

**EKORNES®**

---



THE INNOVATORS OF COMFORT™



---

**Q2 2017**

14 July 2017

# 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



**IMG**  
N O R W A Y



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

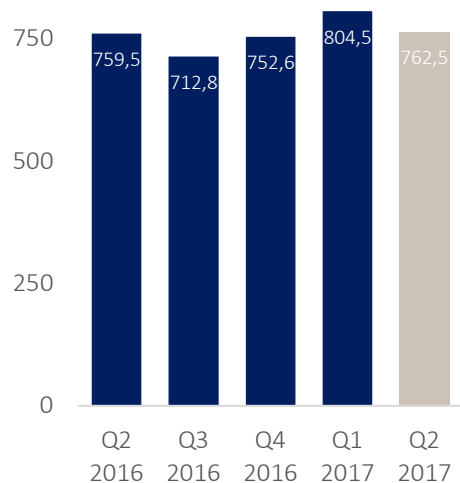
- Quarterly group revenues stable year-over-year, slight increase for Stressless® and IMG, Svane® and Contract down
- Adjusted EBIT-margin 13.2, down 1.1 percentage points year-over-year
- Order receipts down, driven by weaker market development for Stressless® in Central- and Southern Europe
- Order reserve of NOK 277 million reflects seasonality
- Dividend of NOK 25.00 per share to be paid in 2017 approved by the AGM in Q2

