

A man in a high-visibility yellow vest and black shorts is walking through a large warehouse, carrying a long wooden beam on his shoulder. The warehouse has high ceilings, concrete floors with white lines, and tall shelving units filled with boxes and materials in the background.

ANNUAL REPORT HIGHLIGHTS 2021

1 August 2020 – 31 July 2021

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ABOUT THIS REPORT

The Annual Report Highlights 2021 presents a comprehensive overview of our underlying business and performance.

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

In this document we present our reported results (page 11) and proforma numbers to facilitate comparative analysis of our performance.

Reported and proforma numbers disregard the change in ownership structure. In addition, adjusted proforma numbers include the two months (August and September 2019) from STARK Deutschland in the 2020 proforma results.

A separate annual report has been released.

LETTER FROM THE CEO

AN EXTRAORDINARY YEAR OF GROWTH AND PROGRESS

Solid operational and financial progress in 2020/21 confirmed STARK Group's strategy to lead the Nordic and German markets for distribution of heavy building materials.

I am pleased to share the financial and strategic highlights for a year that has been the most successful in the recent history of STARK Group.

The financial year saw double-digit net sales and EBITDA growth. Employee engagement was high, and our customers' net promoter score increased from an already high level despite a challenging market where availability and price increases on building materials took centre stage.

I am grateful for our employees who have gone the extra mile. I am pleased about how our customers have responded to our employees' extraordinary efforts by choosing the STARK brand over the competition. During the year, we acquired 11% more B2B customers and our growth was approximately 2pp higher than the growth of our competitors.

BUILDING AND RENOVATING FOR MORE PEOPLE IN URBAN AREAS

STARK Group plays an instrumental role in building, maintaining and renovating the cities of

tomorrow. The populations of the Nordic countries and Germany are estimated to grow by 870,000 by 2026. More and more people want to live in cities, resulting in even higher population growth in urban areas. A strong push for energy efficiency, sustainability and high quality of living adds to the strong underlying growth drivers of our business.

Our role is to connect 10,000 manufacturers of building materials with more than 260,000 craftsmen. We offer the lowest cost to serve by reducing complexity for both suppliers and customers. We break truckloads and pallets from manufacturers, advise craftsmen and distribute building materials in different mixes for delivery within a short timeframe to thousands of building sites.

We build our future by helping others build theirs.

FOUR CHALLENGES SET THE CORNER FLAGS

Four challenges set the corner flags for our business in 2020/21:

Covid-19: While societies went into lockdown, STARK Group branches remained open as professional builders' merchants and distributors are considered critical infrastructure. We managed to keep the building industry going while securing the health and safety of our employees and customers.

The main challenge for our industry was not the lockdown but rather the unusually high level of activity and the shortage of materials.

Availability: Getting hold of wood, steel and most building materials has challenged our industry and led to significant price increases for us and our customers. Many hours have gone into securing availability and keeping customers informed.

Our scale advantages proved their worth when sourcing in a challenging market. While we have certainly had our challenges, we have generally been able to secure and distribute materials across markets. We believe that our scale contributed



Søren P. Olesen, CEO, STARK Group



During the year, we acquired 11% more B2B customers and our growth was approximately 2pp higher than the growth of our competitors.

LETTER FROM THE CEO

to ensure availability and hence stimulated our customer acquisition even further.

Acquisitions: Over the last two years, acquisitions have doubled our distribution network as well as our employee headcount, business volume and economy of scale potential.

Our strategy is to lead and consolidate our industry. During the year, we continued to fuel our growth and market share gains with seven new acquisitions that now contribute to building a stronger presence in growth regions and expanding our assortment.

I am pleased to welcome every new employee on our winning team.

Sustainability: Reducing CO₂ emissions has climbed high on the agenda and has started to impact the building industry. This past year, we committed to the Science Based Target initiative and signed the UN Business Ambition for 1.5°C pledge.

We are well-positioned to reduce our emissions by 4.2% annually. For a decade, we have worked to get policies and processes in place, set targets and reported results. After the end of the reporting period, leading rating agency EcoVadis rated STARK Group a top 1% tier company among more than 75,000 rated companies. We achieved a Platinum rating.

The building industry is working to get its head around how to build, maintain and renovate our future cities with net zero emissions. Being rated a Platinum top tier company, STARK Group is well-positioned to work with our suppliers and customers and to lead from the forefront.

AN EXTRAORDINARY YEAR CROWNED WITH NEW OWNERSHIP

2021 marked the 125th anniversary of STARK Group. And what a year!

It has been a year of extraordinary challenges, unprecedented and joint efforts as well as results that we can all take pride in.

The year was crowned with CVC Capital Partners Fund VII acquiring STARK Group in January 2021. This world-leading private equity and credit fund saw potential and intends to contribute to the growth journey that we are on.

