XXL ASA – Q3 2018

XXL
ALL SPORTS UNITED

Disclaimer

XXL

Important notice

The following presentation is being made only to, and is only directed at, persons to whom such presentation may lawfully be communicated ("relevant persons"). Any person who is not a relevant person should not act or rely on this presentation or any of its contents.

This presentation does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in any company within the XXL Group. The release, publication or distribution of this presentation in certain jurisdictions may be restricted by law, and therefore persons in such jurisdictions into which this presentation is released, published or distributed should inform themselves about, and observe, such restrictions.

This presentation includes and is based, inter alia, on forward-looking information and contains statements regarding the future in connection with the XXL Group's growth initiatives, profit figures, outlook, strategies and objectives. All forward-looking information and statements in this presentation are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for the XXL Group and its lines of business. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates" or similar expressions.

Important factors may lead to actual profits, results and developments deviating substantially from what has been expressed or implied in such statements. Although XXL believes that its expectations and the presentation are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in the presentation.

XXL is making no representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the presentation, and neither XXL nor any of its directors, officers or employees will have any liability to you or any other persons resulting from your use.

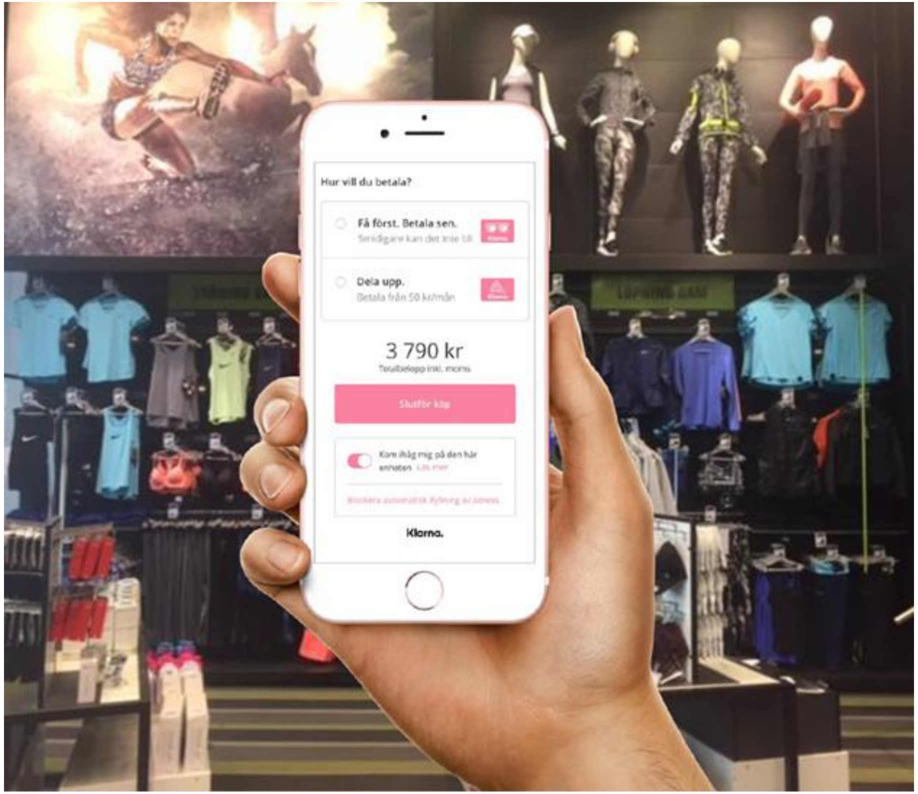
This presentation was prepared for the interim results presentation for the third quarter 2018, held on 24 October 2018. Information contained herein will not be updated. The following slides should also be read and considered in connection with the information given orally during the presentation.

Highlights Q3 2018

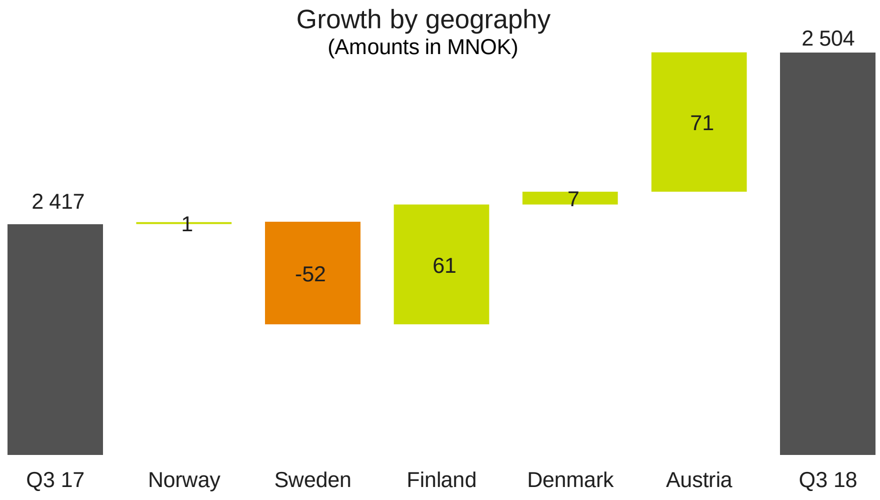
- Total revenues of NOK 2 504 million – growth of 4%
  - Negative like for like growth of 6%
- E-commerce growth of 40%
  - Now 14.4% of Group sales vs. 10.6% in Q3 17
- One new store opening – Graz in Austria on 4 September
- Summer months impacted by limited demand and traffic while September represented a more normal month
- Gross margin down from 38.7% in Q3 17 to 36.9% in Q3 18
  - Lower supplier bonuses received of around NOK 20 million or 0.7 points on margins – inventory per store coming down
  - Mix effects with high growth online with lower gross margins
  - Overall retail market with many discounts and campaigns in the summer months
- Cost control
  - OPEX% up from 28.3% to 29.3% driven by negative like for like growth
  - Norway and Sweden with negative cost leverage in the stores
  - Finland, Denmark and Austria with improvements
- EBITDA of NOK 190 million, down from NOK 252 million in Q3 17
  - Lower sales in the summer months
  - Less supplier bonuses received
- New omni-channel solutions performing well

