

## INTERIM REPORT for 1 January – 31 March 2015: Strong Q1 for Verkkokauppa.com: Revenue grew by 20%

Verkkokauppa.com Oyj – Interim report (unaudited) 24 April 2015, 8:00 a.m.

### 1 January – 31 March 2015 in brief

- Revenue was 72.9 million euros (1–3/2014: 60.6), growth of 20.3%
- Gross profit was 11.7 million euros (10.1), growth of 16.4%
- Gross margin was 16.1% of revenue (16.7%)
- Operating profit excluding non-recurring items was 1.9 million euros (2.1), a decrease of 10.9%
- Operating margin excluding non-recurring items was 2.6% of revenue (3.5%)
- Net profit excluding non-recurring items was 1.1 million euros (1.6)
- Earnings per share excluding non-recurring items were 0.14 euros (0.28)
- Non-recurring items of 4.3 million euros relating to the Teosto levies for private copying legal dispute had a negative impact on net profit.

Key ratios	1–3/2015	1–3/2014	Change%	1–12/2014
Revenue, € thousands	72,856	60,558	20%	275,784
Gross profit, € thousands	11,747	10,091	16%	42,596
Gross margin, % of revenue	16.1%	16.7%		15.4%
EBITDA, € thousands	-1,268	2,336	-154%	8,427
EBITDA, %	-1.7%	3.9%		3.1%
Operating profit, € thousands	-1,530	2,111	-172%	7,468
Operating margin, % of revenue	-2.1%	3.5%		2.7%
Net profit, € thousands	-2,402	1,344	-279%	4,488

### BUSINESS OUTLOOK

Verkkokauppa.com Oyj's business operations are estimated to develop positively within a medium-term time frame. The management believes that the Company will succeed in further growing its market share in its operating markets. Proceeds received from the share issue have improved the Company's equity ratio and enable it to continue growth projects in accordance with the Company's strategy. Nevertheless, the business outlook includes uncertainties, especially due to the macroeconomic development. The Finnish Ministry of Finance estimated on 17 December 2014 that the Finnish GDP will grow by 0.9% during 2015. According to the market research company GfK, the consumer electronics market has increased by 2.0% in Finland in January–February 2015. The Company expects its revenue and operating profit excluding non-recurring items to grow in 2015 when compared to the previous year.

## CEO SAMULI SEPPÄLÄ'S REVIEW

Retail business continues going online, as reflected in good sales growth in the first quarter. Combined with a growth-oriented concept, transparent and customer centric business model as well as rapid changes in the Finnish retail landscape, revenue grew by 20.3%. Gross profit grew less. Gross margin was 16.1%, mainly due to aggressive pricing, strong growth strategy and changes in the sales mix.

Fixed costs increased slightly faster than revenue due to company investing in several growth-initiatives, which have required hiring key personnel, increasing marketing activities, and launching a number of new projects. These investments are expected to pay off in the long term, as Verkkokauppa.com continues to build a foundation for future growth.

The Finnish retail market continues to struggle. Management estimates that, the company has captured market shares in most of its categories, including the recently launched Baby and Family, and Sports and Nutrition categories. Web visit share of Finnish online retailers has increased based on Similarweb's statistics. TNS Gallup estimates that the Finnish online retail business grew by 7% last year to some 3.6 billion euros, while the overall retail market declined by one percent in the same period.

Verkkokauppa.com's main ongoing projects include the development of consumer financing services, logistics and a C2C-marketplace. More and more customers are using financing services, which have resulted in more commissions paid to the company. First program versions of both the C2C marketplace and financing services are already in internal testing.

Additional growth opportunities remain not just in new categories but also in consumer electronics products as Finnish department stores are reducing their focus on consumer electronics and certain other categories. The company believes that retail will continue to go online and that Verkkokauppa.com's revenue will grow during 2015 despite the weak economic environment.

## FINANCIAL TARGETS

The Company strives to grow faster than its operating market and targets an annual revenue growth of over 10 per cent in the medium term. The Company's objective is to improve its EBITDA margin in the medium term when compared to the level of 2013. The Company strives to secure a sufficient equity ratio to finance the growth of its business and aims to maintain an equity ratio of over 25 per cent taking into consideration the nature and seasonality of the Company's business.

