

# Q2 and first half year 2021 presentation

15 July 2021

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# Europolis - Norway's #1 discount variety retailer



## Customers

- 36 million customer transactions in 2020
- Widely recognised brand and price position<sup>1</sup>
- Increasing market share and gaining new customers



## Marketing

- 1 million leaflets in distribution
- 615 000 subscribers to digital newsletter
- 863 000 members in the Mer customer club



## Stores

- Cost-efficient locations and operations
- 100% of like-for-like (LFL) stores profitable in 2020
- Track-record of 10-15 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 mid-2019



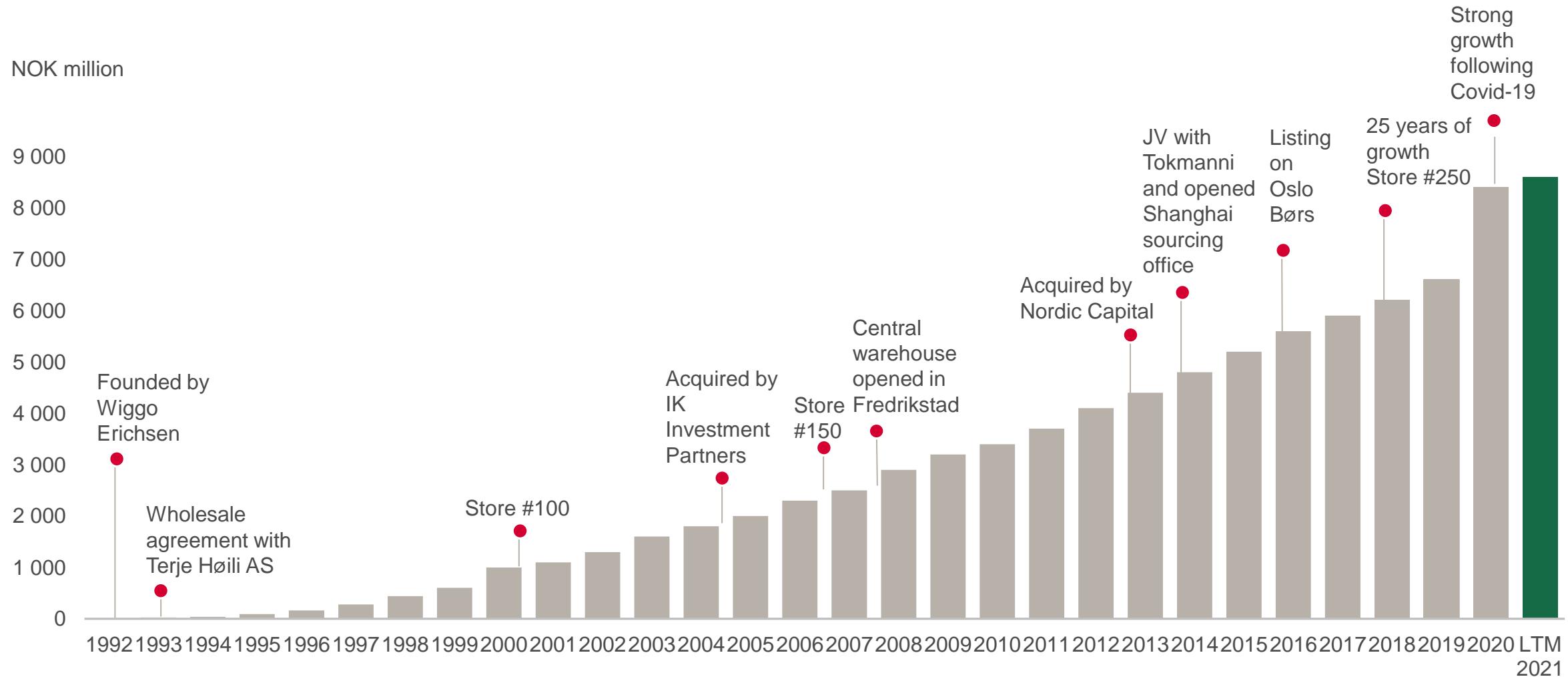
## Sourcing

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



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

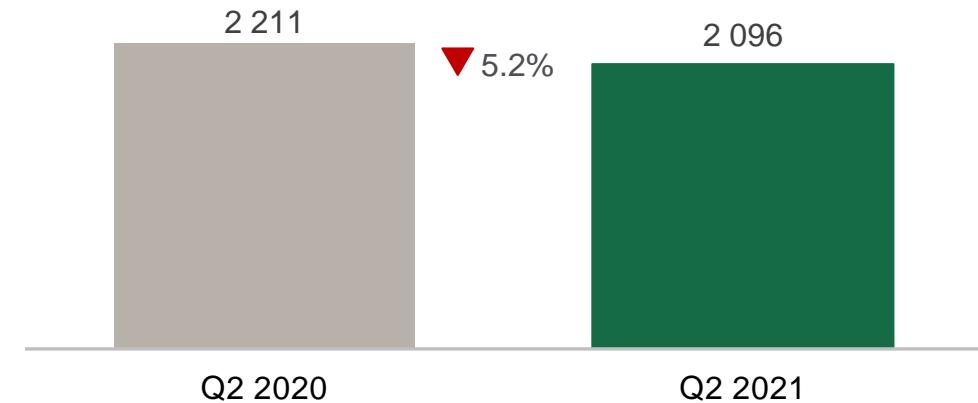
# 29 years of consecutive growth



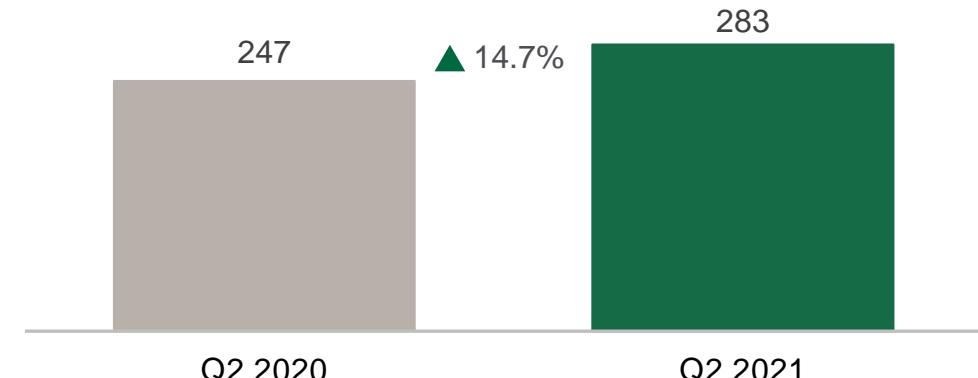
# Record high results in a challenging quarter

- Total sales of NOK 2,096m, a decline of 5.2%
  - April negatively affected by 22% of stores temporarily closed and timing of Easter
  - Sales growth in May and June, driven by strong seasonal execution
- Gross margin of 47.2%, an increase of 4.6%-p
  - Positive effects from hedging of currency and inbound freight rates
  - Successful category development and changes to sales mix
- Improved profitability owing to higher margins and good cost control
  - EBITDA increased by 11.3% to NOK 537m
- Employee engagement survey at all-time-high
  - Remarkable efforts from employees during Covid-19 pandemic
- Acquired 67% of Lekekassen Holding AS, Norway's largest online toy store, for NOK 501m

