CORPORATE PARTICIPANTS
Martin Schwartz
President & Chief Executive Officer

Jeffrey Schwartz
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS
Derek Lessard
TD Securities

Stephen MacLeod
BMO Capital Markets

Chris
RBC Capital Markets

PRESENTATION
Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Dorel Industries’ Fourth Quarter 2019 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, March 12, 2020.

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 morning and thank you for joining us for Dorel’s fourth quarter and year-end earnings call for the period ended December 30, 2019. Joining me are Jeffrey Schwartz, CFO, and Frank Rana, VP of Finance. We will take your questions following our comments and, as always, all numbers are in US dollars.

Despite a tough quarter, there were some notable achievements during the past quarter. I am proud of the job our teams have done since the third quarter, bringing inventory down by $80 million to more traditional levels. Dorel Sports revenue grew for the third consecutive quarter as our new models, particularly Cannondales, are being widely accepted. While Dorel Juvenile Europe had another weak quarter, overshadowing progress in Dorel Juvenile’s other geographies, there are now definite signs of a turnaround in Europe. Issues at Dorel Home, which were primarily tariff-related, are being resolved and the segment is focused on growing its top line as it prepares to enter new categories. Their e-commerce sales continue the upward trend, representing now 70% of total sales.

Let me turn now to the coronavirus crisis. Our China-based suppliers had been scheduled to reopen the second week of February following Chinese New Years but, due to the virus, only started to reopen February 24, 2020. This temporary lack of manpower created several weeks of supply chain disruptions. Operations at our principal facility in Zhongshan are improving daily and we are now at 100% production capacity. Other factories and suppliers are also back in operations and are shipping, but some not yet at normal levels.

Although production was slower than normal, we did not see any significant impact on consumer spending for Dorel products in January and February. Historically, parents have always bought juvenile products. With travel being increasingly restricted, it’s presumed many people will be staying much closer to home. Historically, people have purchased juvenile products and personal recreation products such as bikes as well as home furnishing during disruptions in the market. Dorel’s product portfolio gives consumers a wide choice of such items at various price points. Our three segments continued to experience increased online shopping and with the virus we expect more of this.

From an operations standpoint, we have spent the last few days putting things in motion to allow those who need to work from home to do so. Life has changed in the short term and here at Dorel we are making the necessary arrangements for people to adapt, while still maintaining business as close to usual as possible. But needless to say, we are closely monitoring the situation and are adapting as required.

Turning to our segments, Dorel Sports had another very good quarter. The last few years of intense innovative
product development continued to provide product that is consistently resonating well with consumers. There is now a complete line-up of Cannondale e-bikes in all key bike categories. The product quality is class-leading and we are experiencing growth simply by having new bikes where the brand was not previously available. Cannondale’s world-class frame technology and engineering are being paired with the industry leaders in e-bike motors. This is important in the mature e-bike European market where competition is fierce and the expectation of performance and quality is high. The results speak for themselves, as sales of Cannondale’s e-bikes and other new models were up considerably in Q4.

Cycling Sports Group’s North American key accounts had another strong quarter, posting organic growth, driven by holiday and online sales. Pacific Cycle also did well with considerable top and bottom line progress due to increased consumer demand. The division implemented an important leadership reorganization in 2019, including naming a new president. The revitalized team now sets the foundation for a rapid and dynamic turnaround of the division. Caloi also grew, driven by price increases and improved mix on higher Cannondale sales volume.

We also announced today that to support its next level of growth, Dorel Sports is strengthening its European CSG operations, which will now be centralized in the Netherlands. The existing assembly plant in Oldenzaal is being transformed into a state-of-the-art facility to more than double its current production capacity of Cannondale models and e-bikes and allow for an increased focus on premium-quality products as demand increases. CSG’s European headquarters is being relocated to Woudenberg in a new scenic campus, which will have an excellent working environment to further CSG’s innovation. And being close to Amsterdam will give us a larger pool of talented people.

