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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to the Dorel Industries Fourth Quarter 2017 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 on Thursday, March 8, 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. Good afternoon, everyone, and on behalf of Jeffrey Schwartz and Frank Rana, thank you for joining us for Dorel's fourth quarter and year-end earnings call. We will take your questions following our comments and a reminder that all numbers are in US dollars.

We are pleased with the fourth quarter performance of our businesses and are encouraged with the advancements made last year which set the stage for a positive 2018. Dorel Home posted excellent revenue and operating profit with record online sales continuing to drive their business. Juvenile continues to be transformed into a consumer-centric organization with a heavy emphasis on new products. We have the strongest product pipeline in years featuring exciting, innovative products planned to be launched over the next 18 months. Juvenile has also made important progress in e-commerce with each of its geographic markets projecting growth through 2018. Dorel Sports bounced back from a difficult third quarter despite continuing industry-wide weakness in the global bike market. Dorel Sports has also developed an exciting line-up of new products to be launched throughout the year.

But first, some specifics regarding our three segments. It was another outstanding quarter at Dorel Home where online sales hit yet a further record, representing 57% of the segment's total sales. Internet sales were up at all Dorel Home divisions with the exception of Cosco Home and Office, although Cosco had a solid quarter thanks to the strong performance at brick-and-mortar retail. There has been a significant increase in our Canadian e-commerce business, especially in the fourth quarter. All divisions showed improved operating results. DHP led the way with higher sales and improved margins, due primarily to increased online sales. Ameriwood's import business also contributed to the overall gains. Dorel Home's growth is being driven by the flexibility e-commerce provides. The business has steadily increased and widened its platform of products, which has also allowed us to move into higher price point items, therefore higher margins. Speed and efficiency of distribution have become hallmarks at Dorel Home, strengthening its relationships with major online retailers and consumers in general.

The focus of Juvenile throughout 2017 has been on revenue growth through intensive product development, cost containment, and the simplification of the business. We are working hard to develop into a true consumer-centric company and I'm pleased to say this has manifested into our most robust product pipeline in many years. We have an aggressive plan for 2018. Our premium Maxi-Cosi and Quinny brands are leading our innovation pipeline and will further expand our portfolio offerings globally. We are already seeing the benefits with major product launches through the fourth quarter. The Maxi-Cosi AxissFix Air drew considerable attention and positive reviews from opinion and media groups throughout Europe, including a spot on the 6:00 p.m. TV newscast across Europe. We expect this to translate into strong sales of this revolutionary product. Just as importantly, this is benefiting sales of our regular AxissFix car seats and expects the launch to enhance Maxi-Cosi's overall product portfolio, cementing our leadership in Europe.

Part of our success in improving our product pipeline has been strategic sourcing to complement our in-house capabilities. An example is a new Maxi-Cosi stroller, the new urban Zelia that launched in October with improved time to market, just 12 months from concept to retail stores. It is also the first time Dorel Juvenile has a globally compliant stroller, meeting the standards for North America, Europe, Australia, China, and Brazil. Other key launches planned include the Safety 1st Riva(sp.) travel system and the Maxi-Cosi Magellan car seat, which will launch in Q2 in North America. Both products developed in under two years are in the trial and testing phase to ensure high quality and they hold much promise in the North American market. Riva is a groundbreaking resin stroller made in the US from partially recycled resin and Walmart will be backing the launch heavily as part of its Made-in-the-US objective. Magellan is a flagship Maxi-Cosi car seat that we believe will firmly establish the brand in the premium car seat space in North America.

Infanti, our key regional Latin American brand, recently marked its 15th year anniversary, celebrating its presence and success in more than 20 Latin American countries. Strategized as a 360 degree brand, Infanti plans to cover multiple categories and gradually expand its product line for babies and toddlers.

At the Chinese factory, productivity and the supplier quality have improved significantly. The order backlog has been stabilized and both the production output and the labour force have also been stabilized. The key for success remains the development of a factory focused on critical product categories, primarily car seats and strollers.

In the US, our Columbus factory received an award from Walmart for US-based manufacturing excellence. Walmart also awarded Supplier of the Year in the baby department to Dorel Juvenile USA.