I see that as a vote of confidence.

What does the future hold for us? Our agenda for the coming years has not changed: We are committed to building our future on trusted relationships with our customers, employees, suppliers and owners. We go to work with the mindset that we want to earn trust in everything we do.

Trust builds the future.

SØREN P. OLESEN
CEO, STARK Group



The main challenge for our industry was not the lockdown but rather the unusually high level of activity and the shortage of materials.

01 IN BRIEF

Financial highlights
At a glance
Key events 2020/21

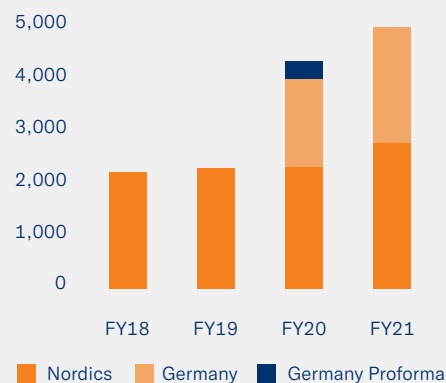
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FINANCIAL HIGHLIGHTS

NET SALES

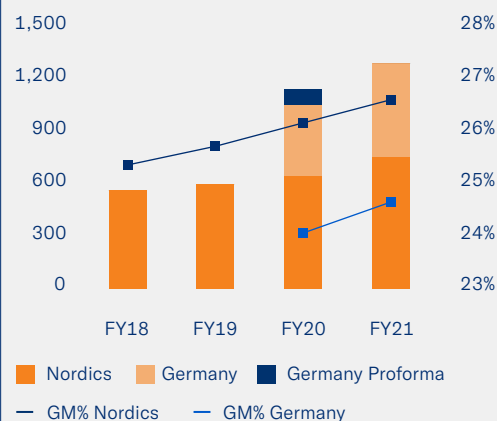
EUR Million



Net sales growth of 11% to EUR 4,949m fuelled by strong underlying market demand and market share gains as a result of the strategy to focus on small and medium-sized enterprises (SME). Organic growth excluding acquisitions and currency impact was 9.3%.

ADJUSTED GROSS PROFIT AND MARGIN PER SEGMENT

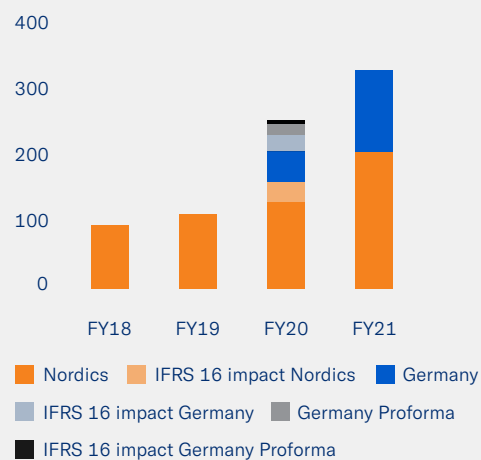
EUR Million



The gross margin increased by 0.5pp to 25.6%. The improvement was a result of the continued focus on effective price management, strategic sourcing initiatives and a shift in customer mix towards more SMEs. Gross profit was up by 13.2% to EUR 1,268m.

ADJUSTED EBITDA

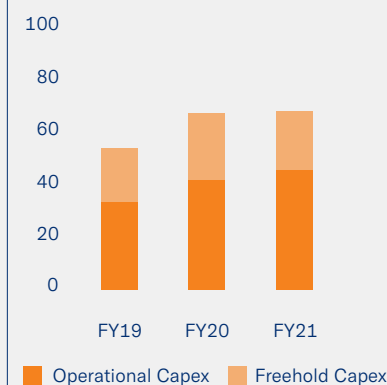
EUR Million



The EBITDA margin increased by 1.1pp to 6.9%. Cost of sales and operating expenses increased to the tune of 10.3% and 7.9%, respectively, while net sales growth was 11%. Adjusted EBITDA increased by 30.7% to EUR 339m.

CAPEX

EUR Million



Continued high investment levels to support future growth. The Capex spend covers both new branches and upgrades of existing ones, investments in new tools and equipment as well as continuous investments in IT solutions. Total Capex spend was EUR 67m and in line with previous year.

AT A GLANCE

STARK Group is the market-leading merchant and distributor of heavy building materials in Northern Europe. The Group advises and serves craftsmen who build and renovate the cities of tomorrow.



10,000

SUPPLIERS



485

BRANCHES AND
DISTRIBUTION CENTRES



+260,000

B2B CUSTOMERS

+280,000

SKU NUMBERS

11,700

EMPLOYEES

+1.5 M

DELIVERIES PER YEAR

STARK Group connects 10,000 suppliers of building materials with more than 260,000 craftsmen.

