CORPORATE PARTICIPANTS

Martin Schwartz
President & Chief Executive Officer

Jeffrey Schwartz
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CONFERENCE CALL PARTICIPANTS

Derek Lessard
TD Securities

Stephen MacLeod
BMO Capital Markets

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Dorel Industries Fourth 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 on Thursday, March 14, 2019.

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

Martin Schwartz, President & Chief Executive Officer

Thank you. Good afternoon and thank you for joining us for Dorel's fourth quarter and 2018 year-end earnings call. With me are Jeffrey Schwartz and Frank Rana. We will take your questions following our comments and please note all numbers are in US dollars.

We have several matters to cover this afternoon, as you have seen from the release we issued this morning. Jeffrey will address our adjusted dividend, update our long-term debt financing and the impairment charges, as well, of course, detail the numbers.

As an overview for the quarter, Dorel Home again performed well and continues to benefit from their market-leading innovations in e-commerce. Fourth quarter earnings; however, were disappointing at Dorel Juvenile and Dorel Sports, as both were affected by lower than expected industry-wide consumer demand over the holiday season and ongoing changes in the consumer products industry. We are actively addressing these realities that require us to be efficient, innovative, and nimble to maintain alignment with consumers and we are therefore initiating a comprehensive global structuring program to evaluate our global footprint, to optimize the company, and to build value for Dorel shareholders.

Building on the sustained online success of Dorel Home, we are identifying unique approaches to ensure the long-term success of all of our businesses. As part of the restructuring program, Dorel is undertaking a comprehensive review of our global footprint, including the assets within each business segment. As an immediate result, Dorel has divested its Juvenile distribution operations in Columbia and Panama. The closure of these businesses will improve working capital, reduce costs, and increase profits while allowing Dorel Juvenile to maintain its access to emerging consumer markets in Central America, supplying products through a local distributor. The implementation of the restructuring will be ongoing throughout 2019 with benefits expecting to begin this year and extending into future years, leading to improved performance, cost savings, and enhanced long-term shareholder returns. And we will provide updates as it goes.

Reviewing our segments for Q4, Dorel Sports, both the Cycling Sports Group and Caloi had a good quarter. CSG turned around nicely, mainly from growth in Europe and in the US sporting goods channel due to innovation in model year 2019 products. The new Cannondale Habit has received very positive media coverage, including being named Best Mountain Bike Ever by Bicycling Magazine and Editor's Choice Winner from Pinkbike, which has over 800,000 users online. Europe was up substantially on the back of success with the new e-bike platform and traditional bikes, particularly the new Habit and the SystemSix. The European market continues to move rapidly into e-bikes and Cannondale is responding with several models. A new branding program for Cannondale is being progressively implemented across all geographies and is being very well received. In constant currency, Caloi did well with the Cannondale brand, experiencing double-digit growth, and also with an improved Caloi brand 29-inch portfolio, also proving popular. Caloi started supplying the bike sharing business in Brazil, producing 20,000 units for Yellow, a large Brazilian bike sharing service. This is an important step as, together with investments planned over the next few years, this puts Caloi in a competitive position to be a supplier for bike sharing companies. Pacific Cycle was affected by weaker than expected mass channel holiday POS on bikes and battery-powered ride-ons, and by retailer inventory reductions. Their e-commerce business continues to build with significant double-digit growth online, particularly on Black Friday.

Dorel Homes' revenue was up again, although profits were down, mostly due to product mix as well as cost increases in overseas finished goods and tariffs not fully offset by customer prices increases. Q4 e-commerce sales represented a record 59% of total segment revenue. Operational costs were higher to support the segment's continuing growth of its e-commerce business. Inventory levels also increased as product was stocked in advance of expected additional tariffs, which did not materialize in January. Brick-and-mortar sales improved slightly, aided by new business for Cosco Home & Office at a major DIY chain. Branded product sales of CosmoLiving, Novogratz, and Little Seeds are still a small percentage of overall revenue but were up substantially year over year and the fourth quarter experienced a decent start for the Cosmo business. There is progress in Europe where last October Dorel Home acquired the assets and operations of UK-based Alphason, a designer and distributor of award-winning home office and audio visual furniture. Additional Dorel Home product was made available through Alphason's network over the past couple of months and Europe is poised for growth.