Dorel Juvenile Chile continues to be the juvenile market leader with majority market share, a large retail footprint, and the number one Infanti brand; however, the impact of slowing economies and the growing Internet sales channel are forcing the business to adjust to new market realities. Therefore, they intend to reduce their retail footprint to focus on the most profitable products and locations while remaining a leading retailer. Also, they are investing in e-commerce capabilities to become a leader within the e-commerce sales channel in Chile, Peru, and eventually Colombia.

Despite a continued weak global bicycle market, Dorel Sports grew its top line in Q4, improving considerably from the third quarter driven by strong performance in Cycling Sport Group's international business and at Caloi. Sales at CSG overall were down slightly, although CSG US delivered modest top-line growth as new product introductions such as the revitalized Synapse resonated with the market, aided by right pricing and good distribution. In addition to the Synapse, several new model year 2018 bikes were launched over the past six months, including a new Kids line as well as a new mountain and road bikes, all of which contributed to the fourth quarter with sales increasing more than 50% from the prior year. Discounting has been kept in check, helping profits grow and driving margins.

Evidence of the strength of the Cannondale brand and quality was underlined at the recent Annual 2018 BikeBiz Awards at the London Bike Show. Cannondale was awarded the Prestigious Bike Brand of the Year by selected members of the bicycle industry, an incredible accolade for the entire Cannondale team.

CSG has continued to control spending and limit inventory. Retailers continued to reduce and carefully manage their inventories through Q4, below historic norms, and CSG did a good job of managing this trend. Retail inventory levels are at the lowest in the past three years. While cost controls will continue to be a priority, investments are being made as usual in product development.

Pacific Cycle finished Q4 with a small growth in revenue. Parts and accessories did well and a new line of Mongoose scooters performed better than projected. Pacific Cycle's products remain vibrant and it was awarded numerous new placements in 2017.

The fourth quarter is critical for Caloi and I'm pleased to report that its top line improved due to a better mix of products, including success with Cannondale through a broader and better portfolio.

Overall, the Dorel Sports inventory remains in a healthy position, finishing Q4 with the lowest level in two years. As well, a number of key accounts have been stabilized and a major sporting goods chain will continue to ramp up through the year. We have several new exciting innovative model 2019 bikes, year 2019 bikes in road and mountain to launch, which we fully expect will be enthusiastically received.

And now, for the financial perspective, I'll turn it over to Jeffrey.

Jeffrey Schwartz, Chief Financial Officer

Thank you, Martin. I'll comment on the quarter results and will highlight some key areas.

Consolidated revenue for the quarter was $677 million, up 4.4% from a year ago. Gross profit for the fourth quarter rose to 23.8%, an improvement of 80 basis points. When excluding restructuring and other costs, gross profits increased to 23.8% or 50 basis points, driven primarily by Dorel Home's shift to sales of higher margin items and improved margins in Dorel Sports driven by CSG's reduced amount of discounting.

We reported an operating profit of $9.9 million during the quarter compared to an operating loss of $5.4 million last year but excluding impairment losses, restructuring, and other costs, adjusted operating profit for the quarter was $23.6 million from, ah, was an increase of $23.6 million from $9.9 million to $33.5 million.

For the fourth quarter, the adjusted operating profit improvement was driven by higher e-commerce sales and improved margins within Dorel Home products. Dorel Juvenile and Dorel Home lowered product liability costs. We did have some employee severance and other deferred costs in 2016 that did not repeat again in 2017 within Dorel Juvenile.

Finance expenses decreased by $3.5 million to $8.2 million. When excluding the re-measurement of forward purchase agreement liabilities with respect to the past business acquisition of Caloi of $2.8 million, adjusted finance expenses for the quarter decreased by $700,000 or 7.9% to $8.2 million, mainly due to other interests declining by $1.1 million.

