Transcript of 3i Capital Markets Conference Call on Action

19 March 2020

Simon Borrows

Good morning and welcome to 3i's Capital Markets Seminar in respect of Action's 2019 Financial Results.

My name is Simon Borrows. I'm the CEO of 3i. And also on the line we have Julia Wilson, CFO of 3i, as well as Sander van der Laan, CEO of Action, and Joost Sliepenbeek, the CFO of Action. We plan to go through the Action presentation which has been put on our website this morning.

Given the recent developments of the COVID-19 situation and the significant volatility of the financial markets, we also wish to update on year-to-date 2020 trading for Action, how the group is managing through the various emergency measures put in place by European Governments and give you an indication of the strength of Action's cash position as well as the flexibility of its cost base. We will also plan to give you a general update on 3i.

At the end there will be time for some Q&A for those of you who have questions.

So let me turn to the presentation and start at **Slide 2**. We completed the liquidity event for Action's Eurofund V investors in January this year and achieved this by bringing in a new syndicate of blue-chip, long-term co-investors who had received diligence materials based on Action's results to September last year; the same materials and numbers were used for the banking syndicate to raise the additional term loan.

Since September the profit growth and cash flow of Action have been very strong and the company has effectively de-geared to 4.2 times EBITDA from the 5 times at which the event financing package was signed in November last year. The Action facility is an all senior facility with no financial covenants and bullet repayments in 2025 and 2027.

As you know, Action operates exclusively in continental Europe and within that has no exposure to Italy or Spain. In the countries where we do operate, governments have taken differing approaches in the application of their lock-down policies to the non-food retail sector.

I understand some people are speculating that Action may have to close all of its stores for a month or more. That is certainly not the case today, but given the uncertainty we have of course looked at a number of scenarios and started to reduce the Action expense base and cash expenditures.

We can see that Q2 will be a very tough quarter for everyone in Europe and Action is no exception. It's not one of Action's big quarters and normally represents about 23 percent of annual sales and slightly less in profitability, with Action's big quarters being Q3 and Q4.

Q1 was well ahead of budget with like-for-likes of over 7 percent to the end of last week, but will probably finish close to budget as a result of the disruption since the weekend.

Putting all that together with the current blizzard of emergency measures across Europe, we've looked at a hunker-down scenario to cover a highly disrupted 2020.

Let me take you through some important numbers. Action's 2019 operating costs totaled EUR 1.36 billion, that's about EUR 113 million per month. About EUR 74 million are people costs, and EUR 20 million per month is rent and the other EUR 19 million is marketing, transport, and general expenses.

At the moment, about half the countries Action operates in want our stores to be open so people can access the significant volume of non-discretionary products that we sell, and in the remainder, such as Austria or Belgium, the governments have put in place emergency measures to reimburse Action for substantially all of the wages effected by the closures.

So in a very severe, complete lock-down scenario where all stores are closed for an extended period of time, we will have to take radical action on the cost base. We have flexibility and options to reduce our store and DC wage bill, and in such circumstances, we would also have to reduce the headquarter costs through a series of measures.

We also believe we can significantly reduce rents either through local emergency provisions or through negotiations and we will have very little cost in terms of transport, marketing or general expenses in this scenario.

In this radical no-stores-open scenario we therefore believe we can reduce our monthly expenses to some EUR 26 million for as long as these emergency protocols are in place. You then need to set this monthly expense together with EUR 8 million of monthly interest expense against Action's current cash balance of EUR 300 million which is supplemented by an RCF of just over EUR 100 million.

You don't need a calculator to see that Action can hunker down for far longer than even the most pessimistic scenarios for COVID-19. But we are not currently in this situation. As things stand today, we have 700 Action stores open and operating, and we also have permission to open in France, as long as we sell only our non-discretionary categories which account for about 50 percent of our sales. We're taking our time to open in France because our stores are very popular but we need to protect staff carefully in the current situation.

If any of you were watching the BBC News on Tuesday evening, you will have seen a Carrefour in France being completely swamped by customers and hopefully our stores can help take some of the pressure off the supermarkets but without suffering as much bad-overcrowding.

Now before I hand over to Sander, let me also briefly talk about the 3i Group. We've run a very conservative balance sheet structure over the last eight years and today we have considerable net cash on our balance sheet, as well as a shiny new GBP 400 million RCF courtesy of Julia and her team.

Our annual cash costs are about as much as Action's normal monthly costs so we have plenty of firepower to look after the Group and its portfolio if necessary. In general, the portfolio is in OK shape. We've not been big investors in the last year or two, as you know, which is helpful given today's markets.

Yes, in our PE portfolio we do have some travel, transportation, and retail exposure but the portfolio also has a good share of B2B companies as well as health and personal care manufacturing businesses that are unlikely to see the problems our retail investments see.

I would like to remind you that our approach has always been to mark our portfolio on cross-cycle multiples, and as a result we have typically used multiples lower than market comparables. We've seen a significant market decline but we have been wary of valuations for some time at 3i. Also the currency movements are helping to mitigate any declines in value in sterling terms. It's too early to call the aggregate impact of all of this but we are long-term investors with considerable balance sheet strength behind us.

I'm confident we are in a good position to manage the volatility ahead and we continue to have faith in both the 3i team and our portfolio companies and their management teams to take the right decisions to protect value for 3i shareholders.

OK, thank you for your patience and I will now hand over to Sander, to take you through the Action presentation.

Over to you Sander.

Sander van der Laan

Thank you Simon.

Good morning to everybody. This is Sander van der Laan, the CEO of Action. And it's good to be here to provide you an update of last year's performance but also to provide you with an insight about the more recent developments and the impact that they have on the customers and the performance and activities of Action.

Well, I will guide you through my presentation, I will indicate which slide I'm on.

On **Page 4**, you see today's presenters, so Sander, myself, the CEO, and Joost Sliepenbeek our CFO who will talk later on in the presentation.

On **Page 5**, what would I like to do? I want to provide you with a quick business performance update on our annual results for 2019.

Subsequently, I will reflect on the impact of the COVID-19 situation on Action. And then I wanted to give you an update on the strategy going forward, not a lot of news I would say from a strategic perspective.

