# Presentation of results for the fourth quarter and full year 2017

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1 February 2018








**Norway's leading discount variety retailer**

Europris
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# Highlights in the fourth quarter

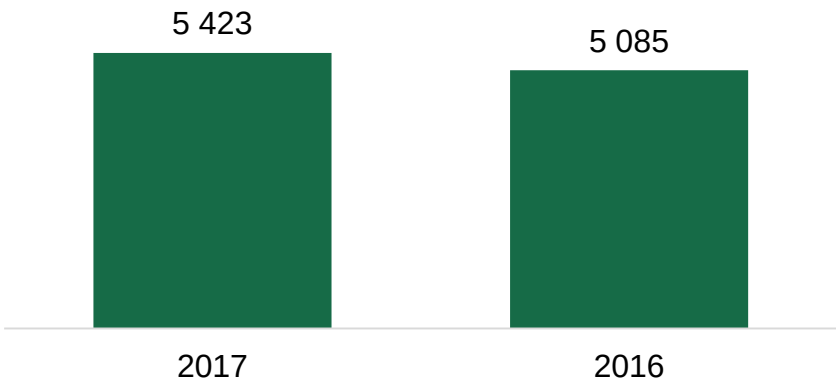
- Group revenues up 1.5% to NOK 1,629m (1,604m)
  - Good Christmas trading, but a slow start
  - Backloading of new stores significantly reduced sales growth vs. last year (-1.4 p.p)
  - Sales from wholesale to franchise stores temporarily affected by planned inventory reduction
  - LfL of -0.1 per cent (2.4% sales days adjusted)
- Adjusted net profit down 6.8% to NOK 195m (209m)
- Solid cash generation – leverage of 1.7x
  - Healthy inventory levels at year end from measures implemented earlier in the year
- Milestone of 250 stores reached
  - Five new stores in quarter



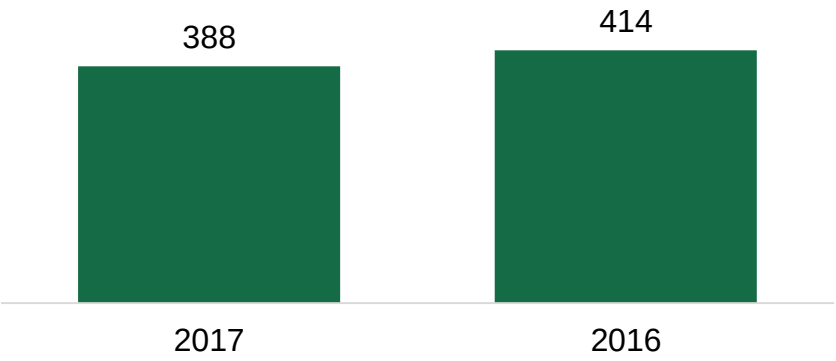
# Highlights full year 2017

- Continued topline expansion
  - 6.6% growth in group revenues to NOK 5,423m (5,085m)
  - 3.1% LfL growth – above market growth of 0.9%
  - Nine franchise takeovers and eleven new stores
- Adjusted net profit down 6.3% to NOK 388m (414m)
- New warehouse on plan – expected to reduce opex % longer term
  - Limited capex requirements

Group revenue



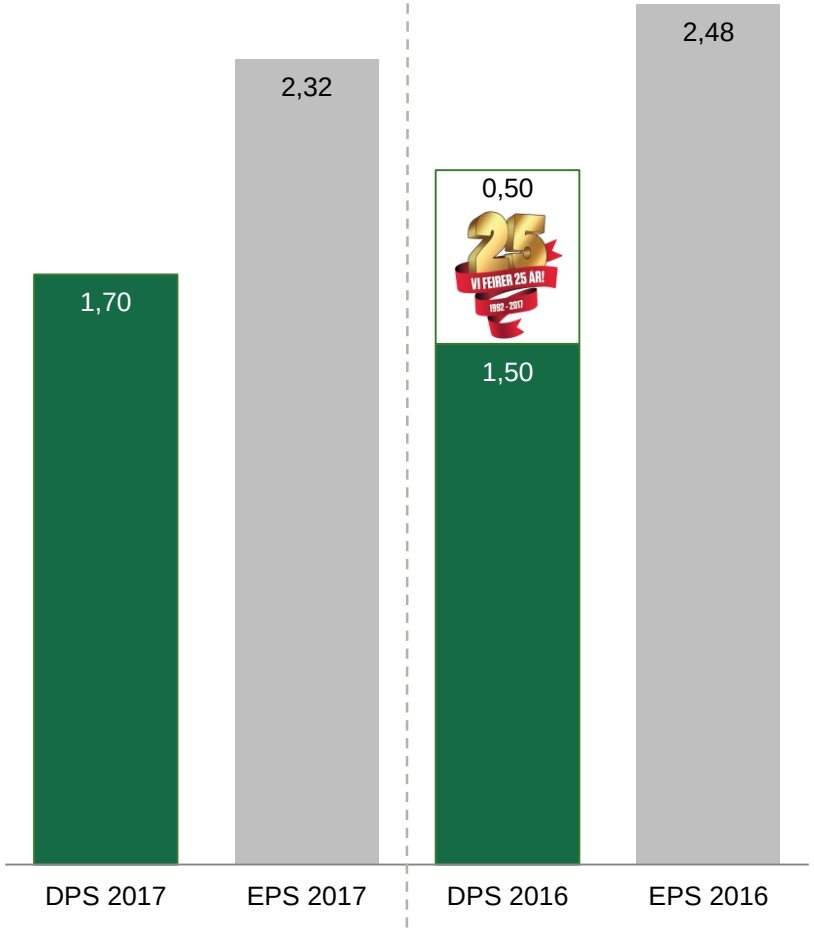

Adjusted net profit



# Adjusted EPS and dividend

- The BoD proposes an ordinary dividend of NOK 1.70 per share for 2017
  - Up 13.3 per cent vs. last year
- Total dividend payment of NOK 284 million
- Dividend distribution will be carried out by way of a repayment of paid in capital

