Press Release
October 29, 2020

Net income increases by 25% YOY

Hagar hf. Results for Q2 2020/21

The consolidated interim financial statement of Hagar hf. for the second quarter 2020/21 was approved by the Board of Directors and the CEO of Hagar on October 29, 2020. The statement is for the period from March 1, 2020, to August 31, 2020.
The interim financial statement contains the consolidated financial statement of the company and its subsidiaries and is generated according to international financial reporting standards (IFRS). The statement has been reviewed by the group's accountant, PricewaterhouseCoopers ehf.

Financial Highlights

- **Sales** totalled ISK 30.924 million in Q2 (2019/20: ISK 30.914 million). Sales totalled ISK 59.165 million in 1H of 2020/21 (2019/20: ISK 59.504 million).
- **Gross margin in %** in Q2 was 23.5% (2019/20: 21.6%). Gross margin in % for 1H of 2020/21 was 22.1% (2019/20: 22.0%).
- **EBITDA** in Q2 totalled ISK 3.019 million (2019/20: ISK 2.489 million). EBITDA in 1H 2020/21 totalled ISK 4.316 million (2019/20: ISK 4.523 million).
- **Net income** in Q2 totalled ISK 1.321 million or 4.3% of sales (2019/20: ISK 1.056 million). Profit in 1H 2020/21 totalled ISK 1.225 million or 2.1% of sales (2019/20: ISK 1.721 million).
- **Earnings per share** in Q2 were ISK 1.12 (2019/20: ISK 0.87). Earnings per share in 1H 2020/21 were ISK 1.04 (2019/20: ISK 1.42).
- **Total equity** was ISK 25.392 million at the end of the period and the **equity ratio** was 40.8% (Year-end 2019/20: ISK 24.587 million and 39.2%).
- **EBITDA guidance** for the year 2020/21 predicts that EBITDA will be ISK 8.100-8.600 million.

Operational Highlights

- **Positive turnaround** for all of Hagar's business units in Q2.
- Negative impact due to the first wave of **COVID-19** pandemic was significant in Q1 and had mostly materialized before Q2.
- **Various measures** have been taken to ensure the health and safety of employees, customers, and other business partners during the pandemic.
- **Number of customer visits to grocery stores** has reduced while the **average basket size** has increased considerably.
- A concerted effort has been made into the **remodeling of Bónus and Hagkaup stores** over the last months, where convenience and environmental friendliness is at a premium.
- The construction of Aðföng's new **warehouse for refrigerated and frozen goods** is on schedule and preparation for moving has begun.
- The number of instore **self-checkout stations** has increased. The majority of checkouts at Bónus are now self-checkouts and can now also be found at all Hagkaup grocery stores.
- Emphasis has been placed on using **more environmentally friendly** packaging and thus the use of plastic has been considerably reduced.
- **Long-term strategic direction and objectives** have been defined. Útilíf and Reykjavíkur Apótek will be divested.

Finnur Oddsson, CEO:

"Earnings were good during the second quarter and exceeded expectations, which reflects the group's resilience in challenging circumstances such as the COVID-19 pandemic. We are happy with this accomplishment and especially the reversal from the first months of the year when the pandemic affected all our operations.

The impact from COVID-19 differs significantly between operational units. Hagar's performance within groceries and warehouses has been strong compared to last year. We have, however, noticed that our customers have changed their purchasing behaviour, with fewer visits to grocery stores while the average basket size has increased considerably. The overall result is a healthy increase in revenue for Bónus, Hagkaup and specialty stores, as well as increased efficiency in the operation of Hagar's warehouses, Aðföng and Bananar.

After a challenging first quarter, the Olís' operations have improved and performed well in the second quarter, especially during the peak of the summer. We benefited from increased domestic travel and changes in the oil price were favourable compared to the first quarter. However, we expect that the COVID-19 pandemic will have a more prolonged negative impact on Olís' profitability, as opposed to the groceries and warehouses where the impact has mostly materialized. To counterbalance these challenging circumstances, it is important to increase operational efficiency as we have been doing for the past months.