**Group sales (NOK million)**



**Net profit (NOK million)**

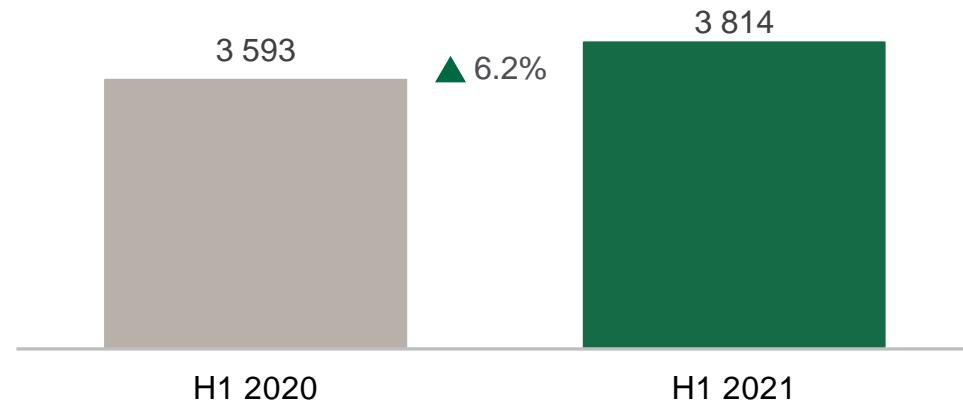


# Sales growth despite tough comparables in first half

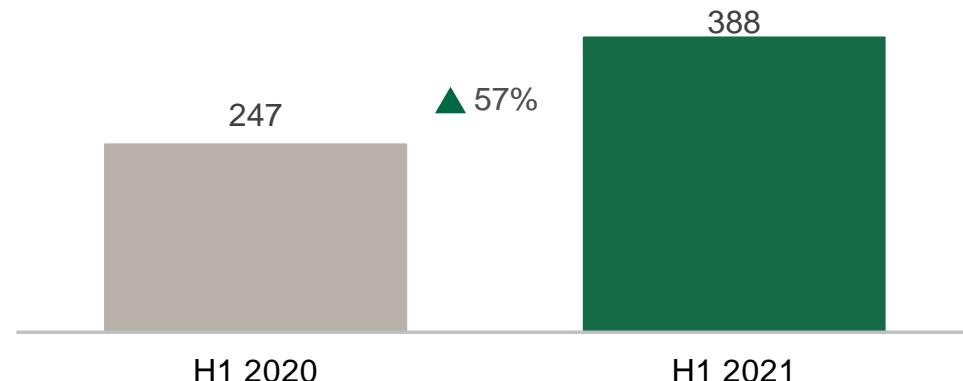
**Europrix**  
MER TIL OVERS

- Expanding both sales and margins in first half of 2021
  - Despite challenging Covid-19 conditions with on average 9% of stores closed
- Planning, quick adjustments and a unique corporate culture keys to success
  - Purchase orders and logistics capacity secured at an early stage
  - Swift actions to remedy temporary store closures and secure sales

**Group sales (NOK million)**



**Net profit (NOK million)**



# Employment satisfaction at all time high

**Europ***ris*  
MER TIL OVERS

- Remarkable efforts from employees during Covid-19 pandemic
- Employee survey
  - Safe working environment
  - Well-functioning routines
  - Received good information on an ongoing basis
- Virtual training courses expanded

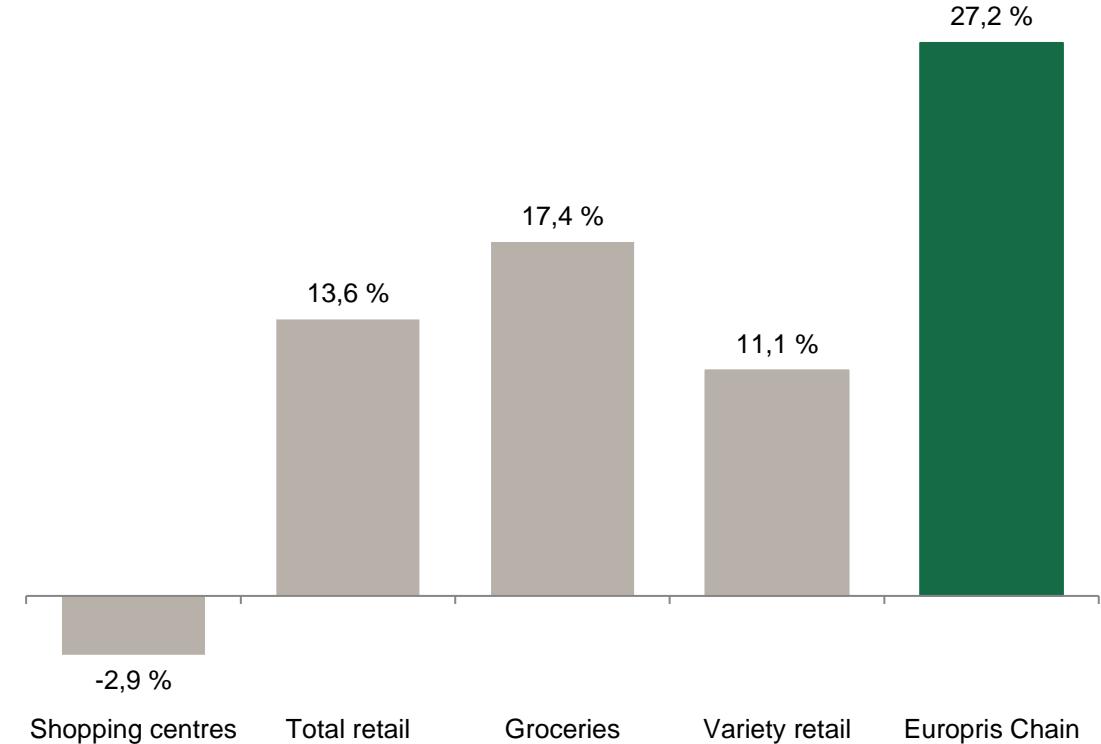


The team at Europris Moss

# Outperformance of retail index last two years

- Significantly outperformed the market during Covid-19
- Overall strong development for retail last two years with a two year stacked growth of 13.6%
  - Closed borders
  - Increased consumption in private households
- Mixed effects in the market
  - Shopping centres significantly affected by social distancing and temporary closure of stores
  - Market winners are groceries, DIY and one-stop-shopping concepts