Adjusted EPS and DPS (NOK)*

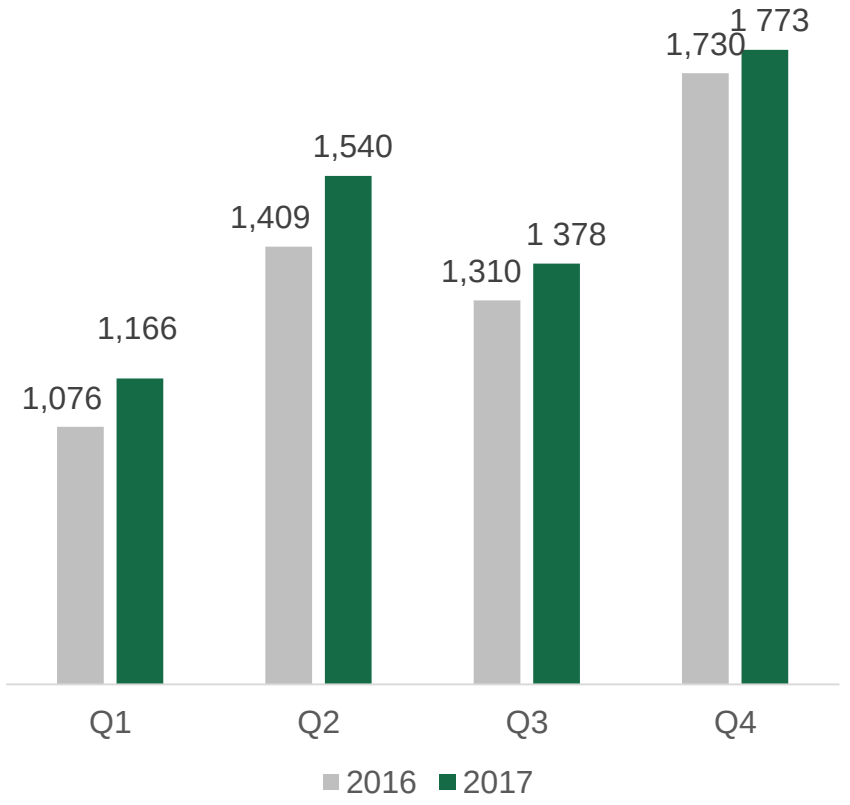



* Based on 167 million shares.

# Sales performance

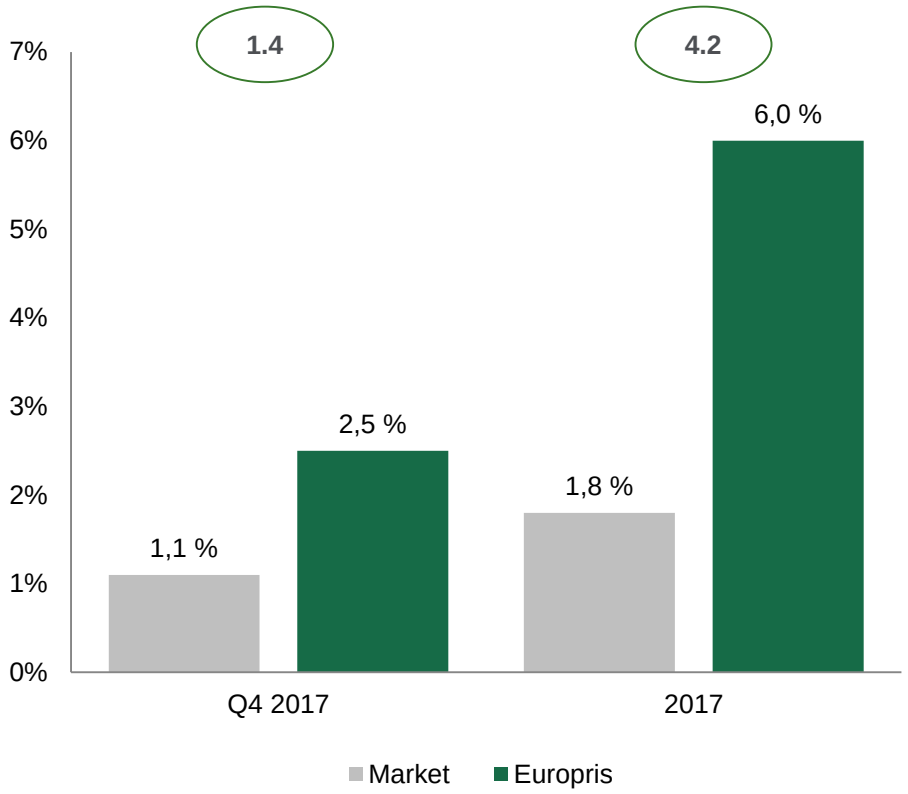
- Chain sales grew by 2.5% in Q4
- Good Christmas seasonal period
  - Strong product portfolio; elaborate pre-season training; consistent execution and layout
- Slow start mainly caused by three elements
  - Backloading of new store openings (impact on growth of -1.4 p.p vs. last year)
  - Spill-over of effects from Q3 into Q4
  - Highly favourable weather in Q4 2016
- Execution challenges in first half of quarter identified – clear measures implemented
  - Increased central control in periods outside main seasons
  - Spacing, planograms and volumes

