STARK GROUP

ANNUAL REPORT HIGHLIGHTS 2022

1 August 2021 — 31 July 2022

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ABOUT THIS REPORT

The Annual Report Highlights 2022 presents a comprehensive overview of our underlying business and performance.

STARK Group has grown significantly in recent years, both organically and through acquisitions. In January 2021, the Group was acquired by CVC Capital Partners Fund VII. This has strengthened our business but has also complicated the comparisons of the reported numbers in the annual report and, hence, reduced the transparency of STARK Group's underlying business performance.

This document presents our reported results (page 9) and proforma numbers to facilitate a comparative analysis of our performance (pages 6 and 10-11). Reported and proforma numbers disregard the change in ownership structure.

A separate annual report has been released.

STARK GROUP AT A GLANCE

WE BUILD OUR FUTURE BY HELPING OTHERS BUILD THEIRS

The Group connects 10,000 suppliers with +275,000 professional craftsmen through its more than 550 branches.

On average, STARK Group employees make more than 5,000 deliveries to building sites every day, year-round.

EMPLOYEES
12,500

BRANCHES
550

NET SALES	CAGR GROWTH 2020-22	CUSTOMER NET PROMOTOR SCORE	ENGAGEMENT SCORE (GELX)
€6bn	16%	+56	+74

STARK Group is a market-leading merchant and distributor of heavy building materials in Northern Europe.

OUR BRANDS

Denmark
STARK – Sammen bygger vi professionelt

Sweden
BEIJER BYGGMATERIAL

Finland
STARK – Reilusti rakentajan asialla

Norway
NEUMANN – Sammen bygger vi profesjonelt

Germany
STARK DEUTSCHLAND
RAAB KARCHER – BAUSTOFFHANDEL
MELLE GALLHÖFER – DACH- UND FASSADENHANDEL
MUFFENROHR – TIEFBAUHANDEL
KERAMUNDO – WELT DER FLIESEN
SAXONIA – BAUSTOFFHANDEL
KLUWE – BAUFACHHANDEL
DÄMMISOL – BAUSTOFFHANDEL
SPORKENBACH – BAUFACHHANDEL

Austria
DACH UND WAND – DACH- UND FASSADENHANDEL

LETTER FROM THE CEO

A TRULY EXTRAORDINARY YEAR IN EVERY SENSE OF THE WORD

Søren P. Olesen, Group CEO, STARK Group A/S

It is with great pleasure that I introduce our Annual Report 2022 in highlights.

The most important messages I want to convey are, on the one hand, pride of what we have achieved in collaboration with customers, suppliers, and partners and, on the other hand, my sincere gratitude to our people for their commitment. Together, we managed to navigate challenges in a year that has been extraordinary in every sense of the word.

Commercially, we were unexpectedly busy. Financially, we generated net sales that were out of the ordinary. And people-wise, we saw record-high customer and employee engagement. At the same time, we leapfrogged our business platform by opening new branches from green-field and completing 12 acquisitions during the year.

Leaving our financial year 2022, we are truly ahead of our own expectations. 2022 was truly extraordinary.

Extraordinary performance
The past year played out on a backdrop of challenging macro-economics and geopolitical unrest. Rising inflation rates over the year were followed by central banks diligently increasing interest rates towards the end of our financial year. Political tensions led to war close to our markets and was followed by plummeting consumer confidence and additional strain on the availability of certain building materials.

Despite this, the retail and distribution market for building materials has been busy. Our activity levels were very high, in particular, during the first half of our financial year. Our people worked very hard to meet customer needs in a marketplace in which securing availability and managing prices was a challenge.

Our net sales ended at close to EUR 6 billion, a 21% growth rate over last year. Close to half of the improvement derived from acquisitions carried out in the past two years, while the other half was due to very high activity levels, inflation, and market share gains.

We secured our gross margin which was stable at 25.7% and kept our operating costs under control. Our adjusted EBITDA ended at EUR 479 million. This was a result out of the ordinary that mirrored a busy year.

I am grateful for our colleagues' extraordinary efforts. I am also very pleased to note that we together with our suppliers successfully turned a sharp corner despite limited visibility and often heated discussions, to the benefit of professional craftsmen whose needs we live and breathe to serve.

Reinvesting for growth
Solid financial performance allowed us to reinvest in our business. In the past year, we reinvested EUR 284 million in acquisitions, in refurbishing branches and in improving our digital solutions and IT security.

During our financial year, we made 12 acquisitions, most of them bolt-on to our existing network of generalists in heavy building materials. By making our network denser in growth areas close to building sites, we improved our offering to professional craftsmen who value proximity, professional advice, and ease of working with us.

In addition, we made solid progress on building a footprint within specialist categories such a tiles, roofing and façade, and civil engineering. By acquiring roofing and façade specialist Dach & Wand Handels GmbH, we expanded our

“Leaving our financial year 2022, we are truly ahead of our own expectations. 2022 was truly extraordinary.

LETTER FROM THE CEO

€6bn

net sales in the year – a growth of 21%

25.7%

gross margin – stable in the year

€479m

Adjusted EBITDA in the year

geographical footprint into Austria, which is close to the size of our Swedish market and is distinguished by high professional standards in the building and construction industry.

These are markets for which our strategy is particularly well suited.

Why I am confident in our future
What does the future hold? No one knows, but I am confident that our future is prosperous.

Here is my thinking: We will likely see a continuation of a challenged macro-economic environment and geopolitical unrest for some time. It will continue to adversely impact the newbuild segment and consequently also impact recent years' significant uptake in the entire construction industry.

We have positioned our business in markets and segments that will be attractive to our industry over the coming years. We have built our strategy to serve small and medium-sized enterprises of from one to fifty professional craftsmen in the market for renovation, maintenance, and improvement (RMI). The RMI end-market has more cyclical resilience to the newbuild market.

In addition, the populations in the Nordics, Germany and Austria continue to grow, and that will require more and better housing, office spaces, as well as new and renovated buildings over the coming decade. Renovations for energy efficiency and the EU Green Deal stimuli package will contribute too.

