

Clas Ohlson year-end report 2018/19

Fourth quarter – 1 February to 30 April 2019

- Sales increased 4% to 1,742 MSEK (1,683), organic sales up 2% and unchanged in comparable units
- Online sales increased 33%
- Operating loss, including non-recurring costs, costs linked to the CO100+ action programme and the closure of the store network in the UK and Germany totalled -77 MSEK (-106)
- Underlying operating loss amounted to -52 MSEK (-61)
- Loss after tax totalled -62 MSEK (-86)
- Earnings per share amounted to -0.98 SEK (-1.36)

Financial year – 1 May 2018 till 30 April 2019

- Sales increased 7% to 8,772 MSEK (8,211), organic sales up 4% and up 1% in comparable units
- Online sales increased 47%
- Operating profit, including non-recurring costs, costs linked to the CO100+ action programme, implementation of the sCORE business system and the closure of the store network in the UK and Germany totalled 94 MSEK (468)
- A non-recurring cost of 210 MSEK was charged to earnings as a result of the closure of the store network in the UK and Germany. The closure is expected to generate a positive earnings effect of approximately 75 MSEK per year, with full effect expected after the second quarter 2019/20
- Underlying operating profit amounted to 497 MSEK (538)
- Profit after tax totalled 72 MSEK (358)
- Earnings per share amounted to 1.13 SEK (5.66)
- The proposed dividend is 6.25 SEK per share (6.25), which will be distributed as two separate payments of 3,125 SEK

Events after the end of the reporting period

- In May, sales increased 6 per cent to 641 MSEK (604)

CEO's comment

We are pursuing our strategic plan for long-term profitable growth

First stage of CO100+ action programme completed

The structural change in the Nordic retail sector is continuing and all growth in sales of consumer durables is now online. At the same time, it is important to bear in mind that the majority of retail sales is still through physical stores. Clas Ohlson is meeting this trend with a continued high pace of implementation of the strategic growth and cost initiatives of its CO100+ action programme.

Our strengthened online shopping platform with an expanded online capacity was specially prioritized with the aim of meeting online growth and reaching our important milestone of doubling online sales every second year. In the fourth quarter, online sales increased 33 per cent compared with the year-earlier period, and full-year growth was 47 per cent. In 2018/19, Clas Ohlson's stores accounted for around 95 per cent of our total sales, and it is pleasing to report that the stores also posted higher sales on an annual basis. This confirms the strength of the store network and affirms my view that the stores play a key, but different, role in an increasingly digitalised customer experience. We posted organic growth of 2 per cent for the quarter and 4 per cent for the full-year.

During the quarter, the gross margin strengthened to 38.2 per cent (36.7). This confirms the increasing efficacy of our campaigns and that the ongoing optimisation of our assortment is delivering results in terms of sales per square metre. We also reported an improved operating profit in the fourth quarter, both underlying and total. The operating margin for the full-year amounted to 3.5 per cent excluding costs for the closure of the store network in the UK and Germany. The underlying operating margin of 5.7 per cent was also in line with what was previously communicated. The results should take into account that, in accordance with our plan, we invested around 2 per cent, corresponding to approximately 180 MSEK, of the operating margin in our strategic initiative.

High level of activity in growth and cost initiatives

Clas Ohlson is continuing efforts to strengthen its service levels, availability and convenience, with the overall aim of creating a more unique customer offering and thereby increasing sales per customer. Clas Fix it, which was launched in November 2018, is sought after and popular among customers. We are continuing to evaluate and fine tune this service offering in parallel with planning the roll-out of the service to more geographic areas.

During the quarter, we also decided to phase out and replace single-use plastic items in the range during 2019. The initiative is part of our long-term sustainability agenda, whereby products with a negative environmental impact are being continuously phased out.

Focus on cost savings

Given rapidly changing customer requirements and increasing competition, we have taken a number of tough decisions as part of the implementation of CO100+ that have impacted our employees. Creating a more efficient organisation was one of the previously communicated key areas for cost reductions in the CO100+ action programme, and a total of 150–200 roles will be affected. The first redundancies were made during the quarter. Approximately 65 roles have so far been affected at Clas Ohlson's various offices and at the Insjön distribution centre. The measures are necessary for creating a more efficient organisation with the right skills mix and the prerequisites to leverage the opportunities gained from digitalisation, data-driven decision making and automation.

Closure of the store network in the UK and Germany is proceeding according to plan. At the end of the quarter, we had closed all of the German stores and the closure of UK stores was continuing in line with the agreements with the property owners. The discontinuation costs were charged to the 2018/19 financial year and once the process has been completed, we estimate a positive annual earnings impact of around 75 MSEK, with full effect from the second half of 2019/20.

Optimising our store network remains a priority. Actions include testing a new store format to increase relevance based on customer demand and thereby sales growth. We are also addressing a structural problem that affects the entire sector, namely rental terms. At the same time as the retail sector is undergoing globalisation with increased competition, we have noted that the cost per square metre for retail premises has not been adjusted and that property owners are thus unaffected by the change in market conditions. This key issue must be resolved by the retail sector and property owners together. In line with the above, we have initiated a major review of all our rental agreements in the Nordic region with the aim of ensuring that the terms and conditions better match retail conditions today and in the future. This is also necessary from a wider perspective – to ensure vibrant city centres and shopping centres moving forward.

A new year with new preconditions but the same long-term goals

When closing the books for the 2018/19 financial year, we note that Clas Ohlson has reached the halfway point of the change period. In the first phase of the CO100+ action programme, we prioritised initiatives for long-term growth, but we also initiated and completed savings alternatives in purchasing and administration to secure an enhanced and more flexible cost structure. We expect full effect during the fiscal year from the important steps taken in indirect purchasing, which account for one third of total cost savings or approximately 70 MSEK. As previously announced, the goal is to reduce annual costs by 200–250 MSEK, with full effect from the 2020/21 financial year.

We are now entering the second phase of our change, and four of eight quarters remain of CO100+. As previously communicated, the full-year operating margin is estimated at about 4–6%. Non-recurring costs, primarily pertaining to redundancies, will impact the start of the

year. Prioritising profitability is a necessity, not least with regard to the competitive situation prevailing in the retail market, but also due to a possible economic downturn. Clas Ohlson continues to actively pursue a high pace of change to create profitable growth in line with our long-term goals.

Lotta Lyrå
President and CEO of Clas Ohlson AB

Press and analyst conference

The report will be presented today at 9:00 a.m. in Clas Ohlson's store at Sveavägen 52 in Stockholm. The presentation is also streamed live [here](#). It is also possible to attend via teleconference. To participate, please dial +46856642705 (Sweden), +443333009032 (UK) or +18335268347 (US).

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Clas Ohlson was founded in 1918 as a mail order business in Insjön, Sweden. Today we are a retail company with customers in five markets, approximately 5,000 co-workers and annual sales of approximately 8 billion SEK. Our share is listed on Nasdaq Stockholm. A lot has happened since the start in 1918, but one thing has remained the same over the years; that we want to help and inspire people to improve their everyday lives by offering smart, simple, practical solutions at attractive prices. Visit about.clasohlson.com to read about our passion for simplifying life in all kinds of homes.