**Retail sales per quarter (NOK million)**



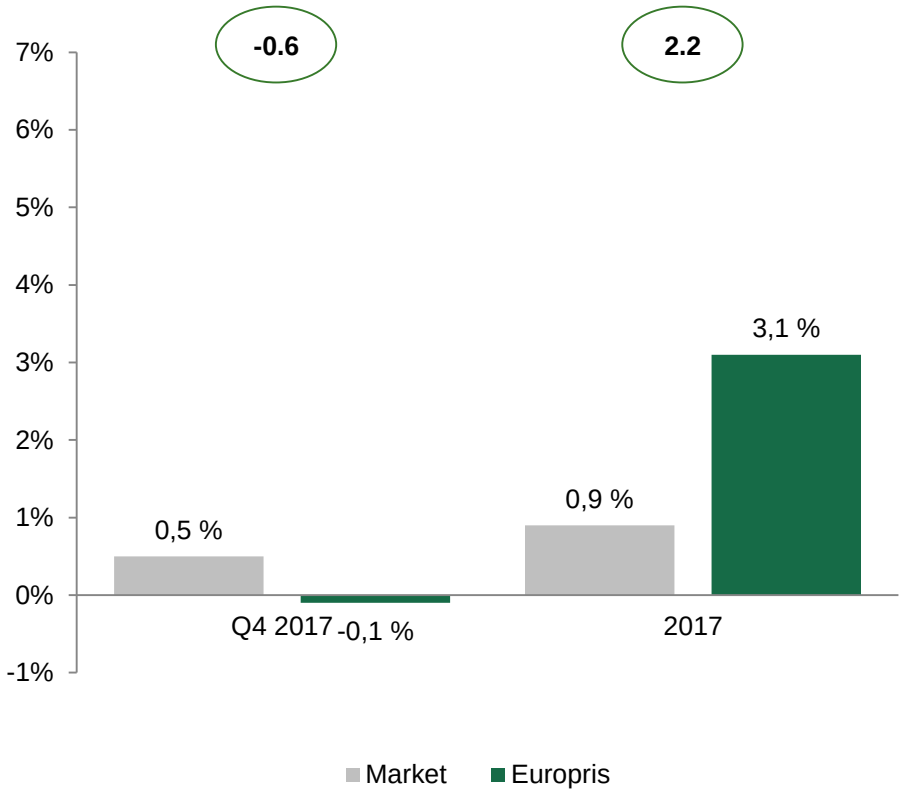
# Relative growth development

## Total growth development




## LFL development

Y-o-Y LFL growth (%)



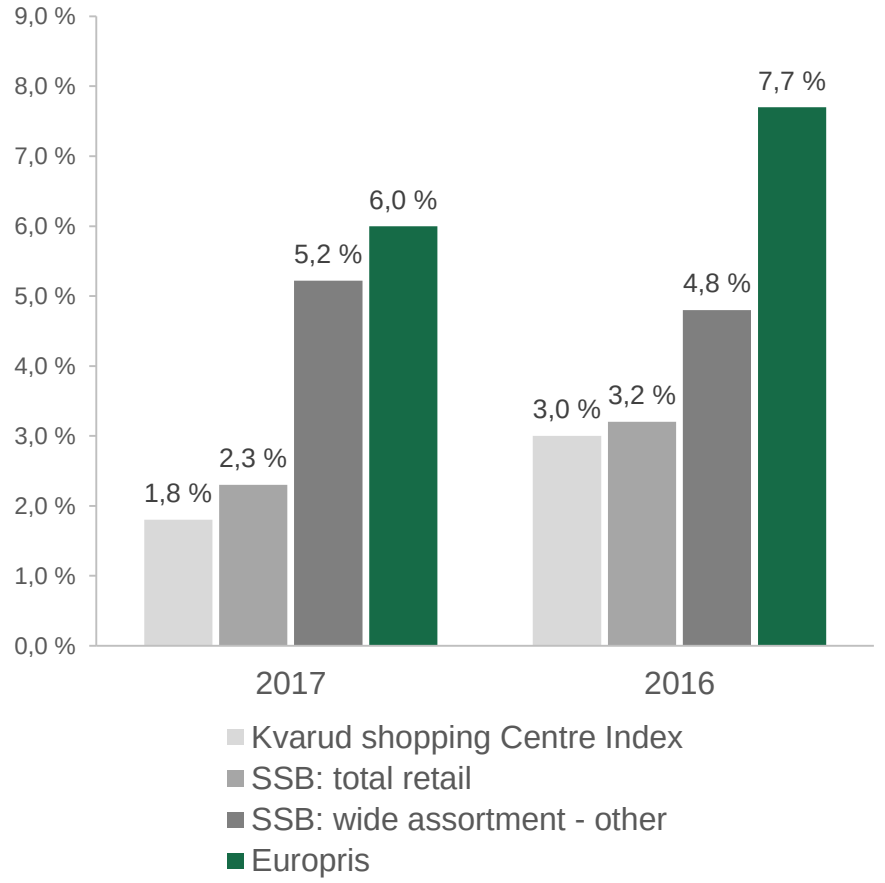

**% points** Europris growth rate in excess of market growth rate in the period

Source: Kvarud analyse, Shopping Centre Index, December 2017; Europris analysis

# Europris continues to strengthen its share – growth well ahead of market

- Europris once again beat the market for the full year and continues to take market share in a growing market segment
- Overall market growth reduced in line with inflation in 2017
  - Growth in 2015 and 2016 mainly driven by price due to currency movements
  - Inflation was 3.6% in 2016 and 1.8% in 2017

## Total growth comparison




Source: DNB, Statistisk Sentralbyrå / Statistics Norway (SSB) and Kvarud analyse. SSB figures: SSB total retail denotes "Detaljhandel i alt ekskl. Motorvogner og bensin"; SSB wide assortment – other denotes "Bredt vareutvalg ellers".
Note: SSB figures based on data collected from a panel of c. 1 500 retail companies (selection drawn once a year; companies included throughout last four years excluded) and up to c. 14 600 direct stores. The statistic covers approximately 80% of sales within retail according to SSB. SSB statistic published 4-5 weeks post previous month end.

