Q3 2019 presentation

1 November 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

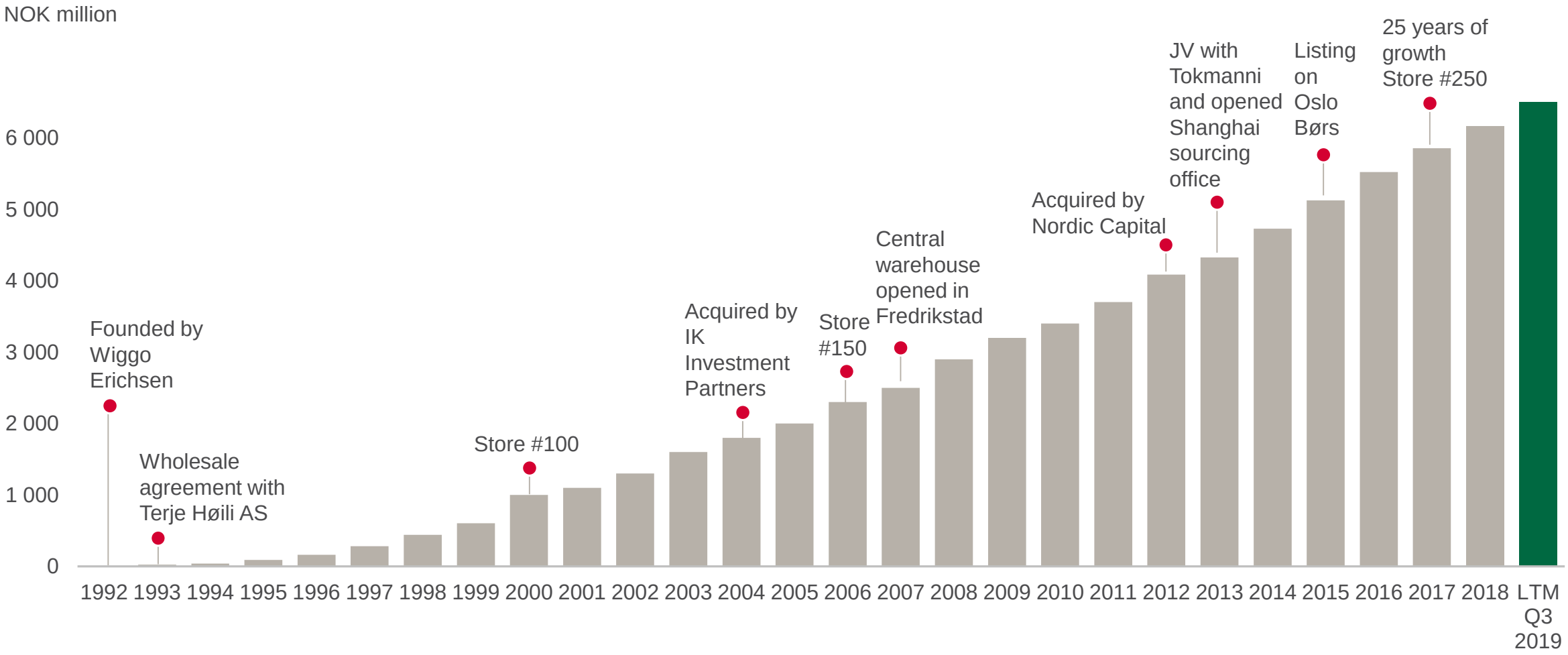
Sourcing
- From more than 30 countries
- Pan-Nordic agreement with ÖoB and Tokmanni