New digital initiatives

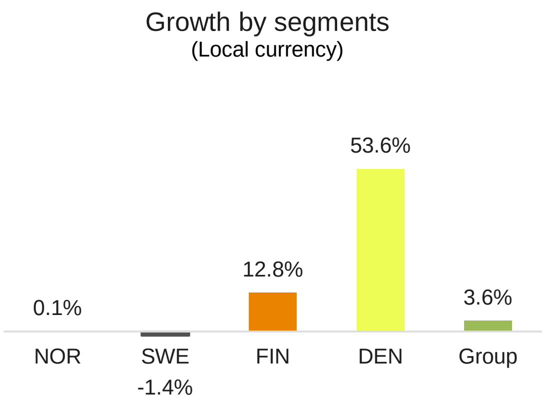
- Omni-channel stock solution further rolled out
  - All stores and categories in Norway, Sweden and Austria
  - Finland in Q4 18
  - Optimizing the value chain over time
- More efficient payment solutions by introducing Klarna Instore
  - Ability to pay by the mobile phone, at home and with credit as an add on feature
  - Using the same interface for stores as online – omni-channel user experience
  - Customer data collection
- New pick-up services in stores to be tested out
  - High degree of self-service
  - Frictionless user experience
  - Efficiency in the store operations
  - New features to be introduced and tested over time
- Extensive AB-testing of the front end and landing pages
  - Including using louds.no as a test site as well
- Pilot of personalized pages based on navigation behavior
  - Fully automated, cookie based
  - Improved relevancy and customer experience
  - Enhanced efficiency for technical development

