

# Renewing Matas

Annual Report 2019/20, corona impact  
& strategy update

Conference call 27 May 2020

matas



# Agenda for the conference call

Results and strategy update  
FY 2019/20

1

CEO comments on Matas' current situation

2

Corona impact on key financials & Q1 2020/21 Trading Update

3

Financial results for 2019/20

4

Strategy update: Renewing Matas towards 2022/23

5

Financial ambitions and capital allocation principles unchanged

# CEO comment: Solid financials results and clear strategic progress

Key messages: 2019/20 results, corona impact and strategy update

## **Pre-corona pandemic FY 2019/20 results on track**

- ✓ Topline growth at 4.2% (estimated above 5.5% pre-corona)
- ✓ Underlying growth at 0.7% (estimated above 2% pre-corona)
- ✓ EBITDA margin before special items and IFRS 16 at 14% (estimated well above 14% pre-corona)

## **Corona pandemic impact – a stress test for our business model**

- ✓ Temporary drop in sales and liquidity, but fast recovery starting third week of lockdown
- ✓ Online sales booming
- ✓ Supply chain volatility and sudden demand changes increase inventories

## **Renewing Matas strategy execution on track**

- ✓ Phase one: Solid strategic progress and tangible results – especially digital
- ✓ Phase two: Staying the course and accelerating the transformation

## **Financial targets and ambitions**

- ✓ No short term financial targets for 2020/21 due to corona induced uncertainty
- ✓ 2022/23 financial ambitions intact, but increased macro risk
- ✓ 2019/20 dividend suspended

# COVID-19 effects on Q4 2019/20 and preliminary outlook for Q1 2020/21

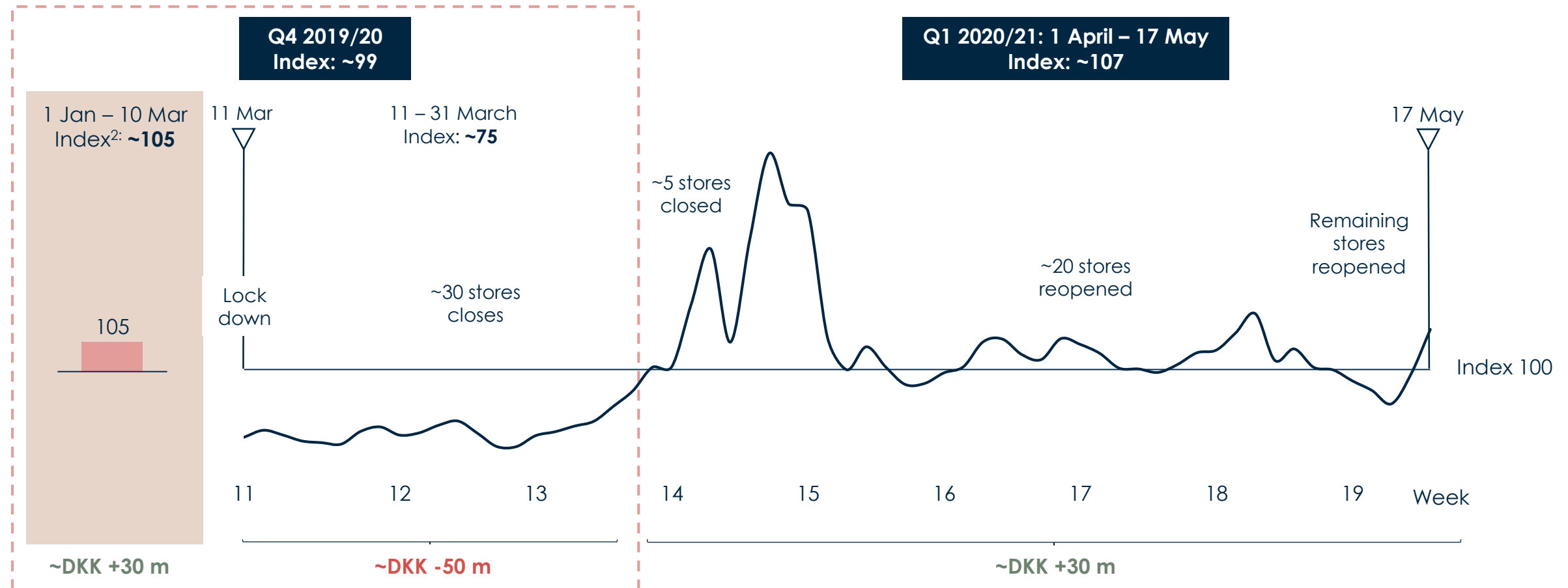
## COVID-19 effects: Key financials

	Estimated Q4	Preliminary Q1
Revenue	~DKK 50 m drop	Index 107 YoY
Cost	~DKK 5 m increase	Operating cost increase
EBITDA	~DKK 20 m drop	Limited margin pressure, partially one-offs
Working capital	~DKK 60 m increase	Positive NWC development
Cash flow	~DKK 75 m decrease	Normalising

# Sales dropped post lockdown but recovered in spite of ~35 store closures

## COVID-19 effects: Overall sales

**Index:** Weekly sales compared to same period last year<sup>1</sup>



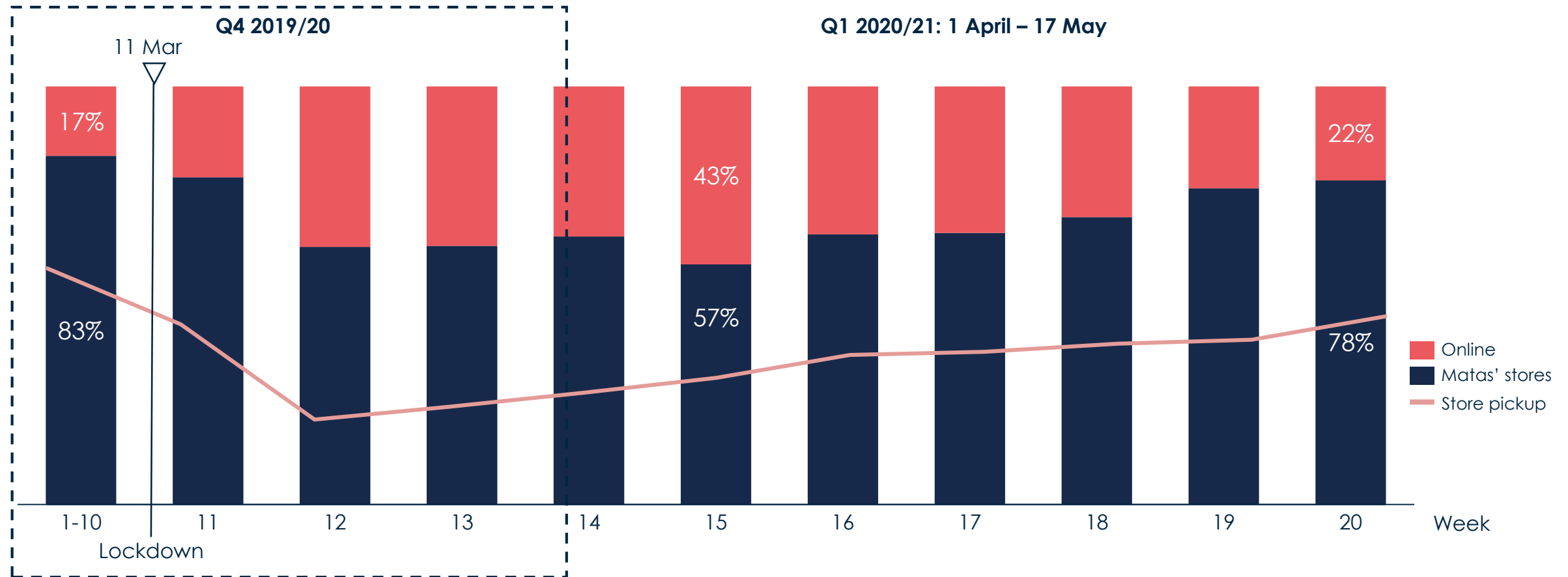
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<sup>1</sup>. Measured as 7 day moving average, total sales including Firtal. <sup>2</sup>. Corrected for leap day.

