



Q4 2016

EKORNES

February 16th, 2017



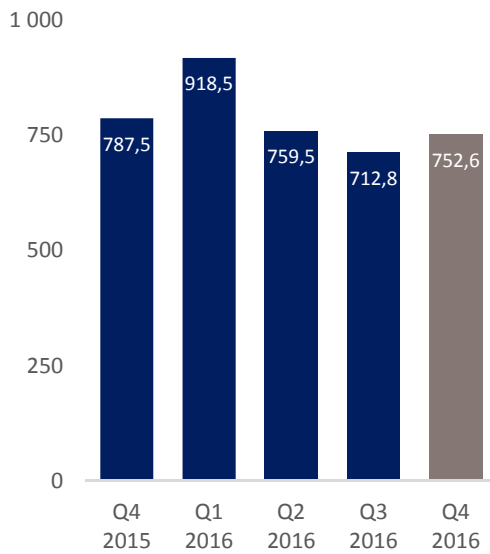
Highlights

- Stable FY 2016 revenues of NOK 3.1 billion, Stressless® slightly down, IMG, Svane® and Contract up
- Year-over-year quarterly revenues down by 4.4%, explained by changes to revenue recognition and Stressless®
- Cost reduction program announced August 2015 delivered, effects materializing into 2017 and 2018
- Quarterly adj. EBIT margin up to 11.8%, from 9.9% in Q4 2015
- Underlying order receipts and order reserve somewhat down
- Continued focus on cost efficiency, increased prioritization of revenue growth initiatives
- Strong cash flow in quarter and year
- Dividend payment of NOK 6.00 per share proposed by the board

