



ICA
GRUPPEN

Interim report Q3 2019

Press and analyst presentation

24 October 2019

Per Strömberg, CEO
Sven Lindskog, CFO

In brief

Solid profit development

Continued strong online sales growth in ICA stores

ICA Bank establishes mortgage company



Solid profit development

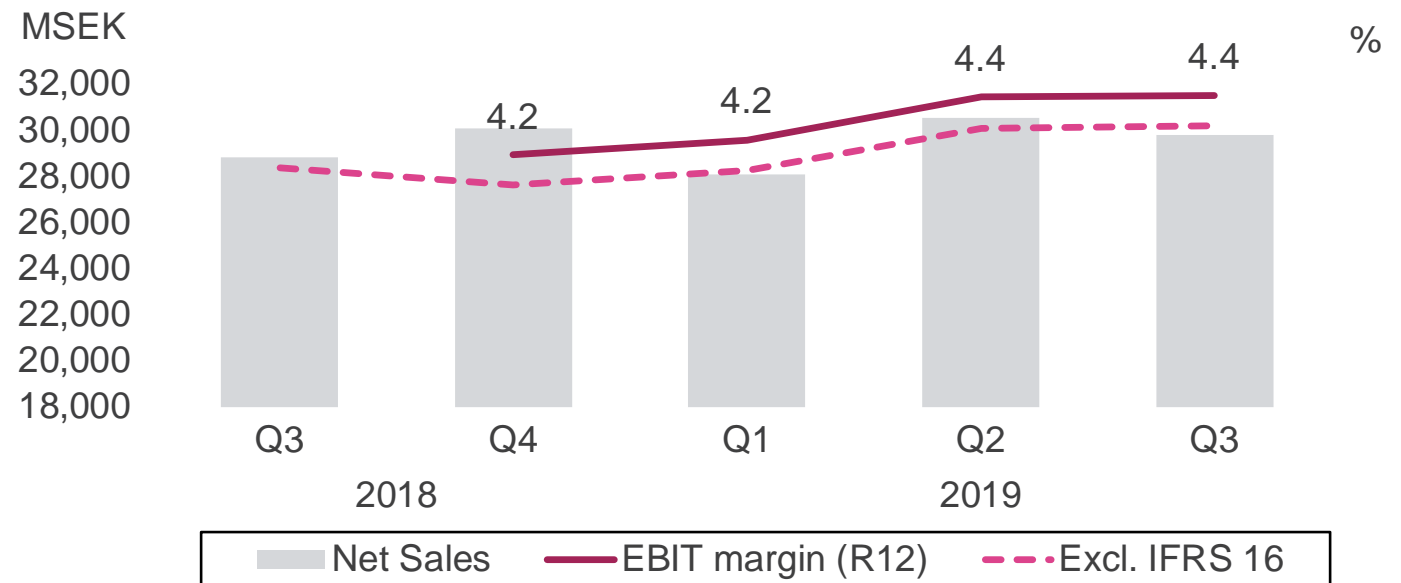
- Net sales growth adjusted for Hemtex divestment, +4.2%
- Net sales up in local currency, +3.0%
- Solid EBIT and margin

Events

- ICA Bank will start a mortgage company in Sweden together with Ålandsbanken, Ikano Bank, Söderberg & Partners and Borgo

MSEK	Q3 2019	Q3 2018	Change %
Net sales	29,818	28,846	3.4
EBIT	1,599	1,549	3.3
EBIT Margin	5.4%	5.4%	-0.0 pp

Net sales and EBIT margin R12



EBIT equals "EBIT excluding items affecting comparability" on all slides in this presentation.

As of January 1, 2019, ICA Gruppen reports in accordance with IFRS 16. 2018 numbers have been recalculated.

