

## **TOKMANNI GROUP'S BUSINESS REVIEW 1.1. – 31.3.2018: REVENUE GREW 10.9% - EBITDA% IMPROVED**

Numbers in brackets refer to the corresponding period previous year if nothing else is mentioned. As of 2018 Tokmanni's online revenue is included in the current and comparable quarter Like-for-Like revenue.

### **FIRST QUARTER HIGHLIGHTS**

- Revenue totaled EUR 173.7 million (156.6), 10.9%
- Like-for-Like revenue grew 6.1%, clearly above the market
- Comparable gross profit totaled EUR 54.6 million (49.2), 31.4% of revenue (31.4%)
- Comparable EBITDA totaled EUR 0.8 million (-1.5), 0.5% of revenue (-0.9%)
- Comparable EBIT totaled EUR -2.8 million (-5.2), -1.6% of revenue (-3.3%)
- Cash flow from operating activities totaled EUR -23.9 million (-37.9)
- Earnings per share was -0.05 euros (-0.12)

### **TOKMANNI'S OUTLOOK 2018 UNCHANGED: GOOD GROWTH AND IMPROVED PROFITABILITY**

Tokmanni's expects good revenue growth for 2018 based on the revenue from new stores opened in 2017 and stores to be opened in 2018 and low single digit Like-for-Like revenue growth. As of 2018 Tokmanni's online revenue is included in the Group's Like-for-Like revenue. Group profitability (comparable EBITDA%) is expected to improve from the previous year.

### **TOKMANNI'S INTERIM CEO HARRI SIVULA: GOOD QUARTER IN TERMS OF SALES, EBITDA% IMPROVED AS WELL**

"During the first quarter we focused on reinforcing our strong discounter position and fortifying customer trust by offering our customers even more interesting products at cheap prices. We were successful in doing this and our revenue grew strongly 10.9%. Our Like-for-Like revenue grew 6.1% from the low levels of the comparable quarter 2017. The number of customer visits grew 6.9% and the average basket size 3.8%. In addition to campaigning this was due to the timing of Easter, which supported especially candy and home decoration sales.

Due to seasonality the first quarter is generally the smallest quarter in terms of profitability. We invested in growing our customer flows during the quarter and as a consequence our gross margin remained at last year's level. Also, the timing of Easter impacted the sales mix and our profitability. However, the relative share of operating expenses decreased and thus our EBITDA margin improved. Traditionally the second quarter sales mix is weighed more towards larger seasonal products, which usually has a positive impact on our profitability. Our target to improve our profitability remains clear and we continue our activities accordingly. We believe that strong customer trust creates good conditions also for improving profitability.

The year 2017 was a challenging year for us in many ways. Now the turn has happened and we are proceeding according to plan. Even the non-grocery market has finally turned to slight growth. Despite this competition remains strong and new players, especially international online and specialty retailers, are changing market dynamics and the competitive situation quickly. Therefore, it is even more important to continuously remain alert and in the customers mind. We do our best to meet the needs of our customers every day. Our goal is to be an even more attractive alternative for current and potential customers, and we have all the prerequisites for it. We have a strong brand and a

constantly evolving interesting assortment, we continue to develop our store concept and at the same time invest heavily in our digital services. Our guidance remains unchanged: in 2018, Tokmanni's revenue will grow well and our comparable EBITDA% will improve. We will continue our growth and profitability efforts in line with our 2018 guidance and longer-term goals."

As of 2018 Tokmanni's online revenue is included in the current and comparable quarter Like-for-Like revenue.

