

# Q1 2020 presentation

23 April 2020

CFO and acting CEO Espen Eldal

# Norway's #1 discount variety retailer



## Customers

- 32 million customer transactions in 2019
- Widely recognised brand and price position<sup>1</sup>



## Marketing

- 1 million leaflets in distribution
- Around 400 000 subscribers to digital newsletter



## Stores

- Cost-efficient locations and operations
- 234 of 249 like-for-like (LFL) stores profitable in 2019
- 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



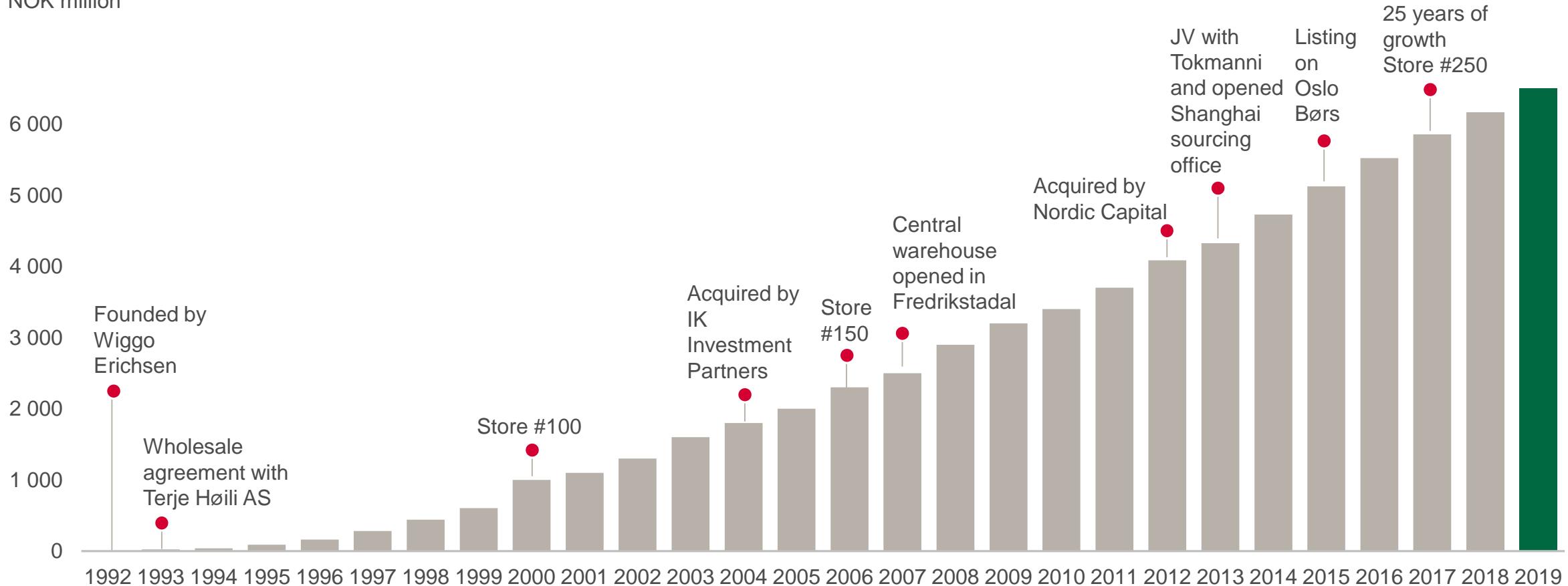
**265**  
Stores

<sup>1</sup> Mediacom annual market survey

# Europis – 27 years with growth

**Europis**  
MER TIL OVERS

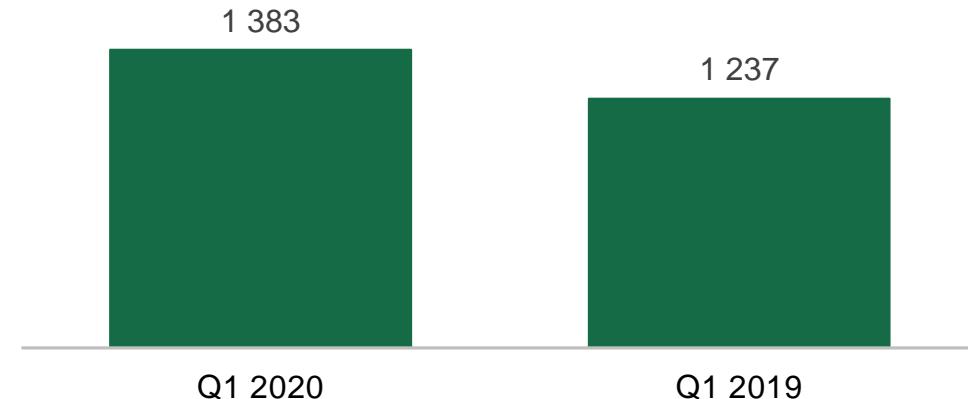
NOK million



# Highlights in the first quarter

- Strong revenue growth driven partly by higher sales following Covid-19 outbreak
  - 10.4% like-for-like growth
- Gross margin reduced by 1%-point to 40.4% (41.4%)
  - Change in product mix owing to increased sales of low-margin groceries and other necessities
- Adjusted EBITDA rose by 21.3% to NOK 152m (125m)
- Profits positively affected by unrealised gain of NOK 31m on hedging contracts and accounts payable (loss of NOK 7m)
  - One-off costs of NOK 8m from refinancing of long-term loans and revolving credits implemented in January
- Solid financial position - cash and available credits of NOK 966m (437m)
- Covid-19: Initiated business continuity plans early to secure employee health, supply of goods and store operations