Last but not least Joost will come back on the financial performance of 2019, on current trading, and also on the impacts of COVID-19.

And then finally Simon will wrap it up before we will take any Q&A.

On **Page 6**, you see basically the highlights of our performance in 2019 which was another year of very strong performance and investments for the future. So we finished the year for the first time passing the 5 billion euro-mark with 21 percent sales growth.

We improved our like-for-like to 5.6 percent for the full year; 20 percent EBITDA growth, fully driven by the topline; we opened 230 new stores in seven different markets; and we also extended our DC base with the opening of three distribution centres; and achieved a very healthy cash conversion.

And last but not least, our EBITDA as a percentage of sales went slightly down driven by the significant investment in further organisational capability and supply-chain capacity for future growth.

So on **Page 7**, you see the track record in terms of sales, operatingEBITDA and store expansion which are very consistent numbers with very steady growth.

And at the bottom right you can see that we were really impacted in our like-for-like in 2018 as a result of our supply chain challenges in France and the "Yellow Jackets." We've got those challenges behind us. Today, these challenges look like small challenges versus the COVID-19 situation but our like-for-like rebounded significantly with positive like-for-like in all markets, and a very strong like-for-like in France in 2019.

On **Page 8**, in 2019 we opened another 230 stores particularly in France, Germany, and in Poland we opened a lot of incremental stores.

What you see on **Page 9** that our distribution network is starting to mature across the different countries. So last year we opened three new warehouses, in Peine, Germany; Belleville, France; and Osla in Poland.

This year we plan to open our Bratislava DC in Slovakia and another DC in Verrieres, France. And we are already preparing new distribution centers for the course of 2022. With this distribution network we will be able not only to supply the growth of our networks in existing markets but it will also allow us to do some pilot openings in adjacent countries. And I will come back on that in a few minutes.

On **Page 10**, Action's topline has not only been driven by the expansion of 230 new stores but we also have a very consistent, healthy, like-for-like. And be aware that we have had 27 years of consecutive like-for-like growth in our home markets in Netherlands so like-for-like is really, really important.

Like-for-like has led to more than 8 million visits per week on average in our current store network. We are significantly investing and also making very good steps in the digital domain so in our peak week , we already have 5.6 million people visiting the actual websites so if people sometimes ask me, why is Action not digital, then I would say, well actually it's very digital because our customers are looking, going to the website, to get information and inspiration.

We've also launched our new bi-weekly European leaflets and every other week we distribute 24 million leaflets in the seven different markets.

So to wrap up, on the 2019 performance, in 2019 we had an excellent growth in terms of sales and EBITDA. We had a strong broad-based category performance underpinning like-for-likes so basically all our categories have contributed to the topline. We have a very much improved operational performance, with further investments in supply chain, IT, and digital. And it was another year of significant investments in store expansion, infrastructure, and future proofing the business.

Last but not least, we are making significant incremental steps in the whole domain of ESG and digital. And from a people perspective, we currently are working with more than 50,000 people, the majority of those people are permanently employed, and in 2019 we added 5,000 employees to operate our additional stores and our new DCs.

So basically a very good, healthy, and strong year.

Now moving onto the year 2020, just two weeks ago we actually were really happy to see that we have 11 very strong weeks behind us, so the trading performance until the end of Week 11 was very strong. Action was and by the way still is ahead of budget in terms of sales, like-for-like, EBITDA, and cash flow. And our like-for-like sales growth until the end of Week 11, so year to date, was just over 7 percent so you could see a significant step up versus already the 5.6 percent number from 2019.

Also the longer-term growth story and our competitive position remain intact. And our cash position, not only by Week 11 but also today, and liquidity are very strong. However we are currently living in a very chaotic world, I would say, and it feels a little bit schizophrenic versus the picture just two weeks ago, and where we are today, so let me move then to our COVID-19 updates from an Action perspective.

So on **Slide 13**, so first of all, the governments are currently taking extreme measures with a significant impact on society, businesses, and Action. We are forced to temporarily close stores in a number of countries and the rules vary by country, and in Germany they even vary by Bundesland or by municipality. We are currently taking all necessary actions to operate and supply the open stores of Action.

We have established a Crisis Management team headed up by the EB and led by myself. We have a daily reporting structure and alignments and with very good support from the 3i team and the Action Board. And we are currently implementing multiple measures to reduce our cost base and to secure our cash position to make sure that we are prepared well for a tough quarter ahead of us.

Moving to **Slide 14**, the situation by country varies as we speak, so in the Netherlands, our home country, our number two market, we have 388 stores and up until today and also this morning all our stores have opened and they are allowed to sell the full assortment. And in the past two weeks they also had very healthy like-for-like growth figures in the Netherlands.

In Belgium, we were confronted with the government's rule which basically stated that all the retailers selling the so-called non-essential goods, basically all non-food retailers, were supposed to close as of yesterday, 12 o'clock, March 18th and they are to remain closed until April 6th. It's our intention to open our 183 stores just after that.

In Luxembourg, we are still operating eight out of our nine stores. However in Luxembourg we are only allowed to sell the essential goods which basically are at least the categories: foods and drink; laundry and cleaning; personal care but also parts of household goods, parts of do it yourself, and parts of clothing. And that covers roughly 55 percent of the sales.

In France, we currently have 523 stores, and all these stores are currently closed. We had to close them as from last Monday but we have reached an agreement with the relevant ministry in France and from a legal perspective, we will be allowed to operate, and will be allowed to open provided that we only sell the essential categories which again accounts for roughly 55 percent of the sales.

Since all the non-food retailers in France are currently closed, we need to find the right model to reopen our stores again but we are preparing to reopen the bulk of our stores and also from a supply chain perspective.

In Germany, we currently have 353 stores, and roughly 260 of our stores are currently open. Ninety-four stores we had to close driven by the municipality who did not provide us a permit for basically this week and next week. And the stores which are operating are currently allowed only to sell the essentials, which is in Germany, roughly 39 percent of the sales. The reason that this is a different percentage is first of all, there is a different definition of essential categories by country. And secondly, that share of those categories also vary slightly by country.

In Austria, all our stores are currently closed and set to open after March 29.

And in Poland we have 50 stores operating, and 13 stores are closed, which are all based in the large shopping centers.

