Company announcement no. 10 2017/18
Allerød, 8 November 2017

Interim report – H1 2017/18

(1 April – 30 September 2017)

Slow revenue growth and weaker earnings performance

"Although we were faced with intensified competition, Matas lifted revenue in the second quarter of 2017/18, thanks partly to growing demand for High-End Beauty products and an increase in basket sizes. However, falling short of Matas's ambitions, our performance in the first half of 2017/18 was unsatisfactory.

Against this background, we are launching a range of measures to strengthen our product offering and boost our performance. For our customers, this means lower prices and better bargains on a large selection of top-line products and more attractive benefits for Club Matas's almost 1.8 million members. At the same time, we will make it easier and quicker for our customers to shop at Matas.dk, which – with about 24,000 products – offers Denmark's largest product range within health, beauty and wellness", said Gregers Wedell-Wedellsborg, CEO.

"To free resources for proactive initiatives, we will carry out a cost reduction programme. Concurrently, we will close down StyleBox as an independent chain and speed up efforts to adjust the retail network. Lastly, based on the changing market conditions, we have launched a process to refocus our strategy based on Matas's fundamental strengths".

Q2 2017/18 highlights

- Q2 2017/18 revenue was up by 0.8% year on year to DKK 778.0 million. Underlying like-for-like revenue growth was also 0.8%.

- Revenue growth was driven by increased sales in all shops-in-shop except the Material shop. Footfall declined in Q2 2017/18, which was reflected in a lower number of transactions, whereas the average basket size grew by 6.6%. Online sales were up by more than 35% over the year-earlier period.

- High-End Beauty sales developed satisfactorily, more than offsetting the negative impact of declining Mass Beauty sales amid a larger number of competing outlets relative to the same period of last year. Mass Beauty sales were also impacted by increased competition from supermarkets. Overall Beauty sales were slightly ahead.

- Q2 2017/18 gross profit came to DKK 344.2 million, taking the gross margin to 44.2%, a 2.7 percentage point decline from 46.9% in Q2 2016/17. The fall was driven by intensified competition from particularly supermarkets and a high proportion of campaign sales across categories.

- Disregarding non-recurring costs of DKK 12.7 million incurred in connection with the change of CEO, total costs were down by DKK 11.8 million relative to the same period of last year. The cost reduction was partly attributable to the cost trimming programme completed towards the end of financial year 2016/17.

- EBITA, stated before exceptional items as per the definition on page 80 of the Annual Report for 2016/17, was DKK 89.0 million for Q2 2017/18. This took the EBITA margin to 11.4% compared with 12.6% for the same period the year before. The margin was driven down by the lower contribution ratio. EBITDA before exceptional items came to DKK 107.5 million, for an EBITDA margin of 13.8%.

- Q2 profit after tax was DKK 40.3 million, and Adjusted profit after tax net of amortisation not related to software and exceptional items was DKK 65.3 million, compared with DKK 54.6 million and DKK 69.4 million, respectively, in Q2 2016/17.

- Cash generated from operations grew to DKK 54.2 million in Q2 2017/18 from DKK 13.1 million in the year-earlier period. The free cash flow was an inflow of DKK 25.3 million against an outflow of DKK 21.8 million in Q1 2016/17, driven by a working capital reduction.

- Gross debt stood at DKK 1,746.3 million at 30 September 2017. Our gross debt target remains DKK 1,600-1,800 million. Net interest-bearing debt was DKK 1,694.0 million at 30 September 2017, equivalent to 2.8 times LTM EBITDA before exceptional items, as compared with 2.8 times at the end of Q2 2016/17.

H1 2017/18 highlights

- H1 2017/18 revenue was DKK 1,598.9 million, a year-on-year decline of 1.3%. Underlying like-for-like revenue was down by 1.1%.

- Gross profit for H1 2017/18 was DKK 723.3 million, equivalent to a gross margin of 45.2%, down from 47.1% in the year-earlier period.

- EBITA for H1 2017/18 came to DKK 208 million, down from DKK 234.4 million in the year-earlier period. Overall, the EBITA margin came to 13.0%, a year-on-year decline of 1.5 percentage points. The margin was driven down by the lower contribution ratio. EBITDA before exceptional items came to DKK 244.0 million, for an EBITDA margin of 15.3%.

- H1 profit after tax was DKK 114.4 million, and Adjusted profit after tax net of amortisation not related to software and exceptional items was DKK 154.3 million, compared with DKK 139.1 million and DKK 168.7 million, respectively, in H1 2016/17.

- The free cash flow grew to DKK 58.6 million in H1 2017/18 from DKK 3.8 million in the same period of last year.

Measures to boost profits

- Against the backdrop of changing market conditions, Matas is launching a range of measures to free resources for new initiatives and to enhance the customer experience and our competitive strength. These measures will include cost reductions, closing down StyleBox as a chain and speeding up efforts to adjust the retail network, primarily in locations with more than one Matas store.

- We will enhance the customer experience by further developing Club Matas, the digital platform and the webshop. We will strengthen our competitive power through proactive commercial initiatives in the form of investments in campaigns, reducing prices and membership benefits.

- In addition, we are intensifying our focus on e-commerce through the appointment of a Director of e-commerce, who will be reporting directly to the CEO.

