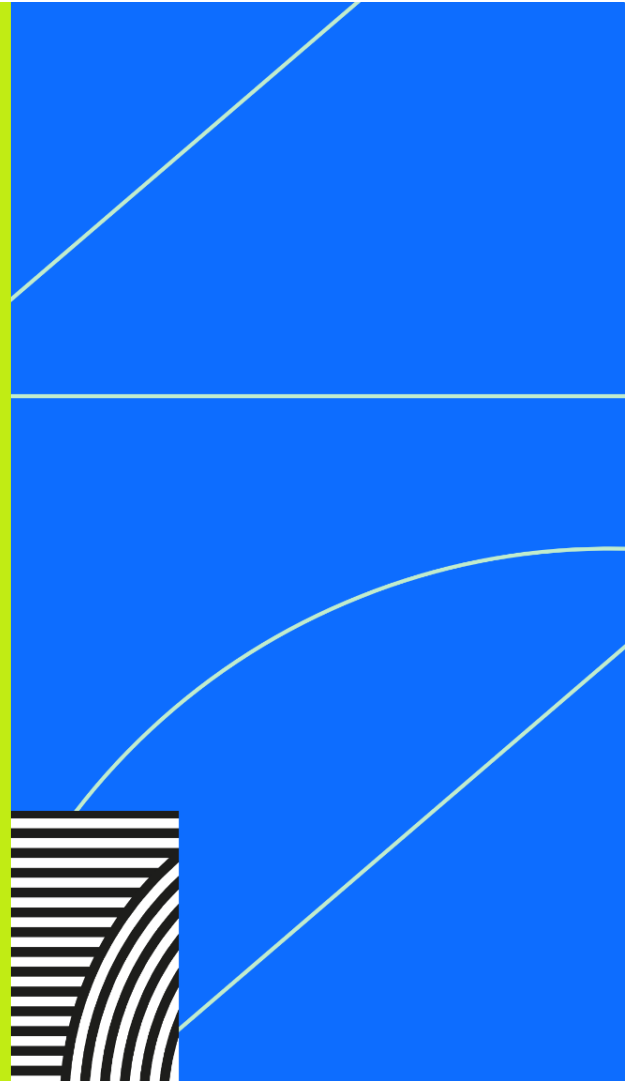




Zalando Q4/23 Earnings Call

March 13, 2024
Dr. Sandra Dembeck (CFO)

zalando



Executive summary

01 In 2023 we delivered on our revised topline guidance and achieved the top end of our adjusted EBIT range -in what was a challenging year for online fashion retail

Significant y-o-y improvement in adj. EBIT of EUR 165m to EUR 350m with an adj. EBIT margin of 3.5% while GMV growth was at (1.1)% and revenue growth at (1.9)%

02 In the forth quarter and throughout peak trading, amidst continued weak demand, we focused on increasing profitability and improved gross margin

Cautious wholesale buy translated into lower overstock lifting Q4 gross margin by 1.2pp to 39.4% with inventory being down c. 20%, Q4 adj. EBIT +25% yoy to EUR 183m

03 The partner business demonstrated strong performance in Q4 continuing its success track

Partner Program share at 39.2% in Q4 (+2.8pp YoY), with 62% of all Partner Program items shipped with ZFS (Zalando Fulfillment Solutions) vs 58% in Q4 2022

04 We exit 2023 with a strong cash position of EUR 2.5bn

Strong free cash flow generation of 684m in FY 2023 driven by higher net income and lower inventories. Cash position at EUR 2.5bn

05 In 2024 we return to growth, continue to increase profitability and invest in future growth

GMV and revenue growth of 0% - 5% and 0% - 5% respectively, adj EBIT in the range of EUR 380m to EUR 450m, CAPEX of EUR 250 - 350m and negative net working capital



We delivered on our revised 2023 guidance

Despite continued weak consumer demand even during peak trading, we delivered adjusted EBIT at the top end of our initial guidance²

