XXL ASA – Q4 and full year 2018

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This presentation was prepared for the interim results presentation for the fourth quarter 2018, held on 12 February 2019. 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 Q4 2018

- Disappointing Q4 2018 results
- Low sales volumes before and after Black Friday
- High volumes on the Black Friday campaigns but poor performance resulted in significantly reduced gross margins
- Discounts and clearance activities in the markets, especially in Norway
  - XXL too aggressive on pricing and lasted too long without corrective actions
  - Impacted the gross margin negatively also going into December
- Several internal management changes, including change of CEO and Group Commercial Director
- Financials Q4 2018
  - Revenues of NOK 2 569 million – growth of 2%
  - Like for like growth negative 4.1%
  - Significantly lower gross margin of 5.8 points to 36.2%
  - EBITDA of NOK 115 million
- E-commerce continued with strong growth of 28.6% and represented 20.2% of total sales for the Group

Short term adjustments and focus

XXL

- Into the future but back to basic – core XXL concept
- Marketing as you know XXL
  - Broad assortment and wide range of products
  - Focus also on high-end range
  - XXL is the real sport chain with an eldorado of sporting gear
  - Always attractive prices and not only campaigns “partikjøp”
  - Competence and service stations
  - Same set-up for digital marketing
- Better balance between growth and profitability
  - Smartness in pricing – focus on additional sales and upsale strategies
  - Traction on hotspots and best-sellers in the stores and online
  - Better campaign planning
- Better control and follow-up routines
- Priority to turn around the OPEX% development
  - Downsizing stores, personnel planning, automation

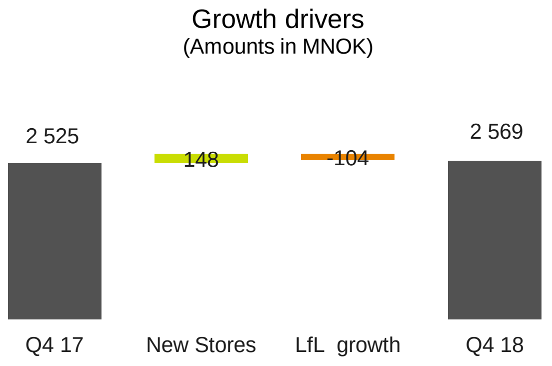
This is the XXL concept – in stores and online

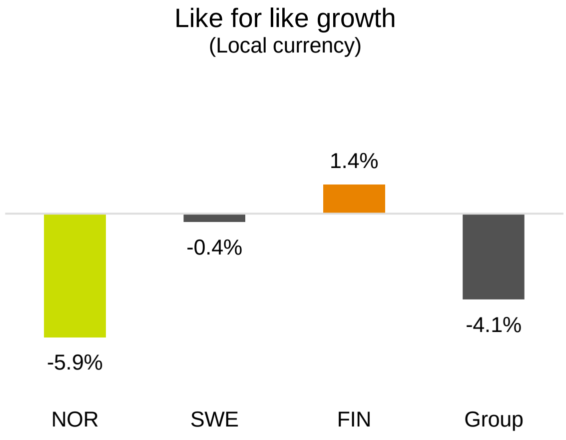
- Category focus with specialist salesmen
- Broad assortment
- Clear pricing strategy
- Focus on branded goods
- Service stations in all stores and CWs

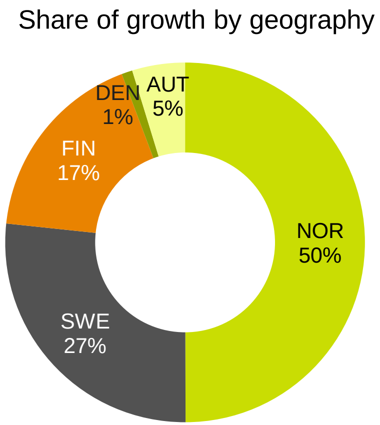
Current trading

- Volumes and gross margin developed positively towards the end of December
- Strong cash flow generation – liquidity reserve of NOK 0.7 billion and leverage ratio of 3.48x
- Proactively agreed on new covenants going forward
- Revenues increased by 1% in January 2019 to NOK 762 million
  - Solid improvement in gross margins
  - Good winter conditions in Finland and Austria
  - More mixed in Norway and Sweden, but improved late in the month compared to last year

