

Q2 and first half year 2019 presentation

12 July 2019

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Norway's #1 discount variety retailer



Customers

- 31 million customer transactions in 2018
- Widely recognised brand and price position¹



Marketing

- Over 1 million leaflets in distribution
- More than 300 000 subscribers to digital newsletter



Stores

- Cost-efficient locations and operations
- 224 of 238 like-for-like (LFL) stores profitable in 2018
- Track-record of 15 new or relocated stores p.a.



Logistics

- More than 40 years of wholesaler experience
- Efficient set-up and nationwide reach
- New modern central warehouse from Q2 2019



Sourcing

- From more than 30 countries
- Pan-Nordic agreement with ÖoB and Tokmanni



263
Stores

¹ Mediacom annual market survey

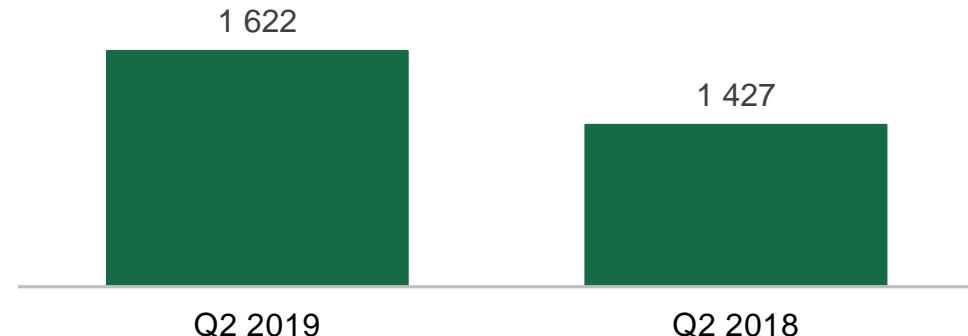
Europolis – a growth story



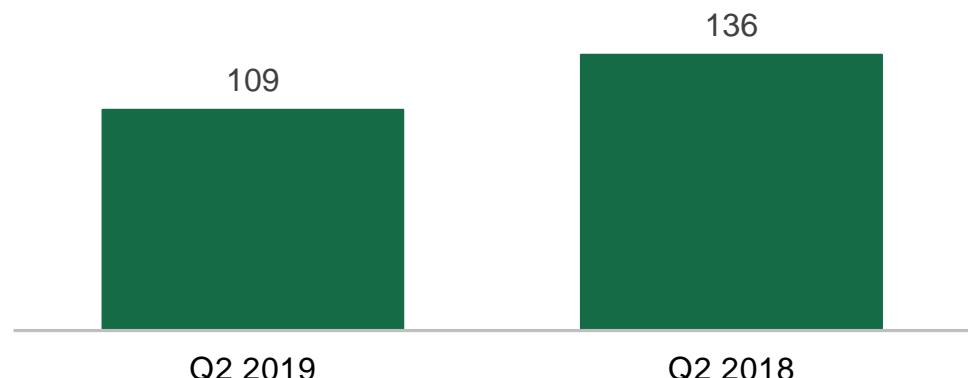
Highlights in the second quarter

- Continued strong top line growth in a soft retail market
 - Group revenue increased by 13.6% to NOK 1,622m (NOK 1,427m)
 - 9.8% like-for-like growth, significantly above market decline of 0.1%
 - Timing of Easter distorts comparability of figures for the quarter
- Gross margin decreased to 42.4% (43.8%) including a NOK 7m loss provision for a potential supplier bankruptcy
- OPEX affected by the high fill-rate at the central warehouse, additional costs of NOK 35m
- Adjusted net profit of NOK 109m (NOK 136m)
- Operations began in the low-bay area of the new warehouse on schedule

Group revenue (NOK million)



Adjusted net profit (NOK million)