The company's effective tax rate was an expense of 36.3% in 2017 compared to a recovery in 2016 but when we exclude income taxes on impairment losses, restructuring, and other costs, re-measurement of the forward purchase agreement liabilities, and the loss on early extinguishment of long-term debt, the company's adjusted tax rate was 22.5% in 2017 compared to 7.1% 2016. The main cause of the variation was the year-over-year of the adjusted tax rate in different jurisdictions, which is usually the case. The overall impact related to tax rate changes in the company's various jurisdictions between 2016 and 2017 was a net benefit of $2 million. The effective tax rate for 2018 is expected again to be between 20% and 25%.

We recorded, during the fourth quarter, a net loss of $3 million compared to a net loss of $5.6 million; however, adjusted net income for the quarter rose by $12.7 million to $20.4 million from $7.7 million in 2016, which equated to 62% on an adjusted diluted EPS compared to $0.24 last year.

If we go over to Dorel Home business, sales increased by $23.9 million or 13.5%. Online sales were the highest ever recorded in the segment's history as it continued to augment its product platform. For the fourth quarter e-commerce sales represented 57% of the total segment compared to 51% last year in the fourth quarter. The revenue improvement far exceeded the small reduction in brick-and-mortar sales. Gross profit for the quarter rose to 19.3%, an improvement of 250 basis points.

The quarter improvements were attained from a shift in sales to higher margin products throughout the year and offset slightly by higher input and warehouse costs. Warehouse and distribution costs were slightly higher than last year due to the segment's additional overall warehouse footprint.

Operating profit for the quarter rose by $7.3 million or 53% to $21.1 million from $13.8 million. Quarterly operating profit increases were mainly driven by higher e-commerce sales and improved margins and they were partially offset by some higher commission lines and an increased spending on information technology to support the e-commerce platform.

Moving over to Juvenile, fourth quarter revenues increased by $2.9 million or 1.2% to $239 million from $236.4 million but after removing the impact of the exchange rates year over year organic revenues declined by about 2.5% for the quarter, driven mostly by slightly lower revenue at certain mass merchants in the US, partially offset by gains in the market share at online retailers.

Within Dorel Juvenile Chile's group of companies, revenue in local currency fell short of the prior year and as well our expectations. On the positive side, the Brazilian revenue continued to increase by more than 25% versus prior year and that's due to the strength of the Infanti brand in specialty stores and also e-commerce growth. Gross profit for the fourth quarter decreased by 60 basis points to 20.5%. When removing restructuring and other costs, gross profit decreased by only 50 basis points and that's primarily due to lower margins in the Chilean market and Dorel Juvenile China's factory was negatively impacted by commodity price increases, including packaging, plastic, and some metal.

The economies of both Chile and Peru have slowed down over the last several years due to lower commodity prices, primarily copper in Chile, political uncertainty, and changes in consumer behaviour. As such, coupled with the stagnant growth rates expected in Colombia and Panama, Dorel Juvenile revised its assumptions on projected earnings and cash flow growth in the fourth quarter, which resulted in a goodwill impairment charge of $19.9 million at Dorel Juvenile's Latin American group.

Dorel Juvenile's Latin group, defined as Latin America businesses except for Brazil and Mexico, continued to be the market leader with the majority market share, a large retail footprint, and the number one in Infanti brand. The intention is to reduce the retail footprint to focus on the most profitable products and locations while remaining a leading retailer to invest in e-commerce capabilities to become a leader with e-commerce sales channel in its categories.

Dorel Juvenile recorded an operating loss of $13.6 million in the quarter compared to a loss of $17.3 million last year; however, excluding impairment losses, restructuring, and other costs, adjusted operating profit was $10.4 million compared to a loss of $7.1 million, an improvement of $17.5 million. Last year's numbers included a $7.8 million one-time write down of certain deferred development costs and employee severance not included in restructuring. In addition, last year, or in addition, 2017 product liability was lower by $8.7 million versus the year before. Combined, those amounts account for $16.5 million of the year-over-year improvement. The remaining improvement in adjusted operating profit of $1 million was due to reduced operating costs more than offsetting the lower organic sales and margins.