So moving on to the next slide, COVID update, **Slide 15**.

First and foremost, we want to protect our most important assets and these are our employees and customers. We need to provide a safe and secure work environment and we have established clear protocols and guidelines for all our operations, in all the countries.

So far, we have been confronted with 11 confirmed COVID-19 cases within our employee base. These employees went home and we also have sent the people home who have been working with them. And in those stores where we've had to take the teams out, we have sent new people to those stores.

Towards the customers, we fundamentally believe that similar to the supermarkets and the drugstores, that Action has a role to play in offering essential products to feed, protect, and support our customers in their fight against the coronavirus.

And even if we will not be allowed to sell all the categories, we aim to keep our stores open when it's allowed and possible, even if we can only sell part of the assortment.

The update on the supply chain: so our distribution centers in Netherlands, two; in Germany, two; and in Poland, one, are all operational. In Germany and Poland we have reduced the capacity, the processes are working and the people are working. In France, we have temporarily closed the three DCs which are supplying French stores only but we will make sure that we are prepared to reopen once we open the stores again as well.

From a supply side, just a few weeks ago, we were afraid that the supplies from China would stop, however that is not the case, on the contrary, the situation in China has improved significantly both for the people of China as well as for businesses in China. And at this point in time, all factories are open again and producing and shipping stuff to Europe.

From an expansion perspective, just weeks ago we were on track. We were set to open – planned to open - 240-plus new stores across our seven existing markets. And we had also planned five openings in the Czech Republic, starting in the first week of April, and in Italy, just after the summer.

However as you can imagine that it is wise to take a little pause. So for the short term we decided to pause our store expansion in new countries and we decided to delay the opening in Czech. In Czech, we have already signed five lease agreements with the landlords but we have rights to slow down.

And in Italy we have not yet signed any lease agreements with landlords so will need to see how the situation develops before we will set another opening time.

So with that, I wanted to pause on my update on COVID-19. Later on Joost Sliepenbeek will come back and I can imagine that there will be some questions, so plenty of questions around the topic and we will be happy to answer those.

So moving to my strategy update on **Page 16** or actually 17. So on **Page 17**, I'm describing the development of trends within the Retail domain. Our customers are showing a more hybrid shopping-behaviour, choosing between either the premium store or value. You can see that the strength of branded products and also certain branded retailers is reducing.

We can also see that the social acceptance of discount and value has significantly increased and in the past six months more than 72 percent of all the people in the Netherlands have shopped in an Action store.

OK, moving on to **Slide 18**. The strategy of Action for the years ahead of us is fundamentally not going to change. It basically is an extrapolation of what we've always done so we have four fundamental pillars, one brand, one format and that creates a very unique customer value proposition; we want to continue to expand internationally; we will continue to strengthen our scalable operating model; and last but not least, we have a very strong organisation with more than 50,000 people and a very strong value-based way of working.

Moving on to **Slide 19**. Action has a winning customer business proposition and brands. We go beyond the expectations every day at Action. And on this slide, you see the key elements, and in the next few slides, I want to give a brief update on each of those individual aspects .

On **Slide 20**, why can we be local and scalable? Well we can do that for the reasons that we have stated on the slides and in the context of the current situation, I don't want to dig in these too deep for now.

We have reinvented the wheel of Retail for the Action brand and the Action business model, as you can see on **Slide 21**, so we have a very strong customer proposition, driving customers to the stores. I would say a very unique and very strong financial model. A model which normally generates a lot of cash, and with all that cash we can completely fund our own store, distribution, and IT investments ourselves. And with the incremental stores we generate new cash which will allow us to continue to fuel the growth of the Company going forwards.

Moving on to the customer proposition, **Slide 23**, so on the left you see the 14 different categories, and you can also see in these 14 categories, we have a number of categories which you can also buy in the supermarkets.

I live in the Netherlands, and in Holland all the supermarkets and all the other retailers are still open but what we can see is that the supermarkets have real difficulty in keeping the shelves stocked so it's difficult to buy detergents or toilet paper or disinfectant or personal care in the supermarket, and that's why we believe that Action should remain open as much as possible, even if it's only with a subset of our assortment.

We are selling A-brands, supplier brands and a growing portfolio of private labels.

On **Slide 24**, you see some good examples of expansion of new private labels across categories in 2019, so these are just 12 examples of different private label brands, for different categories.

On **Slide 25**, you can see that our buyers in quality departments are creating more and more success with very good value for money. Not only very low prices but also the quality and the specifications of these products is being appreciated by different authorities and also by customers.

On **Slide 26** you can see that we continue to have unbeatable prices. In the Netherlands the competition is 65 percent more expensive on the basket of similar or comparable products. We continue to surprise our customers in all the markets versus the Action competitor, and on the left you can see that one third of our assortments are so-called fixed items and two thirds of our assortments create this surprise element of our format, that we call "the treasure hunt visit to Action."

Slide 27 is basically showing that we have a very broad audience, male, female, all age groups but also people from different social classes, and with different educational levels. Basically the proposition of low prices and surprise is appealing to everybody in the markets in which we operate.

On **Page 28**, on the left, you can see that customers when they visit the store, they tend to buy more than they had planned for. Very often customers walk in to the store with the intent ideally to buy one or two or three articles but on average they leave the store with a basket with seven to eight items, slightly varying by country.

And on the right-hand side, you can see that the sales density per square meter is a multiple of 3, 4 times versus the average competitor and that creates a huge competitive advantage for us to operate which we can translate either in lower prices or in more investments, or in significant profitability going forwards.

Moving on to **Slide 29**, yes, it is correct that we currently do not have an e-commerce proposition and although I wouldn't say, never say never, at this point in time we don't have concrete plans for that but what we do have is a programme where we are building our digital customer interface. So on the left-hand you see the customer in the middle, and then the different boxes represent the different customer touch-points between Action and its customers.

And the dark-blue boxes basically indicate the digital touch points – email; digital marketing; social media; our website; and soon to be launched, the new Action App.

What you see on the right-hand side, is that in 2018 we already had 146 million visits to our website. We have a 36 percent increase in 2019 versus a 21 percent top-line growth, so you can see that customers are really finding their way to the Action digital tools. And the purpose behind that is what we call ROPO, a Research Online, Purchase Offline. We want to inform and inspire our customers on the website in order to bring them to the stores to buy more stuff.

