

# Presentation of Q2 2018 result

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30 August 2018



# HIGHLIGHTS

Q2 2018

1.107.975

EBITDA\* Q2 2018

47,5%

Equity ratio

10,6%

Return on equity

1.076.975

EBITDA Q2 2018

33,2%

EBITDA/Gross profit

3.318.979

Cash and cash equivalents

\*EBITDA, excluding the cost related to the acquisition of Festi hf.





Financials

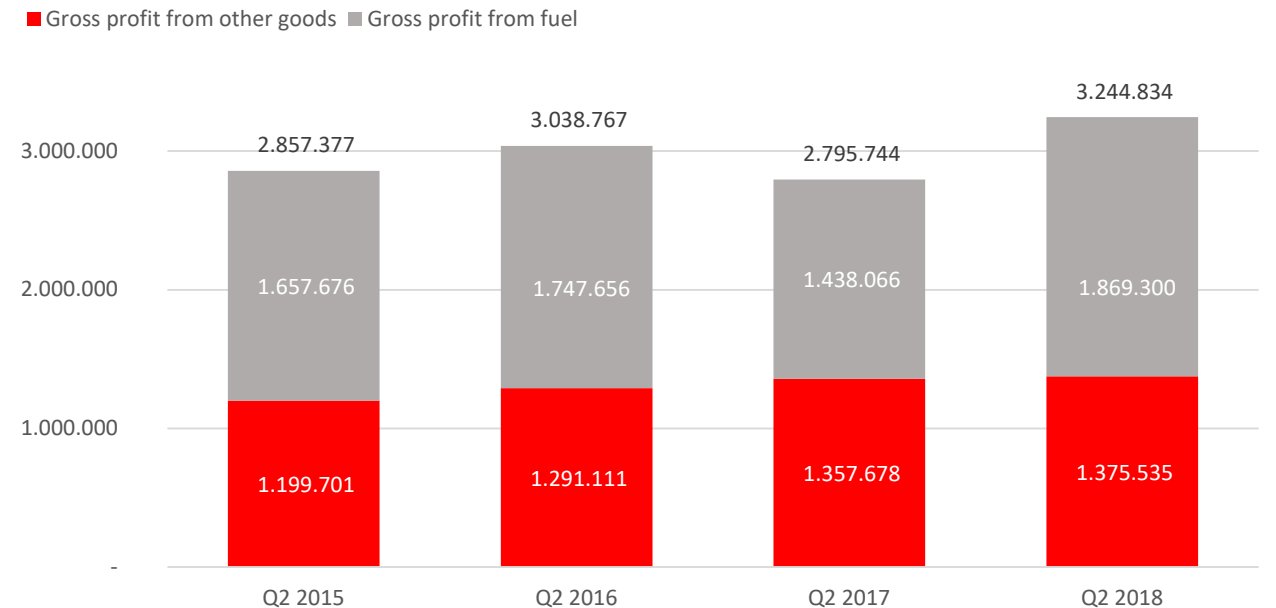
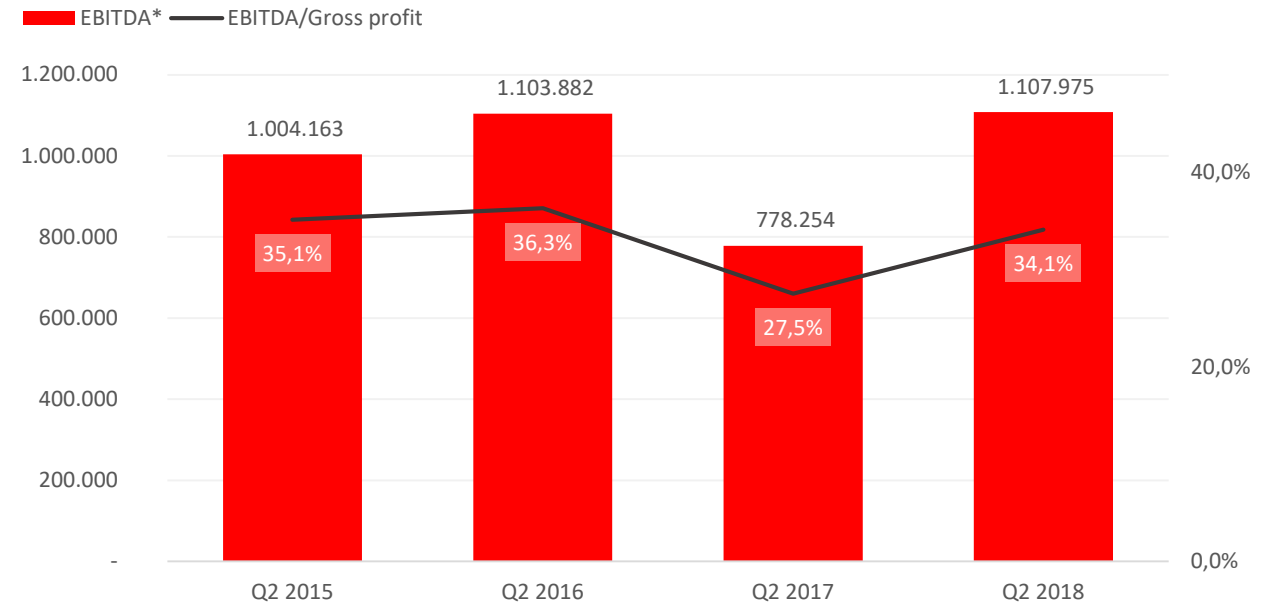


# OPERATIONS IN Q2 2018

## Income statement Q2 2018

Income statement				
Amounts are in ISK thousand	Q2 2018	Q2 2017	Change	% Chg.
Gross profit	3.244.834	2.795.744	449.090	16,1%
Other operating income	123.584	98.732	24.853	25,2%
Salaries and other personnel expenses	-1.237.296	-1.178.497	58.798	5,0%
Sales and distribution expenses	-580.756	-567.463	13.293	2,3%
Other operating expenses	-473.392	-380.261	93.131	24,5%
EBITDA*	1.107.975	778.254	329.721	42,4%
<b>Key Figures</b>				
EBITDA*/Gross profit	34,1%	27,8%	6,3%	22,7%
Salaries/Gross profit	38,1%	42,2%	-4,0%	-9,5%
Earnings per share	2,69	1,76	0,93	52,7%

\*EBITDA, excluding the cost related to the acquisition of Festi hf.