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Gross margin, % of revenue	16.1%	16.7%	15.4%
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Operating margin, % of revenue	-2.1%	3.5%	2.7%
Net profit, € thousands	-2,402	1,344	4,488
Equity ratio, %	43.5%	28.6%	48.7%
Equity ratio, % (including capital loan)	43.5%	28.6%	48.7%
Return on investment, % rolling 12 months	18.1%	45.9%	29.2%
Net gearing, %	-50.3%	-86.3%	-91.0%
Earnings per share (EPS) revised by share split, €	-0.32	0.23	0.64
Earnings per share (EPS) revised by share split (diluted), €	-0.32	0.21	0.62
Number of shares at end of period	7,510,855	6,690,855	7,510,855
Average number of shares at end of period revised by share split	7,510,855	5,733,945	7,066,628
Number of shares at end of period revised by share split	7,510,855	6,690,855	7,510,855
Number of personnel* at end of period	516	444	527

\*The number of personnel includes both full- and part-time employees.

## REVENUE AND PROFITABILITY DEVELOPMENT

### January–March 2015

In January–March, Verkkokauppa.com Oyj's revenue grew by 20.3% year on year. Revenue grew by 12.3 million euros, totalling 72.9 million euros (60.6). Revenue increased particularly in mobile phones, and both major (MDA) and small domestic appliances (SDA). Revenue in computers decreased, because Microsoft ended the support for the XP operating system in spring 2014, which increased computer market in spring 2014.

According to GfK, the demand for consumer electronics grew by 2.0% during January–February in Finland.

Personnel costs increased by 23.7% to 5.4 million euros (4.4). The Company strengthened its growth capabilities by hiring new personnel to purchasing and the IT department in the financial year 2014. In addition, the number of personnel in both stores and logistics grew along with the volume growth.

During the first quarter, other expenses grew by 122%, totalling 7.6 million euros (3.4). Other expenses include a non-recurring compensation of 3.4 million euros paid to Teosto. Other expenses excluding non-recurring items were 4.2 million euros (3.4).

The operating profit (loss) in January–March 2015 was -1.5 million euros (2.1) and the net profit (loss) -2.4 million euros (1.3).

The operating profit excluding non-recurring items in January–March 2015 was 1.9 million euros (2.1) and the net profit 1.1 million euros (1.6).

Earnings per share were -0.32 euros (0.23).

The non-recurring items of 4.3 million euros in the reporting period related to a legal dispute lost against Teosto ry regarding levies for private copying. Of the non-recurring items, 3.4 million euros is included in other expenses and the interest of 0.9 million euros in financing expenses. The comparison period also included non-recurring items of 0.3 million euros related to preparations for listing. Earnings per share excluding non-recurring items were 0.14 (0.28) euros.

## **FINANCE AND INVESTMENTS**

Operating cash flow was -12.5 million euros (8.2) in January–March 2015. In the reporting period, the weakening of operating cash flow mainly resulted from a significant inventory increase, utilizing the maximum amount of cash discounts, and non-recurring items related to the Teosto legal dispute. The Company paid its pension costs for 2015 in advance, because the interest profit is considerably better than in corresponding bank deposits.

Ordinary seasonal fluctuations are reflected in cash and cash equivalents, cash flow and accounts payable, which usually reach the highest point at year-end and the lowest point at the end of the second quarter. Verkkokauppa.com has aimed to utilize the maximum amount of cash discounts.

During the reporting period, the Company invested mainly in the development of new ERP features, which resulted in the activation of 0.2 million euros in the IT department's salary expenses and external technology consulting fees. Other investments included ordinary store equipment and furniture. The net capital expenditures were 0.4 million euros (0.1) in January–March 2015.

Financing expenses included 0.9 million euros of non-recurring penalty interest relating to the Teosto legal dispute. The comparison period included non-recurring items of 0.3 million euros related to preparations for listing.

On 31 March 2015, Verkkokauppa.com had 5.5 million euros of bank overdraft facilities, which had not been utilized.

## **SHARES AND SHARE TRADING**

The total number of shares in the Company was 7,510,855 on 31 March 2015.

Over the reporting period 194,843 shares were exchanged on the NASDAQ OMX First North Finland market, representing 2.6% of all shares in the Company. The highest share price was 31.00 euros, and the lowest 28.95 euros. The average price in share trading was 30.19 euros. The total of the share trading was 5.9 million euros. The closing price was 30.60 euros, and the market value of all shares was 226.8 million euros at the end of the period.

