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FOURTH QUARTER AND YEAR END RESULTS  
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REFERENCE: CNW GROUP  
LENGTH: APPROXIMATELY 45 MINUTES  
DATE: MARCH 10, 2011

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OPERATOR: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Dorel Industries Fourth Quarter and Year End Results Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session; instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star, followed by zero for Operator assistance at any time.

Before turning the meeting over to management, please be advised this conference call will contain statements that are forward-looking and subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, and I would like to remind everyone that this conference call is being recorded today on Thursday, March 10, 2011.

I will now turn the conference over to Martin Schwartz, President and CEO. Please go ahead.

MARTIN SCHWARTZ (President and Chief Executive Officer, Dorel Industries, Inc.): Thank you. Good afternoon and welcome to Dorel's conference call for the fourth quarter and full year ended December 30, 2010. With me are Jeffrey Schwartz and Frank Rana. We will be pleased

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to answer your questions following our comments, and a reminder, all figures quoted are in US dollars.

We are pleased with Dorel's 2010 performance, although our fourth quarter proved to be difficult. Our divisions effectively managed the challenging economic conditions for much of the year through a combination of value-oriented products, a strong commitment to new product development and strategic brand support. Despite reduced consumer discretionary spending and rising input cost, Dorel delivered revenue growth of over 8 percent, a 10 percent improvement in pre-tax earnings, and a net income increase of over 20 percent for the full year, underscoring our strong position in the many global markets where we operate.

However, we were not satisfied with the performance of certain of our US businesses that service mass market customers. Point of sale levels started to slow during the second half and retail is reactive by not only reducing their replenishment orders but also by cutting back on their traditional inventory levels. Therefore, at year end we were left with inventory we had anticipated selling in the fourth quarter. Higher container freight rates and raw material costs also affected earnings. We are making

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good headway in working through the extra inventory and are expecting new products in 2011 to drive improvements in the months ahead.

Juvenile revenue was down 5 percent from last year's fourth quarter, but excluding foreign exchange, the organic sales decline was less than 2 percent. The decrease was due principally to the slowdown at retail in the US. Sales in all of the segments' other markets increased and we continue to see steady progress in Europe. New products introduced at the Fall Cologne show are being progressively launched and success has been good with certain car seats and strollers. The Maxi-Cosi brand is gaining strength in both of these categories. Our strategy at penetrating Europe's mid-price point category is working. The introduction of Safety 1<sup>st</sup> is bringing the desired results and we are increasing market share.

As a result of general recalls in the crib industry and new legislation banning drop-side cribs, we have decided to suspend their importation until the impact of these new regulations has been fully assessed. While cribs have accounted for less than 2 percent of sales during the past two years, the negative impact of recalls in our crib business in 2010 earnings was approximately \$5 million. There will be much less of an impact this year.

Recreation/Leisure had a good quarter and a very satisfying year with fourth quarter organic revenue growth of 19 percent. Mass market

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sales increased almost 20 percent, supported by the successful Schwinn brand marketing campaign initiated earlier in the year and which ran again late in Q4. Retailers were very appreciative of this investment we made in the brand. A key reason for moving forward with the expenditure was the feeling we had that the awareness of Schwinn was diminishing somewhat. I am pleased to say that there has since been a marked increase in Schwinn's brand awareness, as levels have increased markedly, both in the mass merchant and IBD channels. Sales to the independent bike dealers also grew by approximately 20 percent as successful new model introductions have been met with enthusiasm in both Europe and North America. These gains were not limited to Cannondale, but extended across the majority of our brands sold to the IBD customer.

Cannondale athlete Mirinda Carfrae captured her first Ironman World Triathlon Championship win in October in Hawaii, dominating the field of 1800 world-class athletes. Carfrae rode the newly designed Cannondale's women's Slice for the first time in an Iron Man distance race.

The apparel footwear group did not perform to expectations and going into 2011, renewed focus on this business and improvement initiatives are expected to help the segment's 2011 performance.

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At CSG many of the positive factors of the fourth quarter were prevalent throughout the year. The business model established soon after the 2008 Cannondale/Sugoi acquisition began to pay dividends in 2010. A renewed focus on supporting this segment's known brands and a clear direction in new product development resulted in the improved earnings.

