Delticom publishes annual report 2018

Hanover, 26 June 2019 – Delticom (German Securities Code (WKN) 514680, ISIN DE0005146807, stock market symbol DEX), Europe's leading online retailer of tyres and automotive accessories as well as expert in the field of efficient warehouse logistics generated revenues of € 646 million over the course of 2018, a decrease of 3.3 % from prior-year's € 668 million. The Delticom Group's EBITDA for the past fiscal year amounts to € 9.0 million and thus deviates from the preliminary figures announced. The valuation of AllyouneedFresh.de resulted in an adjustment requirement of € 2.5 million with an effect on income. EBITDA is thus also 3.3 % lower than in the previous year (2017: € 9.3 million). While earnings before taxes are positive at € 426 thousand (2017: € 1.7 million), consolidated net income amounts to € –1.7 million (2017: € 1.1 million). This effect resulted primarily from the recognition of deferred tax expenses (totaling € 1.5 million), in particular in connection with loss carryforwards. Earnings stood at € –0,13 per share (diluted and undiluted; 2017: € 0.09).

H2 18: Changing weather conditions

Market environment. The summer of 2018 was marked by extreme meteorological events in Europe: temperature records and heat waves, droughts but also intensive heavy precipitation characterised the European weather situation. In Germany, too, the summer of the past financial year was marked by prolonged warm and dry weather with an intense heat wave. September 2018 as well was marked by midsummer weather conditions over long stretches in Germany. In 2017, the last month of the third quarter had already shown itself from the autumn side. Due to the mild temperatures at the end of the third quarter, we were unable to benefit from an early start to the winter tyre season in our core business. Only with the cooler temperatures in the last half of October did the winter tyre business gain momentum.

Revenues. Revenues came in at € 355 million in the second half of the year, down 4.2 % year-on-year (H2 17: € 371 million). In preparation for the winter tyre business in the fourth quarter of 2018, we increased the technical shipping capacity at the Sehnde tyre warehouse over the course of the year by making corresponding investments. However, the expanded capacity could not be fully utilized in the fourth quarter. In addition to the weather-related effects described above, we faced the challenge that trained specialist personnel were not available in time for the winter season due to the good labor market situation throughout Europe. In addition, the decrease in revenues in H2 18 is due to the fact that, in contrast to the previous year, the company did not lower prices in the final quarter of 2018 in the further course of the season.

EBITDA. In the second half of the year, EBITDA of € 2.2 million was achieved, following € 4.3 million in H2 17 (–50.2 %). As a result, the EBITDA margin achieved in the second half of the year came in at 0.6 % compared to 1.2 % in the same period of the previous year.

Fiscal year 2018

According to the Association of the German Rubber Industry (WdK) and the manufacturers' association ETRMA 2018, overall sales in the German passenger car replacement tyre business were 2.8 % down compared to the previous year. By contrast, the trend towards all-season tyres continued, with sales up 12.2 % on 2017.

Revenues. Over the course of 2018, Delticom group generated revenues of € 646 million, a decrease of 3.3 % from prior-year's € 668 million. The decrease in revenues is largely attributable to the pricing and customer policy pursued last year in our core business.

Despite the unfavourable market conditions, Delticom remains the market leader in the European online tyre trade. In recent years, the company has built up extensive know-how in the field of acquisition and turnaround of loss-making start-ups. The clear focus on cost and process optimisation along the value chain is crucial in the context of restructuring in order to establish sustainable profitable business models within a manageable time horizon. The acquisition of Allyouneed-Fresh.de last year also underscores Delticom's ability to seize existing opportunities to achieve its corporate and profitability goals.

Cost of goods sold. The cost of goods sold (COGS) is the largest expense item; it considers the purchase price of sold goods. Group COGS in the reporting period amounted to € 505 million (2017: € 530 million, –4.8 %). Compared with the prior-year period, the ratio of cost of goods sold to revenues decreased from 79.4 % to 78.2 %.

Gross margin. The gross margin (trade margin ex other operating expenses) for the full year was 21.8 % after 20.6 % in the prior-year period. In contrast to the previous year, the company did not lower prices in the final quarter, which enabled the gross margin to be increased in the past financial year as a whole.

Other operating income. Other operating income increased in 2018 by 47.4 % to € 38.1 million (2017: € 25.8 million). The increase resulted primarily from income in connection with the acquisition of AllyouneedFresh.de in the amount of € 11.4 million. In addition, other operating income also includes gains from exchange rate differences in the amount of € 3.5 million (2017: € 2.6 million).

Gross profit. Altogether, the gross profit increased in the reporting period by 9.5 % year-on-year, from € 163 million to € 179 million. Gross profit in relation to total income of € 684 million (2017: € 694 million) amounted to 26.1 % (2017: 23.5 %).