Retail sales index per May, two-year-stacked (%)\*

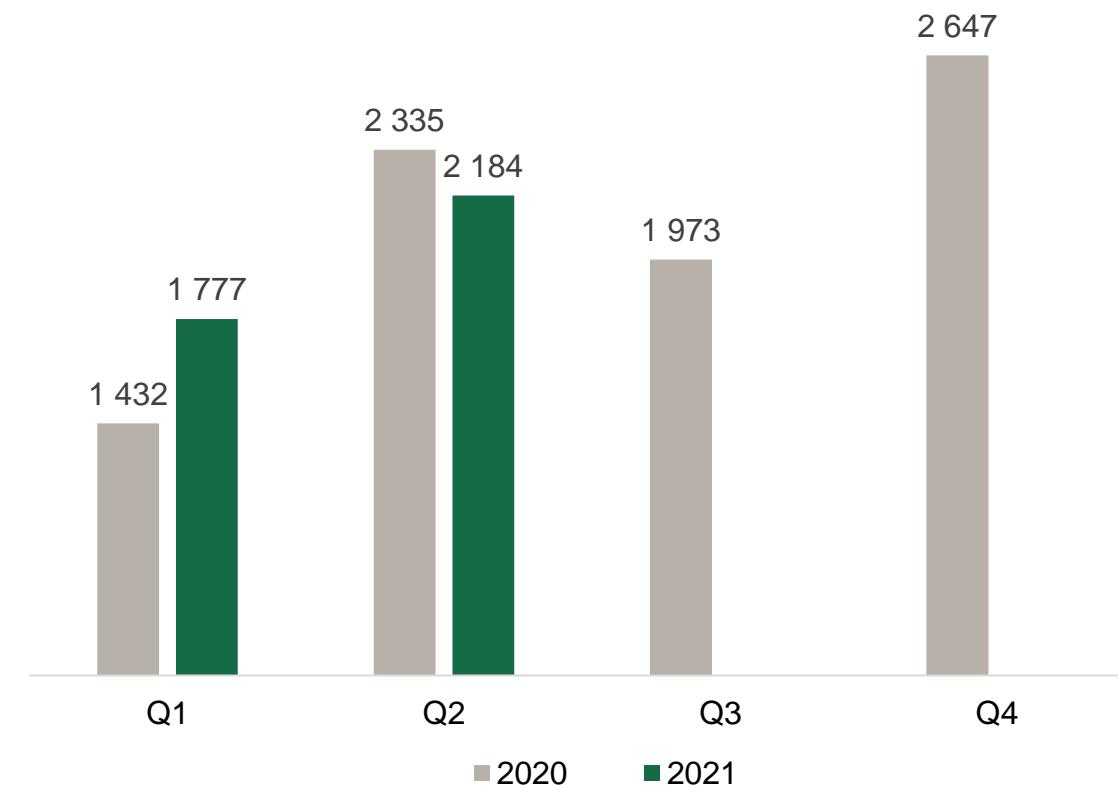




# Strong sales performance in a challenging quarter

- Total chain sales\* decline of 6.5% in Q2
  - 6.9% like-for-like total chain sales\* decline
  - 22% of stores temporarily closed in April
  - Timing of Easter affected negatively especially the chocolate and snacks category
- Sales growth in May and June
  - Strong seasonal execution
  - Successful category development initiatives
- Sales growth driven by basket size, both from more articles and high-value seasonal products

**Total chain sales\* (NOK million)**

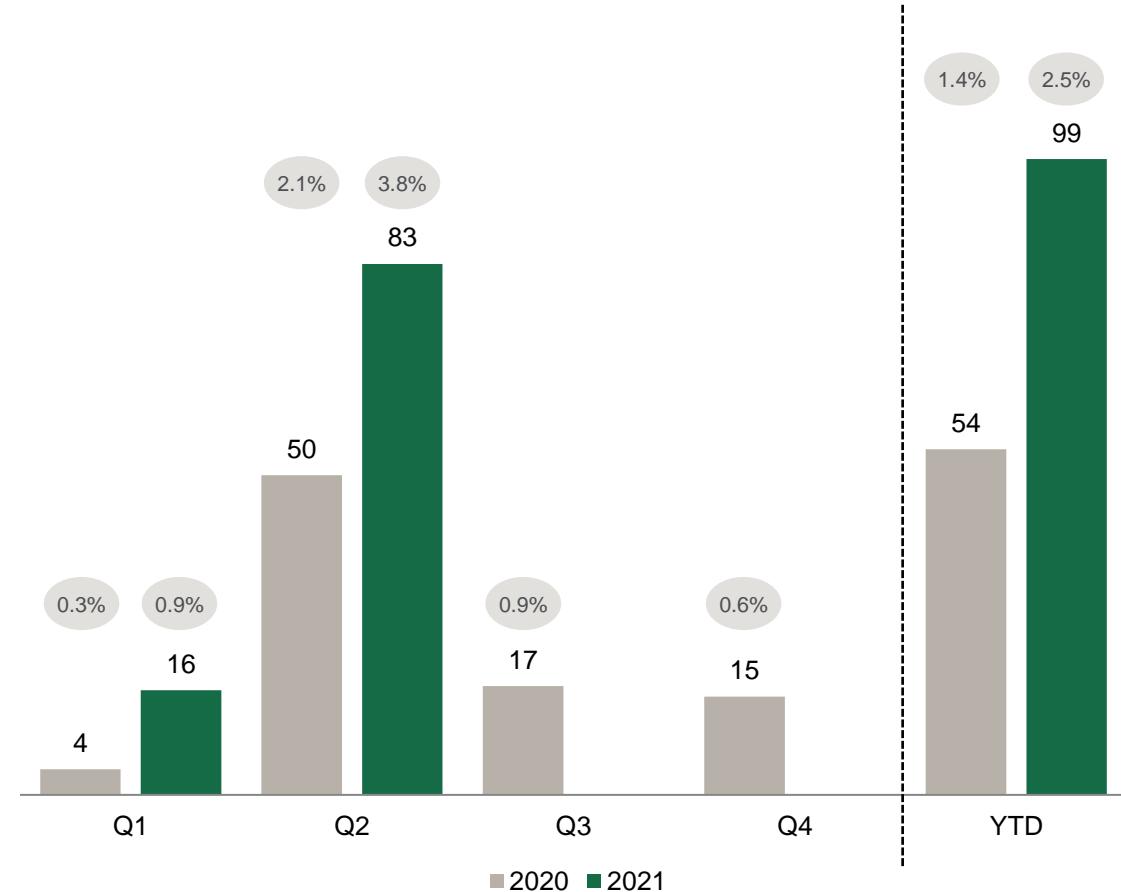


\* Sales from the entire chain; all stores, both directly operated by the group and the franchise stores (268 stores)