		FY 2023	Revised 2023 guidance	
Growth	GMV	(1.1)%	(2)% – 1%	✓
	Revenue	(1.9)%	(3)% – (0.5)%	
Profitability	Adjusted EBIT ¹ (in EUR m)	349.9	300 – 350	✓
Cash	Capex (in EUR m)	263.2	260 – 300	✓
	Net working capital (in EUR m)	(441.8)	negative	

¹ Excludes equity-settled share-based payment expense ("SBC"), restructuring costs, non-operating one-time effects and acquisition-related expenses

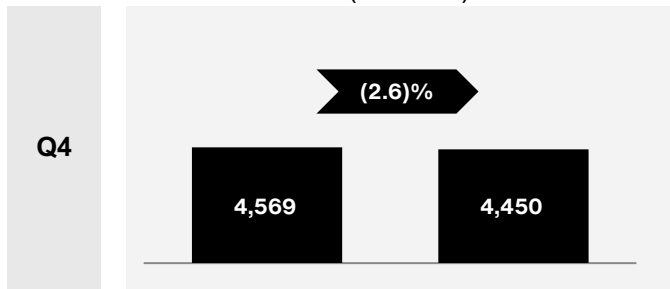
² Initial GMV guidance at 1% – 7%, Revenue guidance at (1)% – 4%, Adj. EBIT at EUR 280 – 350m, CAPEX at EUR 300 – 380m



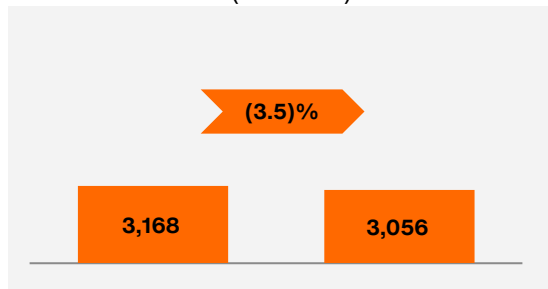


Delivering significant profitability improvement in an ongoing challenging online market environment

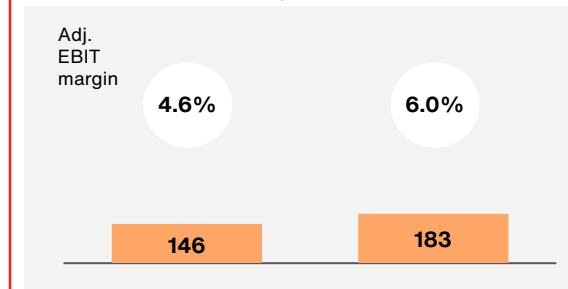
Group GMV¹
(in EUR m)



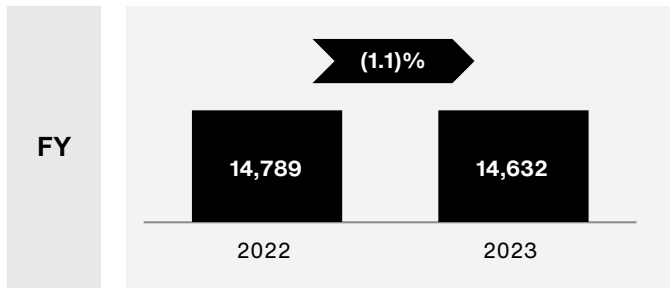
Group revenue
(in EUR m)



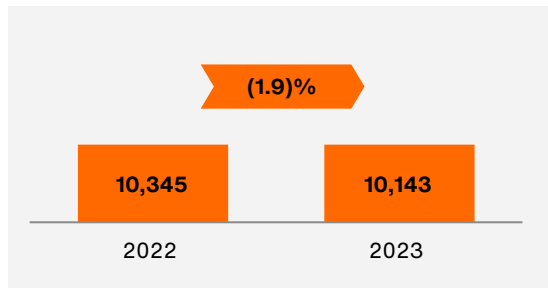
Group adjusted EBIT
(in EUR m, margin in % of revenues)