# Category and concept development – key pillars in continued seasonal success









# Increasing central control of spacing, planograms and volumes

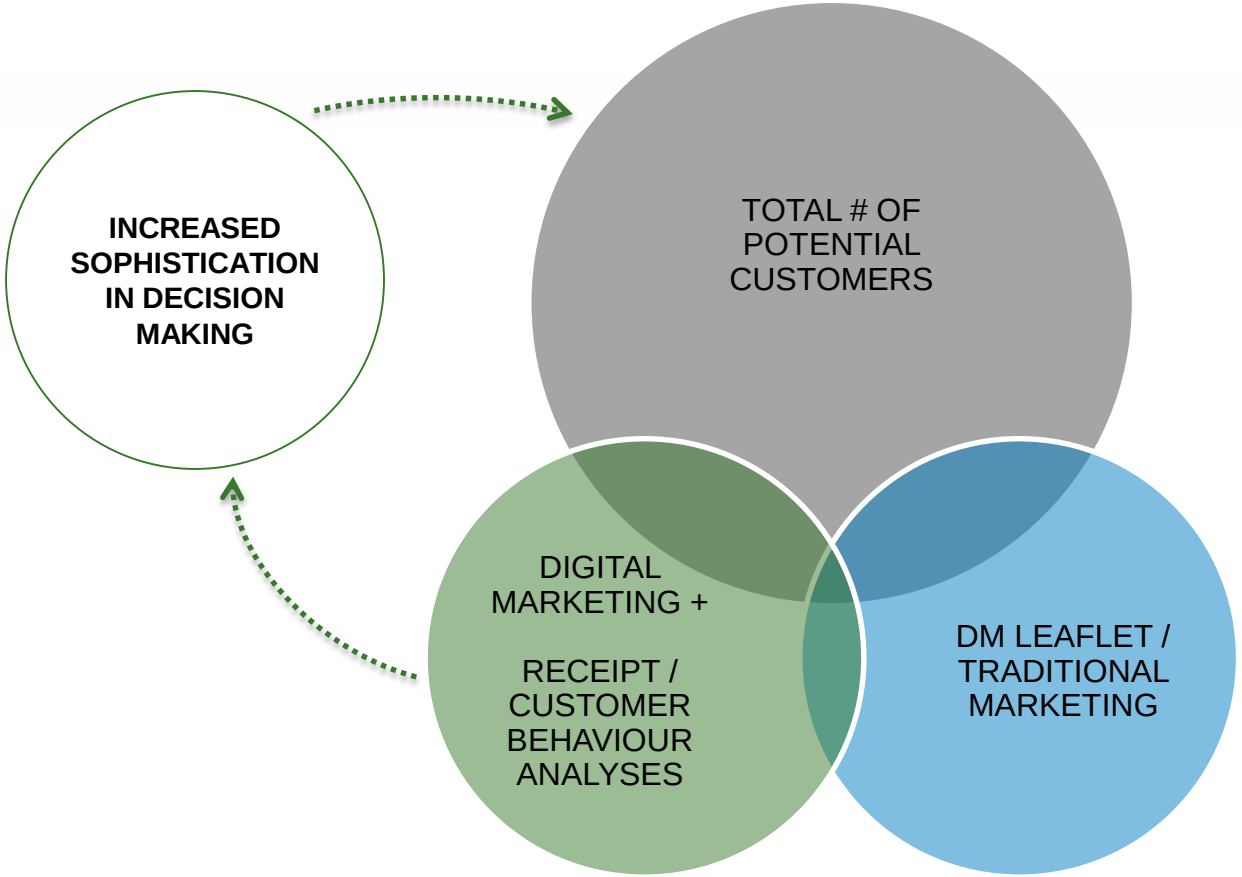








# E-CRM – a tool for better decision making and customer specific communication




- *MER programme – customer specific communication and information*
- *Analyses of general customer behavior and shopping patterns*
- *Better decision making for marketing, campaigns and other customer facing activities*

# Pipeline of new stores remains robust

- Five stores opened during Q4
  - Langevåg in Møre & Romsdal county
  - Risør in Aust-Agder county
  - Dale in Sogn & Fjordane county
  - Grong in Trøndelag county
  - Øvre Årdal in Sogn & Fjordane county
- Solid pipeline of new stores for 2018
  - Nine stores planned so far (one store opened in January in Lillehammer)
  - Two stores subject to zoning process
- Seven stores already planned for 2019/2020



Europris Dale


Europris # 250 at Øvre Årdal

# New central warehouse – expected effects

## – this year's "Christmas Gift"





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# Moving from five to one – new site located nearer the group's stores



Værste



Øra



Kampenveien




Hjalmar Bjørges vei



Havnelageret



# Preparing for continued growth…

| OLD set-up | # of pallets | Square meters |
|---|---|---|
| Øra | 36,900 | 30,000 |
| Hjalmar Bjørges vei | 16,400 | 16,700 |
| Værste | 5,700 | 7,000 |
| Kampenveien | 10,200 | 11,500 |
| Havnelageret | 6,200 | 5,700 |
| **Total** | **75,400** | **70,900** |