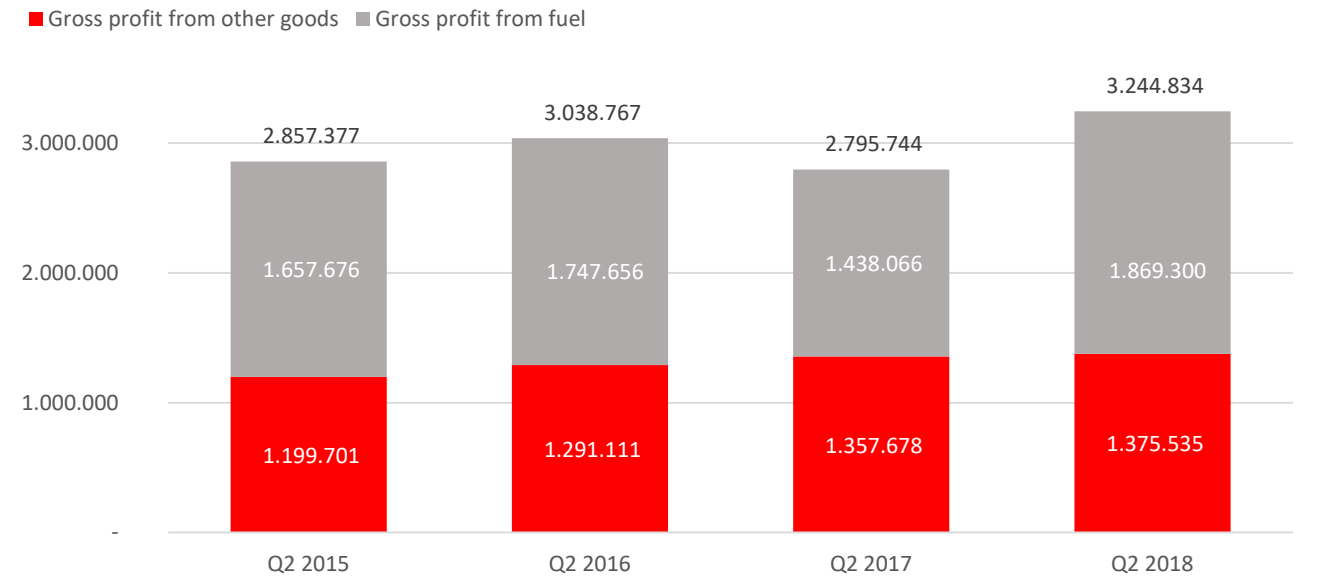
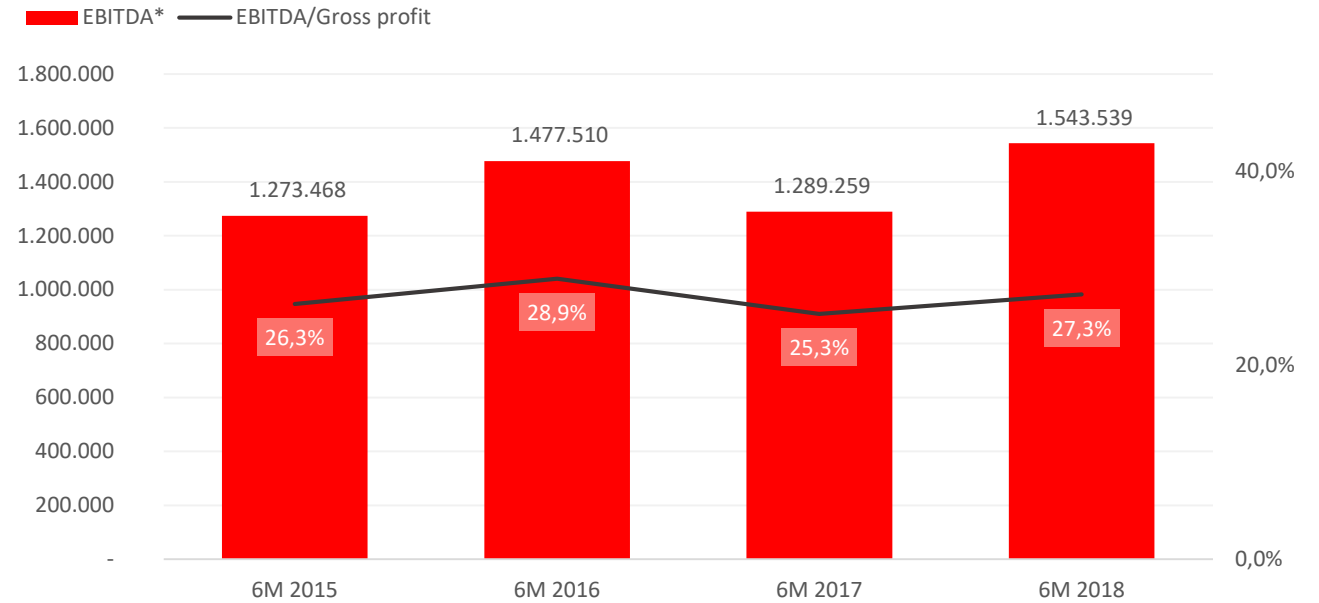


