



XXL
ALL SPORTS UNITED

XXL ASA – Q3 2016

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This presentation was prepared for the interim results presentation for the third quarter 2016, held on 26 October 2016. 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 Q3 2016

- Revenue growth of 19%
 - Like for like growth of 4%
 - E-commerce growth of 68%
- Unseasonably warm and dry September
- Gaining market shares
- EBITDA of NOK 214 million up from NOK 201 million last year
 - Geographical mix effects
 - Increased capacity in logistics
 - Both Norway and Sweden with improved cost position
- Opened a new store in Norway



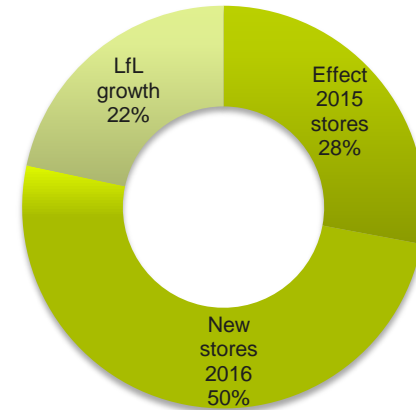
Growth drivers in the quarter

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Growth drivers
(Amounts in MNOK)



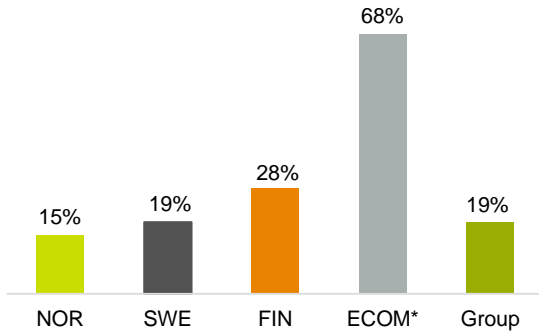
Share of growth



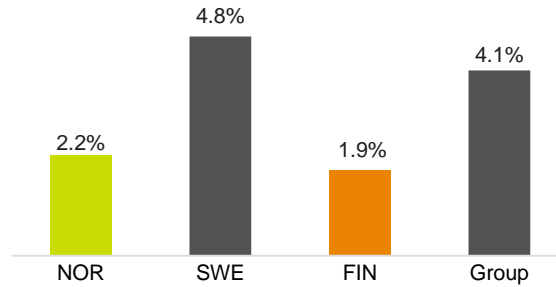
Growth split by markets

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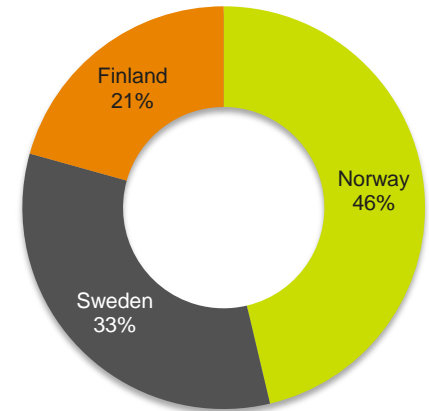
Growth by segments



Like for like growth
(Local currency)



