

EKORNES®



THE INNOVATORS OF COMFORT™



Q2 2018

13 July 2018

Agenda

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



The Ekornes® Group

Group company

EKORNES®

HQ Sykkylven, Norway
2017 revenue of NOK 3.1bn
2017 EBIT margin of 10.0%
~ 2 140 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 North European mattress and beds brand

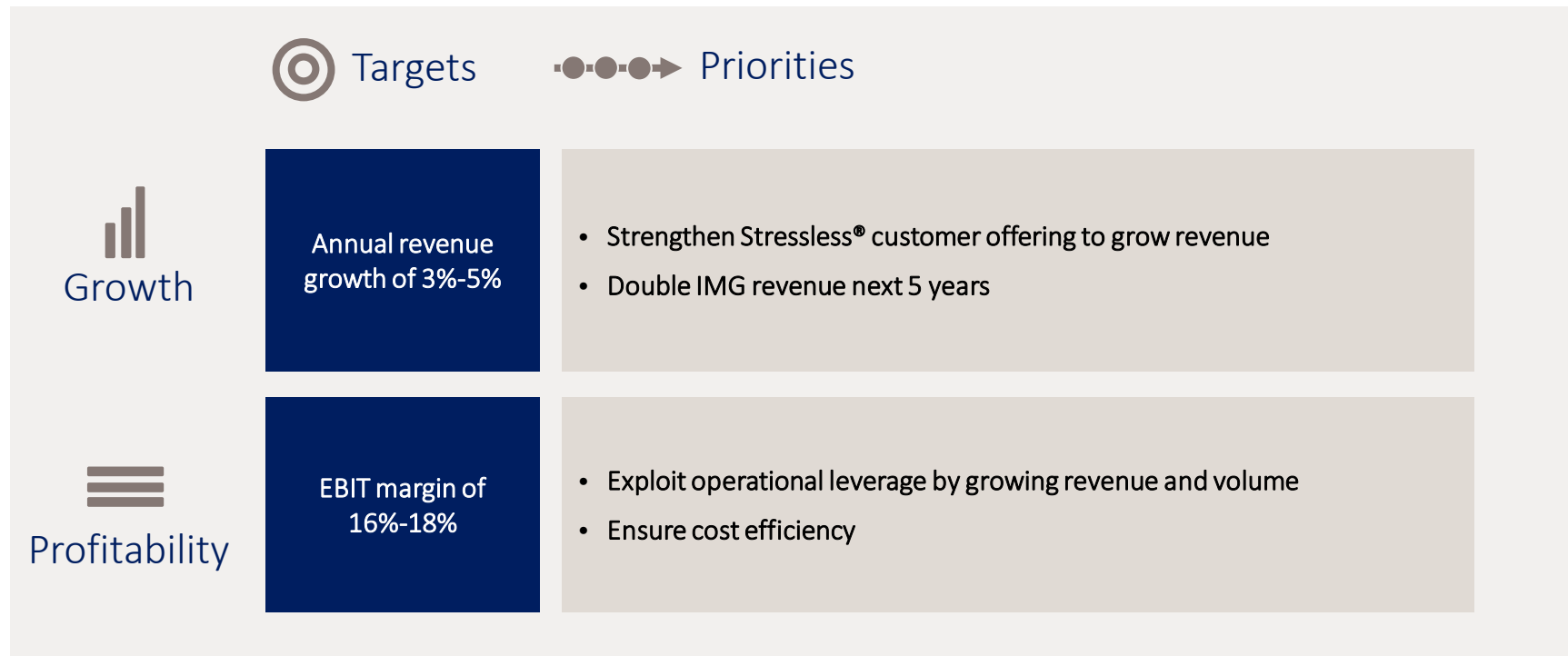
Combined group sales & supply chain footprint



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 3rd party logistics
partners

Our strategic journey communicated in June 2017



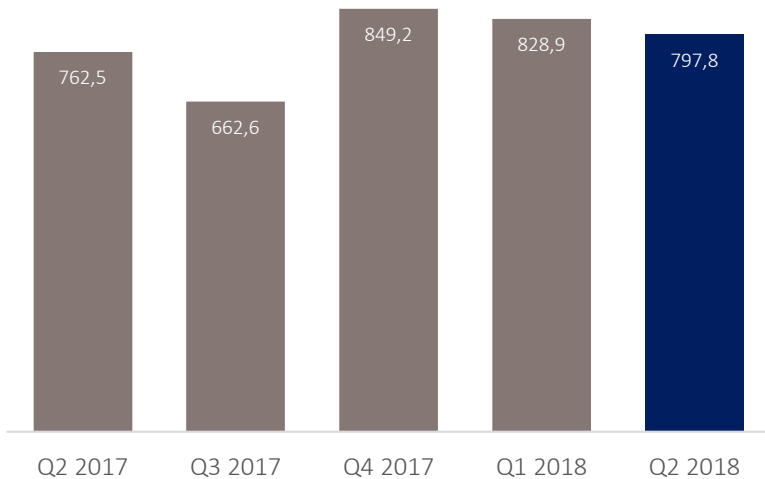
Highlights

- Q2 Group revenue up 4.6% year-over-year
- EBIT almost doubled to NOK 138 million, EBIT margin at 17.3%
- Strong market development continues for both Stressless® and IMG in North America
- Europe remains weak, continuing to develop sales- and distribution network
- Stressless® Dining well received in Scandinavian markets
- Voluntary bid from Chinese QuMei Home Furnishing Group