## Key figures

	1-3/2018	1-3/2017	Change%	1-12/2017
Revenue, MEUR	173.7	156.6	10.9%	796.5
Like-for-like revenue development, %	6.1	-3.8		-1.3
Number of customer visits, M	10.5	9.8	6.9%	46.4
Gross profit, MEUR	54.7	48.7	12.5%	267.1
Gross margin, %	31.5	31.1		33.5
Comparable gross profit, MEUR	54.6	49.2	10.8%	268.1
Comparable gross margin, %	31.4	31.4		33.7
Operating expenses, MEUR	-54.5	-53.1	2.5%	-217.8
Comparable operating expenses, MEUR	-54.7	-51.6	6.0%	-217.0
EBITDA, MEUR	1.2	-3.6	132.8%	53.1
EBITDA, %	0.7	-2.3		6.7
Comparable EBITDA, MEUR	0.8	-1.5	154.3%	55.0
Comparable EBITDA, %	0.5	-0.9		6.9
Operating profit (EBIT), MEUR	-2.4	-7.3	66.6%	38.8
Operating profit margin EBIT, %	-1.4	-4.7		4.9
Comparable EBIT, MEUR	-2.8	-5.2	45.8%	40.6
Comparable EBIT, %	-1.6	-3.3		5.1
Net financial items, MEUR	-1.5	-1.3	11.0%	-5.8
Net capital expenditure, MEUR	1.4	1.5	-7.4%	8.1
Net debt / comparable EBITDA *	3.2	2.7		2.4
Net cash from operating activities, MEUR	-23.9	-37.9		27.1
Return on capital employed, %	-0.8	-2.3		11.4
Return on equity, %	-2.4	-5.2		16.0
Number of shares, weighted average during the financial period (thousands)	58 869	58 869		58 869
Earnings per share (EUR/share)	-0.05	-0.12		0.45
Personnel at the end of the period	3 180	3 066		3 255
Personnel on average in the period	3 159	3 057		3 232

\* Rolling 12 months comparable EBITDA

## MARKET DEVELOPMENT

The Finnish retail sector grew well during the first quarter of 2018. The total sales of the Finnish Grocery Trade Association's FGTA ([www.pty.fi](http://www.pty.fi)) member department stores and hypermarket chains grew 6.3%. Especially grocery trade developed well which was driven by the timing of Easter. The non-grocery market, the market closest comparable to Tokmanni, grew more moderately, by 1.4% during the same period.

## OPERATIONAL DEVELOPMENT

## Store network development

Based on efficient roll-out and short ramp up, opening new stores is one of the drivers for Tokmanni's revenue and earnings growth. At the end of the first quarter, Tokmanni had 175 stores across Finland and has identified several additional locations suitable for new stores across Finland.

During the first quarter 2018, Tokmanni enlarged two of its stores and the selling space of the Raahe and Pieksamäki stores increased by approximately 1,600 square meters.

Tokmanni will open two new stores during the second quarter. In addition the company will relocate two stores and enlarge one additional store during 2018. The selling space of these stores will increase by more than 30% and they will therefore be included in new stores according to Tokmanni's definition. During 2018, the company's selling space is estimated to grow by approximately 8,000 square meters in total.

According to Tokmanni's definition a store is considered a new or relocated store in its opening year and in the following calendar year. On average a new store is profitable in approximately 12 months and reaches full capacity in approximately 24 months.

In 2018, Tokmanni will invest more heavily in the maintenance of our store network than in the previous years, especially in updating its fresh grocery stores. Tokmanni has 12 fresh grocery stores around Finland.

## Other operational developments

In the first quarter, Tokmanni continued to develop its business. In March, the company's online store was moved to a new platform and increasing the online assortment started. The goal is to progressively increase the number of products online significantly. At the same time, Tokmanni will continue to actively develop its digital services with the aim of providing customers with an excellent customer experience seamlessly connecting the physical and online store and services.

During the review period, Tokmanni continued to develop its marketing and advertising by, for example, sharpening its direct advertising and increasing its store-specific advertising in social media. Tokmanni also focused more strongly on the marketing and advertising of its own brands.

