CORPORATE PARTICIPANTS

Martin Schwartz
President & Chief Executive Officer

Jeffrey Schwartz
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Derek Lessard
TD Securities

Leon Aghazarian
National Bank Financial

Stephen MacLeod
BMO Capital Markets

Sabahat Khan
RBC Capital Markets

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Dorel Industries Second Quarter 2018 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 that 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.

I would like to remind everyone that this conference call is being recorded today, August 3, 2018.

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

Martin Schwartz, President & Chief Executive Officer

Thank you and good day, everyone. On behalf of Jeffrey Schwartz and Frank Rana, thank you for joining us for Dorel's second quarter earnings call. We will take your questions following our comments and a reminder that all numbers are in US dollars.

Looking at the overall situation, we were generally pleased with the quarter. Dorel Sports rebounded strongly after a tough start to the year, posting solid results. Dorel Home continued to grow online sales and maintained its strong earnings performance. Dorel Juvenile had a disappointing quarter, principally due to a difficult system implementation in Europe at a key distribution centre that caused us to lose some sales. This, plus the fact that our Chilean business is in the middle of its turnaround plan, masked the outstanding performance of Dorel Juvenile USA. They very solidly overcame the impact of Toys "R" Us bankruptcy, posting their best quarterly year-over-year revenue growth in nine years.

At Dorel Home sales were down slightly year over year, mostly because of a 10% drop in brick-and-mortar sales, but almost half attributed to store closings, particularly Toys "R" Us, Kmart, and Sears, but operating profit was up. Online business is still very strong and grew 5%, accounting for 55% of gross sales. Dorel Home is taking several steps to further its growth. As stated in today's release, they have signed a licensing agreement with Cosmopolitan Magazine. Cosmopolitan is the world's largest selling young women's magazine with 36 global additions and over 17 million readers in the US. As of this fall, a special furniture collection, CosmoLiving, developed jointly by Cosmopolitan and Dorel Home, will be available, primarily online. This is an exceptional opportunity as we are partnering with an extremely strong brand and are confident this line will resonate very well with our customers. The segment is also looking to expand its highly successful US platform outside of North America. As well, Dorel Home seizing further potential with its outdoor and commercial furniture businesses and is dedicating additional resources to concentrate even more on these areas.

At Dorel Sports, results were much stronger than we expected and surpassed the outlook we provided last quarter. Much of the improvement came from our CSG and Caloi divisions, both of which posted double-digit growth in all key regions. A slightly better economic scenario and improved market confidence helped Caloi with the solid performance of entry-level products at mass merchants. New products have been essential reason for Q2 success with several new and exciting bikes that have been launched. And also the better weather in many areas in May and June also helped retail activities.

Cannondale introduced the F-Si cross country race bikes, launching at a well attended media event in Germany. Cannondale SystemSix was launched in July just prior to the Tour de France. It's the bike of choice for the Cannondale racing team and has been dubbed the fasted bike in the world. Media coverage for both launches has been extensive with articles in over 30 countries. The European IBD market has seen strong results from these new product innovations as well as from lower-end mountain bikes.

The US IBD market experienced increased retail activity in May and June after poor weather delayed the start of the season. The momentum has been very good. GT launched the Sensor and Force all mountain and trail bike with a media ride in Norway also in July. And not to be outdone, Schwinn partnered with Netflix to launch an 80s-style special edition Netflix Stranger Things Schwinn bike. All 500 bikes sold out in just five days.

Pacific Cycle had some residual affect from the first quarter loss of Toys "R" Us business but, excluding that, did fairly well. As reported in late June, Dorel Sports sold the Sugoi and Sombrio brands to Louis Garneau Sports, as we felt it is in the best interest of our shareholders to focus on the core strategic business of bikes, parts and accessories, and electric ride-ons. As a result, we have recorded an amount to restructuring and other costs, which Jeffrey will detail.