After a great first half, Home Furnishing revenues were affected by a second half slowdown as the majority of its customers reduced replenishment orders to cut inventory. As a result, revenues in the quarter declined by 19.5 percent from last year although the majority of the segment's division increased their full years sales. Of Dorel's three segments, Home Furnishing is, by far, the one most exposed to mass merchant consumers in North America. It does not have other markets to lessen the impact of a large shift in consumer buying habits or customer initiatives on in-stock levels.

I'll now hand the call over to Jeffrey to detail the financials and other information.

Jeffrey.

JEFFREY SCHWARTZ (Executive Vice-President, Chief Financial Officer and Secretary, Dorel Industries, Inc.): Good afternoon. Before I

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get into the segmented detail, I'm going to start by quickly summarizing the quarter's results.

Revenues were flat at 540 million as compared to 545 last year. Organic growth, however, was actually slightly positive to 1 percent. As you've seen in our release and Martin stated, we posted improved after-tax earnings in the quarter despite challenges. These challenges were principally in the US at our mass market customers where sales declined. This is evidenced by the Home Furnishing segment which experienced a 20 percent revenue decline. Offsetting the challenges was a very good quarter at Recreational/Leisure and good performances from both Europe and Canada within the Juvenile group.

Our pre-tax earnings were 19.7 million versus 31 million in the prior year. However, as a reminder, last year included approximately a \$5 million pre-tax gain from a settlement of a legal case that pertained to prior years. If we look at pre-tax earnings, excluding the \$5 million gain, we went from 26 million last year down to 19.7 this year. That drop came from lower gross margins in 2010, caused by substantially higher costs and less favourable exchange rates. The issue of the higher costs had affected our third quarter results and that continued into the fourth quarter.

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Offsetting this was the tax recovery that we had in the quarter. The reason for the recovery was that we recognized incremental tax benefits in the amount of 9.7 million pertaining to the resolution of several prior year estimated tax positions. This non-cash amount was not recognized for accounting purposes in prior years and was only recorded in the fourth quarter of 2010, when the relevant tax authorities confirmed the recognition of the benefit. That was set for the year. That meant our tax rate was 9.1 percent compared to 16.4 percent the year earlier. If we exclude the amount of that adjustment, our tax rate for 2010 would've been 16 percent, which is comparable to the prior year.

Now I'll talk about the segments for the fourth quarter.

Juvenile segment revenue decreased in the fourth quarter by 5 percent. However, excluding the impact of foreign exchange, the organic sales decline was actually less than 2 percent. The decline was due to a slowdown at retail that occurred in the US, but sales in the segment's other market actually increased. In Europe, in local currency, the euro, we actually increased our sales by 5 percent. However, when we converted it to the US, we show a decline of 3.5 percent due to the lower exchange rate.

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On the positive side, markets with the strongest sale gains were Germany and the exports, meaning markets outside of Western Europe. Tempering these gains were sales drops in Spain where the economic recovery is still lagging behind the rest of Europe. Sales in Canada improved over last year and, though less than 10 percent of the segment, Brazil and Australia also posted increases in the fourth quarter of last year.

Juvenile gross margins were lower in the quarter by 150 basis points. However, out-of-period mark-to-market foreign exchange gains in 2009, related to foreign exchange contracts, had increased the margin by 130 basis points last year. Therefore, if the gains are excluded, prior year fourth quarter gross margins were 26.8 percent, consistent with 2010.

I'll move over to the Recreational group. Recreational and Leisure segment revenues in the fourth quarter increased by 30 million or 17.2 percent. Note that none of the increase came from acquired businesses, and organic sales increased by almost 19 percent when the impact of varying exchange rates relative to the US dollar are excluded.

Sales increased in the mass market chains, supported by a successful Schwinn campaign that began earlier in the year and which was revived again in the fourth quarter for the holiday shopping period. Sales to IBD customers also increased as successful new model introductions

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are driving sales. These increases incurred both in Europe and in North America. Importantly, the increase is also in the majority of the brands sold to the IBD customer and not just the Cannondale brand.