Highlights first half 2019

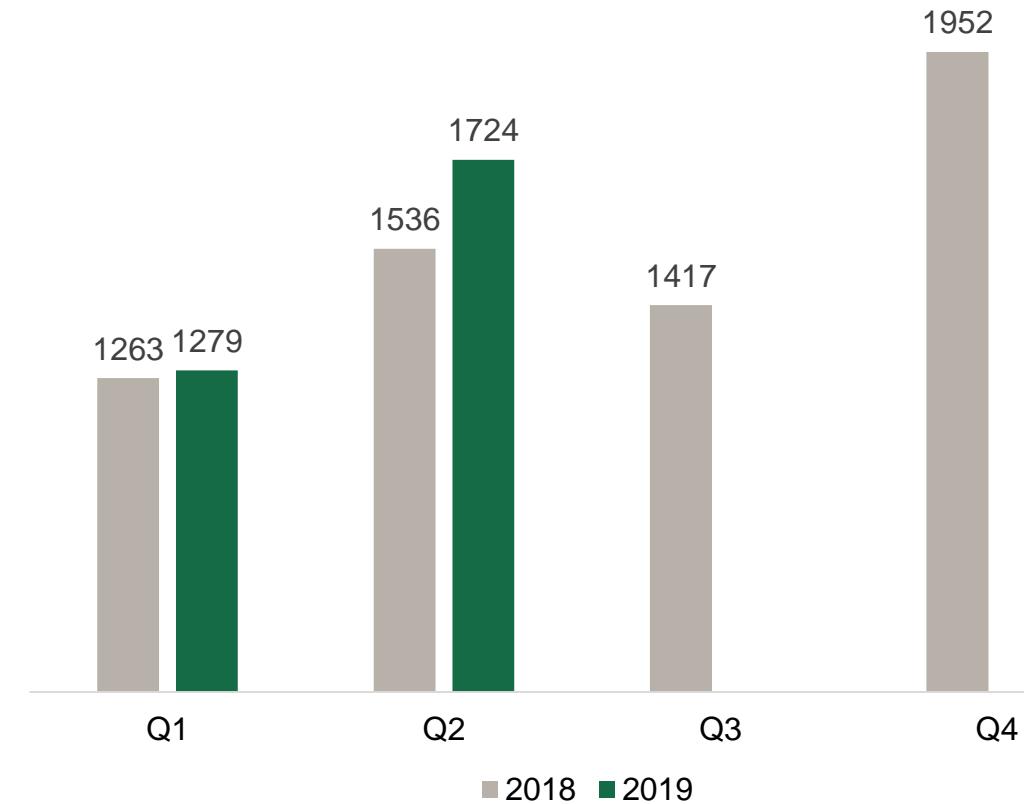
- Group revenue increased by 8.8% to NOK 2,859m (NOK 2,626m)
 - 5.0% like-for-like growth, well above market decline of 0.4%
 - Sales growth was driven by an increased number of customers
 - Five new store openings and three franchise takeovers
- Gross margin decreased to 42.0% (42.6%)
- OPEX affected by increased costs related to high fill-rate at the central warehouse, additional costs of NOK 46m
- Adjusted net profit of NOK 85m (NOK 145m)
- Promising start for the Europris City concept in Oslo



Sales performance

- Total retail sales growth of 12.3% in Q2, well above total market growth of 0.8%⁽¹⁾
 - Timing of Easter distorts comparability
- 5.0% like-for-like sales growth in the first half year
- Number of customers is the main growth driver
- Solid execution of two overlapping seasons
- Focus on implementing the weekly sales campaigns
 - Reduce sold-out conditions
 - Improve customer satisfaction and price position

Retail sales per quarter (NOK million)

