

Increased sales in Q1 and improved profitability between years

Hagar's results for the 1st quarter 2021/22

The Consolidated Interim Financial Statements of Hagar plc. for the first quarter of 2021/22 were approved by the company's board of directors and the CEO at a board meeting on June 25th 2021. The statements cover the period March 1st to May 31st 2021. The consolidated interim financial statements include the consolidated financial statements of the company and its subsidiaries and are prepared according to International Financial Reporting Standards (IFRS). The statements have neither been reviewed nor audited by the company's auditors, PricewaterhouseCoopers ehf.

Key figures

- **Sales** in Q1 amounted to 32,034 m.ISK. (2020/21: 28,241 m. ISK.).
- **Gross margin** in Q1 was 21.4% (2020/21: 20.6%).
- **Earnings before interest, depreciation and taxes (EBITDA)** in Q1 amounted to 2,278 m.ISK. (2020/21: 1,297 m.ISK.)
- **Profit** in Q1 amounted to 727 m.ISK. or 2,3% of sales (2020/21: loss of 96 m.ISK. and -0,3% of sales).
- **Earnings per share** in Q1 were 0.63 ISK. (2020/21: loss of 0.08 ISK.).
- **Equity** amounted to 25,906 m.ISK. at the end of the period and the **equity ratio** was 41.2% (Year end 2020/21: 25,187 m.ISK. and 40.9%).
- **Management's guidance** for the operating year 2021/22 assumes that EBITDA will be 8,600-9,100 m.ISK.

Operational key points

- **Successful first quarter** with increased sales and gross margin in all the group's operational sections.
- **Comparison of results between years is favourable**, but previous year is marked by negative effect of the Icelandic króna's rate of exchange and fall in world oil prices due to the COVID-19 pandemic.
- **The COVID-19 effects are still being felt**, and activities in Q1 are partly affected by the authorities' disease control measures to limit the consequences of the pandemic.
- **The number of units sold** in grocery stores decreases slightly in Q1, but **customer visits** are now rising again, or by almost 12% between years. **The average basket size** has now decreased just over 4%.
- **Large sales increase and margin growth** at Olís after a difficult Q1 last year. **Volume increase** in fuel litres 30% between years.
- **Settlement for the sale of Reykjavíkur Apótek** is completed and the company has been handed over to new owners. Effect on Q1's results is positive in the income statement.
- **Útlif to be handed over to new owners in Q2**, but all reservations regarding the purchase have been lifted.
- **Hagar bought a half share of Djús ehf.**, which owns and operates Lemon restaurants. Awaiting approval of the Competition Authority.

Finnur Oddsson, CEO:

„Hagar's operations in the first quarter of the operating year 2021/22 were successful. Compared to last year's same quarter, sales increased by more than 13% and amounted to 32 b.ISK. Margins strengthened in all sections and EBITDA was 2,278 m.ISK, an increase of 76% between years. The profit for the quarter amounted to 727 m.ISK. compared to a loss from Hagar's operations in the same period last year. We are particularly pleased with this result and the positive turnaround as we see improvement in all our activities, in all operational sections.

The year-to-year comparison is naturally affected as the negative effects of the COVID-19 pandemic were most striking in the first quarter of the last operating year. This is especially true at Olís, where the fall in the rate of exchange of the Icelandic króna, the sharp drop in world oil prices and the reduction in traffic had significant negative effect on the company's operational results. It is therefore pleasing to observe now in the first months of the operational year that Olís' sales and margins have strengthened significantly and the effects of streamlining measures in recent months are clearly visible in the operations. With a systematic modification of the service stations and branches operations, e.g. changed opening hours, service levels and closing of certain units, has reduced costs and improved profitability. The major weight is due to decreased number of full-time equivalent positions at Olís by almost 18% from the previous year.

Business in the grocery market has continued to increase, with a decent growth in revenues for both Bónus and Hagkaup, margins have strengthened and so has profitability. We see that the number of customer visits has slightly increased as disease control restrictions have been eased, but at the same time the basket size has decreased slightly. Hagar's specialty stores, ZARA and Útilíf were also successful, sales increased significantly and results accordingly.

