

zalando (XTRA: ZAL) 1Q17 Results: Strong Revenue Growth Driven by Expanding Customer Base

Figure 1. Zalando 1Q17 Key Metrics

	1Q17	1Q16	YoY Change
Revenue (€ Mil.)	€980.2	€796.1	23.1%
Gross Margin	41.4%	41.9%	(50) bps
SG&A/Sales	40.0%	39.9%	10 bps
Adjusted Operating Margin	2.1%	2.5%	(40) bps
Underlying Diluted EPS	€0.02	€0.02	0.0%

Source: Company reports/Fung Global Retail & Technology

- Zalando reported 1Q17 group revenue of €980.2 million, up 23.1% on a reported basis and above the consensus estimate of €978.8 million. The company's gross margin contracted by 50 basis points year over year, to 41.4%, and its adjusted EBIT margin declined to 2.1%. Diluted EPS remained stable at €0.02 in 1Q17.
- A growing customer base that ordered more often translated into strong revenue growth. Continued investment in infrastructure and the customer and brand propositions translated into a decrease in gross margin and operating margin.
- Zalando reiterated its FY17 revenue guidance of 20.0%–25.0% growth. The company expects an adjusted EBIT margin of 5.0%–6.0% for the full year.

1Q17 Results

Zalando reported 1Q17 group revenue of €980.2 million, up 23.1% on a reported basis and marginally above the consensus estimate of €978.8 million.

Revenue in the Germany, Austria and Switzerland region increased by 17.0% year over year, to €475.0 million. Revenue in the Rest of Europe region grew by 28.0%, to €428.3 million.

The company's gross margin contracted by 50 basis points year over year, to 41.4%, and its SG&A margin increased by 10 basis points, to 40.0%. Zalando reported 1Q17 adjusted EBIT of €20.3 million, corresponding to an adjusted EBIT margin of 2.1%, a decline from 2.5% in 1Q16. Diluted EPS remained stable year over year at €0.02.

The company's adjusted EBIT margin in the Germany, Austria and Switzerland region decreased from 9.7% in 1Q16 to 7.5% in 1Q17. The adjusted EBIT margin in the Rest of Europe region improved from (5.1)% in 1Q16 to (4.5)% in 1Q17.

Active customer numbers in 1Q17 increased by 10.9% year over year, to 20.4 million, and the number of orders increased by 27.6% year over year, to 19.9 million. The average basket size declined slightly from €66.5 in 1Q16 to €63.0 in 1Q17.

A growing customer base that ordered more often translated into strong revenue growth in both the Germany, Austria and Switzerland and Rest of Europe regions. Zalando's continued investment in infrastructure and in the customer and brand propositions translated into a decrease in gross margin and operating margin and an increase in SG&A.



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Outlook

Zalando reiterated its FY17 guidance. The company expects to deliver revenue growth of 20.0%–25.0% for the full year and expects an adjusted EBIT margin of 5.0%–6.0%.

The consensus estimate for FY17 revenue stands at €4,478.9 million, implying year-over-year growth of 23.1%. Consensus expects FY17 operating profit of €260.5 million, implying an adjusted EBIT margin of 5.8%. Analysts forecast FY17 EPS of €0.68.



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