# COVID-19 accelerated the channel shift, but stores are regaining share

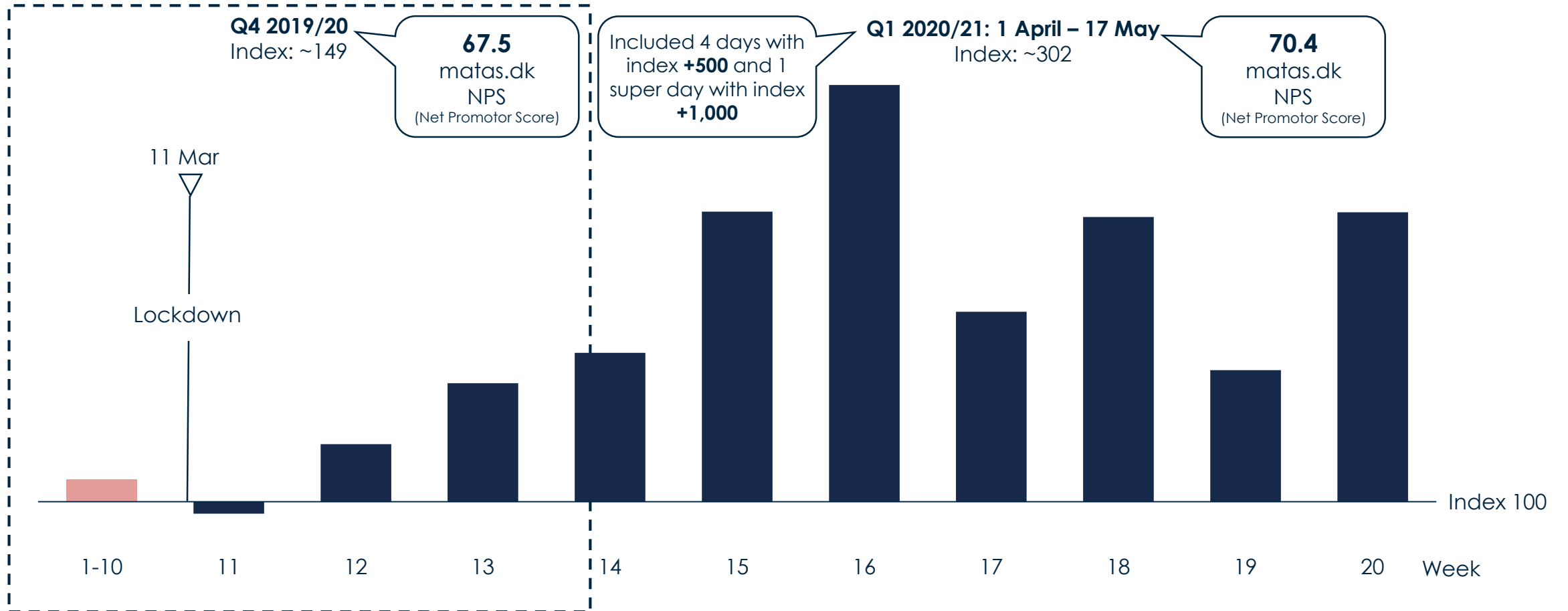
## COVID-19 effects: Channel shift per week & pick-up in store

**Channel shift:** Online vs. offline share of sales and share of online orders delivered to physical stores



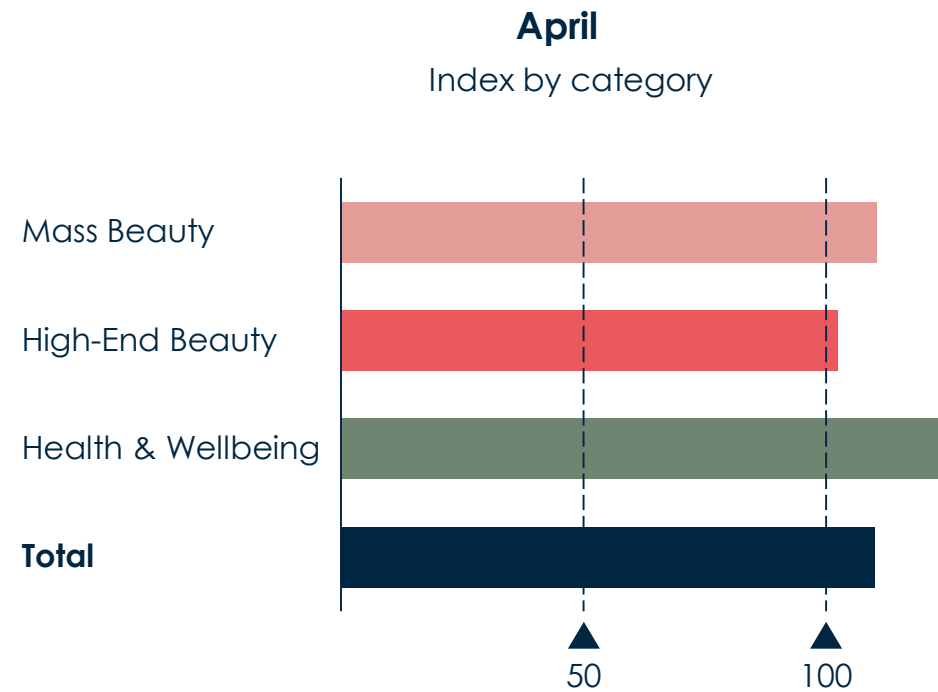
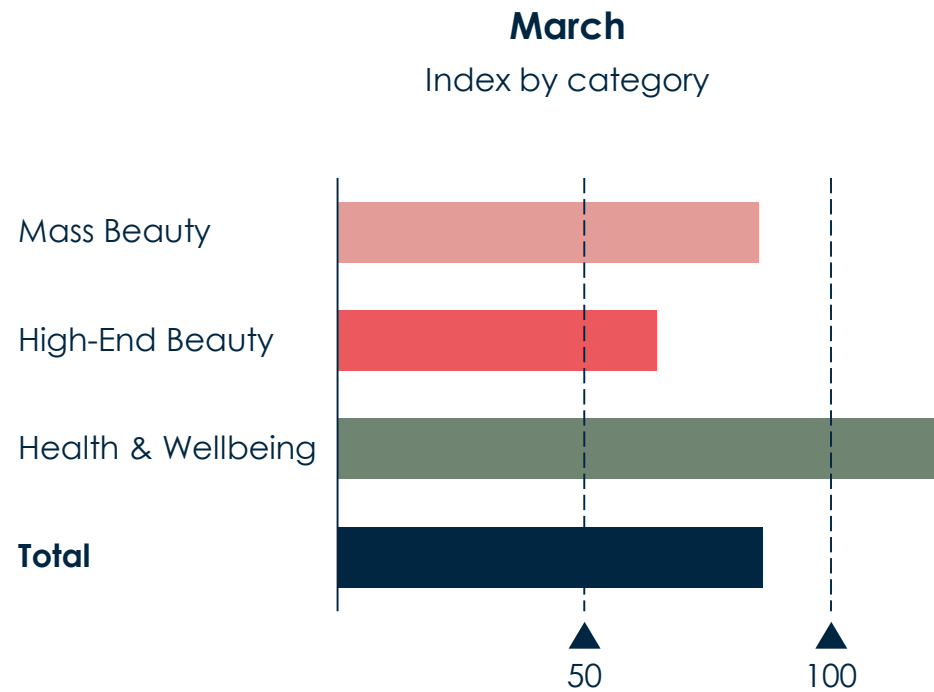
# matas.dk sales reached unseen index levels following the lock down

