

Message from the CEO

# Continued long-term investments despite challenging market

2023 was another challenging year for the bike sector and our customers. When I summarized 2022 in our last annual report, I talked about the external macro factors that made that year feel extraordinary. I can now conclude that the market factors continued to be a challenge this year too. Despite that, we started seeing a few positive trends, especially towards the end of the year. Awareness of Mips' products and how they increase safety for helmet users kept rising, and the share of helmets equipped with Mips' solutions that were purchased at the retail level continued to grow. During the year we also started more customer projects to integrate Mips' safety system in new helmet models than in any other year in the history of the company.

It was also positive to note that the bike sector, which since mid-2022 has had to deal with excessive inventory at both the retailers and the helmet brands, started to see a normalization of inventory levels towards the end of 2023. Another promising area of progress was the successful market launches we did with several large helmet manufacturers in the Safety category, being an important category for the future. Not only will these lead to more sales for Mips, but it also means that users on construction sites and other industrial sites will have greater protection in the future.



In comparison to when we communicated our strategy at the Capital Markets Day in 2022, we have a generally weaker consumer market today. In the post-pandemic years, the market has been marked by effects such as high levels of inventory, high inflation, and high interest rates. In this more unpredictable environment, it is important for us to ensure that we have a better total offering for our customers. I am therefore very happy that we proactively continued to invest in all our strategic initiatives to make sure we can drive growth again when the market normalizes. With our vision to reduce head injuries and save more lives, and our ambition to be positioned as a leader in helmet safety, we keep leaning forward and working intensively for what we believe in. In the long term, this will mean that we can make a difference with our safer solutions, to as many people as possible.

**High level of activity this year, but limited short-term financial impact**

In the bike market that is so important to Mips, the recovery to the new normal has taken far longer than most people thought it would. Swings in inventory levels are not a new phenomenon, most industries have suffered from them at some point in history. The challenges we have seen over the last year as an ingredient brand in the helmet sector are complex and mean that the recovery is taking longer. First of all, sales in most markets are decreasing compared to the strong numbers during the pandemic years, because the consumer has weaker purchasing power today than a few years ago. Secondly, the inventory levels in the market have been way too high both in stores and at the helmet manufacturers. Thirdly, interest expenses are higher than they've been for years, which has meant the availability of capital has dropped drastically. Consequently, certain helmet manufacturers simply haven't been able to

afford to produce new helmets to maintain the sufficient inventory levels. The combined impact was greater than we and most people in our industry had speculated. However, one positive thing to note is that in most markets, normalization of inventory levels has now mostly been achieved and we expect a more normal situation throughout 2024 as our sales to our customers largely reflect actual consumer sales in the retail sector.



We proactively continued to invest in all our strategic initiatives.”

In some contexts, media reports in 2023 have been interpreted as saying that people worldwide are no longer anything like as active as before and that helmet usage for sports and leisure should therefore have dropped drastically. This is not the case. When one evaluates our sub-categories in the sports and leisure

sectors, it is clear that usage has actually gone up. In the bike sub-category, the number of cyclists has risen substantially compared to the time before the pandemic. This is in part driven by a greater interest in outdoor recreation, and also by an increase in the number of people commuting by bike. Above all though, the share of people who wear a helmet when cycling has increased. We are seeing similar trends in the Motor-cycle category, although the increase in this category is mainly being driven by new requirements in more countries to wear a helmet.

Another positive note is that in the Safety category, in 2023 we saw a much faster phasing out of the classic, very simple construction helmets, with a transition to using more advanced helmets that provide the user better protection. This transformation is particularly apparent in the US where we see that the conversion, in terms of planned major procurements of more advanced helmets, is going substantially faster than we had assumed just a few years ago.

Our assessment, which is shared by most of our customers, is that the inventory adjustment challenges we have seen during the last year were more temporary in nature, and reflected a normalization of an exceptional anomaly that arose during the pandemic. Most of our customers have a high rate of innovation and are investing to be able to meet the greater demand for better and safer helmets, which we are seeing in all categories. Even though we have significantly increased the number of implementation engineers during the last two years, it is still challenging for us to keep up with all the incoming projects from our customers. We have also increased our investments in advanced product development in recent years to be able to deliver on our strategy of widening our overall approach to encompass more elements of helmet safety.

