

QUARTERLY STATEMENT Q3 2019



WINDELN.DE GROUP AT A GLANCE

Performance indicators (continuing operations only)	9M 2019	9M 2018	Q3 2019	Q3 2018
Site visits	30,269,894	31,289,454	9,709,829	9,907,220
Mobile visit share (as % of site visits)	76.5%	71.5%	76.9%	70.3%
Mobile orders (as % of number of orders)	61.5%	54.4%	62.7%	55.1%
Active customers	438,415	615,288	438,415	615,288
Number of orders	566,177	857,296	186,927	243,625
Average orders per active customer (in number of orders)	1.9	2.1	1.9	2.1
Share of repeat customer orders (as % of orders of last 12 months)	72.0%	79.8%	72.0%	79.8%
Gross order intake (in EUR)	50,406,410	77,203,605	16,209,941	21,915,782
Average order value (in EUR)	89.03	90.05	86.72	89.96
Returns (as % of gross revenues from orders)	3.0%	3.7%	2.9%	4.3%
Adjusted marketing cost ratio (as % of revenues)	4.7%	4.7%	4.4%	4.8%
Adjusted fulfilment cost ratio (as % of revenues)	14.5%	17.0%	13.7%	15.8%
Adjusted other SG&A expenses (as % of revenues)	25.0%	22.7%	29.1%	24.0%
Earnings position (continuing operations only)				
Revenues (in kEUR)	59,365	78,549	18,456	22,178
Gross profit (in kEUR)	14,224	18,382	3,998	4,923
Gross profit (as % of revenues)	24.0%	23.4%	21.7%	22.2%
Operating contribution (in kEUR)	2,818	1,661	660	391
Operating contribution (as % of revenues)	4.7%	2.1%	3.6%	1.8%
Adjusted EBIT (in kEUR)	-12,013	-15,991	-4,707	-4,930
Adjusted EBIT (as % of revenues)	-20.2%	-20.5%	-25.5%	-22.2%
Financial position				
Net cash flows used in operating activities (in kEUR)	-10,680	-17,261	-2,065	-3,477
Net cash flows from / used in investing activities (in kEUR)	357	1,371	-76	-16
Net cash flows from / used in financing activities (in kEUR)	8,866	1,552	-253	-38
Net decrease in cash and cash equivalents	-1,457	-14,338	-2,394	-3,531
Cash and cash equivalents at the end of the period (in kEUR)	9,683	12,135	9,683	12,135
Current time deposits (in kEUR)	-	625	-	625
Total cash and time deposits (in kEUR)	9,683	12,760	9,683	12,760
Other				
Basic earnings per share (in EUR)	-1.48	-9.20*	-0.43	-1.90*
Basic earnings per share from continuing operations (in EUR)	-1.49	-5.76*	-0.43	-1.68*

All performance indicators and the section earnings position include amounts from continuing operations only. Feedo Group was deconsolidated in August 2018 after its divestiture and is presented as discontinued operation in the consolidated income statement.

* Prior year disclosures of earnings per share were restated in line with IAS 33 due to the capital decrease performed in January 2019.

MATERIAL TRANSACTIONS IN Q3 2019

Extraordinary General Meeting

In an Extraordinary General Meeting held on September 27, 2019, the shareholders of windeln.de SE approved to reduce the Company's share capital from EUR 9,963,670 by EUR 6,974,569 to EUR 2,989,101 through an ordinary capital reduction by way of a reverse share split at a ratio of 10 : 3.

In addition, the Extraordinary General Meeting correspondingly resolved to increase windeln.de SE's reduced share capital of EUR 2,989,101 by up to EUR 10,000,000 to up to EUR 12,989,101 by issuing up to 10,000,000 new ordinary bearer shares with no-par-value against contribution in cash with indirect subscription rights for existing shareholders.

Furthermore, the Extraordinary General Meeting revoked the current Authorized Capital 2018 in the amount of EUR 15,500,000; and resolved on the creation of a new Authorized Capital 2019 in the amount of EUR 6,000,000.

The resolutions are not yet entered into the commercial register due to shareholder actions that the company is dealing with at the moment.

Introduction of an additional payment method

Since August 2019, customers of the German webshop www.windeln.de are offered an express checkout through amazon. With this payment method, customers can complete their orders faster and more conveniently, and they can pay with their amazon account. The payment method uses the amazon solvency check and basically excludes any default risks.