Dorel Juvenile was a good news/bad news story. The technical issues at our Netherlands distribution centres, while now resolved, hurt our European sales and profitability. We are satisfied that this matter is behind us and expect to make up some of the lost sales this quarter. On the positive side, we are extremely pleased with the results at our US Juvenile operations, which, as I said, had its best year-over-year quarter and nine years. This is particularly significant as this excellent performance was achieved despite the Toys "R" Us bankruptcy. We had said last quarter that we expected the Toys "R" Us Juvenile revenue to be shifted to other retailers and that is exactly what happened with strong higher sales to multiple customers. Our Juvenile products are not purchased on an impulse basis. People need them and look to Dorel's Juvenile brands for safety, quality, innovation, and fashion.

Several new product launches also resonated well with consumers, including The Safety 1st High Definition Wi-Fi Baby Monitor, which lets parents see and hear their baby at any time from anywhere in crystal clear video quality. Maxi-Cosi's Magellan car seat launched in Q2 has done well and is continuing to do so. Several additional products will be rolled out in the coming months. Things remain challenging in Chile, particularly for the wholesale channel, which has created pressure and pricing in all product categories. This resulted in a further write-off of intangible assets, which again Jeffrey will address. Juvenile is working on a multi-faceted plan to bring Chile back to profitability, including an aggressive e-commerce strategy and new product lines.

Just before I turn things over to Jeffrey, I would like to say how delighted we are to now have Norman Steinberg as a member of our Board of Directors. Norm is a strategic international corporate lawyer whose career began at Ogilvy Renault in 1976. He is Chair Emeritus of Norton Rose Canada and the former Global Chair of Norton Rose, one of the world's largest law firms. He is focused on M&A, corporate finance, and corporate governance and has led legal teams in some of Canada's biggest transactions. Norm has served on numerous public and private boards as well as on many foundations. Norman's knowledge, coupled with a proven strategic vision, leadership, and legal acumen, will complement our existing directors and will serve all extremely well as we strengthen our board.

Now I'll ask Jeffrey to give you a few financial comments.

Jeffrey Schwartz, Chief Financial Officer

Thank you, Martin.

Consolidated revenue for the quarter was up $12 million or 2%. Organic revenue rose by approximately 0.8% after moving the variations of foreign exchange rates. Revenue growth was driven by Dorel Sports, generated mainly by the CSG and Caloi group. Recent product launches and gradual improvement in the Brazilian economy led to the Caloi improvement. Dorel Juvenile had double-digit improvements in the US, as Martin mentioned, but that was offset by lower sales in Europe and Chile. Dorel Home products, through its e-commerce channel, represented about 55% of the segment's gross revenue. That offset declines in the brick-and-mortar channel as well as the liquidation of the Toys "R" Us business as well in that area. Gross profit in the quarter decreased 230 basis points compared to last year.

Adjusted gross profit was 21.8%, which represented a decline of 210 basis points versus last year.

Finance expenses increased by $900,000 to $8 million during the second quarter and during the second quarter the effective tax rate was 35.9% versus 27.2% last year. But if we exclude the income taxes on the impairment loss of intangible assets and the restructuring and other costs, our second quarter adjusted tax rate was actually 11% this year versus 28.4% last year.

During the quarter, Dorel Juvenile's Latin American business continued to face a decline in sales and profitability. As a result of the changes in the market and consumer behaviour, assumptions on projected earnings and cash flow for Dorel Juvenile's Latin American group were revised. Sales to wholesale customers have declined principally in Chile, as many have removed juvenile products from their physical stores and moved to 100% online. As the proportion of Chilean customers buying online continued to grow, this has opened the marketplace to greater competition and the company's share of the market and profitability has declined. Due to the new business environment, Dorel Juvenile segment continues to reorganize the Latin American business by reducing its retail footprint and investing in digital capabilities to improve its competitiveness. As a result, during the second quarter the company recorded impairment charges on customer relationships and trademarks for a total of $24.2 million.

Also in the second quarter we announced that we were divesting of our performance apparel line of business to focus on our strategic businesses and sold the Sugoi and Sombrio brands to Louis Garneau. As a result of that we took an $11.2 million charge, as we announced earlier in the year.

During the second quarter, sorry, we're going to move over to home now. Home second quarter revenue decreased by 1.6% to $181 million compared to $184 million last year. The second quarter, as I mentioned, e-commerce represented 55% of the gross sales compared to 52% last year. The e-commerce sales improvement included strong direct-to-consumer online sales, but that was offset by brick-and-mortar, which was down about 10%. Half of that is related to closures of stores such as Toys "R" Us and some Kmart and Sears stores as well.