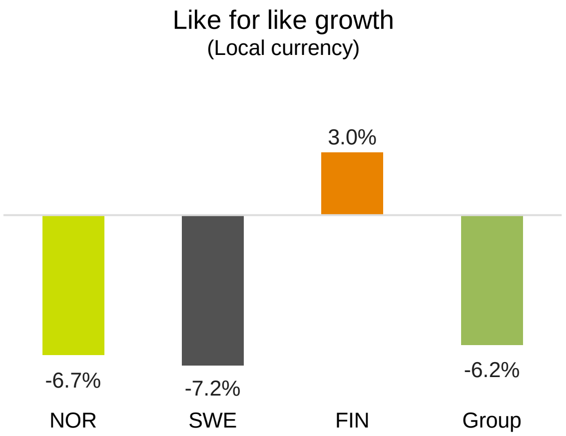


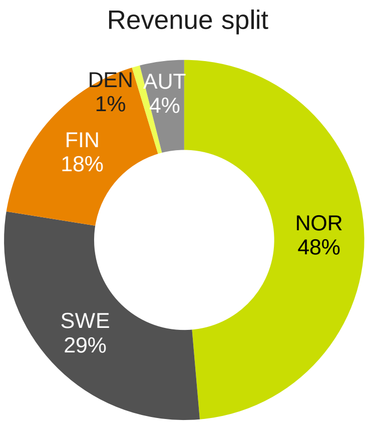
Growth drivers in the quarter



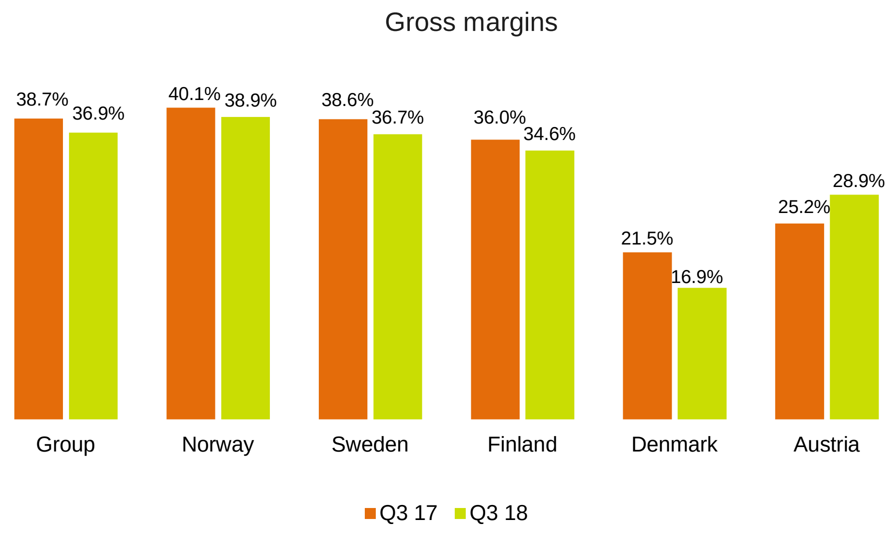
Growth split by markets





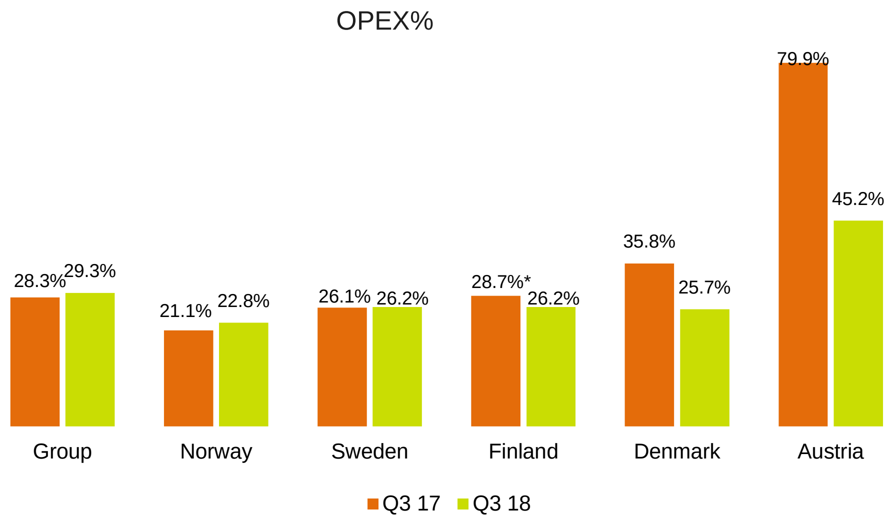


Gross margin development



- Group gross margin declined by 1.8 points YoY
  - Lower supplier bonuses received of around NOK 20 million or 0.7 points on margins
  - Negative mix effects with high growth online with lower gross margins
  - Overall retail market with many discounts and campaigns in the summer months

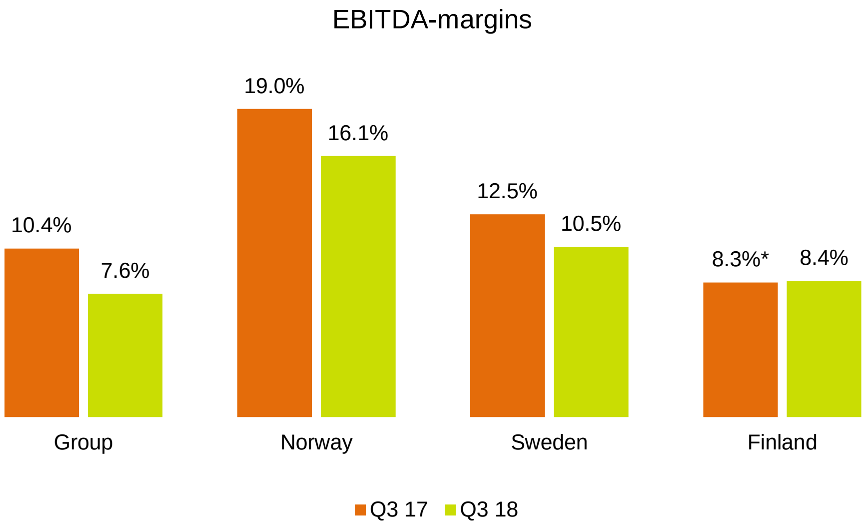
OPEX development



- Group OPEX% up by 1.0 points to 29.3% YoY
  - Driven by negative like for like growth of 6.2%
- Norway and Sweden with negative cost leverage in the stores
- Finland, Denmark and Austria with improvements
- Many cost initiatives and adjusting the operations to the difficult summer season
  - More flexible personnel planning
  - Less marketing activities
  - May have hold back too long late in the quarter
- Cost control

* Adjusted for positive effect of pension costs

EBITDA development



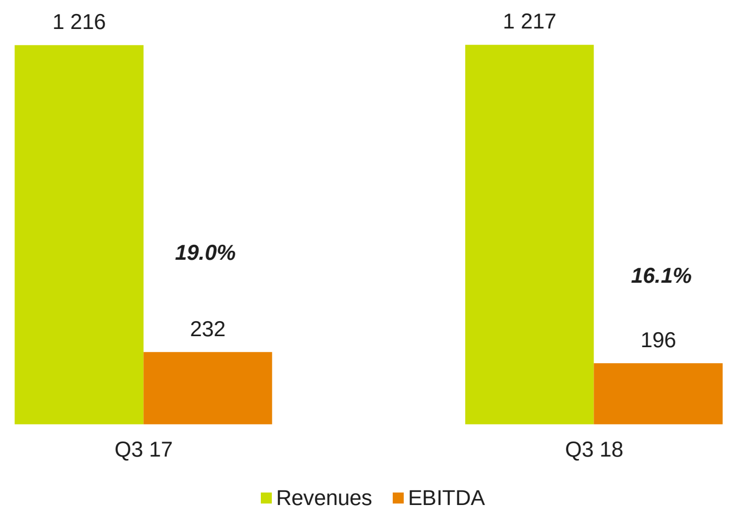
- EBITDA of NOK 190 million
- Lower EBITDA in Norway due to negative like for like growth and lower gross margin
- Sweden impacted by lower gross margin, but stable OPEX%
- Finland with improvement despite lower gross margin – cost efficiency

* Adjusted for positive effect of pension costs

Norway – Tough summer market

- Stable revenues of NOK 1 217 million
- Negative like for like growth of 6.7%
  - Negative of 5.2% excluding cannibalization effects
- Challenging retail market in the summer season
- Gross margin decreased by 1.2 points to 38.9% in Q3 18
  - Lower amount of supplier volume bonuses of around NOK 10 million – equals 0.8 points
  - Mix effects from strong online growth with lower margins vs. negative like for like growth in the stores
- Scaled down on personnel and marketing costs
  - Right strategy early in the quarter but lasted too long
- EBITDA-margin declined to 16.1%
  - Gross margin reduction
  - Negative cost leverage in the stores due to negative like for like growth

