

Tokmanni's Business Review for 1 January–31 March 2020

First-quarter revenue grew 5.8% and comparable EBIT improved

FIRST QUARTER 2020 HIGHLIGHTS

- Revenue grew by 5.8% (8.3%) to EUR 199.0 million (188.1)
- Like-for-like revenue grew by 4.4% (4.1%)
- Comparable gross profit totalled EUR 63.8 million (58.6), with the comparable gross margin amounting to 32.1% of revenue (31.2%)
- Comparable EBIT amounted to EUR 0.3 million (-2.2), representing 0.1% of revenue (-1.2%)
- Cash flow from operating activities amounted to EUR -23.5 million (-28.3)
- Earnings per share were EUR -0.04 (-0.07)

TOKMANNI'S OUTLOOK FOR 2020

Due to the uncertainty caused by the COVID-19 (coronavirus), the economic and industry's outlook has changed rapidly. Since it is still difficult to assess the financial impact of the exceptional situation, Tokmanni Group Corporation will not issue guidance for 2020. Once visibility improves and the material uncertainties have cleared, Tokmanni will update its outlook and issue a new guidance.

MIKA RAUTIAINEN, CEO OF TOKMANNI:

Tokmanni was successful during the first quarter of the year

"Tokmanni managed to achieve a good level of sales and an improved result in the first quarter. The winter season in southern Finland was exceptionally poor, in addition to which the restrictions caused by the coronavirus crisis reduced customer flows towards the end of the quarter. Like-for-like revenue, however, increased nicely by 4.4%. Of course, the positive impact of the leap day must be noted in the revenue figure. We also succeeded in achieving positive comparable EBIT in the first quarter for the first time in Tokmanni's history.

Tokmanni has altered its full-year action plan due to the coronavirus pandemic. Our primary actions have been to safeguard the health and wellbeing of our employees, customers and partners. Among other measures, we have developed our online store, home delivery services and other services to support our business. Additionally, savings measures and a strong cash flow are particularly important in the current situation.

I would like to thank all Tokmanni employees for their great commitment and excellent work during these exceptional times. In line with our values, we have worked together to serve our customers safely and to adapt Tokmanni's operations to a new and unfamiliar situation.

For Tokmanni, the spring season is the second most important sales period of the year. Tokmanni's personnel, stores and online store will do their best to serve our customers in the challenging market conditions by offering affordable prices, an attractive product assortment and excellent customer service."

Impacts of the coronavirus pandemic on Tokmanni's business

The rapidly spreading coronavirus pandemic is having a significant impact on Finnish consumer confidence and, consequently, demand. Restrictions on gatherings and movement have considerably diminished demand, especially in brick-and-mortar stores. Retail is increasingly moving online as efforts to prevent the spread of the coronavirus have reduced customer visits to physical stores. Tokmanni's customer flows have declined since the restrictions were imposed, but the average basket size has grown. Customer flows have decreased the most in the approximately 20 Tokmanni stores located in shopping centres.

All of Tokmanni's stores are currently open and Tokmanni's online store is serving customers as normal. The actions taken at Tokmanni stores to promote sales include providing hand sanitizer to customers, installing droplet guards at checkouts, increasing the level of cleaning and significantly increasing the number of various safety instructions and safety announcements. In addition, Tokmanni has launched its Soita ja Nouda ("Call and Pick up") order service. The service is available in every Tokmanni store and intended for customers who belong to risk groups in these exceptional circumstances.

The Tokmanni logistics centre had prepared for the emergency conditions well in advance, so the availability of goods is fairly good. There may be shortages of individual products, but the inventories and the stores are being stocked up. To ensure continuity in its logistics, Tokmanni has prepared comprehensive contingency plans.

Tokmanni has a joint sourcing company in China with the Norwegian general discount retailer Europris. The situation in China appears to be returning to normal, even though there is plenty of uncertainty over the spread of the pandemic. Products are available and the majority of the seasonal products for the spring have arrived at the stores on time. There may be slight delays in the delivery of some new products but, at the moment, it appears that the products for Tokmanni's main season, Christmas, will enter production and be delivered to the stores on time.

Concerning sales during the coronavirus epidemic, the product categories with considerably higher sales than normal at Tokmanni are food products, soaps, detergents and home cleaning products, and sports and leisure products. On the other hand, clothing sales have been clearly lower than the previous year.

