

Hagar's sales in Q3 grew by 5.5% between years

Hagar's results in the 3rd quarter 2020/21

The Consolidated Interim Financial Statements of Hagar plc. for the third quarter of 2020/21 were approved by the company's board of directors and the CEO at a board meeting on January 14th 2021. The statements cover the period March 1st 2020 to November 30th 2020. The consolidated interim financial statements include the consolidated financial statements of the company and its subsidiaries and are prepared in accordance 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 Q3 amounted to 29,787 m.ISK. (2019/20: 28,240 m. ISK.). Sales for 9M amounted to 88,952 m. ISK. (2019/20: 87,744 m. ISK.).
- **Gross margin in %** in Q3 was 21.5% (2019/20: 22.2%). Gross margin for 9M was 21.9% (2019/20: 22.1%).
- **Earnings before depreciation, interest and taxes (EBITDA)** in Q3 amounted to 1,947 m. ISK. (2019/20: 2,213 m.ISK.). Earnings before depreciation, interest and taxes (EBITDA) for 9M amounted to 6,263 m. ISK. (2019/20: 6,736 m.ISK.).
- **Profit** in Q3 amounted to 448 m.ISK. or 1.5% of turnover (2019/20: 628 m.ISK. and 2.2% of turnover). Profit for 9M amounted to 1,673 m.ISK. or 1.9% of turnover (2019/20: 2,349 m.ISK. and 2.7% of turnover).
- **Earnings per share** in Q3 were 0.37 ISK. (2019/20: 0.52 ISK.). Earnings per share for 9M were 1.42 ISK. (2019/20: 1.95 ISK.).
- **Equity** amounted to 25,341 m.ISK. at the end of the period and **equity ratio** was 39.8% (End year 2019/20: 24,587 m.ISK. and 39.2%).
- **Management's forecast** for the operating year 2020/21 assumes that EBITDA will be ISK 8,100-8,600 m.ISK.

Operational key points

- **Healthy turnover growth** in the group's food section in Q3Q3 despite severe restrictions on gatherings.
- **Streamlining** at Olís due to operational impact of the pandemic.
- **Continued focus on infection control measures** to ensure the safety and health of staff, customers and other partners in the pandemic.
- **Hagkaup's webstore** for toys and books and Zara's webstore launched in Q3. Turnover far exceeding expectations.
- **The number of customers visiting** grocery stores continues to decline slightly between years, but the **average basket size** increases significantly.
- Five **Bónus** stores have been **renovated** in Q3Q3 and **Hagkaup in Smáralind** has changed considerably since the last F&F division was closed.
- Aðföng's new **cold storage warehouse** opened, streamlining distribution to stores and improving economics.
- Extensive emphasis on **food waste reduction** in stores and the proportion of food waste in shrinkage has never been lower.
- **The sale process** of Útílíf and Reykjavíkur Apótek has been launched and is on schedule.



Finnur Oddsson, CEO:

„Overall, operations in the third quarter were very acceptable, but the effects of the COVID-19 pandemic were felt, as expected, in all areas of Hagar's operations. Revenues for the quarter increased from the previous year, but EBITDA was slightly below budget and the same period last year. Overall, we are satisfied with the results of the quarter, especially considering the challenges caused by the COVID-19 pandemic both in Iceland and elsewhere. Most importantly, the company is well-positioned to address inevitable challenges caused by ongoing infection control measures and our customers' ever-changing consumption patterns.

Demand for groceries has continued to increase, in Bónus and Hagkaup, with revenue from groceries increased by more than 15% from the previous year. Growth in Hagar's specialty stores, however, was considerably higher. It was a pleasure to observe the success of online shopping during the period, especially with toys and books at Hagkaup and clothing and outdoor articles at Zara and Útilíf. Gross margin has contracted somewhat, and considerable costs have been incurred due to disease control and security, to ensure the safety of customers and staff adequately at all times. Despite a healthy increase in turnover, this year's results are similar to that of last year in this part of Hagar's operations. As expected, Olís' revenue and results continue to be negatively affected, due to less road traffic and reduction in economic activity. The reason for the group's slight decline in profits results therefore can largely be attributed to the fuel division of our operations.