# Financial results

## Operating revenues

NOK million

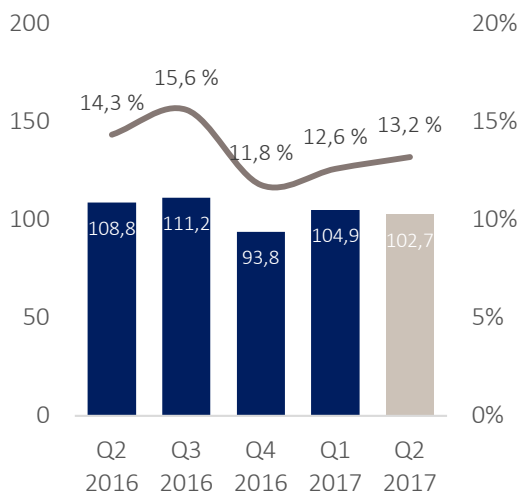
1 000



## Adjusted EBIT & margin

NOK million

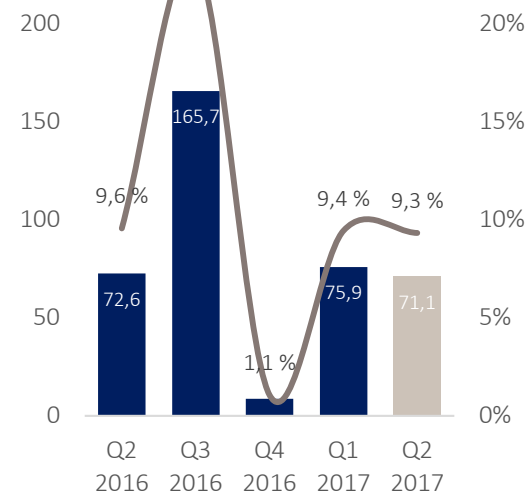
250



## Reported EBIT & margin

NOK million

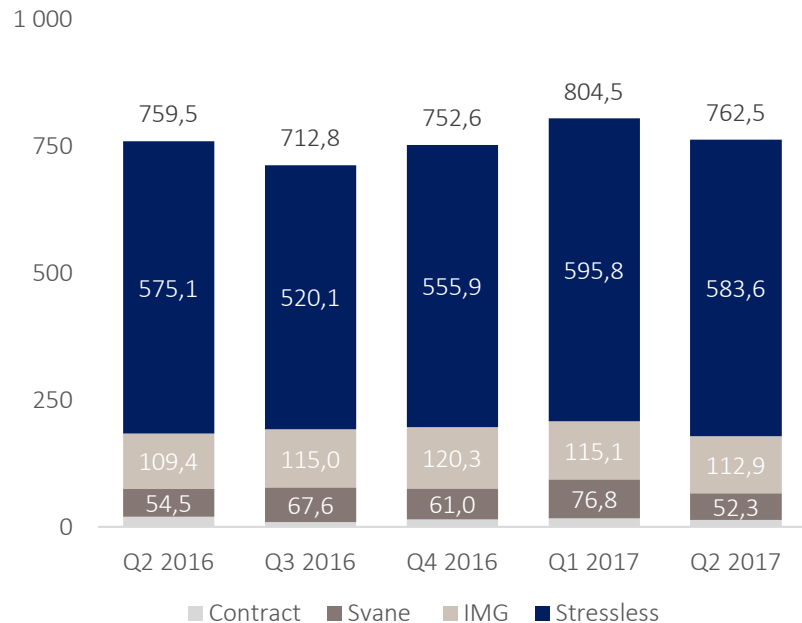
250



# Operational review

# Operating revenue per segment

NOK million





THE INNOVATORS OF COMFORT™



## Stressless® customer offering

---

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

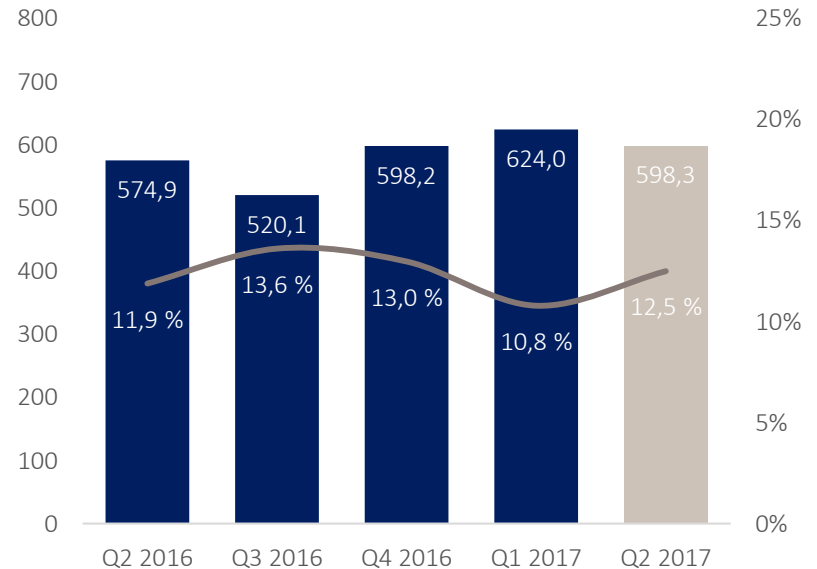


# Stable overall development

- Adjusted revenues up 4.1% year-over-year
  - Net changes to revenue recognitions of NOK 24 million
  - Changes in the value of forward contracts reduced revenues with NOK 14.7 million
- Order intake weak
- Margin improvement year-over-year and sequentially
- General production improvement throughout the quarter
  - Sofa production according to plan

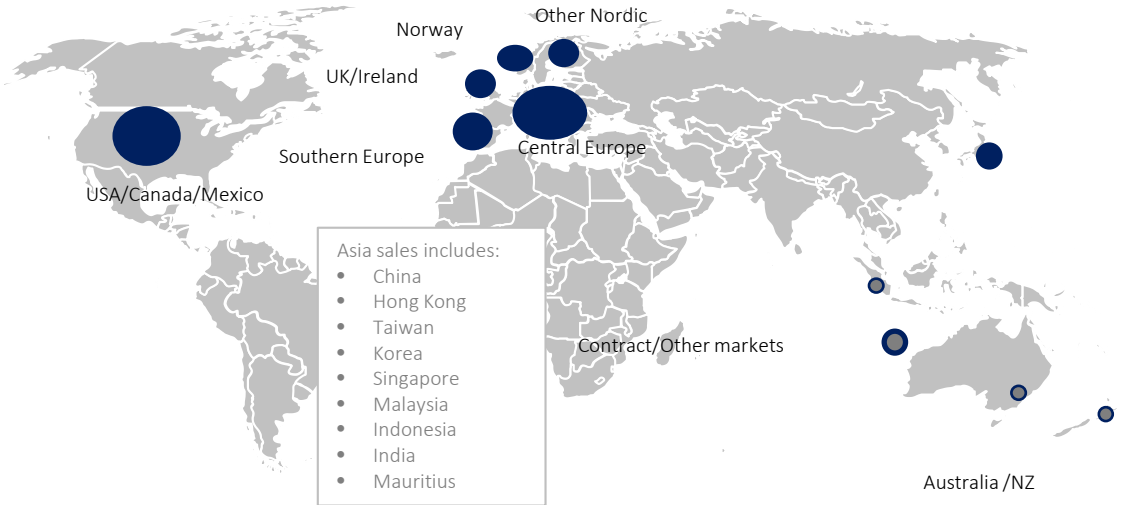
## Adj. revenue and adj. EBIT-margin

NOK million



# Mixed developments within main markets

- Positive underlying development in North America and UK/Ireland
- Positive development in Norway
- Continued weak development in Southern Europe, particularly for sofa in France
- Weaker development in Germany, overall market trending down
- Order reserve seasonally low





