

**EKORNES®**

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THE INNOVATORS OF COMFORT™



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**Q3 2017**

27 October 2017

# Agenda

- Introduction
- Highlights
- Operations
- Financials
- Summary and outlook



# The Ekornes® Group

## Group company

**EKORNES®**

HQ Sykkylven, Norway  
2016 revenue of NOK 3.1bn  
2016 EBIT margin of 14.1%  
~ 2 100 employees

Three brands operated independently –  
separate sales, distribution and supply chains



Stressless® – a brand known by 85 million people globally  
IMG – a discovered brand internationally  
Svane® – a Northern European mattress and beds brand

## Combined group sales & supply chain footprint



Sales in 43 countries  
18 sales offices in 11 countries  
More than 4 000 sales outlets

9 production units  
in 4 countries  
Multiple warehouses  
and 3<sup>rd</sup> party logistics  
partners

# Long-term ambitions and near-term priorities



Annual revenue growth of 3%-5%

- Strengthen Stressless® customer offering to grow revenue
- Double IMG revenue next 5 years

- Product development and innovation
- Sales organisation development
- Distribution development
- Supply chain development
- Cost efficiency



EBIT margin of 16%-18%

- Exploit operational leverage by growing revenue and volume
- Ensure cost efficiency

- Relentless cost focus
- Production and logistics optimisation
- Vertical integration

# Highlights

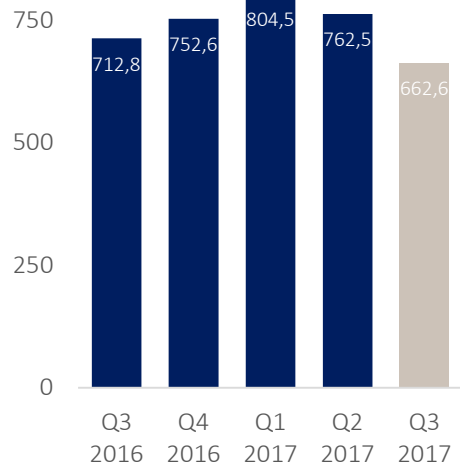
- Positive underlying operational development for Stressless® and IMG during the quarter. Group-earnings impacted by weak development for Svane®
- Initiatives to strengthen market-positions through product-development continued, Stressless® Dining ready for market-introduction
- Capital structure optimization through refinancing, maximizing capital efficiency and strengthening financial flexibility

# Financial results

## Operating revenues

NOK million

1 000



## Adjusted EBIT & margin

NOK million

250

200

150

100

50

0

25%

20%

15%

10%

5%

0%

0

0

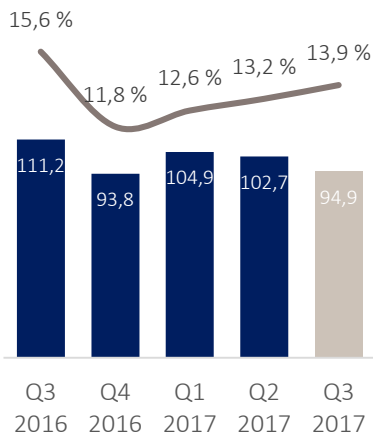
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## Reported EBIT & margin

NOK million

250

200

150

100

50

0

25%

20%

15%

10%

5%

0%

0

0

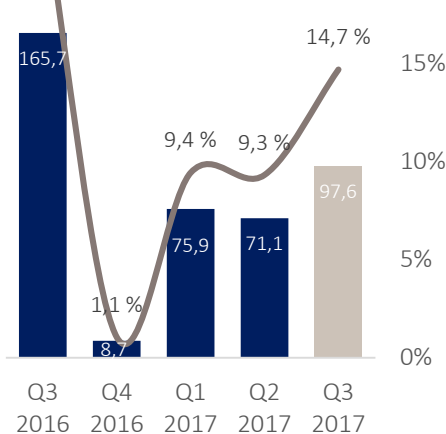
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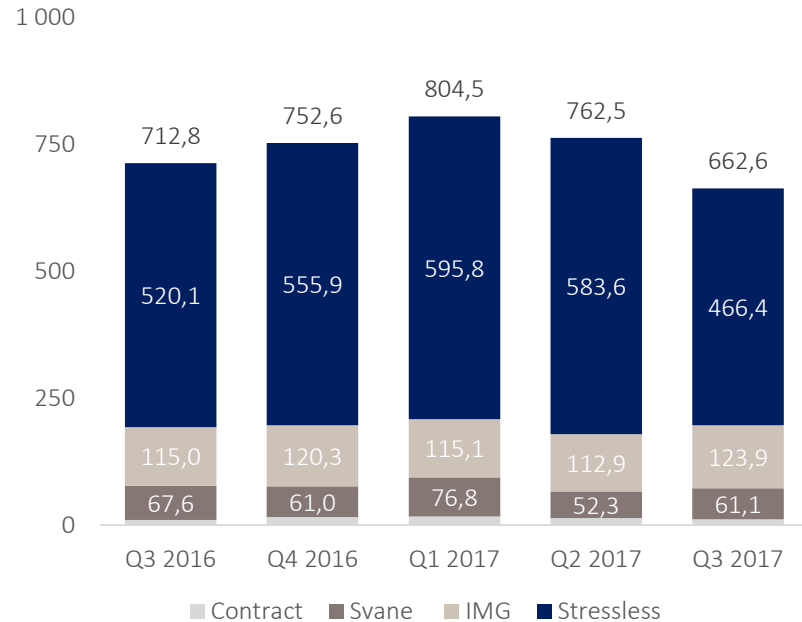
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# Operations

