



XXL
ALL SPORTS UNITED

XXL ASA – Q2 2018

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This presentation was prepared for the interim results presentation for the second quarter 2018, held on 20 July 2018. Information contained herein will not be updated. The following slides should also be read and considered in connection with the information given orally during the presentation.

Highlights Q2 2018

- Revenue growth of 14%
 - Like for like growth of 3.8%
- E-commerce growth of 38%
- Three new store openings
- Capturing growth with many campaigns – margins under pressure
 - Gross margin from 40.1% in Q2 17 to 38.5% in Q2 18
 - EBITDA-margin from 10.3% in Q2 17 to 7.9% in Q2 18
- Cost control
 - OPEX% adjusted for establishing Austria of 29.7% in Q2 18 vs. 29.5% in Q2 17
 - Costs of opening new stores in Norway and higher housing costs in Finland
 - Both Sweden and especially Denmark improved cost position
- E-commerce now 15.0% of Group sales compared to 12.4% in Q2 17
 - Introduced new media system
 - Improved personalized landing pages on site
 - Segmented newsletters in place and increasing in scope
- New omni-channel solutions performing well
- Scaling on the existing backbone infrastructure in the Group
 - Introduced new online sales site – louds.no
 - Signed new sports teams on our pure online based service



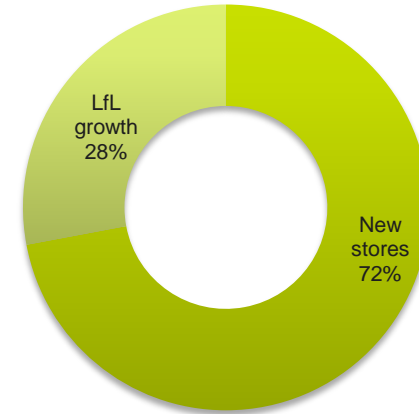
Growth drivers in the quarter

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Growth drivers
(Amounts in MNOK)



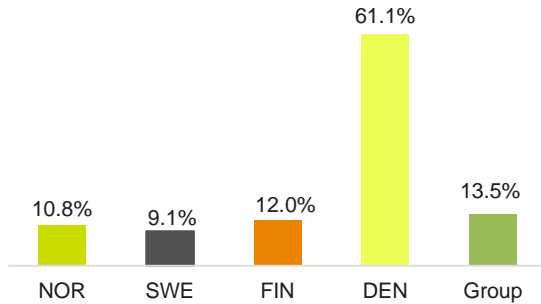
Share of growth



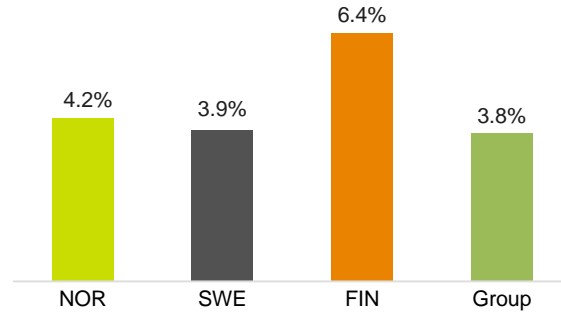
Growth split by markets

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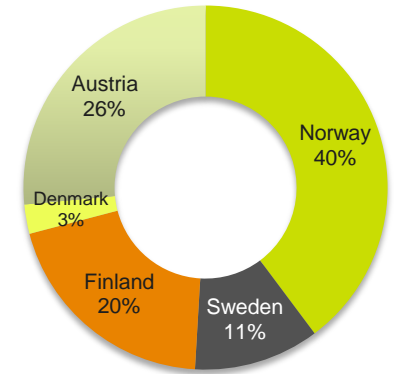
Growth by segments
(Local currency)



Like for like growth
(Local currency)