We had excellent results in Europe in 2019 and the exciting changes we are announcing today will enable us to better serve our customers, boost our brand presence, and further develop our culture. The reorganization is expected to be fully completed by year end and will result in estimated restructuring costs of between $8 million and $10 million, of which $3.8 million was recorded in the fourth quarter.

There was encouraging news regarding a number of Dorel Juvenile divisions, although challenges remain in Europe. Decreased sales of Europe’s older juvenile models were a drag on the quarter; however, current indications are that the new models introduced towards the end of the year are gaining traction. During the quarter, the European product development team launched the innovative and award-winning Coral infant carrier. Significant shipments began during the current first quarter in most markets. The US model is in development and is on track for release in July 2020. Europe also introduced the Mica infant carrier in record time. The Mica is a critical product in the rotating car seat category and is a huge step in upgrading existing products to more contemporary and premium fashion, enabling us to take price increases on these products. The quarter’s slowdown in Europe overshadowed gains in Dorel Juvenile’s other markets, including our China factory, Dorel Juvenile USA, and Dorel Chile. Inventory was also reduced significantly during Q4; in fact, better than we had anticipated.

At Dorel Home, their e-commerce business continues to account for an increasing proportion of revenue and in Q4 grew by close to 23%, representing 70% of the segment’s total sales, somewhat offsetting decreases in brick-and-mortar. Sales to Dorel Home’s online retailers were very strong, with significant year-over-year growth. Important progress was made in the segment’s inventory reduction with a decrease of just over $40 million from the mid-year high. This will lead to improvements in warehouse efficiencies and related cost savings. Branded sales continue their increase for the quarter, as CosmoLiving, Novogratz, and Little Seeds all substantially beat prior quarter numbers. Dorel Home is actively working to leverage current relationships to grow in new categories and additional channels to further drive brand and commercial sales.

Jeffrey will now provide the financial perspective. Jeffrey?

Jeffrey Schwartz, Chief Financial Officer

Thank you, Martin.

I’m just going to address some numbers for Q4. The year-to-date numbers are available in the press release.

Consolidated revenues for the fourth quarter decreased by $30 million or 4.4%. Organic revenues declined by approximately 3.1% after removing the variation of foreign exchange rates year over year. Revenue and organic revenue declines were mainly in Dorel Juvenile, offset partially by increases in both the Home and Sports sections. In the Home section, as Martin said, the e-commerce channel has continued to drive sales; however, the brick-and-mortar business is declining and we will probably see that continue to decline going into the future. Dorel Sports was up. We had increased point-of-sale business at our Pacific Cycle business and we had a better mix at Caloi, which reflect better sales. That was offset partially by timing of certain shipments at CSG, which are going to fall in Q1. Gross profit for the quarter decreased by 60 basis points to 20.3% compared
to 20.9% last year. Decline was mainly in Dorel Juvenile and Home and partially offset by Dorel Sports.

If we look at some other highlights, finance expenses increased $5.9 million to $14.5 million. Some of that is just the change in the IFRS 16; however, there was an increase of $3.6 million which was due to higher debt balances and a higher average interest rate as well. Overall during the quarter our net loss was $600,000 or $0.02 per share compared to $443 million or $13.68 last year; however, if you remove the impairment charges, the net income declined to $2.3 million compared to $10.3 million last year.

If we move on now to the individual divisions, Dorel Sports had a very good quarter. We were pretty pleased with it. Again, a lot of it is the result of what we’ve been doing at Cannondale for the last couple of years. As Martin said, that business has been steadily growing top line, bottom line as well, as we just round out—it’s more than just products, it’s just being more efficient, a great team that we have, better marketing, better products, better sales. It’s all coming together there. In the fourth quarter the Sports section rose only 0.2% to $233 million. When you exclude the impact of foreign exchange, the organic revenue actually increased by 1.9%. The revenue and organic revenue during the quarter was mainly in Pacific Cycle, driven by stronger sales both at the mass and at the increasingly important e-commerce channel. Caloi also contributed to the revenue growth; however, as we said, CSG, because of the timing of certain sales, actually decreased slightly in the quarter.