Financial results

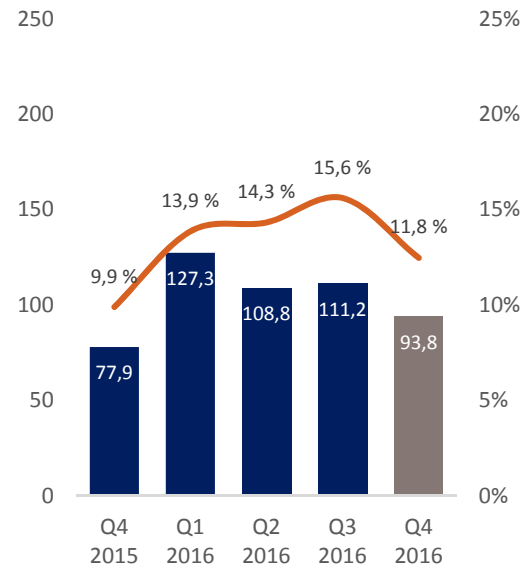
Operating revenues

NOK million



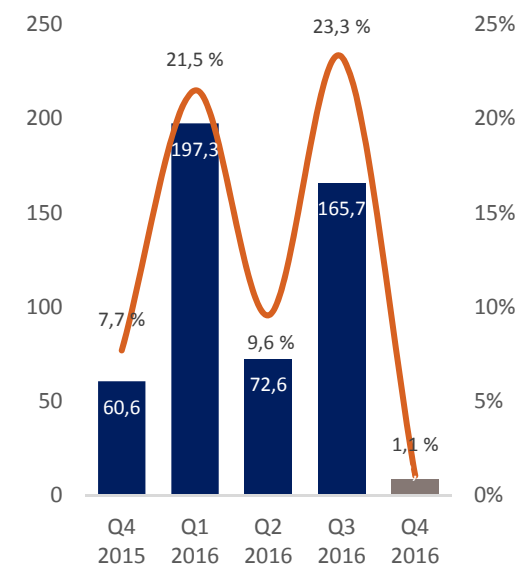
Adjusted EBIT & margin

NOK million



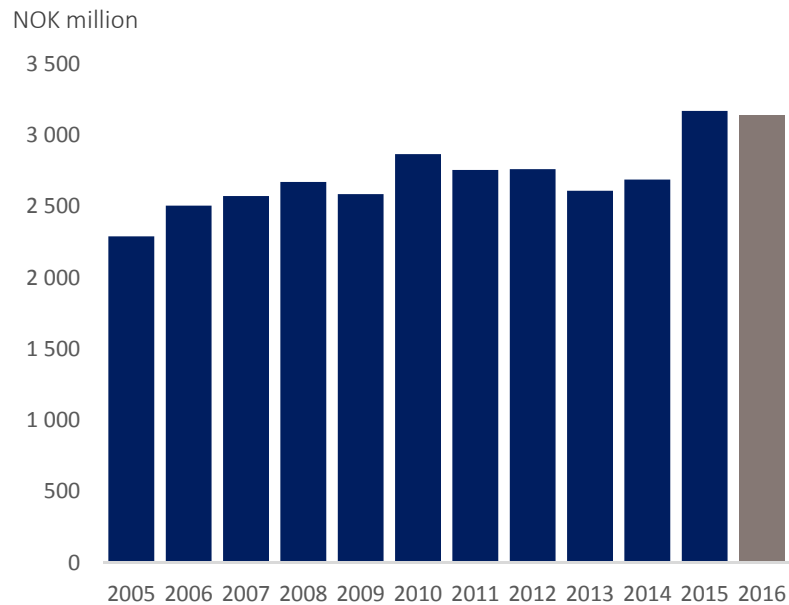
Reported EBIT & margin

NOK million

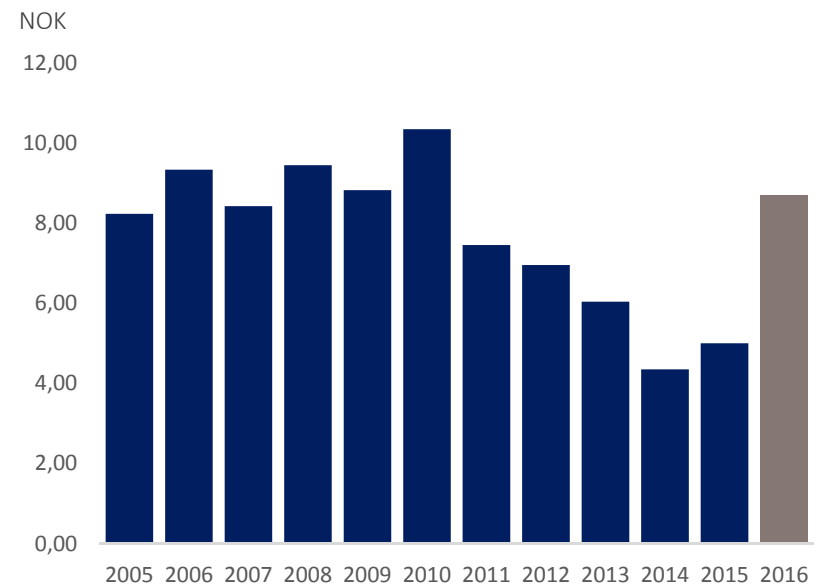


Longer term revenues and earnings development

Operating revenues

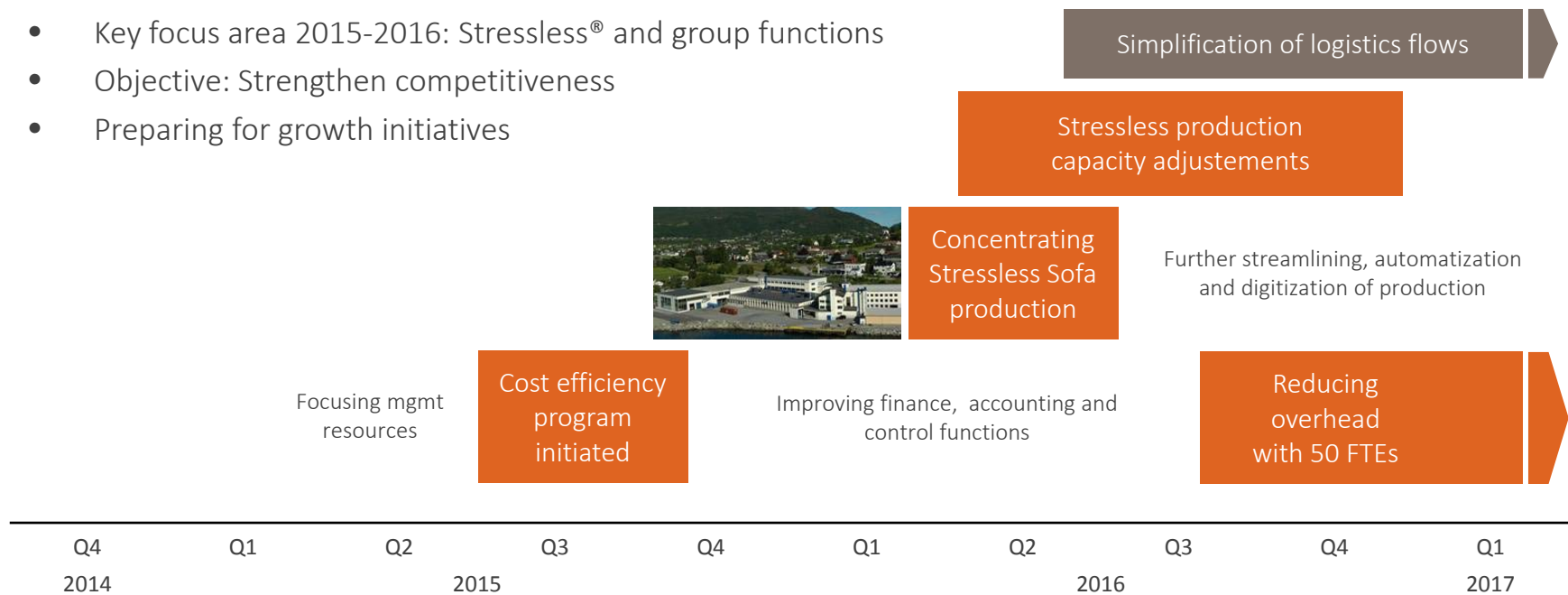


Earnings per share



Measures to improve operational efficiency

- Key focus area 2015-2016: Stressless® and group functions
- Objective: Strengthen competitiveness
- Preparing for growth initiatives



Financial results

(preliminary and unaudited)

Results influenced by special items

- Revenue deferrals (cut-off) NOK 50 million in Q4
 - Reported/adjusted EBIT impact NOK 17 million in Q4
- Changed forex codes in SAP
 - Reported/adjusted EBIT impact NOK 32.5 million full year impact in Q4
 - No impact on pre-tax result/EPS
- Currency effects
 - Loss on unrealized hedge contracts NOK 47.7 million in Q4. Reported EBIT impact

Adjusted EBIT

- Asymmetric EBIT adjustments in Q3 and Q4
 - NOK 20 million **adjusted** EBIT delayed from Q3 to Q4. No impact on full year

Changes to SAP currency codes affects cost picture

NOK million	Change Income	Change CoGS	One-off inventory	Reduction other costs	EBIT effect
Stressless		47.9	26.5	15.9	-5.5
Svane	-4.7	22.3	2.0		-25.0
Contract	1.0	3.0			-2.0
IMG					
Group	-3.7	73.2	28.5	15.9	-32.5

Old practice:

- Fixed/historic forex basis for calculations in SAP, not a common standard
- Transfer from internal reporting to financial accounts through a number of manual calculations based actual forex on extractions from SAP

New practice:

- Transition to actual forex planned during 2016 and implemented 1 October 2016
- The transition revealed errors - the manual calculations did not give the correct accounting lines for all bookings. Resulting in incorrect operational costs, off-set by net financial items
- The error occurred in all segments using the SAP-system – IMG not included

Impact:

- EBIT impact in 2016 negative NOK 32.5 million, all booked in Q4. No impact on pre tax result/EPS