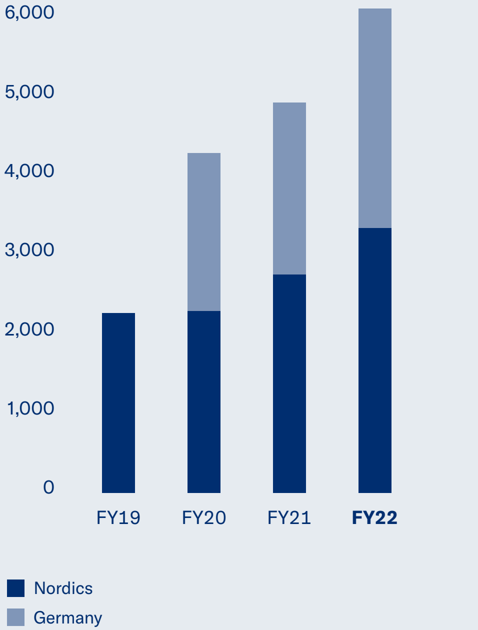
We can now look back at what were unprecedented challenging and good years for the construction industry and for retailers and distributors of building materials. We have used recent years to strengthen our business. We are well positioned in the marketplace. Our customers appreciate what we do. Our organisational health is sound. And we have a solid leadership team that has experience navigating challenging, volatile times.

I am confident that we are fit for whatever the future may bring.

Søren P. Olesen
Group CEO

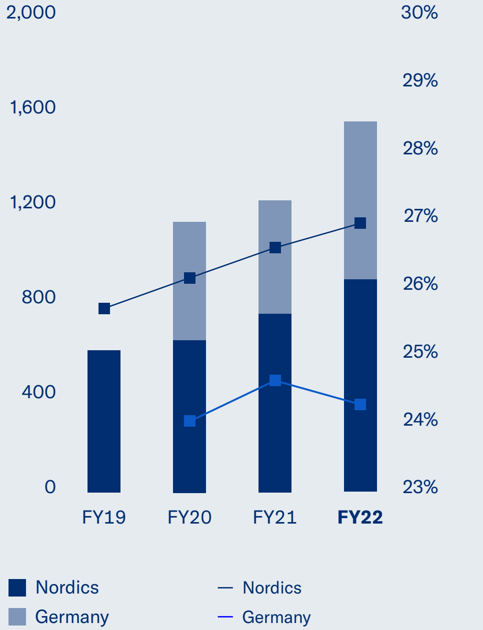
FINANCIAL HIGHLIGHTS

Net sales
EUR Million



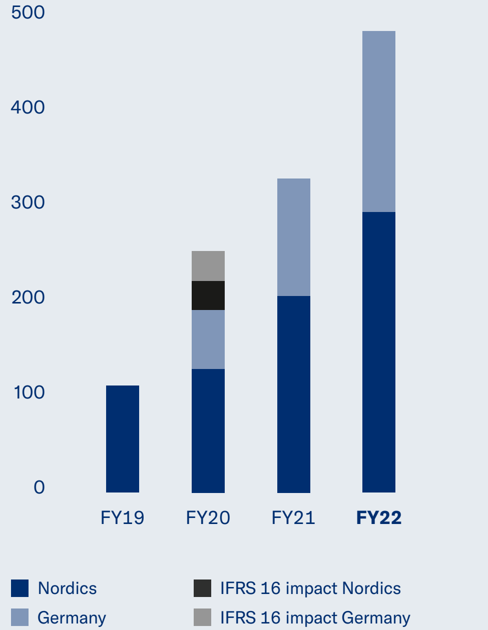
Net sales grew by 21.2% to EUR 5,995 million. Strong market demand in the first half-year, market share gains and acquisitions contributed to a record-breaking, unusually busy year. Organic growth excluding acquisitions and currency impact was 11.3%.

Adjusted gross profit and gross margin
EUR Million - %



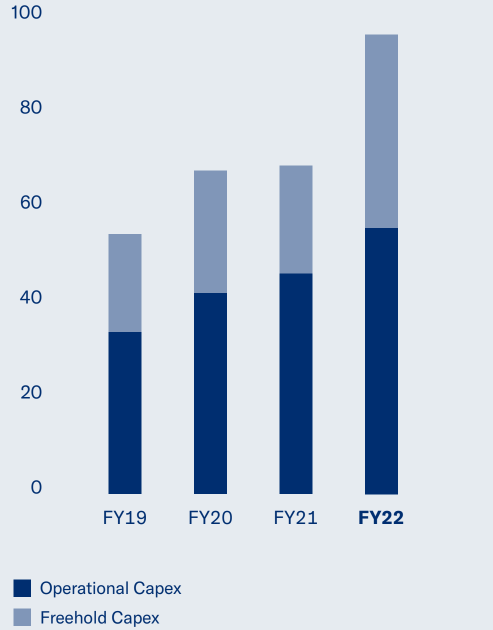
Gross profit grew by 21.5% to EUR 1,541 million due to higher net sales. Effective price management and the Group's size vis-à-vis suppliers cushioned against a volatile pricing environment, high inflation levels and strain on availability. The gross margin was stable at 25.7% (up by 0.1 of a percentage point).

Adjusted EBITDA
EUR Million



Adjusted EBITDA grew by 41.1% to EUR 479 million. An unusually busy first half-year contributed to record-breaking net sales, while effective price management sustained the gross margin and cost control kept the development in organic operating expenses at only 5.2%. Organic growth in EBITDA was 30.6%.

CAPEX
EUR Million



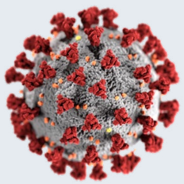
Total CAPEX was EUR 95 million. Freehold CAPEX increased to EUR 40 million due to investments in a select number of strategic locations and properties. Operational CAPEX increased to EUR 55 million mainly due to a higher level of investments in IT and IT security.

KEY EVENTS 2021/22

THROUGHOUT THE YEAR

Navigating in another year of COVID-19

Navigating coronavirus restrictions and volatile Covid-19 infection rates continued to be a challenge for the business throughout the winter of 2021-22, not least in Germany and Finland. The health and safety of employees and customers was STARK Group's main priority, and fortunately, the Group did not experience any severe outbreaks at any of its facilities. The Group has managed well overall during the pandemic.



FEBRUARY

Entering the Austrian market and building scale in specialist areas

On 17 February, STARK Group acquired the Austrian roofing and façade building material distributor Dach & Wand Handels GmbH. The transaction expanded the Group's geographical footprint and added volume to the roofing and façade specialist category following the Group's entry through the acquisition of Melle Gallhöfer in 2021.

In total, STARK Group made 12 acquisitions during the financial year (see page 15). These include the Group's third and fourth largest acquisitions to date: German generalist Konz and German civil engineering retailer and distributor Tröger & Entenmann Group.

During the financial year, STARK Group expanded its business platform through acquisitions across all its operations in Germany, Denmark, Sweden, Finland, and Norway.