The Company does not own any of its own shares.

## **PERSONNEL, THE BOARD AND ADMINISTRATION**

During the reporting period, the number of employees increased by 72, and the total number of employees was 516 (444) at the end of March 2015. The number of employees includes both full- and part-time employees.

The Board members were Mikael Hagman, Christoffer Häggblom, Peter Lindell, Kai Seikku, Antti Tiitola, Henrik Weckström and Samuli Seppälä until the Annual General Meeting held on 18 March 2015. Christoffer Häggblom acted as the Chairman of the Board. At the Annual General Meeting held on 18 March 2015 the following board members were re-elected: Christoffer Häggblom, Mikael Hagman, Kai Seikku, Antti Tiitola, Henrik Weckström and Samuli Seppälä. Christoffer Häggblom was elected as the Chairman of the Board. Samuli Seppälä is the Company's Chief Executive Officer.

## **RISKS AND UNCERTAINTIES**

Verkkokauppa.com Oyj's risks and uncertainties reflect the market and general economic trends, for example, demand for consumer electronics, the business environment, and competition. The Company's business operations are also influenced by risks and uncertainties relating to, for example, business strategy, investments, procurement and logistics, information technology, and other operative risks. The aforementioned risks and uncertainties may affect the Company's operations, financial position and performance both positively and negatively. Risks and uncertainties have been presented in more detail in the Annual Report 2014.

The Supreme Court made a ruling on the dispute with Teosto ry regarding levies for private copying compensation on 9 March 2015. The Supreme Court held the ruling by the Court of Appeal. Information on the legal case is presented in the Offering document published on 21 March 2014, in the Financial Statements of 31 December 2014 and in the company release of 9 March 2015.

Verkkokauppa.com has received permission to appeal to the Supreme Court regarding the use of the domain name veneilijanverkkokauppa.com on 3 September 2014.

## **ANNUAL GENERAL MEETING 2015**

The Annual General Meeting was held in Helsinki on 18 March 2015. The financial statements for the year 2014 were approved and the Board Members and the CEO were discharged from liability with respect to financial year 2014. It was decided to pay a dividend of 0.85 euros per share, totalling 6,384,226.75 euros.

The election of the Board of Directors is explained above in the section on Personnel, the Board and Administration.

The Authorized Public Accountant firm KPMG Oy Ab was re-elected as the auditor, with Authorized Public Accountant Mauri Eskelinen acting as the Principal Auditor.

## **OTHER EVENTS DURING THE REPORTING PERIOD**

In January 2015 three new main product categories were launched: Baby and Family, Tools, and Luggage and Travel.

## **SUBSEQUENT EVENTS**

In April 2015 Watches were launched as a new main product category. It consists mainly of smart watches, sports watches and activity trackers.

## PRESS CONFERENCES

A press conference for analysts, investors and media will be held in Finnish at the Jätkäsaari premises in Helsinki at Tyynenmerenkatu 11, 6th floor, at 10:00 a.m. on Friday, 24 April 2015, in which Verkkokauppa.com Oyj's CEO Samuli Seppälä will present the developments in the reporting period.

A press conference in English will be held by LiveStream webcast on Friday, 24 April 2015 at 11:00 a.m. (EET). Questions can be sent beforehand or during the presentation via e-mail to [investors@verkkokauppa.com](mailto:investors@verkkokauppa.com).

Presentation materials for both events are available at [www.verkkokauppa.com](http://www.verkkokauppa.com) in the section Sijoittajat > Esitykset. For both press conferences, a LiveStream is available at [www.verklive.com](http://www.verklive.com).

## COMPANY RELEASES IN 2015

Verkkokauppa.com Oyj will publish its quarterly reports as follows:

- Quarterly report 1–6/2015 (Q2 2015) on Friday, 7 August 2015
- Quarterly report 1–9/2015 (Q3 2015) on Friday, 23 October 2015

Helsinki, Finland, 24 April 2015

**Verkkokauppa.com Oyj**

**Board of Directors**

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Key media

[www.verkkokauppa.com](http://www.verkkokauppa.com)

## FINANCIAL INFORMATION

The financial statements release has been prepared in accordance with Finnish Accounting Standards and local legislation, and in compliance with the accounting principles in the financial statements of 31 December 2014. This quarterly report has not been audited. The financial statements are audited at year-end.

