# Presentation of results for the fourth quarter and full year 2016

CEO Pål Wibe
CFO Espen Eldal

17 February 2017








**Norway's leading discount variety retailer**

Europris
MER TIL OVERS

# Highlights in the fourth quarter

- Strong sales growth in the fourth quarter
  - 13.8% increase in group revenue to NOK 1,604
  - 4.7% LFL growth, more than three times market performance of 1.5%*
- One new store and six franchise takeovers
  - One-off effects from franchise takeovers negatively impacting gross margin
- Adjusted net profit up 11.9% to NOK 209 million
- Significant cash generation reducing leverage to 1.6x at year end

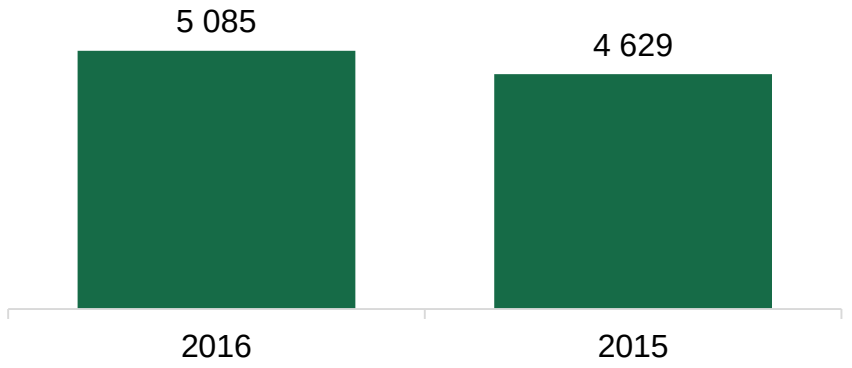


* Market as reported by Kvarud Analyse

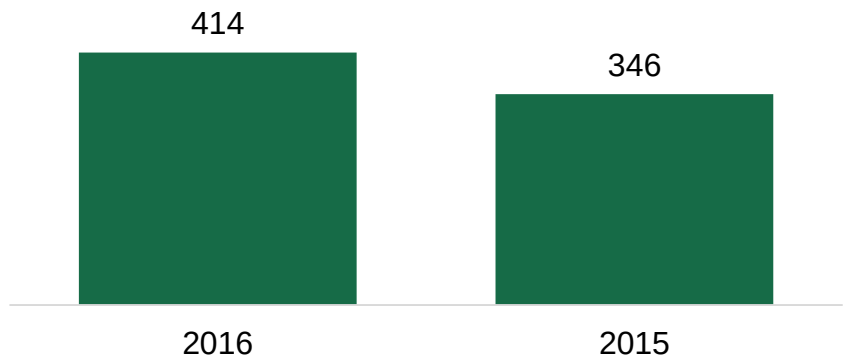
# Highlights full year 2016

- The Europris group expanded in line with long term growth ambition
  - 9.8% growth in group revenue to NOK 5,085 million
  - 4.1% on a like-for-like basis
  - Newly opened stores performing well
- Gross margin stabilised at level pre period of volatile FX rates
- Successful operational cost management throughout the year
- Adjusted net profit up 19.6% to NOK 414 million
- Preparing for long term growth through new central warehouse

Group revenue




Adjusted net profit



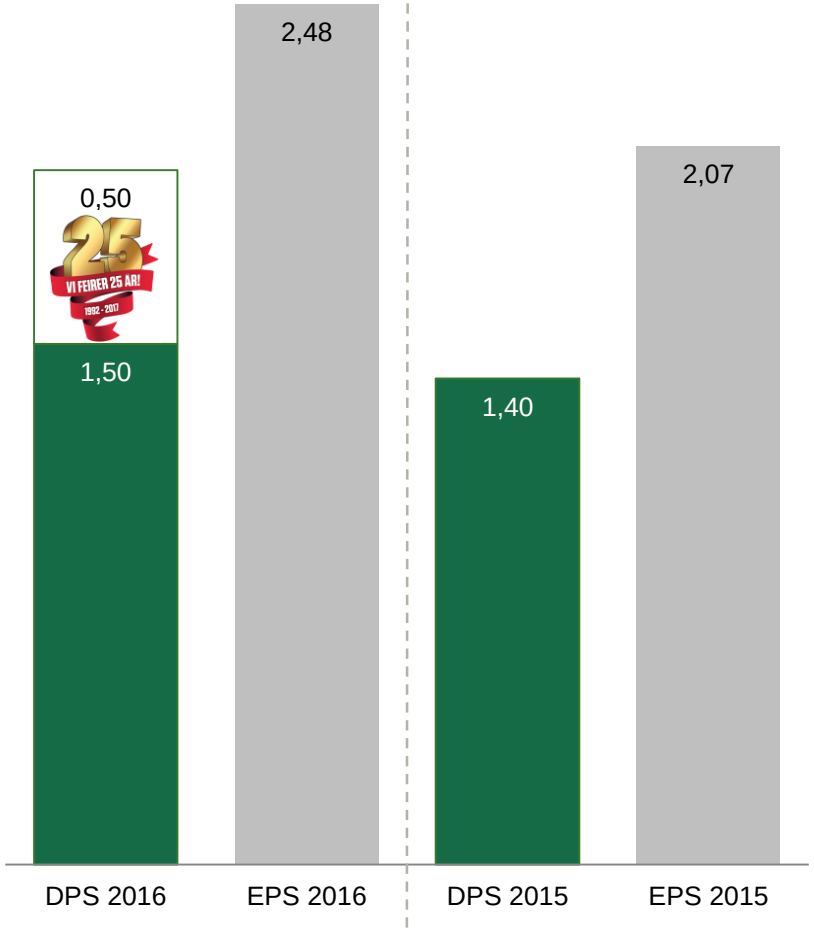
# Adjusted EPS and dividend

- The Board proposes to pay an ordinary dividend of NOK 1.50 per share
  - Up from NOK 1.40 per share last year
- ***In addition, to celebrate Europris' 25th anniversary, the Board proposes to pay an anniversary dividend of NOK 0.50 per share***




- Total dividend payment of NOK 334 million
- Dividend distribution will be carried out by way of a repayment of paid in capital

Adjusted EPS and DPS (NOK)*

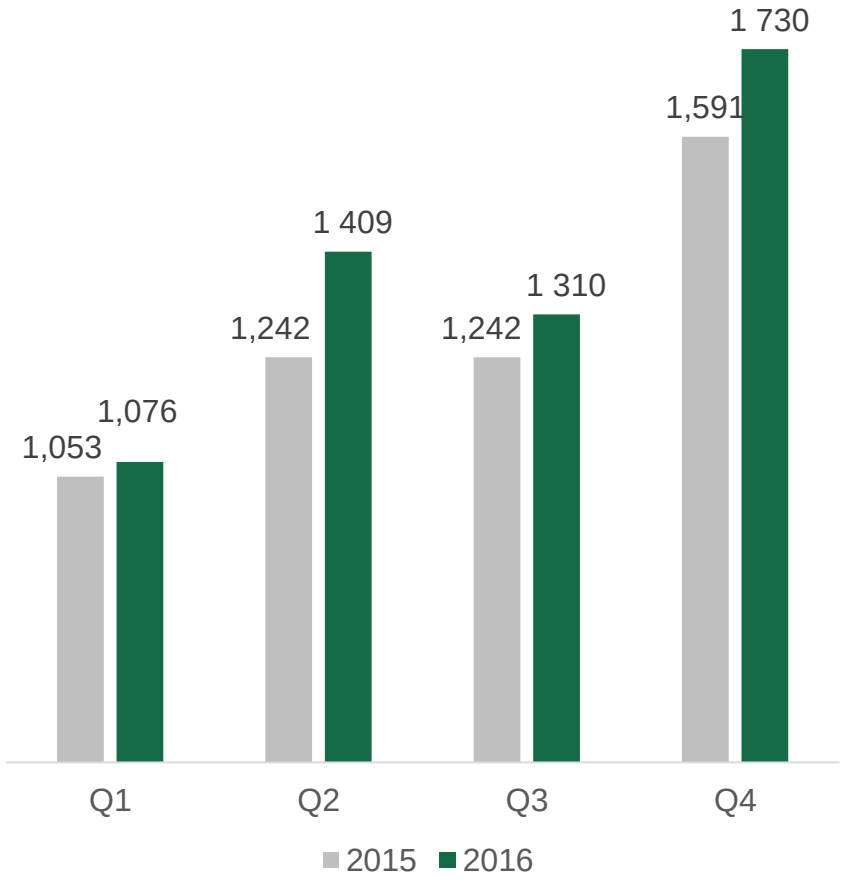



* Based on 167 million shares.