MARCH

Ambitious climate targets approved by SBTi

The Science Based Targets initiative (SBTi) approved STARK Group's ambitious targets and plans to reduce CO_2 emissions to zero by 2050 at the latest. The initiative verified the Group's targets to reduce carbon emissions by 42% from own operations (scope 1 and 2) by 2030 and the plan to actively source 100% renewable electricity and reduce its total scope 3 emissions by 12% within the same timeframe.

The approval confirms the Group's climate plan as one of the most ambitious in the industry.

STARK Group is well-positioned to deliver on its climate ambition that is embedded in the UN Business Ambition for 1.5°C pledge. The Group has achieved a platinum rating for its sustainability policies, processes, actions, and results by EcoVadis. The platinum rating places STARK Group among the top 1% of the more than 75,000 companies that have been rated by this leading sustainability rating agency.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

PLATINUM Top 1% 2021 ecovadis Sustainability Rating

MARCH

European sponsorship award to STARK Finland

On 10 March, STARK Finland and Ari Huusela won the European Sponsorship Association's Best of Europe Gold Award. The parties were awarded for the sponsorship of Ari Huusela Ocean Racing.

Ari Huusela was the first Nordic participant to complete Vendée Globe. Completing the ocean race has been compared to climbing Mount Everest. Ari Huusela travelled 44,000 km. In 117 days. Alone. Crossing the Atlantic, the Indian and the Pacific oceans.

The sponsorship gained much publicity in Finland and met its goals for visibility before the race had even started. At the end of the 117 days of ocean racing, Finns didn't talk about "the boat" but about STARK and Ari.

STARK Group has several significant sponsorships, including the Swedish Ice Hockey team and the Beijer Hockey Games, the Danish national football team and the Finnish Olympic Team.

KEY EVENTS 2021/22

FEBRUARY – JULY

A clear stand and swift action in support of Ukraine

On 24 February, the European security regime changed when Russia invaded Ukraine. Shortly thereafter and before sanctions were agreed, STARK Group decided to stop purchasing directly from Russia and Belarus.

A branch of STARK Denmark initiated a collaboration with the Ukrainian embassy and volunteers. More than 350 tonnes of humanitarian aid was collected, sorted, packed, and transported to reception centres in Poland. From there, the aid was distributed and driven to nine areas in Ukraine.

In the late spring and summer, employees collected money for humanitarian aid. STARK Group owner, CVC, doubled the amount donated by the employees, which has been distributed through Save the Children, the Red Cross and the UN's refugee organisation UNHCR.

Save the Children

UNHCR The UN Refugee Agency

JUNE

Engaging with suppliers on resilience and sustainability

Working closely together through times of geopolitical conflict and sustainability took centre stage at the annual European Suppliers' Day on 15 June.

During the year, STARK Sourcing's European Supplier Programme facilitated frequent updates on the volatile market situation, working groups on sector specific topics and annual events with its largest suppliers who are members of the programme.

The number of suppliers in the European Suppliers' Programme increased in the year. The programme is the only suppliers programme of its magnitude and importance in the industry for heavy building materials.

AFTER THE REPORTING PERIOD

Prestigious award for best CSR reporting

The FSR - Danish Auditors awarded STARK Group the prize for its transparent and reliable reporting within sustainability, corporate social responsibility and ESG. STARK Group won the CSR award for its sustainability report 2021 in October 2022.

The judges praised the report for transparently reflecting where STARK Group is in its work with sustainability and in relation to the company's 2024 targets. According to the panel, the report manages to connect the company's risks and opportunities within ESG and explains the company's role in relation to ensuring sustainability in the construction industry. Furthermore, the company's sustainability ambitions are clearly stated with a link to the sustainability Development Goals.

Acquisition of major tiles specialist in Norway and Sweden

With the acquisition of Norwegian FagFlis and Swedish FF Kakel AB in November 2022, STARK Group strengthened its business within the specialist area of ceramic tiles. At the same time, the acquisition was a strong boost to, in particular, the company's Norwegian business, Neumann Bygg, which is STARK Group's smallest company with an ambitious growth agenda.

Fagflis is covering the whole of Norway through 13 owned branches and 12 franchise branches. In Sweden, FF Kakel has three stores in Stockholm, Gothenburg and Uppsala that are three of Sweden's four largest cities and growth zones.

FINANCIAL OVERVIEW

EUR million	2021/22	2020/21[2]	2019/20[1]	2019/18
Income statement				
Net sales	5,995	4,949	4,095	2,299
Gross profit	1,541	1,266	1,030	585
Adjusted gross profit	1,541	1,268	1,030	585
EBITDA	459	307	195	92
Adjusted EBITDA[4]	479	339	241	118
Balance sheet and cash flow				
Cash flow from operating activities before financial items and taxes	372	312	389	129
Changes in working capital	(88)	(10)	193	40
Capital expenditure (Capex), total[5]	95	67	54	46
Operational Capex, total[6]	55	45	45	31
Operational Capex, base[7]	32	29	29	15
Operational Capex, development[8]	23	16	16	16
Key ratios[3]				
Net sales growth	21.2%	20.9%	78.1%	–
Organic net sales growth[9]	11.3%	9.3%	2.5%	–
Gross profit growth	21.7%	22.9%	76.1%	–
Organic gross profit growth	12.6%	11.2%	4.2%	–
Gross profit margin	25.7%	25.6%	25.2%	25.4%
Organic EBITDA growth[10]	30.6%	28.7%	18.0%	–
EBITDA margin	7.7%	6.2%	4.8%	4.0%
Adjusted EBITDA margin	8.0%	6.9%	5.9%	5.1%

1. 2019/20 includes 10 months of operating activities for STARK Deutschland from the acquisition on October 1 2019 and the effect of the implementation of IFRS 16. The implementation of IFRS 16 increased EBITDA by EUR 57m.
2. 2020/21 includes 12 months of operating activities for STARK Deutschland.
3. The financial ratios have been prepared in accordance with the guidelines issued by the CFA Society Denmark, where relevant.
4. Adjusted EBITDA is defined as EBITDA excluding non-recurring items.
3. Non-recurring items are items of a material and exceptional nature, which are adjusted for to provide a better understanding of the Group's underlying performance.
5. Capital expenditure (Capex) consists of investments in property, plant and equipment and investments in intangible assets (IT software).
6. Operational Capex is related to the ordinary business operations and excludes Freehold CAPEX. Freehold Capex includes investments in new land/properties as well as upgrades/refurbishments to existing ones.
7. Base Capex relates to maintaining the ordinary business operations.
8. Development CAPEX relates to expansion of the business to improve earnings capabilities or secure compliance.
9. Organic net sales growth is defined as growth in net sales excluding impact from currencies and acquisitions.
10. Organic EBITDA growth is defined as growth in adjusted EBITDA excluding impact from currencies, acquisitions and first-time effect from the implementation of IFRS 16 in 2019/20.