## Group revenue (NOK million)

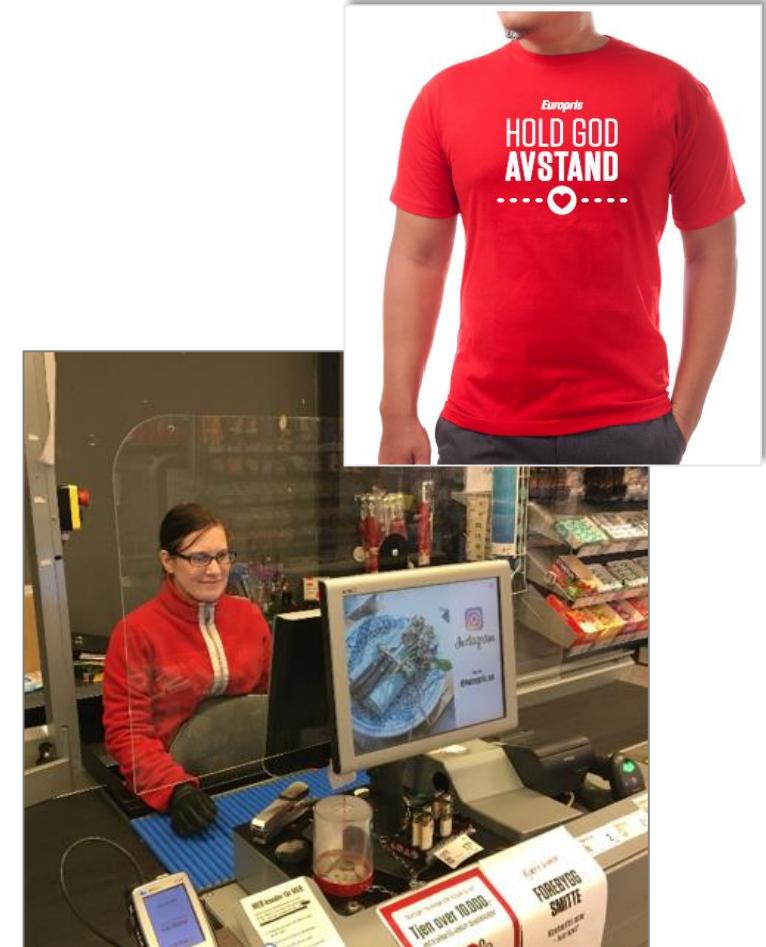


## Adjusted net profit (NOK million)



# Covid-19 operational update

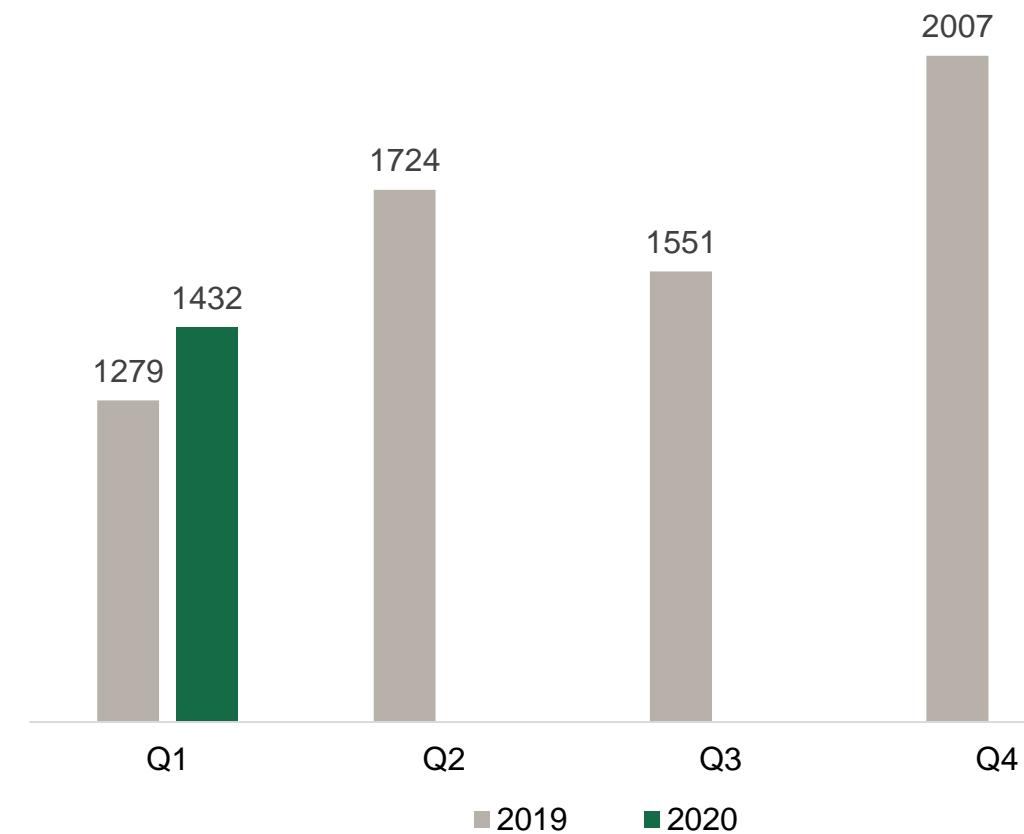
- Safeguarding employees and operations remains the top priority
  - Europris adheres to the guidelines issued by the Norwegian Institute of Public Health
  - Initiated strict procedures in case of outbreaks to ensure quick and safe re-opening of stores
  - Maintains close dialogue with suppliers to safeguard flow of goods – so far only minor delays with certain commodity deliveries
- Early indications to lower customer traffic but larger baskets
  - Hoarding in the first days after national measures was introduced
  - Clear change in customer buying patterns in the following weeks
  - Large geographical variations in sales performance
- Large currency fluctuations in the wake of Covid-19 and oil price fall
  - Purchases in USD and EUR hedged for six months
  - Renegotiations and price adjustments performed on a continuous basis