# Sales performance

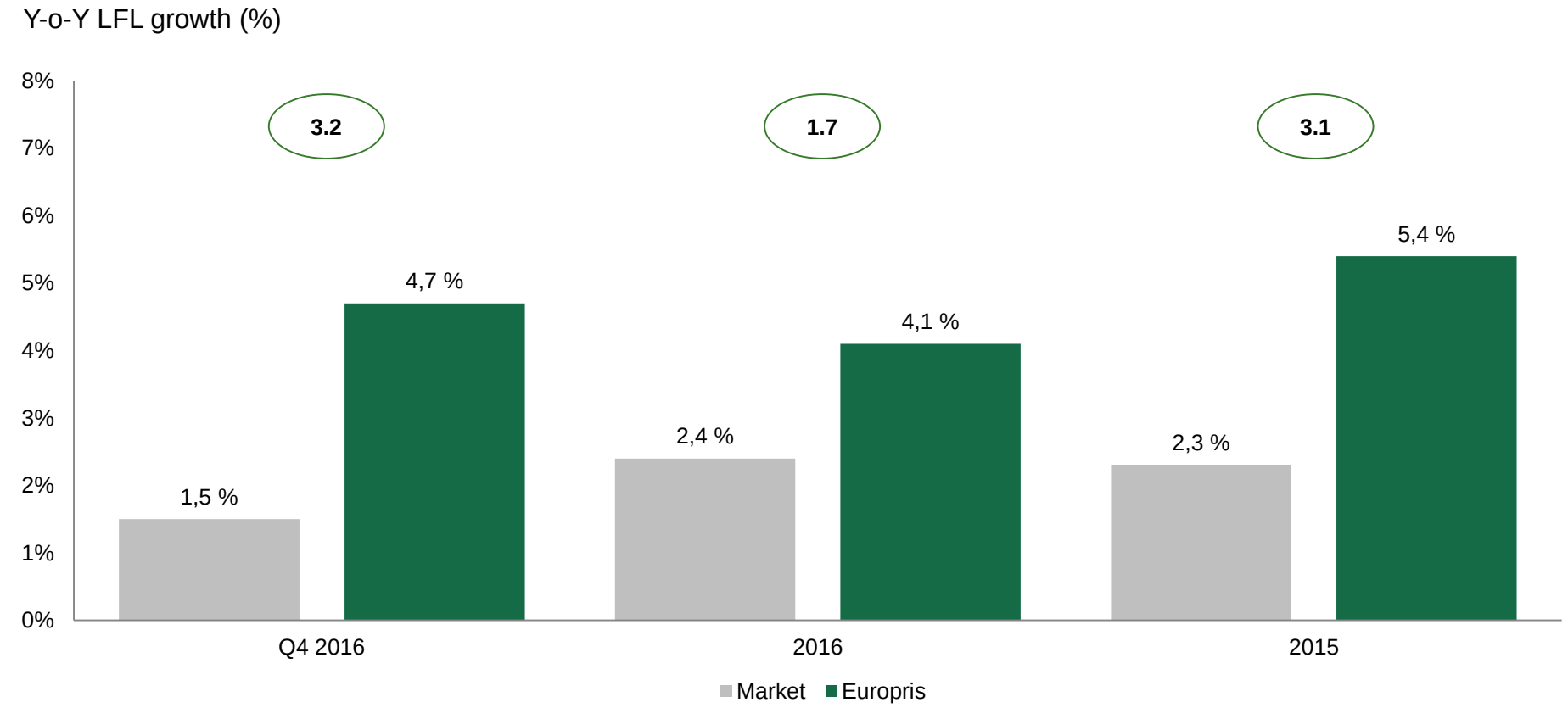
- Chain sales growth of 8.7% in Q4
- Strong performance on top of a record-breaking Q4 2015
  - 4.7% like-for-like performance (6.2% last year)
  - One additional sales day compared to last year
- Beating market on both total and like-for-like development
- Good sales performance in new stores

**Retail sales per quarter**



# LFL growth well above market

## Overall growth performance

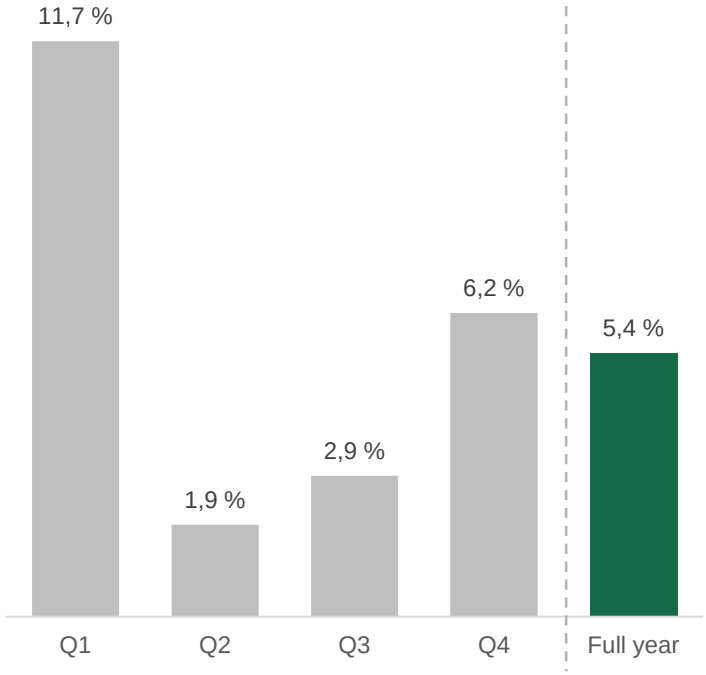



**% points** Europris growth rate in excess of market growth rate in the period

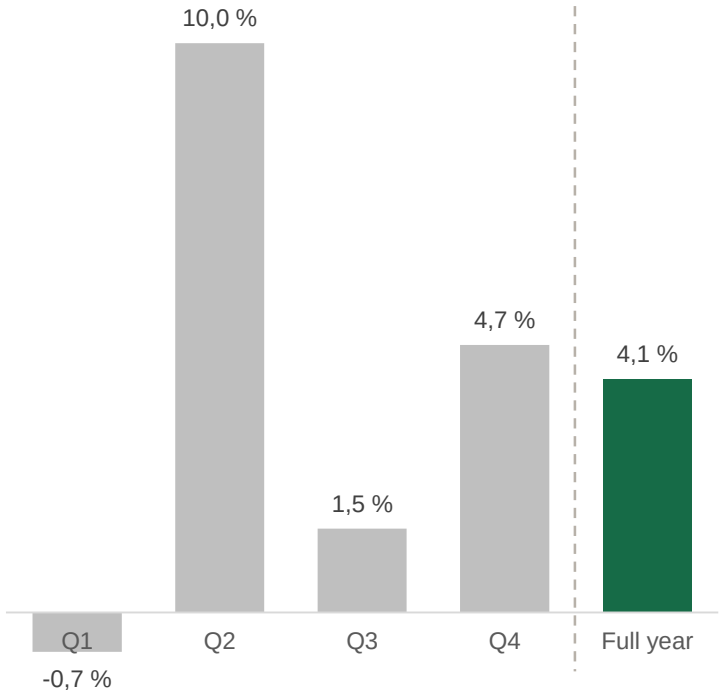
Market includes a large number of shopping centres throughout Norway (e.g. 237 in 2016)
Source: Kvarud Analyse, Europris