264
Stores

[1] Mediacom annual market survey

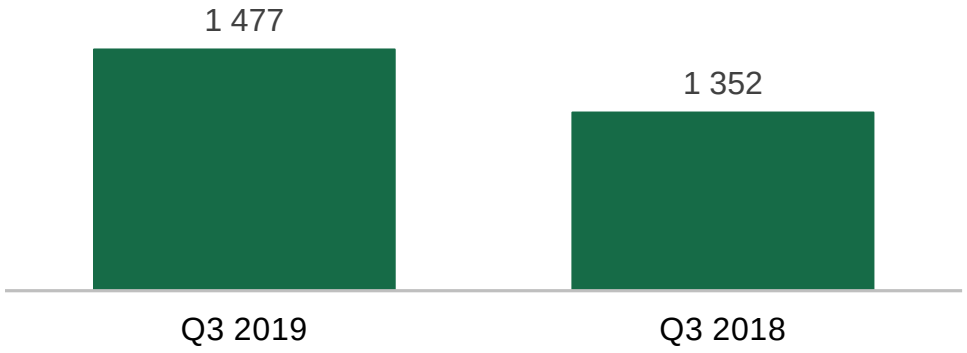
Europris – a growth story



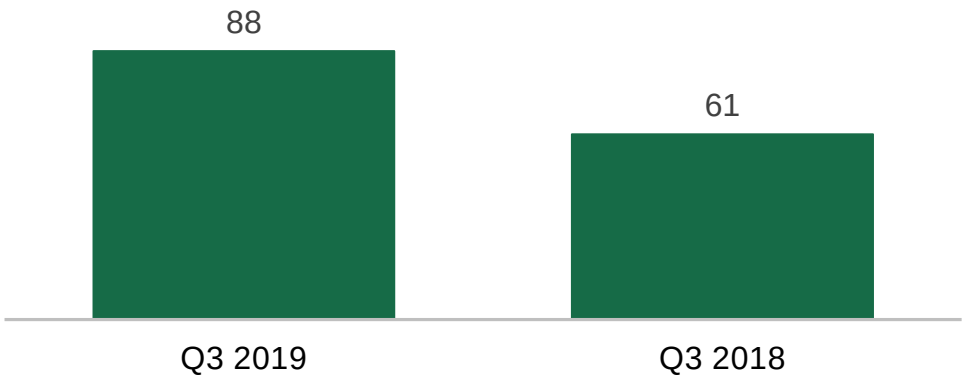
Highlights in the third quarter

- Group revenue increased by 9.2% to NOK 1,477 million (NOK 1,352 million)
  - 7.5% like-for-like growth, significantly above market growth of 1.3%
  - Increased number of customers remain the key driver for sales growth
- Gross margin increased to 44.3% (43.6%)
  - Positive result from annual stocktaking in the stores, like last year
  - Adjusted for the stocktaking, the gross margin was 42.6% (42.0%)
- Still high fill-rate at the central warehouse, but OPEX impact limited to NOK 5 million
- Adjusted net profit increased by 45.4% to NOK 88.4 million (NOK 60.8 million)

Group revenue (NOK million)



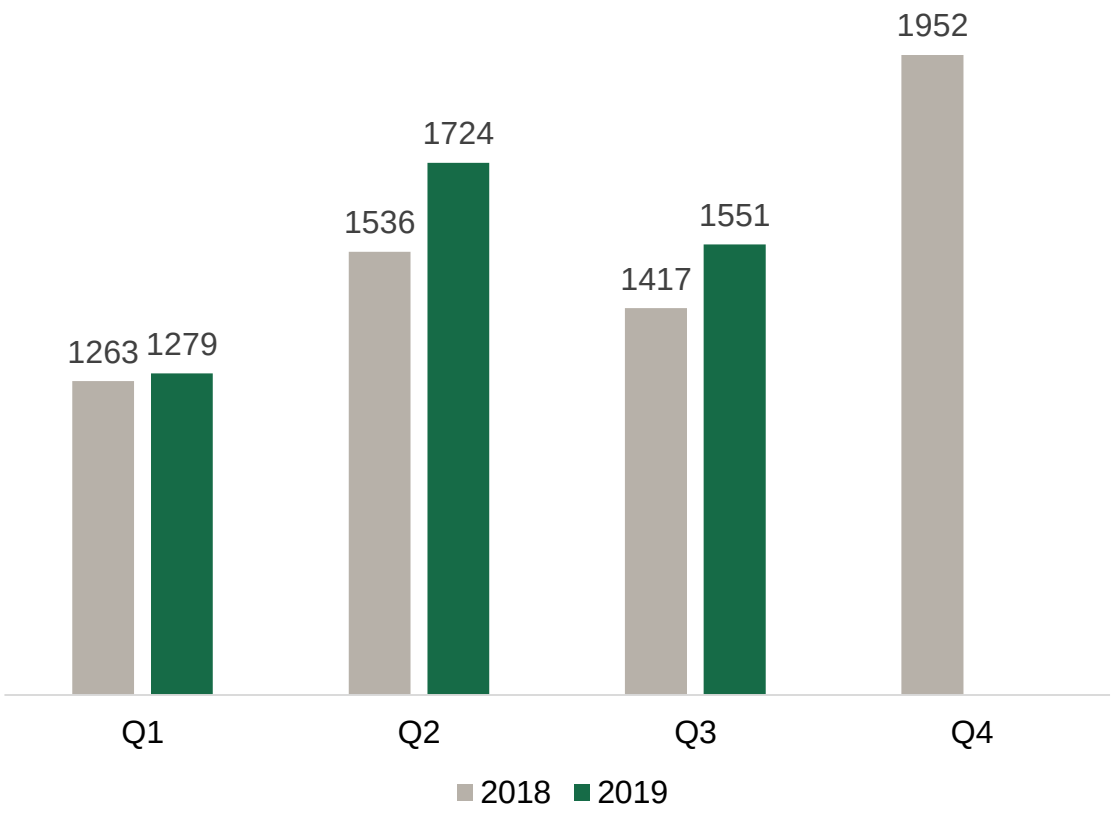
Adjusted net profit (NOK million)