# OPERATIONS IN 6M 2018

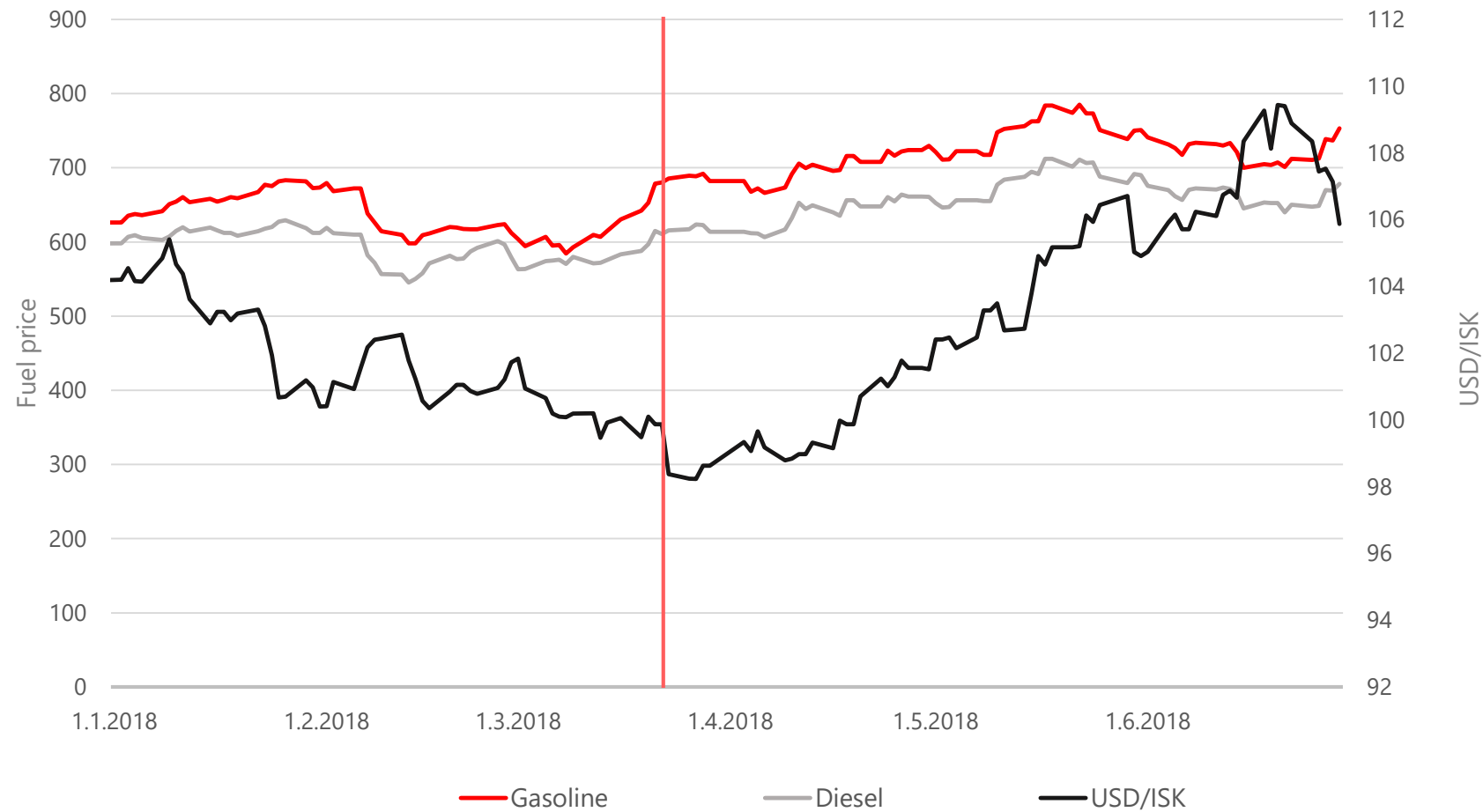
## Income statement 6M 2018

Income statement				
Amounts are in ISK thousand	6M 2018	6M 2017	Change	% Chg.
Gross profit	5.527.118	5.100.987	426.130	8,4%
Other operating income	229.088	201.489	27.599	13,7%
Salaries and other personnel expenses	-2.331.470	-2.243.621	87.849	3,9%
Sales and distribution expenses	-1.048.081	-989.901	58.180	5,9%
Other operating expenses	-899.156	-779.694	119.461	15,3%
EBITDA*	1.543.539	1.289.259	254.279	19,7%
<b>Key Figures</b>				
EBITDA*/Gross profit	27,9%	25,3%	2,7%	10,5%
Salaries/Gross profit	42,2%	44,0%	-1,8%	-4,1%
Earnings per share	2,99	2,66	0,33	12,5%

\*EBITDA, excluding the cost related to the acquisition of Festi hf.

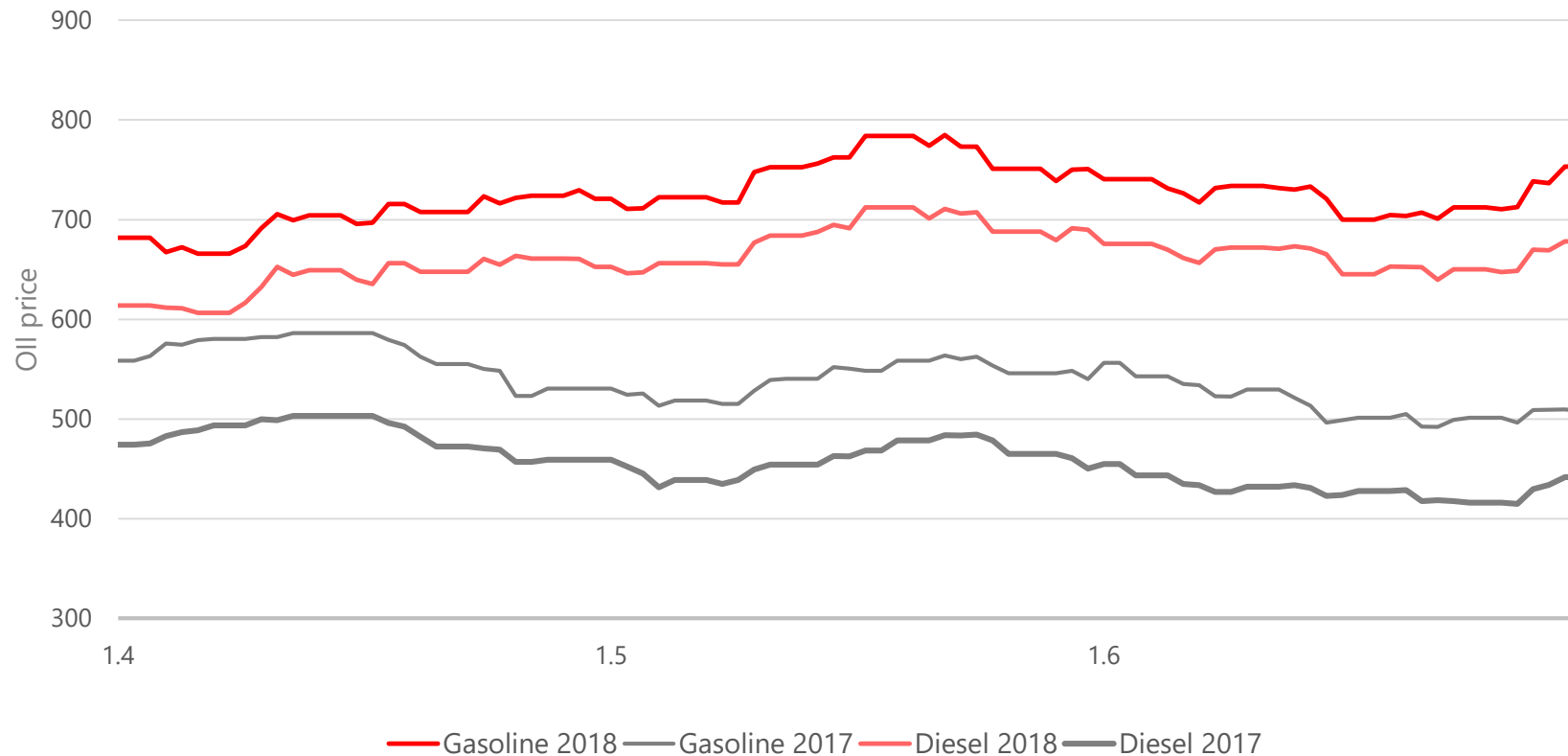


# FUEL PRICE AND USD/ISK EXCHANGE RATE DEVELOPMENT Q1&Q2 2018



Source : Seðlabanki Íslands og Platt's

# FUEL PRICE DEVELOPMENT Q2 2017 / Q2 2018



## Development in Q2 2018:

- Gasoline price increases by 10.4%. Difference of lowest and highest price 17.9%
- Diesel price increases by 10.5%. Difference between lowest and highest price 17.4%
- USD weakens by 6.6% against ISK. Difference between lowest and highest exchange rate 10.8%.

## Development in Q2 2017:

- Gasoline price decreases by 9.8%. Difference of lowest and highest price 16.1%
- Diesel price decreases by 7.0%. Difference between lowest and highest price 17.5%
- USD weakens by 10.4% against ISK. Difference between lowest and highest exchange rate 16.2%.