On **Page 30**, you can see an example of the upcoming launch of the Action App and Loyalty Programme. So in the second half of this year we're going to open a pilot in the Netherlands – then we would like to roll out in the Netherlands and then in 2021, 2022, we want to roll out the Action App and loyalty programme in other countries as well.

Moving on to another topic, ESG, Environmental, Social, and Governance. That becomes an increasingly important topic and again the COVID-19 situation is demonstrating that once more. We have translated that in a special programme, and we call it Action Social Responsibility. Action Social Responsibility, ASR, is a core element of our customer value proposition. And these developed programmes in the products, people, environmental, and good citizenship, domain.

On **Page 32**, you see on the left some examples of products. And just a few years ago, this page, both on the left and on the right-hand side would not be as crowded as you can see today, that is, we are significantly stepping up and have started in the past few years with a significant number of additional activities.

Similar for **Page 33**, for people and citizenship we are making significant step-ups. And on the right hand side the "Green Thumbs up," that's our new symbol, we call that in marketing terms, a visual device, where we want to demonstrate to our customers and other stakeholders that Action is making good steps into the domain of ASR.

And finally on ASR, what you see on **Page 34**, if you want to make a commitment, you also should be willing to demonstrate your progress. So in a few weeks from now we will release our Annual Update 2019, and in that release, we will already give a lot more examples and highlights of our ASR Programme.

We are also currently making a study, an outside study, facilitated by an expert company, and with this study we want to set a number of long-term ASR goals. And our intention is in the years ahead of us, to start reporting against the objectives which we have set because we believe that as a big company, as a large enterprise, we have a large responsibility and we also need to show our commitment and to demonstrate our progress.

Moving on to international expansion, even though we temporarily have to pause, fundamentally the white space opportunity is still there. And as you know, on **Page 36**, we have a very strong model, on the left hand side, with one brand, we have a proposition which travels across borders, and we have a very well focused organisational setup. And on the right-hand side you can see the key economics which are extremely attractive.

On **Page 37**, you can see the power of one: one brand, one format, one operating model, and this gives us a lot of scalability in bringing the Action proposition to more people in existing and new markets going forwards.

Talking about the new markets on **Page 38**, we currently operate with almost 1,600 stores year-to-date in the seven markets on this slide. And still in France, Germany, Poland, and Austria, there is significant opportunity to open more stores, as indicated by the graph on the right-hand side. So the dark blue represents our current store network and the light blue represents a potential of at least 2,300 new stores in existing markets. And basically, we've almost finish DC network expansion to supply those new stores in the existing markets.

Some indications or highlights about our current markets. So on **Page 39**, France continues to show an exceptional performance driven by improved supply-chain performance by like-for-like and by addition of almost another 90 stores in 2019. And still there is a huge opportunity to at least double the Action network in the years ahead of us because the store numbers per capita are still significantly lower than the Netherlands.

And you can also see that in France, we have a distribution network which allows us to reduce transportation distances and costs to the stores but also allows us to be flexible towards our stores.

On **Page 40**, Germany, a tough retail market for many retailers. A discount-driven retail market and many international retailers have struggled, however Action continues to be the fastest growing non-food discounter in action, with another 59 stores opened. You can see that we still have a significant concentration in the northwest side which is logical because that's where we started.

But we are now national and there's huge opportunities to roll out Action in the years ahead of us as well. We believe that there is an opportunity to at least move to somewhere between 1,200 and 1,400 Action locations in the years ahead of us.

Moving to Poland, in Poland we opened our first stores two years ago, six pilot stores. We currently have 57 stores opened by the end of December. And we have also opened our first DC in Poland and we have opened our country office in Katowice.

We are currently preparing the opening of our second DC in Katowice for 2021. And as you can see, we are following a controlled expansion because we want to make sure that we don't create too much transportation cost and complexity, so we will basically do it geography by geography.

Moving on to new country expansion. As you know, when we’ve entered a new country, we have always done that from adjacent countries, so we currently have plans for store openings in both Czech and Italy, and as I've just discussed, we will set a new opening time in the near future.

We also have a team on the ground to explore new country openings for 2021 and beyond. And we believe that there is a significant opportunity to bring Action to a lot more countries in the future.

So currently 1,552 stores or that was the end number of 2019. There is an opportunity to at least add another 4,800 stores in the rest of Europe, so plenty of growth opportunities I would say for Action.

Moving on to the operating model, and I just wanted to give you some examples. On **Page 44**, you can see that the big benefit of the expansion of our store network is that it will allow us to significantly reduce the delivery distance to the DC. And that in itself will already create a huge saving from a transportation cost perspective and it will allow us to be more flexible to supply our stores.

On **Page 45**, you can see that we are developing a multi-layer network, so we are creating, behind our DCs, a network of hubs and cross-dock centres which will allow us to reduce inventory costs in our own DCs, to become more flexible and to make sure that we can also absorb the incremental growth from a direct sourcing perspective.

So we'll now move to **Slide 46**. Just six years ago, we did not buy anything ourselves directly in the Far East. We did all our business with wholesalers. That has changed quite significantly, because currently we have a multi-tiered sourcing model where we're doing business with wholesalers, we are doing businesses with large national brand manufacturers, like Unilever, Procter & Gamble, Coca-Cola, and L'Oreal but we've also developed a direct sourcing line with the Far East, and we're doing business with a number of traders.

In 2019, 10 percent of our cost of goods sold was sourced directly by ourselves in the Far East, where we have a partnership with our Chinese partner Li & Fung. And so currently 10 percent, and we have a plan to double the percentage which basically means that we want to quadruple the volume in the years ahead of us.

And this growing volume of direct sourcing will allow us to get an even better grip on quality and sustainability. It will allow us to reduce the purchase price. It will also allow us to become even more surprising going forward for our customers.

On **Page 47**, when I arrived in Action five years ago, I was actually pleasantly surprised that the fundamental core ERP system is SAP, which was already implemented by our founders, almost 20 years ago. But since that we have developed a significant investment programme to strengthen our IT capabilities in both existing and new technologies to enable further growth and scalability with a specific emphasis on both digital and on our ability to improve our end-to-end planning.

