Europris

Q1-17

EUROPRIS ASA



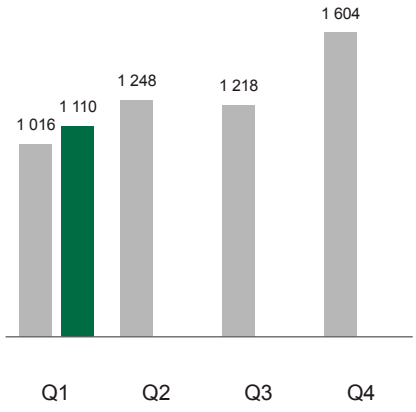
HIGHLIGHTS

FIRST QUARTER 2017

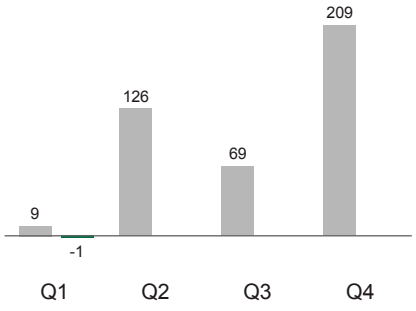
- Strong increase in group revenues to NOK 1,110 million (1,016 million), representing growth of 9.2 per cent
  - » 4.7 per cent like-for-like growth, significantly beating the market
- Three new store openings and eight franchise takeovers
  - » Short term gross margin impact through one-off effects from franchise takeovers
- Opex influenced by increasing proportion of directly operated stores and certain planned operational initiatives
  - » 27 additional directly operated stores vs last year

Figures for the corresponding period of last year in brackets. The figures are unaudited.
For non-IFRS figures (e.g adjusted figures), see page 15 for definitions.

Group revenue, NOK million



Adjusted net profit, NOK million



2016 2017

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KEY FIGURES

Figures are stated in NOK million	Q1 2017	Q1 2016	FY 2016
CHAIN KEY FIGURES			
Total retail sales	1,165.6	1,075.9	5,524.8
Growth (%)	8.3%	2.2%	7.7%
Like for like sales growth (%)	4.7%	(0.7%)	4.1%
Total number of stores at end of period	242	230	239
- Directly operated stores	196	169	185
- Franchise stores	46	61	54

	Q1 2017	Q1 2016	FY 2016
GROUP KEY INCOME STATEMENT FIGURES			
Sales directly operated stores	893.8	765.5	3,987.5
Sales from wholesale to franchise stores	196.9	226.5	993.1
Franchise fees and other income	19.0	23.8	104.6
Group revenue	**1,109.7**	**1,015.9**	**5,085.2**
% growth	9.2%	3.1%	9.8%
COGS excluding unrealised foreign exchange effects	656.2	592.8	2,901.2
Gross profit	**453.4**	**423.1**	**2,184.0**
% margin	40.9%	41.6%	42.9%
Opex	419.4	367.2	1,517.1
Nonrecurring items	-	-	-
Opex excluding nonrecurring items	419.4	367.2	1,517.1
% of group revenue	37.8%	36.1%	29.8%
Adjusted EBITDA	**34.0**	**55.9**	**667.0**
Adjusted EBIT	**13.9**	**37.7**	**591.9**
Adjusted profit before tax	**(1.2)**	**12.0**	**548.9**
Adjusted net profit	**(0.9)**	**9.0**	**413.7**
Adjusted earnings per share (167 million shares)	**(0.01)**	**0.05**	**2.48**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES			
Net change in working capital	(336.8)	(237.0)	(42.5)
Capital expenditure	24.6	16.5	89.9
Financial debt	1,647.8	1,656.6	1,648.1
Cash and cash equivalents	155.3	175.6	577.0
Net debt	**1,492.5**	**1,481.0**	**1,071.1**

PERIOD REVIEW

Europris celebrated its 25th year anniversary in February, marking a significant milestone of 25 years of uninterrupted growth. The Europris team remains highly motivated and ready to continue the trend into the next quarter of a century.

Consistent with historic performance, the group delivered solid topline performance in the first quarter, increasing group revenue by 9.2 per cent vs. last year to NOK 1,110 million (1,016 million). This was backed by three new store openings and a strong like-for-like performance of 4.7 per cent vs. last year, in a market that grew by 1.1 per cent in the same period.