Currency effects

Hedge portfolio value 2015

Hedge portfolio value YE 2015;
NOK -398.4 million, with the
following split:

2016: NOK -201 million

2017: NOK -178 million

2018: NOK -19 million

During 2016 the NOK strengthened towards Ekornes' main currencies

- Decreasing negative value on both realized and unrealized parts of the portfolio
- Realised 2016 losses of NOK 158.8 million
 - Difference between booked negative value of NOK 201 million and actual loss of NOK 158.8 million for 2016 is NOK 42.2 million.
 - Due to earlier hedge accounting the NOK 42.2 million has to be taken as a decrease of revenue and decrease of cost (other gains and losses) – no EBIT impact.
 - For Q3 2016 only cost side was adjusted, under-reporting adjusted EBIT by NOK 20,2 million (no impact on reported EBIT)
 - From Q4 going forward the amount will be adjusted on both revenue and on cost.
- When presenting adjusted EBIT, unrealised gain on remaining portfolio is NOK 95.4 million

Hedging impacts on revenue and EBIT – illustrative

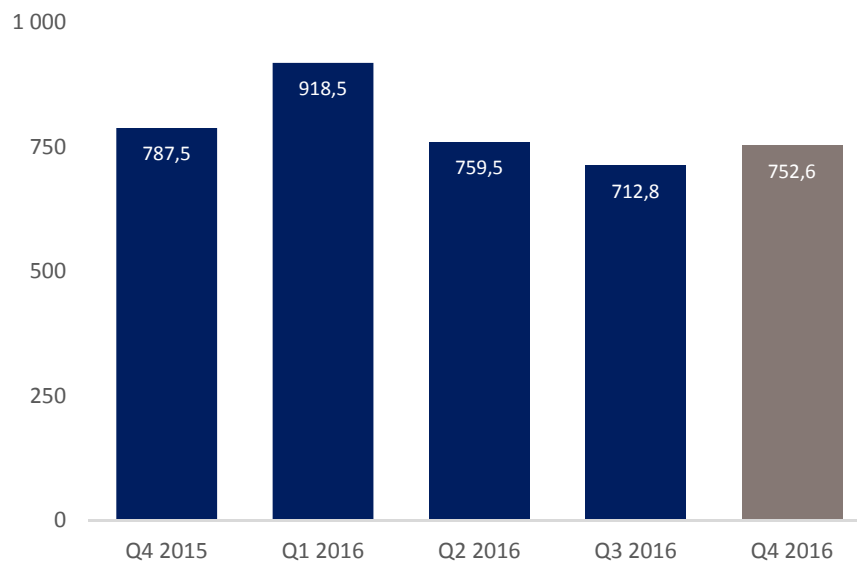
NOK million	Q4 2016		
	Reported	Adjusted*	Without currency hedging - Illustrative
Revenue, gain in value hedge contracts before realisation		42.2	42.2
Revenue, realized loss hedge contracts			21.8
Other gains and losses, gain in value before realisation hedge contracts		22.0	22.0
Other gains and losses, loss in value unrealized hedge contracts		47.7	47.7
<u>Change from reported EBIT</u>		<u>67.7</u>	<u>49.3</u>

NOK million	Full Year 2016		
	Reported	Adjusted*	Without currency hedging - Illustrative
Revenue, gain in value hedge contracts before realisation		42.2	42.2
Revenue, realized loss hedge contracts			158.8
Other gains and losses, gain in value before realisation hedge contracts		42.2	42.2
Other gains and losses, gain in value unrealized hedge contracts		95.4	95.4
<u>Change from reported EBIT</u>		<u>-95.4</u>	<u>63.4</u>

* Includes adjustments for currency only (not IMG contingent consideration and other adjusted costs)

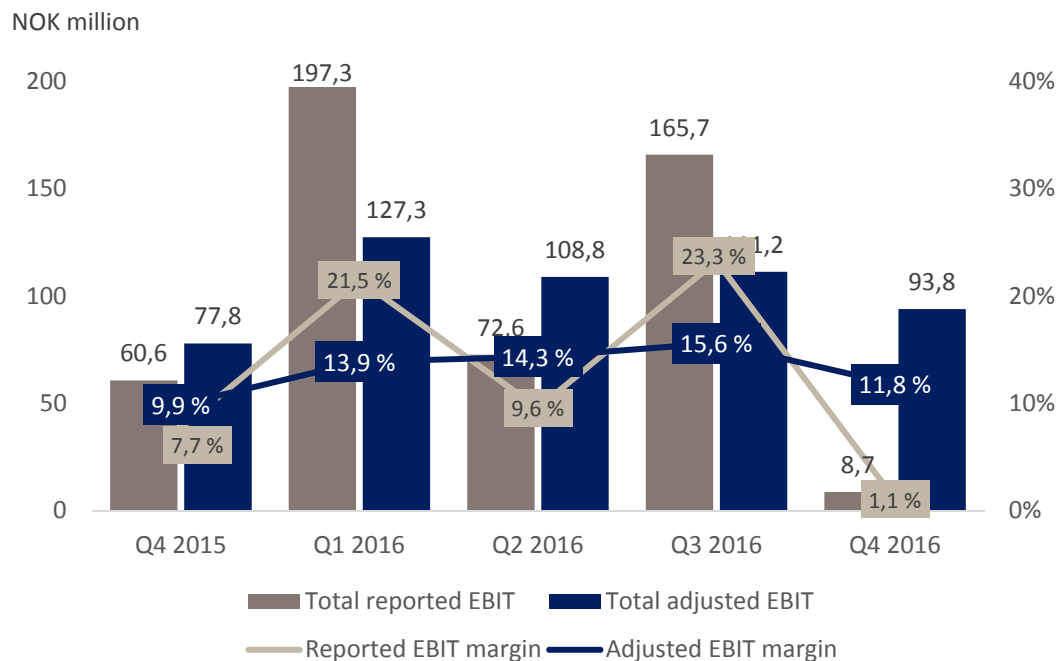
Operating revenue weighed down by Stressless®