Sales performance

- Total retail sales growth of 9.5% in Q3, well above total market growth of 2.2%(1)
  - One additional sales day this year
  - Low comparable figures due to unfavourable weather last year
- Like-for-like sales growth of 5.8% year-to-date
- Healthy sales development
  - Number of customers is the main growth driver
  - Basket growth driven by increased items per customer
- Improved execution of mid-season due to improved central control of volumes and spacing in stores
- Solid execution of sales campaigns
  - Reduce sold-out situations
  - Better merchandising in stores
  - Improve customer satisfaction and price position

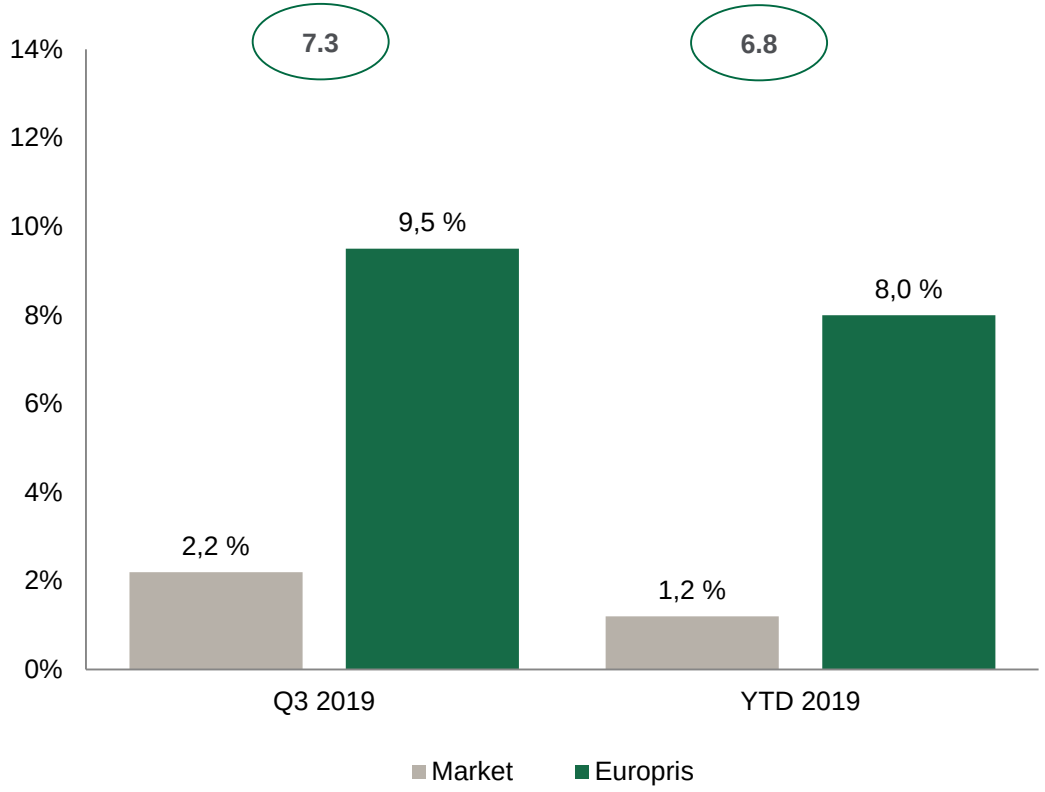
Retail sales per quarter (NOK million)



