

# ***Europpris***

***MER TIL OVERS***

**Q4-19**



**EUROPRIS ASA**



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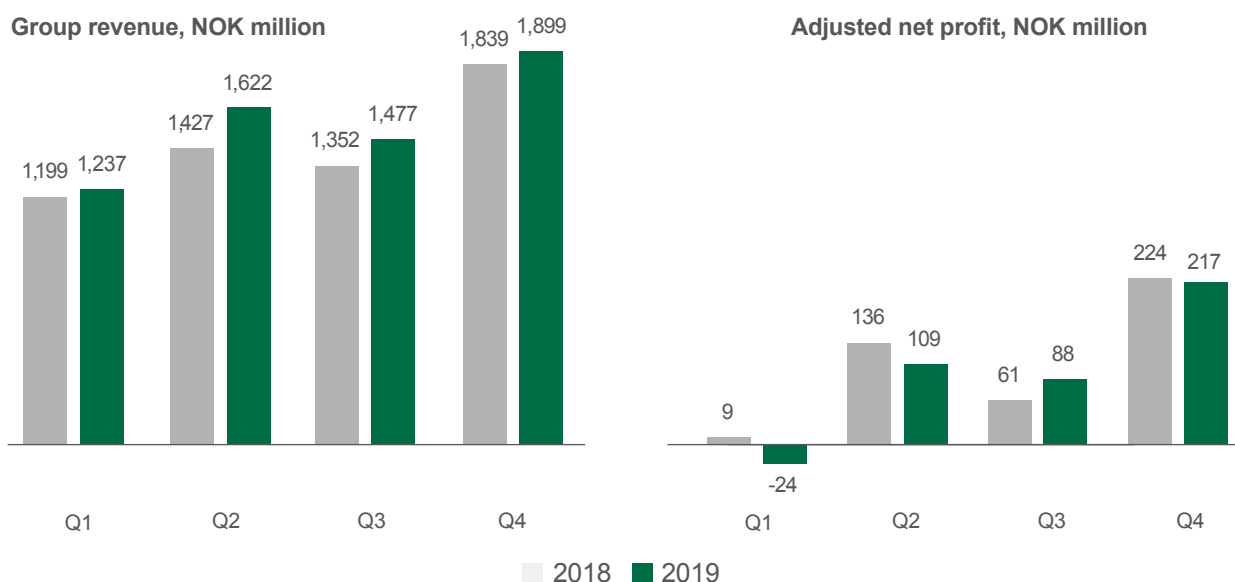
## Fourth quarter 2019

- Group revenue increased by 3.3 per cent to NOK 1,899 million (NOK 1,839 million)
  - » 1.1 per cent like-for-like growth following strong Q4 2018 performance (7.0 per cent)
  - » Continuous improvement of seasonal and campaign execution drove growth
- Gross profit up by 7.4 per cent to NOK 857 million (NOK 798 million), representing a gross margin of 45.1 per cent (43.4 per cent)
  - » Adjustments to campaign pressure and tight control of realising seasonal goods
- Adjusted EBITDA, excluding IFRS 16 effects, rose by 8.6 per cent to NOK 330 million (NOK 304 million)
- Adjusted net profit of NOK 217 million (NOK 224 million)
  - » Profits affected negatively by an unrealised loss of NOK 19 million on hedging contracts and accounts payable (net currency gain of NOK 17 million)
- IFRS 16 Leases implemented 1 January 2019, *last year figures not restated*
- Refinancing of the group's term-loan and revolving credit facilities completed in December
- Completed acquisition of the 20 per cent equity stake in ÖoB

## Full year 2019

- Continued top-line growth in 2019 – once again outperforming the market
  - » 7.2 per cent growth in group revenues to NOK 6,234 million (NOK 5,817 million)
  - » 4.4 per cent growth on a like-for-like basis, significantly above the market rate of 0.5 per cent
  - » Six new stores opened and four franchises taken over
- Gross margin increased to 43.5 per cent (43.1 per cent)
- Opex affected by high fill rate at the old central warehouse, resulting in additional costs of NOK 51 million
- Adjusted net profit was NOK 390 million (NOK 429 million) and included unrealised loss of NOK 20 million on hedging contracts and accounts payable (net currency gain of NOK 11 million)
- The board of directors proposes an ordinary dividend of NOK 1.95 per share for 2019 (NOK 1.85)

Figures for the corresponding period last year in brackets. The figures are unaudited.  
See page 25 for definitions of APMs.



