XXL ASA – Q2 2019

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.

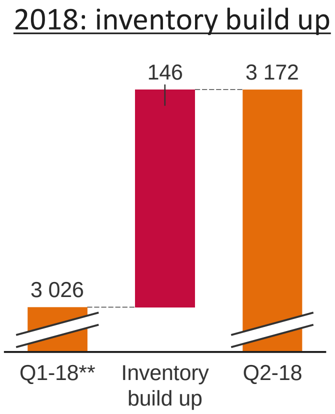
Important factors may lead to actual profits, results and developments deviating substantially from what has been expressed or implied in such statements. Although XXL believes that its expectations and the presentation are based upon reasonable assumptions, it can give no assurance that those expectations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

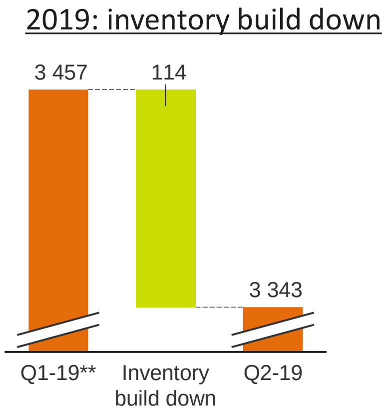
XXL is making no representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the presentation, and neither XXL nor any of its directors, officers or employees will have any liability to you or any other persons resulting from your use.

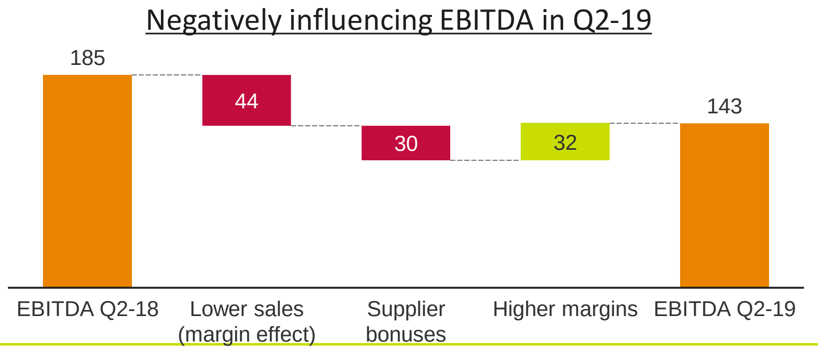
This presentation was prepared for the interim results presentation for the second quarter 2019, held on 19 July 2019. Information contained herein will not be updated. The following slides should also be read and considered in connection with the information given orally during the presentation.

Development second quarter 2019

- Weak sales partly compensated by strong development in gross margins
- Lower purchasing volumes resulted in around NOK 30 million lower supplier bonuses
- This is driven by the key focus on reducing the inventory
- Significantly higher gross margin of 39.2% compared to 38.5% in Q2 2018 despite lower inventory
- EBITDA* of NOK 143 million but around NOK 173 million when excluding for the lower supplier bonuses
- Leverage ratio of 4.05x Net Debt/EBITDA*
- Liquidity reserve of NOK 0.5 billion - in line with last year



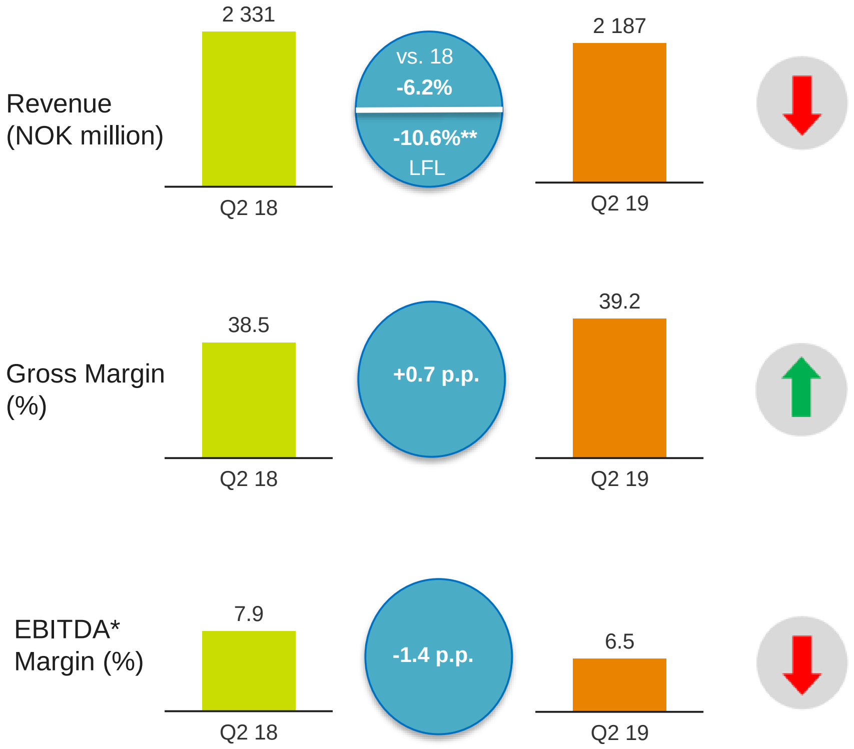




* Excluding effects of IFRS 16 **Q1 inventory levels adjusted for currency translation effects

