

RETAILORS LTD.
BOARD OF DIRECTORS' REPORT
AS OF MARCH 31, 2021

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RETAILORS LTD.

The Company's directors have pleasure in presenting the report of the Board of Directors' report on the state of the Company's affairs for the three months ended March 31, 2021 ("**the reporting period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

This Board of Directors' report has been prepared under the assumption that the IPO prospectus, the tender offer prospectus and the shelf prospectus of the Company which was published on May 13, 2021 ("**the prospectus**", TASE reference: 2021-01-085359) are available to its readers.

The financial statements have been prepared in conformity with International Financial Reporting Standards ("**IFRS**"). See additional information in Note 2 to the Company's financial statements as of March 31, 2021.

Disclosure of the consequences of the spread of Covid-19 on the activity of the Company and investees ("**the Group**") is given in paragraph 1.4.1 below.

Since March 31, 2015, the Company has been controlled by Fox-Wizel Ltd. ("**Fox**") and consolidated in its financial statements.

A. THE BOARD OF DIRECTORS' EXPLANATIONS FOR THE STATE OF THE COMPANY'S AFFAIRS

1. Condensed description of the Group and its business environment

General

The Company was incorporated on December 11, 2008 as a private company limited by shares under the Companies Law under the name of Retailors Ltd. On May 13, 2021, the Company's shares were first sold to the public through share issuance and a tender offer and since May 19, 2021 its shares are traded on the Tel-Aviv Stock Exchange Ltd. (see additional information in Note 5g to the financial statements).

The Company is engaged in the retail sale of footwear products, sports apparel and sports accessories as well as leisure fashion through chain stores that are operated by the Company and its investees in Israel, Canada and Europe ("**Retailors chain**" or "**the chain**"). As of March 31, 2021, the chain has 91 directly operated stores in Israel, of which 23 are Nike stores, 62 Foot Lockers and 6 Dream Sport. The Company, through investees, also operates 9 and 8 Nike stores in Canada and Europe, respectively, and 7 Foot Lockers stores in Europe.

The Group buys and sells in the chain stores many different types of footwear and sportswear and athletic clothing as well as fashion and footwear items, the main ones being: sneakers and leisure fashion, running shoes and sportswear and sports accessories in the men, women and kids categories (see more information in paragraph 6.11 to Chapter 6 to the prospectus published on May 13, 2021).

As of March 31, 2021, the Group operates in two main areas of activities which constitute operating segments in its financial statements:

1.1 The segment of Nike

In this operating segment the Group is engaged in the development and operation of mono-brand stores for retail sale of footwear products, sports apparel and sports accessories of the Nike brand ("Nike") in Israel, Canada and Europe in the men, women and kids categories.

See more information in paragraph 6.4.1 to Chapter 6 to the prospectus published on May 13, 2021.

As of March 31, 2021, the Nike chain operated by the Company and investees consists of 40 stores as follows

	31.3.2020	30.6.2020	30.9.2020	31.12.2020	31.3.2021
Nike Israel	22	22	23	23	23
Nike Canada	8	8	9	9	9
Nike Europe	5	5	5	7	8
Total	35	35	37	39	40

1.2 The segment of Foot Locker

In this operating segment the Group is engaged in the development and operation of multi-brand stores in Israel and Europe under the Foot Locker brand ("**Foot Locker**") for retail sale of footwear products, leisure and sports fashion of top international life style and sports brands such as Adidas, Nike, Vans, Converse, New Balance and others as well as exclusive collections of sports apparel, sneakers and accessories in the men, women and kids categories.

See more information in paragraph 6.4.2 to Chapter 6 to the prospectus published on May 13, 2021.

As of March 31, 2021, the Foot Locker chain operated by the Company and investees consists of 69 stores as follows

	31.3.2020	30.6.2020	30.9.2020	31.12.2020	31.3.2021
Foot Locker Israel	53	53	56	58	62
Foot Locker Europe	-	-	-	7	7
Total	53	53	56	65	69

1.3 The Company has another activity that does not aggregate to a reportable segment in its financial statements, as detailed below

Since May 27, 2020, the Company operates multi-brand stores in Israel under the name of Dream Sport ("**Dream Sport**") for retail sale of a variety of footwear products, professional sport clothing and accessories of top international sports brands. Dream Sport stores market collections of footwear, clothing and accessories classified into different professional categories depending on the type of sports and performance characteristics. These include collections relating to basketball, football, running, indoors, outdoors and leisure sports fashion. See more information in paragraph 6.5 to Chapter 6 to the prospectus published on May 13, 2021.

As of March 31, 2021, the other activity that does not aggregate to a reportable segment consists of 6 stores as follows

	31.3.2020	30.6.2020	30.9.2020	31.12.2020	31.3.2021
Dream Sport	-	1	3	4	6

1.4 Material events during the reporting period

1.4.1 Disclosure of the consequences of the spread of Covid-19 on the Group's activity

During 2020 and Q1 2021, the Government of Israel took various measures to contain the spread of Covid-19 and its consequences in Israel. In this framework, severe restrictions were imposed on citizen mobility, prohibiting gatherings, limiting the number of workers allowed to enter the workplace premises, closing commercial centers including malls and open shopping centers and prohibiting operation of businesses that were defined nonessential.

The following are the opening and closing periods of the stores in Israel in 2020 and Q1 2021:

Country	Lockdown	Date of closing all commercial centers	Reopening of the majority of commercial centers (*)	Number of days the stores remain closed	Total days
Israel	Lock down I	15.3.2020	7.5.2020	53	159
	Lock down II	18.9.2020	8.12.2020	51	
	Lock down III	27.12.2020	21.2.2020	55	

(*) On April 28, 2020, the Group's street-side stores and stores in commercial centers have gradually reopened and on May 7, 2020, the Group's stores in malls have reopened subject to compliance with the guidelines and restrictions imposed to ensure public health, among others, in relation to the number of staff and customers.

