

**HEAD NV**

**TRANSCRIPT OF  
Q4 2005 FINANCIAL RESULTS  
CONFERENCE CALL**

**THURSDAY FEBRUARY 23 2006**

**CHAIRMAN: VICKIE BOOTH**

**INTERCALL UK**

**Operator**

Thank you for standing by and welcome to the Head NV Q4 2005 Financial Results conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time if you would like to ask a question, you will need to press \* 1 on your telephone. I must advise you that this conference is being recorded today, Thursday the 23 February, 2006. I would now like to hand the conference over to your first speaker today, Vickie Booth. Please go ahead.

**Vickie Booth**

Good afternoon everybody. And thank you for joining us for Head's fourth quarter and full year conference call. By now everyone should have received a copy of the press release that was sent out this morning and have access to the PowerPoint presentation that is posted to our web site. Joining me today is Johan Eliasch, Chairman and Chief Executive Officer, and Ralf Bernhart, Chief Financial Officer.

Before we get started I would like to inform you that statements made in this conference call may be forward looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. In connection with such oral forward looking statements, you should be aware that our actual results might vary materially from those projected in the forward looking statements. In addition, additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in our press release, dated February 23 2006, as well as our prior filings on form 6K and our registration statements on form F1 and 20F, all of which are readily available.

If you would now like to turn to the PowerPoint presentation on our web site, [www.head.com](http://www.head.com), Johan and Ralf will present the quarter and full year results, discuss the performance of each of our divisions, comment on our capital and resources and give you their thoughts on the outlook for 2006. We will then take your questions. I will now hand over to Johan.

**Johan Eliasch**

Thank you Vickie and welcome to everybody. If you would like to turn to the third slide in the presentation entitled Summary then we will begin. I am pleased to announce that Head produced a solid operating result in the fourth quarter of '05 although revenues were down 10.7% compared with the fourth quarter in '04. Operating profit before restructuring costs increased by \$0.7 million from \$11.8 million in '04 to \$12.5 million in '05. For the full year '05 net revenues are down slightly by 4.3% compared to full year 2004. This decrease was due to lower sales in all divisions except licensing and was further off set by lower sales deductions. However the full year operating result

before restructuring costs and again on sale has increased by \$6.7 million from \$11.7 million in '04 to \$18.4 million for 2005.

I am also pleased by the development of our gross margin with a 190 basis point increase for the fourth quarter and a 200 basis point increase for the full year. This clearly reflects the restructuring programme we have implemented over the last couple of years and our gross margins for the full year 2005 now stands at 39%.

The full year results for 2005 show a net income of \$8 million which is a significant improvement on the \$36.9 million loss for '04. This improvement is due partly to better operating profit but also because the loss for 2004 included one time impacts on interest expense due to our new 8.5% Senior Notes offering in January '04 plus the associated redemption of our old 10.75% senior notes. In addition in 2004 we had a big income tax charge due to the change in corporate tax rates in Austria.

For those of you joining us new this year all of these issues were discussed in more detail during last year's conference calls. Finally I would like to highlight that our cash flow continues to be strong with \$40 million of cash provided by operating activities during the full year '05 compared to \$7.8 million for '04. So a significant cash improvement. Next slide please.

As you can see from this chart in slide 4 the majority 46% of our '05 net revenue come from winter sports. Racquet sports represent 37% of total group net revenues followed by diving at 14% and licensing at 3%. These proportions are relatively consistent with the percentages from '04. If you would like to move to the next slide you will find the breakdown of our group net revenues for the fourth period by geography.

The split shows that Europe represents 59% of group net revenues, North America 27% and rest of the world 14%. Compared to '04 this demonstrates proportionately increased revenues in North America and the rest of the world as we attempt to penetrate markets outside our traditional European base. Next slide please.

As in previous years we have continued to focus on innovations and the development of the next generation of technologically advanced products. In winter sport we have introduced a new super shape ski appropriately named because of the pronounced side-cut in the design. Incorporation of intelligence technology ensures it rapidly adapts to any situation and liquid metal provides additional power and vitality to the ski.