# Delivering stable long term like-for-like development

## 2015 quarterly LFL development




## 2016 quarterly LFL development




***Movement in seasons and shopping habits do not follow quarterly reporting***

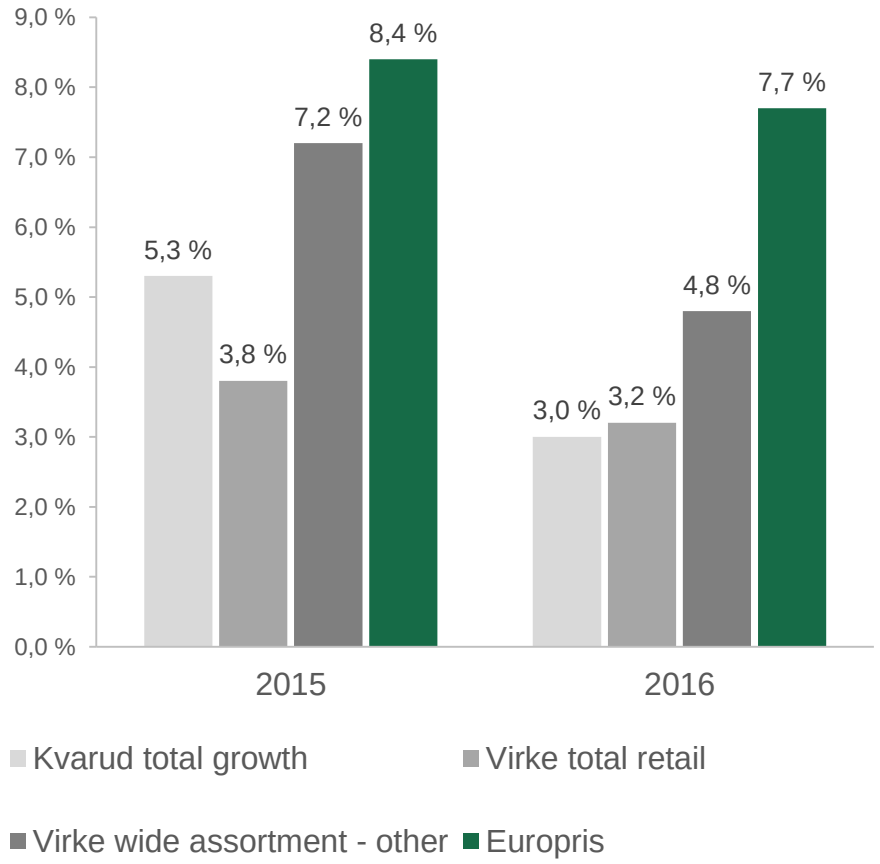
***Full year figures – the only credible guide to performance***

Note: Figures based on Europris chain revenue

# Total growth well above market

- Positive development seen in overall Norwegian retail market
- Discount variety retail continues to take market share
- Europris performance well ahead!

## Total growth comparison

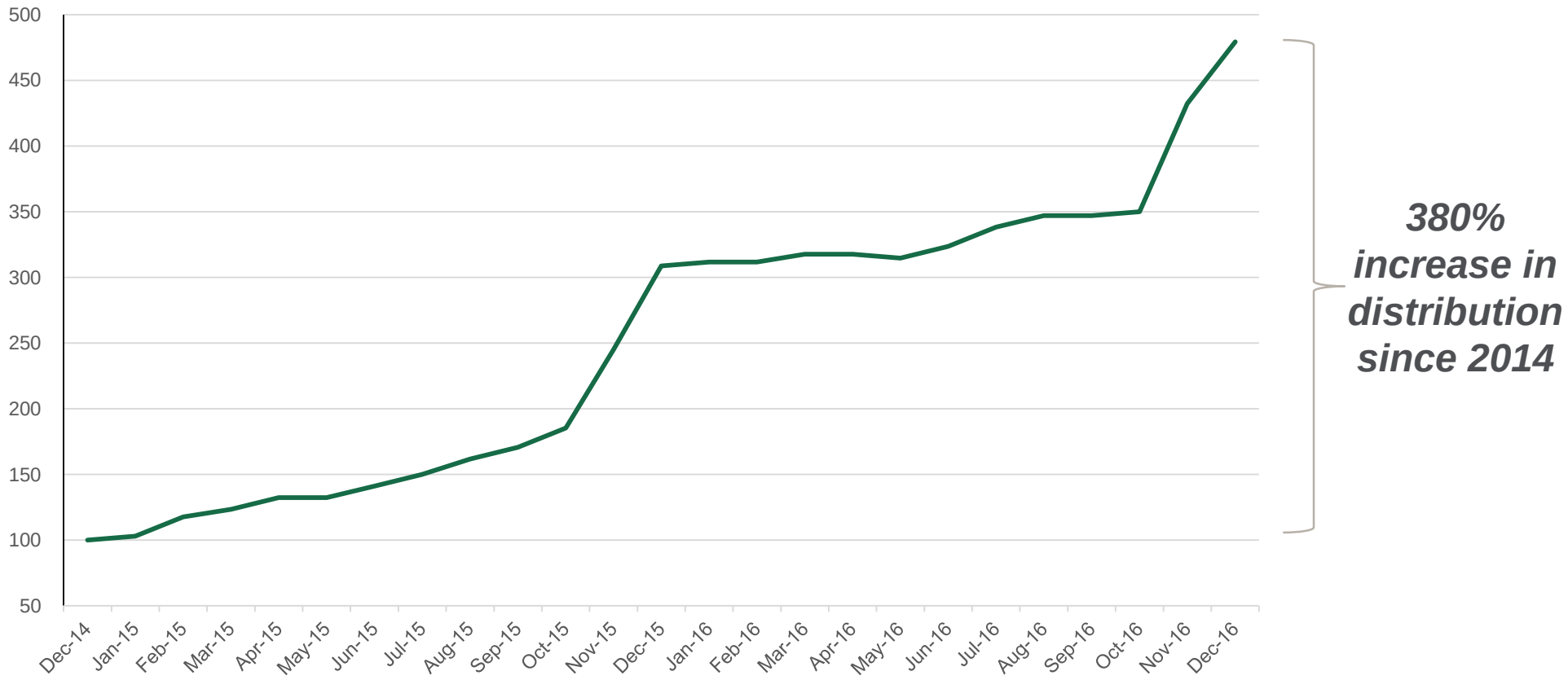



Source: Hovedorganisasjonen Virke (Virke) and Statistisk Sentralbyrå / Statistics Norway (SSB) and Kvarud analyse. Virke figures: Virke total retail denotes “Detaljhandel i alt ekskl. Motorvogner og bensin”; Virke wide assortment – other denotes “Bredt vareutvalg ellers”.
Note: Virke figures based on SSB 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.

# Europris digital customer attention and marketing is increasing…

## Electronic distribution of weekly direct marketing campaign

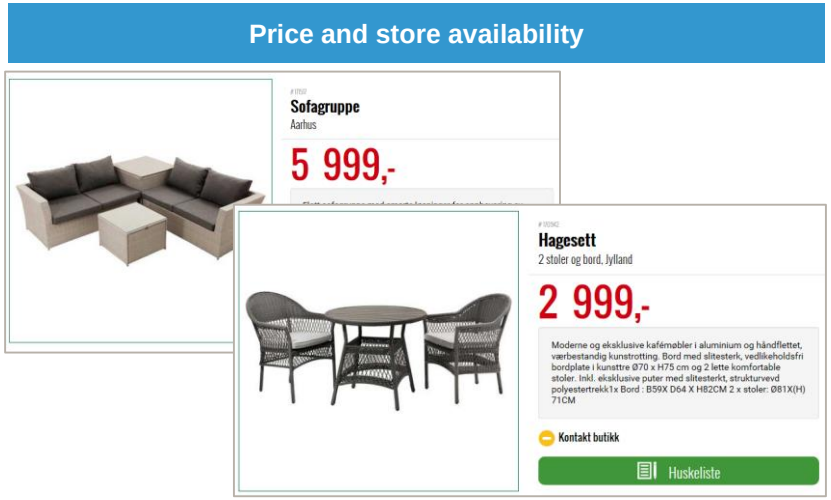
December 2014 indexed to 100




Source: Europris analysis

# …leading to an increasing focus on e-channels

## Product Information Management




- ✓ Improved product pictures / shots
- ✓ Better product information
- ✓ Inventory status, etc.