# Operating revenue per segment

NOK million







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## Stressless® customer offering

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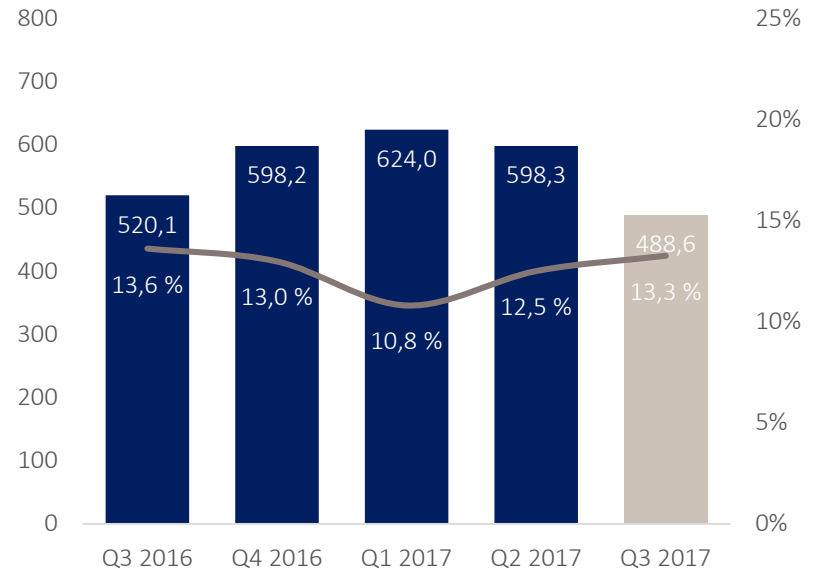
- Comfortable, premium quality furniture
- Recliners, sofas and other categories

# Stable overall development

- Underlying revenues, before currency- and periodization effects stable in Q3
  - Adjusted revenues down 6.1% year-over-year
- Stable margin-development year-over-year
- Positive underlying development in order intake and revenue periodization lift order reserve
- Strengthening organizational and executional capacity by combining marketing and product-development

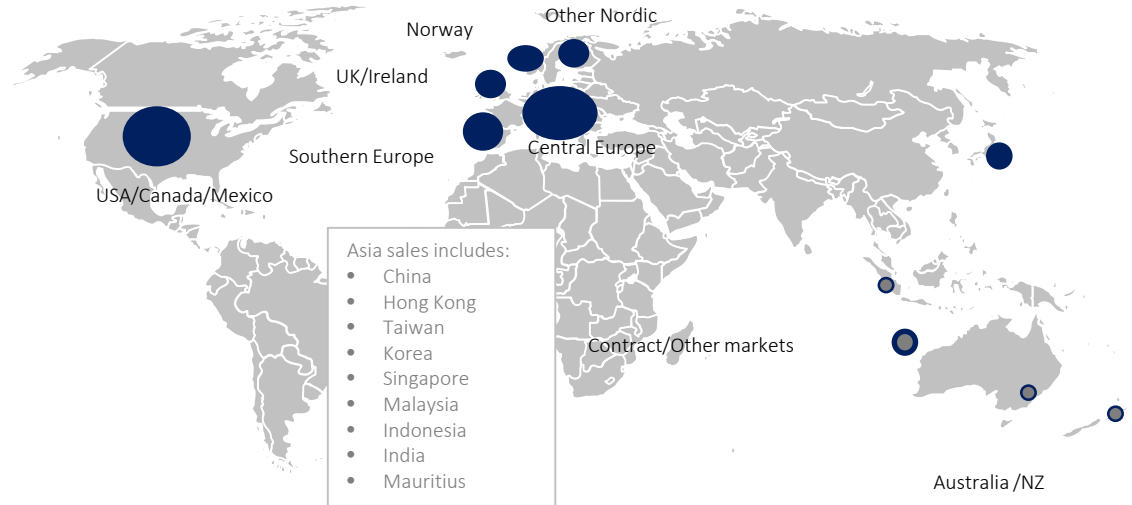
## Adj. revenue and adj. EBIT-margin

NOK million



# Mixed developments within main markets

- Positive underlying development in North America
- UK/Ireland driven by improved distribution
- Continued weak development for Stressless® Sofa in Southern- and Central Europe
- Positive development for chairs in Germany, particularly Signature Base



