HORNBACH Holding

The spoken word has precedence

Annual General Meeting of HORNBACH Holding AG & Co. KGaA (virtual)

Presentation by Albrecht Hornbach

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General Partner of

HORNBACH Holding AG & Co. KGaA

Bornheim/ Pfalz

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Dear Shareholders,
Ladies and Gentlemen,
Dear Guests,

On behalf of the Board of Management, I would like to offer you a very warm welcome to this year's Annual General Meeting. Like last year, the coronavirus pandemic meant we decided to hold this year's meeting on a virtual basis. I would like to thank you for your great interest in our company, which you have underlined by taking part in our Annual General Meeting today.

I would particularly like to welcome the representatives of **shareholders' associations, banks, and the press**. And a warm welcome also to those employees who are watching today's meeting either as guests or as shareholders. I would like to thank you, as representatives of the HORNBACH Group's workforce, which now numbers more than 24,000 employees, for your achievements, and above all for your great powers of improvisation and perseverance in the particularly challenging 2020/21 financial year.

Ladies and gentlemen,
I would like to begin by commenting on the most important results of the HORNBACH Group for the 2020/21 financial year before dealing with the first quarter of the current financial year, and providing you with an outlook of developments looking forward.

Our Annual Report for the past 2020/21 financial year is available online at our website. I will therefore limit my comments to the most important facts and figures. In this context, I would refer in particular to the explanatory report of the Board of Management in respect of the disclosures made pursuant to § 289a and § 315a of the German Commercial Code (HGB), which you can find on Page 111 of the Annual Report.

Before we start looking at the past financial year, I would like to take a glance at our shareholder and company structure, particularly for those of you who are not yet so familiar with the HORNBACH Group.

Beneath the Holding, we basically distinguish between three subgroups, namely HORNBACH Baumarkt AG, HORNBACH Immobilien AG, and HORNBACH Baustoff Union GmbH.

By far the largest and most important subgroup is **HORNBACH Baumarkt AG**, which is publicly listed in its own right. As of the balance sheet date, this subgroup was responsible for operations at 161 HORNBACH DIY stores with garden centers in Germany and abroad, as well as at two BODENHAUS specialist retailers. The subgroup has an online shop in each of the nine countries in which it operates and combines this with the respective stationary business to form what we call interconnected retail. Just over 76 percent of the shares in HORNBACH Baumarkt AG are held by HORNBACH Holding AG & Co. KGaA, while just under 24 percent of the shares are owned by other shareholders.

Then we have the builders' merchant business at the **HORNBACH Baustoff Union GmbH** subgroup. At the balance sheet date, this operated 34 regional outlets in south-western Germany and two locations in France. Its main target group involves commercial customers in the primary and secondary construction trades. Furthermore, its range of construction materials, services, and advice also target the needs of private construction clients.

The third subgroup, **HORNBACH Immobilien AG**, pools an extensive portfolio of real estate, chiefly in the form of DIY stores and garden centers that are let to HORNBACH Baumarkt AG on a long-term basis.

Ladies and gentlemen,

The past 2020/21 financial year was dominated by exceptional developments and one of the most successful periods in our company's history.

When I stood before you at the Annual General Meeting one year ago, Europe was in the midst of a slight recovery after the first wave of coronavirus. At the time, we could not foresee how the pandemic and our life in society would develop during the winter half-year. We only had a few months of the year under report behind us and were not able to assess the length or intensity of the impact the coronavirus-related measures would have on the HORNBACH Group.

Looking back now, we can see that the 2020/21 financial year was one of the most successful periods in our company's history. Despite massive restrictions on sales in spring 2020 and winter 2020/21, the past financial year developed far better than we originally expected.

With sales growth of more than 15 percent, the HORNBACH Group passed the five billion euro mark for the first time. We sustainably boosted our market position in the countries across Europe in which we operate. The HORNBACH Group's earnings power reached the highest level since its conversion to IFRS accounting 20 years ago.

