

Tokmanni's Business Review for 1 January–31 March 2022

First-quarter revenue at previous year's level, EBIT decreased

FIRST QUARTER 2022 HIGHLIGHTS

- Revenue grew by 0.6% (13.6%) and was EUR 227.4 million (226.1)
- Like-for-like revenue for stores decreased by 2.7% (+12.7%)
- Comparable gross profit totalled EUR 73.7 million (74.8), with the comparable gross margin being 32.4% (33.1%)
- Comparable EBIT amounted to EUR -0.5 million (6.8), representing -0.2% of revenue (3.0%)
- Cash flow from operating activities amounted to EUR -65.0 million (-22.0)
- Earnings per share, diluted was EUR -0.04 (0.07)

TOKMANNI'S OUTLOOK FOR 2022

In 2022 Tokmanni expects the revenue to be at the previous year's level. Comparable EBIT measured in euros is expected to be EUR 90–110 million in 2022. The forecast includes elements of uncertainty, which depend on the development of inflation, interest rates, the war in Ukraine, the COVID-19 pandemic and the effects of these. This outlook was issued as a stock exchange release on 26 April 2022.

PRESIDENT AND CEO MIKA RAUTIAINEN

The weaker purchasing power slowed sales growth, the low price level will be emphasised in the future

Our goal was to grow Tokmanni's sales and market share in the first quarter by offering the lowest prices on the market to our customers. Despite our best efforts, we did not succeed in achieving the sales growth. Total revenue grew by only 0.6% (13.6%), and like-for-like revenue fell by 2.7% (+12.7%). Weaker purchasing power and a decline in consumer confidence affected customer visits more than we expected.

The sourcing prices of products and logistics expenses in Finland have increased significantly. As a variety discount retailer, Tokmanni aims to ensure the lowest prices for its customers, and this contributed to the decrease in our comparable gross margin from the previous year, down to 32.4% (33.1%). The lower gross margin was also partially a result of the sales mix, which was clearly more weighted towards groceries.

Operating costs continued to climb in the first quarter of this year, which weakened Tokmanni's result. Personnel expenses increased in the first quarter due to sickness absences caused by the pandemic, while property expenses grew particularly because of high energy prices and the general cost inflation. Comparable EBIT for the quarter decreased to EUR -0.5 million (+6.8).

Despite the exceptional market conditions, I believe that the role and mission of variety discount retailers will become emphasised as customers place more importance on low prices. The spring season, the second most important sales period of the year for Tokmanni, is about to begin. Our new and extensive spring selection is already available in its entirety at our stores. Compared to last year, we have a very good situation with regard to the availability of products. Tokmanni's employees and stores are ready to serve our customers, as well as offering them a diverse selection of products at low prices.

Key figures				
	1–3/ 2022	1–3/ 2021	Change- %	1–12/ 2021
Revenue, MEUR	227.4	226.1	0.6%	1 141.8
Like-for-like revenue development, %	-2.7	12.7		4.8
Customer visit development %	-1.0	-0.8		0.8
Gross profit, MEUR	73.7	76.0	-3.0%	397.8
Gross margin, %	32.4	33.6		34.8
Comparable gross profit, MEUR	73.7	74.8	-1.4%	396.4
Comparable gross margin, %	32.4	33.1		34.7
Operating expenses	-57.1	-52.7	8.3%	-226.9
Comparable operating expenses	-57.3	-52.5	9.2%	-227.6
EBITDA, MEUR	17.5	24.2	-27.6%	174.5
EBITDA, %	7.7	10.7		15.3
Comparable EBITDA, MEUR	17.3	23.2	-25.3%	172.5
Comparable EBITDA, %	7.6	10.3		15.1
Operating profit (EBIT), MEUR	-0.3	7.8		107.7
Operating profit margin EBIT, %	-0.1	3.5		9.4
Comparable EBIT, MEUR	-0.5	6.8		105.7
Comparable EBIT, %	-0.2	3.0		9.3
Net financial items, MEUR	-2.5	-2.6	-4.9%	-10.1
Net capital expenditure, MEUR*	10.8	2.3		21.7
Net debt / comparable EBITDA **	2.4	2.1		1.8
Net cash from operating activities, MEUR	-65.0	-22.0		126.8
Return on capital employed, %	0.0	1.3		17.1
Return on capital employed %, rolling 12 months	16.5	17.5		18.0 ***
Return on equity, %	-1.2	2.4		33.8
Return on equity %, rolling 12 months	33.9	39.8		37.9
Equity ratio, %	23.3	22.5		30.0 ***
Number of shares, weighted average during the financial period (thousands)	58 759	58 731		58 731
Diluted number of shares, weighted average during the financial period (thousands)	58 789	58 760		58 776
Earnings per share, basic (EUR/share)	-0.04	0.07		1.33
Earnings per share, diluted (EUR/share)	-0.04	0.07		1.33
Personnel at the end of the period	3 955	3 876		4 105
Personnel on average in the period	3 919	3 842		4 132