# KEY FIGURES



Figures are stated in NOK million

	Q4 2019	Q4 2018	FY 2019	FY 2018
<b>CHAIN KEY FIGURES</b>				
Total retail sales	2,007.3	1,951.6	6,561.3	6,166.7
Growth (%)	2.9%	10.1%	6.4%	5.3%
Like-for-like sales growth (%)	1.1%	7.0%	4.4%	2.2%
Total number of stores at end of period	264	258	264	258
- Directly operated stores	231	221	231	221
- Franchise stores	33	37	33	37
<b>GROUP KEY INCOME STATEMENT FIGURES</b>				
Sales directly operated stores	1,686.1	1,603.8	5,490.5	5,020.4
Sales from wholesale to franchise stores	191.0	211.2	665.6	717.8
Franchise fees and other income	21.9	23.7	78.4	78.8
<b>Group revenue</b>	<b>1,899.0</b>	<b>1,838.7</b>	<b>6,234.4</b>	<b>5,817.0</b>
% growth	3.3%	12.9%	7.2%	7.3%
COGS excluding unrealised foreign exchange effects	1,041.7	1,040.3	3,523.3	3,309.7
<b>Gross profit</b>	<b>857.3</b>	<b>798.3</b>	<b>2,711.0</b>	<b>2,507.3</b>
% margin	45.1%	43.4%	43.5%	43.1%
Opex	413.2	494.7	1,596.4	1,840.9
Non-recurring items	6.2	-	18.7	-
Opex excluding non-recurring items	407.0	494.7	1,577.7	1,840.9
% of group revenue	21.4%	26.9%	25.3%	31.6%
<b>Adjusted EBITDA</b>	<b>450.3</b>	<b>303.6</b>	<b>1,133.3</b>	<b>666.4</b>
<b>Adjusted EBIT</b>	<b>315.9</b>	<b>278.4</b>	<b>617.7</b>	<b>575.6</b>
<b>Adjusted profit before tax</b>	<b>275.8</b>	<b>285.7</b>	<b>499.1</b>	<b>552.5</b>
<b>Adjusted net profit</b>	<b>216.7</b>	<b>223.7</b>	<b>389.9</b>	<b>429.1</b>
<b>Adjusted earnings per share</b>	<b>1.34</b>	<b>1.36</b>	<b>2.41</b>	<b>2.59</b>
<b>Figures ex. IFRS 16 effects</b>				
Opex excluding non-recurring items	527.6	494.7	2,027.5	1,840.9
% of group revenue	27.8%	26.9%	32.5%	31.6%
<b>Adjusted EBITDA</b>	<b>329.6</b>	<b>303.6</b>	<b>683.5</b>	<b>666.4</b>
<b>Adjusted EBIT</b>	<b>306.4</b>	<b>278.4</b>	<b>584.0</b>	<b>575.6</b>
<b>Adjusted net profit before tax</b>	<b>278.9</b>	<b>285.7</b>	<b>512.3</b>	<b>552.5</b>
<b>Adjusted net profit</b>	<b>219.1</b>	<b>223.7</b>	<b>400.2</b>	<b>429.1</b>
<b>GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES</b>				
Net change in working capital	339.2	131.0	160.6	(169.4)
Capital expenditure	58.1	17.9	157.0	79.2
Financial debt			1,656.3	1,649.4
Lease liabilities - IFRS 16 effect			2,004.0	-
Cash			568.0	427.0
<b>Net debt</b>			<b>3,092.2</b>	<b>1,222.5</b>

# ALTERNATIVE PERFORMANCE MEASURES



Figures are stated in NOK million	Q4 2019	Q4 2018	FY 2019	FY 2018
<b>Group revenue</b>	<b>1,899.0</b>	<b>1,838.7</b>	<b>6,234.4</b>	<b>5,817.0</b>
Cost of goods sold (COGS)	1,060.2	1,023.5	3,543.7	3,298.3
<b>Unrealised foreign exchange effects</b>	<b>(18.5)</b>	<b>16.9</b>	<b>(20.3)</b>	<b>11.4</b>
<b>Gross profit</b>	<b>857.3</b>	<b>798.3</b>	<b>2,711.0</b>	<b>2,507.3</b>
% margin	45.1%	43.4%	43.5%	43.1%
Employee benefits expense	269.7	250.0	985.3	898.5
Other operating expenses	264.1	244.7	1,060.9	942.4
<b>Other operating expenses - IFRS 16 effect</b>	<b>(120.6)</b>		<b>(449.8)</b>	<b>-</b>
<b>Opex</b>	<b>413.2</b>	<b>494.7</b>	<b>1,596.4</b>	<b>1,840.9</b>
Non-recurring items	6.2	-	18.7	-
<b>Opex excluding non-recurring items</b>	<b>407.0</b>	<b>494.7</b>	<b>1,577.7</b>	<b>1,840.9</b>
% of group revenue	21.4%	26.9%	25.3%	31.6%
<b>Adjusted EBITDA</b>	<b>450.3</b>	<b>303.6</b>	<b>1,133.3</b>	<b>666.4</b>
Depreciation	23.2	25.2	99.6	90.7
<b>Depreciation - IFRS 16 effect</b>	<b>111.1</b>	<b>-</b>	<b>416.1</b>	<b>-</b>
<b>Adjusted EBIT</b>	<b>315.9</b>	<b>278.4</b>	<b>617.7</b>	<b>575.6</b>
Net financial income (expense)	(13.0)	(16.0)	(51.3)	(40.9)
<b>Net financial expense - IFRS 16</b>	<b>(12.6)</b>	<b>-</b>	<b>(46.9)</b>	<b>-</b>
<b>Unrealised foreign exchange effects</b>	<b>(18.5)</b>	<b>16.9</b>	<b>(20.3)</b>	<b>11.4</b>
Profit (loss) from associated companies	4.0	6.4	-	6.4
<b>Adjusted profit before tax</b>	<b>275.8</b>	<b>285.7</b>	<b>499.1</b>	<b>552.5</b>
<b>Adjusted net profit</b>	<b>216.7</b>	<b>223.7</b>	<b>389.9</b>	<b>429.1</b>
<b>Adjusted earnings per share</b>	<b>1.34</b>	<b>1.36</b>	<b>2.41</b>	<b>2.59</b>
<b>GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES</b>				
Net change in working capital	339.2	131.0	160.6	(169.4)
Purchases of fixed assets	52.1	15.7	137.6	59.1
Purchases of intangible assets	6.0	2.2	19.4	20.1
<b>Capital expenditure (excl. IFRS 16 effects)</b>	<b>58.1</b>	<b>17.9</b>	<b>157.0</b>	<b>79.2</b>
Financial debt			3,660.3	1,649.4
<b>Lease liabilities - IFRS 16</b>			<b>2,004.0</b>	<b>-</b>
Cash			568.0	427.0
<b>Net debt</b>			<b>1,088.3</b>	<b>1,222.5</b>

For definitions of APMs see page 25.



# PERIOD REVIEW



Europris ended 2019 on a high note, delivering solid sales growth and an improved margin on a tough comparable. Once again, more than 2,500 dedicated employees managed to create a Christmas spirit and a sales growth well above the market benchmark in all 264 stores across the country.

The disciplined work on campaign execution continued, and Europris successfully adjusted the campaign pressure to increase gross profits in the fourth quarter. Greater control of realising seasonal goods was also implemented towards the end of the quarter. While this had some negative effect on sales, it made a positive contribution to gross profits and margins.

