



# Presentation of Q2 2020/21 results

Finnur Oddsson, CEO

Guðrún Eva Gunnarsdóttir, COO

29 October 2020

# The 2nd quarter in a nutshell

- **Department store revenues and income from supermarkets increase.** This is countered by a decline in sales by Olís that has no change in income from last year's income
- **Earnings improve compared with last year's** according to all metrics, including gross profit, EBITDA, net income and earnings per share
- **The tasks during past months have been many-sided.** Chief among them are measures due to COVID, renovation of stores, increased self-service, numerous projects concerning environmental matters and strengthening of the supply chain
- **We place main emphasis on the improved interests of consumers,** by concentrating on what we do best, increasing cooperation within the group and to talk with and understand our customers better

# Financial data

Q2 2020/21, ISK billion (change in ISK billion / percentage points from Q2 2019/20)

**30.9**

sales

▲ 0.0

**3.0**

EBITDA

▲ 0.5

**1.3**

net income

▲ 0.3

**23.5%**

gross margin ratio

▲ 1.9%

**14.0%**

salaries and cost-income  
ratio

▲ 0%

**40.8%**

equity ratio

▲ 1.6%

# Summary

## News from the operation

Financial statement

Strategy and goal

# Hagar units



- 31 stores around the country
- Increased growth in sales
- Gross margin ratio below expectations



- 8 stores
- Increased growth in sales particularly specialty goods
- Turnaround regarding the operations



- Large net around the country
- Decline in sales
- Significantly better operating results following headwind during Q1



- Increased trade because of an increase in turnover of stores
- More economic operation

- Increased sale to stores within the group
- Decline in HoReCa<sup>1</sup>



<sup>1</sup> HoReCa stands for Hotels, Restaurants & Catering

# The tasks during past months have been many-sided



**Powerful antiseptic  
measures**



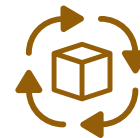
**Remodeled  
stores**



**Increased self-  
service**



**Measures for the  
environment**



**Stronger supply  
chain**



## Powerful antiseptic measures

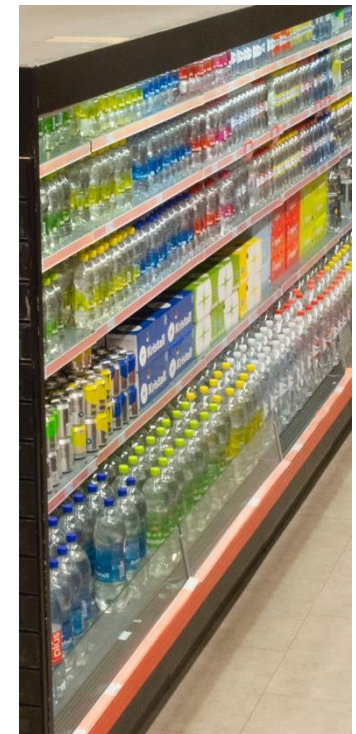
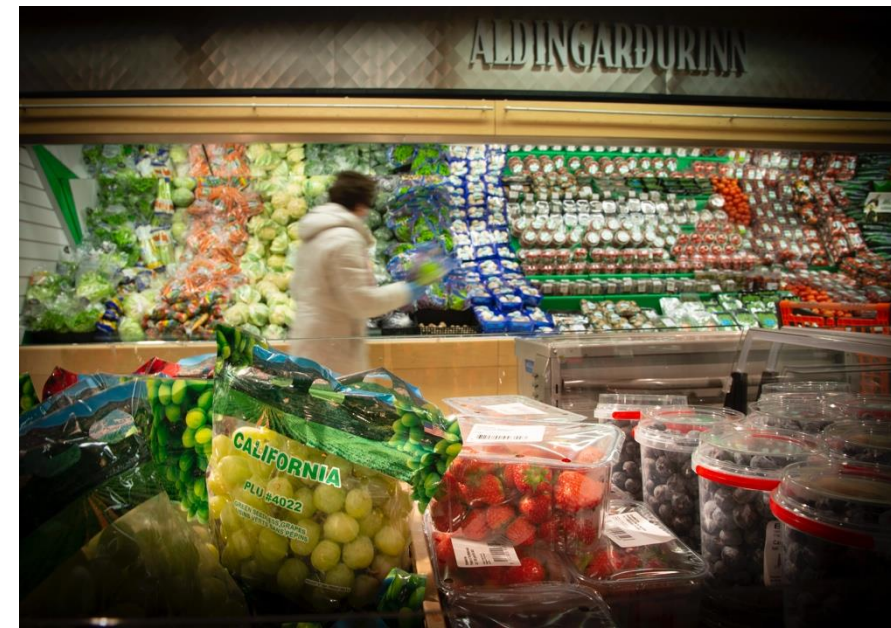
- **Diverse measures have been adopted** in order to ensure the safety of employees, customers and our partners
- **Antiseptic measures take precedence in all stores** and service-stations of Hagar
- **Staff in the supply chain protected** by dividing into different groups and areas
- **Using teleconferences imperative** in many places within the group
- **A lot of activity** at Mjöll Frigg in the production of infection prevention goods and the import of infection prevention goods for health institutions