(1) According to Kvarud Analyse shopping centre index

Strong sales growth in a challenging retail market

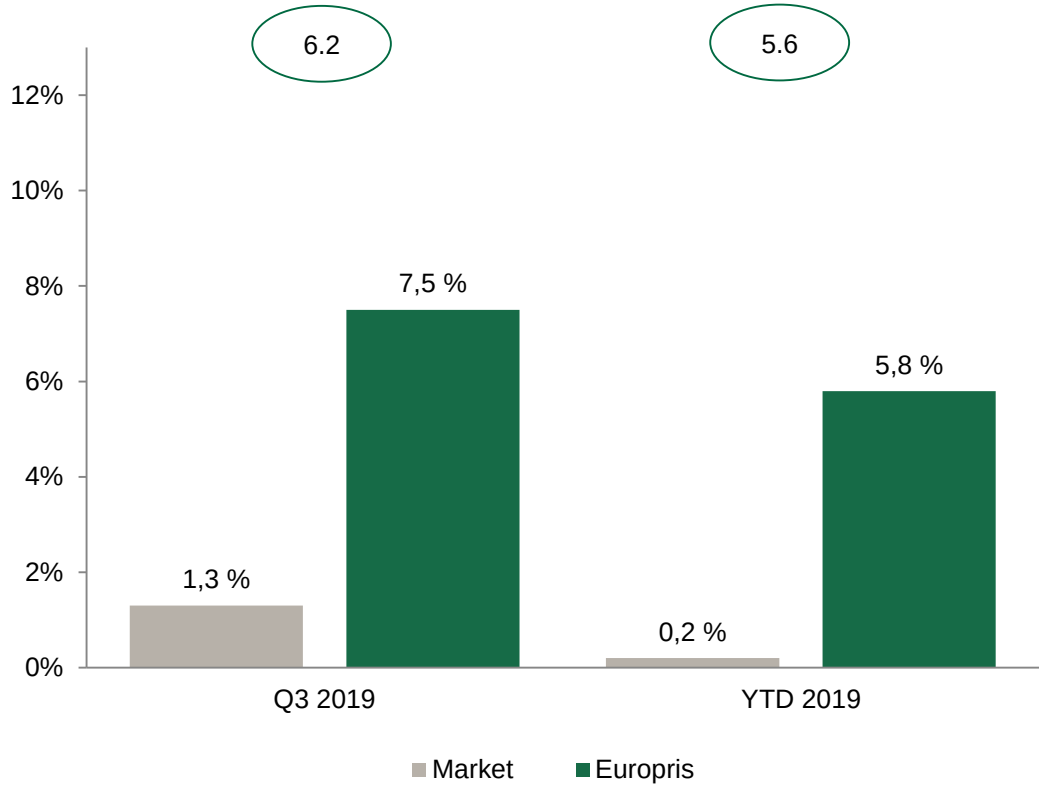
Total growth development



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

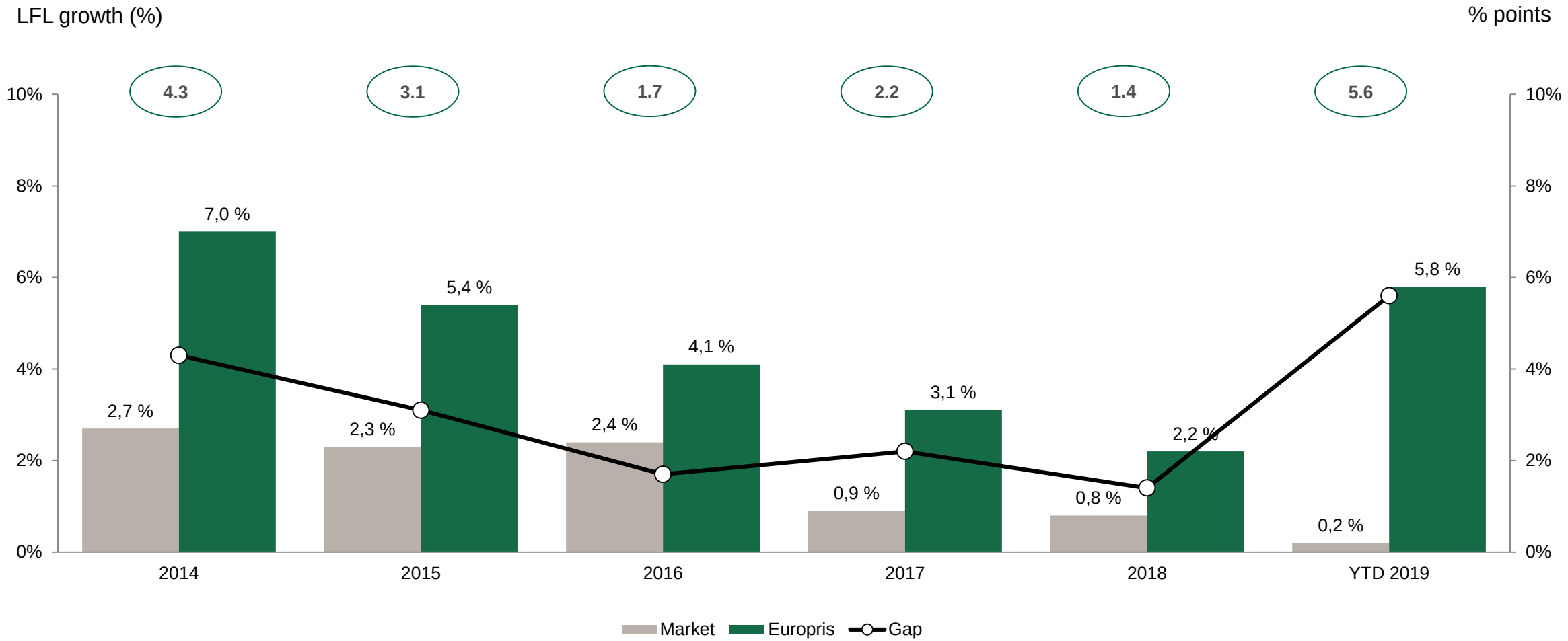
LFL development

Y-o-Y LFL growth (%)