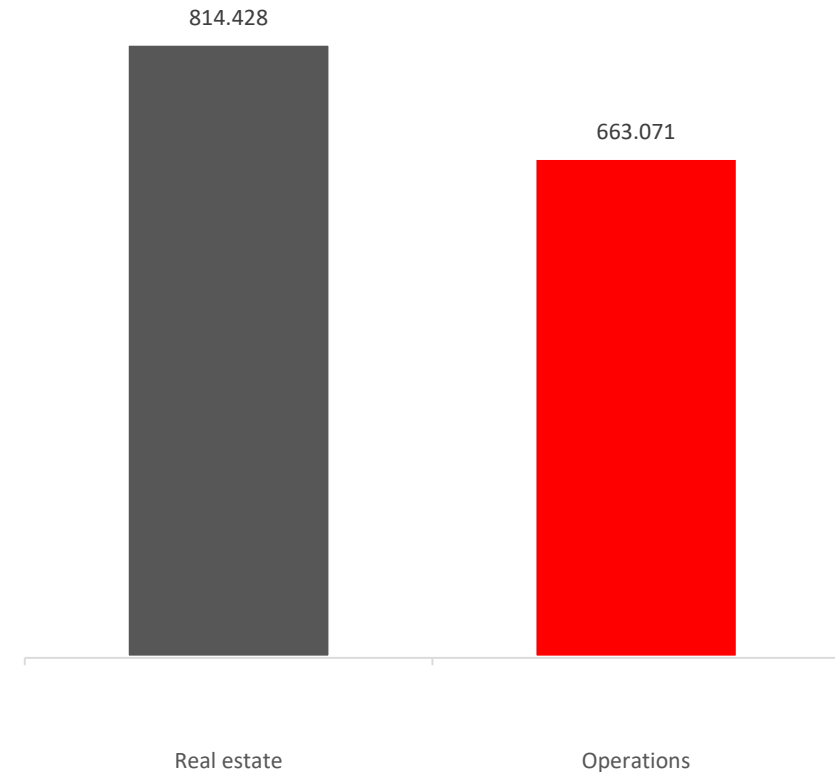
# OPERATING SEGMENTS

## First quarter 2018

Amounts are in ISK thousand	Real estate	Operations	Inter-segment revenue	Total
Operating revenue		18.914.736		18.914.736
Other revenue	1.028.762	229.088	-1.028.762	229.088
Total segment revenue	1.028.762	19.143.824	-1.028.762	19.143.824
Total operating expenses of segments	-214.335	-18.480.753	1.028.762	-17.666.325
Segment EBITDA	814.428	663.071	0	1.477.499
Segment depreciation and amortisation	-295.686	-206.551		-502.237
Effect of associates		58.660		58.660
Operating result of segments	518.742	515.180	0	1.033.921
Segment assets	14.865.300	12.453.827		27.319.127
Unallocated assets				3.318.979
Total assets				30.638.106

## Segment EBITDA

■ Real estate ■ Operations



N1 own 72 real estates and total square meters of 40,207 m2

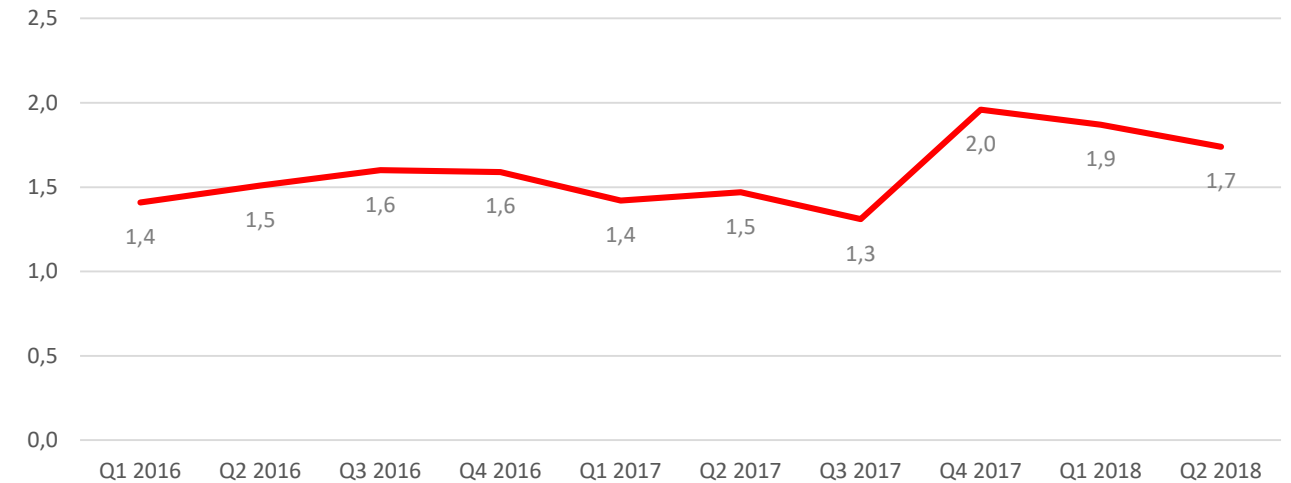


# STATEMENT OF FINANCIAL POSITION

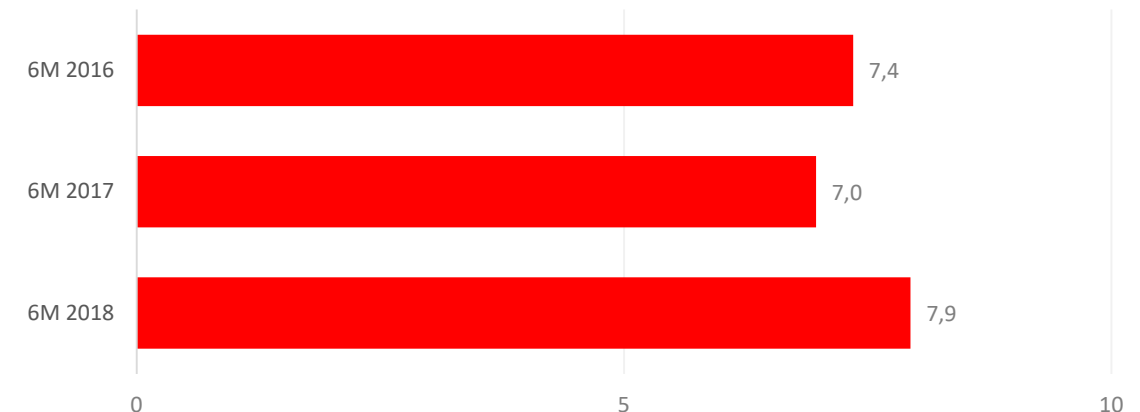
Assets at the end of the period

Statement of Financial Position (Assets)				
Amounts are in ISK thousand	Q2 2018	Q2 2017	Change	% Chg.
Intangible assets	196.368	231.965	-35.596	-15,3%
Property and equipment	16.886.958	15.689.973	1.196.985	7,6%
Shares in associates and other companies	1.907.687	1.708.800	198.887	11,6%
Bonds	118.396	31.790	86.606	272,4%
<b>Non-current assets</b>	<b>19.109.408</b>	<b>17.662.527</b>	<b>1.446.881</b>	<b>8,2%</b>
Inventories	4.027.628	3.166.299	861.329	27,2%
Trade receivables	3.760.622	3.242.427	518.194	16,0%
Receivable from related parties	70.348	48.176	22.172	46,0%
Other short-term receivables	351.121	335.335	15.786	4,7%
Cash and cash equivalents	3.318.979	2.394.175	924.804	38,6%
<b>Current assets</b>	<b>11.528.698</b>	<b>9.186.412</b>	<b>2.342.286</b>	<b>25,5%</b>
<b>Total assets</b>	<b>30.638.106</b>	<b>26.848.939</b>	<b>3.789.167</b>	<b>14,1%</b>