→ ***Better customer experience!***

## Loyalty club




- ✓ Launched in w/c 6th February
- ✓ Building database and relevance among consumers

# Pipeline of new stores remains robust

- One store opened during Q4
  - Grasmyr in the county of Telemark
- Strong pipeline of new stores for 2017
  - 14 stores confirmed so far
    - 4 of which subject to municipal zoning regulations
- Good momentum in pipeline for 2018 onwards
  - 5 confirmed



# Explaining “Mer til overs”

## – this year’s “Christmas Gift”





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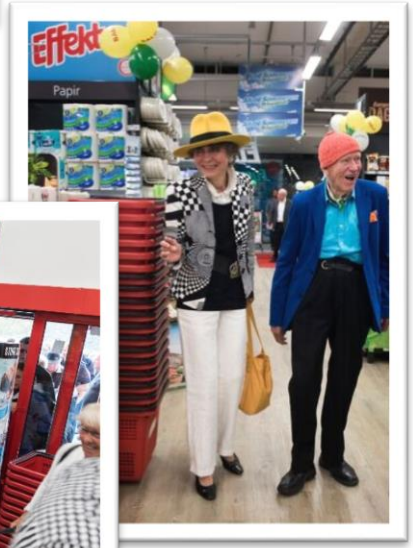
# The Europris customer

## Who are they?

***Families***



***…and some special, loyal customers…***




***Adults 40+***



## What do they like?

***Our customers «love»:***

***"Mer til overs"***

*"Spend less – save more"*

- ✓ **Value for money**
- ✓ **Spending time "shopping"**
- ✓ **Bargain hunting for great deals**

# What Europris can offer…

***Unbeatable campaign prices!***



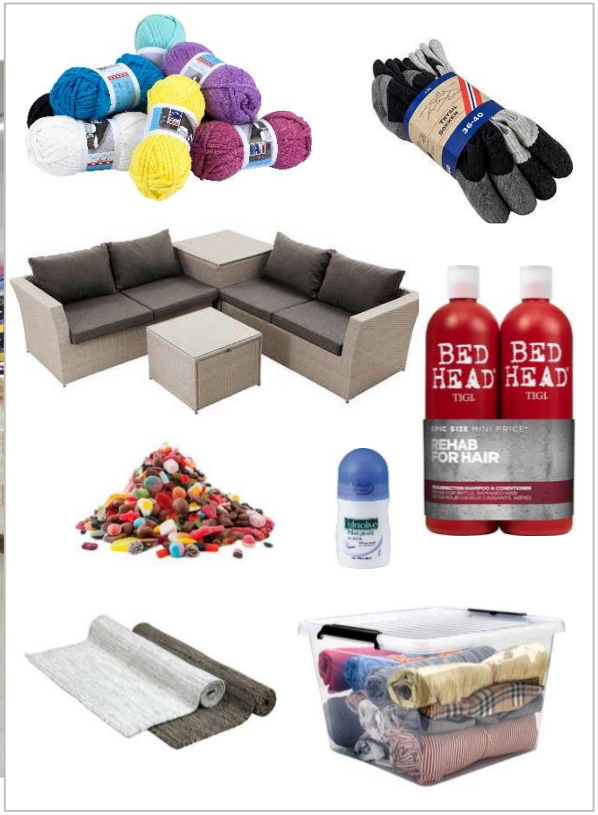

*…accounting for c. 27% of chain revenue*

***Nice shopping experience!***




*…and always a season*

***Wide assortment!***

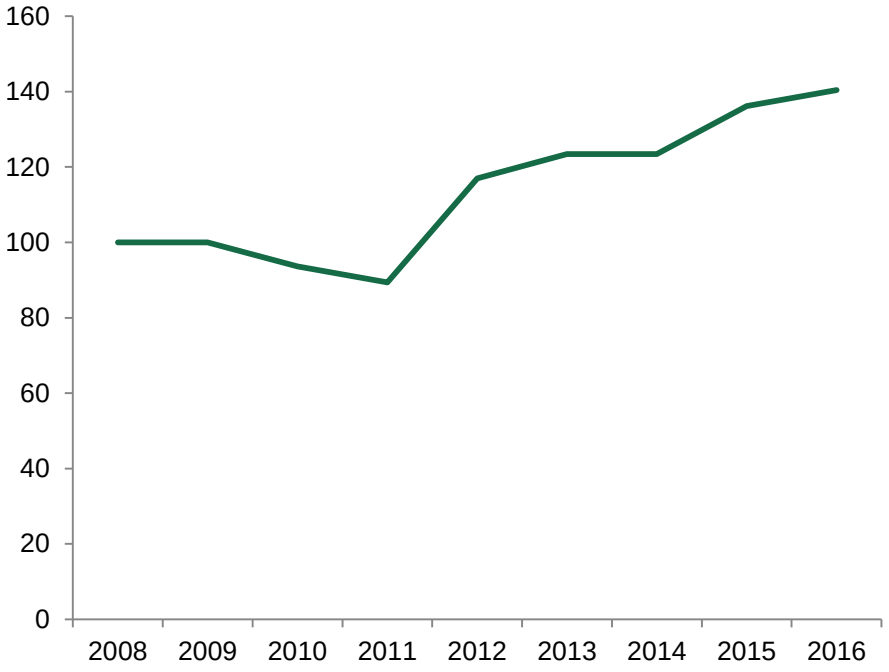



*…at low prices*

# …continues to be well received by customers…

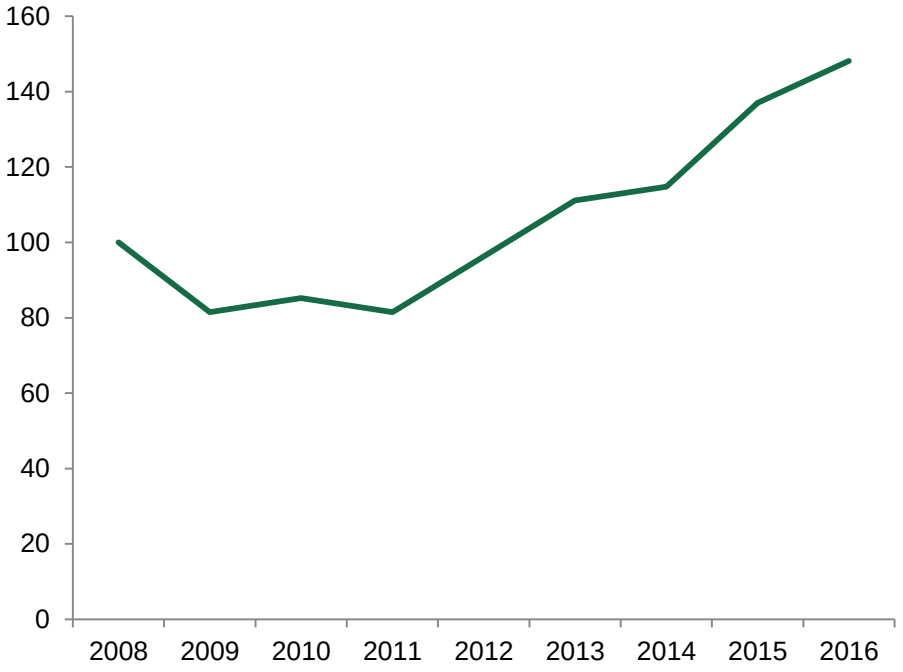
## Strong price perception

Respondents agreeing with statement: “offers generally low prices”




## Clear bargains

Respondents agreeing with statement: “a place where bargains can be made”




Source: MediaCom survey with 1,400 respondents over 15 years of age that have heard of Europris and have a store in proximity to where they live, updated autumn 2016; Europris analysis
Note: 2008 levels indexed to 100

# …who know they get “everything” at Europris

***A great bargain!***

**+**

Shopping List

- *Hammer*
- *Mugs*
- *Engine oil*
- *Storage box*
- *Tea lights*
- *Rug*
- *Candy*