## IMG customer offering

---

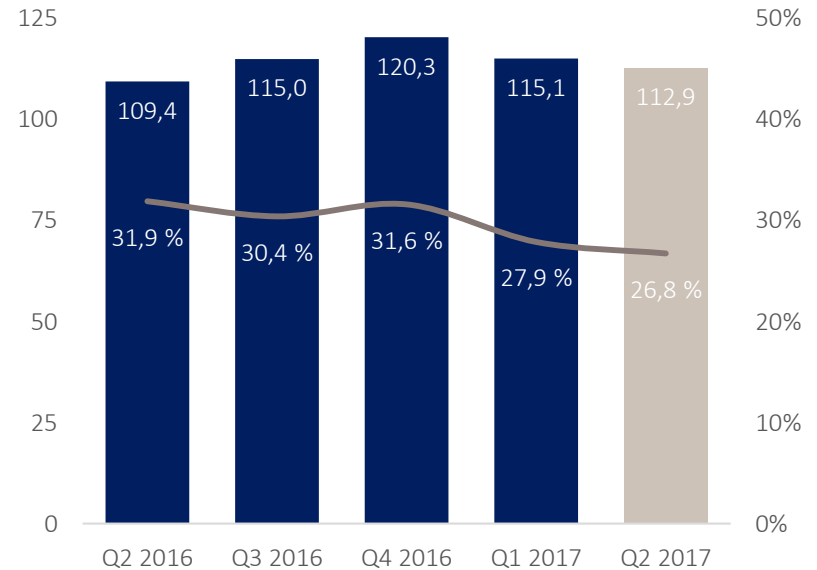
- Comfortable, ergonomic quality furniture
- Recliner and motion categories
- Quality
- Affordability

# Reduced margins reflects investments future in growth

- Stable overall revenues
  - Slight increase mainly driven by Australia
- Strong order reserve end of quarter
- Investments in growth increases costs
  - Expanding sales organization
  - Resources to increase the number of distributors in existing markets and penetrating new markets
  - New distribution solution for Central Europe resulted in non-recurring Q2 costs
- Investments in sales- and distribution capacity expected to yield positive effects in H2 2017

## Operating revenue and EBIT-margin

NOK million



# Australia the main growth driver in Q2

- Strong development in Australia
- Stable development in the U.S., but somewhat behind expectations
  - New dealers agreements recently established
- Flat development in Scandinavia
  - Somewhat weaker in Norway





## Svane® customer offering

---

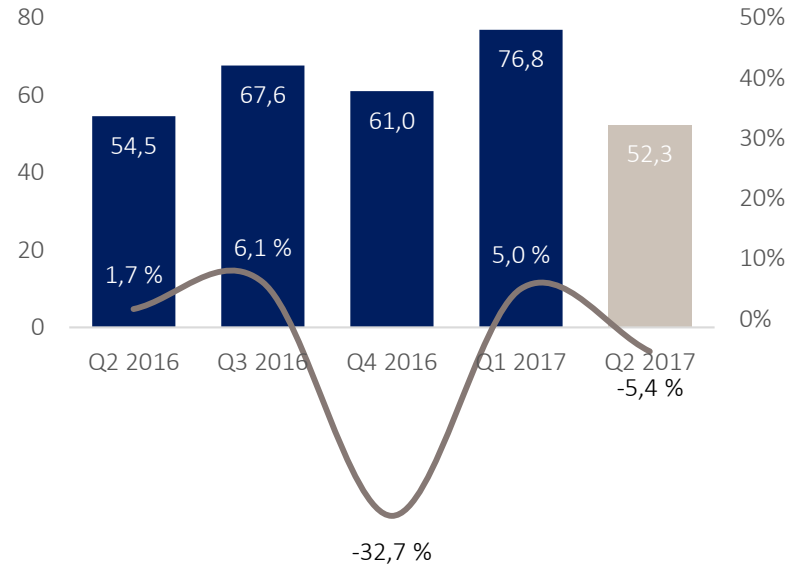
- Comfort & quality
- Beds & mattresses

# Weak results as expected

- Revenues of NOK 52 million, down 4% year-over-year
- Margins down mainly due to change in calculation-base for COGS