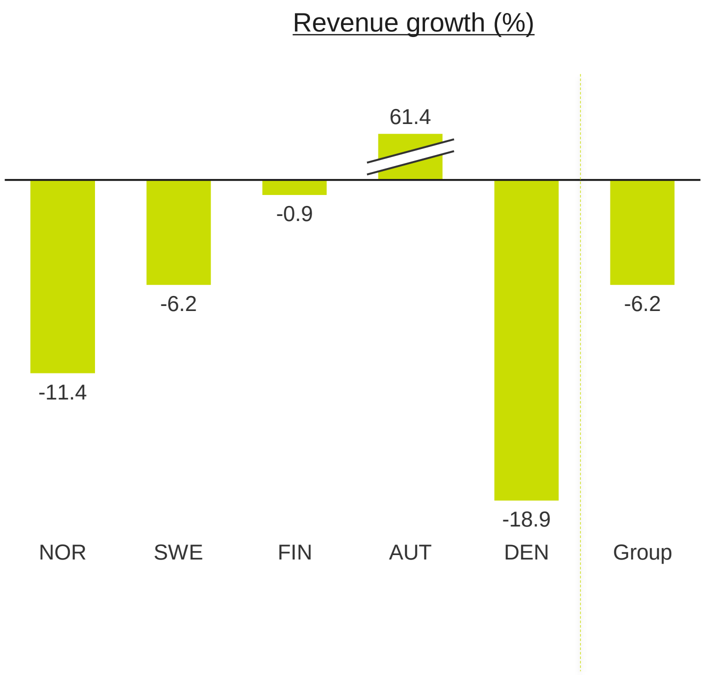
Highlights second quarter 2019

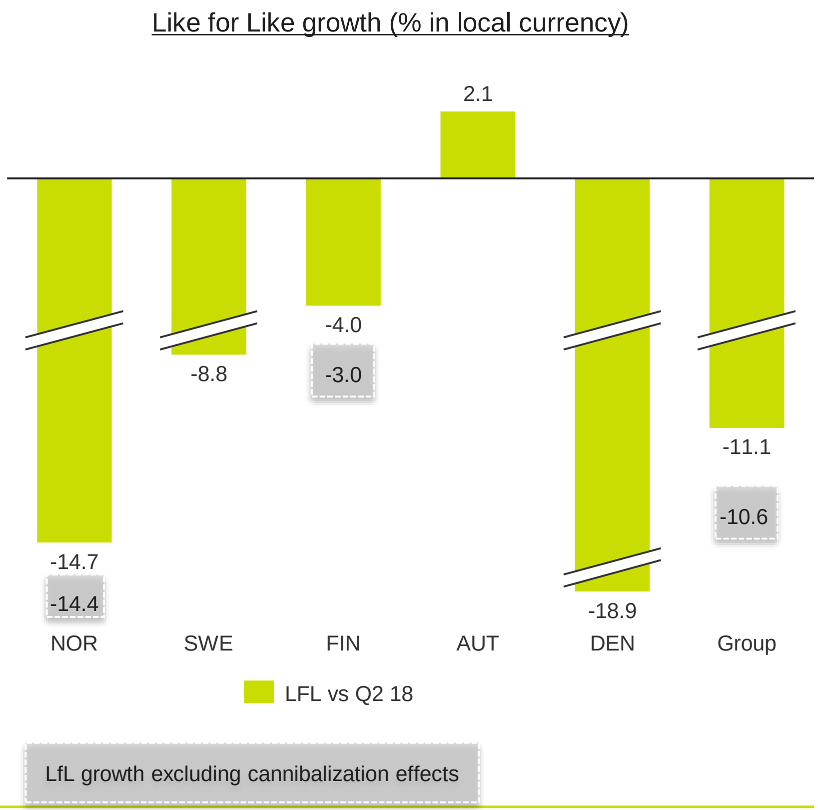
- Revenues down 6% driven by significantly negative LFL growth and sluggish market conditions - disappointing
- Partly explained by continued focus on profitability vs. growth and the reduction in the inventory
- Significantly higher gross margin
- Negative like for like growth impacting cost leverage
- Cost reductions mirroring the weaker sales growth
- Optimizing the sweet spot on growth/gross profit and reducing inventory over time



* Excluding effects of IFRS 16 ** Excluding cannibalization effects

Growth split by markets

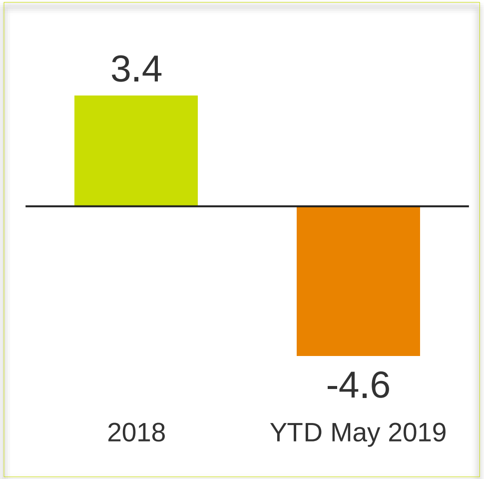




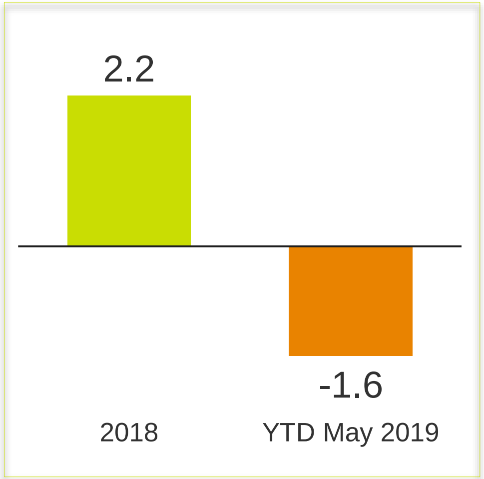
Overall sluggish market growth in the Nordics

XXL

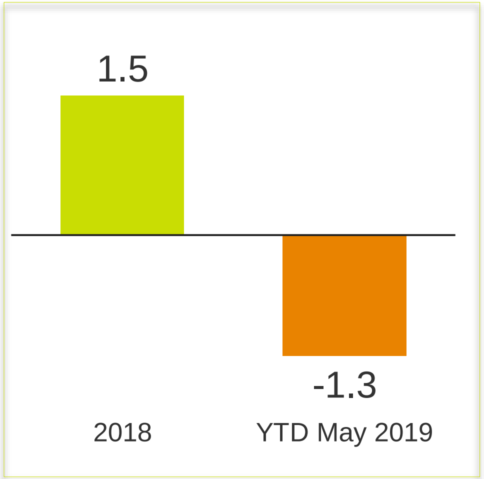
Norway



Sweden



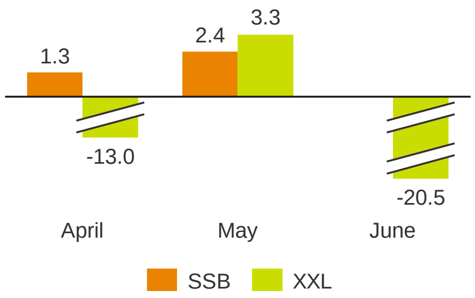
Finland



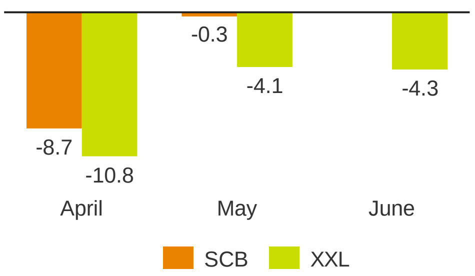
Sources: NO – 2018: Sportsbransjen and YTD 19: SSB, SE – SCB (unweighted average), Finland - TMA

Market data

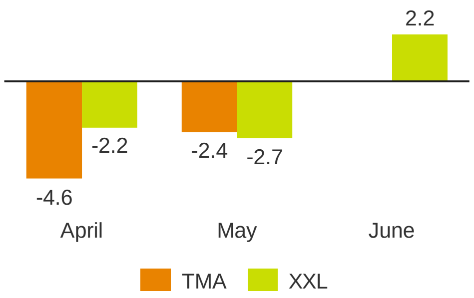
Norway
SSB vs. XXL monthly growth (YoY)



Sweden
SCB vs. XXL monthly growth (YoY)



Finland
TMA vs. XXL monthly growth (YoY)

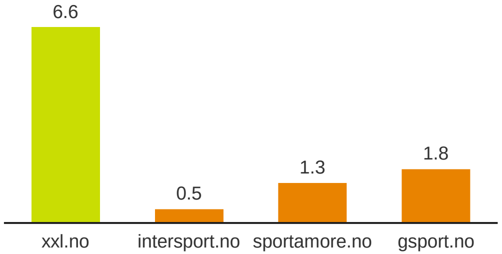


- Norway – disappointing sales trend after gaining market shares in Q1 2019
  - Some negative effects of Easter moving from March to April YoY
  - Significant sales campaign moved from June last year to May this year
  - Two less sales days in June
- Sweden – loosing momentum to be addressed
- Finland – improving market position