Store sales growth in line with market

Store sales and market in Q3

ICA store sales growth of +3.4%,
comparable stores +3.2%

- Higher average buy

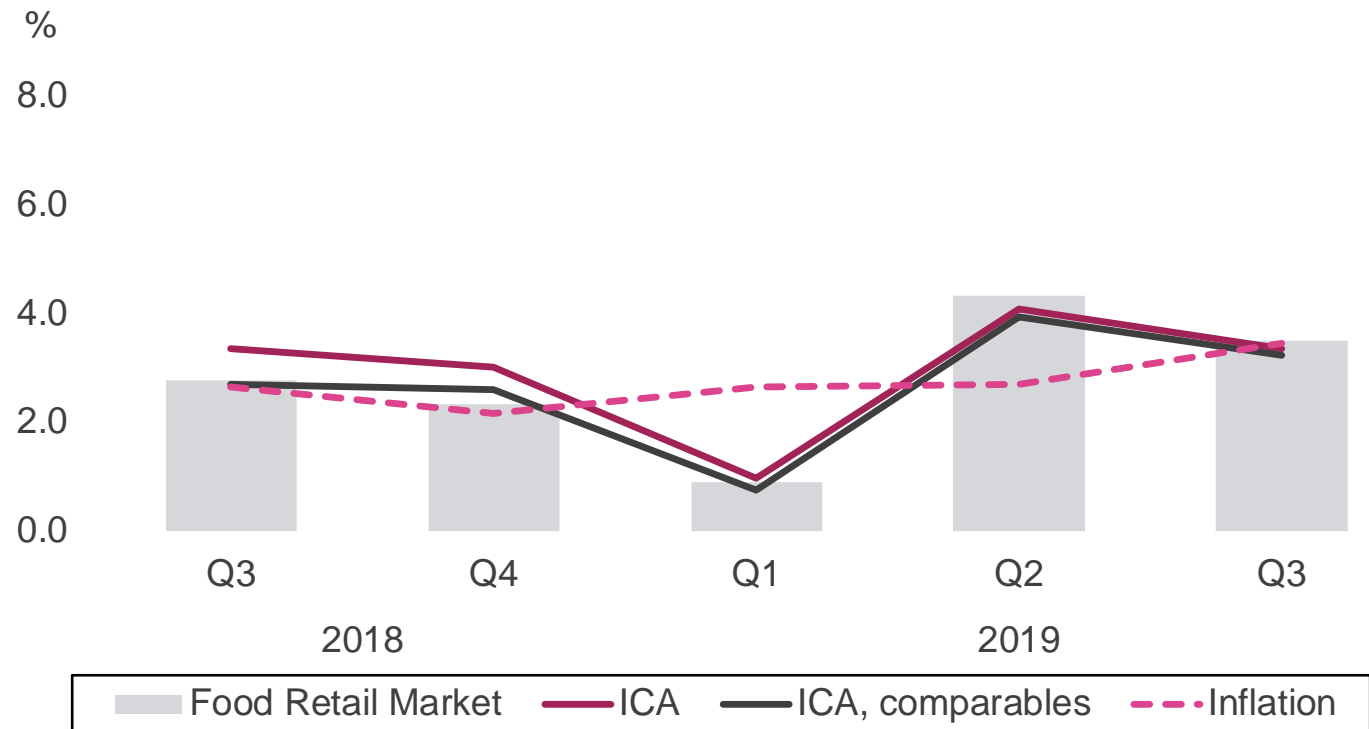
Price and calendar effect +3.5% (price
effect +3.5%, calendar effect +0.1%).

Market growth according to DVI* +3.5%

ICA Online sales growth +38%
(food online +43%, menu baskets +1%).
Market** growth +30%

Establishments Q3: 3 new stores

Sales development for ICA stores in Sweden (incl. VAT)



*DVI=Dagligvarubutiksindex/Food Retail Index which includes grocery sales in stores and online