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Retailer 1

RETAILER 2

Retailer 3

Retailer 4

Retailer 5

Retailer 6

# Our new stores continue to deliver

## Store payback analysis for stores opened 2012 – 2015

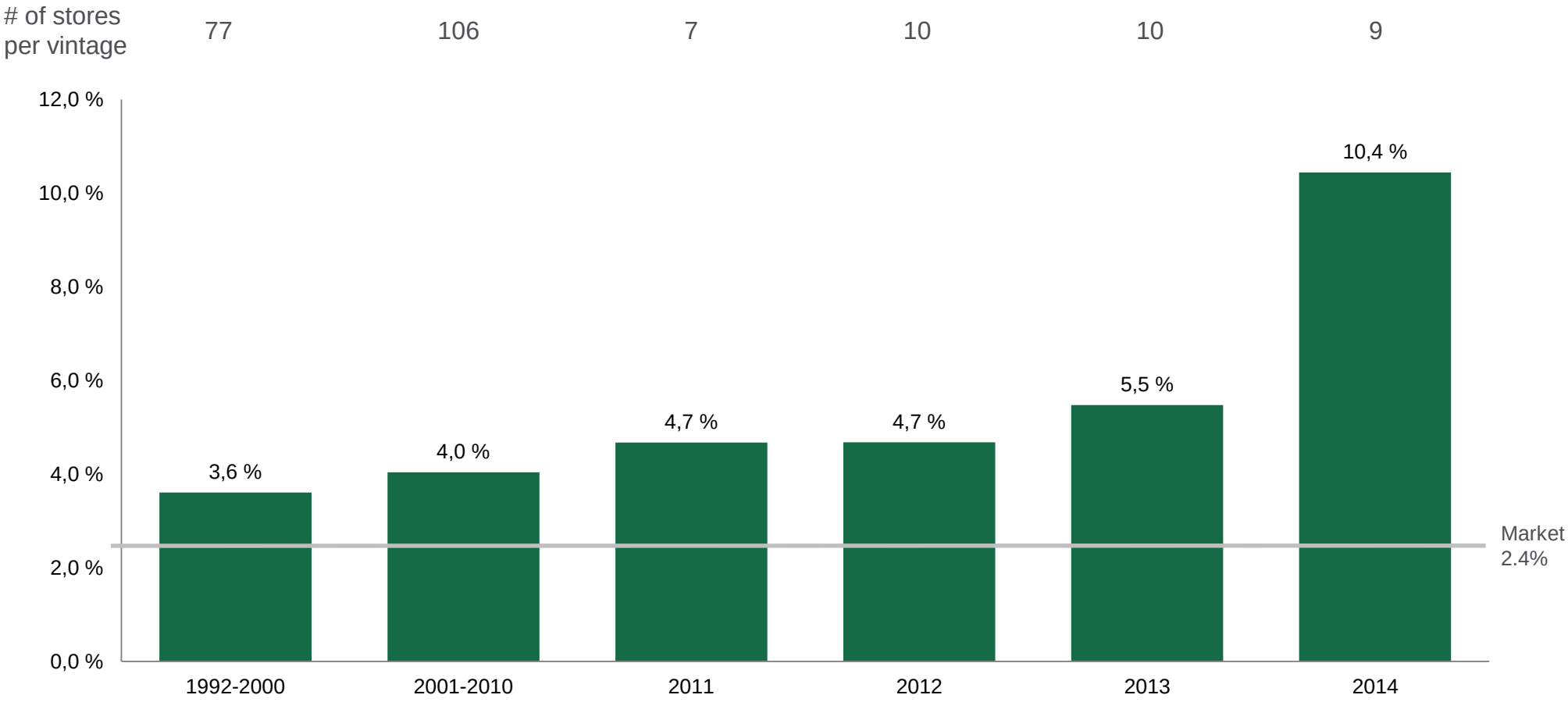
| | | Stores opened[1] | | | |
|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | 2015 |
| Average revenue | Year 1 (12 months) | 13.5m | 15.6m | 14.4m | 18.3m |
| | Year 2 (12-24 months) | 15.2m | 16.7m | 15.9m | NA |
| Average EBITDA | Year 1 (12 months) | 0.5m | 0.9m | 1.0m | 1.4m |
| | Year 2 (12-24 months) | 1.1m | 1.2m | 1.4m | NA |
| Average capex per store | | 1.5m | 1.8m | 1.7m | 2.1m |
| Average inventory per store | | 3.3m | 3.0m | 3.1m | 3.9m |
| Payback period (excl. inventory) *(Based on Year 2 EBITDA)* | | ~1.4 years | ~1.5 years | ~1.2 years | NA |
| Payback period (incl. inventory) *(Based on Year 2 EBITDA)* | | ~4.6 years | ~4.0 years | ~3.4 years | NA |

- Positive performance by the group's newly opened stores
- Strong returns continue for latest store vintages
  - 1.4 years average payback on investment (capex)
  - 4.0 years average payback on total committed capital (capex + inventory)
  - Inventory value inflated from NOK depreciation during 2015
- ***2016 store vintage also indicating strong results***

General note: Please refer to appendix for important terms and definitions that apply on this page.
1. 2012: Including 10 stores and excluding 1 closed store; 2013: Including 10 stores; 2014: Including 9 stores; 2015: Including 9 stores
Source: Europris

# Above market performance across vintages

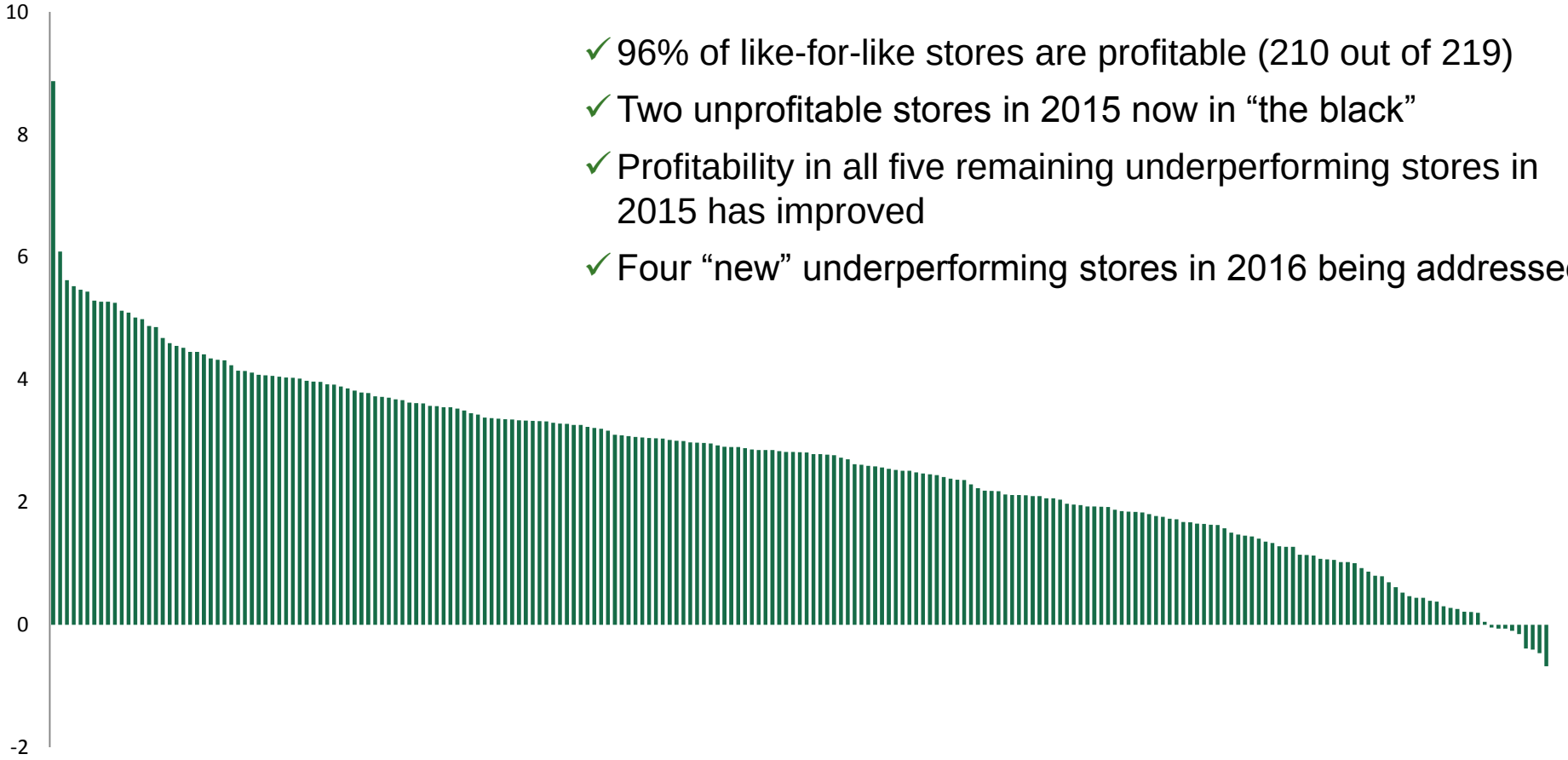
## 2016 LFL growth by store vintage (years represent time of opening)




