



Max Stock Ltd.

Third Quarter 2020 Earnings Results

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Randy Konik, *Jefferies & Company*

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PRESENTATION

Operator

Thank you for joining us today to discuss Max Stock's Third Quarter 2020 Earnings Results.

On the call today are Evan Neumann, Co-Chief Executive Officer, and Nir Dagan, Chief Financial Officer.

If you would like to ask a question today, please log on to the webcast presentation. All questions will be taken from the web. You'll find the webcast link located in the Events section of Max Stock's IR website at <https://ir.maxstock.co.il>.

It should be emphasized that during this call, the Management will present the third quarter 2020 results and other information as presented in the investor presentation, and that information includes forward-looking information as defined under the Securities Law 5728-1968. The forward-looking information includes forecasts, projections, estimates, or other information which refer to a future event or matter, the eventuation of which is uncertain and/or not within the Company's control. The forward-looking information is based on the current information held by the Company or its current adjustments.

With that, I'll turn the floor over to Evan Neumann.

Evan Neumann

Thank you, everyone, for joining us today for our first earnings call as a public company.

Having been with Max Stock for almost seven years, it was incredibly rewarding to recently complete our IPO and begin the next chapter in the Company's exciting history.

Over the past 15 years, we have evolved Max Stock into Israel's leading extreme-value retailer of everyday essentials, with 50 stores across the country. The winning formula has been our ability to carry

on implementing our secret sauce, which is to provide the right product at the right price, combined with superior customer service and a highly enjoyable shopping experience.

Our attractive store model, which includes both large and smaller formats, supports a long run rate for growth with the opportunity to more than double our footprint in Israel over time.

For those on today's call and webcast, if you haven't had a chance to visit one of our stores, let me spend a moment describing our concept in more detail. Max is known for carrying a broad selection of merchandise across six major categories: housewares, toys and babies, office and school supplies, consumables, basic apparel, and arts and crafts. We have also increased our range in categories such as sports and electrical, that have really accelerated in growth due to the Corona.

We continue to offer our customers their everyday needs with a mix of white label products, of prices up to 50% below conventional retailers. We're able to do this thanks to our differentiated sourcing model, led by our highly experienced procurement team. Approximately half our inventory is sourced internationally, primarily from Asia, with the other half coming from local suppliers.

We also look to excite our customers with a treasure hunt in-store experience and an easy-to-navigate layout, featuring a rotating first aisle of seasonal favorites.

As I mentioned earlier, we operate both large and small store formats, with our large stores carrying our full merchandise assortment and are located in highly accessible, mostly destination areas. These stores are roughly 20,000 square feet and are Company-owned, as well as with a partner-manager model.

Max 20, our smaller format, are mostly franchised stores located in city centers with an average size of 2,000 square feet. Max 20 features a curated merchandise assortment with price points of \$6 or lower, 20 shekels. The Max concept captures the elements from several best-in-class U.S. retailers such as Target, Five Below, Ollie's, Wal-Mart and Grocery Outlet, to name a few.

Our Max store economics are incredibly compelling, with target store-level EBITDA margins in the low double-digit range, and cash-on-cash returns of approximately 75% in year one. Today there are 50 stores in total; 35 large Max stores, and 15 Max 20 smaller stores. We believe we can more than double our square footage in Israel over the medium to long term, and we have the infrastructure in place to achieve this goal.

In 2018, we constructed an 80,000 square foot distribution center to keep up with demand, and in 2020, we added a new 70,000 square foot distribution center to support our future plans.

Beyond store expansions, our plans also include continuing to drive comparable store sales. Current and future strategies on this front include: increasing our traffic and basket size by providing a differentiated shopping experience and deeper range of products - in this quarter, you can see that we increased our basket size by 20%; enhancing customer experience through exceptional service and digital engagement; providing value and variety to customers through dynamic merchandising; and leveraging our first aim of ever-changing products to capture the seasonal demand. We are also capturing and tracking customer data analytics, and we are enhancing distribution capabilities to drive increased inventory replenishment right into the store.

Coming into 2020, we had posted positive comp growth for consecutive years, including a 6% increase in 2019. For the first half of 2020, comps declined 7% due to a mandatory store closure for March 26 to April 19, following the COVID-19 outbreak.