# The Stressless® Dining opportunity

## Significant market potential

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- Some 10% of the total EU furniture market
- Some 12% of the total US furniture market
- Adding Stressless® features to construction & design
- Synergies to current Stressless® activities

## Roll-out plan

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- Product development 2016-17
- Market introduction Q4 2017/1H 2018
  - Norway - Week 44 '17
  - UK and Germany - Dec '17/Jan '18
  - US - Q2 2018
- Revenue contribution expected from ultimo Q1





## IMG customer offering

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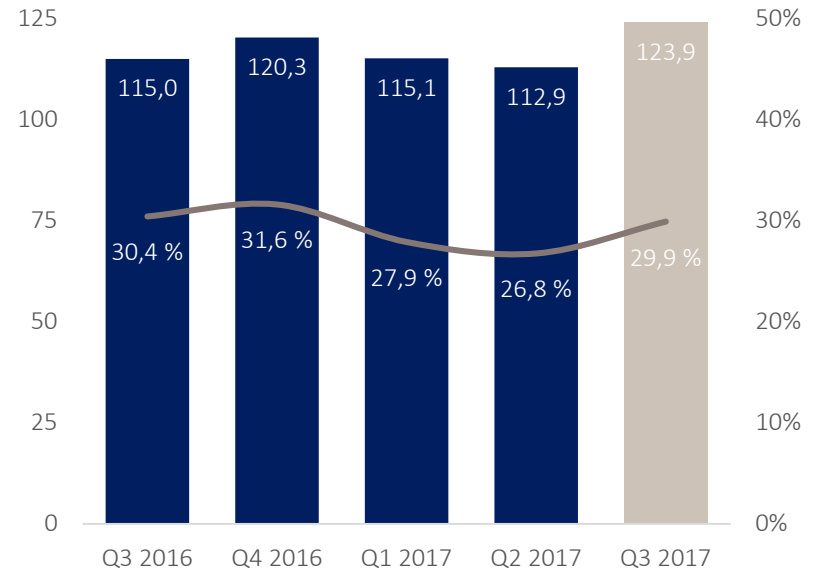
- Comfortable, ergonomic quality furniture
- Recliner and motion categories
- Quality
- Affordability

# Revenues picking up

- Revenues up 7.7% year-over-year
- Operating margin up from previous quarters driven by increased sales
- Growth investments in Central Europe and the UK expected to improve revenues throughout 2018
- Good operational performance during the quarter
- Strengthened organizational capacity to handle higher volumes
- Order intake up 9% year-over-year

## Operating revenue and EBIT-margin

NOK million



# Australia the main growth driver in Q3

- Positive development in Australia driven by relaxer segment
- Continued recovery in Canada
- Positive development in the US
  - Shift towards larger clients
  - Development expected to continue
- Scandinavian market softening
  - Intensified competition and price pressure





## Svane® customer offering

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- Comfort & quality
- Beds & mattresses

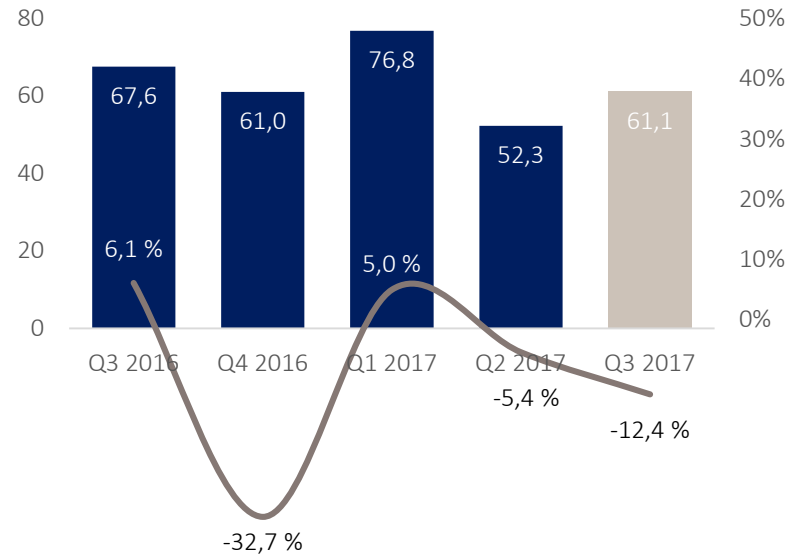


# Weak results

- Slowdown in all markets, underlying development in Norway weaker than expected
- Revenues down 9.7% year-over-year
  - Intensified competition, particularly in the Norwegian market
- Margins down
  - Price pressure
  - Increased cost of goods sold following changes in currency base for calculation
- Considering alternatives for future development of Svane®

