Company AS BALTIKA

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Attachments:
- Baltika_Interim_Report_3Q 2022.pdf (http://oam.fi.ee/en/download?id=6883)
- Baltika_Vahearuanne_3Q 2022.pdf (http://oam.fi.ee/en/download?id=6884)

Currency

Title Baltika's unaudited financial results, third quarter of 2022 and 9 months 2022

The third quarter was eventful for the Group. We had set ourselves big challenges for the third quarter, and we are happy to say that the set goals were met:

* In July, we completed the closing of the Moetänava store. As the Group is currently only involved in the development of Ivo Nikkolo products, the Moetänava sized trading space did not support our new business model. After the closure of Moetänava, we opened a new Ivo Nikkolo outlet store in the Arsenal center in Tallinn, which has been very well received by our customers.
* At the beginning of August, we closed an important financing transaction (partial sale of Ivo Nikkolo trademarks, which the Group continues to use under an exclusive license), which will significantly support the growth of the Group's business in the following years.
* At the end of September, we opened our new Ivo Nikkolo e-store to offer customers the best possible shopping experience. The opening of the new e-store is the first step in our decision to actively move forward with the development of our omnichannel strategy. Also, at the same time as the opening of the new e-store, the entire Group switched to a new Enterprise Resource Planning (ERP) system, which enables the Group to make better management decisions in the future.

The result of the third quarter was significantly affected by our strategic decision to sell some of the Ivo Nikkolo trademarks and to continue using the trademarks under an exclusive license. The purpose of the transaction is to finance the Group's business activities, and the Group will use the amounts received from the transaction to finance core activities, projects, and investments. The sales price of the trademarks was 8,000 thousand euros, and the money will be received by the Group in four instalments, the last payment to the Group will take place at the end of 2024. Despite the transfer of trademarks, the Group retains the exclusive right to use the trademarks for 10 years based on an exclusive trademark license agreement. The period of the license agreement is automatically renewed for the following one year and after the end of each subsequent renewed period unless the contracting party provides the other party with a notification of a different content no less than three months before the end of the period. The validity of the license agreement ends in any case when the legal protection of all trademarks has ended. Otherwise, the license agreement can only be terminated by written agreement of the parties. The Group pays a license fee of a maximum of 345 thousand euros per year for the use of trademarks, depending on the turnover. As a result of the transaction, the Group received a one-time profit in the amount of 7,436 thousand euros, which explains the increase in operating and net profit for the quarter compared to the third quarter of last year. The transaction also had a positive effect on the Group's equity: as a result of the transaction, the Group's equity is in compliance with the 50% share capital requirement stipulated in the Commercial Code.

The opening of the new Ivo Nikkolo e-store on September 22 marks the beginning of our decision to take a strong step forward with the development of the omnichannel strategy. In nine months, sales through other channels account for approximately 10% of total sales. The Group aims to double this share next year through the omnichannel strategy and the development of additional functionalities of the e-store. Together with the opening of the new e-store, the Group switched to a new ERP system. The introduction of the new system also means that the entire Group implements a single ERP system. The group-wide ERP system allows the Group to collect, store and analyse its business data in a centralized location, providing more opportunities and transparency for making strategic management decisions.

The Group ended the third quarter with a net profit of 6,611 thousand euros. The result of the third quarter has been significantly affected by the conclusion of the contract for the sale of the Ivo Nikkolo trademarks and the contract for the exclusive use of the Ivo Nikkolo trademarks. The adjusted result for the third quarter, without taking into account the effect of the previously mentioned transaction, was a net loss of EUR 825 thousand. Compared to the same period last year, the Group's adjusted result weakened by 433 thousand euros (last year, the Group ended the third quarter with a net loss of 392 thousand euros). The weakening of the adjusted result is related to the transition from five brands (Monton, Mosaic, Baltman, Bastion and Ivo Nikkolo) to one brand (Ivo Nikkolo) and the closing of unprofitable stores.