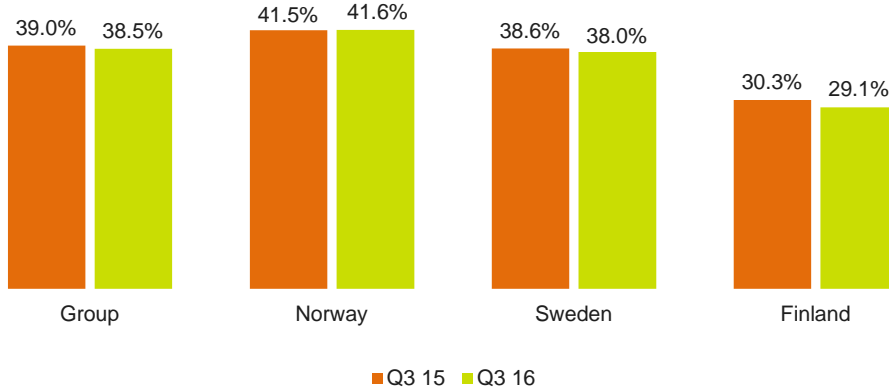
Share of growth by geography



Gross margin development

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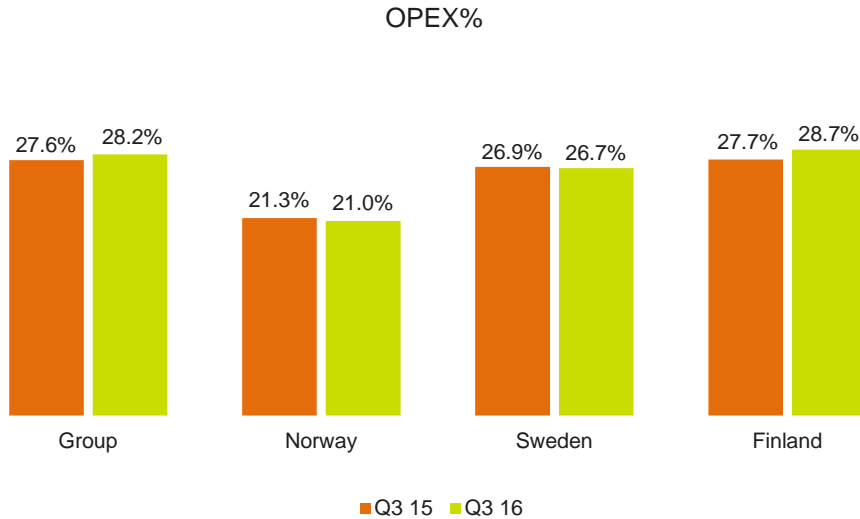
Gross margin development



- Group gross margin declined 0.5 points YoY
- Lower gross margins in Sweden and Finland
 - Slow start of the autumn season
 - Less sales of new products with higher margin
 - Higher share of clearance sales
- Maintained gross margin in Norway

OPEX development

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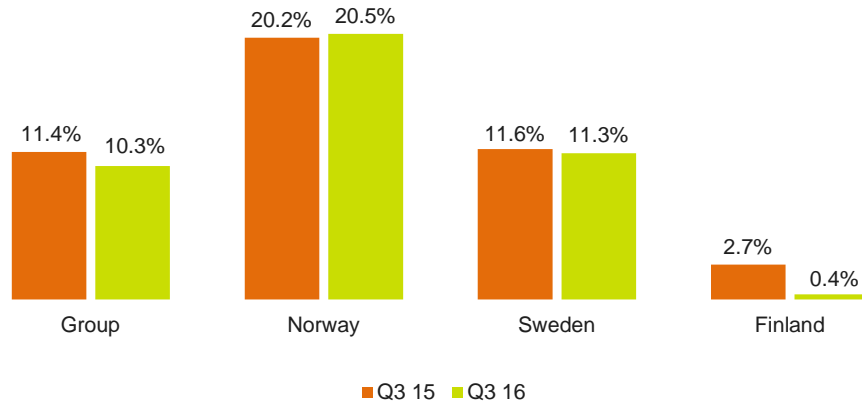


- Group OPEX% increased by 0.6 points to 28.2% YoY
- Both Norway and Sweden with improvements
- Challenging to achieve scale in the Finnish stores
- Establishment of E-commerce in Denmark
- Higher costs at the central warehouses
 - Expansion of capacity
 - Disruptions after ERP-system upgrade

EBITDA development

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EBITDA-margins



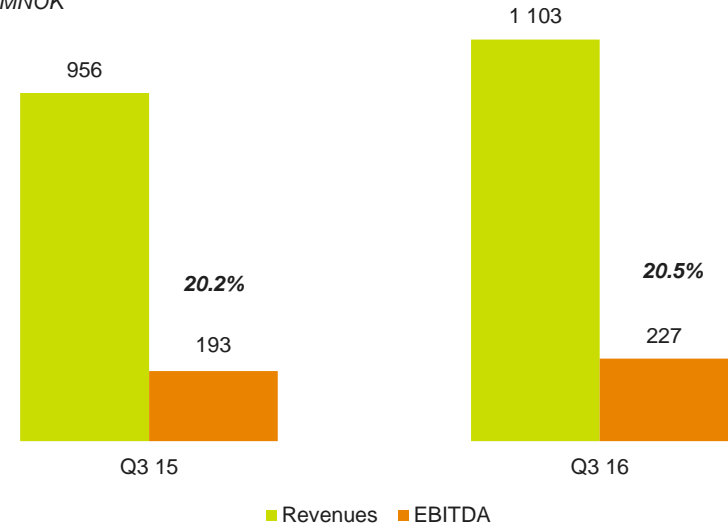
- Geographical mix effects
- Lower gross margin for the Group
- OPEX% increased
 - Challenging to achieve scale in the Finnish stores
 - Establishment of E-commerce in Denmark
 - Higher costs at the central warehouses