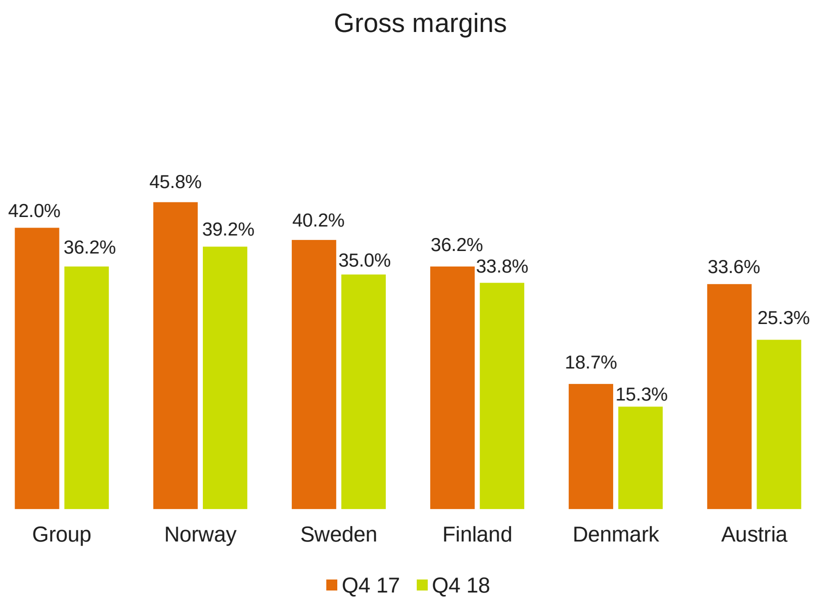
Growth drivers in the quarter





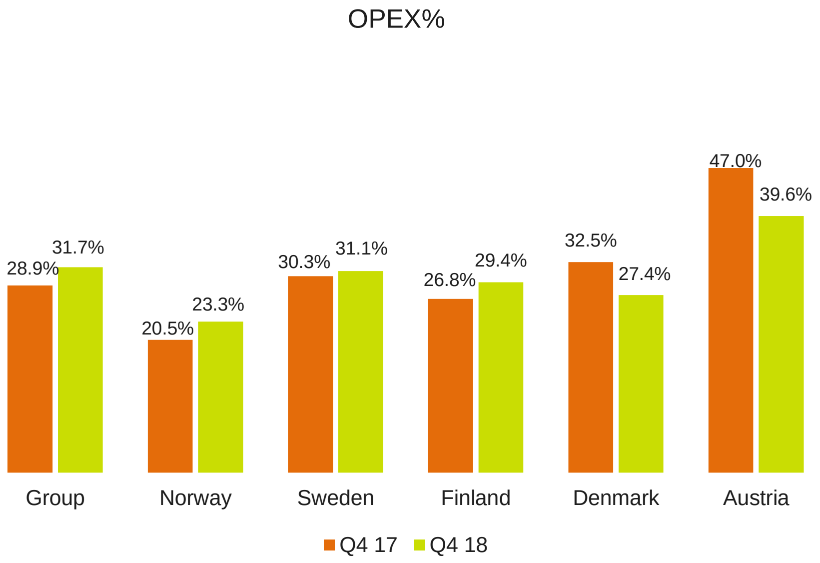


Gross margin development



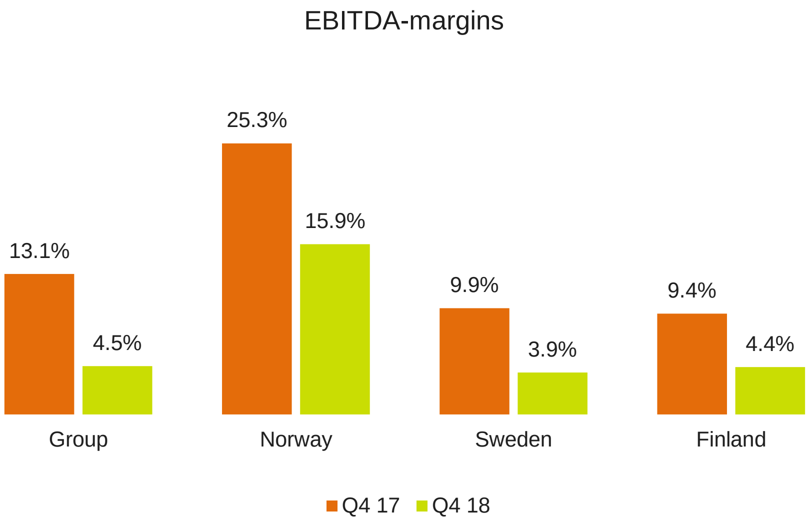
- Poor XXL campaign execution
  - Too aggressive price discounts
  - Not adjusted and followed up price discounts sufficiently
  - Lasted too long without corrective actions hampering the gross margins into December as well
  - Overall retail market with many discounts and campaigns as well
- Lower supplier bonuses received of around NOK 20 million or 0.8 points on margins
- Negative mix effects with high growth online with lower gross margins

OPEX development



- Group OPEX% up by 2.8 points to 31.7% YoY
  - Driven by negative like for like growth of 4.1%
- Negative like for like growth in the stores impacting the cost leverage
- Increased costs in HQ and Logistics segment
  - One time effects of around NOK 10 million
- Denmark and Austria showing improvements

EBITDA development

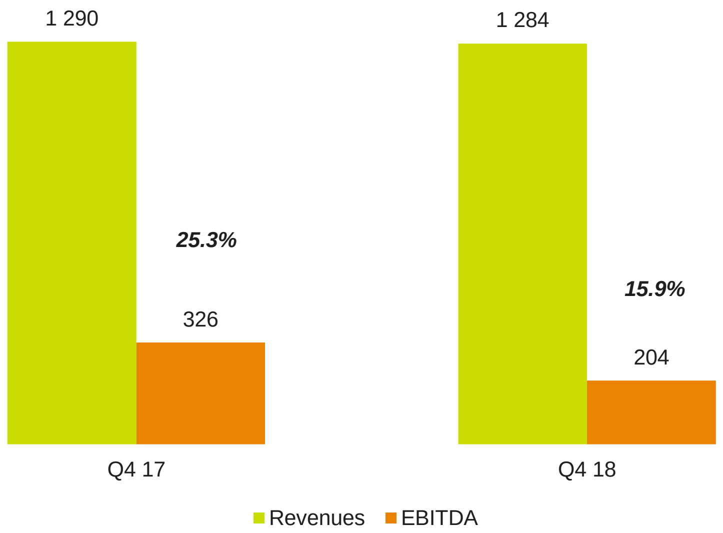


- Disappointing EBITDA development
- Negative like for like growth in the stores in all markets
  - Impacting the cost leverage
- Significantly lower gross margins in all markets
- Negative EBITDA in Austria of NOK 18 million (NOK 9 million)
- Increased costs in the HQ and Logistics segment