During the fourth quarter, gross profit improved by 330 basis points to 24% from 20.7% in the previous year. There was an impairment of trade receivables of $1.8 million this year in the fourth quarter. Last year it was $2 million. So it’s a number to notice. Martin talked about the restructuring charge in Europe that was $3.5 million in the quarter of this year and the segment reported operating profits in the fourth quarter of $9.8 million compared to a loss of $232 million last year. However, when you remove all the impairment losses on goodwill, intangible assets, property, plant and equipment, restructuring and all the other costs, operating profits actually improved by $8.4 million or 164% to $13.6 million versus last year. So, very pleased with that segment.

If we move over to the Juvenile segment, that was a tougher segment there. Dorel Juvenile’s fourth quarter revenue actually declined by 13.6%. The organic revenue declined by 11.6%. So the decline in revenues were mainly in Europe where the demand for older models of the mono-use car seat categories have contracted while the new models recently introduced in the market have just started in Q4 to gain any traction. So really, in a nutshell, that’s what’s happening. We’ve been talking about it all year that we’re behind on some of these models. They were introduced in Q4. We’ll talk a little bit more about how that’s going.

In the US we did have a major retailer reducing orders to decrease their inventory before year end and in Chile we did have some difficulty, if people remember, at the beginning of Q4, with social unrest and closing down of shopping malls. By December, the stores were back open and same-store sales had rebounded by the end of the quarter. These declines were offset by some gains in some other areas. Brazil stands out as having a very good top line in Q4.

When we look at gross profit, gross profit was 24.1% in the quarter versus 25.4%, sorry, 24.1% this year, 25.4% last year. The decline in the profit and adjusted gross profits were mainly due to, again, a less favourable mix in Europe, as we’ve talked about. We’re switching over our product line and Q4 was definitely, I think, the low point in that switch over. The operating loss was $4.1 million during the fourth quarter compared to $265 million last year. If we exclude impairment on goodwill and other items, the adjusted loss was $2.3 million, representing a decline of $4 million from the profit of $1.7 million last year.

If we switch over to Home now, Home’s quarter was relatively flat, increased by about 1% both in declared and organic. The fourth quarter we did see e-commerce now representing 70% of the total segment compared to only 59% in the previous year. So the trend just continues. We expect that to continue to go over 70% as the year goes on. Gross profit was lower at 12.5% in the quarter versus 14% last, sorry, 14% for the full year but 12.5% in 2019, and that declined by 350 basis points from the previous year. That was related to higher warehouse costs, which, again, was related to the inventory levels and larger footprint. A lot of that is behind us now. It cost us again in Q4, but we did finally eliminate a lot of that extra inventory. We have reduced our warehouse footprint and we’re starting this year, in Q1, in a better spot for the cost of running our warehouses, the actual amount of warehouse space we’re using and, most importantly, our delivery times have increased significantly versus the previous year.

Some other negative impacts in the quarter on margin, you know, we still have the tariffs, which we have passed a lot of that on but not all of it and certainly not more than our cost, so then there’s a reduction on that percent even if you do pass on your cost. And then, again, we did have to do some higher promotional incentives to move a lot of the inventory we wanted to get out of our warehouse. So it hit the quarter, although we were successful in removing that product from the system. And at the end, our operating profit did decline by $5.6 million to $11.9
million from the $17.5 million last year and, again, all of that was due to the lower gross margins, which I've talked about.

With that, I'd like to talk a little bit about the impact financially of the coronavirus. To date, all of the impact on Dorel has been because of supply. So, we have lost supply in the month of February as most of the factories in China closed down. We do see a lot of rebounding since the end of February. A lot of factories have come back online. In fact, Dorel owns two factories. We have one, the large one in the southern part of China. That factory, as of today, has 100% employees and is operating very well, so we're very happy about that. The other factory, which is small and produces mostly umbrella strollers, unfortunately, that factory is in the Hubei province, which is the centre of where the virus started. However, good news, today we are discussing with the local authorities and believe that factory will be open anywhere from one to seven days from now. So we think we'll even have that factory up and running.

