Press release
May 10th, 2021

Q4 sales growth and improved profitability

Hagar's annual statements 2020/21

The consolidated financial statements of Hagar plc. for the operating year 2020/21 was approved by the company's board of directors and CEO at a board meeting on May 10th, 2021. The statements cover the period March 1st, 2020 to February 28th, 2021. The consolidated 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 company's auditors, PricewaterhouseCoopers Ltd., have audited the statements and signed it without notice.

Key figures

- **Sales** in Q4 amounted to 30,630 m.ISK. (2019/20: 28,613 m.ISK.). Sales for the year amounted to 119,582 m.ISK. (2019/20: 116,357 m.ISK.).
- **Gross margin in Q4** was 22.9% (2019/20: 22.5%). Gross margin for the year was 22.2% (2019/20: 22.2%).
- **Earnings before depreciation, interest and taxes (EBITDA)** in Q4 amounted to 2,542 m.ISK. (2019/20: 2,154 m.ISK.). Earnings before depreciation, interest and taxes (EBITDA) for the year amounted to 8,805 m.ISK. (2019/20: 8,890 m.ISK.).
- **Profit** in Q4 amounted to 846 m.ISK. or 2.8% of sales (2019/20: 705 m.ISK. and 2.5% of sales). Profit for the year amounted to 2,519 m.ISK. or 2.1% of sales (2019/20: 3,054 m.ISK. and 2.6% of sales).
- **Earnings per share** in Q4 were 0.73 ISK. (2019/20: 0.59 ISK.). Earnings per share for the year were 2.15 ISK. (2019/20: 2.54 ISK.).
- **Equity** amounted to 25,187 m.ISK. at the end of the year and **equity ratio** was 40.9% (Year end 2019/20: 24,587 m.ISK. and 39.2%).
- **Management's guidance** for the operating year 2020/21 assumed that EBITDA would be 8,100-8,600 m.ISK.

Operational key points

- **A good quarter** behind with increased sales and improved margins, despite visitor's restrictions in December, the biggest month of the year.
- **The year was marked by effects of COVID-19** and measures to limit the consequences of the pandemic.
- **Streamlining in Olís operations** returns operational profits in the quarter.
- **The group's employees** deserve special thanks for their selflessness and diligence in very demanding situations.
- **The number of units sold** in grocery stores increased during the year, but the **number of customer visits** decreased. **Average basket** size increased by more than 20%.
- **Hagar carbon offsets all operations in 2020,** as a **countermeasure** to the environmental impact of the Group's operations.
- **Hagar's Innovation Day** was held for the first time at the end of April, and Hagar has established a support fund named **Uppsprettan**.
- **Management's guidance** for the operating year 2021/22 assumes that EBITDA will be 8,600-9,100 m.ISK.

Finnur Oddsson, CEO:

„Hagar's operations in the last quarter of the 2020/21 operating year were good. Revenue amounted to 30.6 b.ISK. and grew by 7% compared to the same period last year. EBITDA amounted to 2,542 m.ISK. which is well above forecast and 18% better than the same quarter last year. We are therefore pleased with Hagar's operations in this last quarter of a challenging operating year. The year commenced in March 2020, at the same time as the effects of the COVID-19 pandemic were first felt, so the pandemic has left its mark on the operations throughout all the 12 months of the operating year. In that light, and especially considering a challenging first quarter, we are pleased with the results of the year. Total revenue increased by 3% and amounted to almost 120 b.ISK. and EBITDA was 8,805 m.ISK, almost unchanged between years. These robust results reflect the strength of the company, its brands, and our exceptional employees, to deal with the challenging situation brought on by COVID-19 but continue to provide customers with good service and deliver excellent operating results.