Gross profit at 16.9% decreased by 90 basis points over last year. That's mainly due to product mix and some higher input costs as well as some warehouse and distribution costs were up slightly from last year due to the segment's additional overall warehouse footprint and some higher wage costs to go along with that. Dorel reported operating profits for the quarter of $16.9 million versus $16.7 million. The slight increase was explained by some reduced operating expenses in some other areas, which offset the lower gross profit revenue.

If we move to Juvenile, second quarter, there was a lot of things going on in the Juvenile business, as Martin mentioned, pluses and minuses. So, overall, the revenue decreased by $600,000. Overall organic revenue decreased by 2.5% when we look at the impact of foreign exchange. Martin mentioned strong growth in the US where revenue grew double digits as well as we continue to have strong growth in the Brazilian market despite the issues that the country in general is having.

As you know we had a problem in implementing our WMS software into our Northern European operations. That led to about $8 million in sales being missed for the quarter. The profit on that or the gross profit on that is about $3.5 million. So that was impacted. Some of that will be brought back in Q3, but most of it will not be as they were either promotions or given the fact that if somebody was looking to buy a product and didn't find ours, they probably bought something else from someone else instead. The other area, Chile, as Martin mentioned before is challenging. We continue to make changes and believe that we will see some, hopefully, positive momentum later in the third quarter and definitely by the fourth quarter we believe we'll have some things properly moving there.

Second quarter gross profit was 25.8%, which was down significantly. Again, we discussed a lot of that has to do with the lower sales volumes in both Europe and Chile, which led to lower gross margins, as well as the Dorel China factory, which had higher commodity prices, but that was partially offset by improvements due to some price increases that we implemented.

Overall, operating profits declined by 29.6%. Sorry, overall profits decreased by $29.6 million to an operating loss of $22.4 million versus a profit of $7.2 million last year. But if we exclude the impairment loss and other restructuring costs, adjusted operating profits decreased by $4.5 million to $3.6 million from $8.1 million last year. While the majority of the adjusted profit is related to the WMS, some of it is related to the gross profit that we made overall in some other areas.

If you look at Sports, much more positive. I know we sat here at the last conference at the end of April feeling definitely challenged. The weather had been terrible and our outlook was certainly tainted by the weather in March and April. We did get really good weather in May and June and, lo and behold, the business really did respond to that, in addition to other issues. So, for the second quarter revenue increased by $15.5 million or 7.4%, which is a meaningful number considering the last number of quarters in which we've been declining.

Organic revenue was approximately 6.5% after removing the impact of foreign exchange. The organic revenue increases during the quarter comes mainly from CSG and Caloi. Growth at CSG was seen in all the regions, which we're happy about, and a lot of that was from recent product launches that happened during the earlier part of this year. Caloi continues to grow, as we mentioned.

Pacific Cycle experienced a moderate sales decline, but that was only because of the impact of Toys “R” Us. All the other key customers’ sales were up during the quarter.

Gross profits declined by 170 basis points to 21.3% in the quarter. When excluding restructuring and other costs, the adjusted gross profit actually declined by 100 basis points to 22% from 23%. And the primary driver of the margin compression was some increased costs at Pacific Cycle, some customer mix, and some discounting, a little bit of discounting at Cannondale in light of the arrival of model year 2019 inventory in the third quarter. I will say that we’re going in to the third quarter with probably the lowest amount of clear-out products that we’ve had in many, many years, so we’re in really good shape going into Q3.

The segment overall reported a loss of $3.3 million compared to $4.9 million profit last year, but a lot of that was related to the restructuring charge because of the divesting of the performance apparel business. When we exclude that, the adjusted operating profit rose by $2.3 million or 40% to $8 million from $5.7 million.

One other issue that we’re pretty happy with is in the second quarter our cash provided by operating activities increased by $16.8 million to $44.8 million compared to $28 million last year and, like I said, a lot of that is happening on the bike side where we’ve managed our working capital numbers down as well as inventory down.