The final topic of the strategy is organisation and people. On **Slide 49**, you can see that we have a very senior executive management team in place. We have a lot of experience from different companies and legal businesses.

And on the bottom of the page you can see the group of general managers, and most of them are nationals from the markets in which we operate.

And on the right-hand side you can see that we organise ourselves a little bit differently to make sure that we can not only focus on the operations in the markets where we already are but that we also make sure that we can accelerate our new plans and expansion in the years ahead of us.

On **Page 50**, Retail is all about people. And today's situation around COVID-19 is demonstrating that once more. We believe that we have a fundamental responsibility towards our people. We have very strong values. We are growing and developing our people and we want to make sure that our people are motivated, fairly remunerated, and well prepared.

That means that we are also working on what we call, the values of Action, because we believe that the six values of Action – customer focus; teamwork; simplicity; discipline; cost consciousness; and respect, these values are motivating our people. They are creating basically the DNA of the business and in combination with our customer proposition and operating model, will allow us to be a very successful company also in the future.

So to wrap up on **Slide 53**, the Action business model becomes increasingly difficult to replicate by other companies as our scale is growing. And let me not walk through all those individual boxes but I think you've got the message. The power of one, a very strong operating model, and a very motivated workforce, will allow us to be a very successful company in the future. And yes, we have the short-term situation which we need to handle and we will handle that as is necessary.

With that, I want to hand over to my colleague, Joost Sliepenbeek, who will update you on the financial performance of Action in 2019. And he will also come back on the call with COVID-19 situation.

Joost, please go ahead.

Joost Sliepenbeek

Thank you, Sander.

Good morning. So my name is Joost Sliepenbeek, and I'm the CFO of Action since the 1st of November of 2018.

I'm going to cover our financial performance in 2019, and at the end I will also comment on trading this year, as well as our current view on the impact of COVID-19.

But I'll start on **Slide 55** by showing you the financial model behind our strategy. These fundamentals remain unchanged. The two main value drivers for Action are like-for-like and opening of new stores. This model is highly repeatable and the performance is consistent over various dimensions, countries, categories, and stores.

The payback of the stores is very attractive. We rent our stores and investments are relatively low. Historically we've had an average payback of around one year. We also have a negative total working capital that generates cash when we grow. Finally our model is proven, and can be applied to many more countries than the seven where we are active today.

On **Slide 56**, as Sander has already mentioned, our top- and bottom-line performance in 2019 was strong. We had 21.3 percent sales growth, driven by both a strong like-for-like as well as a net 227 stores added. And we had 20.2 percent EBITDA growth.

On **Slide 57**, as I said, we had strong like-for-like growth, clearly outpacing the markets. Like-for-like growth last year, 2018, with 3.2 percent, was lower than normal, held back by supply-chain issues. But in 2019, we again had strong-like-for like of 5.6 percent. What is unchanged is that like-for-like is mostly driven by an increase in the number of transactions. Also if you correct like-for-like, for ramp-up and cannibalisation, and incidentals, there is consistency of like-for-like across countries and categories and also a broadly common pattern of like-for-like development across vintage cohorts over time.

On **Slide 58**, you can see that we opened 230 stores last year but we also closed three so net, we added 227 and we ended the year at 1,552 stores.

As in 2018, the main drivers of our store expansion are France and Germany, with 93 and 59 new stores, respectively. Poland is now also a significant contributor with 32 new stores. The number in Germany is lower versus 2017 and 2018, reflecting our focus on improving average sales per store, and more selective expansion criteria.

If I move to **Slide 59**, you can see that an important reason for our success is our margin management. Sander has explained that our brand promise is, "more than you expect for less than you imagine" and this translates into the lowest price and a great surprise. So that means that, within our chosen categories, we can offer a changing range of products, and that allows us flexibility to only buy where we can achieve our margin.

Also our order volumes allow for priority with strategic suppliers, and hence consistency across categories. And this all shows in the consistent and stable margin performance across categories. As you can see, average gross margin is around 39 percent. And this again makes our overall performance more robust, and not depending on any category for above-average profits.

On **Slide 60**, you can see that all our stores have a positive store contribution and spread over the portfolio, and this is not only true for the overall store portfolio but this slide shows you that it's also true for the spread over the countries; it's very consistent. On average the store contribution was 21.5 percent. In our most mature markets, which is the Netherlands and Belgium and Luxembourg, we are somewhat higher than the average.

In 2019, we've also seen some more negative impact from pressure on hourly wages resulting from shortages in labour in certain areas and these are mostly the bigger cities.

France, which is our biggest market, has shown a fantastic development in the last years and is now at a similar level as the Netherlands and Belgium.

Germany is very much a tale of two countries. We've seen very good results from the start with all our stores in the West and this is mostly in the North Rhine-Westphalia where we opened our stores in the early years, but we have somewhat longer ramp-up in the East and the South, which is mainly Bavaria and Berlin.
In Austria, which is one of our smaller markets, 2019 was a challenging year. We've had to make various changes in the management, including hiring a new country general manager as per the beginning of 2020.

On **Slide 61**, you see the attractive payback period that we have for new stores. Capital intensity per store is low. We spend circa 460K per store, we rent all stores and we pay relatively low rents because we don't need to be in the high-traffic and A1 locations. And we are also willing to wait because we value our reputation as a cost-conscious lessee.

We're now also starting to experience more and more that we are sought after as a driver of traffic, which further improves our negotiating position.

The payback of one year is a historical average, in practice the number varies per store and its related to various factors, like start-up sales, and ramp-up, and it can sometimes lead to a payback of even less than a year but also sometimes to a somewhat longer payback.

Slide 62 shows the CapEx development. In 2019, CapEx increased 5.3 percent to EUR 210 million. Because we opened slightly less stores in 2019 versus 2018, and because of our programmes to lower the CapEx per square meter, the store CapEx is lower. The increase is mainly in supply chain and IT.

As Sander has already mentioned, in our supply chain we are building capacity for current and future expansion. In 2019 we opened three distribution centers in Belleville, France; in Peine, Germany; and also in Poland. We now have an overcapacity in our DCs that also provides a buffer for one-off issues. Our approach to building new DCs can be that we develop and invest ourselves and then do a sale and lease back, leaving only the CapEx for equipment on our balance sheet. This is why the CapEx number for DCs in 2017 that you see on this slide is very low.

