Q4 2018 presentation

31 January 2019

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Norway's #1 discount variety retailer

Customers
- 31 million customer transactions in 2018
- Widely recognised brand and price position[1]

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

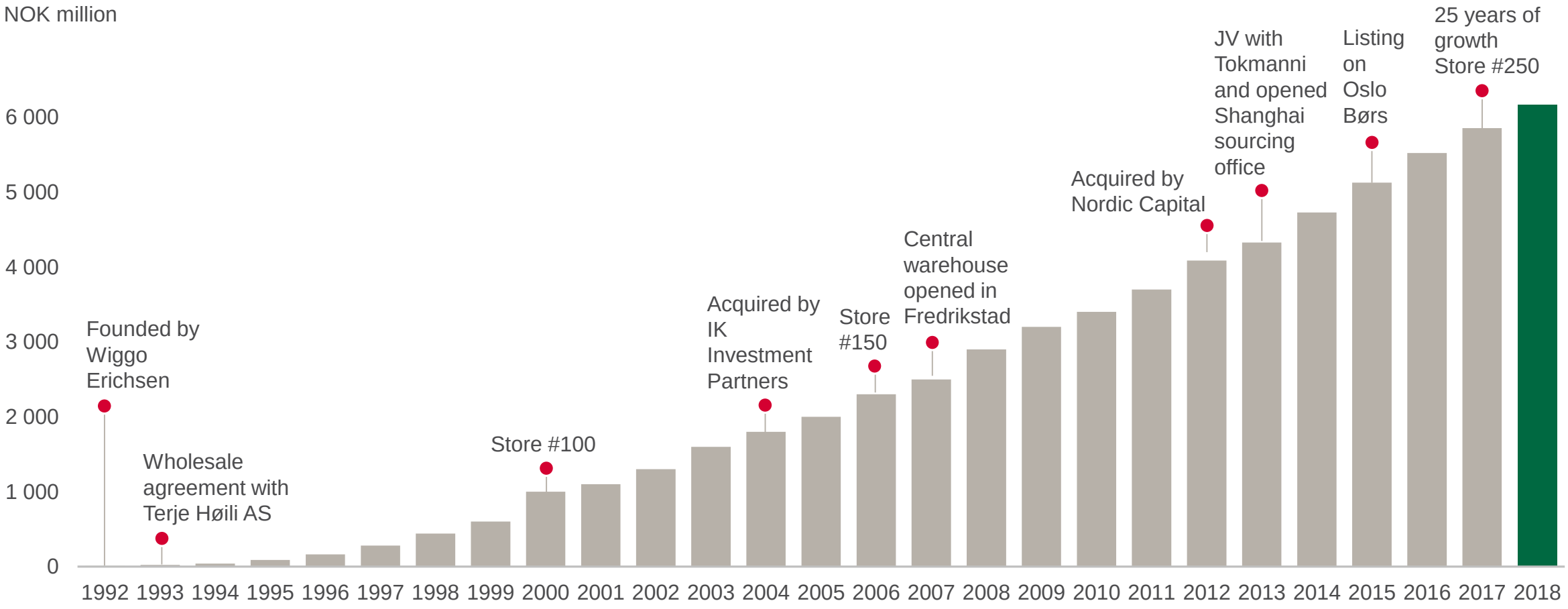
Sourcing
- From more than 30 countries
- Pan-Nordic agreement with ÖoB and Tokmanni



258
Stores

[1] Mediacom annual market survey

Europris – a growth story



Highlights in the fourth quarter

- 12.9% increase in group revenues to NOK 1,839m (1,629m)
  - Solid sales performance throughout the quarter
  - 7.0% increase in like-for-like sales, significantly above market benchmark of 0.4%(1)
- Gross margin was 43.4%, down 0.6%-points owing to increased campaign sales
- OPEX affected by increased costs related to higher volumes
- Adjusted net profit of NOK 224m (195m), up 14.6%
- New warehouse on plan – investment into further automation is expected to reduce opex %

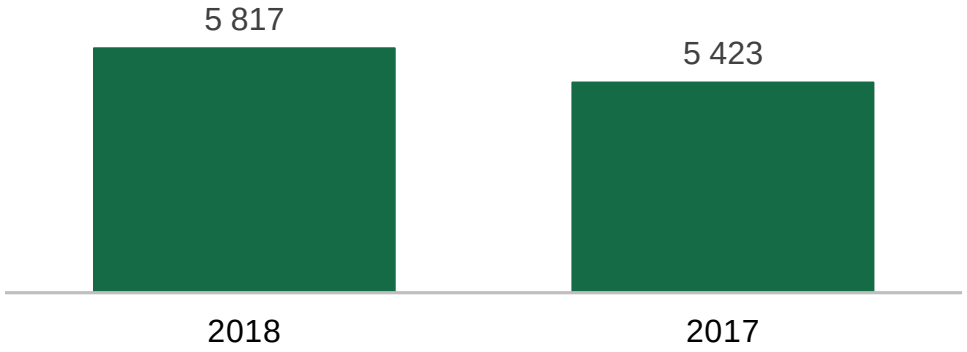


(1) According to Kvarud Analyse shopping centre index

Highlights full year 2018

- Continued top line growth
  - 7.3% growth in group revenues to NOK 5,817m (5.423m)
  - 2.2% increase in like-for-like sales, well above market growth of 0.8%(1)
  - Eight net new stores and eight franchise takeovers
- Gross margin improved to 43.1%, up 0.5%-points
- Adjusted net profit of NOK 429m (390m), up 10.1%
- Acquisition of 20% holding in Runsvengruppen AB (ÖoB) and launch of purchasing partnership

