Delticom publishes Semi-Annual Report 2019 // Expansion of the Management Board

Hanover, 14 August 2019 - Delticom (German Securities Code (WKN) 514680, ISIN DE0005146807, stock market symbol DEX), Europe's leading online retailer of tyres and automotive accessories and expert in the field of efficient warehouse logistics, has published its report for the first half year of 2019. In the first six months of the current financial year, the company recognized revenues of € 285 million, a decrease of 2 % (H1 18: € 291 million). The gross margin amounted to 21.9 %, after 21.7 % in the corresponding prior-year period. The gross profit remained with € 76.9 million nearly unchanged compared to the previous year.

Business in the first six months

Market environment. After a comparatively mild winter in Q4 2018, the new year started with cold weather accompanied by widely spread snowfalls. As a result, part of the demand for winter tyres has shifted into the current year. Industry experts estimate that 12.1 % more winter tyres were sold by the German tyre trade to consumers in the first half of the year 2019.

A few mild days in March - unlike last year - also prompted many drivers to switch to summer tyres early on. However, some motorists still convert their vehicles according to the rule of thumb from October to Easter. While Easter last year fell on the first weekend in April, Easter this year was three weeks later according to the calendar. After Easter and thus at the end of April, the summer tyre business reached its second seasonal peak this year. Overall, market experts have reported a sales decline of 6.4 % in the summer tyre business for the first six months of the current year.

The trend towards all-season tyres continued on a half-year basis with an increase in sales of 23.2 % compared to 2018. According to estimates by the Trade Association of the German Rubber Industry (WdK) and the manufacturers' association ETRMA, a total of 1.4 % more replacement car tyres were sold from retailers to consumers in the first half of the year. At the European level, the car tyre replacement business according to the European Tyre and Rubber Manufacturers' Association (ETRMA) declined in the first half of the year. In the second quarter the downward trend increased compared with the first three months of the current year. The general economic situation and the registration figures for new cars in the European Union are cited as reasons for the volume decline.

Revenues. In H1 19 the Group recognized revenues of € 285 million, a decrease of 2 % after € 291 million in the prior-year period. In total, the Delticom Group generated revenues of € 122 million in the first quarter of the current fiscal year (Q1 18: € 111 million, +10.2 %). Due to the cold weather conditions at the beginning of the year, accompanied by snowfalls down to low altitudes, more winter tyres were in demand in our shops at the beginning of the year than in the previous year. After a comparatively mild winter in Q4 2018 a part of the winter tyre demand has shifted into the current year. In addition, a few mild days in March - unlike last year - prompted many motorists to switch to summer tyres early on. This weather related effect additionally supported the positive revenue development in the first quarter.

In Q2 19 the Group generated revenues of € 162 million, a decrease of 9.6 % (Q2 18: € 180 million). Due to comparatively mild temperatures at the end of March, the start of the summer tyre business this year has advanced into the first quarter. Although the summer tyre business in the classic countries that regularly switch from winter to summer tyres reached a second seasonal peak after Easter at the end of April, this was not sufficient to compensate for weaker demand in the rest of Europe in the further course of the second quarter.

Customers. The customer numbers shown below are the customer numbers in our core business - the online trade with tyres and car spare parts in Europe. In the first six months 2019 have 497 thousand existing customers (H1 18: 506 thousand, –1.8 %) once again purchased tyres and car spare parts in one of the Delticom Group's online shops. The decline in the number of rebuyers was mainly attributable to our core business - the replacement tyre business with private end customers. In our estimation, this development is based, among other things, on the trend towards all-season tyres, which has a short-term effect on repurchase rates. Anyone who bought all-season tyres, will - depending on the individual driving behaviour - not need new tyres in the following 2-4 years. However, we believe that the increasing demand for all-season tyres will shorten the replacement cycle, so that we will be able to welcome customers back to one of our online shops more quickly.

A total of 616 thousand new customers (H1 18: 601 thousand, +2.5 %) were acquired in H1 19 via our tyre and car parts shops in Europe. This development is essentially based on the measures taken in recent months to increase the efficiency of our marketing activities. Since the company was founded, more than 14 million customers have made purchases in our online shops. On a half-year basis, the number of active buyers (new customers and repeat buyers - the latter are counted only once, regardless of the number of purchases in H1 19) is 0.5 % lower than in the previous year.

Gross margin. The cost of goods sold (COGS) is the largest expense item; it considers the purchase price of sold products (mainly tyres). Group COGS decreased by 2.4 % from € 228 million in H1 18 to € 222 million in H1 19. The company achieved a gross margin of 21.9 % in the reporting period, after 21.7 % in the corresponding prior-year period. Despite a difficult market environment, the company succeeded in maintaining its gross margin at a constant level compared to the previous year.