We foresee that the impact of the pandemic on Hagar's operations will continue, at least into the spring and summer months. The impact on Hagar's retail and warehouse operations will rather be positive than negative, but customers have adapted to new circumstance by changing their behaviour, with fewer store visits and a larger average basket per visit. This is, i.e., reflected in robust pre-Christmas sales, where revenue continued to increase similarly to the previous months and operational results as well. In response to the continuing negative impact on Olís' operations, we have already planned and partially implemented measures that will lead to an ongoing operational improvement.

The short-term outlook for Hagar's operations is therefore similar to that of recent months. In the long run, we expect to realise the benefits of new strategic priorities, including a streamlined focus on the company's operations, increased dialog with the customers and the development of our service offerings so that it always meet the needs of customers, current and new. The strategy and the planning work of the last few months is progressing well, the sales process of specialty products is advancing according to plan. We have also welcomed new members to the team who will, as before, work towards the objective of promoting customer benefits and satisfaction with excellence in retail.

The Group's consolidated statement of comprehensive income

in ISK million	Q3 2020/21		Q3 2019/20		9M 2020/21		9M 2019/20	
	01.09-30.11	01.09-30.11	Change	%	01.03-30.11	01.03-30.11	Change	%
Sales	29.787	28.240	1.547	5,5%	88.952	87.744	1.208	1,4%
Cost of goods sold	(23.392)	(21.970)	(1.422)	6,5%	(69.461)	(68.372)	(1.089)	1,6%
Gross profit	6.395	6.270	125	2,0%	19.491	19.372	119	0,6%
Gross profit %	21,5%	22,2%	-	-0,7%	21,9%	22,1%	-	-0,2%
Other operating income	96	121	(25)	-20,7%	279	385	(106)	-27,5%
Salaries and related expenses	(3.197)	(2.991)	(206)	6,9%	(9.537)	(9.014)	(523)	5,8%
Other operating expenses	(1.347)	(1.187)	(160)	13,5%	(3.970)	(4.007)	37	-0,9%
Profit from operating activities before depreciation and amortisation (EBITDA)	1.947	2.213	(266)	-12,0%	6.263	6.736	(473)	-7,0%
EBITDA %	6,5%	7,8%	-	-1,3%	7,0%	7,7%	-	-0,6%
Depreciation and amortisation	(1.038)	(1.013)	(25)	2,5%	(3.130)	(2.882)	(248)	8,6%
Profit from operating activities (EBIT)	909	1.200	(291)	-24,3%	3.133	3.854	(721)	-18,7%
Net finance expense	(381)	(440)	59	-13,4%	(1.231)	(1.055)	(176)	16,7%
Effect of results of associates	25	21	4	19,0%	150	111	39	35,1%
Profit before income tax	553	781	(228)	-29,2%	2.052	2.910	(858)	-29,5%
Income tax	(105)	(153)	48	-31,4%	(379)	(561)	182	-32,4%
Comprehensive income for the period	448	628	(180)	-28,7%	1.673	2.349	(676)	-28,8%
Total comprehensive income for the period is attributable to:								
Shareholders of Hagar hf.	448	628	(180)	-28,7%	1.676	2.349	(673)	-28,7%
Non-controlling interest	--	--	--	-	(3)	--	(3)	-
	448	628	(180)	-28,7%	1.673	2.349	(676)	-28,8%

Comprehensive Income for the first 9 months

Sales during the period amounted to 88,952 m.ISK. compared to 87,744 m.ISK. the year before. Sales increase for the period between year was 1.4%.

The company's gross margin was 19,491 m.ISK. compared to 19,372 m.ISK. the year before or 21.9% margin, compared to 22.1% in the previous year.

Total operating expenses increase by 486 m.ISK. between years. Salaries rise by 5.8% which is explained among others by severance payments and increased labour costs due to Covid-19. Other operating expenses are reduced by 37 m.ISK. The overall cost-income ratio increases between years from 14.8% to 125.2%

Earnings before interest, depreciation and taxes (EBITDA) amounted to 6,263 m.ISK. compared to 6,736 m.ISK the year before. The EBITDA-ratio was 7.0% compared to 7.7% the year before.