In the following section, I would like to provide you with some more details about the most important facts and figures for the past 2020/21 financial year.

On September 30, 2020, we opened a new DIY megastore with a garden center in Oradea, Romania.

At the beginning of 2021, we also celebrated the opening of two specialist stores in our new BODENHAUS sales concept in Berlin and Cologne. BODENHAUS focuses on all kinds of hard floorings, such as tiles, parquet, laminate, vinyl, and terrace tiles. The concept aims above all to meet the needs of professional tradespeople. Having said that, it also addresses the needs of private end consumers who wish to lay their own floors or have them laid for them. Unlike at traditional specialist retailers, nearly all products at BODENHAUS are available in large quantities either directly on site or can be reserved and ordered via the online shop.

As of March 1, 2020, the HORNBACH Baustoff Union took over a location from an existing sales partner in Gersheim in Saarland and turned this into its own outlet. At the beginning of October 2020, we acquired a location from a competitor in Sinsheim, Baden-Württemberg.

As of the balance sheet date, the 163 stores operated by HORNBACH Baumarkt AG in nine countries had total sales areas of 1.92 million square meters. The average store size amounted to around 11,800 square meters.

We had 98 locations in Germany as of February 28, 2021. In our international business, and listed in the order in which we entered the respective markets, we had a total of 65 stores in Austria, the Netherlands, Luxembourg, the Czech Republic, Switzerland, Sweden, Slovakia, and Romania. In all countries in which we operate, we combine the stationary offering at our stores with our online shops to form interconnected retail.

I will turn now to our especially pleasing sales performance.

In the past financial year, **HORNBACH Holding** increased its net sales by 15.4 percent to around Euro 5.5 billion.

At the **HORNBACH Baumarkt AG subgroup,** we also broke through the five billion euro mark for the first time and increased net sales by 15.6 percent to Euro 5,117 million. At 14.7 percent, the like-for-like sales growth net of currency items was higher than at any time since the IPO of HORNBACH Baumarkt AG in 1993.

In **Germany,** we reported like-for-likes sales growth of 18.6 percent. Based on the 2020 calendar year, we outperformed the German sector average by more than eight percentage points. That is a huge lead. This way, we expanded our market share in Germany from 11.3 percent to 12.0 percent, and that without opening any new DIY stores.

Our **international** HORNBACH locations, which were harder hit by lockdown measures than their German counterparts, particularly in spring 2020, increased their like-for-like sales net of currency items by 10.8 percent. We gained market share here too, outperforming the sector by more than four percentage points in Austria, for example, and by 2.5 percentage points in Switzerland, with both figures referring to the 2020 calendar year.

With 12.8 percent growth in its net sales to Euro 338 million, the **HORNBACH Baustoff Union GmbH subgroup** rounded off the superb sales performance of the HORNBACH Group in the 2020/21 financial year.

One particularly striking aspect in the past financial year was the growth in our online DIY business.

Our **online sales** (including click & collect) more than doubled year-on-year to Euro 852 million. The online share of the subgroup's sales rose from around 10 percent to nearly 17 percent. A glance at the details underlines the extent to which consumers turned to our online channels, particularly during periods in which our stationary activities were subject to restrictions. Direct mail sales showed growth of 74 percent. Click & collect, a service we have long offered at HORNBACH under its German name of “Reservieren & Abholen”, even surged by 180 percent. During the lockdown in January and February 2021, click & collect was the only way for most of our locations to provide private customers with goods on a stationary basis. Now that stores have reopened, we have also seen that our customers are making far greater use of our online business than before the pandemic. Customer behavior has changed sustainably.