NOK million



- Revenues down 4.4% from Q4 2015
 - Changes to revenue recognition moves NOK 50 million in sales to Q1 2017
- Positive underlying development for Stressless® and IMG

Underlying margins improved year-over-year



- Adjusted EBIT margin of 11.8%, up from 9.9% in Q4 2015
- EBIT strongly impacted by special items in the quarter
 - Some improvements in underlying performance for Stressless®
 - Svane® continues to show improvements in underlying operations, weak quarter revealing higher cost level



Cost efficiency program

Announced August 2015

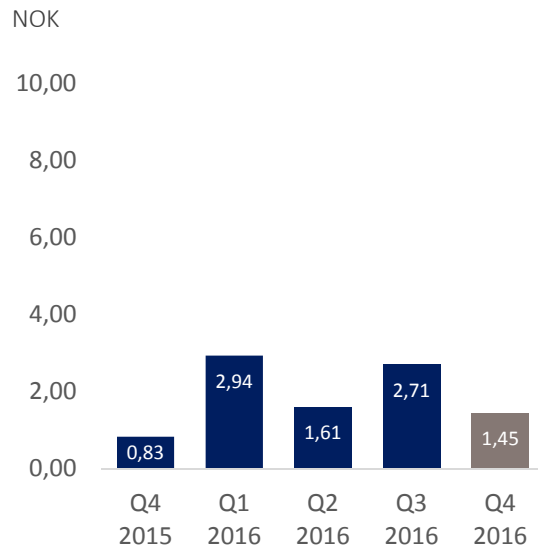
- Aim to reduce costs by NOK 150 million by the end of 2016 compared with the cost level in 2014
 - Main focus on Stressless® and Svane®
 - Could result in increased expenditure towards the end of 2015
- Cost reductions necessary to ensure profitability and flexibility
- The bulk of the savings will come into effect in 2016 and 2017

Status YE 2016

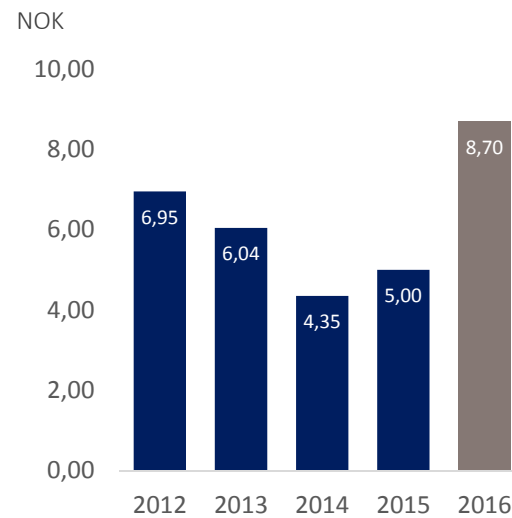
- YE 2014 cost base reduced by NOK 188 million (gross cuts), materializing in 2017 and 2018
- Main reductions achieved through:
 - Streamlining of logistics
 - Streamlining of Stressless® sales and marketing
 - Concentration of Stressless® sofa production, combining two production units into one
 - Reduction in indirect costs, reduction in overhead organization
 - Multiple measures across the value chain
- Net effect for the same period 2016-2017 approx NOK 100 million due to:
 - Changed sales mix increasing costs, will increase revenue
 - Other factors and SAP error