On November 8, 2020, the Group's street-side stores reopened and on November 16, 2020 also stores in open malls have reopened and on December 8, 2020, most of the Group's stores in Israel have reopened.

The following are the number of days the Group's stores remain closed for Q1 2021 and for the corresponding period last year:

Country	Number of days lockdown Q1 2021	Number of days lockdown Q1 2020
Israel	51	17
Canada	46-66	14
The Netherlands (*)	61	13
Belgium (*)	-	14
Germany (*)	78	15
Poland (**)	41-49	-
Hungary (**)	24	-

(*) The activities in Germany, the Netherlands and Belgium were acquired on March 1, 2020 and the period of lockdown for Q1 2020 in the above table refers to the period from acquisition until the end of Q1 2020.

(**) The Group did not operate the stores in Poland and Hungary in Q1 last year.

See information regarding the impact of the lockdowns in Israel and abroad in Note 1a to the Company's annual financial statements as of December 31, 2020.

The impact of Lockdown III in Israel on the Company

Following a significant rise in morbidity, on December 27, 2020, the Government of Israel decided to impose restrictions on economic activity and gatherings and also ban commercial activity. Accordingly, all Group's stores in Israel closed.

Following the above, the Company made several cost-saving moves, similar as in previous lockdowns, which included, among others, putting all Company's employees and managers on unpaid leave, with the exception of a limited number of employees and managers mostly at the Company's headquarters, which operated only in a limited basis (in scale and salary) for the sake of business continuity. Further, the Company's management (including the Company's CEO and other officers) informed on temporary and partial waiver of salary during the period.

During the reporting period, the Company has reached agreements with most of the lessors in Israel that no rent payments and management fees (part or full) will be due for the period in which operation of stores was banned (from December 27, 2020).

On February 21, 2020, trade restrictions were lifted and all Company's stores in malls in Israel reopened, subject to compliance with the guidelines and restrictions imposed to ensure public health, among others, in relation to the number of staff and customers and the Company's employees and managers returned to work on a regular basis.

In view of the high vaccination coverage in Israel, the number of cases have fallen significantly and, as of the reporting date, all of the Company's stores in Israel are open in accordance with the guidelines and regulations relating to containment of Covid-19. On the other hand, the vaccination pace in foreign countries where the Group operates is slower compared to Israel and the Group estimates that operation of stores without major restrictions and additional lockdowns will be possible within just few months, among others, depending on the pace of vaccinations in those countries and the decrease in the number of infections.

The impact of Covid-19 on the Group's stores abroad

Similar to what was happening in Israel, many countries around the world have responded in the same way as Israel and imposed various restrictions on trade following the spread of Covid-19:

Europe

The Group's stores in Belgium moved on March 27, 2021 to operate in the format of shopping by appointment and on April 26, 2021 stores reopened fully.

The Group's stores in the Netherlands closed on December 15, 2020 and reopened on March 3, 2021 with restrictions of shopping by appointment and limited number of customers allowed inside at any time. On April 28, 2021, the Group's stores in the Netherlands reopened fully.

The Group's store in Germany closed on December 16, 2020 and reopened on March 8, 2021 with restrictions of shopping by appointment and limited number of customers. Despite the above and pursuant to the decision of the local authority, the Group's store in Germany closed again on March 20, 2021 and reopened on May 22, 2021 with tight restrictions.

The Group's stores in Poland closed from December 25, 2020 until February 1, 2021 and closed again from March 14, 2021 until March 22, 2021 and reopened on May 4, 2021.

The Group's stores in Hungary closed on March 8, 2021 and reopened on April 7, 2021.

Canada

Some of the Group's stores in Canada closed on November 23 2020 and other stores closed during December and entirely closed on December 26, 2020. The Group's stores in Canada reopened gradually from February 16, 2021 until the reopening of all of the Group's stores in Canada on March 8, 2021. The Group's stores in Canada closed again on April 8, 2021 and are planned to reopen on June 2, 2021.

The subsidiaries in Canada and Europe reached various agreements with lessors regarding discounts on rent payments for the period in which operation of stores was banned and some also for the period after the stores reopened. According to the agreements, discounts on rent payments and management fees are for several months.

Government support

Subsidiaries in Europe and Canada are entitled to receive support grants from the relevant countries for employees' salary expenses, loss of income and one-time expenses. The subsidiaries recognized such grants against a deduction in selling and marketing expenses of approximately NIS 5,552 thousand in Q1 2021.

Effect on sales (out of the Company's management reports)

Israel

For the period between January 1 and February 20, 2020 and 2021, sales in Israel totaled NIS 73.6 million and NIS 10.3 million, respectively.

Canada

For the period between January 1 and March 7, 2020 and 2021, sales in Canada totaled NIS 16.3 million and NIS 2.6 million, respectively.

The cash balance of the Company and subsidiaries totaled approximately NIS 89.2 million as of March 31, 2021.

Total short and long-term credit in the consolidated financial statements was approximately NIS 143.4 million as of March 31, 2021.

For paying the Company's working capital, in 2020, the Company took an owner's loan from the parent company, Fox, which has been repaid in full in March 2021.

The Company's management estimates that its balance of cash and cash equivalents, low leverage ratio and capital raised in May 2021 (issuance of its shares to the public and allocation to Foot Locker Inc., see also Note 5 a and g to the financial statements), mitigate the exposure to financial instability caused by Covid-19.