Source: Europris analysis

# A strong and profitable store base

Adj. EBITDA in NOK ‘000 per square meter sales area in 2016 for the 219 like-for-like stores in the Europris chain



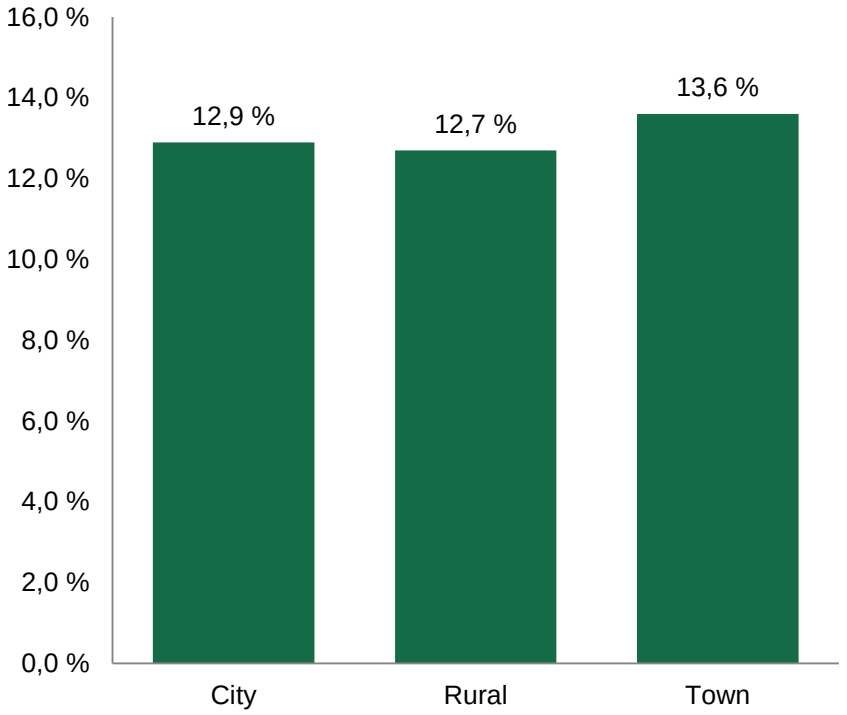

- ✓ 96% of like-for-like stores are profitable (210 out of 219)
- ✓ Two unprofitable stores in 2015 now in “the black”
- ✓ Profitability in all five remaining underperforming stores in 2015 has improved
- ✓ Four “new” underperforming stores in 2016 being addressed

Source: Europris analysis

# Consistent profitability profile

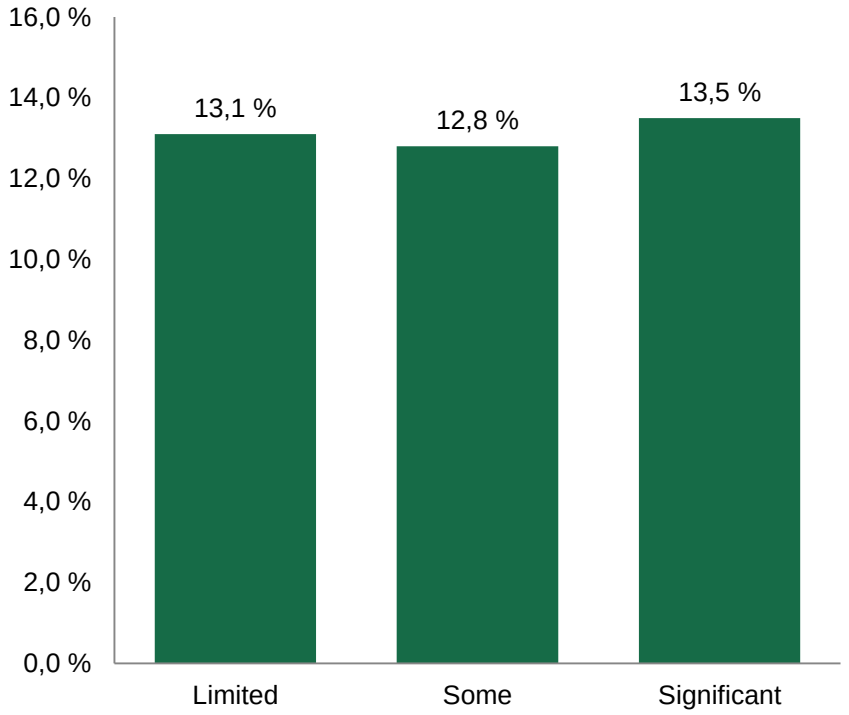
## Profitability by location

Adj. EBITDA %




## Profitability by competitive intensity

Adj. EBITDA %




Source: Europris analysis
Definitions: number of stores in each category in 2016
By location: City: 60 stores; Rural: 64 stores; Town: 115 stores. Analysis excludes Solheimsviken which was closed in September.
By competitive intensity: Limited: 60 stores; Some: 112 stores; Significant: 67 stores. Analysis excludes Solheimsviken which was closed in September.

# Financial review





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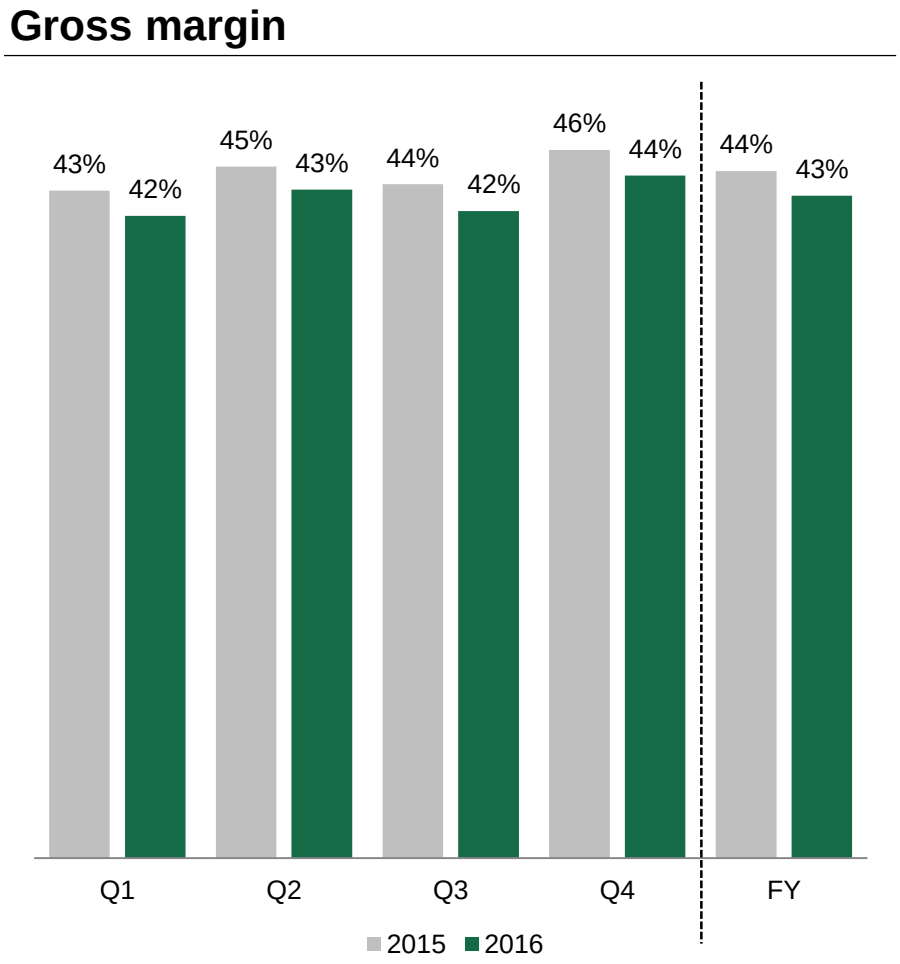
# Gross margin development