## FIRST QUARTER FINANCIAL DEVELOPMENT

### Seasonality

Tokmanni's business is subject to seasonality, which has a significant effect on Tokmanni's revenue, profitability and cash flows. Generally, revenue and profitability and cash flows are lowest in the first quarter and highest in the fourth quarter due to Christmas sales.

### Strong revenue growth

Tokmanni's revenue for the first quarter 2018 grew by 10.9% to EUR 173.7 million (156.6). Like-for-Like revenue grew by 6.1% from the low levels of the corresponding quarter 2017. The strong revenue growth was primarily due to a higher share of campaigning during the review period. The timing of Easter supported grocery, among other candy and sweets, as well as home cleaning and decoration product sales. The demand for tools also grew in the first quarter. Tokmanni has increased its tools assortment and among others focused substantially on the sales and marketing of its own Brücke brand during the review period.

The number of customer visits increased by 6.9% to 10.5 million (9.8). The average basket size grew by 3.8% but at the same time the average price decreased by 2.5%.

### Profitability at satisfactory level

The first quarter 2018 gross profit amounted to EUR 54.7 million (48.7). Comparable gross profit totaled EUR 54.6 million (49.2). Comparable gross profit margin was at last year's level 31.4% (31.4%) of revenue. This was primarily due to strong campaigning and the timing of Easter.

First quarter 2018 operating costs totaled EUR 54.5 million (53.1). Comparable operating costs totaled EUR 54.7 million (51.6), out of which personnel cost totaled EUR 25.0 million (23.7). The growth in expenses was primarily due to the new stores opened in 2017. Comparable operating expenses as share of revenue decreased from last year's 32.9% to 31.5%.

First quarter 2018 EBITDA totaled EUR 1.2 million (-3.6). First quarter comparable EBITDA amounted to EUR 0.8 million (-1.5), 0.5% (-0.9%). First quarter operating profit (EBIT) totaled EUR -2.4 million (-7.3). Comparable EBIT totaled EUR -2.8 million (-5.2).

First quarter net financial items totaled EUR -1.5 million (-1.3).

Taxes amounted to EUR 0.8 million (1.7). The net result for the period amounted to EUR -3.1 million (-6.9). Earnings per share were -0.05 euros (-0.12).

### **Balance sheet, financing and cash flow**

Tokmanni's inventories totaled EUR 187.9 million (173.1) at the end of the first quarter. The growth of the store network was the primary reason for inventory growth.

At the end of March 2018, Tokmanni had interest bearing debt totaling EUR 195.6 million (172.6). The growth in interest bearing debt was due to the timing of the dividend payment which in 2018 occurred in the first quarter. Tokmanni's first quarter 2018 cash flow from operating activities totaled EUR -23.9 million (-37.9). At the end of March 2018, cash and cash equivalents amounted to EUR 13.8 million (17.2). Net debt/comparable EBITDA was 3.2 (2.7) at the end of March.

### **Capital expenditure**

Net capital expenditure for the period January-March 2018 totaled EUR 1.4 million (1.5). In our investment program for 2018, we will invest more heavily in the maintenance of our store network than in the previous years, especially in updating our grocery stores, and in Tokmanni's digital services to support Like-for-Like sales. Capital expenditure related to new store openings will be lower than in the previous years. Capital expenditure is expected to be at the level of depreciation in 2018.

### **RISKS AND BUSINESS UNCERTAINTIES**

Tokmanni's risks and uncertainties have been discussed in detail in the 2017 financial statements bulletin and in the 2017 Report by the Board of Directors. No major changes to these risks have occurred during the quarter.

### **MARKET OUTLOOK**

The Finnish Ministry of Finance forecasts the growth of the Finnish economy to slow down to 2.4% in 2018. As GDP will continue to grow at a reasonable pace demand for manpower and the number of employments is estimated to increase by one percent.

As a consequence Tokmanni expects the Finnish retail market to grow slightly, but the competition to continue to be fierce, especially in groceries. The share of online is expected to grow in all product categories, especially in home electronics and clothing. Specialty stores are also expected to continue strengthening their positions.