## COVID-19 effects: matas.dk sales and Net Promotor Score development



# Health & Wellbeing is outperforming under COVID-19

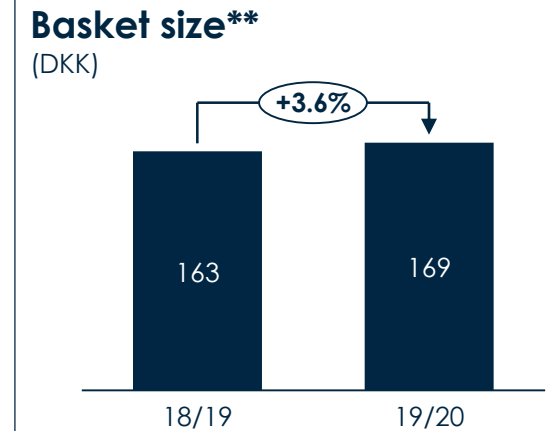
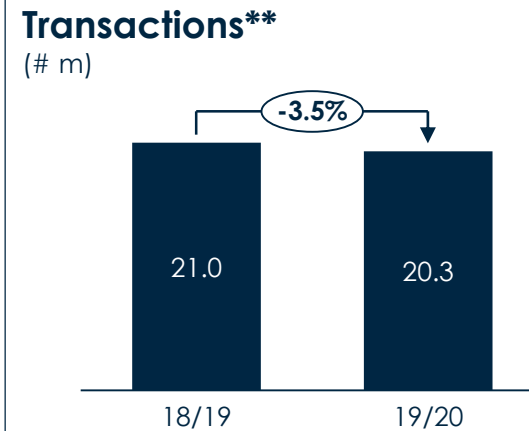
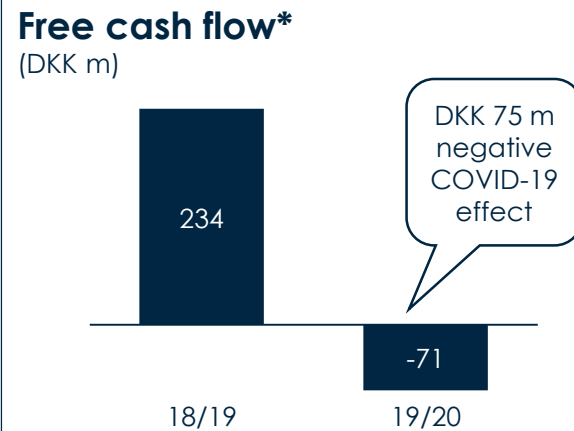
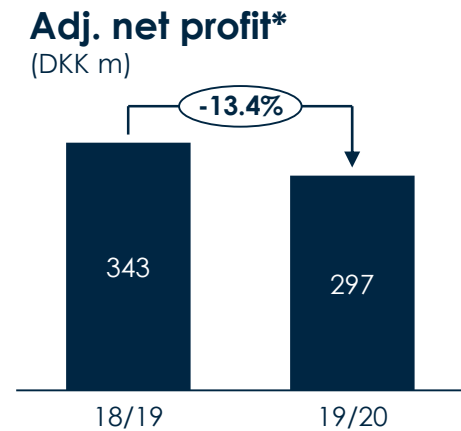
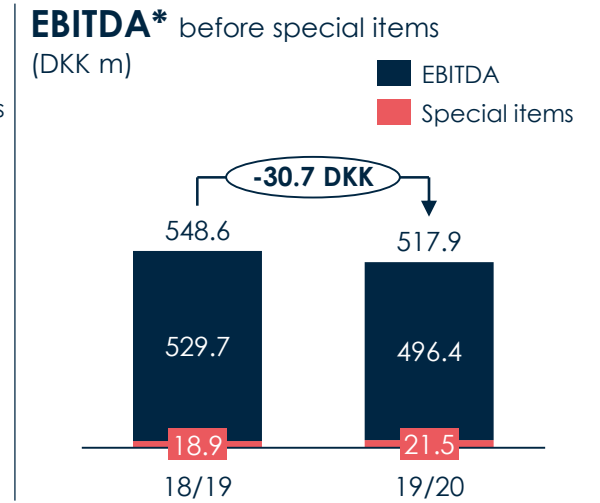
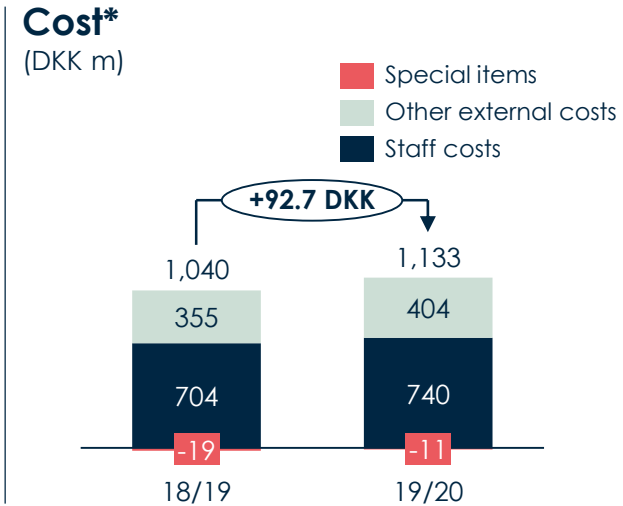
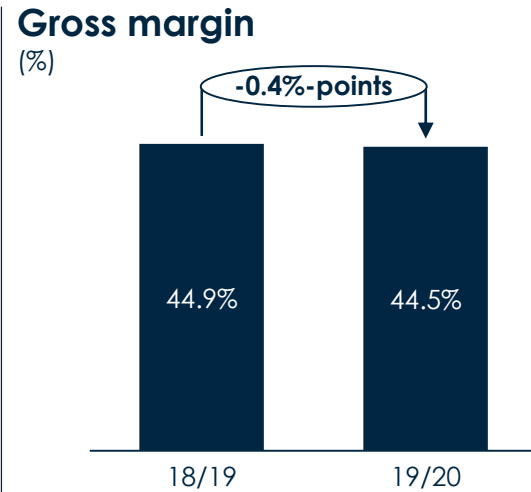
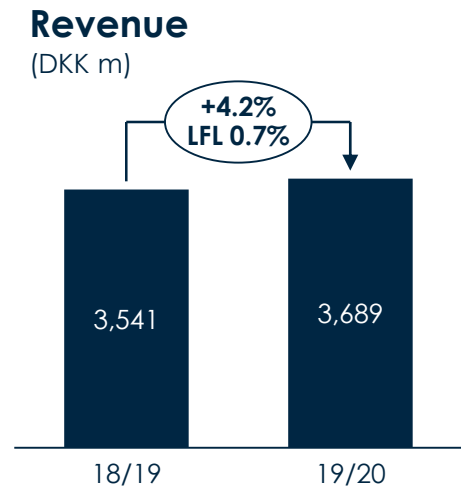
COVID-19 effects: Category mix





# Key financials 2019/20

Financial results: 2019/20 vs. 2018/19 (pre IFRS 16)



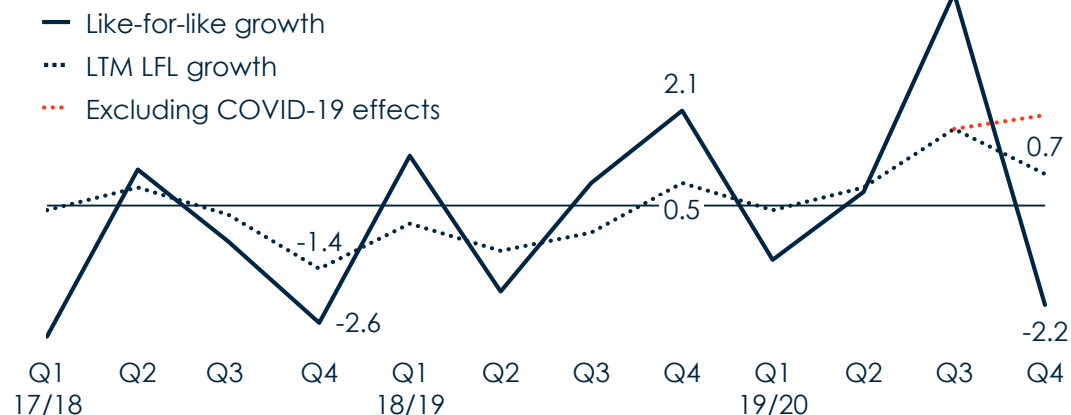
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\* Before effect from IFRS 16. \*\* Excluding transactions from Firtal Group.

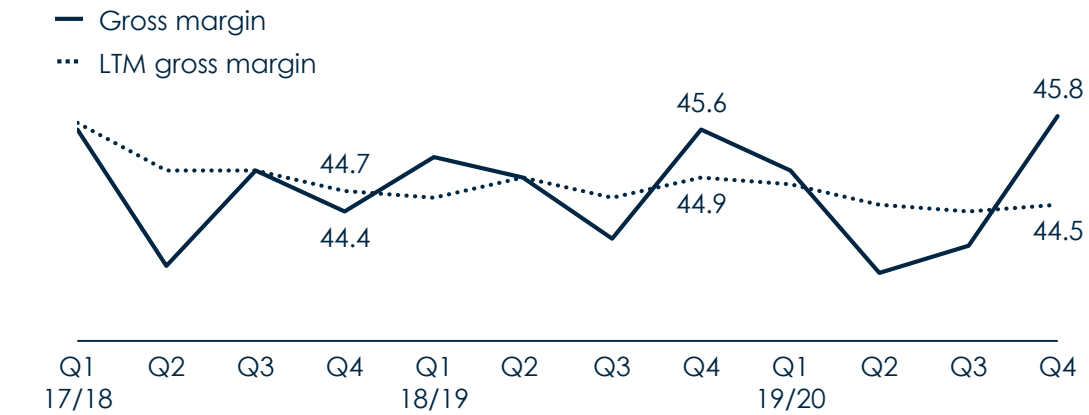
# Long term trends: Revenue, Gross Margin and EBITDA