FINANCIAL REVIEW

The financial year 2022 was extraordinary. STARK Group benefitted from acquisitional growth and activity levels that were very high, in particular, in the first half year. The Group generated net sales that were out of the ordinary due to high activity levels, ensured a stable gross margin and managed cost diligently.

Net sales
Net sales grew by 21.2% to EUR 5,995 million for the year, fuelled by strong underlying market demand especially in the first half of the year. The Group continued to gain market share as a result of its focused SME strategy. In the last part of the year, market activity slowed due to uncertainty resulting from the war in Ukraine and the significant and widespread inflation.

Organic growth excluding acquisitions and currency impact was 11.3%. Growth from acquisitions made during the financial year was 9.8%, the most significant of which were made in Germany and Sweden. Currency impact was positive by 0.1%.

The Nordics grew by 17.3% mainly driven by strong market conditions, continued market share gains and acquisitions. Organic growth excluding acquisitions and currency impact was 13.2%. All Nordic businesses reported strong growth for the year.

Net sales in Germany grew by 26.1% with organic growth excluding acquisitions and currency impact of 9.2%. Market activity continued at a high level during the first part of the year followed by a slowing trend in the last part that was mainly driven by increased market uncertainty, high inflation and some supply chain pressure. Good execution of our SME strategy supported the strong performance.

Gross profit and gross margin
Adjusted gross profit grew by 21.5% to EUR 1,541 million, which was mainly driven by the strong net sales and supported by acquisitions. Organic growth excluding acquisitions and currency impact was 12.7%. Currency impact was 0.0% for the year.

Gross margin was stable at 25.7% (up by 0.1 of a percentage point). It was challenging to maintain the gross margin due to high price volatility, supply chain pressures and shifts in activity levels. The Group maintained its focus on effective price management, strategic sourcing initiatives with support from own brands and a growing share of SME sales, which all supported margin developments. In addition, there was support from acquired specialist businesses (especially within the tiles category), which operate at slightly higher margins.

In the Nordics, the gross profit grew by 19.2% to EUR 882 million driven by growth in net sales and an improved gross margin. Organic growth excluding acquisitions and currency impact was 14.2%. Gross margin was supported by a positive product mix from acquired businesses and positively impacted by effective management of price volatility during the year.

In Germany, the gross profit grew by 24.8% to EUR 659 million driven by the strong net sales growth supported by acquisitions. Organic growth excluding acquisitions and currency impact was 10.5%. Gross margin was slightly lower, mainly due to acquired businesses within Roofing, which have below-average margins.

Adjusted Proforma Income Statement

Group	2021/22				2020/21		
12 months of STARK Group operations EUR milion	**Reported**	**Non-recurring items**	**Adjusted**	**↑%**	**Reported**	**Non-recurring tems**	**Adjusted**
Net sales	5,995		5,995	21.2%	4,949		4,949
Cost of sales	(4,454)		(4,454)	21.0%	(3,683)	(2)	(3,681)
Gross profit	1,541		1,541	21.5%	1,266	(2)	1,268
Gross profit margin %	25.7%		25.7%	0.1 pp	25.6%		25.6%
Staff costs	(707)	(3)	(704)	11.5%	(638)	(6)	(632)
Other external operating expenses	(375)	(17)	(358)	20.5%	(321)	(24)	(297)
EBITDA	**459**	**(20)**	**479**	**41.1%**	**307**	**(32)**	**339**
EBITDA margin %	7.7%		8.0%	1.1 pp	6.2%		6.9%

To provide a better understanding of the underlying performance for the year, the table above includes an adjusted 12-month proforma summary income statement with comparisons for STARK Group.

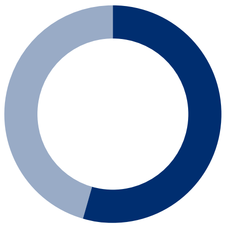
The income statement has been adjusted to exclude non-recurring items. In the financial year 2020/21, the non-recurring items were mainly related to the acquisition of STARK Group and continued integration of acquisitions made by STARK Group before becoming a part of the Group. In 2021/22, the non-recurring items were mainly related to acquisitions made during the year and subsequent restructuring and integration into the Group.

To supplement the proforma income statements, adjusted segment summary income statements have also been included for the Nordics and Germany segments (see page 11).

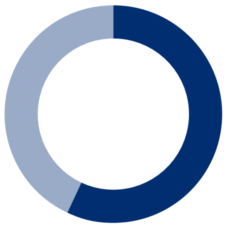
Adjusted Proforma Segment Income Statement

Segments	Nordics			Germany		
12 months of STARK Group operations EUR milion	**2021/22**	**2020/21**	**↑%**	**2021/22**	**2020/21**	**↑%**
Net sales	3,277	2,792	17.3%	2,718	2,157	26.1%
Cost of sales	(2,395)	(2,052)	16.6%	(2,059)	(1,629)	26.5%
Gross profit	882	740	19.2%	659	528	24.8%
Gross profit margin %	26.9%	26.5%	0.4 pp	24.2%	24.5%	-0.3 pp
Staff costs	(398)	(364)	9.2%	(306)	(268)	14.5%
Other external operating expenses	(193)	(162)	18.9%	(165)	(135)	22.6%
EBITDA	**291**	**214**	**36.4%**	**188**	**125**	**49.1%**
EBITDA margin %	8.9%	7.7%	1.2 pp	6.9%	5.8%	1.1 pp

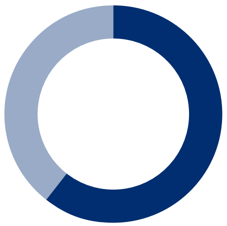
Net sales



Gross profit



EBITDA



Operating expenses

Staff costs and other operating expenses were well under control during the financial year thanks to a persistent focus on cost discipline This remains a top priority due to the reduced forward-looking planning visibility and market volatility.

Staff costs excluding non-recurring items increased by 11.5% to EUR 704 million in the year including a currency impact of 0.1% and impact from acquisitions of 8.2%. Organic growth was 3.2%. Staff costs increased mainly due to a higher number of staff to serve customers and support growth and due to salary increases following union agreements and normal inflation. Employee bonuses increased as a result of the strong performance.