Group revenue (NOK million)



Adjusted net profit (NOK million)

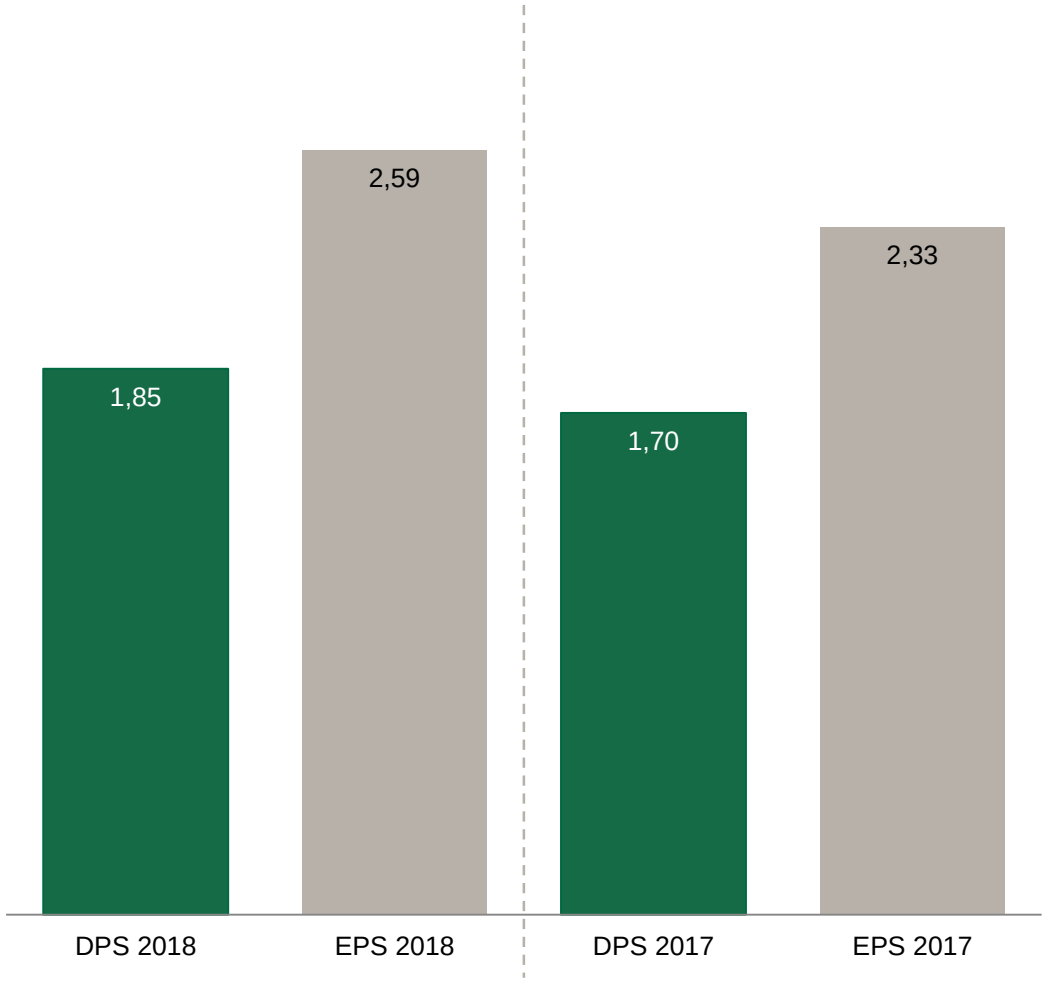


(1) According to Kvarud Analyse shopping centre index

Adjusted EPS and dividend

- The BoD proposes an ordinary dividend of NOK 1.85 per share for 2018
  - Up 8.8% vs. last year
- Total dividend payment of NOK 309m
  - Dividend for the 5.5m treasury shares amounts to NOK 10m