The sales revenue of the Group in the third quarter was 2,427 thousand euros, decreasing by 36% compared to the same period last year (Q3 2021: 3,817 thousand euros). The sale of Ivo Nikkolo products accounted for 99% of the third quarter's sales revenue, whereas in the comparable period, the sale of Ivo Nikkolo products accounted for 69% of the entire third quarter's sales revenue - the remaining 31% was the sales revenue of the discontinued brands Monton, Mosaic, Baltman and Bastion. The reason for the decrease in sales revenue were as follows:

1. The Group has continued to close unprofitable stores as planned. In nine months, we have closed 10 unprofitable stores. During 2022, unprofitable stores will continue to be closed in Estonia, as the market with the largest number of stores. The closing of unprofitable stores is planned to be completed by the end of 2022.
2. The sales revenue of the third quarter of last year included the sales revenue of the discontinued brands Monton, Mosaic, Baltman and Bastion. The sales result of the third quarter of this year includes the revenue from the sale of discontinued brands at a minimum (1%), in the comparable period, the sales revenue of discontinued brands made up 31% of the sales revenue of the third quarter.
3. In 2021, Ivo Nikkolo underwent a renewal course. The transitional collection released last July and August was similar in style to Monton. In addition, during the transition season, customers found the Ivo Nikkolo collection still in the Monton store fronts. These circumstances supported additional sales of Ivo Nikkolo products in the comparable period.

E-com sales revenue for the third quarter was 200 thousand euros, decreasing by 36% compared to the same period last year. The result of the e-store in the third quarter of 2021 is not fully comparable, because in the comparable period the Group had two e-stores, Monton and Ivo Nikkolo, therefore the result of the e-store in the third quarter of last year included the sale of discounted products of the discontinued brands Baltman and Monton through the Monton e-store shop. The Monton e-shop was finally closed in September 2021.

The gross profit for the third quarter was 1,321 thousand euros, decreasing by 45% compared to the same period last year (Q3 2021: 1,921 thousand euros). The Group's gross profit margin was 54% in the third quarter, an improvement of 4 percentage points compared to the same period last year (Q3 2021: 50%). The increase in raw material and transportation prices and the strengthening of the US dollar led to a significant cost increase in the price and delivery of goods. Despite the increase in prices, the Group has been able to improve the gross margin thanks to well-managed discounts and partially passing on price increases to customers.

The Group's distribution and administration expenses were 2,022 thousand euros in the third quarter, decreasing by 28% compared to the same period last year (Q3 2021: 2,590 thousand euros). The decrease in retail costs is related to general cost savings and the closing of unprofitable stores. The group's general administrative expenses have remained at a similar level to the same period last year.

The Group ended the quarter with cash and cash equivalents of 282 thousand euros, using the bank's overdraft facility in the amount of 2,042 thousand euros (out of the limit of 3,000 thousand euros) at the end of the quarter.

Baltika continues to implement its strategy:

1. We develop modern, high-quality products in our women's fashion brand Ivo

Nikkolo, which is available in Estonia, Latvia and Lithuania and in our e-store.
2. We continue with the development of our omnichannel strategy and e-store functionalities.
3. We continue to open new Ivo Nikkolo concept stores in the Baltics. At the end of November this year, we will open a new Ivo Nikkolo concept store in the Panorama shopping centre in Vilnius.

Ongoing quarter

Ivo Nikkolo's fall collection has been well received. In October, sales of Ivo Nikkolo products through all channels increased by 10 percent compared to the same period in 2021. Retail sales efficiency (sales per m2 per month, EUR) was 138 EUR, increasing by 23% compared to October last year. The increase in the turnover of Ivo Nikkolo products is an important sign that the demand for our products remains even if the general purchasing power of customers decreases.

In the fourth quarter, the Group will continue with general cost savings and productivity enhancements to make the business even smoother and more efficient. In the fourth quarter, the Group plans to close three stores, two of which are unprofitable (one each in Estonia and Lithuania) and one store in Estonia that does not match the profile of Ivo Nikkolo stores. The closing of the store in Lithuania will be replaced by a new Ivo Nikkolo concept store.