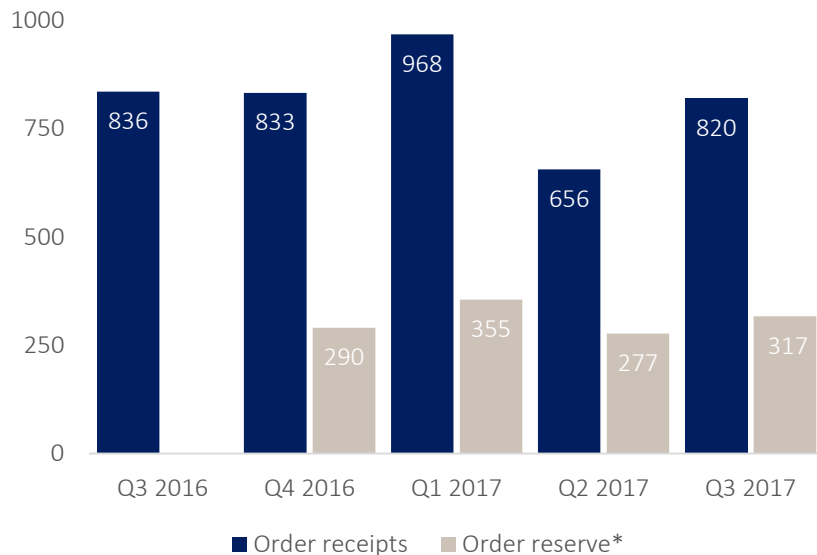
## Operating revenue and EBIT-margin

NOK million



# Positive underlying development in order receipts

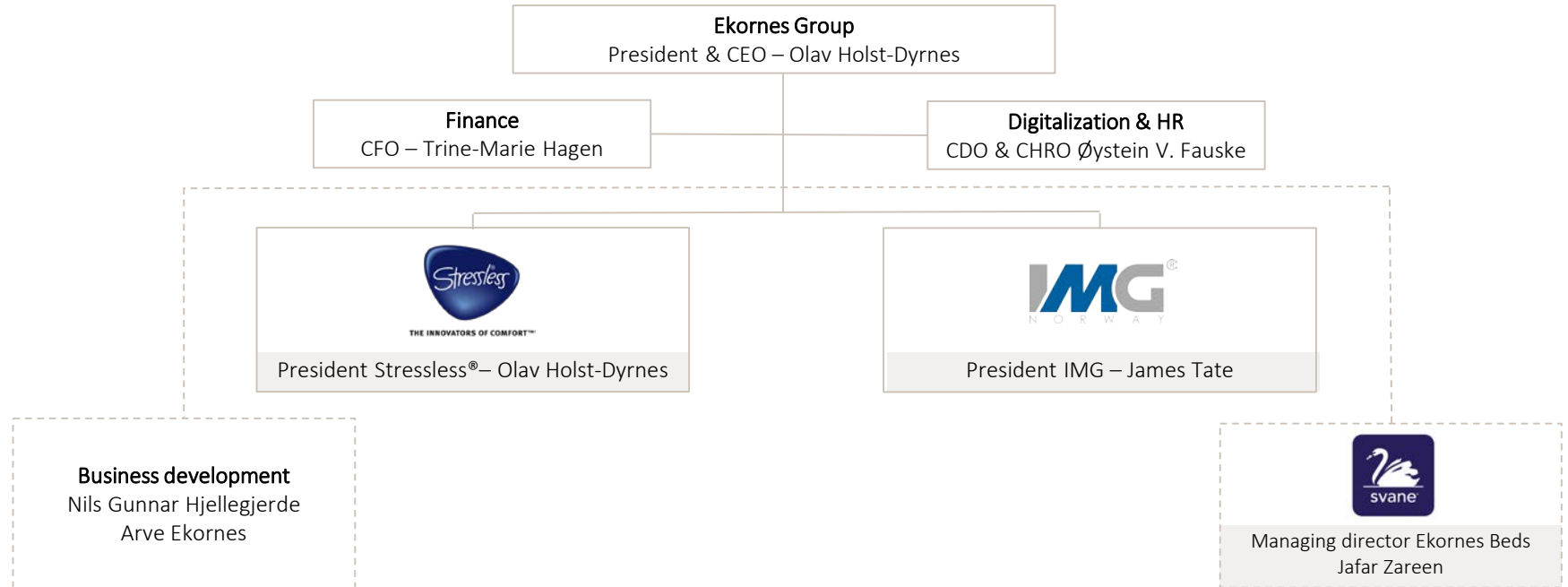
NOK million



- Order receipts of NOK 820 million
  - Underlying development positive for both Stressless and IMG
  - Negative impact from currency effects
- Order reserve of NOK 317 million, up 15.5% from Q2 2017