The Covid-19 crisis is a dynamic event and the extent of its impact on the Group's results in the remaining 2021 and onward depends, among others, on the scope and severity of the restrictions imposed or lifted and how long will it take to return to regular activity.

The potential effects of the spread of Covid-19 on the Group's activity and how the Group will respond to the Covid-19 crisis in the future, as described above and below, is a forward looking information, as defined in the Securities Law, whose realization is uncertain and beyond the Company's control. Such information is based on the Company's assessments and forecasts available at the time the report is published which depend, among others, on the way in which the virus will be transmitted in the future and the corresponding measures taken in Israel and around the world which could have a significant effect on the Group's activity. Currently, the Company is unable to estimate the possible consequences on its future operations and results because the degree of impact on the Group's activity depends, among others, on the level and extent of their realization.

- 1.4.2** On February 16, 2021, an amendment to the agreements regarding the option granted to Leumi Partners under the original agreement and the shareholders' agreement, as elaborated in Note 3a to the financial statements, was signed. On May 13, 2021, shortly before the publication of the prospectus, the Company allocated to Leumi Partners shares, according to the above amendment to the agreements, and Leumi Partners sold those shares in a tender offer.
- 1.4.3** As for information regarding an update of the employment terms of Mr. Tomer Czapnik, CEO Retailors Nike Stores International, the son-in-law of Mr. Harel Wizel, who is the Chairman of the Company's Board and one of the controlling shareholders in Fox, the controlling shareholder in the Company, including the approval to allocate to Mr. Czapnik RSUs after the completion of the offering to the public, see Note 3b to the financial statements.

1.5 Significant events after the reporting date

- 1.5.1** As for information regarding the agreement between the Company, Fox and Foot Locker Retail Inc. ("**Foot Locker Inc.**") for the allocation of the Company's shares to Foot Locker Inc. and Fox undertaking to vote for the election of the candidate of Foot Locker Inc. as a director or to allow Foot Locker Inc. to appoint an observer on the Company's Board and the completion of the allocation of Company's shares to Foot Locker Inc. in consideration of approximately NIS 222.5 million on May 13, 2021 with the publication of the prospectus, see Note 5a to the financial statements.
- 1.5.2** As for information regarding agreements with Fox for management and consulting services, service and burden and customers' club, see Note 5c and d to the financial statements.
- 1.5.3** As for information regarding the agreement with Terminal X Online Ltd., a company controlled by Fox, see Note 5b to the financial statements.
- 1.5.4** As for information regarding the demarcation agreement with Fox, the controlling shareholder in the Company, and the conflict of interest agreement pertaining to officers in Fox group who may be appointed as officers in the Company, see Note 5f to the financial statements.

- 1.5.5** As for information regarding a planned private placement of RSUs to Messer. Mr. Danny Gaoni, Operations Manager of Nike Israel, Foot Locker Israel and Dream Sport Israel and to the Company's CEO, Mr. Dov Schneidman, and to Mr. Tomer Czapnik (see 1.4.3 above), after the completion of the offering to the public, see Note 5e to the financial statements.
- 1.5.6** As for information regarding the issuance of the Company's shares and their registration for trade on the Tel-Aviv Stock Exchange, see Note 5g.
- 1.5.7** As for information regarding the Company's a plans to allocate RSUs under a RSUs program to the acting chairman of the Company's Board, Mr. Harel Wizel, who is one of the controlling shareholders in Fox (the controlling shareholder in the Company), see Note 5h.

2. **Below is the structure of activities of the Company according to the presentation in segment and accounting reporting**

	Accounting reporting					
	Foot Locker	Nike	Other	Total before adjustments based on 100% of operations	Adjustments to operating results	Total consolidated financial statements
Revenues from sales and services	Foot Locker Israel, Foot Locker Europe	Nike Israel, Nike Canada, Nike Europe (*)	Dream Sport	Subtotal – Foot Locker, Nike and other	Less - 100% of sales - Foot Locker Europe	Sales - Foot Locker Israel, Nike Israel, Nike Canada, Nike Europe, Dream Sport
Gross profit	Foot Locker Israel, Foot Locker Europe	Nike Israel, Nike Canada, Nike Europe (*)	Dream Sport	Subtotal - Foot Locker, Nike and other	Less - 100% of gross profit - Foot Locker Europe	Gross profit - Foot Locker Israel, Nike Israel, Nike Canada, Nike Europe, Dream Sport
Operating income	Foot Locker Israel, Foot Locker Europe	Nike Israel, Nike Canada, Nike Europe (*)	Dream Sport	Subtotal - Foot Locker, Nike and other	Less - 100% of operating income (*) - Foot Locker Europe Add - 49% of equity earnings to a company - Foot Locker Europe	Operating income - Foot Locker Israel, Nike Israel, Nike Canada, Nike Europe, Dream Sport Add - 49% of equity earnings to a company - Foot Locker Europe

(*) The activity – Nike Europe – comprises the companies Retailors-FL NK Ventures BV and Retailors Europe BV.

The Group's business results according to operating segments (for the three months ended March 31, 2021 and 2020 (NIS in thousands))

In furtherance to the application of IFRS 11, the results of the reported company (Foot Locker Europe) are accounted for using the equity method.

In order to present segment reporting results based on the areas of operation of the Company and the information that is reviewed by the chief operating decision maker (the CODM) the data for sales and segment income of the reported company using the equity method are presented at full holding rate (100%) and a corresponding adjustment of sales and segment income was made to present the segment's results based on the actual holding rate under the 'adjustments' column.

