

QUARTERLY STATEMENT Q3 2020



WINDELN.DE GROUP AT A GLANCE

Performance indicators (continuing operations only)	9M 2020	9M 2019 R	Q3 2020	Q3 2019 R
Site visits (in thousands) ¹	14,540	19,616	5,572	6,672
Mobile visit share (as % of site visits)	85.6%	78.3%	89.2%	74.2%
Mobile orders (as % of number of orders)	62.4%	61.0%	64.9%	61.7%
Active customers	281,710	329,313	281,710	329,313
Number of orders	342,780	432,987	105,517	145,885
Average orders per active customer (in number of orders)	1.7	2.0	1.7	2.0
Share of repeat customer orders (as % of orders of last 12 months)	67.6%	72.6%	67.6%	72.6%
Gross order intake (in kEUR)	30,174	38,859	8,677	12,561
Average order value (in EUR)	88.03	89.75	82.23	86.10
Returns (as % of gross revenues from orders)	2.6%	2.9%	2.5%	2.9%
Marketing cost ratio (as % of revenues)	2.8%	4.3%	3.4%	4.0%
Fulfilment cost ratio (as % of revenues)	7.4%	14.5%	8.2%	13.6%
Adjusted other SG&A expenses (as % of revenues)	21.5%	24.4%	25.4%	29.2%
Earnings position (continuing operations only)				
Revenues (in kEUR)	58,752	49,835	15,009	15,418
Gross profit (in kEUR)	13,178	12,253	2,572	3,360
Gross profit (as % of revenues)	22.4%	24.6%	17.1%	21.8%
Operating contribution (in kEUR)	7,180	2,885	820	638
Operating contribution (as % of revenues)	12.2%	5.8%	5.5%	4.1%
Adjusted EBIT (in kEUR)	-5,467	-9,291	-2,989	-3,860
Adjusted EBIT (as % of revenues)	-9.3%	-18.6%	-19.9%	-25.0%
Financial position				
Cash flow used in operating activities (in kEUR)	-7,293	-10,680	-199	-2,065
Cash flow from/used in investing activities (in kEUR)	-446	357	-134	-76
Cash flow from/used in financing activities (in kEUR)	4,843	8,866	-182	-253
Net decrease in cash and cash equivalents	-2,896	-1,457	-515	-2,394
Cash and cash equivalents at the end of the period (in kEUR)	5,476	9,683	5,476	9,683
Other				
Basic earnings per share (in EUR)	-1.21	-4.94	-0.45	-1.43
Basic earnings per share from continuing operations (in EUR)	-0.65	-3.85	-0.38	-1.15

All performance indicators and the section earnings position include amounts from continuing operations only. Since end of March 2020, the Southern European Bebitus business meets the requirements of a discontinued operation and is therefore presented as separate amount in the item "Profit or loss after taxes from discontinued operations" in the consolidated income statement. The presentation in the consolidated income statement was amended retrospectively.

¹ In Q3 2020, the method of measuring visits on Shop sites has been changed to now exclude traffic from the magazine sites. The change was necessary to accurately calculate the conversion rate on the respective shop sites. Historical data before the implemented change cannot be updated due to technical restrictions.

MATERIAL TRANSACTIONS IN Q3 2020

New Munich office

After its contractual lease end on August 31, 2020, the lease agreement for offices in Munich Hofmannstrasse was not renewed. End of August 2020, windeln.de SE moved to its new office in Stefan-George-Ring 23 in 81929 Munich. The new office address is identical to the registered company address of windeln.de SE, the commercial register no. remains unchanged.

Data security incident

On September 16, 2020, windeln.de published a press release on a data security incident. Between June 10 and June 23, 2020, data of some of our customers were temporarily stored on an unprotected server. This was caused by a maintenance error, which has since been corrected. windeln.de gained knowledge about the incident in Q3 2020, immediately informed its customers and the public, and engaged an external IT forensic specialist to analyze the incident.