Work on adapting the group's operational focus to a new strategy is progressing well. We have simplified the company's operations with the sale of Reykjavíkur Apótek and Útilíf, which enables us to focus even further on core operations in the grocery and fuel market. Linked to this, Hagar bought a share in Djús ehf. which operates restaurants under the Lemon brand. The acquisition is part of strengthening the product range at Olís service stations and is in line with changing customer needs and increased demand for healthy and fresh selections. A recent agreement with Reykjavík City on reductions of the number of petrol stations will, in the next few years, lead to changes in Olís' service network in the capital area. The number of fuel stations and pumps will decrease when giving a way to more environmentally friendly options and the development of residential and commercial housing in the relevant areas. Our agreement with Reykjavík City serves our objectives of a greener future, interesting urban development, and value creation for shareholders.

Social responsibility and sustainability have gained momentum and we have reviewed all our activities with regard to impact on the environment and society, set clear objectives for us and for the first time explained them in ESG reports for Bónus, Hagkaup and Olís. We are proud of this work and the positive impact that Hagar's operations have on Icelandic society. At the same time, we believe that we can always do better, we intend to do so and will follow up in the coming quarters.

The impact of COVID-19 will probably fade in the coming weeks and we expect the tourist summer in Iceland to be rewarding, both due to domestic and foreign tourists. At the same time, it is likely that Icelanders will increasingly travel abroad this summer and autumn, which will have some effect on grocery retail sales in Iceland. Although there may be some uncertainty about retail development in the coming months after the pandemic is over, we believe that the outlook for Hagar's operations is good, both in the short and long term. The financial status of the Hagar Group is very strong, and it is well placed to follow up on new projects in accordance with strategic planning. As before, our objective is to promote customer benefits and satisfaction with excellence in retail.“

The Groups Consolidated Statement of Comprehensive Income

in ISK million	Q1 2021/22		Q1 2020/21	
	01.03-31.05	01.03-31.05	Change	%
Sales	32.034	28.241	3.793	13,4%
Cost of goods sold	(25.185)	(22.412)	(2.774)	12,4%
Gross profit	6.849	5.829	1.020	17,5%
Gross profit %	21,4%	20,6%	-	0,7%
Other operating income	104	98	6	6,0%
Profit from sale of a subsidiary	80	--	80	#DIV/0!
Salaries and related expenses	(3.250)	(3.276)	26	-0,8%
Other operating expenses	(1.505)	(1.354)	(151)	11,2%
Profit from operating activities before depreciation and amortisation (EBITDA)	2.278	1.297	981	75,6%
EBITDA %	7,1%	4,6%	-	2,5%
Depreciation and amortisation	(1.005)	(1.024)	19	-1,9%
Profit from operating activities (EBIT)	1.273	273	1.000	366,6%
Net finance expense	(390)	(431)	41	-9,5%
Effect of results of associates	31	30	1	3,6%
Profit before income tax	914	(128)	1.042	-
Income tax	(187)	32	(219)	-
Comprehensive income for the period	727	(96)	823	-
Total comprehensive income for the period is attributable to:				
Shareholders of Hagar hf.	717	(94)	811	-
Non-controlling interest	10	(2)	12	-
	727	(96)	823	-

Comprehensive Income in Q1 2021/22

Sales in Q1 amounted to 32,034 m.ISK. compared to 28,241 m.ISK. the year before. Sales increase between years was 13.4%. Retail and warehouse sales increased by 8.2% and increased sales at Olís was 29.0%.

The company's gross profit was 6,842 m.ISK. compared to 5,829 m.ISK. the previous year or 17.5% increase between years. The margin ratio was 21.4% compared to 20.6% in previous year.

Profit from sale of Reykjavíkur Apótek ehf. amounted to 80 m.ISK. The reference date for the transaction was last May 31st, but hand over took place on June 18th.

Salaries decreased by 0.8% between years, despite a 6% collective wage increase. The main explanations for the decrease between years are the reduced effects due to COVID-19, the reduction of full-time equivalent positions at Olís and the one-off severance payment regarding the former CEO last year, amounting to 86.4 m.ISK.