Continued increase in EPS since Q3 2015

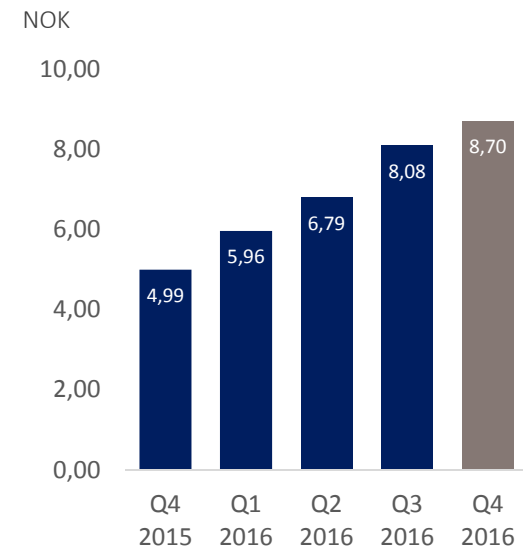
EPS per quarter



EPS per year

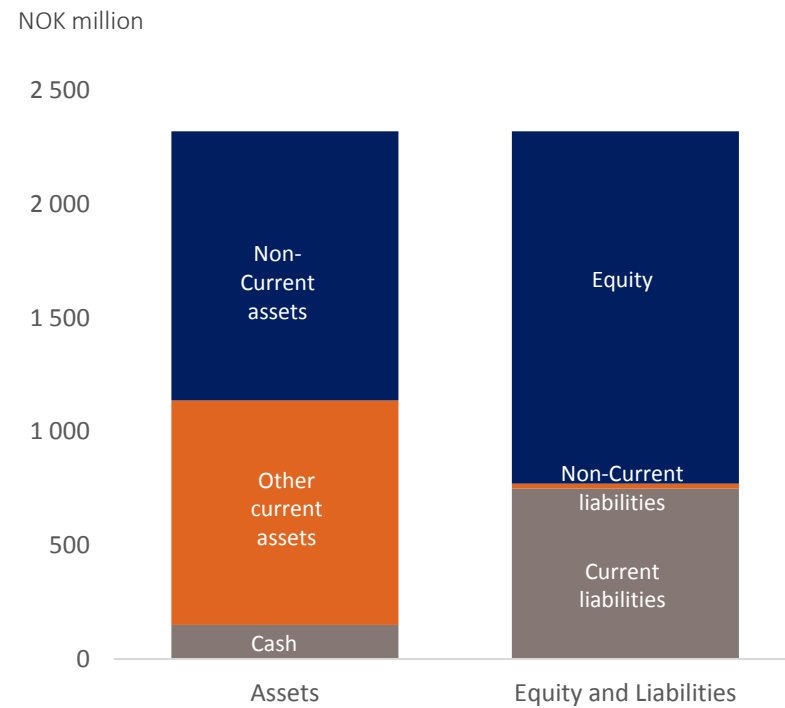


EPS 12 months rolling



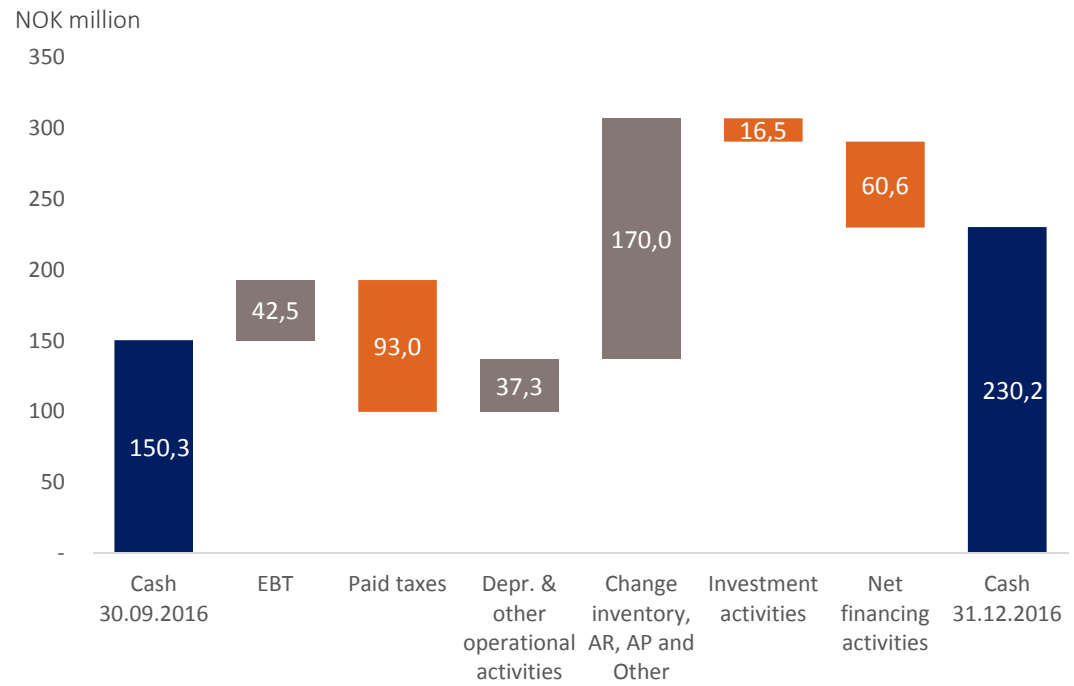
Solid financial position

- Equity ratio up to 70.1%, vs. 52.3% at YE'15
- Liquidity of close to NOK 1 billion
- Cash and cash equivalents of NOK 230.2 million



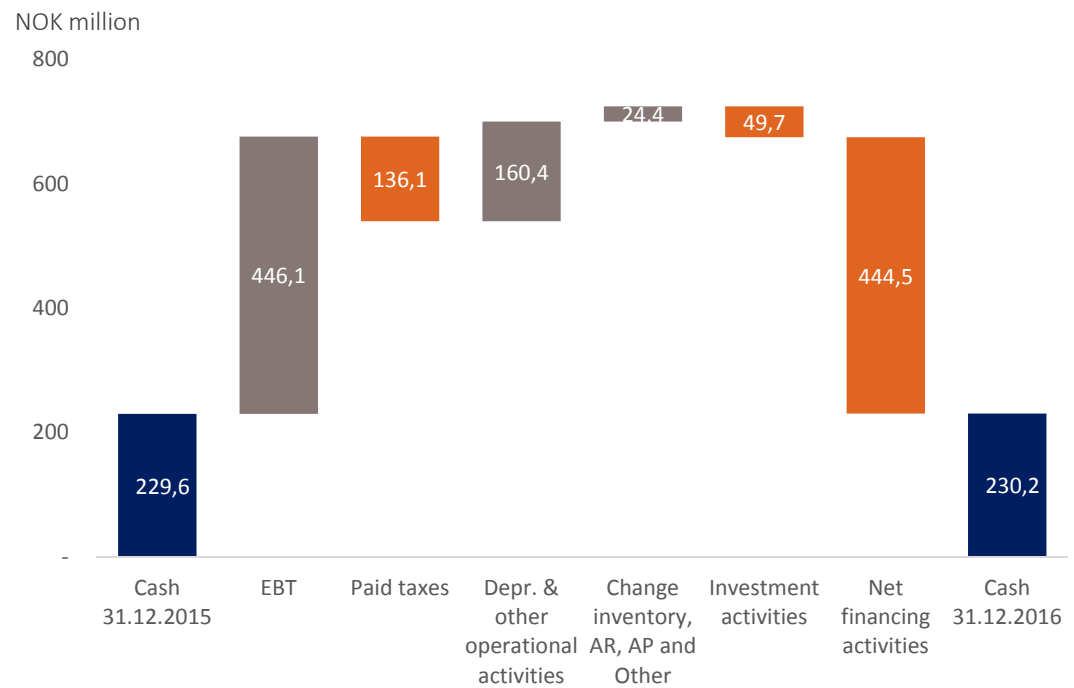
Cash balance driven by strong operating cash flow

- Investments in operating assets at NOK 17.3 million
- Repayment of short term loans of NOK 60.2 million
 - IMG purchase fully repaid
- Net cash increased by NOK 79.9 million during the period