Otherwise, all other factories, all of the suppliers are back running. We see delays anywhere from three to six weeks' impact, but the good news is that it's all coming back now. Shipping has started again and we're seeing orders being fulfilled. And in some areas we did or will run out of inventory, but a lot of times we did have other inventories or we have enough to cover us until the new inventories arrive. So, there is an impact. We are making it up. We're doing our best to make it up in other areas. But from a supply standpoint, there will be an impact probably to Q1 and Q2 for a reasonably manageable amount. It's not going to be significant.

On demand side, what we know is as of yesterday we have seen no impact on demand. Demand is strong across the board in all three of our businesses. What tomorrow will bring, we will not be able to predict other than, as Martin said, our products are probably good products that will be wanted and needed in an area where people are cocooning, people are avoiding spaces like gyms and large exercise places, you can get out on your bike and get out there, and we're seeing demand for bikes significantly higher than last year at the mass level, for sure. And we're cautiously optimistic that our products will do fine through this crisis. That's what we know. We certainly don't know way more than we know, but I think we've transferred what we know to everybody here.

In terms of our outlook, sales at Dorel Sports remain strong and the segment is anticipating another good year. The China supply chain is improving and product is expected to be increasingly stable as production gradually returns to normal. The year is starting off well at Dorel Juvenile. New products introduced in Europe during the fourth quarter are performing well and we are seeing the start of a turnaround. Dorel Home foresees increased sales as it is planning on entering new categories and channels. It also anticipates growth in its European operations. As well, with inventory now under better control, warehousing and logistics costs will be reduced.

The unknown is the virus. Clearly, the world economy is in uncharted waters due to the ongoing virus, the full impact of which is difficult to predict at this time. No one knows what tomorrow may bring and significant changes are occurring almost on an hourly basis. We are very conscious of that and will continue to do what's best for the company, but first and foremost what's best for the welfare of our employees. The supply chain interruptions in China will impact the delivery of orders in the first quarter and possibly into the second. Despite the improvement, the coronavirus and related foreign exchange impacts will likely affect the first quarter.

With that, I will now ask the operator to open the lines for questions and request that you please 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 the star followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order that 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 Derek Lessard with TD Securities. Please go ahead.

**Derek Lessard, TD Securities**

Thanks and good morning, everybody. Maybe just back to the COVID-19 and the impact on your Chinese facilities, Jeff, you'd mentioned that you're back up to 100% in terms of employment. Did it ever dip low or did was there ever a material impact on labour operations in that facility?
Jeffrey Schwartz, Chief Financial Officer

Absolutely. I mean it was closed for practically the whole month of February. And then it took time to ramp up and all of that. But we’re back to normal. So, yeah, there was an impact. We had a good January. It was a very good profitable facility for us in 2019 and we started off January pretty strong and then nothing happened in February and now we’re back up and we’ve got lots of orders and we’re busy. So, yeah, there is going to be a small impact on that facility, but everything was closed. The entire country closed down for most of February.

Derek Lessard, TD Securities

Okay. And was that because there was, I guess was there COVID infections within the facility or...?

Jeffrey Schwartz, Chief Financial Officer

I’m not aware of it. Keep in mind that the factory closed for Chinese New Year and during the Chinese New Year is when everything started to erupt in China. So, what they did is the government just banned factories from reopening after Chinese New Year.

So, we were closed anyways and scheduled to be closed; therefore, fortunately, we pre-ordered a lot of goods knowing we would be closed for a couple of weeks. And then it just didn’t reopen. The same thing even in the one in the Hubei province was, you know, we’re not aware of any employee or anyone having anything, but it’s just, in that province, it’s taking even longer to reopen factories. But we’re right on the cusp of reopening.

Derek Lessard, TD Securities

Okay. And maybe just a question on Italy, just wondering how much Italy represents in terms of your overall sales, whether in Juvenile or bikes, and if you see an impact from a shutdown, an entire shutdown in that country on your business.