## Remodeled stores

- **Bónus** is presently remodeling its older stores, in order to improve quality, furbish appearance and reduce energy use and carbon footprint
- **Hagkaup** has furthermore remodeled its stores in **Seltjarnarnes** and in **Skeifan**
- Examples of renovation are **LED lighting, lids on coolers and freezers, new flooring** and new environmentally friendly **cooling systems**
- Finally Hagkaup has replaced F&F apparel for **larger toy-, toiletry- and household article departments** in all stores in order to respond to an increased demand for these product groups

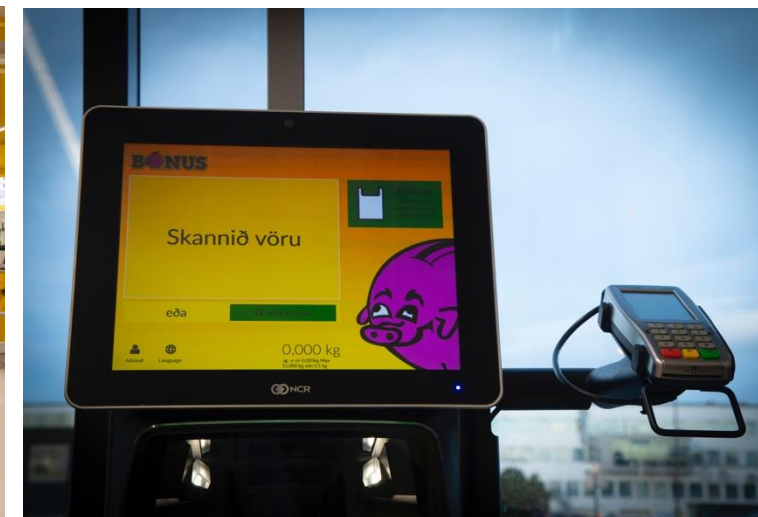






## Increased self-service

- **Hagar stores have increased the number of self-check-out counters** because of the customer satisfaction with shorter waiting time and larger activity space
- Self-check-out counters have now been installed in **all Hagkaup food stores**
- **The major part of check-out counters at Bónus** are now self-checkout stations. There are now 156 such in addition to 131 conveyor-belt stations so the **total number of check-out stations has increased**
- **An upgrading of the check-out stations is almost finished** where a camera will be able to recognize goods and thus speed up the check-out process and increase the security of scanning







## Measures for the environment

- **Bónus maintains its leading role** in environmental matters:
- A participant in a **country-wide effort for the collection and sowing of birch-tree seeds**
- The sponsor of the project "**Free the shoreline around Iceland**" under the supervision of Hrafn Jökulsson and Veraldarvinir-Worldwide Friends
- **200 tonnes of plastic refuse** from the time when plastic bags were removed from stores two years ago
- **Environmental award Terra 2020**
- **Olís has placed great emphasis on a carbon offsetting scheme** and offered car customers **free carbon offsetting this past summer** through grants to Landgræðslan - the Soil Conservation Service of Iceland



Photo of the Facebook-page of Strandverðir Íslands





## Stronger supply chain

- **A new warehouse for refrigerated and frozen good for Aðföng** at Korngarðar is now close to being completed after speedy activity during the last months
- The installing of shelves and the final preparations are being completed - the building will be **deployed in November**
- **The warehouse will strengthen Hagar** by reducing the operating-costs of Aðföng and increase the synergistic effect with Bananar
- **New equipment at Ferskar kjötvörur** was deployed and which will increase both the quantity and quality of Hagar's own meat products in Bónus and Hagkaup