The Group sources building materials in truckloads, breaks pallets and distributes the materials to thousands of building sites. STARK Group's customers are professional craftsmen whom its employees advise, serve and offer credit.

We build our future by helping others build theirs.

OUR BUSINESS UNITS

STARK NORDICS

DENMARK

Market
position



#1

SWEDEN



#1

FINLAND



#2

NORWAY



#1*

STARK GERMANY



#1



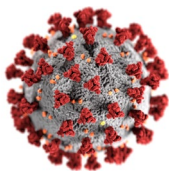
* Regional champion in Bergen and Tromsø.

All numbers on this page are as of the reporting date in December 2021.

KEY EVENTS 2020/21

THROUGHOUT THE YEAR OPEN FOR BUSINESS DURING LOCKDOWN

The health and safety of our employees and customers was a distinct priority in a year with high Covid-19 infection rates. STARK Group had no severe Covid-19 outbreaks at our facilities and managed well through the pandemic and lockdowns. While societies went into lockdown, STARK Group stayed open.



JANUARY ACQUIRED BY CVC

On 8 January, CVC Capital Partners Fund VII acquired STARK Group from Lone Star Funds, which had owned the Group since April 2018.

CVC is a world leader in private equity and credit. CVC manages funds from over 300 investors from across the world. Many of these are pension plans which include plans for teachers, police officers, nurses and fire fighters.

The acquisition was closed in May 2021.

CVC

MARCH ACQUISITION OF ROOFING SPECIALISTS

On 5 March, STARK Group acquired the leading German roofing and facade building material distributor, Melle Gallhöfer. The transaction added 47 locations and more than 750 employees to the business.

Acquisitions are an important growth driver in STARK Group's efforts to consolidate the market for heavy building materials. Being specialized in roofing and facade building materials, Melle Gallhöfer added capabilities to the Group. In Sweden, STARK Group acquired tiles specialists to Beijer Byggmaterial. In total, STARK Group made seven acquisitions in the financial year.

Melle Gallhöfer

APRIL WELL-POSITIONED TO DELIVER ON CLIMATE AMBITION

On 8 April, STARK Group signed the UN Business Ambition for 1.5°C pledge. The Group has committed to the Science Based Target initiative of reducing its CO₂ emissions from scope 1 and 2 by 4.2% per year.

The Group is well-positioned to achieve a reduction of 42% by 2030 and net zero in 2050 – even as it continues to pursue its growth strategy. After the end of the reporting period, STARK Group's sustainability policies, processes, actions and results were rated by EcoVadis and the Group was awarded a Platinum certificate. STARK Group was rated among the top 1% of the more than 75,000 companies that have been rated by EcoVadis.



APRIL CELEBRATING THE FIRST 125 YEARS

STARK Group celebrated its 125th anniversary. On 23 April 1896, the local Danish timber yards Jørgensen & Stilling and Petersen & Matzen merged to form Aarhus Trælasthandel. The merger made the Group Denmark's largest timber yard at the time.

Building on a significant number of acquisitions, STARK Group is rooted to many founders. Norwegian Neumann's heritage dates to 1855, making Neumann the oldest member of the STARK Family.





**WE BUILD OUR
FUTURE BY
HELPING OTHERS
BUILD THEIRS**

TRUST BUILDS THE FUTURE

02 FINANCIALS

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FINANCIAL OVERVIEW

Reported numbers

EUR million	2020/21 ²	2019/20 ¹	2018/19
Income Statement			
Net sales	4,949	4,095	2,299
Gross profit	1,266	1,030	585
Adjusted gross profit	1,268	1,032	589
EBITDA	307	195	92
Adjusted EBITDA ⁴	339	241	118
Balance sheet			
Cash flow from operating activities before financial items and taxes	312	389	129
Changes in working capital	(10)	193	40
Capital expenditure (Capex), total ⁵	67	66	53
Operational Capex, total ⁶	45	41	33
Operational Capex, base ⁷	29	25	22
Operational Capex, development ⁸	16	16	11
Key ratios³			
Net sales growth	20.9%	78.1%	-
Organic net sales growth ⁹	9.3%	2.5%	-
Gross profit growth	22.9%	76.1%	-
Organic gross profit growth	11.2%	4.2%	-
Gross profit margin	25.6%	25.2%	25.4%
Organic EBITDA growth ^{10/11}	28.7%	18.0%	-
EBITDA margin	6.2%	4.8%	4.0%
Adjusted EBITDA margin	6.9%	5.9%	5.1%

The financial overview shows the reported results of STARK Group disregarding the change in ownership structure as a result of CVC Capital Partners Fund VII acquiring STARK Group effective as of 4 May 2021. Results from acquisitions made in STARK Group such as STARK Deutschland in October 2019 are included based on the ownership period.