# Sales performance

- Total retail sales growth of 12% in Q1, well above total market decline of -4.0%<sup>(1)</sup>
  - Good merchandising in the early months
  - Positive sales impact from the effects of Covid-19 at the end of the quarter
- Weak sales in the beginning of the quarter owing to an unusually mild winter
  - Successful change in sales campaigns from winter products to more groceries and necessities
  - Growth in both customer traffic and sales
- Continued strong focus on implementation of campaigns
- Changed sales mix during the quarter to lower-margin groceries and necessities put pressure on margins
  - Gross profit rose as a result of increased turnover

Retail sales per quarter (NOK million)



(1) According to Kvarud Analyse shopping centre index

# Solid merchandising and operational adaptability

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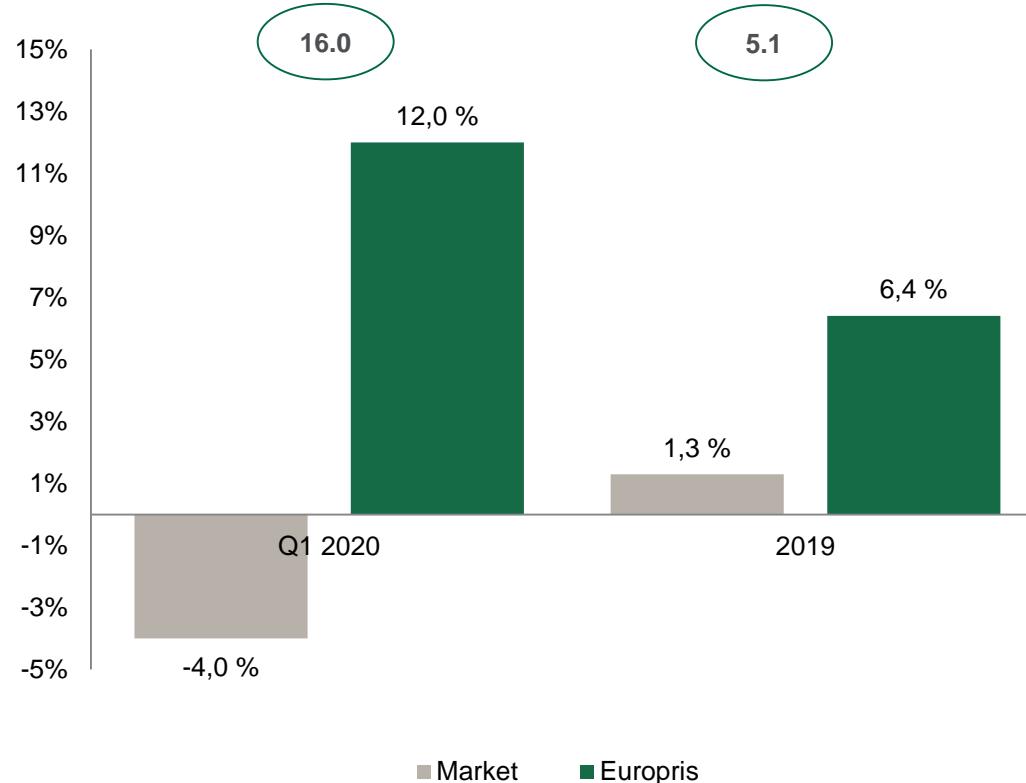
- Weak sales in the beginning of Q1 due to exceptionally mild winter required swift actions
- Significant change in product selection and marketing quickly implemented
  - Shift from seasonal products and concepts to groceries and necessities
- Growth in both customer traffic and sales restored before effects from Covid-19 outbreak
- Employees shown a formidable commitment during Covid-19 outbreak
  - Quickly adapting to new guidelines and changes in customer behaviour