Norway – Poor campaigns execution

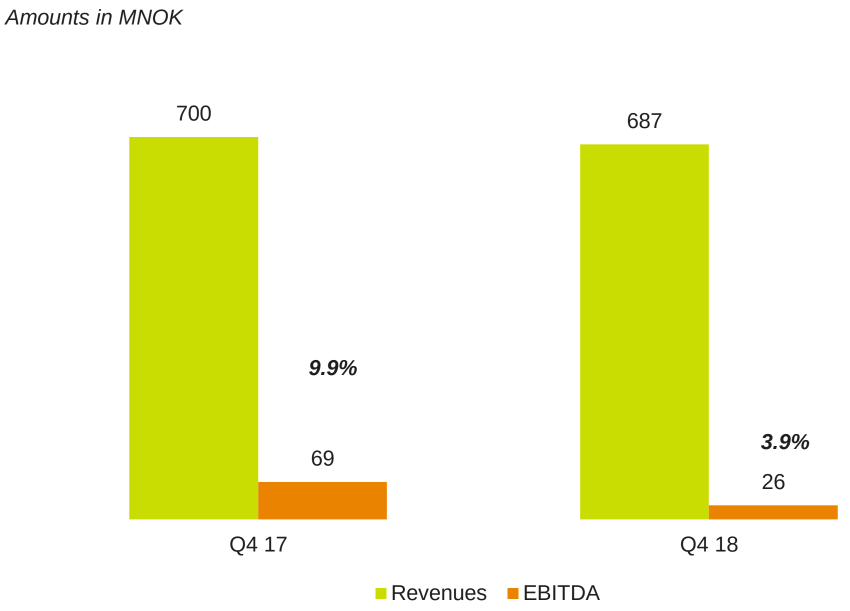
- Stable revenues driven by new store openings
  - 4 new stores opened in 2018
  - 1 new store in Q4 2018 – Storo in Oslo 1 November
- Lack of cold and snow compared to good winter conditions last year
- Negative like for like growth of 5.9%
  - 4.9% adjusted for cannibalization effects
  - E-commerce with good growth
- Significantly drop in gross margin – 6.6 points
  - Poor campaign management with too aggressive price discounts and miscalculated sales strategies
  - Corrections lasted to long and hampered margins into December as well
  - Mix effects from lower margins in E-commerce
- EBITDA-margin down 9.4 points to 15.9%
  - Negative like for like growth in the stores impacting cost leverage
  - Significantly lower gross margins

Amounts in MNOK



Sweden – Discounting market

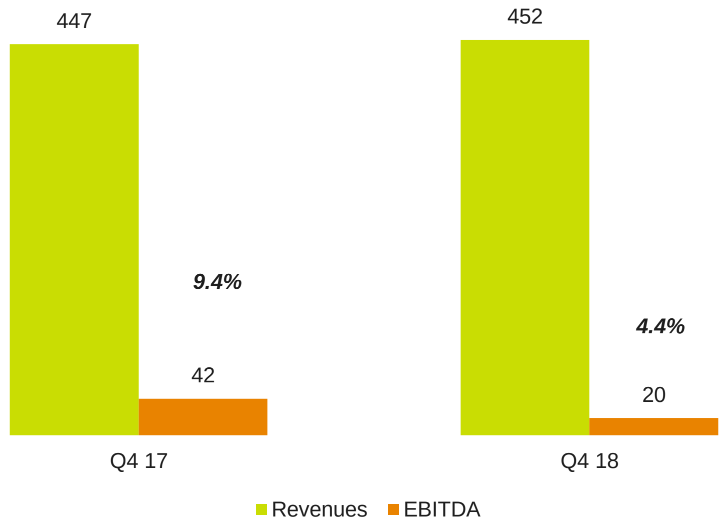
- Revenue growth of 3% YoY in local currency
- Growth from new stores
- Like for like growth down 0.4% in local currency
  - Good growth from E-commerce
- Challenging and volatile market with lack of cold and snow, leading to many discounts from several players
- Gross margin decrease of 5.2 points
  - High campaign activities and in particular Black Friday
  - Reduced amount of supplier bonuses with an effect of 2.0 points
  - Negative mix effects from E-commerce
- EBITDA of NOK 26 million and a margin of 3.9%
  - OPEX increase from 30.3% to 31.1% due to negative like for like growth in the stores
  - Significantly lower gross margins



Finland – Tough comparable numbers

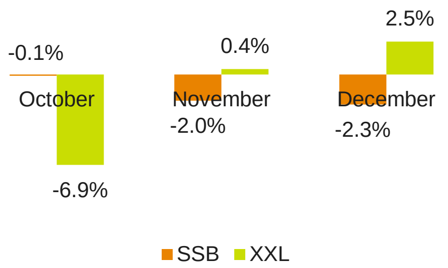
- Like for like growth of 1.4% in local currency
  - Strong growth from E-commerce
  - Negative like for like growth in the stores
- Tough comparable numbers driven by good selling conditions in Q4 last year
- Gross margin declined with 2.4 points to 33.8%
  - Lower supplier volume bonuses with negative effect of 1.5 points
  - Mix effects of strong growth online
- OPEX up 2.6 points YoY to 29.4%
  - Negative like for like growth in the store
- EBITDA of NOK 20 million and a margin of 4.4%
  - Negative like for like growth in the stores
  - Lower gross margins