# Growing omnichannel

- Store closures escalated e-commerce growth
  - Increased number of products offered
  - High-value seasonal items sold well
    - Low-value consumables less exposed to e-commerce
  - Significant increase in members Mer customer club
    - Up 63% to 863,000 members end Q2'21 vs end Q2'20
    - Conversion of fixed multibuy offers to exclusive Mer deals
  - Improved e-crm important to drive traffic both online and to physical stores

e-commerce sales (NOK million) and share of total chain sales\*

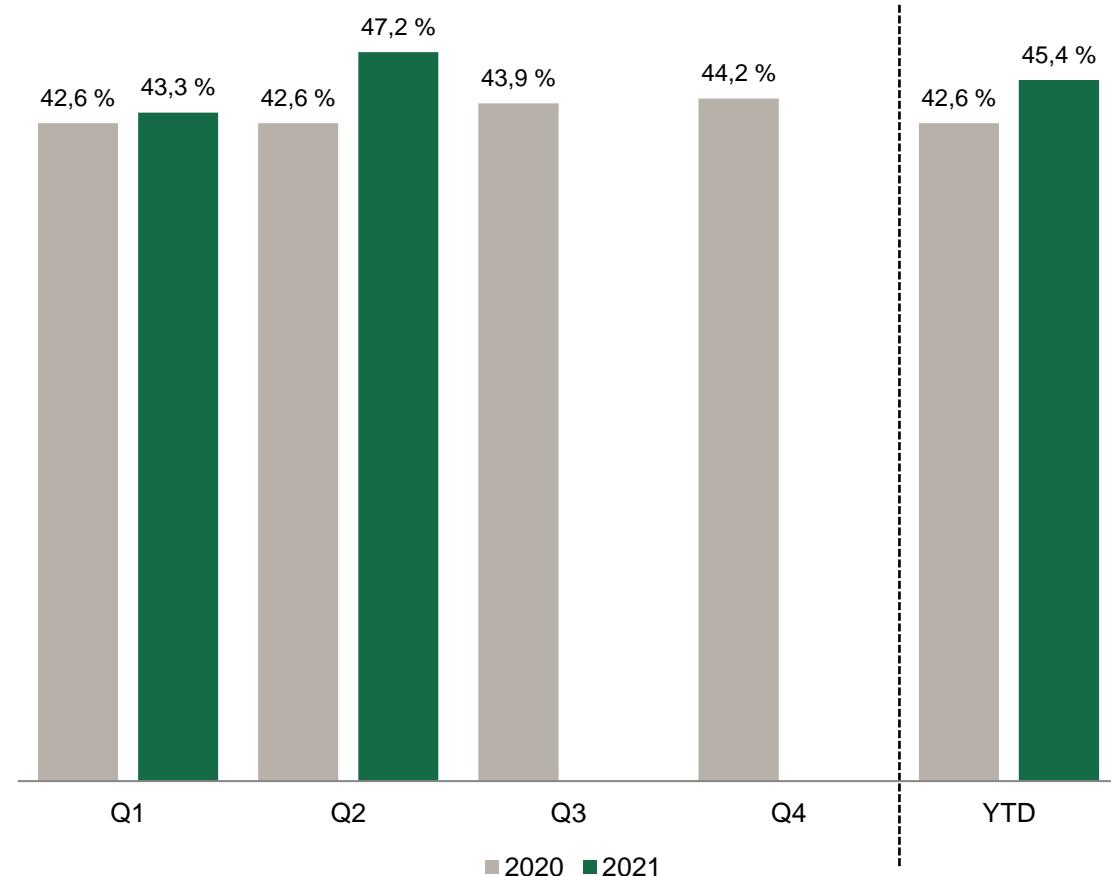


\* Sales from the entire chain; all stores, both directly operated by the group and the franchise stores (268 stores)

# Strong development in gross margin

- Gross margin of 47.2% in Q2, up 4.6%-p
- Positive effects from hedging of currency and inbound freight rates
  - Net unrealised currency gain on hedging contracts and accounts payable of NOK 24m (loss of 30m)
    - Favourable fixed agreement for inbound freight
- Successful category development initiatives and changes to the sales mix