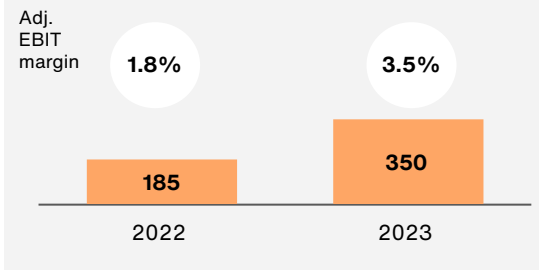
(1.1)%



(1.9)%

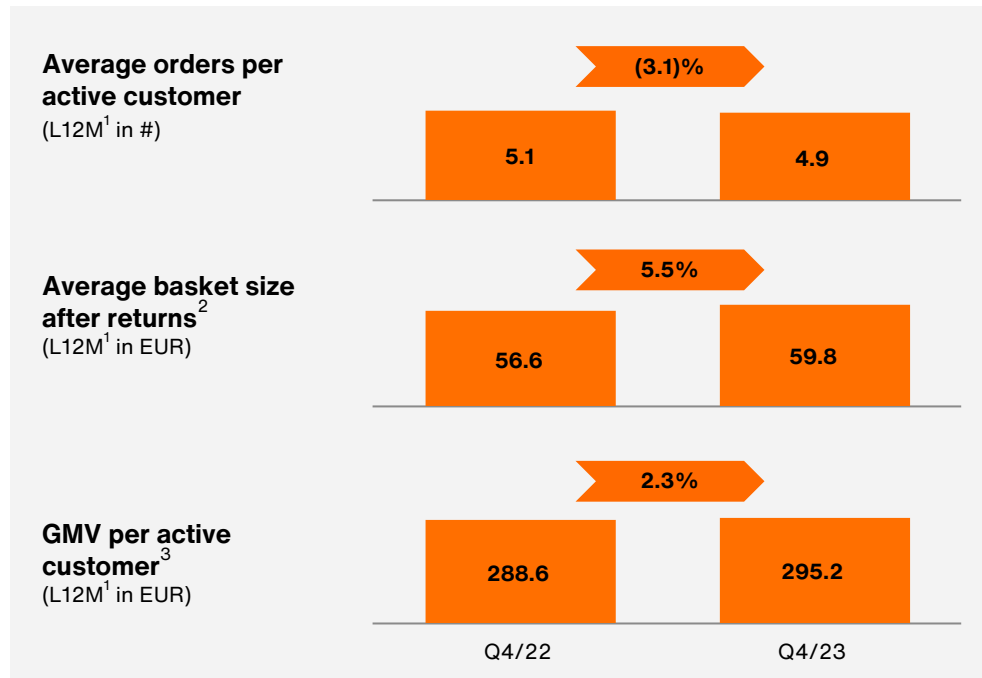
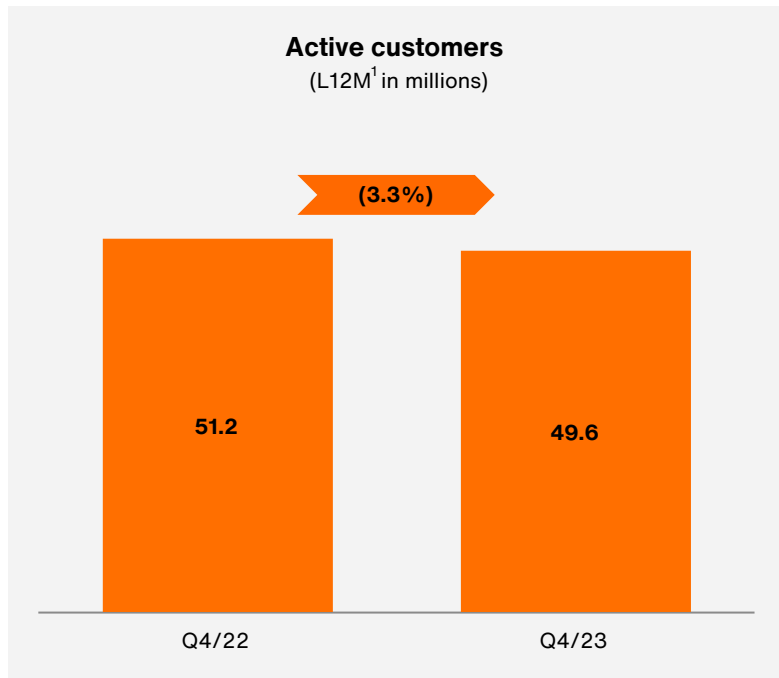