If we cast a glance at the latest statistics published by Dähne Verlag on gross sales at Germany's five largest DIY store operators, it is clear that, even among these sector leaders, we reported by far the highest level of relative year-on-year sales growth in the 2020 calendar year. With growth of more than 21 percent, we were four percentage points ahead of Toom, seven ahead of Bauhaus, and even nine ahead of Obi. At 11.6 percent, the lowest level of sales growth in 2020 was reported by Hagebau, which we also overtook in terms of total sales. We maintained our top position in terms of sales per square meter and sales per store, with a very substantial lead over our competitors. Our productivity per square meter and per store is crucial for our earnings strength and thus provides a key foundation for our price leadership.

Based on information so far available to us from the DIY sector, by the way, at the beginning of the current calendar year we even managed to extend this impressive lead in terms of sales growth even more clearly, and that especially in the two tough lockdown months of January and February.

So what were the main reasons for the HORNBACH Group's thoroughly pleasing business performance in the 2020/21 financial year?

Consumers' withdrawal to their own four walls and the increasing number of people working from home created a historical level of demand for DIY product ranges. Never before has so much renovation work been done, never have so many pools been installed, barbeques bought, or rooms painted. For many people, projects at home and in the garden were a meaningful, at times necessary occupation in a period with few alternative pastimes. That alone provided the whole of the DIY sector with a one-off boom during the pandemic year of 2020. What really drove the outperformance, in some cases dramatic, of HORNBACH's DIY stores and garden centers and the builders' merchant business, however, was the fact that we could satisfy these increased customer needs particularly well even in the toughest conditions. More than anything, we owe that to our **interconnected retail (ICR) strategy.** And to the untiring commitment shown by our **employees,** who had to adapt to ever new conditions and did an absolutely fantastic job!

In spring 2020, we developed hygiene concepts in no time at all to protect our customers and staff. During the 2020/21 financial year, we made additional dispatch centers operational to cope with the sharp rise in online orders. We continually adapted our processes in line with ever new requirements to combat the pandemic, some of which introduced at very short notice.

We benefited from the fact that we have operated interconnected retail (ICR) for many years already and learned how to be there for our customers across all channels. Nearly all of our product range is available online, as are very many additional articles. At times when private customers were not permitted to enter stores, we generated a large part of our normal sales with click & collect or by sending products directly to customers or to building sites. This combination of a proprietary logistics networks and our megastores, which also serve as warehouses and offer good stocking capacities, was a key factor in our success.

Not only that, commercial customers, and tradespeople in particular, increasingly turn to our DIY stores as competent partners. The sharp rise in demand drove growth not only in the DIY retail business, but also enabled the HORNBACH Baustoff Union outlets to post a very pleasing sales and earnings performance.

The close dovetailing of stationary stores, online shops, and logistics impressively confirmed the strength of our business model in the past financial year.

Here, it paid off both for us and for our customers that we had invested decisively in ICR in the past. **Since 2010, we have invested half a billion euros in digitalizing our business model.** That “cost us a few grains”, as the German saying goes, but we were and are convinced that this forward-looking focus will pay off in the long term. The results for 2020/21, the year of the pandemic, offer impressive evidence in this respect.

In the next section of my presentation, I would therefore like to turn to the most important key earnings for the past financial year.

The strong sales growth and significant improvement in our market position in the countries in which we operate provided the foundation for a very pleasing earnings performance in the past 2020/21 financial year.

The HORNBACH Group’s EBIT adjusted to exclude non-operating items (**adjusted EBIT**) grew by 44 percent to Euro 326.4 million, with this being driven above all by strong earnings growth on the level of the HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH subgroups. The **adjusted EBIT margin** at the overall Group soared from 4.8 percent to 6.0 percent – that is a level we have not achieved since the conversion to IFRS accounting 20 years.

The adjustment involves excluding non-operating, extraordinary charges on earnings, particularly in connection with impairments, which showed a slight increase from Euro 13.2 million to Euro 14.5 million.

Consolidated operating earnings (EBIT) including these non-operating items rose by 46 percent to Euro 311.9 million.