Moving over to the bike business, revenue rose by $1.5 million, less than 1%, but excluding the foreign exchange rate variations in the fourth quarter organic revenues declined by 1.4%, which is significantly better than the previous quarters in 2017. Gross profits for the quarter rose by 160 basis points. When removing restructuring costs, gross profits only increased by 30 basis points; however, there was an increase. Our operating profit increased by $4.6 million to $9.6 million for the quarter and adjusted profit only, ah, adjusted profit actually decreased by $900,000 to $9.3 million when excluding restructuring and other costs.

And with that, I'll pass it back to Martin.

Martin Schwartz, President & Chief Executive Officer

Thank you, Jeffrey.

Regarding our outlook, for Dorel Home, e-commerce opportunities continue to emerge and the segment is capitalizing on them with its broad product assortment and companywide logistics expertise. We expect further growth of Dorel Home revenue with continued operating profit improvements through 2018.

Dorel Juvenile is introducing several significant new products and this will continue through the year. This expanded product portfolio is expected to result in higher revenue and improved adjusted operating profit in 2018. We also see further e-commerce growth as Juvenile is gaining traction and market share online within their product categories. Current first quarter expectations are for a lower adjusted operating profit than prior year with the stated improvements to commence thereafter.

Dorel Sports is expected to deliver higher sales and better operating profit in 2018, driven by new innovative products across all price points in all three of our principal channels, mass market, independent bike dealers, and sporting goods. As with Dorel Juvenile, Q1 last year was strong for Dorel Sports; therefore, the improved operating profit this year is expected in the second quarter and beyond.

We continued to see changes in the traditional brick-and-mortar retail sales channel last year and our companywide strategic focus on e-commerce has allowed us to offset most of these challenges. Should there be a further decline in the financial condition at these at-risk retailers, this could have a short-term negative impact on our overall expectations for the year.

With that, I'll now ask the operator to open the lines for questions and, as always, I ask you to limit your questions to two on the first round. Thank you. Operator?

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 are using a speakerphone before pressing any keys. One moment please for your first question.

The first question comes from Sabahat Khan from RBC Capital Markets. Your line is open.

Sabahat Khan, RBC Capital Markets

Thanks. Just on the Juvenile segment, a couple of questions. So, when you think about your e-commerce strategy and talk about the growth there, are you thinking about your direct-to-consumer sales or is that through retail partners?

Jeffrey Schwartz, Chief Financial Officer

For the most part, that's through retail partners. Doing business online is, even if it is through a third-party, is a different animal, and we're so successful in the Home area and we're catching up on the juvenile as well now.

Sabahat Khan, RBC Capital Markets

And then, I guess, just to support that growth, do you still need to continue to make investments in distribution infrastructure or is that largely set up?

Jeffrey Schwartz, Chief Financial Officer

I think that's largely set up. I mean, it's... Are you talking about in general or...? On the home sector, there could be more structures. On the juvenile, not necessary, but the home, we're considering adding more distribution points as we grow.

Sabahat Khan, RBC Capital Markets

Okay. And then I may have missed this earlier but the impairment in the Juvenile segment in Latin America, which business was that for?

Jeffrey Schwartz, Chief Financial Officer

In juvenile, the Chilean business. Primarily, I mean the reason behind that is, ah, things have changed a lot down there. The economy has been tough. The currency, as in a lot of places, has gone in the wrong direction. And we had such a dominant market share and with the Internet coming on, you know, we're still the largest player but it's just a little bit harder to keep that dominant market share. And we've readjusted our forecast and that led to the impairment. We still have a very good business there, very profitable, but we're moving to be a little more aggressive online and less aggressive with the brick-and-mortars.

Sabahat Khan, RBC Capital Markets

Okay. And then just switching over to sport side, you said the comment about the lowest inventory in two years; is that specifically in the independent channel in mass or is that sort of across the board?

Jeffrey Schwartz, Chief Financial Officer

I think it's pretty much across the board. I know it's definitely on the independent channel. I'm not as, ah, I think we've had lower inventory on the mass side before but on the independent channel we're getting much better at carrying the right inventories. I mean we saw that last year. The biggest part of our sales decline in the independent side was less clear-out bikes. By far that was the biggest impact that we had. So we're doing a better job of carrying the right amount of inventory.