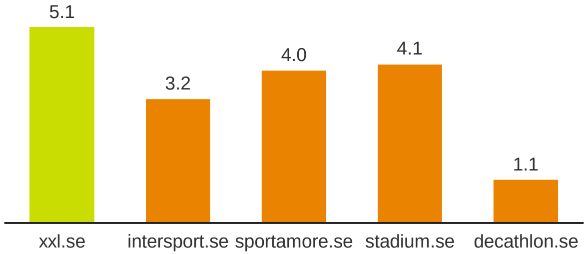
Market data – online traffic

XXL

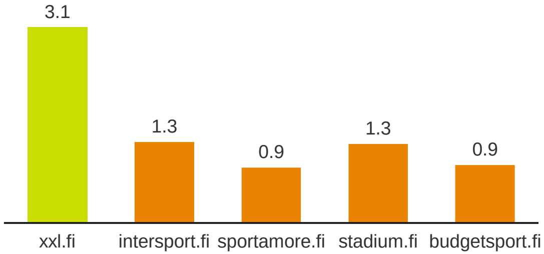
Norway
Q2 19 total visits in millions



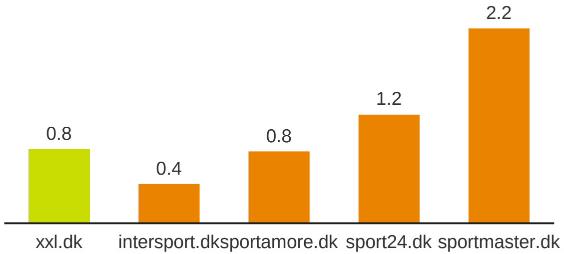
Sweden
Q2 19 total visits in millions



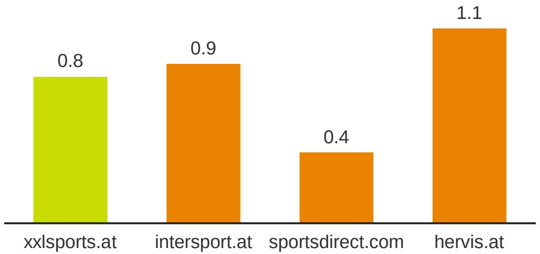
Finland
Q2 19 total visits in millions



Denmark
Q2 19 total visits in millions



Austria
Q2 19 total visits in millions



XXL continues with high online traffic shares but influenced by the changed focus towards gross profit

Source – non-unique visitors from SimilarWeb, Google Analytics

Status Q2 2019 – LFL and EBITDA

	Group	Norway	Sweden	Finland	Austria	Denmark	HQ
LFL growth	- 10.6%**	- 14.4%**	- 8.8%	- 3.0%**	+ 2.1%	- 18.9%	N/A
EBITDA* growth	- 42 MNOK	- 20 MNOK	- 33 MNOK	- 7 MNOK	+ 5 MNOK	- 2 MNOK	+ 15 MNOK
EBITDA*** growth	- 12 MNOK	- 10 MNOK	- 20 MNOK	0 MNOK	+ 5 MNOK	- 2 MNOK	+ 15 MNOK

* Excluding effects of IFRS 16 ** Excluding cannibalization effects *** Adjusted for lower levels of supplier bonuses

Actions for improving the sales development

- More focus on pricing and campaigns – online first as a driver for the stores
- Collect at store and same day delivery to be launched in H2 2019
- Broadening and improving the assortment
- Introducing new and updated E-commerce sites during H2 2019
- Services – workshops in all stores
- Improve positioning as the specialist store in selected categories
- More active price monitoring and analysis

This is the XXL concept – in stores and online

- Category focus with specialist salesmen
- Broad assortment
- Clear pricing strategy
- Focus on branded goods

Ambition of delivering on OPEX25 project

- Cost reductions mirroring the weaker sales trend
  - Cost base in Q2 2019 on par with Q2 2018 despite 5 new stores
- Negative like for like growth impacting cost leverage
  - OPEX%* increased from 30.6% in Q2 2018 to 32.6% in Q2 2019
- Growth and E-commerce development crucial in reaching the overall ambition
- Centralize and streamline
  - More efficient and automated operations
- Housing costs
  - Reduce roll-out pace of new stores – focus on Austria and a few more in Sweden
  - Negotiate more flexible contracts
  - Downsizing of existing stores
- More efficient marketing spending
- Reducing inventory down towards NOK 25 million per store
  - Improved flow of goods and supply chain strength
- Focus on core concept
  - Close down louds.no
  - Evaluate and adjust the operation in Denmark to reach break-even on a significantly lower cost base

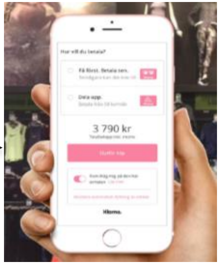
* Excluding effects of IFRS 16

Digital updates – New stock solution

Never out of stock - Receive a product from another location to the instore customer

- Live for shoes and sportswear in all Norwegian stores
- 200 customers received sold out product from central warehouse or another store in the first two weeks after launch
- Continue with roll out to all countries in Q3 2019

Improve customer experience – less sold out situations, broadened assortment online



Digital updates – Automated pickup solutions

Self service pickup points in stores

- Tower solutions with robotics in large stores as the first Nordic retailer
- Locker solutions in smaller stores
- Successful pilot in 3 stores
- 3,500 self service pickup parcels delivered since mid May
- No queues and customer satisfaction is high
- Minor operational overhead
- Further roll out to more stores planned in 2019 and 2020

- **Improve customer experience – seamless and frictionless omni-channel shopping**
- **Reduce handling time and costs in store**

Digital updates – AI based replenishment

New AI based replenishment system introduced

- Successful pilot in selected categories and stores in Norway
- Algorithms based on data from all sources in the supply chain and more
- First indications are promising
  - Significantly lower distribution of goods to stores
  - Reduced handling time for store personnel
  - More predictability for central warehouses
  - Lower stock values and accuracy
  - Limited impact on sales
- Further roll out to more stores and categories planned for the coming months

- **Ensure availability of products online**
- **Reduce costs in stores and value chain**
- **Improve purchasing volumes and timing**
- **Better campaign planning and forecasting**
- **Prerequisite for collect at store and same day delivery**