# Strong growth in a challenging retail market

**Europrix**  
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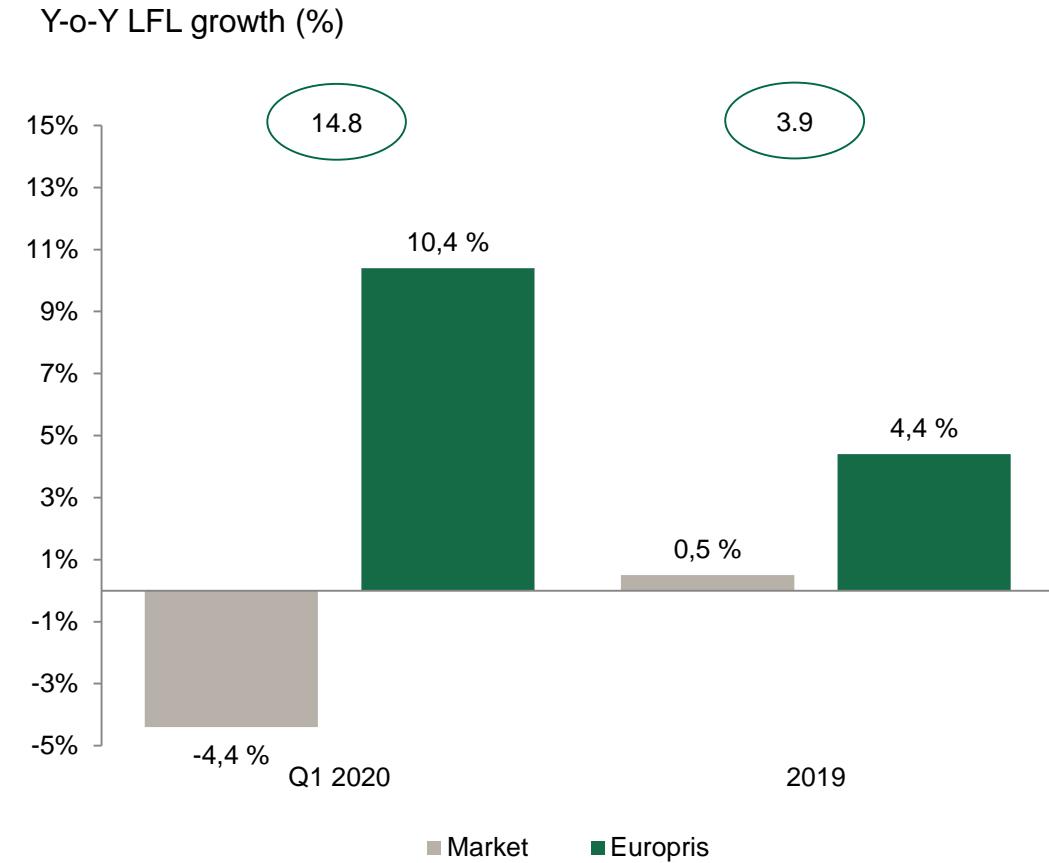
## Total growth development



% points

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

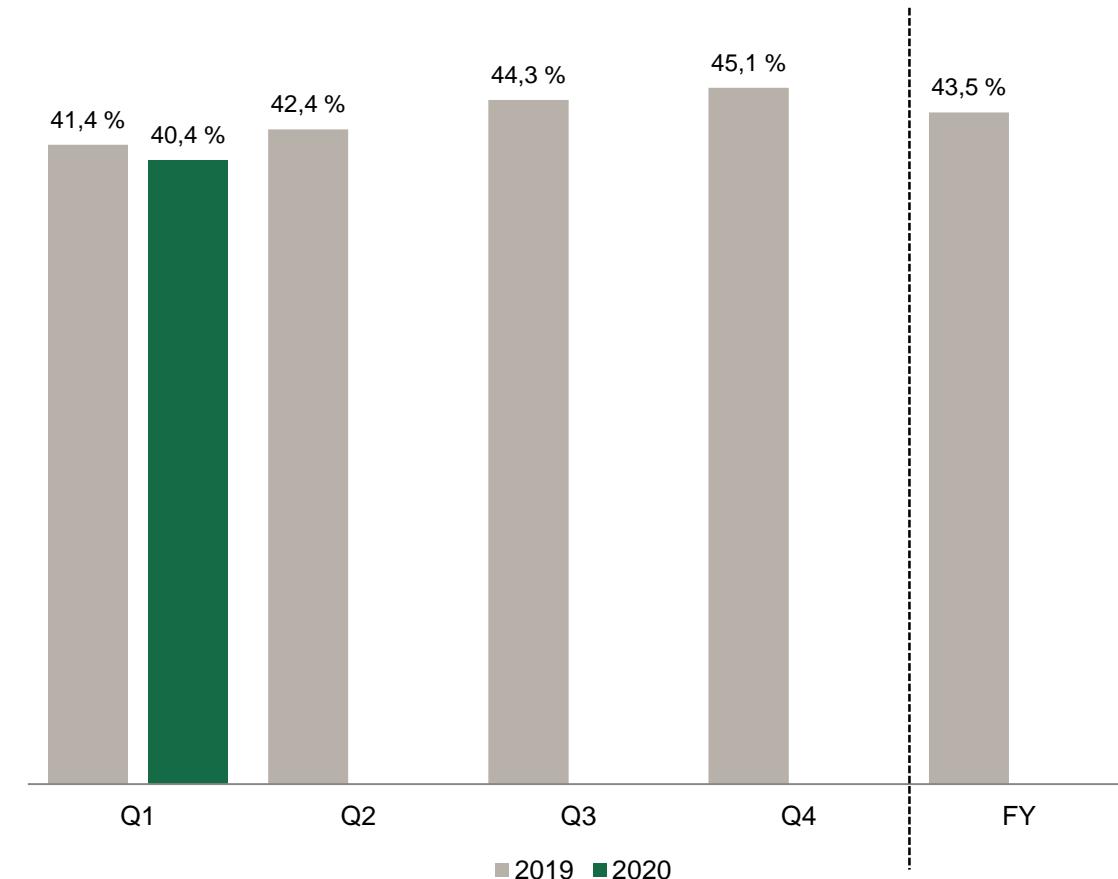
## LFL development



# Gross margin development

- Gross margin was 40.4% in Q1 2020 down from 41.4% in Q1 2019
  - Decreased margin reflected a shift in product mix towards groceries and other necessities which have below-average gross margin
- Gross profit for the group came to NOK 558 million, up 8.9% (NOK 512 million)
  - Increase from high sales growth in the quarter