	1-3/2021					
	Foot Locker (Foot Locker Israel, Foot Locker Europe)	Nike (Nike Israel, Nike Canada, Nike Europe)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Total revenues	84,458	77,857	13,910	176,225	(3,122)	173,103
% of total revenues	47.9%	44.2%	7.9%	100%	-	-
Gross profit	38,822	39,300	5,763	83,885	(1,163)	82,722
Operating income (loss)	3,383	9,104	(1,764)	10,723	1,498	12,221
Profit margin	4.0%	11.7%	(12.7%)	6.1%	-	7.1%

	1-3/2020					
	Foot Locker (Foot Locker Israel)	Nike (Nike Israel, Nike Canada, Nike Europe)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Total revenues	64,968	65,088	-	130,056	-	130,056
% of total revenues	50%	50%	-	100%	-	-
Gross profit	29,555	33,101	-	62,656	-	62,656
Operating income	3,090	4,248	-	7,338	-	7,338
Profit margin	4.8%	6.5%	-	5.6%	-	5.6%

Following are details of the change in same-store sales for each of the Company's operating segments for the period from February 21 to March 31, 2021 and 2019 (**):

Same-store sales

	Foot Locker		Nike	
	1-3/2021	1-3/2019	1-3/2021	1-3/2019
Total same-store sales (NIS in thousands) (*)	47,471	20,303	36,395	18,739

	Foot Locker			Nike		
	1-3			1-3		
	2021	2020	2019	2021	2020	2019
% of change in same-store sales	133.8%	6.8%	18.6%	94.2%	20.4%	28.5%

Data used in calculating same stores in 2021 is from February 21 to March 31 and for the same period in 2019.

(*) Stores used in calculating sales are only stores which operated continuously and regularly throughout the entire **relevant periods** in 2021 and 2019 with no change in area.

(**) The Company chose to compare data of same stores with the corresponding period in 2019 (and not in 2020) because already at the beginning of March 2020 sales dropped due to the negative consequences of the spread of Covid-19 in Israel and on March 15 all stores closed according to the directives of the Government and, therefore, the basis of comparison with the period in which the stores operated in 2021 is very narrow.

Same-store sales for the period from February 21 to March 31, 2021 compared to the corresponding period in 2020 increased in the Nike and Foot Locker segments by 55.8% and 81.0%, respectively.

The increase in same-store sales in the period from February 21 to March 31, 2021 compared to the corresponding period in 2019 and also from February 21 to March 14, 2021 compared to the corresponding period in 2020, results, among others, from growth in sales in post-closure periods to customers who bought goods they were unable to obtain or avoided shopping during lockdown periods.

Sales per sq.m. (not in same stores)

Following are details of sales per sq.m. for each of the Company's operating segments for the reporting period in 2021 and 2020:

	Foot Locker			Nike		
	1-3			1-3		
	2021	2020	2019	2021	2020	2019
Total sales per sq.m. (in NIS) (**)	4,991	2,672	2,724	3,764	2,440	2,666
Total areas used in calculating sales per sq.m. (in sq.m. (***))	13,016	9,725	7,528	15,912	10,670	9,253
% of change in retail spaces	33.8%	29.2%	4.3%	49.1%	15.3%	3.0%

Data used in calculating sales per sq.m. in 2021 is from February 21 to March 31. Sales data in 2020 do not take into account the periods in which stores were closed due to restrictions imposed on opening the chain stores because of the spread of Covid-19.

Data for 2019 show a full quarter. Sales per sq.m. in 2021 (from February 21 to March 31) have been affected by, among others, the growth in sales in post-closure periods to customers who bought goods they were unable to obtain or avoided shopping during lockdown periods.

(**) Data of sales per sq.m. are not same store data and are also affected by changes in store size. Data of sales used in calculating sales per sq.m. included all forms of payment accepted by the store less VAT and less all discounts and promotions, including the redemption of Dream Card club points, discount vouchers and gift cards.

(***) Data of area in sq.m. used in the calculation are in net terms and exclude public areas and warehouses. The calculation of total area for the period in sq.m. was made relatively according to the number of months of operation of each store.

Sales per sq.m. in Q1 2021 have been affected by, among others, the growth in sales in post-closure periods to customers who bought goods they were unable to obtain or avoided shopping during lockdown periods.

Metric	Way of computation/ components	Information about the purpose of the metric	Input
Same-store sales	Rate of change in revenues from sales in stores that have been operating for 12 months or more from the beginning of the fiscal year	This figure, which is usually presented (as a percentage) relative to the previous period, allows the Company's management to measure how sales change in each year (period), excluding stores that have opened or closed or changed in size during a period of less than a year, thus presenting the Company's management with a reliable picture of the business change without stores that have not yet been established and completed a full year of operation that cause bias.	See details in the table above
Sales per sq.m. (for all stores, including stores that are not same stores)	Total store revenue over the period of time the stores were opened divided by store area (sq.m.)	This figure allows the Company's management to measure how efficient it is with the use of retail space for improving sales.	See details in the table above
Net debt	Total cash and cash equivalents less short and long-term credit from banks and related parties	The metric allows to evaluate the Company's capital structure and its leverage ratio.	See paragraph 1.4.1

2.1 Foot Locker segment

Sales

For the 3 months period (NIS in millions)

	1-3/2021	1-3/2020	Rate of change
Sales	84.5	65.0	30%

The main increase in sales turnover in the reporting period compared to the corresponding period of last year arises from the increase in retail space of the chain in Europe and Israel as well as from growth in local sales from February 21, 2021 with the lifting of the lockdown and the reopening of the commercial centers. The slowdown in sales in March last year is due to the spread of Covid-19 and the closure of the local stores from March 15, 2020. See additional information in paragraph 1.4.1 above.