Depreciation has grown by 248 m.ISK. between years, mainly due to renovations of stores and extensive investment is recent quarters.

Financial cost has increased, explained mainly by exchange rate loss during the period.

Comprehensive income for the period amounted to 1,672 m.ISK. equalling 1.9% of turnover, but after-tax revenues in previous year amounted to 2,349 m.ISK. or 2.7% of turnover.

Key figures in Q3

- Sale in Q3 increased by 5.5% between years.
- Gross margin in Q3 grew by 2.0% between years.
- Gross margin ratio in Q3 was lower than expected or 21.5% which is 0.7%-points under previous year. Gross margin for Bónus and Hagkaup lower than expected but Olís grows between years.
- Salaries and related expenses in Q3 over previous year due to a cut-off on a contractual severance p-cost and increased salaries cost due to Covid-19.
- Other operational costs in Q3 increased by 13.5% mainly due to COVIV 19.
- Salary cost-income ratio Q3 is 15.3% but was 14.8% for previous year.
- EBITDA in Q3 declined by 12.0% from previous year. EBITDA-ratio is 6.5% but was 7.8% in previous year.
- Comprehensive income in Q3 fell by 28.7% between years.

The Group's Consolidated Financial Statement

Financial key figures 30.11.2020

- The Group's total assets at the end of the period amounted to 63,743 m.ISK. and grew by 1,035 m.ISK. from end of year 2019/20.
- Non-current assets were 48,130 m.ISK. and grew by 576 m.ISK. from end of year. Property investment amounted to 1,711 m.ISK. in the period and investment in fixtures and equipment amounted to 1,357 m.ISK.
- Current assets were 15,613 m.ISK. and grew by 459 m.ISK. from end of year.
- Inventory at the end of the year was 9,421 m.ISK. and inventory turnover 10.2. Inventory grew by 1.041 m.ISK. from end of year, but the Group's inventory reaches annual maximum in November due to the Christmas season. Then inventory is little higher now as of COVID-19 extra stocks. Inventory in November 2019 was 8,557 m.ISK. and turnover 10.4.

in ISK million	30.11.2020	29.02.2020	Change	%
Assets				
Non-current assets	48.130	47.554	576	1,2%
Current assets	15.613	15.154	459	3,0%
Total assets	63.743	62.708	1.035	1,7%
Equity and liabilities				
Share capital	1.171	1.189	(18)	-1,5%
Other equity	24.172	23.397	775	3,3%
Total	25.343	24.586	757	3,1%
Non-controlling interest	(2)	1	(3)	-300,0%
Equity total	25.341	24.587	754	3,1%
Non-current liabilities	22.290	22.362	(72)	-0,3%
Current borrowings	468	442	26	5,9%
Bank borrowings	--	1.273	(1.273)	-100,0%
Other payables	15.644	14.045	1.599	11,4%
Total liabilities	38.402	38.122	280	0,7%
Total equity and liabilities	63.743	62.708	1.035	1,7%

- Total trade receivables grew by 277 m.ISK from the year's end and the credit period is now 9.9 days compared to 14.7 days for the same period last year.
- The current ratio is 0.97 and liquidity ratio 0.38 at the end of the period. Available short-term financing for 6.2 b.ISK. at commercial bank is secured.
- Equity at the end of the period was 25,341 m.ISK. and the equity ratio 39.8%. Return on equity for the period was 9.8%. Last operating year's equity ratio was 39.2% and return on equity 12.6%. The company had 9.2 m. in own shares at the end of the period.
- The Group's total liabilities at the end of the period amounted to 38,402 m.ISK. but of that interest-bearing liabilities amounted to 12,498 m.ISK. and leasing liabilities 9,338 m.ISK. Net interest-bearing liabilities, including lease liabilities, at the end of the period amounted to 20,463 m.ISK or 2.43x12 months EBITDA.