In some of the following tables in the business review, proforma adjustments have been made for 2019/20 to include the two months of August-September 2019 from STARK Deutschland to facilitate comparative analysis.

1. 2019/20 includes 10 months of operating activities for STARK Deutschland from the acquisition on October 1 2019 and impact from 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, where relevant, been prepared in accordance with the guidelines issued by the CFA Society Denmark.
4. Adjusted EBITDA is defined as EBITDA excluding non-recurring items.
Non-recurring items are items of a material and exceptional nature which are adjusted for to provide a better understanding of the underlying performance of the Group.
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 normal business 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 normal operations of the business.
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 and acquisitions.
11. Organic EBITDA growth from 2018/19 to 2019/20 is based on EBITDA excluding impact from first-time implementation of IFRS 16 in 2019/20.

FINANCIAL REVIEW

Strong financial and strategic progress made the year an extraordinary one despite availability issues and price volatility on the back of Covid-19 closedowns.

The financial year 2020/21 was an extraordinary year for STARK Group. The Group delivered a strong performance in all strategic focus areas supported by a strong underlying market while at the same time, especially at the beginning of the financial year, dealing with the special circumstances of the Covid-19 pandemic.

The Group's focused strategy, committed people and decentralised operating model delivered great results in this unusual environment. The strong local presence and decision-making powers ensured that we had the quick response times necessary to adapt to changes in the quite volatile markets of the past year.

In the last part of the year, especially from March/April onwards, the Group experienced considerable price increases within certain categories. At the same time, the Group successfully managed prices and protected net sales and gross margins.

To better illustrate the underlying performance of the year, we have provided an adjusted 12-months proforma summary income statement with year-on-year

comparisons for STARK Group. The comparison numbers have been proforma-adjusted to include the months of August-September 2019 for STARK Deutschland, which was acquired by STARK Group on 1 October 2019.

In addition, the income statement has been adjusted to exclude non-recurring items. Non-recurring items in the financial year 2019/20 mainly related to the acquisition and subsequent integration of STARK Deutschland, which was a transformational acquisition almost doubling the size of the Group. In the financial year 2020/21, non-recurring items mainly related to the acquisition of STARK Group and the continued integration of acquisitions made by STARK Group before the inclusion into the Group.

To supplement the proforma income statements, adjusted segment summary income statements for the two segments, the Nordics and Germany, has also been included.

Adjusted Proforma Income Statement

	2020/21				2019/20		
12 months of STARK Group activities EUR million	Reported	Non-recurring items	Adjusted	▲%	Reported	Non-recurring items	Adjusted
Net sales	4,949		4,949	11.0%	4,458		4,458
Cost of sales	(3,683)	(2)	(3,681)	10.3%	(3,339)	(2)	(3,337)
Gross profit	1,266	(2)	1,268	13.2%	1,119	(2)	1,121
Gross profit margin %	25.6%		25.6%	0.5 pp	25.1%		25.1%
Staff costs	(638)	(6)	(632)	9.7%	(591)	(14)	(577)
Other external operating expenses	(321)	(24)	(297)	4.4%	(315)	(30)	(285)
EBITDA	307	(32)	339	30.7%	213	(46)	259
EBITDA margin %	6.2%		6.9%	1.1 pp	4.8%		5.8%

Adjusted Proforma Income Statement by Segment

	Nordics			Germany		
12 months of STARK Group activities EUR million	2020/21	2019/20	▲%	2020/21	2019/20	▲%
Net sales	2,792	2,412	15.8%	2,157	2,046	5.4%
Cost of sales	(2,052)	(1,781)	15.2%	(1,629)	(1,556)	4.6%
Gross profit	740	631	17.3%	528	490	7.9%
Gross profit margin %	26.5%	26.2%	0.3 pp	24.5%	23.9%	0.6 pp
Staff costs	(364)	(317)	14.9%	(268)	(260)	3.3%
Other external operating expenses	(162)	(148)	9.8%	(135)	(137)	-1.5%
EBITDA	214	166	28.4%	125	93	34.6%
EBITDA margin %	7.7%	6.9%	0.8 pp	5.8%	4.5%	1.3 pp

FINANCIAL REVIEW

NET SALES

Net sales grew by 11% to EUR 4,949m for the year, fuelled by a strong underlying market demand and market share gains because of STARK Group's focused SME strategy. Organic growth excluding acquisitions and currency impact was 9.3%. The currency impact was positive by 0.8% and a further 1.0% growth came from minor acquisitions made by STARK Group before the inclusion into the Group.

The Nordics grew by 15.8%, driven mainly by strong markets and further market share gains. All Nordic businesses reported strong growth for the year. Significant price increases within certain categories occurred in the last part of the year which had a positive impact on net sales despite being partially offset by slightly lower volume growth.