Dorel Juvenile continued to face challenges through the quarter, particularly in Europe and Chile. We've made significant changes in Europe, replacing the president and CEO and creating and filling a new position of COO. Both are aligning the organization towards a more consumer-centric mindset as well as accelerating time to market and delivering the product roadmap. In Chile, while the issues were the same as in prior quarters with lower sales and lower margins, the process is continuing to right-size the business. Additional organization changes were made and the new team is aiming to drive e-commerce growth, where margins have already started to improve. The China factory had a good quarter with the highest production output and shipments of the year as well as improved financial performance. Several new products were launched from the factory through the year and continued showing strong demand. We began the rollout of Dorel Juvenile's new streamlined product development process geared towards improved efficiency and speed to market. Dorel Juvenile Europe and Dorel Juvenile USA saw significant product launches thanks to these efforts from the new product development team.

I will now ask Jeffrey to provide the financial perspective.

Jeffrey Schwartz, Chief Financial Officer

Thank you, Martin.

There are number of topics I want to get into before we look at the operations. First let's just talk about a long-term debt update. As you noticed, our debt is currently recorded as short term because of the refinancing of the convertible debt that needs to be done this year. We're in the process of refinancing the—it's $120 million that matures at the end of November of this year. Although no financing agreement is done until signed, we're in the process and we are confident that we're going to get it completed.

On March 8th of this year we amended our bank loans and term loan agreements to facilitate the compliance with our covenants in light of the last 12 months of operations and to permit additional financing from other lenders to refinance and repay the convertible debt. So, that's done. And this amendment extends the maturity of that to 2021 if the convertible debentures are paid or refinanced before May of this year. So, like I said, we are working on it, we're very confident, but until it's done it's not done.

From a dividend standpoint, we analyzed our cash flow going forward and our other commitments and in order to strike a balance and to ensure financial flexibility we're going to adjust our dividend from the former US$1.20 per share on an annual basis to US$0.60 on an annual basis.

We're going to look at, ah, we had, obviously, a very large impairment on our goodwill. I mean this is, you know, we're not the only consumer product company that's run into this problem in the last six months, there are a number of others, and the impairment charge in the fourth quarter was largely driven by a sustained decline in our share price, which caused our market capitalization to be significantly lower than the carrying value of the company's net assets. And in addition, market conditions led us to be more conservative in our future projections of revenues and profits and cash flows, et cetera.

So, as a result, we recorded a gross of $501.4 million non-cash impairment charge during the fourth quarter, of which about $264 million was recorded in Juvenile and $237 million was recorded in Dorel Sports. If we look at this net of the tax, the tax deferment, the number becomes an impairment charge, a net impairment charge of $451 million, which we booked in the fourth quarter.

If I move over to operations, a disappointing quarter in most of the areas, I'd say in all the areas, came in below. I'll go through it and I'll explain to you what happened in the quarters. So, right off the bat, our revenue increased by $6.5 million or 1%. Organic revenue increased by about 3.6% if you take out the impact of foreign exchange as well as removing the impact on the revenue related to the divestment of the Sugoi business that we did during the year. So important that, despite all these problems, we have been, in most areas of our business we are continuing to grow our sales and grow going forward.

In Home, again, continuing to grow our online business. The problem ends up being, you know, brick-and-mortar, we continue to lose doors to bankruptcies. Again, Toys "R" Us at the beginning of the year, Sears and Kmart had problems later in the year, and so on and so forth. We are more than making that up online with our online customers and that's something that, you know, we continue to believe that's going to continue.

In the Juvenile end, an increase in revenues mostly explained by our American and Brazilian businesses. So, again, in America, where we lost Toys "R" Us, and I guess Sears and Kmart for the most part, we've actually been able to drive our sales through that and actually increase them over the previous year. So that's no easy feat and we're very proud of what we've done there; however, offsetting a lot of that increase is, again, the problems we had in our Chilean market.

In Sports, we've had an increase in organic revenue both at CSG and at Caloi; however, our problem in Q4 was pretty much 100% at Pacific Cycle and holiday sales and bikes were not what either the retailers or what we predicted was going to happen.

Gross profit for the company declined by 290 basis points from last year and adjusted gross profit declined by 280 basis points. Some of the big areas there were higher input costs that really didn't get re-priced until December. So these were costs that we're running through a lot of year, certainly Q3 and into Q4. We secured price increases but that didn't take effect until the final month.