Amounts in MNOK

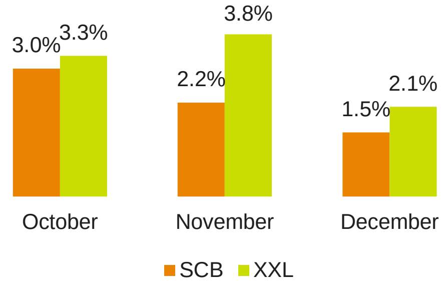


Market data

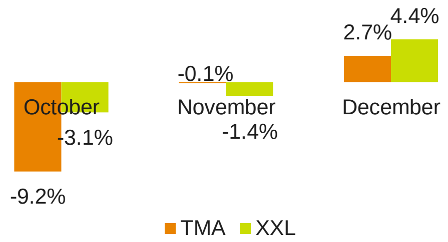
Norway
SSB vs. XXL monthly growth (YoY)



Sweden
SCB vs. XXL monthly growth (YoY)



Finland
TMA vs. XXL monthly growth (YoY)

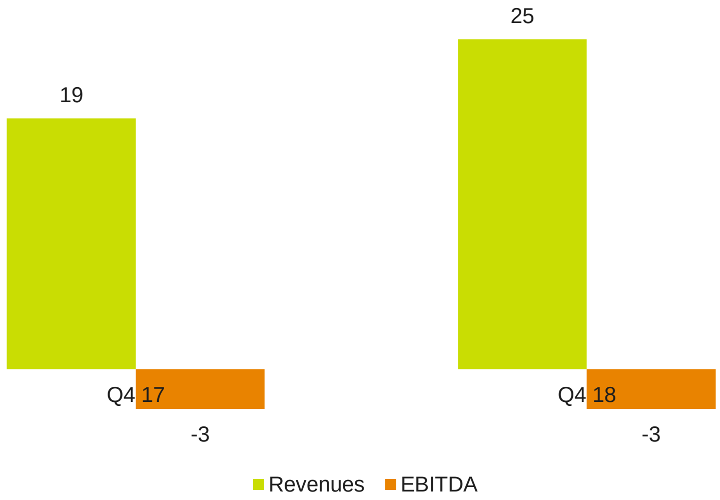


- Achieving momentum during the quarter
- Strong Christmas sales
- Gaining market shares in all markets

Denmark – Continued growth

- Revenue growth of 30% YoY in local currency
- More aggressive campaigns to take volume
  - Gross margin declined from 18.7% to 15.3% YoY
  - Black Friday activities
  - High share of freight and return costs
  - Sales mix effects – higher AOV but lower margins
- OPEX% improved by 5.1 points to 27.4%
  - Scale in the operations
- Negative EBITDA of NOK 3 million
  - Low gross margin
- XXL has a competitive business model

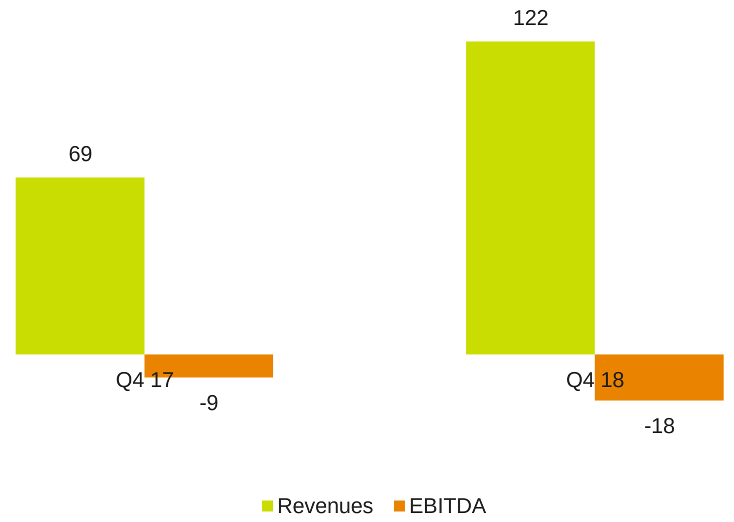
Amounts in MNOK



Austria – Adjustments drive sales volumes

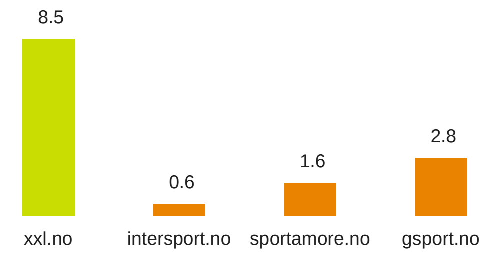
- Revenue growth of 71.2% in local currency
- Revenues of NOK 122 million in Q4 18
  - E-commerce around 25% of sales
- Constantly working on improving the offering
  - More local brands
  - Testing out marketing catchment areas and mix
  - Training of employees in the XXL culture
  - Adopting well-functioning solutions from the Nordics
- Gross margin down from 33.6% to 25.3%
  - Investing through campaigns including Black Friday activities
  - Negative mix effects from E-commerce being a larger part
- OPEX% down from 47.0% to 39.6% YoY
  - Increased sales volume
  - High marketing spending when ramping up in three large cities and limited immediate synergies
  - Further increase in scale benefits when opening new stores in cities where XXL is present today
- Negative EBITDA of NOK 18 million
- Change in the local management team