Outlook

- Falling short of Matas's ambitions, our performance in the first half of 2017/18 was unsatisfactory. In response, Matas has revised its full-year financial guidance, see company announcement no. 9 of 10 October 2017.

- Against this background, Matas has launched a process to refocus its strategy, which will include a revision of its long-term financial targets.

- It remains the Group's policy to distribute surplus capital to shareholders through a combination of dividends of a minimum of 60% of Adjusted profit after tax and share buybacks. No share buybacks will be carried out in 2017/18.

- The intention is to maintain dividend distributions at a level unchanged in DKK terms relative to 2015/16 and 2016/17 (DKK 6.30 per share).

The 2017/18 guidance is unchanged from company announcement no. 9 of 10 October 2017:

- A decline in underlying like-for-like revenue of 0-2% after taking a negative calendar effect into account.
- EBITA before exceptional items of DKK 440-470 million.
- Investments of around DKK 90-100 million (excluding store acquisitions).

EBITA is stated before exceptional items as per the definition on page 80 of the Annual Report for 2016/17. Accordingly, exceptional items related to planned measures to improve the profit performance are not included in the EBITA guidance for 2017/18. Non-recurring costs of DKK 12.7 million incurred in connection with the change of Matas A/S's CEO are included in EBITA guidance.

Conference call

Matas will host a conference call for investors and analysts on 8 November 2017 at 2:00 p.m.
The conference call and presentation can be accessed on our investor website: www.investor.en.matas.dk.

Conference call access numbers for investors and analysts:

DK	+45 38 32 28 69
UK:	+44 (0)20 3427 1910
US:	+1718 971 5768
Event code:	"Matas" or 1067169

Please call 5 minutes before the conference call begins.

Link to webcast: https://edge.media-server.com/m6/p/zca7buar

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Forward-looking statements

This interim report contains statements relating to the future, including statements regarding the Matas Group's future operating results, financial position, cash flows, business strategy and future targets. Such statements are based on management's reasonable expectations and forecasts at the time of release of the interim report. Forward-looking statements are subject to risks and uncertainties and a number of other factors, many of which are beyond the Matas Group's control. This may have the effect that actual results may differ significantly from the expectations expressed in the interim report. Without being exhaustive, such factors include general economic and commercial factors, including market and competitive conditions, supplier issues and financial and regulatory issues.

Key financials

(DKKm)	2017/18 Q2	2016/17 Q2	2017/18 H1	2016/17 H1
Statement of comprehensive income				
Revenue	778.0	771.6	1,598.9	1,619.7
Gross profit	344.2	361.9	723.3	763.0
EBITDA	94.8	113.4	231.3	266.0
EBIT	57.0	78.5	156.9	196.4
Profit before tax	51.7	70.1	146.6	178.4
Profit for the period after tax	40.3	54.6	114.4	139.1
Net exceptional items	12.7	0.0	12.7	0.0
EBITDA before exceptional items	107.5	113.4	244.0	266.0
EBITA	89.0	97.5	208.0	234.4
Adjusted profit after tax	65.3	69.4	154.3	168.7
Statement of financial position				
Total assets			5,305.1	5,316.1
Total equity			2,452.6	2,493.8
Net working capital			(56.2)	3.7
Net interest-bearing debt			1,694.0	1,732.1
Statement of cash flows				
Cash flow from operating activities	48.0	1.6	117.3	78.9
Cash flow from investing activities	(22.7)	(23.4)	(58.7)	(75.1)
Free cash flow	25.3	(21.8)	58.6	3.8
Ratios				
Revenue growth	0.8%	(1.5)%	(1.3)%	0.6%
Like-for-like growth	*0.8%*	*(1.5)%*	*(1.1)%*	*0.8%*
Gross margin	44.2%	46.9%	45.2%	47.1%
EBITDA margin	12.2%	14.7%	14.5%	16.4%
EBITDA margin before exceptional items	13.8%	14.7%	15.3%	16.4%
EBITA margin	*11.4%*	*12.6%*	*13.0%*	*14.5%*
EBIT margin	7.3%	10.2%	9.8%	12.1%
Cash conversion	33.5%	(12.3)%	32.6%	20.3%
Earnings per share, DKK	1.07	1.40	3.04	3.57
Diluted earnings per share, DKK	1.07	1.39	3.03	3.55
Number of shares (millions)	37.6	39.0	37.6	39.0
Diluted number of shares (millions)	37.7	39.2	37.7	39.3
Share price, end of period, DKK			92.0	124.0
Return on invested capital before tax			12.5%	13.3%
Return on invested capital before tax, excluding goodwill			112.4%	107.3%
Net working capital as a percentage of revenue			(1.6)%	0.1%
Investments as a percentage of revenue	2.9%	3.0%	3.7%	4.6%
Net interest-bearing debt/EBITDA before exceptional items			2.8	2.8
Average number of employees	2,155	2,221	2,137	2,180

For definitions of key financials, see page 80 of the 2016/17 Annual Report.

Management's review

Revenue

Revenue in Q2 2017/18

Matas generated total revenue of DKK 778.0 million in Q2 2017/18, a year-on-year increase of 0.8%. Sales from stores operated by the Group in both Q2 2017/18 and Q2 2016/17 were up by 0.8% (underlying like-for-like growth).