# Summary

News from the operation

**Financial statement**

Strategy and goal



# Good operating results and net income increased by 25%

Consolidated Statement of Comprehensive Income Q2 2020/21 (ISK billion)

	Q2 '20/21	Q2 '19/20	Δ	%Δ
<ul style="list-style-type: none"> <li>▪ <b>Sales unchanged</b> from the previous year</li> </ul>	30,9	30,9	-	-
<ul style="list-style-type: none"> <li>▪ <b>Gross profit increases</b> by 9% and <b>the gross profit ratio increases</b> from 21.6% to 23.5%</li> </ul>	<b>7,3</b>	<b>6,7</b>	<b>+0,6</b>	<b>+9%</b>
	0,1	0,2	-0,1	-46%
	-3,1	-3,0	-0,1	+3%
<ul style="list-style-type: none"> <li>▪ <b>The gross profit ratios of</b> Hagkaup and Olís considerably exceed expectations but Bónus somewhat below</li> </ul>	-1,3	-1,4	0,1	-8%
<ul style="list-style-type: none"> <li>▪ <b>Total operating costs</b> stay approximately the same between the two periods</li> </ul>	<b>3,0</b>	<b>2,5</b>	<b>+0,5</b>	<b>+21%</b>
	-1,1	-0,9	-0,1	+14%
	-0,4	-0,3	-0,1	+32%
<ul style="list-style-type: none"> <li>▪ <b>EBITDA performance showed ISK</b> 530 million increase from last year, which is an increase of 21%.</li> </ul>	<b>1,3</b>	<b>1,1</b>	<b>+0,3</b>	<b>+25%</b>

# Good earnings in Q2 outweighs mostly poor earnings in Q1

Consolidated Statement of Comprehensive Income 6M 2020/21 (ISK billion)

	1H '20/21	1H '19/20	Δ	%Δ	
▪ <b>Sales decreased by 1%</b> between years during the first six months of the operating year but the <b>gross profit</b> is unchanged despite challenging conditions	Sales	59,2	59,5	-0,3	-1%
▪ <b>Salaries</b> increased by 5% that partly may be traced to severance pay and cut-off on a contractual severance cost.	<b>Gross profit</b>	<b>13,1</b>	<b>13,1</b>	-	-
▪ <b>Other operating expenses decreased</b> between periods, in spite of increased cost due to COVID	Other operating income	0,2	0,3	-0,1	-31%
▪ <b>Depreciation and net finance expenses</b> increase considerably between the periods	Salaries	-6,3	-6,0	-0,3	+5%
	Other operating expenses	-2,6	-2,8	0,2	-7%
	<b>EBITDA</b>	<b>4,3</b>	<b>4,5</b>	<b>-0,2</b>	<b>-5%</b>
	Depreciation	-2,1	-1,9	-0,2	+12%
	Net finance expense	-0,9	-0,6	-0,2	+38%
	<b>Profit for the period</b>	<b>1,2</b>	<b>1,7</b>	<b>-0,5</b>	<b>-29%</b>

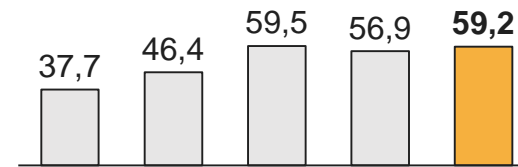
# Operating indicators change little compared to the last period

Key indicators of operation (Q1 2018/19 – Q1 2020/21)

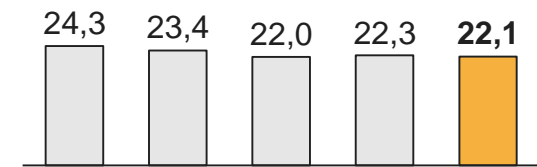
- **The wage ratio** during the period increased by 0.6 percentage points compared to last year
- **The ratio for other operating cost** was 4.4% during the period and dropped from 4.7% in the year before
- The **EBITDA ratio** was 7.3% compared to 7.6% in the year before.
- **Impact of IFRS 16** on EBITDA and the operating cost ratio first begin to affect 1H 2019/20
- **The profit margin** was 2.1% compared to 2.9% during the same calendar half-year of the prior year