Termination of the LangTao service agreement

On September 16, 2020, the service agreement with LangTao Trading (Shanghai) Co. Ltd. ("LangTao") was terminated without incremental expenses; windeln.de had submitted an extraordinary cancellation as of May 31, 2020. Since mid of 2019, LangTao has rendered customer services, services on brand strategies, project and marketing planning, visual design, product management, sales promotions, communication with sales channels and supply chain management. Most of these services are now performed by the employees of the Chinese Group service company.

Progress in envisaged projects in the IT area

The implementation of the new external shop software could be finalized for the first distribution channel in August 2020; after Go-Live it is subject to regular amortization. In order to mitigate incremental investments for the other distribution channels, the current agreement with the software provider was amended in Q3 2020. The minimum lease term was extended to four years, and future implementation fees are due for payment ratably over the contract period. Like the previous contract, the amended agreement is structured as a rental license granting us a right-of-use that qualifies as an identifiable asset, it is therefore recognized as right-of-use asset and lease liability pursuant to IFRS 16. The contract amendment is accounted for as a modification and resulted in other operating income of EUR 8k in Q3 2020.

In addition, the envisaged relocation of the internal IT shop development department from Munich to the Sibiu office, Romania, was completed in Q3 2020. All these measures shall contribute to reduce selling and general administrative expenses on a long-term basis.

Price automation tool

Since the beginning of the third quarter of 2020, our shop www.windeln.ch is connected to the Group-wide external price automation tool with the aim to further optimize product margins.

Resolutions by the Annual General Meeting

The following resolutions by the Annual General Meeting on June 24, 2020, became effective by registration in the Commercial Register as of September 4, 2020:

- The Annual General Meeting resolved to cancel the Authorized Capital 2018/I in the amount of EUR 15,500,000 and replace by a new Authorized Capital 2020 in the amount of EUR 4,080,122. By Authorized Capital 2020, management board is authorized, with the consent of the supervisory board, to increase the Company's share capital by June 23, 2025 by issuing new no-par value bearer shares against contributions in cash and/or in kind on one or more occasions. The shareholders are generally to be granted a subscription right.
- Furthermore, it was resolved to replace the unused authorization to issue convertible bonds and/or bonds with warrants, profit participation rights and/or participating bonds and the corresponding Conditional Capital 2019/I of EUR 3,226,629 by a new authorization with largely identical contents, adjusted to the new share capital figure. The new authorization is granted until June 23, 2025, the corresponding Conditional Capital 2020/I amounts to EUR 3,263,882.
- Conditional Capital 2015/II – resolved to service subscription rights from the Long Term Incentive Program – of up to EUR 555,206 was partially cancelled in the amount of EUR 547,355 and amounts to EUR 7,851. Conditional Capital 2018 – resolved to grant subscription rights from the Stock Option Program 2018 – of up to EUR 1,200,000 was cancelled in the amount of EUR 1,184,263 and amounts to EUR 15,737. Subscription rights already issued remain unaffected. Management board and supervisory board were authorized to grant up to 788,228 subscription rights until June 23, 2024, for up to 788,228 no-par value bearer shares from the Stock Option Program 2020 to board members and employees of the Company and its subsidiaries. The authorization will become effective upon registration of the corresponding Conditional Capital 2020/II of EUR 788,228 in the Commercial Register.

Following the registration, the management board – with approval of the supervisory board – resolved on a further capital increase on September 25, 2020, and submitted a subscription offer to the existing windeln.de shareholders for the new shares yet to be created (New Shares) at a subscription price of EUR 1.20 per New Share. The subscription period ended after the closing date on October 16, 2020.

SUBSEQUENT EVENTS

The above-mentioned capital increase was completed on October 22, 2020, by registration in the Commercial Register. 380,525 New Shares were subscribed by the Company's existing shareholders via subscription rights with a subscription ratio of 2 : 1 and via the additional subscription rights voluntarily granted by the Company. 2,441,303 New Shares were placed with selected investors as part of a private placement. Gross issue proceeds came at EUR 3,386k.