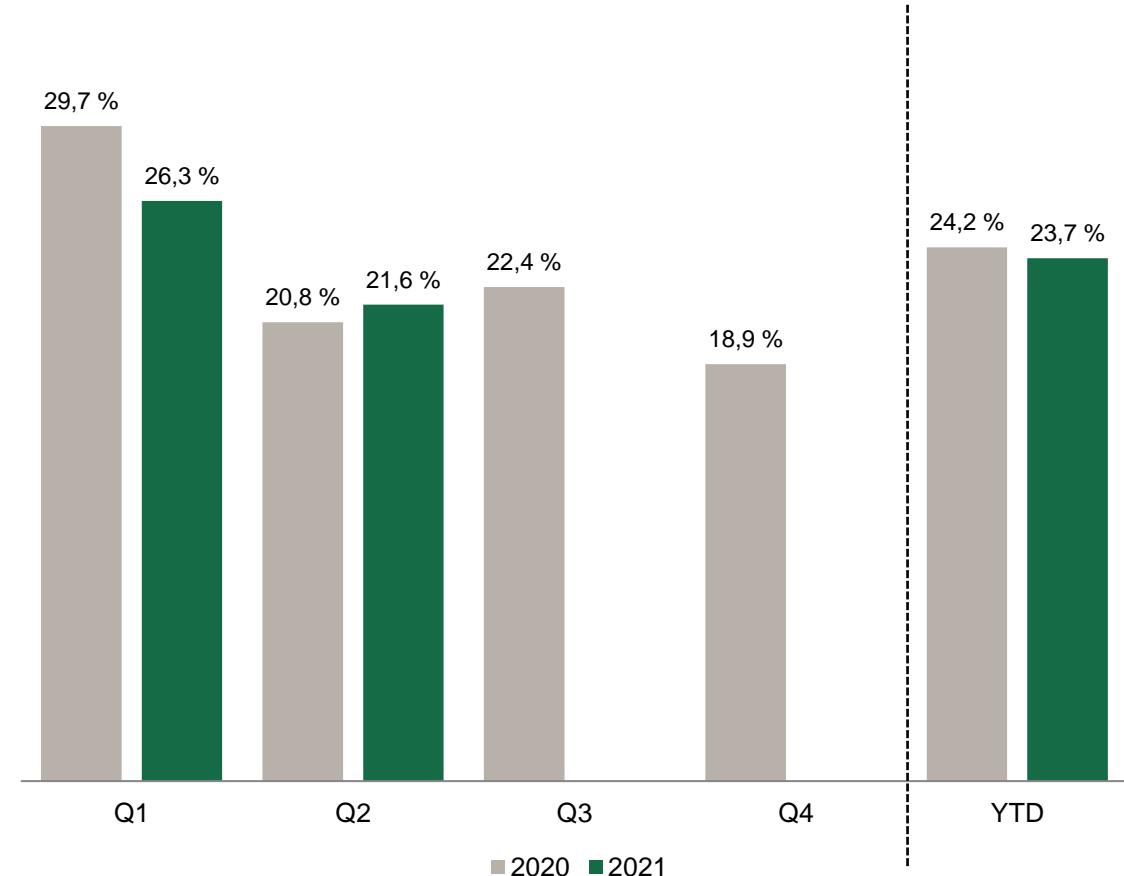
**Gross margin**



# Continued good cost control

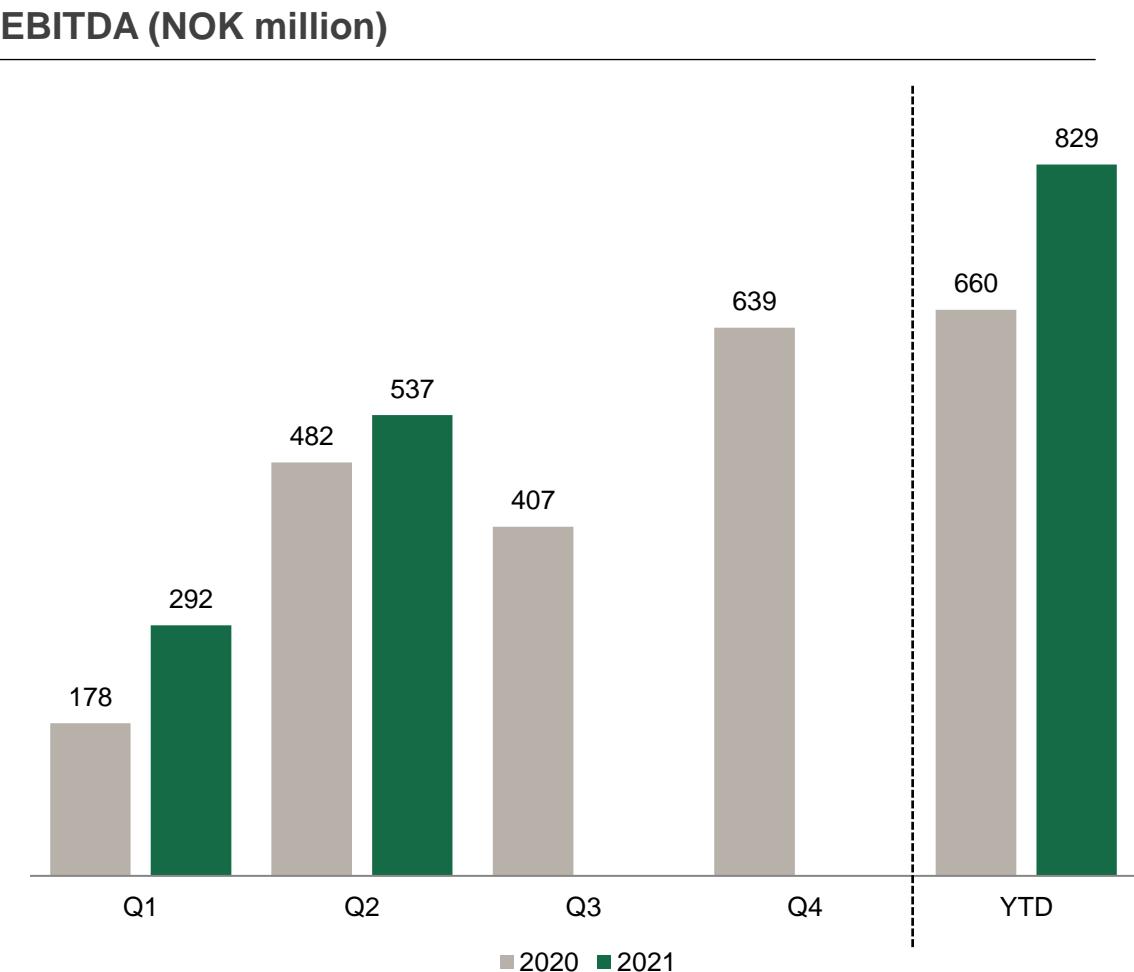
- OPEX was NOK 453m in Q2, down by 1.4%
  - OPEX-to-sales ratio was 21.6% (20.8%)
- Number of directly operated stores increased from 235 to 240

**OPEX-to-sales ratio**



# Record high profitability

- EBITDA was NOK 537m in Q2, up by 11.3%
  - Positively affected by improved gross margin and continued good cost control
- EBITDA margin was 25.6% in Q2, up by 3.8%-p



# Solid cash and liquidity position

- Net change in cash YTD was negative with NOK 348m (negative with 441m)
  - Negative effect from net working capital, driven by timing differences in accounts payable and increased inventory in order to meet higher demand
  - Last year positively affected by postponed payment of public duties
  - Less negative effect from financing activities vs last year due to net loan repayment from the refinancing last year
  - Paid dividend of NOK 434m (323m)
- Net debt of NOK 2,641m as of 30 June (2,996m)
- Cash and liquidity reserves of NOK 1,577m (1,315m) at 30 June

Cash flow, NOK million	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Cash from operating activities	649	825	381	626
- of which <i>change in net working capital</i>	205	380	(289)	99
Cash used in investing activities	(51)	(43)	(73)	(75)
<u>Cash from financing activities</u>	(546)	(733)	(656)	(992)
<b>Net change in cash</b>	<b>51</b>	<b>49</b>	<b>(348)</b>	<b>(441)</b>
Cash at beginning of period	141	78	540	568
<u>Cash at end of period</u>	<u>192</u>	<u>127</u>	<u>192</u>	<u>127</u>

# Our strategic focus areas



Strengthen price  
and cost position



Improve customer  
experience



Drive customer  
growth

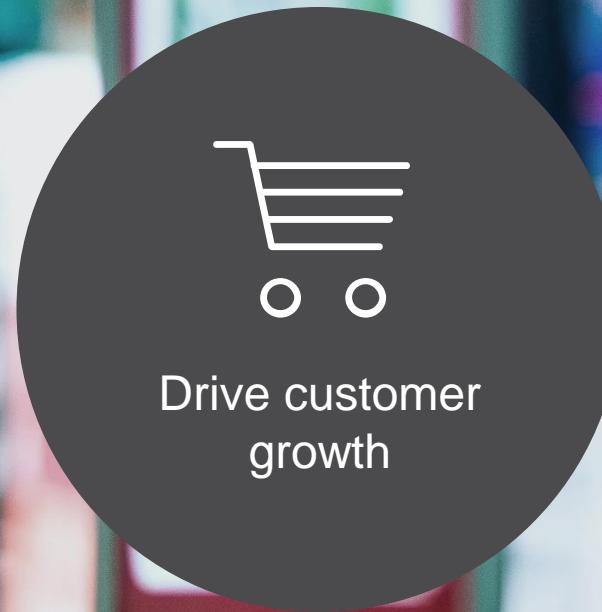




Strengthen price  
and cost position



Improve customer  
experience



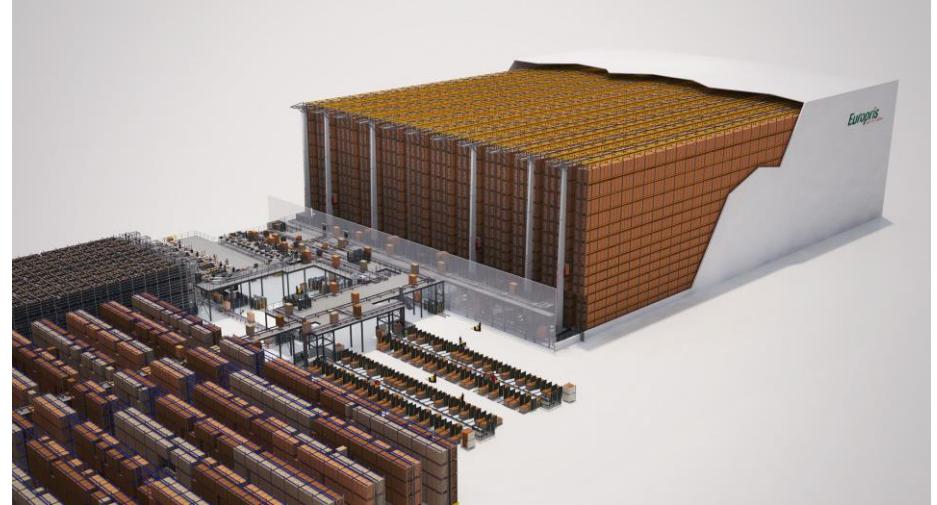
Drive customer  
growth



# Slower ramp-up of the automatic shuttle system

**Europrix**  
MER TIL OVERS

- Gradual ramp-up of automation of the shuttle system initiated
  - Acceptance test approved in Q1
- Some technical issues related to the new software detected with corresponding slower ramp-up
  - No delays in product deliveries to the stores
  - Ramp-up will continue after summer