Revenue growth was primarily driven by higher High-End Beauty and Vital sales, while sales of seasonal products, primarily within the Material segment, and Mass Beauty sales suffered a setback compared with the year-earlier period. Overall footfall dropped, and the number of transactions declined by 4.2%. Adjusted for stores acquired, the decline was 5.7%. The average basket size grew by 6.6%, which was satisfactory. Online sales were up by more than 35% over the year-earlier period.

Wholesale sales to associated Matas stores etc. declined by DKK 10.6 million relative to the same period of last year, which was reflected in revenue. The decline in wholesale sales was mainly attributable to lower sales to the remaining associated stores, which will be leaving the chain at the end of January 2018. The acquisition of seven stores since Q2 2016/17 also impacted on wholesale sales.

SHOPS-IN-SHOP

Matas is characterised by its wide product range within beauty, personal care, healthcare and problem-solving household products. This broad product range creates a unique one-stop retail value proposition for our customers in the shape of four shops-in-shop.

BEAUTY
Everyday and luxury beauty products and personal care, including cosmetics, fragrances, skincare and hair-care products.

VITAL
Vitamins, minerals, supplements, specialty foods and herbal medicinal products.

MATERIAL
Household and personal care products, including household cleaning and maintenance products, babycare, footcare and sports-related products.

MEDICARE
OTC medicine, nursing products, etc.

REVENUE BY SHOPS-IN-SHOP AND SALES CHANNELS

(DKKm)	2017/18 Q2	2016/17 Q2	Growth	2017/18 H1	2016/17 H1	Growth
Beauty	530.0	518.3	2.3%	1,114.5	1,099.0	1.4%
Vital	106.0	94.8	11.8%	197.2	189.7	4.0%
Material	82.1	89.6	(8.4)%	168.1	186.4	(9.8)%
MediCare	48.1	47.8	0.7%	94.5	95.0	(0.5)%
Other	7.8	6.5	19.7%	14.8	11.6	27.3%
Total own store revenue	**774.0**	**757.0**	**2.2%**	**1,589.1**	**1,581.7**	**0.5%**
Sales to associated stores etc.	4.0	14.6	(72.6)%	9.8	38.0	(74.0)%
Total revenue	**778.0**	**771.6**	**0.8%**	**1,598.9**	**1,619.7**	**(1.3)%**

Note: Product sales from StyleBox are included in Beauty, while sales of services are included in Other.

Overall, the Beauty segment grew revenue by 2.3% over Q2 2016/17. Sales of High-End Beauty products were up by 7.8%, while Mass Beauty sales fell by 2.6%, reflecting customers' growing preference for High-End over Mass Beauty products and a larger number of competing mass beauty outlets compared with the year-earlier period. In addition, the Mass Beauty segment was adversely affected by slowing sales of colour cosmetics and other personal care products in the wake of increased competition from supermarkets.

The Beauty segment's share of total own store revenue was 68.5%, the same level as in Q2 2016/17. The Vital segment reported a revenue increase of 11.8%, driven partly by two major health product campaigns. Affected by sharper competition on a number of core products and a decline in seasonal sales, the Material segment saw revenue drop by 8.4%. The MediCare segment, which offers OTC medicine and nursing products, recorded a slight 0.7% increase in revenue in Q2 2017/18.

Revenue in H1 2017/18

Revenue for H1 2017/18 was DKK 1,598.9 million, a decline of 1.3% from the year-earlier period. The fall was attributable mainly to lower revenue in the Mass Beauty and Material segments and lower sales to associated stores. The High-End Beauty and Vital segments reported fair revenue growth.

Business developments

Club Matas continued to grow its net membership in Q2 2017/18, retaining the position as the largest customer club in Denmark with almost 1.8 million members. We continued our efforts to continually develop and adjust customer programme offers in the second quarter. Customer satisfaction among Club Matas members was 3.73 in Q2 2017/18 on a scale of 1-4 with 1 being very dissatisfied and 4 being very satisfied. Customer satisfaction in the same period of last year was 3.72.

We also continued the work to develop and improve the Club Matas partner programme in the second quarter. The programme currently has 24 external partners after German-based apparel retailer Tchibo joined in the second quarter, providing members with the first opportunity to buy clothes through a Club Matas partner.

SALES CHANNELS

At 30 September 2017, the Matas chain consisted of 286 stores, including a webshop, of which 278 stores and the webshop were owned and operated by Matas at the end of Q2 2017/18.

The remaining seven stores were independently owned stores associated with the chain under a partnership agreement.

During the second quarter of the 2017/18 financial year, Matas merged two stores into one, acquired one associated store and opened one new store. In addition, we negotiated the final details with the owner of another store on taking over this store in the third quarter of 2017/18.

To further enhance the shopping experience, we opened two new stores, in Vejle and Rødovre, in the second quarter of the financial year. These new stores carry a larger selection of products along with new brands, and their layout makes it easier for customers to navigate the stores. The store in Vejle is the result of a merger of two stores in a new, bigger location. The store in Rødovre is new and, spanning almost 750 square metres, is the largest Matas store to date.

NYX, the highly popular cosmetics brand, was launched in another six stores in the second quarter of the financial year. NYX is currently available in 39 stores, and additional roll-out is being planned. The second quarter also saw the launch of Matas Stripes for Blemished Skin targeting teenagers under the slogan “Teen Skin? Clean Skin!”.