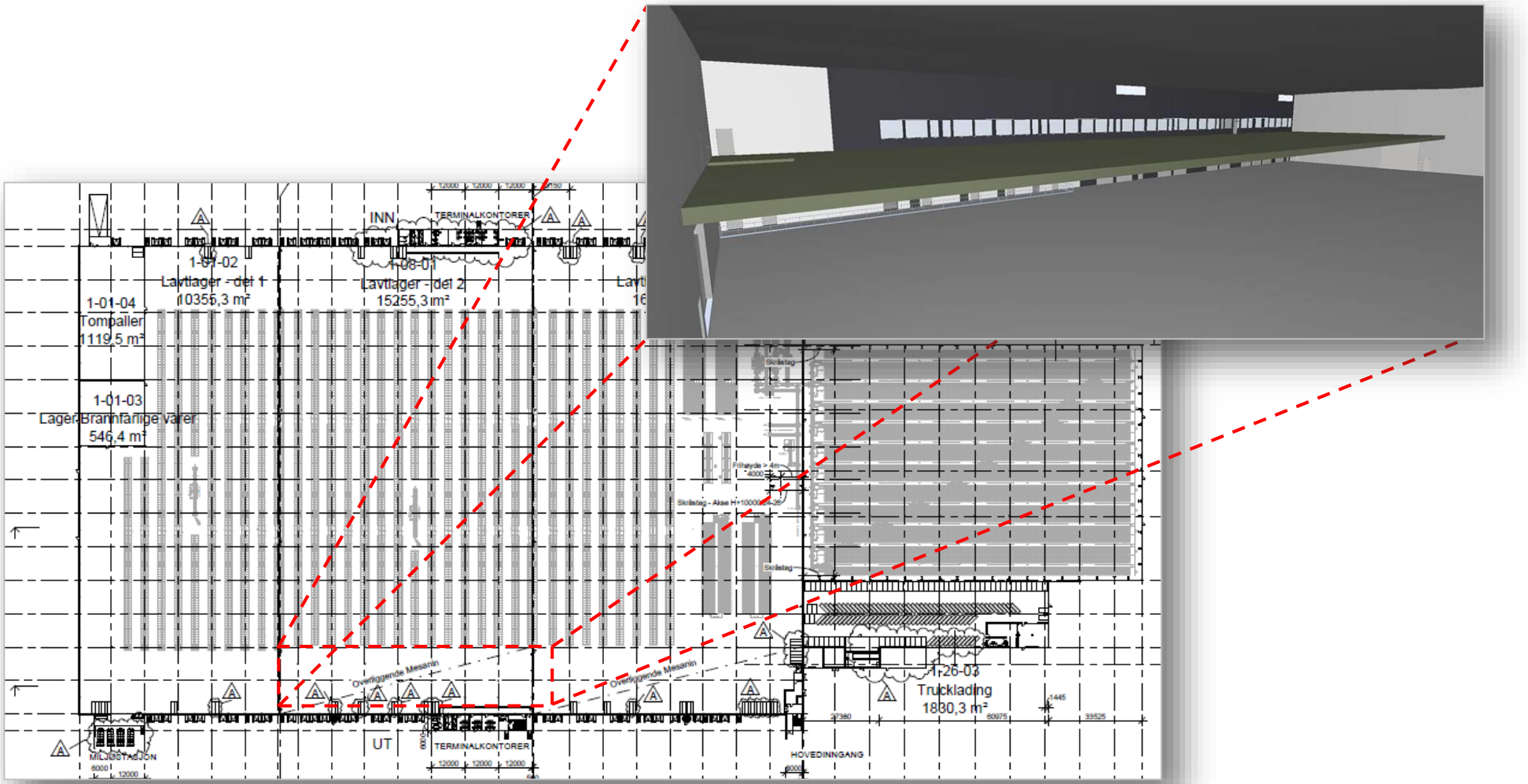


| | *Total capacity* | *Area subject to rent* |
|---|---|---|
| | ***+34%*** | ***-13%*** |

| NEW set-up | # of pallets | Square meters |
|---|---|---|
| **Moss** | **100,700** | **62,000** |

- Significant capacity increase comes with a reduction in total area subject to rent
  - Preparing Europris for continued growth
  - Catering for long term ambitions
- New, modern and purpose built facility
  - Enables efficient personnel and system operations
  - Single site logistics
  - Fully automated high bay storage
  - Automated order picking stations
- Long term lease agreement with Fabritius Gruppen AS
  - 15 year lease + extension right
  - Open book principle based on agreed project yield (subject to cap on annual rent)

# …with dedicated space for e-commerce



# Capital equipment mainly financed through lease agreement

- Warehouse automation, logistics fixtures and fittings financed through 10-year lease agreement
  - Automated high bay storage system by Swisslog
  - Automated order picking stations
  - Conventional racking in low-rise area
  - Conveyors, etc.

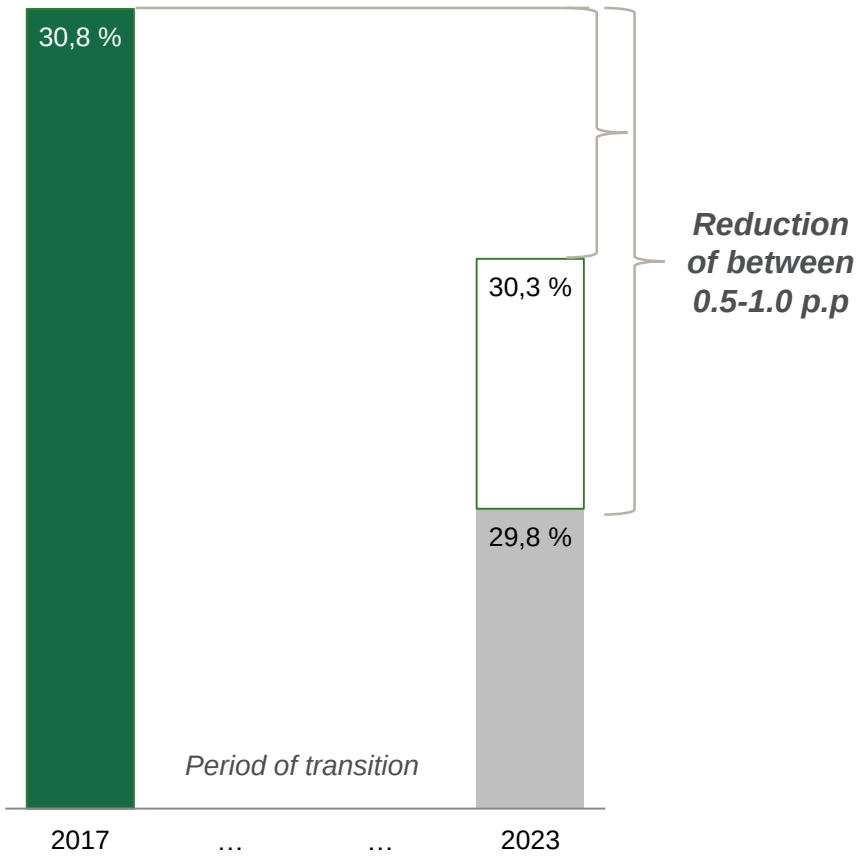
- Limited capex requirements – office equipment and IT mainly
  - Estimated at a total of c. NOK 15m during the course of 2019 and 2020



# Significant efficiency gains expected

- Significant efficiency gains long term
  - Expected reduction in the ratio of opex/group revenue of between 0.5-1.0 p.p
- Several drivers of increased efficiency
  - Lower lease expenses
  - Reduction in transportation costs
  - General savings from more efficient operations
- Details on certain transition costs and non-recurring costs related to move included in appendix