## Sales and Gross profit

Sales (billion ISK)

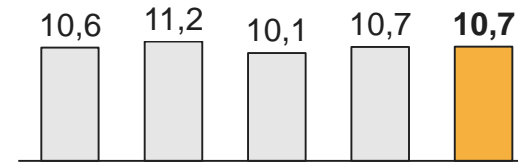


Gross Profit (%)

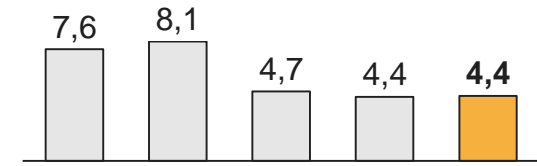


## Operating cost

Salaries (%)

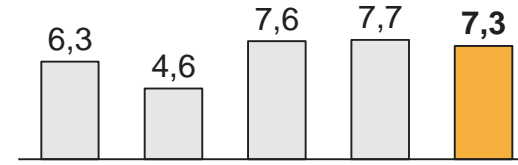


Other operating cost (%)

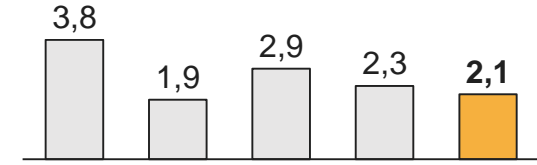


## Profit

EBITDA (%)



Profit (%)



# The performance of stores is strengthened but there is headwind in the operation of Olís

Summary of operating segments 6M (ISK billion)

		1H '20/21	1H '19/20	Δ	%Δ
Stores and Warehouses	<b>Sales</b>	<b>43,4</b>	<b>39,2</b>	<b>+4,2</b>	<b>+11%</b>
	<i>Growth</i>	<i>10,6%</i>	<i>3,9%</i>	<i>+6,7%</i>	<i>+170%</i>
	<b>EBITDA</b>	<b>3,7</b>	<b>3,3</b>	<b>+0,4</b>	<b>+14%</b>
	<i>EBITDA %</i>	<i>8,6%</i>	<i>8,3%</i>	<i>+0,2%</i>	<i>+3%</i>
	<b>EBIT</b>	<b>2,2</b>	<b>1,8</b>	<b>+0,3</b>	<b>+18%</b>
	<i>EBIT %</i>	<i>5,0%</i>	<i>4,7%</i>	<i>+0,3%</i>	<i>+7%</i>
Olís	<b>Sales</b>	<b>16,0</b>	<b>20,3</b>	<b>-4,4</b>	<b>-21%</b>
	<i>Growth</i>	<i>-21,4%</i>	<i>-</i>	<i>-</i>	<i>-</i>
	<b>EBITDA</b>	<b>0,6</b>	<b>1,3</b>	<b>-0,7</b>	<b>-52%</b>
	<i>EBITDA %</i>	<i>3,8%</i>	<i>6,2%</i>	<i>-2,4%</i>	<i>-39%</i>
	<b>EBIT</b>	<b>0,2</b>	<b>0,9</b>	<b>-0,7</b>	<b>-79%</b>
	<i>EBIT %</i>	<i>1,2%</i>	<i>4,5%</i>	<i>-3,3%</i>	<i>-74%</i>

- **Turnover of supermarkets and department stores increased by** approx. 11% and EBITDA by approx. 14% compared with last year
- **Olís turnover contracts** on the other hand by 21% and EBITDA by 52%
- **Lower earnings of the group** during the first half of the year **can therefore be entirely explained by the headwind in the operations of Olís**
- **Despite a difficult Q1** for Olís the Q2 exceeded expectations and the last year



# Cash lowers in Q1 2020/21 by 1.3 ISK billion

## Cashflow statement 6M (ISK billion)

- **Change in assets connected to operations** during last year can be linked to changes made in April 2019 regarding the settlement method of payment cards
- **Cash from operations lowers** compared to last year by ISK 3.8 billion for this reason
- **Investments in real estate** at Furuvellir in Akureyri and construction work on a new warehouse for refrigerated and frozen goods for Aðföng during the period
- **No dividends paid to** shareholders for last operating year but during the year before the payment of dividends was ISK 1.2 billion.
- **Cash decreases** by the end of the period and is ISK 889 million compared with ISK 2,232 million by the end of the year