Jeffrey Schwartz, Chief Financial Officer

It’s not material. I don’t have the numbers with me, but it’s one of the smaller markets in Europe for us. I mean I’m sure it’s going to have an impact there. But we are, particularly, I know on the Juvenile side, and again, we didn’t really address it, but we are finally seeing the positive results from introducing the new products that we did at the end of last year. So, we are seeing sales regaining momentum. We are seeing margins increasing. All of the things that we said we need to do for a turnaround, after two months we are seeing that. So that’s really good news for us and we think that that’s going to lead to the turnaround.

And again, the virus is the big wildcard. And so far any impact from the virus on our numbers on a negative basis is strictly supply and currency. So, we have not seen any demand decrease, even though, like I said, supply. If sales aren’t going to be there, it’s not that the demand is not there, it’s because we just were a little bit late in getting the product to market. We hope to catch up in March a little bit from the February shutdown, but that’s what we’re seeing. We’re trying to meet as much demand as we can possibly can in the month of March and that’s where we are.

Derek Lessard, TD Securities

Okay. And maybe one final one before I re-queue, I guess on the supply side. You said one to two quarters, but like if I’m thinking about bikes, will that impact you for. I guess, spring selling season?

Jeffrey Schwartz, Chief Financial Officer

Well, again, we do have a lot of bikes. We brought on a lot of the new models early this year, so we do have a very solid inventory base. But there will be some shift, I know, from Q1 to Q2 as some of the bikes come in. I mean what’s happening is the larger bike suppliers are open, but they were, we’ll call, like level-one factories. They opened before the level-two and three. Level-two and three are part suppliers. So, if your parts, if you run out of, I don’t know, a chain on your bikes because the chain supplier isn’t open yet, that’s impacting the whole industry. So because of that, it’s possible there is a small amount of bikes that will be late, but we’re in relatively decent shape. We do have inventories and we’re going to use those inventories to drive the season.

Derek Lessard, TD Securities

Okay. Thanks. I’ll re-queue.

Operator

Your next question comes from Stephen MacLeod with BMO Capital Markets. Please go ahead.
Stephen MacLeod, BMO Capital Markets

Thank you. Good morning, guys. I just wanted to ask a little bit about the tariff impact. I mean, obviously, there’s a lot of noise going on right now, but you mentioned tariffs impacting the numbers a little bit. Is that something that you expect to continue into Q1 and Q2 in addition to the COVID-19 potential impact?

Jeffrey Schwartz, Chief Financial Officer

Well, no, I think I’ve always said the problem with tariffs was the impact of, not stalling them, but the impact of them coming on and the adjustments that we had to make and the cost of the adjustments, whether it be in inventories. We are now living in that environment of the tariffs and I don’t see that as a reason or an excuse for anything, other than the actual gross profit, when we, you know, if a tariff on a product was $2, we increased our price by $2, but the gross profit actually percentage drops.

So, we’re not going to necessarily recover the percentages of a few years ago prior to tariffs, and that’s what I was referring to, is the actual gross margin is going to be down because of tariffs because we’ve only passed on the cost of the tariff. But I don’t see that as an excuse going forward. We’re all living in that environment, we understand what sells and what doesn’t sell, and we’re all dealing with that. So, I don’t see tariffs as being a new problem. That was last year’s problem, but we’re over it.

Stephen MacLeod, BMO Capital Markets

Yeah. Okay. And then I just wanted to come back to the supply side. Is there any way for you, given the fact that we’re sitting sort of March 12th, is there any way to quantify what the potential supply impact is in the quarter, like in the Q1?

Jeffrey Schwartz, Chief Financial Officer

Well, the problem is, you know, we’ve got our numbers, I’m not going to share them because we’re hoping to catch up in March on stuff that happened in February. So, what gets shipped directly to our customers at the end of the month is a little bit difficult to understand, how much we’re going to catch up, so that’s why I’m going to decline to estimate that. But what we’re trying to do is catch up as much as we can in March on what shortfalls we had in February.