Financial results: 2017/18 to 2019/20

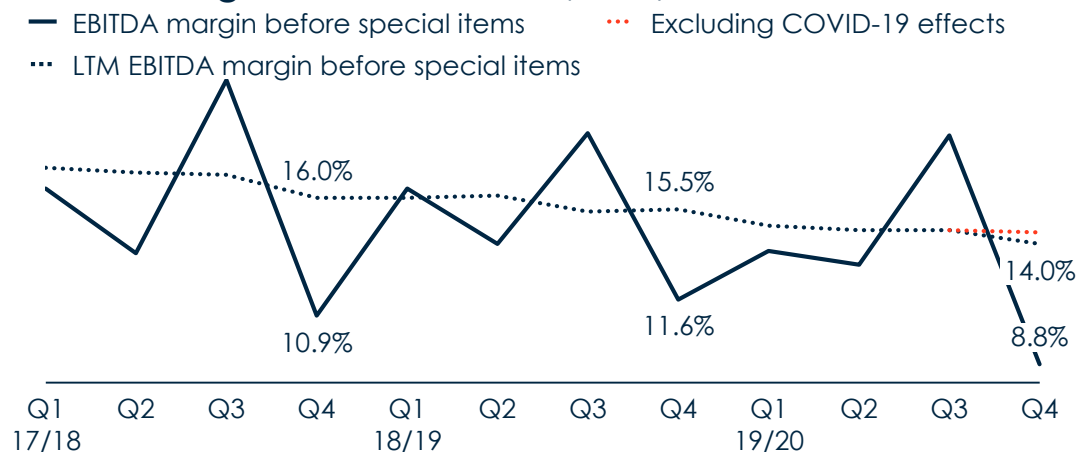
## Revenue growth (%)



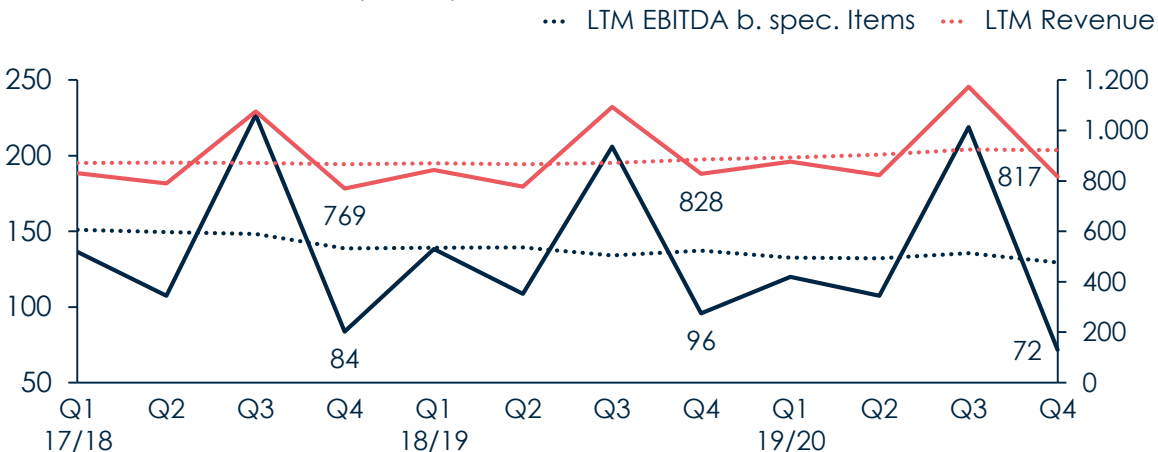
## Gross Margin (%)



## EBITDA margin\* Before special items (DKK m)



## Revenue & EBITDA (DKK m)



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\* Before effect from IFRS 16.

# Cost development: Underlying decline of DKK 16 m in 2019/20

Financial results: 2018/19 vs. 2019/20

## Cost development 2019/20 vs. 2018/19

In 2019/20, total operating costs (ex one-offs) were up DKK 93 m from 2018/19

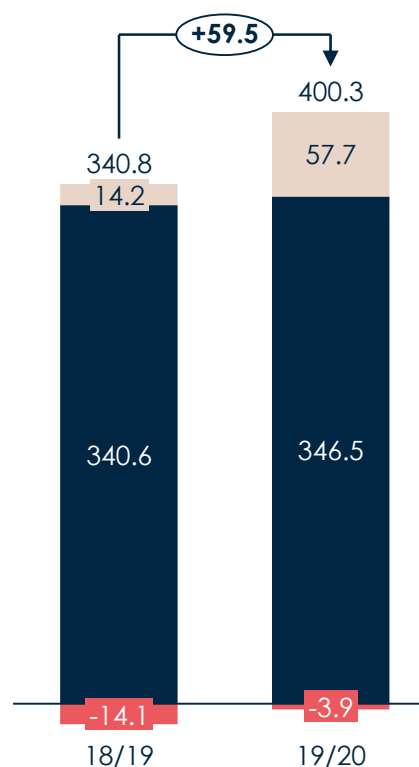
### Cost drivers FY

↑ Added cost from Firtal and Kosmolet of DKK 68 m compared to FY 2018/19

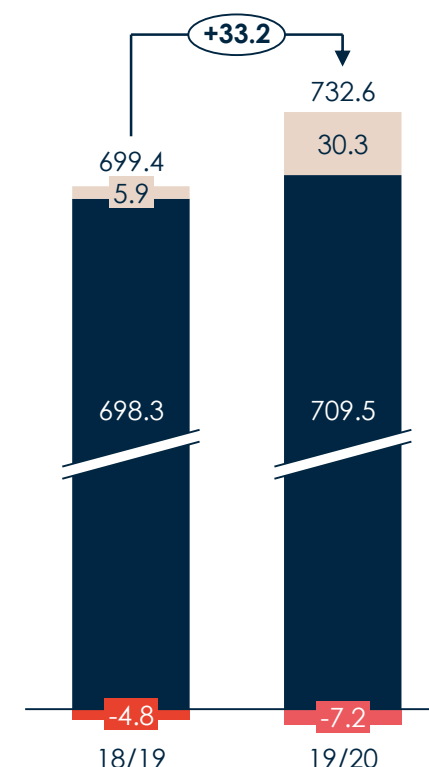
↑ Added cost for fuelling matas.dk of DKK 41 m

↓ Permanent reductions in underlying cost base compared to FY 2018/19 from cost efficiency actions within store operations as well as HQ process optimisation

Other external costs  
(DKK m)



Staff costs  
(DKK m)



Special items OPEX Firtal and Kosmolet OPEX Matas

# Cash flow, working capital and trade payables

Financial results: 2018/19 vs. 2019/20

## Cash flow and working capital developments

- Cash generated from operations was an inflow of DKK 312.9 million before IFRS 16 in 2019/20, against an inflow of DKK 566.1 million in 2018/19, a drop of DKK 253 million
- The drop was primarily due to a large rise in working capital as inventories rose while trade payables fell
- The fall in Trade Payables was due these being unusually high at the end of 2018/19 plus some differences in the timing of payments around year end. There was no deterioration in our payment terms
- CAPEX was DKK 64 m higher, primarily due to investments in Matas Life and in online activities including the new webshop facility in Humlebæk and HQ renovations
- Acquisitions rose by DKK 32 m compared to LY (Kosmolet & DFS)

DKK million	FY 2019/20 Pre IFRS 16	FY 2018/19 Pre IFRS 16	Change YoY
<b>Cash from operations before changes to working capital</b>	<b>503.7</b>	<b>536.5</b>	<b>-32.8</b>
Changes to working capital	-190.8	29.6	-220.4
<b>Cash from operations*</b>	<b>312.9</b>	<b>566.1</b>	<b>-253.2</b>
Paid taxes	-48.2	-93.3	45.2
<b>Cash flow from operating act.</b>	<b>264.8</b>	<b>472.8</b>	<b>-208.0</b>
CAPEX	-192.5	-128.3	-64.2
Acquisitions	-143.1	-110.7	-32.4
<b>Cash flow from investing act.</b>	<b>-335.6</b>	<b>-239.0</b>	<b>-96.6</b>
<b>Free cash flow</b>	<b>-70.8</b>	<b>233.8</b>	<b>-304.6</b>

\* Including changes to working capital.