Source: Kvarud analyse, Shopping Centre Index and Europris

Delivering like-for-like growth above the market



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

Source: Kvarud analyse, Shopping Centre Index and Europris

Our strategic focus areas




SALG! SALG!
Strengthen price and cost position
Improve customer experience
Drive customer growth

A key driver

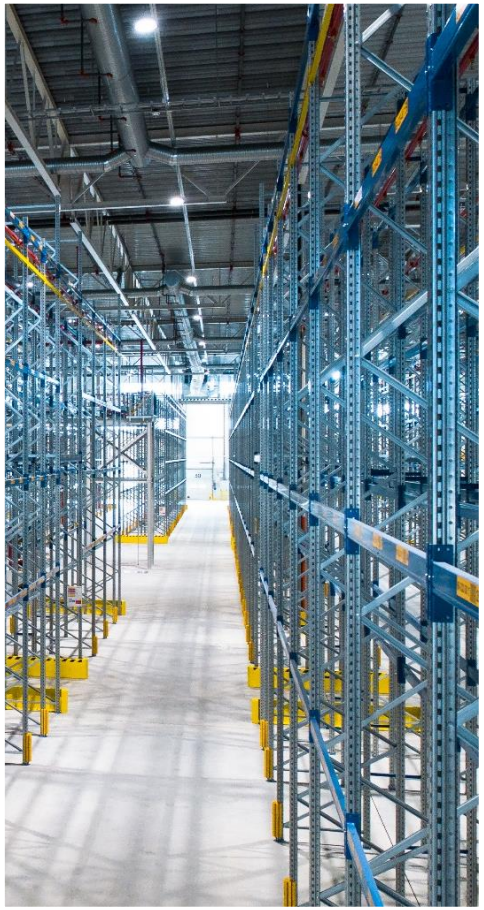


The new central warehouse is progressing to plan

- Operations in the low-bay of the new central warehouse was the first step to increased efficiency

- Automation of the high-bay area is the next step
  - Will significantly increasing capacity
  - Testing continued in the third quarter with good results
  - Operations scheduled to start during H1 2020 as planned

- The third and final milestone is the automation of picking in the low-bay area
  - The automated shuttle solution will be delivered by the same supplier
  - Project scheduled for H1 2021







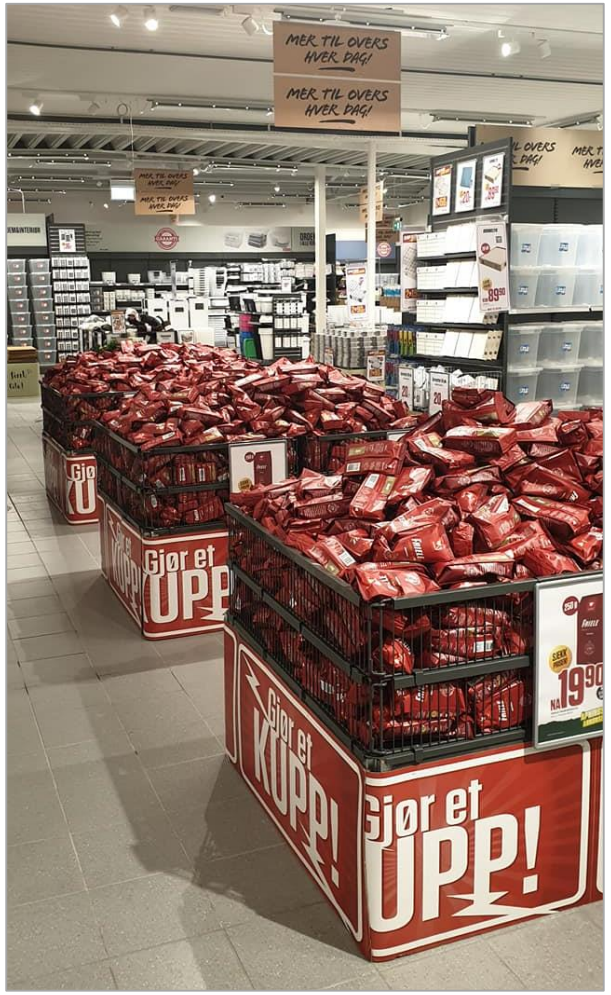
Update on new warehouse transition

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 and at the second largest warehouse in Fredrikstad • 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 February: Lease expires at the largest warehouse, Øra in Fredrikstad

Timeline is based on estimations as of Q3 2019


Strengthen price and cost position
Improve customer experience
Drive customer growth

Continuously improving the mid-season concept










Strengthen price and cost position
Improve customer experience
Drive customer growth
Europris
BLACK FRIDAY!
Fullskjerm

DM’s and execution in the stores drives traffic







Drive customer growth by utilizing physical opportunities

- One new store opened in the quarter
  - Etne, Hordaland
- One store relocation in the quarter
  - Notodden, Telemark
- Six new stores opened in 2019
  - Five stores in pipeline for 2020 and beyond
  - Two of the stores are subject to local authority planning processes
- New stores opened in 2018/2019 continue to perform well
- Closing of the store at Grini postponed - awaiting final decision from the court