Financial results

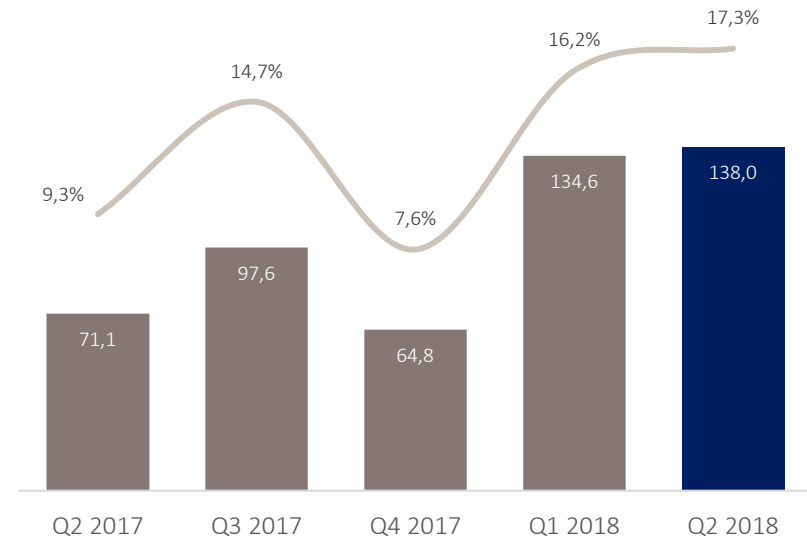
Operating revenues

NOK million



EBIT & margin

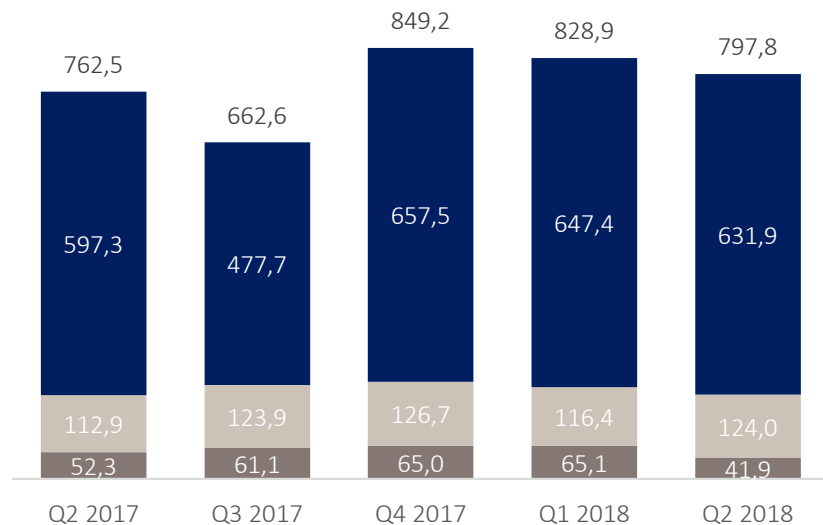
NOK million



Operations

Operating revenue per segment

NOK million





THE INNOVATORS OF COMFORT™

Stressless® customer offering

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

EKORNES®

Stressless® – ambitions and priorities

June 2017



- Product development and innovation
- Supply chain development
- Cost efficiency



- Relentless cost focus
- Production and logistics optimisation

Status June 2018

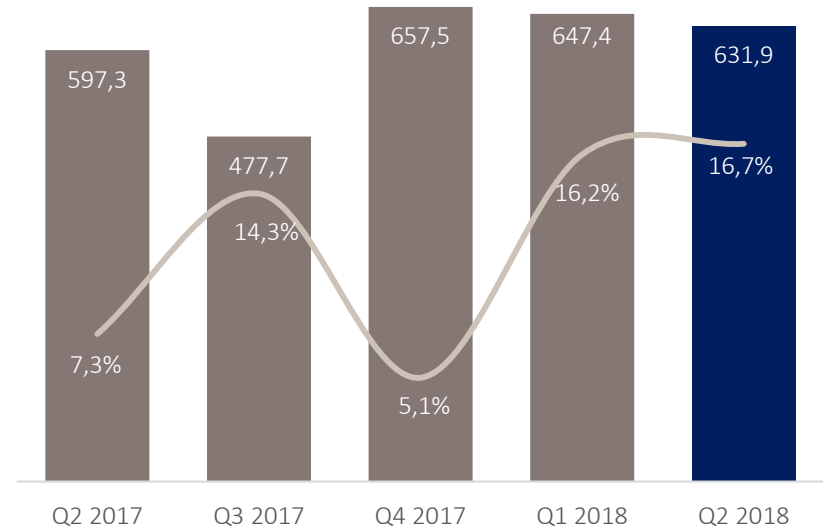
- Introduction of Stressless® Dining and launched two new chairs and sofas
- Improved and expanded distribution network in North America and UK
- Established central warehouse in Asia
- Centralised administrative functions in Asia
- Reduced ~ 200 distributors in France
- Centralised leather and textiles cutting to Ikorntes and line production at Aure