Numbers presented in the quarterly report have been rounded and therefore columns or rows do not necessarily add up to the total amounts presented.

Income Statement

€ thousands	1-3/2015	1-3/2014	Change%	2014
<b>REVENUE</b>	<b>72,856</b>	<b>60,558</b>	<b>20.3%</b>	<b>275,784</b>
Other income	18	45	-60.0%	119
Cost of goods and services	-61,109	-50,467	21.1%	-233,189
Personnel expenses	-5,411	-4,374	23.7%	-18,762
Depreciation and amortization	-262	-225	16.8%	-959
Other operating expenses	-7,621	-3,427	122.4%	-15,525
<b>OPERATING PROFIT</b>	<b>-1,530</b>	<b>2,111</b>	<b>-172.5%</b>	<b>7,468</b>
Financial income and expenses	-872	-427	104.3%	-1,935
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>	<b>-2,402</b>	<b>1,684</b>	<b>-242.7%</b>	<b>5,534</b>
Appropriations	0	30	-100.0%	187
Income taxes	0	-370	-100.0%	-1,232
<b>NET PROFIT</b>	<b>-2,402</b>	<b>1,344</b>	<b>-278.8%</b>	<b>4,488</b>



Balance Sheet

€ thousands	31.3.2015	31.3.2014	31.12.2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets total	1,068	615	949
Tangible assets total	2,123	2,656	2,113
Investments total	50	0	50
<b>NON-CURRENT ASSETS TOTAL</b>	<b>3,241</b>	<b>3,271</b>	<b>3,113</b>
<b>CURRENT ASSETS</b>			
Inventories	36,059	28,087	30,858
Receivables			
Non-current receivables	111	15	113
Current receivables	10,628	6,846	8,031
Trade receivables	4,179	4,914	4,705
Other receivables	876	436	668
Receivables carried forward	5,573	1,495	2,659
Cash and cash equivalents	15,772	15,247	35,312
<b>CURRENT ASSETS TOTAL</b>	<b>62,570</b>	<b>50,194</b>	<b>74,314</b>
<b>TOTAL ASSETS</b>	<b>65,812</b>	<b>53,465</b>	<b>77,427</b>
<b>LIABILITIES</b>			
<b>EQUITY</b>			
Shareholders' capital			
Share capital	100	100	100
Other funds			
Invested non-restricted equity fund	25,493	6,633	25,493
Retained earnings	4,645	6,541	6,541
Profit (loss) for the period	-2,402	1,344	4,488
<b>EQUITY TOTAL</b>	<b>27,835</b>	<b>14,618</b>	<b>36,622</b>
Appropriations	0	157	0
Provisions	680	495	715
<b>LIABILITIES</b>			
Non-current liabilities	879	1,758	1,099
Capital loans	0	0	0
Interest-bearing debt	879	1,758	1,099
Current liabilities total	36,417	36,437	38,991
Capital loans	0	0	0
Interest-bearing debt	879	879	879
Advances received	1,795	1,995	2,280
Accounts payables	22,746	22,478	22,717
Other liabilities	3,824	3,999	6,508
Accrued expenses	7,174	7,087	6,607
<b>LIABILITIES TOTAL</b>	<b>37,296</b>	<b>38,196</b>	<b>40,090</b>
<b>TOTAL LIABILITIES</b>	<b>65,812</b>	<b>53,465</b>	<b>77,427</b>

