



Adler Modemärkte AG  
Conference Call, FY2018 Results

Profitability improved  
despite difficult  
environment

> March 14, 2019



## Agenda

- 1 **FY 2018 Review**
- 2 Impact from IFRS 16
- 3 "Strategy 2020" Update
- 4 Outlook

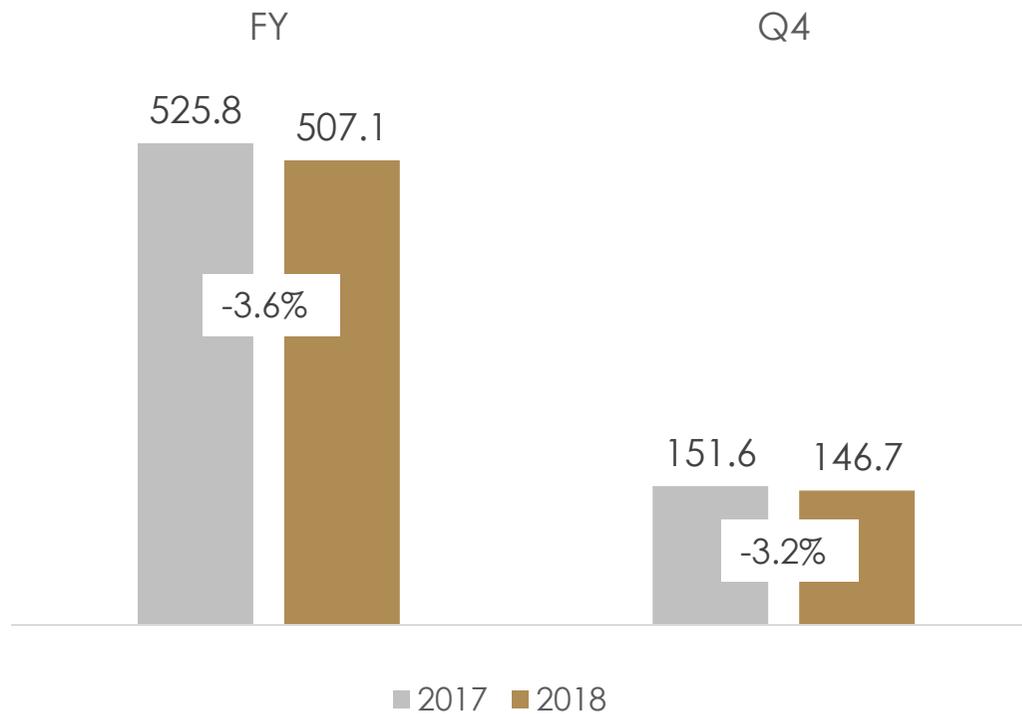
## Highlights 2018

- > **Forecast achieved despite persistently difficult environment**
- > EBITDA of €20.7 million meets revised forecast figures; revenue of €507.1 million slightly below
- > Adjusted EBITDA rose slightly from €25.4 million to €26.2 million
- > Cash and cash equivalents amounting to €54.9 million
- > ADLER once again had a very sound financial foundation, enabling it to finance ongoing and planned initiatives to boost future growth and sustainably increase profitability on its own.