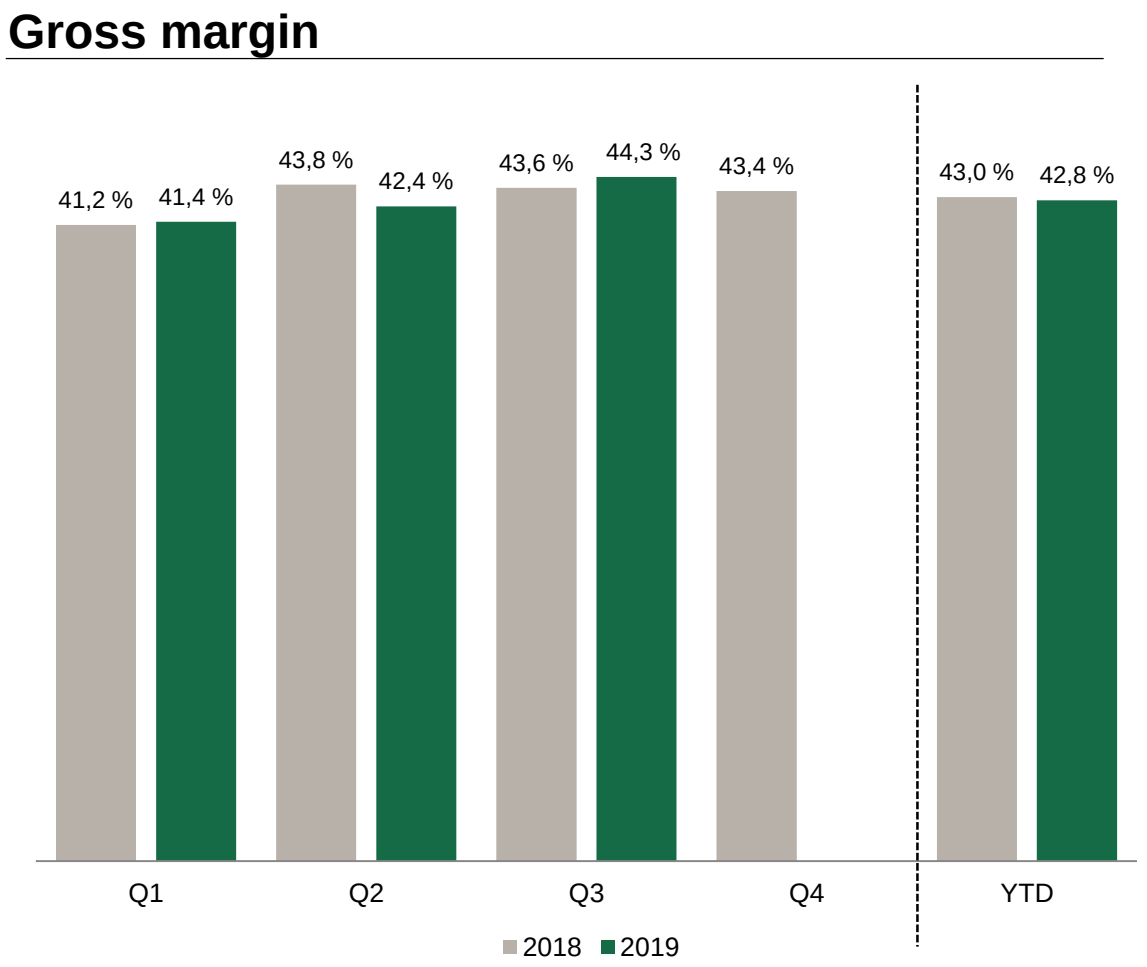
The team at Europris Etne

Financial review



Gross margin development

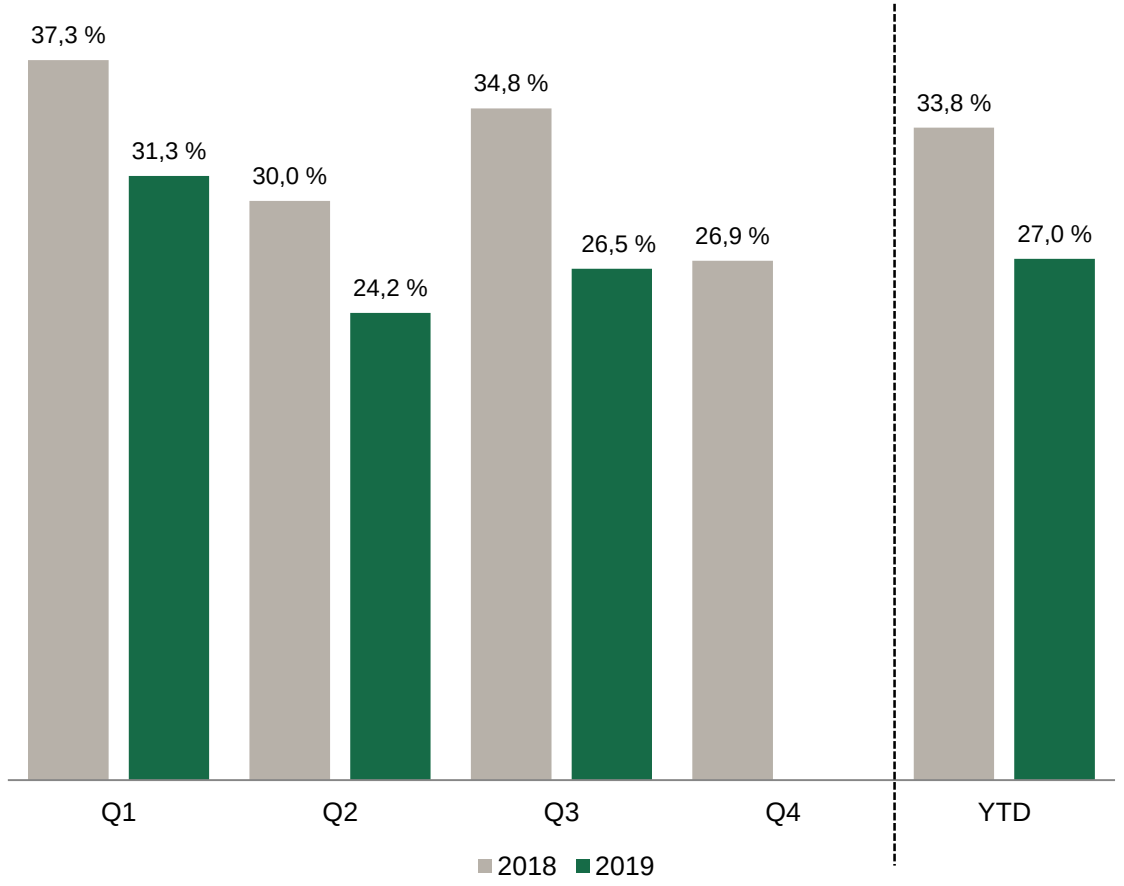
- Gross margin was 44.3% in Q3 2019 vs. 43.6% in Q3 2018
- NOK 33m in positive calculation differences from the annual stocktaking in stores
  - App. NOK 29m relates to previous quarters
- Adjusting for stocktaking, gross margin was 42.6% (42.0%)



OPEX development

- OPEX in % of revenue was 26.5% in Q3 2019 vs. 34.8% in Q3 2018
  - Adjusted for IFRS 16 effect, the OPEX ratio was 34.4%
- Number of directly operated stores increased from 219 to 230, up by 5%
- Still high fill-rate at the central warehouse, but OPEX impact limited to NOK 5 million in the quarter

OPEX in % of group revenue



Capacity constraints at central warehouse

- Capacity constraints temporarily resolved through increased warehouse capacity
  - Cost overruns amounted to NOK 5 million in the quarter, mainly related to extra personnel costs for goods handling
  - As communicated at Q2 presentation, rent for part of the vacated warehouse facilities in Fredrikstad was extended until 30 June 2020. Additional rent is estimated at NOK 2 million per quarter from Q4 2019 (to be booked as non-recurring rent)

- Excess inventory of seasonal items requires a full business cycle to normalise
  - The current inventory is continuously considered when goods are ordered for next year's season
  - Timing of incoming goods flow is reviewed and optimised to fit operations and sales