Strong earnings development, good operating margin

- Revenues up 6% year-over-year driven by currency effects
 - Underlying revenues flat development
- Continued margin improvement, driven by
 - Currency effects
 - Cost reductions

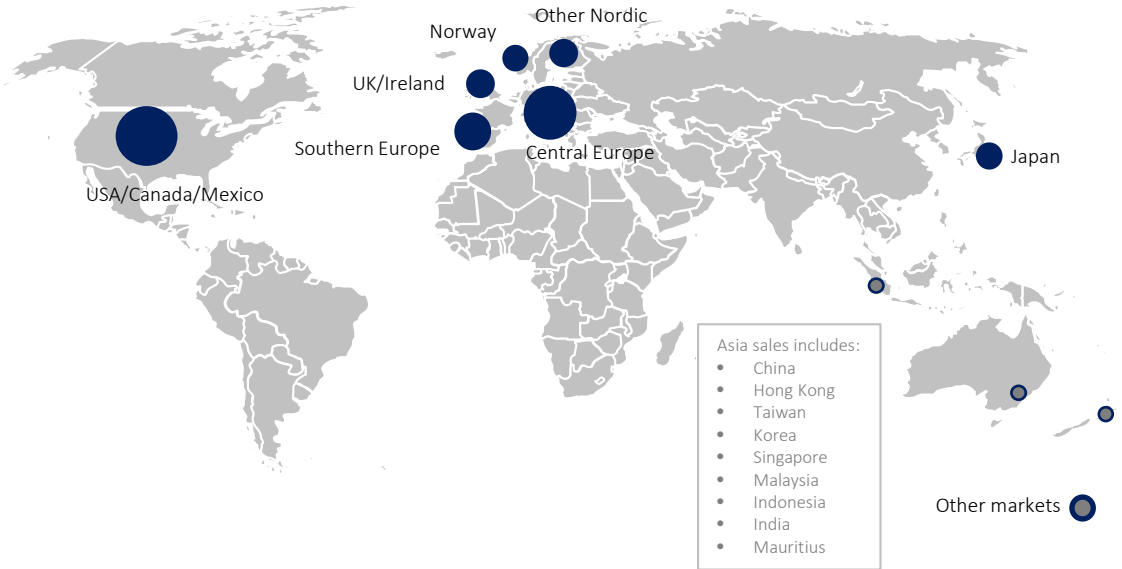
Operating revenue and EBIT-margin

NOK million



Positive development in North American markets

- Positive development in North America continues, driven by revitalization of the Canadian market, strong sales focus and extended distribution
- Continued weak development in European markets, especially Continental Europe and parts of the Scandinavian market
- Generally good development in Asia, with strong growth in both turnover and orders



Stressless® Dining

Introduction above expectations

Market introduction

- Positive reception among Scandinavian consumers, especially in Norway and Denmark
- Subdued response in Central- and Southern Europe
- Positive reception by US dealers, launch in stores in 2H 2018
- Continued product development and market-specific adjustments parallel to international roll-out

Business Idea

- New segment with significant potential
- Adding Stressless® features to construction & design
- Synergies to current Stressless® activities





IMG customer offering

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

IMG – ambitions and priorities



June 2017

- Revenues doubled within 5 years
- Strengthen sales operation capacity
- Strong central support functions
- Continued focus on product innovation
- Improve supply chain efficiency in Europe



- Keep cost leadership
- Relentless cost focus – top to bottom
- Scale, precision and quality focus
- Vertical integration
- Maintain operational flexibility

Status June 2018

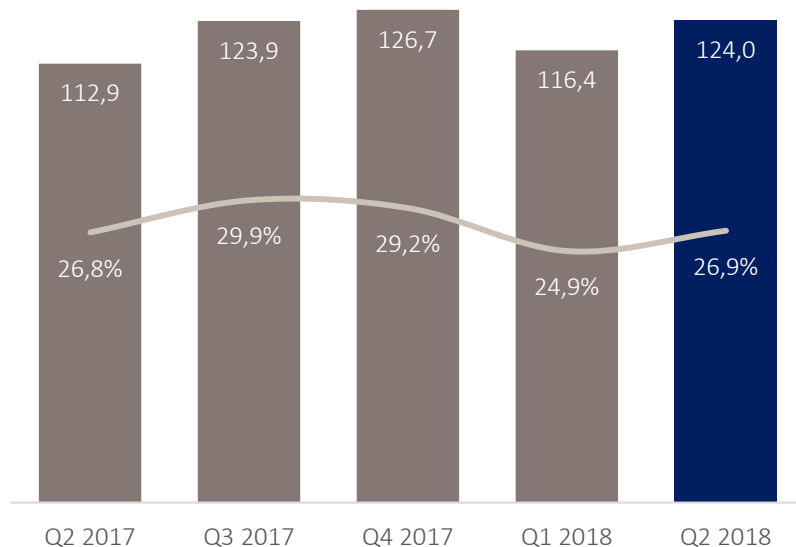
- Direct container sales in Canada and UK
- Entered Chinese and Japanese market
- Production and distribution facility in Lithuania under construction
- Product launches including motorized recliners and new design
- Investments in sales and distribution developments impacts profitability