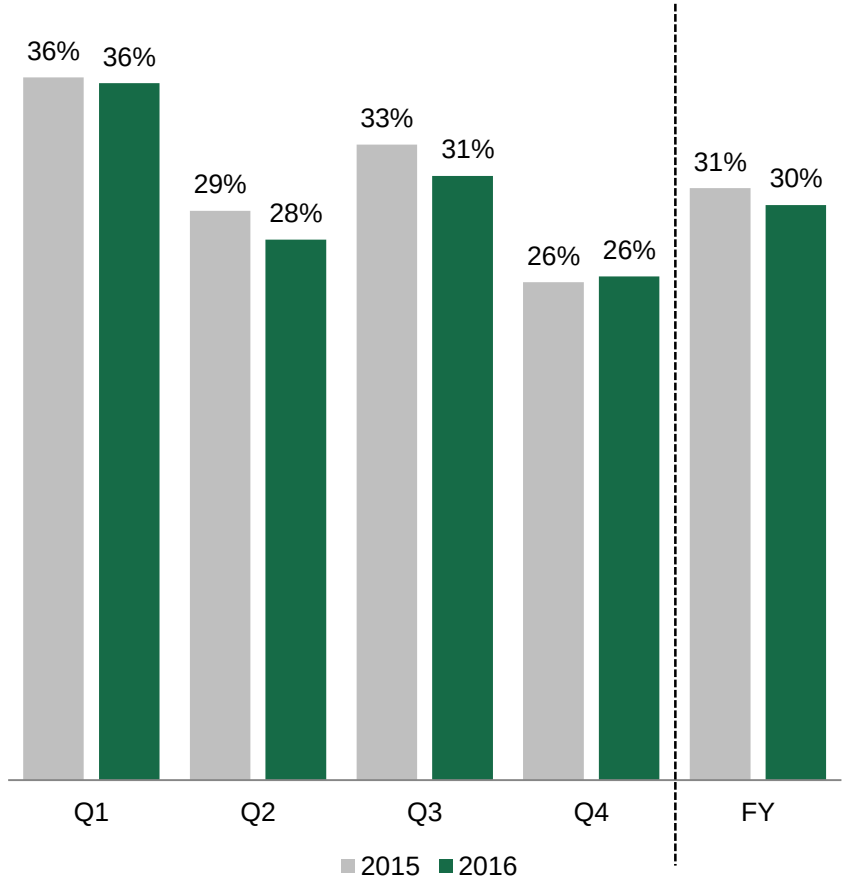
- Gross margin was 44.2% in Q4 2016 vs. 45.9% in Q4 2015
- Last year positively impacted by currency fluctuations
- Gross margin affected by one-off negative impact from franchise takeovers
  - Positive margin impact long term



# OPEX development

- OPEX in % of revenue was 26.1% in Q4 2016 vs. 25.8% in Q4 2015
- Sound underlying development – more challenging comparables going forward (Q4 2015 initial quarter with cost saving effect)
  - NOK 9.4 million negative impact from franchise takeovers during quarter
- Reduction in relative opex costs vs. last year
  - Reflects strong internal focus on cost awareness

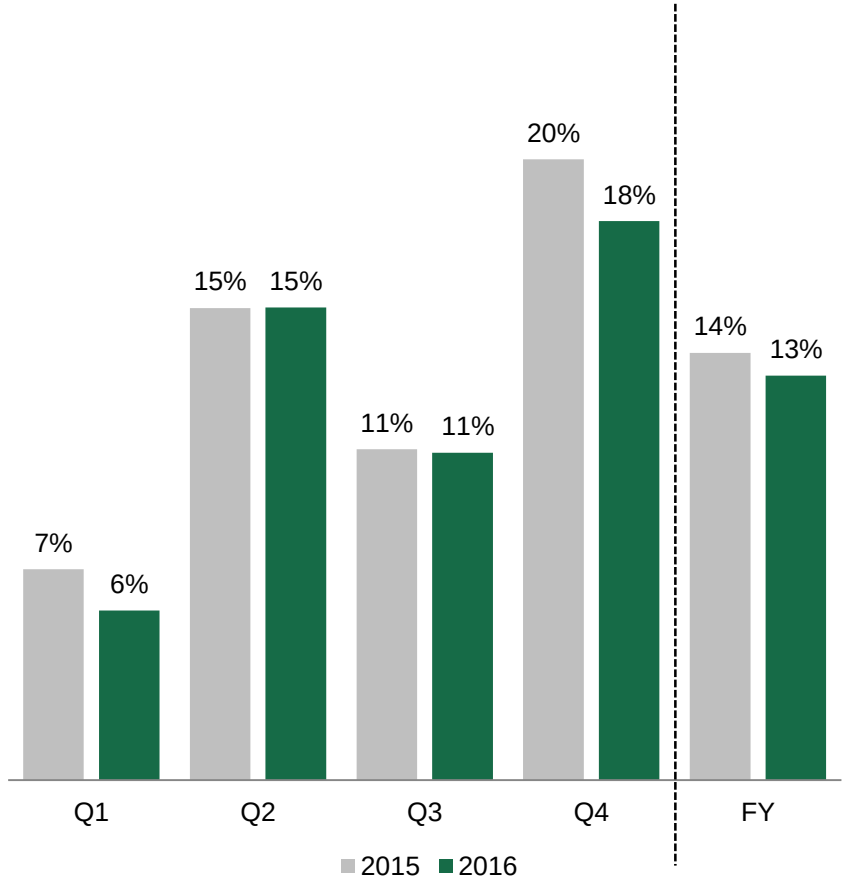
**OPEX in % of group revenue**



# Adjusted EBITDA development

- Adjusted EBITDA margin was 18.1% in Q4 2016 vs. 20.1% in Q4 2015
- Slight decrease in Adjusted EBITDA margin for the full year
  - Reflecting gross margin now stabilised at level pre period of volatile FX rates

**Adjusted EBITDA margin**



# Cash flow

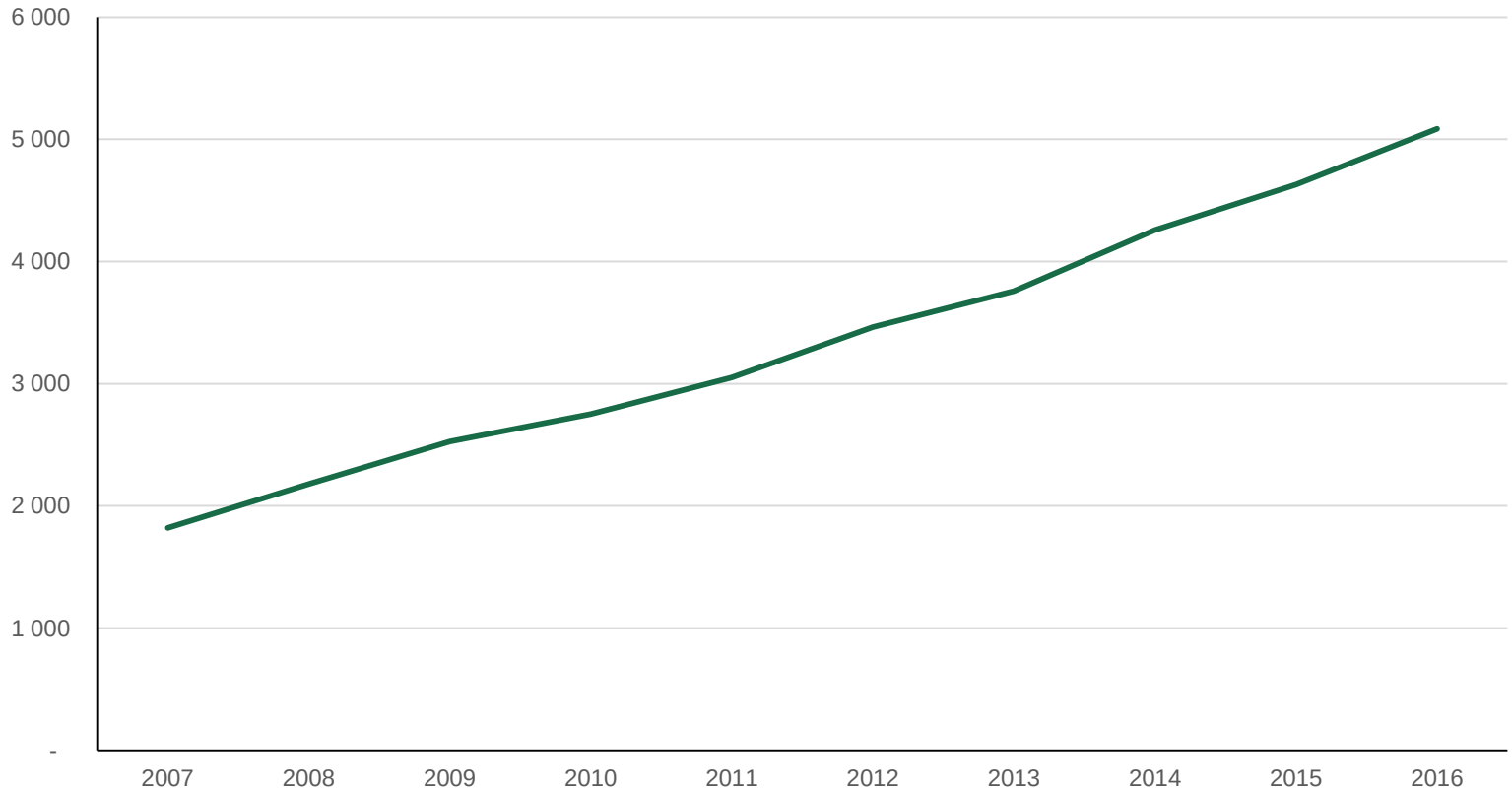
- Significant portion of cashflow generated in Q4
- Strong positive operational cashflow during the year
- Lower level of investments compared to last year on the back of reduction in modernisation activity
- Dividend payment in June 2016 reducing cash flow from financing activities compared to last year
  - Last year included NOK 46m in cash in-flow from the issuance of new equity in connection with the IPO