Langtao cooperation

In August 2019, a cooperation agreement with Langtao Trading (Shanghai) Co. Ltd. was signed. Langtao will replace our current T-Mall Partner (TP), and in addition it will support all of our other Chinese distribution channels. This comprises specifically customer service, brand strategies, project and marketing planning, visual design, product management, sales promotions, communication with sales channels and supply chain management. Langtao have profound experience in launching and marketing American brands in the Chinese market; they are furthermore specialized in the distribution of cosmetics and toddler products.

New shop architecture

The management board decided in Q3 2019 to evaluate a replacement of our current internally managed shop architecture by a third-party solution. This step becomes necessary due to our limited internal resources and increasing technical demands in the market. With the outsourcing of the shop architecture, we aim at creating better customer experience, flexible adaptation of future technical enhancements and saving costs on a long-term perspective. A tender process with third-party providers has already started, a final decision has not yet been made.

Technical enhancements

Our Baby App's availability – that was limited to iOS devices before – was expanded to Android devices in Q3 2019. It offers weekly summaries of the baby's development, midwife tips, automatic weekly push notification and various tracker functions

Furthermore, the windeln.de App was expanded by the functions "My lists/rebuy". This allows customers to reorder products from their purchase history with only few clicks.

COMMENTS ON NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Net assets

Non-current assets have decreased by EUR 767k or 14% since December 31, 2018. There were material changes within each position. The increase in fixed assets by EUR 606k results from the adoption of IFRS 16, as described in the Half Year Report 2019. The decrease in other non-current financial assets stems from the received purchase price payment from the divestiture of Feedo Group (EUR 403k including accrued non-current interest, and from the reclassification of restricted cash (EUR 226k) into other current financial assets.

Intangible assets have decreased by EUR 710k due to regular amortization. The low market capitalization as of September 30, 2019, and the changed outlook indicate that intangible assets may be impaired (so-called triggering event). windeln.de performed an impairment test as of September 30, 2019, which resulted in no impairment need. The tested assets comprise the goodwill Switzerland (carrying amount EUR 542k), the domain Switzerland (carrying amount EUR 123k) and the domains of Bebitus (carrying amount EUR 1,819k).

Current assets have decreased by EUR 630k or 3% since December 31, 2018. Inventories have increased by EUR 1,194k or 18%, particularly for the upcoming sales events in China (e. g. Singles' Day) and for the "Pink Week" and Christmas business in Europe. Additionally, the second bonded warehouse in China was equipped with merchandise. Since November 4, 2019, deliveries to customers of the Chinese webshop are made from this warehouse, too.

As part of other current financial assets, accrued advertising subsidies have decreased by EUR 531k. Annual subsidies earned in 2018 were received in 2019. Additionally, subsidies earned in 2019 were paid earlier, leading to a decrease in the outstanding amount receivable. Other current assets increase by EUR 226k from restricted cash that falls due in less than twelve months and therefore became a current position.

The increase in **non-current liabilities** results from the adoption of IFRS 16. Non-current financial liabilities were increased by EUR 492k on January 1, 2019 and are redeemed through regular monthly lease payments.

Current liabilities have increased by EUR 1,153k or 12% since December 31, 2018, mainly from increased deferred revenues (EUR 652k) and other financial liabilities (EUR 573k). The change in payment providers leads to earlier cash inflows from customers and therefore increased deferred revenues. Additionally, a Pampers sales promotion in the last week of the quarter incurred customer payments that can be recognized as revenue only in the next quarter.

Bonus liabilities as part of other current financial liabilities have increased significantly due to the stock option program "Incentive 2019". Conditions of the program are outlined in the Half Year Report 2019. Since the reference share price is below the minimum issue price of EUR 1.00 as of September 30, 2019, the obligation is not settled in shares, but in cash. Pursuant to IAS 19, the total future payment obligation qualifies as a financial liability.

The Group's **equity** has decreased by EUR 2,598k or 13% to EUR 17,996k. The negative result of the period of EUR 12,091k is partially balanced by the capital measures of the first quarter of 2019. The capital decrease performed in January 2019 resulted in a decrease in share capital and accumulated losses; but had no impact on total equity. The gross issue proceeds of EUR 10,138k from the capital increase performed in March 2019 increased share capital by EUR 6,850k and share premium by EUR 3,288k. Transaction costs of EUR 700k in total are deducted from equity as of the payment date, they are not recognized as expense items in the income statement.