# FY 2018 revenue slightly below lowered expectations

Reported revenue in m€

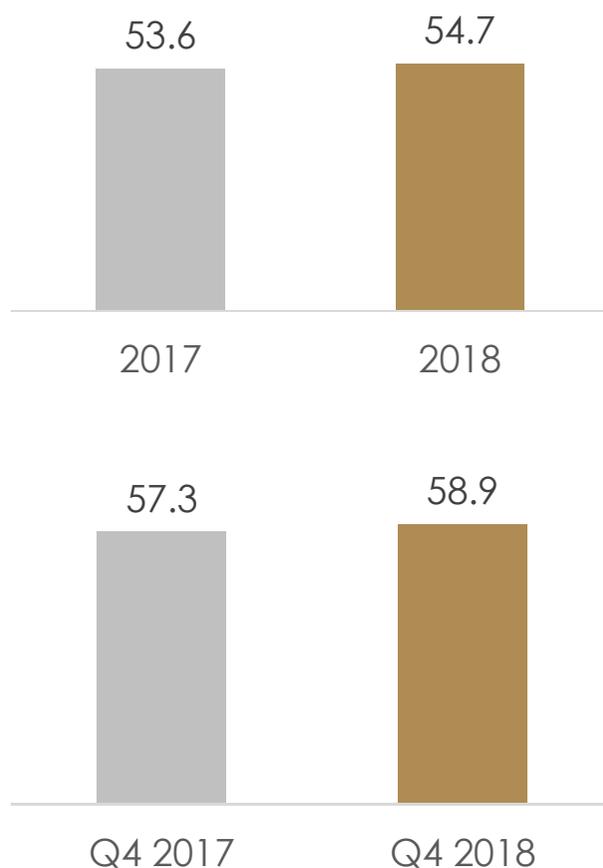
> Like-for-like revenue



- - 3.5% for FY 2018
- - 1.8% for the fourth quarter

# Gross profit margin up by 110 bp in FY 2018, up by 160 BP in Q4

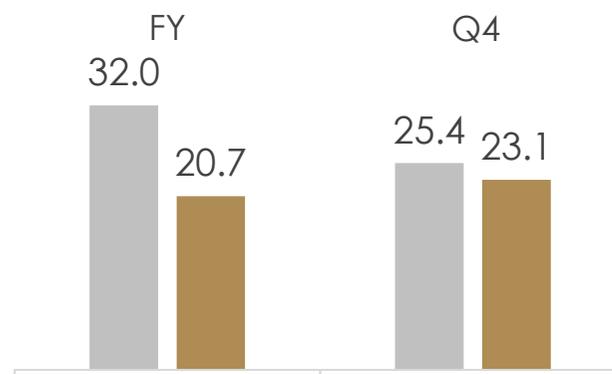
Gross margin in %



- > Cost of materials down almost 6% to €229.8 million (2017: €244.1 million)
  - > More efficient purchasing
  - > Lower level of inventory discrepancies
- > Gross profit slightly decreased from €281.8 million to €277.3 million
- > Y-o-Y gross profit margin up by 110 BP (from 53.6 % to 54.7 %)
- > Further improvement of gross profit margin expected in 2019 through:
  - > Avoiding excessive price markdowns
  - > Further optimization of inventory management and increase of share of merchandise directly sourced.

# Comparable operative result slightly above last year's level

EBITDA reported in m€



> Q4 EBITDA in line with expectations

> One-off effects explaining adjusted EBITDA:

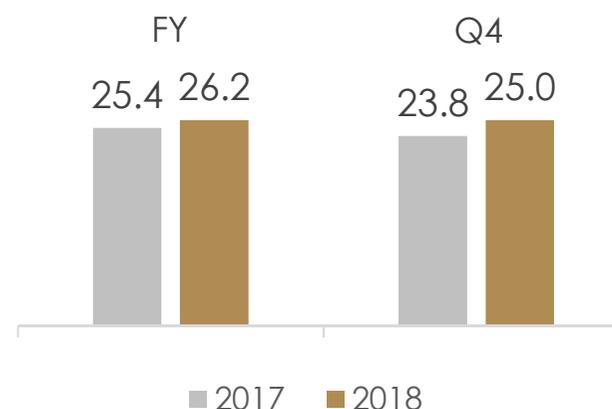
> 2018:

> - €5.5 million (from restructuring, store closures, change of logistic distributor and advisors)

> 2017:

> + €6.6 million (whereas + €11.8 million from the sale of real estate)

EBITDA adjusted in m€

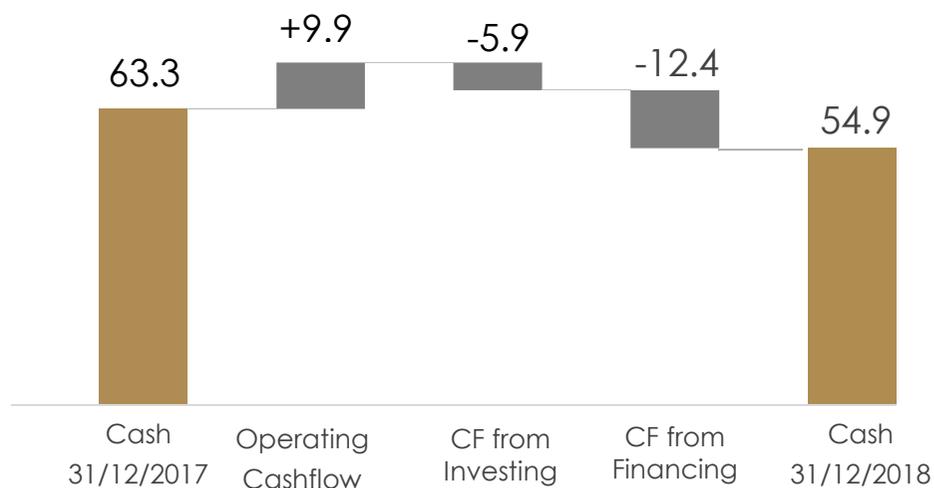


## Summary of key figures FY 2018

in m€	2018	2017
Revenue	<b>507.1</b>	525.8
Gross profit	<b>277.3</b>	281.8
Gross profit margin	<b>54.7%</b>	53.6%
EBITDA	<b>20.7</b>	32.0
Adjusted EBITDA	<b>26.2</b>	25.4
EBIT	<b>3.3</b>	15.6
EBT	<b>-1.6</b>	10.7
Consolidated net profit for the year	<b>-2.5</b>	3.9