Tariffs ended up being more of a big deal than we thought and not necessarily in the standard way. We did pass-on the tariffs to the retailers, some of it was delayed. There was a little bit of absorption against our profit. But what really hurt us was the increase in costs related to some of our divisions, primarily the Home division, bringing in a lot more inventory to avoid the predicted January first second round of tariffs. That never came but, nevertheless, we brought in the inventory, so we paid a lot more for warehousing operations, storing the goods than we anticipated. As a general rule, we saw freight prices across the board in America going up in Q4, as many companies look to bring in goods before January first, and that affected the prices. So the tariffs were actually a lot more severe on our whole operation than just merely a percentage cost on top of an imported item and that's something that we didn't see coming when the quarter started.

Selling expenses for the fourth quarter decreased 3.6%. General and administrative expenses declined in the quarter by 100 basis points, or 11.5%, and that's despite having some unexpected higher product liability costs due to some settlements in Q4 that affected our numbers in the Juvenile sector. Research and development charges in Q4 increased by $2.4 million, or 30%, and that's mainly due to the greater number of products that are coming through Dorel Juvenile. That relates to higher spending and amortization. So, we will see the benefit of that, but definitely affected us in Q4. So, excluding impairment losses on goodwill intangible assets, property point and equipment, restructuring and other costs, the adjusted net income for the quarter was $10 million or $0.31 per diluted share. And if we compare that to the previous year where, again, we're going to remove the impact of Toys "R" Us, last year we had an adjusted earnings of $20 million or $0.62 per diluted share in the quarter.

If we move over to the individual segments, Dorel Home quarter sales increased by $8.3 million or 4%. So, again, pleased that the work that we're doing is at least growing the business forward. As Martin mentioned, online sales is hitting a record. We're now at 59% versus the previous year. Our problem here was gross profits. They declined to 16%, a decrease of 330 basis points over last year.
So, again, the major part of that was, again, we were anticipating the tariff increase on January first and, as such, we accelerated a lot of purchases and it really hit our operation. Like I said before, we had higher freight, higher warehousing, higher operations, higher labour for all of that to absorb that and, at the end of the day, it wasn't needed as the tariffs got postponed. In addition, the product mix was a little bit less favourable, a higher proportion of low margin products, and the fact that we only got the price increases for costs that went up in December as opposed to the beginning of the quarter. So, all of that affected the gross margin. The SG&A declined by $2 million or 11% during the quarter. We had no impairment in this sector and our operating profits went to $17.5 million from $21.1 million.

If we move over to Juvenile, sales increased by $2.3 million or 1%. After removing negative impact of foreign exchange, the result was actually an increase of 4.1%. I think that's important to highlight that had been declining sales for a number of reporting periods and now we've, I believe, focused ourselves to get that back. Quickly, where is that coming from? Like I mentioned before, US sales continue to improve, despite not having Toys “R” Us. Brazil is doing extremely well. Sales in Europe were flat for the quarter. New products were introduced. That is a plus. As people know, we struggled in Q2 and Q3 considerably, and being able to stabilize our business was important. In Chile, however, in local currency, we’ve declined significantly as the market is still finding its feet and there’s been, as we’ve been saying for a long time, a major shift from brick and mortar to the Internet. And both us and our wholesale customers were not ready for that.

Gross profits we’re down 410 basis points in the quarter. This came from a number of things. In Europe, in anticipation of new model introductions to come in 2019, price reductions were put into place to protect shelf space on existing items, which decreased in margin during the quarter. In Chile, again, we had to do some price discounting to try and get the holiday sale numbers in and even then we weren’t able to do that. Several markets have been forced to raise prices as the steady increase in the US dollar and the higher input costs have reduced margins, so all of that is affecting the gross margin area. Selling expenses decreased slightly, 2.4%, and the rest of the business, like I mentioned before, you’ve got R&D that’s up a lot, but I think for some very good reasons. When we exclude the impairment losses on goodwill and intangible assets and restructuring and other costs, the adjusted profit decreased from $8 million to $1.7 million, ah, decreased $8 million to $1.7 million from $9.7 million. Most of it due to lower gross profit and increased product liability expenses.