**DVI online sales

Sales impacted by store conversions in Latvia

Store sales and market in Q3

Rimi store sales +2.8%, comparable sales +2.7%

- Comparable store sales:
 - Estonia +1.4%
 - Latvia +3.5%
 - Lithuania +2.3%

Food inflation (estimated) +4.0%

- Estonia +2.3%
- Latvia +4.2%
- Lithuania +4.8%

Establishments Q3: 1 new store

Sales development for Rimi Baltic stores

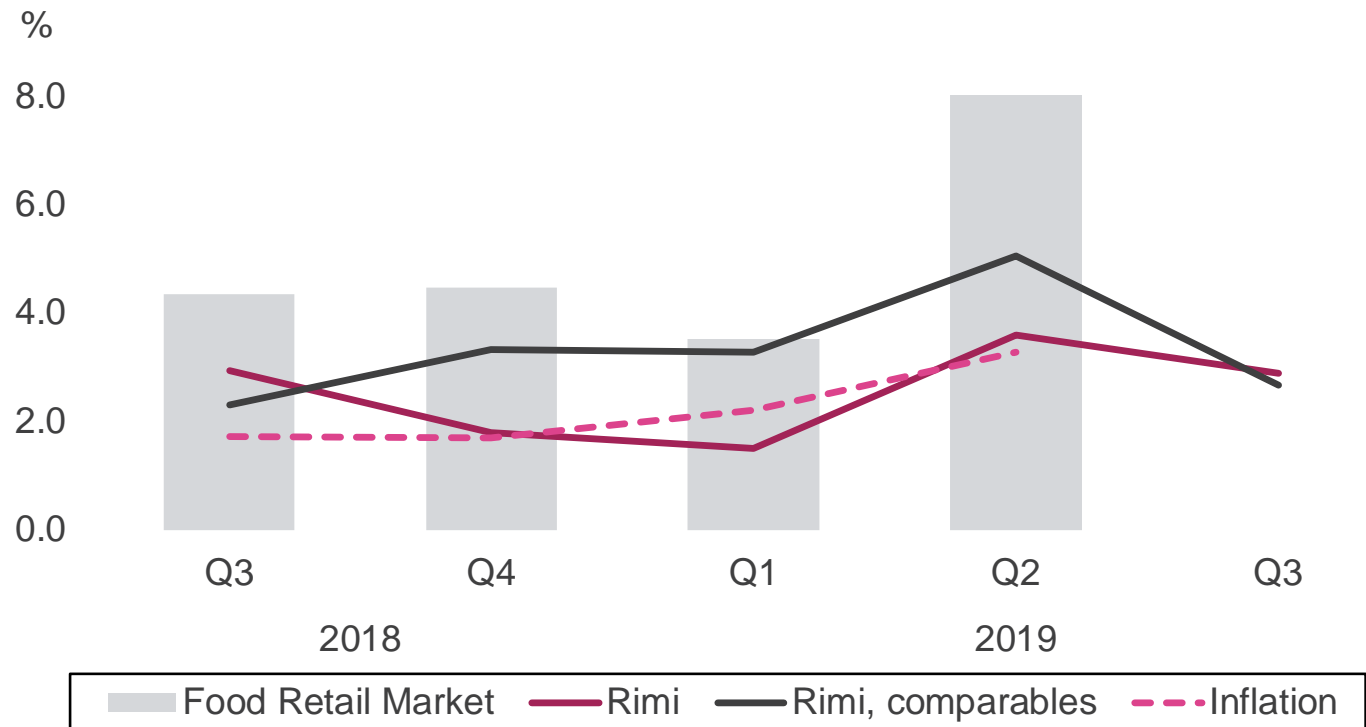


Chart to be updated beginning of November when market data is available

Sales affected by automation start-up challenges

Store sales and market in Q3

Apotek Hjärtat store sales growth +3.0%

- Prescription +5.2%
- OTC -1.7%
- Traded goods -5.0% (excluding Minutkliniken -2.9%)