Personnel expenses. In the reporting period on average 235 staff members were employed at Delticom group (previous year: 185). Personnel expenses amounted to € 15.9 million (2017: € 10.9 million). The increase is due on the one hand to the expansion of the workforce in the course of the acquisition of AllyouneedFresh.de. At the time of the takeover in early November 2018, AllyouneedFresh.de had a total of 110 employees. The number of employees was gradually reduced in the following months in Berlin in the course of the restructuring and stood at 41 employees at the end of May 2019. The severance payment to the former member of the Management Board, Thierry Delesalle, is also part of the increase in personnel costs. Furthermore, additional employees were hired in the course of the year. These are mainly warehouse personnel who previously worked for Delticom on a temporary or agency basis. The personnel expenses ratio (staff expenditures as percentage of revenues) amounted to 2.5 % in the past financial year (2017: 1.6 %).

Other operating expenses. Among the other operating expenses, transportation costs is the largest line item. Despite the decline in sales, transportation costs in the reporting period were with € 61.9 million only 1.2 % lower than in the same period of the previous year (2017:

€ 62.7 million). The country mix in sales and the associated delivery routes have a significant impact on transportation costs. Together with price increases by some courier, express and parcel services for certain destinations, this led to an increase in transportation costs primarily in the fourth quarter of 2018 compared to the previous year.

Rents and overheads. Rents and overheads increased by 12.1 % in 2018, from € 6.6 million to € 7.4 million. As of mid-2017, the company has rented a further warehouse in which the tyres purchased before the season are temporarily stored until they are sold. The costs for this warehouse are therefore included in 2018 for the year as a whole. In addition, a smaller warehouse in France was put into operation in the middle of 2018. The acquisition of AllyouneedFresh.de also resulted in additional rental costs for the warehouse in the Czech Republic, which was taken over and closed at the beginning of the current year, and the office space in the centre of Berlin.

Marketing. In the reporting period, costs for advertising totalled € 33 0 million, after € 28.2 million in 2017. This represents a marketing expense ratio (marketing expenses as a percentage of revenues) of 5.1 % (2017: 4.2 %). The majority of the advertising costs were incurred for the online shops ReifenDirekt.de, ReifenDirekt.ch and ReifenDirekt.at. Delticom increasingly sells its products via other online sales channels in addition to its pure online shops. This is reflected in higher costs for corresponding sales commissions and listing fees for the various portals. In addition, the company invested significantly more in online advertising in 2018 with the aim of further increasing the visibility and awareness of its online shops in a competitive market environment. Not all marketing measures taken last year converted into corresponding revenues growth. In the course of the winter tyre business, the marketing strategy was adjusted accordingly and less efficient activities were discontinued.

Financial and Legal. Expenses for finance and legal fees amounted to € 4.9 million in the period under review (2017: € 4.7 million), an increase of 5.2 %. The increase is mainly due to legal and consulting costs incurred in relation to the acquisition of AllyouneedFresh.de.

Bad debt losses. Bad debt losses amounted to € 5.1 million in the reporting period, compared to € 2.8 million in 2017. The increase of 79.4 % results primarily from the reconciliation and adjustment of open items. In addition, receivables management was further streamlined last year with regard to defaulting customers.

EBITDA. EBITDA for the reporting period decreased by 3.3 % from € 9.3 million to € 9.0 million. The EBITDA margin for the fiscal year stood at 1.4 % (2017: 1.4 %). In the first half of the year, it became increasingly clear that market conditions in the European tyre trade remained difficult due to the ongoing consolidation process. The extent to which our pricing policy of the first six months can be enforced on the market in the further course of the year, and particularly in the winter business, was subject to a certain degree of uncertainty after the first six months. At the same time, in the middle of the year, based on the status of the project at the time, there was a realization that a possible takeover of AllyouneedFresh.de could generate earnings in the second half of the year. For Delticom as a whole, revenues and earnings before interest, taxes, depreciation and amortization (EBITDA) are the key performance indicators for the Group as a whole. Based on the information available at the middle of the year, operational decisions were made for the second half of the year, weighing the opportunities and risks. In addition to various marketing tests, these included the expansion of warehouse and shipping capacities and the associated adjustment of internal processes. In addition to the severance payment to a former member of the Executive Board, the increased cost base in the second half of the year resulted primarily from increased bad debt losses in connection with the elimination of open items and a significant increase in marketing expenses, while sales in our core business declined at the same time. These higher expenses were fully offset by the operating income generated in connection with the acquisition of AllyouneedFresh.de.

Depreciation. Depreciation for 2018 increased by 8.8 % from € 7.2 million to € 7.9 million. Amortization of intangible assets totalled € 5.3 million (2017: € 5.0 million). Higher depreciation due to the investments made was partially offset by the scheduled discontinuation of Tirendo's amortization of intangible assets at the end of the past fiscal year. Depreciation on property, plant and equipment totalled € 2.6 million in the period under review (2017: € 2.2 million).

EBIT. EBIT decreased in the reporting period by 46.3 % to € 1.1 million (2017: € 2.0 million). This equates to an EBIT margin of 0.2 % (2017: 0.3 %).