## Continued strong cash position

in m€



- > Cash position down €9.4 million due to cash outflows for investing and financing activities
- > Further strengthening of cash position until year-end 2019 expected

Net debt in m€



## High quality of balance sheet to finance implementation of “Strategy 2020“

in m€	31. Dec. 2018	31. Dec. 2017
Total assets	<b>226.8</b>	241.1
Inventories	<b>78.7</b>	73.7
Trade receivables	<b>0.0</b>	0.6
Cash position	<b>54.9</b>	63.3
Free cashflow	<b>3.9</b>	35.9
Equity	<b>96.3</b>	100.0
Equity ratio	<b>42.5%</b>	41.5 %
Trade payables	<b>25.1</b>	27.6



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## Impact from IFRS 16 – leases for the P&L

in m€	Figure prior reconciliation	Reconciliation according to IFRS 16	Figure after reconciliation
Revenue (net)	507.1	0	507.1
<b>EBITDA</b>	<b>20.7</b>	<b>48.0</b>	<b>68.7</b>
Depreciation	-17.4	-30.0	-47.4
<b>EBIT</b>	<b>3.3</b>	<b>18.0</b>	<b>21.3</b>
Net financial result	-4.9	-13.5	-18.4
<b>Net income from operations</b>	<b>-1.6</b>	<b>4.5</b>	<b>2.9</b>
Income taxes	-0.9	-1.3	-2.3
<b>Consolidated profit for the year</b>	<b>-2.6</b>	<b>3.2</b>	<b>0.6</b>

## Impact from IFRS 16 – leases for the balance sheet as of 31/12/2018

Assets in m€	Figure prior reconciliation	Reconciliation according to IFRS 16	Figure after reconciliation
Non-current assets	69.0	174.6	243.6
Deferred tax assets	9.0	13.2	22.2
<b>Total assets</b>	<b>226.8</b>	<b>187.9</b>	<b>414.7</b>

Equity and liabilities in m€	Figure prior reconciliation	Reconciliation according to IFRS 16	Figure after reconciliation
Negative retained earnings	-47.4	3,2	-44.2
Accumulated other comprehensive income	<b>-2.2</b>	<b>-36.3</b>	<b>-38.5</b>
<b>Total equity</b>	<b>96.3</b>	<b>-33.1</b>	<b>63.2</b>
Liabilities from finance leases	54.1	221.0	275.1
<b>Total liabilities</b>	<b>130.5</b>	<b>221.0</b>	<b>351.5</b>
<b>Total equity and liabilities</b>	<b>226.8</b>	<b>187.9</b>	<b>414.7</b>
Equity ratio	<b>42.5%</b>		<b>15.2%</b>



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# Focus on improved efficiency and growth



# New product strategy:

We strengthen our popular own brands and optimise our inventory



## PRODUCT STRATEGY

"We offer our customers the products they love."

- ... Popular product ranges will be expanded
- ... the number of external brands will be reduced
- ... core departments will be given more floor space
- ... inventory surpluses and shortages in stores will be reduced through better forecasting
- ... gross profit will be lifted thanks to a reduction in mark-downs and more efficient procurement processes

### Strengthening of own brands

Number of external brands

2018: 31

2020: 22

Revenue share own brands

2018: 80%

2020: 85%

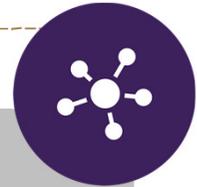
## New channel strategy:

Having a first-rate appearance in our stores and online motivates our customers



### CHANNEL STRATEGY

**“We will create the same high customer satisfaction at each of our customer touchpoints.”**



#### Our brick-and-mortar strategy

- ... “perfect store” between 1,500 and 4,000 m<sup>2</sup> with the best product range for womenswear and menswear and other relevant (brand) ranges
- ... first-rate service for ADLER-customers
- ... focus on sales excellence

#### Our online strategy

- ... further development of our online offering
- ... additional sales potential through utilisation of online market places and development of additional customer touchpoints
- ... turn offline customers into ADLER App users

# New communication strategy: We will individualise and digitise marketing and transform ADLER into a meeting-place

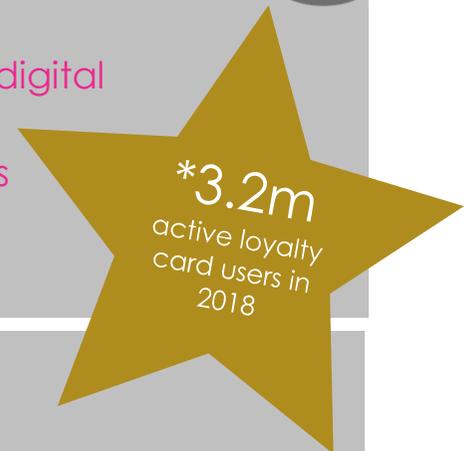


## COMMUNICATION STRATEGY

“We offer our customers  
an overall experience  
that they enjoy.”