Norway – Strong overall performance

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- Market share of 29% in 1H 16 - passed 30% in Q2 16
(*Sportsbransjen AS*)
- 15% revenue growth YoY
- Opened one new store
 - Skien on 1 September 2016
- Like for like growth of 2.2%, but 3.4% adjusted for cannibalization effects
- Gross margin stable despite challenging September
- EBITDA-margin improved by 0.3 points to 20.5%
 - Cost, cost, cost
- Most preferred retailer among top athletes in Norway
(*Opinion – “Aktiv Livsstil 2016-2017”*)

Amounts in MNOK

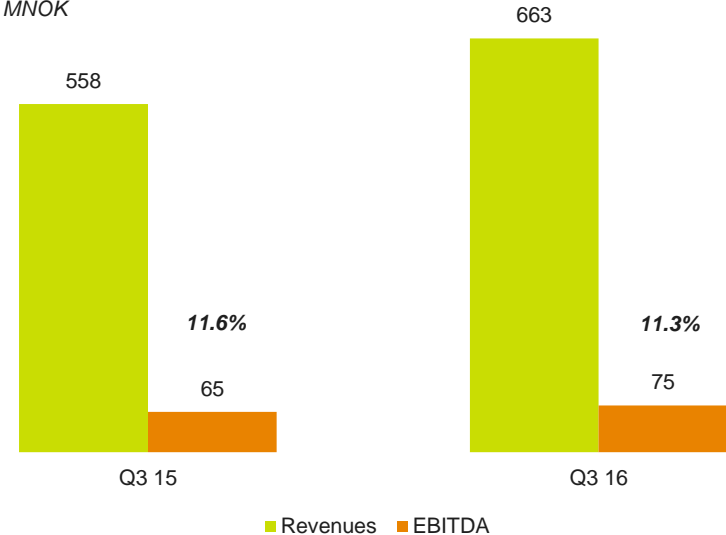


Sweden – Improving the market position

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- Revenue growth of 17% in local currency
 - Like for like growth of 4.8% in local currency
 - Solid growth from E-commerce
- Slow start of autumn season
 - Less sales of new products with higher gross margin
- Gross margin decline from 38.6% to 38.0% YoY
 - Last year the gross margin improved from 35.7%
 - Sweden is now at a more normalized level
- OPEX/Sales improvement by 0.2 points to 26.7% YoY
- EBITDA margin of 11.3%
- Best in customer service in the sport retail industry (*market.se*)

Amounts in MNOK

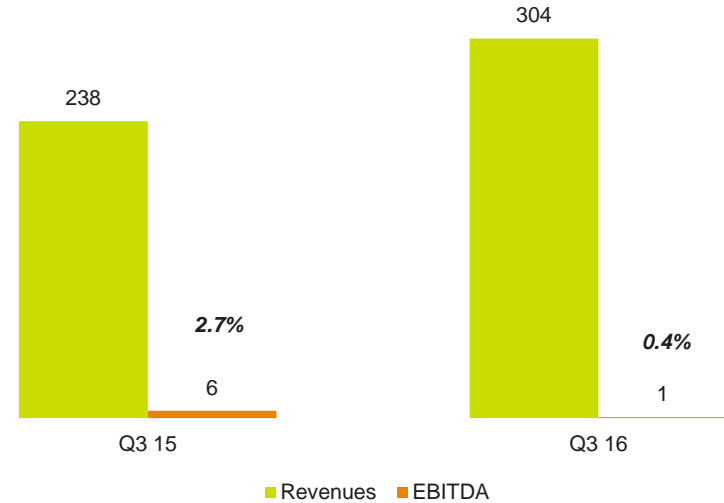


Finland – Challenging quarter

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- 24% revenue growth YoY in local currency
- Like for like growth of 1.9% in local currency
 - Driven by E-commerce growth
- Overall difficult macro situation and slow change of seasons
- Higher degree of clearance sales affecting gross margins
 - Gross margin from 30.3% to 29.1% YoY
- Challenging to achieve scale in the stores
 - OPEX/Sales up from 27.7% to 28.7% YoY
- Positive EBITDA, but we are not satisfied