Included in the number for 2019 are investments for the three DCs that we opened in 2019 plus investments for two new DCs in Bratislava, in Slovakia and Verrieres in France, which are planned to become operational in 2020.

Our extra IT investments are driven by new systems, mainly in our commercial domain. And as an example, I can give you the self-check-out that was piloted in 2019 and is currently rolled out first in the Netherlands and then in Belgium.

On **Slide 63**, you see that we had a strong cash conversion of 77 percent, so that means that our cash flow from operations which was EUR 490 million was 77 percent of operating EBITDA of EUR 541 million. And just to be clear, as you can see in the legend, in this calculation we exclude the CapEx in new DCs that we will mostly recover from later sale and leaseback transactions.

On Slide 64, you see the impact of IFRS 16 on our 2019 financials. 2019 is the year that we implemented IFRS 16. In this presentation, all the financial information is still on a pre-IFRS 16 basis. We have chosen for this to keep consistency and comparability over the years. But of course, our 2019 Annual Report, will include IFRS 16. And this slide shows the impact.

In the P&L our operating EBITDA is EUR 179 million higher, and that is by excluding lease costs. Further down in the P&L, depreciation increases by EUR 170 million and interest by EUR 20 million.

On the balance sheet, the right-of-use asset of EUR 718 million and a lease liability of EUR 735 million is added. In calculating the lease liability our lease term estimate is relatively short. For the stores it's on average 3.5 years, actually the slide says three but it should be 3.5. This reflects our lease contracts that provide this flexibility with short initial terms and renewal options that we can elect to use. If you calculate the additional EBITDA over the lease liability, you get to a number of 4.1 times.

So **Slide 65**, again the high-level financials as I've covered them in the previous slides.

And then on **Slide 66**, the summary of 2019, which was again a year with strong results for Action. We've seen a strong like-for-like sales growth performance across all countries, supported by a good supply chain performance, also in France where we were held back by supply chain issues in 2018.

Our country EBITDA continues to improve in France, Germany, Austria, and Poland. In the Netherlands, and Belgium and Luxembourg, we've had some margin pressure related to shortages in labour which are being addressed. In addition to an improved performance our supply chain has also performed very well from a cost control perspective.

And finally, we've invested for the second year significantly in organisational capabilities in our supply chain. In addition to new DC capacity, this includes IT, our digital team, and country organisations for Poland, and the new pilot countries Italy and the Czech Republic.

Now on **Slide 67**, I want to go to a few remarks about current trading, and then the impact of COVID-19, at least based on what we now know and as we see it today.

So trading wise, we started the year strongly with like-for-like year-to-date until last week, that is, Week 11, of over 7 percent, with good numbers in all countries. We've also opened 23 new stores as of last week, bringing the total to 1,575.

In January, an event financing of EUR 625 million was completed, as part of the transaction to provide liquidity to Eurofund V investors which successfully closed on the 17th of January. As a result of this, total gross debt is now EUR 3,035 million and that includes our Revolving Facility of EUR 125 million.

Since the event financing was structured, Action has effectively de-geared by 0.8 turn run-rate pro forma EBITDA, coming down from 5.0 times to 4.2 times.

Now I'll move to **Slide 68**. Today it's too early to predict what the COVID-19 impact in the remainder of the year is going to be.

As Sander already mentioned, there has been no significant impact on our trading performance until last week which was Week 11 and we already said it a couple of times, we started the year strong with like-for-like sales of more than 7 percent.

But then Sander has also given you a general update on COVID-19, and how it's impacting us at the moment, so this included an overview of the impact on our stores, employees, customers, supply chain, and expansion.

Today it is uncertain how this crisis will develop and what the impact will be on our operations, financial performance, and liquidity. While a material impact in the remainder of the year is possible, at this time a clear determination cannot be made.

We are taking all necessary actions and closely monitor and evaluate further developments. Contingency plans have been developed and will be updated and implemented as required. In these plans, we are assuming severe disruption in Quarter 2, possibly continuing into Quarter 3.

We believe that Action is resilient even under these difficult circumstances because of the variable nature of the cost base, and the support being suggested across our markets, together with the ability to control the level of expansion capital expenditure. To be more specific, our financial model works with a very low operating leverage and most of our cost base is variable; 61 percent is cost of goods sold, and 12 percent is direct personnel costs.

Second, as a consequence of a strong recent performance until last week we had balance sheet cash of EUR 300 million, end of week 11, which is further enhanced by EUR 100 million unused of our Revolving Facility.

Although we're not a supermarket, a significant part of our assortment, 50 – 55 percent, can be seen as essential products, and keeping our stores open will relieve the food channel. This will help to either stay open in some cases with restrictions or to reopen when government regimes are eased.

In all our markets, governments provide arrangements and support measures that give substantial possibilities to reclaim a significant part or nearly – or even nearly all of the wages of our staff in countries where our stores have closed.

We will also use the facilities that governments are putting in place to postpone tax payments including VAT and wage taxes where applicable. We have strong relationships with our landlords and suppliers and have or will ask for extension of payment periods and rent reduction in case of closed stores to share the impact for COVID-19.

We have reduced investments and can bring them down even further, and we've scaled down expansion until the emergency processes cease. Circa half of our budget capital expenditure for the year is expansion in nature. And finally, our format is highly cash generative, and we have the ability to recoup quickly once circumstances revert to normal. And with that, I thank you for your attention, and hand back to Simon.

Simon Borrows

Thank you Joost, very clear. So if I can finish with slide 70, which I used at 3i's interims in November, 2019 was the first year of this five year plan, and finished ahead of budget on all key measures. As has been said, the first eleven weeks of this year saw the group's performance accelerate further, although we now appreciate that Q2 is likely to have a material negative impact on profitability this year.

Fortunately, it's not one of Action's biggest quarters, it's not clear when Europe will be able to move on from COVID-19, which is the most serious global virus outbreak for 100 years. It's a huge public health challenge, but there are now clear models for managing and reducing the virus, as well as limiting loss of life.