### Helmet category Sport – bike ended the year with growth

We saw a buck in the trend in the fourth quarter compared with the last five quarters. Since autumn 2022 the bike sector has been dealing with something called the “bullwhip effect” caused by an overly aggressive build-up of inventory during the rapid growth that took place during the pandemic. The bike sub-category is a very important sub-category for us, and during the fourth quarter we witnessed a growth in sales and saw positive developments at most of our major customers.

Within the snow sub-category the market was initially more restrained, but it then recovered towards the end of the year after a strong start to the winter season, mostly in the European market. However, in the short-term the impact of the positive start to the season on Mips’ sales is relatively small as there is not enough time for our customers to get products to market before the current season ends. This means that growth prospects look good for the following season as inventory levels are now generally considered to be low.



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The year ended with growth in the bike sub-category.”

We have previously stated that, in our assessment, the bike sub-category will see a positive development in 2024. This assessment remains unchanged. We believe that the majority of the growth in this sub-category in the coming years will be driven by our customers buying products from us to enable new production of helmets, in contrast to the last few quarters when they have sold helmets they already had in stock to their customers in retail.

### Helmet category Motorcycle – still a tough market, but we see a turn for the better

Growth continued to be weak in the Motorcycle category with a decrease in net sales during the year.

The decrease in net sales was due to the soft market for the motorcycle sector, mainly caused by macro-economic trends. This had an even larger impact on Mips as the overall weaker market trend coincided with higher inventory levels of existing helmets at a number of Mips’ most important customers.

These high inventory levels of older helmet models without Mips’ technology limited our ability to launch new products together with our customers, which is an important element of our future growth plan in this category. Even though the roll-out of these new models has taken longer than planned, during the spring we will collaborate with our partners to launch many of the new products that have been developed during the last year.



### **Helmet category Safety – several new important customers**

Overall, we are happy with what we have achieved in the Safety category in 2023. Our goal for the year has been to establish a broader customer base and grow the number of products equipped with Mips' safety system. We now have a total of 15 brands with which we have launched partnerships. We continue to see a robust increase in sales growth, even though the market roll-out of new helmet models has taken longer than estimated.

### **Exciting investment in sensor technology**

In August we acquired 25 percent of the sensor technology company Quintessential Design. This investment is the first step towards exploring the opportunities of sensor technology. It will enable us to gather more data regarding incidents by using high-precision sensor technology and accompanying machine-learning algorithms, which makes this investment an important step in achieving Mips' vision, ambition, and strategy.

### **Great progress in sustainability**

We have made important progress in our sustainability efforts during the year, and we have delivered on all three of the main goals that were set for the year. During the year we reduced our climate impact by an average of around 21 percent and we expanded the range of solutions made from recycled material. We now offer all our customers a recycled polycarbonate alternative in our most-sold safety solution. I am very satisfied with the progress we have made in our sustainability efforts this year and that we have accelerated this important work.

### **Still forward-leaning despite challenging external conditions**

Even though we have faced market challenges during the last year, we are still convinced by our long-term strategy and ambitious financial targets.

We see greater penetration of the Mips safety system and an increasing awareness and positive view of our brand, amongst our existing customers and in different consumer categories, and also in the sales channels where helmets equipped with Mips' technology are sold. We are also seeing that our strategic investments to build a wider product range for more categories is starting to gain traction. I am of course not satisfied with the financial performance in 2023. It has been a difficult year with challenging external factors that we have done our utmost to counter, while also investing great efforts in our long-term growth. We have continued to advance our position and have strengthened our offering and Mips as a brand. We are confident that we have the right strategy, which will continue to support our long-term plan and journey towards our financial targets. I would like to give my greatest of thanks to Mips' employees and all our partners around the world who, despite all the market challenges, still work tirelessly to make the world safer by equipping more helmets with Mips' safety system.

Stockholm, March 2024

**Max Strandwitz**  
President and CEO