The strong performance in the second quarter is the harvest from an effort across the entire organization. What comes to mind is gratitude towards the employees of all Hagar's units as they have shown both adaptability and selflessness during the extraordinary circumstances caused by the pandemic. I especially want to mention the frontline staff at stores and gas stations that work everyday servicing our customers diligently, now as before. The wellbeing and safety of our customers, employees and the community have been at the forefront in all our operations and decision making. We will continue to do everything in our power to maintain robust risk management and, at the same time, minimize the negative effect on our service level and customer experience.

In paraellel with day-to-day business and the operational countermeasures mentioned above, we have utilized the past few months to develop Hagar's long-term strategic direction and objectives. Over the next years, Hagar will place increased focus on its core business and what we do best, the convenience market on the one hand, and the gasoline market on the other. Hagar's brands and key business units are strong and have a long history, but it will be our goal to further strengthen their unique value propositions and ensure that our brand portfolio will meet the consumer's different needs in the best way possible. Furthermore, we want to strengthen interactions with our customers through various channels so that we can meet the needs and demands of our consumers in a rapidly developing environment. Our guiding light in this strategy work has been, as always, to generate consumer value and improve quality of life in Iceland through first-class retail operations. We are excited about the journey ahead at Hagar."

Consolidated Statement of Comprehensive Income

in ISK million	Q2 2020/21 01.06-31.08	Q2 2019/20 01.06-31.08	Change	%	6M 2020/21 01.03-31.08	6M 2019/20 01.03-31.08	Change	%
Sales	30.924	30.914	10	0,0%	59.165	59.504	(339)	-0,6%
Cost of goods sold	(23.657)	(24.244)	587	-2,4%	(46.069)	(46.402)	333	-0,7%
Gross profit	**7.267**	**6.670**	**597**	**9,0%**	**13.096**	**13.102**	**(6)**	**0,0%**
Gross profit %	**23,5%**	**21,6%**	**-**	**1,9%**	**22,1%**	**22,0%**	**-**	**0,1%**
Other operating income	85	156	(71)	-45,5%	183	264	(81)	-30,7%
Salaries and related expenses	(3.064)	(2.965)	(99)	3,3%	(6.340)	(6.023)	(317)	5,3%
Other operating expenses	(1.269)	(1.372)	103	-7,5%	(2.623)	(2.820)	197	-7,0%
Profit from operating activities before depreciation and amortisation (EBITDA)	**3.019**	**2.489**	**530**	**21,3%**	**4.316**	**4.523**	**(207)**	**-4,6%**
EBITDA %	**9,8%**	**8,1%**	**-**	**1,7%**	**7,3%**	**7,6%**	**-**	**-0,3%**
Depreciation and amortisation	(1.068)	(936)	(132)	14,1%	(2.092)	(1.869)	(223)	11,9%
Profit from operating activities (EBIT)	**1.951**	**1.553**	**398**	**25,6%**	**2.224**	**2.654**	**(430)**	**-16,2%**
Net finance expense	(419)	(317)	(102)	32,2%	(850)	(615)	(235)	38,2%
Effect of results of associates	95	67	28	41,8%	125	90	35	38,9%
Profit before income tax	**1.627**	**1.303**	**324**	**24,9%**	**1.499**	**2.129**	**(630)**	**-29,6%**
Income tax	(306)	(247)	(59)	23,9%	(274)	(408)	134	-32,8%
Comprehensive income for the period	**1.321**	**1.056**	**265**	**25,1%**	**1.225**	**1.721**	**(496)**	**-28,8%**
Total comprehensive income for the period is attributable to:								
Shareholders of Hagar hf.	1.322	1.056	**266**	**25,2%**	1.228	1.721	**(493)**	**-28,6%**
Non-controlling interest	(1)	--	**(1)**	--	(3)	--	**(3)**	--
	1.321	**1.056**	**265**	**25,1%**	**1.225**	**1.721**	**(496)**	**-28,8%**

Comprehensive Income for the first 6 months

Sales totalled ISK 59.165 million in the first half of 2020, compared to ISK 59.504 million in the same period the year before. The decrease in sales was 0.6% between years.

Gross margin was ISK 13.096 million in the first half of 2020, compared to ISK 13.102 million in the same period in 2019, or 22.1%, compared to 22.0% the year before.

The total operating costs increased by ISK 120 million. Salaries increased by 5.3%, which can largely be explained by the effect of severance pay. Other operating costs decreased by ISK 197 million. Approx. ISK 150 million of salaries and other operating cost during the period can be attributed directly to COVID-19. The cost-income ratio increased between years, from 14.9% to 15.1%.