## Trade payables, effect on working capital, YoY (DKK m)

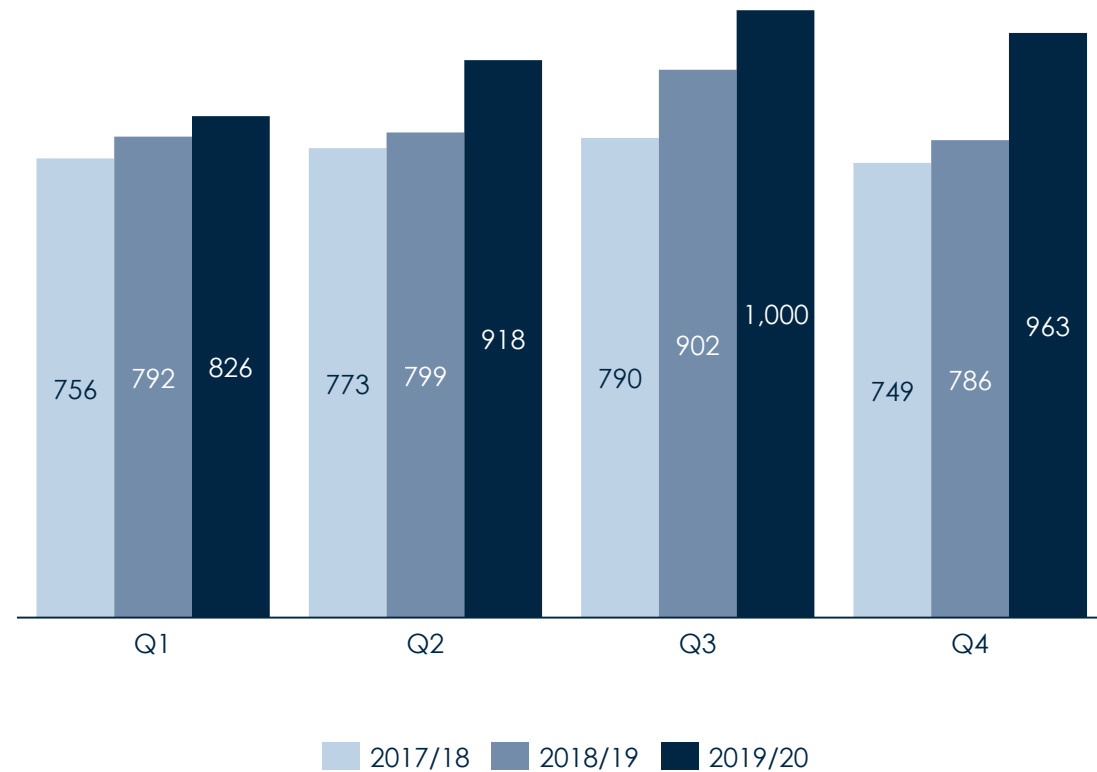


# Inventories: Increase from online logistics, acquisitions and COVID-19

Financial results: 2018/19 vs. 2019/20

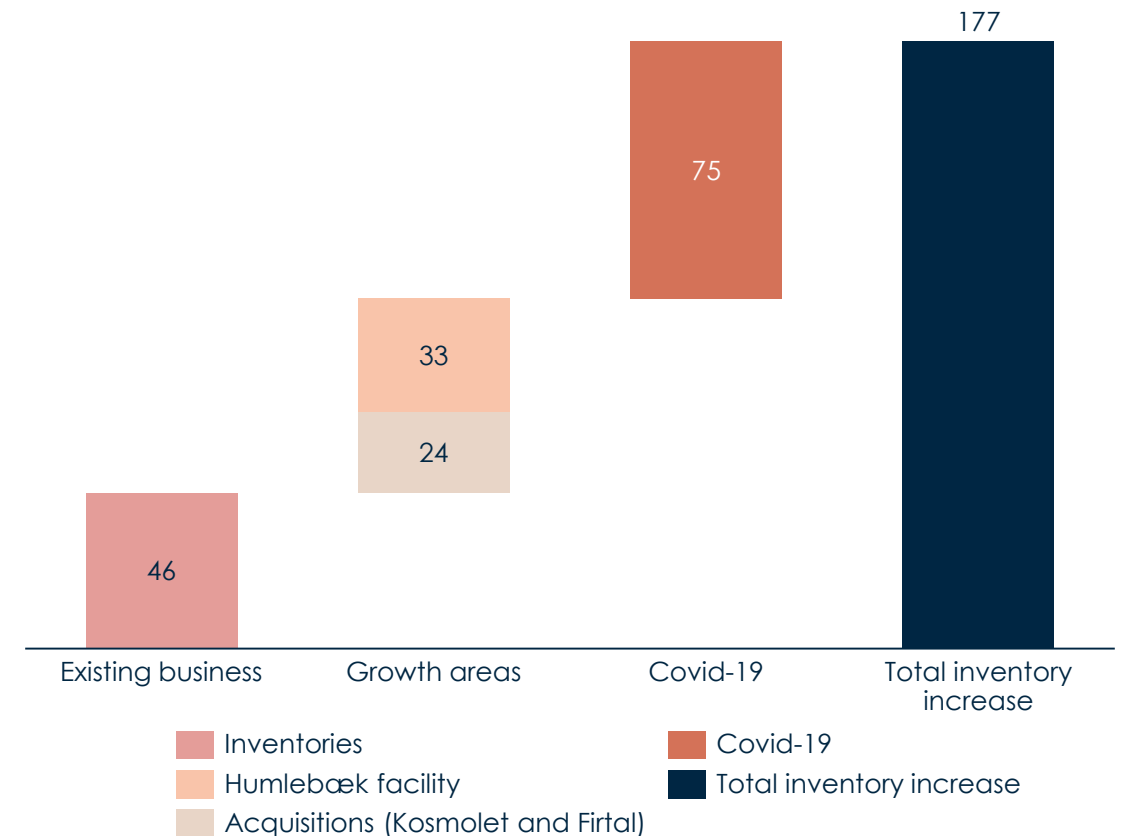
## Inventories per quarter

(DKK m)



## Inventories, Q4 2019/20, change from last year

(DKK m)



# Renewing Matas

**Phase 1: 2017/18 to 2019/20**

Clear strategic progress and results

**Phase 2: 2020/21 to 2022/23**

Accelerating the transformation

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# Renewing Matas: clear strategic progress and results of phase 1

Phase 1: 2017/18 to 2019/20

1

## Live our purpose

Beauty & Wellbeing for Life

- ✓ Improved brand ranking, incl. young shoppers
- ✓ Higher satisfaction score for Club Matas members
- ✓ 19% increase in matas.dk satisfaction in Q4 2019/20

2

## Win online

From top 3 to undisputed market leader

- ✓ Online share of revenue 19.3% in Q4 2019/20
- ✓ Reached #1 online in beauty & wellbeing
- ✓ Reached #5 position vs all webshops in DK

3

## Reignite store growth

Renew & consolidate store footprint

- ✓ Store footprint down to 268 – all profitable
- ✓ 66 store upgrades since 2016/17
- ✓ 33% of turnover from upgrades stores

4

## Open new growth paths

New revenue streams

- ✓ 34% growth in green segment (vital) since 2017/18
- ✓ Added digital verticals
- ✓ Added #1 Danish make-up to own brand portfolio

5

## Change how we work

Cost savings & efficiency gains

- ✓ DKK 60 m cost savings reinvested in growth
- ✓ New and dedicated ecommerce logistics facility
- ✓ Culture, leadership and organisation

# Outlook: Tangible risks but also new opportunities

COVID-19 effects: Risks and opportunities

Risks	
	Recession
	Online competition
	Second wave pandemic

Opportunities	
	Shopping locally – staying at home
	Digital growth
	Health & Personal Care



# Renewing Matas phase 2: Accelerating the transformation

Phase 2: 2020/21 to 2022/23



1

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**Live our  
purpose**

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# Beauty & Wellbeing for Life

Phase 1: our focus



34 REDESIGNED STORES

MATAS STRIBER  
NEW COLOURS AND NEW DESIGNS



MORE FOR THOSE WHO WANT  
CLEAN LABEL PRODUCTS



MATAS GOES LIVE

# Beauty & Wellbeing for Life

## Phase 1: what we have achieved

#2

strongest brand  
in Denmark  
(YouGov BrandIndex)

67.5

matas.dk NPS  
(Net Promotor Score)

99

Brand strength  
(Brand Asset Valuator)

4,4

Trustpilot  
Score  
(out of 5)

#5

Most heard  
about brand  
(YouGov Buzz ages 18-34)

63.1

M-NPS  
(Matas Net Promotor Score)

14%

increase in  
brand vitality  
(Brand Asset Valuator)

2nd

highest increase in  
popularity score as **most  
talked about** brand  
(YouGov WoM ages 18-34)