Other operating expenses excluding non-recurring items increased by 20.5% to EUR 358 million for the year including a currency impact of 0.3% and impact from acquisitions of 11.0%. Organic growth was 9.2%, driven mainly by normal inflation across cost categories, additional infrastructure costs due to extraordinary price increases on energy and generally increased activity across the Group.

EBITDA

Adjusted EBITDA grew by 41.1% to EUR 479 million as a result of the above dynamics. Growth in net sales and improvements in gross margin flowed through to EBITDA while the careful cost discipline secured strong growth in EBITDA well above growth in gross profit.

Working capital

Trade working capital (inventories, trade receivables less trade payables) for the Group was EUR 286 million at 31 July 2022 (31 July 2021: EUR 113 million). All components of trade working capital increased over last year, mainly due to acquisitions and price inflation. On inventories specifically, coverage levels were increased during the spring of 2022 to secure product availability. The Group expects inventories to reduce in the coming year pending supply chains normalising.

Developments in other working capital were in accordance with expectations and in line with the performance of the business.

Capex

During the financial year, the Group continued to invest in and expand the branch network to support growth. Total capital expenditure was EUR 95 million, of which EUR 55 million was related to operational CAPEX and EUR 40 million was related to freehold investments. The level for operational CAPEX was EUR 10 million higher than last year, driven mainly by increased investments in digital solutions and IT security. In relation to freehold investments, the Group has expanded and upgraded strategic locations in the branch network, including in Germany and Greenland. In addition to the investments, the Group divested properties and other assets during the year with a total positive cash impact of EUR 15 million.

OUTLOOK 2022/23

Visibility for the coming financial year 2022/23 is significantly reduced, mainly due to the current macro-economic situation of continuing high inflation, increasing interest rates and potential recessions in one or more of the Group's key markets.

The Group expects a stable top line for the coming year. Price inflation is expected to remain high for the first months in the financial year, before stabilising later in the financial year. Activity in the market is expected to be a bit softer compared to 2021/22, especially towards the end of the coming financial year. The top line will be supported by full-year run-rate effects from acquisitions made in 2021/22.

As for adjusted EBITDA, the Group expects a stable to slightly increasing level in 2022/23 compared to 2021/22 that will be driven by continued cost control and the positive run-rate impact from acquisitions made in 2021/22. The Group expects to be able to partially offset inflation on the cost base, particularly in terms of labour costs and through efficiency measures and synergies from acquired businesses.

Alongside the integration of recently completed acquisitions, the Group will continue to pursue relevant and value creating M&A opportunities.

The outlook for 2022/23 is based upon assumptions and estimates that, while prepared with numerical specificity and considered reasonable, are inherently subject to significant business, operational, economic, political, legal and competitive uncertainties and contingencies, many of which are beyond the company's control and influence, and upon assumptions with respect to future business decisions that are subject to change. The outlook may deviate substantially from actual developments and the actual results of operations are likely to deviate, and may deviate materially, from the outlook, since anticipated events may not occur as expected.

OUTLOOK 2022/23

Including acquisitions completed up to the date of this report, the Group expects to deliver the following for 2022/23:

Reported net sales in the range of

6.1–6.5

EUR billion

Adjusted EBITDA in the range of

480–510

EUR million

STRATEGY

STARK Group is an international leader in the fragmented markets for the distribution of heavy building materials.

The world's population is growing, and key urban areas in the Nordics, Germany and Austria are experiencing an ongoing housing deficit with population growth rates well above European national averages. It is estimated that the populations of the Nordics, Germany and Austria will grow by 940,000 (0.8%) to 120.8 million in the period 2022-27. This will require more housing, office space and renovated buildings to accommodate inhabitants who expect high quality of life in more energy-efficient and sustainable cities.

STARK Group operates within a part of the building industry that is instrumental in building and renovating these cities. The Group is a builders' merchant and distributor of heavy building materials. It plays a crucial role in connecting manufacturers of building materials with professional craftsmen.

The Group sources more than 280,000 SKUs at scale from more than 10,000 suppliers, advises manufacturers about market developments and customer feedback, and makes products available to professional craftsmen from its densely knitted network of warehouses, branches and shops close to building sites. Professional craftsmen buy from STARK Group to obtain ease of procurement, advice, documentation, credit, and efficient distribution.

The business model on page 16 outlines the role of the Group, key resources and the value created.

Focus on attractive markets and segment
STARK Group does business in a geopolitically stable region with limited exposure to long distance supply chains and focuses its business on a highly attractive market segment: Professional craftsmen working in small and medium-sized enterprises (SME) in the market for renovation, maintenance, and improvement (RMI).

The geographical footprint is in the Nordics, Germany and Austria, all of which exhibit robust market fundamentals including stable GDP growth, a stable regulatory environment as well as compelling structural growth drivers. These include urbanisation, population growth and a push for improved energy efficiency and sustainability in the existing housing stock.

The key market is the RMI end-market, which has relatively high cyclical resilience compared to the newbuild market. The RMI market benefits from the increasingly important market for energy efficiency, the EU Green Deal stimuli package and private investments to improve the existing housing stock through more energy efficient and sustainable solutions.

Customers are craftsmen in the market for small and medium-sized enterprises that mainly engage in small and medium-sized RMI projects or as subcontractors to large building companies in large renovation works.

The products are heavy building materials that by nature are large (e.g., timber, plasterboards and doors), heavy (e.g., steel and cement) and fragile (e.g., roof tiles and windows). Hence, the products are complex to distribute and require specialist skills and utilities when craftsmen procure different mixes of materials for delivery within a short timeframe. To meet craftsmen's needs, the Group also keeps a full assortment of power tools, fasteners, workwear, insulation, paint, etc.

Leading and operating with excellence
STARK Group is organised and operates to win and consolidate the attractive market for heavy building materials.

The Group competes in the marketplace from leading market positions in the Nordics, Germany and Austria. It holds no. 1 positions in Germany, Denmark and Sweden, a no. 2 position in Finland, a no. 3 position in Austria and is a leading regional player in Norway in the categories and segments where it has chosen to compete. The Group operates under the STARK brand and strong local brand names such as Raab Karcher, Muffenrohr, Beijer and Neumann, among others.

STARK Group's strategy targets the needs of professional craftsmen in the SME segment and builds on seven pillars of operational excellence (see page 14).

Services are developed and honed to make it easy and even more attractive to work with the Group. These include 24/7 opening hours at destination branches in urban areas, 24/7 customer service, a promise to deliver On Time In Full (OTIF) at short notice, a densely knitted network of warehouses, branches and shops close to building sites, guaranteed availability of a large number of key products, competitive prices, personalised advice, documentation, credit and digital solutions that make it easy to work with STARK, Raab Karcher, Muffenrohr, Beijer, Neumann, etc.