Amounts in MNOK

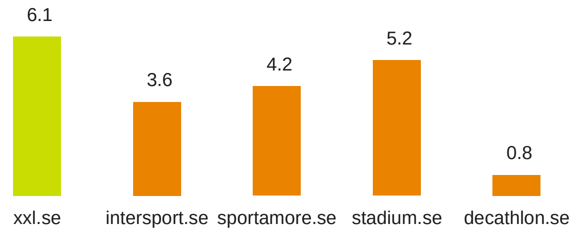


Market data – Online traffic

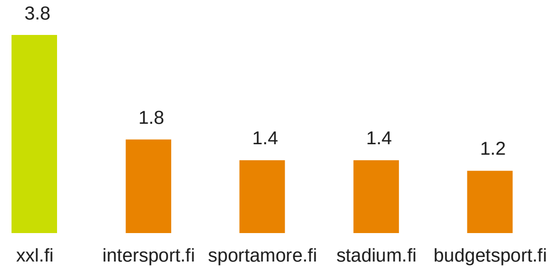
Norway
Q4 18 total visits in millions



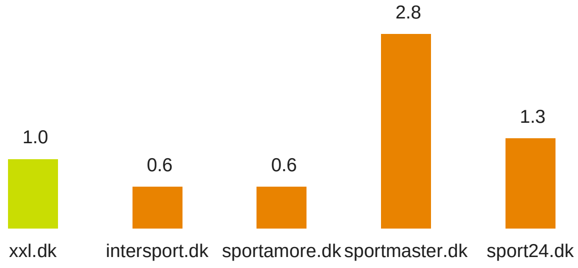
Sweden
Q4 18 total visits in millions



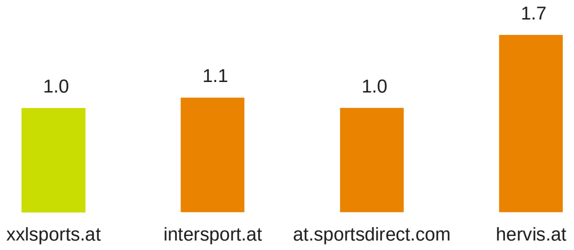
Finland
Q4 18 total visits in millions



Denmark
Q4 18 total visits in millions



Austria
Q4 18 total visits in millions



XXL continues with high online traffic shares in all markets

Source – non-unique visitors from SimilarWeb, Google Analytics

HQ and Logistics – Investing in future model

- OPEX of NOK 115 million to 4.5% of Group sales
  - NOK 10 million in one time effects or 0.4% of Group sales
- Lower sales volume in the quarter
- Sales and volumes concentrated to heavy campaign periods hurting the efficiency in flow of goods
- Several new recruitments to central functions including purchasers, technical system architects and IT-resources
- Infrastructure investments of NOK 66 million in 2018
- XXL continues to invest in the future omni-channel model

Highlights 2018 - Group

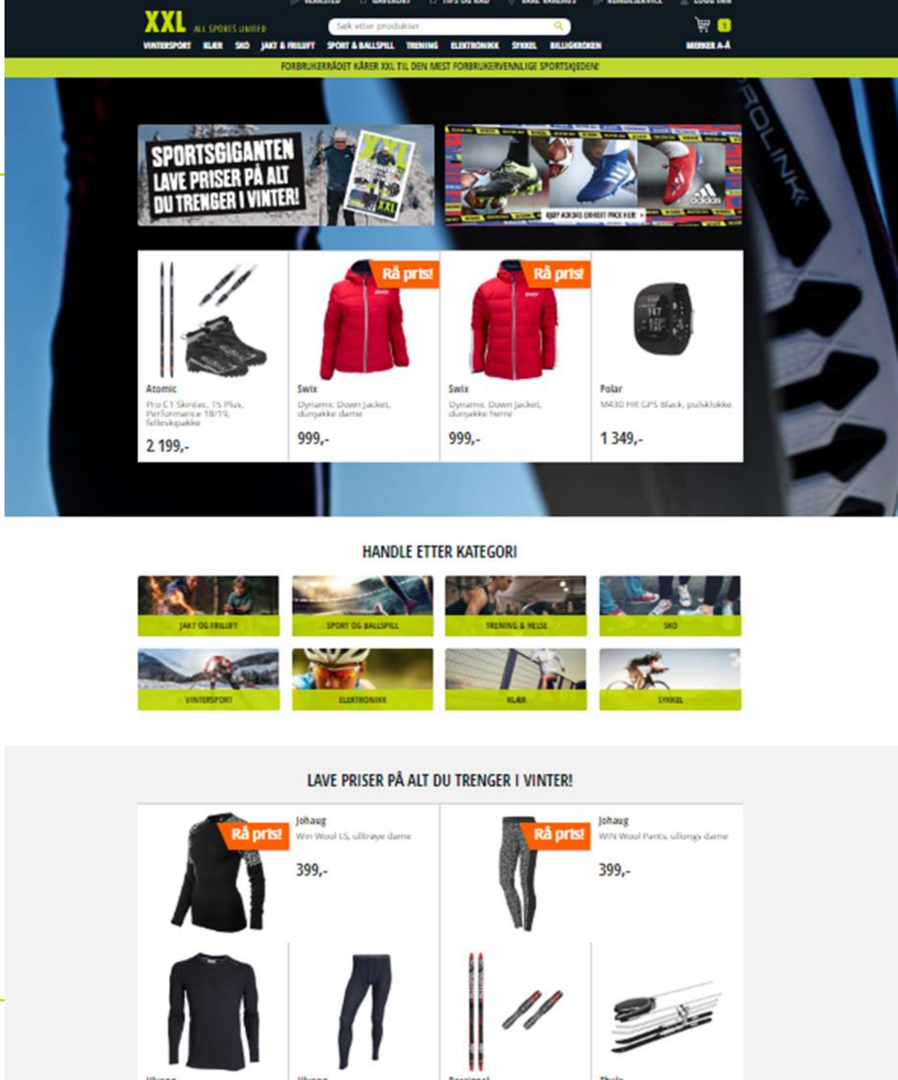
- Revenue growth of 9% to NOK 9.5 billion
  - Negative like for like growth of 0.3%
  - E-commerce growth of 38%
  - Positively impacted by good winter conditions in the start of the year, negatively impacted by a long and warm summer and autumn season
- Opened 7 new stores
- E-commerce equaled 16.3% of Group sales (12.9% LY)
  - Strengthened the organization
  - Personalization features introduced after successful pilots
  - Rolled out omni-channel stock solution
  - Introduced new media system and invested in new automated photo studios
  - Launched new sales site (louds.no) and introduced pure online based offering for sport teams
- EBITDA-margin of 5.7% (9.5% LY)
  - Disappointing Q4 2018 results development
- Cash flow on par with last year despite significantly lower results
- Long term strategy remains firm – delivering on the plan of making XXL an omni-channel champion