After shutdown restrictions lifted and stores reopened, comps quickly rebounded into positive territory, increasing 17% for the third quarter, and trends have remained strong into the fourth. It's very critical to point out that the general lockdown in Israel was only the last 10 days of quarter three, and we believe that the same results would have been achieved without the general lockdown.

As you heard, there is tremendous opportunity for growth across our business. Our model generated strong third quarter results, which Nir will review in a moment. I will walk through some headlines and then pass it onto Nir.

As you can see, on Slide 4, quarter three 2020, we had a very strong performance. Total revenue growth was 25%, and same-store sales growth, 17%, gross profit 25%, EBITDA growth post-IFRS 16, 45%, and net income growth, 31%.

I'll now pass it over to Nir, our CFO, to go over the numbers in more detail.

Nir Dagan

Thanks, Evan. It's a pleasure to be speaking with you today.

Our business performed very well during the third quarter, and this is reflected in our financial performance. For today's presentation, we have converted our results to U.S. dollars from Israeli shekel.

Slide 5, revenue. Total revenue was 262 million NIS, up by 24.7% from 210 million NIS in the third quarter of last year. The increase in total revenue was primarily by a 17% increase in comparable store sales and the addition of two new stores. The increase in comparable store sales was driven by a larger basket size, as Evan mentioned.

Our gross profit this year increased by 24.8% to 120 million NIS, from 82 million NIS in the third quarter of 2019, while gross margin remained flat at 39.1%.

Adjusted EBITDA, which excluded the impact of IFRS 16, increased by 54.8% to 46 million NIS in this third quarter, from 30 million NIS in third quarter of last year.

Net income increased by 31% to 26 million NIS, from 20 million NIS last year.

Slide 6; with the results for the first nine months, you can see the revenue, gross profit, Adjusted EBITDA and the net income. The revenue excluded the one-time bulk operation, up by 8%. The gross profit up by 8% and keeping the same margin. The Adjusted EBITDA, up by 25%, was a higher margin, and net income higher by 14%.

Slide 7; here we have a summary of the P&L. You can see the SG&A expenses increased this quarter to \$56 million, from 51.8 million NIS in last year's third quarter, primarily driven by growth in volume activities; but as a percentage of sales, the SG&A expenses decreased to 21.5% in this third quarter from 24.7% in third quarter of last year. The 320 basis points improvement was driven primarily by operating leverage on higher sales.

For the third quarter, operating income increased by 41.9% to 41 million NIS, compared with 29.1 million NIS in the third quarter of last year.

Slide 8; here you can see what I explained about the growth in the revenue, driven mostly from same-store sales and also by other factors as well.

Slide 9; here we see the EBITDA growth, up from margin expansion and up from revenue growth.

On Slide 10, we have the LTM numbers, as Evan mentioned, we have 50 stores at the moment.

Turning to the balance sheet, Slide 11; at September '20, our cash and cash equivalents totaled 155 million NIS compared with 46 million NIS as of December 31 last year. The nine months increase was driven from cash generated from operations. As of September 30, we had net cash of 77 million NIS, compared to 10 million NIS in the end of 2019.

Now it's back to Evan.

Evan Neumann

Okay. Thanks, Nir.

As we can see on Page 12, which is kind of in line with Page 14 of our long-term financial targets, we are delivering on our growth strategy. Our comparable store sales, like you said, were 17%. We grew our store base by 6%; and our operating margins, 200 basis points to 16%.

On Page 14, we can see that we're still on track, as we mentioned like we did in our IPO, for our unit growth of three to five stores annually; our annual growth, low to mid-teens; our like-for-like sales of 3%; EBITDA margin expansion, 200 basis points; and our annual net income growth of 18% to 20%.

For a few closing comments, I'd just like to mention how we have such a great team to execute our growth strategy. This includes our passionate Sales and Management team, which has over a hundred years of combined retail experience, along with the tremendous group of store managers, which are partners and associates that are committed to delighting our customers through an immersive, highly enjoyable shopping experience.

At the same time, our recent IPO has further strengthened our Company. Max has a very strong financial balance sheet with a positive cash flow, and with a business already built to scale, we are well-positioned to fuel continued margin expansion and generate enhanced shareholder value in the future. I truly believe we have developed something special, and I look forward to building on our recent accomplishments for many years to come.