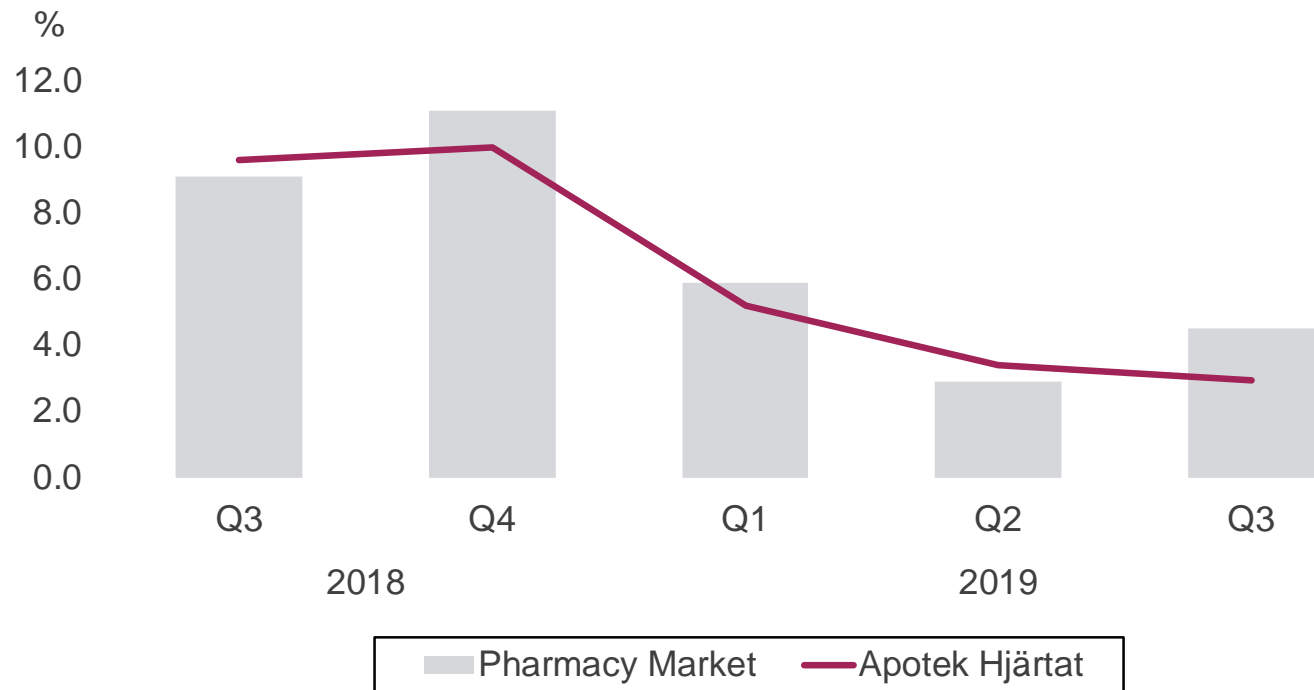
Market growth of +4.5%

- Prescription +4.1%
- OTC +4.2%
- Traded goods +6.7%

Online sales growth Apotek Hjärtat +22%, market +39%

Establishments in Q3: 1 new pharmacy

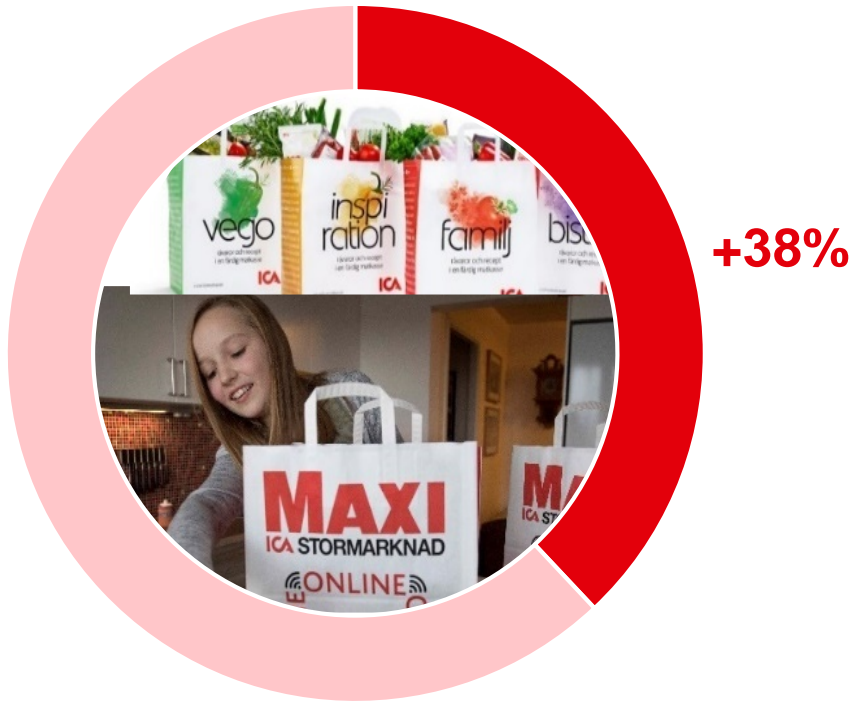
Sales development for Apotek Hjärtat pharmacies