Gross profit

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	38.8	46.0%	29.5	45.5%	31.4%	0.5%

The increase in gross profit is mainly a result of the increase in sales, as elaborated above.

The increase in gross profit margin in the reporting period compared to the corresponding period of last year is mainly a result of the decrease in the level of discounts offered in the chain stores compared to the corresponding period of last year.

Operating income

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	3.4	4.0%	3.1	4.8%	9.5%	(0.8%)

The increase in operating income in the reporting period compared to the corresponding period of last year mainly arises from the increase in sales and gross profit, as stated above, offset by the increase in operating expenses primarily in the operation of the chain in Europe in the period in which the stores were closed.

2.2 Nike segment

Sales

For the 3 months period (NIS in millions)

	1-3/2021	1-3/2020	Rate of change
Sales	77.9	65.1	19.6%

The main increase in sales turnover in the reporting period compared to the corresponding period of last year arises from the increase in retail space of the chain primarily in Europe as well as from growth in local sales from February 21, 2021 with the lifting of the lockdown and the reopening of the commercial centers. The slowdown in sales in March last year is due to the spread of Covid-19 and the closure of the local stores from March 15, 2020, offset by the effect of the decline in sales in Canada in the current quarter because the stores have remained closed almost the entire quarter. See additional information in paragraph 1.4.1 above.

Gross profit

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	39.3	50.5%	33.1	50.9%	18.7%	(0.4%)

The increase in gross profit is mainly a result of the increase in sales, as elaborated above.

The decrease in gross profit margin in the reporting period compared to the corresponding period of last year is mainly a result of deeper level of discounts offered in the chain stores compared to the corresponding period of last year.

Operating income

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	9.1	11.7%	4.2	6.5%	114.3%	5.2%

The increase in operating income in the reporting period compared to the corresponding period of last year mainly arises from the increase in sales and gross profit, as stated above, with corresponding decrease in operating expenses, including grants of approximately NIS 5.5 million received in Canada and Europe (see paragraph 1.4.1), following management actions to reduce the main operating expenses such as wages, rent, management fees, etc. during the lockdown in the quarter.

ACCOUNTING REPORT

3. The Company's business results

- a. The Company's revenues are affected by seasonality, which is usually reflected in higher sales during Passover, the Jewish New Year holidays and the fourth quarter of the year primarily because of increased sales in Europe and Canada before Christmas. There is also an increase in Company's revenues in the back-to-school season.
- b. The Company has elected as its accounting policy to present equity earnings of companies accounted for at equity in operating income since the investment in these companies forms part of the Company's operating and strategic activity.

Condensed consolidated accounting statements of profit or loss (NIS in thousands)

	Quarter		Year 2020
	1-3/2021	1-3/2020	
Revenues from sales	173,103	130,056	637,659
Cost of sales	90,381	67,400	324,509
Gross profit	82,722	62,656	313,150
Gross profit margin	47.8%	48.2%	49.1%
Selling and marketing expenses	67,098	54,180	230,745
General and administrative expenses	2,744	1,138	6,672
Equity losses	659	-	820
Operating income	12,221	7,338	74,913
Operating income margin (*)	7.1%	5.6%	11.7%
Finance expenses, net	3,548	3,486	13,205
Finance expenses on revaluation of Leumi Partners option	18,308	-	76,615
Income (loss) before taxes on income	(9,635)	3,852	(14,907)
Taxes on income	2,047	845	15,320
Net income (loss)	(11,682)	3,007	(30,227)
Net income (loss) margin	(6.7%)	2.3%	(4.7%)
Net income less revaluation of option	6,626	3,007	46,388
Net income margin	3.8%	2.3%	7.3%

- (*) Please refer to the segment analysis in order to compare the results to the corresponding period of last year.

Sales

For the 3 months period (NIS in millions)

	1-3/2021	1-3/2020	Rate of change
Sales	173.1	130.1	33.1%

The main increase in sales turnover in the reporting period compared to the corresponding period of last year arises from increase in retail space mostly in the Dream Sport, Nike and Foot Locker chains in Europe and Israel as well as from growth in local sales from February 21, 2021 with the lifting of the lockdown and the reopening of the commercial centers. The slowdown in sales in March last year is due to the spread of Covid-19 and the closure of the local stores from March 15, 2020, offset by the effect of the decline in sales in Canada in the current quarter because the stores have remained closed almost the entire quarter. See additional information in paragraph 1.4.1 above.

Gross profit

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Gross profit	82.7	47.8%	62.7	48.2%	32%	(0.4%)

The increase in gross profit in the reporting period compared to the corresponding period of last year is mainly a result of the increase in sales, as elaborated above.

For an analysis of the gross profit margin, see the Group's business results according to operating segments above.

Selling and marketing expenses

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Selling and marketing expenses	67.1	38.8%	54.2	41.7%	23.8%	(2.9%)

The increase in selling and marketing expenses in the reporting period compared to the corresponding period of last year mainly arises from adding the selling and marketing expenses of companies which have been initially consolidated and from the increase in expenses following the growth in retail space.

The decrease in the rate of selling and marketing expenses compared to turnover derives from management actions to reduce the main operating expenses such as wages, rent, management fees, etc. during the lockdown in the quarter, including grants of approximately NIS 5.5 million received in Canada and Europe (see paragraph 1.4.1).