Gross margins in the quarter improved to 22.6 percent from 22 percent the year earlier. The main reason for this was the improved margins at Cycling Sports Group as the benefit of sourcing overseas was realized. However, lower margins elsewhere in this segment tempered the increase. In particular, AFG recorded some writedowns on inventory which reduced the segment's margin by 150 basis points.

SG&A costs were 33.2 million, which is an increase from 27.8 million the year before. The majority of this is attributable to increased promotional activity, but the higher costs are reflective of an increased infrastructure in anticipation of supporting further growth for this segment. So, we're pretty pleased that we've been able to grow, obviously, the top line, grow the earnings in CSG and build up a structure in which we can continue that growth, and again, at the same time, invest some significant dollars in some marketing for the future.

I'll move over to Home Furnishings. It was a tough quarter. The fourth quarter in the Home Furnishing segment was severely affected by a slowdown in retail in furniture at the majority of our customers.

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Replenishing of orders were reduced and inventory levels at retail were cut. So, we kind of got hit from two sides. We went into pretty much the second half, as we talked about it at the end of Q3, with fairly high inventories both internally and at our customers because of the strength of business in the first half. As POS dropped, we were obviously affected by that on our replenishment orders, and in addition to that, our customers chose to reduce inventory levels, which again hampered us. For example, we had a sales decrease of 20 percent, our POS reduction was less than that. So, the difference with—the 20 percent is really equal to the POS reduction, as well as the inventory reduction. So, you know, business is not as bad at the retail level as it was for us in Q4.

Margins were affected in the quarter as fixed overhead absorption was reduced and freight costs were considerably higher than the previous year. In 2010, gross margins were reduced by 12.2 percent. Note that the prior year's quarter gross margins included a gain of 6.4 percent, 6.4 million, excuse me, on a successful settlement of a claim against a law firm related to United States Department of Commerce, which again was in the last year's fourth quarter number. The impact of this on 2009 gross margins was approximately 530 basis points. So, if we exclude that, the

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margins would've been 14.5 percent in 2009, versus the 12.2 percent of this year.

SG&A costs for the quarter decreased to 5.4 million compared to the 10.9 million, for two reasons. One was far less product liability costs and also the legal cost that was involved in the settlement with the \$6.4 million gain.

We move over to the balance sheet now. I'm not going to go through all these numbers for the year, I'm assuming most of that our listeners have, so I'll move over to some balance sheet items.

The big one is the inventory level. The inventory level has gone up about \$110 million from the close of 2009. This is certainly higher than it should be. Again, there's a lot of similarities here to what happened in 2009, in which we entered that year with a similar level. We have a \$110 million increase. I'll break that down for everybody. About 45 percent of that is really in a bucket that I would call a combination of having too low inventory going into 2010, which cost us, as we mentioned a number of times, in a number of our segments, that we just didn't have enough product to satisfy our customers, so we need it to be higher than that. In addition, some of that is also some new businesses such, as Brazil, that is doing extremely well. We had very low inventory because

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the business is much smaller and today, with a much bigger business, we have to carry more inventory.

So, with that said, the proper rate that Dorel should be at is probably in the \$440-460 million range for inventory. Above that, we had probably 30 percent we can relate to the slowdown. Goods that we brought in that we expected would sell at a certain rate were selling at less and pushed back from the retailers who didn't want to carry as much inventory as they previously announced they would carry. All of that stuff is still good, it's not dated material. Just as we did a couple years ago, we'll work through that in a relatively short period of time.

We also brought in a number of new—some items that I would call product that we needed for new listings or product that we needed to ship early in the Q1, that needed to come in before Q1, and we were also very mindful of Chinese New Year which was in February and needed to bring in our inventories prior to that date.

So, there was a significant number, probably 20 percent of our increase was related to that category. Going forward, I think we indicated this is well under control. The inventories at the end of February have dropped. We expect to be by midyear into that range of 440-460 million, and we will see a significant portion of that in Q1, as well. It's something

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we're not happy with, it, obviously, affected our balance sheet and affected our year end cash flow number, but something that's not going to take a very long time to turn around, we will get that money into the cash flow and probably by Q2 we will start to see that cash flow increasing significantly.