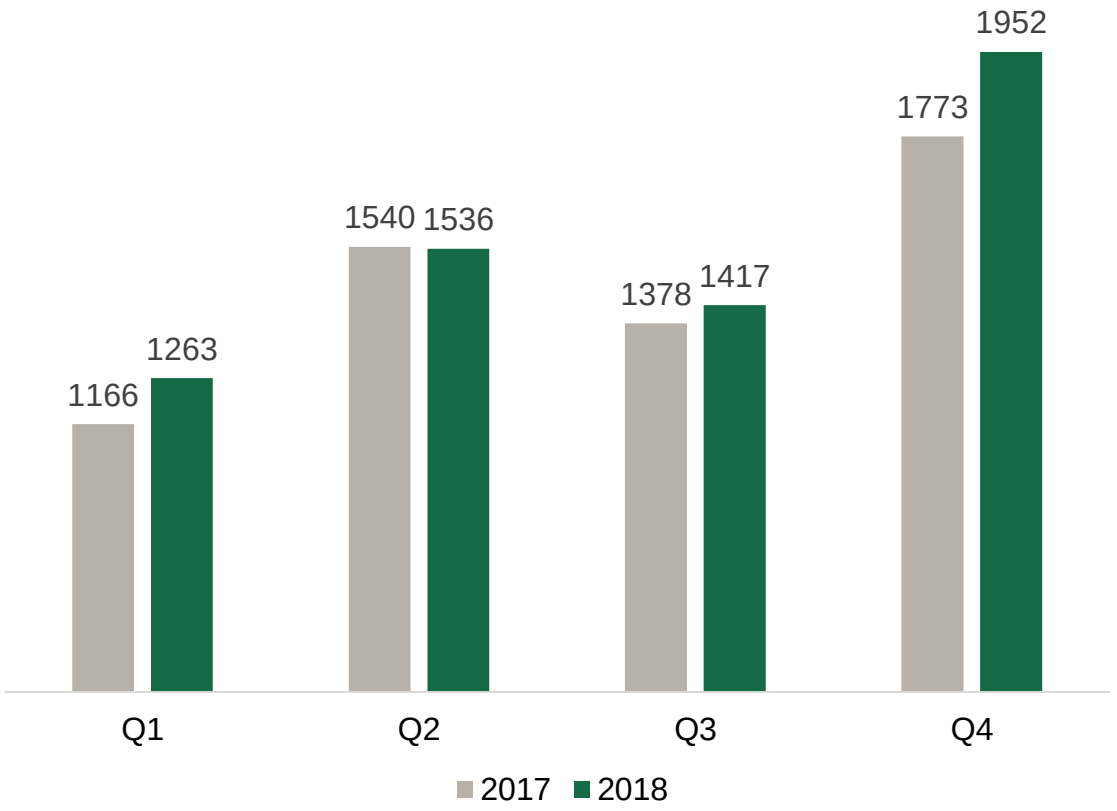
Adjusted EPS and DPS (NOK)



Sales performance

- Total retail sales growth of 10.1% in Q4, well above market total growth of 1.0%(1)
  - High growth throughout the quarter
  - One more sales day
- “Champion of seasons”
  - Successful Black Friday sales campaign
  - Christmas season well executed
- Capitalising on the efforts to increase central control of volumes and spacing in the stores
- Strengthened focus on implementing the weekly sales campaigns
  - Reduce sold-out conditions
  - Improve customer satisfaction and price position

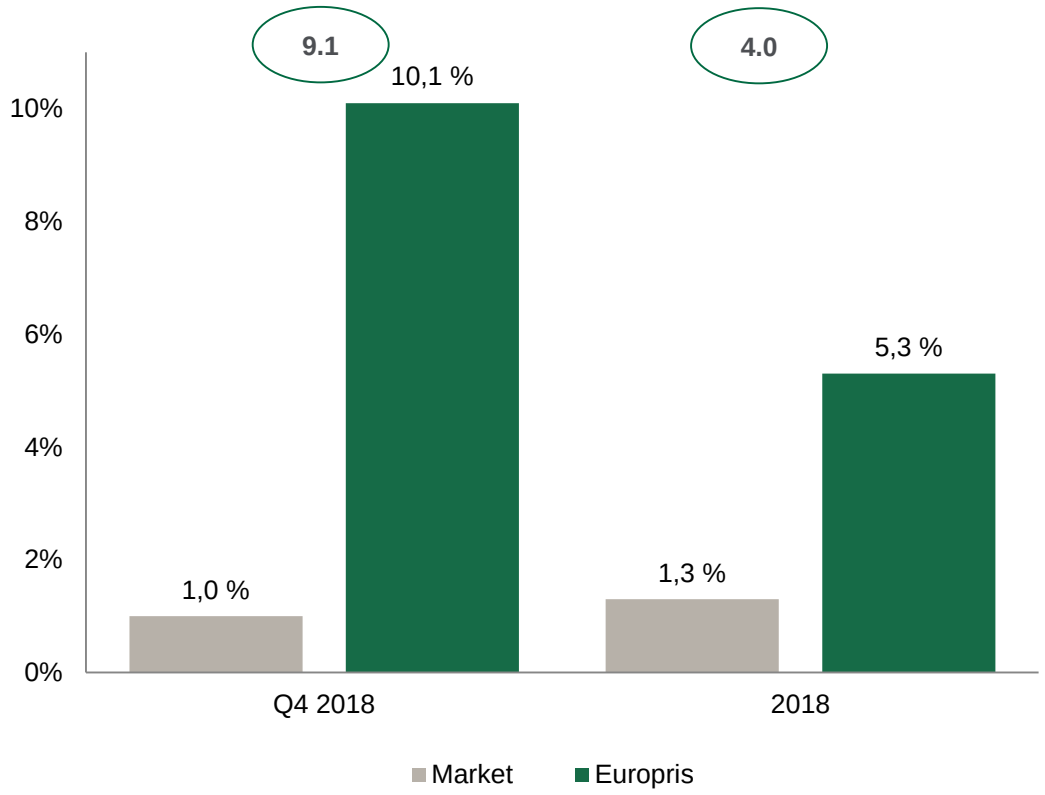
Retail sales per quarter (NOK million)