**OPEX in % of group revenue**




Note: assuming normal course of business, and no other efficiency gains or losses affecting the ratio of operational expenses to group revenue

# Financial review





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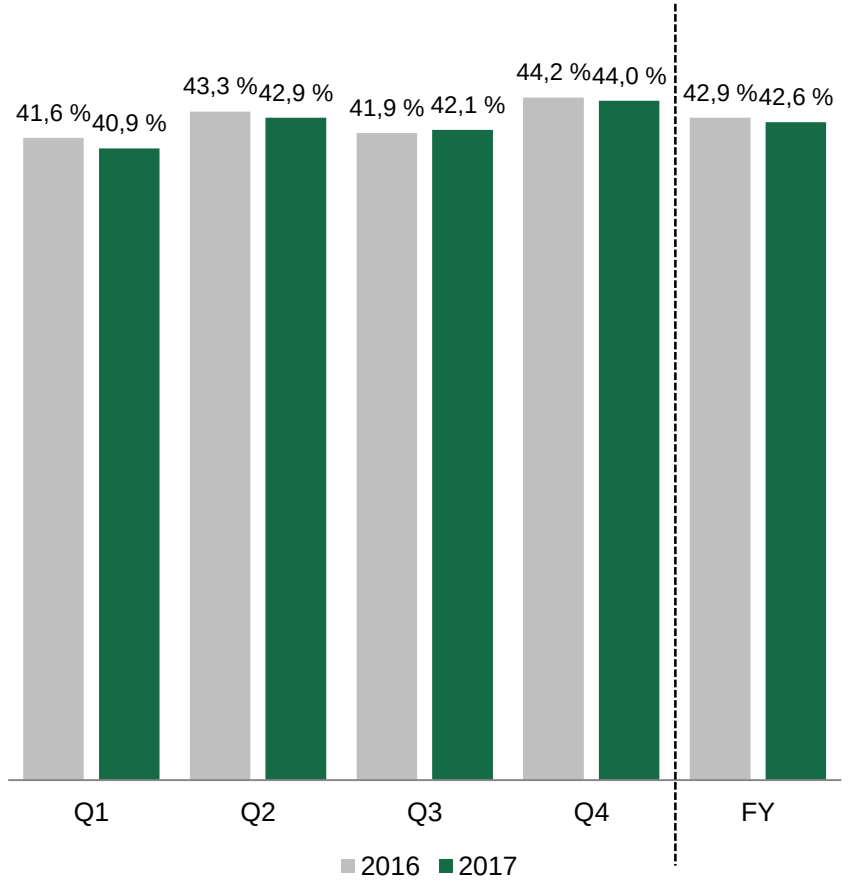
# Gross margin development

- Gross margin was 44.0% in Q4 2017 vs. 44.2% in Q4 2016
- Last year included one-off cost of 7.5m related to franchise takeovers
- Overall campaign share of sales has stabilised
  - Relative portion of sales from products on the front page of the DM has increased

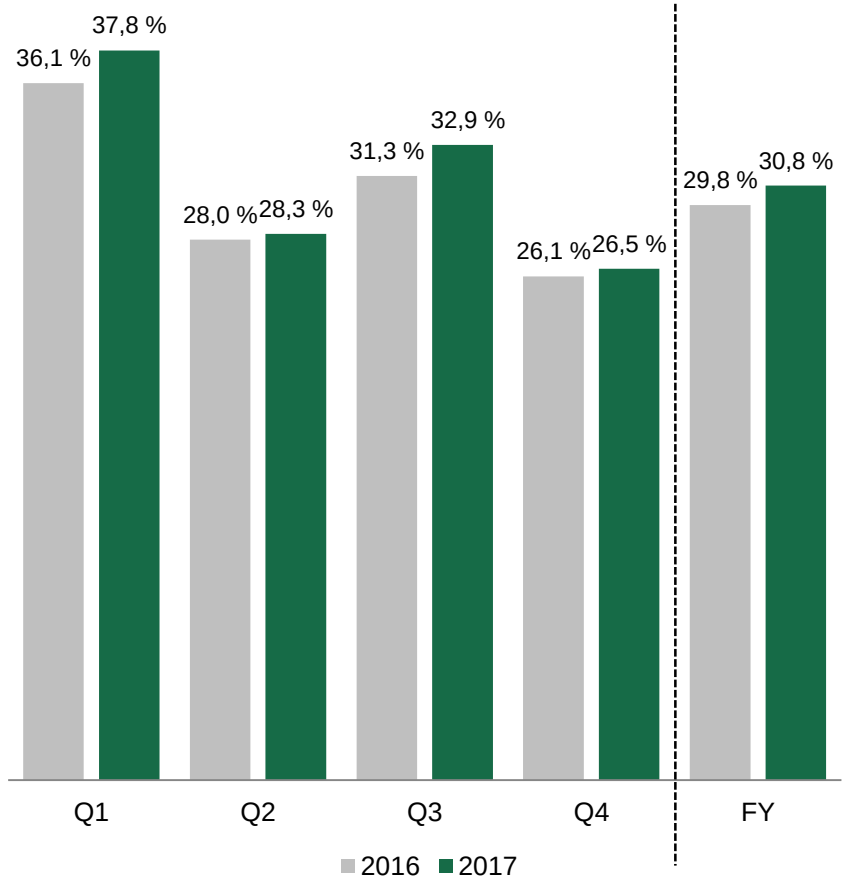
## Gross margin



# OPEX development

- OPEX in % of revenue was 26.5% in Q4 2017 vs. 26.1% in Q4 2016
- Opex impacted by increase in number of directly operated stores
  - 20 additional directly operated stores vs. last year
- Opex reduced by:
  - Increased marketing support from suppliers, 9.5m
  - Reduced performance-based remuneration, 10.1m
- Certain planned operational initiatives
  - Changed distribution
  - Digital channels