If we look at capital expenditures for the year, we finished around a total of 55 million. It was an increase over the previous year of 40.6 million.

In Dorel Europe, we spent significant amounts on new products by investing in some new molds for products to be introduced at the end of 2010 and into 2011. Additionally, Europe also invested in supply chain activities with improvements to warehousing facilities in the UK, the Netherlands and Portugal. In the US, we opened a Dorel Technical Centre for child safety in Columbus, Indiana. The multimillion dollar facility will centralize our R&D on car seats and, hopefully, move that division forward significantly. We also had a spend of \$3.5 million on the Sugoi facility in Vancouver.

Going forward, we expect, you know, numbers not to be significantly different than that for 2011 and beyond. So, that's probably a good area. I know some people are questioning where we're going to be going.

With that, I will pass it back to Martin.

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MARTIN SCHWARTZ: Okay. Thank you, Jeffrey. Looking ahead, we foresee continued growth of our bike business through 2011, and we are on track to improve year-over-year performance. We are focused on correcting issues at the Apparel Footwear group, small part of this segment. Juvenile in Europe and Canada are both off to a good start, while the US remains sluggish. The second half should be better overall with several new Juvenile product introductions expected to translate into increased sales. The negative trends of the past several months in Home Furnishing was reversed in February and it was the best month since last year's second quarter. We are hopeful their full year will be solidly profitable.

We are still facing higher input costs and we will have to seek price increases. As in the past, this can affect margins until pricing and these costs are aligned, and until our new products with higher input costs integrated are available.

As stated in today's release, current year sales and earnings from operations are expected to exceed 2010 levels. Additionally, the higher earnings and anticipated improved working capital position will provide for positive free cash flow.

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We now invite your questions, and, again, I kindly ask you to limit your first round of questions to two. Operator, please open the lines.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct a question and answer session. If you have a question, please press the star, followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they're received. Please ensure you lift the handset if you're using a speaker phone before pressing any keys. One moment, please, for your first question.

Your first question comes from the line of Jessy Hayem with TD Securities. Please go ahead.

JESSY HAYEM: Thank you. Good afternoon. My first question is on Juvenile. I'm just wondering, what was your organic growth decline in the US in Juvenile for the quarter and the year, if you have that?

JEFFREY SCHWARTZ: I don't have that right now.

JESSY HAYEM: Okay, maybe I'll follow-up with you after the call on that. Then, was there anything particular with the operating expenses in Q4, again in Juvenile? They were a little higher. Was it product liability costs or...?

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MARTIN SCHWARTZ: I think a lot of our operating—if you're looking at it as a percent, perhaps, a lot of it was, you know—most of it's not variable. So, as the sales decline, or as the sales drop, you know, it's going to become a bigger piece of the pie.

JESSY HAYEM: Okay, fair enough. Then, just as, I guess, a bit of a general question, with Walmart being sort of one of your largest customers, we're hearing a lot of, you know, how they've had a bit of a string maybe of low same-store sales in the last few quarters, they're rethinking their merchandizing approach in terms of maybe having in the past shrunk too much their suppliers and going back to focus on everyday low price strategy, and have also done numerous changes to their buyers. I'm just wondering if any of this, or if you've analyzed this, had any bearing on any of your categories such that there would be sort of increased or a decreased focuses on some of your categories or subsegments?

MARTIN SCHWARTZ: Well, we do know our mass market business in general is suffering right now. Everything that I'm reading is saying that the recession hasn't really recovered at that price level. You know, there's a number of stores at that level that seem to be struggling to hit same store sales. It's certainly affecting us. Why are they affecting us, I'm not sure. I don't know if it's based on changes within the store or it's just that the

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consumer's not quite back there yet. They're coming back at the higher level, you know, they're coming back at Sax and Neiman and places like that, but we haven't seen the customer coming back quite yet at the mass level, and I think that's our biggest impact.

I mean, certainly, also, a lot of the retailers have cut back their inventories when they realized that people aren't coming in the stores at the same level. You know, as an example, we have one retailer that when they were heavy in toys after the Christmas season, cut back on bike inventory, even though we're getting into the bike season, and bikes were selling well, but, you know, it's in the same category group and they were told to reduce inventory. So, we do suffer from some of that.