In the current uncertain situation, it is extremely important for Tokmanni to maintain an efficient cost structure. At the same time, it should be noted that the special arrangements for ensuring the safety of employees and customers will result in extra costs. However, Tokmanni has taken measures to adjust its business to the lower volume of customers. These include adjusting opening hours and employees' working hours, postponing certain development projects and maintaining strict cost discipline in various cost categories. The situation is being monitored continuously and measures will be taken according to the situation at hand.

Tokmanni's liquidity is good. At the end of March 2020, the company's cash and cash equivalents and undrawn credit limits totalled EUR 58.5 million (31 March 2019: 64.3). Tokmanni's balance sheet includes a long-term loan of EUR 100 million, which will fall due in October 2021 under its current terms and conditions. Tokmanni has initiated negotiations to extend or refinance the loan.

Tokmanni will continue to implement its strategy and pursue its goal-oriented development of the company. Strategic projects are currently progressing according to plan, even though the investments required for development projects are being carefully considered and re-evaluated. The ongoing crisis may, however, affect the probability of the company's strategic risks being realised. Tokmanni has clear methods of risk management and the appropriate procedures are already under way. Risks are assessed systematically and, if necessary, sales promotion procedures and pricing strategies will be adjusted to reflect the prevailing market conditions.

Key figures

| | 1-3/2020 | 1-3/2019 | Change% | 1-12/2019 |
|--|----------|----------|---------|-----------|
| Revenue, MEUR | 199.0 | 188.1 | 5.8% | 944.3 |
| Like-for-like revenue development, % | 4.4 | 4.1 | | 4.3 |
| Customer visit development % | 2.8 | 7.2 | | 6.9 |
| Gross profit, MEUR | 64.2 | 58.8 | 9.1% | 325.2 |
| Gross margin, % | 32.2 | 31.3 | | 34.4 |
| Comparable gross profit, MEUR | 63.8 | 58.6 | 8.8% | 325.3 |
| Comparable gross margin, % | 32.1 | 31.2 | | 34.4 |
| Operating expenses | -49.5 | -47.3 | 4.6% | -198.9 |
| Comparable operating expenses | -48.5 | -46.8 | 3.5% | -197.9 |
| EBITDA, MEUR | 15.7 | 12.4 | 26.0% | 130.6 |
| EBITDA, % | 7.9 | 6.6 | | 13.8 |
| Comparable EBITDA, MEUR | 16.3 | 12.8 | 27.7% | 131.6 |
| Comparable EBITDA, % | 8.2 | 6.8 | | 13.9 |
| Operating profit (EBIT), MEUR | -0.4 | -2.5 | 84.4% | 69.4 |
| Operating profit margin EBIT, % | -0.2 | -1.3 | | 7.3 |
| Comparable EBIT, MEUR | 0.3 | -2.2 | 112.2% | 70.4 |
| Comparable EBIT, % | 0.1 | -1.2 | | 7.5 |
| Net financial items, MEUR | -2.5 | -2.6 | -2.8% | -10.5 |
| Net capital expenditure, MEUR* | 3.2 | 2.7 | 20.6% | 15.4 |
| Net debt / comparable EBITDA ** | 3.1 | 3.8 | | 2.9 |
| Net cash from operating activities, MEUR | -23.5 | -28.3 | | 84.0 |
| Return on capital employed, % | -0.1 | | | 11.8 |
| Return on capital employed %, rolling 12 months | 12.1 | 9.3 | | 11.8 |
| Return on equity, % | -1.5 | | | 26.8 |
| Return on equity %, rolling 12 months | 29.9 | 22.8 | | 30.1 |
| Equity ratio, % | 25.3 | 18.9 | | 25.3 |
| Number of shares, weighted average during the financial period (thousands) | 58 869 | 58 869 | | 58 869 |
| Earnings per share (EUR/share) | -0.04 | -0.07 | | 0.80 |
| Personnel at the end of the period | 3 556 | 3 473 | | 3 659 |
| Personnel on average in the period | 3 518 | 3 427 | | 3 647 |

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

** Rolling 12 months (comparable EBITDA)

MARKET DEVELOPMENT

According to the statistics of the Finnish Grocery Trade Association FGTA (www.pty.fi), the non-grocery market declined by 7.0% in the first quarter of 2020, with the trend being weak in the clothing segment in particular. The revenue of department store and hypermarket chains grew by 4.0%. The member companies of the FGTA operate the department store and hypermarket chains of K-Citymarket, Prisma, Sokos, 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.