	6M 2020/21	6M 2019/20	Change
Profit for the period	1,2	1,7	-0.5
Adjustments	3,1	2,7	0.4
<b>Working Capital</b>	<b>4,3</b>	<b>4,4</b>	<b>-0.1</b>
Change in current assets	-0,5	2,6	-3.1
Change in current liabilities	0,7	1,2	-0.5
Interest and taxes paid	-1,0	-0,9	-0.1
<b>Cash provided by operating activities</b>	<b>3,6</b>	<b>7,4</b>	<b>-3.8</b>
Investing activities	-2,1	-1,5	-0.6
Financing activities	-2,8	-3,9	1.1
<b>Change in cash</b>	<b>-1,3</b>	<b>2,0</b>	<b>-3.3</b>

# Continued strong economic position by the end of the period

Balance sheet 31 August 2020 (ISK billion)

	31. 8. 2020	29. 2. 2020	%Δ		31. 8. 2020	
<ul style="list-style-type: none"> <li> <b>Fixed assets increased by ISK 1.1 billion</b>, because of investments in real estate property and the renovation of stores                 </li> <li> <b>Inventory by the end of the period was ISK 8.4 billion</b> and the inventory turnover rate was 11.1. Inventory did not change from the end of the year. Inventory turnover during the same period in the last year was 13.2                 </li> <li> <b>Accounts receivable increased by ISK 400 m.</b> and at present the average collecting period is now 11.1 days compared to 12.7 days during the same period the year before                 </li> <li> <b>Interest bearing liabilities decrease</b> by ISK 1.3 billion as a credit line was paid up during the period                 </li> </ul>	Property, plant and equipment	23,1	22,0	+5%	Borrowings	12,1
	Intangible assets	10,5	10,5	-	Lease liabilities	7,4
	Other non-current assets	14,4	15,0	-4%	Income tax	2,8
	<b>Non-current assets</b>	<b>48,1</b>	<b>47,6</b>	<b>+1%</b>	<b>Non-current liabilities</b>	<b>22,2</b>
	Inventories	8,4	8,4	-	Borrowings	0,5
	Trade receivables	4,9	4,5	+9%	Trade payables	11,7
	Cash	0,9	2,2	-60%	Other	2,5
	<b>Current assets</b>	<b>14,2</b>	<b>15,2</b>	<b>-6%</b>	<b>Current liabilities</b>	<b>14,6</b>
	<b>Total assets</b>	<b>62,2</b>	<b>62,7</b>	<b>-1%</b>	<b>Total liabilities</b>	<b>36,9</b>
	<b>Liabilities and equity</b>	<b>62,2</b>	<b>62,7</b>	<b>-1%</b>	<b>Total equity</b>	<b>25,4</b>

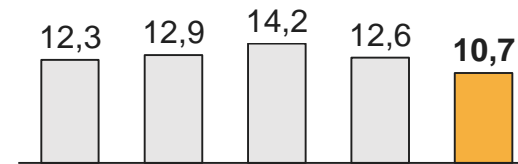
# Return on equity below compared periods but risk is limited

Key indicators of financial position (Q1 2018/19 – Q1 2020/21)

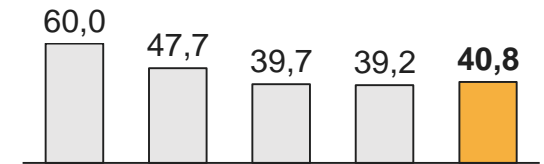
- **Return on equity is 10.7%** the past 12 months.
- **Equity ratio** by the end of the period was 40.8% compared with 39.2% by the end of the year
- **Net interest bearing liabilities** by the end of the period was ISK 21.1 billion, or 2.4 x 12 month EBITDA
- **Current ratio** by the end of the period was 0.97. The group has access to ISK 6.2 billion credit lines in ISK and USD
- **The cash conversion cycle** during the period was 10.6 days which is unchanged from the same period last year
- **The asset turnover ratio** was 1.9 by the end of the period but was 2.3 during the same period the year before

Shareholder return

Return on equity (%)