Positioning and assortment development

XXL

Example – Sleeping bags

HELSPORT

Bergans OF NORWAY

Haglöfs

THE NORTH FACE

HALTI

EXPED EXPEDITION EQUIPMENT

New brands when entering Austria

VAUDE The Spirit of Mountain Sports

SALEWA

Now introducing new specialist brands

MOUNTAIN HARDWEAR

Marmot

NEMO

Grüezi bag Wool inside

Example – Mountain Hardware

XXL

Content and inspiration online

Online assortment – available for all stores

Assortment in selected stores

Financial review

XXL

ALL SPORTS UNITED

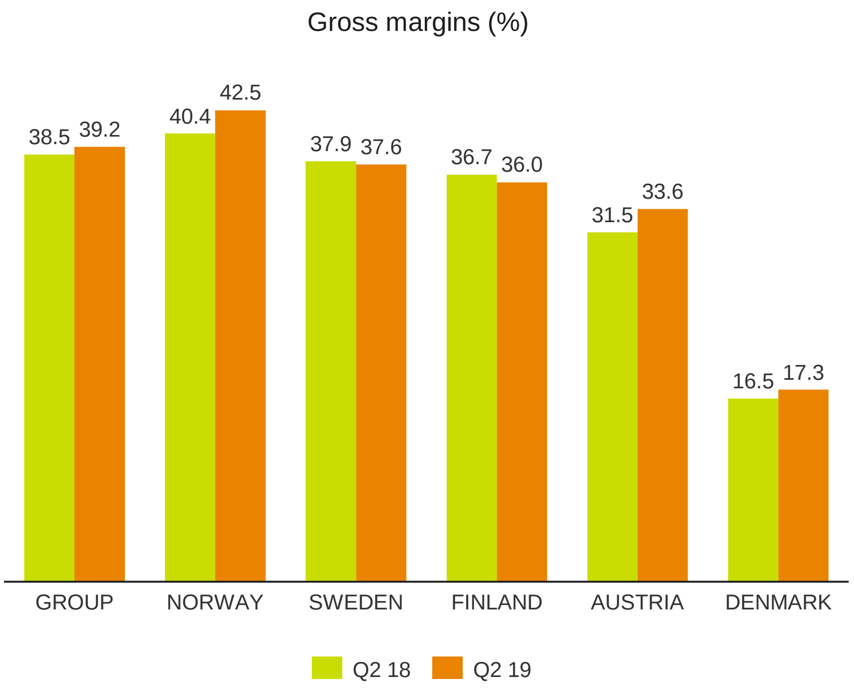
Key Figures

(Amounts in NOK million)	Q2 2019 (ex IFRS 16)	Q2 2018	H1 2019 (ex IFRS 16)	H1 2018
GROUP				
Operating revenue	**2 187**	2 331	**4 201**	4 402
Growth (%)	***-6,2 %***		***-4,6 %***	
Gross profit	**856**	898	**1 677**	1 682
Gross margin (%)	***39,2 %***	*38,5 %*	***39,9 %***	*38,2 %*
OPEX	***714***	*713*	***1 480***	*1 446*
OPEX %	***32,6 %***	*30,6 %*	***35,2 %***	*32,8 %*
EBITDA	**143**	185	**197**	236
EBITDA margin (%)	***6,5 %***	*7,9 %*	***4,7 %***	*5,4 %*
EBIT	**94**	139	**100**	145
Net Income	**63**	96	**52**	87

- Disappointing top line development in Q2 vs. LY: - 6.2%
  - Negative growth in Norway, Sweden and Denmark
  - Negative like for like growth of -10.6%**, and in all countries, except Austria with positive lfl growth
- Gross margins at high levels in both Q2 and H1 2019, despite lower supplier bonuses
- Opex in MNOK at the same level as last year although 5 new stores, explained by adjusted cost level in Norway and reduced HQ costs
- Opex % of turnover hampered by lower sales
- Short term focus is to increase volumes and sales through more focus on pricing and campaigns

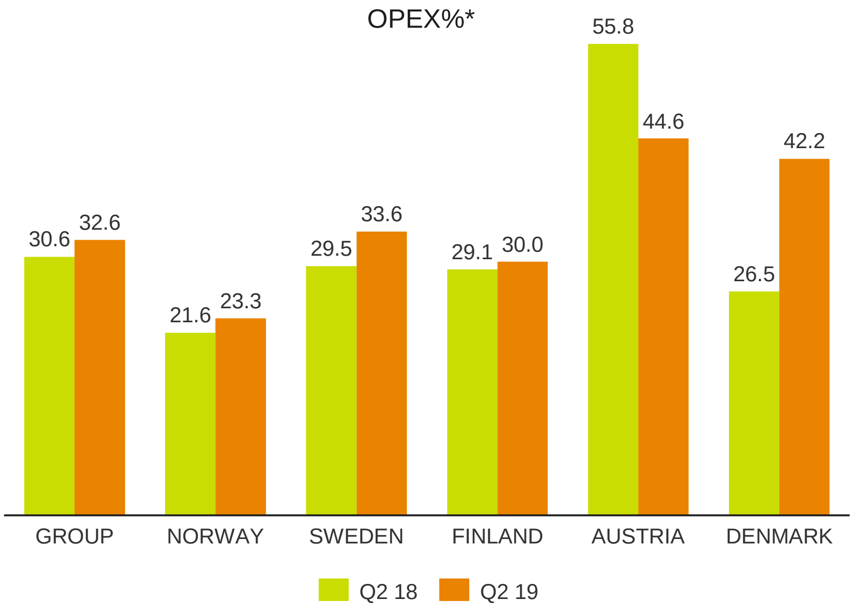
** Excluding cannibalization effects

Gross margin development



- Continued margin improvement - gross margin was 39.2% in Q2 2019 vs. 38.5% in Q2 2018
- Margins in Norway, Sweden and Finland partly affected by lower supplier bonuses related to inventory build-down
- Moving into Q3 XXL will fight more aggressively on price

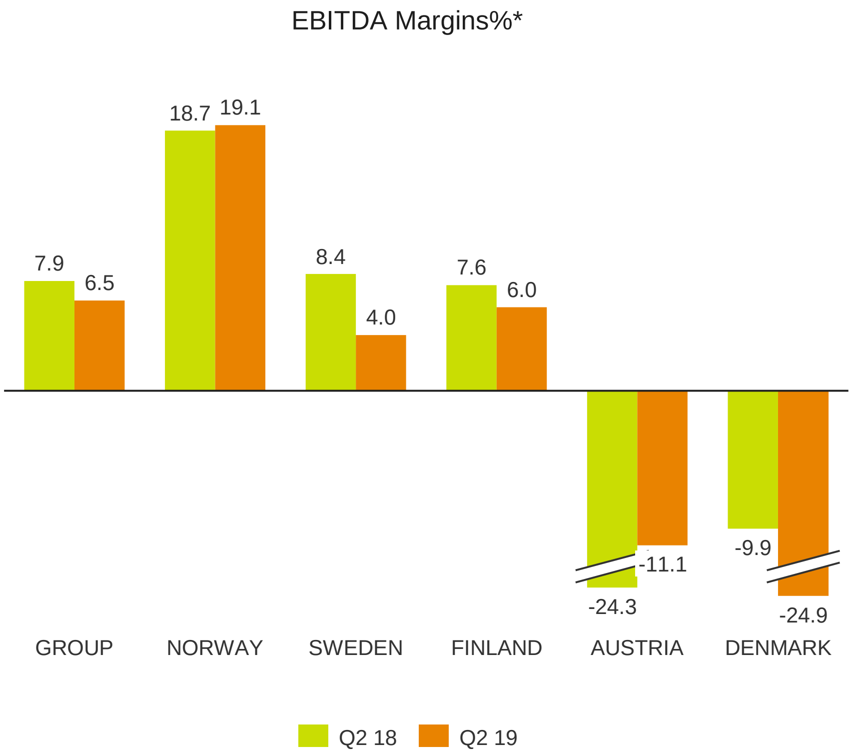
OPEX development (ex IFRS16)



- Group Opex in MNOK at the same level as last year – with 5 more stores
- Group OPEX% up by 2.0 points to 32.6% YoY
  - Driven by negative like for like growth of 10.8%
- Negative like for like growth in the stores impacting the cost leverage
- Decreased costs in HQ and Logistics segment, partly explained by lower bonus payments
- Austria showing improvements