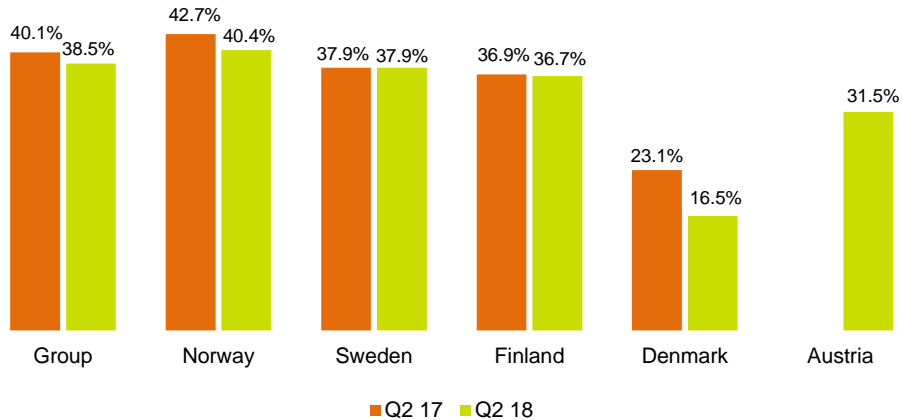
Share of growth by geography



Gross margin development

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Gross margins

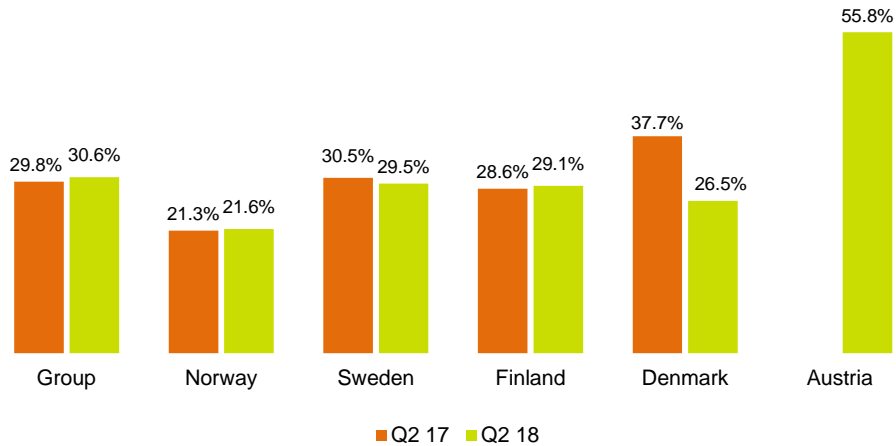


- Aggressive campaigns to drive volume
- Downsizing of the inventory level impacting the gross margin negatively
 - Lower amount of supplier volume bonuses
- Norway and Denmark with lower gross margins, stable in Sweden and Finland
- Start-up in Austria with low margins
- High growth from E-commerce at lower gross margins
- Group gross margin declined by 1.6 points YoY

OPEX development

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OPEX%

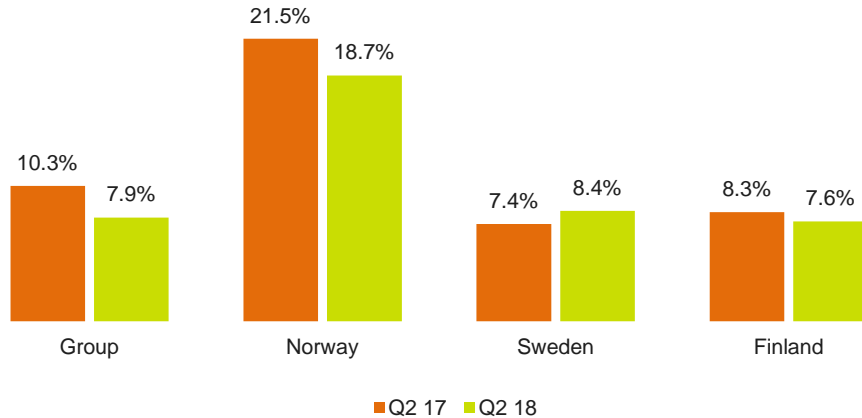


- Group OPEX% up by 0.8 points to 30.6% YoY
 - Costs of establishing Austria
 - New store openings
 - Higher housing costs in Finland
- OPEX% of 29.7% excluding Austria
- Improved store operations in Sweden
- Volume and scale in Denmark