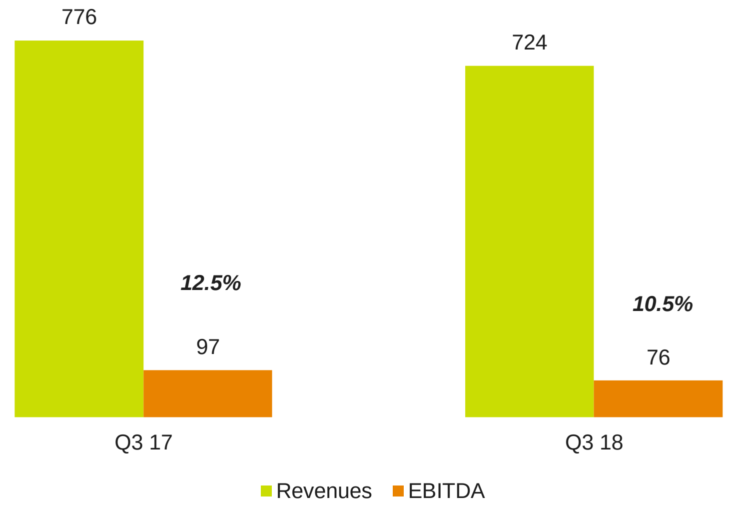
Amounts in MNOK



Sweden – High volatility in the market

- Negative revenue growth of 1.4% YoY in local currency
- Like for like growth down 7.2% in local currency
- Still a volatile market with a lot of discounts from many players
- Gross margin declined by 1.9 points YoY
  - Lower amount of supplier volume bonuses of around NOK 7 million which equals 0.9 points
  - Mix effects from strong online growth with lower margins vs. negative like for like growth in the stores
  - Many summer campaigns and discounts in the market
- OPEX% stable of 26.2%
  - Costs adjusted to a difficult market
  - May have impacted the like for like growth
- EBITDA of NOK 76 million and a margin of 10.5%

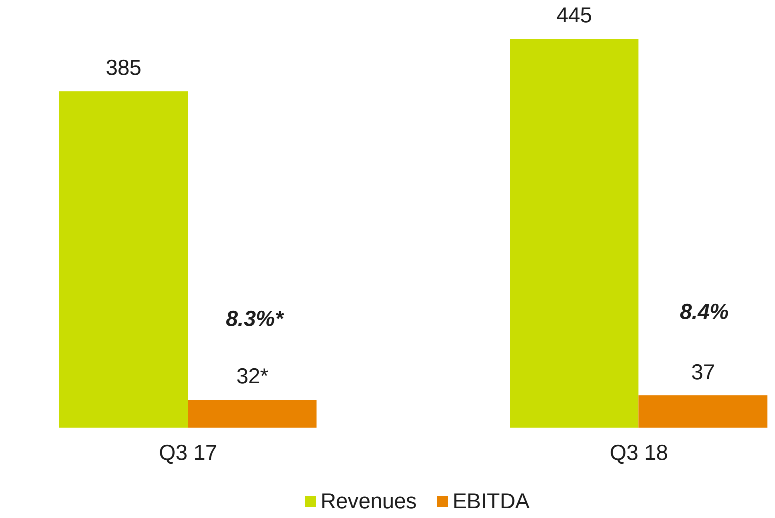
Amounts in MNOK



Finland – Driving the market

- 13% revenue growth YoY in local currency
- Like for like growth of 3.0% in local currency driven by solid growth from E-commerce
- Gross margin declined by 1.4 points to 34.6%
  - Lower amount of supplier volume bonuses of around NOK 3 million which equals 1.0 points
  - Mix effects from strong growth online on lower margins than in the stores
- OPEX down from 28.7%* to 26.2% YoY
  - Despite negative like for like growth in the stores
  - Cost efficiency and focus over time
  - OPEX of 26.6% in Q3 17 including positive effects of NOK 4 million related to reversal of accrued pension costs
- EBITDA of NOK 37 million and a margin of 8.4%
  - EBITDA of NOK 32 million and a margin of 8.3% in Q3 17 adjusted for positive effect of pension costs
  - Reported EBITDA of NOK 36 million and a margin of 9.4% in Q3 17

Amounts in MNOK

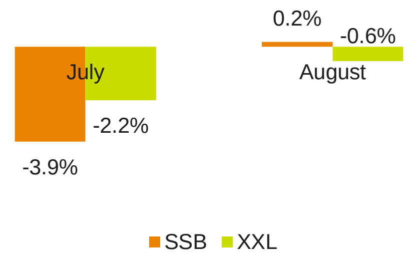


* Adjusted for positive effect of pension costs

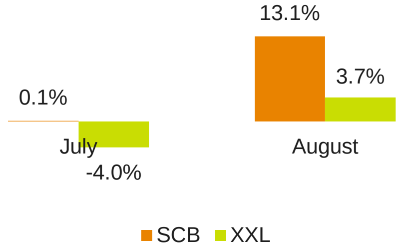
Market data

XXL

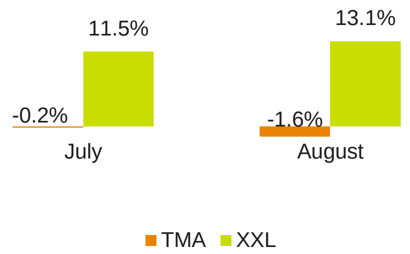
Norway
SSB vs. XXL monthly growth (YoY)



Sweden
SCB vs. XXL monthly growth (YoY)



Finland
TMA vs. XXL monthly growth (YoY)