So, with that, I will pass it back to Martin.

Martin Schwartz, President & Chief Executive Officer

Okay. Thank you, Jeffrey.

As far as our outlook, overall our second half outlook is for higher revenue and improved adjusted operating profit versus prior year. With its new licensing agreement, we expect Dorel Home to build off of a solid first half and deliver improved revenue and operating profit by Q4.

Dorel Juvenile was on track for Q2 revenue growth but was hurt by the WMS situation in Europe. This is now resolved and we fully expect our European business to rebound strongly. Several new product launches are creating additional sales momentum that will lead to Juvenile recording improved second half revenue and adjusted operating compared to last year, though the profit improvement will only really materialize in Q4.

Dorel Sports remains on track to significantly improve earnings over last year. The second quarter was slightly better than expectations and we remain positive with upcoming new products expected to drive improved sales and adjusted operating profit in both Q3 and Q4.

The proposed tariffs recently announced in the US would impact a significant number of our product categories in all three of our segments and this is creating business uncertainty; however, our competition will be similarly affected, as all will be required to adjust pricing upwards, and higher costs will ultimately be passed on to the consumers.

With that, I will now ask the operator to open the lines for questions and I would like to ask everybody to limit your questions to two on the first round. Operator, please.

QUESTION AND ANSWER SESSION

Operator

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

Your first question comes from the line of Derek Lessard with TD Securities. Your line is open.

Derek Lessard, TD Securities

Good afternoon, everybody. Just wondering if maybe we could address the tariffs right off the start. Wondering if you have any sense as to the potential impact you’re looking at and whether or not you’ve seen any increases in input cost as of yet. And I guess as well, you talked about passing these costs on to consumers, like would you expect to push the entire increase or do you expect to eat some of that?

Jeffrey Schwartz, Chief Financial Officer

Right now our policy is to pass everything on. Again, it doesn’t mean, you know, a 25% tariff doesn’t mean the product necessarily goes up 25%, but there would be an increase. Again, we’re playing it by ear. This is something that seems to change every day. But we’re not going to absorb it. We don’t have products that we’re up against that is, let say, domestically made, in which we might have to absorb it, so we’ll see what happens. It’s very difficult. It’s so fluid. But our strategy is to pass all of it on.

Derek Lessard, TD Securities

Have you started those price increases?

Jeffrey Schwartz, Chief Financial Officer

Well, no, because we don't know what the tariffs are and when they're going to take effect. It would only take effect if the tariffs happen, right? I mean there's no—the first round that actually took effect, the $34 billion, we do not have anything in those categories.

Derek Lessard, TD Securities

Right. Okay.

Jeffrey Schwartz, Chief Financial Officer

So we haven't passed it on. It's the next, it's that big $200 billion that really hits consumer products.

Derek Lessard, TD Securities

Okay. And maybe on Juvenile, you said Europe was challenged in Q1. Just wondering how that's changed and I guess, more specifically, how that ties into your outlook for improved sales and profitability in the second half, because I'm just trying to understand how the negative 2.5% organic growth overall despite the strong US sales plays into that.

Jeffrey Schwartz, Chief Financial Officer

Well, again, we lost $8 million, right, because of an inability to ship, so I think that would bring it up. A lot of what's happening in our Juvenile business is related to the new product development that we've been talking about for a good year now. We're hitting the market with a lot of product. Europe is hitting the market with a lot of product. Some is still to be introduced in Q3 and Q4. And that's what's going to drive the sales.

It's nothing, you know, it's kind of simple, it's the new stuff is doing well in general, some are doing better than others, but overall I'm going to say that we've had a successful launch of products this year and that's behind what's going on in the US and I think that's behind what's going to push our European business up as well.

Derek Lessard, TD Securities

Okay. Thanks for that. I'll re-queue.

Operator

Your next question comes from Leon Aghazarian with National Bank Financial. Your line is open.