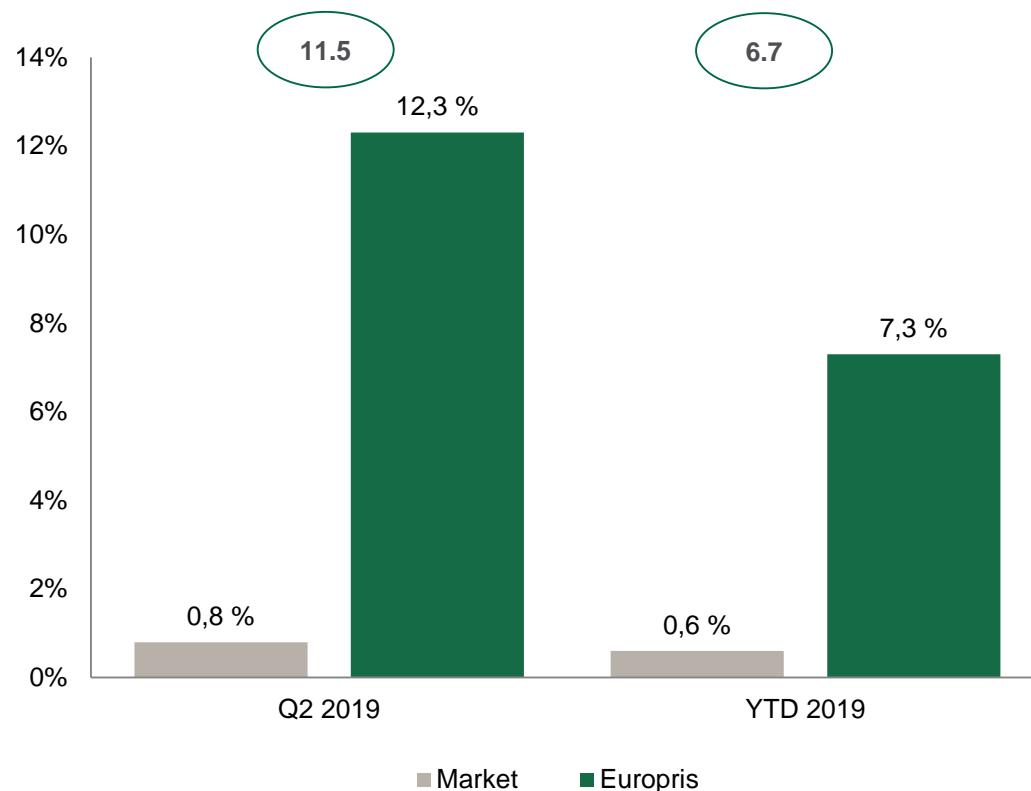


(1) According to Kvarud Analyse shopping centre index

Strong sales growth in a soft retail market

Europolis
MER TIL OVERS

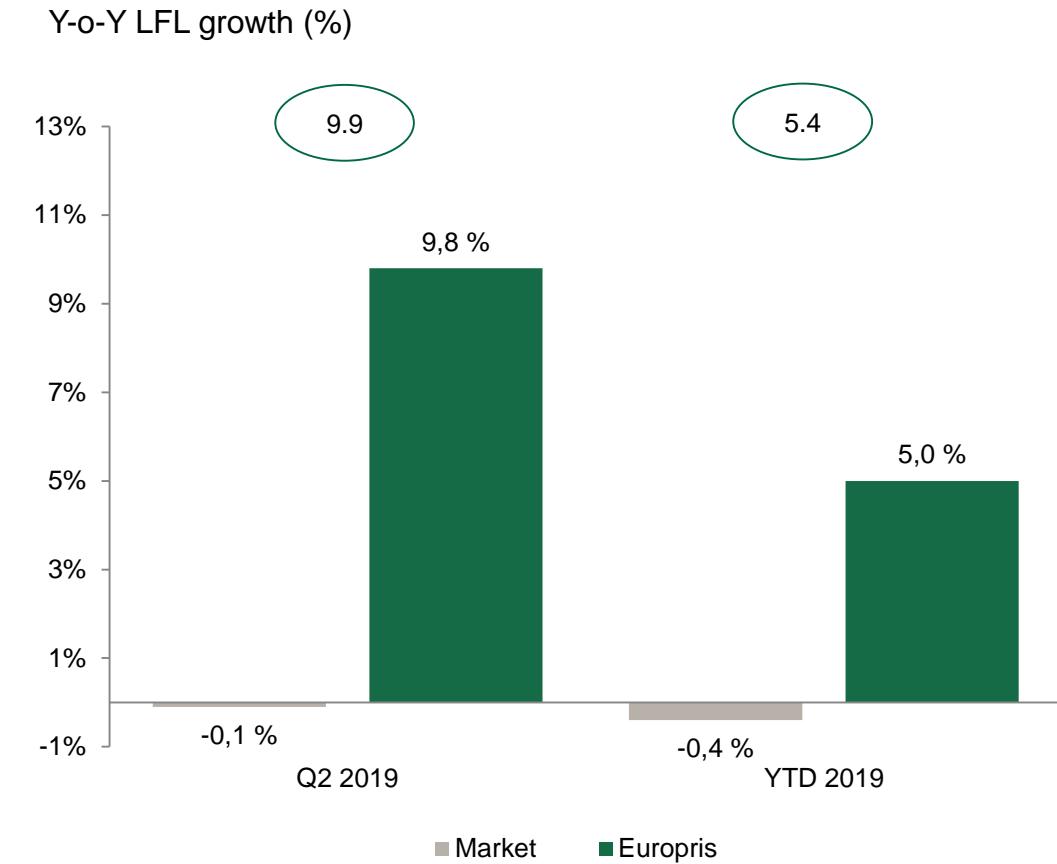
Total growth development



% points

Europolis growth rate in excess of market growth rate in the period

LFL development



Be the *best* discount
variety retailer *in Europe*



Continuous improvement in the seasonal assortment

Europis
MER TIL OVERS



Promising test to the home and kitchen category upgrade

Europ*ris*
MER TIL OVERS



Developing the store estate

- Four new stores opened in the quarter
 - Vestnes, Møre and Romsdal
 - Øksnevad, Rogaland
 - Fosnavåg, Møre and Romsdal
 - Meråker, Trøndelag
- Three store relocations in the quarter
 - Mosjøen, Nordland
 - Bjugn, Trøndelag
 - Elverum, Hedmark
- One more store in pipeline for 2019 and five beyond
 - One of the stores are subject to local authority planning processes
- Promising Europris City concept in Oslo may open up for additional City concept stores
- Closing of the store at Grini postponed - awaiting final decision from the court



Europris Fosnavåg

Opening of the new central warehouse - on time and budget

Europris
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Update on the transition period for the new warehouse



2019

- 1 May: Take over of new warehouse in Moss
- Q2: Operation start in low-bay area. Start testing of high-bay automation
- Q2: Lease expires at one small warehouse in Fredrikstad

2020

- H1: Operation start in high-bay area
- H1: Lease expires at two smaller warehouses in Fredrikstad
- H1: Lease expires at the second largest warehouse in Fredrikstad (changed from Q3/2019)
- H2: Start testing of automation in low-bay area

2021

- H1: Start of automated shuttle solution in low-bay area
- H1: All distribution out of the new warehouse in Moss