COMMENTS ON NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Effects of the COVID 19 pandemic on the third quarter of 2020

Our evaluation of the COVID 19 pandemic is unchanged to the Half Year Report 2020. Please refer to note 2.4.1 in the Interim Group Management Report as of June 30, 2020.

Results of operations

In the nine-months-period 2020, **revenues** from continuing operations increased by EUR 8,917k or 18% compared to the prior year. Growth was mainly achieved in China (+22%), whereas Europe grew by 8% (without discontinued Bebitus operations).

A growth contributor in Europe was the Corona situation that massively increased the popularity of online sales in March and April. Additionally, mainly vendor funded sales promotions could be expanded compared to the prior year.

In the nine-months-period 2020, China revenues contain a positive special item of EUR 3,847k, which is the result of VAT adjustments for orders shipped by windeln.de to Chinese customers via so-called freight forwarders in prior years. These export deliveries, which had previously been subject to VAT in Germany, could be corrected with the subsequent confirmation of the export respectively by obtaining corresponding supporting documents. Without this one-time-effect, revenue growth in China amounts to 11%. This is mainly attributable to a new sales channel offering hygiene products to corporate customers. Revenues are generated either directly or as commission fees. In the first nine months of 2020, revenues of EUR 6,954k were recognized through that channel. In addition, we could for the first time generate revenues from new product categories from the cooperation with bodyguardpharm GmbH; and we generated further revenues from the cooperation with Holland at Home B.V.

The end customer business in China, however, is behind our expectations. This is caused by an oversupply in the market as well as a temporary suspension of the SPDC customs process which did not allow windeln.de to offer duty paid goods in our shops. In addition, the termination of the LangTao service agreement slowed down the customer acquisition process.

The **margin** (gross profit as % of revenues) comes at 22.4% in the nine-months-period 2020 and is 2.2pp below the prior year. This is partially driven by the increased business volume with corporate customers and intermediaries generating lower margins but also significantly lower logistics expenses, and therefore contributing to an improvement in operating contribution. A significant margin effect results from revenues of EUR 3,847k from VAT adjustments that have no corresponding cost of sales. Due to the market environment and the oversupply in the market, rebate campaigns in China negatively impact the margin, in particular in Q3 2020.

Selling and distribution expenses have decreased in the reporting period by EUR 2,028k or 12%. Savings were achieved for logistics, warehouse rent and marketing.

On the one hand, the reduction in logistics and warehouse expenses is the result of a lower stock level during the first six months of 2020 and a higher turnover ratio compared to prior year period, whereby warehouse rental costs could be reduced. On the other hand, lower logistic costs in conjunction with the second bonded warehouse in China, opened in the fourth quarter 2019, show an impact. The reduction in logistics and warehouse expenses (so-called fulfilment costs) and the increase in revenues at the same time, materially impact the improvement in operating contribution. Also, the increased business volume with intermediaries and corporate customers leads to lower logistics expenses in relation to revenues.

Within personnel expenses, one-time income from share-based compensation was recognized, at the same time, expenses from wages and salaries have increased due to the hiring of the new team in China and the opening of the new Beijing office; overall personnel expenses are basically unchanged to the prior year. One reason for the decrease in marketing expenses is the cancellation of the LangTao service provider.

During the insourcing phase in Q2 2020, marketing spending in China was significantly cut back. In Q3 2020, marketing spending was allocated more effectively.

In connection with the VAT corrections described above, expense allowances in the amount of EUR 1,045k are recognized in selling and distribution expenses. Additionally, the write-off of EUR 250k investments subsidies paid to KFG is recognized as an expense within selling and distribution expenses.

Administrative expenses are EUR 1,703k or 29% below the prior year period. This mainly results from a one-time income in share-based compensation in 2020 and a one-time expense in the prior year from the program "Incentive 2019" that leads to a decrease in personnel expenses of 39% compared to the prior year period.

