

# Tokmanni's Business Review for 1 January–30 September 2019: Strong growth in revenue and EBIT in the third quarter

Tokmanni Group Corporation      Business Review      Unaudited      30 October 2019 at 8.30 a.m.

Tokmanni has adopted IFRS 16 Leases as of 1 January 2019. The numbers in brackets refer to the adjusted figures for 2018.

## THIRD QUARTER 2019 HIGHLIGHTS

- Revenue grew by 9.9% (7.8%) EUR and was 231.5 million (210.7)
- Like-for-like revenue grew by 4.9% (4.0%)
- Comparable gross profit totalled EUR 82.0 million (72.1), with the comparable gross margin being 35.4% (34.2%)
- Comparable EBIT amounted to EUR 21.9 million (15.5), representing 9.5% of revenue (7.4%)
- Cash flow from operating activities amounted to EUR 18.0 million (11.2)
- Earnings per share were EUR 0.27 (0.17)

## JANUARY–SEPTEMBER 2019 HIGHLIGHTS

- Revenue grew by 9.5% (9.9%) and was EUR 659.5 million (602.0)
- Like-for-like revenue grew by 4.9% (5.9%)
- Comparable gross profit totalled EUR 225.1 million (202.7), with the comparable gross margin being 34.1% (33.7%)
- Comparable EBIT amounted to EUR 38.4 million (26.6), representing 5.8% of revenue (4.4%)
- Cash flow from operating activities amounted to EUR 27.5 million (28.6)
- Earnings per share were EUR 0.41 (0.27)

## TOKMANNI'S OUTLOOK FOR 2019 HAS BEEN UPDATED WITH REGARD TO REVENUE

### New outlook

Tokmanni expects strong revenue growth for 2019, based on the revenue from the new stores acquired and opened in 2018 and new stores to be opened in 2019, as well as on good growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

### Previous outlook

Tokmanni expects good revenue growth for 2019, based on the revenue from the new stores acquired and opened in 2018 and new stores to be opened in 2019, as well as on slight growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

## MIKA RAUTIAINEN, CEO OF TOKMANNI: STRONG REVENUE AND EBIT DEVELOPMENT, MEASURES TO IMPROVE PROFITABILITY ARE PROGRESSING

"I am pleased with our performance in the third quarter. Our customers' trust in Tokmanni has continued to strengthen. Our total revenue grew at a strong rate, by 9.9%, in the third quarter, with our comparable revenue increasing by 4.9%. Our low prices and systematic measures to further develop our product selection have increased Tokmanni's number of customer visits and customers' average purchases. Our strong sales development was also supported by tax refunds, which were paid in August and September, contrary to previous years. It is good to keep in mind, however, that this change in the payment schedule for tax refunds may affect Christmas season sales this year.

Sales developed favourably in all product categories in the third quarter. The sales of tools, leisure and home goods as well as interior decoration and garden products were particularly strong. In these categories, private labels and direct imports represent a large proportion of sales. This had a positive effect on gross margin development. The introduction of Pisara, Tokmanni's new private label, in the skincare and personal hygiene product categories was successful, and customers are pleased with the price-to-quality ratio of the new products. All in all, the measures to improve Tokmanni's profitability have progressed well, which is reflected in our improved operating result. I would like to take this opportunity to thank Tokmanni people for their excellent work.

We will continue to implement measures to improve profitability according to plan. The fourth quarter is the most significant quarter for Tokmanni in terms of both revenue and profit. The Tokmanni stores are ready for strong holiday sales, and we welcome customers to enjoy Christmas shopping."