2022

- 28 Feb: Lease expires at the largest warehouse, Øra in Fredrikstad

Financial review

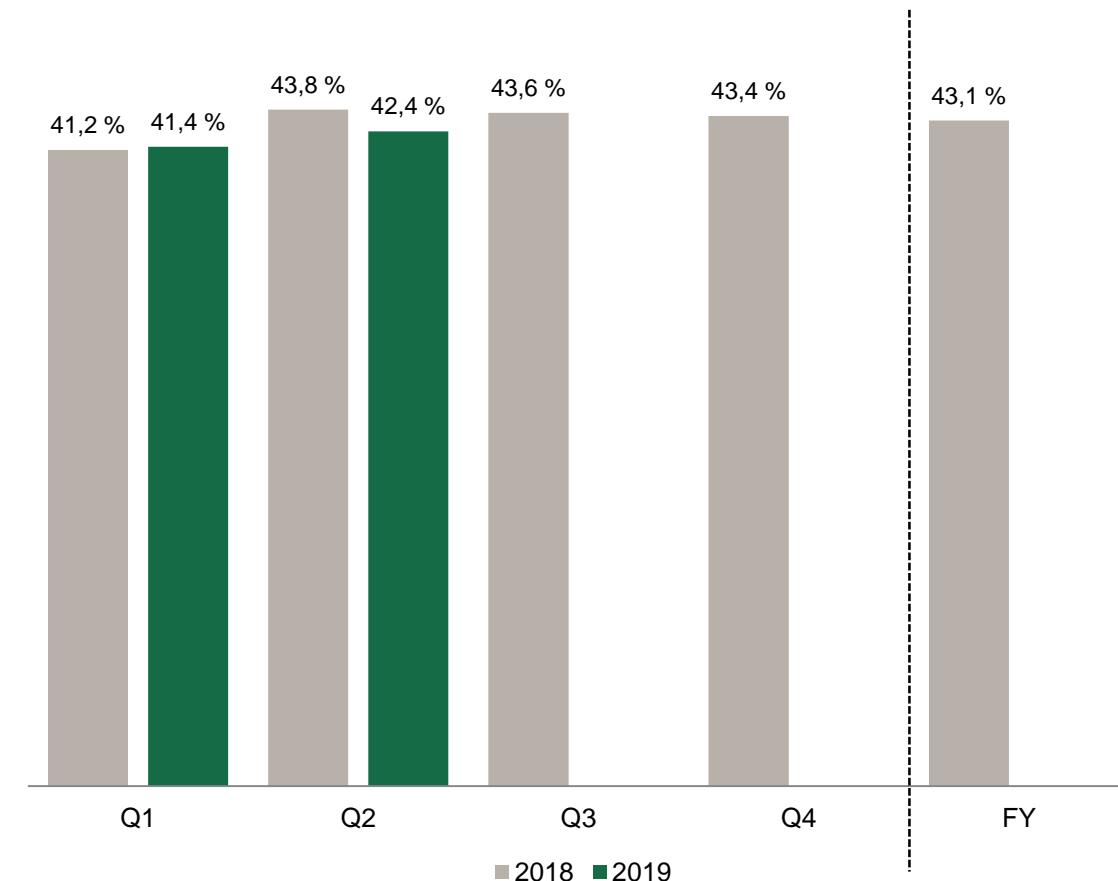
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Gross margin development

- Gross margin was 42.4% in Q2 2019 vs. 43.8% in Q2 2018
- Timing of Easter distorts comparability
 - High sales of lower margin seasonal products during Easter impacts gross margin of app. 0.8%-pts.
- NOK 7m loss provision due to potential supplier bankruptcy with whom Europis had a return agreement
 - Claim originates from return of books in 2018 and 2019
 - Europis stopped payments in October 2018
 - Impacts gross margin of app. 0.4%-pts.