Unlike in recent years, the Norwegian krone strengthened during December. Since Europris hedges purchase orders placed for the next six months, the stronger NOK resulted in a significant unrealised currency loss for the quarter. Compared with 2018, this constituted an additional cost of NOK 36 million.

## Full year

The fourth quarter marked the end of a year driven by strong growth in customer traffic, solid seasonal and campaign execution, and initial operation from the modern new central warehouse. The company faced challenges from capacity constraints during a hectic summer season and reacted by implementing strict purchasing measures and increased capacity.

## Sales and gross profit

Europris chain delivered 2.9 per cent growth in the fourth quarter, on a strong comparable of 10.1 per cent for 2018. The market continued to deliver muted growth of 1.1 per cent (1.0 per cent). A solid sales performance in the quarter was driven by good execution of the very important Christmas season and a well-managed transition from low to peak season. The stores were even better prepared for the seasonal periods, and the product range of seasonal goods were further improved from 2018. In the period building up to the peak season, attention was concentrated on improving the utilisation of sales space through increased central control of volumes and spacing in the stores.

Two of the main sales events in the quarter were Black Friday and the week of the first Sunday of Advent. In 2018, these events fell in two consecutive weeks. However, they occurred during the same week in 2019, which had a negative effect overall on traffic to the stores and thereby on sales.

Throughout the quarter, Europris deliberately adjusted campaign pressure and continued improving the execution of promotions in stores. The result was a significant improvement in gross profit for the period. In addition, the realisation of seasonal goods was followed up more closely towards the end of the Christmas season. This had some negative effect on sales, but helped to increase gross profits. The latter were lifted further

by the positive effects of sourcing synergies with Tokmanni and ÖoB. Europris is now starting to see benefits from the sourcing agreement, with only a small part of the expected synergies realised so far.

According to Kvarud Analyse, the market remained soft during the fourth quarter and grew overall by 1.1 per cent. Europris outperformed the market with a total growth of 2.9 per cent.

	Q4	2019	2018
Total growth Europris chain	2.9%	6.4%	5.3%
Total growth market*	1.1%	1.3%	1.3%
LFL growth Europris	1.1%	4.4%	2.2%
LFL growth market*	0.6%	0.5%	0.8%

\*According to the Kvarud Analyse Shopping Centre Index, December 2019. This report analyses the performance of the 237 largest shopping centres in Norway.

On a like-for-like basis, Europris grew by 1.1 per cent during the quarter and 4.4 per cent for the full year, significantly above the market growth of 0.6 and 0.5 per cent respectively.

Europris' growth in 2019 was mainly driven by an increase in the number of customers in the stores. The shopping basket grew owing to a rise in the number of articles per customer, while the average price per article fell slightly.

## Operational review

### Concept and category development

Europris continued to develop its seasonal range in order to maintain its price and seasonal leadership in Norway. During the Christmas season, the product range for seasonal lightening was further improved and the range of outdoor system lighting received “best in test” from Norwegian broadcaster TV2. The product range is being developed and sourced through the partnership with Tokmanni and ÖoB.

The focus on central control of volume and spacing in the stores was further developed during 2019. Stronger planning has made the build-up to the high season better organised and more flexible, ensuring improved utilisation of the sales area. This has contributed to a more efficient work day in stores, and sales have increased. In addition, the central spacing has ensured a more consistent implementation of the season across the store base.

### E-commerce

E-commerce is small but growing part of total Europris sales. Turnover here increased by 34 per cent in 2019 and totalled 0.6 per cent of total chain sales. Click and collect was responsible for 80 per cent of e-commerce sales, while home deliveries accounted for 20 per cent.

Development of the new e-commerce platform is making the scheduled progress, and is expected to roll out towards the end of the first quarter of 2020. At the same time, the e-commerce operation will be relocated to the new central warehouse in Moss. This will permit a larger range to be offered online and increase the service level percentage to customers.

### Developing the store estate

Europris neither opened nor closed stores in the quarter, and had 264 stores at 31 December. Of these, 231 were directly operated and 33 were franchises. Europris opened six new stores and took over four franchise in 2019.

The group continuously monitors performance and imposes strict criteria for all stores. New stores opened in 2018 and 2019 are continuing to perform well, with sales exceeding expectations.

Europris relocated two stores during the quarter and completed three store expansions. The group will continue to develop the existing store base and sees this as an important value driver in the future.

#### *New stores opened in 2019*

Month	Store	County
March	Gunerius	Oslo
April	Vestnes	Møre og Romsdal
April	Øksenvad	Rogaland
May	Fosnavåg	Møre og Romsdal
June	Meråker	Trøndelag
September	Etne	Hordaland

#### *Store relocations in 2019*

Month	Store	County
April	Mosjøen	Nordland
May	Bjugn	Trøndelag
June	Elverum	Hedmark
September	Notodden	Telemark
October	Nordfjordeid	Sogn og Fjordane
December	Voss	Hordaland

#### *Store expansions in 2019*

Month	Store	County
March	Stord	Hordaland
November	Vestkanten	Hordaland
November	Elnesvågen	Møre og Romsdal
December	Skien	Telemark

A potential closure of the Europris store at Grini in Akershus county is still awaiting a hearing in the district court. The case has been scheduled for 21-23 April 2020. This store had annual sales of NOK 47 million in 2019 and the lease expires in 2020. A closure would cost Europris lost sales and one-off expenses related to the closure and termination of the lease. Total costs in the event of a closure are expected to be in the NOK 5-8 million range.

### Status of the new central warehouse

During the first half of 2019, Europris moved into the new central warehouse in Moss and commenced operations from the low-bay area. The upcoming milestone for the new warehouse project is automation of the high-bay area, which will significantly increase warehouse capacity. Testing the equipment was completed in the fourth quarter with a site acceptance test which yielded good results. The project is progressing as planned, and operations in the high-bay area are scheduled to begin in mid-February 2020. Full operation is expected before the summer, putting Europris in a position to move out of two existing warehouses in Fredrikstad during June 2020.