The effects of COVID-19 on revenue during the operating year varied according to business sectors. There was an elevated activity in grocery sales, where both Bónus and Hagkaup had their largest operating years historically. The same can be said about Hagar's specialty stores, especially ZARA and Útilíf. This increase is partly because more people are in Iceland compared to a normal year. On the other hand, Olís' income decreased considerably, as traffic in COVID-times was much lower than previously, both by people living in Iceland and due to fewer foreign tourists. We see increased costs across all our operations due to the necessary measures to strengthen disease control and ensure the safety of customers and employees. This incidental cost is estimated to be in the range of 300-350 m.ISK. for the total year. Hagar's gross margin strengthened in the fourth quarter and stands at 22.2% for the year, unchanged from last year. As stated earlier, the result turned out to be comparable to the previous year, but broken down to business segments, the result in retail and warehousing operations improved but deteriorated for Olís.

From the beginning of the pandemic, it has been clear that it´s negative effects were particularly severe in Olís' operations, due to a significant decline in fuel sales. In response to this development, various measures have been taken since last fall, which have already resulted in considerable optimisation in the company's operations. These include changes to service stations, both service levels and opening hours, increased emphasis on self-service, first steps in restructuring the branch network in rural areas, streamlining the office work and closing certain operating units that have been unprofitable and were not considered to be an important part of Olís' service portfolio. With these changes, the number of full-time equivalent positions at Olís has decreased from 412 to 340 between years, or by 17.5%. It is encouraging that we are already seeing the results of these measures in our operating results for the fourth quarter. Their impact will, however, be even clearer in the coming quarters. Although the reason for these measures at Olís is primarily to respond to the effects of the pandemic, it is clear that they will also prepare the company better for the longer term, with less demand for fossil fuels and increased for electricity and other environmentally friendly energy sources in transport and industry.

The outlook for Hagar's operations is good, similar, or slightly better than it has been. We believe that the effect of COVID-19 on operations will continue until the autumn, but we expect a strong tourist summer on the rural roads. Work on the implementation of new strategy has progressed according to schedule, with an increased focus on Hagar´s core business, a strengthened dialogue and connection with customers and a further definition of service levels for the benefit of customers. The sale of Útilíf and Reykjavíkur Apótek has been finalized, work on branding at Hagar and its subsidiaries is progressing well, the definition of service levels for the next few months is in final phase and a mapping of the necessary investment in technical solutions as well. We have also completed the hiring of key talent to strengthen Hagar's team and at the same time the company's ability to execute on a new strategy, which aims to ensure that excellence in retail will create benefit for our customers.“

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The Groups consolidated statement of comprehensive income

in ISK million	Q4 2020/21 01.12-28.02	Q4 2019/20 01.12-29.02	Change	%	2020/21 01.03-28.02	2019/20 01.03-29.02	Change	%
Sales	30.630	28.613	2.017	7,0%	119.582	116.357	3.225	2,8%
Cost of goods sold	(23.606)	(22.179)	(1.427)	6,4%	(93.067)	(90.551)	(2.516)	2,8%
Gross profit	**7.024**	**6.434**	**590**	**9,2%**	**26.515**	**25.806**	**709**	**2,7%**
Gross profit %	**22,9%**	**22,5%**	**-**	**0,4%**	**22,2%**	**22,2%**	**-**	**0,0%**
Other operating income	130	99	31	31,3%	409	484	(75)	-15,5%
Salaries and related expenses	(3.275)	(3.073)	(202)	6,6%	(12.812)	(12.087)	(725)	6,0%
Other operating expenses	(1.337)	(1.306)	(31)	2,4%	(5.307)	(5.313)	6	-0,1%
Profit from operating activities before depreciation and amortisation (EBITDA)	**2.542**	**2.154**	**388**	**18,0%**	**8.805**	**8.890**	**(85)**	**-1,0%**
EBITDA %	**8,3%**	**7,5%**	**-**	**0,8%**	**7,4%**	**7,6%**	**-**	**-0,3%**
Depreciation and amortisation	(1.128)	(1.045)	(83)	7,9%	(4.258)	(3.927)	(331)	8,4%
Profit from operating activities (EBIT)	**1.414**	**1.109**	**305**	**27,5%**	**4.547**	**4.963**	**(416)**	**-8,4%**
Net finance expense	(322)	(272)	(50)	18,4%	(1.553)	(1.327)	(226)	17,0%
Effect of results of associates	(25)	28	(53)	-189,3%	125	139	(14)	-10,1%
Profit before income tax	**1.067**	**865**	**202**	**23,4%**	**3.119**	**3.775**	**(656)**	**-17,4%**
Income tax	(221)	(160)	(61)	38,1%	(600)	(721)	121	-16,8%
Comprehensive income for the period	**846**	**705**	**141**	**20,0%**	**2.519**	**3.054**	**(535)**	**-17,5%**
Total comprehensive income for the period is attributable to:								
Shareholders of Hagar hf.	846	705	**141**	**20,0%**	2.522	3.054	**(532)**	**-17,4%**
Non-controlling interest	--	--	--	-	(3)	--	**(3)**	-
	846	**705**	**141**	**20,0%**	**2.519**	**3.054**	**(535)**	**-17,5%**