Q2 will be a serious challenge for most retailers in Europe, and brutal for some, but we remain confident that Action's popular value format and strong supply chain will spring back very quickly once the severe lockdown restrictions are removed. Thank you for listening, and we'd now like to open the lines for questions.

Q&A

Elizabeth Miliatis, Bank of America

Well, thank you gentleman for taking my questions. I got one for Simon, and then a couple on Action as well. Firstly, on 3i more broadly, I was curious to see in your release this morning that you haven't mentioned Scandlines as potentially impacted by COVID-19,Is that more of a reflection of the fact that the virus hasn't spread up to the northern part of Europe just yet as aggressively in the south, or of its more resilient model?

Simon Borrows

No, I think it's different, I think the comments we put in the press release this morning were really about the private equity portfolio, whose portfolio company reviews we have just completed. We value Scandlines on a different basis using a DCF as you know, and we haven't done a detailed review of the impact, but that will obviously be done before our results.

There are some impacts on border controls between Denmark and Germany, freight traffic is very strong, but we're seeing a reduction in people traffic.

Elizabeth Miliatis, Bank of America
OK, thank you. And then on Action, a couple of questions. Obviously, you've got that great slide on **Page 14** where we talked through which countries have doors open and which are currently shut, so there's a few there that are mostly shut: Belgium, Austria, Poland. Are you guys having any discussions with the authorities in terms of reopening them to offer food products and sort of essential products?

Sander van der Laan
Well, the situation in Belgium is that we are currently not allowed to open, as all non-food retailers are supposed to be closed. In Luxembourg, in France, we are allowed to operate our stores provided that we only sell essentials. As a matter of fact, I just received news that in Luxembourg, we also opened one store, which was closed, because the government has agreed that we are complying with the rules.

In France, we have received approval from the ministry that we are allowed to open stores, however, we are temporarily committing to the lockdown as well. And in Germany, the situation varies by Bundesland or by region. In the Netherlands, all stores are open, and we are in contact with relevant authorities, we make sure that they ought to know that Action is providing essential products to the people of the Netherlands.

Elizabeth Miliatis, Bank of America
OK, thank you. And then one final question. I know it's difficult to say, and apologies if you have mentioned it, but the line has been crackly at some point. In terms of store expansion, you're obviously still opening some stores in France. In the next six months, is there any intention to open anything and if not, potentially will we be seeing double the amount of stores open in the second half, assuming that the virus is under control?

Sander van der Laan
Yes. Well, this will be too early to say, we have now temporarily paused with new store expansion basically in all the markets including France. Normally our store opening programme is more geared towards the second half of the year anyway, but I really can't judge yet when we will start to reopen.

Simon Young, AXA IM
Just one question. What happens to the working capital if you've got only 50 percent of your stores open and therefore sales are down, does that mean you're going to have a working capital outflow and therefore does that reduce your liquidity position?

Joost Sliepenbeek
Yes, I can say a few things about that. Essentially if we would not do anything, then that would be indeed be happening and that is the reason why we've acted and we're currently talking to our suppliers as well as to landlords about extending payment periods as well as in the case of stores that are closed, reducing rent.

Simon Young, AXA IM

OK. And then I might have missed it but can you say anything about the covenants on the debt?

Simon Borrows

We don't any financial covenants on the debt. It's cov-light.

George Godber, Polar Capital

Two questions if I may. First of all, if you have permission to open in France but you're waiting, in part that must be a decision on how you safely open and ensure that you don't just have a stampede in the stores. I was wondering if you could discuss that.

And the second thing was on the self-checkouts. The U.K. experience of self-checkouts, certainly at the supermarket level, was quite interesting, and initially the payback was very attractive, because reducing labour. But in the U.K. supermarkets experienced shrinkage, which is basically people stealing stuff, or putting through nine items and putting the 10th in their pocket.

They took a long time to realize that shrinkage had increased significantly, and therefore they had to then go back and increase security and cameras in the stores, to overcome that lost sales. And I would just be interested if your trials in Holland have led to the same experience. Thank you.

Simon Borrows

George, maybe I'll say a bit about your first question, and then Sander can deal with the second, but also maybe talk about the first as well. I think safety is a huge a consideration. I think there is a pretty fearful mood in France at the moment, so we do have to think carefully about how and when to open. We have some incredibly busy stores in France and we can see practical challenges in dealing with the crowds as you say.

And some of them a may just be plain inappropriate to open, so we're doing quite a detailed exercise on working out which doors, where and how we open and how we use shifts and how we use the right people, so that our staff feel safe in going back into the stores themselves. Sander, do you want to add anything, and then move on to the second question?

Sander van der Laan

Yes, well I fully agree and support what you just said on France, maybe in addition to that, we are preparing a reopening plan and we will probably not reopen all stores at the same point in time, so we need to differentiate it by geography, that's one.

Secondly, we want to do it with the support of our people, so the people of France need to feel safe and secure if they go to work in our stores, we need the commitment of the works councils and also the unions, which as you know, are an important force in France.

But at the same point in time, we also believe that at a certain point, we need to relieve the pressure on the supermarkets, so in that sense we're working towards a reopening. The timing of that has not been set and my team is currently working on a plan including timing. That's on France.

On the self-checkouts, so let me say a few words about it. First of all, we've opened five stores in the Netherlands with pilots last year, and I was actually personally really surprised by the extremely positive customer reaction. Basically from day one onwards, 50 percent of the transactions are already going through the self-checkouts without a lot of marketing from Action, so 50 percent.

So our customers are really ready for it, clearly they're also used to using this with other retailers, even in all the McDonalds you can do self-checkouts. We have done a financial evaluation, both incorporating the investment and the payback of that, the reduction in labour costs and also the impact on shrinkage or stock loss as we would call it. And with the first five stores, we have not seen a material increase in our stock loss. Therefore, we have decided to roll out in the Netherlands, 100 stores and in Belgium, 25 stores.

Then we will take a little pause because there we have a much bigger sample to see if our financial assumption including the labour costs reduction and the shrinkage, if that's still valid. And if that will be the case we will continue the roll out across Europe and it could very well be that we are not going to do self-checkouts in all the stores.