## Operating revenue and EBIT-margin

NOK million



# Stable market development

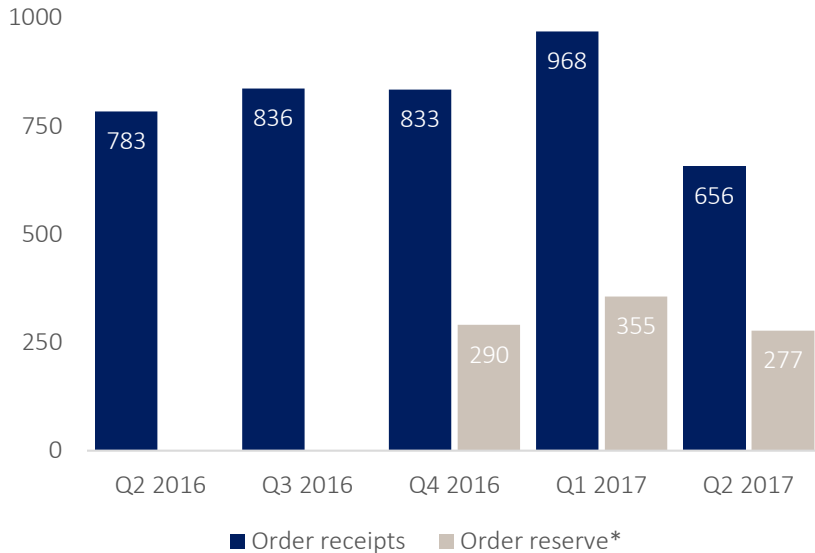
- Underlying development in Norway stable
  - No new collection launch in 2017 and no associated sales for display purposes explains revenue decline
- Continued discount pressure affect margins
- Positive development in foreign markets
  - Revenues rose in Germany, Switzerland, Denmark and Finland on low volumes





# Underlying order receipts down

NOK million



- Order receipts of NOK 656 million, down year-over-year and sequentially
- Order reserve of NOK 277 million, down from NOK 355 in Q1
- Q2 seasonally low, Q1 seasonally strong
- IMG order reserve stable from Q1
- Stressless® order reserve somewhat down

\* Comparable data for the Q2'16-Q3'16 period not available

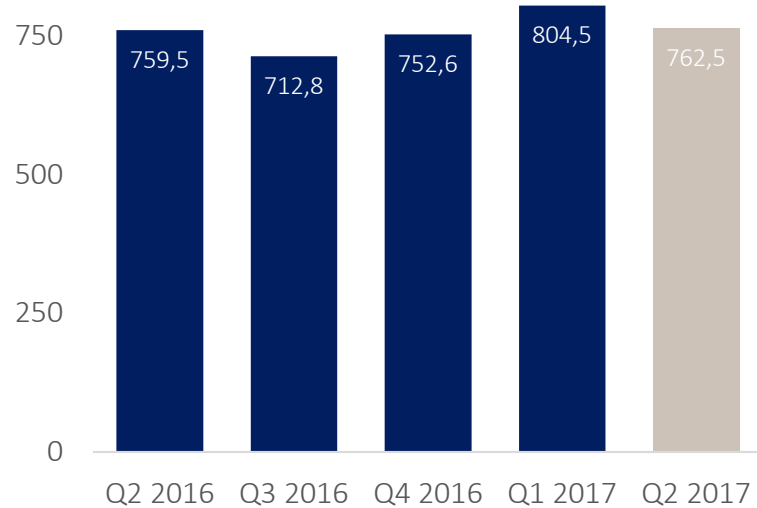
# Financial results

(preliminary and unaudited)