Matas A/S took over the associated store in Rønde at 1 September 2017 and the store in Give at 1 October 2017. This completed the process of taking over associated stores, and the remaining associated stores, except the one in Greenland, will be leaving the chain at the end of January 2018.

Costs and operating performance

Costs and operating performance in Q2 2017/18

Gross profit for Q2 2017/18 was DKK 344.2 million, against DKK 361.9 million in Q2 2016/17.

The gross margin for Q2 2017/18 was 44.2%, down from 46.9% in the year-earlier period. The lower gross profit in Q2 2017/18 was attributable to the decline in revenue and the lower gross margin. The gross margin performance reflects growing competition, particularly from supermarkets, which Matas has responded to by adjusting campaign prices and sharpening communications in order to build competitive strength.

Other external costs amounted to DKK 68.5 million, largely unchanged from Q2 2016/17. Other external costs amounted to 8.8% of revenue in Q2 2017/18, down from 8.9% in the year-earlier period.

Staff costs were up by DKK 1.2 million over Q2 2016/17, to DKK 180.9 million. Non-recurring costs of DKK 12.7 million were incurred in connection with the change of CEO at Matas A/S. Adjusted for these non-recurring costs, staff costs declined by DKK 10.8 million. Attributable mainly to tight cost management and the cost trimming programme implemented in 2016/17, which has reduced the number of employees, the underlying cost reduction was only partially offset by general salary increases as of 1 April 2017 and acquisitions of stores and associated staff costs.

Overall, staff costs were up by 0.7%, whereas adjusted for non-recurring costs they were down by 6.0%. Adjusted for non-recurring costs, staff costs amounted to 21.7% of revenue in Q2 2017/18.

Staff costs amounted to 23.3% of revenue in Q2 2017/18, unchanged relative to Q2 2016/17. Staff costs for Q2 2017/18 included DKK 0.1 million related to the company's long-term share-based compensation programme.

Costs

(DKKm)	2017/18 Q2	2016/17 Q2	Growth	2017/18 H1	2016/17 H1	Growth
Other external costs	68.5	68.8	(0.4)%	138.4	146.4	(5.5)%
As a percentage of revenue	8.8%	8.9%		8.7%	9.0%	
Staff costs	180.9	179.7	0.7%	353.6	350.6	0.9%
As a percentage of revenue	23.3%	23.3%		22.1%	21.6%	

EBITDA was DKK 94.8 million in Q2 2017/18, a year-on-year decline of 16.4%. The EBITDA margin was 12.2%, 2.5 percentage points lower than in Q2 2016/17. Adjusted for exceptional items, EBITDA came to DKK 107.5 million, for an EBITDA margin of 13.8%.

EBITA was down by 8.7% to DKK 89.0 million, taking the EBITA margin to 11.4% from 12.6% in Q2 2016/17. The lower EBITA margin was primarily attributable to the weaker contribution ratio. EBIT was DKK 57.0 million in Q2 2017/18.

EBITDA, EBIT AND EBITA

(DKKm)	2017/18 Q2	2016/17 Q2	Growth	2017/18 H1	2016/17 H1	Growth
EBITDA	94.8	113.4	(16.4)%	231.3	266.0	(13.0)%
Amortisation, depreciation and impairment	37.8	34.9		74.4	69.6	
EBIT	57.0	78.5	(27.4)%	156.9	196.4	(20.1)%
Net exceptional items	12.7	0.0		12.7	0.0	
Amortisation of intangible assets	19.3	19.0		38.4	38.0	
EBITA	89.0	97.5	(8.7)%	208.0	234.4	(11.3)%
EBITA margin	11.4%	12.6%		13.0%	14.5%	
EBITDA margin	12.2%	14.7%		14.5%	16.4%	

Costs and operating performance in H1 2017/18

Gross profit for H1 2017/18 was DKK 723.3 million, down DKK 39.7 million on the year-earlier period. The gross margin was 45.2% against 47.1% in H1 2016/17. The fall can be ascribed to increased competition. EBITDA came to DKK 231.3 million, for an EBITDA margin of 14.5%. Adjusted for exceptional items, EBITDA came to DKK 244.0 million, for an EBITDA margin of 15.3%, compared with DKK 266 million and 16.4% for the same period of last year.

Adjusted for non-recurring costs, staff costs amounted to 21.4% of revenue in H1 2017/18, against 21.6% in the year-earlier period.

Measures to boost profits

In response to receding revenue and a declining contribution ratio, Matas has launched a range of measures to free resources for initiatives to enhance the customer experience and support our competitive strength.

In the second half of the financial year, we will step up efforts to strengthen Matas's digital position within health and beauty. We have appointed a Director of e-commerce, who – as a member of the executive team reporting directly to the CEO – will be responsible for strengthening and expanding Matas's online position. In addition, additional resources will be allocated to further developing Club Matas, the digital platform and the webshop, the purpose being to leverage our extensive knowledge of Matas customers and their requirements to further improve our offers and advice.

We will intensify the consolidation of stores, particularly in medium-sized towns. To the extent that stores are merged, moved or closed, a proportion of revenue is expected to follow or to travel to neighbouring Matas stores. The net effect on earnings is expected to be positive from financial year 2018/19.