### Key figures

	Adjusted			Adjusted			Adjusted
	7-9/	***	Change	1-9/	***	Change	***
	2019	7-9/2018	%	2019	1-9/2018	%	1-12/2018
Revenue, MEUR	231.5	210.7	9.9%	659.5	602.0	9.5%	870.4
Like-for-like revenue development, %	4.9	4.0		4.9	5.9		5.6
Customer visit development %	7.4	6.7		7.4	7.3		6.9
Gross profit, MEUR	82.4	71.6	15.1%	225.4	203.1	11.0%	295.3
Gross margin, %	35.6	34.0		34.2	33.7		33.9
Comparable gross profit, MEUR	82.0	72.1	13.7%	225.1	202.7	11.0%	295.0
Comparable gross margin, %	35.4	34.2		34.1	33.7		33.9
Operating expenses	-45.6	-43.4	5.2%	-144.8	-135.3	7.0%	-188.1

Comparable operating expenses	-45.7	-43.3	5.5%	-144.0	-136.3	5.7%	-189.5
EBITDA, MEUR	37.6	29.2	28.8%	83.5	70.6	18.3%	111.2
EBITDA, %	16.3	13.9		12.7	11.7		12.8
Comparable EBITDA, MEUR	37.2	29.8	24.8%	84.0	69.3	21.1%	109.5
Comparable EBITDA, %	16.1	14.1		12.7	11.5		12.6
Operating profit (EBIT), MEUR	22.3	14.9	49.6%	38.0	27.9	35.9%	53.6
Operating profit margin EBIT, %	9.7	7.1		5.8	4.6		6.2
Comparable EBIT, MEUR	21.9	15.5	41.1%	38.4	26.6	44.2%	51.9
Comparable EBIT, %	9.5	7.4		5.8	4.4		6.0
Net financial items, MEUR	-2.6	-2.7	-4.6%	-7.9	-8.0	-1.7%	-10.6
Net capital expenditure, MEUR*	3.6	3.4	8.6%	11.9	10.9	8.6%	19.8
Net debt / comparable EBITDA ** / ****	3.4			3.4			
Net cash from operating activities, MEUR	18.0	11.2		27.5	28.6		85.8
Return on capital employed, % ****	3.9			6.6			11.6
Return on capital employed %, rolling 12 months****	10.9			10.9			9.5
Return on equity, %****	10.2			15.5			20.8
Return on equity %, rolling 12 months****	27.9			27.9			23.6
Equity ratio, %	22.4	21.7		22.4	21.7		23.3
Number of shares, weighted average during the financial period (thousands)	58 869	58 869		58 869	58 869		58 869
Earnings per share (EUR/share)	0.27	0.17		0.41	0.27		0.58
Personnel at the end of the period	3 591	3 353		3 591	3 353		3 558
Personnel on average in the period	3 754	3 487		3 655	3 386		3 415

\* Net capital expenditure, excluding non-current receivables from others

\*\* Rolling 12 months (comparable EBITDA)

\*\*\* The adjusted figure includes comparable calculations in accordance with IFRS 16

\*\*\*\* Comparison figure not available, as no adjustment was made for IFRS 16 for 2017

### Adjustments affecting comparability

Tokmanni reports EBITDA as one of its key performance indicators and makes adjustments to improve comparability and provide a better view of Tokmanni's operational performance. EBITDA is a non-IFRS indicator that represents operating profit before depreciation and amortisation. Comparable EBITDA represents EBITDA excluding items that Tokmanni's management considers to be exceptional and non-recurring, including changes in the fair value of electricity and currency derivatives, which are adjusted by Tokmanni, as they are unrealised gains or losses related to Tokmanni's open cash flow hedge positions and are therefore not related to Tokmanni's operational performance during the review periods.

Tokmanni's management uses comparable EBIT margin as a key performance indicator to assess Tokmanni's underlying operational performance.

### Adjustments affecting comparability

	7–9/	Adjusted	***1–9/	Adjusted	***Adjusted
MEUR	2019	7–9/2018	2019	1–9/2018	1–12/2018
Gross profit	82.4	71.6	225.4	203.1	295.3
Changes in fair value of currency derivatives	-0.4	0.5	-0.3	-0.4	-0.3
Comparable Gross Profit	82.0	72.1	225.1	202.7	295.0
Operating expenses	-45.6	-43.4	-144.8	-135.3	-188.1
Changes in fair value of electricity derivatives	0.0	0.1	0.8	-0.9	-1.4
Comparable operating expenses	-45.7	-43.3	-144.0	-136.3	-189.5
EBITDA	37.6	29.2	83.5	70.6	111.2
Operating profit (EBIT)	22.3	14.9	38.0	27.9	53.6
Changes in fair value of currency derivatives	-0.4	0.5	-0.3	-0.4	-0.3
Changes in fair value of electricity derivatives	0.0	0.1	0.8	-0.9	-1.4
Comparable EBITDA	37.2	29.8	84.0	69.3	109.5
Comparable operating profit (adj. EBIT)	21.9	15.5	38.4	26.6	51.9

