

Axfood

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Axfood acquires the wholesale business Bergendahls Food and enters into partnership with City Gross

Axfood acquires the wholesale business of Bergendahl Food AB and strengthens its presence in the Swedish food retail market. The acquisition creates economies of scale, synergies and improved competitiveness. Through increased efficiency, product range and logistics improvements, this also benefits wholesale customers and Sweden's consumers. In addition, Axfood and Bergendahls initiate a strategic partnership for the retail chain City Gross, where Axfood acquires a minority equity stake of 9.9 percent with an option to acquire shares up to an equity stake of up to 30 percent. Axfood and City Gross also enter into a long-term delivery and cooperation agreement that will strengthen the competitiveness of City Gross. The total consideration amounts to SEK 1.8 billion¹ and in connection with the transaction, Axfood intends to carry out a rights issue of SEK 1.5 billion to maintain a strong financial position and flexibility going forward.

Axfood AB ("Axfood") has through Dagab Inköp & Logistik AB ("Dagab") reached an agreement with Bergendahl & Son AB ("Bergendahls") to acquire 100 percent of Bergendahl Food AB ("Bergendahl Wholesale"). The acquisition will result in economies of scale, cost synergies, and increased competitiveness. Through increased efficiency, product range and logistics improvements, this also benefits wholesale customers and Sweden's consumers. Axfood also acquires a minority stake corresponding to 9.9 percent of the shares in City Gross Sverige AB ("City Gross") as part of a strategic partnership to strengthen City Gross' market position. Furthermore, Axfood has entered into a call option agreement to acquire additional shares, up to a total shareholding of 30 percent in City Gross, gradually during a five-year period. Further, Dagab and City Gross have signed a 15-year delivery agreement that includes cooperation around, inter alia, assortment and IT infrastructure. The transaction is expected to create annual cost synergies of approximately SEK 200 million that are expected to be realised successively up to 2025. Excluding integration and transaction costs, the acquisition is expected to be accretive to Axfood's earnings per share from 2022.

"We are delighted to have reached this agreement with Bergendahls, who similarly to Axfood has a long term and value-based business perspective. There is a clear industrial rationale to this transaction that creates conditions for strengthening the competitiveness of both ours and Bergendahls' wholesale customers. On the retail side, I am impressed with City Gross' recent progress, and am convinced that we through this partnership can strengthen City Gross' market position within the hypermarket segment, a segment in which Axfood is currently not present," says **Klas Balkow**, President and CEO of Axfood.

¹ Total consideration on a cash and debt free basis and excluding options to acquire an additional 20.1 percent in City Gross.

“This deal creates opportunities to expand City Gross and strengthen our market position, which is a long-term goal and a significant part of Bergendahls’ strategy. Axfood is the right partner for City Gross going forward, and we very much look forward to the development of our hypermarket concept. Wholesale customers will also going forward be well taken care of, as Axfood is at the forefront in terms of the future of logistics,” says **Lars Ljungälv**, President and CEO of Bergendahl & Son AB.

Transaction that creates economies of scale, synergies and improved competitiveness

- Through Dagab, Axfood continues to build the logistics structure of the future, and together with Bergendahl Wholesale, additional economies of scale and cost synergies are expected to be generated over time.
- The combined volume in the wholesale business create increased competitiveness for both Axfood’s own store chains and external customers on the Swedish food retail market.
- With the partnership, Axfood gets exposure to the hypermarket segment of the Swedish food retail market, and thereby increasing the group’s presence and reach.
- The partnership with Axfood strengthens City Gross’ competitiveness and creates conditions for development of the concept and increasing market share within the hypermarket segment, which benefits the customers of City Gross.
- The acquisition of Bergendahl Wholesale is expected to create annual cost synergies of approximately SEK 200 million that are expected to be realised successively up to 2025, inter alia within purchasing, distribution, assortment optimisation, logistics and organisation, among other areas.
- Excluding integration and transaction costs, the transaction is expected to be accretive to Axfood’s earnings per share from 2022. After the integration costs have been incurred and synergies have started to be attained, also accounting for effects from the rights issue, the transaction is expected to be accretive to earnings per share from 2023.