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

** Rolling 12 months comparable EBITDA

*** The figures for the comparison year of 2021 have been adjusted due to a correction made to the figures from previous financial years concerning the method of recognizing purchase rebates. The impact of the adjustment of assets for the period 1–3/2021 is on inventories at EUR -3.2 million and on deferred tax assets at EUR 0.6 million. The impact of the adjustment of liabilities for the period 1–3/2021 is on retained earnings at EUR -2.6 million.

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. 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/ 2022	1–3/ 2021	1–12/ 2021
Gross profit	73.7	76.0	397.8
Changes in fair value of currency derivatives	0.0	-1.2	-1.4
Comparable Gross Profit	73.7	74.8	396.4
Operating expenses	-57.1	-52.7	-226.9
Changes in fair value of electricity derivatives	-0.2	0.2	-0.6
Comparable operating expenses	-57.3	-52.5	-227.6
EBITDA	17.5	24.2	174.5
Operating profit (EBIT)	-0.3	7.8	107.7
Changes in fair value of currency derivatives	0.0	-1.2	-1.4
Changes in fair value of electricity derivatives	-0.2	0.2	-0.6
Comparable EBITDA	17.3	23.2	172.5
Comparable operating profit (adj. EBIT)	-0.5	6.8	105.7

MARKET DEVELOPMENT

According to the statistics of the Finnish Grocery Trade Association FGTA (www.pty.fi), the non-grocery market decreased by 1.9% for the first quarter of 2022. The sales of home and leisure products decreased, in particular. The revenue of department store and hypermarket chains decreased by 0.3%. Tokmanni's revenue grew by 0.6%.

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.

STORE NETWORK DEVELOPMENT

Expanding the store network is one of the ways to increase Tokmanni's revenue and EBIT. 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 220 stores in Finland by the end of 2025, which means around six new stores every year.

At the end of the first quarter, Tokmanni had 197 stores (31 March 2021: 192). During the quarter, Tokmanni opened a store in the new Urban Centre Lippulaiva. Opened near the Western Highway, this store became Tokmanni's fifth in Espoo and 20th in the Greater Helsinki Area. Tokmanni also opened its expanded and remodelled store in Kuusamo on 7 April 2022.

More information about Tokmanni's stores is available on our website on the "New store development" page at https://ir.tokmanni.fi/en/investors/tokmanni-as-an-investment/new_stores, and on the "News and media" page at <https://ir.tokmanni.fi/en/news-and-media>.

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.

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 2022

In the first quarter of 2022, Tokmanni's revenue grew by 0.6% (13.6%) to EUR 227.4 million (226.1). The sales of non-grocery goods declined, whereas the sales of groceries grew. Tokmanni's online sales accounted for 1.7% (1.3%) of its total revenue, an increase of 28.6% year-on-year.

Like-for-like revenue decreased by 2.7% (+12.7%). Like-for-like customer visits in stores were down 4.1% (-1.4%) and the total number of customers decreased by 1.0% (-0.8%) year-on-year. The like-for-like average basket in stores grew by 1.5% (14.3 %) to EUR 20.05 (19.76). Purchasing power and general consumer confidence weakened as a result of higher inflation, which impacted customer visits and, consequently, sales performance. Consumer confidence has most likely also been impacted by the war between Russia and Ukraine, which began in February. Tokmanni does not trade with Russian entities. The Teboil products held in stock will be sold off and the profits they generate will be donated to the Finnish Red Cross.

Direct imports accounted for 23.9% of sales (24.4%). These can be broken down into products purchased using Tokmanni's sourcing company in Shanghai, which accounted for 13.5% (14.4%), and into other direct imports, which accounted for 10.4% (10.0%). The brands managed by Tokmanni (private label products, exclusive brands and non-branded products) represented 28.4% of first-quarter sales (29.6%).