Forecasts of future developments involve an exceptionally high degree of uncertainty. In its Economic Survey published on 16 April 2020, the Ministry of Finance forecasts that the Finnish economy will contract by 5.5% in 2020. According to the forecast, gross domestic product (GDP) will see its largest drop in the

second quarter this year, after which GDP growth will recover. The forecast assumes that the restrictions on economic activity will last for three months. GDP is estimated to grow by 1.3% in 2021 and 2022.

STORE NETWORK DEVELOPMENT

Expanding the store network is one of the key means of growing Tokmanni's revenue and operating profit. Tokmanni has an efficient process of rolling out and ramping up new stores. 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, enlarged or relocated stores.

At the end of the first quarter, Tokmanni had 190 stores in Finland (31 March 2019: 188). Actions taken in the store network in the first quarter:

- Renewals: Keminmaa, Lieksa, Tuusula, Loviisa, Parainen and Turenki
- Enlargements: Citycenter Helsinki and Kauhajoki
- Openings: Myyrmanni Vantaa
- Closures: Isomyyri Vantaa ja Tampere Tammela

Tokmanni acquired the business of the Perhemarket Pertti Heikkinen Ky store in Pudasjärvi with a contract signed on 31 January 2020, and the transaction price was paid on 31 March 2020. The store will be renewed and moved under Tokmanni brand during the summer. Tokmanni has also agreed on the opening of a new store in the centre of Aura. The opening of the store in Aura will be held in May this year.

Tokmanni is focusing on its store concept and on continuously developing the shopping experience. Under this concept, the stores have such features as wide aisles, informative signage and well-defined product areas.

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 and store relocations where the store size changes by 30% or more and the assortment increases or is reduced substantially.

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 in January–March 2020

Tokmanni's sales in the first quarter of 2020 were favourable, despite the lack of a normal winter season in southern Finland and the coronavirus epidemic. The Group's revenue increased by 5.8% on the previous year to EUR 199.0 million (188.1). Like-for-like revenue grew by 4.4% (4.1%). Sales of Tokmanni's online store also grew, especially towards the end of March. Sales of detergents, tissue paper and food products at Tokmanni were brisk, as was demand for leisure, household and interior decoration products.

Like-for-like customer numbers in stores grew by 1.6% and the total number of customers grew by 2.8% year-on-year. The like-for-like basket size increased by 2.7%.

First-quarter direct imports accounted for 23.6% of revenue (22.2%). This is broken down as follows: 13.3% (11.6%) are products procured through Tokmanni's Shanghai sourcing company and 10.3% (10.5%) are other direct imports. Tokmanni's private label products, exclusive brands and non-branded products represented 29.1% of fourth-quarter revenue (28.1%).

Profitability in January–March 2020

First-quarter gross profit totalled EUR 64.2 million (58.8), corresponding to a gross margin of 32.2% (31.3%). Comparable gross profit was EUR 63.8 million (58.6), corresponding to a comparable gross margin of 32.1% (31.2%). The gross profit was impacted positively by the increase in the share of direct imports and private label products. On the other hand, the large proportion of grocery products in the sales structure in March slightly reduced gross margin.

Operating expenses increased to EUR 49.5 million (47.3), or 24.9% of revenue (25.2%). The increase in euro-denominated operating expenses was mainly due to the additional operating expenses that came from the new stores added to the store network. In addition, leasing of additional warehouses and contingency measures implemented to counter the effects of the coronavirus epidemic increased expenses. Comparable operating expenses were EUR 48.5 million (46.8), or 24.4% of revenue (24.9%), and thus their relative share developed favourably. Personnel expenses for the quarter totalled EUR 28.0 million (26.8), or 14.1% of revenue (14.2%).

EBITDA amounted to EUR 15.7 million (12.4), and the EBITDA margin was 7.9% (6.6%). Comparable EBITDA totalled EUR 16.3 million (12.8), and the comparable EBITDA margin was 8.2% (6.8%).

EBIT totalled EUR -0.4 million (-2.5), and the EBIT margin was -0.2% (-1.3%). Comparable EBIT totalled EUR 0.3 million (-2.2), and the comparable EBIT margin was 0.1% (-1.2%).

Net financial items totalled EUR -2.5 million (-2.6). The result before taxes was EUR -2.9 million (-5.2). Taxes amounted to EUR 0.6 million (1.0). The net result was EUR -2.4 million (-4.1).

Earnings per share were EUR -0.04 (-0.07). The return on capital employed was -0.1% (-0.4%), and the return on equity was -1.5% (-3.2%).

Balance sheet, financing and cash flow

At the end of March 2020, Tokmanni's inventories amounted to EUR 238.8 million (214.0). The increase was mostly due to growth in the store network, the lack of winter conditions in parts of Finland due to an exceptionally warm winter and to the controlled addition of stock keeping units to the assortment.

