

# RAPALA VMC



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**TRADING REPORT Q1/2017**  
APRIL 28, 2017

## **RAPALA VMC CORPORATION'S TRADING REPORT JANUARY TO MARCH 2017: SALES AT LAST YEAR'S LEVEL, OUTLOOK REVISED FOLLOWING CHANGES IN THE US RETAIL ENVIRONMENT**

### **January-March (Q1) in brief:**

- First quarter net sales were 69.5 MEUR, at last year's level (69.7). With comparable exchange rates sales down 4%.
- Following the recent changes in the US retail environment, the Group's 2017 full year outlook has been updated: Full year net sales are now expected to be above last year's level and comparable operating profit below last year level. Outlook will be specified as the season progresses.
- The leverage ratio (net debt to EBITDA) continues to be high and the Group has agreed with its lenders on higher covenant levels covering also first quarter of 2017.
- Various initiatives relating to execution of the Group's updated strategy are proceeding and progress will be communicated in more detail later during the year.

President and CEO Jussi Ristimäki: "With support of favorable exchange rates, the first quarter sales were at last year's level and quite well in line with expectations in many respects. The positive highlights of the period included good sales of ice fishing and winter sport products as well as Marttiini knives and Dynamite Baits' products. Sales developed well in Canada, Norway and Portugal, among others.

Simultaneously, the beginning of the year was shadowed by the rapid changes in the retail environment in the US. The US retail scene is disrupted by digitalization and these changes were now showing fast-increasing effects also on the fishing tackle business. Some major retailers' and distributors' financial challenges are causing significant turbulence in the market and affected the sales negatively. The year also started slower than expected in Europe's big markets. In France sales were burdened by tough competition and continuing depressed market sentiment. In Russia, the strengthening of the ruble did not give the anticipated boost to the consumer demand.

Especially the US market development is causing increasing uncertainties concerning the outlook for this year and the future visibility is quite limited at the moment. These market challenges further encourage the Group to proceed swiftly with the various strategic initiatives to boost the organic growth and to improve the cost and capital efficiency as well as the operational performance.

Also in the future, the capability to create products that appeal to both fish and fishermen and to introduce these products to the global market will be the Group's key competitive advantages. An illustration of this strength are International Game Fish Association's latest records showing that again more world-record fish were caught last year on Rapala lures than on any other brand of baits in the world. And the most recent example of the Group's innovations is the new Storm 360GT soft plastic lure, the sales of which are now exceeding the expectations in the US."

Helsinki, April 28, 2017

Board of Directors of Rapala VMC Corporation

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## Market environment

The fishing tackle retail business is under turmoil and structural changes, especially in the Group's biggest market, the US, as consumers are increasingly shifting into digital channels. Several big players, including some of the Group's biggest customers, are in financial distress, several bankruptcies have been filed and this development has accelerated in past months. The changes have a negative effect both on sales and the price competition in the marketplace. Similar uncertainties in the trade have also to some extent been witnessed in Europe. However, the underlying consumer demand seems to remain at earlier levels in most big markets.

## Business Review January-March 2017

The Group's net sales for the first quarter were at last year's level. Changes in translation exchange rates increased sales by approximately 2.3 MEUR as the US dollar and the Russian ruble strengthened. With comparable translation exchange rates, quarterly net sales were down 4% from last year.

### North America

With comparable exchange rates, sales in North America were below last year's level due to slower sales in the US. North American ice fishing sales were above last year's level. The sales in Canada recovered and were above last year's level, as the economic and market situation in Canada was gradually improving. The retail landscape in the US is going through a structural change as traditional retail business is giving way to e-commerce and this development has accelerated recently. This has resulted in many big retailers and distributors facing financial challenges or even closing business, among them some of the main customers in the US. Despite these changes, there is no sign that the Group has lost market share as the whole fishing tackle business is hit by the same challenges. Strengthening of the US dollar had a positive impact on the regions sales.

### Nordic

In the Nordic countries, the sales grew from last year, driven by good sales in Norway and the Group's Marttiini knife unit. The sales in Finland were slightly behind last year's strong level. The sales in Denmark fell behind last year's level, due to lower hunting sales and tightening price competition. The sales in Sweden were slightly above last year's level, even though impacted negatively by late deliveries of third party products.