\*\*\* The adjusted figure includes comparable calculations in accordance with IFRS 16

### MARKET DEVELOPMENT

The non-grocery market increased by 7.6% during the third quarter 2019 according to the Finnish Grocery Trade Association, FGTA ([www.pty.fi](http://www.pty.fi)). The revenue of department store and hypermarket chains increased by 5.9%. Tokmanni's clearly outperformed the rest of the market in terms of growth.

The member companies of the FGTA operate the department store and hypermarket chains of K-Citymarket, Prisma, Sokos, Stockmann, Tokmanni and Minimani. However, it is important to note that the statistics compiled by the FGTA only cover part of Tokmanni's addressable market and exclude online sales, for example.

### STORE NETWORK DEVELOPMENT

Expanding the store network is one of the key targets for growing Tokmanni's revenue and profitability. Tokmanni's target is to expand its store network to include more than 200 stores and to increase its new retail selling space by approximately 12,000 square metres in net terms every year, which means around five new or relocated stores.

Tokmanni has an efficient process of rolling out and ramping up new stores. At the end of the third quarter, Tokmanni had 189 stores (30 September 2018: 177).

In January–September 2019, Tokmanni refurbished and opened eight Ale-Makasiini stores, two TEX stores and one Säästökuoppa store under the Tokmanni brand name, and a new store in the Tesoma district of Tampere and in Loppi. In addition, Tokmanni relocated to new premises in Hanko and Juuka, and opened a refurbished store on Kehräämötie in Kajaani and a refurbished and expanded store in Turenki. In

Siiinjärvi, Tokmanni centralised all of its store operations into the Tokmanni store that has been in operation in the town for many years by closing the Ale-Makasiini located in other premises nearby. During the second half of the year, Tokmanni will expand its store network to at least two new locations, Vääksy and Virrat. In addition, Tokmanni opened refurbished and expanded stores in Hollola and the Skanssi shopping centre in Turku in mid-October.

Tokmanni considers a store to be new or relocated over the duration of its opening year and the following calendar year. On average, a new store becomes profitable after around 12 months and reaches its full capacity within around 24 months.

New and relocated stores include: new stores opened; store relocations where the store size changes by 30 per cent or more and the assortment increases or is reduced substantially; and store size adjustments where the store size changes by 30 per cent or more.

## **FINANCIAL DEVELOPMENT**

### **Seasonality**

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

### **Revenue**

#### **July–September 2019**

In the third quarter of 2019, Tokmanni's revenue grew by 9.9% (7.8%) to EUR 231.5 million (210.7). Sales developed favourably in all product categories, with tools, leisure and home goods as well as interior decoration and garden products being particularly strong categories. As a result, the proportion of private labels and direct imports of total sales developed favourably. The share of direct imports of revenue was 25.8% (23.6%), and the share of private labels of revenue was 31.8% (30.9%). The share of campaign sales of revenue remained at the previous year's level.

Like-for-like revenue increased by 4.9% (4.0%). Like-for-like customer numbers in stores grew by 2.7% and the total number of customers grew by 7.4% year-on-year. The like-for-like basket size increased by 2.2%.

#### **January–September 2019**

Revenue for January–September 2019 grew by 9.5% (9.9%) to EUR 659.5 million (602.0). Like-for-like revenue increased by 4.9% (5.9%). Like-for-like customer numbers in stores grew by 2.9% and the total number of customers grew by 7.4% year-on-year. The like-for-like basket size increased by 1.9%.