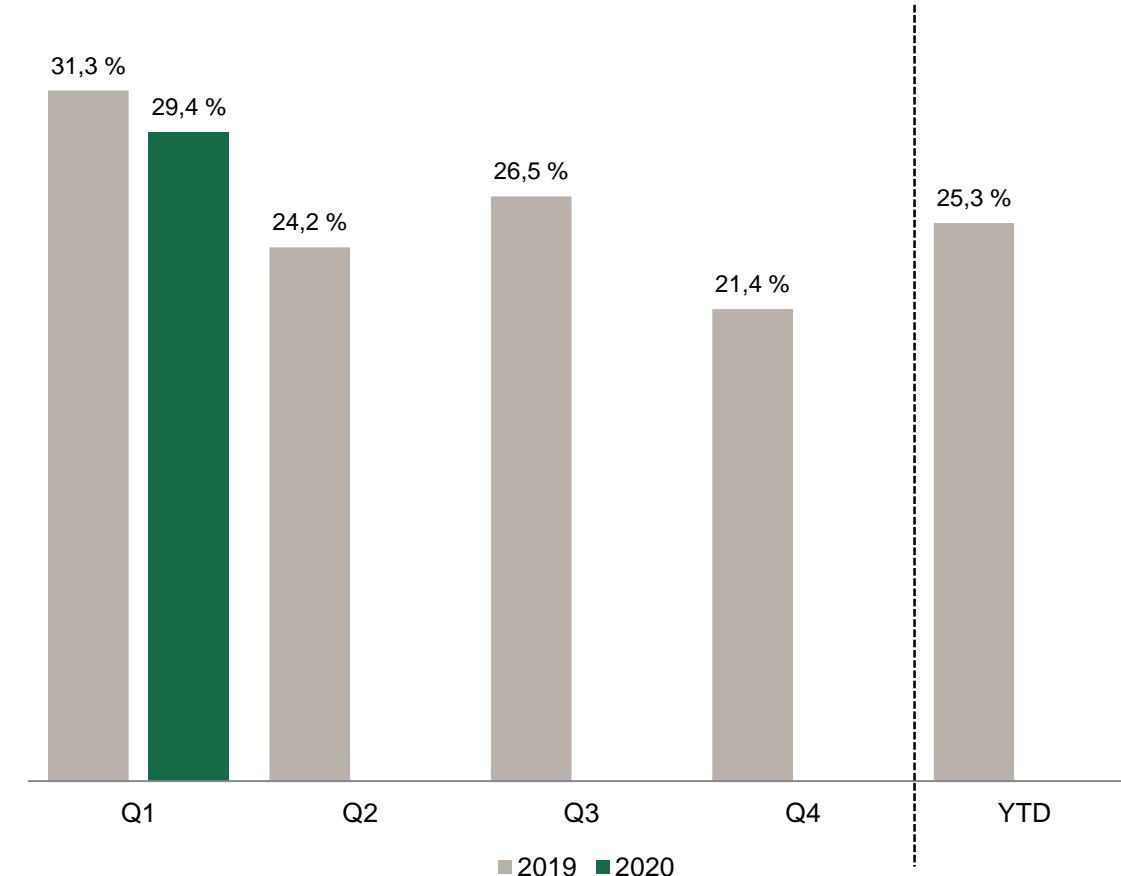
Gross margin



# OPEX development

- OPEX was NOK 406 million in Q1 2020 vs. NOK 387 million in Q1 2019, up by 5%
- Number of directly operated stores increased from 224 to 235, up by 4.9%
- Last year affected by logistics cost of NOK 11m owing to the high fill-rate at the central warehouse
- Non-recurring items of NOK 5m
  - Related to rent for vacated warehouses and moving costs