\* Comparable data for Q3'16 not available

# Strengthening group management and organization



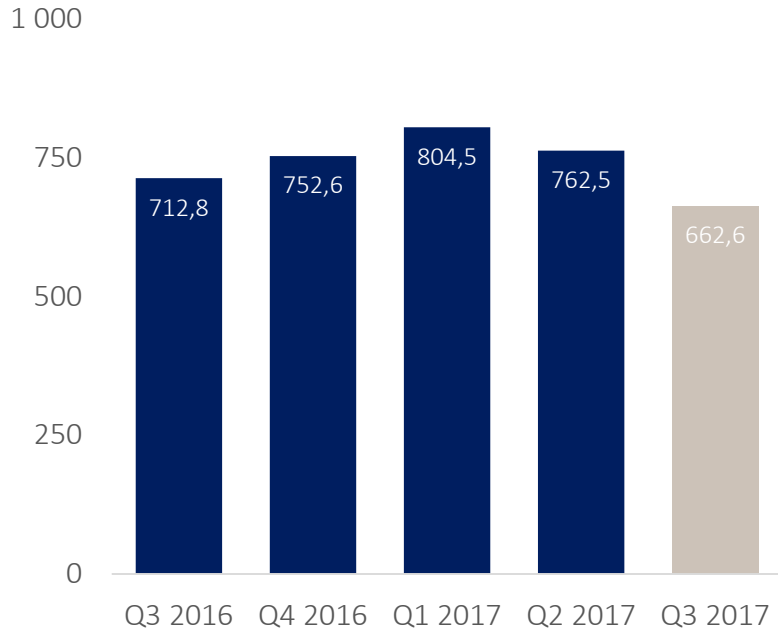
Focus on business development accross segments

# Financials

(preliminary and unaudited)

# Group operating revenues

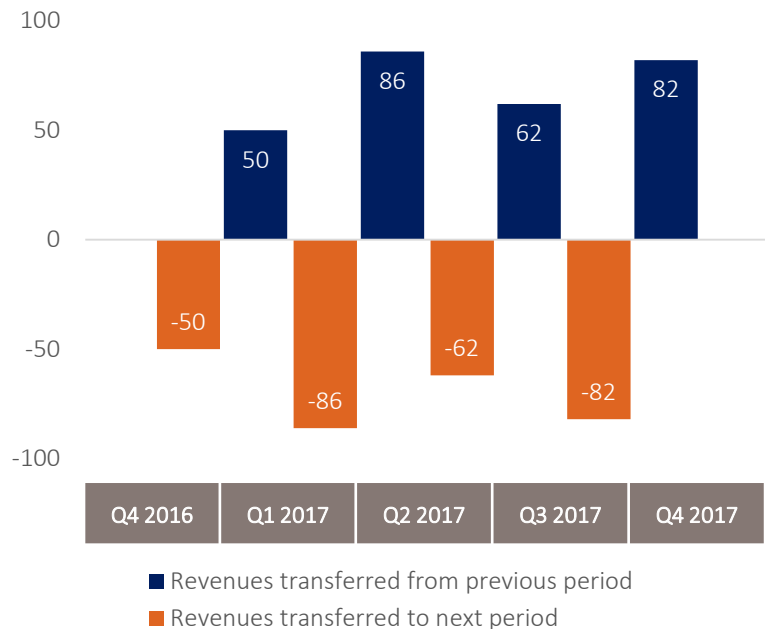
NOK million



- Positive underlying revenue development for IMG, stable for Stressless®. Negative impact from Svane®
- Group revenues down 7% year-over-year
  - Impact from value changes in forwards contracts before realization of NOK -22.1 million
  - Impact from periodization NOK -19.7 million
  - Impact from currency changes NOK -13.5 million