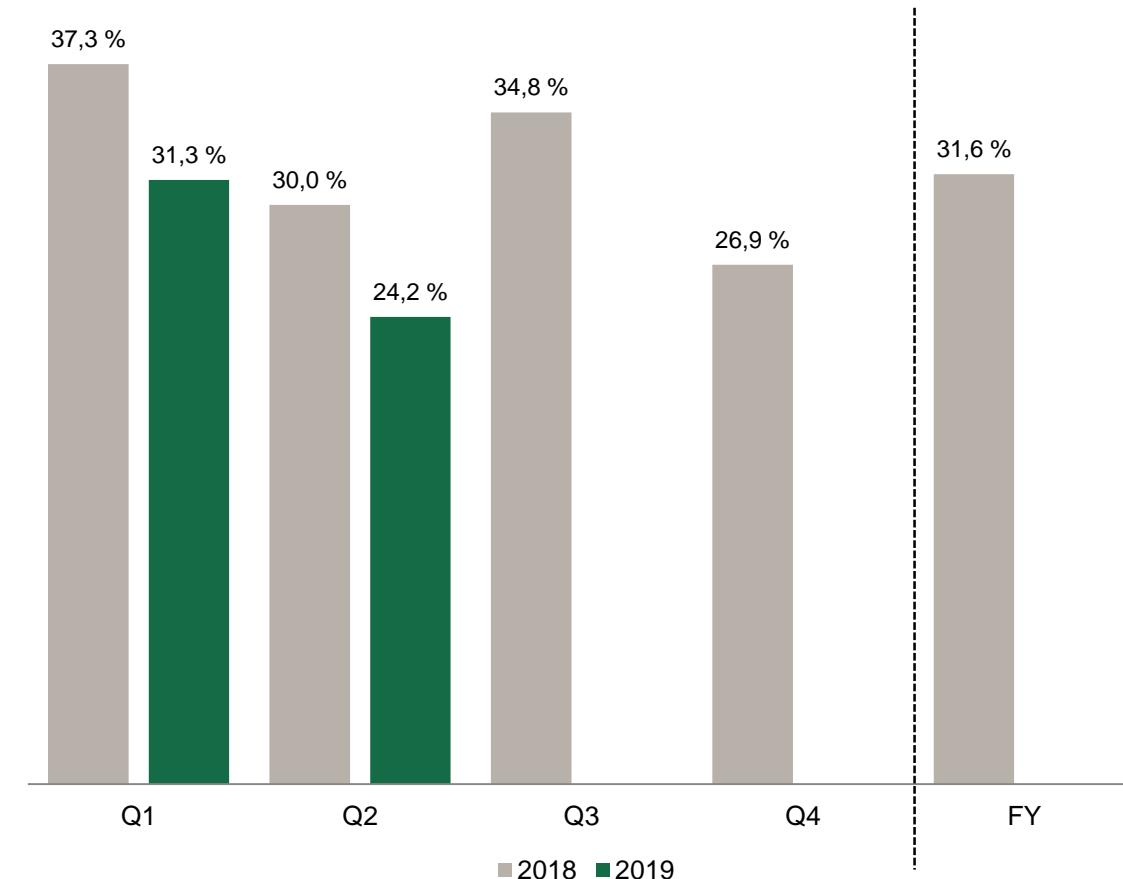
Gross margin



OPEX development

- OPEX in % of revenue was 24.2% in Q2 2019 vs. 30.0% in Q2 2018
 - Adjusted for IFRS 16 effect, the OPEX ratio was 31.1%
- Number of directly operated stores increased from 216 to 229, up by 6.0%
- High fill-rate at central warehouse causes capacity constraints and increased OPEX by NOK 35m in the quarter