Financial position

Since December 31, 2018, the financial position has deteriorated, cash and cash equivalents amount to EUR 9,683k as of September 30, 2019, a decrease of 13%. Negative cash flows from **operating activities** amount to EUR 10,680k in the nine-months period 2019 and result mainly from the negative result of the period. Non-cash expenses from depreciation and amortization amount to EUR 1,348k. Furthermore, the increase in inventories led to cash outflows of EUR 1,193k.

The cash flow from **investing activities** amounts to EUR 357k in the nine-months period 2019 and stems mainly from the received purchase price payment from the divestiture of Feedo Group of EUR 417k (incl. interest) and the received claim asset from the purchase of Feedo Group of EUR 70k. Regular cash outflows for investments in tangible and intangible assets amount to EUR 131k and have decreased significantly compared to the prior year period.

Cash flows from **financing activities** amount to EUR 8,866k in the nine-months period 2019 and stem mainly from the capital increase processed in March 2019. Gross issue proceeds were EUR 10,138k. From all equity transactions (i. e. capital decrease in January 2019, capital increase in March 2019, planned capital decrease in Q4 2019, planned settlement of stock option programs), transaction fees of EUR 719k were paid. Due to the change in accounting policies for lease agreements (IFRS 16), payments for lease agreements are recognized as cash flows from financing activities since January 1, 2019. These payments are composed of regular redemption plus interest payments that are disclosed separately in the consolidated cash flow statement.

Results of operations

In the first nine months of 2019, the Group generated **revenues** of EUR 59,365k, a decrease of 24% compared to the prior year period 2018. The decrease in revenue mainly affected the regions "Other / rest of Europe" (-47%) and "DACH" (-27%), China (-13%) is less affected. This results from the implementation of our long-term strategy of focusing on high-margin products, usually non-consumables such as fashion and toys. In return, a lower number of consumable products was sold that tend to have lower margins. Additionally, supplier conditions were successfully renegotiated, such as advertising subsidies and supplier-funded promotion activities. Therefore, the **margin (gross profit as % of revenues)** increased by 0.6pp to 24.0% compared to the prior year period.

Selling and distribution expenses decreased in the reporting period by EUR 9,098k or 31% to EUR 20,475k. Significant savings stem from expenses for logistics (EUR 4,103k or -36%), personnel (EUR 2,289k or -29%), marketing (EUR 918k or -25%) and warehouse rent (EUR 732k or -35%). The decrease in absolute numbers results from lower order and revenue volumes (-24%). Warehouse rent could be disproportionately reduced through the sell-off of aged inventories. Also, logistics expenses could be disproportionately decreased as more deliveries to Tmall customers were made from our cost efficient warehouse location in Guangzhou/China. The decrease in personnel expenses is a direct result of the headcount reduction initiated in Q1 2018.

Administrative expenses could also be reduced by EUR 320k or 5% and amount to EUR 6,289k in the nine-months period of 2019. This presentation is diluted by one-time effects from expenses and income from stock option programs. In 2019, one-time expenses from the stock option program "Incentive 2019" are recognized within administrative expenses, whereas in 2018 one-time income from stock option programs were recognized. Without those effects, administrative expenses would have decreased in the nine-months period of 2019 by 22% compared to the prior year period.

Other operating income decreased in the nine-months period of 2019 by EUR 200k, mainly from lower foreign exchange gains. At the same time, income from subleases have increased due to the sublease of office spaces. **Other operating expense** decreased in the nine-months period of 2019 by EUR 532k, mainly also from lower foreign exchange losses.

As a result of the above-mentioned developments, **earnings before interest and taxes (EBIT)** improved by EUR 5,592k or 32% in the nine-months period of 2019 and amount to minus EUR 12,074k.

The profit or loss from **discontinued operations** relates to the Feedo Group that was sold in 2018. The profit in the nine-months period of 2019 results from the remeasurement of claim assets on the historic purchase price and interest income from the deferred sales price payment. The loss incurred in the nine-months period of 2018 comprises negative results from regular business activities (EUR 2,817k) and the loss of divestiture including release of deferred taxes (EUR 7,758k).