We have also focused on our range for women 'The Cool Thang'. Which provides outstanding edge grip and easy turn initiation for the mid speed range. The S10 boot is designed for free ride skiers,

top speeds and tight turns demand excellent material composition and the security of double power buckles.

In racquet sports our most significant new product launch in '05 was Flexpoint. Incorporating liquid metal the Flexpoint technology two precisely engineered control holes giving the racquet the revolutionary new flexpoint which allows significantly more control over the ball while retaining all the power. It was with the Flexpoint Radical that Andre Agassi successfully reached the final of the US Open during the summer.

In '05 the diving division launched a range specifically tailored to women divers with a focus on performance, fashion and comfort. The diving divisions latest product launch is the Quattro Excel fin which has been received very well. Following numerous tests on new materials together with lengthy computer simulations the channel thrust design makes it possible to channel the water and optimise thrust in comparison with other fins of similar size. Next slide please.

Together with the third quarter, the fourth quarter represents the main selling season in winter sports nearly 90% of our sales happens in the second half of the year. Gross revenues declined by 11.4% for the fourth quarter 2005 compared with the same period in '04. This is mainly a timing difference due to earlier pre-season shipping in '05 compared to '04. For the full year '05 compared to '04 revenues decreased by 3.1%. This decrease is representative of the decline in the overall winter sports market. More specifically for us the revenue decrease is due to lower sale volumes for skis and bindings which is partly off set by higher sales volume for boots and introduction of protection wear.

The product mix of sales in winter sports changed slightly for '05 compared to '04. Ski sales have been weaker and boot sales much stronger. Skis represent 36% of gross revenues in '05 compared to 47% in '04. Bindings 31% compared to 35% in '04. Boots are significantly up relatively speaking from 16% in '04 to 24%.

Gross margin fell 210 basis points in Q4 2005 compared to Q4 '04 (41.1% to 39%) however this is mainly due to later shipment of skis. For the full year the gross margin showed a negligible decrease of 30 basis points from 38.5% to 38.2%. Next slide please.

Looking at the split of winter sports revenues by geography. Europe continues to dominate our winter sports sales at 76%, North America is 13%, the rest of the world represent 11%. This is broadly consistent with '04. In terms of actual quantities sold during '05 including contract manufacturing skis decreased from 596,000 units in '04 to 572,000 units in '05. Bindings were down from 1.64 million units in '04 to 1.52 million units in '05. Ski boots increased 567,000 units in '04 to 612,000 units in

'05. Snowboard equipment also increased from 268,000 units to 294,000 units. In '05 we started to sell snowboard protection equipment which contributed 33,000 units.

Following a slow 04/05 season retailers were cautious for pre-season bookings for 05/06 but it is these orders that have the greatest impact on the fiscal year '05. However following good snow in most areas towards the end of '05 re-orders have been stronger which bodes very well for '06 despite this general consensus is that winter sports is a declining market this is unlikely to change significantly at least in '06.

Next slide. **Racquet sports** - performance in our racquet sports division was strong during Q4 '05. Gross revenues for the quarter show growth of 4.8% and a margin improvement of 400 basis points. Full year '05 sales declined very slightly by 0.8% despite loss of OEM Tennis Ball business yet the gross margin increased from 39.2% to 41.1%. This is partly due to cost reduction initiatives creating better margins in racquet business as well the launch of Flexpoint during the second quarter of '05. Offset against this has been substantial increases in raw material prices for the division. During '05 racquets accounted for 65% of gross revenues and balls 35% of the divisions gross revenues.

Next slide please. Our racquet sport sales were spread more evenly by geography than for our other divisions with '05 gross revenues split 46% North America, 41% Europe and 13% rest of the world, this is broadly the same as '04. In terms of quantities sold in '05 racquet sales were up 9% from 1.79 million units in '04 to 1.88 million units in '05. Balls were down marginally from 6.4 million units to 6.3 million units. Based on available market data for '05 the racquet market showed moderate growth while the tennis ball market declined slightly. The racquet market may have been influenced by a large number of new product launches during '05.