Comprehensive income for the year 2020/21

Sales for the year amounted to 119,582 m.ISK, compared to 116,357 m.ISK. the year before. Sales increased between years by 2.8%. Retail and warehouse sales increased by 13.4%, while sales of Olís decreased by 17.5%.

The company's gross profit was 26,515 m.ISK, compared to 25,806 m.ISK the previous year or a 22.2% margin ratio in both periods.

Salaries increased by 6.0% between years, which is explained a.o. by severance payments and increased wage costs due to COVID-19. Other operating expenses were almost unchanged between years, despite increased operating expenses due to COVID-19. The overall cost ratio increases between years from 15.0% to 15.2%.

Profit before interests, depreciation, and taxes (EBITDA) amounted to 8,805 m.ISK, compared to ISK 8,890 m.ISK. the year before. The EBITDA ratio was 7.4%, compared to 7.6% the previous year. EBITDA of retail and warehouses increased by 8.4% between years and Olís EBITDA declined by 34.2%.

Depreciation increased by 8.4% between years, mainly due to the renovation of stores and large investments in recent quarters.

Finance costs increase by 226 m.ISK. between the years, among others due to exchange rate losses during the operating year.

Comprehensive income for the year amounted to 2,519 m.ISK, which is equivalent to 2.1% of sales but comprehensive income the previous year was 3,054 m.ISK. or 2.6% of sales. Comprehensive income decreased by 17.5% between the years.

Key figures in Q4 quarter

- Sales in Q4 increased by 7.0% between years and gross profit by 9.2%.
- The Q4 gross margin ratio was 0.4% points over the previous year or 22.9% against 22.5%. The gross margin ratio of grocery stores is below expectations, but Olís increases between years.
- Salaries and related expenses in Q4 were 6.6% over previous year, which is mainly explained by contractual wage increases and wage costs due to COVID-19.
- Other operating expenses of Q4 increase slightly or by 2.4%.
- The overall cost ratio Q4 is 15.1% but was 15.3% last year.
- EBITDA in Q4 increases by 18.0% from the previous year. The EBITDA ratio is 8.3% but was 7.5% last year.
- Comprehensive income in Q4 increases by 20.0% between years.