The share of direct imports of revenue was 24.2% (23.4%), and the share of private labels of revenue was 30.9% (31.1%). The share of campaign sales of revenue remained at the previous year's level.

### **Profitability**

#### **July–September 2019**

In the third quarter of 2019, gross profit totalled EUR 82.4 million (71.6), corresponding to a gross margin of 35.6% (34.0%). Comparable gross profit was EUR 82.0 million (72.1), corresponding to a gross margin of 35.4% (34.2%). The gross margin improvement was mainly due to the sales mix, which caused the proportion of private labels and direct imports of total revenue to develop favourably.

Operating expenses were EUR 45.6 million (43.4), or 19.7% of revenue (20.6%). Comparable operating expenses were EUR 45.7 million (43.3), or 19.7% of revenue (20.6%). The increase in euro-denominated operating expenses was mainly due to high sales volumes and to the additional operating expenses that came from the new stores added to the store network. Personnel expenses totalled EUR 26.5 million (24.6), or 11.5% of revenue (11.7%).

EBITDA amounted to EUR 37.6 million (29.2), and the EBITDA margin was 16.3% (13.9%). Comparable EBITDA totalled EUR 37.2 million (29.8), and the comparable EBITDA margin was 16.1% (14.1%).

EBIT totalled EUR 22.3 million (14.9), or 9.7% of revenue (7.1%). Comparable EBIT totalled EUR 21.9 million (15.5), and the comparable EBIT margin was 9.5% (7.4%). With our comparable gross margin improving year-on-year and our operating expenses remaining under control, our comparable EBIT improved in the third quarter.

Net financial items totalled EUR -2.6 million (-2.7). The result before taxes was EUR 19.7 million (12.2). Taxes amounted to EUR -4.0 million (-2.4). The net result was EUR 15.8 million (9.8).

Earnings per share were EUR 0.27 (0.17). The return on capital employed was 3.9%, and the return on equity was 10.2% (there is no comparison figure, as no adjustment was made for IFRS 16 for 2017).

#### **January–September 2019**

In January–September 2019, gross profit amounted to EUR 225.4 million (203.1), corresponding to a gross margin of 34.2% (33.7%). Comparable gross profit was EUR 225.1 million (202.7), corresponding to a gross margin of 34.1% (33.7%).

Operating expenses were EUR 144.8 million (135.3), or 21.9% of revenue (22.5%). Comparable operating expenses were EUR 144.0 million (136.3), or 21.8% of revenue (22.6%). The increase in euro-denominated operating expenses was mainly due to the expansion of the store network and high sales volumes. Personnel expenses totalled EUR 84.1 million (78.1), or 12.8% of revenue (13.0%).

EBITDA amounted to EUR 83.5 million (70.6), and the EBITDA margin was 12.7% (11.7%). Comparable EBITDA totalled EUR 84.0 million (69.3), and the comparable EBITDA margin was 12.7% (11.5%).

EBIT totalled EUR 38.0 million (27.9), or 5.8% of revenue (4.6%). Comparable EBIT totalled EUR 38.4 million (26.6), and the comparable EBIT margin was 5.8% (4.4%). Tokmanni's long-term target is to gradually increase its comparable EBITDA margin to around 9% by improving the gross margin and reducing the relative share of operating expenses of revenue from the current level.

Net financial items totalled EUR -7.9 million (-8.0). The result before taxes was EUR 30.1 million (19.9). Taxes amounted to EUR -6.1 million (-4.0). The net result was EUR 24.0 million (15.9).

Earnings per share were EUR 0.41 (0.27). The return on capital employed was 6.6%, and the return on equity was 15.5% (there is no comparison figure, as no adjustment was made for IFRS 16 for 2017).

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

At the end of September, Tokmanni's inventories amounted to EUR 237.4 million (202.6). The increase in inventories was due to the earlier product deliveries to the Christmas season sales, growth in the store network and partly to the wider selection of stock keeping units. Consolidated cash flow from operating activities amounted to EUR 18.0 million (11.2) in the third quarter of 2019. Due to the increase in inventories, cash flow from operating activities in January–September decreased year-on-year and was EUR 27.5 million (28.6). Cash and cash equivalents stood at EUR 6.2 million (8.1) at the end of September.