* Excluding effects of IFRS 16

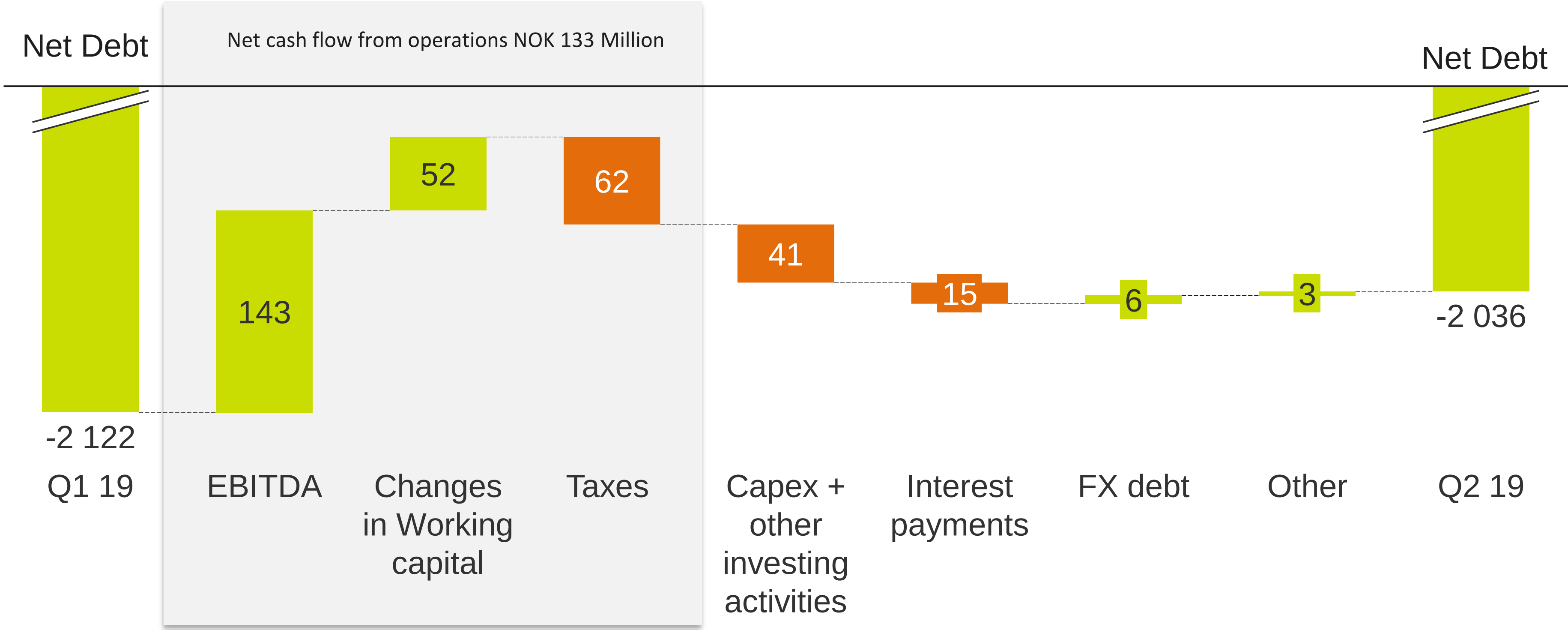
EBITDA development (ex IFRS16)



- Negative EBITDA development of NOK 42 million
  - reduced supplier bonuses of NOK 30 million
  - negative revenue growth
- Negative like for like growth in the stores in all markets except for Austria
  – Impacting the cost leverage
- Negative EBITDA in Austria of NOK 13 million (NOK 18 million)
- Denmark – will be addressed

* Excluding effects of IFRS 16

Net debt development (ex IFRS16)