Highlights

Continued strong online sales growth

ICA SWEDEN



- +43% Food Online
- +1% Menu Baskets

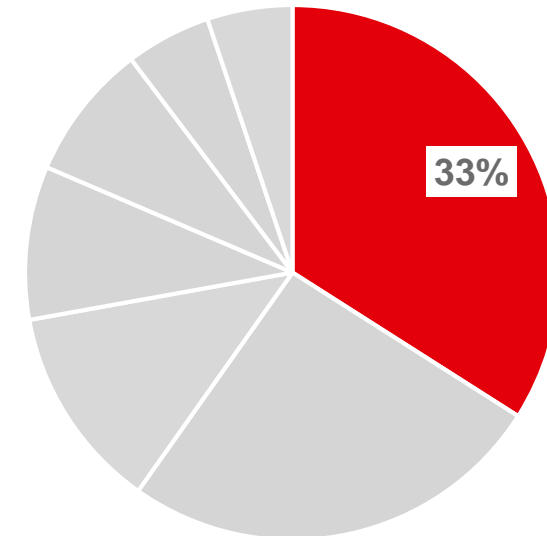
- ICA stores online
 - Sales Q3: 502 MSEK, +38% growth vs market +30%
 - Online share of sales in active stores >3%
 - In total ~297 stores selling food online (“Lösplock”)
 - 63 stores using e-commerce warehouse in Stockholm



Building our leading online position even stronger – establishing e-commerce warehouses in metropolitan areas

- Total market for food online in Sweden 2018 >SEK 5 billion
 - YTD growth market +24%, ICA +36%
- ICA is market leader with especially strong position in regions outside of big metropolitan areas
- Stockholm and Gothenburg >60% of market
- ICA's relative market share lower in Stockholm and Gothenburg
- New e-commerce warehouse in Stockholm in April 2018, >100% growth in last 12 months
- Next steps
 - New e-commerce warehouse in Gothenburg – operational end 2020
 - Ocado online platform and automated warehouse from 2022

ICA Market share online in Sweden



ICA Bank to launch mortgage company with partners

- ICA Bank has, together with Ålandsbanken, Ikano Bank, Söderberg & Partners and Borgo, signed an agreement to establish a joint mortgage platform on the Swedish market
- Bridge solution with Ålandsbanken regarding mortgages when agreement with SBAB expires 1 December 2019
- Through the agreement, ICA Bank will:
 - Be able to increase market shares in a SEK ~3,300 billion market
 - Strengthen the overall customer offering, where a competitive mortgage offering is an important component
 - Further build customer loyalty with a broader offering
- Building on existing strong customer satisfaction – ranked #2 among Swedish banks in latest SKI* index
- Minor short-term negative impact in 2020 during transition period until new mortgage company is fully operational (mainly lower mortgage commissions)

*SKI=Swedish Quality Index



Meat alternatives increasingly important

1.7 million households have tried meat alternatives the last 12 months which is a 40% increase

- These households buy on average one substitute every month

Sales of fresh and frozen vegetarian food increased by +16% last 12 months

If current sales growth continues, **meat and dairy substitutes will outpace today's sales of fresh and frozen chicken 2025**, and fresh and frozen meat by 2030

ICA is market leader in this segment and growing faster than other retailers. ICA is increasing its share of private label in the segment and **will be launching 50 new private label products this year**



Financials

Stable margins and solid cash-flow

Net sales +3.4%

- Adjusted for Hemtex, +4.2%
- Growth in local currency +3.0% – largely price, but also volume growth in ICA Sweden, Apotek Hjärtat and ICA Bank

EBIT improving across most segments

- Sales and gross margins growing
- Investments in e-commerce and digitalisation continues

Cash flow higher – some underlying improvement, but mainly calendar effects

EPS higher

MSEK	Q3 2019	Q3 2018	Change %
Net Sales	29,818	28,846	3.4
EBIT	1,599	1,549	3.3
EBIT margin %	5.4%	5.4%	-0.0 pp
Cash flow ¹	2,342	1,467	59.7
Earnings per share (SEK)	5.96	5.22	14.2

¹ Cash flow from operating activities excl. ICA Bank



EBIT variance analysis Q3 (estimate)