But, in general, we haven't lost SKUs to the competition. We've held, you know, the quantities, and in some cases we've gained SKUs. The overall effect is, you know, the people coming in to buy.

JESSY HAYEM: Right. So, you're not—I guess what I'm getting at is that you're not seeing Walmart all of a sudden look at the Home Furnishing segment and trying to cut down on the categories that they want to be involved in this segment in any way.

MARTIN SCHWARTZ: Jessy, we've seen some of the mass merchants make changes in how they merchandize or what they carry in

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departments, and we change with them. You know, we've always done that and we can do it in a very quick basis. So, that's not our problem.

JESSY HAYEM: Okay, fair. Then, the last one before I circle back. Can you just, I guess, walk us through your thinking in general on— obviously, the inflation climate that we're seeing in Asia and maybe your ability to, you know, get some more, or squeeze a little bit more your suppliers, if you're not able to push through with price increases on your end, or I guess, in order not to resort to price increases, I guess, is there anything there that you're able to do or are you just having to absorb?

MARTIN SCHWARTZ: I don't know how much we can comment on it. I mean, obviously, you know, you hit it on the nose. We're doing everything we can, whether it be reducing our suppliers' costs, working on our cost, changing items, going to our customers for price increases. We're doing everything we can. So, I can't comment on specifically the results because, you know, this is a very competitive area. But, you know, it's a concern of ours going forward this year. It's not the first time this has happened. Generally, you know, in an environment like this—I think we have to go back to 2008 where we saw also a squeeze. It ended up we did get price increases. We did, you know, have a reasonably decent year, but it does cause uncertainty.

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JESSY HAYEM: And then just—I guess your confidence in your ability to sell through the portion that's considered, I guess, excess inventory, is it just, you know, seeing that again, this is sort of your retailers doing that are shrinking inventory and maybe customers not being backed fully, as you just mentioned? Is it based on what you're seeing on point of sale today, or, I guess, where are you getting the confidence that you can filter through that excess inventory by midway through the year and be more at your normalized level?

MARTIN SCHWARTZ: It's just the trend that we've seen already. I mean, excess inventory sometimes sounds like we have too many of an item and we need to clear it. That's not the case here. This is, we thought we would sell, you know, 100 units. In Q4, we sold 50. So, now we'll have 50 more, we'll sell them in Q1 and they'll be done and we just won't buy any in Q1, and then we'll buy it again in Q2.

JESSY HAYEM: So, you'll carry it longer. I get that.

MARTIN SCHWARTZ: Yes, we'll just carry it longer, and we already see it coming down. A lot of it, I said, also, is stuff that we purposely brought in to be shipped in January and February, and it was shipped in January and February, it's not in the warehouse anymore.

JESSY HAYEM: Okay, great. Thank you.

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OPERATOR: Our next question comes from the line of Anthony Zicha with Scotia Capital. Please go ahead.

ANTHONY ZICHA: Hi. Good afternoon, gentlemen. Jeffrey, can you give us an idea, in terms of the cost increases that we've seen, was it basically the raw material costs, that was the biggest? Proportionally, how much was the shipping? Can you give us some magnitude of increases?

JEFFREY SCHWARTZ: Well, in ocean freight in 2010, there was some very large increases.

ANTHONY ZICHA: Mm-hmm.

JEFFREY SCHWARTZ: You know, in some cases 20, 30, 40 percent.

MARTIN SCHWARTZ: Materials were all over the place and, you know, we don't buy raw materials, we buy finished product.

ANTHONY ZICHA: Right, but let's say steel, for instance, steel, I mean, it's practically doubled. So, can you give us a magnitude of...?

MARTIN SCHWARTZ: That's tough, because we actually don't buy steel, our suppliers buy steel.

ANTHONY ZICHA: Mm-hmm.

MARTIN SCHWARTZ: So, we don't get to feel it right away, but some of the stuff that we buy directly and use, you know, we have a better

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feel for. You know, freight, the increase in freight in Home Furnishings, I think, was a minimum of \$5 million—I think it was \$5 million after Q3. So, just to give you an idea, if freight would've held, we would've been \$5 million or more ahead just in the Home Furnishing area. Not a big impact last year. Steel's just going to keep pushing the cost of our products up slowly, but it's hard to define that for you.