TOTAL MARKET FOR BUILDING MATERIALS

STARK Group estimates the total market for building materials in the Nordics and Germany at approximately EUR 160 billion annually.

STARK GROUP MARKET

The retail distribution market for professional craftsmen focusing on heavy building materials such as timber, tiles, windows, plaster boards etc. accounts for approximately one third of the total market.

Accelerating growth through acquisitions
Strong parameters for competition include branch density and branch closeness to building sites in growth areas. STARK has been winning market share year after year by building its services to professional craftsmen, including by opening new branches and acquiring branches in key growth areas.

STARK Group successfully gains market share year by year. To accelerate growth, the Group makes value creating acquisitions that either expand the Group's network, have a potential for synergies or add capabilities to its business.

In addition, STARK Group has expanded its leadership in the generalist market for heavy building materials into specialist areas. These include the markets for tiles, roofing and façade as well as civil engineering, as the Group has acquired specialist brands in Germany, Sweden, and Denmark.

In the past five years, STARK Group has acquired more than 350 branches across the business to form a dense branch network in attractive local markets and to establish a presence in attractive new geographies, such as Germany and Austria.

The Group's M&A strategy builds on distinct rationales:

- Bolt-on acquisitions in attractive growth regions to increase branch density
- Expanding assortment in existing strong product categories
- Adding specialist capabilities and assortment to its generalist network

A full overview of acquisitions during the year is presented on page 15.

Local ownership – global leadership
The Group has a decentralised operating model building on strong local ownership close to the markets. Decision-making powers are country-based and exercised at branch and business unit level. The branches work as national chains in integrated networks that share head office functions, sourcing, logistics handling, and marketing that enable significant scale advantages.

> **In the past five years, STARK Group has acquired more than 350 branches across its business to form a dense branch network in attractive local markets and to establish a presence in attractive new geographies, such as Germany and Austria.**

A group-wide sourcing unit has been established to reinforce local sourcing power from STARK Group's global scale. STARK Sourcing offers a single point of entry for suppliers, effective distribution as well as customer and market insights to suppliers, while securing availability and competitive pricing for craftsmen in their local markets.

In recent years, the Group has worked relentlessly to secure availability across markets, reduce sourcing and operating costs, built more efficient distribution networks and streamlined the leadership structure by enhancing local decision-making and accountability.

Lean corporate functions ensure efficient operations as close to customers as possible. STARK Group's head office is operated by a staff of fewer than 40 employees.

7 PILLARS OF OPERATIONAL EXCELLENCE

STARK Group's strategy builds on seven pillars of operational excellence

1. **SME focus**
   Preferred partner to SME customers
2. **Customer promise**
   Committed to offering a superior customer service experience
3. **Smart pricing**
   Customised systems and processes to optimise pricing dynamics
4. **Better sourcing**
   Shared sourcing function with local business unit anchor points
5. **Stronger network**
   Further improve efficiency and density of distribution network
6. **Digital leadership**
   Strengthen customer relationships through digitalisation of services
7. **Excellent operator**
   Strong, local decision-making and accountability supported by group-wide strategy and sharing of best practice

CONSOLIDATING THE MARKET FOR THE BENEFIT OF SUPPLIERS AND CRAFTSMEN

In total, STARK Group made 12 acquisitions in the past financial year. These included the Group's third and fourth largest acquisitions to date: German generalist Konz and German civil engineering retailer and distributor Tröger & Entenmann Group. In addition, the Group acquired roofing and façade specialist Dach & Wand Handels GmbH, thereby expanding its platform into the Austrian market.

STARK Group plays an important role as a consolidator of fragmented markets for retail and distribution of heavy building materials. By acquiring new businesses, the Group adds capabilities, while becoming a more attractive partner for its customers and suppliers.

Having a dense network of branches, shops and distribution centres in a geography with a population of 120 million, STARK Group offers effective distribution, customer feedback and market-leading insights, while providing advice on market developments to suppliers, who also grow through acquisitions or grow with STARK Group.

Professional craftsmen benefit from competitive pricing, availability, improved credit facilities and the Group's investments in logistics, digital solutions, and other services.

	WOODY ANGERED	KODIN TERRA TUUSULA	LUDVIG PFEIFFER HOCH- UND TIEFBAU	WOODY SÖTENÄS	LIEBLEIN BAUSTOFFE	TREPRODUKTER ØST
Signing/ closing	Sep / Dec 2021	Nov / Dec 2021	Nov 2021 / Jan 2022	Oct 2021 / Feb 2022	Dec 2021 / Feb 2022	Jan / Feb 2022
Geography	Gothenburg	Tuusula	Kassel	North of Gothenburg	Northern Bavaria	Greater Oslo
Locations	2	1	1	3	1	1
FTE	41	35	5	79	17	7

	100% PROFFS	XL-BYG ALLINGE	DACH & WAND HANDELS	TRÖGER & ENTENMANN GROUP	ARNUM RØR	KONZ
Signing/ closing	Dec 2021 / Apr 2022	Mar / Mar 2022	Feb / Mar 2022	Dec 2021 / Apr 2022	May / May 2022	Apr / Aug 2022
Geography	Stockholm	Bornholm	Nation-wide	Nation-wide	Southern Jutland	BaWü & Sachsen
Locations	2	1	7	11	1	7
FTE	48	26	145	170	10	245

BUSINESS MODEL

KEY RESOURCES

Products
More than 280,000 SKU numbers sourced and sold

Partnerships
Trusted relationships with +275,000 craftsmen, 10,000 suppliers and the building industry at large

People
More than 12,500 employees with back-grounds as craftsmen, retailers, distributors etc.