Current ratio



Inventory turnover



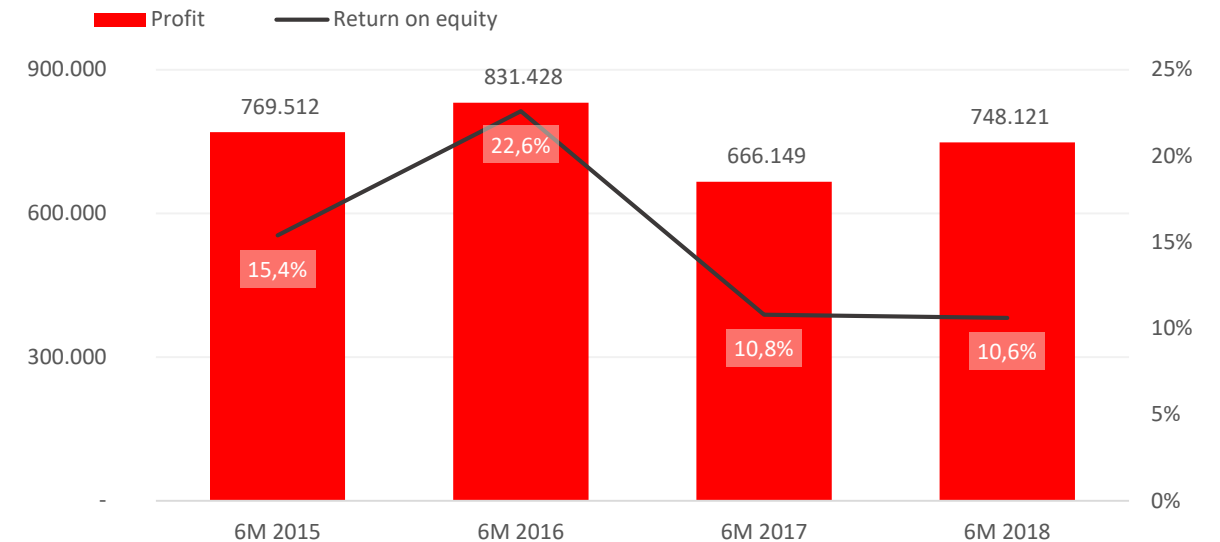
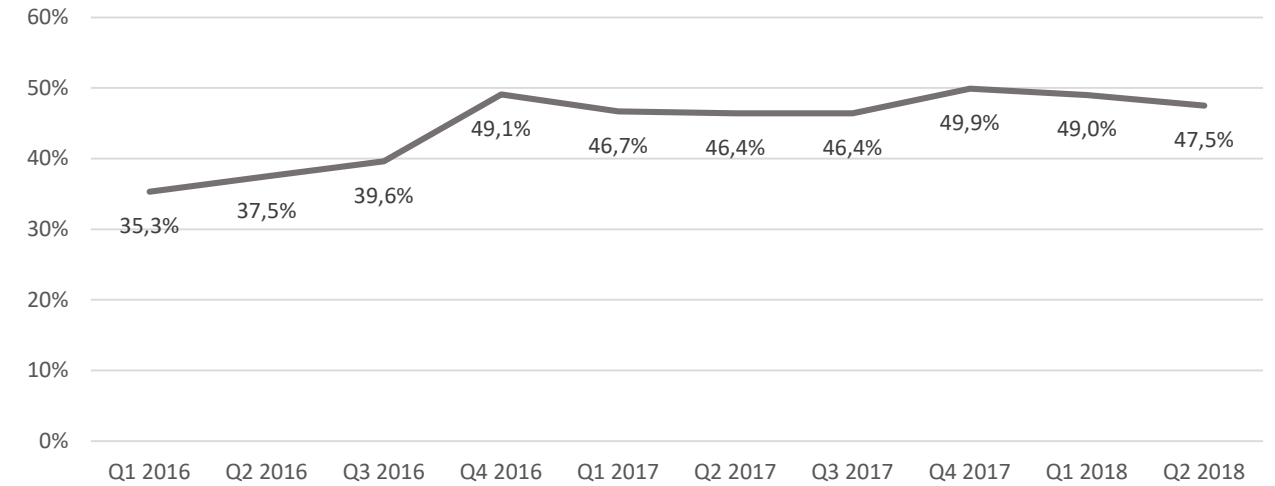
\*Inventory turnover is calculated as cost of goods sold divided by the average carrying amount of inventory as disclosed in published financial statements.

# STATEMENT OF FINANCIAL POSITION

Equity and liabilities at the end of the period

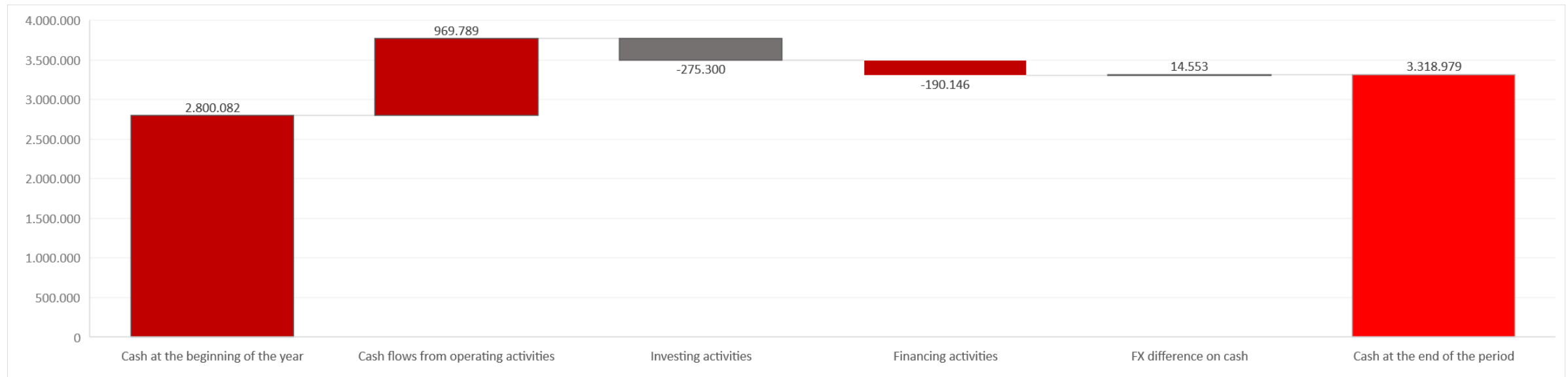
Statement of Financial position (equity and liabilities)				
Amounts are in ISK thousand	6M 2018	6M 2017	Change	% Chg.
<b>Equity</b>	14.554.080	12.471.169	2.082.911	16,7%
Payable to credit institutions	8.000.000	6.500.000	1.500.000	23,1%
Deferred tax liabilities	1.447.799	1.476.733	-28.934	-2,0%
Deferred income	0	135.950	-135.950	-100,0%
<b>Non-current liabilities</b>	9.447.799	8.112.683	1.335.116	16,5%
Current tax	405.546	482.543	-76.997	-16,0%
Payable to the Icelandic State	2.927.500	2.934.611	-7.111	-0,2%
Payable to credit institutions	1.100.000	600.000	500.000	0,0%
Trade payables	1.211.092	1.174.429	36.664	3,1%
Payable to related parties	249.416	203.147	46.269	22,8%
Deferred income	177.545	224.747	-47.202	-21,0%
Other short-term liabilities	565.128	645.611	-80.483	-12,5%
<b>Current liabilities</b>	6.636.227	6.265.088	371.139	5,9%
<b>Total equity and liabilities</b>	30.638.106	26.848.939	3.789.166	14,1%