Net sales in Germany grew by 5.4%, which doubled the growth rate of last year and was testament to the continued strategic focus on SME acquisitions supported by solid market demand.

GROSS PROFIT AND GROSS MARGIN

Adjusted gross profit grew by 13.2% to EUR 1,268m, which was mainly driven by strong net sales with a positive effect from currencies of 1.0%.

Gross margin grew 0.5pp as a result of the continued focus on effective price management, strategic sourcing initiatives with support from own brands and an increased share of SME sales. The margin expansion is in line with the historic trend of recent years.

In the Nordics, gross profit grew by 17.3% to EUR 740m driven by growth in net sales and an improved gross margin. The gross margin uplift was supported by pricing and sourcing initiatives and effective management of price increases in the final months of the financial year. The product mix had a slightly negative impact due to growth above average in the heavy building materials and wood categories, which halted the gross margin increase.

In Germany, gross profit grew by 7.9% to EUR 528m driven by strong net sales growth and Germany benefitting from further integration into the STARK Group central sourcing organization.

OPERATING EXPENSES

Staff costs and other operating expenses were well under control during the financial year as a result of the ongoing focus on cost discipline, which still remains a top priority due to the reduced planning visibility resulting from the Covid-19 pandemic.

Staff costs excluding non-recurring items increased by 9.7% to EUR 632m in the year including a negative currency impact of 0.9% and the impact from acquisitions of 1.0%. Staff costs increased mainly due to an increased number of FTEs to serve the customers and support growth, and due to salary increases following union agreements and ordinary inflation. Employee bonuses increased as a result of the strong performance.

Other operating expenses excluding non-recurring items increased by 4.4% to EUR 297m driven mainly by ordinary inflation and increased activity across the Group.

EBITDA

Adjusted EBITDA grew by 30.7% to EUR 339m as a result of the above dynamics. Growth in net sales and gross margin improvements flowed through to EBITDA while the careful cost discipline secured strong EBITDA growth well above the rate of growth in gross profit.

CAPITAL EXPENDITURE

In the financial year, the Group has continued to invest in the business through both new locations and upgrades to existing ones (freehold capex), investments in new tools and equipment as well as continuous investments in the IT landscape.

Total Capex for the year amounted to EUR 67m, which is in line with previous year (EUR 66m). The Group uses a disciplined approach for Capex investments aiming to support the growth of the business through a well-invested asset base and in addition, to secure compliance and maintain a safe workplace for the employees.

WORKING CAPITAL

In the financial year, working capital developed in a satisfactory manner and according to expectations. The Group measures as a key ratio average working capital during the year as a percentage of net sales. In the Nordics, the ratio improved from 1.6% in 2019/20 to minus 1.1% in 2020/21 while the ratio in Germany improved from 13.4% in 2019/20 to 12.4% in 2020/21. This was a result of the continued strong focus to manage inventories and leverage our scale with suppliers, and was also supported by positive dynamics from a strong underlying market momentum.

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STRATEGY

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

The world's population is growing, and key urban areas in the Nordics and Germany are experiencing an ongoing housing deficit with population growth rates well above country averages.

It is estimated that the populations of the Nordics and Germany will grow by 870,000 (0.7%) to 111.5 million in the period 2021-26. This will require more housing, office space and renovated buildings to accommodate inhabitants who expect high quality of life in sustainable cities.

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

The business model on page 18 outlines the role of the Group, its key resources and value created.

STARK Group estimates the total market for building materials in the Nordics and Germany at EUR 160 bn annually. The retail distribution market for professional craftsmen focusing on heavy building materials such as wood, tiles, windows, plaster boards etc. accounts for approximately one third of the total market.

FOCUS ON ATTRACTIVE MARKET SEGMENTS

STARK Group focuses its business on a highly attractive market segment: Professional craftsmen working in small and medium-sized enterprises in the market for renovation, maintenance, and improvement.

Geography: The Nordics and Germany exhibit robust market fundamentals including stable GDP growth and 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.

Market: The renovation, maintenance, and improvement (RMI) end-market has more cyclical resilience to the newbuild market and mid-single digit growth rate is expected for 2019-24. The RMI market benefits from the EU Green Deal stimuli package and private investments to improve the existing housing stock through more sustainable solutions.

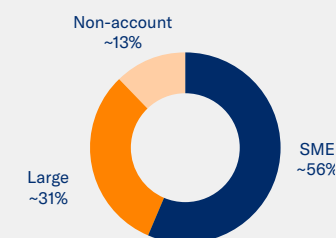
Customers: Craftsmen in the market for small and medium-sized enterprises (1-50 employees) that mainly engage in small and medium-sized RMI projects or as sub-contractors to large building companies in large renovation works.