Dorel Sports, Dorel Sports revenue declined slightly, but when we look at the effect of foreign exchange rates as well as removing the Sugoi from the picture, we actually had an increase of 2.6%, which is pretty good considering all the difficulty was in Pacific Cycle. So, CSG actually posted double-digit organic growth, so we’re finally, we’re feeling really comfortable with CSG. This is a business that we’ve been working on for a while. I would say we believe we’ve really turned the corner now. The products are right, we’re seeing the sales increasing, we’re seeing the margin doing well. And the main areas of growth are both in the European market and in the US sporting goods channel. And we’re very excited about the products that are coming through in calendar year 2019.

Caloi delivered double-digit organic growth in the quarter, both top line and bottom line; however, in US dollar terms it ended up being rather flat because of the decrease in the value of the Brazilian currency year over year. And then, like I said before, Pacific Cycle was definitely the one that decreased as we missed and our customers missed expectations on holiday sales, point-of-sales on bikes and on some other products. Gross profit for the fourth quarter declined 130 basis points versus last year. This is primarily driven by an increase in input costs and tariffs and some unfavourable sales mix at Pacific Cycle and some increased material costs related to the weakened Brazilian real at Caloi.

So, as we’ve discussed post, ah, you know, if we look at the adjusted profit now for the fourth quarter, it decreased by $1.1 million or 17% to $5.1 million when we exclude the impairment losses on goodwill, intangible assets, property plant and equipment, restructuring, and other costs. So it was definitely a disappointment and all of that was related to the mass market business businesses, as the other two businesses performed at least at our expectations.

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

Martin Schwartz, President & Chief Executive Officer

Thank you, Jeffrey.

In terms of our outlook, we expect improved operating profit through 2019 in all the Dorel business segments with expanding product lines, e-commerce innovations, and improved efficiencies. The implementation of our global restructuring program is expected to result in meaningful cost savings. We’re excited about the year ahead.

Specifically by segment, at Dorel Home we anticipate revenue and profit improvements in 2019 led by continued growth in e-commerce sales. Their expansion of key brands, including Little Seeds, Novogratz, and CosmoLiving, is also expected to drive revenue growth while the segment’s new UK-based Alphason should boost profit by the second half as we continue to build-out our infrastructure and sales channels in Europe. While tariffs in the home furnishing segment are not expected to impact sales or profits this year, costs could become affected by anticipated anti-dumping duties on mattresses made in China.

At Dorel Juvenile, we project an improvement in profits this year, buoyed by growth in sales in the majority of our markets. In North America and Europe we expect mid-single-digit revenue increases and improved gross profit on the strength of our new product introductions and market-leading brands. As in 2018, in Latin America we foresee continued growth in Brazil, Peru, and Mexico, while a focused product line and a more rationalized cost base is expected to improve profit in Chile. Dorel Juvenile China should be a positive contributor to earnings this year. Foreign currency fluctuations remain a risk to Juvenile’s earnings. Should the US dollar strengthen significantly from current levels against other currencies, principally the euro and the RMB, their operating profit expectations for 2019 may be dampened.

And finally at Dorel Sports, we anticipate a rebound in profits with segment revenue forecast to grow mid-single digits, driven by price increases related to tariffs passed on to customers of Pacific Cycle. Volume and market share growth, as well as improved profit, are expected at CSG and Caloi. CSG will be driven by recent restructuring efforts and new product innovations, particularly in the expanding e-bike category. At Caloi, we see increased sales with its expansion into the OPP segment and the OEM manufacturing for retail and bike share program. Revenue and profit improvement at Pacific Cycle is expected mostly in the second half based on the rapidly growing e-commerce channel, new customer distribution points, and an expanded product line, which includes a broadened range of electric ride-ons and entering adjacent categories such as scooters.

With that, I will 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. 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 star followed by the number one on your touchtone 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.

Your first question comes from the line of Derek Lessard from TD Securities. Please go ahead.

Derek Lessard, TD Securities

Good afternoon, guys. Maybe if you could just talk about the restructuring program in a little bit more detail. Specifically, I was wondering where you see the most need for change and sort of where your thinking is of where you want to end up as a company, maybe your timeframe and the cost savings you expect?