Equity ratio



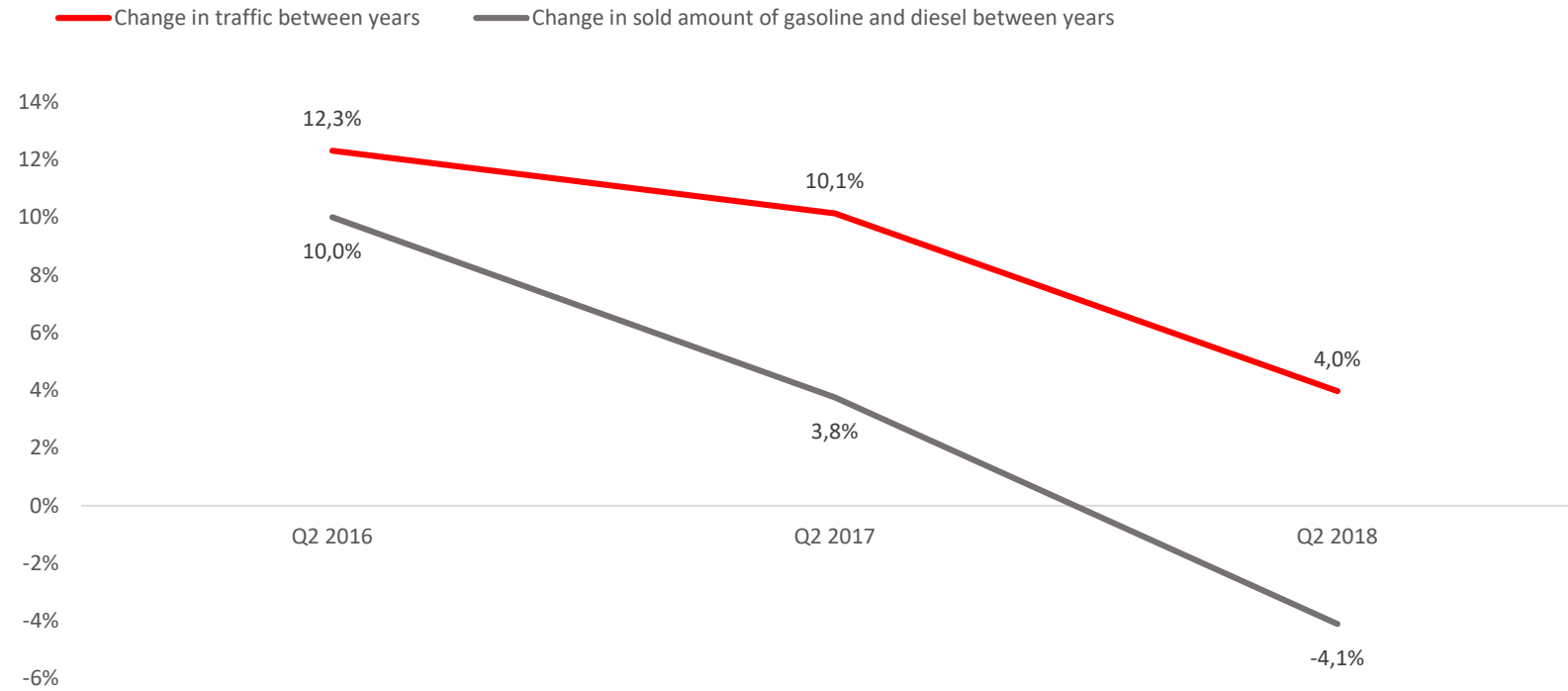
# STATEMENT OF CASH FLOWS

Amounts are in ISK thousand	6M 2018	6M 2017	Change	% Chg.
Cash at the beginning of the year	2.800.082	2.266.435	533.647	23,5%
Cash flows from operating activities	969.789	1.229.186	-259.397	-21,1%
Investing activities	-275.300	-173.235	-102.064	58,9%
Financing activities	-190.146	-941.221	751.076	-79,8%
FX difference on cash	14.553	13.010	1.543	11,9%
Cash at the end of the period	3.318.979	2.394.175	924.804	38,6%





# TRAFFIC DEVELOPMENT AND SALE OF GASOLINE



# SHARE PRICE DEVELOPMENT



## Shareholders (10 largest)

Lífeyrissjóður verslunarmanna	13,3%
Lífeyrissjóður starfsmanna ríkisins A-division & B-division	11,6%
Gildi - lífeyrissjóður	9,3%
Lansdowne Ícav Lansdowne Euro	8,1%
Birta lífeyrissjóður	6,3%
Global macro funds	5,0%
Almenni lífeyrissjóðurinn	4,6%
Wellington	4,5%
Landsbréf	3,5%
Íslenski lífeyrissj-Lífsbraut	2,8%

## Market information

Issued shares	250 M
Market cap at the end of June 2018	ISK 27.750 M
Market cap at the end of June 2017	ISK 29.750 M
Number of shareholders	990
Annual return from registration	31,4%
Annual return from 2015	36,8%



Position and outlook



# POSITION AND OUTLOOK

## Financial forecast for the year 2018

- Estimation of EBITDA for the year 2018 is increased by ISK 100 million, estimated to be in the range of ISK 3,600 to 3,800 million, excluding expenses related to the acquisition of Festi hf.
- According to budget for the financial year ending on 28 February 2019 total turnover of Festi is assumed to be ISK 43,000 million and EBITDA to be ISK 3,350 million