Thank you. We'll now go over to our Q&A, which have been posted.

The first ones are from Randy Konik, Jefferies' Analyst.

The first question: can you talk about some changes that we have been seeing with customer behavior since the lockdown in Israel? Are customers buying more per visit, less visits?

If you're talking about quarter three, because we're talking about it, like I said, the general lockdown was only 10 days of quarter three, so we haven't seen much change in customer behavior. What I can say is that we are not a tourist-based business, which means that in the period of quarter three, Israel generally has a lot of tourists and a lot of Israelis go out. A lot of Israelis did not travel, hence they were more at home which led to more shopping, and I believe that's why our basket size increased significantly and our summer range flew out. We were sold out very quickly of summer accessories and pool accessories.

We've seen increased order quality and basket size, but then we haven't seen a real impact due to lockdown.

Question number two: I believe the stores were closed in first lockdown but open for the second lockdown. Did that allow you to see new customers shop the business and give you more market share and opportunities?

Like I said, the second lockdown didn't really impact us, because the whole market was open for most of quarter three, except for 10 days. However, we are definitely seeing more customers coming towards Max and more customers looking for a bargain and looking for products which are at the right price. Like I said, one of our secret sauces is the right product at the right price, so we're very confident that we're in the right position to go forward.

Question number three: when you think about category opportunities ahead, where will you focus on changes to assortment, if any, or do you continue to see stable cost of goods environment right now?

Of course, like I said, we're going deeper into categories all the time. Because of Corona, we saw a big increase in the purchasing of sporting goods, so we've since gone deeper into the category and it's very beneficial to us. Obviously, our pharm section and our cleaning section has been very important to the business as people have been buying a lot more of those products. In terms of cost of goods, there's been an increase in freight, but we're lucky that the shekel is very strong and we hedged the currency, so it hasn't really affected our cost of goods.

Question number four: what kind of real estate opportunities are emerging out of the pandemic? Are landlords looking to give you better deals and locations?

I must say, Max Stock was in a very good position before the pandemic. Max Stock is a very sought-after tenant, and anyone who's building a new shopping center or a shopping mall definitely wants Max as an anchor tenant; so we were in a very good position before the pandemic, and even more so, I think it's been exaggerated that we're going to be in an even better position after the pandemic. There's no doubt that retail has suffered, so yes, I think it will be very, very beneficial to Max. We're starting to feel it, but it's not 100% seeing its full potential yet.

Section two by (Inaudible). Can you please elaborate on your growth percentage for 2021 to 2025? Does your quarter revenue for quarter four be around 250 million shekels?

(Inaudible) but you are welcome to look at the slide for long-term plans, and it's stated all on the slide on Page 4 to Page 14, and like I said, we stick to what we stated in the slides, and that's the way it's been tracking.

Nir Dagan

Slide 8; what do you mean by mentioned store expenditure revenue?

There were a few places, a few stores that last year were about 800, 1,000 meters, that we closed, and we took a new place in the same city, very close, of 2,000 meters. Regarding that, we called this store that we expanded along the year.

Evan Neumann

There's a few more questions coming through now.

Okay, so Leader had a question about the online business and if it carries on working even when we're opening new stores.

Online is currently not online. It's getting built at the moment. We believe we'll be up soon. Like we said in the IPO, believe that it is going to be very exciting with this latest store that we're ready to launch the business at low loss. We launched the business to make sure that we are profitable from day one.

Leader has a question about new stores and about expanding.

Our plan is still three to five stores per year. I can tell you, in 2021, we already have four stores in the process, which will definitely be open in 2021.

Leader has also a question, question number three, in regard to Jumbo and general competition in the market.

We've always had some sort of competition in the market. There's a lot of stock businesses around and (inaudible) Jumbo's coming to the market, as I've stated. We believe that if we stick to our secret sauce, which is the right product at the right price, the right customer service and the right shopping experience, there's no reason that our customers won't keep coming back to us. If the customers love us, we offer them the best price, the best service and the best experience, then we're very comfortable with where we are. We are planning always to do better with the Buyers' team. Buy better, sell cheaper, and offer a wider variety of merchandise to our customers.

That's it for the questions today. Thank you and we'll see you in March. Thank you very much.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.