EBITDA development

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EBITDA-margins



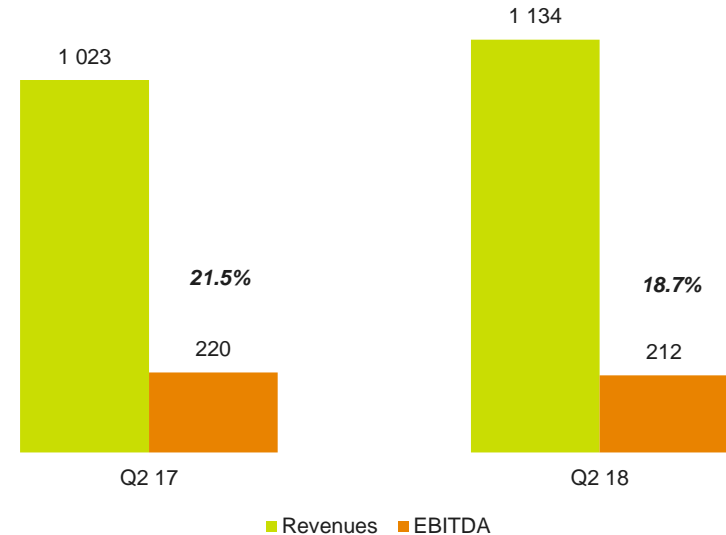
- EBITDA of NOK 185 million
- Costs of establishing operations in Austria
 - NOK 203 million and an EBITDA-margin of 9.0% when excluding Austria
- Lower EBITDA in Norway due to significantly lower gross margins
- Improvement in Sweden

Norway – Aggressive campaigns hurt margins

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- 11% revenue growth YoY
- Like for like growth of 4.2%
- Opened two new stores
 - Bryne on 12 April 2018 and Gjøvik on 21 June 2018
 - All stores established so far in 2018 will yield significantly lower sales than average sales per store
- Challenging retail market and season
- Gross margin decreased from 42.7% in Q2 17 to 40.4% in Q2 18
 - Aggressive campaigns to capture volumes and secure growth
 - Campaigns in all stores and E-commerce when opening new stores
 - Downsizing of inventory
- EBITDA-margin declined to 18.7%
 - Gross margin reductions
 - Costs of opening two new stores

Amounts in MNOK

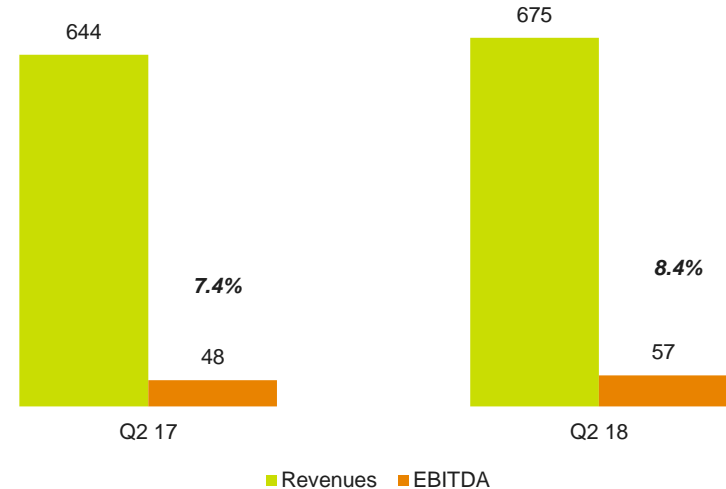


Sweden – Improved operations

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- Revenue growth of 9% YoY in local currency
- Like for like growth of 3.9% in local currency
- Opened a new store – Halmstad on 26 June 2018
- Still a volatile market with a lot of discounts from many players
- Stable gross margins of 37.9% YoY
- OPEX% improved with 1.0 points to 29.5%
 - Better store operations and cost focus
 - Costs of opening three stores in Q2 last year
- EBITDA of NOK 57 million and a margin of 8.4%