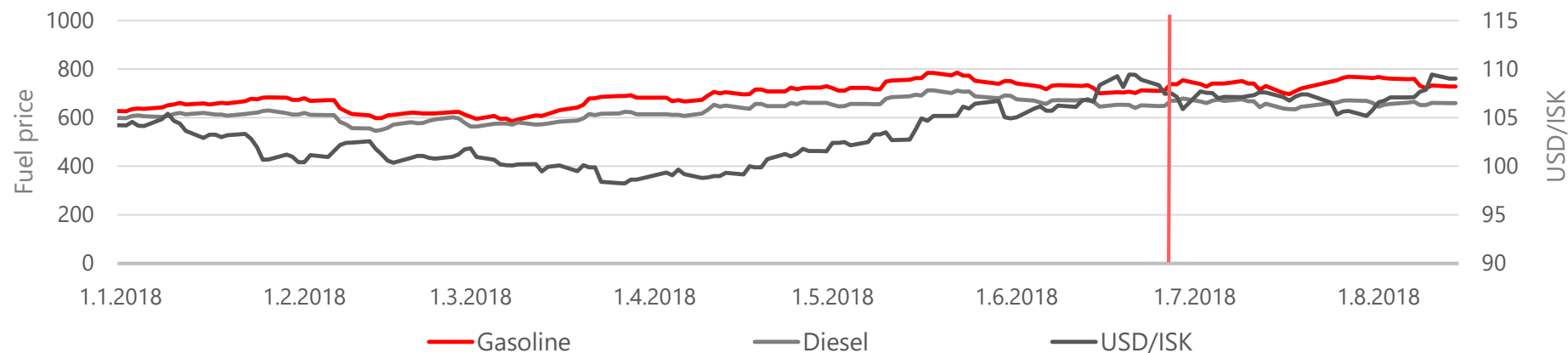
## Assumptions:

- Slower increase in number of foreign tourists in 2018 compared to 2017
- Increase in domestic operational expenses
- Exchange rate USD/ISK close to 107
- Turmoil in oil markets and exchange rate of ISK will cause fluctuations in gross profit and working capital position

## Investments

- Annual investments of approximately ISK 800 million
- Investments in service stations to continue
- Investments in tanks and gas pumps
- Investments related to car service operations

## Fuel price development 2018





## N1's ACQUISITION OF FESTI

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# FESTI IN A NUTSHELL

- Festi is a robust group which specializes in managing retail businesses
- Strong image and market position
- The company operates 27 stores
- Festi owns 18 properties which are either leased to the company's stores or third parties.
- The company owns and operates Bakkinn warehouse hotel
- Strong brands in foods, retail and warehousing



29

Number of stores

38.057.100\*

Total assets

39.976.125\*

Group turnover

623

Number of employees

70.800 m2

Real estate owned

14.969.911\*

Equity

\*Financial year ending 28.02.2018



# FESTI – RETAIL BUSINESS



Krónan operates 23 stores:

- 19 under Krónan brand
- 2 under Kr. brand
- 2 under Kjarval brand (the plan is to change to Kr.)



1 Nóatún store in Austurver in Reykjavík



5 stores and thereof one online store. Elko works under franchise from Elkjöp A/S



Bakkinn warehouse hotel specializes in warehousing, packaging, labelling, dispatching and distribution of goods.



# FESTI – REAL ESTATE BUSINESS

18

Number of properties

1.090.441

EBITDA estate business 01.03.17-28.02.18

70.800 m<sup>2</sup>

Size

60% (within group) - 40% (from third parties)

Lease income

76

Number of leased spaces

97,7%

Leasing ratio



# N1's ACQUISITION OF FESTI

- On 30 July 2018 the Icelandic Competition Authority (ICA) approved N1's acquisition subject certain conditions in a settlement agreement of N1 and ICA
- The objective of the settlement and ICA's main conditions related to the acquisition are as follows:
  - New resellers are to get improved access to wholesale of liquid fuel.
  - Better access to the service of Olíudreifing ehf.
  - Sale of five self-service stations to new and independent parties in the fuel market. More specifically, three self-service fuel stations currently operated under the brand name of Dælan, located at Fellsmúli and Staldrið in Reykjavík, the station at Hæðarsmári 8 in Kópavogur, and two stations operated under the brand name of N1, i.e. those at Salavegur in Kópavogur and Vatnagarðar in Reykjavík.
  - Sale of the grocery store of Kjarval located at Hella.

# ACQUISITION PRICE

- Acquisition price of all share capital of Festi is ISK.m 23.707 basen on 28. Februar 2018
- N1 issues 79,573,913 shares to shareholders of Festi. In the final purchase agreement it is assumed that the shares are issued at a price of 115 ISK per share or 9,151 ISK.m and on the other hand cash payment of 14.556 ISK.m
- Net interest bearing liabilities of Festi 28 February ISK.m 14.332
- Since the purchase price calculations were based on the date of 28 February 2018, but the final settlement is estimated to be on 31 August 2018, interest in the amount of ISK 480 million is paid for this period.
- Following the transaction the former shareholders of Festi will own 24.1% of all shares in N1. Half of those new shares are subject to lock-up provisions, as sale of them is prohibited to year-end 2018.



# REFINANCING

- As a part of the acquisition of Festi N1 has reached an agreement for refinancing of all of the Group's long-term debt
- Following the refinancing the long-term debt of the Group will be ISK 33,700 million of which ISK 22,500 million will be inflation-indexed
- They consist of four loans with a maturity of 7-25 years, the weighted average loan-term being 17 years, with a floating rate of interest.
- All of the loans are prepayable during the loan term and either interest payment loans or loans with equal amortisation of principal.
- The Company will have two lines of credit for inventory-financing. A loan to the maximum amount of USD 25 million and or a loan to the maximum amount of ISK 3,000 million. The maximum loan facility will be three years. Interest rates will be variable and the loans prepayable at any time.

# COMBINED ENTITY– PRO FORMA OPERATIONS

## Pro forma Income statement (ISK.m)

	N1 hf. Consolidated	Festi hf. Consolidated	Pro forma Consolidated
Amount are in ISK thousand			
Sales	34.608	40.656	75.264
Gross profit	11.340	8.741	20.081
Other operating income	442	1.120	1.562
Other operating expenses	-8.247	-6.534	-14.781
EBITDA	3.535	3.327	6.862
<i>EBITDA/gross profit</i>	31%	38%	34%

## Pro forma Income and balance sheet

- Assuming that the acquisition had taken place at 1 January 2017 instead of 1 September 2018.
- Combined pro forma income statement presented as if the acquisition had taken place at 1 January 2017.

# COMBINED ENTITY– PRO FORMA BALANCE SHEET

Pro forma balance sheet (ISK.m)

Amount are in ISK thousand	Pro forma consolidated balance sheet N1 hf. og Festi hf. 31.12.2017
Property and equipment	31.355
Investment property	8.175
Goodwill and other intangible assets	18.596
Other non-current assets	2.001
Current assets	12.506
<b>Total assets</b>	<b>72.634</b>
<b>Total equity</b>	<b>22.962</b>
<i>Equity ratio</i>	32%
Total Non-current liabilities	39.115
Total current liabilities	10.557
<b>Total equity and liabilities</b>	<b>72.634</b>

## Preliminary purchase price allocation

- ISK 2,479 million increase of property and equipment
- ISK 358 million decrease in investment Properties
- ISK 7,335 million allocated to goodwill and other intangible assets.

## Final purchase price and purchase price allocation on 1 September 2018

- The value of the portion of the purchase price paid by means of issue of new shares in N1 is to be based on the market value of shares at the acquisition date.
- Festi's equity as at 31 August 2018 will have an effect on the calculation of the excess of purchase price over acquired assets and liabilities.