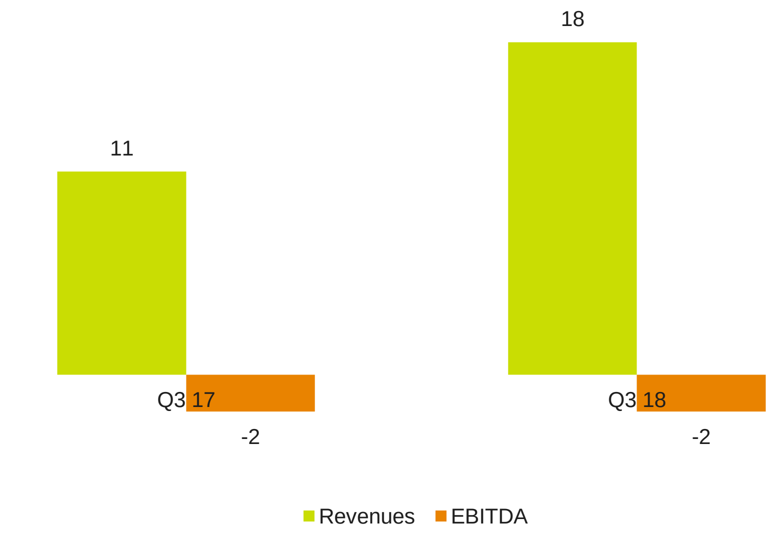


- Figures for September not disclosed

Denmark – Strong growth

- Revenue growth of 54% YoY in local currency
- More aggressive campaigns to take volume
  - Gross margin declined from 21.5% to 16.9% YoY
  - High share of freight and return costs
  - Sales mix effects – higher AOV but lower margins
- OPEX% improved from 35.8% in Q3 17 to 25.7% in Q3 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 proven successful

Amounts in MNOK

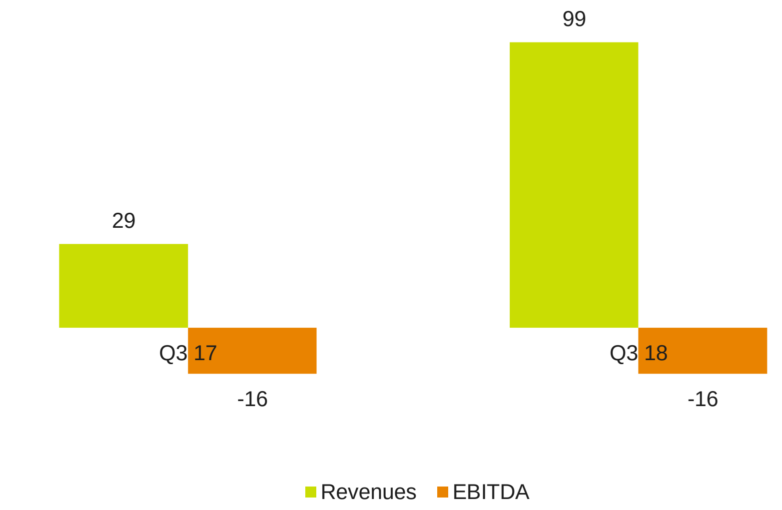


Austria – First year in operation

XXL

- Still in the early establishing phase
  - Four stores and E-commerce
  - Opened a new store – Graz on 4 September
- Revenues of NOK 99 million in Q3 18
  - Equals 4% of the Group revenues this quarter
- Increasing perception in the market and attracting customers with campaigns and high marketing spending
  - Gross margin of 28.9%
- OPEX of NOK 45 million
  - High marketing spending when ramping up in three large cities and limited immediate synergies
  - Store in Graz carried full cost in Q3 18 but only a month with sales
  - Centralized organization in Austria for buying and support
  - Logistics and support functions within the Group working efficiently
- Negative EBITDA of NOK 16 million
- XXL has signed a third store in Vienna for opening in spring 2019

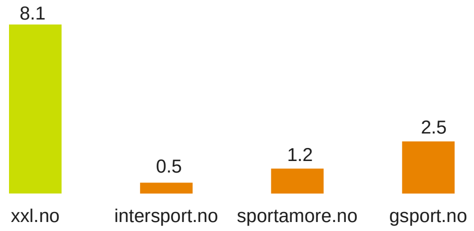
Amounts in MNOK



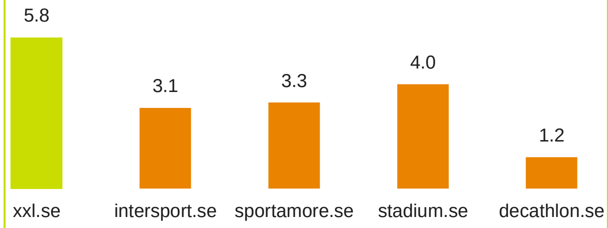
Market data – Online traffic

XXL

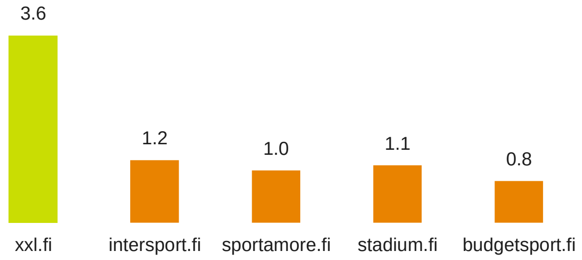
Norway
Q3 18 total visits in millions



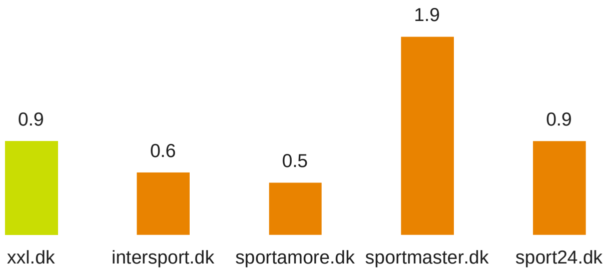
Sweden
Q3 18 total visits in millions



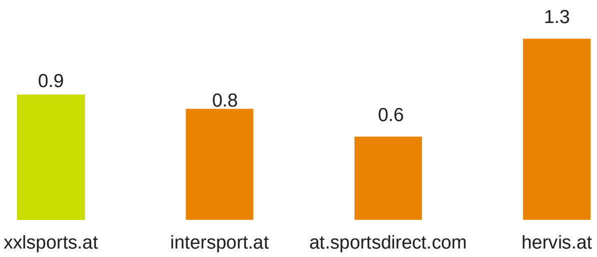
Finland
Q3 18 total visits in millions



Denmark
Q3 18 total visits in millions



Austria
Q3 18 total visits in millions



XXL gaining high online traffic shares in all markets

Source – non-unique visitors from SimilarWeb, Google Analytics

HQ and Logistics – Investing in the backbone

- OPEX of NOK 102 million to 4.1% of Group sales
  - NOK 95 million and 3.9% of Group sales in Q3 17
- Lower sales than expected in the summer months
- Several new recruitments to central functions including purchasers, technical system architects and IT-resources
- Infrastructure investments of NOK 50 million YTD
- XXL continues to invest in the future omni-channel model