# Currently in the final phase of the warehouse transition

2019	<ul style="list-style-type: none"><li>• 1 May: Take-over of new warehouse in Moss</li><li>• Q2: Operational start in low-bay area, and start test of high-bay automation</li><li>• Q2: Lease expired 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 expired at two smaller warehouses and at the second largest warehouse in Fredrikstad</li><li>• Q3: Start test of automation in low-bay area</li></ul>	✓
2021	<ul style="list-style-type: none"><li>• Q1: Acceptance test for automation in low-bay area was passed</li><li>• Q2: Ramp-up of shuttle system – some technical issues related to the software</li><li>• H2: Continued ramp-up, and evaluation of options to handle future volumes for the summer seasons</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 0.75-1.25%-p after the transition period (compared to 2017 figures) remains intact</li></ul>	

Timeline is based on estimations as of Q2 2021

# ÖoB financial and transaction update

- Independent third party to review 2019 financials after due diligence disagreements on 2019 EBITDA
  - Conclusion expected during Q3
  - 2019 EBITDA forms the basis of the preliminary purchase price if option is exercised
  - Option period of six months from agreement on ÖoB's 2019 financials
- ÖoB had sales of SEK 1,831m in the first half of 2021, a decline of 11.3%
- EBITDA in the first half of 2021 was SEK 1.2m (13.9m)
  - Improved gross margin





# Continued category development

- Strong performance for the home and interior category
  - Both online and in physical stores
  - Above-average margins with a high share of own brands
- Successful upgrade of the home and interior category continued in Q2
  - Growth in both sales and margins
- Solid development for the profitable and well-run company Lunehjem.no with growth in sales and profit at 30 June
  - Pure e-commerce player in the home and interior category
  - Europris acquired 67% of Lunehjem.no in March 2021



# Established own symbol for sustainable products

**EuropriS**  
MER TIL OVERS

- Many third-party certifications for sustainable products
- Established own umbrella symbol for sustainable products
  - To support customers in making sustainable choices
  - Twenty externally certified symbols are currently gathered under this symbol





Strengthen price  
and cost position



Improve customer  
experience



Drive customer  
growth



# Third city concept store opened in the second quarter

**Europris**  
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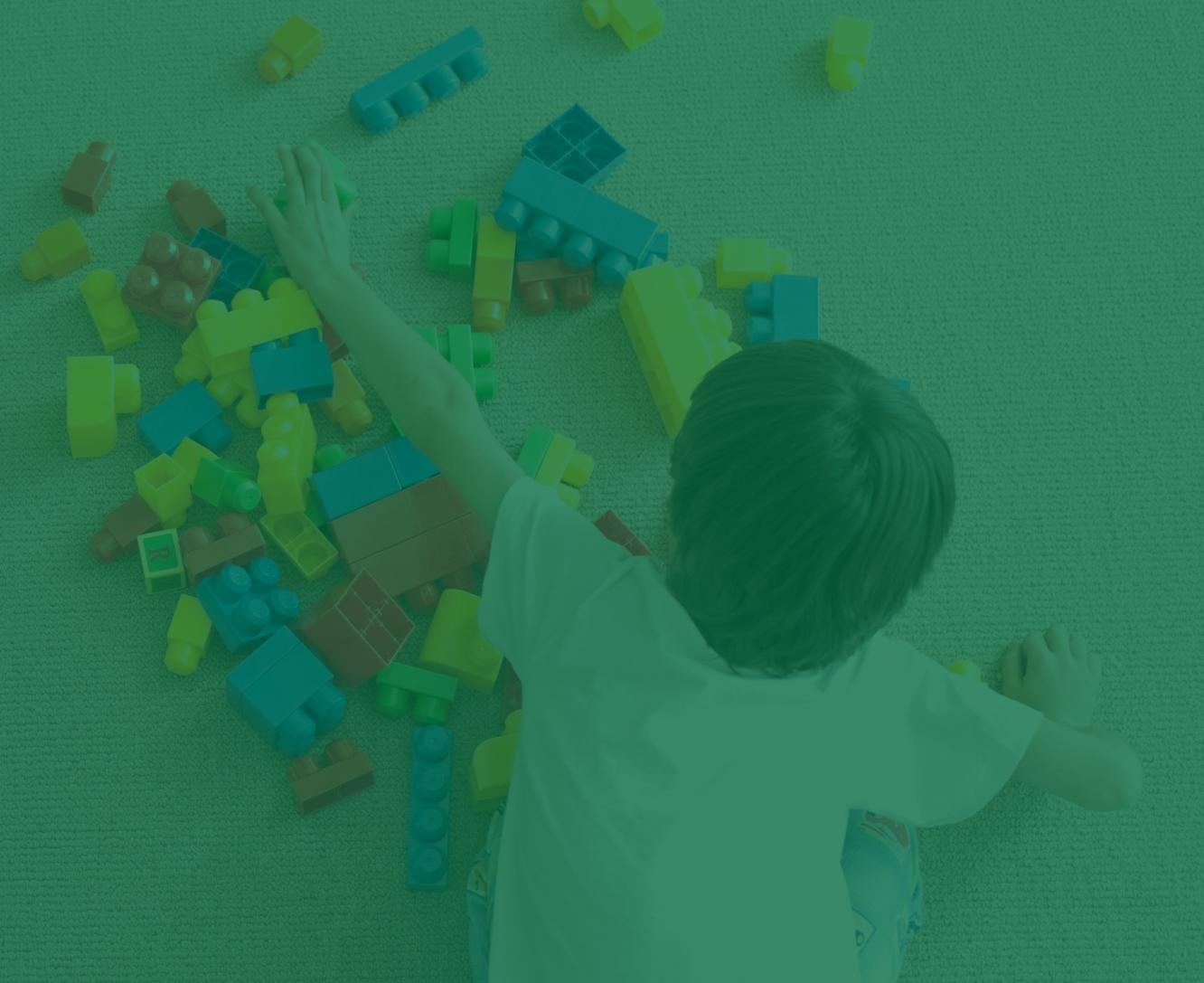
- One new store opening in Q2
  - First city concept store in Norway's second largest city, Bergen
- One store relocated in Q2
  - Sotra in Vestland county
- Two new stores and two stores relocated at 30 June
- Eleven stores in pipeline for 2021 and beyond
  - Five are subject to planning permission