ANTHONY ZICHA: Mm-hmm, okay. Some of your competitors put up some pricing increases of 10 percent on the Juvenile side. Like, have we inputted some price increases?

JEFFREY SCHWARTZ: We're working right now with our customers, we can't really say more than that, but we are doing what we have to do.

ANTHONY ZICHA: Okay. Then, Martin, my last question. With reference to Europe, have you been gaining increasing market share? Which areas, which countries have been the ones that have given you the best impact? Would that be the UK or Germany?

MARTIN SCHWARTZ: We continue to gain in categories like car seats; it's right now our strongest. I think of the countries, Germany is probably the strongest. Like I've mentioned before, some of the exports.

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Eastern Europe is growing pretty quickly, and, again, Southern Europe is still struggling a bit as their economies still aren't coming back yet.

ANTHONY ZICHA: Okay, and the color in Brazil?

MARTIN SCHWARTZ: Brazil had a great year last year. I mean, you know, I don't expect a similar growth rate this year as we sort of consolidate that type of business. We sort of catch up, catch our breath. What I'm hoping we get to do in Brazil this year is expand our product offering beyond, sort of, the car seat focus that we had before. I mean, it was all about car seats last year as there was new legislation, and this year we want to bring in and distribute a lot more products and get sort of more of a breadth of products that we can distribute throughout the country.

ANTHONY ZICHA: Good. Thank you, Martin. Thank you, Jeffrey.

OPERATOR: Our next question comes from the line of Hugues Bourgeois with National Bank Financial. Please go ahead.

HUGUES BOURGEOIS: Yes, good afternoon. For your Apparel and Footwear group, you talked about inventory writedowns. Can you give us a little bit more color on what happened there and what you intend to do going forward? Thank you.

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MARTIN SCHWARTZ: Okay. Well, there were several problems that we experienced through the year, one of them being on our imported products, getting the supply chain working properly. In a lot of cases there was some lateness on delivery, which held up the orders on, you know, matching products. So, we're working very much closer now with the suppliers to get our deliveries when we needed it. We also have a new facility with the ability to do X amount of pieces inhouse. We didn't have that full, so we weren't able to absorb as much of the overhead into our costs. We're working right now to bring more inhouse and reduce our costs per unit.

During the year, we had a period where we were without cost sales management, it was someone who left us. We've filled that position now with we feel is a strong candidate; that'll help. In some areas, whether in production or maybe some product development, we found some weakness in some of the management areas and we're working on filling some open spots and, you know, upgrading some of the management there.

So, that's just a quick summary of the problems we had there and what we're doing about it.

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JEFFREY SCHWARTZ: Let me just add one thing. If there is one area of Dorel where we had a little bit of shelf life on our inventory, that would be in this area, as Apparel doesn't stay very well, you know, after the season. So, some of the writeoffs that we have are related to, you know, a writedown in material that came in late and we've got to clear it out and, you know, some of that is part of the problem.

HUGUES BOURGEOIS: Thank you.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the star, followed by the one. As a reminder, if you're using a speakerphone, please lift the handset before pressing any keys.

Our next question comes from Jessy Hayem with TD Securities. Please go ahead.

JESSY HAYEM: Jeffrey, how should we think about the SG&A going forward in the Recreational segment given, I guess, you're Cannondale sponsorship? Is that going to increase significantly into 2011, relative to 2010?

JEFFREY SCHWARTZ: It's going to increase. I mean, we've obviously moved—I mean, that is we're not putting up that sponsorship per se, but I think what you—we're taking some of that money from other

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projects, so it's not going to be a totally incremental increase, but we do expect to see an increase in our budget. But, that's part of what we're doing here, we're growing the business, you know, top line getting better, and bottom line, and investing in the future through marketing all at the same time. So, yes, you should see a little bit of an increase, but probably maybe not as much as one would expect, because we are taking some money from other places.