The third and final milestone is the automation of goods picking in the low-bay area, which will improve efficiency. This project is progressing as planned and

is scheduled to start up in the first half of 2021. With that milestone passed, all warehouse operations will be concentrated in the new and highly efficient central warehouse in Moss. The automated shuttle solution will be delivered by the same supplier to provide automation for the high-bay area.

The period from now until 2022 will be a transitional time for Europris, when some additional costs will be incurred before the savings from the new warehouse materialise. These savings are estimated at 0.75-1.25 percentage points of group revenues once all the stages have been completed and rent payments for all the old warehouses have ceased.

### Overview of estimated rent costs and non-recurring expenses in the transitional period

NOK million	2019	2020				2020	2021	2022
		Q1	Q2	Q3	Q4			
Ordinary rent	68	~17,5	~17,5	~16,5	~16,5	~68	~52	~39
Non-recurring rent	14	~3,4	~3,4	-	-	~7	~13	~5
Non-recurring moving expenses	5	~2	~1,1	~1,2	-	~4	~3-5	-

Ordinary rent relates to warehouses which Europris will operate from, while non-recurring rent relates to the outstanding duration of leases for vacated warehouses. Non-recurring rent in 2021 and 2022 may be reduced if the premises are sub-let. Owing to the current inventory position, Europris extended rent payments during the second quarter for part of the premises in Fredrikstad until 30 June 2020. These costs are included as non-recurring rent in the table above. In addition to the non-recurring rent, Europris will have some extra operational costs in 2020 related to both new and old central warehouses.

### Overview of estimated investments

NOK million	2019	2020				2020	2021	2022
		Q1	Q2	Q3	Q4			
IT, office equip, and other CAPEX	28	~6,0	-	~0,8	-	~7	-	-
Automation, high-bay (lease)	52	~59,4	-	-	-	~59	-	-
Automation, LOW-bay (CAPEX)	65	-	~17,3	~23,0	~11,5	~52	-	-



## Progress for the sourcing partnership with ÖoB

On 18 June 2018, Europris announced the acquisition of a 20 per cent equity stake in Swedish discount variety retailer ÖoB. The transaction created a partnership with an aim of driving growth and profitability. Both companies expect to attain significant synergies from joint sourcing and concept development. Furthermore, the companies expect to benefit from complementary management resources, know-how, and sharing of cost and best-practice experience in developing e-commerce, e-crm and automation solutions.

The joint sourcing commenced immediately and, together with Tokmanni in Finland, the companies now represent a pan-Nordic discount variety retail platform of significant scale with annual retail sales of approximately NOK 18 billion.

At the start of the new partnership, Europris and ÖoB expected to realise annual sourcing synergies in the range of NOK 60-80 million on a combined basis. Lead times on sourcing are generally long, especially from the Far East, and the initial synergies were expected to materialise in late 2019 and take full effect in the years thereafter. After one and a half years of cooperation, the estimated savings have been verified. Cooperation between the purchasing departments works well, and savings have been realised both in Nordic procurement and in purchases from the Far East. The savings have been achieved by leveraging the companies' volumes and by joint development of new private label products.

The companies realised savings of NOK 16 million in 2019, with one-third accruing to Europris. Savings realised in 2020 are expected to be around NOK 40 million, and the full effect is expected in 2022 with savings of around NOK 80 million evenly distributed between the two companies. Synergies will partly be re-invested to ensure a competitive market position and to fulfil the price strategy.

## Status of the ÖoB equity transaction

Europris completed its acquisition of a 20 per cent equity stake in ÖoB on 13 December 2019, with payment in Europris shares. As part of the agreement with ÖoB, Europris holds an option to acquire the remaining 80 per cent of ÖoB shares in 2020. The structure permits a de-risking of the total purchase price paid for ÖoB in relation to the company's performance, while also allowing a

period for the current owners of ÖoB to improve performance. The option may be exercised within six months after agreement on ÖoB's 2019 EBITDA.

Pricing in both stages is based on an EV/ EBITDA multiple of 7.7, adjusted for net debt and average net working capital. The multiple was applied to ÖoB's 2018 EBITDA for the initial 20 per cent equity stake, and the average EBITDA for 2019 and 2020 will apply for the remaining 80 per cent equity stake. Payment is made in the form of shares in Europris ASA, with their number calculated as a function of a volume-weighted average price for a defined period prior to completion. For the purpose of exercising the option in 2020, EBITDA for 2019 will be used. An adjustment will be made in 2021, depending on the company's actual performance in 2020.

Settlement of the first 20 per cent stake at a value of NOK 115 million was based on an ÖoB equity value of NOK 574 million. On the basis of the calculated volume-weighted average price of NOK 26.48 per share in Europris, the group delivered 4,349,695 shares held in treasury (corresponding to 2.61 per cent of the share capital) to the sellers of ÖoB as consideration for the stake. The shares were acquired in the market at a volume-weighted average price of NOK 22.46 per share, representing a total cost price for the shares of NOK 98 million.

## ÖoB operational and financial review

ÖoB initiated a strategic turnaround in 2017 to improve financial performance. Under new management, a 30 per cent headcount reduction at head office was completed in 2017 and unprofitable stores were exited. At the same time, a clearly defined strategy of store modernisation and a rebalancing of the range was initiated.

The turnaround has taken longer than planned and results have so far failed to meet initial expectations. A change of management took place in 2019, with CEO Fredrik Söderberg resigning and chair Oskar Svensson assuming the role of executive chair. Magnus Carlsson has been recruited as the new CEO and will join ÖoB on 1 March 2020. He is currently CEO of Reitan Convenience Sweden AB.

Attention in 2019 has concentrated on strengthening the company's position in the most important seasons and on changing the product

mix from groceries to more non-food products with a higher gross margin. Initial results have been positive, with the company gaining a clearer seasonal profile and non-food has increased its share of total sales. While ÖoB is working to improve its offering and concept, EBITDA has remained below expectations.