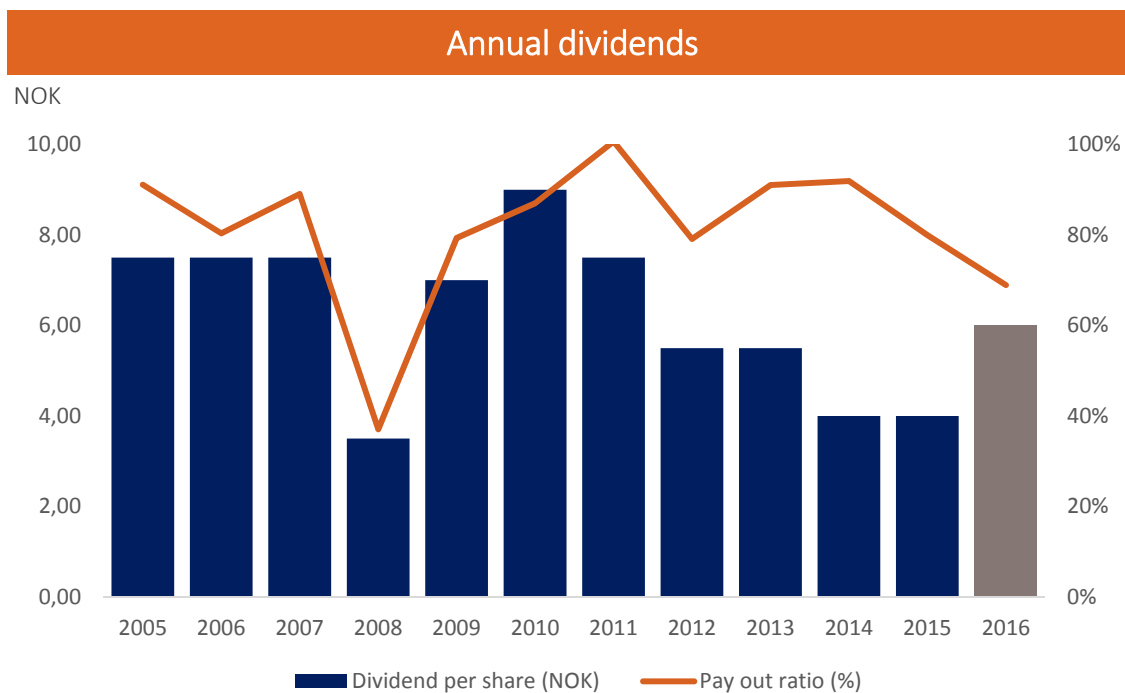


Strong cash flow throughout the year

- Strong cash generation in 2016
 - Dividend of NOK 147 million paid in 2016
 - All short term debt paid in 2016, close to NOK 300 million
- Investments low in 2016, and lower than normal year



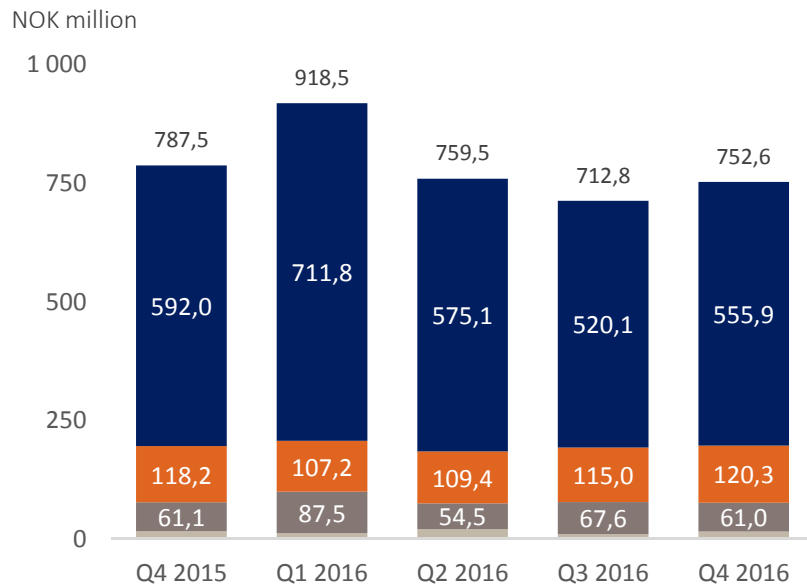
Dividend proposal of NOK 6.00 per share



- The board of directors propose a dividend of NOK 6.00 per share for 2016
- Pay out ratio of 69% of EPS
- Number of shares gives NOK 221million payment
- To be approved by the AGM 3 May 2017 and payed out in May

Operational review

Operating revenue per segment



Stressless

IMG

Svane

Contract



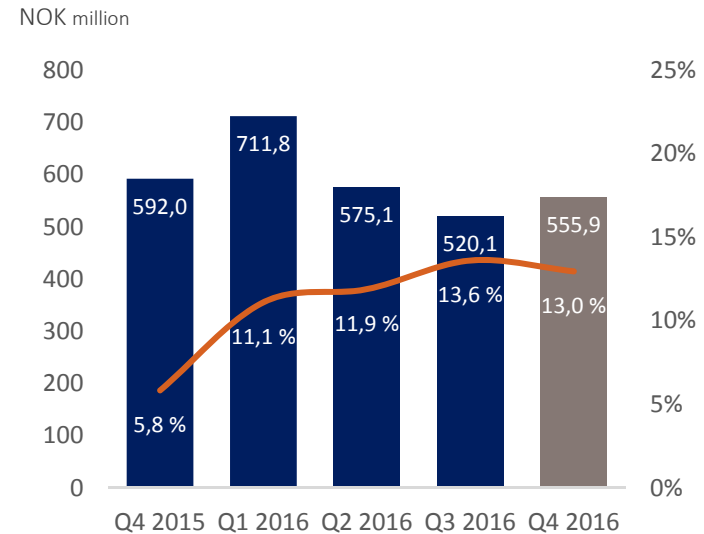


Stressless®

Revenues down, margins up

- Revenues down 6.1% yoy, mainly due to
 - Changes to revenue recognition moves NOK 50 million of sales to Q1 17
 - Underlying revenue, adjusted for changes in revenue recognition and currency, is slightly up
- Cost measures having effect
- Adjusted EBIT margin up 7.2 pp from same period 2015
- Bonus target for employees met for 2016