Bergendahl Wholesale in brief

Bergendahl Wholesale is a strong wholesaler within Swedish food retail. Today, the company has approximately 800 employees and conducts wholesale business mainly to City Gross, and additionally to approximately 170 independent retailers and online retailers. Bergendahl Wholesale has its main warehouse in Hässleholm, Sweden. During the period from the financial year ending August 2018 to the twelve months period ending March 2021, net sales grew at a compound annual rate of approximately 4 percent. During the last twelve months ending March 2021, net sales amounted to approximately SEK 10,500 million and adjusted operating profit to approximately SEK 90 million².

City Gross in brief

City Gross, which includes City Gross and Hyllinge Cash, is a Swedish food retail store chain with a market share of approximately 4³ percent. Currently, City Gross has approximately 2,800 employees and a store network of 42 stores. For the last twelve months ending March 2021, net sales for City Gross amounted to approximately SEK 9,800 million and adjusted operating profit to approximately SEK 170 million⁴. After the transaction, Bergendahl & Son

² Adjusted operating profit excluding items affecting comparability. Note that Bergendahls Food and City Gross reports in accordance with BFNAR 2012:1 Annual report and consolidated statements (K3).

³ Source: Axfood’s estimate for the full-year 2019 based on public information.

⁴ Adjusted operating profit excluding items affecting comparability. Note that Bergendahls Food and City Gross reports in accordance with BFNAR 2012:1 Annual report and consolidated statements (K3).

AB will remain majority shareholders in City Gross with a total shareholding of 90.1 percent. Upon full exercise of the call option amounting to an additional 20.1 percent of the shares, Bergendahl & Son AB will remain majority shareholders in City Gross with a total shareholding of 70 percent.

About the cooperation

Axfood intends to merge Bergendahl Wholesale with Dagab. City Gross will continue to operate as an independent store chain but will be integrated with Axfood's IT infrastructure and supported by the new joint purchasing and logistics operations in Dagab. In connection with the transaction, Axfood has also entered into a 15-year delivery agreement with City Gross. As part of strengthening the partnership Axfood will be represented on City Gross' Board of Directors.

About the transaction

Upon full exercise of the call option, the initial consideration amounts to SEK 1.8 billion and the total consideration amounts to SEK 2.5 billion, of which SEK 1.5 billion pertains to Bergendahl Wholesale. The consideration for 9.9 percent of the shares in City Gross at completion of the transaction amounts to approximately SEK 0.3 billion. Upon full exercise of the call option to acquire an additional 10.1 percent and 10.0 percent of the shares in City Gross three and five years after the transaction, respectively, which results in a total acquisition of 30 percent of the shares in City Gross, the consideration for the minority share in City Gross amounts to SEK 1.0 billion in total. All above amounts are on a cash and debt free basis.

Synergies and integration costs

Axfood expects the acquisition of Bergendahl Wholesale, including effects from the signed delivery agreement with City Gross, to generate annual cost synergies of approximately SEK 200 million, which are expected to be realised successively up to and including 2025, inter alia within purchasing, assortment optimisation, logistics and organisation. To attain the synergies, Axfood expects to invest approximately SEK 100 million in IT and logistics during 2021-2023. Furthermore, integration and transaction costs of approximately SEK 200 million up to 2023 are expected. Additionally, IT write downs, with no cash flow effect, are expected to lower the results by approximately SEK 100 million during the corresponding period.

Financial impact

The acquisition of Bergendahl Wholesale will be reported in the Dagab segment. The acquisition of the minority stake in City Gross will be reported in accordance with the equity method in the Willys segment.