Europris further advanced its successful growth path during the period with the takeover of eight franchise stores, ending the quarter with 196 directly operated stores, compared with 169 stores at the end of the first quarter in 2016.

SALES PERFORMANCE

The market was soft in the first quarter this year, driven by a warm start to the winter season in January. Kvarud figures indicate total growth of 2.5 per cent in the first quarter. On a like-for-like basis, the market grew by 1.1 per cent.[1] There were three additional sales days during the quarter compared to the same period last year, however the seasonal selling days around Easter fall in the second quarter this year, compared to the first quarter last year.

Europris delivered a strong start in the first quarter, the group's smallest selling period. Historically, the first quarter accounts for some 20 per cent of sales and 8 per cent of Adjusted EBITDA for the full year.[2] With Easter falling in the second quarter this year, there were no major seasonal events in the period. However, celebrating its 25th year anniversary, the group took the opportunity to leverage its core skills in generating seasonal events through providing highly attractive anniversary bargains and unbeatable offers in the period around the celebration in February.

The chain's total sales growth came in at 8.3 per cent, significantly better than the market benchmark. On a like-for-like basis, sales grew by 4.7 per cent, beating the market by 3.6 percentage points. The first quarter sales performance is testament to the underlying market share gains of the discount variety segment, and the strength of Europris' relative positioning and product offering.

OPERATIONAL REVIEW

Marketing and electronic media

The group's focus on digital media continued during the quarter with the addition of one person to the team. An additional team member will come onboard in the second quarter. The new employees will help increase the group's competence and know-how in the e-CRM and digital space.

Growing store estate

Europris opened three new stores in the first quarter at Gran, Rælingen and Brekstad. One additional store was approved by the board during the first quarter, and one store previously scheduled to open in 2017 was confirmed delayed until 2018 due to timing of the municipal zoning process.

New store openings

Month	Store	County
February	Gran	Oppland
March	Rælingen	Akershus
March	Brekstad	Sør-Trøndelag

[1] According to Kvarud Analyse, Shopping Centre Index, March 2017.

[2] Based on average contribution by Q1 figures to full year results in 2016, 2015 and 2014.



The total number of stores was 242 at the end of the quarter, 196 were directly operated and 46 franchise stores. At the end of the first quarter last year, the estate consisted of 230 stores, 169 were directly operated. This represents an increase of twelve stores to the total estate, and an increase of 27 directly operated stores, since last year.

As the number of directly operated stores increases, the group maintains a larger fixed cost base in all reporting periods of the year. This is mainly driven by store personnel costs and rent. The increased fixed cost base has a "mechanical" impact on profitability in the various periods of any given year. Periods of seasonally lower relative revenue levels are less profitable, and vice versa for periods of higher revenue levels. This effect is therefore accentuated in the first and the fourth quarters, the reporting periods with the lowest and the highest revenue levels during the year, respectively.

Concept and category development

Concept and category development is at the very core of the Europris business. Over time, the group has gained significant insight and know-how in several of its product categories. One example of this is windscreen washing fluid. The group's products are of good quality, and offered at highly competitive prices. This was recently noted in an independent test performed by professional taxi drivers where Europris' "Effekt spylervæske" came out as "best in test" and in the lowest price range.[3] Windscreen washing fluid is also a good example of a product where the group's category authority has facilitated the introduction of a tiered quality strategy, exemplified by two product alternatives with different temperature tolerances.

The introduction of Roma soda is also an example of how the group is able to use its customer knowledge and national presence to provide a unique offering to its customers within a given category. The introduction of Roma brings some of the old soda brands such as RC Cola, Asina and Flux Soda back to the wider market, and provides an edge vis-à-vis the commercial soda brands available within the grocery trade.

[3] Testet by the website Klikk.no and the magazine Vi Menn in March 2017.