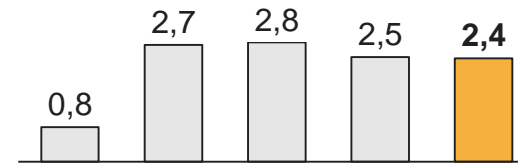


Equity ratio (%)

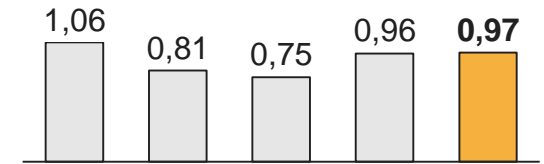


Risk accompanying the operations

Net debt / EBITDA<sup>1</sup>

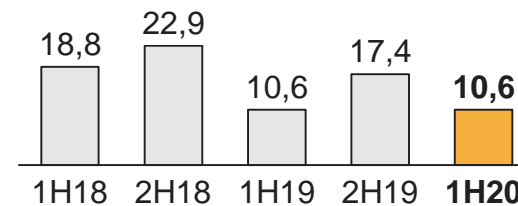


Current ratio<sup>2</sup>

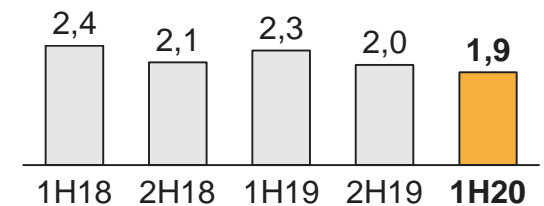


Efficiency of assets

Cash conversion cycle (days)<sup>3</sup>



Asset turnover ratio<sup>4</sup>



1) Net interest bearing liabilities / EBITDA 2) Current assets / current liabilities 3) Turnover rate in operations = number of inventory days + number of days for accounts receivable - number of days for accounts payable 4) Sales / assets

# EBITDA guidance has been published and a buy-back programme has been approved

- Directors forecast **ISK 8.1 to 8.6 billion EBITDA during the current operating year**, compared with ISK 8.9 billion last year
- The Board of Directors has decided to commence **a buy-back programme of the company's own shares** in the amount of **ISK 500 million** from the start of November
- Done according to authorization from the general annual meeting to the effect that the Board be permitted to buy back up to 10% of the company's outstanding shares
- The plan is to **annul the shares after the buy-back has been completed** in accordance with the Hagar dividend policy