Jeffrey Schwartz, Chief Financial Officer

I would love answer it, Derek, in detail. It's a little early. I am hoping to be able to give you exactly what you want by Q1. And there is different reasons why we can't answer it yet. I'm going to say we're looking to be lighter and more nimble and we're looking, certainly in the Juvenile sector, where we've got a lot assets, a lot of locations. We're analyzing do we need them all? Do we have to do business the way as we have in the past? There is more there but I really, at this point, I can't really give you the details of the program, but it is absolutely our intention to communicate that to the market as soon as we can. And that would include costs, expectations, timing, more detail about how we want to do everything.

Derek Lessard, TD Securities

Okay. Fair enough. And is part of that going to be a shift to more of an e-commerce platform?

Jeffrey Schwartz, Chief Financial Officer

I think that's happening anyways. I think what we're doing is we're looking at—when I say looking at assets, I don't want to suggest that we're looking to sell our divisions. That's not what we're looking at. But we looked at our business in Columbia and said, you know, we're not really making money here, we're treading water, it doesn't look like we're going to do well next year, why don't we give that someone else? We can still supply to the distributor. And let's sort of take money out of that market and focus on Chile, which is obviously more of a challenge.

So those are the type of things. We're looking at everything and saying if we don't need this, you know, let's turn it into cash, let's move on. And there's a lot of sort of small hanging fruit. But, more importantly, we're looking at is this the way we want to do business going forward given that there is going to be definitely more e-commerce in the future. That's sort of a given, we have to go down that path, but do we need the structure of what we have today to do that? And that's sort of what we're in the middle of looking at and trying to decide what's the best way to do that.

Derek Lessard, TD Securities

Okay. And just wondering if you guys have hired outside help in terms of any consultants to maybe help you with these sorts of decisions.

Jeffrey Schwartz, Chief Financial Officer

Yeah, we've got a number—I mean we've got lots of different projects going. In some cases we have gotten some consultants to help speed up the process and we're now going through the reports, what's doable, what's not doable, what makes sense. But yeah, this is a high, high priority. The world's changed on consumer product companies, not just Dorel, and we need to be more nimble, more able to go with the new way of doing things, and that's what this focus is. So, yes, we are using some outside help to get there.

Derek Lessard, TD Securities

Okay. And maybe just one last one for me is I was just wondering how much was the revenue and EBITDA contribution from Columbia and Panama.

Jeffrey Schwartz, Chief Financial Officer

Well, the EBITDA was pretty flat to... It was very insignificant. And the revenues... What do we...? I mean it'll go... I mean we're not going to lose it all, because now we're going to supply product to a distributor instead of us just being the distributor. So we're not going to see that much of—but you know what? It's not that material. A lot of it has to do with focus and the fact that we've already taken step one of many little steps to get to where we want to go.

Derek Lessard, TD Securities

Okay. And actually maybe just last one for me. I was wondering has the lower holiday demand continued into Q1.

Jeffrey Schwartz, Chief Financial Officer

Well, here's the problem, right? The lower holiday demand was really centred around mass bikes. January and February is not bike season anywhere in North America, so difficult, you know, it's going to be weather related. So, January was warm, POS was up, February was very cold, POS was down, but that doesn't make a quarter or a year. So it's really March, April, May are going to be the big months so we'll have to see how the weather comes out there. The other areas, like we haven't seen any impact on IBD business, we haven't seen any impact in Brazil on bikes. Europe is not impacted. So we just want to put it in a box, the problems were mass at Christmas time.

Derek Lessard, TD Securities

Okay. Thank you.

Operator

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

Your next question comes from the line of Stephen MacLeod from BMO. Please go ahead.

Stephen MacLeod, BMO Capital Markets

Thank you. Good afternoon. I just wanted to follow-up on the last question there around the POS in bikes. Just curious, like why were holiday expectations sort of elevated this year at mass?

Jeffrey Schwartz, Chief Financial Officer

I think what people were expecting was all of that Toys "R" Us business would go to them. I mean Toys "R" Us was not in the marketplace, so I think every one of the remaining retailers thought they would pick it up and they bought accordingly and, as it turned out, they picked up a little bit, but a lot of it just seemed to disappear. It seems like it might have been more of an impulse buy, somebody went in shopping for Christmas, saw a bike and bought it. That's all we can, you know, we're a bit stumped, as are our large customers, as to why people didn't buy more, particularly kids' bikes, during that period.

Stephen MacLeod, BMO Capital Markets

Okay. Okay, that's interesting. And then I guess just finally, or not finally, sorry, but as you right-size the dividend to reduce leverage, can you just talk a little bit about what your target is for net debt to EBITDA?