Prime Minister of Sri Lanka, Mr. Ranil Wickremesinghe, visiting the XXL central warehouse in Norway in October 2018

Strategic ambitions

XXL
ALL SPORTS UNITED

Retail is Changing

- Fast migration of traffic and sales from stores to online
- Online sales will be a large part of sport retail sales in the future
- Traditional sport store closings will accelerate and new ones will be introduced
- Niche and small pure players will struggle
- Successful pure- and omni-players will be controlling the retail prices and margins
- Transparency will put pressure on gross margins over time
- Omni-channel players will have to utilize a lower OPEX base
- XXL prepare for a …
  - *continued strong growth in E-commerce towards 30% of Group sales in 2023*
  - *possible negative like-for-like growth in the stores, but with an ambition for growth and innovation*

Building an Omni-Channel Champion

XXL

- We aim at transforming XXL into an omni-channel champion suited for the future competitive retail environment
- We have a highly scalable omni base
  - 81 identical stores with online inventory in prime locations where people live
  - Large customer availability in stores
  - E-commerce platform with high volume traffic and scaled for growth
  - Invested into omni logistics with robotics and automatization
  - Stores to be used as pick-up, return and service points
  - Digital instore infrastructure
  - Same business culture everywhere
- We have the lowest and most flexible OPEX in the industry
  - Same IT systems everywhere
  - All 81 stores built up the same way
  - Identical organizational set-up every where
  - Sharing similar marketing for stores and E-commerce
  - One HQ with support functions for all channels
  - Further potential for automation, scale in administration and logistics
- We have a technology driven and adaptive management team

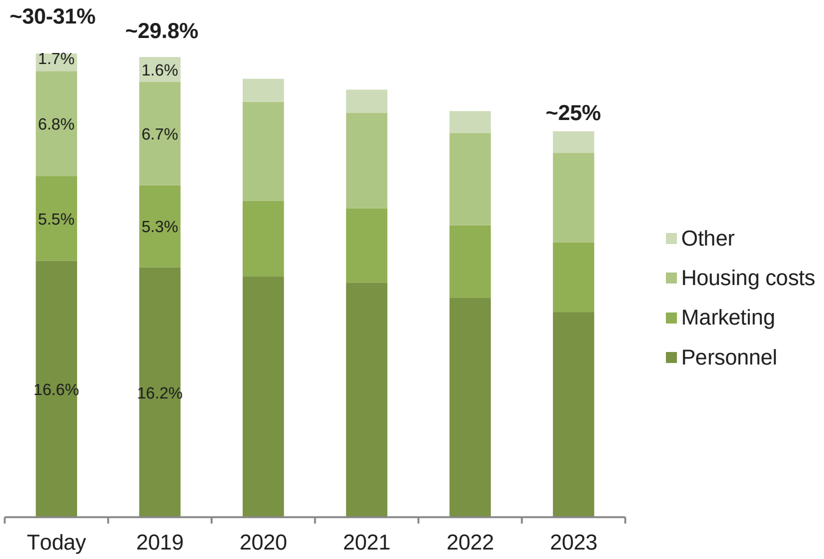
Reach OPEX of 25% in 2023

OPEX25 is mostly about generating growth the next 5 years

- E-commerce must become a larger part of Group revenue
- Opening a controlled amount of stores will fuel the E-commerce growth
- Build revenue scale in the omni-channel platform
- Utilize technological opportunities

..but we must also create more efficiency in all cost areas

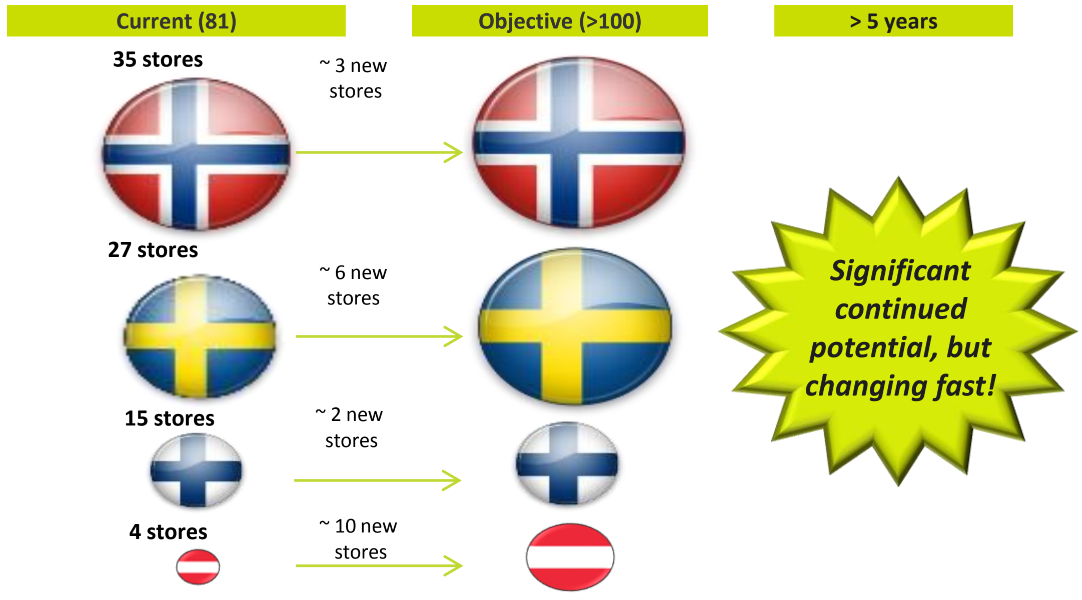
- Personnel
  - More efficiency in workload in stores through logistics, automation and digitalization of store concept
  - Scale through growth in personnel on E-com., HQ functions and Logistics
- Marketing
  - Dominate selected channels and create scale in marketing spend
  - More efficiency through use of CRM, personalization and digitalization
- Housing costs
  - Renegotiate all parts of all contracts
  - Reduction of store space
  - More flexible rent levels
- Challenge all other cost items in the Group through cost driven mind set and culture
- Main priority to turn around the OPEX% development YoY