Other operating income contains a one-time foreign exchange gain of EUR 207k from the deconsolidation of windeln.ch AG. **Other operating expenses** contain mainly foreign exchange losses in the current and prior year.

As a result of the above-mentioned developments, **earnings before interest and taxes (EBIT)** further improved by EUR 4,706k or 50% in the nine-months-period 2020.

The profit or loss from **discontinued operations** relates to Bebitus operations and, to an immaterial extent, to the Feedo operations that were sold in 2018. The operating result (EBIT) of Bebitus operations was minus EUR 2,014k, an improvement of 26% compared to the prior year. In addition, expenses for the remeasurement of assets held for sale in the amount of EUR 2,031k were recognized within discontinued operations.

Financial position

In the nine-months-period 2020, the Group generated negative cash flows from **operating activities** in the amount of EUR 7,293k, which is an improvement of 32% compared to the prior year period and results mainly from the improved EBIT margin. The loss of the period could be reduced by EUR 3,350k, however, it contains non-cash income from the remeasurement of Restricted Stock Units (EUR 888k) and from the deconsolidation of windeln.ch AG (EUR 207k). Additionally, the loss of the period contains non-cash expenses EUR 2,031k from remeasurement of assets held for sale relating to the planned discontinuation of Bebitus operations.

The cash outflow from **investing activities** mainly results from investments in the new shop software (EUR 415k) and fixed assets (EUR 38k). In the prior year, investment activities generated cash inflows that were mainly attributable to the received purchase price from the divestiture of Feedo Group (EUR 417k incl. interest) and a refund of the purchase price from the acquisition of Feedo Group (EUR 70k).

Cash inflows from **financing activities** of EUR 4,843k in the nine months of 2020 reflect the successfully executed capital increase in the first quarter of 2020, resulting in net cash proceeds of EUR 5,557k. Furthermore, lease liabilities in the amount of EUR 664k were redeemed. In the prior year, cash inflows from financing activities amounted to EUR 8,866k. Net cash proceeds from a capital increase were EUR 9,419k, whereas only EUR 494k lease liabilities were redeemed.

Net assets

Since December 31, 2019, **non-current assets** have increased by 6% to EUR 3,869k as September 30, 2020. Main drivers were the reclassification of Bebitus domains (EUR 1,819k) as held for sale and the capitalization of right-of-use assets of the new shop software (EUR 1,744k) and the new office space in Munich (EUR 1,142k).

As of September 30, 2020, **current assets** have decreased by EUR 4,166k or 20% compared to December 31, 2019. Without reclassification and remeasurement of Bebitus inventories, total inventories have increased by 22% or EUR 1,761k. This is attributable to increased customer deliveries from our two bonded warehouses which lead to higher inventory stock levels since they are replenished through sea shipment. In addition, we have begun building up inventories for the upcoming Q4 sales events in China (Single's Day).

The decrease in other financial assets mainly results from the decrease in creditors with debit balances by EUR 625k, that were at an unusually high level on December 31, 2019. Additionally, accrued advertising subsidies and supplier rebates were decreased by EUR 327k, a result of an optimized invoicing cycle with major suppliers. Restricted cash of EUR 226k, pledged as lease deposit for the office space in Hofmannstrasse, was converted into non-restricted cash in Q3 2020.

Assets held for sale contain remeasured assets intended for sale in the planned Bebitus divestiture.

Since December 31, 2019, **equity** has decreased by EUR 4,405k on September 30, 2020. Due to the executed capital increase in February 2020, equity has increased by EUR 6,205k gross. Furthermore, the change in settlement method of RSU's from equity-settled to cash-settled led to a reclassification of EUR 1,003k from share premium to accrued employee benefits. Contrarily, the loss of the nine-months-period 2020 of EUR 8,741k as well as equity transaction costs of EUR 682k resulted in a reduction in equity.