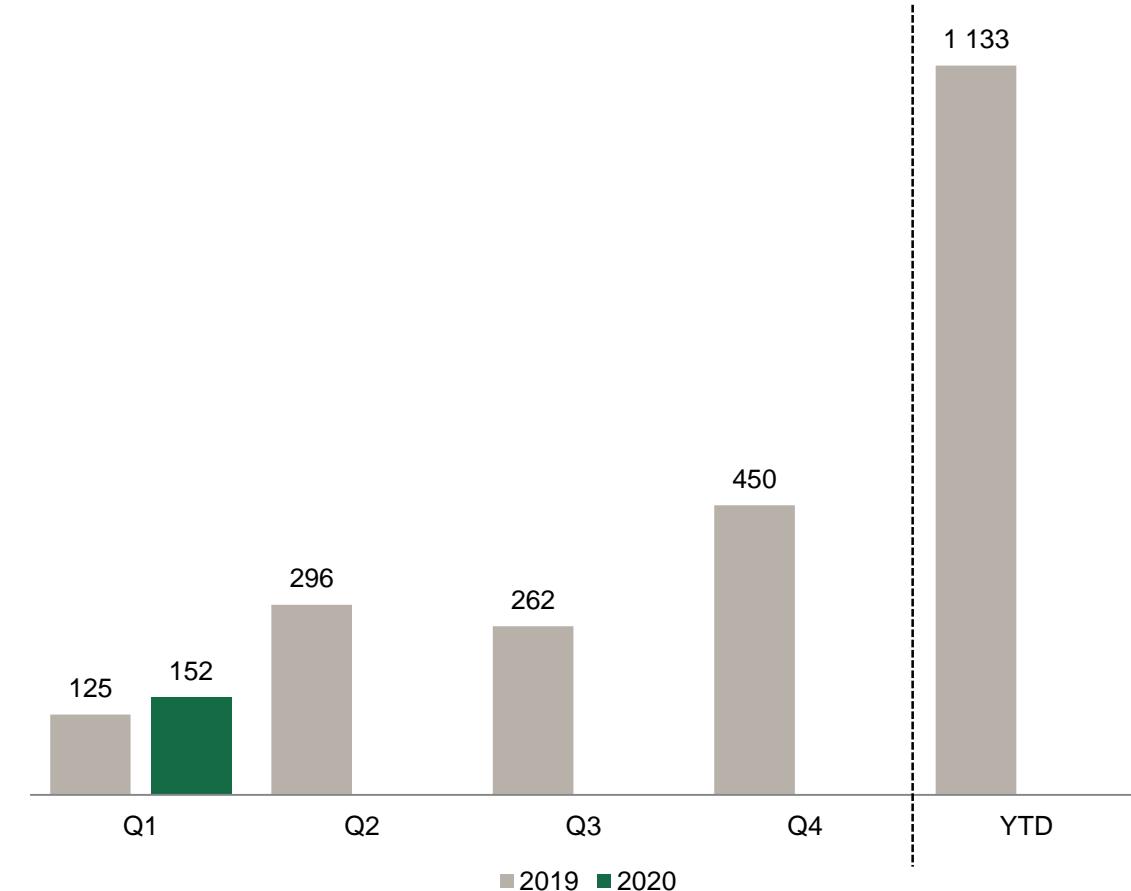
OPEX in % of group revenue



# Adjusted EBITDA development

- Adjusted EBITDA was NOK 152m in Q1 2020 vs NOK 125 million in Q1 2019
- Adjusted EBITDA margin was 11% in Q1 2020 vs 10.1% in Q1 2019
- Adjusted EBITDA affected by
  - Sales growth
  - Increased number of directly operated stores

**Adjusted EBITDA (NOK million)**



# Cash flow

- Net change in working capital in the period was negative at NOK 281m (negative at NOK 342m)
  - Normal inventory build-up ahead of summer season
  - Last year was affected by a rise in inventory levels, mainly at the central warehouse
- Cash from financing activities was affected by refinancing of the bank borrowings
  - The new loan agreement consists of:
    - Term-loan of NOK 1,000 m
    - Revolving credit facilities of NOK 1,200m
    - Overdraft facility of NOK 200m
- Cash and liquidity reserves at the end of the quarter was NOK 966m (437m)

Cash flow, NOK million	Q1 2020	Q1 2019	FY 2019
Cash from operating activities	(199)	(300)	1,033
- of which <i>change in net working capital</i>	(281)	(342)	161
Cash used in investing activities	(32)	(21)	(160)
Cash from financing activities	(259)	(96)	(731)
<b>Net change in cash</b>	<b>(490)</b>	<b>(417)</b>	<b>141</b>
Cash at beginning of period	568	427	427
Cash at end of period	78	10	568

# Our strategic focus areas



Strengthen price  
and cost position



Improve customer  
experience



Drive customer  
growth





# In progress with new warehouse transition



2019	<ul style="list-style-type: none"><li>• 1 May: Take over of new warehouse in Moss ✓</li><li>• Q2: Operation start in low-bay area. Start testing of high-bay automation ✓</li><li>• Q2: Lease expires at one small warehouse in Fredrikstad ✓</li></ul>
2020	<ul style="list-style-type: none"><li>• Q1: Operation start in high-bay area (mid February) ✓</li><li>• Q2: Lease expires at two smaller warehouses and at the second largest warehouse in Fredrikstad</li><li>• Q3: Start testing of automation in low-bay area</li></ul>
2021	<ul style="list-style-type: none"><li>• H1: Start of automated shuttle solution in low-bay area</li><li>• H1: All distribution out of the new warehouse in Moss</li></ul>
2022	<ul style="list-style-type: none"><li>• 28 February: Lease expires at the largest warehouse, Øra in Fredrikstad</li><li>• Total reduction in opex/group revenue ratio expected between 0.75 to 1.25 percentage points after the transition period</li></ul>

Timeline is based on estimations as of Q1 2020



# Increasing capacity with the new automatic high-bay warehouse



- The automatic high-bay warehouse became operational in February
- Storage capacity at the new central warehouse increased from 34,000 to 99,000 pallet places
- Operations scaled up gradually and full operation is expected before the summer
- Relocation process of two existing warehouses accelerated as a result of increased capacity
- Testing of the automated picking solution in the low-bay area has been delayed due to Covid-19. The delay is so far within the overall timeframe for the project



# Significant economies of scale from Nordic sourcing



2013  
Tokmanni sourcing  
agreement

2018  
Euopris acquires  
20% of ÖoB

2020  
Option to acquire  
remaining shares in ÖoB



Representing annual sales of NOK 18bn



# ÖoB operational and sales update

- New CEO Magnus Carlsson, previous position as CEO at Reitan Convenience Sweden AB, joined ÖoB 1 March
- Positive sales development in the first quarter
  - 10% like-for-like growth
  - A slow start to the quarter
  - Significant sales increase in the wake of the Covid-19 outbreak
  - All stores kept open at 31 March, but will consider to close stores experiencing significantly lower customer traffic
- Sales growth mainly driven by an increase in the shopping basket and by goods in the grocery categories
  - Negative effect on gross margin, but overall positive effect on gross profit





# Continuous improvement of concepts and categories: “the price-conscious chef”



- Implemented in all stores during Q1
- More distinct kitchen “shop-in-shop” solution
- Improved display of electric kitchen products
- Clear “Good-Better-Best” strategy for pots and pans





Strengthen price  
and cost position



Improve customer  
experience



Drive customer  
growth



# E-commerce



- Focus on recruiting members to Mer customer club
  - Membership base grown 65% since 31 December 2019
- Development of e-crm and implementing marketing efforts
- New e-commerce launch in Q2 2020
  - Platform launch postponed due to technical issues
  - Centralised e-commerce mezzanine picking at new Moss warehouse
  - Significantly improved product range and service
- A complimentary source for revenue growth
  - Europ pris.no serves as driver for traffic to physical stores and add-on sales