Amounts in MNOK

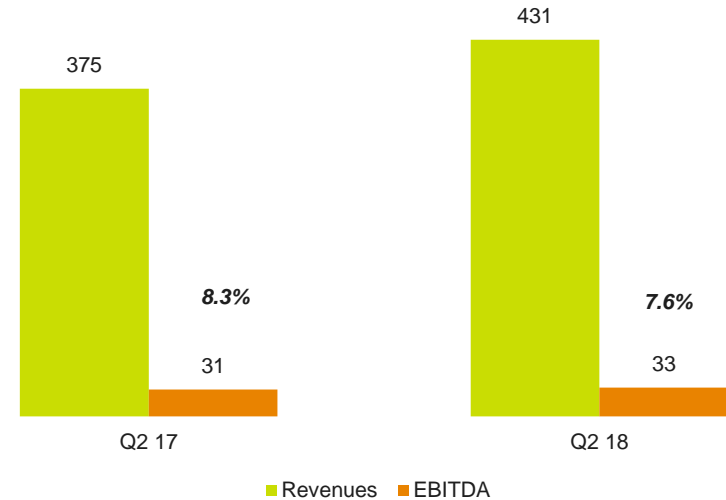


Finland – Driving the market

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- 12% revenue growth YoY in local currency
- Like for like growth of 6.4% in local currency
- Gross margin declined by 0.2 points to 36.7%
- OPEX up 0.5 points YoY to 29.1%
 - Higher housings costs due to expiry of period with discounts on several lease agreements
- EBITDA of NOK 33 million and a margin of 7.6%

Amounts in MNOK

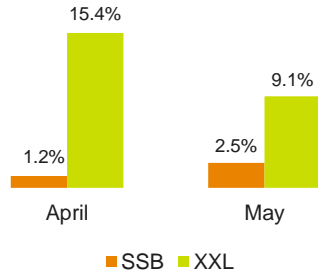


Market data

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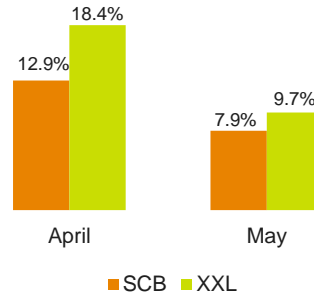
Norway

SSB vs. XXL monthly growth (YoY)



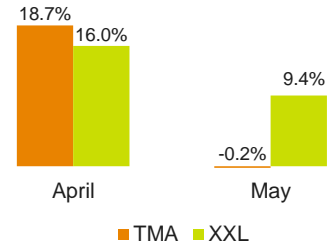
Sweden

SCB vs. XXL monthly growth (YoY)



Finland

TMA vs. XXL monthly growth (YoY)