Sabahat Khan, RBC Capital Markets

Thanks. And then, just one last quick one for me on the Home segment: Do you see, is there a ceiling that you see on the e-commerce penetration for the sales in that segment or do you think that can continue to grow for a while?

Jeffrey Schwartz, Chief Financial Officer

I don't see any ceiling at this point.

Sabahat Khan, RBC Capital Markets

Thank you.

Operator

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

Evan, TD Securities

Hi, guys. It's Evan in for Derek. So, just again, on your e-commerce strategy in Juvenile, I was wondering if you could talk a little bit more about that. Specifically, how much is e-commerce now as a percentage of your Juvenile sales and where do you think you can take that to? Does it make sense that it can reach the level of Dorel Home? And, if not, what's the difference between the two divisions?

Jeffrey Schwartz, Chief Financial Officer

Okay. So, I don't have the number, but it's significantly less than that. Although it is, I will say internationally, if you look at our penetration in Europe, in South America, particularly Brazil, and North America, it is a solid number. It's certainly a double-digit number in all of those markets. And I know it's growing here in Canada. Australia is a little bit behind. Certainly in China it's probably way more than 50% of our business. So, it's a very important thing.

I have reservations in North America about seeing it get to the same levels of home furnishings. And probably the reason for that is, ah, I do believe one of the reasons home furnishings is so popular is the delivery option, that a lot of the furniture you buy doesn't fit in your car and therefore the best way to get it to your house is buying it online. And that's not necessarily the case with Juvenile. So, there's other motivations that don't come into play with Juvenile that I think we will keep it less than on the home furnishing side.

Evan, TD Securities

Okay, great. Thanks. And just on Dorel Sports, can you add some colour on the difficulties you are seeing in the North American bike market, both on mass merchant and IBD sides? And, specifically, are you seeing any pressure from any new competitors on the IBD side? And just any other general thoughts on your distributions in IBD versus direct-to-consumer type.

Jeffrey Schwartz, Chief Financial Officer

Weather certainly hurt us at the mass side a lot last year. I mean there is no question. I don't know of any real mass account that had a great year or even like much of an up year below very low single digits. So I think as an industry it was tough.

From a competitive standpoint, there is a few, there's always players, but I don't think there's anybody new on the independent side that's taking large market share. It's the same people reshuffling and doing different things. I think the problem is, is the market itself isn't really growing. And it is growing in some categories, so you've got to be in the right category with the right products. We've had—last year I think our kids business was up 50% or more so, you know, if you're in the right category with the right products, you can do it, but road bikes still continue to be a slightly down category. So, I don't think it's really competitive from actual player that's the issue, it's just sort of the industry is kind of flat. But keep in mind, if you pull out our clear-out bikes, we really didn't go down very much in sales in the IBD last year.

Evan, TD Securities

Okay, great. Thanks. And just one other quick one. In terms of your guidance, can you help us understand why you feel it'd be hard to exceed year-ago profits in Juvenile and Sports in Q1? Or I guess remind us why the year-ago—

Jeffrey Schwartz, Chief Financial Officer

It's more of they were exceptional quarters, for lots of different reasons, which I'm not going to get into now. There are things that are not repeating that we had in last year's quarter. And you can see a large drop in Q2, particularly on the bike side. So we don't think that's going to be repeated and we think we're just going to, you know, some of it is timing and a lot of it is, on the Juvenile I know, is going to be new products as they start to get launched. We're expecting to see significant improvement because of the new products. I don't think we launched anything in Q1. I think we had a few last year in Q4 and then starting in Q2 we're going to start to see the launch of some of this new stuff. So I think that's what's behind it there. And, like I said, on the bike side it's more of timing when thing shipped last year and we're going to see more of that shipping in Q2.

Evan, TD Securities

Thank you very much.

Operator

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

Stephen MacLeod, BMO Capital Markets

Thank you. Good afternoon. Just two questions here. I just wanted to get some colour around the Sports business. Specifically, you talked about revenues being up in 2018. I'm just wondering if you can give a little bit of colour around what the drivers are there and what some of the risks are to that just given the fact that we're coming off two years of organic declines in the sports business.