OUTLOOK

The main strategic target of realizing profitable and sustainable growth and achieving break even on basis of adjusted EBIT at the beginning of 2020 is still existing, but depends on the financial development in the fourth quarter 2019. In order to accomplish this goal, it became inevitable to reduce revenues in the third quarter more than planned, in particular by less profitable orders in the European business. Therefore, the share of repeat customer orders has decreased.

In the Half Year Report 2019, a slight revenue increase and a slight decrease in the share of repeat customers was forecasted. Considering detailed projections for the remainder of the year, we now expect a slight decrease in revenues and a strong decrease in the share of repeat customers.

REGIONAL RESULTS OF OPERATIONS

kEUR	9M 2019	9M 2018	Q3 2019	Q3 2018
Revenues from continuing operations	59,365	78,549	18,456	22,178
Germany, Austria, Switzerland (DACH)	13,437	18,290	4,475	5,691
China	35,658	40,913	10,703	11,824
Other / rest of Europe	10,270	19,346	3,278	4,663

ADJUSTED EBIT

kEUR	9M 2019	9M 2018	Q3 2019	Q3 2018
Earnings before interest and taxes (EBIT)	-12,074	-17,666	-4,246	-5,220
adjusted for share-based compensation	27	-323	-509	64
adjusted for costs of acquisitions	48	-	48	-
adjusted for costs of reorganization	-14	1,227	-	169
adjusted for closure of pannolini.it	-	771	-	57
Adjusted EBIT	-12,013	-15,991	-4,707	-4,930

The income from share-based compensation – adjusted in Q3 2019 – relates to the stock option program "Incentive 2019". Since the reference share price did not exceed the minimum issue price of EUR 1.00 as of September 30, 2019, the compensation is not settled in shares, but in cash. Therefore, the program does not qualify as share-based compensation is therefore not adjusted. Details of the program are outlined in the Half Year Report 2019.

Costs of acquisitions relate to due diligence expenses of a potential acquisition. A definite decision on the acquisition was not yet made.

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

kEUR	9M 2019	9M 2018	Q3 2019	Q3 2018
Continuing operations				
Revenues	59,365	78,549	18,456	22,178
Cost of sales	-45,141	-60,167	-14,458	-17,255
Gross profit	14,224	18,382	3,998	4,923
Selling and distribution expenses	-20,475	-29,573	-6,235	-7,936
Administrative expenses	-6,289	-6,609	-2,220	-2,318
Other operating income	573	773	260	294
Other operating expenses	-107	-639	-49	-183
Earnings before interest and taxes (EBIT)	-12,074	-17,666	-4,246	-5,220
Financial income	1	13	1	7
Financial expenses	-60	-28	-18	-2
Financial result	-59	-15	-17	5
Earnings before taxes (EBT)	-12,133	-17,681	-4,263	-5,215
Income taxes	-7	-16	-4	-2
Profit or loss from continuing operations	-12,140	-17,697	-4,267	-5,217
Profit or loss after taxes from discontinued operations	49	-10,575	-	-713
PROFIT OR LOSS FOR THE PERIOD	-12,091	-28,272	-4,267	-5,930
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences on translation of foreign operations	28	478	13	162
OTHER COMPREHENSIVE INCOME OR LOSS, NET OF TAX	28	478	13	162
TOTAL COMPREHENSIVE INCOME OR LOSS, NET OF TAX	-12,063	-27,794	-4,254	-5,768
Basic earnings per share (in EUR)	-1.48	-9.20	-0.43	-1.90
Basic earnings per share from continuing operations (in EUR)	-1.49	-5.76	-0.43	-1.68