Adj. EBIT margin



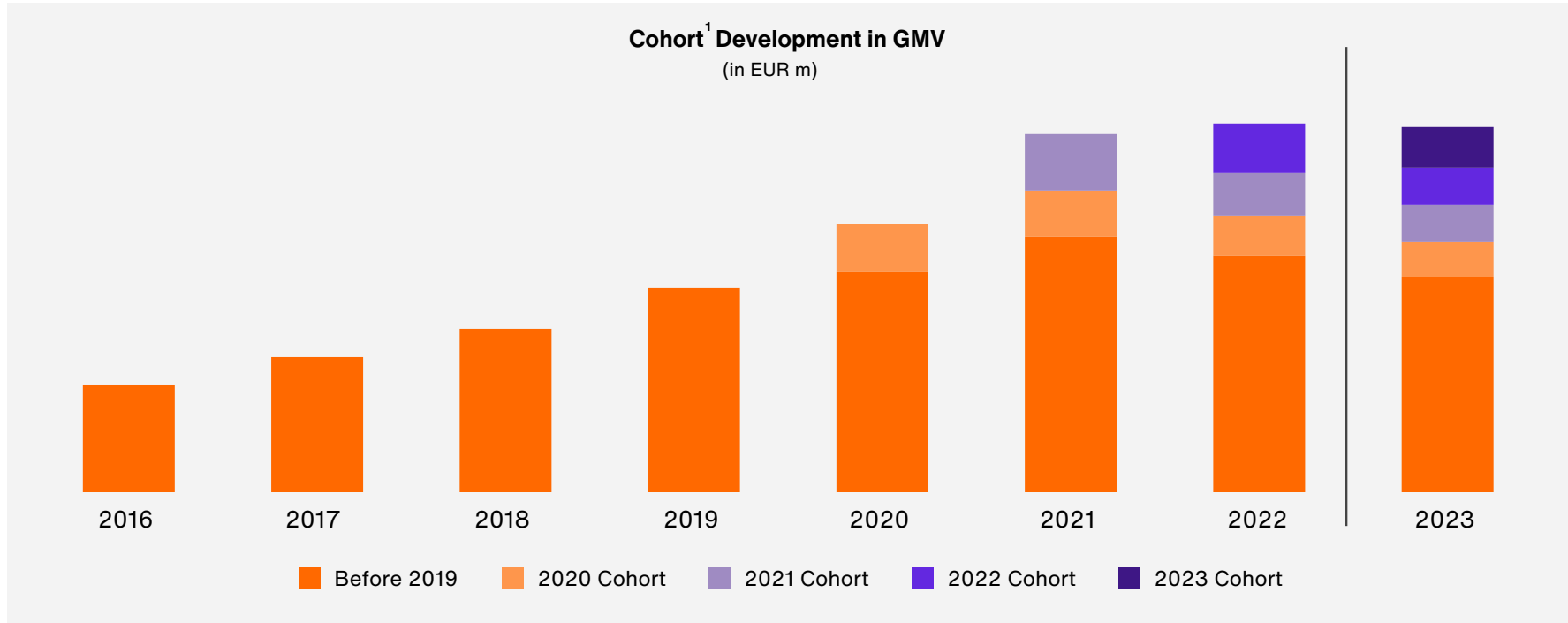


Decrease in active customer base from lower new customer acquisition, GMV per active customer continues to increase