# Group operating revenues

NOK million

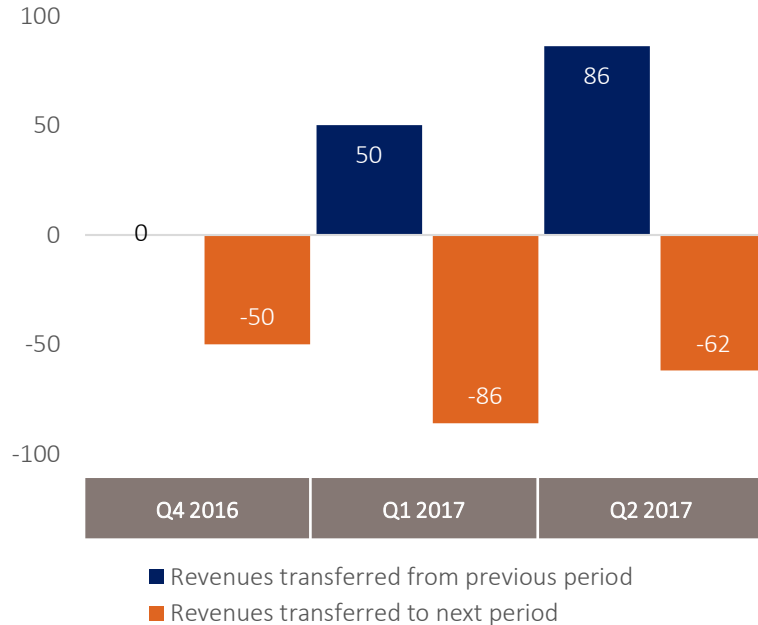
1 000



- Quarterly group revenues stable year-over-year
  - Slight increase for Stressless® and IMG
  - Svane® and Contract down

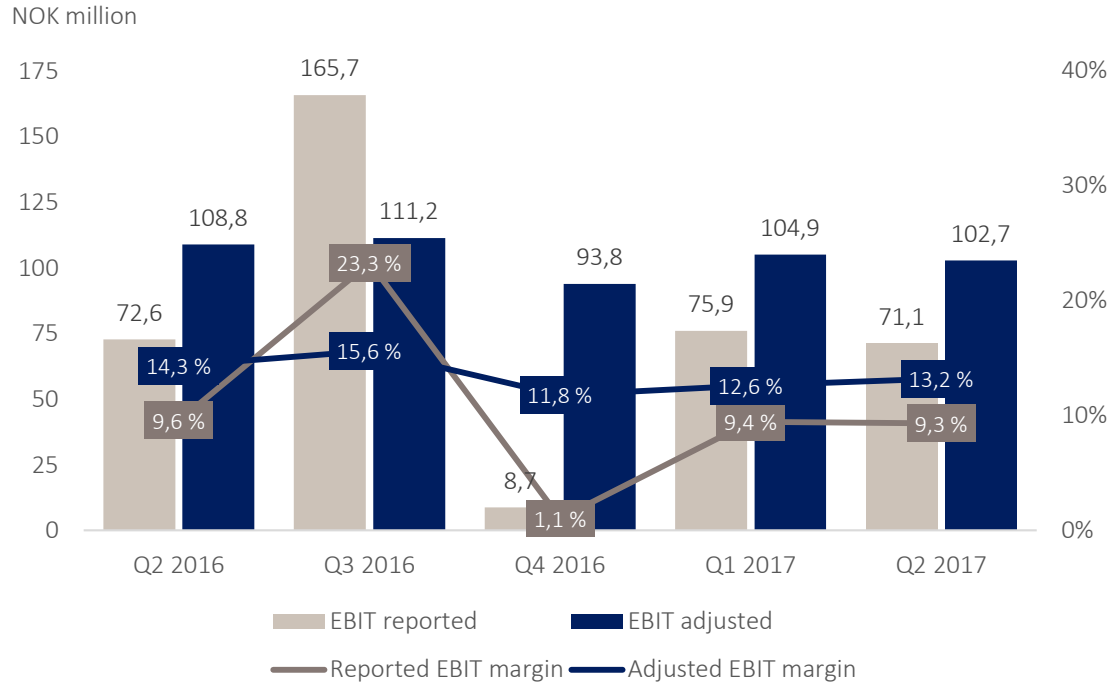
# Periodisation – revenue recognition

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 Q2 2017 of NOK 24 million on revenues, NOK 7.7 million on EBIT
- Simulation of Q2 2016 gives revenue impact in the area of NOK 16.5 million

# Adjusted margins



- Adjusted EBIT margin of 13.2%, down from 14.3% in Q2 2016
  - Mainly due to weaker margins for IMG, Svane and Contract
  - Negative contribution from Svane®

# Currency effects

## Hedge portfolio value 2015

Hedge portfolio value YE 2015; NOK - 398.4 million, with the following split:

2016: NOK -201 million

2017: NOK -178 million

2018: NOK -19 million

During 2016: The **NOK strengthened** towards Ekornes' main currencies  
In Q2 2017: the **NOK weakened** towards Ekornes' main currencies