OPEX in % of group revenue

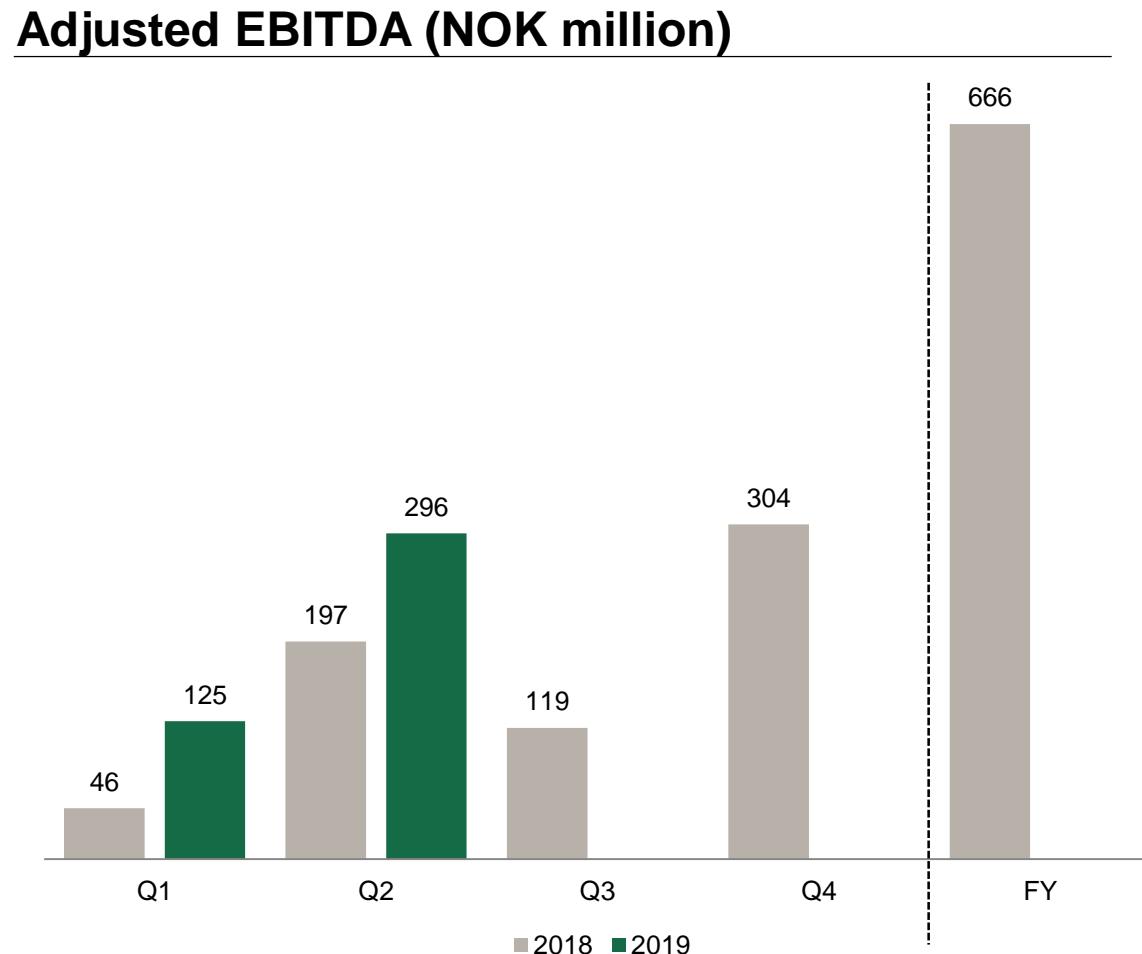


Capacity constraints at central warehouse

- The capacity constraints are caused by misjudgments in the purchase of goods
 - Excessive volumes in non-food categories and too early arrival of summer seasonal goods
 - Major impact in Q2 as this is the most demanding period in terms of goods volume and current warehouse set up is about to be replaced
- Capacity constraints increased OPEX by NOK 35m in the quarter
 - Cost for rent of containers stored in the harbor due to lack of capacity at central warehouse
 - Increased personnel costs due to the high fill-rate and volumes
 - Increased costs for distribution due to internal transport of goods, distribution of seasonal items from temporary warehouse in the harbor and use of third party handling
- Inventory increase includes excess seasonal items
 - Extra costs will occur in this period as a full business cycle is required to normalise the level
- Routines for better control of purchase volumes and flow of incoming goods are implemented
 - Extended rent to 30 June 2020 for part of the vacated warehouse facility in Fredrikstad to secure capacity
 - Reduction of SKU's initiated
 - Additional costs decreased throughout the quarter as warehouse capacity was increased and fill-rate at central warehouse reduced

Adjusted EBITDA development

- Adjusted EBITDA was NOK 296m in Q2 2019 vs NOK 197m in Q2 2018
 - Adjusted for IFRS 16 effect, the adj. EBITDA was NOK 184m
- Adjusted EBITDA affected negatively by the increase in OPEX following the capacity constraints at central warehouse



Cash flow

- Cash used in investing activities increased due to investments in new central warehouse and new head office
- Dividend payment of NOK 299m, up NOK 15m from last year
- Cash and liquidity reserves at the end of Q2 was NOK 336 million

Cash flow, NOK million	Q2 2019	Q2 2018	YTD 2019	YTD 2018
Cash from operating activities	350	191	48	(106)
- of which change in net working capital	147	38	(196)	(223)
Cash used in investing activities	(51)	(23)	(72)	(47)
Cash from financing activities	(303)	(290)	(399)	(291)
Net change in cash	(5)	(122)	(423)	(445)
Cash at beginning of period	10	259	427	582
Cash at end of period	4	136	4	136

Outlook

- Continued growth in long-term revenue and profits supported by the group's leading position in an expanding retail segment
- Short-term impacted by higher OPEX related to capacity constraints at central warehouse and increased rent during the transition period for the new warehouse (2019-2021)
- Continued above market sales growth with a significant gap to market so far this year
- Continue transforming Europris to an omni-channel retailer through e-commerce and e-crm
- Healthy pipeline of new stores
 - Six stores planned for 2019 and beyond
- One franchise takeover completed in April and 1-2 additional takeovers expected during 2019