The Group's Consolidated Financial Statement

Financial key figures 28.02.2021

- The Group's total assets at the end of the year amounted to 61,648 m.ISK and decreased by 1,060 m.ISK from the end of 2019/20.
- Non-current assets amounted to 47,816 m.ISK and increased by 262 m.ISK from the end of the year. Investment in properties amounted to 1,870 m.ISK during the year and investment in fixtures and equipment amounted to 2,040 m.ISK.
- Current assets were 13,832 m.ISK and decreased by 1,322 m.ISK from the end of the year.

in ISK million	28.02.2021	29.02.2020	Change	%
Assets				
Non-current assets	47.816	47.554	262	0,6%
Current assets	13.832	15.154	(1.322)	-8,7%
Total assets	**61.648**	**62.708**	**(1.060)**	**-1,7%**
Equity and liabilities				
Share capital	1.154	1.189	(35)	-2,9%
Other equity	24.035	23.397	638	2,7%
Total	**25.189**	**24.586**	**603**	**2,5%**
Non-controlling interest	(2)	1	(3)	-300,0%
Equity total	**25.187**	**24.587**	**600**	**2,4%**
Non-current liabilities	18.592	22.362	(3.770)	-16,9%
Current borrowings	2.957	442	2.515	569,0%
Bank borrowings	601	1.273	(672)	-52,8%
Other payables	14.311	14.045	266	1,9%
Total liabilities	**36.461**	**38.122**	**(1.661)**	**-4,4%**
Total equity and liabilities	**61.648**	**62.708**	**(1.060)**	**-1,7%**

- Inventory at the end of the year were 8,791 m.ISK and inventory turnover rate 10.8. Inventories increased by 411 m.ISK during the operating year. Inventory turnover last year was 11.2.
- Trade receivables increased by 530 m.ISK during the operating year and the credit period of claims is now 10.3 days, compared to 13.6 days in the same period last year.
- The current ratio is 0.77 and the liquidity ratio 0.28 at the end of the year. Available short-term financing for 6.2 b.ISK at commercial bank is secured.
- Equity at the end of the year was 25,187 m.ISK and the equity ratio 40.9%. Return on equity for the operating year was 10.2%. The equity ratio at the end of the last operating year was 39.2% and the return on equity was 12.6%. The company owned 26.4 million own shares at the end of the operating year.
- The Group's total liabilities at the end of the year were 36,461 m.ISK of which interest-bearing debts were 12,926 m.ISK and leasing liabilities 9,029 m.ISK. Net interest-bearing debts, including leasing liabilities, at the end of the year were 21,567 m.ISK or 2.4xEBITDA. Net interest-bearing debts, excluding leasing liabilities, were 1.4xEBITDA.
- Non-indexed bond series, HAGA181021, in the amount of 2,500 m.ISK is due in October 2021 but is being refinanced.

The Groups consolidated cash flow statement

in ISK million	Q4 2020/21 01.12-28.02	Q4 2019/20 01.12-29.02	Change	%	2020/21 01.03-28.02	2019/20 01.03-29.02	Change	%
Net cash provided by operating activities	696	1.153	(457)	-39,6%	6.627	9.828	(3.201)	-32,6%
Net cash used in investing activities	(657)	(2.657)	2.000	-75,3%	(3.591)	(5.221)	1.630	-31,2%
Net cash used in financing activities	(1.024)	371	(1.395)	-376,0%	(4.880)	(3.111)	(1.769)	56,9%
Net (decrease) increase in cash and cash equivalents	**(985)**	**(1.133)**	**148**	**-13,1%**	**(1.844)**	**1.496**	**(3.340)**	**-223,3%**
Cash and cash equivalents at beginning of the period	1.373	3.365	(1.992)	-59,2%	2.232	736	1.496	203,3%
Cash and cash equivalents at the end of the period	**388**	**2.232**	**(1.844)**	**-82,6%**	**388**	**2.232**	**(1.844)**	**-82,6%**