JESSY HAYEM: Okay. Then, the earnings drag in the AFG, is that something we should expect throughout fiscal '11 as you fix, I guess, the issues, a similar earnings drive as what we saw in fiscal '10?

JEFFREY SCHWARTZ: It's going to be better. I mean, you know, obviously, this is now an internal priority at Dorel Industries, fixing a problem like this, so we expect it to be fixed, but, you know, is it fixed as of January 1? No. So, it's going to get better probably every quarter. So, that's our hope.

JESSY HAYEM: Okay.

JEFFREY SCHWARTZ: At the end of the year, it's going to be a positive, but I can't tell you quarter by quarter.

JESSY HAYEM: Okay. Then, just I guess a general question. If I look, sort of take a step back and I see, again, I guess some of the added

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inventory that you have on hand that you're going to filter through, you know, input costs that are still rising and the fact that maybe some of your product introductions that incorporate these higher input costs are coming later in the year, it is fair to assume, I guess, that you're profitabilities still come under pressure, I guess, at least through the—into the first half, I should say, at least the first quarter, maybe less so in the second. Is that a fair assumption?

JEFFREY SCHWARTZ: You know, Jessy, you're making it sound as if we're looking at huge increases in cost. I mean, there are some increases. We've got a lot of it under control. I think we've negotiated well with our Asian suppliers. There will be some an upward cost, but, you know, nothing drastic.

JESSY HAYEM: No, I understand, but I guess the inventory you have on hand right now is reflecting the higher input costs, right? So, until it filters through your P&L, which I assume is...

JEFFREY SCHWARTZ: You know what? You're also, I think, going back to Q3. The inventory we had had higher freight costs and, yes, higher input costs. We saw input costs come down a little bit during Q3 and Q4, but now, you know, similar to what the price of oil is doing to resin. So, I mean, I think that's a new increase that we're expecting, and that's

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what Martin was referring to, is looking forward. I don't see much of a correlation between the inventory and anything to do with price increases. I think a lot of this inventory excess stuff is going to be gone really quickly, so I don't think it's going to give us a plus or a minus either way.

JESSY HAYEM: Okay. Thank you very much.

OPERATOR: Our next question comes from the line of Tal Woolley with RBC Capital Markets. Please go ahead.

TAL WOOLLEY: Hi. Good afternoon. I'm just wondering for tax rates next year, we should be looking around that 15 percent range? Does that seem fair?

JEFFREY SCHWARTZ: Again, we're probably going to give you—yes, I know you guys are tired of hearing it, but it looks like 15 to 20 again.

TAL WOOLLEY: Okay. No, that's fair.

JEFFREY SCHWARTZ: Yes, and it's funny, because what happens is, you know, every year, sort of the tax rate rises a little bit unless something changes, and that whole tax adjustment that we had which was prior year, so not only do we get prior year from that, but now going forward we've got a slightly reduced tax rate in a certain area, which will probably offset any other tax increases that we expected. So, we're going to be back in that 15 to 20 range again.

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TAL WOOLLEY: Okay. When you're looking at pricing discussions in the various segments, I'm just wondering is there a season, you know, we should be thinking about for the various segments. I'm assuming like you can't do much like late in the year, but that most of—if you're going to see pricing, most of it should come near the front end of the year?

JEFFREY SCHWARTZ: Not really.

TAL WOOLLEY: Okay.

JEFFREY SCHWARTZ: You know, when we have large increases like this, this kind of going in when you're not expecting—when your customer's not expecting and asking for price increases. That sort of what makes it difficult. It's easier to wait to the end of the season when you requote for the following year.

TAL WOOLLEY: Yes.

JEFFREY SCHWARTZ: But, that's not what we're talking about here, we're talking—there must be some of that, anyways, but we're talking about, in certain cases, going in and saying we need something, you know, in the next 60 days.

TAL WOOLLEY: Okay. So, generally speaking, there would be some rebasing at the beginning of the year and then as needed after that.

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JEFFREY SCHWARTZ: Yes, and, again, our buying cycles aren't calendar, so it's not used. Some of them might be, but we could start shipping new goods August 1, and new pricing August 1, it could be September 1.

TAL WOOLLEY: Okay.

JEFFREY SCHWARTZ: There's no seasonality to it.