# Driving customer growth by utilising opportunities in existing store base and opening new stores

- One new store opened in the quarter
  - Tau, Rogaland
- One store relocation in the quarter
  - Bryne, Rogaland
- Two store expansions in the quarter
  - Moelv, Innlandet
  - Reknes, Møre og Romsdal
- Four stores in pipeline for 2020 and beyond
  - Two of the stores are subject to local authority planning processes
- Closing of the store at Grini postponed
  - Awaiting court decision, case postponed from April to October as a result of COVID-19



# Outlook

**Europ**ris  
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# Outlook

- Sales at the beginning of April shows continued positive development in the wake of Covid-19 – increased shopping basket while the number of customers has normalised
  - Too early to draw conclusions about the long-term financial effects of the current situation
- New e-commerce launch expected in Q2 2020
- Pipeline of new stores
  - Four stores planned for 2020 and beyond
- One franchise takeovers completed on 1 April, and 1-2 additional takeovers expected for 2020
- Expects to receive ÖoB's 2019 financials at the start of May 2020, after which a financial due diligence will then be carried out forming the basis for the preliminary purchase price of remaining option
- Well positioned as Norway's number one in the sector, with ample opportunities and the financial position to continue a profitable growth journey



# 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

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



# Q&A

Next event: Q2 presentation 10 July 2020

# Appendix

# Content

Status on ÖoB

Sales days and store projects

Analytical information

Alternative Performance Measures (APM's)

# A low-risk synergistic partnership today

Potential for true European scale tomorrow



RUNSVEN  
GRUPPEN

**Europis**  
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## Strategic initiatives

Increase profitability  
of ÖoB

Store initiatives  
(incl. ÖoB 2.0)

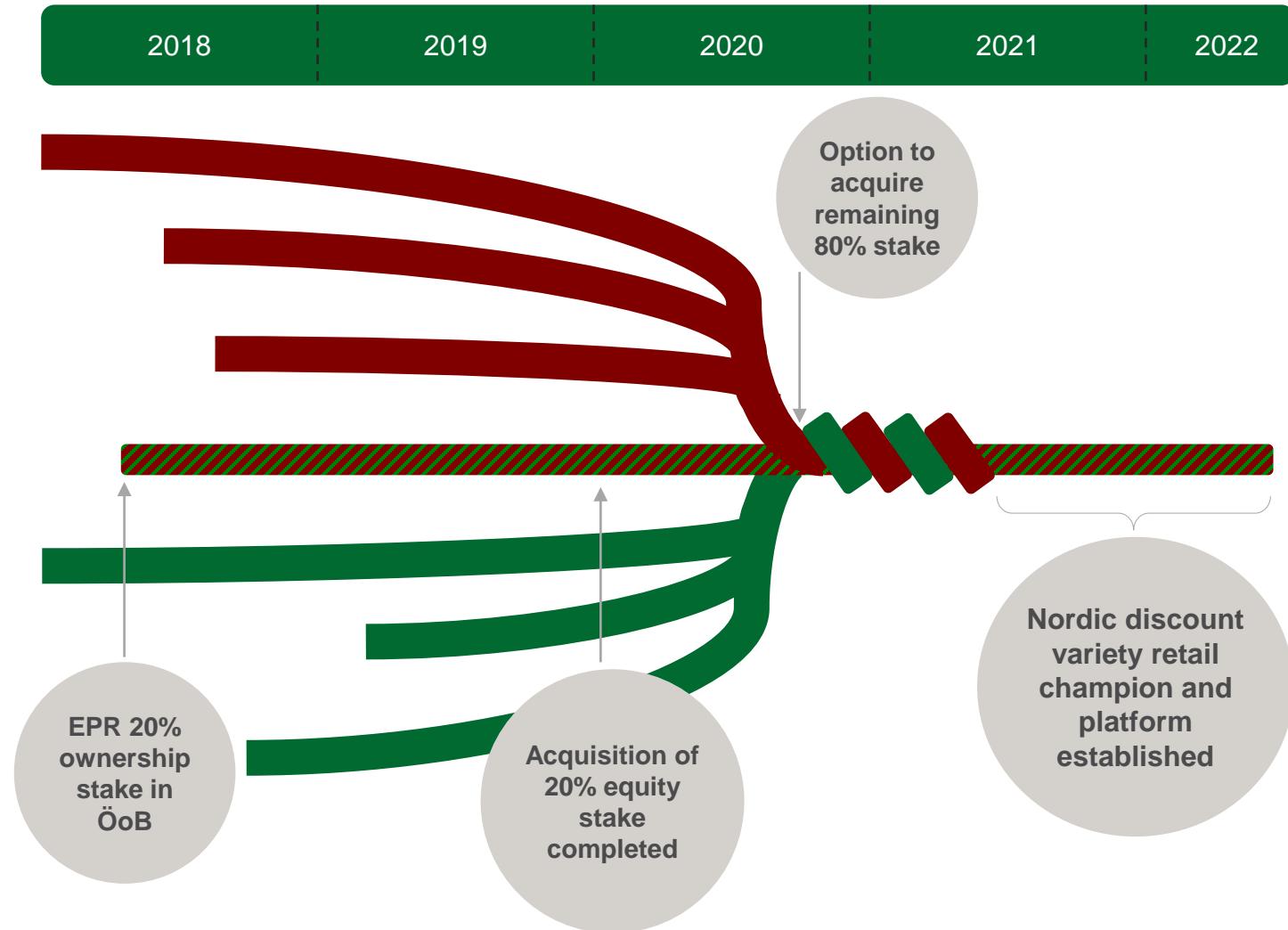
Sharing best practice

Purchasing

Strengthen price and cost position

Improve customer experience

Drive customer growth



# Transaction highlights

20% initial stake in  
Runsven-gruppen AB

- Based on EV using fixed multiple of 7.7x actual EBITDA 2018
- Purchase price settled in Q4 at NOK 115 million based on ÖoB EqV of NOK 574 million
- Shares acquired in the market by Europis at a total cost price of NOK 98 million
- Share for share transaction, settled by treasury shares
- 2.6% ownership stake in Europis (4,35m shares)