*Key figures for ÖoB\* (preliminary and unaudited)*

	2017	2018	2019
SEK million			
Revenue	3,924	3,974	4,022
Adjusted EBITDA	85	108	75
Number of stores at 31 Dec	93	93	94
Sales growth	(2.3%)	1.0%	1.2%
Adjusted EBITDA margin	2.2%	2.7%	1.9%

*\*Excluding nonrecurring items and IFRS 16 effects.*

Over the past few years, ÖoB has refurbished eight stores into a 2.0 concept to underpin its strategy of increasing the share of non-food sales and building a seasonal position. These stores have delivered above-average sales growth.

One new store was opened in 2019, at Märsta outside Stockholm. This is a concept store where ÖoB tests new elements to substantiate the strategic shift towards a larger share of non-food sales and thereby an increased gross margin. Results so far are very positive, and the store is delivering a significantly better gross margin than the rest of the chain, driven by non-food categories and a basket value well above average.

ÖoB is working on an update of its strategic plan, and attention in 2020 will be concentrated on creating a new master layout for the stores based on experience from the new Märsta unit and the 2.0 concept outlets. Combined with this, the company will work more on sharing best practice across its store base in order to simplify and streamline operations, and will continue to develop the seasonal concept. ÖoB will also seek to upgrade its marketing and increase its digital presence while continuing good work with its customer club.

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## Profit and loss – fourth quarter

**Group revenue** in the fourth quarter amounted to NOK 1,899 million (NOK 1,839 million), up by 3.3 per cent. Drivers behind revenue growth were the 1.1 per cent increase in the chain's like-for-like sales as well as new store openings and franchise takeovers.

**Gross profit** for the group was NOK 857 million (NOK 798 million). The gross margin was 45.1 per cent (43.4 per cent). The increased margin reflected adjustments to campaign pressure and tight control on realising seasonal goods, together with a positive contribution from sourcing initiatives.

The group implemented the new IFRS 16 Leases with effect from 1 January 2019. Figures for the year before have not been adjusted and are therefore not fully comparable with those presented for 2019. The items affected in the profit and loss statement are operating expenses, depreciation and interest expenses.

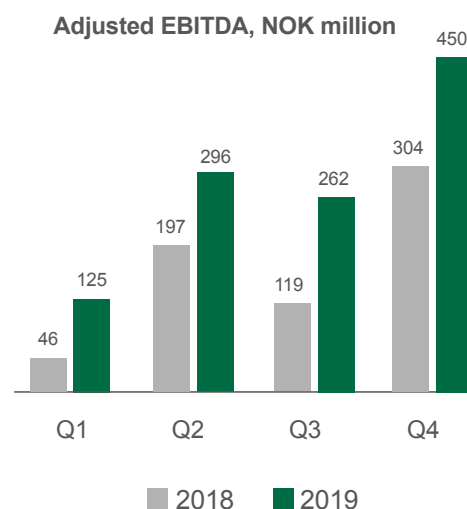
**Operating expenditure (Opex), excluding non-recurring items**, was NOK 407 million in the fourth quarter. Rent costs of NOK 120 million have been reclassified, partly as depreciation and partly as interest expense. Adjusted for the IFRS 16 effect, Opex came to NOK 528 (NOK 495 million), an increase of 6.7 per cent.

Opex was affected by the increase in the number of directly operated stores from 221 to 231, up 4.5 per cent. Europris took over the new central warehouse in Moss during May and rent costs related to these premises amounted to NOK 6 million for the quarter. Extra cost related to operating out of several warehouse premises accrued during the quarter.

Opex amounted to 21.4 per cent of group revenue. Adjusted for the IFRS 16 effect, the Opex ratio was 27.8 per cent (26.9 per cent).

Non-recurring items came to NOK 6 million in the quarter, with NOK 2 million related to rent for vacated warehouses and NOK 4 million accrued for estimated exit costs.

**Adjusted EBITDA** was NOK 450 million. Excluding the IFRS 16 effect, it amounted to NOK 330 million (NOK 304 million) and was up by NOK 26 million or 8.5 per cent.



**Adjusted profit before tax** came to NOK 276 million (NOK 286 million), a decrease of NOK 10 million.

Depreciation increased by NOK 109 million, with NOK 111 million related to IFRS 16.

Net financial expense rose by NOK 10 million, with NOK 13 million reflecting the IFRS 16 effect.

The group recognised a net unrealised currency loss of NOK 19 million on hedging contracts and accounts payable (net currency gain of NOK 17 million). Compared with 2018, unrealised currency loss thereby constituted an additional cost of NOK 36 million.

The group recorded an estimated profit of NOK 4 million (NOK 6.4 million) from its 20 per cent stake in Runsvengruppen AB (ÖöB). This is based on preliminary and non-audited figures from the associated company.

**Adjusted net profit** for the fourth quarter of 2019 was NOK 217 million (NOK 224 million).

## Profit and loss – full year (1 January-31 December)

**Group revenue** for 2019 amounted to NOK 6,234 million (NOK 5,817 million), up by 7.2 per cent. Key drivers for revenue growth were the 4.4 per cent increase in the chain's like-for-like sales as well as new store openings and franchise takeovers.



**Gross profit** for the group was NOK 2,711 million (NOK 2,507 million). The gross margin was 43.5 per cent, compared with 43.1 per cent for 2018.

**Opex excluding non-recurring items** came to NOK 1,578 million. Adjusted for the IFRS 16 effect, Opex was NOK 2,028 million (NOK 1,841 million). This represented an increase of 10.1 per cent from the year before. Operating expenses were 32.5 per cent (31.6 per cent) of group revenue. Opex was affected by the increase from 221 to 231 directly operated stores. In addition, logistical costs rose by NOK 51 million owing to the high fill rate at the central warehouse, of which NOK 46 million was booked in the first half of 2019.

**Adjusted EBITDA** was NOK 1,133 million. Excluding the IFRS 16 effect, it amounted to NOK 684 million (NOK 666 million), up by NOK 18 million. The adjusted EBITDA margin was 11 per cent (11.5 per cent).