Key Strategic Initiatives

- Drive like-for-like growth
  - New E-commerce sales initiatives including new concepts (team sales), markets and broader assortment
  - Data collection and segmented/personalized customer communication
  - Fine tuned store roll out plan
- Protect the gross margin
  - Improving supply chain with AI and machine learning
  - Shipment and delivery including freight and return costs
  - Risk sharing in value chain
- Deliver on OPEX 25% project
  - A combination of topline growth, scale in marketing, lower rent, creating cost scale in administration, smarter logistics and simplify store operations
- Best instore omni experience
  - Automation, queue free and frictionless experience, immediate collect, returns, value added services, product show room, human interaction
- Fact and data driven replenishment and buying processes
  - Investment into Artificial Intelligence
- Improve the Swedish business opportunities
  - Improve local assortment, continued store roll-out, more intelligent marketing spending
- Customer data driven marketing
  - Collect and analyze customer data in all channels. Use algorithms and machine learning to create segmented and personalized marketing

Growth in New Stores and E-commerce



Well founded analysis before signing new stores
Intention to open 7 – 10 stores every year, this ambition can change fast
High potential and fast growth in E-commerce including new markets, can reduce speed in store openings

Austria

- First year of operation – sales around 15% below expectations, but great feedback!
  - 2 stores in Vienna
  - 1 store in Linz
  - 1 store in Graz
  - E-commerce – xxlsports.at
  - Fantastic acceptance by the guests
- Revised strategy forward
  - Strengthening the local assortment, improving marketing and more training of employees
  - Short term focus on store openings in areas where we already have presence
  - New type of rental contracts going forward
  - New stores must deliver financially on lower revenue, in build up phase
  - Existing stores, including city center location in Vienna, expected to have average revenues of around EUR 10 mill
  - Gross margin and EBITDA-profile will be as in Sweden over time
  - Omni-channel stock solution introduced in 2019
  - Austrian management capacity will be used in German rollout
  - XXL expects around 10-15 stores in total in the Austrian market, depending on E-commerce growth speed

Working Capital and Dividend Ambitions

XXL

Improve cash flow

- ✓ Deliver on EBITDA ambition
- ✓ Free up working capital

Allocate for future growth

- ✓ Continue to invest in new stores/E-com in selected markets
- ✓ Continue to invest in the omni-channel strategy

Allocate for shareholders and banks

- ✓ Maintain dividend policy (≥ NOK 2 per share)
- ✓ Net Debt/EBITDA ratio towards 2.0x over time

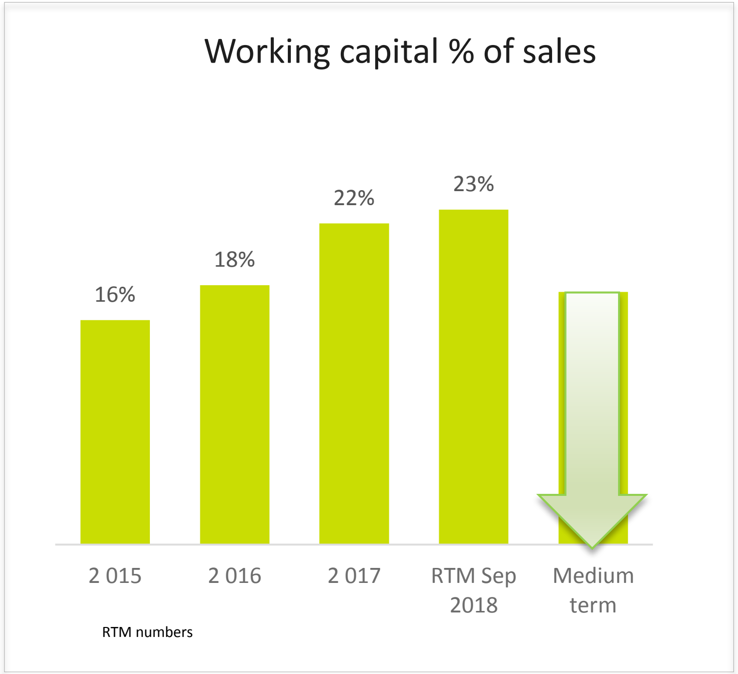
Addressing the High Working Capital Levels

Working capital at a relatively high level

Historically main priority has been top line growth

Several initiatives to improve working capital

1. Increase turnover on existing inventory
2. More active assortment strategy and maximize the true potential of the omni channel presence
3. Target to increase number of payment days



Summary

- Rapid change in sport retail
- XXL is well positioned
- Many opportunities targeted for XXL
- We will turn XXL into an omni-channel champion
- XXL is highly scalable “both ways” (ref. OPEX25)
- Strong focus on working capital improvements
- Maximize the Swedish potential
- Our ambition is “black numbers” in Austria in 2020