(1) According to Kvarud Analyse shopping centre index

Sales growth above the market

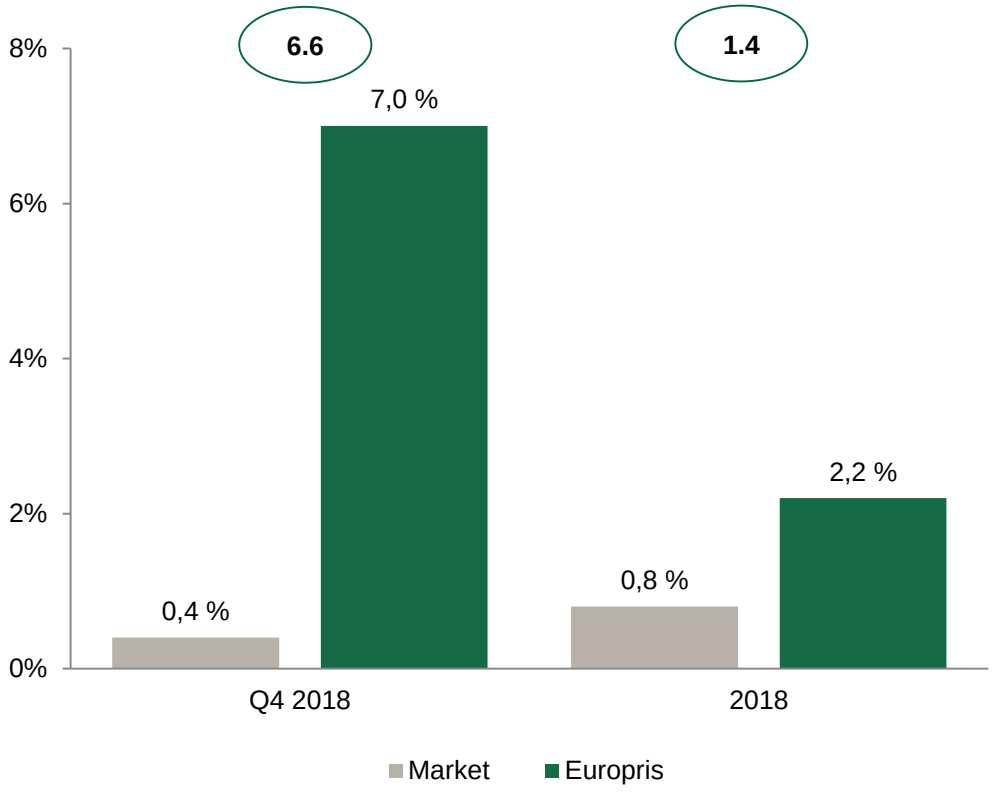
Total growth development



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

LFL development

Y-o-Y LFL growth (%)



Source: Kvarud analyse, Shopping Centre Index, December 2018; Europris analysis

Strategic focus areas



Strengthen price and cost position

Improve customer experience

Drive customer growth



Launching the first Nordic private label

Europris
MER TIL OVERS

Today

- Strong position in Norway within Washing & Cleaning
- Annual sales above NOK 100m across multiple categories
- Driver for gross margin

In the future

- Pan-Nordic brand
- ÖoB set to launch in 2019
- Scale and best practice to improve margins

Value to customers

- Increased offering of price points (good, better, best)
- Top level quality product at significant lower price points than A-brands



Sourcing power from a solid Nordic base

Representing sales of

NOK 17.1bn[1]