Cash Flow

€ thousands	1-3/2015	1-3/2014	2014
Cash flow from operating activities			
Profit before appropriations and taxes	-2,402	1,684	5,534
Depreciation and amortization	262	225	959
Change in provisions	-35	100	320
Interest paid and received	872	427	1,935
Non-current receivables, increase (-), decrease (+)	2	0	-98
Current receivables, increase (-), decrease (+)	-2,597	956	-229
Inventory increase (-), decrease (+)	-5,201	-4,917	-7,687
Non-interest-bearing debt, increase (+), decrease (-)	-2,282	-6,231	-2,852
<b>NET CASH FROM OPERATING ACTIVITIES BEFORE FINANCING AND TAXES</b>	<b>-11,381</b>	<b>-7,756</b>	<b>-2,119</b>
Interest paid and other operational financial expenses	-955	-431	-2,118
Interest received from operations	83	4	183
Taxes paid	-292	0	-1,688
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>-12,545</b>	<b>-8,183</b>	<b>-5,742</b>
Investments			
Intangible and tangible investments	-391	-111	-687
<b>NET CASH FLOW FROM INVESTMENTS</b>	<b>-391</b>	<b>-111</b>	<b>-687</b>
Cash flows from financing activities			
Proceeds from share issue	0	5,612	24,472
Current interest-bearing debt, increase (+), decrease (-)	-220	-235	-15
Non-current interest-bearing debt, increase (+), decrease (-)	0	-4,304	-5,183
Dividends paid	-6,384	-210	-210
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-6,604</b>	<b>863</b>	<b>19,064</b>
<b>NET INCREASE (+) / DECREASE (-) IN CASH AND CASH EQUIVALENTS</b>	<b>-19,540</b>	<b>-7,431</b>	<b>12,635</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>35,312</b>	<b>22,677</b>	<b>22,677</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>15,772</b>	<b>15,247</b>	<b>35,312</b>

Statement of Equity Changes

€, thousand	Share capital	Invested unrestricted equity fund	Retained earnings (loss)	Profit (loss) for the period	Total
<b>SHARE CAPITAL 1.1.2015</b>	<b>100</b>	<b>25,493</b>	<b>11,029</b>	<b>0</b>	<b>36,622</b>
Dividends	0	0	-6,384	0	-6,384
Share issue	0	0	0	0	0
Profit (loss) for the period	0	0	0	-2,402	-2,402
<b>SHARE CAPITAL 31.3.2015</b>	<b>100</b>	<b>25,493</b>	<b>4,645</b>	<b>-2,402</b>	<b>27,835</b>
<b>SHARE CAPITAL 1.1.2014</b>	<b>100</b>	<b>1,021</b>	<b>6,751</b>	<b>0</b>	<b>7,872</b>
Dividends	0		-210	0	-210
Share issue	0	5,612	0	0	5,612
Profit (loss) for the period	0	0	0	1,344	1,344
<b>SHARE CAPITAL 31.3.2014</b>	<b>100</b>	<b>6,633</b>	<b>6,541</b>	<b>1,344</b>	<b>14,618</b>
<b>SHARE CAPITAL 1.1.2014</b>	<b>100</b>	<b>1,021</b>	<b>6,751</b>	<b>0</b>	<b>7,872</b>
Dividends	0	0	-210	0	-210
Share issue	0	24,472	0	0	24,472
Profit (loss) for the period	0	0	0	4,488	4,488
<b>SHARE CAPITAL 31.12.2014</b>	<b>100</b>	<b>25,493</b>	<b>6,541</b>	<b>4,488</b>	<b>36,622</b>

**CALCULATION PRINCIPLES FOR THE COMPANY'S KEY RATIOS**

- 1) Fixed costs = Personnel expenses + other operating expenses
- 2) Fixed costs, % = (Personnel expenses + other operating expenses) / Revenue x 100
- 3) Gross profit = Revenue – Cost of goods and services
- 4) Gross margin, % = (Revenue – Cost of goods and services) / Revenue x 100
- 5) EBITDA = Operating profit before depreciation
- 6) EBITDA, % = Operating profit before depreciation / Revenue x 100
- 7) Operating margin, % = Operating result / Revenue x 100
- 8) Equity ratio (excluding capital loans) = (Equity + depreciation difference x (1 – tax rate)) / (Total sum of the balance sheet – advances received) x 100
- 9) Equity ratio (including capital loans) = (Equity + capital loans + depreciation difference x (1 – tax rate)) / (Total sum of the balance sheet – advances received) x 100
- 10) Return on capital employed (ROCE), rolling 12 months, % = (Net profit + financial expenses + taxes) / (Average equity + interest-bearing debt) x 100
- 11) Net gearing, % = (Interest-bearing debt – cash and cash equivalents – interest-bearing receivables) / Equity x 100
- 12) Earnings per share = Profit for the financial period / Monthly average number of shares adjusted by share issues
- 13) Earnings per share (diluted) = Profit for the financial period / Monthly average number of shares adjusted by share issues + number of shares according to subscription rights
- 14) Average number of shares at end of the period revised by share split = Monthly average number of shares at the end of the period revised by share split
- 15) Number of employees at the end of the period = Average number of employees on the last week of the period