General and administrative expenses

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
General and administrative expenses	2.7	1.6%	1.1	0.9%	141.1%	0.7%

The increase in general and administrative expenses in the reporting period compared to the corresponding period of last year mainly arises from increase in professional services related to the valuation of the Company for the offering on the Tel-Aviv Stock Exchange and from adding the expenses of companies which have been initially consolidated.

Equity loss

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Equity loss	0.7	0.3%	-	-	-	0.0%

The increase in equity losses in the reporting period compared to the corresponding period of last year arises from the activity of an associate which was acquired in Q3 2020.

Operating income

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Operating income	12.2	7.1%	7.3	5.6%	66.5%	1.5%

For an analysis of the operating income, see the Group's business results according to operating segments.

Finance expenses / income

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Finance expenses, net	21.9	12.6%	3.5	2.7%	527%	9.9%
Finance expenses, net before effect of adoption of IFRS 16, "Leases"	19.3	11.2%	0.1	0.0%	-	11.2%

Net finance expenses in the reporting period derived mainly from accounting finance expenses of approximately NIS 18.3 million related to revaluation of option, finance expenses of approximately NIS 2.5 million related to lease liability, interest expenses on loans of approximately NIS 0.5 million, commissions and miscellaneous of approximately NIS 0.4 million and from revaluation of net balances in foreign currency of approximately NIS 0.2 million.

Net finance expenses in the corresponding period of last year derived from finance expenses of approximately NIS 3.4 million related to lease liability, interest expenses on long-term loans of approximately NIS 0.5 million, commissions and miscellaneous of approximately NIS 0.1 million, which were partially offset by the amount of approximately NIS 0.5 million from income related to revaluation of net balances in foreign currency.

Net income

For the 3 months period (NIS in millions)

	1-3/2021		1-3/2020		Rate of change	Change compared to turnover
	Amount	% of turnover	Amount	% of turnover		
Net income (loss)	(11.7)	(6.7%)	3.0	2.3%	-	9.0%
Net income (loss) less expenses related to revaluation of option	6.6	3.8%	3.0	2.3%	120.0%	1.5%

Earnings per share

For the 3 months period (NIS in millions)

	1-3/2021	1-3/2020
Basic net earnings (loss) per share	(34.19)	11.83
Diluted net earnings (loss) per share	(34.19)	11.83

4. Effect of initial adoption of IFRS 16, "Leases"

The Company has initially adopted IFRS 16, "Leases" in Q1 2019.

IFRS 16 has an effect on the financial statements and, accordingly, the Company elected to indicate the effect of IFRS 16 on the results.

The effect of IFRS 16, "Leases" on the consolidated statement of profit or loss (NIS in thousands)

Item	1-3/2021		1-3/2020	
	As previously reported	Before the adoption of IFRS 16, "Leases"	As previously reported	Before the adoption of IFRS 16, "Leases"
Operating income	12,221	11,895	7,338	5,059
Finance expenses, net	21,856	19,320	3,486	124
Income (loss) before taxes on income	(9,635)	(7,425)	3,852	4,934
Taxes on income	2,047	2,781	845	1,098
Net income (loss)	(11,682)	(10,206)	3,007	3,836
Net income less revaluation of option	6,626	8,102	3,007	3,836
Income (loss) attributable to equity holders of the Company	(11,182)	(11,014)	3,656	4,454
EBITDA	32,247	(*) 16,598	24,994	(*) 7,939

(*) Adjusted EBITDA.

The Group's operating income according to operating segments before the adoption of IFRS 16, "Leases" for the three months ended March 31, 2021 and 2020 (NIS in thousands)

For the 3 months period (NIS in millions)

	1-3/2021					
	Foot Locker (Foot Locker Israel, Foot Locker Europe)	Nike (Nike Israel, Nike Canada, Nike Europe)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Operating income	3,258	8,428	(1,347)	10,339	1,556	11,895
Profit margin	4.5%	10.2%	(9.7%)	5.9%	-	6.9%
Depreciation and amortization	2,047	2,777	241	5,065	(362)	4,703
Adjusted EBITDA	5,305	11,205	(1,106)	15,404	1,194	16,598

For the 3 months period (NIS in millions)

	1-3/2020					
	Foot Locker (Foot Locker Israel)	Nike (Nike Israel, Nike Canada)	Other (Dream Sport)	Total before adjustments based on 100% of operations	Adjustments	Total consolidated financial statements
Operating income	2,158	2,901	-	5,059	-	5,059
Profit margin	3.3%	4.5%	-	3.9%	-	3.9%
Depreciation and amortization	1,280	1,600	-	2,880	-	2,880
Adjusted EBITDA	3,438	4,501	-	7,939	-	7,939

(*) Adjusted EBITDA – operating income, excluding depreciation expenses of right-of-use assets (according to IFRS 16), including rent expenses (in the scope of the computation of IFRS 16), excluding depreciation and amortization expenses of property, plant and equipment and other assets. The adjusted EBITDA for each segment is calculated by adding the operating income and the relevant amounts of depreciation and amortization.