Leon Aghazarian, National Bank Financial

Hi. Good afternoon, everybody. My question would be on the Sports side. I mean obviously that was a pretty good quarter, as you mentioned. Weather was favourable for you guys, revenues were up year over year, quarter over quarter, as you would expect; however, when I look at the profitability, the gross margins itself weren't, I mean they didn't really increase substantially either. So just wondering, were there any sales there that was done at discounted or were they maybe at less, some of the sales that were done were lower-profit margin products? Just kind of wanted to get a sense of the mix in the—

Jeffrey Schwartz, Chief Financial Officer

The mix is a little different. I mean we've got some business that, we've got some accounts that buy lower-priced goods that are doing well. So there is a little bit of a mix issue. But our problem has been, in bikes has been a scale issue more than anything else, is that if we can get the sales up, I really do believe that you're going to see the profit increasing incrementally. We're at a level where the sales are just covering the costs. So, as we saw an increase in sales, you're seeing, despite not even having the gross margins up, you're seeing a nice increase in profits. So I think that's that the way you have to look at it.

Leon Aghazarian, National Bank Financial

Okay. And does anything have to do with, um, on the cost side? Like we see resin prices, for example, going up, we see also freight costs being a factor. I mean do we factor all of those in here or is it really more of a price point—

Jeffrey Schwartz, Chief Financial Officer

In bikes, resin is not a big issue, although there are other costs going up.

Martin Schwartz, President & Chief Executive Officer

It's under control.

Jeffrey Schwartz, Chief Financial Officer

Freight, we do a good job. I mean freight prices, spot prices are going up, but we're pretty locked in for this year. Every year it's different but for this year we're in a good place. So freight's not going to be an issue for us.

I mean there are commodity issues out there. I mean everything's sort of influx. But the gross margin issue, well, on the CSG is not, certainly not cost inputs. At Pacific there was some increases. I think if we look forward into next year, but we don't now, right? We don't know where the tariffs are going to take us, but we do know the Chinese currency is devaluing, which is going to reduce cost inputs. But, again, you got to look at everything sort of together.

So there's a lot of uncertainty but I think we're in a good spot now and we've got some momentum and we're feeling good. Like I wasn't feeling this good at last year, last quarter. There's a lot of uncertainty. And we had a lot of good things happening but they didn't seem to be showing up in the numbers. They're starting to show now, so I have a lot more confidence going forward in the bike business than I did three months ago.

Leon Aghazarian, National Bank Financial

Okay. Fair enough. And if I could just have one follow-up on the bike side. You were mentioning that your clear-out levels are as low as you can remember it to be. Can you give us an idea as to what your inventory looks like right now at that level particularly?

Jeffrey Schwartz, Chief Financial Officer

I mean, no, we don't disclose the inventory, but it is down. I mean on all of our inventory in bikes or are you just saying on...?

Leon Aghazarian, National Bank Financial

Well, I'm saying if your clear-out levels are so low and just kind of how are you seeing you inventory levels as of, you know—

Jeffrey Schwartz, Chief Financial Officer

Okay. I mean I can give you, say, a percentage. You know what? As we answer questions, I'll come back. When we have that, I'll answer that. But yeah, inventories are down. They're definitely down in the bike business. I'll give you a percentage or something.

Leon Aghazarian, National Bank Financial

That's helpful. And then one final one, if I could slip one in, would be just on restructuring cost. I mean, obviously, there was a pretty big amount to the quarter. We know why. Should we expect anything else for Q3 and for Q4? Like what should we be looking towards modelling for—?

Jeffrey Schwartz, Chief Financial Officer

Nothing's announced yet. Everything is fluid in this business and things changing and I cannot say we're not going to go and look at future cost reductions in order to take cost out of the business and some of that might lead to some restructuring. We have nothing imminent. But we do have this continuous improvement plan, which we have to have. I mean consumer products in the last five years, as you can see in our numbers and you see in a lot of people's numbers, it's really difficult to get anywhere. So we've got to be aggressive and we've got to always be looking to make sure that we're putting our spending in the right spot. So we have nothing imminent but I'm not going to say nothing's going to happen in the next year.

Leon Aghazarian, National Bank Financial

Okay. Thank you.

Operator

Your next question comes from the line of Stephen MacLeod with BMO Capital Markets. Your line is open.