Net financial expense rose by NOK 57 million, with NOK 47 million reflecting the IFRS 16 effect.

The group recognised a net unrealised currency loss of NOK 20 million on hedging contracts and accounts payable (net currency gain of NOK 11 million).

**Adjusted net profit** for the full year was NOK 390 million (NOK 429 million).

## Cash flow

**Net change in working capital** for 2019 was positive at NOK 161 million (negative at NOK 169 million). The underlying development in net working capital was affected by an increase in accounts payable owing to the maturity of payments. Net working capital in 2018 was affected by a rise in inventory levels, mainly at the central warehouse.

**Capital expenditure** was NOK 157 million (NOK 79 million). The increase from the year before reflected investment in the new central warehouse, both ordinary warehouse equipment and automation for the low-bay area. Equipment for the new head office was also acquired during 2019.

## Financial position and liquidity

**Financial debt** at 31 December 2019 was NOK 3,660 million. Adjusted for the IFRS 16 effect, financial liabilities amounted to NOK 1,656 million (NOK 1,649 million).

The group's bank borrowings of NOK 1,642 million have been reclassified from non-current to current. This reflects the fact that the five-year term-loan facility matures in May 2020. The group signed a new loan agreement in December and the refinancing was in place in January 2020. The new loan agreement is a three-year term loan and revolving credit facility agreement with options for one plus one year. The new loan is syndicated through three credit institutions: DNB Bank, Danske Bank and Nordea. Group interest costs under the new agreement will be higher and amount to approximately NOK 15 million per year in addition to changes in the floating interest rates.

**Net debt** at 31 December 2019 was NOK 3,092 million. Adjusted for the IFRS 16 effect, net financial liabilities were NOK 1,088 million (NOK 1,223 million).

**Cash and liquidity reserves** for the group at 31 December 2019 amounted to NOK 1,005 million (NOK 856 million).

## Dividend

The board of Europris ASA will propose an ordinary dividend for 2019 of NOK 1.95 per share to the general meeting. This represents a 5.4 per cent increase from the ordinary dividend of NOK 1.85 for 2018. The proposed dividend amounts to a total of NOK 326 million for all the shares.

## Changes to the executive management team

It was announced on 7 January 2020 that Pål Wibe had tendered his resignation as CEO to the board of Europris ASA in order to become the new CEO of XXL ASA. Wibe has been the CEO of Europris since 24 March 2014.



The board has initiated a search to find a appropriate replacement. In the meantime, Wibe will continue to perform his duties along with the experienced Europris management team.

## Outlook

Europris is to be the first choice for anyone who wants to shop intelligently, conveniently, on a large scale and at a low price. In a changing and increasingly challenging retail market, discount variety is thriving and Europris is Norway's leader in this sector with 100-per-cent brand recognition as well as leadership on price perception. The group is positioned with ample opportunities to continue its growth journey.

Europris' key strategic priority areas are:

- strengthen the price and cost position
- improve the customer experience
- drive customer growth.

Europris has strengthened its competitive position in the challenging and changing retail landscape through its Nordic partnership with ÖoB and Tokmanni. Moving operations to a single highly-automated warehouse will also strengthen its overall

cost position. That will increase the group's purchasing power and support its low-cost profile.

The group is positioned as an omnichannel retailer with its e-commerce platform. Online shopping serves as both a channel for new sales and a tool for driving traffic to the physical stores. While the latter will continue to be the main sales channel for the foreseeable future, e-commerce will enable Europris to expand its product offering, provide access to new customer groups and increase visibility through a new channel.

Europris continues to have a healthy pipeline of new stores. The board has approved an additional five for 2020 and beyond, of which two are subject to planning permission. The first new store opening of 2020 is scheduled for the end of March 2020. Six new stores were opened in 2019. The group agreed to take over two franchise stores on 1 January 2020, and an additional two-three takeovers are expected for 2020.

The long-term financial and operational ambitions of Europris remain unchanged.

Moss, 29 January 2020

THE BOARD OF DIRECTORS OF EUROPRIS ASA

# EUROPRIS ASA

## Q4-2019



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS



Figures are stated in NOK 1,000		Notes	Q4 2019	Q4 2018	FY 2019	FY 2018
			Unaudited	Unaudited	Unaudited	Audited
<b>Total operating income (group revenue)</b>			<b>1,898,981</b>	<b>1,838,679</b>	<b>6,234,389</b>	<b>5,816,984</b>
Cost of goods sold (COGS)			1,060,205	1,023,488	3,543,730	3,298,296
Employee benefits expense			269,746	250,024	985,347	898,504
Depreciation		5	134,330	25,231	515,673	90,743
Other operating expenses			143,500	244,689	611,057	942,369
<b>Operating profit</b>			<b>291,199</b>	<b>295,247</b>	<b>578,582</b>	<b>587,073</b>
<b>Net financial income (expense)</b>			<b>(25,608)</b>	<b>(15,957)</b>	<b>(98,172)</b>	<b>(40,942)</b>
Profit/loss from associated companies		7	4,000	6,400	-	6,400
<b>Profit before tax</b>			<b>269,592</b>	<b>285,690</b>	<b>480,410</b>	<b>552,531</b>
Income tax expense			58,430	62,052	105,690	123,400
<b>Profit for the period</b>			<b>211,784</b>	<b>223,638</b>	<b>375,342</b>	<b>429,132</b>
Attributable to the equity holders of the parent			211,784	223,638	375,342	429,132
<b>Interim condensed consolidated statement of comprehensive income</b>						
Profit for the period			211,784	223,638	375,342	429,132
<b>Total comprehensive income</b>			<b>211,784</b>	<b>223,638</b>	<b>375,342</b>	<b>429,132</b>
Attributable to the equity holders of the parent			211,784	223,638	375,342	429,132