Non-current liabilities mainly contain lease liabilities that have significantly increased due to the new shop software agreement (February 2020) and its modification (August 2020). **Current liabilities**, however, are basically on prior year level.

We define the performance indicator **net working capital** as the total of inventories, prepayments on inventories, trade receivables, accrued advertising subsidies and supplier rebates, creditors with debit balances and VAT assets, deducted by VAT liabilities, trade payables and deferred expenses. As of September 30, 2020, net working capital² amounts to EUR 6,202k and is 14% above the prior year level (December 31, 2019: EUR 5,439k). The high inventory levels for the China business as of June 30, 2020, could be significantly reduced in the course of Q3 2020.

RESULTS OF OPERATING SEGMENTS

kEUR	9M 2020	9M 2019 R	Q3 2020	Q3 2019 R
Revenues				
Europe	24,868	23,596	8,211	7,682
thereof continuing operations	15,177	14,066	4,806	4,644
thereof discontinued operations	9,691	9,530	3,405	3,038
China	43,575	35,769	10,203	10,774
Operating contribution				
Europe	-69	-1,163	4	-318
thereof continuing operations	-322	-1,096	-76	-340
thereof discontinued operations	253	-67	80	22
China	7,502	3,981	896	978

ADJUSTED EBIT

kEUR	9M 2020	9M 2019 R	Q3 2020	Q3 2019 R
Earnings before interest and taxes (EBIT) from continuing operations	-4,646	-9,352	-3,077	-3,410
adjusted for share-based compensation	-864	27	88	-498
adjusted for costs of reorganization measures	-	-14	-	-
adjusted for costs of the warehouse move	250	-	-	-
adjusted for effects from deconsolidation of windeln.ch AG	207	-	-	-
adjusted for costs of acquisitions	-	48	-	48
Adjusted EBIT from continuing operations	-5,467	-9,291	-2,989	-3,860

² including Bebitus, before IFRS 5 remeasurement

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

kEUR	9M 2020	9M 2019 R	Q3 2020	Q3 2019 R
Continuing operations				
Revenues	58,752	49,835	15,009	15,418
Cost of sales	-45,574	-37,582	-12,437	-12,058
Gross profit	13,178	12,253	2,572	3,360
Selling and distribution expenses	-14,261	-16,289	-4,128	-4,924
Administrative expenses	-4,075	-5,778	-1,608	-2,054
Other operating income	715	566	117	255
Other operating expenses	-203	-104	-30	-47
Earnings before interest and taxes (EBIT)	-4,646	-9,352	-3,077	-3,410
Financial income	5	-	-	-
Financial expenses	-44	-54	-17	-16
Financial result	-39	-54	-17	-16
Earnings before taxes (EBT)	-4,685	-9,406	-3,094	-3,426
Income taxes	-4	-7	-1	-4
Profit or loss from continuing operations	-4,689	-9,413	-3,095	-3,430
Profit or loss after taxes from discontinued operations	-4,052	-2,678	-604	-837
PROFIT OR LOSS FOR THE PERIOD	-8,741	-12,091	-3,699	-4,267
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences on translation of foreign operations	-209	28	-1	13
OTHER COMPREHENSIVE INCOME OR LOSS, NET OF TAX	-209	28	-1	13
TOTAL COMPREHENSIVE INCOME OR LOSS, NET OF TAX	-8,950	-12,063	-3,700	-4,254
Basic earnings per share (in EUR)	-1.21	-4.94	-0.45	-1.43
Basic earnings per share from continuing operations (in EUR)	-0.65	-3.85	-0.38	-1.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets		
KEUR	September 30, 2020	December 31, 2019
NON-CURRENT ASSETS		
Intangible assets	2,153	2,843
Fixed assets	1,468	631
Other financial assets	116	16
Other non-financial assets	128	149
Deferred tax assets	4	2
Total non-current assets	3,869	3,641
CURRENT ASSETS		
Inventories	7,798	7,339
Prepayments	91	1
Trade receivables	608	838
Income tax receivables	2	6
Other financial assets	1,511	2,719
Other non-financial assets	1,516	1,888
Cash and cash equivalents	5,476	8,377
Total current assets	17,002	21,168
Assets held for sale	1,842	-
TOTAL ASSETS	22,713	24,809
Equity and liabilities		
KEUR	September 30, 2020	December 31, 2019
EQUITY		
Issued capital	8,160	2,989
Share premium	172,278	172,904
Accumulated loss	-169,475	-160,734
Cumulated other comprehensive income	-9	200
Total equity	10,954	15,359
NON-CURRENT LIABILITIES		
Accrued employee benefits	86	-
Financial liabilities	2,106	101
Total non-current liabilities	2,192	101
CURRENT LIABILITIES		
Other provisions	154	288
Financial liabilities	512	519
Trade payables	4,053	3,639
Deferred revenues	2,029	2,287
Income tax payables	0	1
Other financial liabilities	2,342	2,064
Other non-financial liabilities	477	551
Total current liabilities	9,567	9,349
TOTAL EQUITY AND LIABILITIES	22,713	24,809