Cash flow for the year 2020/21

- Net cash from operations during the year amounted to 6,627 m.ISK, compared to 9,828 m.ISK last year. The change between years can be attributed to changes in operational related assets, but last year a change was made in credit card settlement procedure, as settlement by custodian changed from being monthly to daily.
- Investment activities for the year were 3,591 m.ISK, compared to 5,221 m.ISK last year. During the operating year, investments were made in properties at Furuvellir in Akureyri, where Hagkaup's store is operated. Two-thirds of the construction costs were incurred for the construction of the new Aðföng cold storage warehouse in Korngarðar, which became operational before last Christmas. Investment in equipment and fixtures for 2,040 m.ISK. was largely due to the renovation of Bónus and Hagkaup stores as well as interior furnishings and equipment for a new cold storage warehouse.
- Financing activities for the year were 4,880 m.ISK, compared to 3,111 m.ISK last year. No dividend was paid to shareholders during the year, due to the last operational year, but in the previous year the dividend was 1,159 m.ISK. Own shares were purchased through the operating year amounting to 1,920 m.ISK.

Status and prospects

The current operating year was largely characterized by the effects of the COVID-19 pandemic and measures to limit its consequences in various ways. Emphasis was placed on ensuring the safety of the Group's employees, customers, and other partners. The measures are very important because a large part of the Group's operations, e.g. grocery stores and related warehouses, as well as fuel outlets, play a major role in the country's infrastructure operations, especially in demanding situations such as these. There has been extensive and good co-operation with suppliers, the government, and other stakeholders, which has prevented numerous problems such as product shortages.

The impact of the pandemic began to be felt immediately in the Group's operations at the beginning of the operating year, when sales in the Group's grocery segment began to increase, sales in the fuel segment decreased significantly and margins decreased. The effect was greatest in the first quarter, when the depreciation of the Icelandic króna and the fall in world oil prices had a major impact on margins as well as price increases from suppliers. Operations in the second quarter were successful, as increased domestic trade had a positive effect on the results of all business units. The third quarter was worse as margins were slightly below expectations, in addition to operating costs rising somewhat due to the pandemic. The results for the fourth quarter exceeded expectations with a good increase in sales and improved margins. The result for the year as a whole is slightly above the upper limit of the published earnings forecast, and it is the conclusion of the Board of directors and Management that it was successful during the year despite unpredictability and generally very demanding operating conditions. The staff of Hagar and its subsidiaries deserve special thanks for their selflessness and diligence.

The management's forecast for the operating year 2021/22, which has now begun, assumes that the Group's EBITDA profit will be 8,600-9,100 m.ISK. It is expected that the Group will be affected by the pandemic until the middle of the 2021/22 operating year.

The financial status 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 at a commercial bank is also secured.

Share capital and shareholders

- Hagar's market value at the end of the operating year amounted to 67.6 b.ISK and the closing price on 28th February 2021 was 57.3 ISK / share.
- Hagar's registered share capital at the end of the operating year amounted to 1,181 m.ISK. The company held 26.4 m own shares at the end of the year.
- On June 9th, 2020, the Annual General Meeting approved that no dividends be paid to shareholders for the previous year.
- Based on the approval of the Annual General Meeting from June 9th, 2020, Hagar's Board of Directors has initiated three buy-back programs from the beginning of November 2020, with the aim of reducing the company's issued share capital. They are now all finalised and the amount of the buy-back programs amounted to 1,500 m.ISK or 26.4 m shares.
- Hagar's Board of Directors will propose at the Company's Annual General Meeting on coming June 3rd that 1.27 ISK dividend per share will be paid to shareholders in the year 2021, a total of 1,500 m.ISK or 59.5% of the total profit for the year.
- Shareholders at the beginning of the operating year were 684 and 784 at the end. The company's 10 largest shareholders own over 70% of the company.

Financial calendar 2021/22

Financial information is published after the market closes.

Accounting period	Weekday	Publication day
Q1 – 1st March to 31st May	Friday	25th June 2021
Q2 – 1st March to 31st August	Tuesday	19th October 2021
Q3 – 1st March to 30th November	Wednesday	12th January 2022
Q4 – 1st March to 28th February	Tuesday	10th May 2022
Annual meeting 2022	Thursday	2nd 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 May 10th, 2021. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.