Operating revenue and EBIT-margin (adj)

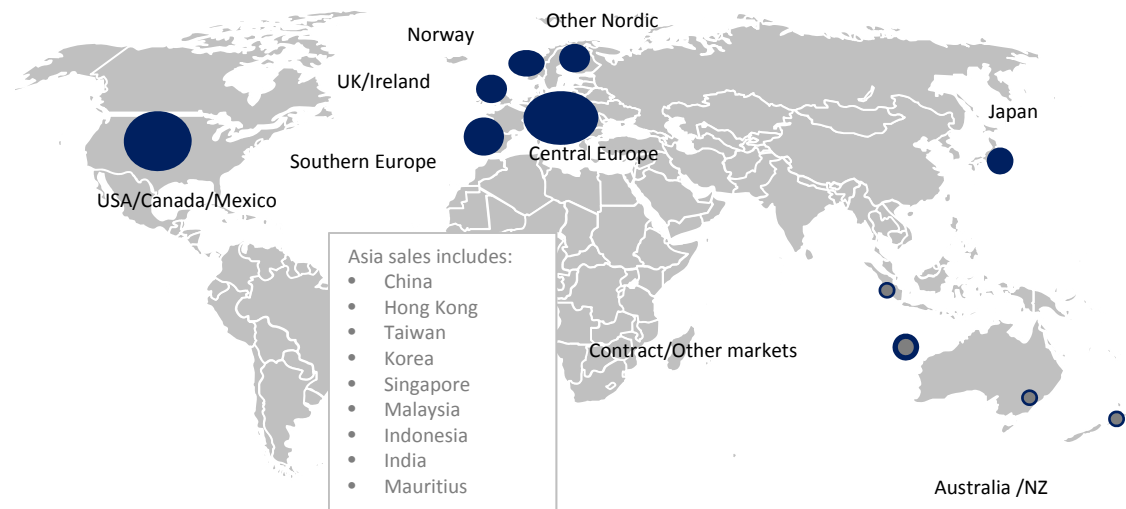


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Stressless®

Mixed picture

- Norway picking up from weak Q4 15
- Positive effects from initiatives in Germany
- US up in the quarter
- UK down, but positive reception of new Signature model
- France remains weak due to competition
- Decrease in underlying order reserve





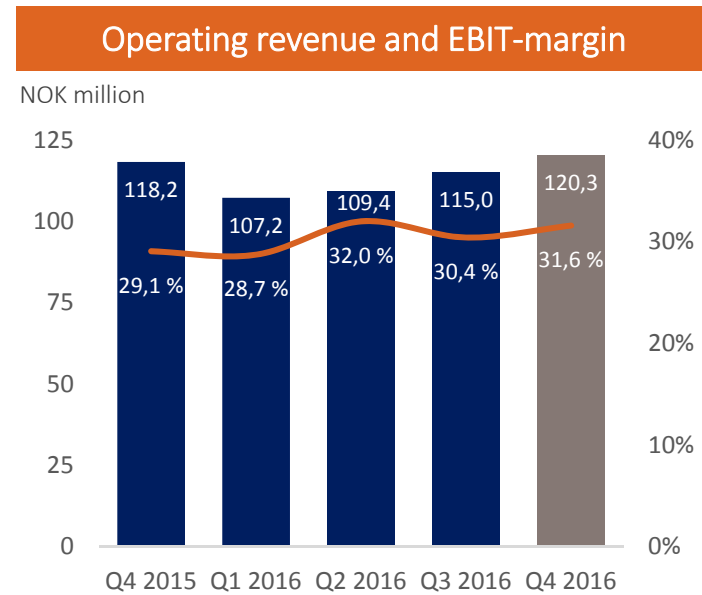
IMG
N O R W A Y

EKORNES®

IMG

Positive revenue and margin development

- Stable revenues yoy
 - Continued positive sales development in core markets
- EBIT margin stable well above the 30% mark
 - Reduced raw material cost
 - More favorable product mix
 - Improved efficiency
 - Good cost control within production an sales



IMG

Order intake increased

- Continued growth in New Zealand and Australia
- North America weak due to lack of internal resources
- Scandinavia marked by tough competition
- Still in an introductory phase in Central Europe and UK

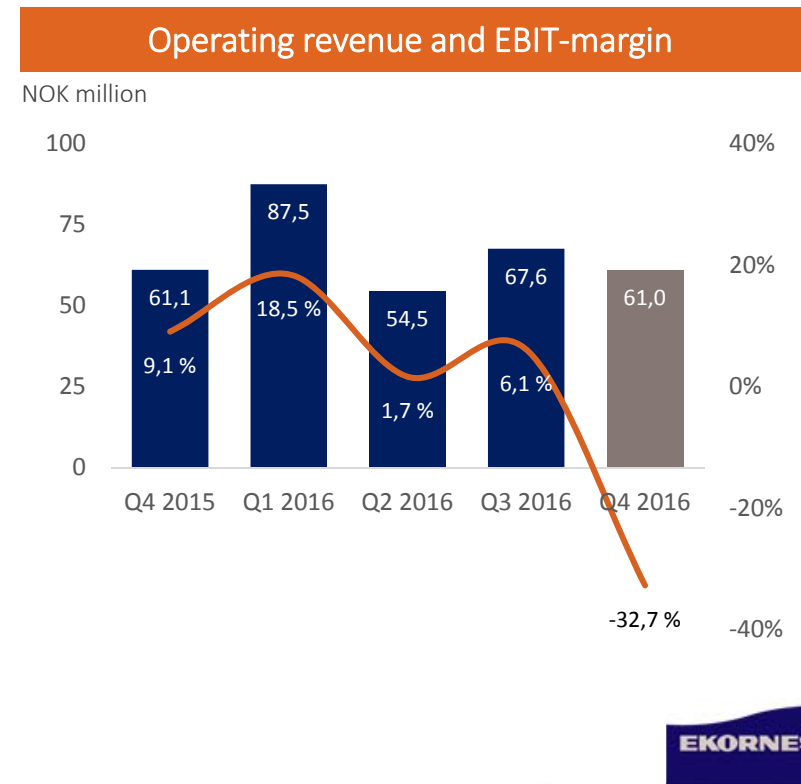




Svane®

Margins largely influenced by change in calculation base

- Small underlying revenue growth after several quarters with strong yoy growth
- Earnings heavily affected by change in calculation-base for CoGS
 - Underlying operational development stable