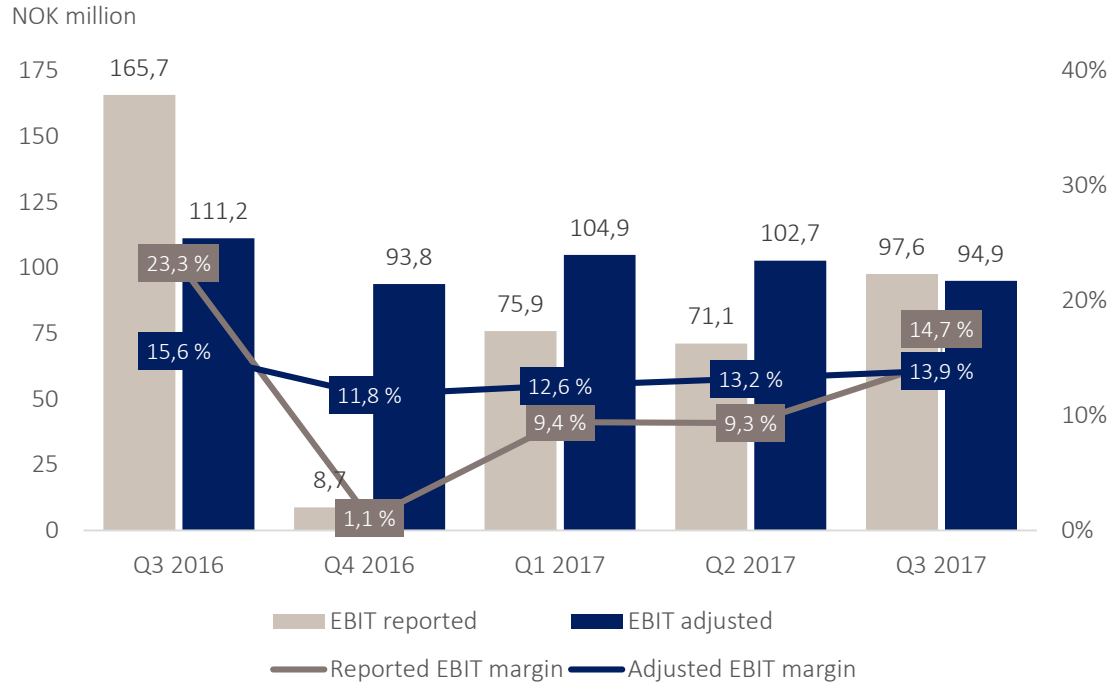
# Periodisation – revenue recognition

NOK million



- Quarterly net effects are likely to fluctuate over the quarters depending on delivery terms and shipment status for goods in transit
- Net impact on Q3 2017 revenues of NOK -19 million and NOK -10.1 million on EBIT
- Only negative contribution from periodization on reported revenues for Q4 2017. Q4 2017 will be net roll over from previous to next.

# Adjusted margins



- Adjusted EBIT margin of 13.9%, down from 15.6% in Q3 2016
  - Decrease mainly due to weak development in Svane®
  - Stable development for Stressless® and IMG

# Currency effects

## Hedge portfolio value 31.12.2015

Hedge portfolio value YE 2015 of  
NOK -398.4 million

Distributed by:

2016: NOK -201 million

2017: NOK -178 million

2018: NOK -19 million

During 2016: The NOK strengthened towards Ekornes' main currencies

In Q3 2017: the NOK strengthened towards Ekornes' main currencies

- Realised Q3 2017 losses of NOK 23.7 million
  - Difference between booked negative value of NOK 45.9 million and actual loss of NOK 23.7 million for 2017 Q3 is NOK 22.2 million
  - Unrealised loss on remaining portfolio is NOK 17.7 million end Q3 2017



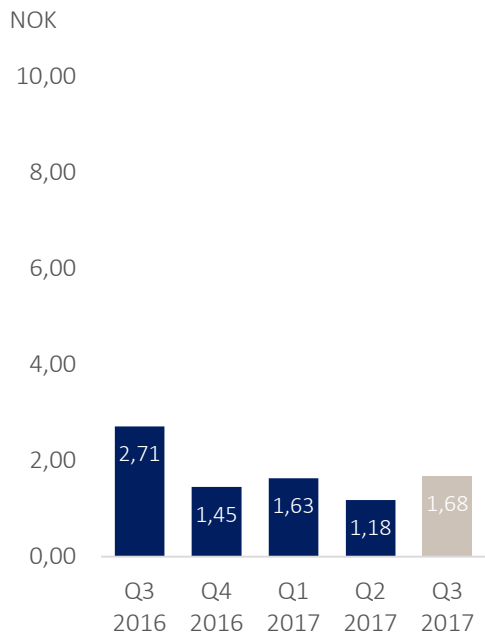
# Hedging impacts on revenue and EBIT- illustrative