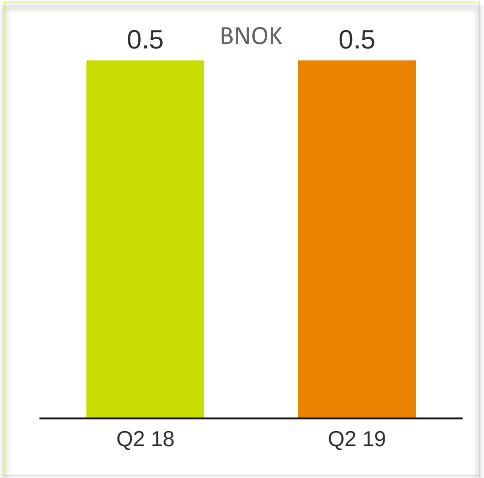


Liquidity reserves ending at NOK 0.5 billion

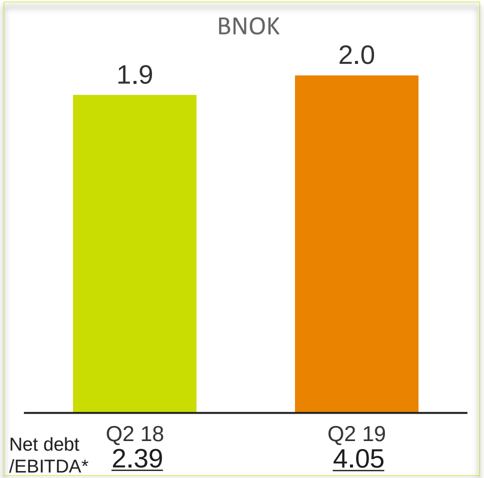
XXL

Operational cash flow*

Liquidity reserves



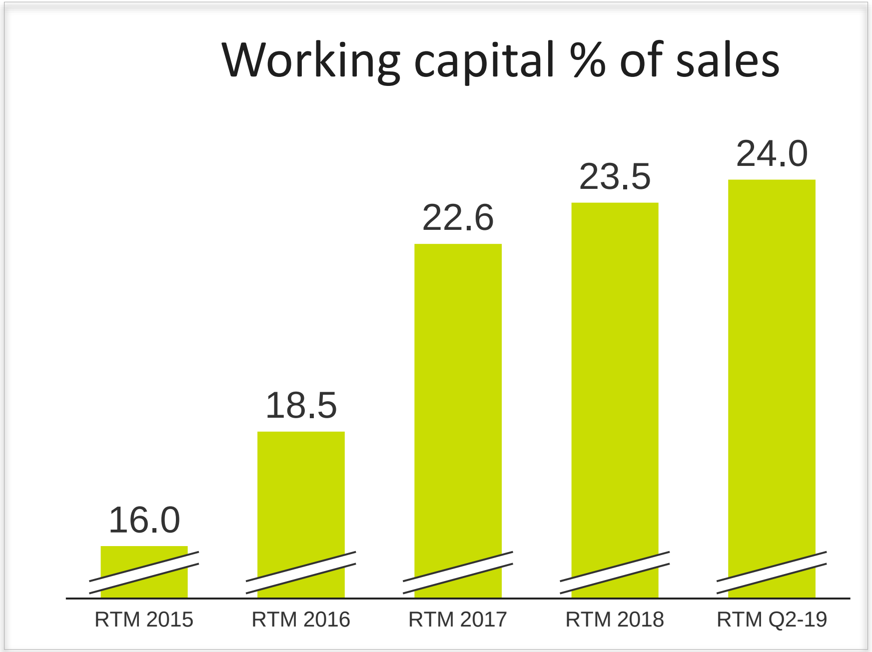
Net interest bearing debt



* Excluding effects of IFRS 16

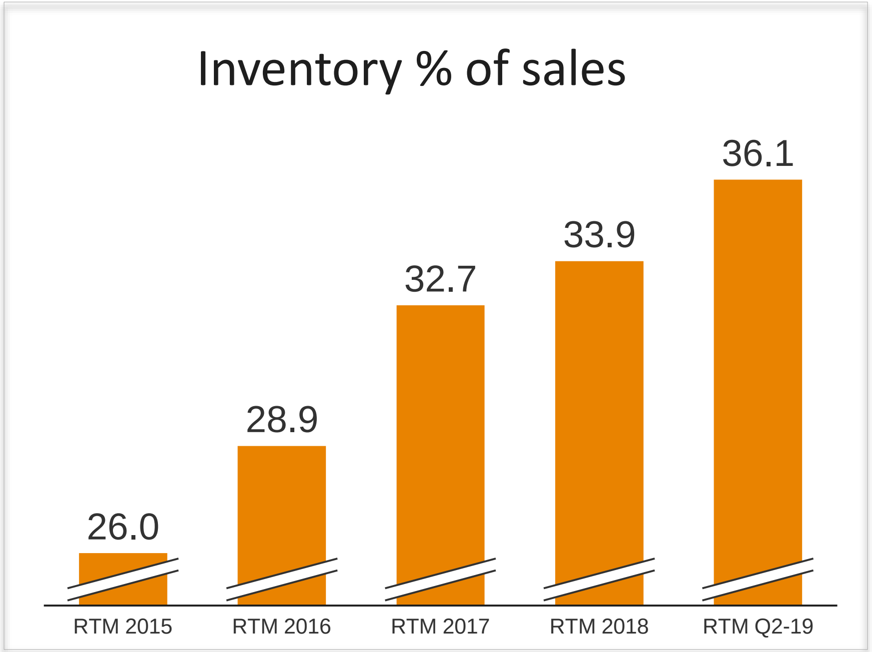
Working capital – an unhealthy development during the last years

Working capital – negative development



RTM Q2 2019 numbers

Especially the inventory has increased

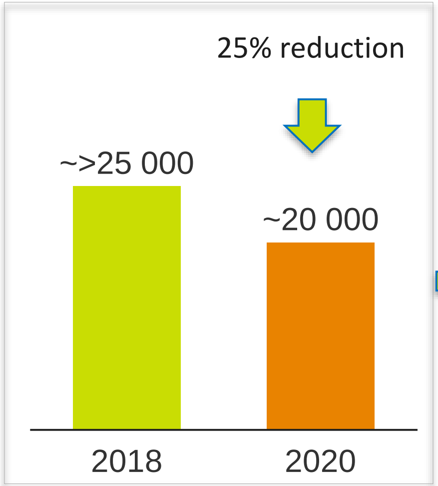


RTM Q2 2019 numbers

Ambition - Inventory down towards NOK 25 mill per store

XXL

SKU reduction



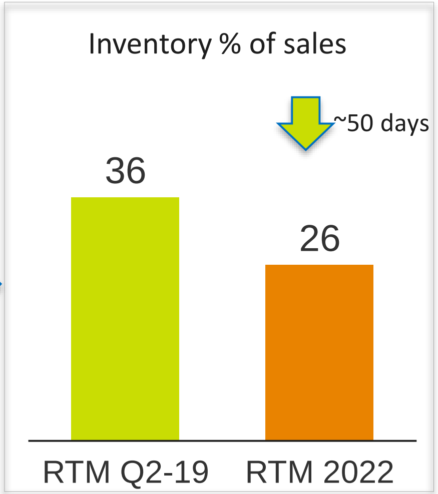
Suppliers downscale

New routines and systems

RELEX

- Implement new AI replenishment system
- Reduce internal prognosis
- Reduce pre-orders
- More balanced risk sharing with suppliers
- Downsize stores

Reduction in Inventory



Increasing Cash Productivity = Free up > NOK 900 mill

* Purchased SKU's and Suppliers in 2018

Summary

XXL

Q2 19 takeaways

- Sluggish markets in the Nordics – decline in Norway, Sweden and Finland
- XXL had negative sales growth of -6.2%, and LfL growth of -10.6%**
- Strong gross margin improvement, but hampered by lower supplier bonuses
- EBITDA* decline of NOK 42 million
- Successful reduction of inventory contributed to positive cash flow in Q2 19
- Liquidity reserves of NOK 0.5 billion and Net debt of NOK 2 billion

Priorities

- Regain sales momentum and improve positioning
  - fight more aggressively on price and campaigns
  - relaunch of E-com sites in H2 19
  - improve customer experience (same day delivery, self check out, collect at store)
- Improve price monitoring and analysis
- Reduction of inventory

Outlook

- 5 new lease agreements signed – Aim 4-5 new stores in 2019
- Slow down the pace of the store roll-out – focus on Austria and some in Sweden
- Downsizing smaller stores and renegotiate rental contracts
- Mid-term ambition of inventory per store of NOK 25 million
- Capex NOK ~180 mill
- Long term objectives stay firm

* Excluding effects of IFRS 16 ** LfL growth excluding cannibalization effects

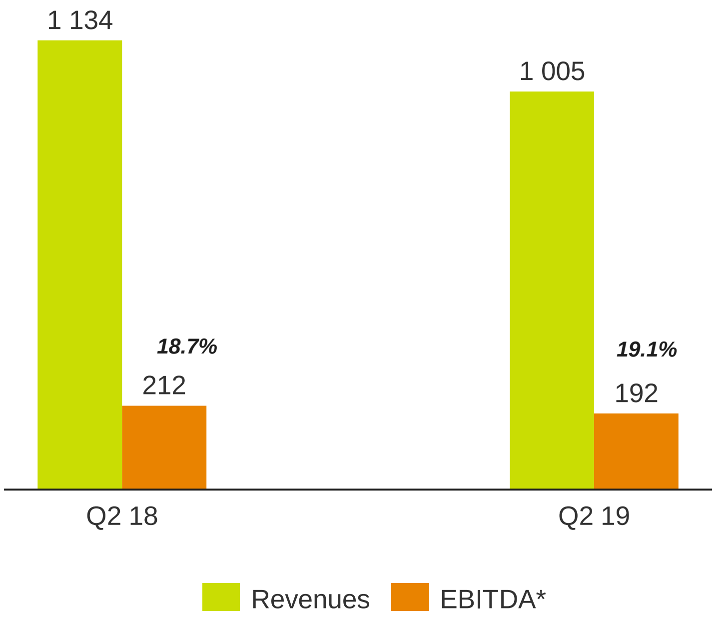
Appendix

XXL
ALL SPORTS UNITED

Norway

- Disappointing sales development after gaining market shares in Q1 2019
- Negative like for like growth of 14.8%
  - 14.4% adjusted for cannibalization effects
  - Focus on gross profit affects sales volumes
  - Impacting the cost leverage negatively
- Significantly higher gross margins – up 2.1%p to 42.5%
- Cost reductions mirroring the weaker sales
- EBITDA-margin* up 0.4 points to 19.1%