Jeffrey Schwartz, Chief Financial Officer

Okay. Well, like I said, on the independent side the bulk of the decline was related to clear-out bikes that we didn't sell. So, our core bikes were pretty close to last year. So, off of that we've got some new sporting goods accounts, for example, that we didn't have last year that we have significantly more business that's, you know, we know we're going to have that. We do have, we think, a much better range of new products in the second half than we had last year, so that's giving us some comfort. We do have, on the mass side we do believe that we won't see the same decline in bikes two years in a row. We do think, you know, historically, when there's been a big drop in sales of units, the following year it bounces back. It doesn't always bounce back exactly to where, you know, the year before the decline, but there's always been a bounce back so we're counting on some of that. So, there are a number of areas that we feel good about getting a bounce back on. And we're also expanding our non-bike business at Pacific Cycle into other sort of wheeled goods, and that's going very well.

Stephen MacLeod, BMO Capital Markets

Okay. And is that mostly in the kid's side?

Jeffrey Schwartz, Chief Financial Officer

Yeah, it'll mostly be on the kid's side. Yes.

Stephen MacLeod, BMO Capital Markets

Okay. Okay, that's great. And then just as you think about the Juvenile business through the year, I'm just trying to get a sense as to what sort of magnitude of growth you're expecting and does it kind of build through the year or does it coincide pretty closely with the timing of product launches?

Jeffrey Schwartz, Chief Financial Officer

It's very much timing of product launches. So, although—it's not so much filling the pipeline as much as it is having a new product. We have a lot of new products, so we're expecting certain things from each one. Hopefully they hit our expectations. So it's difficult to tell you exactly which quarter is going to be what, but as a new product does well, you know, it starts in month five, let's say, and then every month after that it's in the sales, and then we have another starts in month seven and another one starts in month nine. So, all of that should continue to push up our revenues as the year goes on.

Stephen MacLeod, BMO Capital Markets

And are you able to give any colour as to what sort of magnitude do you expect? I mean are we talking about sort of low—?

Jeffrey Schwartz, Chief Financial Officer

You know what? It's a new product launch and I wouldn't... I mean we have internal numbers, but I wouldn't share that because it's difficult. So we'll see how the markets... We like what we have, this is some of the best stuff I've seen come out within years and years, but we've got to wait and see how the market reacts and I won't be giving a predication on it. We haven't shown a lot of it to the market yet, so it's difficult to get that reaction.

Stephen MacLeod, BMO Capital Markets

Okay. Okay, that's great. Thank you.

Operator

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

Your next question comes from Derek Dley from Canaccord Genuity. Your line is now open.

Alex, Canaccord Genuity

Hi, everyone. This is Alex of behalf of Derek. Thanks for taking my questions. So just first, and I know we've talked a lot about brick-and-motor performance, but can you just please expand on the financial health of your key kind of brick-and-mortar retailers in the Juvenile business and how you expect this to impact the business going forward?

Jeffrey Schwartz, Chief Financial Officer

I think we've made reference to there are a few players out there that are less than full health and that's something that's very difficult for us to, you know, I don't have any more insight than you do on some of these accounts. So, yeah, it could have, you know, if some of them were to disappear, then it could have a short-term impact.

Juvenile is a product category that you know you're going to sell, right? It's not a matter of losing those categories. I guess maybe some of the better news would be on some of these accounts we're not leading market share on Juvenile, so if they do move over to another retailer where we have better market share perhaps that will ultimately lead to higher sales. But I won't, I can't comment on specific accounts.

Alex, Canaccord Genuity

Okay. Just to confirm, it sounds like you're confident though in the ability to kind of push the sales through other channels.

Jeffrey Schwartz, Chief Financial Officer

Yeah. I mean there would be a short-term impact, there is no question, but yeah, our best customers are doing pretty well.

Alex, Canaccord Genuity

Okay. Thank you. I just had a kind of a follow-up on that but we've kind of seen an uptick in trade receivables over last couple of quarters, is there are anything that's kind of underlying that might relate to the financial health of some of your retailers? And do you expect this kind build up on trade receivables to continue?