TAL WOOLLEY: All right, and I guess just my last question. You guys are a little bit more exposed to freight than maybe your average consumer enterprise company, just because of the size of the items you're bringing back. I'm wondering, you know, if you look out now five to 10 years, any thoughts about, you know, where we need to start broadening sourcing partners or do we need to look in new jurisdictions? Any thoughts about that recently given, you know, the change in the cost environment?

JEFFREY SCHWARTZ: Well, I mean, we're constantly looking for new geographies, and not just the freight. China, for example, you know, is upscaling, wages are moving up. We have moved a lot of our furniture, for example, to Vietnam. We've moved some of the bikes to Indonesia. We have looked at bringing back some products into North America, our Juvenile plastic products, where, you know, we have a large facility in

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Columbus. So, it's a constant exercise we go through on where, you know, to best get our products.

MARTIN SCHWARTZ: Sometimes it's not just the freight, the ocean freight, but there's certain jurisdictions—I know places like India, where getting it from the factory to the port is significantly higher cost than in China.

JEFFREY SCHWARTZ: They don't have the infrastructure.

MARTIN SCHWARTZ: They don't have the infrastructure.

TAL WOOLLEY: Yes.

MARTIN SCHWARTZ: So, the ocean freight ends up not being the important factor there.

TAL WOOLLEY: Okay. So, there could be some tweaks at the margin, but you don't sort of see any big trend coming at you in terms of having to make some changes?

MARTIN SCHWARTZ: No.

TAL WOOLLEY: Okay. I guess just the last thing, on CAPEX for next year, any, you know, other than sort of the standard development and either systems changes you might be making, any ideas of breaking into new territories over the next 12 months?

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JEFFREY SCHWARTZ: That's not CAPEX. I'm not sure what the question was. The CAPEX...

TAL WOOLLEY: You bought, you've acquired—sorry, yes, I should say CAPEX or acquisitions like you've acquired ...

MARTIN SCHWARTZ: We're still working on something. You know, our strategies remain the same. We're just, you know, very disciplined on what we're going to pay. A little concerned as the market grows now and more private equity money coming in and pushing prices up, but, you know, there are some smaller deals out there that we're looking at and, hopefully, we'll be able to get some of them done this year.

TAL WOOLLEY: Okay, that's great. Thank you very much.

OPERATION: Our next question comes from the line of Leon Aghazarian from Industrial Alliance Securities. Please go ahead.

LEON AGHAZARIAN: Good afternoon, gentlemen. I was wondering what the effect of currency was so far in Q1. Like, what are you guys seeing in that regard?

JEFFREY SCHWARTZ: Well, our biggest exposure is always to the euro, and right now the euro's running ~~favorably~~favourably to sort of the year end numbers. We do have, obviously, some exposure to the Canadian dollar, but it's got a bit of a natural hedge to it, which are exports

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and imports. So, you know, the stronger Canadian dollar helps our Juvenile and hurts our Home Furnishings. So, I would say overall it's been okay to good. But, you know, things change real quick.

LEON AGHAZARIAN: Okay, and just the last question regarding about free cash flow. Do you guys have a target for this year? Because I know you're mentioning about the inventory level dropping optimally ...

JEFFREY SCHWARTZ: Yes, it's obviously—I mean, we missed it last year because it got stuck in inventory. So, you know, I'm expecting the number to be pretty good this year as we get—probably, in addition to the normal number this year, another 50 million, 60 million that we should've gotten last year that got stuck in inventory. I don't have a number for you, but I'm expecting it to be, you know, quite good at this point.

LEON AGHAZARIAN: Okay, great. Thanks.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the star, followed by the one. As a reminder, if you're using a speakerphone, please lift the handset before pressing any keys.

We have no further questions at this time. Please continue.

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MARTIN SCHWARTZ: Okay. Well, I want to thank everybody for being with us this afternoon. I just also want to note that we will be releasing Q1 results on May 18<sup>th</sup>, and our Annual General Meeting is scheduled for 10:00am on May 26<sup>th</sup> at the Omni Hotel here in Montreal. Again, I want to thank you for being with us and have a good afternoon.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines.

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