SEK million	Bergendahl Wholesale, last twelve months ending March 2021 (unaudited numbers, K3 reporting)	Axfood, last twelve months ending March 2021 (unaudited numbers, IFRS 16 reporting)
Net sales	10,500	53,800
Operating profit	90 ⁵	2,530

⁵ Adjusted operating profit excluding items affecting comparability. Note that Bergendahl's Food and City Gross reports in accordance with BFNAR 2012:1 Annual report and consolidated statements (K3).

Axfood has a financial target of an equity ratio of at least 20 percent at year-end. Following the completion of the acquisition, assuming that the rights issue of SEK 1.5 billion has been completed and based on Axfood's and Bergendahls Wholesale's balance sheets as of March 31, 2021, Axfood expects that the equity ratio will exceed the financial target. The rights issue contributes to long-term financing of the acquisition and strengthens Axfood's balance sheet.

As of March 31, 2021, prior to the acquisition and the rights issue, Axfood's net debt/adjusted EBITDA amounted to 1.0 times and -0.2 times excluding effects from IFRS 16. Immediately following the transaction, including effects from the rights issue, Axfood's net debt/adjusted EBITDA is expected to amount to approximately 1.2 times.⁶

Financing of the acquisition

Short-term financing

Short-term, the acquisition will be financed through a combination of existing cash and credit facilities. Axfood's unutilised credit facility with Swedbank and SEB will be used to finance the acquisition.

Rights issue and long-term financing

A strong financial position has enabled Axfood to make significant investments to develop the business. To maintain a strong financial position that has been the foundation for the flexibility that Axfood has had historically, Axfood's Board of Directors intends to, after closing of the transaction, resolve on a Rights Issue of approximately SEK 1.5 billions with preferential rights for existing shareholders, subject to approval by an Extraordinary General Meeting. Notice to an Extraordinary General Meeting is planned to be announced in connection with the resolution of the Board of Directors on the Rights Issue. The Rights Issue contributes to securing the long-term financing of the acquisition and enables subsequent investments as a result of the integration of Bergendahl Wholesale. Axfood's largest shareholder, Axel Johnson AB, with 50.1 percent of the shares, has undertaken to vote in favour of the Board's proposal of the Rights Issue and to subscribe for their pro rata share in the Rights Issue. The Rights Issue is planned to be completed during the fourth quarter 2021.

Regulatory approval

Completion of the acquisition is subject to approval by the Swedish Competition Authority. Both parties agree that closing can take place no earlier than 1 September 2021.

Advisors

SEB Corporate Finance, PwC, Kanter Advokatbyrå and Kastell Advokatbyrå advises Axfood in connection with the acquisition.

Invitation to conference call for investors and the media

The transaction is presented in closer detail by Klas Balkow, Axfood's President and CEO, and Anders Lexmon, CFO, in a telephone/video conference call held in English for investors and the press at 10.00 a.m. (CET) today, Monday 31 May 2021. To follow the presentation, visit

⁶ EBITDA adjusted for items affecting comparability. Based on Axfood's balance sheet as of March 31, 2021 and the assumption that the acquisition is fully financed with debt. Note that Bergendahls Food and City Gross reports in accordance with BFNAR 2012:1 Annual report and consolidated statements (K3) and that effects from IFRS 16 are estimated, unaudited and may change.

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The information herein is such that Axfood AB (publ) is required to make public in accordance with the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person listed above, at 8.15 a.m. CET on 31 May 2021.

This document is an English translation of the Swedish original. In the event of any discrepancies, the Swedish version shall govern.

Axfood aspires to be the leader in good and sustainable food. Our family of companies includes the store chains Willys and Hemköp as well as Tempo and Handlar'n. B2B sales are handled through Snabbgross, and our support company Dagab is responsible for the Group's product development, purchasing and logistics. The Axfood family also includes Mat.se, Middagsfrid and Urban Deli as well as the partly owned companies Apohem and Eurocash. Together the Group has more than 11,000 employees and sales of more than SEK 53 bn. Axfood has been listed on Nasdaq Stockholm since 1997, and the principal owner is Axel Johnson AB. Read more at www.axfood.com.