Other operating income. Other operating income increased in the reporting period by 3.8 % to € 14.5 million (H1 18: € 13.9 million). Of this amount, € 1.3 million relates to gains from exchange rate differences (H1 18: € 2 million, –34.4 %). FX losses are accounted for in the other operating expenses. In H1 19 the FX losses amounted to € 1.4 (H1 18: € 1.5 million). In the period under review, the balance from FX gains and losses was € –0.1 million (H1 18: € 0.4 million).

Gross profit. Gross profit remained with € 76.9 million nearly unchanged compared to the previous year. Gross profit in relation to total income of € 299 million (H1 18: € 304 million) amounted to 25.7 % (H1 18: 25.3 %).

Personnel expenses. On average, the company employed 281 staff in the first six months of the current fiscal year (H1 18: 185). The acquisition of Allyouneed Fresh at the beginning of November 2018 significantly increased the average number of employees within the Delticom group compared to the previous year. Personnel expenses amounted to € 9.3 million in the reporting period (H1 18: € 6.1 million, +53.5 %). At the time of the acquisition, Allyouneed Fresh had a total of 110 employees. As part of the restructuring process, the headcount in Berlin was gradually reduced further in the course of H1 19 and stood at 35 employees at the end of June 2019. On the other hand, the company hired additional warehouse personnel last year who had previously worked for Delticom on a temporary basis. The personnel expense ratio (ratio of personnel expenses to revenues) in H1 19 amounted to 3.3 % (H1 18: 2.1 %).

Other operating expenses. Other operating expenses amounted to € 71 million (H1 18: € 64 million, +11.2 %). The largest single item within other operating expenses is transport costs. Despite the decline in revenues, these amounted to € 28.9 million after € 24.8 million in the comparative period (+16.3 %). The increase in transport costs compared with the previous year is due on the one hand to the correction made in H1 18 for transport costs for 2016 and 2017, which were too high. On the other hand, the increase in costs is due to the country mix in revenues and the associated distance between delivery routes. The share of transport costs in sales amounted to 10.1 % (H1 18: 8.5 %).

Marketing. In the reporting period, € 13.7 million (H1 18: € 13.1 million, +4.5 %) was spent on marketing. The increase is mainly due to higher sales commissions and listing fees for online marketplaces, through which Delticom increasingly sells its products in addition to its pure online shops. Marketing expenses as a percentage of sales were 4.8 % (H1 18: 4.5 %). The measures introduced to increase the efficiency of marketing activities began to have an impact in the further course of the reporting period, with the result that marketing expenses as a percentage of sales came down from 5.0 % in Q1 19 to 4.6 % in Q2 19.

EBITDA. In the reporting period, earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to € –3.7 million (H1 18: € 6.8 million, –154 %). This corresponds to an EBITDA margin of –1.3 % (H1 18: 2.3 %). The increased cost base in the first half of the year 2019 mainly results from the acquisition of Allyouneed Fresh in the last quarter of the previous financial year. Since Allyouneed Fresh is currently not yet making a positive contribution to earnings, there is a corresponding effect on earnings for the Group as a whole compared with the previous year. The ongoing restructuring process in Berlin will be completed by the end of the current year.

Also the restructuring of warehouses and the rise in transport costs are having a negative impact on earnings in the reporting period. The measures taken to increase the efficiency of marketing activities with the aim of reducing costs are showing its effects since the second quarter. However, the increase in costs in the first quarter could not yet be fully offset by the middle of the year. The first-time application of IFRS 16 resulted in a positive effect on the operating result before depreciation due to the reclassification of rental expenses to depreciation.

Depreciation. Depreciation and amortization amounted to € 6.8 million in the reporting period, compared with € 3.6 million in H1 18. The increase of 88 % is mainly due to the new regulations in the course of the first-time application of IFRS 16 - Leases as of January 1, 2019.

Financial and Legal. Finance and legal expenses amounted to € 3.2 million in the reporting period, compared with € 2.6 million in the previous year (+25.6%). The increase is mainly due to additional costs in connection with the delayed audit of the 2018 annual financial statements.

EBIT. Earnings before interest and taxes (EBIT) decreased in the reporting period by 426 % to € –10.5 million (H1 18: € 3.2 million). This translates into an EBIT margin of –3.7 % (EBIT in percent of revenues, H1 18: 1.1 %).

Income taxes. The tax result for the first six months was € 2.9 million (H1 18: € –1 million) and mainly relates to deferred taxes. This corresponds to a tax rate of 26.5 % (H1 18: 32.5 %).

Net income. Consolidated net income in the first half of the year totalled € –8 million after € 2 million in H1 18. This corresponds to earnings per share (EPS) of € –0.64 (H1 18: € 0.16).

Inventories. Among the current assets, inventories is the biggest line item. Since the beginning of the year, stocks have decreased by € 0.4 million to € 99.2 million (31.12.2018: € 99.6 million). In a year-on-year comparison, inventories are € 5.4 million higher (30.06.2018: € 93.8 million). This increase on the one hand comes along with declining summer tyre sales in H1 19, which resulted in a slightly higher stock of summer tyres compared to the previous year. In addition, the company started winter stockpiling somewhat earlier this year due to expanded storage capacities. As of 30.06.2019, the share of inventories in the balance sheet total amounted to 38.4 % (31.12.2018: 42.8 %, 30.06.2018: 42.6 %).