- Figures for June expected to show a challenging month



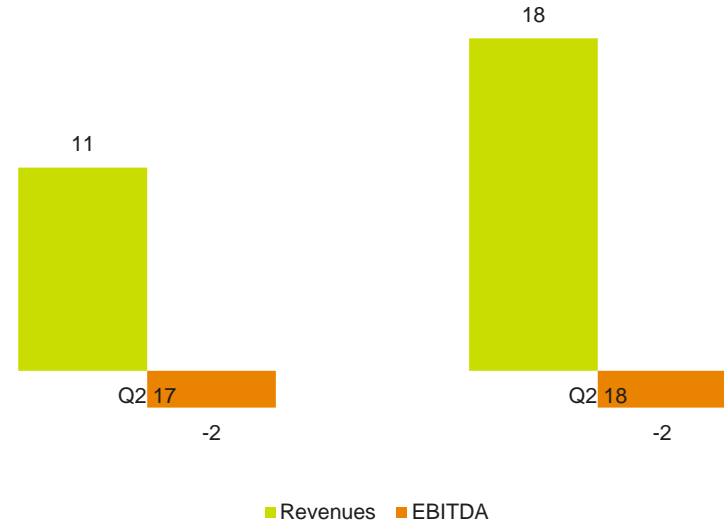
XXL gaining market shares in all markets

Denmark – Solid growth

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- Revenue growth of 61% YoY in local currency
- More aggressive campaigns to take volume
 - Gross margin declined from 23.1% to 16.5% YoY
 - High share of freight and return costs
- OPEX% improved from 37.7% in Q2 17 to 26.5% in Q2 18
 - Negative EBITDA of NOK 2 million
- XXL has a competitive business model
- Denmark has delivered according to plan and is soon on target to reach break-even figures on EBITDA
- Utilizing the existing infrastructure in the Group has proved successful

Amounts in MNOK



Austria – Increasing perception in the market

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- Still in the early establishing phase
 - Three stores and E-commerce
 - Opened first store in August 2017
- Revenues of NOK 74 million in Q2 18
 - Equals 26% of the growth contribution to the Group this quarter
- Investing through aggressive campaigns
 - Gross margin of 31.5%
- OPEX of NOK 41 million
 - High marketing spending when ramping up in two large cities and limited immediate synergies
 - Centralized organization in Austria for buying and support
 - Logistics and support functions within the Group working efficiently
- Negative EBITDA of NOK 18 million
- XXL will open a store in Graz this autumn
- XXL has signed a third store in Vienna for opening in spring 2019