Given these market conditions we expect that overall the market will be flat for '06 with continued pressure from raw material prices but we are optimistic with our excellent product lines. Next slide.

Diving. The diving division gross revenue for Q4 2005 compared to Q4 2004 were down 38.8% from 16.8 million to 10.3 million. Gross revenues for the full year 2005 were down 18.6% to \$61.4 million. These decreases are a result of three factors. Declines in the global market for diving, termination of distribution agreements in Switzerland, the UK and Japan, and the focus within the diving division on rationalisation of our key products. Overall this has adversely affected gross revenues. However margins have not suffered a negative impact. Our gross margin was 31.6% in '04 but in '05 it is 290 basis points higher at 34.5%.

Looking at divisions gross revenues by brands. Mares remain our largest brand representing 89% of revenues for '05 or by Dacor at 5% and Sporasuit at 6%. Next slide please.

Geographically Europe is our largest market for diving sales representing 64% of our '05 gross revenue with North America and the rest of the world at 18%. As mentioned on the previous slide the consensus amongst divers, sorry amongst diving manufacturers is that the global market for diving equipment is declining due to less world wide travel. This is due to a series of natural disasters including the Asian tsunami and the hurricanes in the US and Mexico and have affected a number of the significant diving resorts. In addition various activities and political unrest in some of the Middle East and Red Sea resorts has also had an adverse impact. Overall we expect the European market to continue to decline, US remain flat and in the markets in the Far East will be growing. In '06 our focus will be to maintain our market share while rebuilding our product range and strengthening our margins.

Next slide please. Licensing. Net revenues from the licensing division decreased by 16.7% for the fourth quarter compared to '04 but for the full year the licensing divisions net revenues grew by 10.5% to 12.2 million. Increased revenues relates to greater revenue streams from existing customers as well as new licensing agreements during '05. Gross margin for the full year was 98.4% compared with 79.0% in '04. The lower margins in '04 related to a reserve made for cost of fighting a trade mark infringement case and other lawsuits.

Now this covers all our divisions so I will hand over to Ralf Bernhart who will comment on the consolidated group results. Over to you Ralf.

### **Ralf Bernhart**

Thank you Johan. If you would like to turn now to slide 14 I will start with the review of our profit and loss account for the three month. Net revenue for the fourth quarter of '05 decreased by 10.7% to \$154.4 million. Operating profit excluding restructuring cost of \$1.2 million in '05 and \$0.7 million in '04 increased by \$0.7 million from \$11.8 million to \$12.5 million.

Net revenues for the full year '05 are down 4.3% to \$446.9 million however our operating profit excluding restructuring costs of \$6.2 million and on gain on sale of profit you have \$7.2 million in '05 and a restructuring cost of \$2.3 million and gain on sale of profit you have \$5.7 million in '04. Operating profit improved by \$6.7 million to a profit of \$18.1 million.

Both the fourth quarter and full year gross margins improved notably compared with '04. The fourth quarter margin increase 190 basis points and the full year by 200 basis points. The full year improvement is the function of improved operating performance as well as a better product mix. Selling and marketing expenses reported in US dollars decreased by 1.7% for the full year '05 from

\$118.5 million to \$116.5 million. This decrease was primarily due to lower variable distribution costs a result of declining sales off set by increase advertising and selling costs.

General administrative costs reported in US dollars excluding non cash compensation and a gain on the sale of property decreased by \$3.3 million or 7.8% for the full year '05 to \$38.6 million. This was mainly due to the positive impact of our restructuring program and tight control over our fixed costs.

Our net result for the full year '05 shows a significant improvement compared to '04 with a \$8 million profit in '05 compared to a \$36.9 million loss in '04. With this in part due to a much improved operating result and as Johan has already mentioned the loss for '04 included one time impacts and interest expense of our new 8.5% Senior Note offering in January '04 and the associated redemption of our old 10.75% Senior Notes plus the impact on our income tax charge of the change in corporate tax rate in Austria. Before moving on to the balance sheet I would just like to point out that in line with the provisions of Sarbannes Oxley a reconciliation of our EBITDA numbers is provided at the end of the presentation.