Receivables. Trade receivables usually follow the seasons, but reporting date effects are often unavoidable. At the end of the second quarter, receivables amounted to € 43.2 million (31.12.2018: € 43.7 million, 30.06.2018: € 43 million), thereof € 20 million accounts receivable (31.12.2018: € 24.3 million, 30.06.2018: € 25 million).

Payables. Trade accounts payable have been reduced by € 24.5 million from € 131 million at the beginning of the year to € 107 million. In a closing date comparison trade payables are € 18.9 million higher (30.06.2018: € 88.1 million). Last year, due to the difficult market situation, the company had paid part of the liabilities due end of June before the balance sheet date. In the current year, on the other hand, the payment terms granted were increasingly used. Trade payables accounted for 41.4 % of the balance sheet total (31.12.2018: 56.5 %, 30.06.2018: 40 %).

Liquidity. Liquidity as of 30.06.2019 totalled € 3.8 million (31.12.2018: € 3.4 million, 30.06.2018: € 4.0 million).

During the reporting period, Delticom made increasing use of existing credit lines for the intra-year financing of working capital. On 30.06.2019, the company's net cash position (liquidity less liabilities from current accounts) amounted to € –63.9 million (31.12.2018: € –23.7 million, 30.06.2018: € –51.6 million). Due to the seasonal nature of the business and the payment terms in the tyre trade, the use of credit lines at mid-year is typically the highest.

Cash flow. Due to the development in working capital, cash flow from operating activities for H1 19 improved to € –25.3 million (H1 18: € –41.3 million).

In the reporting period Delticom invested € 1.5 million into property, plant and equipment (H1 18: € 2.2 million). These are mainly investments in warehouse equipment. Further € 2.2 million were invested in intangible assets (H1 18: € 1 million). As a result, the cash flow from investment activities totalled € –3.6 million (H1 18: € –3.2 million).

The cash flow from financing activities totalled € 29.4 million in the reporting period. On the one hand, this results from payments received from the raising of short-term financial liabilities from current account in the amount of € 35.4 million. In addition to the repayment of existing loans, the € 6.0 million repayment of financial liabilities includes in particular the repayment of lease liabilities in connection with the first-time application of IFRS 16 as of January 1, 2019.

Outlook.

Due to the weak market development, business development in the first half of 2019 fell short of expectations. Over the past few months, Delticom has taken measures to increase efficiency mainly in marketing and warehouse logistics with the aim of reducing costs and has recorded a positive development in recent months. In addition, the scheduled restructuring costs for All-youneed Fresh in the second half of 2019 will be significantly lower than in the reporting period. This year, the winter business in the fourth quarter will again be decisive for the development for the year as a whole. We expect a positive sales trend for the second half of the year.

Against this backdrop, we continue to expect to achieve total annual revenues in a range between € 660 million and € 690 million, accompanied by EBITDA between € 8 million and € 12.5 million.

Expansion of the Management Board

With effect from 15.08.2019, the Supervisory Board of Delticom AG appointed Thomas Loock as Chief Financial Officer of the company. The employment contract was initially concluded for a period of one year. With the expansion of the Managing Board, the Supervisory Board is responding to the increased demands placed on Delticom AG's management against the backdrop of the current difficult market and declining business development. Mr. Loock is 53 years old and has more than 25 years of professional experience in the commercial sector. Since 2006, Mr. Loock has held the position of CFO in various international companies, including TNT, DPD and Bofrost. He is a long-standing, internationally experienced and entrepreneurial leader with a broad spectrum of experience in group and family businesses. With a focus on cultural development, employee development and results orientation. Mr. Loock not only brings many years of experience in the field of international accounting (IFRS, HBG, US GAAP), but also brings additional know-how from the field of transport logistics to the company.

The report for the first six months 2019 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. The online trade with used cars and high-quality gourmet and organic foods rounds off the product range. Delticom has extensive experience in creating shops for the international market and in trans-national E-Commerce. In addition to design, Delticom also provides product descriptions and a comprehensive customer service programme in your national language. Establishing efficient warehousing and logistics processes is utilised not only in the tyre trade and the online used car trade but is also offered to third parties as a 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 items warehouse.

In 2018, Delticom AG generated sales in excess of € 645 million. The E-Commerce specialist operates in 73 countries with 475 online shops and online distribution platforms, serving over 14 million customers. The range of tyres offered to retail and commercial customers includes over 100 brands and more than 25,000 models of tyres for passenger cars, motorbikes, trucks, utility vehicles, buses as well as complete wheel sets. Customers are also able to have the ordered products sent to one of the around 40,000 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. The 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. In the area of high-quality gourmet and organic food, Delticom AG offers a comprehensive range of around 14,000 different food items.

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

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