Financial review

ALL SPORTS UNITED

Income statement

- Revenue growth of 4%
  - Negative like for like growth of 6.2%
  - E-commerce growth of 40%
- Challenging summer months with low traffic and demand
- Gross margin impacted by lower supplier volume bonuses and mix effects from high growth online with lower gross margins
- EBITDA down to NOK 190 million (NOK 252 million)
  - Lower gross margins
  - Higher OPEX% driven by negative like for like growth in Norway and Sweden
  - Improvements in Finland, Denmark and Austria
  - Many efficiency initiatives and good cost control
- Net financials cost of NOK 12 million
  - Net interest expenses of NOK 9 million
  - Positive currency effect of NOK 3 million
  - Other transaction and financial costs related to refinancing of the Group
- Estimated effective tax rate of 20%

Amounts in MNOK	Q3 18	Q3 17	YTD 18	YTD 17
Total operating revenue	2 504	2 417	6 905	6 184
Operating income	143	213	288	385
Net financials	-12	-23	-48	-37
Profit before income tax	131	190	240	348
Income tax expense	26	38	48	70
Net profit	105	152	192	279

Cash flow

- Improved working capital partly offset by lower profit from income tax
  – Inventory per store of NOK 36.4 million compared to NOK 39.0 million in Q3 17
  – But still too high and due to lower sales than expected in a difficult July
  – Moving towards target of normalization of NOK 35 million and aiming to be closer to target by end of the year, but will fluctuate between seasons
- Accounts payable decrease due to reduction in purchase of goods
- Investments in stores and infrastructure of NOK 193 million including six new stores so far in 2018
- Dividend payment of NOK 278 million and share buy-back of NOK 50 million in the quarter
- Initiating a new share buy-back program in Q4 2018 of up to NOK 50 million
- NIBD/EBITDA of 2.7x
- Available liquidity reserve of NOK 414 million

Cash flow

(Amounts in MNOK)	YTD 18	YTD 17
Cash provided by operating activities	132	105
Cash used by investing activities	-193	-181
Cash provided (used) by financing activities	-135	56
Net change in cash and cash equivalents	**-195**	**-20**
Cash and cash equivalents beginning of year	314	115
Cash and cash equivalents end of period	118	95

Changes in working capital

(Amounts in MNOK)	YTD 18	YTD 17
Changes in inventory	-91	-274
Changes in accounts receivable	61	-11
Changes in accounts payable	-58	78
Other changes	-87	-58
Change in working capital	**-176**	**-265**

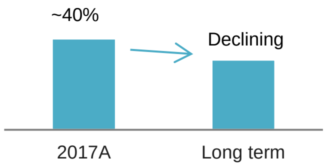
Our Long-Term Objectives: Group Level

Net turnover

- ✓ 7 – 10 new stores p.a.
- ✓ LfL: low single digits
- ✓ E-Commerce share of total revenues: towards 30% in 2023

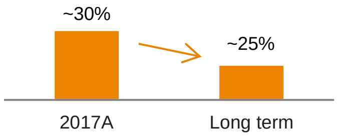
Gross margin

- Competition and E-commerce growth to put pressure on gross margin over time



Operating expenses

- Objective to improve as % of Group sales gradually down towards 25% in a 5 year period



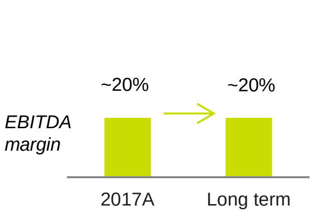
EBITDA margin

- EBITDA margin stable as a result of improved operating expenses offset by lower gross margin

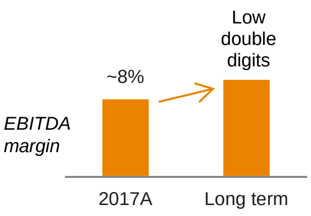
Our Long-Term Objectives: Country Level

XXL

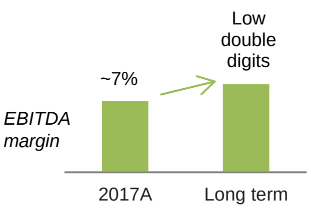
Norway



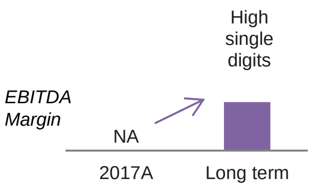
Sweden



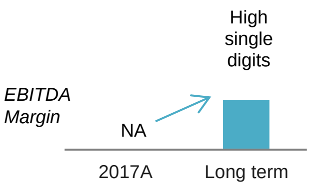
Finland



Denmark



Austria



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 6 stores that are opened by the end of Q3 2018
- XXL has already signed 5 new lease agreements for future store openings in 2019 and aims for 7-9 stores in total for 2019. XXL will at all times evaluate the trend of E-commerce growth compared to opening of new stores
- Total investments in infrastructure, IT and training facilities for 2018 in the range of NOK 70-90 million
- Austria
  - Average sales per store expected to be around EUR 10 million
  - Gross margins and EBITDA-profile as in Sweden over time when excluding for the build up of a centralized organization for buying and support
  - CAPEX per store in the range of EUR 1.7-1.9 million
  - Average pay-back time estimated at 4-5 years including net working capital
  - XXL expects around 10-15 stores in total

Summary

- Strong growth from E-commerce but negative like for like growth under difficult retail conditions
- E-commerce now 14% of Group sales driven by many new features on site and omni-channel solutions
- EBITDA down to NOK 190 million (NOK 252 million)
  - Lower like for like sales and gross margins
  - Cost control despite negative like for like growth
- XXL is adapting to the ongoing transformation in retail and sees many new opportunities in the years to come
- High focus on working capital improvements
- XXL will be an omni-channel champion!

XXL ASA – Q3 2018

XXL
ALL SPORTS UNITED