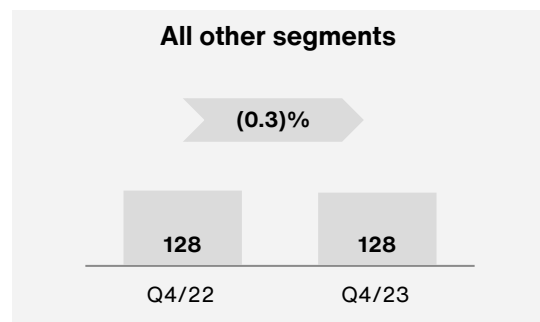
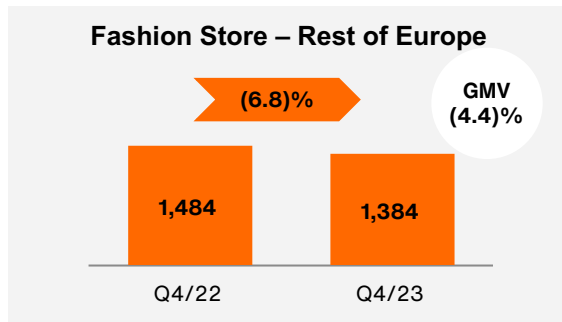
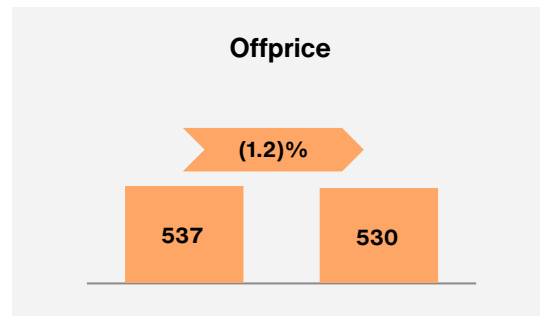
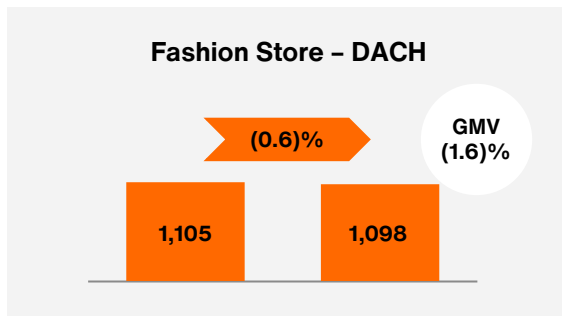
Macro environment and focus on profitable growth reflected in customer cohort dynamics