Stephen MacLeod, BMO Capital Markets

Right. Right. Okay. And then I think you may have addressed this, and I apologize if you did, but were there any situations where, because of the supply chain or manufacturing shutdown, you were in a position to not, you know, like your customers were out of inventory and you couldn’t sell anything?

Jeffrey Schwartz, Chief Financial Officer

I mean are there going to be shortages in the marketplace? Probably, of different items. But we do have substitute items as well. And the retailers have been fairly aggressive in monitoring their stock and saying if they’re going to run out, whether it be from us or another supplier, if they’re going to run out of something, because this isn’t a Dorel problem, this is the whole industry’s problem. And if they are going to run out, what other inventory items are out there. We’re using this opportunity to move slower-moving goods. So, at the end of the day, we’ll probably have less of our slower-moving goods than we would have had without the virus, which is a good thing.

Stephen MacLeod, BMO Capital Markets

Right. Okay. And then finally, sticking with the manufacturing theme, understanding that your facilities were closed for February, now back up to 100%. Was that a similar trend that you saw with your third-party suppliers versus Chinese suppliers that you, obviously, don’t own?

Jeffrey Schwartz, Chief Financial Officer

Yeah. Not very many people are at 100%. I think 70% is probably the right number from what I’m hearing right now. And it depends on where they are. I mean there are people in the north, people closer to Hubei province that have less employees at work, and there are people that are far away and have more.

So, it’s all over the place, but anything from, ah, I’ve heard as low as 30% or 40% up to 80% or 90% is probably what we’re looking at. But it gets better every week. So, that’s kind of what we don’t know exactly which week these products are going to come in. Is it going to make it into March? Is it going to end up being the first week of April? We can’t predict at this point.
Stephen MacLeod, BMO Capital Markets

I see. Okay. And so in those situations you are in a position where you are potentially not getting supplied on product.

Jeffrey Schwartz, Chief Financial Officer

I mean it could be a one- or two-week shortage of an item, right? We have so many SKUs in home furnishing, are we going to run out of a SKU, it’s going to come off the website and another SKU will be on, and then as soon as we’re back in stock, it will come back on. So, there are no major issues. And the retailers understand. I mean they have the same problem on anything that they import either directly or from other suppliers. So, everyone is doing the best they can and working together.

Stephen MacLeod, BMO Capital Markets

Yeah. Okay. And then just finally, I was just wondering if you can remind us of your debt covenants.

Jeffrey Schwartz, Chief Financial Officer

Well, we satisfied with them and we don’t generally disclose them. But obviously, if we did have a problem with them, you would know about it.

Stephen MacLeod, BMO Capital Markets

Yeah, okay. Okay, great. Thank you.

Operator

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

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

Chris, RBC Capital Markets

Okay, great. Thanks. And then looking at your leverage profile heading into 2020, can you talk a little bit about your expectations for potential leverage reduction?

Jeffrey Schwartz, Chief Financial Officer

Yeah, I mean I think the biggest problem we had last year was the increase in the inventory. Really, I mean you’ve got to pay for that inventory. So we paid for it, and so our debts went up, and then our EBITDA was challenged and EBITDA went down, and we ended up having higher ratios than we would like. So, where are we going with this? Well, our inventory has come down a lot and we’re going to continue to monitor it and try and even push it down even more. So that will reduce the pressure on the amount of debt that we’re borrowing. We don’t have a lot of other cash expectations. We’re hoping to keep CapEx lower than we have in the past. We don’t have a dividend
now. So I’m expecting the pressure on borrowing to be reduced. And again, hopefully, with the demand staying steady and our cost reduction plans that we have, we can protect our EBITDA and hopefully, grow the EBITDA. Again, the virus is a little, you know, obviously a lot unsettling, but if I can speak without the virus, we would expect the higher EBITDA and lower debts and that would ease any pressure on (inaudible).

Chris, RBC Capital Markets

And then one last one for me: Could you talk about any potential cost savings from the European operations consolidation that you had mentioned?

Jeffrey Schwartz, Chief Financial Officer

It's less about, I guess, a consolidation can be, I describe it as defensive or offensive. So, in the case of our Juvenile, it was a defensive. We needed to remove costs and we had too big a footprint and we went through and we started that last year.