FINANCIAL REVIEW

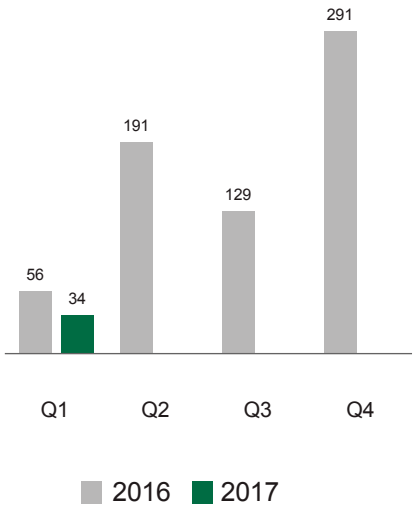
PROFIT AND LOSS – FIRST QUARTER

Group revenue in the first quarter of 2017 amounted to NOK 1,110 million (1,016 million), up by 9.2 per cent. The key drivers behind revenue growth were new store openings, franchise takeovers and the chain's like-for-like sales increase of 4.7 per cent.

Gross profit for the group was NOK 453 million (423 million). The gross margin was 40.9 per cent in the first quarter of 2017, compared with 41.6 per cent in the same period last year. The margin decrease is explained by the eight franchise takeovers, which had a one-off impact on gross profit of NOK 7.8 million in the quarter compared to last year. Adjusted for this effect, the gross margin was in line with last year.

Operating expenditure (opex) excluding nonrecurring items in the first quarter came to NOK 419 million (367 million), up by 14.2 per cent. Relative to group revenue, operating expenses were 37.8 per cent (36.1 per cent). Opex was impacted by the increase in number of directly operated stores, which increased from 169 to 196 (up by 16.0 per cent). In addition, some extra costs incurred related to certain planned operational initiatives, e.g.: (i) increased focus on digital channels; (ii) change in distribution method (sea to road transport); and (iii) celebration of 25th year anniversary .

Adjusted EBITDA was NOK 34 million (56 million) in the first quarter, down by NOK 22 million compared with last year.



Adjusted profit before tax for the first quarter of 2017 was negative NOK 1 million (12 million), down by NOK 13 million. The group recorded an unrealised loss of NOK 5 million on currency hedging contracts and on accounts payable in foreign currencies in the quarter. Last year, the group recorded an unrealised loss of NOK 12 million in the corresponding period.

CASH FLOW

Net change in working capital was negative NOK 337 million in the period that ended 31 March 2017 (negative 237 million). The net change in other working capital was impacted by an increase in number of directly operated stores. In addition, inventory has increased due to inventory build-up for the Easter season, together with the fact that spring/pre-summer seasonal- and campaign items was shipped early from the Far-East due to an early Chinese New Year.

Capital expenditure was NOK 25 million (17 million). The increase from last year is explained by the difference in the number of new stores opened during the quarter (three stores in the first quarter of 2017 vs. one store in the first quarter of 2016). In addition, there was a higher level of investment activity related to the modernisation of franchise stores taken over by the group.

FINANCIAL POSITION AND LIQUIDITY

Financial debt was NOK 1,648 million at the end of the first quarter (1,657 million).

Net debt at 31 March 2017 was NOK 1,493 million (1,481 million).

Cash and cash equivalents for the group at 31 March 2017 were NOK 155 million (176 million).

The group's liquidity reserves were unused at the end of the first quarter.

OUTLOOK

Management expects continued growth in revenue and profits going forward.

Given the varying calendar placement of Easter, comparable figures from one year to the next can only be achieved from the end of April each year. The Easter period this year was successful. Europris achieved significant topline growth through well executed sales campaigns driving pressure on gross margin.

The group continues to have a healthy pipeline of new stores. At the time of publication of this report, Europris has opened five new stores so far this year, and plans to open another nine stores during the course of the year. Three stores remain subject to municipal zoning regulations. One store previously scheduled for 2017 has now been moved to the pipeline for 2018 due to timing of the municipal zoning process. The pipeline for 2018 currently therefore stands at six new stores. The group has no plans to close any stores in 2017.

The eight franchise takeovers in the first quarter 2017 will positively impact revenue and profits for the rest of the year. Europris expects an additional 2-4 franchise takeovers during the rest of the year with corresponding accounting effects as those taken over in the first quarter.