DACH Fashion Store, Offprice and all other segments broadly flat

Revenue¹ (EUR m) - % growth yoy

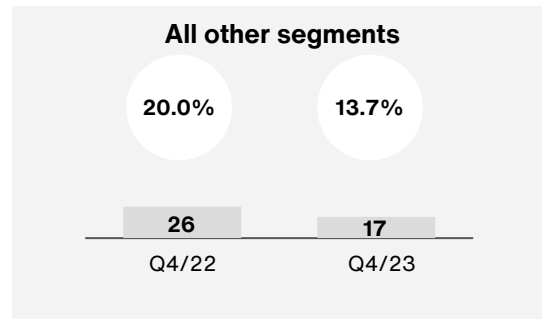
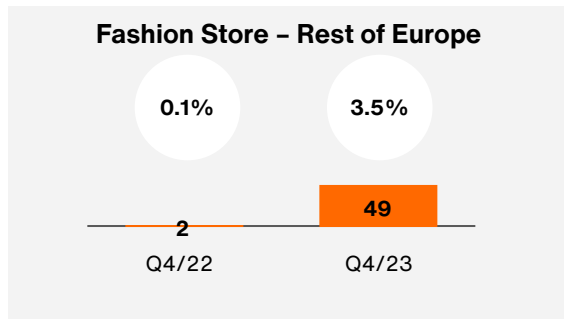
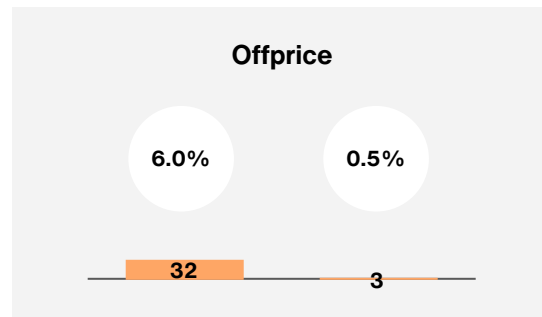
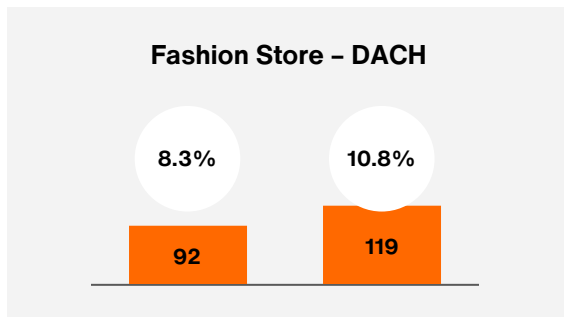
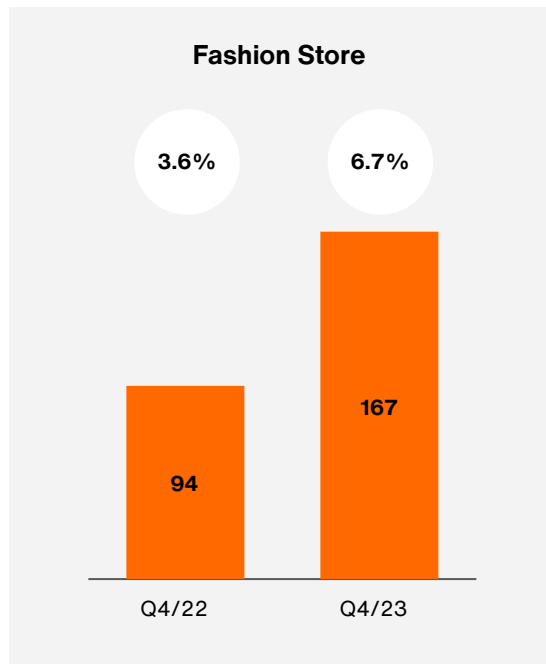


7 ¹ Q4/23 contains EUR (84)m | Q4/22 EUR (87)m reconciliation of internal revenues. Q4/22 Fashion Store revenues restated. All other segments include Highsnobiety.



Significant step up in profitability in DACH and Rest of Europe

Adjusted EBIT¹ (EUR m) - margin in % of revenue





Improvement in gross margin and continued efficiency gains in fulfillment drive adjusted EBIT expansion in Q4

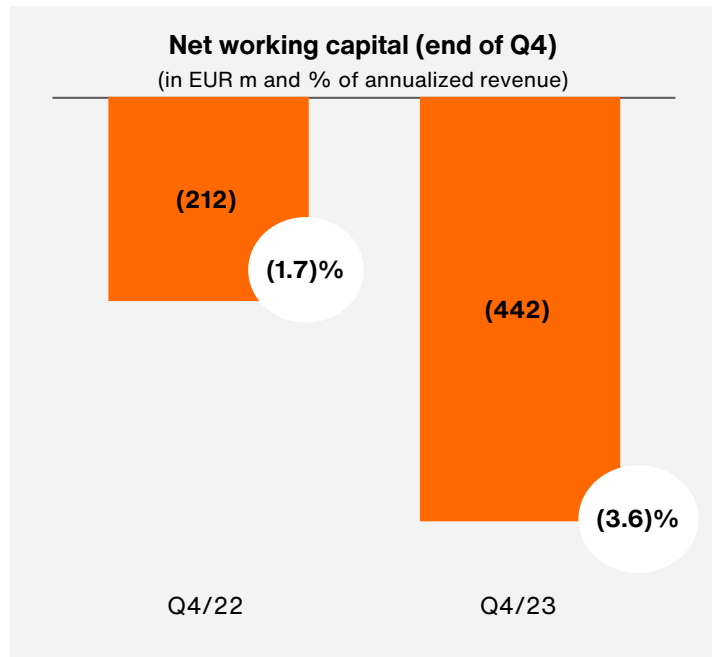
Costs and margins (in % of revenue)	FY/22	FY/23	YoY Δ	Q4/22	Q4/23	YoY Δ
Gross profit	39.2%	38.7%	(0.5)pp	38.1%	39.4%	1.2pp
Fulfillment costs	(26.2)%	(24.2)%	2.0pp	(22.9)%	(22.0)%	0.9pp
Marketing costs	(7.7)%	(7.4)%	0.3pp	(7.9)%	(8.3)%	(0.4)pp
Administrative expenses & Other	(4.5)%	(5.2)%	(0.7)pp	(4.4)%	(4.2)%	0.2pp
EBIT	0.8%	1.9%	1.1pp	3.0%	4.9%	1.9pp
Adjusted EBIT ¹	1.8%	3.5%	1.7pp	4.6%	6.0%	1.4pp