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 Dec 2019	31 Dec 2018
			Unaudited	Audited
<b>ASSETS</b>				
Total intangible assets	5		2,044,669	2,040,688
Total fixed assets	1,5		2,743,235	262,063
Total financial assets	6,7		151,266	166,952
<b>Total non-current assets</b>			<b>4,939,170</b>	<b>2,469,702</b>
Inventories			1,550,331	1,573,233
Trade receivables			181,774	185,712
Other receivables	6		76,417	101,722
Cash			568,036	426,967
<b>Total current assets</b>			<b>2,376,558</b>	<b>2,287,634</b>
<b>Total assets</b>			<b>7,315,728</b>	<b>4,757,337</b>
<b>EQUITY AND LIABILITIES</b>				
Total paid-in capital	8		234,946	213,251
Total retained equity			1,742,829	1,575,677
<b>Total shareholders' equity</b>			<b>1,977,776</b>	<b>1,788,928</b>
Provisions			31,771	45,146
Borrowings	6		14,280	1,649,428
Lease liabilities	1,6		2,003,993	-
<b>Total non-current liabilities</b>			<b>2,050,044</b>	<b>1,694,574</b>
Borrowings	6		1,642,007	-
Current lease liabilities	1,6		414,088	-
Accounts payable			616,769	553,643
Tax payable			116,500	124,140
Public duties payable			243,072	251,540
Other current liabilities	6,7		255,472	344,512
<b>Total current liabilities</b>			<b>3,287,908</b>	<b>1,273,835</b>
<b>Total liabilities</b>			<b>5,337,952</b>	<b>2,968,409</b>
<b>Total equity and liabilities</b>			<b>7,315,728</b>	<b>4,757,337</b>

Fredrikstad, 29 January 2020

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	Treasury shares	Share premium	Other paid-in capital	Retained earnings	Total equity
<b>At 1 January 2019</b>	<b>166,969</b>	<b>(5,370)</b>	<b>51,652</b>	<b>-</b>	<b>1,575,677</b>	<b>1,788,928</b>
Profit for the period	-	-	-	-	375,342	375,342
Dividend	-	-	-	-	(298,717)	(298,717)
Net purchase/sale of treasury shares	-	4,220	-	17,475	90,527	112,222
Other comprehensive income	-	-	-	-	-	-
<b>At 31 December 2019</b>	<b>166,969</b>	<b>(1,150)</b>	<b>51,652</b>	<b>17,475</b>	<b>1,742,829</b>	<b>1,977,776</b>

(unaudited)

## Attributed to equity holders of the parent

	Share capital	Treasury shares	Share premium	Other paid-in capital	Retained earnings	Total equity
<b>At 1 January 2018</b>	<b>166,969</b>	<b>-</b>	<b>335,499</b>	<b>-</b>	<b>1,261,765</b>	<b>1,764,233</b>
Profit for the period	-	-	-	-	429,132	429,132
Dividend	-	-	(283,847)	-	-	(283,847)
Net purchase/sale of treasury shares	-	(5,370)	-	-	(115,220)	(120,590)
Other comprehensive income	-	-	-	-	-	-
<b>At 31 December 2018</b>	<b>166,969</b>	<b>(5,370)</b>	<b>51,652</b>	<b>-</b>	<b>1,575,677</b>	<b>1,788,928</b>

(audited)

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	Q4 2019	Q4 2018	FY 2019	FY 2018
		Unaudited	Unaudited	Unaudited	Audited
<b>Cash flows from operating activities</b>					
Profit before income tax		269,592	285,690	480,410	552,531
Adjusted for:					
Depreciation of fixed and intangible assets	5	134,330	25,231	515,673	90,743
Profit/loss from associated companies		(4,000)	(6,400)	-	(6,400)
Changes in net working capital		339,183	130,989	160,601	(169,407)
Income tax paid		(12,237)	(1,892)	(124,173)	(117,069)
<b>Net cash generated from operating activities</b>		<b>726,868</b>	<b>433,618</b>	<b>1,032,511</b>	<b>350,398</b>
<b>Cash flows from investing activities</b>					
Purchases of fixed and intangible assets	5	(58,137)	(17,904)	(157,029)	(79,152)
Acquisition		(3,226)	(3,499)	(2,711)	(12,875)
<b>Net cash used in investing activities</b>		<b>(61,363)</b>	<b>(21,404)</b>	<b>(159,740)</b>	<b>(92,027)</b>
<b>Cash flows from financing activities</b>					
Repayment of debt to financial institutions		(832)	(498)	(6,840)	(8,629)
Changes in lease liabilities IFRS 16		(123,861)	-	(423,169)	-
Dividend		-	-	(298,717)	(283,847)
Buy-back of treasury shares		-	(77,317)	(2,975)	(120,590)
<b>Net cash from financing activities</b>		<b>(124,693)</b>	<b>(77,815)</b>	<b>(731,702)</b>	<b>(413,067)</b>
Net increase/(decrease) in cash		540,812	334,399	141,069	(154,696)
Cash at beginning of period		27,224	92,569	426,967	581,663
<b>Cash at end of period</b>		<b>568,036</b>	<b>426,967</b>	<b>568,036</b>	<b>426,967</b>

The IFRS 16 implementation has no cash effects but, in the consolidated statement of cash flows, the part of the lease payment which is classified as repayment of loans will be reclassified from operating to financing activities.

# NOTES



## Note 1 Corporate information

The interim condensed consolidated financial statements of Europris ASA and its subsidiaries (collectively, the group) for the fourth quarter and the period ended 31 December 2019 were authorised for issue by the board on 29 January 2020.

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 fourth quarter and the period ended 31 December 2019 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 2018.

### New standards, interpretations and amendments adopted by the group

The accounting policies adopted in preparing 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 2018, except for the new IFRS 16 Leases standard which has been implemented with effect from 1 January 2019.

IFRS 16 Leases specifies how to recognise, measure, present and disclose leases. It will result in almost all leases being recognised on the balance sheet, since the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rent are recognised. The only exception is short-term and low-value leases. Europris has chosen to adopt this exception.

Extension options in the lease contracts are not included in the IFRS 16 calculation as it is not considered reasonably certain that the options will be exercised. Contracts are mainly renegotiated to secure better terms, in the form of both shorter duration and lower rent.