Cash flow from operating activities amounted to EUR -23.5 million (-28.3) in the first quarter. Tokmanni's cash and cash equivalents stood at EUR 3.3 million (5.3) at the end of March 2020 and the company's financial position is stable.

At the end of March 2020, Tokmanni's interest-bearing debt totalled EUR 425.9 million (428.0), of which EUR 100.0 (100.0) million are non-current corporate bonds and loans from financial institutions and EUR 13.9 million (10.0) current corporate bonds and loans from financial institutions.

The ratio of net debt to comparable EBITDA (rolling 12 months) was 3.1 (3.8) at the end of March 2020. 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.

Tokmanni's equity ratio was 25.3% (18.9%).

Investments

Net capital expenditure in the first quarter totalled EUR 3.2 million (2.7). Capital expenditure was mainly focused on the expansion of the store network, renovations of stores and the development of digital services.

Capital expenditure in 2020 is expected to be around EUR 15 million.

PERSONNEL

Tokmanni is a significant employer in Finland. At the end of March 2020, the Group had 3,556 (3,473) employees. On average, Tokmanni employed 3,518 (3,427) people during January–March. Personnel expenses for the first quarter totalled EUR 28.0 million (26.8), representing 14.1% of revenue (14.2%).

EXTENDING THE INCENTIVE PROGRAMME

The Board of Directors of Tokmanni Group Corporation decided on extending the share-based incentive scheme for the Group's key personnel. The purpose of the scheme is to align the targets of the owners and the key persons to increase the company's value in the long term, to commit the key persons to executing the company's strategy and to offer them a competitive bonus scheme based on earning and accruing shares in the company.

The earning period for the share-based incentive scheme is the 2020 calendar year. The potential bonus from the scheme for the 2020 earning period is based on the Group's earnings per share (EPS) on 31 December 2020 and on the development of its market capitalisation between 1 January and 31 December 2020.

The persons eligible for the scheme are the CEO, the members of the Executive Group and other key persons of the company. The bonuses paid for the 2020 earning period correspond to a maximum of about 120,000 shares of Tokmanni Group Corporation, based on their market value at the time they are paid as a bonus. The potential bonus, which is treated as earned income, will be paid in 2021 in the form of shares in the company and, possibly, partially in cash. However, under the terms and conditions of the incentive scheme, the shares will be subject to certain restrictions until January 2023. The cash component will cover the withheld taxes incurred from the bonuses by the persons eligible for the scheme. If the employment or manager's contract of an eligible person is terminated before the restrictions on the shares expire, the shares will be returned to the company.

REPURCHASE OF OWN SHARES FOR THE COMPANY'S INCENTIVE PROGRAMMES

The Board of Directors of Tokmanni Group Corporation decided to start repurchasing the company's own shares on the basis of the authorisation granted by the Annual General Meeting on 19 March 2019. The shares were repurchased to be used as part of the company's incentive programmes. The number of shares acquired was 50,000, corresponding to 0.08% of the total number of shares. The shares were acquired in public trading on Nasdaq Helsinki Ltd at the market price quoted at the time of purchase. The share repurchase was started on 4 March 2020 and ended on 5 March 2020.

Tokmanni Group Corporation assigned a total of 43,933 of the company's own shares to 58 persons covered by the company's incentive programme without consideration and in accordance with the terms and conditions of the incentive programme. Under the terms and conditions of the incentive programme, 12,513 shares will be released from restrictions in January 2021 and 31,420 shares will be released in January 2022.

The Annual General Meeting held on 19 March 2019 authorised the Board of Directors to decide on repurchase or accepting as a pledge a maximum of 2,943,000 of the company's own shares using the company's non-restricted equity.

Following the assignment of the shares, the company held 6,067 own shares at the end of March 2020.

ANNUAL GENERAL MEETING 2020

As a result of the coronavirus outbreak and the measures announced by the Finnish Government on 16 March 2020, the Board of Directors of Tokmanni decided to cancel the Annual General Meeting convened for 18 March 2020. The Board of Directors of Tokmanni has reconvened the Annual General Meeting, to be held on 7 May 2020, provided that the number of participants is low enough to allow the Annual General Meeting to be conducted safely and in compliance with the guidelines issued by the Finnish authorities. The proposed resolutions on the agenda and the notice to the AGM are available on Tokmanni's website at <https://ir.tokmanni.fi/en/AGM2020>.