On the quest to be the best



The goal is to be the best in all four areas below

Price	Number 1 in price perception in Norway, the fight for lower prices continues
Concept	Continuous development, focus on customer need-based flow and distinct shop-in-shop
Value chain and cost efficiency	Nordic sourcing, new warehouse and automation of operations to improve further
Execution and culture	Continue to build on our strong company culture and dedicated employees

Q&A

Next event: Q3 presentation 1 November 2019

Appendix

Appendix

 Sales days and store projects

 Analytical information

 APM's

Sales days and store projects

Number of sales days

Year	Q1	Q2	Q3	Q4	Total
2018	75	73	78	80	306
2019	76	71	79	80	306
2020	77	72	79	80	308

Number of store projects (franchise projects in brackets)

2018	Q1	Q2	Q3	Q4	Total
New stores	2	4	1	2	9
Store closures	-	-	-	1	1
Relocations	2	1 (1)	2 (1)	(1)	5 (3)
Modernisations	5	2	1	1	9

2019E	Q1	Q2	Q3	Q4	Total
New stores	1	4	1	-	6
Store closures	-	-	-	-	-
Relocations	-	3	(1)	2	5 (1)
Modernisations	7	1	2	6	16

Note: Number of projects in 2019 is a moving target, and is subject to change during the year based on operational considerations. An updated view will be presented during the quarterly presentations going forward

Analytical info¹

Seasonality	<ul style="list-style-type: none">As rule-of-thumb, the Easter impact is approximately NOK 50 million in revenue and NOK 10 million of EBITDA
Quarterly OPEX	<ul style="list-style-type: none">As rule-of-thumb, OPEX in year ago quarter + inflation + NOK 1.5 – 1.6 million per extra directly operated store (DOS)
CAPEX	<ul style="list-style-type: none">New store – NOK 2.3 million per store (5 per year)Relocation – NOK 1.5 million per store (10 per year)Modernisation – NOK 1.0 million per store (10 per year)Category development – NOK 10 million per yearIT & Maintenance – NOK 35 million per year
Estimated one-time CAPEX items 2019	<ul style="list-style-type: none">New warehouse and new head office of approximately NOK 30 million (IT, system integration, fixtures and fittings)

Analytical info: New warehouse

NOK million	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	2020	2021	2022
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Investments

IT, office equipment and other (CAPEX)	6	16	~5		~27	~5		
Automation, part 1 (lease)	9	28	~30	~40	~107	~5		
Automation, part 2 (CAPEX)		18	~10	~35	~63	~50		

OPEX items

Ordinary rent	14	19	~18	~18	~69	~70	~52	~39
Redundant warehouse capacity in 2019 and Øra lease from H2 2021 (lease ends March 2022)		1	~4	~2	~8	~4	~0-13	~0-5
Non-recurring moving costs		8			~8-10	~3-5	~3-5	

Alternative performance measures (APMs)

APMs are used by Europis for annual and periodic financial reporting in order to provide a better understanding of Europis' financial performance and are also used by management to measure operating performance. APMs are adjusted IFRS figures defined, calculated and used in a consistent and transparent manner.

Gross profit represents group revenue less the cost of goods sold excluding unrealised foreign currency effects.	Working capital is the sum of inventories, trade receivables and other receivables less the sum of accounts payable and other current liabilities
Opex is the sum of employee benefits expense and other operating expenses.	Capital expenditure is the sum of purchases of fixed assets and intangible assets
EBITDA (earnings before interest, tax, depreciation and amortisation) represents gross profit less Opex.	Net debt is the sum of term loans and financial leases less bank deposits and cash
Adjusted EBITDA is EBITDA adjusted for nonrecurring expenses.	Directly operated store means a store owned and operated by the group
Adjusted profit before tax is net profit before tax adjusted for non-recurring items	Franchise store means a store operated by a franchisee under a franchise agreement with the group
Adjusted net profit is net profit adjusted for non-recurring items	Chain means the sum of directly operated stores and franchise stores
Adjusted earnings per share is adjusted net profit divided by the current number of shares, adjusted by the monthly average of treasury shares	Like-for-like are stores which have been open for every month of the current calendar year and for every month of the previous calendar year