Expertise & knowledge
Continuous training of employees and more than 125 years of heritage

Brand & reputation
Suite of leading brands acknowledged by crafts-men and the building industry at large

BUSINESS ACTIVITIES

SOURCE

Scale in sourcing
Leverage scale to secure availability and competitive prices

Breaking pallets
Break truckloads from manufacturers into smaller quantities and mix needed at building sites

Warehousing
Efficient distribution from manufactur-ers to network of large warehouses and branches that keep safety/buffer stock for craftsmen

SELL

Network with broad coverage
Located close to building sites to reduce craftsmen's time spent on procuring

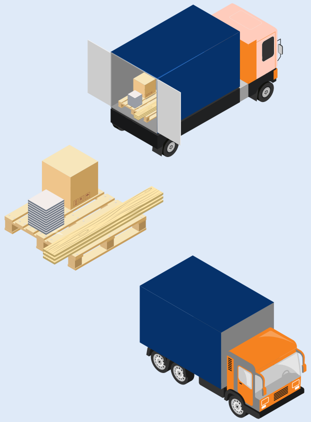
Sales facilitation
Provision of projects and bidding planning services

Customer consultations and credit
Offer deep customer and market insights and act as sales force for manufacturers for long tail of SME customers. Ensure competitive pricing, advise customers, and bridge the liquidity gap by offering credit

Product availability
Offer the right product mix and full availability within short timeframe on time in full

DISTRIBUTE

Efficient distribution
Manage complex distribution of heavy and fragile materials with modified trucks and direct delivery capabilities. Ensure access to and availability of materials close to building sites



VALUE CREATED

Cities of tomorrow
More and better housing, office spaces and renovated buildings for high quality of life and sustainable cities

Efficient building industry
Reduced complexity when distributing heavy building materials procured in differ-ent mixes for delivery within a short timeframe

Customer value
Advise, service and credit for professional craftsmen

Great place to work
Career opportunities in an engaging and safe working environment for a brand that employees take pride in

Shareholder value
Competitive total returns through above average market growth and value creation

SUSTAINABILITY

STARK Group works in support of a future of zero carbon emissions from the construction industry.

Being a proud signatory to the UN Global Compact, STARK Group is mindful of how its business impacts environmentally, socially and economically sustainable developments.

Most prominent is the Group's commitment to the Science Based Target initiative and the UN Business Ambition for 1.5°C, which was signed in 2021. Consequently, the Group works to reduce emissions by 42% from its operations (scope 1-2) and 12.3% from purchased goods, transport and distribution, use of sold products and end-life-treatment of sold products etc. (scope 3) by 2030. The overall ambition is to reduce emissions to net zero by 2050 at the latest.

Environmental: Climate action, circularity, and ecosystem protection

STARK Group's 2030 science-based carbon reduction targets were approved by the Science Based Targets initiative (SBTi) in February 2022. This shows that the Group's carbon targets and efforts are aligned with what science says is necessary to limit the global temperature rise to 1.5°C. The approval of the Group's 2030 targets was an important step on the sustainability journey.

This is a commitment that the Group will work to decarbonise the way it operates. It has a solid plan to meet its interim goals in 2024 and 2030, as outlined in its roadmap, and is determined to reach net zero by 2050.

In past financial year, the Group reduced its scope 1 and 2 emissions by 22% from the 2020 baseline. 45% of its electricity consumption was sourced from renewables through the purchase of renewable electricity certificates in Germany, Finland, and Norway. Furthermore, the Group continued the transition from conventional lighting to LED, improved efficiency ventilation systems and a continued transition away from gas and oil heating systems. STARK Group reduced total kWh energy consumption per mEUR revenue by 34%.

Following the reduction of emissions in the previous year, STARK Group achieved interest savings on its ESG-linked loan by EUR 0.6 million. The interest savings achieved through the ESG Margin ratchet were assigned to further conversion of natural gas and oil heating systems to electric heat pumps to ensure further progress towards the Group's target to net zero.

The Group reduced waste by 2% from a 2020 baseline and absolute waste amounts by 578 tonnes, primarily driven by initiatives to reuse packaging, selling surplus products through new partnerships, as well as training warehouse staff in resource efficiency. The percentage of total waste segregated for recycling increased in all business units except for STARK Deutschland which holds the highest recycling rate of 88%. In Neumann Bygg, great efforts made to increase recycling resulted in an increase from 16% to more than 50%.

STARK Group further expanded its training programme of sustainability specialists in Sweden and Denmark and initiated a sustainability ambassador programme in Germany and Finland.

Sustainability overview	2021/22	2020/21	2019/20
Carbon			**Baseline**
GHG Scope 1&2 (absolute tCO_2e)	45,968	42,753	58,965
GHG Scope 1 (absolute tCO_2e)	32,203	28,750	31,496
GHG Scope 2[1] (absolute tCO_2e)	13,765	14,002	27,469
Waste			
Total waste (t/mEUR revenue[1])	5.2	5.6	8.1
Health and Safety			
Injury rate (per 1 million worked hrs)	7.9	8.8	8.0
Lost workday rate (per 1 million worked hrs)	81.2	64.3	64.3
Employee Engagement			
STARK Group Employee engagement survey score (satisfaction & motivation):	74	74	75
Employee engagement survey score (loyalty):	80	83	–
STARK Group Participation rate (%):	83	81	91
Diversity and Inclusion			
% women (total)	25	22	22
% of management positions held by women	16	16	15
% of women in Executive management team	50	50	50

1. Fixed currency rates as of baseline year 2020

By the end of the financial year, 250 employees, equal to 2% of all employees, had been fully trained as sustainability specialists.

A total of 17 sustainability events were held across the business units for the purpose of promoting products with sustainable value such as low carbon products, fewer hazardous chemicals, eco-labelled and circular products.

The percentage of FSC® and PEFC certified timber and timber-based products increased in STARK Danmark, and Neumann with certified SKUs in stocked assortment ranging at from 89% to 98% and share of timber-based sales ranging from 94% to 99%. For STARK Danmark, the share of third-party eco-labelled SKUs made up 28% of the stocked assortment and represented 45% of the total sale of the stocked assortment.

Social: Safe, engaged and inclusive
As a workplace, STARK Group works to ensure equal treatment and opportunities for all employees. The Group takes pride in belonging to a community that supports the inclusion of all people, regardless of gender, age, ethnicity, ability, sexual orientation, faith or religion.

STARK Group launched a Diversity and Inclusion Council with quarterly meetings, and Diversity, Equity, and Inclusion was a key topic at management, board and HR meetings throughout the year. In addition, STARK Group completed the UN Global Compact Target Gender equality accelerator program, and the D&I Council is now working to implement the Women's Empowerment Principles and to strengthen the contribution to SDG 5.5.

As of 31 July 2022, women constituted 25% of employees, a 3 percentage point increase compared to 2021, and accounted for 16% of management positions. At STARK Group level, the Executive Management Team's gender balance was 50/50. The Board of Directors of STARK Group A/S consisted of 20% women (one out of five). The Group continuously works to adjust the gender balance.

> **The health and safety of people is a key priority for STARK Group. During 2022, the Group joined the Vision Zero campaign via the Danish Vision Zero Council.**

Employee engagement remained at a high level of 74, with an overall participation rate of 83%.