Mixed development in main markets

- Revenue growth 10% year-over-year
 - Driven by continued positive development in North American markets
- Operating margin impacted by planned activities for strengthening of sales- and distribution capacity in new and existing markets
- Order intake slightly down year-over year
- Development of European sales- and distribution capacity ongoing, but takes time
 - Production and distribution facility in Lithuania will be finalised in first half of 2019

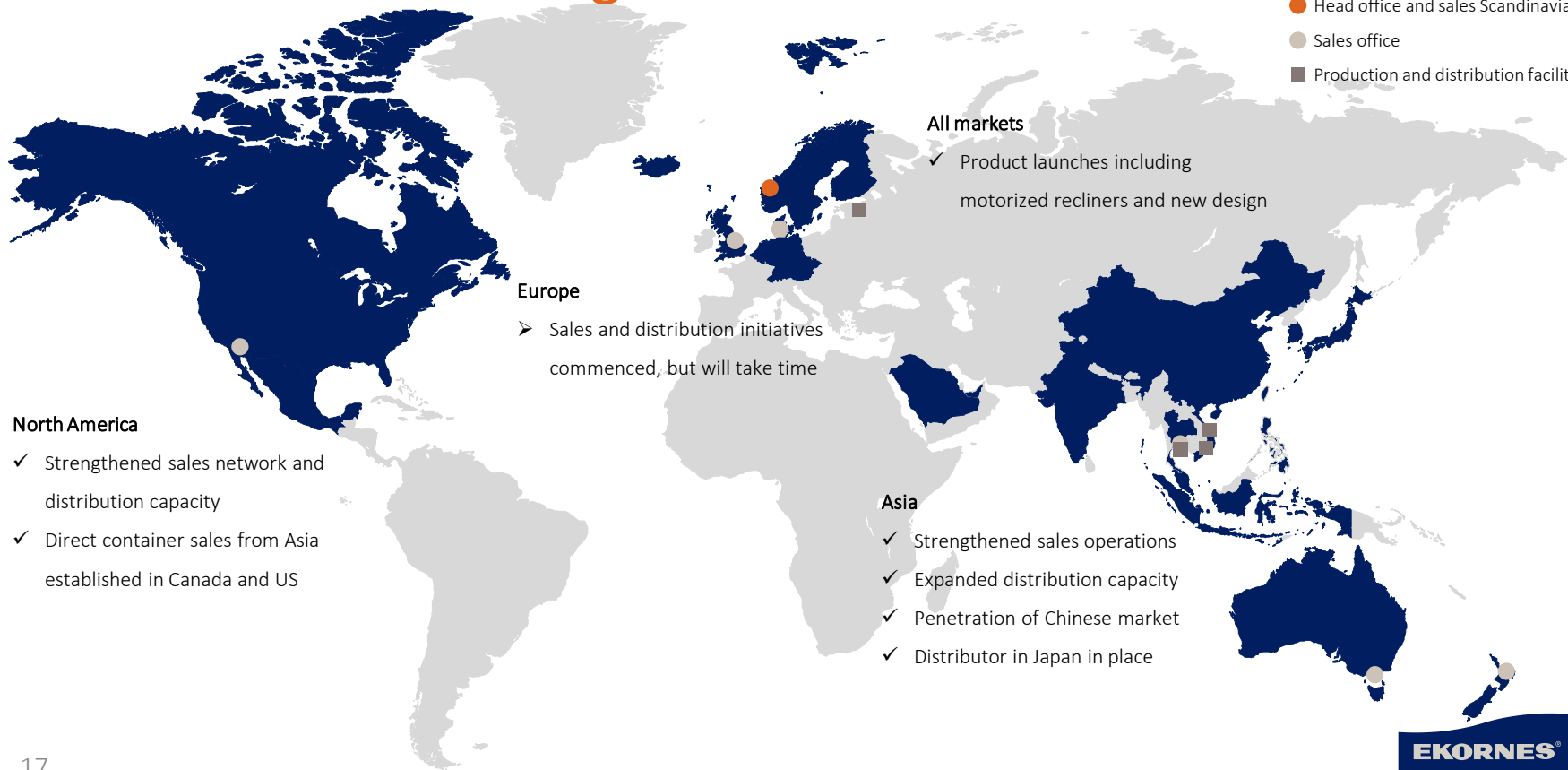
Operating revenue and EBIT-margin

NOK million



Ambitions of doubling revenues within 2022

- Head office and sales Scandinavia
- Sales office
- Production and distribution facility