RISKS AND BUSINESS UNCERTAINTIES

Tokmanni's risks and uncertainties are discussed in detail in the Financial Statements Bulletin and in the Report by the Board of Directors for 2019. After the review period, Tokmanni added the following risks to the description:

Risks of loss or damage

Accidents, natural disasters and epidemics, as well as restrictions on travel and transportation resulting from these, can result in significant damage to people, property and the business. Moreover, risks of loss or damage can cause delays and interruptions in business and imports that cannot be prevented in advance. Tokmanni has prepared for a possible lack of availability in goods by introducing alternative sourcing channels, among other measures. Tokmanni observes official recommendations and orders in all its activities.

Risks relating to the health and working capacity of employees

Widespread absences by employees in various employee groups (e.g. logistics, sales, customer service, management) may impact the company's operations. The company strives to minimise risks relating to the health and working capacity of its employees, for example, through various safety solutions and, if necessary, by instructing employees to work from home if their work duties allow this. In addition, the company may acquire temporary labour force during possible peaks in sickness absences. Tokmanni has identified the critical key persons for its various functions and made arrangements for providing deputies for them.

TOKMANNI'S OUTLOOK FOR 2020

Due to the uncertainty caused by the coronavirus, the economic and industry's outlook has changed rapidly. Since it is still difficult to assess the financial impact of the current exceptional circumstances, Tokmanni Group Corporation announced on 26 March 2020 that would be withdrawing its earnings guidance issued on 7 February 2020.

In the current situation, it is clear that Tokmanni's sales will be affected at least in the second quarter due to the restrictions on movement. It is also very challenging to estimate the development in the second half of the year at this moment. Once visibility improves and the material uncertainties have cleared, Tokmanni will update its outlook and issue a new guidance.

Previous outlook for the financial year 2020 (published 7 February 2020 in the Financial Statements Release and withdrawn on 26 March 2020)

Tokmanni expects good revenue growth for 2020, based on the revenue from the new stores acquired and opened in 2019 and new stores to be opened in 2020, as well as on slight growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

ADJUSTMENTS AFFECTING COMPARABILITY

Tokmanni reports EBITDA and EBIT as 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 and comparable EBIT represent the same indicators 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 the comparable EBITDA margin and comparable EBIT margin as key performance indicators to assess Tokmanni's underlying operational performance.

| Adjustments affecting comparability | | | |
|--|--------------|--------------|---------------|
| MEUR | 1-3/2020 | 1-3/2019 | 1-12/2019 |
| Gross profit | 64.2 | 58.8 | 325.2 |
| Changes in fair value of currency derivatives | -0.4 | -0.2 | 0.1 |
| Comparable Gross Profit | 63.8 | 58.6 | 325.3 |
| Operating expenses | -49.5 | -47.3 | -198.9 |
| Changes in fair value of electricity derivatives | 1.0 | 0.5 | 1.0 |
| Comparable operating expenses | -48.5 | -46.8 | -197.9 |
| EBITDA | 15.7 | 12.4 | 130.6 |
| Operating profit (EBIT) | -0.4 | -2.5 | 69.4 |
| Changes in fair value of currency derivatives | -0.4 | -0.2 | 0.1 |
| Changes in fair value of electricity derivatives | 1.0 | 0.5 | 1.0 |
| Comparable EBITDA | 16.3 | 12.8 | 131.6 |
| Comparable operating profit (adj. EBIT) | 0.3 | -2.2 | 70.4 |

Mäntsälä 29 April 2020

Tokmanni Group Corporation

Board of Directors

IR CALENDAR

- 7 May 2020: Annual General Meeting
- 29 July 2020: Half Year Financial Review for January-June 2020
- 29 October 2020: Business Review for January-September 2020

ANALYST AND PRESS CONFERENCE

Tokmanni's CEO Mika Rautiainen and CFO Markku Pirskanen will present the review to analysts, investors and media representatives on the publication day at 11:30 am in English (Finnish time).

The live webcast can be accessed via Tokmanni's website at <https://ir.tokmanni.fi/en> or through the link <https://tokmanni.videosync.fi/2020-q1-results>. On-demand version of the presentation will be available on the company's website later during the same day.

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 Number and Participant Passcodes below.

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Tokmanni in brief

Tokmanni is Finland's leading general discount retailer by number of stores and revenue. In 2019, Tokmanni's revenue totalled EUR 944.3.4 million, and the company had around 3,700 employees. Tokmanni is also the only nationwide general discount retailer in Finland, and it currently almost 200 around the country.

Distribution

Nasdaq Helsinki

Key media