Priorities going forward

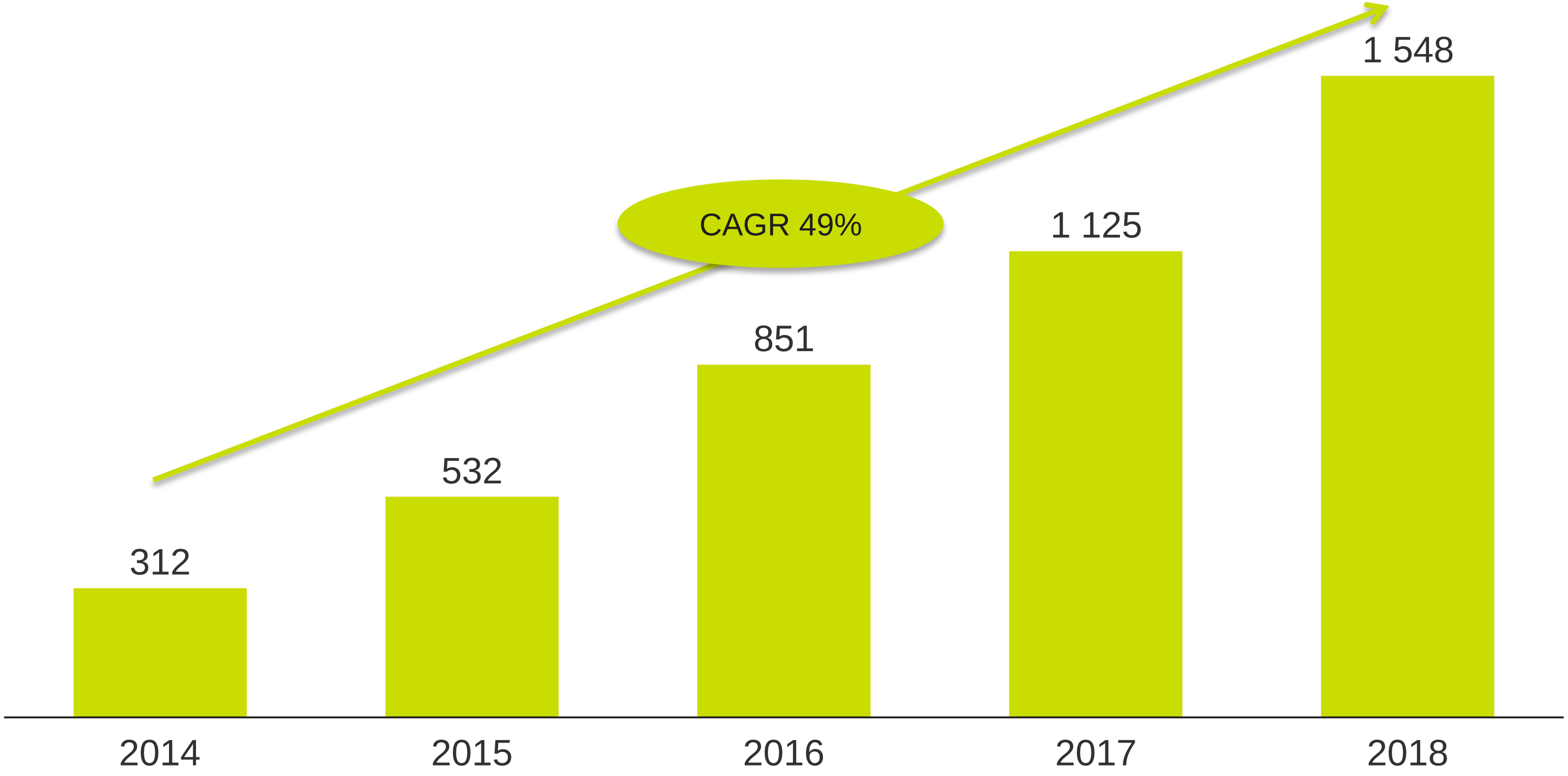
- Improving the omni-channel customer experience
- Drive like for like growth
- Protect the gross margin
- Deliver on the OPEX 25% project
- Improve the Swedish business opportunities

New digital initiatives

- Omni-channel stock solution further improved
  - Rolled out in all markets – Finland as the last one in Q4 18
  - Strengthened the algorithms that control gross margin, products to be sold, price limits and prioritize which location to be used for delivery
  - Testing out selling products from the total XXL stock in all stores
  - Improve sold out situation and broadening the available assortment
  - Optimizing the value chain over time
- Personalized landing pages based on navigation behavior
  - Successful pilot – now rolled out in Norway and Sweden
  - Fully automated, cookie based
  - Improved relevancy and customer experience
  - Enhanced efficiency for technical development
  - Lift in both CR and AOV
- Improved segmentation activities both on site and in newsletters
  - Driving relevancy and after sales
- RFiD for outbound deliveries
  - Improves flow of goods and tracing of parcels and deliveries online
  - Will be evaluated as a tool for inventory improvement and in-store stock control