## OPEX in % of group revenue

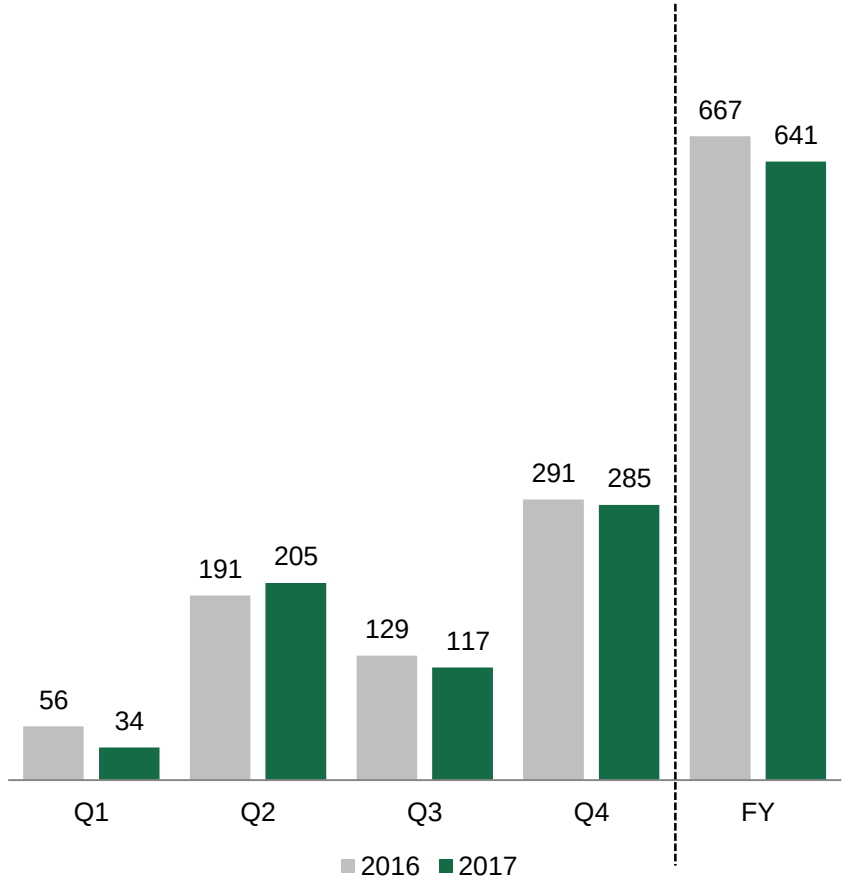


# Adjusted EBITDA development

- Adjusted EBITDA was NOK 285m in Q4 2017 vs. NOK 291m in Q4 2016

- Adjusted EBITDA impacted by
  - Low sales growth
  - Temporarily lower sales from wholesale to franchise stores following planned reduction in inventory
  - Higher fixed cost base as a result of increase in number of directly operated stores

**Adjusted EBITDA (NOK million)**



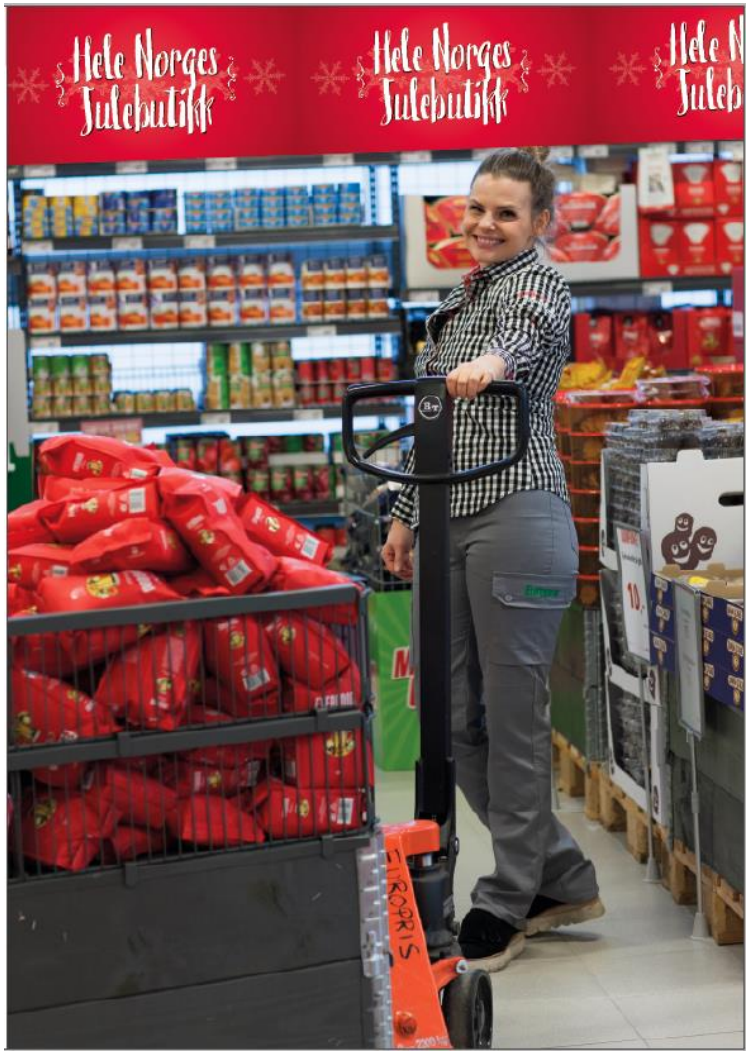
# Cash flow

- Cashflow for the quarter impacted by the planned inventory reduction
  - Initiatives implemented following Q2 highly effective for reduction of inventory in stores
  - On a per-store basis, inventory has been reduced from last year
  - Wholesale inventory reduced from Q2, but slightly ahead of last year
- Working capital also impacted by reduction in trade receivables
  - Fewer franchise stores compared to last year
  - Reduced wholesale sales to franchise stores in Q4
- Income tax paid increased by 29m

| Cash flow, NOK million | Q4 2017 | Q4 2016 | FY 2017 | FY 2016 |
|---|---|---|---|---|
| Cash from operating activities | 408 | 459 | 477 | 473 |
| Cash used in investing activities | -29 | -35 | -132 | -101 |
| Cash (used in)/from financing activities | -1 | -4 | -340 | -242 |
| **Net change in cash and cash equivalents** | **377** | **420** | **5** | **130** |
| Cash and cash equivalents at beginning of period | 204 | 157 | 577 | 447 |
| Cash and cash equivalents at end of period | 582 | 577 | 582 | 577 |