In the fourth quarter, the focus is also on marketing activities. In October, we started an extensive brand awareness campaign in Latvia and Lithuania, which will last until the end of the year. In October, Ivo Nikkolo presented a modern feminine clothing and accessory collection at Riga Fashion Week (11.10.2022) and Tallinn Fashion Week (20.10.2022).

By the fourth quarter of 2022, the overall market situation for inventory purchases will be more negative due to external factors compared to the same period last year, mainly due to increased inventory prices and transportation costs. To avoid possible delays in the supply chain, the Group has brought inventory orders forward, therefore an increase in inventory levels is expected in the following periods.

Consolidated statement of financial position

	30 Sept 2022	31 Dec 2021
ASSETS		
Current assets		
Cash and cash equivalents	282	614
Trade and other receivables	194	696

Inventories	2,414	2,491
Total current assets	2,890	3,801
Non-current assets		
Deferred income tax asset	80	80
Trade and other receivables	5,716	0
Other non-current assets	162	172
Property, plant and equipment	1,181	855
Right-of-use assets	5,046	5,956
Intangible assets	595	631
Total non-current assets	12,781	7,694
TOTAL ASSETS	15,671	11,495
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	356	364
Lease liabilities	1,884	1,692
Trade and other payables	2,310	2,438
Total current liabilities	4,550	4,494
Non-current liabilities		
Borrowings	3,201	2,425
Lease liabilities	3,191	4,264
Trade and other payables	151	0
Total non-current liabilities	6,543	6,689
TOTAL LIABILITIES	11,094	11,183

EQUITY		
Share capital at par value	5,408	5,408
Reserves	4,431	4,431
Retained earnings	-9,527	-6,627
Net profit (loss) for the period	4,265	-2,900
TOTAL EQUITY	4,577	312
TOTAL LIABILITIES AND EQUITY	15,671	11,495

Consolidated statement of profit or loss and other comprehensive income

	3Q 2022	3Q 2021	9m 2022	9m 2021
Revenue	2,427	3,817	6,810	9,156
Cost of goods sold	-1,106	-1,896	-3,452	-4,707
Gross profit	1,321	1,921	3,358	4,449
Distribution costs	-1,706	-2,287	-5,340	-6,124
Administrative and general expenses	-316	-303	-949	-1,138
Other operating income (-expense)	7,372	369	7,420	1,054
Operating profit (loss)	6,670	-300	4,489	-1,759
Finance costs	-59	-92	-224	-251
Profit (loss) before income tax	6,611	-392	4,265	-2,010
Income tax expense	0	0	0	0

Net profit (loss) for the period	6,611	-392	4,265	-2,010
Total comprehensive income (loss) for the period	6,611	-392	4,265	-2,010
Basic earnings per share from net profit (loss) for the period, EUR	0.12	-0.01	0.08	-0.04
Diluted earnings per share from net profit (loss) for the period, EUR	0.12	-0.01	0.08	-0.04

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(https://www.globenewswire.com/Tracker?data=UQNUxCdmy1x24koQZeCXJINsEu2d-UwXy9uskuKOd_1EKN3hPuv31f-pzFSZ14bfa3PVFfn8wyAx7Qlo9DSywGcBy9chzdMBuXVVcWbo6HLYuNC2tP2xgL3ae6BhdZxM46ncI2pKmza9oRvQmtyl8fiJqU3Qrq-ImuVAnU3Qtj0hpWdS2w8zo0dZ-j6ImLkZZXCzJoXyjNDxFhdhaKGA2myn3oa8Yq5kbKBVa4WufaN5gvPco09Y-AI_G4hPeEWyXcDpLHQJnj3T_2LZC2NHYBGN4HVPHDgUwhZEo8UOSlI7gXMbg8EXUI7X005b7o19)