Stephen MacLeod, BMO Capital Markets

Thank you. Good afternoon, guys. Just on the Juvenile business, I just wanted to get a little bit of a colour around the strength that you saw in the US. Can you give a little bit of colour as to kind of what the key drivers were there and how much of total Juvenile the US represents?

Jeffrey Schwartz, Chief Financial Officer

We don't normally highlight a specific area, because it's not our policy. I just thought that they did so well that we were going to take a special occasion here to do it. I will explain why. I mean the US is our second biggest market, I believe, after Europe. Is that correct? But let's get down to the drivers behind it. It's really new product. We've introduced a lot of new items in the US at all different price points, the OPP, MPP, HPP, and for the most part they've been really good and they're driving sales.

It's probably what I told everybody online here, if I talked to you about the business, that the Juvenile business lives on new products and we fell behind in our execution of getting new products to market for a number of years. This is going to be a big year and it's going to ride on it and we put out—we haven't put everything on the market yet. There's more stuff coming in three and four. But what we've put it in already is doing well and our relationships with our customers are good and it's showing up in the numbers.

Stephen MacLeod, BMO Capital Markets

Yeah, okay, great. And then just turning to the Home business, you talked about bricks-and-mortar being down quite a bit in the quarter, 10% in the quarter, 50% from the store closings. Do you have any visibility into that headwind beginning to abate?

Jeffrey Schwartz, Chief Financial Officer

I don't think so. That's not a market share issue. That's literally people buying online, right? It's not, you know, I think we're selling as much as we can in bricks-and-mortar but people just are moving more and more online for the type of products we make. So I don't know. I don't know how fast it's going to happen. That's why the e-commerce is growing.

Stephen MacLeod, BMO Capital Markets

Right. Okay, that's great. Thank you very much.

Operator

Your next question comes from the line of Sabahat Khan with RBC Capital Markets. Your line is open.

Sabahat Khan, RBC Capital Markets

Thank you. Just a quick follow-up there on the impairment charge question earlier. For the Chile business, I guess, should we assume that this largely all the write-off specifically for that business? Or is it one of the markets you're continuing to review? Or are you kind of settled on it there now?

Jeffrey Schwartz, Chief Financial Officer

There won't be any more write-offs in Chile. That's it. That's done.

Sabahat Khan, RBC Capital Markets

Okay. And does that mean, I guess, your brick-and-mortar presence there is largely kind of behind you or is that something you're still looking at?

Jeffrey Schwartz, Chief Financial Officer

No. I mean, I think we've closed 10 stores. Our brick-and-mortar, our own stores are not that bad. They're really not. The problem is really that wholesale business in which we had a large market share, a large space of the brick-and-mortar, and then when our customers moved online they kind of went to that endless aisle, so everybody got an opportunity to put their product online. And that's where we lost market share because, A, we weren't that great at getting our product online and, B, we didn't focus on it the same way as some of our competitors did. And that's what's changing now. So we've had the team from Chile up into our Home Furnishings group that we think is one of the best online wholesalers out there, so they've learned a lot. They visited warehouses. So they're really going to up their game and understand what moves to people who buy online. I think we're going to be a lot more competitive. We're going to have the right inventory. So most of our focus and most of our problems do come from the wholesale business. Our retail business is not bad.

Sabahat Khan, RBC Capital Markets

Okay. And then just following up on that, can you maybe talk about some of the e-commerce initiatives that you are undertaking in Juvenile or even in Sports? Or is that is largely just selling on the e-commerce site to your major retailers?

Jeffrey Schwartz, Chief Financial Officer

Yeah, I mean at this point we still are doing major retailers. We're very, very focused on it. We do have experience. One of the things that we can say is given our level of knowledge of how online retailers work in the US, we've been able to go around the world and use that knowledge and get sort of a jump-start on other people in places like Australia. In Europe we're doing very, very well online. Mexico is a new one that' just in the last year, you know, Amazon has going to Mexico. So we understand how to do that, which gives us an advantage over local competitors. So I think we're doing a good job there.

Bikes are a little bit more tricky, as you know. A lot of people don't buy expensive kind of CSG-style bikes online. But we're working a lot with some of our customers, let's say, in the US, who are brick-and-mortar guys on maybe more of the Pacific or the lower end of CSG stuff. We're working with them and we're seeing a lot of success there. So we're seeing a lot of growth on some of the Schwinn brands, Mongoose brand, some GT brand product. So we're doing that as well.