All markets

- ✓ Product launches including motorized recliners and new design

Europe

- Sales and distribution initiatives commenced, but will take time

North America

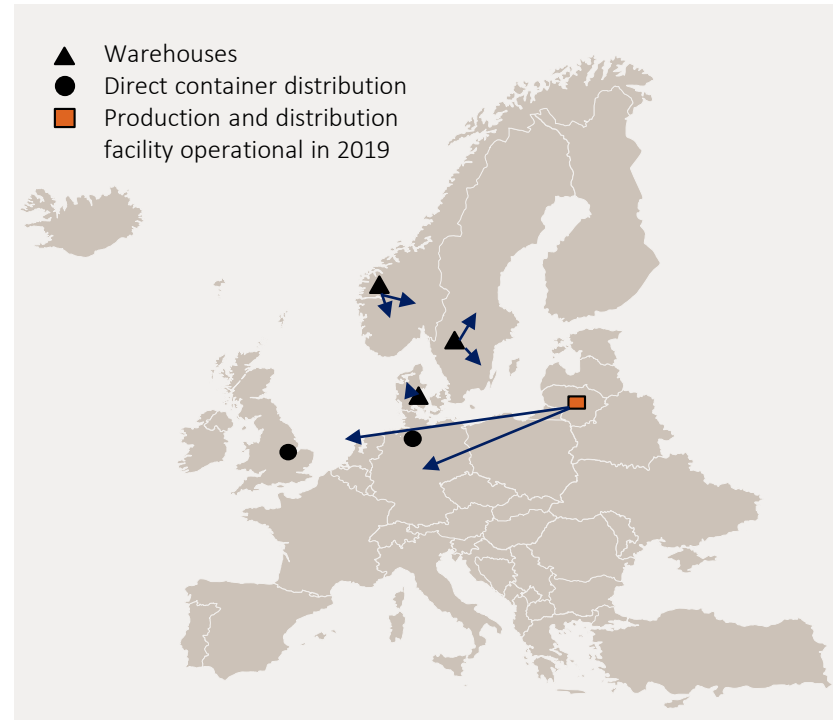
- ✓ Strengthened sales network and distribution capacity
- ✓ Direct container sales from Asia established in Canada and US

Asia

- ✓ Strengthened sales operations
- ✓ Expanded distribution capacity
- ✓ Penetration of Chinese market
- ✓ Distributor in Japan in place

Improved supply chain to enable European growth

- European long-term growth ambitions, supported by improved supply chain
- Suppliers request wider and more flexible product range, shorter lead times and invoicing in local currency (EUR)
- Strengthening sales organisations in UK and Germany
- Improving supply chain efficiency with new production and distribution facility in Panevėžys Free Economic Zone, Lithuania
 - Reduce delivery times to key European markets
 - Possibilities for European specific product ranges
 - Increased flexibility to serve current customers and new markets
 - Finalisation expected in first half of 2019





Svane® customer offering

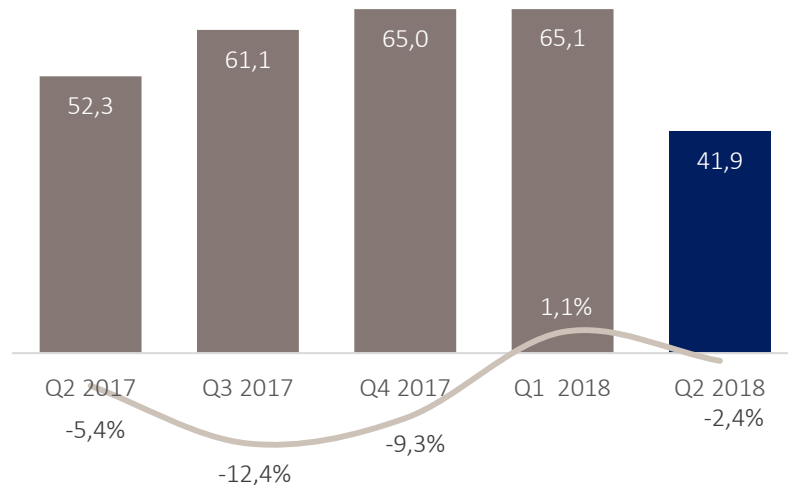
- Beds & mattresses
- Comfort & quality

Restructuring continues

- Revenues down 20% year-over-year
 - Declining sales across all markets
 - Fierce competition and generally low consumer demand
- Operating loss reduced despite lower revenues year-over-year
- Restructuring phase II initiated
 - Strengthening sales and commercial initiatives going forward
 - Operational improvements yielding positive results
 - Continued cost focus
- Considering strategic alternatives