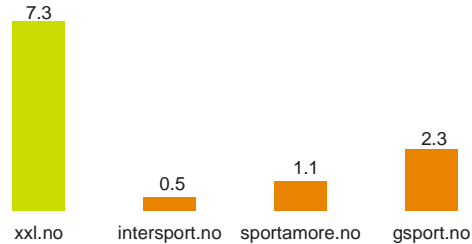


Market data – Online traffic



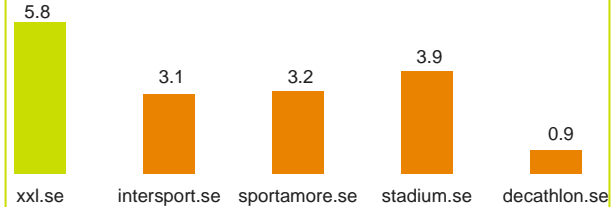
Norway

Q2 18 total visits in millions



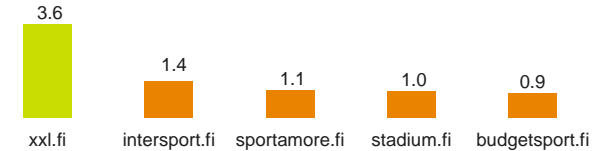
Sweden

Q2 18 total visits in millions



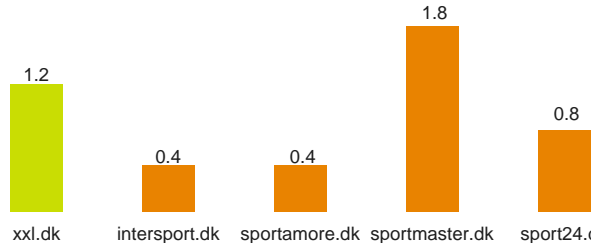
Finland

Q2 18 total visits in millions



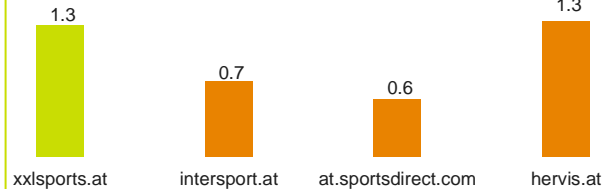
Denmark

Q2 18 total visits in millions



Austria

Q2 18 total visits in millions



XXL gaining high online traffic shares in all markets

HQ and Logistics – Investing in the backbone

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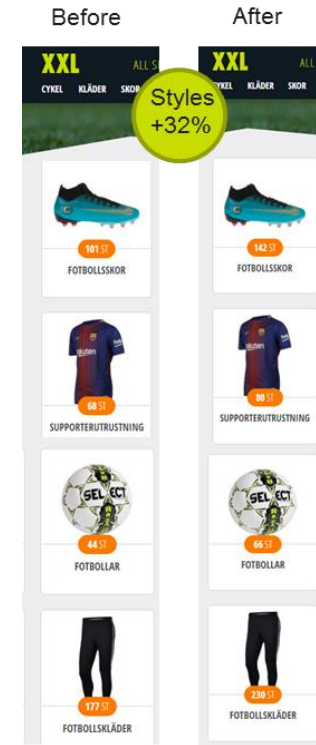
- OPEX of NOK 98 million to 4.2% of Group sales
 - NOK 79 million and 3.8% of Group sales in Q2 17
- Loss of NOK 3 million related to bankruptcy in one of our suppliers
 - Adjusted OPEX of NOK 95 million and 4.0% of Group sales
- Higher volumes and better flow of goods and handling at the central warehouses
- Several new recruitments to central functions including purchasers, technical system architects and IT-resources
- Infrastructure investments of NOK 17 million
- XXL continues to invest in the future omni-channel model



Utilizing omni-channel stock solution

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- All stock in the Group available for all customers at all platforms at all times
 - Instore stock available for sale online and vice versa
 - Instore stock available for sale in other stores
 - Cross border, cross countries
 - Now rolled out to all stores in Norway and Sweden on three categories
 - Already accounting for around 10% of total E-commerce revenues
 - Optimizing the value chain over time
 - Better inventory and local storage management
 - Algorithms control gross margins, products, price limits and prioritize which stores to be used
 - Above 50% of products sold today are products to be phased out
 - Further roll-out to Austria and Finland as well as new categories in H2 2018
- 80 physical stores also serving as warehouses in prime locations where people live – making all stock available in all channels



Scaling on existing infrastructure

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Team sales update

- Game changing model – pure online based
- Now signed up with the leading Swedish and Finnish hockey teams Djurgården and Jokerit
- Intention of signing around 30 teams in total in 2018 – teams to be signed in all markets
- 4 dedicated employees working on team sales every day
- Utilizing existing XXL infrastructure in terms of purchasing and assortment, E-commerce, logistics and support functions

Launching louds.no

- Pure online niche player addressing women athleisure market and new customer segments
- Access to new brands and trends
- Learning new marketing channels and way of addressing customers
- Testing new technical features and solutions
- Utilizing existing XXL infrastructure in terms of logistics and support functions – else not XXL



Priorities going forward

- Improving the omni-channel experience
 - Continuing to drive like for like growth
 - Opening of new stores
 - Improving the E-commerce user experience
 - Utilizing new technological opportunities
- Focusing on cost improvements
- Launching XXL in new markets





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Financial review

Income statement

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- Revenue growth of 14%
 - Like for like growth of 3.8%
 - E-commerce growth of 38%
- Solid growth in a slow retail market
- Gross margin impacted by aggressive campaigns to capture growth and by reduction in the inventory level
- The establishment of XXL in Austria and Denmark also impact the Group gross margin
- EBITDA down to NOK 185 million (NOK 211 million)
 - Lower gross margins
 - Costs related to start up in Austria
- Net financials cost of NOK 19 million
 - Net interest expenses of NOK 9 million
 - Negative currency effect of NOK 5 million
 - Other transaction and financial costs
- Estimated effective tax rate of 20%