The Groups consolidated cash flow statement

in ISK million	Q3 2020/21		Q3 2019/20		9M 2020/21		9M 2019/20	
	01.09-30.11	01.09-30.11	Change	%	01.03-30.11	01.03-30.11	Change	%
Net cash provided by operating activities	2.328	1.266	1.062	83,9%	5.931	8.675	(2.744)	-31,6%
Net cash used in investing activities	(794)	(1.066)	272	-25,5%	(2.934)	(2.564)	(370)	14,4%
Net cash used in financing activities	(1.050)	406	(1.456)	-358,6%	(3.856)	(3.482)	(374)	10,7%
Net (decrease) increase in cash and cash equivalents	484	606	(122)	-20,1%	(859)	2.629	(3.488)	-132,7%
Cash and cash equivalents at beginning of the period	889	2.759	(1.870)	-67,8%	2.232	736	1.496	203,3%
Cash and cash equivalents at the end of the period	1.373	3.365	(1.992)	-59,2%	1.373	3.365	(1.992)	-59,2%

Cash flow in the first nine months of the operational year

- Net cash from operations in the period amounted to 5,931 m.ISK. compared to 8,675 m.ISK. the year before. The change between the years may be attributed to operational related assets, but the previous year changes were made in credit card settlement procedure, as settlement by custodian changed from being monthly to daily.
- Investing activities for the period amounted to 2,934 m.ISK. compared to 2,564 m.ISK. the previous year. Investment in the period was in property at Furuvellir in Akureyri and additionally almost all construction cost of the new Aðföng cold storage warehouse is accounted for. Further investment in equipment and interior furnishings for 1,357 m.ISK. where the majority was for renovation of Bónus and Hagkaup stores and interior furnishings and equipment in new cold storage.
- Financial activities for the period were 3,856 m.ISK. compared to 3,482 m.ISK. the previous year. Dividend was not paid to shareholders for the last operational year but the year before the dividend amounted to 1,159 m.ISK. Purchase of own shares in the period was 920 m.ISK.

Status and future prospects

Hagar and its subsidiaries have been substantially impacted by COVID-19 pandemic this operational year. The Group's results for the first half of the year were acceptable following a challenging first quarter during the peak of the first wave of the pandemic. The effects of COVID-19 were felt in all Hagar's operational areas in the third quarter, which was characterised by continuing revenue growth for the grocery section of the Group, but declining revenues for Olís, similar to the previous months. The Group's gross margin was slightly below expectations and additionally operation cost has increased due to the pandemic.

December revenues exceeded expectations and it may be expected that the last quarter will be in line with revenues in the same period of the previous year, and that the impact on Hagar's operations will be similar as before. The management's forecast for the operational year 2020/21 is therefore unchanged and projecting the EBITDA will be 8,100-8,600 m.ISK.

Hagar's economical and liquidity position is strong and the company is in good standing to address the challenging conditions in the Icelandic economy. The company's long-term financing is secured with the availability of 6.2 b.ISK. commercial bank short-term financing.

Numerous measures have been taken to ensure safety and health of employees, customers and other partners of the Group. The measures are extremely important as a large part of the Group's operations, such as grocery stores and connected warehouses, as well as fuel outlets, play a major role in Iceland's infrastructure.



Share capital and shareholders

- Hagar's market value at the end of the period amounted to 64.1 b.ISK. and the closing price on November 30th was 54.3 ISK. / share.
- Hagar's registered shares at the end of the period amounted to 1,181 m.ISK. The company had 9.2 m own shares at the end of the period.
- On June 9th 2020 the Annual Meeting decided not to pay dividend to shareholders for last year.
- The Hagar Management, based on the Annual Meeting decision on June 9th, 2020, proceeded with two buy-back programs from the beginning of November, in order to reduce the company's issued shares. Those have now been completed and the buy-back amounted to 1,000 m.ISK or 17.8 m. shares.
- A new buy-back program will commence in week 3 and the amount will be maximum 500 m.ISK.
- The number of shareholders were 684 at the beginning of the operational year and 708 at the end of the period.

Financial calendar 2020/21

Financial information will be published after the market closes.

Accounting period	Weekday	Publication day
4Q and 1 st March - 28 th February	Monday	10 th May 2021
Annual Meeting 2021	Thursday	3 rd June 2021

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