Amounts in MNOK

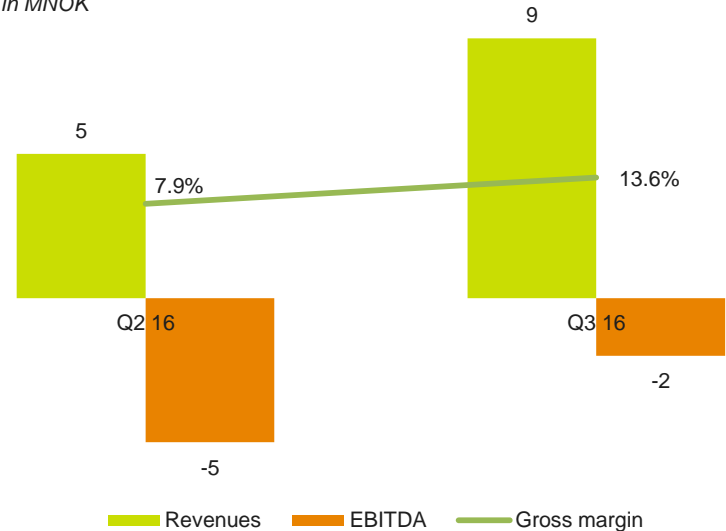


Denmark – Investing in visibility

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- Still in the early start-up phase
 - Launched services late May 2016
- Steady positive revenue development
 - Increase in traffic and conversion rates during the quarter
 - Total revenues of NOK 9 million
- Building brand awareness with aggressive pricing and high marketing spending
 - Gross margin of 13.6%
 - Negative EBITDA of NOK 2 million
- Logistics, delivery times and organization surpassing expectations
- According to plan of being a small Swedish store in terms of revenue
 - Loss making first years of operation
 - Pay-back time of 4-5 years

Amounts in MNOK

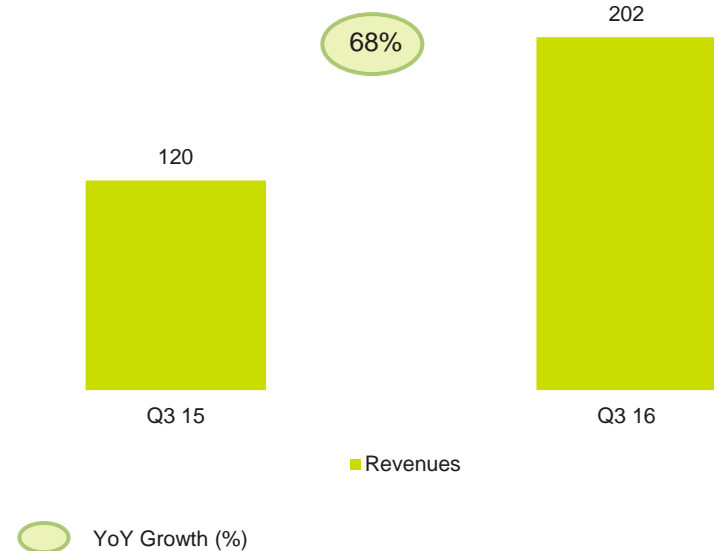


E-commerce – High growth in all markets

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- 68% revenue growth
- 9.7% of Group sales compared to 6.8% in Q3 15
- Historically lower activities in the summer months
- Building a robust digital customer database
- More focused digital marketing efforts
- Securing scalability when moving over to cloud services
- Building omni-channel customer service function

Amounts in MNOK



HQ and Logistics – Infrastructure expansions

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- OPEX of NOK 87 million to 4.2% of Group sales
- Expansion of central warehouses
 - Sweden finalized
 - Norway started on increase from 24 000 to 32 000 sqm
- Disruptions after upgrading the ERP-platform
 - Some impacts on delivery times, flow of goods and order placing
 - Leading to additional shifts and Sunday as a work day



Priorities going forward

- Improving the omni-channel experience
 - Continuing to drive LfL growth
 - Opening of new stores
 - Improving the E-commerce user experience
- Focusing on cost improvements



XXL ready for Austria



- Signed first two lease contracts
 - One contract is subject to authorities approvals
 - Intention to open one store and E-commerce, possibly two stores, late 2017
 - Ongoing negotiations on more lease contracts
 - Potential of 15-20 stores in total
- Establishing a centralized organization scalable for the DACH-region
 - Local team for buying and support
 - Will at least employ five more central functions than in Sweden and Finland
 - MD Finland, Toni Stigzelius, appointed the COO Heart of Europe in XXL
 - Signed three employees - bringing local competence and experience
- Why Austria
 - Brand focused and service minded consumers
 - Four distinctive seasons
 - Competitive landscape as in the Nordics
- Business case will return negative profits the first years of operation

Key statistics:

- Population ~ 8.5 million
- Sport spending on Swedish level
- Market size ~ EUR 2 billion
- Main competitors: Sport 2000, Intersport, Hervis and Sports Direct



Objectives:

- Average sales per store ~ EUR 12 million
- Gross margin and EBITDA-profile will be as in Sweden over time when excluding for the build-up of the centralized organization
- CAPEX per store ~ EUR 1.7 -1.9 million
- Pay-back per store of 4-5 years