The team at Europris Exhibition

# Europaris acquires Lekekassen

Strategic e-commerce acquisition of  
Norway's largest online toy store



# Europis acquires 67% of Norway's largest online toy store for NOK 501 million



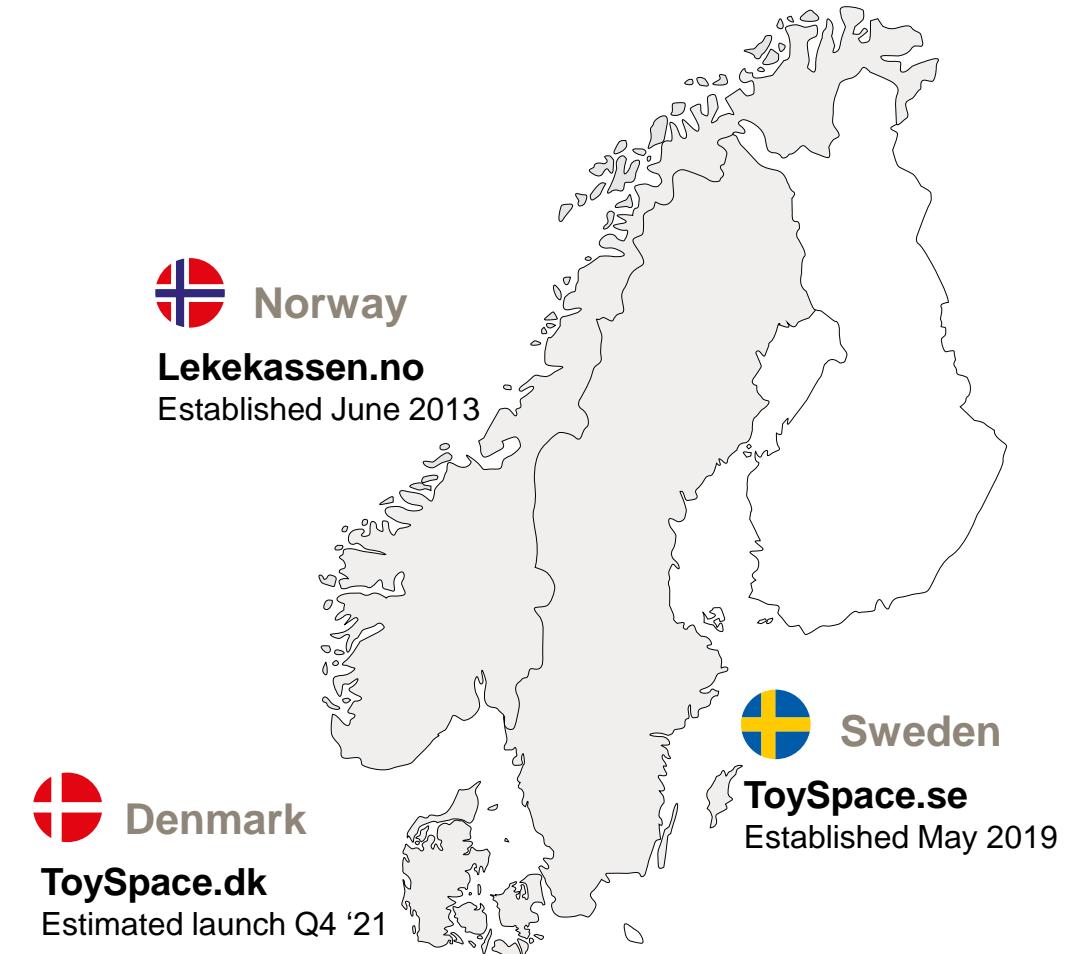
Acquisition of important product category and e-commerce expertise

Significant operational synergies identified

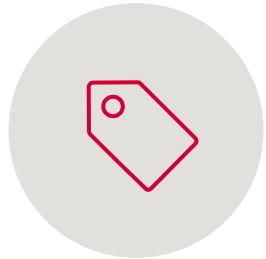
- Joint sourcing of products and services
- Improved retail product offering

The acquisition will be settled in cash

- Europis has a pre-emptive right to acquire remaining shares
- Transaction approved by the Norwegian competition authorities – closing expected 30 July



# Strategic match will drive synergies



Strengthen price  
and cost position



Improve customer  
experience



Drive customer  
growth

- Joint sourcing
- Shared use of Europrix' resources in Asia
- Cost synergies (inbound and outbound freight, payment terms etc.)

- Expanding product offering in Europrix stores
- Access to well-known brands for Europrix in a brand driven category
- Improved and broader online range

- Improved access to decision-makers in an attractive family segment
- Shared development of e-commerce and digital solutions
- Improved customer LTV (lifetime value) with new digital and e-commerce offerings

# Outlook

**Europ**ris  
MER TIL OVERS



# Well positioned to exploit market opportunities

- Customer visits to Europolis stores have expanded significantly since the outbreak of Covid-19
  - Continue with category and store concept development
  - Continue to strengthen the position as an omnichannel retailer
- Flexible and adaptable business model
  - Continuously adapting product offerings and campaigns in line with changes in consumer demand
  - Strong corporate culture
  - Broad product range less exposed to e-commerce competition
- Solid financial position
- Long-term financial and operational ambitions remain unchanged

