990
<b>NET SALES BY DIVISION</b>							
Golf	170.1	164.0	4	83.5	80.3	4	210.3
Racquet	156.9	138.8	13	80.1	66.2	21	196.3
Team Sports	96.0	91.6	5	44.9	42.2	6	129.2
Wilson	423.0	394.4	7	208.5	188.7	10	535.8
Atomic	42.1	32.8	28	24.2	18.9	28	90.4
Oxygen	11.1	19.0	-42	4.8	7.4	-35	31.0
Atomic	53.2	51.8	3	29.0	26.3	10	121.4
Amer Tobacco	61.8	58.4	6	33.5	31.9	5	88.3
Net sales, total	538.0	504.6	7	271.0	246.9	10	745.5
Gross sales, total	905.4	859.5	5	469.4	437.1	7	1,290.4
<b>BREAKDOWN OF OPERATING PROFIT</b>							
Wilson	37.8	29.1	30	19.3	15.0	29	31.4
Atomic	-5.4	-17.4	69	-0.5	-7.3	93	-11.8
Amer Tobacco	6.1	5.4	13	4.0	3.4	18	8.0
Headquarters	-5.6	-4.6		-2.7	-2.2		-5.3
Total	32.9	12.5		20.1	8.9		22.3
<b>GEOGRAPHIC BREAKDOWN OF NET SALES</b>							
North America	298.4	284.8	5	144.3	137.0	5	386.3
Finland	58.1	55.8	4	31.7	30.2	5	85.2
Rest of Europe	110.0	101.7	8	52.6	46.3	14	178.0
Japan	38.3	33.2	15	23.9	18.3	31	47.2
Asia Pacific	16.2	11.0	47	8.7	5.7	53	18.1
Other	17.0	18.1	-6	9.8	9.4	4	30.7
Group, total	538.0	504.6	7	271.0	246.9	10	745.5

Unaudited.	Jan-Aug 99	Jan-Aug 98	Jan-Dec 98		
<b>CONSOLIDATED CASH FLOW STATEMENT</b>	EUR million	EUR million	EUR million		
Net cash from operating activities	74.3	20.8	50.1		
Net cash from investing activities	-2.0	-7.8	-1.8		
Net cash from financing activities	-30.7	-6.3	-52.5		
Net increase in cash and cash equivalents	41.6	6.7	-4.2		
Cash and cash equivalents at 1 Jan	52.1	55.3	54.7		
Cash and cash equivalents at 31 Aug/31 Dec	93.7	62.0	50.5		
<b>CONSOLIDATED BALANCE SHEET 31 AUG/31 DEC</b>					
Assets					
Group goodwill	145.9	153.4	143.6		
Fixed assets and other long-term investments	189.6	220.1	202.0		
Inventories and work in progress	119.3	164.5	132.5		
Receivables	201.3	195.1	186.3		
Liquid assets	93.7	62.0	50.4		
Assets	749.8	795.1	714.8		
Shareholders' equity and liabilities					
Shareholders' equity	346.5	340.7	338.1		
Minority interest	9.8	10.1	10.0		
Provision for contingent losses	2.6	4.0	3.4		
Long-term interest-bearing liabilities	136.4	160.3	121.8		
Other long-term liabilities	4.7	11.1	3.9		
Short-term interest-bearing liabilities	51.1	74.0	60.0		
Other short-term liabilities	198.7	194.9	177.6		
Shareholders' equity and liabilities	749.8	795.1	714.8		
Equity ratio	48%	44%	49%		
USD 1.00 = EUR	1.06	1.11	1.17		
<b>CONTINGENT LIABILITIES AND SECURED ASSETS, CONSOLIDATED 31 AUG/31 DEC</b>					
Charges on assets	18.6	18.4	18.2		
Mortgages pledged	21.1	31.0	23.3		
Guarantees	2.7	3.1	2.9		
Liabilities for leasing and rental agreements	40.9	39.3	35.1		
Other liabilities	21.2	38.7	26.1		
There are no guarantees or contingencies given for the management of the company, the shareholders or the associated companies.					
<b>NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS 31 AUG/31 DEC</b>					
Foreign exchange forward contracts	279.0	548.5	454.8		
Forward rate agreements	141.9	542.6	471.4		
<b>SHAREHOLDERS' EQUITY</b>	Share capital	Premium fund	Revaluation fund	Retained earnings	Total
Balance at 31 Dec 1997	82.7	183.7	3.4	74.9	344.7
Dividend				-	-
Exchange differences				0.1	0.1
Other increase/decrease				-	-
Net profit				-4.1	-4.1
Balance at 31 Aug 1998	82.7	183.7	3.4	70.9	340.7
Balance at 31 Dec 1998	82.7	183.7	3.0	68.7	338.1
Dividend				-4.1	-4.1
Exchange differences				1.1	1.1
Other increase/decrease				-7.7	-7.7
Net profit				19.1	19.1
Balance at 31 Aug 1999	82.7	183.7	3.0	77.1	346.5