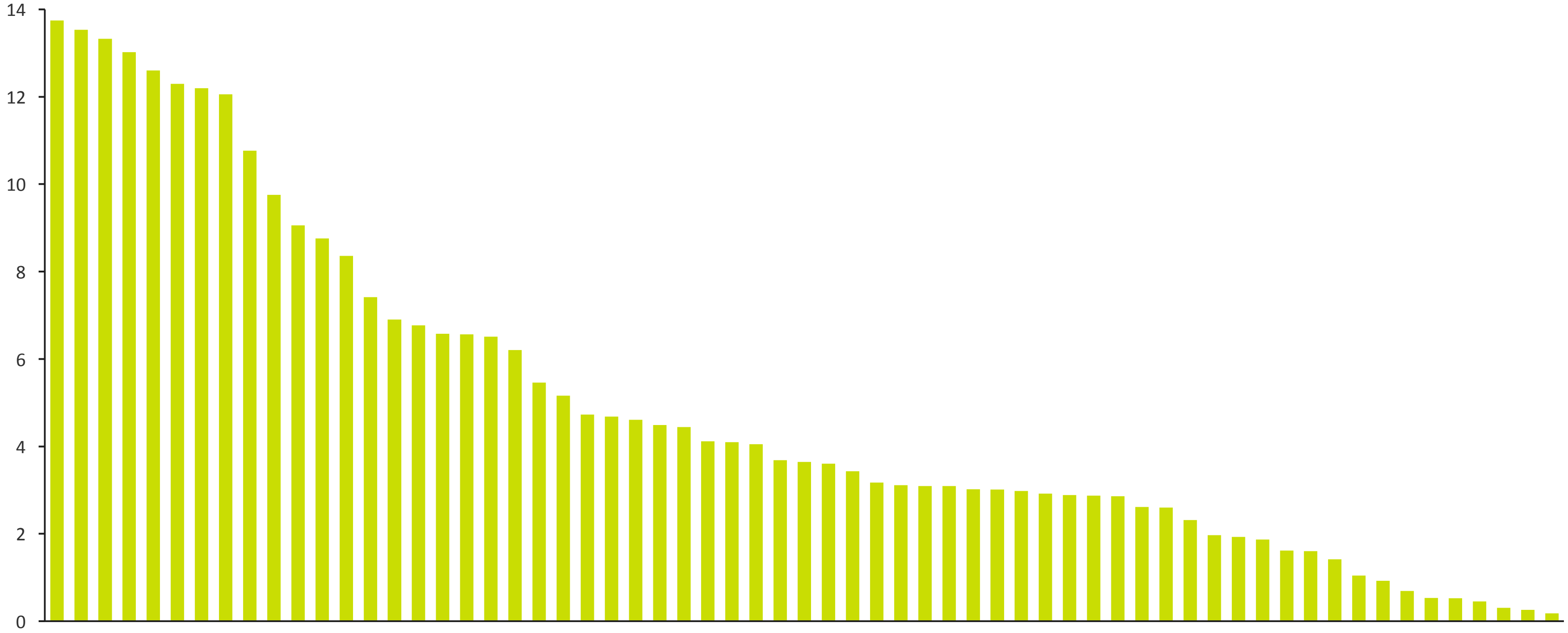
E-com – delivering significant growth



Very solid profit base – all like for like stores are profitable

NOK thousand (2018)

EBITDA by square meter sales area for the LFL store



Excluding HQ costs

XXL the winning concept

XXL
Plassering: 1
Poeng: 558
Antall varehus: 36

Åpent kjøp **uåpnede** varer	☺
Åpent kjøp **åpnede** varer	☺
Bytterett varer **tatt i bruk**	☺
Prisløfte	☺
Annonsegaranti	☺
Nettpris i butikk	☺
Utvidet garanti	☺
Gratis sykkelservice	☺

- Study made by the Norwegian Forbrukerrådet (Norwegian Consumer Council) in January 2019
- XXL ranked as the best sports retail chain in Norway on consumer friendly solutions

XXL på topp

På toppen av vår liste finner vi altså XXL. Velger du ett av XXL-kjedens 36 varehus, blir du møtt av usedvanlig rause og forbrukervennlige ordninger. XXL belønnes med hele åtte grønne smilefjes, noe kjeden er alene om.

XXL er for øvrig en veteran når det kommer til forbrukervennlige ordninger. Samtlige ordninger ble innført allerede i 2001 og har åpenbart bidratt til å trekke hele sportsbransjen i en mer forbrukervennlig retning.

– ¬Med så rause ordninger er det svært liten risiko for å gå i baret som forbruker, uttaler Pia Cecilie Høst, leder for forbrukerdialog, i en artikkel om kåringen på Forbrukerrådets nettsider.