EBITDA totalled ISK 4.316 million, compared to ISK 4.523 million the year before. The EBITDA ratio was 7.3%, compared to 7.6% the year before.

Depreciation and amortisation have increased due to the renewal of stores and strong investment.

Net finance expense has increased due to higher leverage and exchange rate losses during the period.

Net income for the period totalled ISK 1.225 million which is 2.1% of sales, but comprehensive income for last year was ISK 1.721 million or 2.9% of sales.

Highlights Q2

- Sales in Q2 on pair with last year.
- Gross margin ratio in Q2 a little higher than the year before or 23.5% compared to 21.6%. Gross profit ratio for Hagkaup and Olís exceed expectations but Bónus was a bit below expectations.
- Other operating revenue in Q2 was a little bit lower than the year before due to one-off revenue in Q2 2019/20.
- Salaries and related expenses in Q2 were higher than the year before due to a cut-off on a contractual severance cost.
- EBITDA in Q2 increased by ISK 530 million from the previous year and totalled 9.8% of sales.
- Net finance expense increased in Q2 due to exchange rate losses, compared to exchange rate gain in the previous year.
- Net income in Q2 increased by 25% between years.

Consolidated Balance Sheet

Highlights 31.08.2020

- Total assets at the end of the period were ISK 62.246 million and decreased by ISK 462 million from the beginning of the year.
- Non-current assets were ISK 48.065 million and increased by ISK 511 million from the end of year 2019/2020. Real estate investment totalled ISK 1.352 million in the period and investment in fixtures and equipment totalled ISK 855 million.
- Current assets were ISK 14.181 million and decreased by ISK 973 million by the end of the year and can mostly be attributed to a decrease in net cash.

in ISK million	31.08.2020	29.02.2020	Change	%
Assets				
Non-current assets	48.065	47.554	511	1,1%
Current assets	14.181	15.154	(973)	-6,4%
Total assets	**62.246**	**62.708**	**(462)**	**-0,7%**
Equity and liabilities				
Share capital	1.181	1.189	(8)	-0,7%
Other equity	24.213	23.397	816	3,5%
Total	**25.394**	**24.586**	**808**	**3,3%**
Non-controlling interest	(2)	1	(3)	-300,0%
Equity total	**25.392**	**24.587**	**805**	**3,3%**
Non-current liabilities	22.206	22.362	(156)	-0,7%
Current borrowings	464	442	22	5,0%
Bank borrowings	--	1.273	(1.273)	-100,0%
Other payables	14.182	14.045	137	1,0%
Total liabilities	**36.852**	**38.122**	**(1.270)**	**-3,3%**
Total equity and liabilities	**62.246**	**62.708**	**(462)**	**-0,7%**

- Inventory at the end of the period was ISK 8.359 million and inventory turnover 11.1. Inventory was almost the same from the year-end and the inventory turnover last year was 13.2.
- Accounts receivables increased by ISK 391 million and the average collection period was 11.1 days compared to 12.7 days for the same period last year.
- The current ratio is 0.97 and the liquidity ratio 0.4 at the end of the period. Access to short-term financing for ISK 6.2 billion at a commercial bank is secured.
- Total equity at the end of the period was ISK 25.392 million and equity ratio 40.8%. Return on equity in the period was 10.7%. Equity ratio at the end of the last operating year was 39.2% and the return on equity 12.6%. Hagar did not hold own shares at the end of the period.
- Total liabilities at the end of the period was ISK 36.852 million but out of these, interest-bearing liabilities were ISK 12.545 million and lease liabilities ISK 9.417 million. Net interest-bearing liabilities at the end of the period were 11.656 million or 2.4x12 month EBITDA.