So, the very busy high intensity stores Simon was alluding to in France may be those stores are not the stores where we should have self-checkouts at all. So, but that's why we're doing it in a controlled way.

Chris Brown, JPMorgan

Just a couple of quick questions on 3i Group. Simon before when you done your valuation you've used forward looking earnings where they're expected to be lower. Can you say a little bit about how you approach that given the current circumstances? And how that might interact with what changes you make to multiples? And also have you got a sensitivity number of the NAV to changes in the earnings multiples?

Simon Borrows

We will be looking at forward looking earnings across those companies that we believe will be affected by this, Chris. Not every company will be, in our view, and a number of the companies have started the year very strongly and have good budgets in the same way as Action, and are continuing in the healthcare field and some of the B2B businesses to perform in an unaffected way.

So there will be a split of companies where we do look at in a pragmatic way about the earnings profile rolling forward. We'll obviously think about the multiple in the context of that in particular as well. So, if you'd like we'll bring the two things together.

Georgios Pilakoutas, Numis

OK, great. The first one is regarding the list of categories that you are being described as essential by governments. And I guess if you could get into a bit of detail and what for example is classified as the 39 percent that is considered essential in Germany but doesn't reach the 55 percent that we've seen in some of the other countries?

And then an extension of that question is, how in practice does this work? Are you shutting aisles and putting tape across aisles where there are products that you aren't able to sell? And over time would you be potentially able to move inventory from say Belgium to stores that you have open to increase the output from those stores? That's the first question, please.

Sander van der Laan

Yes, so I think the first question was what is the definition of essentials for the different countries? To explain it a little bit for both France and Germany and also for Luxembourg, so we have 14 categories, do it yourself, food and drink, laundry & cleaning, personal care and pets are being seen as essential categories by all these countries. And then within the remaining 10 categories we have a number of what we call product groups. So there is one level below.

And some of the product groups within certain categories are also being seen as essential. So within the category household goods, not everything is being considered essential and we are not allowed to sell all of that. But for instance, sponges, brushes, cloths, mops and cleaning apps, these are examples of what we are allowed to sell.

Also in multimedia we are allowed to sell certain product groups and we're not allowed to sell all the product groups. And basically when you add it all up it adds up to roughly 55 percent based on last year's sales numbers for France and Luxembourg and a little less than 40 percent for Germany, so that's one.

Secondly, how are we actually doing that? We have instructed our stores to cover up or to use tape, basically to show to the customer which categories we are not allowed to sell and therefore, they are not allowed to buy. I've seen some pictures and a video from that and it looks a bit odd, I would say. But, I would say a customer should be happy with the fact that we still are allowed to offer the essential categories. So that's the way it looks for the customer.

But we've also blocked in our scanning systems the articles and categories which we're not allowed to sell. So we can control from the commercial department centrally basically that our stores in the different countries are complying with the legislation that is currently in place, that's two.

Thirdly, from a stock perspective, we will not be moving stock from one store to another store, because that will be too complicated. But, what we have done, we have basically cancelled, this week, all the orders for all the distribution centres, because basically every DC is receiving, in some cases, a few hundred trailers per day.

And given the fact that in a number of DCs, there is no outflow anymore, we also need to stop the inflow. So, we've stopped the inflow and we've now reordered basically the essential categories for those DCs which are relevant, and we currently are making an overview of which stock do we have and how are we going to rebalance the stock.

And it could be that we need to share some stock from one warehouse to another, but we will not move stock from one store to another, that will be too complicated and too costly.

Georgios Pilakoutas, Numis
OK, thanks very much. And just kind of another follow-up, if you could just expand a little bit what some of the difficulties that you saw in Austria that resulted in the management change and whether you've identified the problems there?

And then secondly on Poland, seems to be going very well there and spoken positively in terms of the store growth, again, any comments in terms of early indications, whether there are other geographies you see particular parallels with and what it might mean for future operational performance?

Sander van der Laan
Yes, thank you. Well, in Austria, we indeed have made a number of interventions in the management and we have replaced the general management in Austria.

The new general manager has started and is currently in an onboarding programme, and will take the helm in two months from now. So, currently we have somebody who's taking care of Austria on an interim basis.

We've also significantly strengthened our management across the board, and that has been really visible in a step-up of the performance both in Q4, it's also in an accelerated improvement in like-for-like and bottom line developments in the first 11 weeks of this year.

In that sense we are happy to that Austria is back on track. Poland is doing really well. The Polish people, they love discount. Don't forget that the Biedronka is the largest food discount in Europe – sorry, in Poland. They have, I think, close to 4,000 stores.

And Poland is the only country where the market leading supermarket is a discounter. So, the Polish love discount. They also love the combination of low prices and surprise.

There's also a lot of latent brand awareness of Action with the Polish people, since many of the Polish people have heard of us from their family and some friends who live in other countries.

Basically, the plan is this year to double the store network in Poland. OK, not sure if still we are going to make that, given the COVID-19, but we are well on track and we see a very good performance of our stores in both the smaller municipalities as well as in the bigger cities. So, in that sense, there is a really fundamental belief in the long-term potential of Poland. Thank you.

Charles Murphy
It feels sort of a little out, given what's going on, but in previous years you've been having to evolve your categories because a couple weren't performing very well. Can you touch on how affective that progress has been?

Sander van der Laan
This is indeed the fourth capital markets seminar since I've leading Action, and in the first three, we indeed had to tell you that we had a disappointing category in each of those years.

That has not been the case in 2019. The only large category which was actually slightly below, in terms of negative or in terms of like-for-like was garden and outdoor.

But, that was purely driven by the enormous hot weather in 2018. So, underlying also garden and outdoor did well, and our categories which performed weaker in 2018 have strongly rebounded in 2019. And similar developments continued in the first 11 weeks of 2020. So, in that sense we are generally happy with the performance of all the categories across the board.

Simon Borrows
And Sander, it's fair to say that the non-discretionary categories are performing particularly strongly as well. And did last year and into this year, and that's the ones with more authority, and they are the big categories in terms of sales.

Sander van der Laan
That's correct.

Simon Borrows
OK, well I'd like to wrap it up there. I'd like to say thank you to Sander and Joost in particular and thank you to everyone for listening and for your questions. OK, have a good morning.