	MSEK
EBIT Q3 2018	1,549
Sales Volume	3
Margin	259
Store costs	-79
Other costs	-134
Revised useful lives of fixed assets	17
Acquisition/Divestment related effects	-15
EBIT Q3 2019	1,599



Growing with stable margins

Net sales growth +3.7%

- Price, increased wholesale volume
- Positive impact from higher buying percentage

EBIT and EBIT margin improvement

- + Price and wholesale volume growth
- + Shrink and obsolescence improving
- + Logistic efficiency improved, and cost increases last year recovered
- Business development costs – digitalization and e-commerce

MSEK	Q3 2019	Q3 2018	Change %
Net sales	21,494	20,730	3.7
EBIT	1,111	1,040	6.8
EBIT Margin	5.2%	5.0%	0.2 pp



EBIT progress sustained despite high cost pressure

- Net sales growth in local currency +3.2%, mainly price
- Impact from store conversions in Latvia

Positive EBIT improvement and margin

- + Price/mix effects
- + Improved PL margin and campaign efficiency
- Riga warehouse expansion project
- Salary inflation in logistics and stores
- One brand strategy in Latvia (now completed)

MSEK	Q3 2019	Q3 2018	Change %
Net sales	4,044	3,827	5.7
EBIT	211	175	20.1
EBIT Margin	5.2%	4.6%	0.6 pp



Sales and EBIT temporarily set back by automation challenges

Sales growth +4.1%

- Adjusted sales growth (constant prices prescription drugs) +3.1%
- New pharmacies and volume increase in comparable stores

EBIT margin below last year

- + Underlying sales growth
- Costs and lost sales related to automation ramp-up in Norrköping, MSEK 30
- Investments in e-commerce, digitalization and new pharmacies
- Min Doktor EBIT effect MSEK -10

Adjusted EBIT margin 3.4% (constant prices prescription drugs and Min Doktor effect)

MSEK	Q3 2019	Q3 2018	Change %
Net sales	3,553	3,414	4.1
EBIT	109	155	-29.6
EBIT Margin	3.1%	4.5%	-1.5 pp



Action plan in place to address the situation

History

- State-of-the-art automation project go-live Q2 2019 with Postnord TPL and SSI Schäfer
 - Manual to fully automated
 - Parallel implementation - automation and new WMS system
- Ramp-up more challenging than expected → Delays running into summer period
- Negative impact on sales of traded goods (no impact on prescribed drugs)
- Increased logistic costs – staffing and distribution
- Lost efficiency

Actions

- Ramp-up of automation stopped
- Roll-back of part of the assortment to manual handling
- Top priority on eliminating back-log and stabilization of the system
- Delivery problems solved early September
- System stabilized with minimal downtime and capacity secured by end September
- Ramp-up continues in October – full assortment planned to be in automation during Q1 2020



Another stable quarter – higher property valuation

Net sales higher

- Increased volume from acquisitions and other investments

Improved EBIT

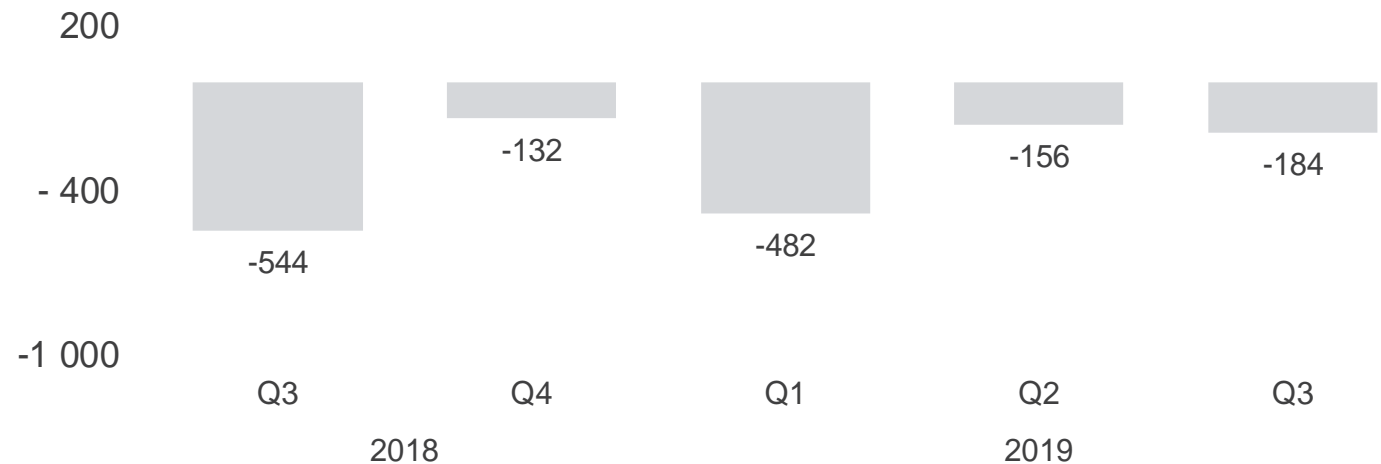
- + Increased income from joint ventures and new investments
- + Revised estimates of the useful life of fixed assets. “One-off” effect Q3 MSEK 17 (FY effect approx. MSEK 60)
- Operating costs somewhat higher