Consolidated Statement of Cash Flows

in ISK million	Q2 2020/21 01.06-31.08	Q2 2019/20 01.06-31.08	Change	%	6M 2020/21 01.03-31.08	6M 2019/20 01.03-31.08	Change	%
Net cash provided by operating activities	942	2.442	(1.500)	-61,4%	3.603	7.409	(3.806)	-51,4%
Net cash used in investing activities	(1.282)	(688)	(594)	86,3%	(2.140)	(1.498)	(642)	42,9%
Net cash used in financing activities	(2.246)	(2.709)	463	-17,1%	(2.806)	(3.888)	1.082	-27,8%
Net (decrease) increase in cash and cash equivalents	**(2.586)**	**(955)**	**(1.631)**	**170,8%**	**(1.343)**	**2.023**	**(3.366)**	**-166,4%**
Cash and cash equivalents at beginning of the period	3.475	3.714	(239)	-6,4%	2.232	736	1.496	203,3%
Cash and cash equivalents at the end of the period	**889**	**2.759**	**(1.870)**	**-67,8%**	**889**	**2.759**	**(1.870)**	**-67,8%**

Cash flow for the first 6 months

- Cash from operating activities during the period amounted to ISK 3.603 million ISK, compared to ISK 7.409 million ISK last year. The change between years can be attributed to changes in operating assets since last year a change was made to the settlement method of payment cards, as settlements from the custodian went from being monthly to daily.
- Investing activities in the period were ISK 2.140 million, compared to ISK 1.498 million in the previous year. During the period, investments were made in real estate at Furuvellir in Akureyri, in addition to which a large portion of the cost of construction of Aðföng´s warehouse for refrigerated and frozen goods has been incurred.
- Financing activities for the period were ISK 2.806 million, compared to ISK 3.888 million the previous year. No dividend was paid to shareholders for the last operating year, but in the previous year, the dividend paid was ISK 1.159 million.

Position and Outlook

Revenue in the second quarter exceeded expectations and there was a positive turnaround for all group's business units compared to the first quarter. The first quarter was considerably below expectations where at the beginning of March, the effect of COVID-19 was very noticeable. On top of that, the devaluation of ISK and a lower global market price of oil negatively affected the group's operations. It seems that the effect of the first wave of the pandemic had largely materialized during Q2 as an increase in commerce domestically, as well as travelling of Icelanders, had a positive effect on the quarter´s revenue.

Currently, it is difficult to estimate the impact from COVID-19 on performance during the second half of the operating year. Nonetheless, an increase in income in groceries is expected while the operations of Olís are expected to underperform compared to the previous year. Gross margin is below expectations and an ongoing price pressure is expected in pareallel with the collectively agreed pay rise during the next few months. During times like these, it is important for all organisations, both suppliers and retailers, to find other ways to streamline their operations in order to avoid an excessive increase in prices, and consequently, contribute towards price stability and the current collective agreement validity. EBITDA guidance for the second half of the operating year, i.e. the period from September 2020 to February 2021, estimates that EBITDA will be ISK 3.800-4.300 million and that EBITDA for the operating year 2020/2021 will be ISK 8.100-8.600 million.

The economic and cash position of Hagar is strong, and the group is well prepared to take on the challenges ahead. The group's long-term financing is secured and access to short-term financing for ISK 6.2 billion at a commercial bank is also secured.

Various measures have been taken to ensure the health and safety of employees, customers, and other partners during the pandemic. These measures are very important as an integral part of the group's operations play a major role in the infrastructure of the country, such as grocery stores and warehouses, as well as fuel stations, especially in challenging circumstances.

Share capital and shareholders

- Hagar’s market capitalization at the end of the period was ISK 58.7 billion and the closing price on August 31, 2020, was ISK 49.7.
- Hagar’s share capital at the end of the period was ISK 1.181 million. The company does not hold any own shares.
- On June 9, 2020, at the annual general meeting, it was agreed that dividends would not be paid to shareholders for last year.
- On the basis of the approval of the Annual General Meeting from June 9, 2020, Hagar's Board of Directors decided to execute a buy-back program, starting at the beginning of November with the aim of reducing the company's issued share capital. The maximum amount of the buy-back will be ISK 500 million.
- There were 684 shareholders at the beginning of the operating year and 683 at the end of the period.

Financial Calendar 2020/21

Financial information will be published after the markets close.

Accounting period	Weekday	Publication date
Q3 – March 1 – November 30	Thursday	January 21, 2021
Q4 – March 1 – February 28	Wednesday	May 19, 2021
Annual Meeting 2021	Thursday	June 10, 2021

For further information, please contact Finnur Oddsson, CEO (fo@hagar.is) or Guðrún Eva Gunnarsdóttir, COO (geg@hagar.is), at tel. 530-5500 or e-mail.