StyleBox by Matas, which was introduced in June 2013, will be closed down as an independent chain. StyleBox, which offers a range of selectively distributed hair and nailcare products and related treatments as well as selected makeup brands, has failed to deliver the expected results. As the gains from additional expansion of the chain are thought to be limited, the independent stores and the StyleBox shop-in-shop in Esbjerg will close in the second half of the financial year, while the StyleBox shop-in-shop in Rødovre and StyleBox.dk will remain in operation.

Overall, the measures set out above are expected to reduce revenue by DKK 40-50 million in financial year 2018/19.

Lastly, a cost cutting programme has been launched to gradually reduce costs over the coming quarters, mainly by way of savings on non-customer-oriented activities and the implementation of new technology.

On balance, the above-mentioned measures are expected to trigger costs, in the form of exceptional items, in the amount of DKK 15-25 million in financial year 2017/18, excluding any goodwill amortisation, while bolstering EBITA by an expected DKK 30-40 million in financial year 2018/19. A major share of this increase will be reinvested in initiatives to boost growth and competitiveness. Accordingly, only a moderate positive effect is expected on the 2018/19 profit performance.

Refocusing the strategy and revising long-term financial targets

Our current 2020 strategy sets out to empower Matas to offer a customer experience second to none and to further strengthen Matas's online position. This goal remains unchanged. However, the conditions for growing revenue to more than DKK 4 billion in financial year 2020/21 have changed significantly. In light of the weakened performance in the first half of 2017/18, Matas has launched a process to refocus its strategy, which will include a revision of its long-term financial targets.

Financial items

Net financial expenses were down by DKK 3.1 million in Q2 2017/18 to DKK 5.3 million, including a fair value adjustment of an interest rate swap representing income of DKK 2.2 million against DKK 3.8 million in Q2 2016/17. Net interest expenses excluding fair value adjustments were DKK 7.5 million, a year-on-year decline of DKK 4.7 million.

NET FINANCIAL EXPENSES

(DKKm)	2017/18 Q2	2016/17 Q2	2017/18 H1	2016/17 H1
Net interest expenses	5.3	8.4	10.3	18.0
Fair value adjustment of interest rate swap	2.2	3.8	4.8	4.0
Net financial expenses, adjusted for swap	7.5	12.2	15.1	22.0

Profit for the period

The effective tax rate was 22.0% in Q2 2017/18, equivalent to a tax expense of DKK 11.4 million. The profit for the period was DKK 40.3 million after tax, and the Adjusted profit after tax was DKK 65.3 million, a decline of 5.9% from DKK 69.4 million in Q2 2016/17.

Statement of financial position

Total assets amounted to DKK 5,305.1 million at 30 September 2017, compared with DKK 5,316.1 million at 30 September 2016.

Current assets totalled DKK 933.0 million, a year-on-year increase of DKK 19.4 million. Inventories at 30 September 2017 were 5% higher than at 30 September 2016, including a net addition from acquired operations, store openings and closings and a significant increase in the number of SKUs, due partly to the addition of new brands such as MAC. Inventories accounted for 22.5% of LTM revenue at 30 September 2017 as compared with 21.4% at 30 September 2016 and 22.0% at the end of Q1 2017/18.

Reflecting the acquisition of stores and lower sales to the remaining associated stores, trade receivables declined by DKK 11.6 million to DKK 13.7 million. Trade payables increased by DKK 64.7 million as compared with 30 September 2016, reflecting, among other things, higher inventories.

Net working capital excluding deposits stood at minus DKK 56.2 million at 30 September 2017, compared with plus DKK 3.7 million at 30 September 2016. Working capital accounted for minus 1.6% of LTM revenue, as compared with 0.1% last year.

Cash and cash equivalents stood at DKK 52.3 million, up from DKK 34.6 million the year before.

Equity was DKK 2,452.6 million at 30 September 2017, compared with DKK 2,493.8 million at 30 September 2016.

Gross interest-bearing debt stood at DKK 1,746.3 million at 30 September 2017.

Net interest-bearing debt was DKK 1,694.0 million at 30 September 2017, a year-on-year decline of DKK 38.1 million, equalling 2.8 times LTM EBITDA before exceptional items, as compared with 2.8 times at 30 September 2016.

At 30 September 2017, the company's share capital consisted of 38,291,492 shares of DKK 2.50 each, corresponding to a share capital of DKK 95.728.730. Matas currently holds 657,186 treasury shares, of which a portion is held for the purpose of meeting the Group's obligations to deliver shares under its long-term incentive programme.

Statement of cash flows

Cash generated from operations was an inflow of DKK 54.2 million in Q2 2017/18 against an inflow of DKK 13.1 million in Q2 2016/17. The cash flow from operating activities was an inflow of DKK 48.0 million in Q2 2017/18, up from an inflow of DKK 1.6 million in Q2 2016/17.

The free cash flow was an inflow of DKK 25.3 million in Q2 2017/18, up from an outflow of DKK 21.8 million in Q2 2016/17. The increase was driven by a favourable working capital performance due to stabilised trade payables.