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Mäntsälä, 24.4.2018

Tokmanni Group Corporation

Board of Directors

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## IR CALENDAR

Tokmanni publishes shorter business reviews for the first and third quarters, and a comprehensive interim report covering the period January-June 2018. Release dates are:

January-June 2018 Half Year Financial review, August 9th 2018

January-September 2018 Business review, October 24th 2018

## RESULT PRESENTATION

Tokmanni's interim CEO Harri Sivula and CFO Markku Pirskanen will present the review to analysts, investors and media representatives on the publication day in Finnish at 10.00 am EEST (9.00 CEST) and in English at 11.30 am EEST (10.30 CEST).

The English live audiocast can be accessed via Tokmanni's website at [ir.tokmanni.fi](http://ir.tokmanni.fi) or through the link <https://tokmanni.videosync.fi/2018-04-25-teleconference>. An on demand version of the audiocast will be found on the website as soon as possible after the recording.

The participants can also join a telephone conference that will be arranged in conjunction with the live webcasts. The participants are asked to dial in 5-10 minutes prior to starting time using the Participant Phone Numbers below:

FI: +358 981 710 495

SE: +46 8 566 427 02

UK: +44 203 194 05 52

US: +1 855 716 15 97

If you are calling from another location, please use any of the numbers above.

## Adjustments affecting comparability

Tokmanni has used the non-IFRS measure EBITDA and made adjustments to improve comparability and give a better view of Tokmanni's operational performance. EBITDA represents operating profit before depreciation and amortization. Comparable EBITDA represents EBITDA comparable to exclude items that Tokmanni's management considers to be exceptional and non-trading items, including changes in the fair value of electricity

and currency derivatives, which are comparable for by Tokmanni as they are unrealized gains or losses related to Tokmanni's open cash flow hedge positions, and hence not related to Tokmanni's operational performance during the periods under review. Tokmanni's management uses comparable EBITDA and other measures mentioned below as key performance indicators to assess Tokmanni's underlying operational performance.

### Adjustments affecting comparability

MEUR	1-3/2018	1-3/2017	1-12/2017
<b>Gross profit</b>	<b>54.7</b>	<b>48.7</b>	<b>267.1</b>
Changes in fair value of currency derivatives	-0.2	0.6	1.0
<b>Comparable Gross Profit</b>	<b>54.6</b>	<b>49.2</b>	<b>268.1</b>
<b>Operating expenses</b>	<b>-54.5</b>	<b>-53.1</b>	<b>-217.8</b>
Changes in fair value of electricity derivatives	-0.2	0.3	-0.4
Loss on real estate sales	-	1.2	1.2
<b>Comparable operating expenses</b>	<b>-54.7</b>	<b>-51.6</b>	<b>-217.0</b>
<b>EBITDA</b>	<b>1.2</b>	<b>-3.6</b>	<b>53.1</b>
<b>Operating profit (EBIT)</b>	<b>-2.4</b>	<b>-7.3</b>	<b>38.8</b>
Changes in fair value of currency derivatives	-0.2	0.6	1.0
Changes in fair value of electricity derivatives	-0.2	0.3	-0.4
Loss on real estate sales	-	1.2	1.2
<b>Comparable EBITDA</b>	<b>0.8</b>	<b>-1.5</b>	<b>55.0</b>
<b>Comparable operating profit (adj. EBIT)</b>	<b>-2.8</b>	<b>-5.2</b>	<b>40.6</b>

#### Tokmanni in brief

Tokmanni is the largest general discount retailer in Finland measured by number of stores and revenue. In 2017, Tokmanni's revenue was EUR 796 million and on average it had approximately 3,200 employees. Tokmanni is the only nationwide general discount retailer in Finland, with 175 stores across Finland as at 31 December 2017.

Distribution:

Nasdaq Helsinki

Key Media