Sabahat Khan, RBC Capital Markets

Okay. And then as you kind of look at the e-commerce penetration in the Home segment, you're at about, I think you said 55% as of the quarter. Do you have a long-term target or a reasonable range that you think you can reach of the next few years? Or is that just... Are you still kind of exploring for that?

Jeffrey Schwartz, Chief Financial Officer

That's the market. I mean it's not really up to what we can do. It's how much more of the market is going to buy online home furnishings, and it seems like it's not stopping. So we're seeing that shift. That goes up. Brick-and-mortars go down. I think we've got to look at brick-and-mortar drop realistically as 5%. Like I said, 5% are just doors closed. But we did have a 5% actual sort of same-store sales type of drop in brick-and-mortar and the 5% increase, no, not a 5% increase, a 3% increase online.

I think moving to—we're very excited about this Cosmo Magazine partnership, because we do have some brands that we sell under. We do have some licensed home furnishing brands and they seem to outperform the non-branded stuff. We think that the market wants something, especially the millennial shopper, who's really our shopper here, first apartment type of furniture. They want something they could recognize, something that's modern and cool, and I think we're going to achieve that with the brand. And I really like the product too. Most people haven't seen the product yet but we really think it's a great look. So I think that that type of initiative is going to really give us a boost. And we're going to see that sort of third, fourth quarter and then into next year.

Those are the type of things we need to kind of supercharge the growth again. We had some great growth and now it's kind of slowed. But we've got some other initiatives. We want to go outside of North America, take this distribution platform and follow our customers, like Amazon and Wayfair, as they go to Europe. We followed them into Canada. That's going well. So there's a lot of growth initiatives that we're working on so we can get back to seeing some growth in the channel.

Sabahat Khan, RBC Capital Markets

Okay. And just on the Juvenile side, you haven't mentioned (inaudible) China facility. Can you kind of maybe update on how production is coming along there and if there are any inroads you're making into the local market as you had additionally commented when you kind of acquired that business over there?

Jeffrey Schwartz, Chief Financial Officer

Well, the factory, I mean we highlighted it in Q1, because there was actually a very poor performer. The performance improved significantly. We did, like I said, raise some prices. I think looking forward with, again, tariffs aside, the currency is certainly in a better spot. Things look good. We're expecting improvements in the second half of the year for the factory. It's not going to be a burden like it was in Q1. So I think that's the important thing for the factory.

As far as domestic, it is improving. It's certainly challenging. I was actually in Shanghai last week, had a show there, so I got the lay of the land, and we are growing. We made a number of products specifically for the Chinese market that can be branded with the Maxi-Cosi name, which is really important. So you'll have a European brand with a product that is designed for Asian tastes. So that, I think, is a different step that we're taking and I hope to see some progress there.

Sabahat Khan, RBC Capital Markets

Okay. And then just the last one for me on kind of in the balance sheet. There was sequential improvement in the leverage ratio there. Do you have sort of a target, maybe by year end or near to medium term, that you're looking to get the full leverage that you can share?

Jeffrey Schwartz, Chief Financial Officer

Basically, we want to keep the bank leverage under 2.5. That's our goal.

Sabahat Khan, RBC Capital Markets

Thank you.

Jeffrey Schwartz, Chief Financial Officer

Just getting back to the inventory question that was asked before, so we're down about 8% in overall sports inventory, and if we look at sort of inventory, ah, from a year ago, if we look at specifically inventories in the performance bike area, it's almost double that.

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 are using a speakerphone, please lift the handset before pressing the keys.

Your next question comes from the line of Derek Lessard with TD Securities. Your line is open.

Derek Lessard, TD Securities

Yeah, no, thanks, guys. My questions have been answered.

Operator

Mr. Schwartz, there are no further questions at this time. Please continue.

Martin Schwartz, President & Chief Executive Officer

Okay. Well, this concludes our call for this afternoon. I just want to thank everybody for being on with us and just have everybody just enjoy your weekend and we'll see you at the next call. Thanks a lot.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.