## THE VISION FOR THE COMBINED BUSINESS

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“To be recognised as the first choice for retail and fuel customers in Iceland, with a reputation for quality, choice and exceptional service”

# RATIONALE FOR THE TRANSACTION

## Background

The fuel market is changing, primarily driven by the move towards more environmentally friendly alternatives and the response by the automotive industry to provide options for car users

## Objectives

The acquisition of the Festi businesses and integration with the N1 group will support overall diversification and increase the focus of the group on retail which, when combined with the N1 fuel business will create strong growth opportunities

## Strategic Rationale

1. Increase efficiency of the business through greater scale
  - Enables the combined business to improve procurement efficiency (best pricing and economies of scale)
  - Centralisation of back office functions and IT systems
  - Combining our expertise and focus on service quality to increase our market share

2. Increased retail focus
  - Utilise Krónan expertise to optimise our combined retail offer
  - Leverage our combined scale and knowledge to provide a high quality offer to our customers
3. Increase shareholder value
  - Deliver higher returns to investors by utilising the strengths of the combined group



# RATIONALE FOR THE TRANSACTION

## 4. Smart use of locations

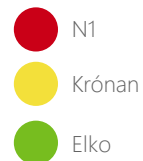
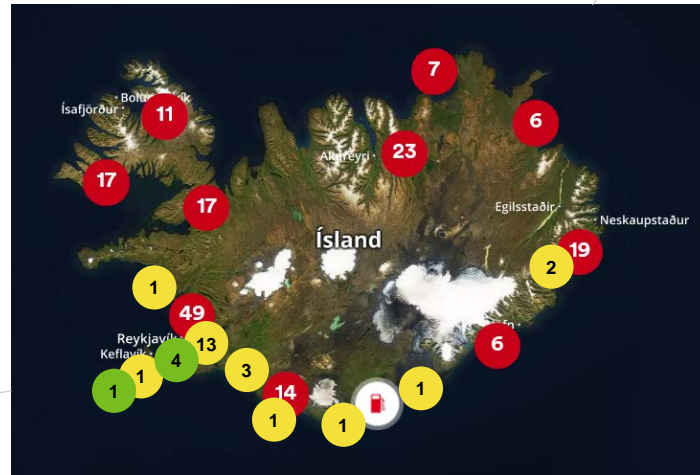
- Utilise our geographic locations to look for growth or efficiency opportunities

### North / North West

- Explore the opportunity to establish Krónan stores (express stores) at key N1 locations, providing better choice and affordability for more remote communities
- Look for any additional opportunities to open Elko stores. e.g. Akureyri

### Reykjavik area

- Utilise key Krónan locations to establish self-service petrol stations
- Release some central N1 sites and optimise their property development opportunity



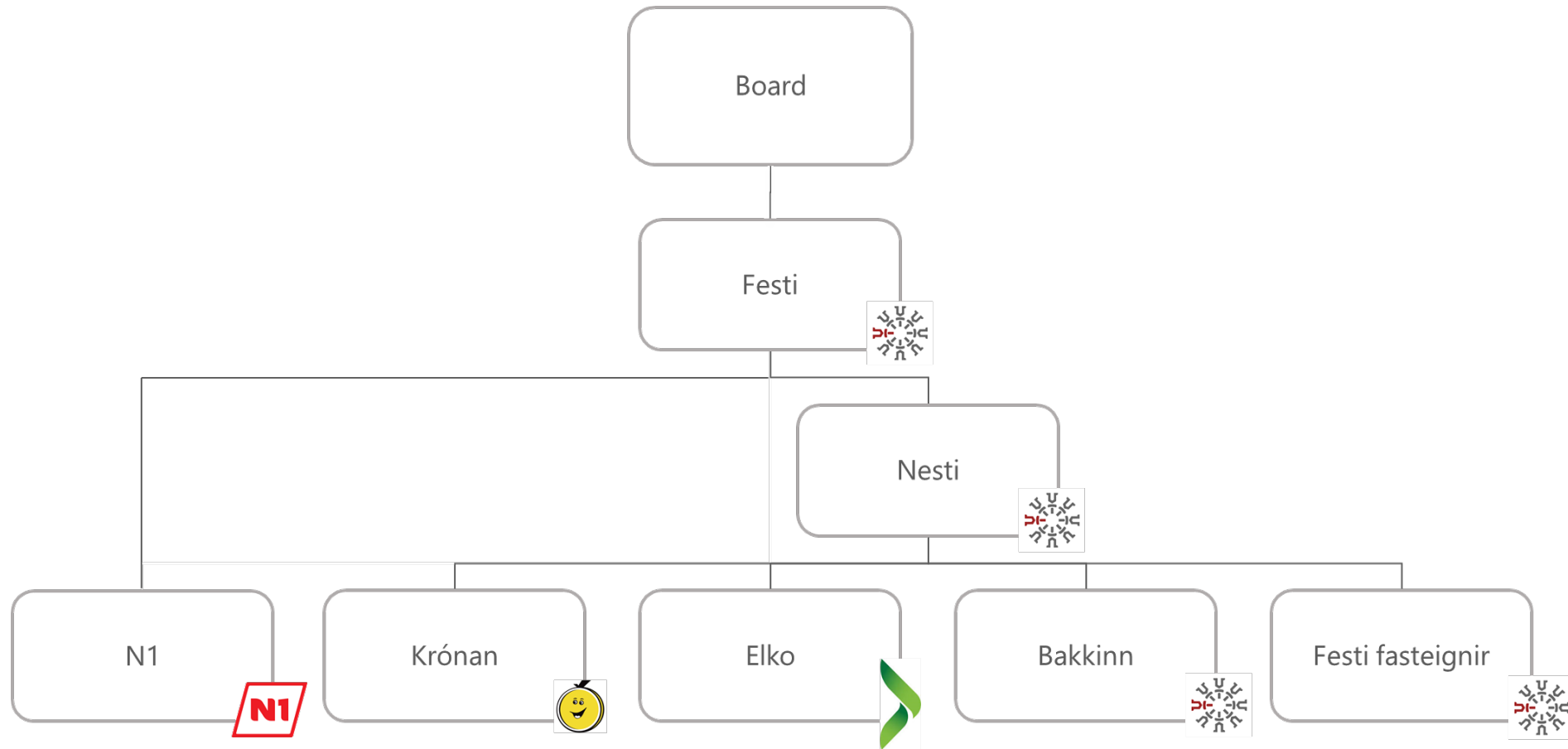
### Icelandic Route

- Explore the opportunity to establish express stores at strategic N1 locations on the tourist route (East and South)

### Logistics and warehousing

- Optimise existing logistics and warehousing to support the changed use of a number of locations

# ORGANIZATION CHART FOR THE COMBINED BUSINESS



## NEXT STEPS

- Shareholders' meeting in N1 will be held on 25 September and new Board appointed
- Unchanged operations in the short term.
- A new operational company established in which N1's operations will be conducted.
- Merger of headquarters
- Revenue and expense synergy realised



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