- Realised Q2 2017 losses of NOK 33 million
  - Difference between booked negative value of NOK 47.6 million and actual loss of NOK 33 million for 2017 Q2 is NOK 14.7 million
  - Due to earlier hedge accounting the NOK 14.7 million has to be taken as a decrease of revenue and decrease of cost (other gains and losses) – no EBIT impact
- When presenting adjusted EBIT, unrealised loss on remaining portfolio is NOK 31.6 million in Q2 2017

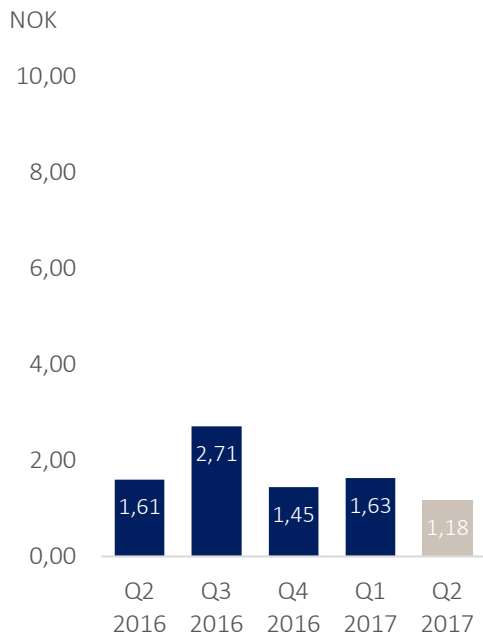
# Hedging impacts on revenue and EBIT – illustrative

NOK million	Q2 2017	
	Adjusted	Without currency hedging - Illustrative
Revenue, gain in value hedge contracts before realisation	14.7	14.7
Revenue, realized loss hedge contracts		33.0
Other gains and losses, gain in value before realisation hedge contracts	14.7	14.7
Other gains and losses, loss in value unrealized hedge contracts	31.6	31.6
<b>Change from reported EBIT</b>	<b>+ 31.6</b>	<b>+ 64.6</b>