Distribution

It is the Group's policy to continue to distribute surplus capital to shareholders through a combination of dividends of a minimum of 60% of Adjusted profit after tax and share buybacks. For 2017/18, the intention is to maintain dividend distributions at a level unchanged in DKK terms relative to 2015/16 and 2016/17 (DKK 6.30 per share). No share buyback programmes will be carried out in 2017/18, as surplus liquidity may instead be used to reduce the Group's debts in an effort to avoid interest rate increases, given that the interest rate on the Group's bank loans is fixed on the basis of the ratio of LTM EBITDA to net interest-bearing debt. The target of a gross debt of DKK 1,600-1,800 million remains unchanged.

Return on invested capital

The return on LTM invested capital before tax was 12.5%, compared with 13.3% a year earlier.

Events after the date of the statement of financial position

The provisional own store sales data for Q2 2017/18 showed a weaker-than-expected sales performance. Against this background, Matas adjusted its full-year financial guidance, see company announcement no. 9 of 10 October 2017.

The footfall decline has continued into the current quarter.

Terje List resigned as CEO of Matas A/S on 31 October 2017 and was replaced by Gregers Wedell-Wedellsborg.

Significant risks

As stated in the 2016/17 Annual Report, no significant operational risks are deemed to exist other than what is normal in the industry. Matas is to some extent exposed to different types of financial risk such as interest rate, liquidity and credit risk. See note 29 to the consolidated financial statements for 2016/17 for additional information on such risk.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management today considered and adopted the interim report of Matas A/S for the period 1 April to 30 September 2017.

The interim report, which has been neither audited nor reviewed by the company's auditors, has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the Group's assets and liabilities and financial position at 30 September 2017 and of the results of the Group's operations and cash flows for the period 1 April to 30 September 2017.

Furthermore, in our opinion, the management's review includes a fair review of the development and performance of the business, the results for the period and of the Group's financial position in general and describes the principal risks and uncertainties that the Group faces.

Allerød, 8 November 2017

Executive Management

Gregers Wedell-Wedellsborg
CEO

Anders T. Skole-Sørensen
CFO

Board of Directors

Lars Vinge Frederiksen
Chairman

Lars Frederiksen
Deputy Chairman

Signe Trock Hilstrøm

Mette Maix

Christian Mariager

Birgitte Nielsen

Additional information

Financial calendar

The financial year covers the period 1 April – 31 March, and the following dates have been fixed for releases etc. in the remainder of the financial year 2017/18:

9 January 2018	Trading Update for the period 1 October 2017 to 31 December 2017
6 February 2018	Interim report for the period 1 April 2017 to 31 December 2017 (9M)
30 May 2018	Annual report 2017/18
28 June 2018	Annual general meeting

Company information

Matas A/S
Rørmosevej 1
DK-3450 Allerød, Denmark

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www.matas.dk
investor.en.matas.dk
Company reg. (CVR) no. 27 52 84 06

Statement of comprehensive income

(DKKm)	2017/18 Q2	2016/17 Q2	2017/18 H1	2016/17 H1
Revenue	778.0	771.6	1,598.9	1,619.7
Cost of goods sold	(433.8)	(409.7)	(875.6)	(856.7)
Gross profit	344.2	361.9	723.3	763.0
Other external costs	(68.5)	(68.8)	(138.4)	(146.4)
Staff costs	(180.9)	(179.7)	(353.6)	(350.6)
Amortisation, depreciation and impairment	(37.8)	(34.9)	(74.4)	(69.6)
EBIT	57.0	78.5	156.9	196.4
Financial income	2.2	3.8	4.8	4.0
Financial expenses	(7.5)	(12.2)	(15.1)	(22.0)
Profit before tax	51.7	70.1	146.6	178.4
Tax on profit for the period	(11.4)	(15.5)	(32.3)	(39.3)
Profit for the period	40.3	54.6	114.4	139.1
Other comprehensive income				
Other comprehensive income after tax	0.0	0.0	0.0	0.0
Total comprehensive income	40.3	54.6	114.4	139.1
Earnings per share				
Earnings per share, DKK	1.07	1.40	3.04	3.57
Diluted earnings per share, DKK	1.07	1.39	3.03	3.55

Statement of cash flows

(DKKm)	2017/18 Q2	2016/17 Q2	2017/18 H1	2016/17 H1
Profit before tax	51.7	70.1	146.6	178.4
Adjustment for non-cash operating items etc.:				
Amortisation, depreciation and impairment	37.8	34.9	74.4	69.6
Other non-cash operating items, net	12.7	6.5	13.3	7.2
Financial income	(2.2)	(3.8)	(4.8)	(4.1)
Financial expenses	7.5	12.2	15.1	22.0
Cash generated from operations before changes in working capital	107.5	119.9	244.6	273.1
Changes in working capital	(53.3)	(106.8)	(113.7)	(173.6)
Cash generated from operations	54.2	13.1	130.9	99.5
Interest received	0.0	0.0	0.0	0.0
Interest paid	(6.2)	(11.5)	(13.6)	(20.6)
Corporation tax paid	0.0	0.0	0.0	0.0
Cash flow from operating activities	48.0	1.6	117.3	78.9
Acquisition of intangible assets	(4.8)	(9.4)	(22.1)	(18.6)
Acquisition of property, plant and equipment	(13.4)	(11.1)	(28.8)	(19.8)
Disposal of other securities and investments	0.0	0.1	0.0	0.1
Acquisition of subsidiaries and operations	(4.6)	(3.0)	(7.9)	(36.8)
Cash flow from investing activities	(22.7)	(23.4)	(58.7)	(75.1)
Free cash flow	25.3	(21.8)	58.6	3.8
Debt raised and settled with credit institutions	43.8	231.8	197.5	271.8
Dividend paid	(237.1)	(245.8)	(237.1)	(245.8)
Purchase and sale of treasury shares	0.0	(29.0)	0.0	(58.5)
Buyback of share option programme	0.0	(6.6)	0.0	(6.6)
Cash flow from financing activities	(193.3)	(49.6)	(39.6)	(39.1)
Net cash flow from operating, investing and financing activities	(168.0)	(71.4)	19.0	(35.3)
Cash and cash equivalents, beginning of period	220.3	106.1	33.3	69.9
Cash and cash equivalents, end of period	52.3	34.6	52.3	34.6