Figures in NOK million	FY 2016 actual	YTD Q3 2017 actual	Q4 2017 estimate*	FY 2017 estimate*	FY 2018 estimate*	2016-2018 estimate*
<b>Sales revenues</b>	-201.0	-142.2	-35.9	-178.1	-19.4	-398.4
Realized loss/gain on FX contracts	-158.8	-77.2	-15.1	-92.2	-2.4	-253.3
Change at fair value on realized contracts from 1.1.2016 until the date of realization	-42.2	-65.1	-20.8	-85.9	-17.0	-145.1
<b>Net other gains</b>	<b>137.6</b>	<b>7.2</b>	<b>0.3</b>	<b>7.5</b>	<b>0</b>	<b>145.1</b>
Change at fair value on realized contracts from 1.1.2016 until the date of realization and change in fair value for contracts not yet realized	95.4	-62.7	-20.5	-78.4	-17.0	0
Change at fair value on realized contracts from 1.1.2016 until the date of realization	42.2	65.1	20.8	85.9	17.0	145.1
<b>Effect on reported EBIT in period</b>	<b>-63.4</b>	<b>-135.0</b>	<b>-35.6</b>	<b>-170.6</b>	<b>-19.4</b>	<b>-253.3</b>
<b>Effect on adjusted EBIT in period</b>	<b>-158.8</b>	<b>-77.2</b>	<b>-15.1</b>	<b>-92.2</b>	<b>-2.4</b>	<b>-253.3</b>

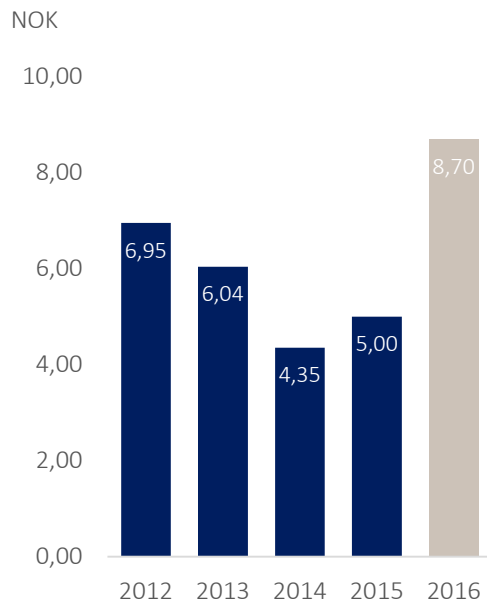
- At 31.12.2015, all unrealized losses (negative NOK 398.4 million less tax) was, due to hedge accounting, included in OCI only (and not in EBIT). This had therefore reduced Equity by NOK 398.4 million less tax.
- During realization losses have been moved from OCI to EBIT with no Equity impact. Equity in period 2016-2018 is therefore only impacted by net other gains until the date of realization (estimated positive NOK 145.1 million less tax for 2016-2018).
- \*All estimates assuming FX equal to 30.9.2017.

# Earnings per share

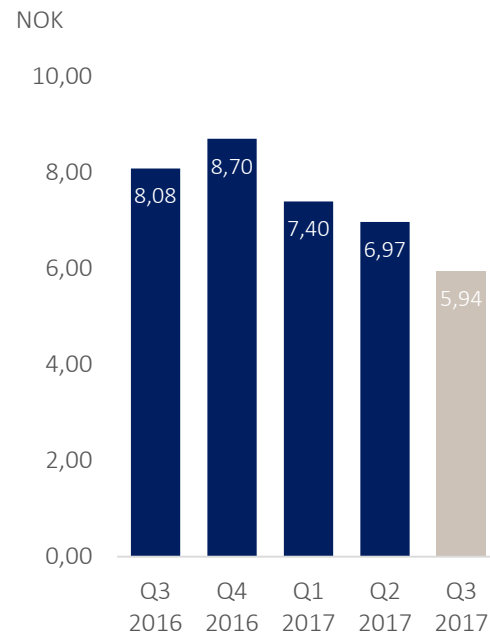
## EPS per quarter



## EPS per year



## EPS 12 months rolling



# Dividend payments of NOK 700m in September

- Solid earning generating strong operating cash flow
- Dividend payments of NOK 699.6 million
- Net debt increased NOK 722.9 million
- Net cash increased by NOK 134.7 million during the quarter