The group has implemented the standard by applying the modified retrospective approach and has not restated comparative amounts for the year before first adoption.

The Europris group holds a significant number of leases, and IFRS 16 will have a significant effect on the consolidated financial statements. This will be negative for the equity ratio, which has been reduced from 37.6 per cent to 26.5 per cent.

## IFRS 16 implementation effects 1 January 2019:

Figures are stated in NOK 1,000

	1 January 2019
<b>ASSETS</b>	
Right-of-use asset	1,988,873
<b>Total assets increase</b>	<b>1,988,873</b>
<b>EQUITY AND LIABILITIES</b>	
Lease liabilities	1,594,553
Current lease liabilities	394,320
<b>Total liabilities increase</b>	<b>1,988,873</b>

At the date of implementation, 1 January 2019, lease obligations are measured at the present value of future lease payments. Lease payments are discounted using the incremental borrowing rate as the implicit interest rate of the lease cannot be easily determined. Interest rates used when calculating the implementation effect are as follows:

Duration	Interest rate
1-3 years	2.15%
3-5 years	2.49%
5-10 years	3.11%
Over 10 years	3.62%

## Specifications of changes in the period from 1 January to 31 December 2019:

Figures are stated in NOK 1,000

	1 January 2019	△	31 December 2019
<b>ASSETS</b>			
Right-of-use asset	1,988,873	416,000	2,404,873
Depreciation		(416,109)	
Additions/disposals		832,109	
<b>EQUITY AND LIABILITIES</b>			
Lease liabilities	1,594,553	409,440	2,003,993
Changes in lease liabilities		(402,901)	
Additions/disposals		812,341	
Current lease liabilities	394,320	19,768	414,088
Additions/disposals		19,768	

Further details of the IFRS 16 effects on the financial statement can be found on page 5 Alternative performance measures.

### 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 2018.

### 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 achievements, 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	Land	Right-of-use asset	Software	Trademarks	Goodwill	Total
Carrying amount 1 January 2019	238,323	23,739	1,988,873	47,167	387,573	1,605,947	4,291,624
Acquisition of subsidiaries	2,183	-	26,154	-	-	5,450	33,786
Additions	151,604	1,227	805,955	19,381	-	-	978,166
Disposals	-	-	-	-	-	-	-
Depreciation	(78,715)	-	(416,109)	(20,849)	-	-	(515,673)
<b>Carrying amount 31 December 2019</b>	<b>313,396</b>	<b>24,966</b>	<b>2,404,873</b>	<b>45,699</b>	<b>387,573</b>	<b>1,611,397</b>	<b>4,787,904</b>

	Fixtures and fittings	Land	Right-of-use asset	Software	Trademarks	Goodwill	Total
Carrying amount 1 January 2018	252,060	20,481	-	42,617	387,573	1,599,106	2,301,837
Acquisition of subsidiaries	5,470	-	-	-	-	6,841	12,311
Additions	53,644	3,258	-	22,443	-	-	79,345
Disposals	-	-	-	-	-	-	-
Depreciation	(72,850)	-	-	(17,893)	-	-	(90 743)
<b>Carrying amount 31 December 2018</b>	<b>238,323</b>	<b>23,739</b>	<b>-</b>	<b>47,167</b>	<b>387,573</b>	<b>1,605,947</b>	<b>2,302,749</b>

## 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 December 2019 and 31 December 2018:

Figures are stated in NOK 1,000

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
<b>Loans and receivables</b>				
Non-current receivables	24,400	24,400	24,073	24,073
<b>Total</b>	<b>24,400</b>	<b>24,400</b>	<b>24,073</b>	<b>24,073</b>
<b>Financial liabilities</b>				
<b>Other financial liabilities</b>				
Borrowings	1,656,287	1,656,287	1,649,428	1,649,428
Lease liabilities	2,003,993	2,003,993	-	-
Current lease liabilities	414,088	414,088	-	-
<b>Total</b>	<b>4,074,368</b>	<b>4,074,368</b>	<b>1,649,428</b>	<b>1,649,428</b>
<b>Financial instruments measured at fair value through profit and loss</b>				
<b>Derivatives - asset</b>				
Interest rate swaps	605	605	237	237
Foreign exchange forward contracts	-	-	13,829	13,829
<b>Total</b>	<b>605</b>	<b>605</b>	<b>14,066</b>	<b>14,066</b>
<b>Derivatives - liabilities</b>				
Foreign exchange forward contracts	13,409	13,409	-	-
<b>Total</b>	<b>13,409</b>	<b>13,409</b>	<b>-</b>	<b>-</b>

## 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.



## Note 7 Investment in associated company

In June 2018, the group acquired 20 per cent of Runsvengruppen AB (ÖoB), a Swedish discount variety retailer. ÖoB has its headquarters in Skänninge and runs 94 stores across Sweden.

The Europris group owns 20 per cent of the shares and voting rights in Runsvengruppen AS.

Based on equity value, using a fixed multiple of 7.7 on adjusted EBITDA for ÖoB in 2018, the purchase price was settled to NOK 115.2 million. NOK 4.3 million in transaction expenses has also been recognised as part of the acquisition cost, bringing the total investment to NOK 119.5 million.

The vendor note issued when closing the deal is converted to 4,349,695 Europris shares, corresponding to 2.61 per cent of the share capital.

## Note 8 Treasury shares

The number of treasury shares held by Europris ASA changed as follows in the period from 1 January to 31 December 2019.

### Change in number of treasury shares:

Treasury shares 1 January 2019	5,370,000
Buy-back of treasury shares	130,000
Sale of treasury shares	4,349,695
<b>Treasury shares 31 December 2019</b>	<b>1,150,305</b>

Average cost price for treasury shares are NOK 22.47.

Average selling price for treasury shares are NOK 26.48.

## 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.



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 non-recurring expenses.
- **Adjusted profit before tax** is profit before tax adjusted for non-recurring 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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