2

Win  
online

matas



# Win online: From top 3 player in a fragmented market to leader in 2 years

## Phase 1: Our focus & results

### Our focus



Improving the online shopping experience



Faster delivery and increased capacity



More personalised digital marketing & media



New low cost price-led channels

### Our results

- ✓ Online advisors, live shopping & skintest
- ✓ Subscription services
- ✓ Lift in usability
- ✓ Mobile optimisation
- ✓ Omnichannel experience

- ✓ New webshop logistics facility in Humlebæk
- ✓ Increased share of orders handled in one day
- ✓ Black Friday peak handled in 3 days
- ✓ Webshop peaks not affecting store logistics

- ✓ SoMe driving inspiration and engagement
- ✓ Data driven digital marketing across channels
- ✓ Club Matas app with personalised digital offerings
- ✓ 1:1 video advisors

- ✓ Firtal: Market leader in the green segment
- ✓ DFS: New beauty channels and professional hair care
- ✓ Niche: Mens care
- ✓ Strong price position

# Strong online growth continued in 2019/20

## Deep dive online growth: What we have achieved in phase 1

### Growth on matas.dk

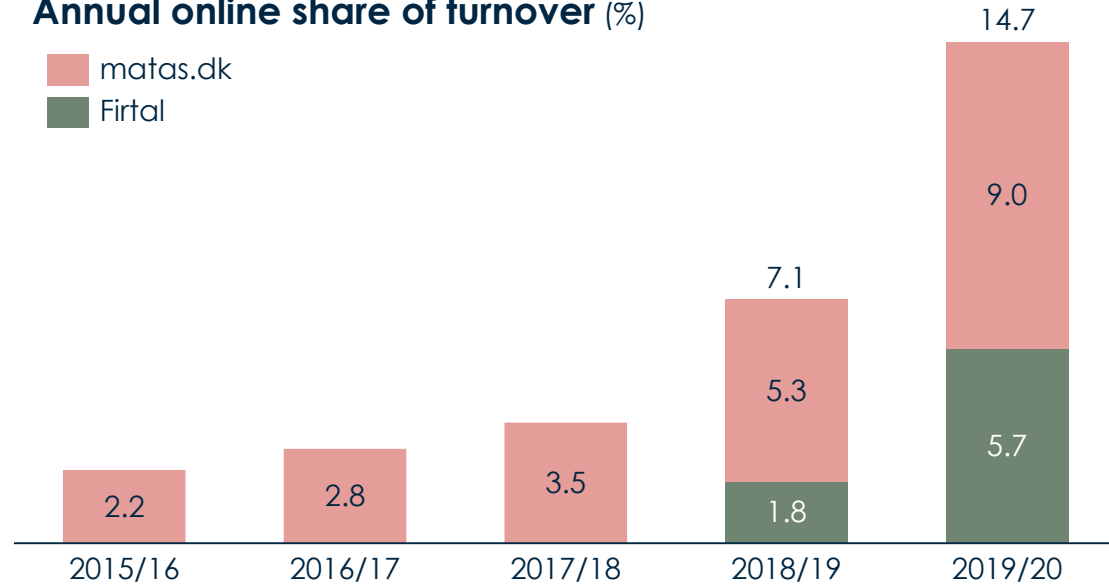
Q4 2019/20: 85% (QoQ)  
 2019/20: 76% (YoY)  
 2018/19: 54% (YoY)

### Online revenue of total

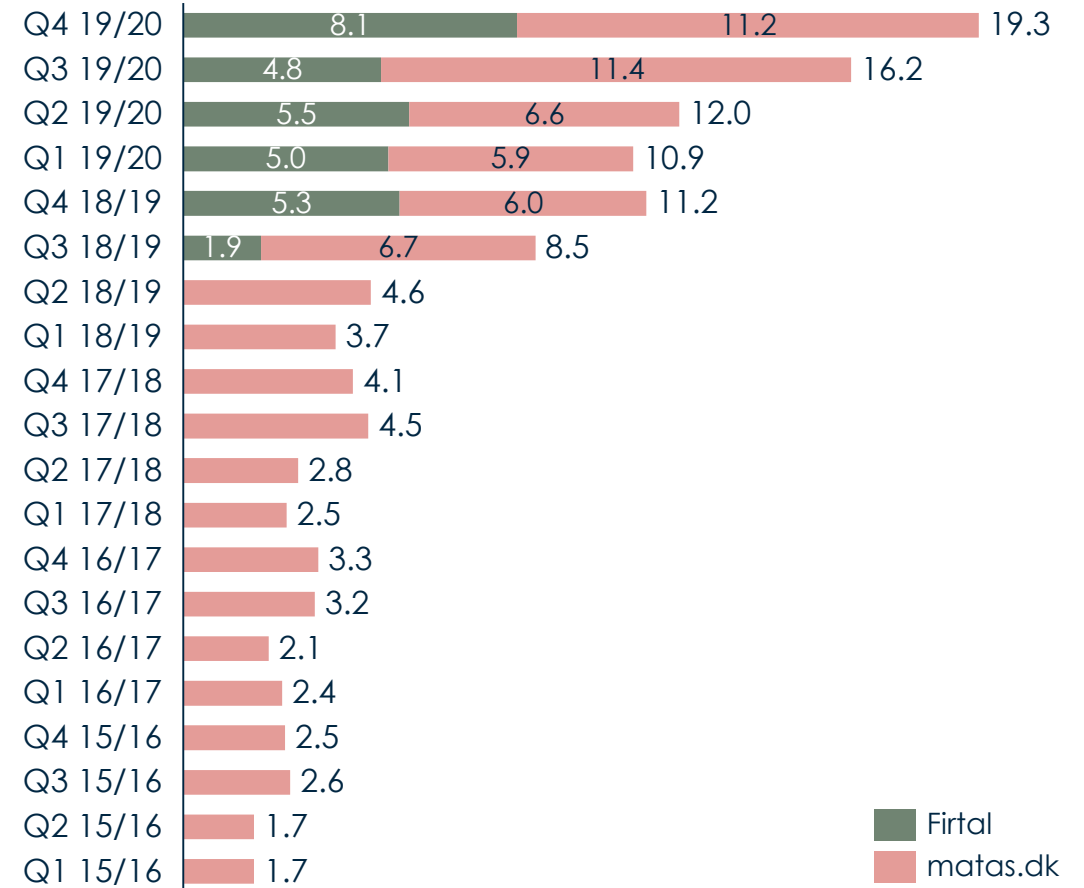
2019/20: 14.7%  
 2018/19: 7.1%

### Annual online share of turnover (%)

matas.dk  
 Firtal



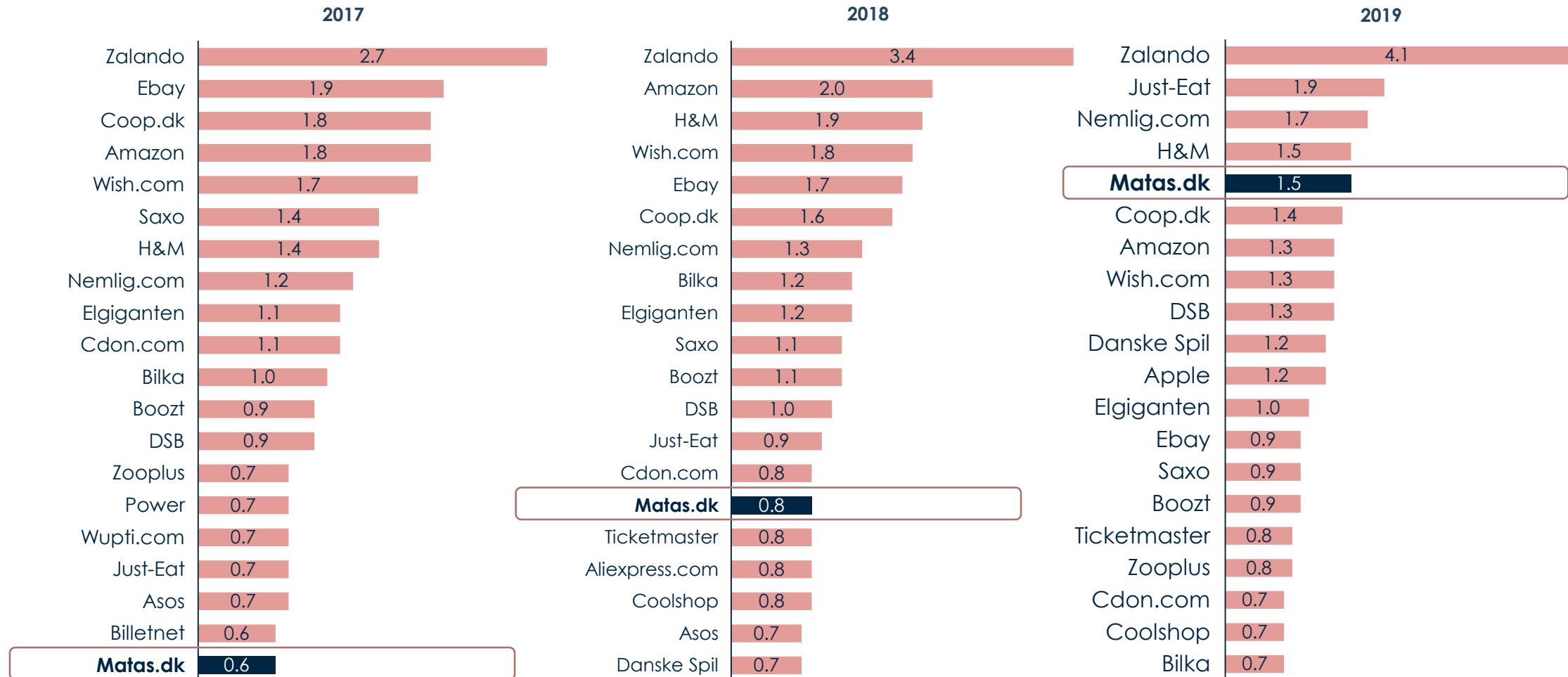
### Quarterly online share of turnover (%)