Jeffrey Schwartz, Chief Financial Officer

No, there is no—like even the people that are, you know, have questionable health have been paying on time. So we're not really seeing... What are we seeing here? One day more? Yeah. I mean, that's for the whole year.

But no, there's no correlation between their timing of payments and their health. They're still paying on time, it just goes beyond that.

Alex, Canaccord Genuity

Okay. Thank you. That's very helpful. Thanks for taking my questions.

Operator

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

Leon Aghazarian, National Bank Financial

Hi. Good afternoon, guys. Just one kind of question for me would be there seems to be a more of a focus right now on developing more products, particularly on the Juvenile side. I think in Martin's prepared remarks there was a, you know, you mentioned a focus on being more of a consumer product company. So I just kind of want to get a sense of what are you looking at through R&D? I mean is that number going to get higher over time as you develop new products? Just kind of want to get a sense of what kind of cost we should be looking for there.

Jeffrey Schwartz, Chief Financial Officer

Yeah. That's a good question. Yes, we are going to be increasing our spend in the Juvenile area on new products this year, probably by a good $10 million plus over previous year just in the Juvenile. And probably a little bit more on the bikes as well, because we are getting into some new exciting stuff there, particularly on the mass side where there is some expense to doing it. But that's what we need to do and we're confident we've got the right people to get it to the market on time now.

We've made a lot of internal changes. And we're already seeing it. I mean these products haven't been launched but they were started last year and we're getting close to getting them into the market and we're excited about that. And I think that's—I have always said, Leon, since day one, that the key in Juvenile is successful new products, and we've done a less than spectacular job in the last few years, I think that's why you haven't seen growth, and I'm hoping now we're going to get back to a growth level.

Leon Aghazarian, National Bank Financial

And is it fair to say that whatever you do spend, for example, in 2018 in Juvenile, I mean the products would be developed more so for 2019, right? Is that kind of the way to look at it, that it takes about a year or so to develop and to hit the market? Or is the timeframe different?

Jeffrey Schwartz, Chief Financial Officer

Yeah. I mean, yes, to point. Yeah. Although a lot of stuff is launching later in the year, so a lot of the expenses are actually being recorded in 2018 for 2018 product. But some of it, you're right, some of it will be 2019 product.

Leon Aghazarian, National Bank Financial

Okay. And then one final one for me would just be on capital allocation. I mean, obviously, you just mentioned a bit of higher R&D, but you're also saying, you know, expecting a better year overall in 2018 versus 2017. Just kind of what are your thoughts in terms of the cash flow that you'll be generating? Is it going to go to debt repayment? Are you looking at other types of M&A possibly? Or just your views on capital allocation please.

Jeffrey Schwartz, Chief Financial Officer

Probably for now debt repayment would be the primary need.

Leon Aghazarian, National Bank Financial

No significant CapEx or anything like that that's required in the year?

Jeffrey Schwartz, Chief Financial Officer

No, other than an increase in product. So, we're going to have an increase, you know, we're expecting growth, and the growth is going to lead to probably increased working capital along the receivables line, a little bit more CapEx, so that's going to eat in there. But, again, if we don't see the growth, we won't see the increase in working capital. So they're kind of tied together. But that's why I'm not expecting a huge cash flow year, because we're going to be reinvesting it back in the business.

Leon Aghazarian, National Bank Financial

Fair enough. Thanks, guys. Good luck.

Operator

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

Sabahat Khan, RBC Capital Markets

Thanks. Just a quick one for me. You shared some of the organic growth numbers in your press release. Would you have the organic growth in Q4 for the home furnishing segment?

Jeffrey Schwartz, Chief Financial Officer

Well, it would be the same. There is no currency issue.

Sabahat Khan, RBC Capital Markets

Okay. So, it's a reported growth? Okay.

Jeffrey Schwartz, Chief Financial Officer

Yeah. Okay, thank you.

Martin Schwartz, President & Chief Executive Officer

Okay, thanks. Well, that concludes our call. Just want to let everybody know that our annual meeting of shareholders will take place Tuesday, May 22nd at the Ritz Hotel in Montreal. I just want to thank everybody for joining us this afternoon.

Operator

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