Other operating expenses increase by 151 m.ISK. between years or by 11.2%, but the increase can largely be attributed to a rise in housing costs. The overall cost ratio decreases between years from 16.4% to 14.8%. Of this, the labour ratio decreases from 11.6% to 10.1%.

Earnings before interest, depreciation and taxes (EBITDA) amounted to 2,278 m.ISK., compared to 1,297 m.ISK. the year before. The EBITDA ratio was 7.1%, compared to 4.6% the previous year. Retail and warehouses EBITDA increased by 27.0% between years and a turnaround from previous year's loss to profit at Olís amounted to 560 m.ISK.

Depreciation decreases slightly between years and finance expense decreases by little less than 10%.

Comprehensive income for the period amounted to 727 m.ISK., which is equivalent to 2.3% of the quarter's sales, but the company's last year's operational loss in Q1 amounted to 96 m.ISK. Therefore, the change between the years amounts to 823 m.ISK.

The Group's Consolidated Financial Statement

in ISK million	31.05.2021	28.02.2021	Change	%
Assets				
Non-current assets	47.454	47.816	(362)	-0,8%
Current assets	15.413	13.832	1.581	11,4%
Total assets	62.867	61.648	1.219	2,0%
Equity and liabilities				
Share capital	1.154	1.154	--	0,0%
Other equity	24.752	24.035	717	3,0%
Total	25.906	25.189	717	2,8%
Non-controlling interest	--	(2)	2	-100,0%
Equity total	25.906	25.187	719	2,9%
Non-current liabilities	18.624	18.592	32	0,2%
Current borrowings	2.958	2.957	1	0,0%
Bank borrowings	--	601	(601)	-100,0%
Other payables	15.379	14.311	1.068	7,5%
Total liabilities	36.961	36.461	500	1,4%
Total equity and liabilities	62.867	61.648	1.219	2,0%

Financial key figures 31.05.2021

- The Group's total assets at the end of Q1 amounted to 62,867 m.ISK. and grew by 1,219 m.ISK. from year end 2020/21.
- Non-current assets were 47,454 m.ISK. and decreased by 362 m.ISK. from year end which can be accredited to reduction in leasing assets. Investment in fixtures and equipment in the period amounted to 489 m.ISK.
- Current assets were 15,413 m.ISK. and grew by 1,581 m.ISK. from year end, of which cash and cash equivalents increased by 943 m.ISK.
- Inventories at the end of Q1 were 8,990 m.ISK. and inventory turnover 11.2. Inventories were 8,791 m.ISK. at the end of year 2020/21, but at the end of Q1 the previous year, inventories amounted to 8,070 m.ISK. Inventory turnover last year was also 11.2.
- Trade receivables increased by 749 m.ISK. between years but increased by 427 m.ISK. from year end. The credit period for claims is now 10.8 days, which is the same number of days as in the same period last year.
- The current ratio is 0.84 and the liquidity ratio is 0.35 at the end of Q1. Available short-term financing in the form of credit lines, for 6.2 b.ISK. at a commercial bank, is secured.
- Equity at the end of Q1 was 25,906 m.ISK. and the equity ratio 41.2%. Return on equity for the period was 13.9%. Last operating year's equity ratio was 40.9% and return on equity 10.2%. The company held 26.4.m. own shares at the end of the period.
- The Group's total liabilities at the end of Q1 amounted to 36,961 m.ISK. but of those interest-bearing debts amounted to 12,313 m.ISK. and leasing liabilities to 8,720 m.ISK. Net interest-bearing debts, including leasing liabilities, at the end of Q1 amounted to 19,702 m.ISK. or 2.0xEBITDA. Net interest-bearing debts, excluding leasing liabilities were 1.1xEBITDA.
- Non-indexed bond series, HAGA181021, in the amount of 2,500 m.ISK. is due in October 2021 but refinancing is in progress.