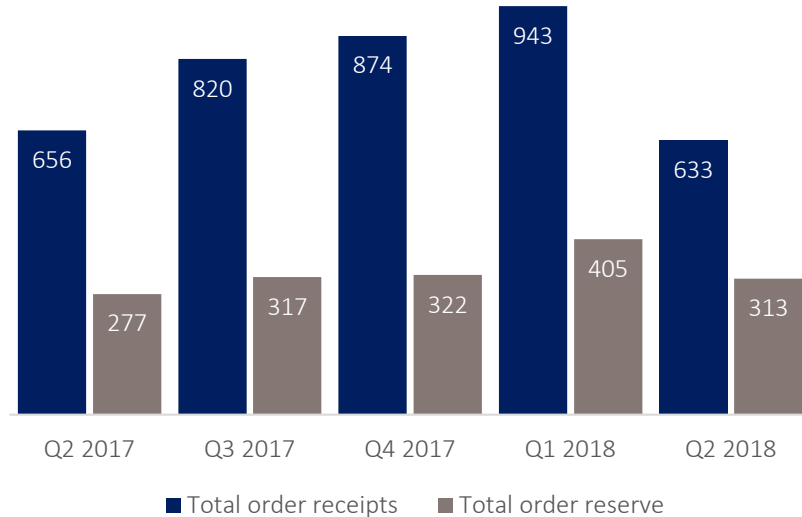
Operating revenue and EBIT-margin

NOK million



Seasonally lower order intake, order reserve up

NOK million



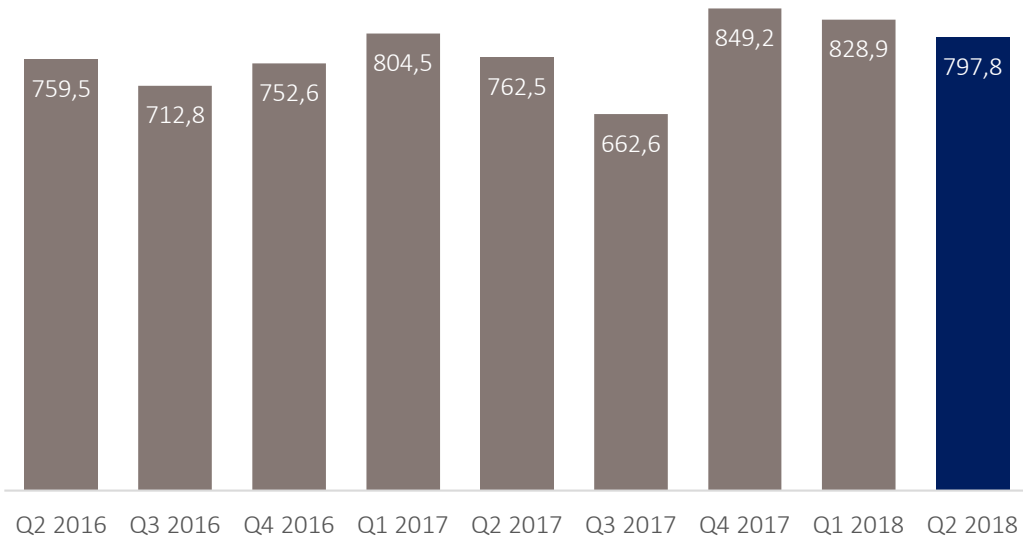
- Order receipts of NOK 633 million, down year-over-year and sequentially
- Stressless® slightly up year-over-year
 - North America and Asia up
 - Europe down
- IMG slightly down year-over-year
 - Positive development in North America and Asia
 - Weak development in Europe
- Order reserve of NOK 313 million, up from NOK 277 in Q2 2017

Financials

(preliminary and unaudited)

Group operating revenues

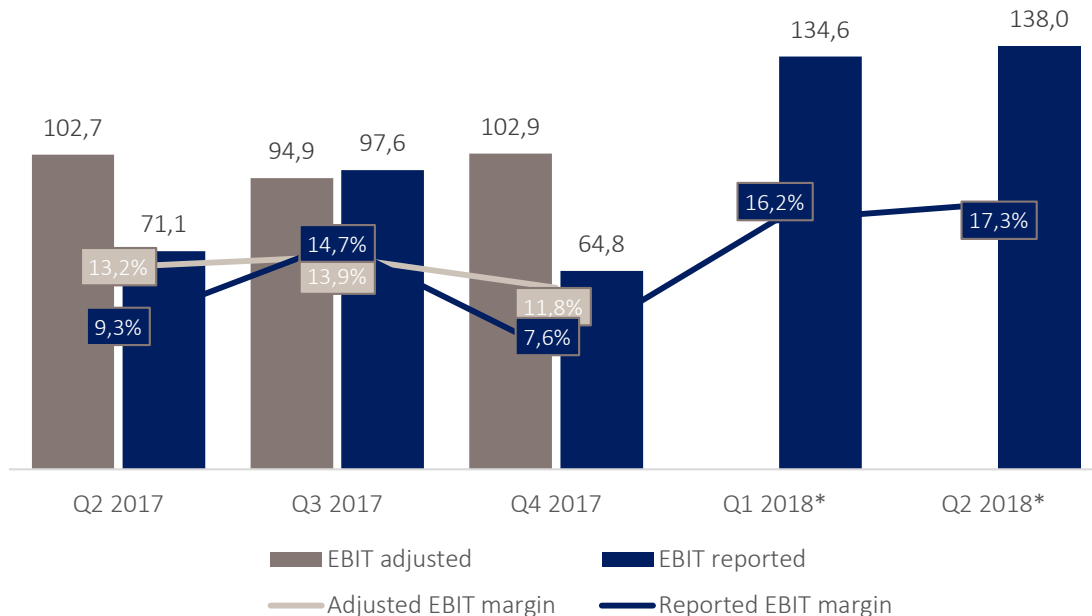
NOK million



- Group revenues up 4.6% year-over-year driven by currency effects and positive development in North American markets
- Underlying development still mixed
 - Stressless® flat development
 - IMG steady growth
 - Svane® down