# Summary

News from the operation

Financial statement

**Strategy and goal**

# Finnur in Wonderland

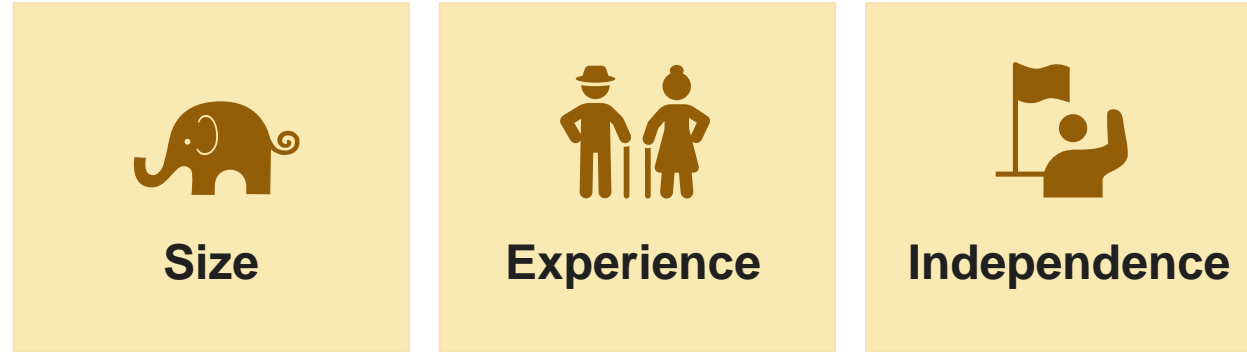
IT

Culture of change

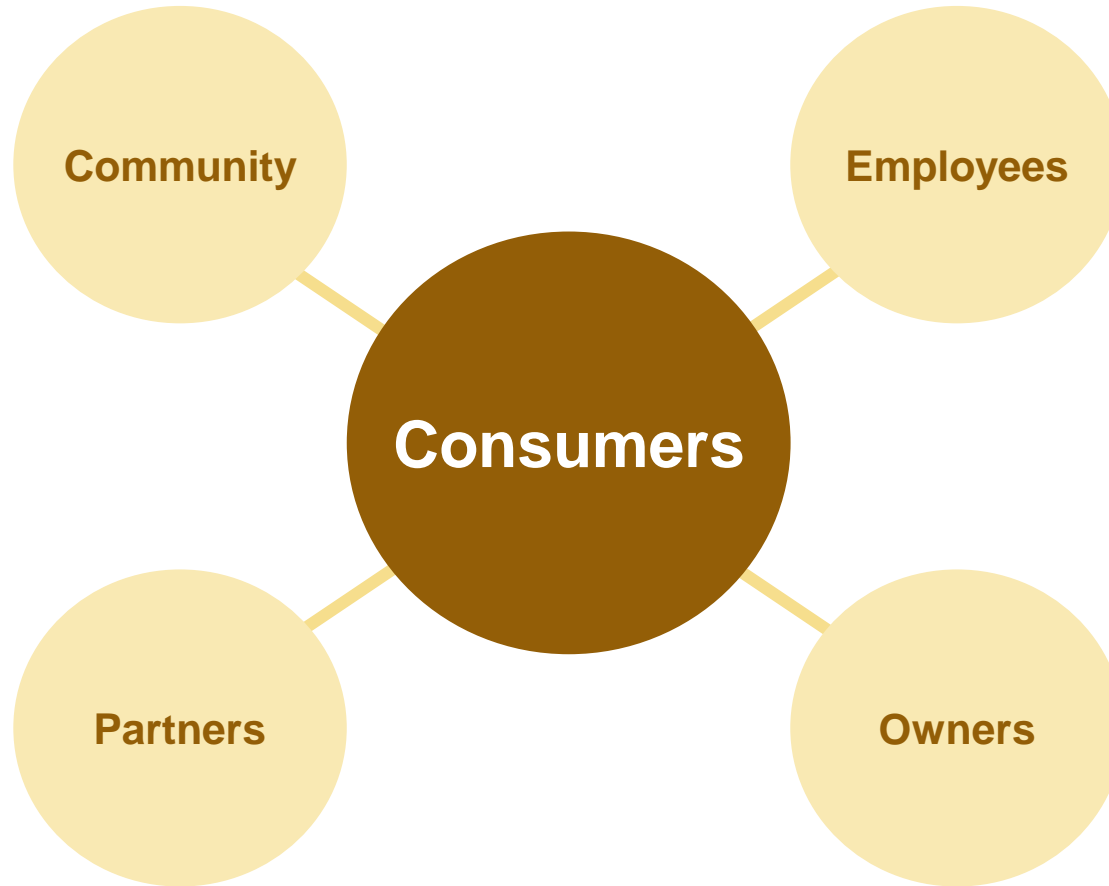
Discerning visitors



# The characteristics of Hagar are generally helpful but they may also disrupt



# Why does Hagar exist?





# How do we generate consumer value?

Let us concentrate on what we are good at doing

- **Let us concentrate on convenience goods, fuel** and associated goods
- **Let us start with the divestment of** Útilíf and Reykjavíkur Apótek

Let us make the whole stronger than the sum of individual units

- **Let us show Hagar's trademarks, brands and labels** as different options
- **Let us increase the benefits of cooperation** through department stores and parent company

Let us talk with and understand our customers

- **Explain what we are doing** for consumers, nature and society
- **Let us understand our customers** and that way we can better accommodate their needs

... and other issues that we will work on within the group



**We have set goals for ourselves that we will measure in order to rate our success during the next six months**

*Bring the consumer more for less*



*Create a desirable workplace*



*Return to the owners a fair return*



*Promote an improved society*



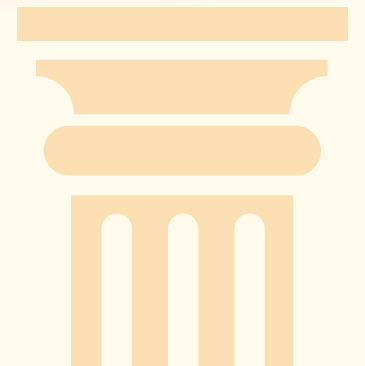
# Prospects and status

## Although there are challenges ahead ...

- Earnings forecast in the range of **8.1 to 8.6 billion ISK EBITDA** during the current operating year
- The principal influencing factors:
  - **Economic recession** during the operating year
  - **Impact of COVID** on the tourist traffic and Icelanders travelling
  - **Weakening of the ISK and price increases by suppliers** put pressure on gross profit
  - Costly **salary increases acc. to collective wage agreements**