Assets

(DKKm)	**30.09 2017**	**30.09 2016**	**31.03 2017**
NON-CURRENT ASSETS			
Goodwill	3,741.7	3,725.0	3,734.5
Trademarks and trade names	324.9	398.8	361.8
Shares in co-operative property	3.9	3.9	3.9
Other intangible assets	56.2	43.0	49.2
Total intangible assets	4,126.7	4,170.7	4,149.4
Property, plant and equipment			
Land and buildings	90.5	95.3	92.7
Other fixtures and fittings, tools and equipment	78.3	68.5	69.9
Leasehold improvements	12.7	10.1	12.1
Total property, plant and equipment	181.5	173.9	174.7
Deferred tax assets	23.0	19.3	17.7
Deposits	40.2	37.9	39.7
Other securities and investments	0.7	0.7	0.7
Total other non-current assets	63.9	57.9	58.1
Total non-current assets	4,372.1	4,402.5	4,382.2
CURRENT ASSETS			
Inventories	773.4	736.8	693.2
Trade receivables	13.7	25.3	20.7
Corporation tax receivable	66.4	80.3	112.9
Other receivables	10.0	15.4	11.4
Prepayments	17.2	21.2	16.9
Cash and cash equivalents	52.3	34.6	33.3
Total current assets	933.0	913.6	888.4
TOTAL ASSETS	5,305.1	5,316.1	5,270.6

Equity and liabilities

(DKKm)	30.09 2017	30.09 2016	31.03 2017
EQUITY			
Share capital	95.7	98.2	98.2
Share premium	0.0	1,787.3	0.0
Translation reserve	0.3	0.3	0.3
Treasury share reserve	(73.7)	(63.3)	(185.3)
Retained earnings	2,430.3	671.3	2,411.8
Proposed dividend for the financial year	0.0	0.0	247.5
Total equity	2,452.6	2,493.8	2,572.5
LIABILITIES			
Deferred tax	227.4	241.8	236.5
Credit institutions	1,652.5	1,752.9	1,492.0
Other payables, non-current	8.3	18.8	13.1
Total non-current liabilities	1,888.2	2,013.5	1,741.6
Credit institutions, short-term	93.8	13.8	56.3
Prepayments from customers	148.3	145.0	156.5
Trade payables	566.3	501.6	587.9
Other payables	155.9	148.4	155.8
Corporation tax	0.0	0.0	0.0
Total current liabilities	964.3	808.8	956.5
Total liabilities	2,852.5	2,822.3	2,698.1
TOTAL EQUITY AND LIABILITIES	5,305.1	5,316.1	5,270.6

Statement of changes in equity

	Share capital	Translation reserve	Treasury share reserve	Proposed dividend	Retained earnings	Total
Equity at 1 April 2017	**98.2**	**0.3**	**(185.3)**	**247.5**	**2,411.8**	**2,572.5**
Other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the period	0.0	0.0	0.0	0.0	114.4	114.4
Total comprehensive income	**0.0**	**0.0**	**0.0**	**0.0**	**114.4**	**114.4**
Transactions with owners						
Dividend paid	0.0	0.0	0.0	(237.1)	0.0	(237.1)
Dividend on treasury shares	0.0	0.0	0.0	(10.4)	10.4	0.0
Capital reduction	(2.5)	0.0	111.6	0.0	(109.1)	0.0
Share-based payment	0.0	0.0	0.0	0.0	2.8	2.8
Total transactions with owners	**(2.5)**	**0.0**	**111.6**	**(247.5)**	**(95.9)**	**(234.3)**
Equity at 30 September 2017	**95.7**	**0.3**	**(73.7)**	**0.0**	**2,430.3**	**2,452.6**

	Share capital	Share premium	Translation reserve	Treasury share reserve	Proposed dividend	Retained earnings	Total
Equity at 1 April 2016	**100.7**	**1,787.3**	**0.3**	**(137.4)**	**253.8**	**653.6**	**2,658.3**
Other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the period	0.0	0.0	0.0	0.0	0.0	139.1	139.1
Total comprehensive income	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**139.1**	**139.1**
Transactions with owners							
Dividend paid	0.0	0.0	0.0	0.0	(245.8)	0.0	(245.8)
Dividend on treasury shares	0.0	0.0	0.0	0.0	(8.0)	8.0	0.0
Capital reduction	(2.5)	0.0	0.0	130.9	0.0	(128.4)	0.0
Acquisition of treasury shares	0.0	0.0	0.0	(58.5)	0.0	0.0	(58.5)
Exercise of share options	0.0	0.0	0.0	1.8	0.0	(1.7)	0.1
Buyback of share option programmes	0.0	0.0	0.0	0.0	0.0	(6.6)	(6.6)
Share-based payment	0.0	0.0	0.0	0.0	0.0	7.2	7.2
Total transactions with owners	**(2.5)**	**0.0**	**0.0**	**74.2**	**(253.8)**	**(121.5)**	**(303.6)**
Equity at 30 September 2016	**98.2**	**1,787.3**	**0.3**	**(63.2)**	**0.0**	**671.2**	**2,493.8**

Notes to the financial statements

Note 1 – Accounting policies

The interim report is presented in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

Except as stated below, the accounting policies are unchanged from the accounting policies applied in the consolidated financial statements for 2016/17, to which reference is made.