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets		
KEUR	September 30, 2019	December 31, 2018
NON-CURRENT ASSETS		
Intangible assets	3,684	4,394
Fixed assets	729	123
Other financial assets	7	650
Other non-financial assets	156	177
Deferred tax assets	2	1
Total non-current assets	4,578	5,345
CURRENT ASSETS		
Inventories	8,014	6,820
Prepayments	71	-
Trade receivables	1,629	1,417
Income tax receivables	37	39
Other financial assets	2,139	2,557
Other non-financial assets	2,424	2,658
Cash and cash equivalents	9,683	11,136
Total current assets	23,997	24,627
TOTAL ASSETS	28,575	29,972
Equity and liabilities		
KEUR	September 30, 2019	December 31, 2018
EQUITY		
Issued capital	9,964	31,136
Share premium	173,006	170,391
Accumulated loss	-165,188	-181,119
Cumulated other comprehensive income	214	186
Total equity	17,996	20,594
NON-CURRENT LIABILITIES		
Other provisions	-	2
Financial liabilities	86	15
Other financial liabilities	-	21
Total non-current liabilities	86	38
CURRENT LIABILITIES		
Other provisions	139	235
Financial liabilities	621	39
Trade payables	4,064	4,573
Deferred revenues	2,233	1,581
Income tax payables	3	2
Other financial liabilities	2,908	2,335
Other non-financial liabilities	525	575
Total current liabilities	10,493	9,340
TOTAL EQUITY AND LIABILITIES	28,575	29,972

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	9M 2019	9M 2018
Profit or loss for the period	-12,091	-28,272
Amortization (+) / impairment (+) of intangible assets	801	1,013
Depreciation (+) / impairment (+) of fixed assets	547	215
Increase (+) / decrease (-) in other provisions	-98	-180
Non-cash income (-) or expenses (+) from employee benefits	27	-459
Other non-cash expense (+) / income (-) items	3	8,450
Increase (-) / decrease (+) in inventories	-1,193	7,942
Increase (-) / decrease (+) in prepayments	-71	303
Increase (-) / decrease (+) in trade receivables	-211	1,019
Increase (-) / decrease (+) in other assets	864	2,619
Increase (+) / decrease (-) in trade payables	-509	-7,213
Increase (+) / decrease (-) in deferred revenues	652	-1,128
Increase (+) / decrease (-) in other liabilities	556	-1,545
Gain (-) / loss (+) from disposal of intangible and fixed assets	-1	-34
Interest expenses (+) / income (-)	42	13
Income tax expenses (+) / income (-)	8	7
Income tax paid (-) / received (+)	-6	-11
Net cash flows used in operating activities	-10,680	-17,261
Proceeds (+) from sales of intangible and fixed assets	1	40
Purchase (-) of intangible assets	-70	-245
Purchase (-) of fixed assets	-61	-79
Purchase (-) or proceeds (+) from financial investments	-	1,875
Payments (-) or refunds (+) from acquisition of subsidiaries	70	365
Cash flows from divestiture of subsidiaries	400	-595
Interest received (+)	17	10
Net cash flows from investing activities	357	1,371
Proceeds (+) from issue of shares	10,138	5,242
Transaction cost (-) on issue of shares or capital decrease	-719	-118
Repayment (-) of lease liabilities	-494	-40
Repayment (-) of financial liabilities	-	-3,509
Interest paid (-)	-59	-23
Net cash flows from financing activities	8,866	1,552
Cash and cash equivalents at the beginning of the period	11,136	26,465
Net decrease in cash and cash equivalents	-1,457	-14,338
Change in cash and cash equivalents due to foreign exchange rates	4	8
Cash and cash equivalents at the end of the period	9,683	12,135

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR	Issued capital	Share premium	Accumulated loss	Actuarial gains or losses from remeasurement of defined benefit pension plans	Exchange differences on translation of foreign operations	Other comprehensive income or loss	Total equity
As at January 1, 2019	36,136	170,391	-181,119	3	183	186	20,594
Total comprehensive income or loss of the period	-	-	-12,091	-	28	28	-12,063
Capital decrease	-28,022	-	28,022	-	-	-	-
Issue of share capital	6,850	3,288	-	-	-	-	10,138
Transaction costs	-	-700	-	-	-	-	-700
Share-based payments	-	27	-	-	-	-	27
As at September 30, 2019	9,964	173,006	-165,188	3	211	214	17,996
As at January 1, 2018	28,472	168,486	-143,427	3	-301	-298	53,233
Total comprehensive income or loss of the period	-	-	-28,272	-	478	478	-27,794
Capital decrease	-	-	-	-	-	-	-
Issue of share capital	2,664	2,577	-	-	-	-	5,241
Transaction costs	-	-168	-	-	-	-	-168
Share-based payments	-	-407	-	-	-	-	-407
As at September 30, 2018	31,136	170,488	-171,699	3	177	180	30,105

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