Earnings before taxes (EBT) also grew significantly in the past financial year, rising by 60 percent to Euro 266.1 million. **Consolidated net income** including minority interests increased by 63 percent to Euro 201.4 million.

I am especially pleased to present our **earnings per share** of Euro 10.33 to you. This corresponds to a year-on-year increase of 57 percent.

These strong earnings figures also boosted our share price, which stood at Euro 78.20 at the end of the financial year on February 28, 2021. This corresponds to an increase of 54 percent compared with the beginning of the financial year. Following publication of our results for the first quarter of 2021/22 on June 25, the Holding share stood at nearly Euro 100 and thus benefited from further upward momentum.

Let us have a look at the Group's **financial and asset position** in the 2020/21 financial year.

Cash-effective investments rose from Euro 131 million in the previous year to Euro 154 million in the year under report. Somewhat more than half of investments involved land and buildings, while the rest was mainly channeled into plant and operating equipment at new and existing stores, as well as into software.

The funds for investments were taken in full from the cash flow from operating activities, which rose from Euro 324 million to Euro 347 million in the 2020/21 financial year. The free cash flow came to Euro 197 million.

This positive cash flow was also reflected in our balance sheet via the increase in cash and cash equivalents. Our balance sheet continued to show great stability and continuity in the past financial year. Due to the increase in liquidity and higher inventories, **consolidated total assets** grew to Euro 4.0 billion as of February 28, 2021.

At the same time, our **equity ratio** rose from 42.7 percent in the previous year to 44.2 percent. It therefore remains very high, particularly when compared with those at other retail companies.

In summary, I can establish that:
2020/21 was one of the most successful years in the company's history. The HORNBACH Group benefited from past investments in its ICR strategy and thus further significantly improved its asset, financial, and earnings position after an already very good previous year.

Dear shareholders,
It is important to us that you too should participate in the company's successful performance. Given the pleasing earnings growth, we at the General Partner and Supervisory Board of HORNBACH Holding AG & Co. KGaA are therefore proposing an increase of one third in the dividend to Euro 2.00 per share for approval by today's Annual General Meeting. This corresponds to a payout ratio of 19 percent and a dividend yield of 2.6 percent as of the balance sheet date on February 28, 2021. We are convinced that this level of distribution represents a good compromise between allowing our shareholders to participate fairly in an exceptionally good financial year and a level of dividend that we can also maintain and ideally further extend in the long term. As you will be aware, in its dividend policy HORNBACH aims to distribute a dividend each year that at least matches the previous year's dividend. In the long term, we still view a distribution ratio of 30 percent as appropriate. Against this backdrop, I would encourage you to approve this higher level of dividend.

Ladies and gentlemen,
Let me turn now to our current business performance and to our outlook. We published our first-quarter results on June 25.

In the first three months of the new 2021/22 financial year, we latched seamlessly onto the success of the past financial year. Compared with the record figure reported for the previous year's quarter, we increased our **consolidated sales** by a further 6.4 percent to around Euro 1.7 billion. And that, although our sales activities were even more highly restricted than in the previous year's Q1 and, on top of that, the weather was also unusually cold in the spring.

Sales at the **HORNBACH Baumarkt AG subgroup** rose by 5.6 percent. On a like-for-like basis and net of currency items, our DIY sales rose by 4.3 percent in the first three months. Thanks to our interconnected retail strategy, we were able to satisfy the persistently high demand for DIY product ranges very well and, where necessary, divert this demand to our online channels.

In **Germany,** we managed to maintain the previous year's extremely high level of sales although new paradigms in the country's pandemic policies meant that around 60 percent of our stores on average were not regularly open. Our stores in Germany have only been accessible to private customers without restrictions since June 7.

In **Other European Countries**, our net sales grew by 9.5 percent on a like-for-like basis and net of currency items. Luxembourg, Romania, Sweden, and Switzerland were the only countries where our stores fully open in the first quarter; in all other countries, restrictions were also in force, in this case through to May 10.