Earnings improving

NOK million



* Adjusted reporting discontinued from Q1 2018

- EBIT margin of 17.3% (9.3%)
 - Margin lifted by currency effects and cost reductions
 - EBIT-margin adjusted for changes in the value of forward currency contracts was 13.2% in Q2 2017
- Stressless® margin lifted by
 - Currency effects
 - Cost reductions
- IMG margin impacted by
 - Planned activities for strengthening sales and distribution in new and existing markets
- Continued weak performance for Svane®

Earnings effects from hedge contracts

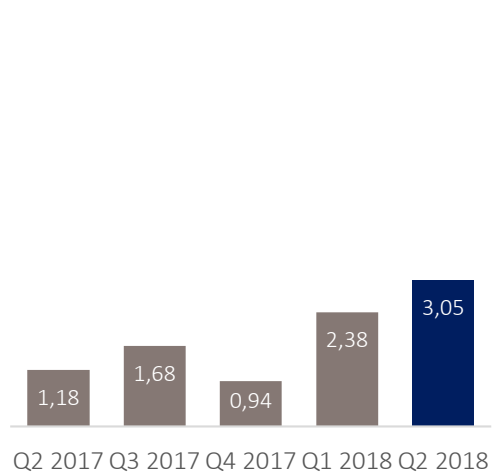
- Significant negative effects on EBIT from currency hedging contracts historically
- Final hedging contract under “old” regime expired in in Q1 2018
- New hedge strategy initiated in Q1 2015 and further developed in Q3 2016
 - **80% - 0-6 months:**
80% of expected exposure secured in currencies where expected annual exposure is NOK 75m or more
 - **50% - 6-12 months:**
50% of expected exposure secured inn currencies where expected annual is NOK 75m or more

<i>Figures in NOK million</i>	2017
<u>Reported EBIT</u>	<u>309.5</u>
Negative impact hedge contracts	-189.0
<u>Reported EBIT without “old” currency hedging - illustrative</u>	<u>498.5</u>
<u>Adjusted EBIT</u>	<u>405.3</u>
Negative impact from “old” hedge contracts	-93.0
<u>Adjusted EBIT without “old” currency hedging – illustrative</u>	<u>498.3</u>