Europris MER TIL OVERS — **NOK 5.9bn**

TOKMANNI — **NOK 7.6bn**

ØoB — **NOK 3.6bn**

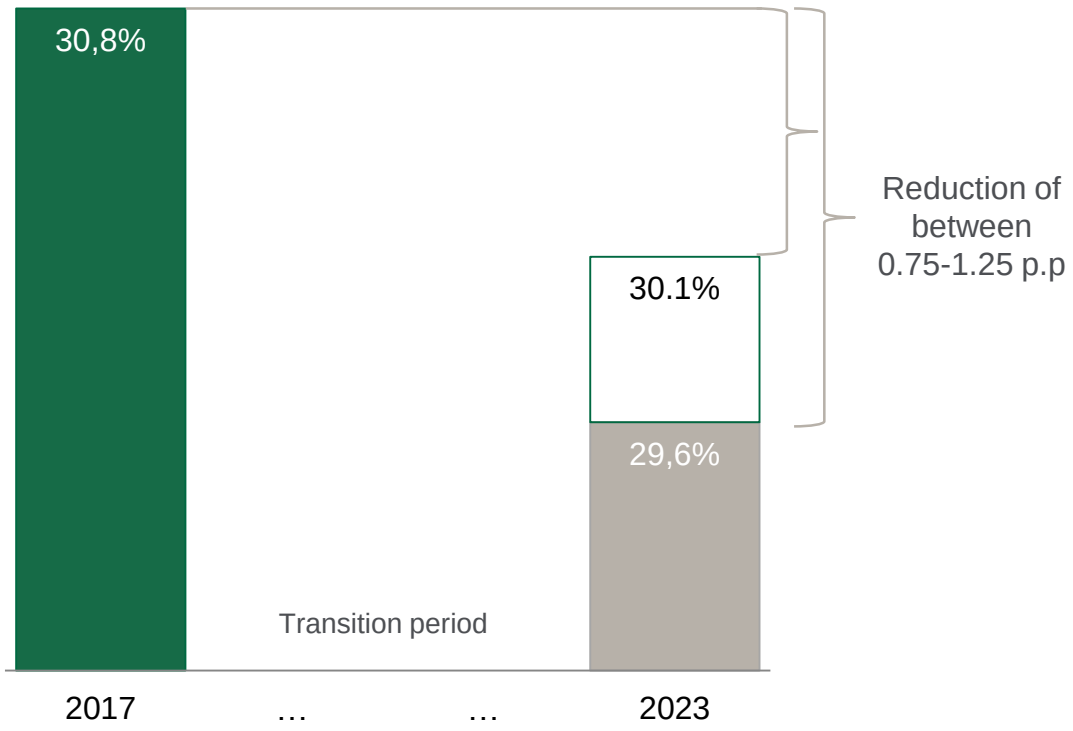
[1] 2017 retail sales

Futureproofing distribution



Further OPEX reductions from low-bay automation

Opex in % of group revenue



Opex in % of group revenue

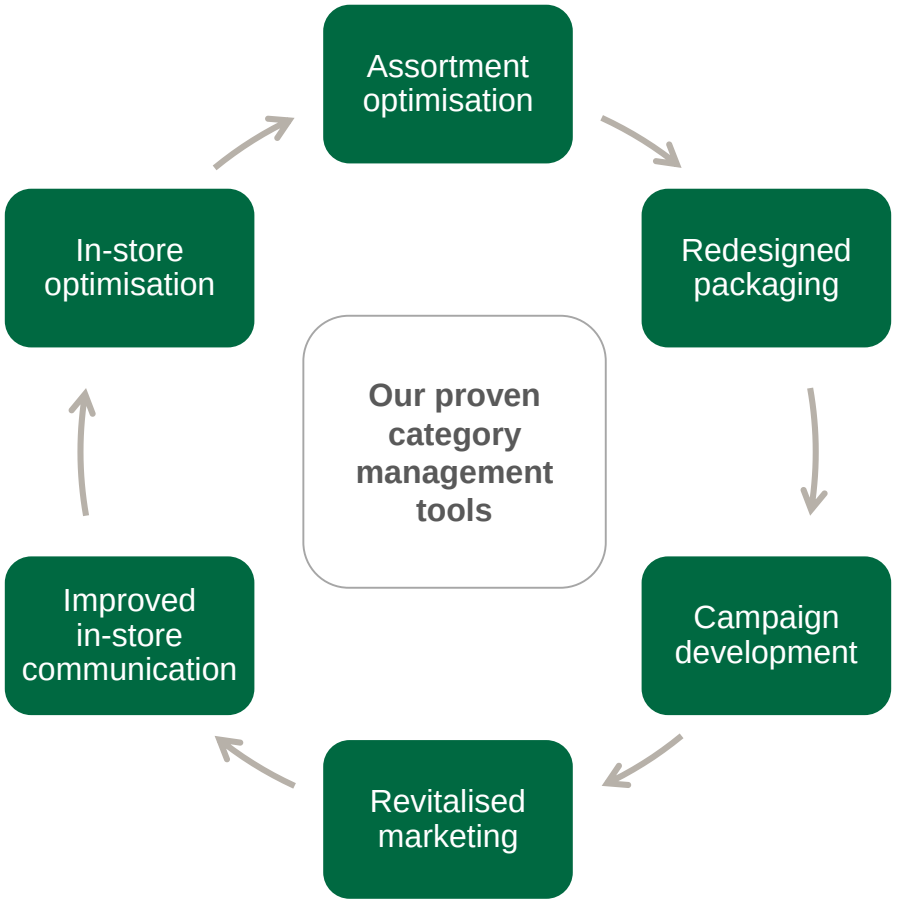
- Automation part 2 expected to reduce Opex/group revenue ratio by 0.25 percentage-point
- Total reduction in Opex/group revenue ratio from new warehouse expected between 0.75 to 1.25 percentage points
  - Equivalent to between NOK 40–70 million of Opex, assuming 2017 volumes
  - Savings gradually realised from 2021 to full effect in 2023, offset by non-recurring expenses in transition period
- Several drivers for increased efficiency
  - Lower lease expenses
  - Reduction in transport costs – location closer to “the average store” and main infrastructure
  - General savings from more efficient operations
  - Automation parts 1 and 2, personnel, maintenance and no intra-warehouse logistics

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

Constant category evaluation and refining











Bridging digital opportunities and physical stores

- Digital channels are an increasingly important supplement to the physical store
  - Reach new and younger customer groups
  - Be relevant and build loyalty
  - Take ownership of the customer's purchase process
- Stepwise roll-out of cost-effective digital platform and shift towards omni-channel strategy
- Online is increasingly driving the whole purchase process from discovery to delivery
  - Price, selection, delivery, payment, support and service

Europris' 360⁰ customer vision



Online enables range expansion and new direct channel to customers

Example: 2018 Christmas three seasonal offering	
Store 9 (+4) items	Online 14 items
	
9 in all stores NOK 399 – 2 499 4 voluntary NOK 1 999 – 3 999	9 click & collect NOK 399 – 2 499 14 home delivery NOK 399 – 3 999 1 exclusively online NOK 2 999

- All stores can offer the same range via e-commerce
  - Click & collect and home delivery
- Leverage e-commerce platform to sell partner products
  - Offer a widened range of high-value products without supply chain and warehousing
  - Examples; garden furniture, generators and snow-blowers
- Potential to widen the overall range significantly
  - Drive store traffic via click & collect
  - Direct home delivery from partner with no Europris logistics involvement
  - Add to customer experience and convenience

Robust pipeline of new stores

- New store openings on track
- Two new stores and one store closure in Q4, eight net new stores in total for 2018
  - Maura, Akershus was closed in October
  - Nannestad , Akershus opened in October
  - Rjukan, Telemark was opened in December
- 12 stores in pipeline for 2019 and beyond
  - Seven new stores expected in 2019
  - Five of the stores are subject to local authority planning processes



Team Europris Nannestad, the new store opened in October.