<i>Amounts in MNOK</i>	Q2 18	Q2 17	H1 18	H2 17
Total operating revenue	2 331	2 054	4 402	3 767
Operating income	139	172	145	172
Net financials	-19	-4	-37	-13
Profit before income tax	120	168	108	159
Income tax expense	24	34	22	32
Net profit	96	135	87	127

Refinanced the existing bank facilities

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- Prolonged the arrangement with the existing bank syndicate
- Same level as earlier but at better terms
 - Term loan of NOK 1 048 million
 - Multi currency RCF of NOK 1 200 million
 - Overdraft facility of NOK 200 million
 - Seasonal facility of NOK 100 million
- 3 years maturity with an extension option of 2 years

Debt and liquidity at the end of Q2 18:

- Net interest bearing debt of NOK 1 918 million
- Available liquidity reserve of NOK 525 million
- NIBD / EBITDA of 2.4x

Term Loan	
mNOK	205
mSEK	400
mEUR	50
mNOK (30.06.18 currency)	1 048

- Term loan pushed down to Swedish, Finnish and Austrian entities
 - As previous structure
 - Converted to local currencies
 - Reduction of intercompany loans
 - Reduced effects of currency on intercompany loans
 - Advantage of lower IBOR in SEK and EUR

Cash flow

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- Improved working capital
 - Inventory per store of NOK 37.3 million compared to NOK 40.1 million in H1 18
 - But still too high and due to lower sales than expected in a difficult June
 - Moving towards target of normalization of NOK 35 million and aiming to be closer to target by Q3 2018, but will fluctuate between seasons
- Accounts payable decrease due to reduction in purchase of goods
- Investments in stores and infrastructure of NOK 135 million including five new stores so far in 2018
- Significant reduction in need for cash from financing activities due to improved working capital

Cash flow

<i>(Amounts in MNOK)</i>	H1 18	H1 17
Cash used by operating activities	-124	-204
Cash used by investing activities	-135	-137
Cash provided by financing activities	158	519
Net change in cash and cash equivalents	-101	177
Cash and cash equivalents beginning of year	314	115
Cash and cash equivalents end of period	212	292

Changes in working capital

<i>(Amounts in MNOK)</i>	H1 18	H1 17
Changes in inventory	-118	-250
Changes in accounts receivable	38	62
Changes in accounts payable	-117	-29
Other changes	-50	-117
Change in working capital	-247	-334

Outlook

- XXL has signed 7 new lease agreements for new store openings for 2018 where of 4 in Norway, 1 in Sweden and 2 in Austria. This figure includes the 5 stores that are opened by the end of Q2 2018
- Total investments in infrastructure, IT and training facilities for 2018 in the range of NOK 70-90 million
- The Group maintains the following long term objectives:
 - Like-for-like growth of mid-single digits over time
 - Gross margins: In Norway at low 40's, high 30's in Sweden and between mid and high 30's in Finland.
 - EBITDA-margins: In Norway at low 20's, in Sweden low double digits and in Finland high single digits
 - New market entries affect both Group gross margin and Group EBITDA-margin in the establishing period of 1-3 years
- No changes in the outlook for Austria



Summary

- Solid growth in a slow retail market
- Revenue growth of 14%
 - E-commerce of 38%
 - Like for like growth of 3.8%
- Capturing growth with many campaigns – margins under pressure
- Cost control
 - OPEX% adjusted for establishing Austria of 29.7% in Q2 18 vs. 29.5% in Q2 17
- E-commerce now 15% of Group sales driven by many new features on site and omni-channel solutions
- XXL is part of the ongoing transformation in retail and has many new initiatives to come





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