Products: Heavy building materials that by nature are large (e.g., wood and doors), heavy (e.g., steel and cement) and fragile (e.g., roof tiles and windows) and hence complex to distribute when craftsmen procure different mixes of materials for delivery within a short timeframe.

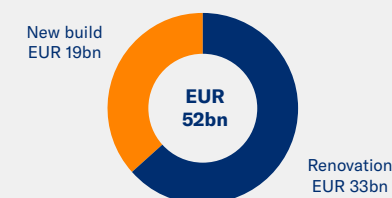
Market characteristics

STARK Group targets small and medium-sized enterprises in the retail distribution market for professional craftsmen focusing on heavy building materials such as wood, tiles, windows, plaster boards etc. Most craftsmen operate within the resilient market for renovation, maintenance, and improvement (RMI).

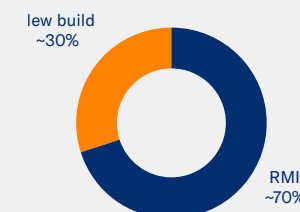
STARK net sales split by customer type



Est. market size of retail market split by type



STARK Group gross profit est. split by end market segment



All market data and information stated in this report are STARK Group estimates based on multiple sources, including information obtained from industry publications or reports.

STRATEGY

LEADERSHIP AND OPERATIONAL EXCELLENCE

STARK Group has organised and operates to win the attractive market for heavy building materials in the Nordics and Germany. The Group competes in the marketplace from leading market positions and with a decentralised operating model that leaves decision-making powers with local operators close to the customers.

STARK Group operates in markets where it has or can build leading market positions. It has no. 1 positions in Germany, Denmark and Sweden, a no. 2 position in Finland and is a leading regional player in Norway. The Group operates under the STARK brand and strong local brand names such as Raab Karcher, Muffenrohr, Beijer, Neumann, among others.

The operating model is decentralised with strong local ownership close to markets and decision-making powers with branches and business units that are country-based. The branches work as national chains in integrated networks that share head office functions, sourcing, logistics handling, and marketing that enable significant scale advantages.

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, effective distribution as well as customer and market insights to suppliers, while securing availability and competitive pricing for craftsmen in the local markets where they operate.

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

The decentralised operating model with lean corporate functions secures efficient operations as close to the customers as possible. STARK Group's head office is operated by a staff of less 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



STRATEGY

FUELLING GROWTH THROUGH ACQUISITIONS

STARK Group's long-term growth and value creation derives from three key resources:

1. Resilient market exposure and above market organic gains
2. Margin improvement from its SME focus, sourcing at scale and smart pricing, ongoing cost optimisation and cash release from working capital optimisation
3. Consolidation of fragmented markets through organic growth and value creating acquisitions

Organic growth higher than competitors'

+2pp

Margin improvement

Gross margin EBITDA margin

+0.5pp

+1.1pp

Consolidation

7 acquisitions

The builders' merchant and distributor market is fragmented and holds growth opportunities. By acquiring new businesses, STARK Group adds capabilities to its business, while becoming a more attractive partner for its customers and suppliers.

STARK Group has a strong track record of synergetic acquisitions that have enabled the Group to tap into fast-growing urban areas and substantial new markets, including the German market in 2019.

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

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

In 2020/21, STARK Group made seven acquisitions including Melle Gallhöfer, a significant roofing and facade building material distributor in Germany. After the reporting period, the Group has made another four acquisitions in Sweden, Finland, and Germany.

ACQUISITIONS IN THE FINANCIAL YEAR 2020/21

											
	HARZROHR	XL BYG/ JENS SCHULTZ	BOLIST MALARTRÅ	MELLE GALLHÖFER	CENTRO KAKEL	KAKELDAX	WOODY LINDGREENS	WOODY ANGERED	WOODY SOTENÄS	KODIN TERRA TUUSULA	LUDVIG PFEIFFER HOCH- UND TIEFBAU
Signing/ closing	Nov 2020 / Dec 2020	Feb 2020 / Feb 2021	Mar 2021 / Mar 2021	Feb 2021 / Oct 2021	Jun 2021 / Sep 2021	Jun 2021 / Sep 2021	Jun 2021 / Oct 2021	Sep 2021	Oct 2021	Nov 2021	November 2021
Geography	 Bavaria	 Funen	 Stockholm	 National player	 Stockholm and Gothenburg	 National player	 Southern Sweden	 Gothenburg	 North of Gothenburg	 Helsinki	 Kassel
Locations	1	4	4	47	10	11	2	2	3	1	1
FTE	5	112	9	750	70	71	23	41	75	30	5

ACQUISITIONS AFTER THE REPORTING PERIOD

BUSINESS MODEL

KEY RESOURCES →

Products

More than 280,000 SKU numbers sourced and sold

Partnerships

Trusted relationships with 260,000 craftsmen, 10,000 suppliers and the building industry at large

People

More than 11,700 employees with backgrounds as craftsmen, retailers, distributors etc.