The Group's Consolidated Cash Flow Statement

in ISK million	Q1 2021/22		Q1 2020/21	
	01.03-31.05	01.03-31.05	Change	%
Net cash provided by operating activities	2.507	2.661	(154)	-5,8%
Net cash used in investing activities	(438)	(858)	420	-49,0%
Net cash used in financing activities	(1.126)	(560)	(566)	101,1%
Net increase in cash and cash equivalents	943	1.243	(300)	-24,1%
Cash and cash equivalents at beginning of the period	388	2.232	(1.844)	-82,6%
Cash and cash equivalents at the end of the period	1.331	3.475	(2.144)	-61,7%

Cash Flow first three months of the operational year

- Net cash provided by operating activities in the period amounted to 2,507 m.ISK. compared to 2,661 m.ISK. the year before.
- New cash used in investing activities in the period amounted to 438 m.ISK. compared to 858 m.ISK. the previous year. Investment in fixtures and equipment amounted to 489 m.ISK. where the majority was for renovation of Bónus in Hveragerði and Hagkaup at Akureyri, changes in warehouse at Skútvogur and purchase of machinery for the company's meat processing plant.
- Net cash used in financing activities for the period amounted to 1,126 m.ISK. compared to 560 m.ISK. the previous year.

Status and prospects

Hagar and its subsidiaries are still affected by the COVID-19 pandemic, but the group's operations continue to be marked by measures to limit the consequences of the pandemic, to ensure the safety of the group's employees, customers, and other partners. The operating result for the first quarter is satisfactory in regard to the situation, but a comparison with the first quarter of the last operating year is favourable, as that quarter was hit by the fall in exchange rate of the Icelandic króna, decrease in world oil prices and the contraction in traffic that had a large effect on Olís' results.

Sales in the group's grocery section is still increasing and sales in the fuel segment is considerably higher than in the previous year and is beginning to approach normal annual sales. It is expected that the effect of the pandemic will be felt on the group's operations until the middle of the operating year, but the management's guidance for the year expects that the group's EBITDA results will be ISK 8,600 - 9,100 m.ISK.

The financial position of the Hagar group is strong, and the company is well positioned to deal with challenging conditions in the Icelandic economy. The group's financing is secured for the long term and access to short-term financing, in the amount of 6.2 b.ISK., from a commercial bank is also secured.

Share capital and shareholders

- Hagar's market value at the end of the period amounted to 70.7 b.ISK. and the closing price on May 31st was 59.9 ISK. / share.
- Hagar's registered share capital at the end of the period amounted to 1,181 m.ISK. The company held 26.4 own shares at the end of the period.
- On June 3rd, 2021 the Annual General Meeting decided to reduce the company's share capital by invalidating own shares at the nominal value of 26.4 m.ISK. and the registered share capital will therefore be 1,154 m.ISK. after the reduction. The reduction of the share capital will be implemented at the end of June / beginning of July.

- The Annual General Meeting also decided to pay out dividend to shareholders amounting to 1.27 ISK per share or 1,500 m.ISK. The dividend was paid out on last June 16th.
- The number of shareholders were 784 at the beginning of the period and 787 at the end of the period. The 10 largest shareholders in the company own about 69% of the shares at the end of the quarter.

Online presentation Monday June 28th 2021

Online presentation for the market participants and shareholders will be held Monday June 28th at 8:30. The meeting will be cast online, where Finnur Oddsson, CEO, and Guðrún Eva Gunnarsdóttir, CFO, will present the company's operations and results, as well as answer questions.

Questions referring to the statements will be accepted while the meeting is in progress at e-mail address fjarfestakynning@hagar.is and will be answered as possible at the end of the meeting.

The meeting will be cast over the internet at the following URL:

<https://vimeo.com/event/1086672/embed/458a4d8295>

The presentation will be available at the commencement of the meeting on Hagar's webpage, www.hagar.is.

Financial calendar 2021/22

Financial information will be published after the market closes.

Accounting period	Weekday	Publication day
Q2 - 1 st June to 31 st . August	Tuesday	19 th October 2021
Q3 - 1 st September to 30 th November	Wednesday	12 th January 2022
Q4 - 1 st December to 28 th February	Tuesday	10 th May 2022
Annual General Meeting 2022	Thursday	2 nd June 2022

For further information contact Finnur Oddsson, CEO (fo@hagar.is) and Guðrún Eva Gunnarsdóttir, CFO (geg@hagar.is), by telephone 530-5500 or email.

This press release is translated from the Icelandic version which was published on June 25th, 2021. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.