Focus on profitable growth during peak trading and prudent wholesale buy

Improved order economics and scaling of our partner business more than offsetting higher transportation cost



Normalised inventory levels result in improvement of net working capital



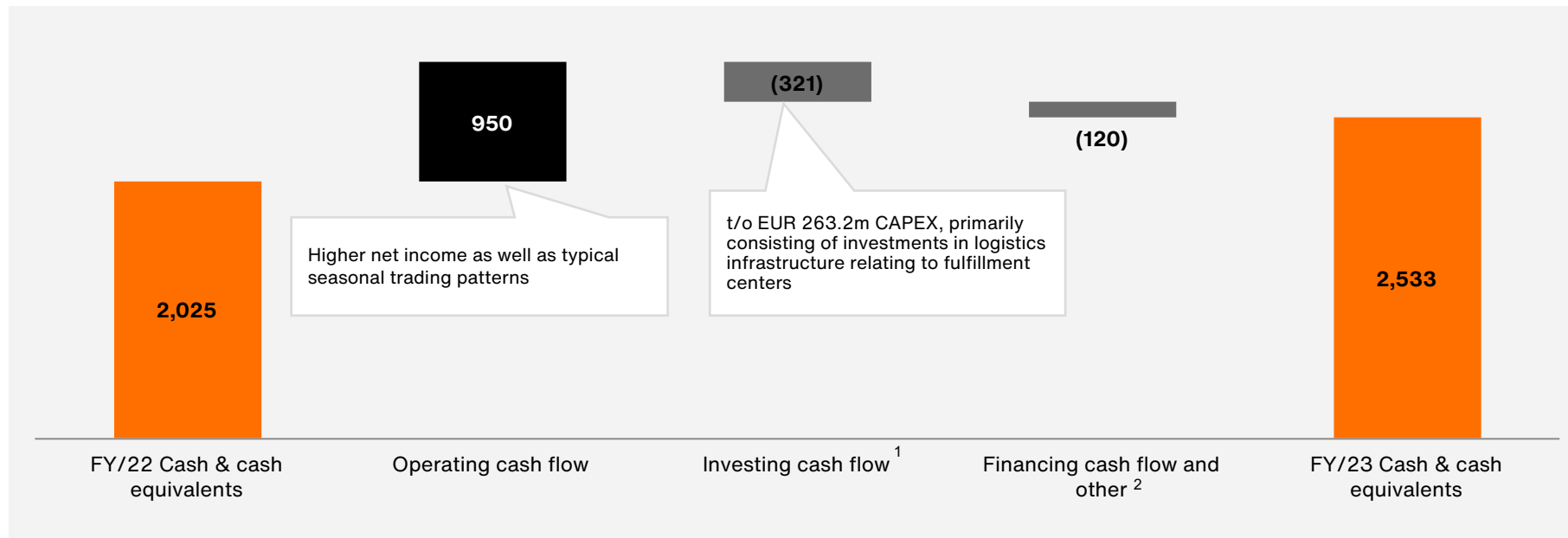
EUR m	Q4/22	Q4/23	YoY Δ
Inventories	1,810	1,441	(20.4)%
Trade receivables	913	899	(1.5)%
Trade payables	2,934	2,782	(5.2)%
Net working capital	(212)	(442)	