Earnings per share

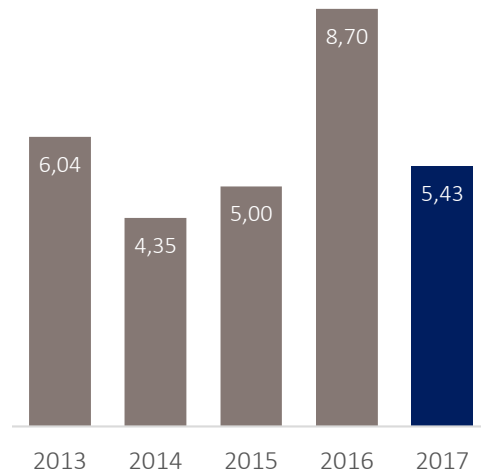
EPS per quarter

NOK



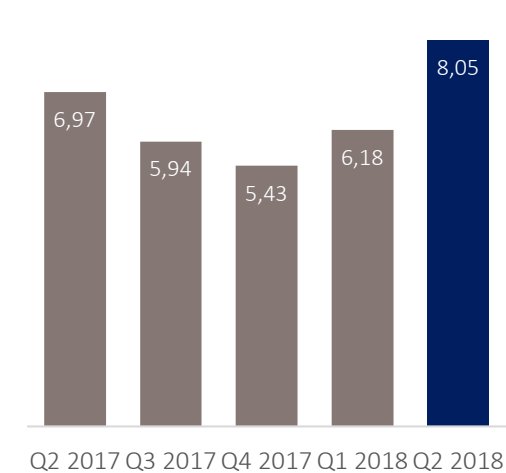
EPS per year

NOK



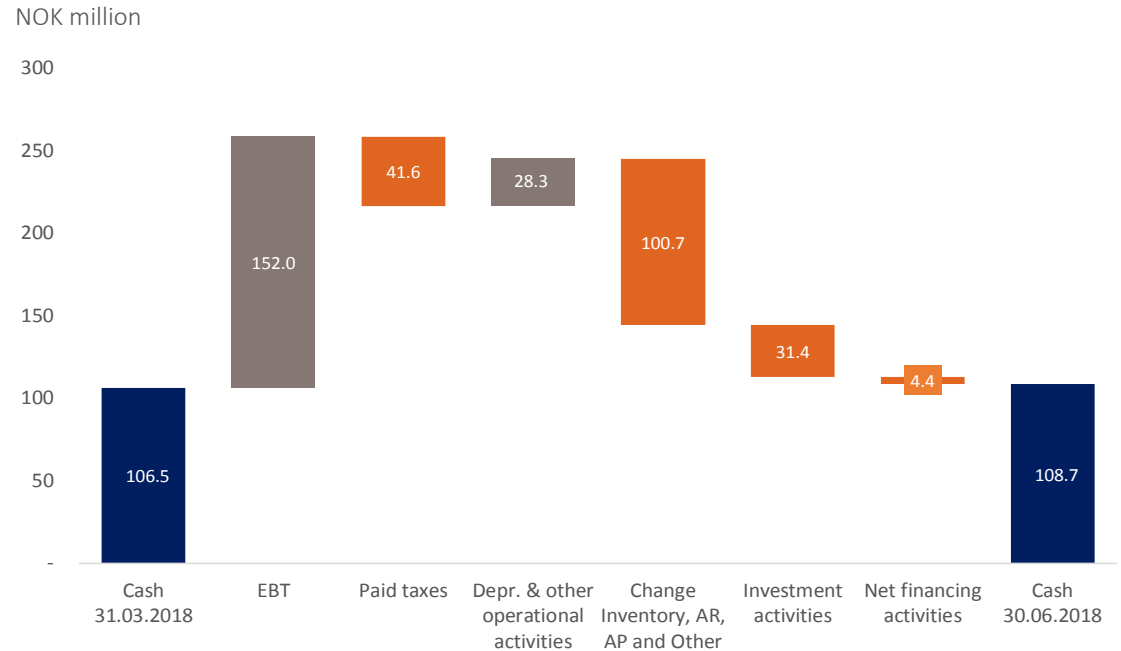
EPS 12 months rolling

NOK



Cash flow supported by good earnings development

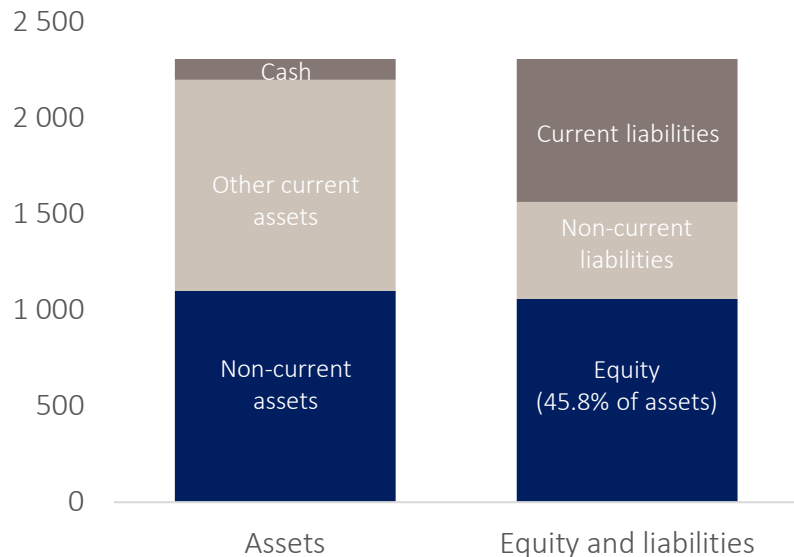
- Increased working capital
- Investments of NOK 31 million
- Dividend pay-out of NOK 221 million
- Net interest-bearing debt increased by NOK 217 million



Healthy financial position

Balance sheet per 30 June 2018

NOK million



- Equity ratio of 45.8%, down from 52.4% at 31.03.18 and up from 40.7% at 30.06.2017
 - Well above minimum target of 30%
 - Dividend payment of NOK 221 million for 2017 in Q2
- Interest-bearing debt NOK 835.6 million, up from NOK 618.6 million as of 31.03.18
 - Short term debt increased by NOK 217 million
- Total credit facilities of NOK 1 250 million
 - Revolving credit and overdraft facilities of NOK 750 million, of which NOK 414 million undrawn
 - Long term debt of NOK 500 million, bullet repayment September 2022

Shareholder matters

Cash offer from QuMei Home Furnishing Group Co Ltd and Huatai to acquire all shares of Ekornes ASA

- Voluntary cash offer for all outstanding shares of NOK 139.00 per share, premium of 28.4% to the 60 business days volume weighted average share price for the period ending on 22 May 2018
- According to an announcement issued on 12 July 2018, QuMei had bought 3.7 million Ekornes shares, corresponding to around 10.1 per cent of the total number of shares outstanding. In addition, the company had received prior acceptances and acceptances relating to 14.9 million shares, corresponding to around 40.4 per cent of share capital. This in total of 50.5 per cent of the share capital.
- The offer is conditional on at least 55.57 per cent acceptance, and the offer deadline is prolonged to 30 July 2018
- The Board of Directors of Ekornes unanimously recommends the voluntary offer

Summary and outlook

Outlook

- Strong development for Stressless® and IMG in the US expected to continue
- Positive roll-out of Stressless® Dining in Scandinavia and the US
- Product development ongoing, introduction of new products planned for H2 2018
- Expect positive effects from sales promoting initiatives and supply chain development in Europe, but will take time

Summary

- Q2 Group revenue up 4.6% year-over-year
- EBIT almost doubled to NOK 138 million, EBIT margin at 17.3%
- Strong market development continues for both Stressless® and IMG in North America
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- Stressless® Dining well received in Scandinavian markets
- Voluntary bid from Chinese QuMei Home Furnishing Group

Contact information

Financial calendar:

Q3 2018 results, 25 October 2018

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