- ... Utilisation of our CRM data wealth\*
- ... Marketing will be more individual and more digital
- ... No more TV commercials
- ... More Mailings and ads in popular magazines
- ... Digitalisation of customers (-> ADLER App)

- ... ADLER stores are a meeting place
- ... regular events encourage customers to spend more time with us (fashion shows, readings ...)



## New strategic partners defined

> New sourcing partner:



- ... Create fresh momentum for production, quality and social responsibility
- ... Boost the efficiency and flexibility of procurement workflows
- ... Wide range of digital product development and 3D fit solutions



> New logistics partner:

**MEYER&MEYER**

- ... Delivery and distribution of goods easier to plan and more cost effective
- ... **Cost savings in the low- to mid-seven-figure range starting in 2019**



# “Strategy 2020“ includes detailed measures to raise potential

Sales	<b>We will be THE Online- and Offline-platform for “best ager” clients</b>	Stores become frequency platforms, where we offer events. At the same time, we become more linked with our customers through mobile media (e.g. ADLER App), where we also provide offers from partners.
CRM / Marketing	<b>We use our client data like an online focused company</b>	We will interact with our customers communicatively and in terms of content, as otherwise only online retailers can. We have reorganized our CRM / customer marketing for our 3.2 million customer card users.
Products	<b>We put our own private label brands in the centre</b>	Our own brands are more profitable than our external brands and generate a higher gross profit per square meter. We will build on that.
Sourcing/ Supply Chain	<b>We change our product development from push to pull</b>	Customer demand for strong products will be followed by stronger products in the future. For this purpose, we have tied two strong partners in the supply chain with Hermes Otto International and Meyer & Meyer.
Processes	<b>We consequently digitalise our operative processes</b>	We will fully automate and digitise our processes. Efficiency ensures our profitability.

**Substantial investments for strategy upgrade of ADLER**

**Our high liquidity and sound balance sheet structure provide a solid financial foundation on which to build our “Strategy 2020” and easily finance it on our own.**

# Targeted investments in digitization and customer-oriented realignment of stores

## Investments of approx. €4 million in IT projects and digitalisation



- > Product information management system: Individualized mailings and improvement of online shop. Systemic and holistic support of campaigns
- > Allocation tool: Improved allocation incl. predictive functionalities
- > TORY: Digitalisation, automation and shortening of sideline activities

## Investments of approx. €4 million in customer-oriented realignment and modernisation of stores



- > Targeted development of our assortment stratification strengthening of own brands (standardisation and interaction between own private label and external brands)
- > Modernisation
- > Expansion



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## Store optimization program triggers further sustainable profitability gains

- > ADLER has a good and solid structure within store portfolio
- > More than 80% of stores with relevant EBITDA-margin
- > Closure of 5 underperforming stores already realised in 2018
- > New Store Optimization Program initiated in 2019:
  - > 17 stores identified for closure based on profitability and expected performance development
  - > Implementation already started and with first results
  - > All closure will be done until 2021
- > Slight positive impact in EBITDA already in 2019
- > Up to 6 selective store openings / re-locations in typical "ADLER-location"
- > Transformation costs in the amount of €8 to 10 million expected

# Outlook 2019: Transition year to enable topline and profitability growth

Revenue	Gross profit margin	Operating EBITDA
Slightly < €500 million	Slight improvement	€27 – 30 million
EBITDA incl. one-offs*	Free Cash Flow	Liquidity
€18 – 21 million	Slight increase	on last year's level

Revenue turnaround and further earnings improvements targeted for 2020 based on accelerating success of ADLER "Strategy 2020"

\* EBITDA (incl. IFRS 16): 2019e: €64 – 69 million

## Financial Calendar + Contact

### Save the date

- ▶ **Report on the first three months**  
7 May 2019
- ▶ **Annual General Meeting**  
8 May 2019
- ▶ **Capital Markets Day**  
9 May 2019
- ▶ **Report on the first half year**  
1 August 2019
- ▶ **Report on the first nine months**  
7 November 2019

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