Management has initiated measures to improve inventory turnover, in order to reduce inventory levels going forward.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Figures are stated in NOK 1,000	Notes	Q1 2017	Q1 2016	FY 2016
		Unaudited	Unaudited	Audited
Total operating income (group revenue)		**1,109,671**	**1,015,885**	**5,085,205**
Cost of goods sold (COGS)		661,233	605,150	2,903,030
Employee benefits expense		205,919	177,015	752,498
Depreciation	5	20,124	18,204	75,089
Other operating expenses		213,479	190,202	764,590
Operating profit		**8,917**	**25,314**	**589,998**
Net financial income (expense)		**(10,157)**	**(13,337)**	**(41,052)**
Profit before tax		**(1,241)**	**11,977**	**548,946**
Income tax expense		(298)	2,994	135,285
Profit for the period		**(943)**	**8,983**	**413,661**
Attributable to the equity holders of the parent		(943)	8,983	413,661
Interim condensed consolidated statement of comprehensive income				
Profit for the period		(943)	8,983	413,661
Total comprehensive income		**(943)**	**8,983**	**413,661**
Attributable to the equity holders of the parent		(943)	8,983	413,661

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures are stated in NOK 1,000	Notes	31 March 2017	31 March 2016	31 Dec 2016
		Unaudited	Unaudited	Audited
ASSETS				
Total intangible assets	5	2,021,247	2,010,141	2,016,904
Total fixed assets	5	259,516	228,056	246,377
Total financial assets	6	2,711	6,944	2,233
Total non-current assets		**2,283,474**	**2,245,142**	**2,265,515**
Inventories		1,667,187	1,307,205	1,324,103
Trade receivables		194,024	228,107	203,346
Other receivables	6	45,296	36,822	66,539
Cash		155,329	175,645	576,964
Total current assets		**2,061,836**	**1,747,780**	**2,170,952**
Total assets		**4,345,310**	**3,992,922**	**4,436,467**
EQUITY AND LIABILITIES				
Total paid-in capital		836,406	1,070,162	836,406
Total retained equity		871,024	467,288	871,966
Total shareholders' equity		**1,707,429**	**1,537,450**	**1,708,372**
Provisions		44,335	59,685	45,575
Borrowings	6	1,646,108	1,647,247	1,646,874
Other non-current liabilities	6	1,723	9,375	1,272
Total non-current liabilities		**1,692,166**	**1,716,306**	**1,693,721**
Accounts payable		523,837	452,967	555,651
Tax payable		95,157	61,731	145,446
Public duties payable		137,160	47,319	149,167
Other current liabilities	6	189,560	177,148	184,111
Total current liabilities		**945,714**	**739,165**	**1,034,373**
Total liabilities		**2,637,880**	**2,455,471**	**2,728,095**
Total equity and liabilities		**4,345,310**	**3,992,922**	**4,436,467**

Fredrikstad, 26 April 2017

THE BOARD OF DIRECTORS OF EUROPRIS ASA

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Figures are stated in NOK 1,000	Attributed to equity holders of the parent			
	Share capital	Share premium	Retained earnings	Total equity
At 1 January 2017	**166,969**	**669,437**	**871,966**	**1,708,372**
Profit for the period	-	-	(943)	(943)
Other comprehensive income	-	-	-	-
At 31 March 2017	**166,969**	**669,437**	**871,023**	**1,707,429**
(unaudited)				

	Attributed to equity holders of the parent			
	Share capital	Share premium	Retained earnings	Total equity
At 1 January 2016	**166,969**	**903,193**	**458,305**	**1,528,467**
Profit for the period	-	-	8,983	8,983
Other comprehensive income	-	-	-	-
At 31 March 2016	**166,969**	**903,193**	**467,288**	**1,537,450**
(unaudited)				

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Figures are stated in NOK 1,000	Notes	Q1 2017	Q1 2016	FY 2016
		Unaudited	Unaudited	Audited
Cash flows from operating activities				
Profit before income tax		(1,241)	11,977	548,946
Adjusted for:				
Depreciation of fixed and intangible assets	5	20,124	18,203	75,089
Changes in net working capital		(336,750)	(236,965)	(42,517)
Income tax paid		(50,656)	(46,254)	(108,772)
Net cash generated from operating activities		**(368,523)**	**(253,039)**	**472,746**
Cash flows from investing activities				
Purchases of fixed and intangible assets	5	(24,623)	(16,496)	(89,935)
Acquisition of franchise stores		(24,954)	(330)	(11,229)
Net cash used in investing activities		**(49,577)**	**(16,826)**	**(101,164)**
Cash flows from financing activities				
Proceeds from borrowings		-	-	-
Payment of shareholder loan		-	-	-
Repayment of debt to financial institutions		(3,534)	(1,605)	(7,978)
Dividend		-	-	(233,756)
Net capital increase		-	-	-
Net cash from financing activities		**(3,534)**	**(1,605)**	**(241,734)**
Net (decrease)/increase in cash		(421,634)	(271,471)	129,848
Cash at 1 January		576,964	447,116	447,116
Cash at end of period		**155,329**	**175,645**	**576,964**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTES

NOTE 1 CORPORATE INFORMATION

The interim condensed consolidated financial statements of Europris ASA and its subsidiaries (collectively, the group) for the three months ended 31 March 2017 were authorised for issue by the board on 26 April 2017.