Financial review

Income statement

- Q4 2018
  - Disappointing Q4 2018 results
  - Revenue growth of 2%
  - Significantly reduced gross margins
    - Down 5.8 points to 36.2%
  - Net financials with positive currency effect of NOK 6 million (NOK 9 million)
- 2018
  - Below expectations driven by a very weak Q4
  - Revenue growth of 9%
    - Driven by new stores and E-commerce
  - Gross margin down 2.2 points to 37.3%
  - Establishment in Austria with NOK 70 million negative EBITDA effect
  - Net financials with negative currency effect of NOK 1 million (positive of NOK 11 million)
  - Estimated tax rate of 20.0% for 2018
  - Net profit of NOK 236 million

Amounts in MNOK	**Q4 18**	**Q4 17**	**2018**	**2017**
Total operating revenue	2 569	2 525	9 475	8 709
Operating income	64	283	352	668
Net financials	-9	-5	-57	-42
Profit before income tax	55	278	295	626
Income tax expense	11	44	59	114
Net profit	44	234	236	512

Cash flow

- Cash flow on par with last year despite significantly lower results
  - Improved working capital especially reduced inventory
  - Lower CAPEX
- Reduction in inventory per store despite lower sales than expected
  - NOK 37.1 million vs. NOK 39.4 million LY
  - Above target of normalization of NOK 35 million but aiming to be closer to target by end of 2019
- Cash by financing activities related to dividends, share buy backs and lower proceeds from short term debt
- Proactively agreed on new covenants going forward
  - No share buy backs nor dividends before Q4 2019 at the earliest
  - Clear ambition of coming back to dividend distribution and delivering on the dividend policy
- Liquidity of NOK 695 million by the end of the year
- Net interest bearing debt of NOK 1 881 million
- Leverage ratio (NIBD/ EBITDA) of 3.48x

Cash flow

(Amounts in MNOK)	**2018**	**2017**
Cash provided by operating activities	460	490
Cash used by investing activities	-243	-304
Cash provided (used) by financing activities	-336	13
Net change in cash and cash equivalents	**-119**	**199**
Cash and cash equivalents beginning of year	314	115
Cash and cash equivalents end of period	194	314

Changes in working capital

(Amounts in MNOK)	**2018**	**2017**
Changes in inventory	-89	-453
Changes in receivables	12	-88
Changes in payables	32	177
Other changes	77	140
Change in working capital	**32**	**-224**

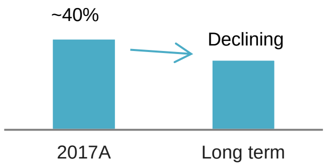
Our Long-Term Objectives: Group Level

Net turnover

- ✓ **6 – 8 new stores p.a.**
- ✓ **LfL: low single digits**
- ✓ **E-Commerce share of total revenues: towards 30% in 2023**

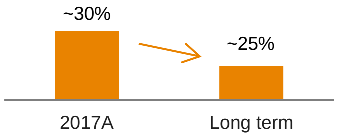
Gross margin

- 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



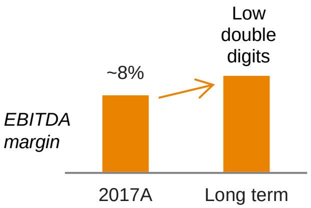
EBITDA margin

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

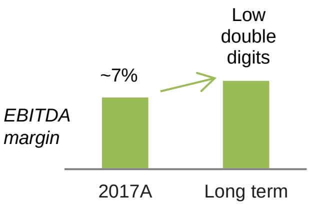
Our Long-Term Objectives: Country Level

Norway

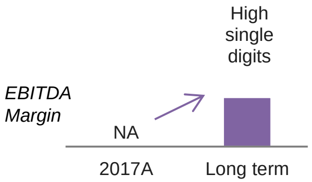
Sweden



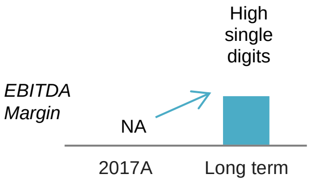
Finland



Denmark



Austria



Outlook

- Revenues increased by 1% in January 2019 to NOK 762 million
  - Solid improvement in gross margins
  - Good winter conditions in Finland and Austria
  - More mixed in Norway and Sweden, but improved late in the month compared to last year
- Short term actions and adjustments showing improvements already
- XXL has signed 5 new lease agreements for store openings in 2019 where of 2 in Sweden, 2 in Finland and 1 in Austria and aims for 6-7 stores in total for 2019
- In line with the existing growth strategy, XXL will continue to invest in new stores, E-commerce platform, existing stores, infrastructure, automation and IT. Total CAPEX for XXL Group in 2019 is expected to be around NOK 200 million

Summary

- Disappointing results in 2018 mainly explained by very weak Q4
- Short term actions and adjustments showing improvements already
- Liquidity reserve of NOK 0.7 billion
- Proactively agreed on new covenants going forward
- Long term strategy remains firm – delivering on the plan of making XXL an omni-channel champion

Appendix

IFRS 16 implementation – preliminary estimates

Preliminary effects on Group BS

	Implementation effects 01.01.2019
Assets	
Right of Use Assets	+3.1-3.3 bNOK
Equity and liabilities	
Lease liabilities	+3.1-3.3 bNOK

Preliminary effects on Group PL

	Estimated 2019 P&L effects
Group revenue	
COGS	
Opex	Reduced by 520-550 mNOK
EBITDA	Increased by 520-550 mNOK
Depreciation	Increased by 485-510 mNOK
Net Financial Cost	Increased by 85-100 mNOK
Profit before Tax	Reduced by 50-60 mNOK

- Significant impact on both Balance Sheet & P&L
- Terms in Loan agreement unaffected by IFRS 16 effects
- Estimated P&L effects for 2019 are based on actual contracts signed [1] at the time of the implementation. New lease contracts added during 2019 are not included.
- Implementation effects can be subject to change and are not yet audited

[1] 3 out of 5 contracts signed for 2019 are included in our calculations for P&L effects for 2019. P&L effects of two remaining contracts are though included in the expected range stated above.

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