Svane®

Small underlying revenue growth outside of Norway

- Norway flat compared to corresponding quarter in 2015
- Continued positive development in Denmark and Germany

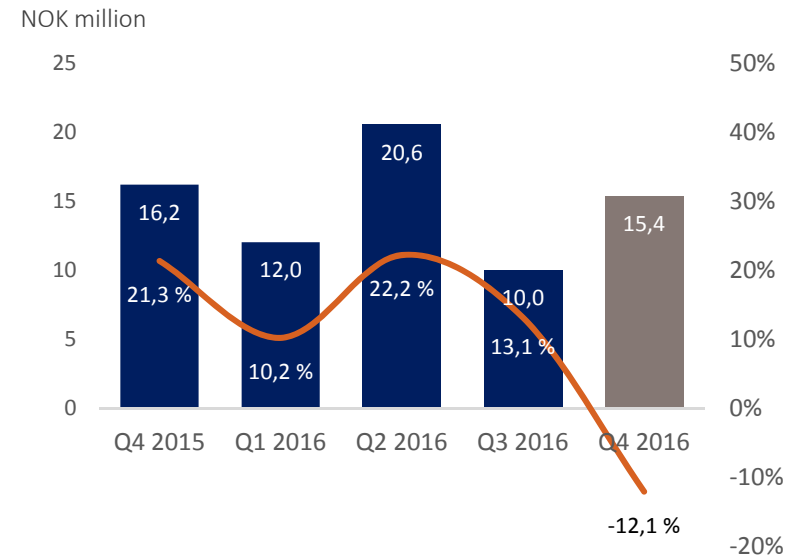


Ekornes® Contract

Increased focus on international yards

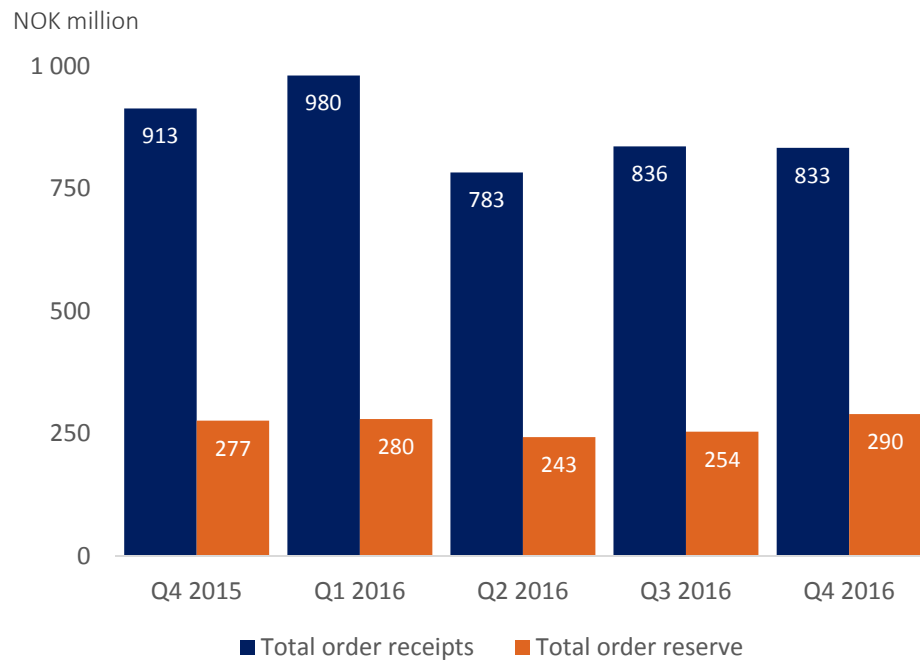
- Quarterly revenue down 4.9% yoy
- Increased focus on international yards in addition to local the players
 - Shift in contract structure from few-large-local to many-small-international
- Positive development in hotel-market with Radisson Blu Plaza contract
- EBIT-margin negatively affected by change in calculation-base for CoGS

Operating revenue and EBIT-margin



EKORNES®

Underlying order receipts and reserve down



- Order receipts of NOK 836 million, down 8.8% from Q4 2015, unchanged from Q3 2016
- Underlying order reserve somewhat down from the previous quarter and the same quarter in 2015
 - NOK 290 million order reserve based on new currency calculation. Historical figures are not changed

Summary and outlook

Increased prioritization of growth initiatives in 2017



- Innovation across the value chain: Product, production and distribution focused
- End-customer centric product development
- Branding and marketing initiatives
- Optimize distribution
- Logistics improvements to simplify flows and better serve retailers
- Exploring sales via digital channels while safeguarding distribution partnerships



Summary and outlook

- Stable FY 2016 revenues of NOK 3.1 billion, Stressless® slightly down, IMG, Svane® and Contract up
- Year-over-year quarterly revenues down by 4.4%, explained by changes to revenue recognition and Stressless®
- Cost reduction program announced August 2015 delivered, effects materializing into 2017 and 2018
- Quarterly adj. EBIT margin up to 11.8%
- Underlying order receipts and order reserve somewhat down
- Continued focus on cost efficiency, priority to revenue growth initiatives
- Strong cash flow in the quarter and for the full year
- Dividend payment of NOK 6.00 per share proposed by the board

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