Next slide please. Our balance sheet continues to be impacted by exchange rate movement. The European assets and working capital decreasing in dollar terms following the weakening of the Euro through 2005. Our net debt had decreased from \$176.7 million at 31 December '04 to \$132.1 million at 31 December '05.

The next slide shows the breakdown of our net debt position in more detail. As with EBITA I would like to make you aware that a reconciliation of our working capital is provided at the end of the presentation.

Next slide. As you can see, the net debt at 31 December '05 compared to '04 was predominantly due to the decrease in the balance of our 8.5% Senior Notes. The result of repurchase of Notes and the weakening of the euro. Cash generated for this full year '05 was a positive \$40 million compared with \$7.8 million for the full year '04. This improvement is mainly due to the change in our net result, from a loss of \$36.9 million in '04 to a net income of \$8 million in 2005. I would also like to inform you that effective January 1, '06 we will change our basis of accounting to International Financial Reporting Standards and also we will change our reporting currency from US\$ to the euro.

I would now like to hand back to Johan to finish our presentation with his thoughts on the outlook for Head for 2006. Johan.

**Johan Eliasch**

Thank you Ralf. Now getting to slide 17 and the outlook for 2006. In terms of the performance profile we feel the solid result for the fourth quarter together with positive developments throughout '05 has

lead to a strong operating result for the full year together with a much improved net income figure. Despite full year revenues being slightly lower than in '04 the gross margin has developed positively, a direct result of restructuring and cost management programs. Whilst market conditions have not improved significantly our performance continues to improve. We are encouraged from the strong result for '05 and anticipate that our continuing restructuring program will produce further efficiencies and savings in '06.

And particularly I am very happy and very optimistic about the reception of our great products by both consumers and the trade. And with those words that ends the presentation and I would now like to open up the call to questions.

**Operator**

Thank you. We will now begin the question and answer session. If you wish to ask a question please press \* 1 on your telephone and wait for your name to be announced. To cancel your request please press the hash key. Your first question comes from Alexi Sirocco please ask your question.

**Alexi Sirocco – BNP Paribas**

Yes, good afternoon gentlemen. A few housekeeping questions if I may. First of all could you please quantify the cost, the raw material cost inflation that you have mentioned, can you come up with any number. On the other hand can you please remind us what is the incremental effect from the cost savings that will be reflected in this 2006 operating profit. Based on that and maybe as a separate question do you have a slightly more specific guidance with regards to operating profit that you have given in the press release and then I will have a couple, one or two more general questions if I may.

**Johan Eliasch**

Okay let me answer the last questions. The very last question you had in terms of more specifics on the guidance, this is too early in the year to be more specific than we are. The year has not started and therefore that is not really something that we should get involved in because it becomes crystal ball basically. With regards to the raw material price increases we know that there is pressure on raw materials and that is not something only our company faces but this is a global phenomena partly driven by power energy crisis. And therefore it is at this stage quite difficult to quantify what the effect will be for the full year, all we know is that there is raw material price pressure.

**Alexi Sirocco – BNP Paribas**

And cost savings can you remind us what is left?

**Johan Eliasch**

Sorry?

**Alexi Sirocco – BNP Paribas**

The cost savings?

**Johan Eliasch**

Ralf do you want to answer that?

**Ralf Bernhart**



This we have already done everything already in '05 the only thing has been the remaining effect from the transfer of the tennis production to China and we have already from the total savings of the expected \$3m, get about €1.5m already in '05 so €1.5m is left for '06.

**Alexi Sirocco – BNP Paribas**

Right okay great. Now moving away from the financials you said that it is still early in the year which is fair enough but can you like describe what you expect this year to be, is it going to be a decent year or your not sure, there are head winds in terms of demand, the demand side. And also are you gaining market share of loosing market share versus your competitors let's say tennis racquets, skis etc. If you could give us a general flavour as to where you relative to the competitors and what you expect this year to be? That is it for me thank you.