Income taxes. In 2018 the expenditure for income taxes was € 2.1 million (2017: € 0.5 million). This equates to a tax rate of 493 % (2017: 32.5 %). This effect resulted primarily from the recognition of deferred tax expenses (totaling € 1.5 million), in particular in connection with loss carryforwards.

Consolidated net income. Due to the high tax expense in the consolidated financial statements 2018, the consolidated net income with € –1.7 million or € –0.13 per share is significantly lower compared to the previous year (2017: € 1.1 million or € 0.09 per share).

Dividend. Delticom AG's earnings relevant for the distribution for the fiscal year ended are negative at € –3.4 million or € –0.27 per share (2017: € 5.2 million or € 0.42 per share). Against the backdrop of last year's earnings performance and in view of the investments required in the current year to create the structures necessary to return to a sustainably profitable growth course, the Management Board and Supervisory Board have jointly decided to propose to the Annual General Meeting on 12 August 2019 to not pay any dividend for the past financial year. This step goes hand in hand with the objective of strengthening Delticom AG's earnings power in order to enable shareholders to participate in Delticom's business success again in the future.

Inventories. Among the current assets, inventories is the biggest line item. Since the beginning of the year their value went up by € 19.8 million to € 99.6 million (31 December 2017: € 79.8 million). The increase resulted from a year-on-year increase in inventories of winter goods due to the weak season. Against the background of the prolonged winter at the beginning of the current year, we were able to further reduce the number of winter tyres in January, February and March.

Liquidity. Cash and cash equivalents registered net outflows of € 0.5 million. On 31 December 2018 liquidity totalled € 3.4 million (31 December 2017: € 3.9 million). Owing to the seasonal nature and the payment terms and conditions in tyre retailing, liquidity is subject to significant fluctuations over the course of the year.

Financial liabilities. During the reporting period, Delticom increased short-term financial liabilities by € 19.1 million. Long-term financial liabilities were decreased by € 3.6 million. The sum total of non-current and current financial liabilities amounted to € 30.9 million on the reporting date, reflecting an increase of € 15.5 million in a balance sheet date comparison (31 December 2017: € 15.3 million). The share of interest-bearing financial liabilities of the balance sheet total at the reporting date was 13.3 % (31 December 2017: 7.6 %).

Outlook.

Delticom will continue to benefit from the increasing importance of the Internet as a sales channel as Europe's leading online retailer for tyres and car accessories, as well as expert in efficient warehouse logistics. For the current fiscal year, the Delticom Group expects total annual revenues in a range between € 660 million and € 690 million, accompanied by an EBITDA between € 8 million and € 12.5 million. In the current year, we will continue to focus on the right balance between revenues growth and earnings contribution. This year we will continue to automate processes in order to reduce costs. Software projects and investments in automated technical equipment in our warehouses will help us achieve this goal.

The full report for fiscal year 2018 stands ready for download within the "Investor Relations" section of the website www.delti.com.

Company profile:

Delticom AG is an E-Commerce company operating primarily in Europe and the USA. It specialises in the design and operation of online shops, Internet-based customer acquisition, internet marketing, developing partner networks and complex, highly efficient product picking and distribution logistics.

Delticom AG is the leading online distributor of tyres and automotive accessories. Our product range also includes the online second-hand vehicle trade and efood. Delticom has extensive experience in creating shops for the international market and in transnational E-Commerce. In addition to design, Delticom also provides product descriptions and a comprehensive customer service program in your national language. Establishing efficient warehousing and logistics processes is utilised not only in selling tyres, used vehicles and online grocery shopping, but is also offered to third parties as an additional service.

Since its establishment in Hanover, Germany in 1999, the company has accrued exceptional expertise in designing efficient, fully integrated internal ordering and logistics processes. The company owns its own warehouses, including a fully automated small item warehouse.

In 2018, Delticom AG generated sales in excess of € 645 million. The E-Commerce specialist operates in 77 countries with over 460 online shops and online distribution platforms, serving over 13.6 million customers. The product range offered to private and business customers includes over 100 brands and more than 25,000 models of tyres for passenger cars, motorbikes, trucks, utility vehicles, buses and complete wheel sets. Customers are also able to have the ordered products sent to one of the 42,000 service partners of Delticom AG around the world.

Our range also encompasses over 500,000 automotive parts and accessories, including motor oils, snow chains and batteries. Entry into the business of online used car selling has rounded off the automotive offering. In this sense, Delticom AG has developed from a classic online retailer to an online solutions provider.

The shares of Delticom AG have been listed in the Prime Standard of the German Stock Exchange since October 2006 (ISIN DE0005146807).

On the Internet at: www.delti.com

Contact:

Delticom AG Investor Relations
Melanie Gereke
Brühlstraße 11
30169 Hannover
Tel.: +49 (0)511-93634-8903
Fax: +49 (0)511-8798-9138
e-mail: melanie.gereke@delti.com