Expertise & knowledge

Continuous training of our employees and more than 125 years of heritage

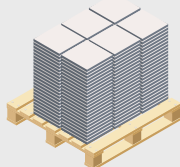
Brand & reputation

Suite of leading brands acknowledged by craftsmen and the building industry at large

BUSINESS ACTIVITIES

SOURCE

Scale in sourcing
Leverage scale to secure availability and competitive prices



SELL

Breaking pallets

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

Warehousing

Efficient distribution from manufacturers to network of large warehouses and branches that keep safety/buffer stock for craftsmen



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

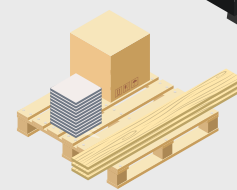
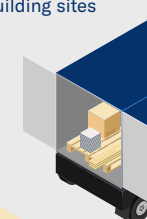
Offer the right product mix and full availability within short timeframe on time in full



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 different 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 is mindful of how its business impacts socially, environmentally and economically sustainable developments.

STARK Group operates in the building industry, where building materials account for 11% of global CO₂ emissions and a significant amount of waste from demolition. The Group works relentlessly to mitigate the adverse impact on the planet that the Group and its industry is accountable for.

Being a proud signatory of the UN Global Compact, STARK Group committed to the Science Based Target initiative and signed the UN Business Ambition for 1.5°C in 2021. Consequently, the Group works to reduce its 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.

In 2020/21, STARK Group reduced its emissions from operations by 31% compared to 2020 representing the baseline year. In addition, the Group completed an initial screening of its impact from scope 3. Waste was reduced by 22%, and training of sustainability ambassadors in branches was initiated.

Employee engagement remained at a high level while the rate of occupational injuries increased. Consequently, actions were taken to bring down the injury rate to the ambitious targets defined for 2024.

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 comprises different genders, ages, ethnicities, abilities, sexual orientations, faiths and religions. In 2021, women constituted 22% of our employees and accounted for 16% of our management positions which is an increase of 2pp.

At STARK Group level, the Executive Management Team's gender balance was 50/50 and the Executive Committee consisted of 25% women (three out of twelve). The Executive Board of STARK Group ApS consisted of 20% women (one out of five). The Group continuously works to adjust the gender balance.

The sustainability overview offers an overview of the most significant priorities and accomplishments in 2021.

Sustainability overview	2021	2020	2019	2018	2017
Carbon	Baseline				
GHG Scope 1&2 (absolute tCO ₂ e)	37,040	53,536	16,418	17,277	22,742
GHG Scope 1 (absolute tCO ₂ e)	23,632	26,746	9,576	8,966	9,820
GHG Scope 2 (absolute tCO ₂ e)	13,408	26,790	6,842	8,311	12,922
Waste					
Total waste (t/EURm revenue) ¹	6.0	7.6	6.3	6.5	8.3
Health and Safety					
Injury rate (per 1 million worked hrs)	8.8	8.0	8.2	8.3	7.7
Lost workday rate (per 1 million worked hrs)	64.3	64.3	61.5	46.2	35.0
Employee Engagement					
STARK Group Employee engagement survey score (satisfaction & motivation):	74	75	74	73	-
Employee engagement survey score (loyalty):	83	-	-	-	-
STARK Group Participation rate (%):	81	91	89	81	-
Diversity and Inclusion					
% women (total)	22	22	22	23	-
% of management positions held by women	16	15	13	13	-
Executive Management team (% women)	50	50	50	50	-

1. Fixed FX rate as of baseline 2020.

SUSTAINABILITY

HIGH STANDARDS FOR A SUSTAINABLE FUTURE

STARK Group is well-positioned to play a significant role in building a sustainable future and committed to supporting and contributing to the societies that the Group is a part of.

Having become a signatory to the UN Global Compact in 2020, STARK Group adheres to the ten principles on human rights, labour, environment and anti-corruption and, thereby, also to the principles for sustainable development agreed upon internationally and referenced in the UN Global Compact.

The Group supports a wide range of Sustainability Development Goals (SDGs), focusing mainly on SDG 12 (responsible consumption and production), SDG 13 (climate action), and SDG 15 (life on land).

The Group has established a Sustainability Advisory Board consisting of the STARK Group CEO, the CEOs of each of the five business units, the CEO of STARK

Sourcing, the Group CFO, the Chief Strategy Officer, the Chief Human Resources Officer, the General Counsel, the Chief Communications Officer and the Head of Sustainability.

The main role of the Advisory Board is to define the sustainability framework and set targets to ensure a common direction to work towards integrated sustainability across business units.