**Johan Eliasch**

Okay if we take racquet sports we, what we said here is that there is stiffer competition than previous years with new aggressive entrants into the market but we are, we believe we are on a powerful scale for improving our market shares. In winter sports ski boots we are up significantly in market share. Bindings here I would say that you have analysis the market what has happened there and that is that ski bindings today are very much sold together with skis, we still increase our position in the free bindings market i.e. ski manufacturers that don't have similarly branded bindings. And with skis I would say that we are perhaps up slightly and in diving with some segments we are up and in other segments we are down but that's a reflection with what we are doing in terms of restructuring our product lines to gain more profitability. And again I reiterate here for the full year I don't feel we have anything add beyond what I have already said here.

**Operator**

Your next question comes from Nicola Davis of Bluebay Asset Management, please go ahead.

**Caroline Brown – Bluebay Asset Management**

It is Caroline Brown from Bluebay I just wondered if you could just say if there's been any sort of noticeable change in your operating environment due to this consolidation that is taking place among some of your competitors? And that is the first question and the second question is could you just repeat when you anticipate changing your reporting currency and why you've decided to do that now.

**Johan Eliasch**

Well the first question I will answer and I have not seen any real change in the operating environment due to the consolidation that has been taking place. And it is too early to say whether there will be an impact on the industry. It is still an industry which is very much product driven and he who has the best products usually prevails irrespective of size over a longer period of time. Now having said that if you're a small competitor synergies, economics, economies of scale does have an impact but I think we are big enough to and very conscientious about manufacturing at the lowest possible, lowest cost possible that I don't think that's going to be personally trap to us. So therefore we continue to focus on innovating better products that what our competition has and as our track

record over the last several years will show we've done a pretty good job of that. With your second question I hand over to Ralf.

**Ralf Bernhart**

We will start for the first quarter '06 to report first time IFRS and in euros. So we will give the reconciliation to the US GAAP together with our reporting.

**Caroline Brown – Bluebay Asset Management**

But you'll also report in euros from now on?

**Ralf Bernhart**

We will also report in euros because that's already started maybe a year ago. It is only the reporting front but we wanted to do it together with the IFRS.

**Caroline Brown – Bluebay Asset Management**

Okay. And can you just repeat what you said about costs being still to come from the transfer of racquets to China. Did you say the total cost savings will be €3.5m and that there's €1.5m left to go or?

**Ralf Bernhart**

That's what I said yes.

**Caroline Brown – Bluebay Asset Management**

Okay so €3.5m total and €1.5m left to go.

**Ralf Bernhart**

What I should say here is to, I mean the restructuring efforts we, and it is something I have said in the past and it is not to be forgotten, restructuring and maintaining or rather maintaining the lowest cost possible is a core activity and strategic activity which we will obviously continue to undertake.

**Caroline Brown – Bluebay Asset Management**

Right thank you. And in terms of one off restructuring costs in 2006 do you think they'll be much lower than they were in 2005?

**Johan Eliasch**

Ralf

**Ralf Bernhart**

At the moment we don't have any projects.

**Caroline Brown – Bluebay Asset Management**

So you'd expect it to be close to zero then would you.

**Ralf Bernhart**

One time costs yes.

**Caroline Brown – Bluebay Asset Management**

Okay thank you very much.

**Operator**

Once again ladies and gentlemen if you would like to ask a question please press \*1 on your telephone and wait for your name to be announced. At this time we have no further questions please continue.

**Ralf Bernhart**

Johan

**Johan Eliasch**

No more questions? There are no further questions then I think everybody and look forward to the conference call that we will have. Thank you very much. Bye bye.

**Operator**

Thank you that does conclude our conference for today, for those of you wishing to review this conference, the replay facility can be accessed by dialling the UK on toll free telephone number 0800 953 1533, the USA toll free number is 1866 247 4222, standard international telephone number is + 44 1452 550000. The reservation number for this conference is 4318055. Thank you for participating, you may all disconnect.