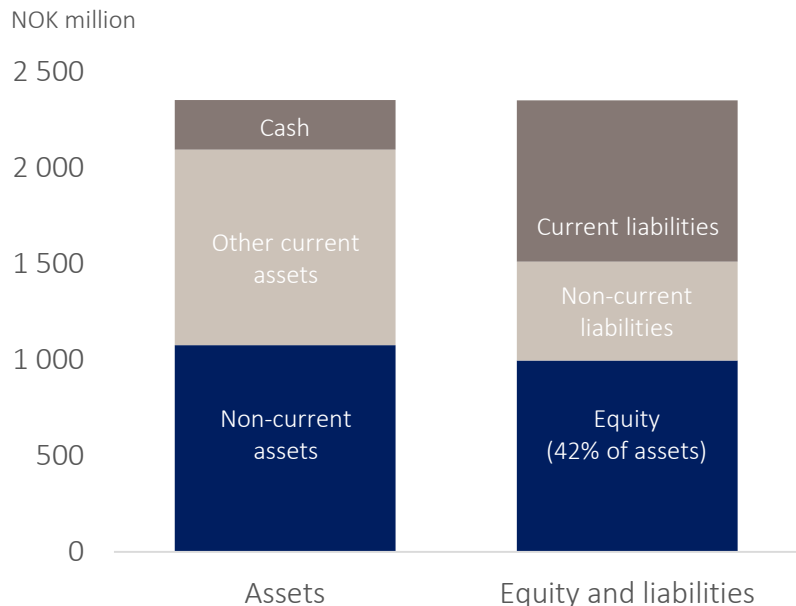
# Optimising capital structure

Bank	Amount	Tenor
SBM- RCF	NOK 250m	3+1+1 years
DNB – term loan	NOK 500m	5 years
DNB – overdraft	NOK 500m	364 days

- Maximise capital efficiency
- Maintain a solid balance sheet
- Strengthen financial flexibility to support growth
- Increase shareholder returns
- Continue attractive dividend policy

# Financial position remains strong

## Balance sheet per 30 September 2017



- Healthy financials with a solid balance sheet
- Working capital stable at NOK 838.8 million. NOK 838.9 million at 30.06.17
- Equity ratio of 42.4%, up from 40.7% at 30.06.17
  - Remains well above minimum target of 30%
- Interest-bearing debt NOK 907.0 million, up from NOK 184.1 million as of 30.06.17
  - Net interest-bearing debt NOK 649.3 million compared to NOK 61.1 million at 30.06.17

# Aligning team with group and shareholder goals

- According to 2017 AGM approval, implementation of share-purchase and incentive programs for all employees in the Norwegian part of the Group
  - Incentive-program for management linked to performance targets
  - Share-purchase program for other employees
- 66,236 new share issued under the program during the period



# Summary and outlook

# Highlights

- Positive underlying operational development for Stressless® and IMG during the quarter. Group-earnings impacted by weak development for Svane®
- Initiatives to strengthen market-positions through product-development continued, Stressless® Dining ready for market-introduction
- Capital structure optimization through refinancing, maximizing capital efficiency and strengthening financial flexibility



# Focus on brands and customer offerings development



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# Contact information

## Financial calendar:

Q4 2017 results, 16 February, 2018

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Mobile: + 47 99 61 75 05

# Management Team



**Olav Holst-Dyrnes, CEO**

Olav Holst-Dyrnes has served as CEO of Ekornes since October 2014. Prior to Ekornes, he held the positions as CEO of the listed company Havfisk ASA and Sourcing Manager at Stokke AS. He also brings with him ten years experience from the Norwegian Armed Forces.

Holst-Dyrnes holds a Master's degree in engineering from the Norwegian Institute of Technology (NTH), in addition to completed officer training in the Norwegian Armed Forces.



**Øystein Vikingsen Fauske, CDO & CHRO**

Øystein Fauske joined Ekornes in April 2016. He brings with him broad experience from six years of management positions in the Scandinavian consulting division at Sopra Steria, where he latest served as COO. He has further more than 10 years consulting experience from several different companies in both public and private sector, specializing in strategic use of technology and transforming enterprises through digitalization.

Fauske holds a civil engineering degree in Industrial Economics and Technology Management from the Norwegian University of Science and Technology (NTNU), in addition to leadership training from Harvard Business School.



**Trine-Marie Hagen, CFO**

Trine-Marie Hagen joined Ekornes as CFO in January 2015, from the position as CFO of Mentor Medier AS. She has previously held several positions in Norske Skog, including VP Business Performance and Finance Manager at two of its factories. She has also been a trainee and consultant at Intentia.

Hagen holds a Master's degree in Economics from the Norwegian School of Economic and Business Administration (NHH), and Part 1 Law from the University of Bergen.



**James Tate, President IMG**

James Tate has more than 10 years of experience from working at Ekornes, most recently holding the position as Managing Director of the UK/Ireland business, and before that of Australia/New Zealand. Previous experience includes the position as Sales Director at Leggett & Platt Europe (Adjustable Beds) as well as a furniture consulting position.

Tate holds a Bachelor of Science from Macquarie University in Sydney, Australia, and a Diploma in Management from London University, UK.

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