Option to acquire  
remaining 80% stake

- Exercisable in 2020 within six months after agreement on ÖoB's 2019 EBITDA
- Based on EV using fixed multiple of 7.7x average 2019 and 2020 EBITDA
- Share for share transaction

Lock-up

- Shares issued to sellers of ÖoB are subject to lock-up – until mid 2021 if option is exercised

# Sales days and store projects

## Number of sales days

Year	Q1	Q2	Q3	Q4	Total
2019	76	71	79	80	306
2020	77	72	79	80	308
2021	76	71	79	81	307

## Number of store projects (franchise projects in brackets)

2019	Q1	Q2	Q3	Q4	Total
New stores	1	4	1	-	6
Store closures	-	-	-	-	-
Relocations	-	3	(1)	2	5 (1)
Modernisations	7	1	2	4	14

2020E	Q1	Q2	Q3	Q4	Total
New stores	1	-	1	1	3
Store closures	-	-	-	-	-
Relocations	1	-	1	-	2
Modernisations	2	6	1	1	10

Note: Number of projects in 2020 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 info<sup>1</sup>

Seasonality	<ul style="list-style-type: none"><li>As rule-of-thumb, the Easter impact is approximately NOK 50 million in revenue and NOK 10 million of EBITDA</li></ul>
Quarterly OPEX	<ul style="list-style-type: none"><li>As rule-of-thumb, OPEX in year ago quarter + inflation + NOK 1.5 – 1.6 million per extra directly operated store (DOS)</li></ul>
CAPEX	<ul style="list-style-type: none"><li>New store – NOK 2.3 million per store (5 per year)</li><li>Relocation – NOK 1.5 million per store (10 per year)</li><li>Modernisation – NOK 1.0 million per store (10 per year)</li><li>Category development – NOK 10 million per year</li><li>IT &amp; Maintenance – NOK 35 million per year</li></ul>
Estimated one-time CAPEX items 2020	<ul style="list-style-type: none"><li>New warehouse of approximately NOK 7 million (IT, system integration, fixtures and fittings)</li></ul>

# Analytical info: New warehouse

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

IT, office equipment and other (Capex)	28	1.5	~4.5	~0.8	~	~7		
Automation, part 1 (lease)	52	15.9	~43.4	~	~	~59		
Automation, part 2 (Capex)	65	1.5	~15.8	~23	~11.5	~52		

Depreciation of automation part 1 starts in Q1 2020 and depreciation of automation part 2 starts in Q1 2021

## OPEX items

Ordinary rent	68	17.9	~17.5	~16.5	~16.5	~68	~52	~39
Redundant warehouse capacity in 2019/2020 and Øra lease from H2 2021 (lease ends March 2022)	14	2.9	~3.4	~	~	~6	~13	~5
Non-recurring moving expenses	5	2	~1.1	~1.2	~	~4	~3-5	

No material changes from previous estimates

# 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. In the discussion of the reported operating results, financial position and cash flows, Europis refers to these measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. Europis management makes regular use of these Alternative Performance Measures and is of the opinion that this information, alongside with comparable IFRS measures, is useful to investors who evaluate the group's financial performance. APMs are adjusted IFRS figures defined, calculated and used in a consistent and transparent manner and should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

<b>Total retail sales</b> are retail sales from all stores, both directly operated and franchise stores.	<b>Adjusted earnings per share</b> is Adjusted net profit divided by the current number of shares, adjusted by the average of treasury shares.
<b>COGS excluding unrealised foreign exchange effect</b> is the cost of goods sold except for unrealised gains or losses on the foreign currency derivatives and unrealised foreign currency exchange gains and losses on inventory trade payables.	<b>Working capital</b> is the sum of inventories, trade receivables and other receivables less the sum of accounts payable and other current liabilities.
<b>Gross profit</b> represents group revenue less the cost of goods sold excluding unrealised foreign currency effects.	<b>Capital expenditure</b> is the sum of purchases of fixed assets and intangible assets.
<b>Gross margin</b> is gross profit represented as a percentage of group revenue.	<b>Financial debt</b> is the sum of term loans and financial leases.
<b>Opex</b> is the sum of employee benefits expense and other operating expenses.	<b>Net debt</b> is the sum of term loans and financial leases less bank deposits and cash.
<b>EBITDA</b> (earnings before interest, tax, depreciation and amortisation) represents Gross profit less Opex.	<b>Directly operated store</b> means a store owned and operated by the group.
<b>Non-recurring items</b> are expenses which by nature are related to special events outside normal course of business (e.g IPO costs, moving cost, rent for vacated warehouse).	<b>Franchise store</b> means a store operated by a franchisee under a franchise agreement with the group.
<b>Adjusted EBITDA</b> is EBITDA adjusted for non-recurring items.	<b>Chain</b> means the sum of directly operated stores and franchise stores.
<b>Adjusted profit before tax</b> is profit before tax adjusted for non-recurring items.	<b>Like-for-like</b> are stores which have been open for every month of the current calendar year and for every month of the previous calendar year.
<b>Adjusted net profit</b> is net profit adjusted for non-recurring items.	