The health and safety of people is a key priority for STARK Group. During 2022, the Group joined the Vision Zero campaign via the Danish Vision Zero Council. The updated Health and Safety strategy is based on Vision Zero and the introduction of a number of new KPIs that makes it possible to measure and support a strong Health and Safety culture. The rate of occupational injuries decreased from 8.8 to 7.9 injuries per million hours worked.

Governance: Responsible business ethics
STARK Group is committed to upholding a high standard of responsible business conduct, sustainable procurement, and high data ethics to meet the expectations of society and the wider ecosystem the Group is a part of.

All new contracts entered into in the financial year have undergone and passed the product integrity evaluation, and all targeted suppliers have signed legal terms and conditions, including for compliance with STARK Group's Code of Conduct.

In 2022, the Group implemented a Supplier Code of Conduct to clarify the minimum requirements and ambitions towards suppliers across the supply chain, covering both direct and indirect spend. In addition, the Group piloted an extended ESG screening of suppliers using an external partner as a foundation for the further due diligence work.

STARK Group is committed to pay a fair share of taxes in all the markets where it conducts business, as the Group strongly believes that taxes constitute an important contribution to society in the countries in which it operates. The Group is presently developing a Tax Impact Report where the total tax contributions will be presented, including a breakdown of tax contributions by type and jurisdiction.

SUSTAINABILITY REPORT 2022

Learn more about STARK Group's sustainability activities in the separate Sustainability report 2022
→ **starkgroup.dk/publications**

The report serves as the baseline for STARK Group's annual Communication on Progress to the UN Global Compact, and as the statutory statement on corporate social responsibility and the underrepresented gender in accordance with the EU Directive 2014/95/EU and Sections 99a,99b, and 99d of the Danish Financial Statements Act.

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

RISK MANAGEMENT

Risk management forms an integral part of STARK Group's operations and decision-making process, and aims to create and safeguard business value, secure continuity of operations and ensure the safety of people.

STARK Group's Enterprise Risk Management process is designed to identify and manage uncertainties and risks affecting the Group and its business units in the global marketplace. Integrated with the Internal Control framework, the aim is to identify, prioritise and manage key risks at all levels of the business to support the Group in better decision making, proper allocation of resources and better and faster utilisation of opportunities as they arise.

Identified potential risks are addressed directly with business unit management.

Risk governance
The responsibility for the governance of risks lies with the Board of Directors. On behalf of the Board of Directors, the Audit Committee monitors the effectiveness of the Group's risk management setup and evaluates the design framework and governance.

The Executive Management is accountable for the operational part of risk management, headed by the individual business unit CEOs, who are responsible for the implementation of the Group's Risk Management Policy and Internal Controls framework.

A Group Risk and control function validates the implementation and ensures proper and complete reporting to the Audit Committee on status, mitigations, and newly identified risks.

ECONOMIC DOWNTURN

Impact
Rising inflation, interest rates and growing geopolitical uncertainty creating faster-than-expected economic decline might adversely impact customer demand in the builders' merchant industry. This may jeopardise the Group's operational strategic plans and targeted market growth.

Mitigation
The Executive Management closely monitors market conditions with intelligence provided by the Group's business development department and finance teams. Each business unit's management team holds in-depth meetings with Executive Management to further provide operational insights and assess current market developments.

Economic contingency plans for cost-out initiatives have been designed and developed to take recent market situations into account. The Group aims to enhance its resilience towards economic downturns through a continued focus on sales to the core customer segment of small and medium-sized professional craftsmen within the RMI market.

SUPPLY CHAIN DISRUPTION AND PRICING MANAGEMENT

Impact
Supply chain disruptions due to conflicts, shortages of products, restrictions of trade, adverse weather conditions, energy restrictions, logistics disruption or other external factors might impact suppliers, logistics and STARK Group's business units and thereby result in product availability problems, delivery issues and rapid price increases which could potentially result in margin decline or loss of competitive offerings and market share.

Mitigation
During recent unstable and disruptive periods, STARK Group Sourcing and business units have worked closely with suppliers and logistics partners to address situations as they arise and to mitigate the related risks in the best way possible. The Group aims to maintain an adequate number of alternative suppliers, to support both product availability and product price development and to secure undisturbed business continuity and product availability for customers.

By continuously improving the pricing processes and increasing automation, STARK Group has reduced response time as well as simplifying the price adjustment processes. During volatile periods, increased internal inventory monitoring and consistent vendor communication is key to managing an effective pricing process and prevent margin deterioration and supply shortages.

INFORMATION SYSTEMS AND CYBER RISK

Impact
The Group relies on business-unit-specific systems and applications to operate efficiently. This carries an inherent risk of system error, human error, data breaches and other interruptions that may impact STARK Group financially and operationally. The threat to the Group's cybersecurity and data security continues to be a key risk area and a cyber-attack could result in an extended period of downtime. Operational disruptions or vulnerabilities in key information systems could significantly affect the Group's ability to carry out daily operational business processes and servicing customers.

Mitigation
STARK Group's IT function continuously seeks to minimise the above risks by revising strategy, governance, and development plans. The Group invests in employee training, additional relevant internal competences, governance, and technological measures to curb the cyber threat and increase overall resilience and compliance with information security standards. The Group IT Advisory board and the Information Security Governance Committee are charged with the oversight responsibility of STARK Group's IT risk management and with monitoring progress according to plans.

EXECUTIVE MANAGEMENT

Søren P. Olesen
Group CEO
Born in 1967, Danish nationality

Søren P. Olesen was appointed CEO of STARK Group in November 2016. Previously, he held the position as CEO of STARK Danmark (2014-2016). Søren P. Olesen joined the Group from a position as CEO of Flügger Group A/S (2007-2013). Søren P. Olesen holds a Master of Arts (Econ) from Limburg Rijksuniversiteit, the Netherlands, and a Master of Science in Economics from Aalborg University, Denmark.

Selected board positions
Søren P. Olesen holds board positions in Hempel A/S, and Industriens Arbejdsgivere i Danmark.

Sisse Fjelsted Rasmussen
Group CFO
Born in 1967, Danish nationality

Sisse Fjelsted Rasmussen joined STARK Group in 2018 as Chief Financial Officer (CFO). Previously, she held the position as CFO of Scandinavian Tobacco Group (2008-2018). Sisse Fjelsted Rasmussen holds a master's degree in Business Economics and Auditing from Copenhagen Business School and is a state-authorised public accountant.

Selected board positions
Sisse Fjelsted Rasmussen holds board positions in Demant A/S, and Conscia A/S.

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