STARK Group has a solid track record of working with sustainability in a structured and proactive manner. After the reporting period, the Group was assessed a Platinum sustainability rating from EcoVadis. The rating agency evaluates the maturity of a company's sustainability policies and tangible actions as well as its reporting on performance indicators and results.

The Platinum certificate from EcoVadis placed STARK Group in the top 1% tier of all 75,000 evaluated companies.



SUSTAINABILITY REPORT 2021

STARK Group's sustainability activities are further elaborated upon in the separate Sustainability report 2021

→ starkgroup.dk/publications

The report serves as the baseline for STARK Group's annual Communication on the 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 Section 99a and 99b of the Danish Financial Statement Act.



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

Enterprise-Wide Risk Management process employed in the year strengthened the creation and safeguarding of value and safety of employees.

The Enterprise Risk Management process is a critical tool for ensuring STARK Group's current ability to create and safeguard business value, secure continuity of operations and ensure the safety of its employees.

In 2020/21, the Group employed an Enterprise-Wide Risk Management (ERM) process in conjunction with its internal control framework to identify, assess and mitigate the risks faced at Group level and in each of its business units.

Findings were reported to management on an ongoing basis and form the basis of the ongoing development of STARK Group's risk management process, which aims to enable us to reach our strategic objectives and avoid disruptions or safety concerns in daily operations.

RISK GOVERNANCE

STARK Group has adopted a Risk Management Policy which defines the

responsibilities related to risk management across the organisation – from strategic decisions by the Executive Board to its employees' conduct as part of their day-to-day operations.

To support and supplement the policy, the Group has introduced various functional and area-specific policies, guidelines and manuals, which outline the principles and procedures for area-specific risk controls and mitigation efforts.

The Executive Board has assigned responsibility for the Group's risk management to the Audit Committee. Overall accountability for risk management lies with the Executive Management, whereas the individual business units are responsible for the implementation of the Group's Risk Management Policy, the ERM process and internal controls. The business unit leaders are supported by the Group risk and control function.

KEY RISKS



**SUPPLY CHAIN
DISRUPTION**



**PRICING
MANAGEMENT**



**ECONOMIC
DOWNTURN**



IT SYSTEMS

KEY RISKS



SUPPLY CHAIN DISRUPTION

Impact

The Group is dependent on effective and continuous supply of goods from suppliers to satisfy the needs of the customers. The supply chain might get disrupted for various reasons such as conflicts, shortage of products, adverse weather, or other external factors, which might impact suppliers, logistics and the Group and result in product availability and delivery issues.

Mitigation

STARK Group sourcing and business units work closely with suppliers and logistics partners to mitigate the risk. Actions include identifying suppliers with high dependency to lower the risk of sudden logistical and availability issues. Scenario analysis is conducted to ensure that the Group has an adequate number of alternative suppliers and the Group has increased readiness for own deliveries to secure availability and undisturbed business continuity. With weekly coordination updates between key operating departments, status on supplies is monitored closely.



PRICING MANAGEMENT

Impact

The Group might not be successful in adhering to internal pricing guidance or manage prices of commodities and other sourced goods quickly enough during volatile periods, which could potentially result in margin deterioration or loss of competitive offerings.

Mitigation

STARK Group is continuously improving pricing processes and increasing automation as well as simplifying the price adjustment processes. Focus is on training, clear roles and responsibilities with regards to price monitoring and management. The Group is managing stakeholder information and increasing internal communications. By performing these actions, response times have been reduced and cooperation and communication with vendors improved.



ECONOMIC DOWNTURN

Impact

Increasing geopolitical uncertainty and faster-than-expected economic decline may negatively impact customer demand in the builders' merchant industry. This may jeopardise strategic plans and targeted profit and growth.

Mitigation

The Executive Board and the Executive Management monitor market developments based on intelligence provided by the Group's business development and finance teams as well as through in-depth reviews and deep dives with each business management team on a continuous basis. Economic contingency plans for cost-out initiatives have been designed and executed promptly where needed, and focus has been kept on sales to small and medium-sized professional builders within the RMI market to improve resilience towards economic downturns.



IT SYSTEMS

Impact

The Group relies on efficient and uninterrupted operation of IT systems, comprised of business unit-specific systems and applications with outsourced administration. Operational disruptions or vulnerabilities in key IT systems could significantly affect the ability to carry out key business processes.

Mitigation

The Group IT function has revised its strategy, governance, and added resources to secure an IT development plan and controls and business continuity plans that mitigate the key IT risks. The Group IT Advisory board and the Information Security Governance Committee are charged with the oversight responsibility of the Group IT risk management and with monitoring progress according to plans.

EXECUTIVE MANAGEMENT



SØREN P. OLESEN

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 Art (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

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 has 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, Conscia A/S, and the Confederation of Danish Industry's committee for taxation policy.



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