The **HORNBACH Baustoff Union GmbH subgroup** generated sales growth of 20.5 percent in the first quarter of 2021/22. This growth was predominantly driven by the sharp rise in demand for construction materials among professional customers. Thanks to its high-performance network of outlets and good stocking policies, HBU further boosted its competitive position in the quarter under report.

Online orders and click & collect sales showed further above-average growth in the first quarter of 2021/22. Overall, online DIY sales (including click & collect) rose to Euro 375 million, up 71 percent on the previous year's quarter. On a rolling twelvemonth basis, we thus exceeded the one billion euro mark for the first time, with online sales accounting for around one fifth of total sales.

Our earnings performance has moved to a significantly higher level than prior to the pandemic. It has to be said that sales are significantly harder to generate in lockdown conditions. That is simply because far more input was required from our colleagues on location to meet the surge in click & collect sales. Year-on-year, the further rise in order volumes in the online shop led to higher costs to ship goods to customers. Moreover, there was an upward normalization in some cost categories, and here above all in advertising and maintenance expenses, both of which were significantly scaled back during the first wave of the pandemic in the previous year.

Operating earnings adjusted to exclude non-operating earnings items (adjusted EBIT) nevertheless maintained their ground very well. This key figure showed a comparatively marginal decline of 2.2 percent to Euro 169.1 million and was thus significantly higher than the figure of Euro 96.9 million reported for the pre-crisis Q1 of 2019/20.

When we published our Q1 results on June 25, we also specified our sales and earnings forecast for the current financial year in greater detail.

Due to our strong performance in the first quarter and persistently high customer demand for DIY and construction product ranges, we now expect the current year’s consolidated sales to exceed the figure of almost Euro 5.5 billion reported for the 2020/21 financial year by between one and five percent. We expect adjusted consolidated operating earnings (adjusted EBIT) for the current financial year to amount to between Euro 290 million and the previous year’s figure of Euro 326 million. We therefore aim to achieve an adjusted EBIT margin of between 5.3 percent and 5.7 percent in the current 2021/22 financial year. This is significantly ahead of the figure of 4.8 percent reported for the pre-crisis 2019/20 financial year and the average figure of 4.5 percent for the past 20 years.

I have to say that it is still difficult to assess the macroeconomic risks resulting from the ongoing uncertainties surrounding the pandemic. And then there are imponderables concerning commodity price rises and supply bottlenecks on global procurement markets. However, these risks are countered by the visible progress currently being made in combating the pandemic across Europe and what we believe will be a long-term rise in demand for construction and DIY products. Trend researchers have even proclaimed the “decade of the home.” That should provide a good foundation for our business performance not only in the current financial year, but also fuel demand for construction and home improvement projects in the longer term as well.

Ladies and gentlemen,
We are consistently developing our business model further in line with customers' needs and in ways that harbor the greatest benefits for our customers. That includes stationary stores just as much as new product ranges in the online shop, extended remote advice solutions, and online configurators.

Five new openings of DIY megastores with garden centers in other European countries are scheduled for the current financial year. In Trollhättan, we opened our eighth store in Sweden on June 29. This will be followed in the second half of the year by new store openings in Romania, the Netherlands, and Switzerland. Furthermore, we will be replacing an older store in Paderborn with a new one. The investment budget is therefore expected to significantly exceed the figure of Euro 154 million for the previous year.

As far as the web shop and its technological links to the stores are concerned, we talk here about investments not so much in terms of CAPEX, but rather of current expenses, such as personnel expenses for developers and technological infrastructure costs. Here too, we will be further developing our activities in the current year. Specifically, we will be relocating our shops to a new platform that, as well as enhanced scalability, will offer numerous operating benefits. That is important if we wish to defend and extend our lead over competitors in this area.

I am delighted to have had the opportunity to present the highlights of the past financial year to you and to provide you with an outlook for the current financial year. Thank you for your interest!