# Matas.dk now ranks #5 among the 20 most used\* webshops in Denmark

Deep dive market position: What we have achieved year 1 and 2



\* Percent of users, who refer to a webshop as the one used most recently. Source: FDIH E-commerce annual analysis 2017, 2018, 2019.



# Matas aims to be channel agnostic at the end of the strategy period

Deep dive profitability: Scalability on matas.dk

	2019/20	Actual and expected development	Ambition 2022/23
Revenue	DKK 330 m	Increasing due to channel shift and market share gains	Higher
Gross margin		Improving as larger share of online is normal sales (full price)	Higher
Costs		Positive scale effects on all major cost ratios: wages, marketing and logistics	Lower
EBITDA margin Before special items	~10%*	Positive development	~14%**

# Firtal delivers +50% growth YoY in the 5th quarter after acquisition

Deep dive: Firtal performance and strategic rationale



Performance exceeds management case

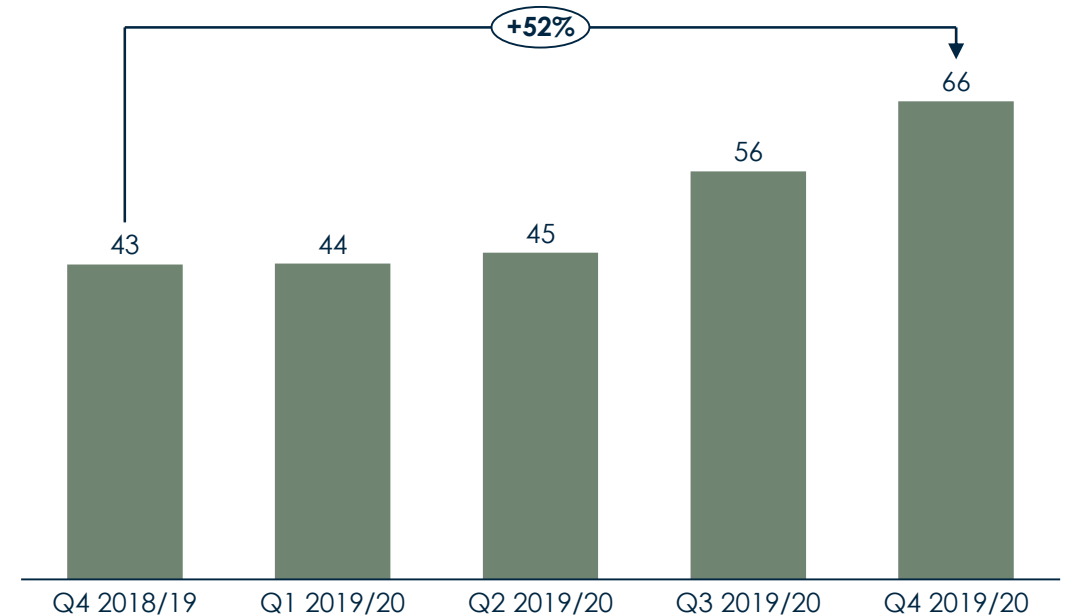


Synergies in line with expectations



Firtal Group adds digital verticals incl. DFS to Matas Group

Figure: Sales per quarter (DKK m)



# Win online: Increase the lead and extend the reach

## Phase 2: What we aim for



Continue to outgrow the market



Be ready for international competition



Ensure operational efficiency



Conduct long term logistics review

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# Reignite store growth

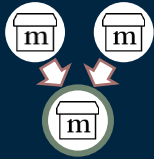
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# Reignite store growth: Renew & consolidate store footprint

## Phase 1: Our focus & results

### Our focus



Network adaption and consolidation

### Our results

**268 physical stores, 10 fewer than end-2018/19**

- ✓ Less than 12 months average notice period
- ✓ Location hedge

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Matas Life store concept introduced

**66 upgraded stores last five years**

- ✓ 35 Matas Life and 31 in 2016 concept
- ✓ 33% of store sales from updated stores



Continuous cost improvements realised

**4% operating cost improvement**

- ✓ Staff wage inflation offset through planning & process improvement



Online contributing to store traffic and sales

**Around 50% choose pick-up in store**

- ✓ 25-30% upsell on pick-up
- ✓ Order-in-store online sales doubled



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LIP CUTE  
ØKOLOGISK OG  
NATURLIG



10 NYE FANTASTISKE  
LIP GLOSS FARVER

TROMBORG

Lip Cute 299,95 DKK



SUNDHED & VELVÆRE

SUNDHED & VELVÆRE

matas SPOT

Omtanke for dig og miljøet

HUDDLEJE MAKEUP

DUFTE

Tryk andelt i Matas

psst...  
Mere end  
300 produkter

FAST LAV PRIS





# Reignite store growth: Matas Life concept

## Matas Life: Four case studies

### Mid-size town merger and new high street location

- Two stores within one shopping area merged into one new store in a better and more central location
- Smaller sales area (fewer square meters in the new store than in the two former stores in total)
- Positive net effect on sales and EBITDA



### City merger and expansion

- Two stores merged into one by expanding one of the existing stores
- Total sales area unchanged
- Negative net effect on sales as the former stores covered two sales areas despite being very close (250 meters apart)
- Positive EBITDA effect



### Suburban 1:1 full upgrade

- Existing store fully renovated in Matas Life concept
- Sales area unchanged
- Significantly higher CAPEX than in light upgrade
- Positive net effect on sales and EBITDA



### Suburban 1:1 light upgrade

- Existing store lightly renovated in Matas Life concept
- Sales area unchanged
- Significantly lower CAPEX than for full upgrade (25%)
- Positive net effect on sales and EBITDA



# Consolidate and refresh: Lower upgrade rate and lower CAPEX per unit

Phase 2: What we aim for



## Gradual consolidation of network

No business case in closing a large number of stores



## Modular improvements in more stores, fewer full upgrades

Attractive returns on light upgrades



## Store operations and service model changes

Adaption to Post-Covid normal



## Online/offline synergy

Continuous improvement





# 4

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Open  
new  
growth  
paths

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# Open new growth paths: New revenue streams

## Phase 1: Our focus & results

### Our focus



New fast growing verticals: The green market

### Our results

- ✓ Strengthened green segment position ~20% annual growth
- ✓ Owns two top 3 webshops within Beauty & Wellbeing