## Significant untapped market potential



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



# Q&A

Next event: Q3 presentation 4 November 2021

# Appendix

# Content

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**  
MER TIL OVERS

## 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

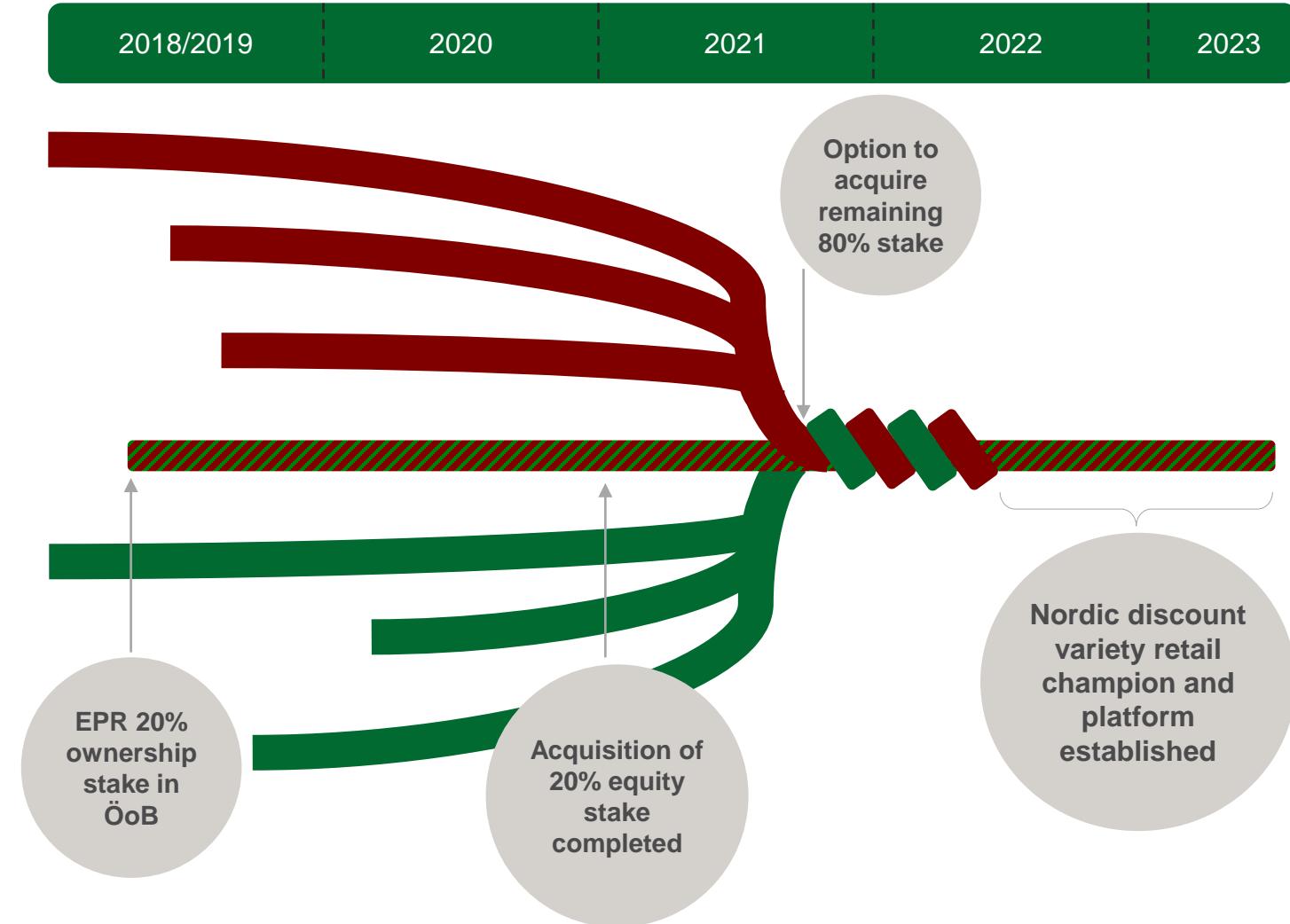
2018/2019

2020

2021

2022

2023



# 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

# Sales days and store projects

## Number of sales days

Year	Q1	Q2	Q3	Q4	Total
2020	77	72	79	80	308
2021	76	71	79	81	307
2022	76	72	79	81	308

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

2020	Q1	Q2	Q3	Q4	Total
New stores	1	-	1	2	4
Store closures	-	1	-	1	2
Relocations	1	-	1	-	2
Modernisations	2	5	2	2(1)	11(1)

2021E	Q1	Q2	Q3	Q4	Total
New stores	1	1	1	1	4
Store closures	-	-	-	-	-
Relocations	1	1	1	1	4
Modernisations	4	2	2	2	10

Note: Number of projects in 2021 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 60-75 million in revenue and NOK 12-15 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>

# Analytical info: New warehouse

NOK million	2019	2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2021	2022
<b>Investments*</b>								
IT, office equipment and other (Capex)	28	8	1.5	1.1	~2.3	~2.3	~7	~7
Automation, part 1 (lease)	52	28	-	~	~	~	~	~
Automation, part 2 (Capex)	65	24	0.2	23.9	~11.3	~	~35	~
<b>OPEX items**</b>								
Ordinary rent	68	67	16.5	16.5	~16.5	~16.5	~66	~64
Non-recurring rent	14	9	-	-	~	~	~	~
Non-recurring moving expenses	5	4	-	-	~	~	~	~

\*Change in timing between Q2 2021 and Q3 2021 since the previous report

\*\*Change in ordinary versus non-recurring rent since the most recent report, and expected additional capacity requirements in 2022

# Alternative performance measures (APMs)

APMs are used by Europis for annual and periodic financial reporting in order to provide a better understanding of the group's financial performance. APMs are considered as well-known and frequently used by users of the financial statements and are also used in internal reporting and by management to measure operating performance.

## Gross profit / gross margin

Gross profit is defined as Total operating income minus the cost of goods sold (COGS). The gross profit represents revenue that the group retains after incurring the direct costs associated with the purchase of the goods. Gross margin is defined as gross profit divided by total revenue and is useful for benchmarking direct costs associated with the purchase of the goods vs total revenues.

## Opex

Operating expenses (Opex) is the sum of employee benefits expense and other operating expenses. It is useful to look at cost of these two components combined, as they compose a large part of the fixed operating costs. The Opex-to-sales ratio divides the Opex by Total operating income and is useful for benchmarking this cost base vs the development in sales.

## EBITDA / EBITDA margin

EBITDA is earnings before interests, tax, depreciation of property, plant and equipment and right-of-use assets and amortisation of other intangibles. EBITDA is a well-known and widely used term among users of the financial statements and is useful when evaluating operational efficiency on a more variable cost basis as they exclude amortisation and depreciation expense related to capital expenditure. EBITDA margin is EBITDA divided by Total operating income and is useful for benchmarking this profitability parameter vs the development in sales.

## EBIT

EBIT is earnings before interest and taxes and is the same as the IFRS definition of operating profit. EBIT is a well-known and widely used term among the users of the financial statements and is useful when evaluating operational profitability. EBIT margin is EBIT divided by Total operating income, and thus the same as Operating profit divided by Total operating income.

## Working capital

Working capital is the sum of inventories and trade receivables and other receivables less the sum of accounts payable and other current liabilities. Net change in working capital is the change in the mentioned parameters; i.e., net change in working capital is the sum of change in inventories and trade receivables and change in other receivables less the sum of change in accounts payable and other current liabilities. Net change in working capital is a well-known and widely used term among the users of the financial statements and is useful for measuring the group's liquidity, operational efficiency and short-term financial conditions.

## Capital expenditure

Capital expenditure (Capex) is the sum of purchases of fixed assets and intangible assets as used in the cash flow. Capex is a well-known and widely used term among the users of the financial statements and is a useful measure of investments made in the operations when evaluating the capital intensity.

## Financial debt

Financial debt is the sum of borrowings and lease liabilities. Financial debt is useful to see total debt as defined by IFRS.

## Cash and liquidity reserves

Cash and liquidity reserves is defined as available cash plus available liquidity through overdraft and credit facilities. This measure is useful to see total funds available short term.

## Total chain sales

Total chain sales are sales from all chain stores, that is both directly operated and franchise stores. This KPI is an important measure of the performance of the total Europis chain and considered useful in order to understand the development of the entire chain, regardless of ownership structure of stores. Like-for-like growth is defined as the growth in total chain sales for stores that have been open for every month of both the previous and the current calendar year.

## Directly operated store

Directly operated store means a store owned and directly operated by the group.

## Franchise store

Franchise store means a store operated by a franchisee under a franchise agreement with the group.

## Chain

Chain means the sum of directly operated stores and franchise stores.