Amounts in MNOK

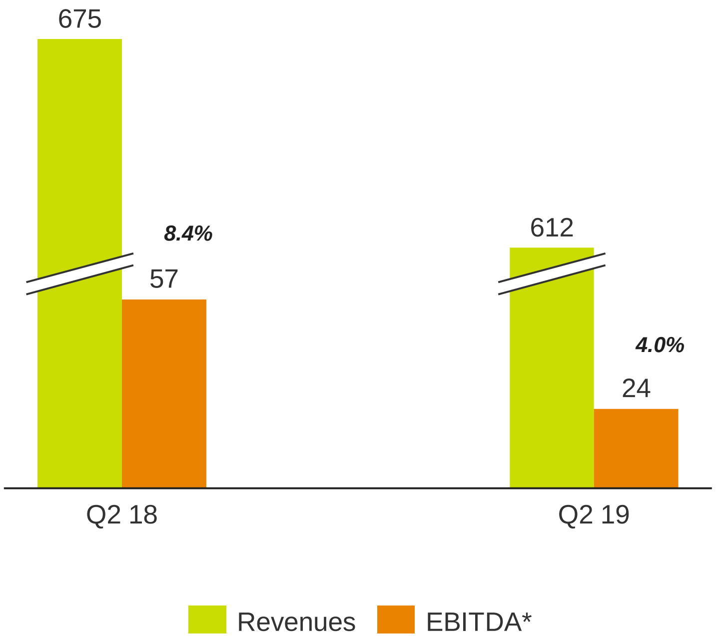


* Excluding effects of IFRS 16

Sweden

- Volatile and price focused market
- Like for like growth down 8.8% in local currency
  - Affecting the cost leverage negatively
- Shift in focus towards profits affected sales
- Negative development in gross margin of 0.3%p to 37.6% explained by lower supplier bonuses of NOK 13 million
- EBITDA* of NOK 24 million and a margin of 4.0%
- Improvements in Sweden is top priority and a key strategic project

Amounts in MNOK

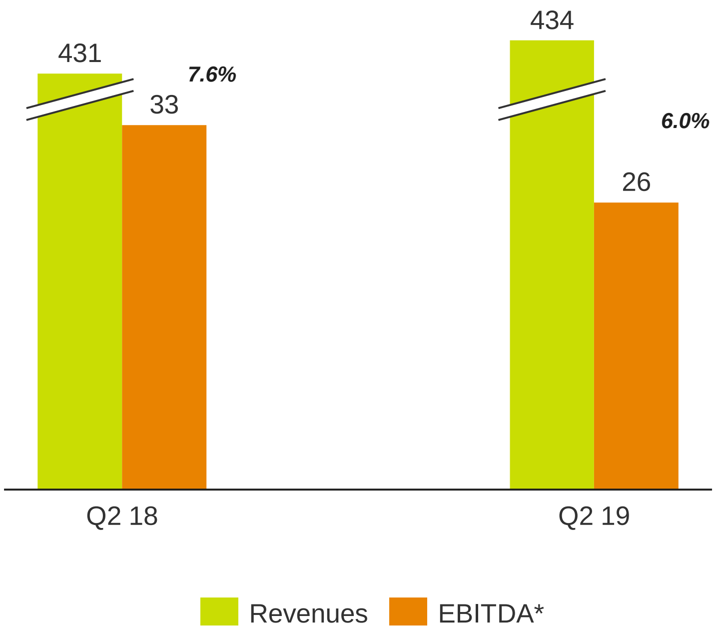


* Excluding effects of IFRS 16

Finland

- XXL still the winner in the market and gaining market shares
- Stable revenues YoY
- Negative like for like growth of 3% when adjusting for cannibalization effects
- Lower supplier bonuses of NOK 7 million impacting the gross margin and EBITDA negatively
- EBITDA* of NOK 26 million (NOK 33 million)

Amounts in MNOK

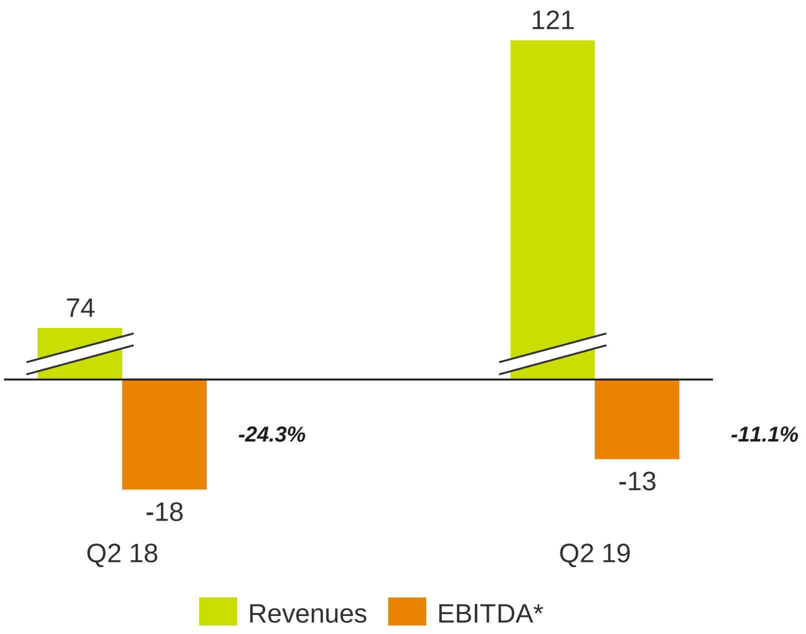


* Excluding effects of IFRS 16

Austria

- Revenue growth of 52.9% in local currency driven by new stores and E-commerce
- Opened a new store in the city centre of Vienna
  - Contributing to scale benefits in the overall operations
- Constantly working on improving the offering
- Like for like growth up 2.1% in local currency
- Gross margin up 2.1%p to 33.6%
- OPEX%* down from 55.8% to 44.6% YoY
- Negative EBITDA* of NOK 13 million

Amounts in MNOK

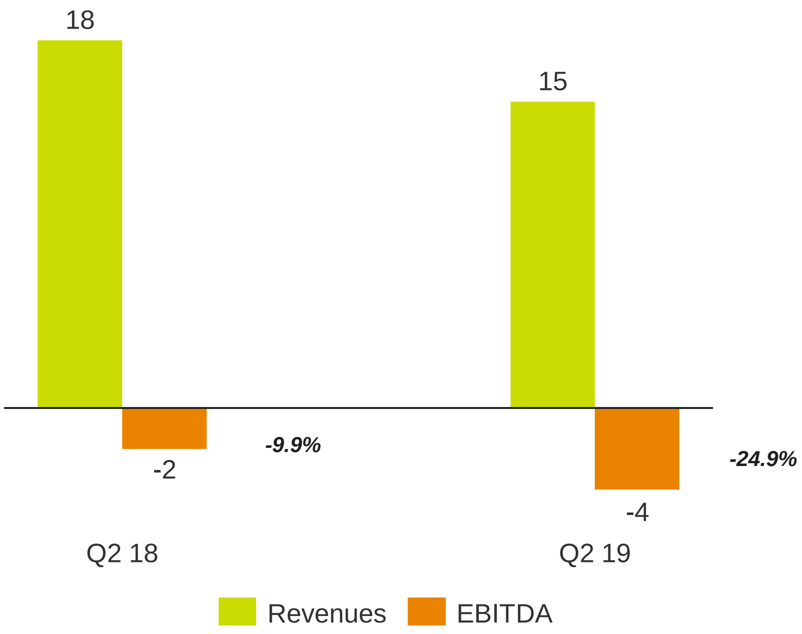


* Excluding effects of IFRS 16

Denmark

- Revenues declined 18.9% in local currency
- Gross margins improved from 16.5% to 17.3% YoY
  - Negative effect on sales volumes as well
- EBITDA loss of NOK 4 million
  - OPEX% increase due to negative growth
  - Slightly offset by gross margin improvement
- Adjustments to reach break-even on a significant lower cost base