Financial review

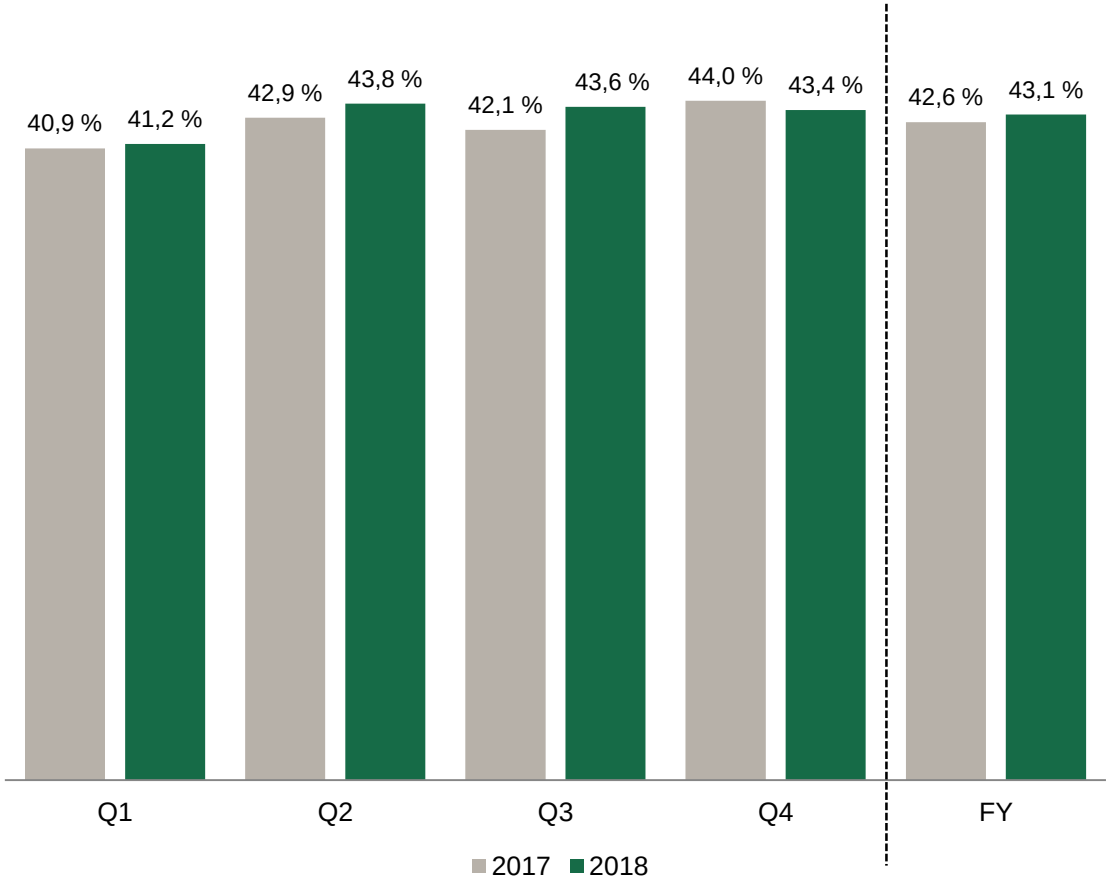


Gross margin development

- Gross margin was 43.4% in Q4 2018 vs. 44.0% in Q4 2017

- Increase in the campaign share of total sales following the strengthened focus on implementation of weekly sales campaigns
  - Overall level of discounting unchanged
  - Reducing margin, but positive on sales and profits