Profitability in January–March 2022

First-quarter gross profit totalled EUR 73.7 million (76.0), corresponding to a gross margin of 32.4% (33.6%). Comparable gross profit was EUR 73.7 million (74.8), corresponding to a comparable gross margin of 32.4% (33.1%). The gross margin was impacted by Tokmanni's aim to guarantee the lowest prices on the market in a situation where sourcing prices and logistics expenses in Finland have risen. The lower gross margin was also partially a result of the sales mix, which was clearly more weighted towards groceries in the review period. Tokmanni's current agreement on foreign freight is valid until the spring of 2023.

Operating expenses increased to EUR 57.1 million (52.7), or 25.1% of revenue (23.3%). Comparable operating expenses were EUR 57.3 million (52.5), or 25.2% of revenue (23.2%). Nearly all operating expenses continued to increase in the first quarter. Property expenses increased particularly due to high energy prices and general cost inflation. Personnel expenses reflected the high volume of sickness absences caused by the pandemic. Personnel expenses represented EUR 32.9 million (30.7) of the aforementioned operating expenses, or 14.5% (13.6%) of revenue.

EBITDA amounted to EUR 17.5 million (24.2), and the EBITDA margin was 7.7% (10.7%). Comparable EBITDA totalled EUR 17.3 million (23.2), and comparable EBITDA was 7.6% (10.3%).

EBIT totalled EUR -0.3 million (7.8), and the EBIT margin was -0.1% (3.5%). Comparable EBIT totalled EUR -0.5 million (6.8), and the comparable EBIT margin was -0.2% (3.0%).

Net financial items totalled EUR -2.5 million (-2.6). The result before taxes was EUR -2.8 million (5.2). Taxes amounted to EUR 0.6 million (-1.0). The net result was EUR -2.2 million (4.2).

Diluted earnings per share were EUR -0.04 (0.07). The return on capital employed was 0.0% (1.3%). The return on equity was -1.2% (2.4%).

Balance sheet, financing and cash flow

At the end of March 2022, Tokmanni's inventories amounted to EUR 305.9 million (250.4). The increase in inventories was due to the arrival of the spring season goods earlier than last year, to the expansion of the assortment and higher purchasing prices.

Due to the increase in inventories, cash flow for the first quarter decreased year-on-year to EUR -65.0 million (-22.0). Cash and cash equivalents stood at EUR 16.3 million (41.3) at the end of March 2022 and the company's financial position is stable.

At the end of March 2022, Tokmanni's interest-bearing debt totalled EUR 418.9 million (393.7), including EUR 100.0 million (100.0) in non-current corporate bonds and loans from financial institutions and EUR 25.0 million (0) in current corporate bonds and loans from financial institutions. The remainder of the liabilities are lease liabilities reported under IFRS 16.

The ratio of net debt to comparable EBITDA (rolling 12 months) was 2.4 (2.1) at the end of March 2022. 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 to a level below 3.2.

Tokmanni's equity ratio was 23.3% (22.5%).

Capital expenditure

Net capital expenditure in the first quarter totalled EUR 10.8 million (2.3). Capital expenditure was mainly focused on expanding, maintaining and developing the store network, developing digital services, as well as constructing the new warehouse building. The construction costs accounted for EUR 7.4 million of capital expenditure.

Capital expenditure in 2022 is expected to be around EUR 18–20 million, excluding the construction of the new warehouse building.

Tokmanni has started the construction of its new warehouse to support and complement the existing logistics centre. Once completed, the new warehouse will replace the warehouse space currently leased outside of the existing logistics centre. Operations at the new warehouse will start in stages. The first section will be brought into service in the summer of 2023, and the building will be completed in the spring of 2024. The total value of the investment is estimated at EUR 60 million, and it will be recognised on a straight-line basis over 2022–2024. Once the warehouse building is completed in 2024, it will be sold to NREP, which will become Tokmanni's lessor under a 20-year lease.

PERSONNEL

Tokmanni is a significant employer in Finland. Tokmanni had 3,955 (3,876) employees at the end of March 2022. On average, Tokmanni employed 3,919 (3,842) people during January-March 2022. In January–March 2022 personnel expenses totalled EUR 32.9 million (30.7), representing 14.5% of revenue (13.6%).