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	9M 2020	9M 2019
Profit or loss for the period	-8,741	-12,091
Amortization (+) / impairment (+) of intangible assets	622	801
Depreciation (+) / impairment (+) of fixed assets	541	547
Increase (+) / decrease (-) in provisions	-137	-98
Non-cash income (-) or expenses (+) from employee benefits	-889	27
Other non-cash expense (+) / income (-) items	1,814	3
Increase (-) / decrease (+) in inventories	-2,436	-1,193
Increase (-) / decrease (+) in prepayments	-167	-71
Increase (-) / decrease (+) in trade receivables	230	-211
Increase (-) / decrease (+) in other assets	1,467	864
Increase (+) / decrease (-) in trade payables	407	-509
Increase (+) / decrease (-) in deferred revenues	-258	652
Increase (+) / decrease (-) in other liabilities	208	556
Gain (-) / loss (+) from disposal of intangible and fixed assets	-2	-1
Interest expenses (+) / income (-)	45	42
Income tax expenses (+) / income (-)	5	8
Income tax paid (-) / received (+)	-2	-6
Net cash flows used in operating activities	-7,293	-10,680
Proceeds (+) from sales of intangible and fixed assets	2	1
Purchase (-) of intangible assets	-415	-70
Purchase (-) of fixed assets	-38	-61
Payments (-) or refunds (+) from acquisition of subsidiaries	-	70
Cash flows from divestiture of subsidiaries	-	400
Interest received (+)	5	17
Net cash flows from / used in investing activities	-446	357
Proceeds (+) from issue of shares	6,205	10,138
Transaction cost (-) on issue of shares or capital decrease	-648	-719
Repayment (-) of lease liabilities	-664	-494
Interest paid (-)	-50	-59
Net cash flows from financing activities	4,843	8,866
Cash and cash equivalents at the beginning of the period	8,377	11,136
Net decrease in cash and cash equivalents	-2,896	-1,457
Change in cash and cash equivalents due to foreign exchange rates	-5	4
Cash and cash equivalents at the end of the period	5,476	9,683

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, 2020	2,989	172,904	-160,734	3	197	200	15,359
Total comprehensive income or loss of the period	-	-	-8,741	-	-209	-209	-8,950
Issue of share capital	5,171	1,034	-	-	-	-	6,205
Transaction costs	-	-682	-	-	-	-	-682
Share-based payments	-	-978	-	-	-	-	-978
As at September 30, 2020	8,160	172,278	-169,475	3	-12	-9	10,954
As at January 1, 2019	31,136	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

Editorial team and contact
windeln.de SE
Stefan-George-Ring 23
81929 Munich, Germany
corporate.windeln.de

Corporate Communications
Judith Buchholz
E-Mail: investor.relations@windeln.de

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windeln.de SE

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