

## zalando ZALANDO [XTRA: ZAL] 3Q16 TRADING RESULTS: STRONG REVENUE AND PROFITABILITY GROWTH

|                           | 3Q16   | 3Q15    | YoY Change |
|---------------------------|--------|---------|------------|
| Revenues (EUR Mil.)       | €834.8 | €713.1  | 17.1%      |
| Gross Margin              | 41.4%  | 40.6%   | 80 bps     |
| SG&A/Sales                | 39.1%  | 43.9%   | (480) bps  |
| Adjusted Operating Margin | 2.3%   | (3.3)%  | 560 bps    |
| Diluted EPS               | €0.02  | €(0.12) | N/A        |

Source: Company reports/Fung Global Retail & Technology

- Zalando reported 3Q16 revenue growth of 17.1% year over year to €834.8 million, slightly below the consensus estimate of €844.3 million. Revenues in the Germany, Austria and Switzerland division increased 9.7% to €407.1 million and the Rest of Europe region posted year-over-year sales growth of 24.3% to 374.0 million.**
- The gross margin expanded 80 basis points (bps) year over year to 41.4% and SG&A margin declined 480bps to 39.1%. The company reported 3Q16 adjusted EBIT of €19.5 million, corresponding to an adjusted EBIT margin of 2.3%. This marks a clear year-over-year improvement, as Zalando reported an adjusted EBIT decline of €23.5 million and EBIT margin of (3.3)% in 3Q15. Diluted EPS increased to €0.02 in 3Q16 from €(0.12) in 3Q15.**
- Management reiterated that the company expects to deliver FY16 revenue growth at the upper end of its forecast 20.0-25.0% revenue growth range. Zalando expects adjusted FY16 EBIT margin to come in at 5.0-6.0%, a clear improvement from the 3.6% EBIT margin in FY15.**

### 3Q16 RESULTS

German-based online fashion retailer Zalando reported 3Q16 year-over-year revenue growth of 17.1% to €834.8 million, slightly below the consensus estimate of €844.3 million. The company achieved strong revenue growth during the quarter ended September 30, despite a sluggish European fashion market.

Revenues in the Germany, Austria and Switzerland division increased 9.7% to €407.1 million and the Rest of Europe region posted year-over-year sales growth of 24.3% to 374.0 million.

The gross margin expanded 80bps year over year to 41.4% and SG&A margin declined 480bps to 39.1%. The company reported 3Q16 adjusted EBIT of €19.5 million, corresponding to an adjusted EBIT margin of 2.3%. This marks a clear year-over-year improvement, as Zalando reported an adjusted EBIT decline of €23.5 million and EBIT margin of (3.3)% in 3Q15. Diluted EPS increased to €0.02 in 3Q16 from €(0.12) in 3Q15.

Adjusted EBIT margin in the Germany, Austria and Switzerland region increased from (0.8)% in 3Q15 to 10.2% in 3Q16. The adjusted EBIT margin in the Rest of Europe region also improved from (7.2)% in 3Q15 to (4.8)% in 3Q16.



## FLASH REPORT

**KEY PERFORMANCE INDICATORS**

Active customers in 3Q16 increased by 11.6% year over year to 19.2 million. The number of orders increased 18.8% year over year to 16.4 million in 3Q16. Average basket size declined slightly from €63.30 in 3Q15 to €62.80 in 3Q16.

**9M16 RESULTS**

Zalando reported strong 9M16 revenues of €2,547.4 million, up 21.9% year over year. Adjusted EBIT for 9M16 came in at €120.7million, corresponding to an adjusted EBIT margin of 4.7%, and representing margin expansion of 300bps from 1.7% in 9M15.

Gross margin for 9M16 contracted by 100bps to 43.8% and SG&A margin contracted by 410bps to 39.0%. 9M16 EPS increased 243% year over year to €0.24.

**GUIDANCE**

Reflecting strong 9M16 results, Zalando reiterated its FY16 guidance to deliver revenue growth at the upper end of its 20.0-25.0% estimated range. Following clear profitability improvements, the company expects adjusted EBIT margin to fall between 5.0% and 6.0%.

FY16 revenue consensus estimates stand at €3,668.0 million, implying annual year-over-year growth of 24%. Consensus expects operating profit of €195.4 million, implying an adjusted FY16 EBIT margin of 5.3%. FY16 EPS is forecast at €0.56, up 16.7% year over year.



FLASH REPORT

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