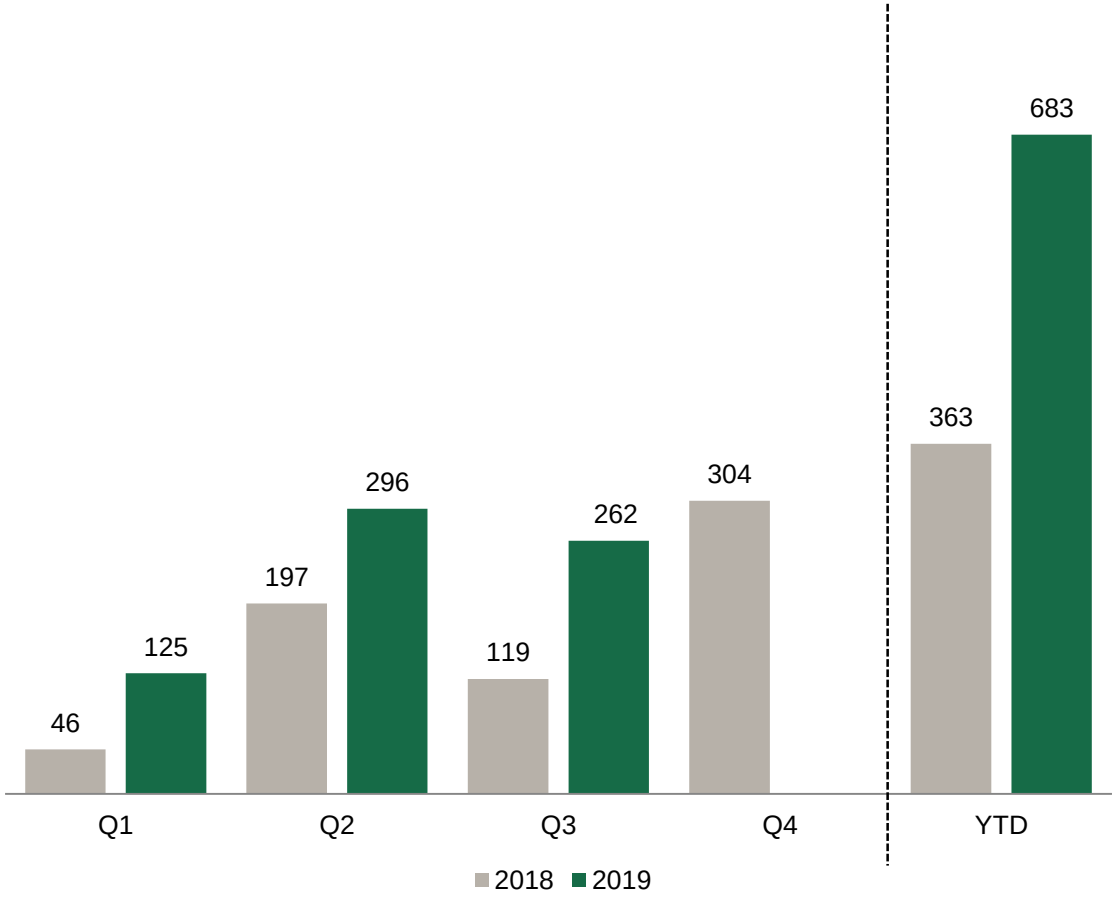
- Significant progress made on improving tools and working routines in the purchasing department
  - Developed tools to increase the accuracy of volume estimates in procurement
  - All routines and processes associated with the supply of goods are methodically reviewed and improved
  - Implemented plan to reduce the number of SKUs

Adjusted EBITDA development

- Adjusted EBITDA was NOK 262m in Q3 2019 vs NOK 119m in Q3 2018
  - Adjusted for IFRS 16 effect, the adj. EBITDA was NOK 147m

- Adjusted EBITDA affected by
  - Good sales growth
  - Improved gross margin
  - Increased number of directly operated stores
  - Increase in OPEX following the capacity constraints at central warehouse

Adjusted EBITDA (NOK million)



Cash flow

- Last year, net working capital was affected by inventory increase at the central warehouse
- Cash used in investing activities increased year-to-date from investments in the new central warehouse and new head office
- Cash and liquidity reserves at the end of Q3 was NOK 463 million
- IFRS 16 has no net cash effect
  - Cash from operating activities increase
  - Cash from financing activities decrease

Cash flow, NOK million	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Cash from operating activities	257	24	306	(83)
- of which change in net working capital	*17*	*(78)*	*(179)*	*(300)*
Cash used in investing activities	(26)	(24)	(98)	(71)
Cash from financing activities	(208)	(44)	(607)	(335)
Net change in cash	**23**	**(44)**	**(400)**	**(489)**
Cash at beginning of period	4	136	427	582
Cash at end of period	27	93	27	93

Outlook

- Discount variety retailing is thriving in the current challenging retail market and being Norway's number one in this sector, provides Europris with ample opportunities to continue its profitable growth journey
- Europris has strengthened its competitive position through sourcing partnership with ÖoB and Tokmanni and are moving operations to a single highly-automated warehouse to support the group's low-cost profile
- Continue transforming Europris to an omni-channel retailer through e-commerce and e-crm
- Healthy pipeline of new stores
  - Five stores planned for 2020 and beyond
- One franchise takeover completed on 1 October, no further takeovers expected for 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: Q4 presentation 30 January 2020

Appendix

- Sales days and store projects
- Analytical information
- Alternative Performance Measures (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	4	14

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: New warehouse

NOK million	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	2020	2021	2022
Investments								
IT, office equipment and other (CAPEX)	6	16	4	~2	~28	~5		
Automation, part 1 (lease)	9	41	-	~70	~120	~5		
Automation, part 2 (CAPEX)		18	12	~35	~65	~50		
Depreciation of automation part 1 starts in Q1 2020 and depreciation of automation part 2 starts in Q1 2021								
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		7	-		~7-10	~3-5	~3-5	

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