Valuation in wholly owned properties continue to increase:

- Updated market valuation, SEK 15.5 billion. Book value SEK 10.8 billion
- Market value including joint ventures (50% ownership) SEK 21.0 billion. Book value SEK 15.1 billion

MSEK	Q3 2019	Q3 2018	Change %
Net sales	681	648	5.1
<i>whereof owned properties</i>	270	255	6.1
Net Yield	6.8%	6.7%	0.1 pp
EBIT	136	122	11.5
EBIT Margin	19.9%	18.7%	1.2 pp

Net Investments



Steady growth continues

Continued good growth in net income

- Customer loans
- Continued growth in ICA Insurance, >170,000 customers

EBIT in line with last year

- + Volume growth, loans and insurances
- + Net interest – higher repo rate
- + Credit loss provision release of 10 MSEK
- Slightly higher costs and credit losses
- Positive one-off effect last year of 30 MSEK due to new agreement on forward flow of credit portfolio

MSEK	Q3 2019	Q3 2018	Change %
Net income	399	341	16.9
EBIT	76	76	0.5
Business Volume	50,578	45,833	10.4



Strong Q3 cash-flow, amplified by calendar effects

Operating cash-flow higher than LY:

- EBIT up
- Financial net improving
- Paid tax lower
- Positive calendar effects on WC movement
- Positive effects from SCF programme



Cash flow (excl. ICA Bank)

MSEK

4,000

3,200

2,400

1,600

800

0

Q3

Q4

Q1

Q2

Q3

2018

2019

■ Cash flow from operating activities, excl. ICA Bank

Net debt down

Net debt improving with underlying cash-flow

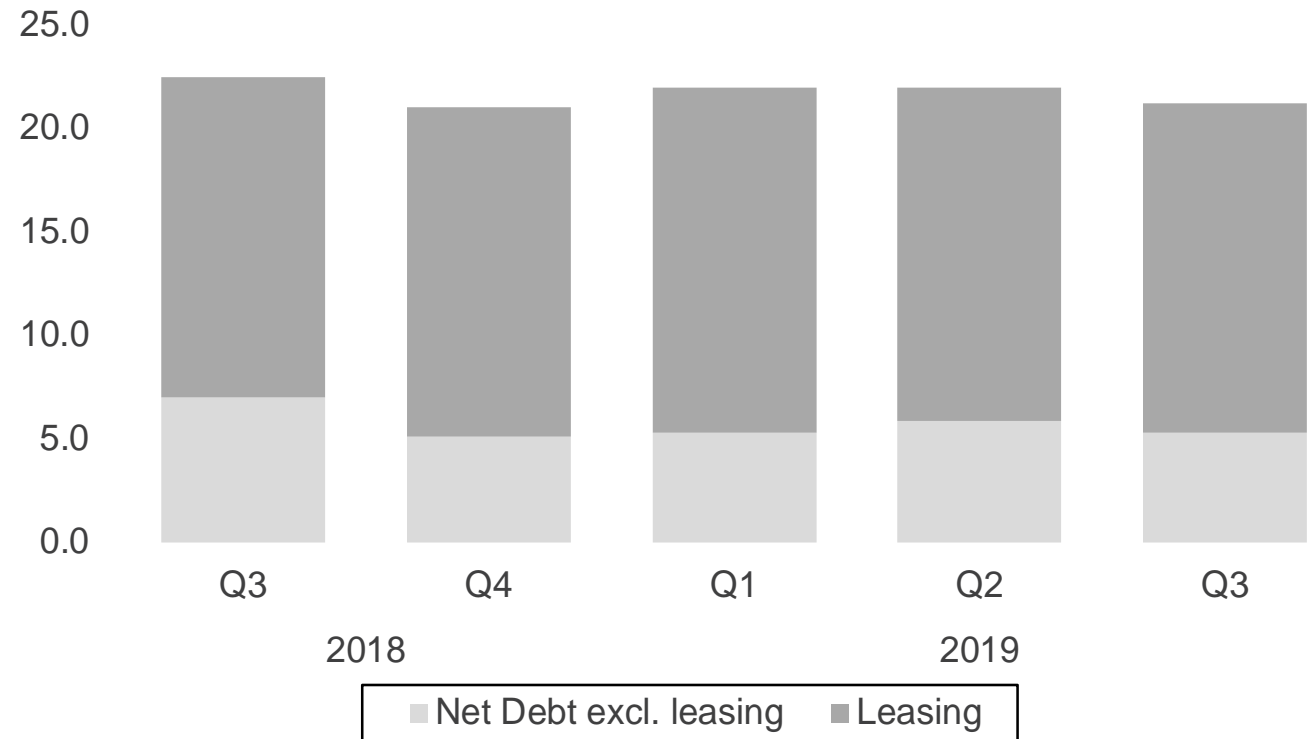
Net debt ratio 2.1x, with high impact from IFRS16 accounting