The bike one is a little different. It's more offensive. Our business is growing. It's a good business in Europe, it's a higher-margin business, and we want to be able to meet the challenges of the demand. So this allows us to significantly increase our capacity to assemble, because we do a lot of assembly in Europe because of anti-dumping duties. And at the same time consolidating two offices that we have in two parts of Europe into one so we can work better, we can work faster, we can work smarter under one sort of management team instead of two. That's really the reason behind it. So, I don't necessarily foresee a lot of cost savings, but we do see increased sales and increased...

Chris, RBC Capital Markets

Okay. That's very helpful. That's all for me.

Operator

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

Derek Lessard, TD Securities

Yeah, just a few more for me. I don't know if you guys hit on it, but it seems like your corporate costs were down significantly year over year and sequentially. I'm not sure if I have that right but, if so, do you think you can maybe just help explain why there is such a big drop?

Jeffrey Schwartz, Chief Financial Officer

I'm going to go—I mean it was a difficult year. Bonuses were relatively minor compared to previous years, so that's going to be the chunk. We also took steps to reduce what we can, so there's some of that, and between that and bonuses, and I don't know if there's any other adjustments...

Unknown Speaker

The big part of it, Jeffrey, was those bonuses.

Derek Lessard, TD Securities

Okay. So I guess bonuses are, you know, is it a sustainable, like the number we see there, is that sort of a sustainable level going forward or is that quite—?

Jeffrey Schwartz, Chief Financial Officer

I hope not. I hope it isn't, because I hope we can be able to pay bonuses this year. So, in that sense, I would expect that number to go up, providing we have a reasonably decent year, which we're hoping for.

Derek Lessard, TD Securities

Okay. And maybe just one final one for me and I was wondering, given that a lot of the early season pro races in Europe specifically right now have been cancelled, just wondering if you are able to account for any sales tied to that, sort of that type of exposure with the pro team and marketing and what have you?

Jeffrey Schwartz, Chief Financial Officer

It's a good question, but I don't know if anybody knows the answer to that, right? I mean I don't recall a period in which racing wasn't there and what the impact on bikes would be, so I don’t know the answer to that. We do know, and again it's more anecdotal at this point, but it's people that are saying they don’t want to work out in the gym because they're nervous, they don’t want to go to a spin class because they don’t want to be with people, and instead they're going to get out there and ride their bike and go outside with that. So, we're hoping that that ends
up being a supplement to any difficulty we might have because the races aren’t out there.

Derek Lessard, TD Securities

Okay. Actually, and one final one for me, I was wondering if you’ve gotten any imbalances you saw as you’ve seen your stock price decline, mostly on, you know, on whether or not you’ve had issues with supply or even on the demand side. Just wondering what...

Jeffrey Schwartz, Chief Financial Officer

No, I haven’t had any. I mean it’s quiet. We don’t generally talk a lot to people before we release the numbers. I mean my only thing to point out there is the equity is trading at a level of, I don’t know, a percent of our EBITDA, so it doesn’t make a lot of sense to me where we trade, but I’m not going to comment more on that. Again, our business, it’s tough, but I think we’ve got a lot of our stuff together now and in all three businesses some of the problems are behind us. We have a new problem with the virus, but everybody in the world has that problem. I’m going to say we’re way better off than airline and travel industry and entertainment. There are a lot of people that are in way worse spots than we are but, nevertheless, we don’t know the impact moving forward on even ourselves.

Derek Lessard, TD Securities

That’s fair, but do you have a sense of like the competitive environment in either of your businesses that might be impacted?

Jeffrey Schwartz, Chief Financial Officer

No. I mean I think general demand is going to be there for all three segments. Other people have other issues. Yeah, you know what, there are competitors and have other issues that they have to deal with that are going to get in their way, but I don’t think we have a strategic advantage or disadvantage because of the virus with anybody.

Derek Lessard, TD Securities

Okay. That’s fair enough. I understand it’s hard to answer questions around that. Thanks, guys.