Metric	Way of computation/ components	Information about the purpose of the metric	Input
EBITDA	Operating income (before finance expenses and taxes) excluding depreciation and amortization expenses of property, plant and equipment and other assets and depreciation expenses of right-of-use assets (the effect of IFRS 16)	A common metric which makes it possible to know what the Company's operating profit is (before finance expenses and taxes), excluding items that are included in operating income but are not cash flow, such as depreciation and amortization. A kind of operating cash flow.	See details in the table above
EBITDA derived from revenues	EBITDA divided by total revenues from the activity for the relevant period	The purpose of the metric is to examine the level of profitability of an activity using the EBITDA margin as a percentage of revenues for a comparison to other activities or other periods	See details of EBITDA and revenues in the tables above
Adjusted EBITDA derived from revenues	Adjusted EBITDA divided by total revenues from the activity for the relevant period	The purpose of the metric is to examine the level of profitability of an activity using the adjusted EBITDA margin as a percentage of revenues for a comparison to other activities or other periods	See details of adjusted EBITDA and revenues in the tables above
Adjusted EBITDA	Operating income, excluding depreciation expenses of right-of-use assets (according to IFRS 16), including rent expenses (in the scope of the computation of IFRS 16), excluding depreciation and amortization expenses of property, plant and equipment and other assets.	The purpose of using this metric is to present a picture of the Company's operating income less effects of non-recurring factors and less effect of the adoption of IFRS 16.	See details in the table above
Adjusted EBITDA per sq.m.	Operating income, excluding depreciation expenses of right-of-use assets (according to IFRS 16), including rent expenses (in the scope of the computation of IFRS 16), excluding depreciation and amortization expenses of property, plant and equipment and other assets.	The purpose of the metric is to examine the level of profitability of an activity using the adjusted EBITDA margin to total average sq.m. for a comparison to other activities or other periods	See details of adjusted EBITDA and revenues in the tables above

5. Financial position, equity, liquidity, financing resources and cash flows

5.1 Financial position

The Company's total balance sheet as of March 31, 2021 amounted to approximately NIS 1,243.5 million compared to approximately NIS 854.7 million as of March 31, 2020.

Below is an analysis of the major changes in the balance sheet items as of March 31, 2021 compared to the consolidated balance sheet as of March 31, 2020:

Current assets - total current assets as of March 31, 2021 amounted to approximately NIS 378.5 million, representing about 30.4% of total balance sheet, compared to approximately NIS 248.7 million, representing about 29.1% of total balance sheet as of March 31, 2020. The increase in current assets is a result of the increase in the balance of cash, inventories, other accounts receivable and trade receivables.

Non-current assets - total non-current assets as of March 31, 2021 amounted to approximately NIS 865.1 million, representing about 69.6% of total balance sheet, compared to approximately NIS 606.0 million, representing about 70.9% of total balance sheet as of March 31, 2020. The increase in non-current assets is a result of the increase in right-of-use assets, long-term receivables, deferred taxes, property, plant and equipment, investments in companies accounted for at equity and restricted deposit, offset by the decrease in other intangible assets and store removal fees.

Current liabilities - total current liabilities as of March 31, 2021 amounted to approximately NIS 529.3 million, representing about 42.6% of total balance sheet, compared to approximately NIS 253.8 million, representing about 29.7% of total balance sheet as of March 31, 2020. The increase in current liabilities is a result of the increase in credit from banks, trade payables, current maturity of lease liability and other accounts payable, which was partially offset by the decrease in related parties.

Non-current liabilities - total non-current liabilities as of March 31, 2021 amounted to approximately NIS 652.0, representing about 52.4% of total balance sheet, compared to approximately NIS 502.4 million, representing about 58.8% of total balance sheet as of March 31, 2020. The increase in non-current liabilities is a result of the increase in the remaining lease liability and the increase in employee benefit liabilities, net, offset by the balance of long-term loans from banks.

The Company's consolidated working capital as of March 31, 2021 amounted to approximately NIS (150.9) million (approximately NIS (59.3) million before the adoption of IFRS 16, "Leases"), compared to approximately NIS (5.1) million (approximately NIS (63.2) million before the adoption of IFRS 16, "Leases") as of March 31, 2020.

The Company's consolidated current ratio as of March 31, 2021 was 0.71 (0.86 before the adoption of IFRS 16, "Leases") compared to 0.98 (1.34 before the adoption of IFRS 16, "Leases") as of March 31, 2020.

The Company's consolidated quick ratio as of March 31, 2021 was 0.42 (0.50 before the adoption of IFRS 16, "Leases") compared to 0.50 (0.68 before the adoption of IFRS 16, "Leases") as of March 31, 2020.

5.2 Equity

The Company's equity as of March 31, 2021 amounted to approximately NIS 62.2 million, compared to approximately NIS 98.5 million as of March 31, 2020. In the reporting period, the Company's equity decreased by approximately NIS 6.8 million. The decrease is a result of comprehensive loss of approximately NIS 11.7 million, offset by issuance of shares to minority of approximately NIS 4.9 million.

The ratio of equity to total consolidated balance sheet as of March 31, 2021 is about 5.0% compared to about 11.5% as of March 31, 2020.

5.3 Liquidity and financing resources

As of March 31, 2021, the Company holds financial assets that consist of cash and restricted deposit totaling approximately NIS 98.0 million, less current maturities of short-term financial liabilities that consist of short-term credit from banks and loan from the parent company totaling approximately NIS 111.2 million and loans from banks totaling approximately NIS 32.3 million. Total net financial balances amount to approximately NIS (45.5) million (financial liabilities exclude lease liability).

As of March 31, 2020, the Company holds financial assets that consist of cash totaling approximately NIS 84.9 million, less current maturities of short-term financial liabilities that consist of short-term credit from banks totaling approximately NIS 49.2 million and loans from banks totaling approximately NIS 50.3 million. Total net financial balances amount to approximately NIS (14.6) million (financial liabilities exclude lease liability).