EXTENDING THE INCENTIVE PROGRAMME

The Board of Directors of Tokmanni Group Corporation resolved to continue its share-based incentive program directed to the key employees. The aim of the program is to combine the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to commit the key employees to implement the Company's strategy, and to offer them a competitive reward program based on earning and accumulating the Company's shares.

The performance share program includes the calendar year 2022. The potential reward of the program will be based on the Company's earnings per share, on the market value development and emission reduction of own operations in 1.1.-31.12.2022.

The target group of the program includes the CEO, the members of the Executive Group as well as other key employees. The potential rewards, which by nature are taxable income, to be paid correspond to a maximum of 120,000 Tokmanni Group Corporation's shares based on the market value at the moment of granting and will be paid in Tokmanni Group shares and possibly partly in cash. The cash proportion covers taxes and tax-related costs arising from the reward to a key employee. The earned shares will be transferred to the participant's book-entry account in 2023 and will be released from restrictions in January 2025. If the employee's employment ends before the end of the restriction period, the shares will be returned to the company.

ANNUAL GENERAL MEETING 2022

Tokmanni Group Corporation's Annual General Meeting was held in Mäntsälä, Finland on 23 March 2022. The meeting was held based on the so-called temporary act so that shareholders participated in the meeting and exercised their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance. The resolutions and other materials are available on Tokmanni's website at <https://ir.tokmanni.fi/en/investors/corporate-governance/general-meeting/agm2022>.

RISKS AND BUSINESS UNCERTAINTIES

Tokmanni's risks and uncertainties are discussed in detail in the Report by the Board of Directors for 2021 and in the Financial Statements Bulletin as well as Tokmanni's website at <https://ir.tokmanni.fi/en/investors/tokmanni-as-an-investment/riskienhallinta>.

TOKMANNI'S OUTLOOK FOR 2022

In 2022 Tokmanni expects the revenue to be at the previous year's level. Comparable EBIT measured in euros is expected to be EUR 90–110 million in 2022. The forecast includes elements of uncertainty, which depend on the development of inflation, interest rates, the war in Ukraine, the COVID-19 pandemic and the effects of these.

Mäntsälä 29 April 2022

Tokmanni Group Corporation
Board of Directors

IR calendar

29 July 2022: Half Year Financial Review for January-June 2022

28 October 2022: Business Review for January-September 2022

Analyst and press conference

Tokmanni's President and 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/investors> or through the link <https://tokmanni.videosync.fi/2022-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 phone number and passcode below.

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Tokmanni in brief

Tokmanni is Finland's leading variety discount retailer. Some 4,100 Tokmanni employees make customers' everyday life and special occasions easier by offering a versatile and up-to-date assortment of Finnish and international brand-name products and other high-quality products at prices that are always affordable. With around 200 stores around Finland and an online store, Tokmanni is always close to its customers. In 2021, Tokmanni's revenue was EUR 1,142 million and comparable EBIT amounted to EUR 106 million.

Tokmanni's shares are listed on Nasdaq Helsinki.

Distribution

Nasdaq Helsinki

Key media

TOKMANNI GROUP CORPORATION BUSINESS REVIEW FOR JANUARY-MARCH 2022**Use of estimates**

The preparation of the half-year financial report in accordance with IFRS requires the management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent liabilities and the recognition of income and expenses on the income statement. Although the estimates are based on the management's best knowledge of current events and actions, the actual results may differ from the estimates.

This business review is unaudited.

Consolidated income statement (MEUR)			
	1-3/2022	1-3/2021	1-12/2021
Revenue	227.4	226.1	1 141.8
Other operating income	0.9	0.9	3.6
Materials and services	-153.7	-150.1	-744.0
Employee benefits expenses	-32.9	-30.7	-132.9
Depreciation	-17.8	-16.4	-66.8
Other operating expenses	-24.2	-22.0	-94.1
Share of profit in joint ventures	0.0	0.0	0.1
Operating profit	-0.3	7.8	107.7
Financial income	0.0	0.0	0.1
Financial expenses	-2.5	-2.6	-10.2
Profit/loss before tax	-2.8	5.2	97.6
Income taxes	0.6	-1.0	-19.6
Net result for the financial period	-2.2	4.2	78.0
Profit for the year attributable to			
Equity holders of the parent company	-2.2	4.2	78.0
Consolidated statement of comprehensive income (MEUR)			
	1-3/2022	1-3/2021	1-12/2021
Net result for the financial period	-2.2	4.2	78.0
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	0.0	0.0	0.0
Comprehensive income for the financial period, net of tax	0.0	0.0	0.0
Comprehensive income for the financial period	-2.2	4.2	78.0
Comprehensive income for the financial period attributable to			
Equity holders of the parent company	-2.2	4.2	78.0
Earnings per share			
Equity holders of the parent company	-2.2	4.2	78.0
Number of shares, weighted average during the financial period (thousands)	58 759	58 731	58 731
Diluted number of shares, weighted average during the financial period (thousands)	58 789	58 760	58 776
Earnings per share, basic (EUR/share)	-0.04	0.07	1.33
Earnings per share, diluted (EUR/share)	-0.04	0.07	1.33