## ... has Hagar a strong foundation

- Strong **economic and liquidity position**
- Strong **market position for major units** on the convenience and the fuel market
- **Extensive actions** in order to ensure the security of employees and customers
- **Opportunities** in accordance with formulated points of emphasis and strategy



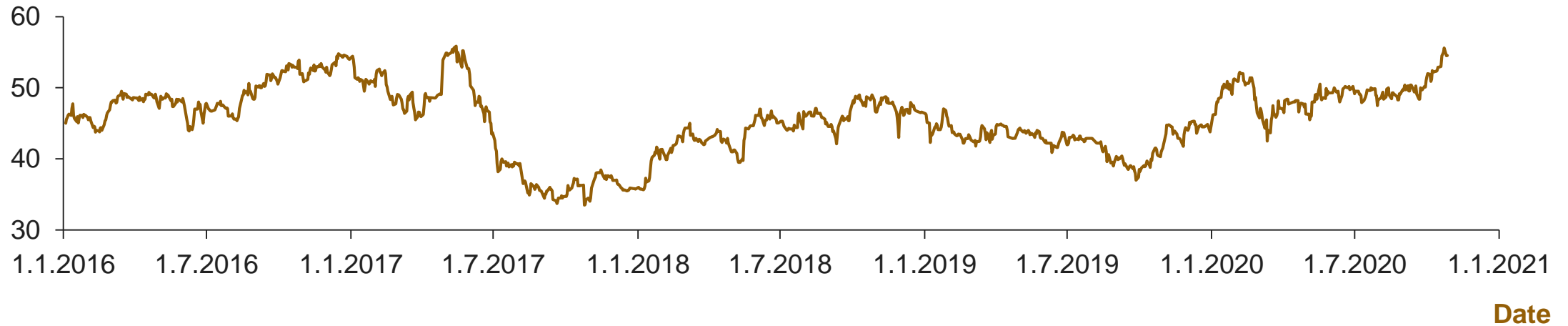
**Questions?**





# Price and the largest shareholders

## Price



## Largest shareholders (1-5), shares held at end of 31.8.2020

- Gildi - lífeyrissjóður (pension fund) 15.0%
- Lífeyrissjóður verslunarmanna (pension fund) 10.7%
- Lífeyrissjóður starfsmanna ríkisins A-deild (Government employee's pension fund) 10.6%
- Birta lífeyrissjóður (pension fund) 6.7%
- Stapi lífeyrissjóður (pension fund) 5.6%

Source: NASDAQ OMX (28 October 2020)

## Largest shareholders (6-10), share at end of 31.8.2020

- Samherji hf. 4.3%
- Festa - lífeyrissjóður (pension fund) 4.2%
- Íslensk verðbréf - safnreikningur (pooled account) 3.9%
- Lífeyrissjóður starfsmanna ríkisins B-deild (Government employee's pension fund) 2.9%
- Söfnunarsjóður lífeyrisréttinda (Collection fund for pension rights) 2.8%

# Reservations

---

*On behalf of Hagar we wish to point out that statements and information in this presentation are based as the case may be on the plans and estimates of the company's directors, but not on facts that may be verified at the publishing of the presentation or by any discussion by the company of the presentation. For these reasons the said statements and information include a degree of uncertainty.*

*Furthermore the attention of investors is pointed to many factors that may have such effect that the operational environment and the performance of the company will turn out another way than was assumed in the presentation. The presentation will not be reviewed, revised, updated or amended to that effect by the company after its publication.*

*Statements and information in this presentation apply only up to the point in time when it was published and the value of these are limited to what is stated in these reservations.*

---

**hagar**

The logo for 'hagar' features the word in a bold, lowercase, sans-serif font. It is enclosed within a stylized, horizontal oval shape composed of two thick, curved lines. The top-left and bottom-left portions of these lines are grey, while the top-right and bottom-right portions are orange. The lines are slightly offset from each other, creating a sense of motion or a dynamic frame around the text.