Europris ASA is domiciled in Norway. The group is a discount variety retailer with stores across Norway.

These condensed interim financial statements have not been audited.

NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three months ended 31 March 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the group's annual financial statements at 31 December 2016.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the group's annual consolidated financial statements for the year ended 31 December 2016. New standards and interpretations effective at 1 January 2017 do not impact the annual consolidated financial statements of the group or the interim condensed consolidated financial statements of the group.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim condensed financial statements requires management to make accounting judgements and estimates that impact how accounting policies are applied and the reported amounts for assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical accounting estimates and judgements are consistent with those in the consolidated financial statements for 2016.

NOTE 4 SEGMENT INFORMATION

The group management is the group's chief operating decision-maker. Reporting to the group management, which is responsible for evaluating profitability and achivements, is on a consolidated basis that forms the basis for the group management's assessment of profitability at a strategic level. The group as a whole is therefore defined and identified as one segment.

NOTE 5 FIXED AND INTANGIBLE ASSETS

Figures are stated in NOK 1,000	Fixtures and fittings	Software	Trademarks	Goodwill	Total
Carrying amount 1 January 2017	246,377	39,929	387,573	1,589,402	2,263,281
Acquisition of subsidiaries	4,362	-	-	8,620	12,982
Additions	20,974	3,649	-	-	24,623
Disposals	-	-	-	-	-
Depreciation	(12,197)	(7,926)	-	-	(20,124)
Carrying amount 31 March 2017	**259,515**	**35,652**	**387,573**	**1,598,022**	**2,280,762**
Carrying amount 1 January 2016	225,178	40,744	387,573	1,582,487	2,235,982
Acquisition of subsidiaries	725	-	-	3,198	3,923
Additions	13,762	2,734	-	-	16,496
Disposals	-	-	-	-	-
Depreciation	(11,609)	(6,595)	-	-	(18,204)
Carrying amount 31 March 2016	**228,056**	**36,883**	**387,573**	**1,585,685**	**2,238,197**

NOTES

NOTE 6 FINANCIAL INSTRUMENTS - FAIR VALUE

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities at 31 March 2017 and 31 December 2016:

Figures are stated in NOK 1,000	31 March 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables				
Non-current receivables	1,801	1,801	1,808	1,808
Total	**1,801**	**1,801**	**1,808**	**1,808**
Financial liabilities				
Other financial liabilities				
Borrowings	1,646,108	1,646,108	1,646,874	1,646,874
Total	**1,646,108**	**1,646,108**	**1,646,874**	**1,646,874**
Financial instruments measured at fair value through profit and loss				
Derivatives - asset				
Interest rate swaps	536	536	51	51
Foreign exchange forward contracts	2,310	2,310	7,450	7,450
Total	**2,847**	**2,847**	**7,501**	**7,501**
Derivatives - liabilities				
Interest rate swaps	1,723	1,723	1,272	1,272
Foreign exchange forward contracts	-	-	261	261
Total	**1,723**	**1,723**	**1,534**	**1,534**

FAIR VALUE HIERARCHY

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

All the group's financial instruments measured at fair value are classified as level 2.

Specific valuation methods being used to value financial instruments include:

- fair value of interest rate swaps is measured as the net present value of estimated future cash flows based on observable yield curves
- fair value of foreign exchange forward contracts is measured by the net present value of the difference between the contractual forward rate and the forward rate of the currency at the balance sheet date, multiplied by the contractual volume in foreign currency.

FORWARD LOOKING STATEMENTS

The condensed interim report contains forward-looking statements, based on various assumptions. These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Although Europris believes that these assumptions were reasonable when made, it cannot provide assurances that its future results, level of activity or performances will meet these expectations.

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 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.

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