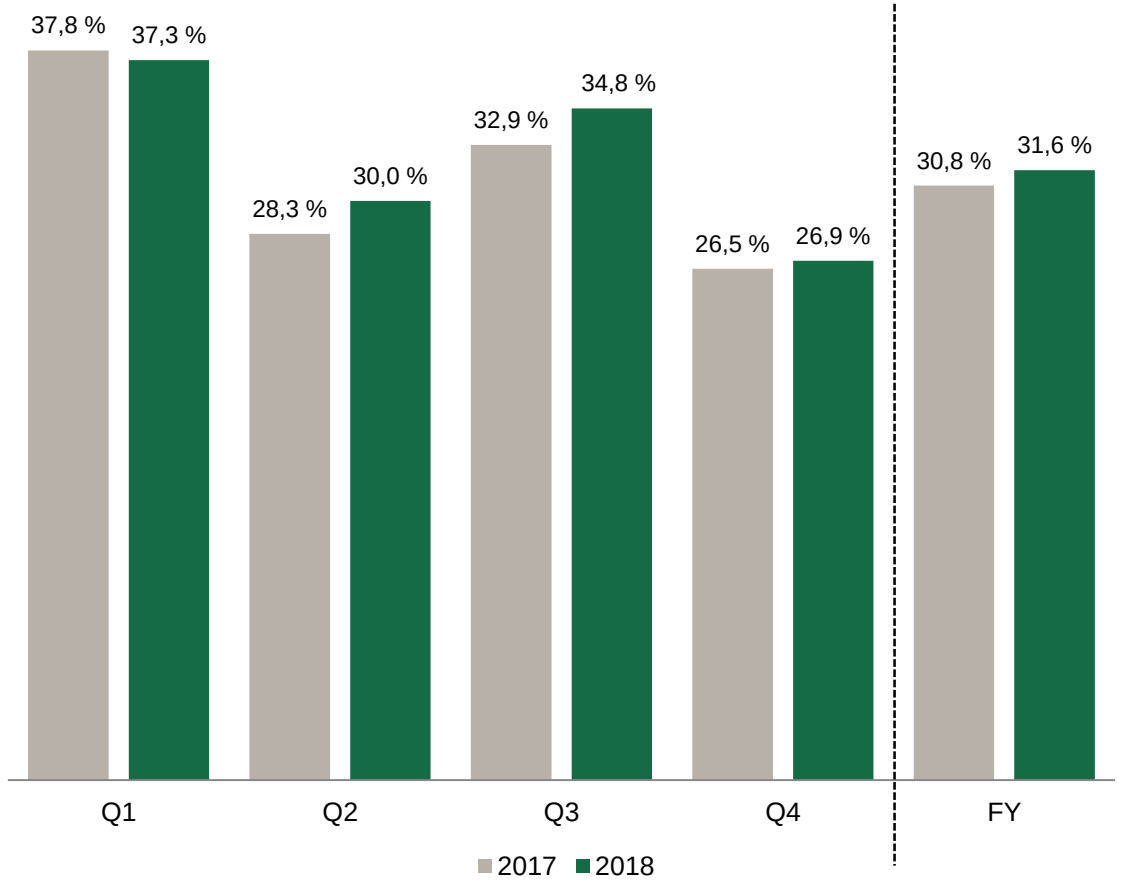
Gross margin



OPEX development

- OPEX in % of revenue was 26.9% in Q4 2018 vs. 26.5% in Q4 2017
- Number of directly operated stores increased from 205 to 221, up by 7.8%
- Large volumes resulted in capacity constraints at central warehouse
  - Extra use of 3rd party handling and container rent amounting to NOK 8m
- OPEX in Q4 last year reduced by NOK 19.6m
  - NOK 10.1m decrease in performance based remuneration
  - NOK 9.5m increase in supplier marketing support

OPEX in % of group revenue

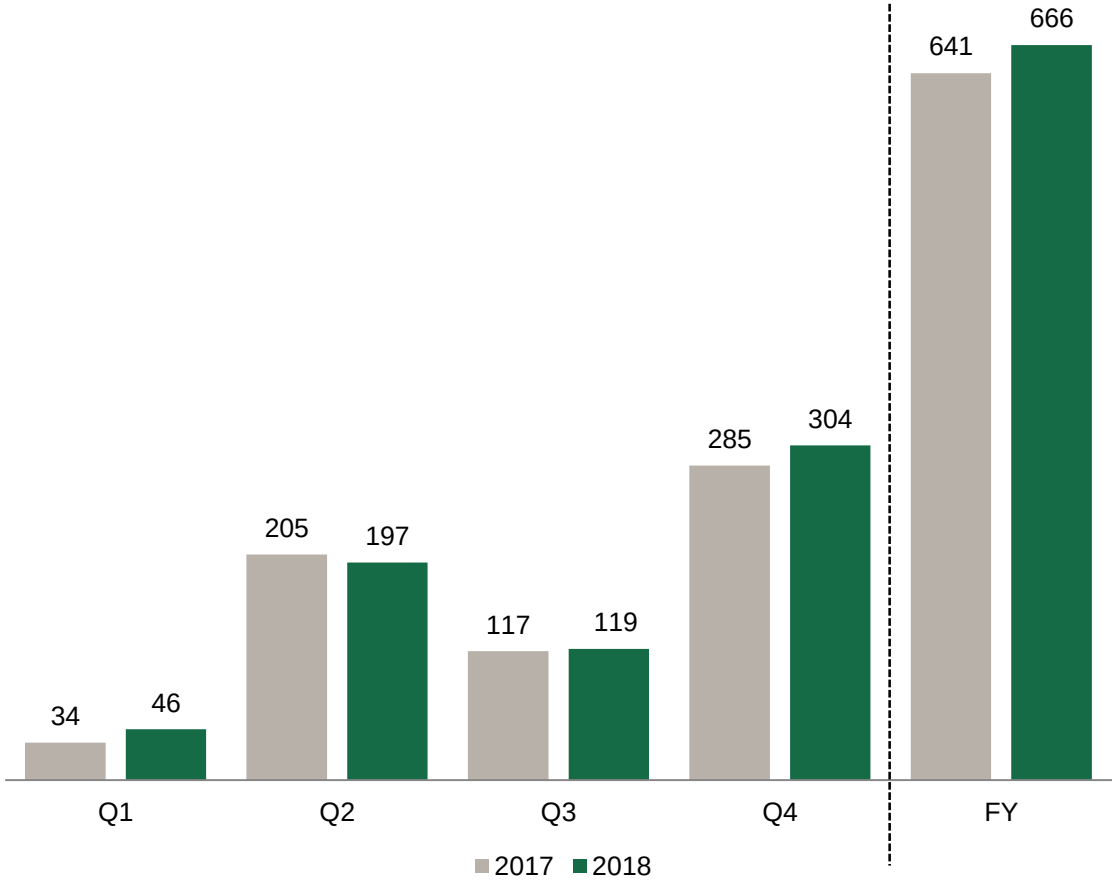


Adjusted EBITDA development

- Adjusted EBITDA was NOK 304m in Q4 2018 vs NOK 285m in Q4 2017
  - Adjusted EBITDA margin was 16.5% (17.5%)