Jeffrey Schwartz, Chief Financial Officer

Yeah, I think what we want to do by the end of the year is to bring it under, this is now total debt, right, of under three to one.

Stephen MacLeod, BMO Capital Markets

Okay. That's net debt to EBITDA.

Jeffrey Schwartz, Chief Financial Officer

Yes.

Stephen MacLeod, BMO Capital Markets

Was that net? Yeah, okay. Okay, thank you. And then finally, I guess just as you think about 2019, you have a very positive view in terms of improved revenues and operating income, and understanding that the Dorel Home business sort of standing alone as a driver of kind of sales growth in the quarter, what gives you confidence around the visibility you have into Juvenile and Sports?

Jeffrey Schwartz, Chief Financial Officer

Sports, we have a lot of very good momentum, which unfortunately got hidden from CSG. One of the things I forgot to mention, in the quarter we also had a bankruptcy of Evans Cycles, which is a large UK company that was bought over. I don't know if bankruptcy is the right word. They call it administration there. But basically it went into administration, got bought on the same day, and the new owners basically said we're not paying the old bills and let's go forward and let's have a great business going forward. So, we didn't really see that, and that was over $2 million.

So, when we add that to our Q4 CSG numbers, we actually, I think, exceeded our internal budget for them. So, we definitely have momentum, we have great product, very excited product there, and it's doing well. In fact, right now we have a backlog, a large backlog at CSG, which unfortunately is not a good thing in that industry. I mean in some industries it's great to have a backlog but it means we've got orders on products that haven't arrived yet. And, as you can imagine, the hot products sell out and then you have to wait for the new ones to come in and you sit on the stuff that's not as hot. So we have a lot of hot products and a lot of items that people want and so our backlog has really gone up, probably twice what it normally is.

So, on the CSG, I think we're going to get there. Caloi has got some really good momentum, some good plans for this year. The big one is going to be Pacific. And I mean we have our plans, we're not expecting a huge, huge year, but we're going to need some decent weather in the next few months. I mean, if it's going to snow in May, that would dampen our plans, but if we get a normal spring then we should be able, you know, we have a lot of listings, we have a lot of good product out there. We're not anticipating a second round of tariffs. So we don't think that'll dampen it. So, on Sports I think we've got a lot of things working and even though, you know, you look at the last quarter and it's just not there, but between that bankruptcy and Pacific's struggles, it took a big piece out of our expectations.

On the Juvenile side, we're seeing a lot of good things. We've got sales growth in the US and I can tell you most of our competitors don't have that. So we're in a good spot there. In Europe, we've got more and more of this new product coming in. There's no question that some of our problems are, you know, certain product categories have shifted and the type of, whether it be a stroller or a car seat, that's selling today is a new category or a category that wasn't selling a few years ago, and we didn't have the right product in that particular stroller category or particular car seat category. And because of that we've been discounting to keep our space. But we do have that in our line for distribution in 2019. So, we feel good about that.

We've got some new management and I think when we make it through the restructuring, I think that in general we're going to see not just less cost but even faster time to market. We're already seeing that. I mean that's stuff that, unfortunately, the market doesn't see, but we're already seeing products that are getting to, they're not quite on the market but they're actually coming in three months under expectation, some costs are under expectation. These are not things we've had for years. We were always a year late. We were always 20% cost above. I mean we've really done our whole product development mix and we're seeing results and we have a lot of product today that is really hitting the mark. It's not showing up on the bottom line because we've got a lot of noise coming out of places like Chile and some issues here and a product liability settlement that we weren't expecting, and all of that is covering it up, but I am confident that under all of that we've got some good momentum in most markets.

China, we'd always complain how China was pulling us down. Well, China actually finished the year strong and I think is going to start the year strong. So we finally got that business moving. So there's been a lot of internal improvements but I was disappointed. These are not good numbers in Q4. There's no question about it.

Stephen MacLeod, BMO Capital Markets

Right. Okay, no, that's helpful colour. Thanks, guys.

Operator

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

Martin Schwartz, President & Chief Executive Officer

Okay. Well, this concludes today's call. I want to thank everybody for being with us and just watch as we go through 2019. Have a good afternoon. Thank you.

Operator

This concludes today's conference call. Thank you for participating. Please disconnect your lines.

Operator

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