### Rest of Europe

The first quarter sales were below last year's level, hurt by the continuing challenges in the region's biggest markets, Russia and France. While the Russian ruble has strengthened, having a positive impact on the regions EUR-nominated sales, it has not materialized into higher consumer demand and the market was still volatile. In France the sales were below last year's level, impacted by tightening competition and general consumer uncertainties. In Poland, the sales fell below last year's level as expected following changes in product portfolio. In the UK, supported by change in the business model, and in Portugal the business showed positive growth trends.

## Rest of the World

With comparable exchange rates, the sales for the region were below last year's level, mainly affected by a decrease in sales in Thailand, where the market is suffering. Sales to non-Group distribution channels were also down. Low consumer demand and economic uncertainties affected the sales in Asia, especially in Japan and Korea. The sales in South Africa were above last year's level, supported by new hunting and outdoor business and sales to Middle East–North Africa.

### External Net Sales by Area

	Q1	Q1	change	comparable	FY
MEUR	2017	2016	%	change %	2016
North America	23.6	23.5	+0%	-3%	91.3
Nordic	15.8	14.9	+6%	+6%	55.3
Rest of Europe	22.5	24.1	-7%	-10%	81.3
Rest of the World	7.5	7.2	+4%	-4%	32.7
<b>Total</b>	<b>69.5</b>	<b>69.7</b>	<b>0%</b>	<b>-4%</b>	<b>260.6</b>

## Segment Review

### Group Products

Group fishing products sales were down, partly offset by increase in other group product sales.

Lure sales were below last year's level in North America, but increased in some other areas, including Portugal and Latin America. The sales of fishing tools and accessories were also below last year's level. Winter fishing product sales benefited from good winter conditions and were higher than last year, especially in the US. Carp fishing product sales increased from last year.

Sales of other group products were up. The sales of hunting products were supported by increased Marttiini knife sales, especially good sales of the Finland 100 Years jubilee knife. More favorable winter weathers boosted the sales of winter sport products.

### Third Party Products

Third party fishing product sales were behind last year, reduced by the loss of a product category in Poland as well as the challenging market situation affecting the sales especially in France and Russia. Good winter fishing conditions helped grow the winter fishing electronics sales in the US.

Third party hunting product sales increased slightly from last year's level. Third party winter sport sales were also above last year.

### Net Sales by Segment

MEUR	Q1 2017	Q1 2016	change %	comparable change %	FY 2016
Group Products	47.6	47.2	+1%	-2%	172.1
Third Party Products	22.0	22.5	-2%	-6%	88.5
<b>Total</b>	<b>69.5</b>	<b>69.7</b>	<b>0%</b>	<b>-4%</b>	<b>260.6</b>

### Short-term Outlook

Despite the Group's first quarter sales having been at last year's level, the full year outlook has become more reserved due to the recent developments in the US. Full impact of this development is difficult to predict, but it is likely to have negative impact on Group's sales and profitability both at distribution and manufacturing level in 2017.

The Group has launched various strategic initiatives to boost the organic growth and improve the cost and capital efficiency as well as operational performance in the future. These initiatives will trigger some additional expenses and investments in 2017.

Driven by the rapidly increasing uncertainty in the US retail environment, the Group's 2017 full year outlook has been updated. Full year net sales are now expected to be above last year's level and comparable operating profit below last year's level, while previously net sales were expected to be above last year's level and comparable operating profit in the same range as in 2016. Development in the main markets will be closely monitored as the season progresses and the outlook will be specified after the second quarter.

### Annual General Meeting

The Annual General Meeting (AGM) kept on March 30, 2017 approved the Board of Director's proposal that a dividend of EUR 0.10 per share is paid. The dividend will be paid in two installments, EUR 0.05 each. First dividend installment of 1.8 MEUR was paid on April 10, 2017. The Board of Directors will in its meeting scheduled for October 26, 2017 decide on the dividend record date and the payment date. The dividend record date for the second installment would then be October 30, 2017 and the dividend payment date November 6, 2017. A separate stock exchange release on the decisions of the AGM has been given, and up to date information on the Board's authorizations and other decision of the AGM are available also on the corporate website.