- Adjusted EBITDA affected by
  - High sales growth
  - Extra costs related to large volumes

Adjusted EBITDA (NOK million)



Cash flow

- Cash flow for the quarter reduced from last year due to share buy-back programmes
  - NOK 77m cash outflow for 3.37m treasury shares
- For full year 2018 cash flow was impacted by:
  - Increased inventory, both from new stores and at central warehouse (to increase service level to stores)
  - Reduced capex, fewer store projects and purchase of land area in Moss last year
  - Three share buy back programmes totalling NOK 121m

Cash flow, NOK million	Q4 2018	Q4 2017	FY 2018	FY 2017
Cash from operating activities	432	408	348	477
Cash used in investing activities	(19)	(29)	(90)	(132)
Cash from financing activities	(78)	(1)	(413)	(340)
Net change in cash	**334**	**377**	**(155)**	**5**
Cash at beginning of period	93	204	582	577
Cash at end of period	427	582	427	582

Outlook

- Continued growth in long-term revenue and profits supported by the group's leading position in an expanding retail segment
- Transforming Europris to an omni-channel retailer through e-commerce and e-crm
- Healthy pipeline of new stores
  - Twelve stores planned for 2019 and beyond
- Two franchise takeover completed on 1 January and 2-3 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

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



Fogra Reklamefoto

Q&A

Next event: Q1 presentation 25 April 2019

Appendix

Appendix

- Sales days and store projects
- Analytical information
- IFRS 16 implementation
- APM’s

Sales days and store projects

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)

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	5	1	-	7
Store closures	-	-	-	-	-
Relocations	-	4	1 (1)	2	7 (1)
Modernisations	7	2	5 (1)	-	14 (1)

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 info[1]

Seasonality	• As rule-of-thumb, the Easter impact is approximately NOK 50 million in revenue and NOK 10 million of EBITDA
Quarterly OPEX	• As rule-of-thumb, OPEX in year ago quarter + inflation + NOK 1.5 – 1.6 million per extra directly operated store (DOS)
CAPEX	• 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 year • IT & Maintenance – NOK 35 million per year
Estimated one-time CAPEX items 2019	• New warehouse and new head office of approximately NOK 30 million (IT, system integration, fixtures and fittings)

[1] All figures are approximations and subject to change without further notice

Analytical info – example rule-of-thumb, OPEX

OPEX Q4 2017	• NOK 431m - reported OPEX • + NOK 20m - for special items (performance based remuneration and supplier marketing support) • **= NOK 451m – adjusted OPEX to be used as baseline**
Inflation	• + NOK 16m (3.5% of NOK 451m, inflation according to SSB)
Extra directly operated stores (DOS)	• + NOK 25m (221 stores – 205 stores = 16 stores x NOK 1.5 - 1.6m)
Estimated OPEX Q4 2018	• **= NOK 491m**

[1] All figures are approximations and subject to change without further notice

Analytical info: New warehouse

NOK million	2019	2020	2021	2022
Investments				
IT, office equipment and other (CAPEX)	~15	~5		
Automation, part 1 (lease)	~85	~30		
Automation, part 2[1] (CAPEX)	~25	~90		
Non-recurring OPEX items				
Moving costs	5-10	5-10		
Redundant warehouse capacity in 2019 and Øra lease from H2 2020 (sublet potential to lease ends March 2022)	~6	0-13	0-26	0-10

1) Financing method for automation part 2 not yet concluded

IFRS 16 implementation - preliminary estimates[1]

Preliminary effect on group balance sheet

	Implementation effect 01.01.2019	2019 estimate
Assets		
Total fixed assets	+1.96bn	+167m
Total assets	**+1.96bn**	**+167m**
Equity and liabilities		
Equity		-10m
Long term financial liabilities	+1.57bn	+199m
Current liabilities	+394m	
Other short term liabilities		Net -22m
Total equity and liabilities	**+1.96bn**	**+167m**

- Implementation comes before new warehouse and head office
- 2019 estimate includes new warehouse, head office and other additions net of depreciation for the year
  - Potential franchise take-over and adjustments to current lease portfolio are not included in 2019 estimate
- Loan facilities are not affected by reduction of equity ratio related to IFRS 16 implementation

Preliminary effect on group P&L statement

	Estimated 2019 P&L effects
Group revenue	
COGS	
Opex	Reduced by 430-450m
Depreciation	Increased by 400-420m
Net finance cost	Increased 40m-60m
Tax cost	Reduced by some 3m
Net income	Reduced by some 10m

- Significantly reduced rental cost to increase EBITDA
- More than offset by higher depreciation and finance costs
- Net negative impact expected on reported net income
- IFRS 16 implementation has no cash effects

[1] Includes all rented and leased properties, vehicles, trucks, machinery and equipment. Shorter and immaterial leases have been excluded.
All numbers are estimates and will be subject to change owing to group operations and interest rate levels at the time of implementation

Alternative performance measures (APMs)

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.	**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