Amounts in MNOK

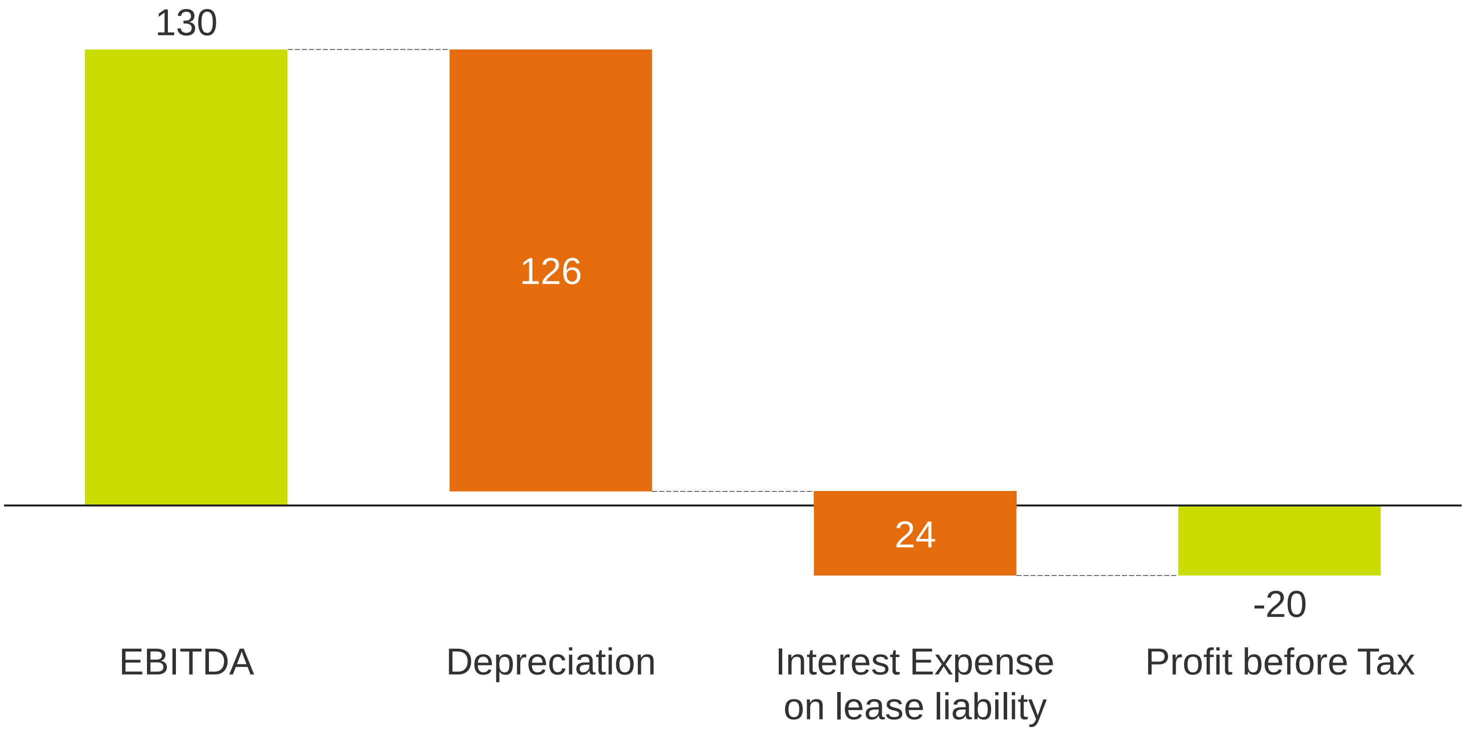


HQ and Logistics

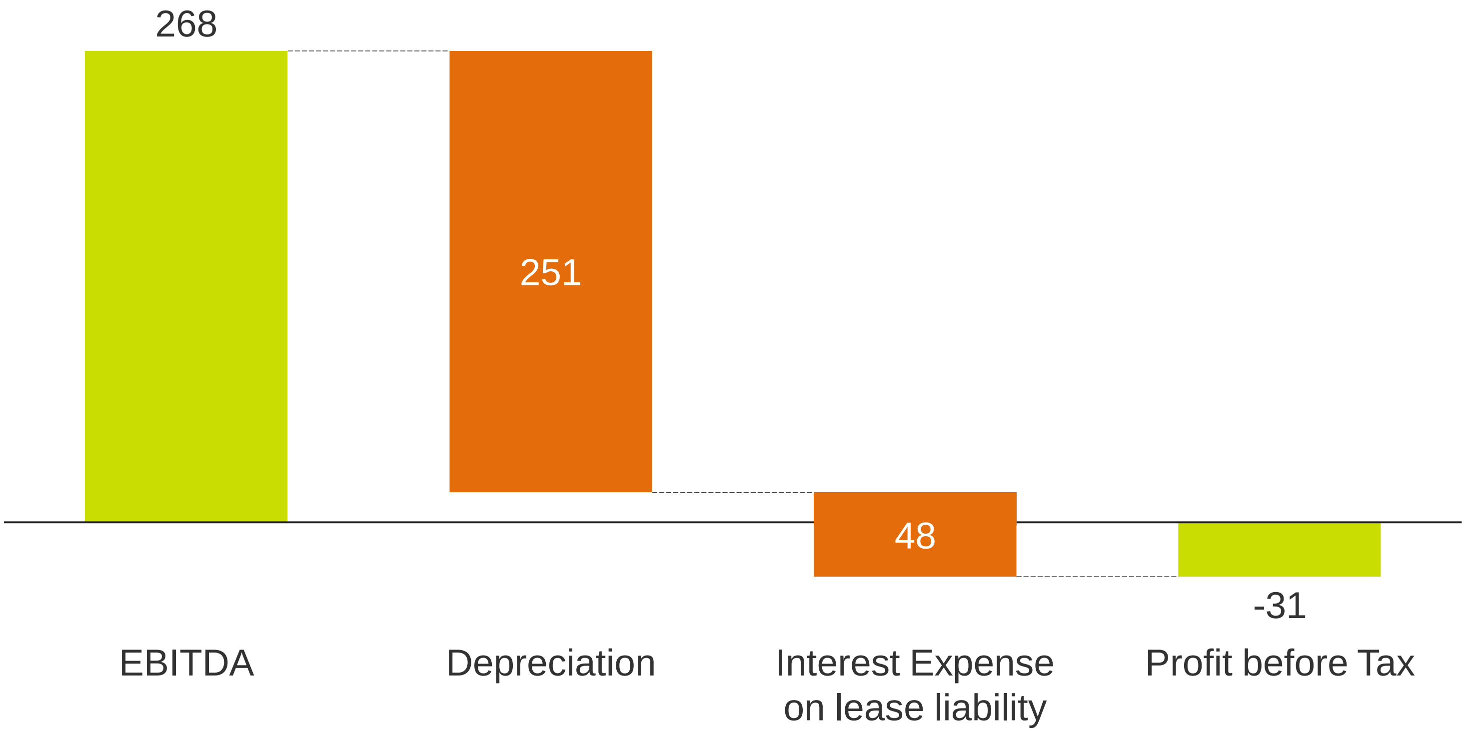
- Cost reductions mirroring the weaker sales development
- Reorganized marketing organization
  - Several new recruitments
  - More efficient operation in the years to come
- OPEX* of NOK 83 million to 3.8% of Group sales
  - Partly driven by lower bonus payments

* Excluding effects of IFRS 16

IFRS 16 Q2 – Significant effects on the classification of the P&L



IFRS 16 H1 – Significant effects on the classification of the P&L



XXL ASA – Q2 2019