5.4 Condensed consolidated statements of cash flows (NIS in thousands)

	Period ended March 31,	
	2021	2020
Net cash provided by(used in) operating activities	7,669	(2,627)
Net cash used in investing activities:		
a. Net cash used in purchasing property, plant and equipment and intangible assets, net	(9,028)	(5,531)
b. Issuance of shares to minority in subsidiary	-	18,419
c. Cash used in acquiring operations/companies	-	(29,112)
Net cash provided by financing activities	164	47,799
Adjustment arising from translating balances of cash	412	(847)
Increase (decrease) in cash and cash equivalents	(783)	28,101

5.5 Cash flows from operating activities

Net cash provided by operating activities in the reporting period totaled approximately NIS 7.7 million, compared to net cash used in operating activities totaling approximately NIS 2.6 million in the corresponding period of last year.

Cash flows from operating activities in the reporting period derived from cash inflow of approximately NIS 44.0 million in respect of adjustments to profit and loss items, less net loss of approximately NIS 11.7 million and cash outflow from the increase in working capital items, net of approximately NIS 18.0 million against payments for interest and taxes of approximately NIS 6.6 million.

Cash flows from operating activities in the corresponding period of last year derived from cash inflow of approximately NIS 22.3 million in respect of adjustments to profit and loss items and net income of approximately NIS 3.0 million, less cash outflow from the increase in working capital items, net of approximately NIS 19.7 million against payments for interest and taxes of approximately NIS 8.2 million.

5.6 Cash flows from financing activities

Net cash provided by financing activities in the reporting period totaled approximately NIS 0.2 million, compared to net cash provided by financing activities totaling approximately NIS 47.8 million in the corresponding period of last year.

Net cash used in financing activities in the reporting period included receipt and repayment of loans from banks, others and related parties, repayment of lease liability and issuance of shares to minority in subsidiary.

B. DETAILS OF EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

The Company's market risk management officer

The person in charge of managing market risks at the Company is Mr. Avior Teboul, the Company's CFO. See more information about Mr. Avior Teboul in Chapter 7 to the prospectus published on May 13, 2021.

Description of market risks

The Company's activities involve external risk factors that are liable to have a material effect on its business operations and which cannot be quantified.

The Company is exposed to a variety of market risks in the ordinary course of its business, mainly to fluctuations in interest rates and in the Israeli Consumer Price Index.

Many market risks such as changes in minimum wages, in the standard of living, in the security situation and in fashion trends are not under the Company's control and cannot be hedged.

The credit extended to the Company's customers in Israel is in NIS and does not bear interest.

Report of linkage bases (consolidated) as of March 31, 2021 (NIS in thousands)

	In NIS		In foreign currency (*)		Non-monetary items	Total
	Unlinked	Linked to the CPI	In or linked to C\$	In or linked to Euro		
Assets:						
Cash and cash equivalents	43,703	-	22,803	22,738	-	89,244
Trade receivables	76,280	-	-	241	-	76,521
Other accounts receivable	32,443	-	1,677	10,180	10,128	54,428
Inventories	-	-	-	-	157,912	157,912
Restricted cash	-	-	-	8,730	-	8,730
Long-term receivables	-	-	-	1,826	-	1,826
Related parties	79	-	-	277	-	356
Investments in subsidiaries	-	-	-	-	17,538	17,538
Property, plant and equipment, net	-	-	-	-	139,806	139,806
Right-of-use assets	-	-	-	-	677,306	677,306
Deferred taxes	-	-	-	-	9,516	9,516
Store removal fees	-	-	-	-	5,301	5,301
Intangible assets, net	-	-	-	-	1,430	1,430
Goodwill	-	-	-	-	3,607	3,607
Total assets	152,505	-	24,480	43,992	1,022,544	1,243,521
Liabilities:						
Credit from banks	100,584	-	10,582	-	-	111,166
Trade payables	108,245	-	19,703	15,168	-	143,116
Other accounts payable	53,728	-	5,693	5,061	117,353	181,835
Related parties	776	-	540	302	-	1,618
Loans from banks	31,656	-	661	-	-	32,317
Lease liability	-	453,870	64,888	191,322	-	710,080
Employee benefit liabilities, net	-	-	-	-	1,217	1,217
Total liabilities	294,989	453,870	102,067	211,853	118,570	1,181,349
Net balance sheet balance	(142,484)	(453,870)	(77,587)	(167,861)	903,974	62,172

(*) The Company's exposure to foreign currencies other than the C\$ and the Euro is immaterial.

C. CORPORATE GOVERNANCE ASPECTS

6. The Company's donation policy

The Company has not set a policy regarding donations. During the reporting period, the Company did not make donations in significant amounts.

7. Details of directors with financial and accounting expertise

Pursuant to the directives of the Israel Securities Authority, the Company's Board decided that the appropriate minimum number of directors with financial and accounting expertise in the Company is two (including the external director). This decision was based on the Company's size, type of operations, complexity and nature of financial and accounting issues relating to the Company's financial statements in view of its areas of activity.

As of the date of this report and till the appointment of external directors in the Company, a single director, Mr. Shachar Rania, who has financial and accounting expertise, serves on the Company's Board.

8. Independent directors

As of the date of this report, the Company has not adopted the provision regarding the percentage of independent directors (as defined in the Companies Law) in its articles of association.

As of the date of this report, no independent directors serve on the Company's Board.

9. List of senior officers

For information about the list of directors and senior officers at Retailors, see immediate report dated May 18, 2021 (TASE reference: 2021-01-086295).

D. DISCLOSURE REGARDING THE CORPORATION'S FINANCIAL REPORTING

Disclosure of critical accounting estimates

There was no change in the reporting period compared to the periodic report for 2020.

Dov Schneidman
Chief Executive Officer

Harel Wizel
Chairman of the Board

Date: May 23, 2021

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