At the end of September 2019, Tokmanni's interest-bearing debt totalled EUR 424.6 million (414.9), including EUR 118.0 million (105.2) in corporate bonds and loans from financial institutions. Following the adoption of the IFRS 16 standard, leases were transferred to liabilities and assets on the balance sheet, which increased the amount of liabilities significantly compared with what was reported before.

At the end of September, the ratio of net debt to comparable EBITDA (rolling 12 months) was 3.4 (there is no comparison figure, as no adjustment was made for IFRS 16 for 2017). Tokmanni intends to maintain an efficient long-term capital structure, and its long-term goal is to keep the ratio of net debt to comparable EBITDA below 3.2.

### **Investments**

Net capital expenditure in the third quarter totalled EUR 3.6 million (3.4). Capital expenditure was mainly focused on the expansion of the store network, renovations of stores and the development of digital services.

Net capital expenditure totalled EUR 11.9 million (10.9) in January–September 2019. Capital expenditure in 2019 is expected to be around EUR 15 million.

### **PERSONNEL**

Tokmanni is a significant employer in Finland. At the end of September 2019, the company had 3,591 (3,353) employees. On average, Tokmanni had 3,655 (3,386) employees during January–September 2019. Personnel expenses in the third quarter amounted to EUR 26.5 million (24.6), representing 11.5% (11.7%) of revenue. In January–September 2019 personnel expenses totalled EUR 84.1 million (78.1), or 12.8% of revenue (13.0%).

### **RISKS AND BUSINESS UNCERTAINTIES**

Tokmanni's risks and uncertainties are discussed in detail in its Financial Statements and Board of Directors' report for 2018. No major changes to these risks have occurred during the review period.

### **TOKMANNI'S OUTLOOK FOR 2019 HAS BEEN UPDATED WITH REGARD TO REVENUE**

#### **New outlook**

Tokmanni expects strong revenue growth for 2019, based on the revenue from the new stores acquired and opened in 2018 and new stores to be opened in 2019, as well as on good growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

#### **Previous outlook**

Tokmanni expects good revenue growth for 2019, based on the revenue from the new stores acquired and opened in 2018 and new stores to be opened in 2019, as well as on slight growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

Mäntsälä, 30 October 2019

Tokmanni Group Corporation

Board of Directors

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### **IR CALENDAR**

Tokmanni Group Corporation will publish its Financial Statement Release, Half Year Financial Report and two Business Reviews during 2020 as follows:

7 February 2020: Financial Statements Review for 2019  
29 April 2020: Business Review for January–March 2020  
29 July 2020: Half Year Financial Review for January–June 2020  
29 October 2020: Business Review for January–September 2020

The 2019 Financial Statements will be published during week 8.

Tokmanni's Annual General Meeting is planned to be held on 18 March 2020. Tokmanni's Board of Directors will summon the meeting at a later date.

## **RESULT PRESENTATION**

Tokmanni's CEO Mika Rautiainen and CFO Markku Pirskanen will present the review to analysts, investors and media representatives on the publication day in Finnish at 10.00 am and in English at 11.30 am.

The English live audiocast can be accessed via Tokmanni's website at [ir.tokmanni.fi](https://tokmanni.fi) or through the link <https://tokmanni.videosync.fi/2019-q3-results>.

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 (PIN: 84216574#).

Finland: +358 9 81 710 310

Sweden: +46 856 642 651

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US: +1 631 913 1422

An on demand version of the audiocast will be found on the website later during the day.

## **Tokmanni in brief**

Tokmanni is the largest general discount retailer in Finland measured by number of stores and revenue. In 2018, Tokmanni's revenue was EUR 870.4 million and it has approximately 3,600 employees. Tokmanni is the only nationwide general discount retailer in Finland with almost 200 stores across Finland.

## **Distribution**

Nasdaq Helsinki

Key Media