| Cash flow, NOK million | Q4 2016 | YTD 2016 | YTD 2015 |
|---|---|---|---|
| Cash from operating activities | 459 | 473 | 303 |
| Cash used in investing activities | -34 | -101 | -120 |
| Cash (used in)/from financing activities | -5 | -242 | 19 |
| **Net change in cash and cash equivalents** | **420** | **130** | **202** |
| Cash and cash equivalents at beginning of period | 157 | 447 | 245 |
| Cash and cash equivalents at end of period | 577 | 577 | 447 |

# Europris has continued to deliver significant growth every year over the past decade

## Group revenue development 2007 – 2016

Amounts in NOK million



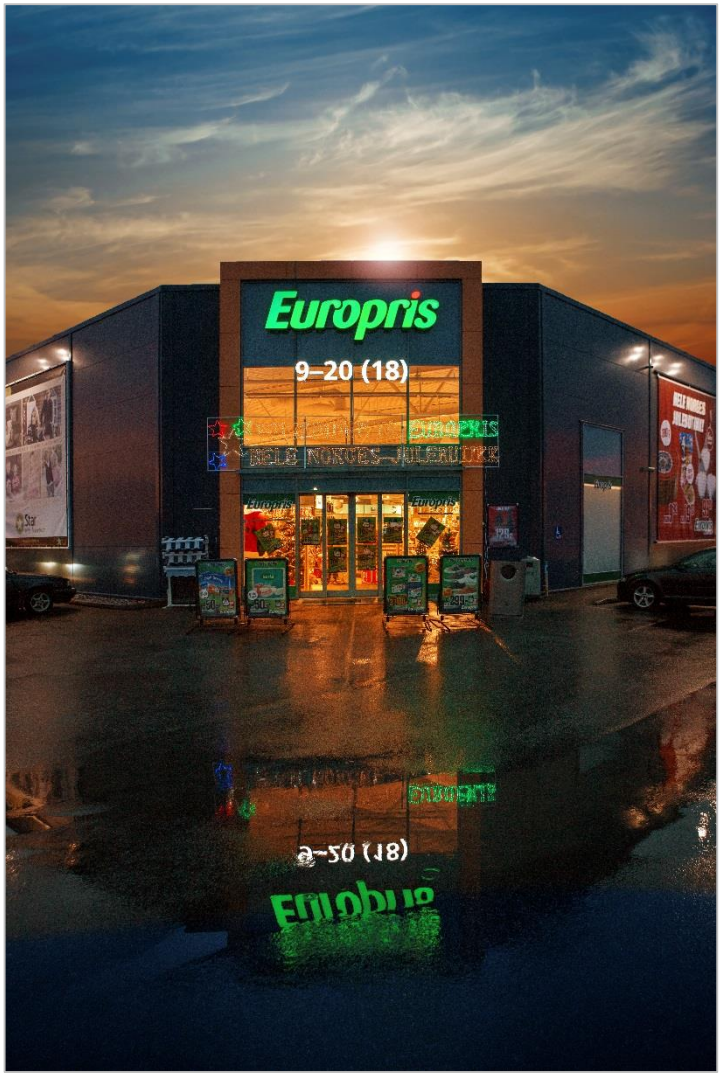

***Profitable growth remains the #1 priority***

***12.1% CAGR 2007-2016***

Source: Europris analysis

# Outlook

- Continued growth in revenue and profits
- 14 new stores expected for 2017
- Franchise takeovers in 2016 resulting in certain accounting effects in 2017 (see appendix)
- Slightly increased opex nearer term
  - Change from distribution by sea to road transport commencing 1. January (sea route cancelled by single operator) – stores in Western Norway only
  - Increased focus on digital channels
- Investment in land area adjacent to new central warehouse in Moss expected in H1



# Q & A





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# Appendix








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# 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 |

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

| 2016 | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| New stores | 1 | 6 | 3 | 1 | 11 |
| Store closures | - | - | 1 | - | 1 |
| Relocations | 1 | 5 | 1 | 3 (1) | 10 (1) |
| Modernisations | 5 (4) | 6 | 2 (3) | 4 (1) | 17 (8) |

| 2017E | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| New stores | 3 | 3 | 3 | 5 | 14 |
| Store closures | - | - | - | - | - |
| Relocations | (1) | 1 (2) | - | 4 (1) | 5 (4) |
| Modernisations | 9 (3) | 4 (1) | 6 | 1 | 20 (4) |

Note: Number of projects in 2017 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

# Takeover of franchise stores in Q4 2016

- As part of normal course of business Europris took over six franchise stores in October 2016. This brings the number of franchise store takeovers to nine for the year as a whole. The six stores taken over in October are located at:
  - Lyngdal
  - Orkanger
  - Nordfjordeid
  - Stryn
  - Sandane
  - Vinstra

- The takeovers include inventory in the stores of which app. 85% has been purchased from Europris wholesale

- As the bulk of in-store inventory at these stores were originally purchased from Europris wholesale, and hence booked as profit for the group previously, the gross profit accruing to the group during the first inventory turn in these stores is limited to the gross profit recorded at store level
  - The full effect of this was recorded in Q4 2016
  - Estimated negative effect on gross profit of NOK 7.5 million

# Effect of franchise store takeovers in 2017

- Europris has completed nine franchise takeovers during 2016 in total. As explained previously, the sustained impact on the group's financials will be the following:
  - Sales: will increase by the amount of end customer sales in these stores less: (i) sales from wholesale to franchise; and (ii) franchise fees
  - COGS: will increase by the amount of COGS for goods purchased from other suppliers than Europris wholesale (app. 15% of goods sold)
    - Typically: newspapers; flowers; tobacco; ice cream; frozen goods for some of the Europris Pluss stores
  - OPEX: will increase by the amount of total OPEX in the stores (e.g. store personnel costs) less franchise fees
- Europris estimates the full year effect of the above to be the following on 2017 financials (mainly related to the three first quarters given timing of takeovers in 2016 as set out below)
  - Sales: net increase of c. NOK 43 million
  - COGS: net increase of c. NOK 12 million (resulting in an increase in gross margin)
  - Opex: net increase of c. NOK 28 million (resulting in an increase in opex / sales)
  - EBITDA: net increase of c. NOK 3 million (resulting in a decrease in EBITDA margin)
- Timing of nine takeovers during 2016 were the following:
  - Two stores on 1st January 2016; one store on 1st June 2016; six stores on 1st October 2016

# 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 and additional financial expenses related to the refinancing in connection with the IPO.
- **Adjusted net profit** is net profit adjusted for nonrecurring items and additional financial expenses related to the refinancing in connection with the IPO.
- **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 2017

**See you 27 April 2017**

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