XXL is a wide selection of branded goods sold with high service and competence



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Financial review

Income statement

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- Revenue growth of 19%
- Gross margin declined from 39.0% to 38.5%
 - Slow start of the autumn season
 - Norway maintained, Sweden and Finland down
- Low store growth in Finland
 - Negative for cost percentage
- Higher costs at the central warehouses
- Start-up costs in Denmark
- Net financials of NOK -23 million
 - Interest expenses of NOK 7 million
 - Negative currency effect of NOK 13 million compared to a positive effect of NOK 25 million in Q3 last year
- Estimated effective tax rate of 21.8%

| <i>Amounts in MNOK</i> | Q3 16 | Q3 15 | YTD 16 | YTD 15 |
|---------------------------------|--------------|--------------|---------------|---------------|
| Total operating revenue | 2 080 | 1 753 | 5 661 | 4 656 |
| Operating income | 181 | 177 | 450 | 431 |
| Net financials | -23 | 13 | -48 | -10 |
| Profit before income tax | 158 | 190 | 402 | 421 |
| Income tax expense | 34 | 45 | 88 | 98 |
| Net profit | 124 | 145 | 313 | 323 |

Cash flow

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- Inventory increase is driving the working capital
 - More stores and growth
 - Delay of autumn
 - Currency effects
 - Inventory is healthy
- Inventory per store increased by NOK 3.2 million
 - Too high and expected to go down by year end
- Investments in stores and infrastructure according to plan
- Draw down of NOK 414 million related to new stores and dividend payment of NOK 277 million
- Net interest bearing debt of NOK 1 409 million
- NIBD / EBITDA of 1.8x
- Liquidity reserve of NOK 286 million

Cash flow

| <i>(Amounts in MNOK)</i> | YTD 16 | YTD 15 |
|--|------------|-------------|
| Cash provided by operating activities | 27 | 141 |
| Cash used by investing activities | -169 | -98 |
| Cash provided (used) by financing activities | 122 | -213 |
| Net change in cash and cash equivalents | -20 | -170 |
| Cash and cash equivalents beginning of year | 87 | 222 |
| Cash and cash equivalents end of period | 59 | 52 |

Changes in working capital

| <i>(Amounts in MNOK)</i> | YTD 16 | YTD 15 |
|---|-------------|-------------|
| Changes in inventory | -508 | -352 |
| Changes in receivables | 2 | 49 |
| Changes in payables | 79 | -4 |
| Prepayments of financial leases | -1 | -6 |
| Changes in other assets and liabilities | 7 | -24 |
| Change in working capital | -421 | -337 |

Outlook

- Additional 6 stores in Q4, ending at 12 new stores in total for 2016
- XXL launched an E-commerce offering in Denmark in May 2016
 - Aggressive pricing and high marketing spending
 - Negative profit the first years of operation
- Total infrastructure investments for 2016 in the range of NOK 50-65 million
- Increased marketing costs of appr. 0.5 pp of sales in all countries in a transition period from analogue to digital marketing
- XXL has already signed 9 lease agreements for new store openings and aims for 9-12 new stores in total for 2017
- The Group maintains the following long term objectives:
 - Like-for-like growth of mid-single digits over time
 - Gross margins to be stable. In Norway at low 40's, high 30's in Sweden and between mid and high 30's in Finland.
 - Group EBITDA-margin stable. In Norway at low 20's, in Sweden low double digits and in Finland high single digits
 - Due to the demanding macro in Finland the lift in margins may take longer time than in Sweden



Outlook Austria

- Signed two lease contracts, whereof one is subject to authorities approvals
- Intention of opening at least one store, possibly two, and E-commerce late 2017
- Launch with high marketing spending and aggressive prices returning negative profits the first years of operations
- Establishing a local team for buying and support
 - At least employ five more employees in central functions than in Sweden or Finland
 - Scalable for the whole DACH-region, together with the Swiss entity
 - Hence the start-up in Austria will have higher costs than the launch in Sweden or Finland
- Total potential of 15-20 stores in the Austrian market
- Expectations on new store economics
 - Average sales of around EUR 12 million
 - Gross margin and EBITDA-profile will be as in Sweden over time
 - CAPEX in the range of EUR 1.7 - 1.9 million
 - Average pay-back time of 4-5 years



Summary

- Revenue growth of 19%
- With EBITDA of NOK 214 million
- Strong E-commerce growth
- Norway standing out with solid results
- Signed first two lease contracts in Austria, contributing to continued growth of the Group





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