Matas A/S has implemented the standards and interpretations taking effect for 2017/18. None of the new standards and interpretations have significantly affected recognition and measurement.

Note 2 – Accounting estimates and judgments

The preparation of interim financial statements requires management to make accounting judgments and estimates that affect the application of accounting policies and recognised assets, liabilities, income and expenses. Actual results may differ from these estimates.

The critical accounting estimates and judgments applied are consistent with those applied in the consolidated financial statements for 2016/17.

Note 3 – Seasonality

The Group's activities in the interim period were only to a limited extent affected by seasonal or cyclical fluctuations.

Note 4 - Acquisition of subsidiaries and operations

Matas acquired three associated stores in H1 2017/18, one on 1 May 2017, one on 1 June 2017 and one on 1 September 2017. In addition, one store was acquired on 1 October 2017, for which goodwill consideration paid to date amounts to DKK 1.4 million.

The total consideration was DKK 9.6 million, including goodwill of DKK 7.2 million, inventories of DKK 5.3 million and liabilities of DKK 2.9 million.

The acquired associated stores are recognised in revenue for H1 2017/18 at DKK 5.5 million (Q2 2017/18: DKK 3.7 million) and in EBITDA at DKK 0.2 million (Q2 2017/18: DKK 0.1 million).

Consolidated revenue and profit for H1 2017/18, determined on a pro forma basis as if the acquired stores had been acquired at 1 April 2017, amounted to DKK 1,603.5 million (Q2 2017/18: DKK 780.8 million) and DKK 114.9 million (Q2 2017/18: DKK 40.8 million), respectively.

Due to the ongoing settlement of contracts with the sellers, the amounts recognised in relation to the acquisitions are subject to change. No transaction costs were incurred.

Interim financial highlights

(DKKm)	2017/18 Q2	2017/18 Q1	2016/17 Q4	2016/17 Q3	2016/17 Q2
Statement of comprehensive income					
Revenue	778.0	820.9	779.4	1,064.3	771.6
Gross profit	344.2	379.1	361.3	487.5	361.9
EBITDA	94.8	136.5	122.3	231.8	113.4
EBIT	57.0	99.9	83.1	195.6	78.5
Net financial expenses	(5.3)	(5.0)	(12.9)	(7.8)	(8.4)
Profit before tax	51.7	94.9	70.2	187.8	70.1
Profit for the period	40.3	74.0	52.6	147.0	54.6
Statement of financial position					
Total assets	5,305.1	5,490.1	5,270.6	5,454.4	5,316.1
Total equity	2,452.6	2,410.1	2,572.5	2,552.6	2,493.8
Net working capital	(56.2)	(98.0)	(158.0)	(160.5)	3.7
Net interest-bearing debt	1,694.0	1,481.8	1,515.0	1,522.3	1,732.1
Statement of cash flows					
Cash flow from operating activities	48.0	69.3	73.0	330.7	1.6
Cash flow from investing activities	(22.7)	(36.0)	(28.1)	(31.3)	(23.4)
Free cash flow	25.3	33.3	44.9	299.4	(21.8)
Net cash flow from operating, investing and financing activities	(168.0)	187.0	(133.0)	131.7	(71.4)
Key performance indicators					
Number of transactions (in millions)	5.1	5.2	5.0	6.3	5.3
Average basket size (in DKK)	149.8	155.1	149.3	163.6	140.6
Total retail floor space (in thousands of square metres)	53.3	52.6	52.3	51.9	51.5
Avg. revenue per square metre (in DKK thousands) - LTM	64.7	64.7	65.0	65.0	64.8
Like-for-like growth	0.8%	(2.9)%	2.5%	1.3%	(1.5)%
Adjusted figures					
EBITDA	94.8	136.5	122.3	231.8	113.4
Net exceptional items	12.7	0.0	0.0	0.0	0.0
EBITDA before exceptional items	107.5	136.5	122.3	231.8	113.4
Depreciation and amortisation of software	(18.5)	(17.5)	(20.2)	(17.2)	(15.9)
EBITA	89.0	119.0	102.1	214.6	97.5
Adjusted profit after tax	65.3	88.9	67.4	161.8	69.4
Gross margin	44.2%	46.2%	46.4%	45.8%	46.9%
EBITDA margin	12.2%	16.6%	15.7%	21.8%	14.7%
EBITDA margin before exceptional items	13.8%	16.6%	15.7%	21.8%	14.7%
EBIT margin	7.3%	12.2%	10.7%	18.4%	10.2%
EBITA margin	11.4%	14.5%	13.1%	20.2%	12.6%