CULATION OF THE GROUP'S KEY FIGURES

Like-for-like revenue development, %	=	Like-for-like revenue development is calculated by taking into account the revenue growth of stores that are not considered to be net-new and the revenue growth of relocated stores, as defined by Tokmanni to include: (i) new stores opened; (ii) store relocations where the store size changes by 30 per cent or more and the assortment increases or is reduced substantially; and (iii) store expansions where the store size changes by 30 per cent or more. If the store falls in one of these categories, it is regarded as a net-new or relocated store in its opening year and in the following calendar year.
Customer visit development, %	=	Number of customer transactions
Gross profit	=	Revenue - Materials and services
Comparable gross profit	=	Gross profit - Changes in the fair value of currency derivatives
Operating expenses	=	Employee benefits expenses + Other operating expenses
Comparable operating expenses	=	Operating expenses - Changes in fair value of electricity derivatives
EBITDA	=	Operating profit + Depreciation
Comparable EBITDA	=	EBITDA - Changes in fair value of currency and electricity derivatives
Comparable EBIT	=	EBIT - Changes in fair value of currency and electricity derivatives
Net financial items	=	Financial income - Financial expenses
Net debt	=	Interest-bearing debt - Cash and cash equivalents
Net debt / Comparable EBITDA	=	$\frac{\text{Net debt}}{\text{Comparable EBITDA}}$
Capital employed	=	Balance sheet total - Deferred tax liability and other non-interest-bearing liabilities
Return on capital employed, %	=	$\frac{\text{Profit before taxes} + \text{Interest and other financial expenses}}{\text{Capital employed, average at the beginning and end of the period}}$
Return on capital employed, %, rolling 12 months	=	$\frac{\text{Profit before taxes} + \text{Interest and other financial expenses (preceding 12 months)}}{\text{Capital employed, average for the preceding 12 months}}$
Return on equity, %	=	$\frac{\text{Net result for the period}}{\text{Equity, average at the beginning and end of the period}}$
Return on equity, %, rolling 12 months	=	$\frac{\text{Net result for the preceding 12 months}}{\text{Equity, average for the preceding 12 months}}$
Number of personnel	=	Number of personnel at the end of the period
Number of personnel on average	=	Number of personnel on average in the period
Equity ratio, %	=	$\frac{\text{Equity}}{\text{Balance sheet total} - \text{Advances received}}$

CALCULATION OF THE GROUP'S PER-SHARE DATA

Earnings per share, basic	= $\frac{\text{Net profit}}{\text{Number of shares, weighted average during the period}}$
Earnings per share, diluted	= $\frac{\text{Net profit}}{\text{Diluted number of shares, weighted average during the period}}$
Equity per share	= $\frac{\text{Equity}}{\text{Number of shares excluding treasury shares, end of reporting period}}$
Dividend per share	= $\frac{\text{Dividend for the period}}{\text{Number of shares, weighted average during the period}}$
Earnings per share	= $\frac{\text{Net profit}}{\text{Number of shares excluding treasury shares, end of reporting period}}$
Payout ratio, %	= $\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Effective dividend yield, %	= $\frac{\text{Dividend per share}}{\text{Closing price for the period}}$
Price/earnings ratio (P/E)	= $\frac{\text{Closing price for the period}}{\text{Earnings per share}}$
Closing price for the period	= Share price at balance sheet date
Average price during the period	= Share turnover in euro terms divided by the number of shares traded during the period
Share turnover	= Number of shares traded during the period
Market capitalisation	= Number of shares x Share price on the balance sheet date
Number of shares	= Number of shares on the balance sheet date