# Summary

- Sales started slow, but ended with a well executed Christmas season
  - Clear measures implemented to improve performance in periods outside main seasons
- Delivered on the measures initiated to improve inventory turnover
- Ordinary dividend per share increased by 13.3%
- Well positioned for further growth:
  - Discount variety retail continue to take market share
  - Strong pipeline of new stores
  - Category development is key for success – awarded for several new products in Q4
  - Making progress on e-commerce



# Outlook

- Macro indications for Norway are positive
- Continued growth in long term revenue and profits supported by the group's leadership position in a solid market segment
- Europris has a strong pipeline of new stores
  - One store already opened and eight more planned so far for 2018
  - Five stores already planned for 2019
- Increasing share of directly operated stores
  - Four franchise takeovers on 1 Jan 2018
  - Larger fixed cost base makes profits more exposed to seasonality in revenue
- E-commerce represents an opportunity
- New warehouse expected to provide benefits longer term



# Q & A





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# Appendix








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# Significant efficiency gains expected

- **Significant efficiency gains long term reducing opex / group revenue between 0.5-1.0 p.p. from today's level – assuming normal course of business**
  - Equivalent to a reduction of between NOK 27 – 55m in opex, assuming 2017 volume levels
  - Full effect from 2023 post exit of final warehouse at Øra
  - Takes into account additional lease expenses related to warehouse automation, fixtures and fittings
  - Main drivers of increased efficiency:
    - Lower lease expenses
    - Reduction in transportation costs – location closer to "the average store" and closer to main infrastructure
    - General savings from more efficient operations – no need for intra-warehouse logistics; efficient use of personnel; increased automation for management of product in- and outflows; limited maintenance requirements; etc.
- Certain additional costs expected during a period of transition ("transition costs") – will limit efficiency gains in 2019 and 2020
  - Testing of automatic high bay area for a period of 12 months – operations at both Moss and Øra
    - Roughly ½ of 2019 and ½ of 2020
  - Øra lease extends to 2022 – potential for reducing transition costs depending on extent of sub-lease (current annual lease expense of c. NOK 25m)
- Non-recurring costs related to moving warehouses will be incurred in 2019 and 2020
  - Tentative estimate of c. NOK 5-10m in each of 2019 and 2020
  - Will be reported as non-recurring

# Additional materials

## Number of sales days

| Year | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| 2016 | 74 | 75 | 79 | 81 | 309 |
| 2017 | 77 | 71 | 79 | 79 | 306 |
| 2018 | 75 | 73 | 78 | 80 | 306 |
| 2019 | 76 | 71 | 79 | 80 | 306 |

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

| 2017 | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| New stores | 3 | 2 | 1 | 5 | 11 |
| Store closures | - | - | - | - | - |
| Relocations | (1) | 1 (1) | 1 | 4 | 6 (2) |
| Modernisations | 9 (2) | 5 (1) | 3 | 2 | 19 (3) |

| 2018E | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| New stores | 2 | 3 | 2 | 2 | 9 |
| Store closures | - | - | - | - | - |
| Relocations | 2 | 2 (1) | 1 (1) | 2 | 7 (2) |
| Modernisations | 5 | 2 | 3 | 2 | 12 |

Note: Number of projects in 2018 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

# Franchise takeovers – pro forma effects on group financials per quarter 2017

Pro forma effect on group financials per quarter in 2017 – franchise takeovers completed 1.1.2018

| Year | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| **Group revenue** | **5,5** | **11,0** | **9,9** | **13,1** | **39,5** |
| COGS | 1,5 | 5,2 | 3,8 | 6,0 | 16,5 |
| **Gross profit** | **4,0** | **5,8** | **6,0** | **7,1** | **23,0** |
| Opex | 5,4 | 5,3 | 5,8 | 6,0 | 22,5 |
| **Adj. EBITDA** | **-1,4** | **0,5** | **0,3** | **1,1** | **0,4** |
| Depreciation | 0,2 | 0,2 | 0,2 | 0,2 | 0,9 |
| **Adj. EBIT** | **-1,6** | **0,3** | **0,0** | **0,8** | **-0,4** |

- The above table estimates the pro forma effect on group financials per quarter in 2017 of the four franchise takeovers completed on 1. January 2018
  - I.e. the above table estimates what the effects of the takeovers would have been on 2017-financials had they been completed 1. January 2017
- The table does not reflect the one-off effect associated with completing franchise takeovers

# Alternative Performance Measures

APMs are used by Europris for annual and periodic financial reporting in order to provide a better understanding of Europris' 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.
- **Opex** is the sum of employee benefits expense and other operating expenses.
- **EBITDA** (earnings before interest, tax, depreciation and amortisation) represents Gross profit less Opex.
- **Adjusted EBITDA** is EBITDA adjusted for nonrecurring expenses.
- **Adjusted profit before tax** is net profit before tax adjusted for nonrecurring items.
- **Adjusted net profit** is net profit adjusted for nonrecurring items.
- **Adjusted earnings per share** is Adjusted net profit divided by the current number of shares (166,968,888).
- **Working capital** is the sum of inventories, trade receivables and other receivables less the sum of accounts payable and other current liabilities.
- **Capital expenditure** is the sum of purchases of fixed assets and intangible assets.
- **Net debt** is the sum of term loans and financial leases less bank deposits and cash.

## Other definitions

- **Directly operated store** means a store owned and operated by the group.
- **Franchise store** means a store operated by a franchisee under a franchise agreement with the group.
- **Chain** means the sum of directly operated stores and franchise stores.
- **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.

# Presentation of results for first quarter 2018

**See you 19 April 2018**