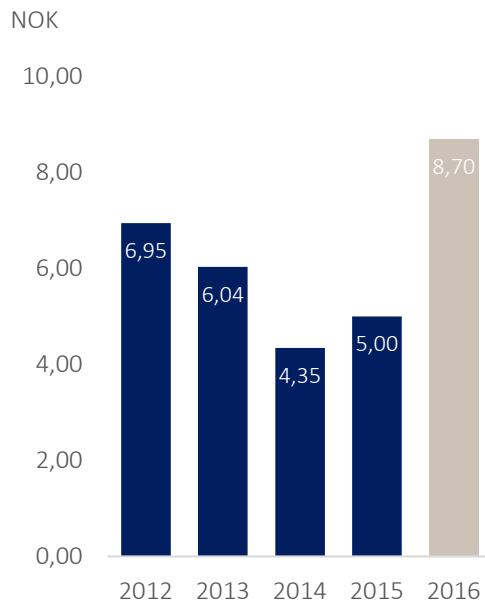
} NOK 47.6 million

# Earnings per share

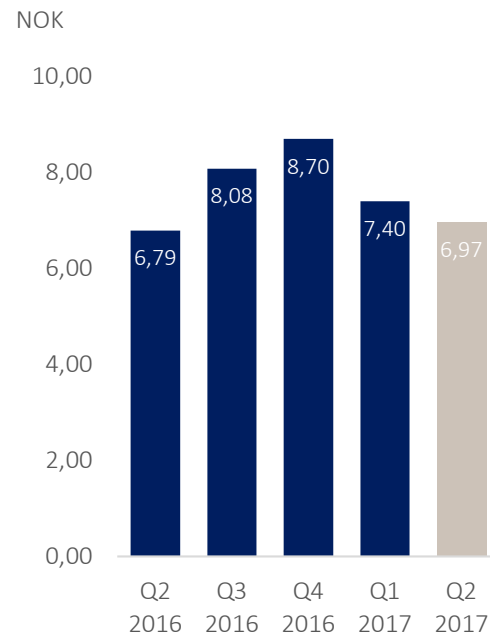
## EPS per quarter



## EPS per year



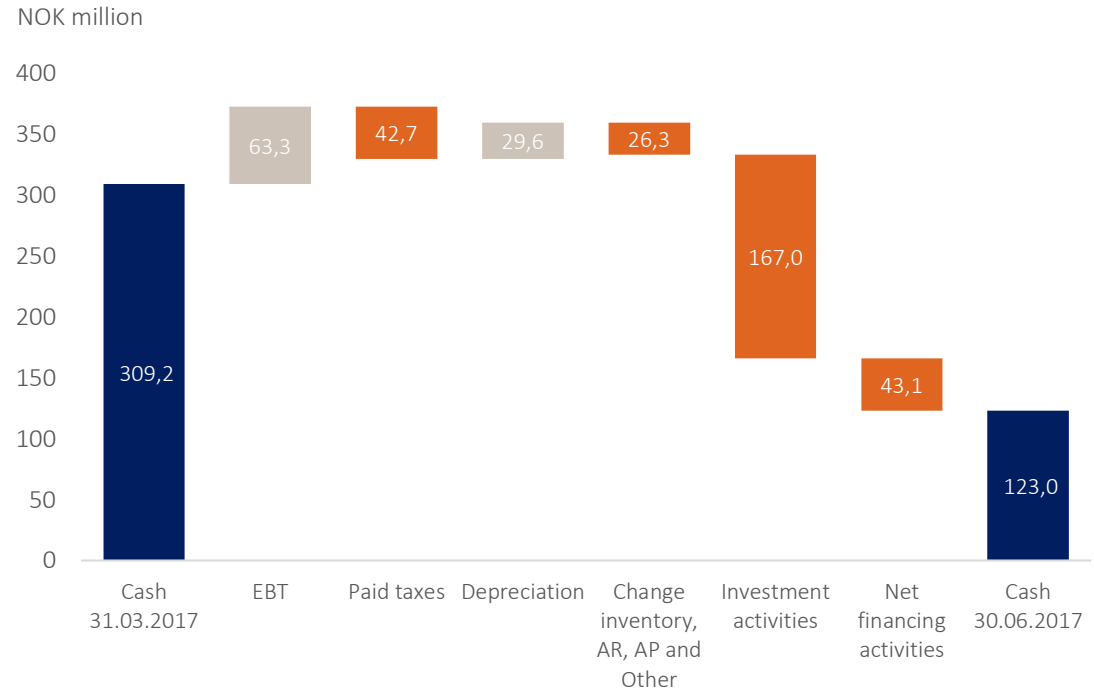
## EPS 12 months rolling





# Cash balance reduced due to dividend payment and IMG acquisition

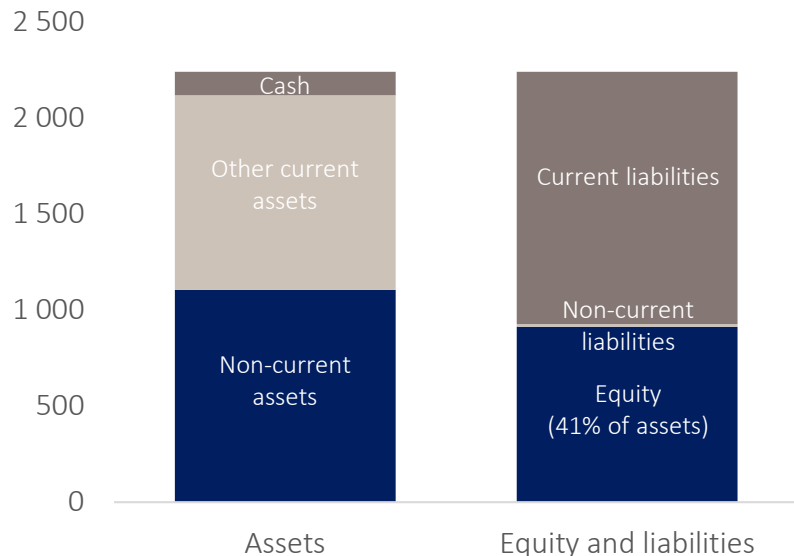
- Net cash reduced by NOK 186.1 million during the quarter
- Dividend pay-out NOK 221 million
- Final payment for IMG earn-out of NOK 150 million



