

## **zalando (XTRA: ZAL) 3Q17 Results: Investment in Logistics and Technology Impacts Profitability**

**Figure 1. Zalando 3Q17 Key Metrics**

|                     | 3Q17     | 3Q16   | YoY Change |
|---------------------|----------|--------|------------|
| Revenues (EUR Mil.) | €1,074.7 | €834.8 | 28.7%      |
| Gross Margin        | 40.8%    | 41.2%  | (40) bps   |
| SG&A/Sales          | 41.6%    | 39.7%  | 190 bps    |
| Operating Margin    | (0.5)%   | 1.5%   | (210) bps  |
| Adjusted EPS (EUR)  | (0.04)   | 0.02   | (300)%     |

Source: Company reports/FGRT

- **Zalando reported 3Q17 revenues of €1,074.7 million, up 28.7% year over year, and in line with the consensus estimate of €1,074.0 million. Adjusted EBIT came in at €0.4 million versus the consensus estimate of €3.2 million, corresponding to an adjusted EBIT margin of 0.0%.**
- **A one-million increase in the number active customers in 3Q17 and faster revenue growth in the DACH region helped drive up revenues in the quarter. At the same time, however, the company's focus on investment in logistics and technology affected profitability.**
- **Due to a weaker-than-expected operating profit in 3Q17, Zalando revised its expectations for FY17 adjusted EBIT margin, to just under 5.0%.**

### **3Q17 and First Nine Months of FY17 Results**

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Figures for the first nine months of the fiscal year show revenues increased 23.9% to €3,155.3 million and adjusted EBIT was €102.5 million, corresponding to an adjusted EBIT margin of 3.2%.

A one-million increase in the number of active customers to 22.2 million and faster revenue growth of 22.3% in the DACH region (Germany, Austria and Switzerland) to €497.7 million supported revenue growth in 3Q17.

At the same time, however, the company's focus on investment impacted profitability. Zalando announced the construction of a second fulfillment hub in Poland, starting in November 2017.

### **Outlook**

Zalando confirmed its FY17 guidance to deliver revenue growth in the upper half of its 20.0%–25.0% estimated range. However, due to weaker-than-expected operating profit in 3Q17, the company revised its expectations for adjusted EBIT margin for the year to just under 5.0% from its previous forecast of 5.0%–6.0%.

The FY17 revenue consensus estimate stands at €4,492.0 million, implying year-over-year growth of 23.4%. The consensus expects operating profit of €223.0 million, implying an adjusted FY17 EBIT margin of 5.0%. Analysts estimate FY17 EPS at €0.57.

Zalando will report 4Q17 and full-year results on March 1, 2018.



FLASH REPORT

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