New online verticals: Firtal Group and DFS

- ✓ Firtal Group ApS
- ✓ Din Frisør Shop ApS
- ✓ Improved price position



New House Brand: Nilens Jord

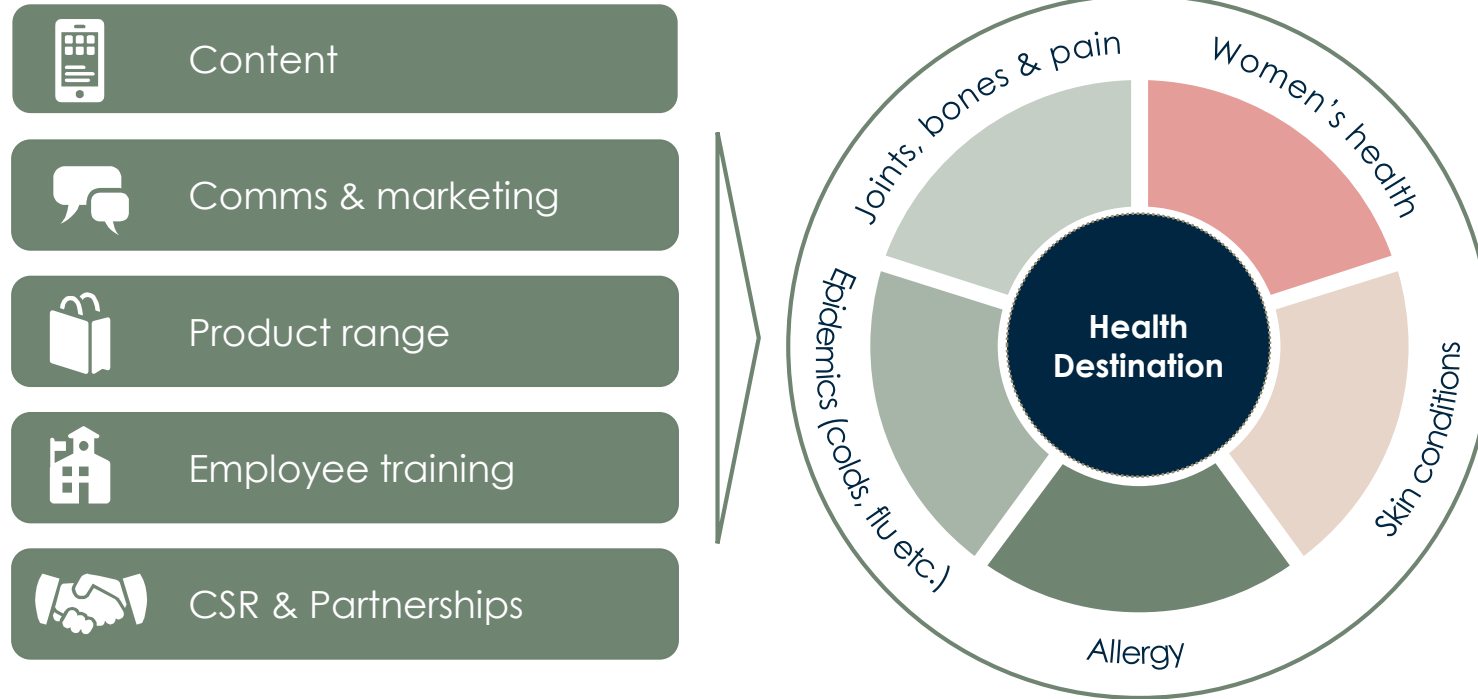
- ✓ #1 Danish make-up brand
- ✓ Private label share increased 4%-points to 18%



# New growth: Build the next destination categories

Phase 2: Increase customer awareness of Matas as a Health\* destination

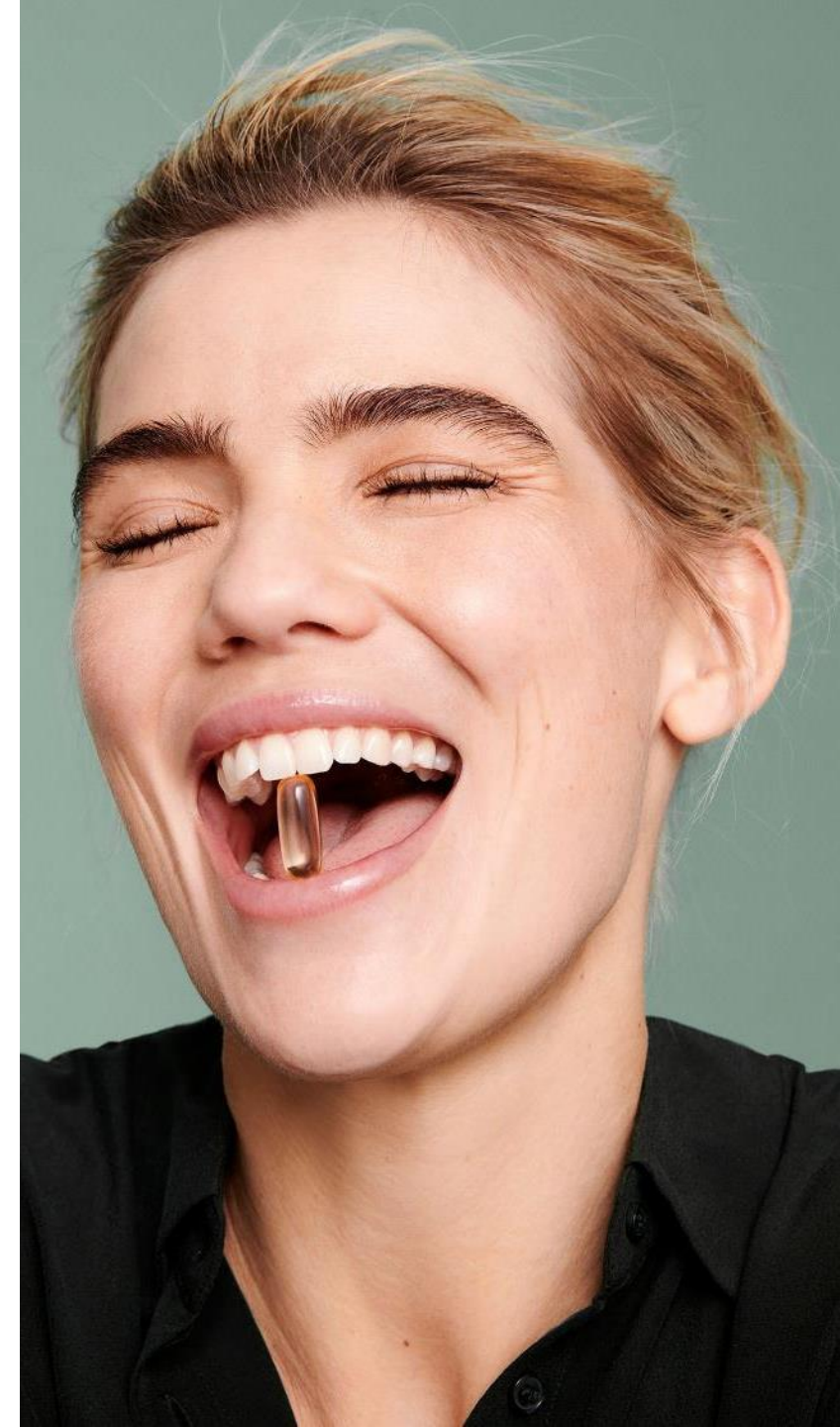
## Health destination building blocks & product focus



**Matas becomes customers' preferred destination  
for Health & Wellbeing shopping**

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\* Currently ~50% customer awareness.



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**Change  
how we  
work**

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# Change how we work: Enabling and funding the transformation

What we have achieved (phase 1) and our focus (phase 2)

## Phase 1: What we have achieved



### Cost Savings

- ✓ DKK 60 m reinvested in growth



### New competencies and culture

- ✓ Digital capability in all functions
- ✓ Increase pace of change
- ✓ Management team renewed



### New e-comm webshop/logistics center

- ✓ Dedicated facility
- ✓ Pick & pack learning curve
- ✓ Peak capacity and growth headroom

## Phase 2: What we aim for

1

### Working capital management

- Reduce inventories

2

### HQ 23: People, tech and process

- Setting the HQ up for the future

3

### Logistics

- Short term process optimisation
- Long term review

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# Financial targets and ambitions

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# Renewing Matas: Ambitions towards 2022/23 unchanged

## Strategic progress, financial ambitions and capital allocation

### Renewing Matas strategy execution on track

- ✓ Phase one: Solid strategic progress and tangible results
- ✓ Phase two: Staying the course and accelerating the transformation

### Capital allocation policy unchanged

- ✓ Gearing target de facto lowered from IFRS 16 effect
- ✓ 2019/20 dividend suspended

### Financial targets and ambitions

- ✓ No short term financial targets for 2020/21 due to corona induced uncertainty
- ✓ 2022/23 financial ambitions intact (after IFRS 16) apart from lower gearing

### Financial ambitions towards 2022/23

- Turnover around DKK 4 bn
- EBITDA margin before special items above 18% after IFRS 16
- Annual CAPEX between DKK 80 and 120 m
- Gearing between 2.5 and 3 (lower gearing than pre-IFRS 16)





Q&A