# Financial position remains strong

## Balance sheet per 30 June 2017

NOK million

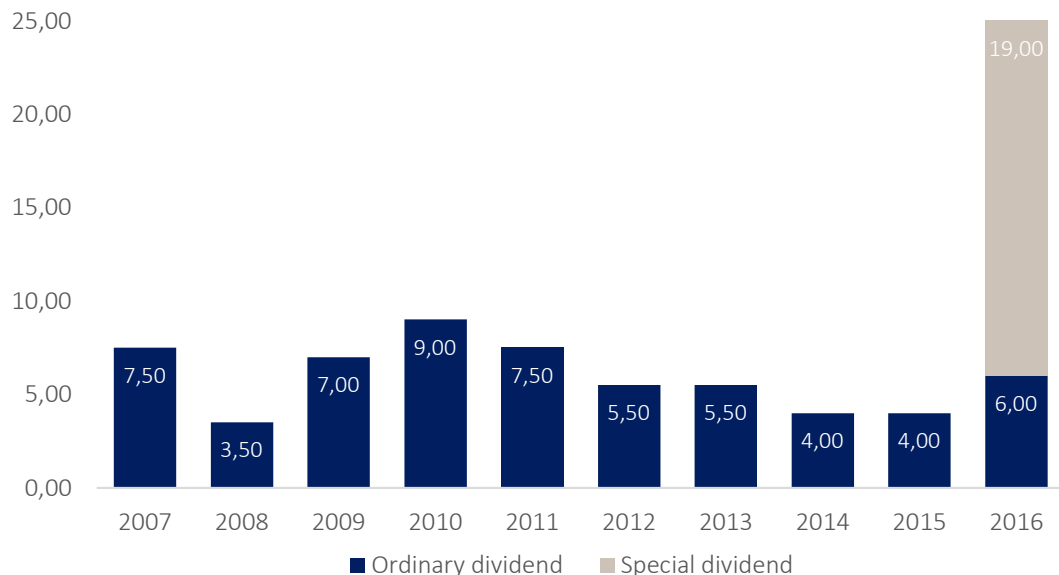


- Optimising the capital structure, while maintaining a solid balance sheet
- Lower equity ratio due to dividend payments
  - Well above minimum target of 30%
  - Ordinary dividend of NOK 221 million paid in Q2, and additional dividend of NOK 700 million to be paid in Q3 2017. All dividends included in balance sheet after AGM
- Contingent consideration IMG of NOK 150 million paid as planned in Q2, no impact on 2017 P&L
- Substantial Group financing capacity
  - Solid annual cash flow

# Dividend of NOK 6.00 + NOK 19.00 per share

## Annual dividends per share

NOK million



- AGM approved ordinary dividend of NOK 6.00 per share, paid in May
- Optimization of financial structure enables special dividend of NOK 19.00 per share. Approved by AGM, pay out in September 2017
- Total dividend pay-out of NOK 921 million
- Ex date 4 May for both dividends
- Dividend will be financed through existing and/or new credit facilities/loans

# Summary and outlook

# Highlights

- Quarterly group revenues stable year-over-year, slight increase for Stressless® and IMG, Svane® and Contract down
- Adjusted EBIT-margin 13.2, down 1.1 percentage points year-over-year
- Order receipts down, driven by weaker market development for Stressless® in Central- and Southern Europe
- Order reserve of NOK 277 million reflects seasonality
- Dividend of NOK 25.00 per share to be paid in 2017 approved by the AGM in Q2

# Focus on brands and customer offerings development



THE INNOVATORS OF COMFORT™





Stressless® known by 85 million people around the world

IMG and Svane® with foothold in select regions/markets

Sales in 43 countries | 18 sales offices in 11 countries

> 4 000 sales points

## Focus on sales and distribution development

# 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



# Contact information

## **Financial calendar:**

Q3 2017 results, 27 October 2017

**CEO: Olav Holst-Dyrnes**

olav.holst.dyrnes@ekornes.com

Mobile: + 47 93 48 31 01

**CFO: Trine-Marie Hagen**

trine-marie.hagen@ekornes.com

Mobile: + 47 99 61 75 05



**EKORNES®**

# Disclaimer

The following presentation is being made only to, and is only directed at, persons to whom such a presentation may lawfully be communicated ('relevant persons'). Any person who is not a relevant person should not act or rely on this presentation or any of its contents. Information in the following presentation relating to the price at which relevant investments have been bought or sold in the past, or the yield on such investments, cannot be relied upon as a guide to the future performance of such investments.

This presentation does not constitute an offering of securities, or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for, or otherwise acquire securities in any company within the Ekornes® Group. The release, publication or distribution of this presentation may in certain jurisdictions be restricted by law, and persons in such jurisdictions into which this presentation is released, published or distributed, should therefore inform themselves about, and observe, such restrictions.

This presentation contains statements regarding the future in connection with the Ekornes® Group's growth initiatives, profit figures, outlook, strategies and objectives. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual developments deviating substantially from what has been expressed or implied in such statements.