IFRS16 adds SEK 15.9 billion to net debt as per Q3 2019



Net debt

MSEK



Long term financial targets

Targets	R12 (30 Sep 2019), %	Long-term targets, %
Grow faster than market ¹	Sweden ● Baltics ● Pharmacy ●	All markets
EBIT margin excl. non-recurring items	4.4	4.5
ROCE ²	7.9	7.5
Net debt/EBITDA ³	2.1x	<3.0x
Dividend (% profit of the year 2018)	66	At least 50

The changeover to IFRS 16 impacts EBIT margin, ROCE, Net debt/EBITDA and dividend ratio

¹ Swedish growth based on latest definitive market data Q3, 2019. Rimi Baltic based on Q2 market data

² Excluding ICA Bank

³ Interest-bearing liabilities excluding pensions and ICA Bank minus cash and cash equivalents in relation to EBITDA, operating income before depreciation and impairment



Outlook and Summary

Outlook

ICA Sweden

- Leveraging new organization
- Continued investments in digitalization and business development
- Continued ramp-up of e-commerce warehouse and establishing new e-commerce warehouses
- 8-10 store openings 2019 with focus on large cities

ICA Real Estate

- Increase our presence in metropolitan areas through land and property banking
- Impact of revised estimates of the useful life of fixed assets

Rimi Baltic

- Salary inflation expected to be higher than food inflation, strong focus on efficiency
- Launch of e-commerce pilot
- Meet increasing demand for convenience and meal solutions, continued expansion of Rimi Express
- Preparing for Lidl entry
- 10-11 store openings in 2019

ICA Bank

- Set-up of new mortgages joint venture
 - Short term negative impact on mortgage commissions during transition phase
- ICA Insurance growth focus continues

Apotek Hjärtat

- Measures to improve operations and efficiency in automated warehouse in Norrköping
- Investment in online and last mile continues
- Expansion of Min Doktor, 8 new clinics will be established in Q4
- 6 new pharmacies in 2019

ICA Gruppen

- Group costs guidance remains MSEK 460 FY



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ICA Gruppen Capital Markets Day 2019

- ICA Gruppen invites the financial market and representatives from the media to a Capital Markets Day on December 11, 2019
- ICA Gruppen head office, Kolonnvägen 20, Solna
- Presentations start at 08:30 and end at 12:30 followed by a lunch. Registration and coffee 08:00
- More information:
<https://www.icagruppen.se/en/investors/#!/>



Thanks!

2019-10-24

Disclaimer

This information is such that ICA Gruppen AB is obligated to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Market Act. The information was submitted for publication October 24 at 7.00 CET.

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