Conservative wholesale buy and reduced overstock



Cash and cash equivalents increased to EUR ~2.5 billion

in EUR m



11 ¹ Includes investments in fixed assets of EUR (190.5)m and intangible assets of EUR (72.7)m, payments for acquisitions of EUR (6.1)m and investments in term deposits of EUR (50.0)m

² Includes financing cash flow of EUR (123.6)m and effect of exchange rate on cash and cash equivalents of EUR 3.2m



We stayed committed and delivered on our two main ambitions for 2023, profitable growth and continued investment through the cycle

Key objective	Immediate focus & decisive action	Achievements
 Strengthen gross margin	• More conservative wholesale buy, scale up via re-order and partner business	✓
	• Increase relevance of assortment and drive customer engagement towards black prices	(✓)
	• Update partner commission table	✓
 Simplify for speed of execution	• Reduce complexity in our organisation and simplify for speed of execution	✓
	• Operating model in line with customer-centric decision making to accelerate our strategy	✓
 Selectively invest in future growth	• Continue to invest in logistics network built out, yet pace adjusted to current macro environment	✓
	• Continued investment in key capabilities which power the platform	✓

✓ Actions implemented (✓) Ongoing

Our 2024 guidance

In 2024 we return to growth, continue to increase profitability and invest in future growth

Guidance 2024

Growth	GMV	0% - 5%
	Revenue	0% - 5%
Profitability	Adjusted EBIT ¹ (in EUR m)	380 - 450
Cash	Capex (in EUR m)	250 - 350
	Net working capital (in EUR m)	negative

13 ¹ Excludes equity-settled share-based payment expense ("SBC"), restructuring costs, non-operating one-time effects and acquisition-related expenses



Join us today at 10.30 A.M. online as our Co-CEOs, Robert Gentz and David Schneider together with our CFO Dr. Sandra Dembeck look ahead at what 2024 and beyond will bring for Zalando, its customers, partners and investors. They will be available for questions afterwards.

For a more detailed agenda and registration use the QR-Code below:



Q&A



Appendix





FY/23 GMV to revenue bridge

	2023 (in EUR m)	2022 (in EUR m)	Comment
Group GMV	14,632	14,789	Net ¹ B2C merchandise value incl. VAT
Partner Business GMV	4,911	4,389	39% (34%) of Fashion Store GMV (incl. Connected Retail)
Group GMV ex Partner Business	9,721	10,400	
VAT (excl. Partner Business VAT)	1,555	1,664	~ 16% of GMV
Group NMV ex Partner Program	8,165	8,736	Net ¹ B2C merchandise value excl. VAT
Other merchandise revenue	+...	+...	e.g. B2B bulk sales revenue (offprice)
Revenue recognition	-/+...	-/+...	Point of order (GMV) vs. customer receipt (revenue)
Revenue from the sale of merchandise	8,106	8,609	IFRS standards, Zalando annual report
Partner Program commission	+...	+...	Incl. Connected Retail commissions
B2B service revenue	+...	+...	Zalando Fulfillment Solutions, Zalando Marketing Services, Tradebyte, Highsnobiety
Other B2C service revenue	+...	+...	e.g. shipping fees, express delivery charges, Zalando Plus, dunning fees
Group revenue	10,143	10,345	IFRS standards, Zalando annual report



Merchandise and service revenue – segment view FY/23 (illustrative)

Fashion Store

8,067

- Partner Business commission
 - ZFS cost-plus revenue
 - Shipping fees
 - Dunning fees
 - Subscription fees (Zalando Plus)
-
- Wholesale revenues of...
 - ...main FS business
 - ...Zalando Pre-owned

Offprice

1,776

- Shipping fees
-
- Wholesale revenues of...
 - ...Lounge by Zalando
 - ...outlet stores
 - ...overstock management

Others segment

300

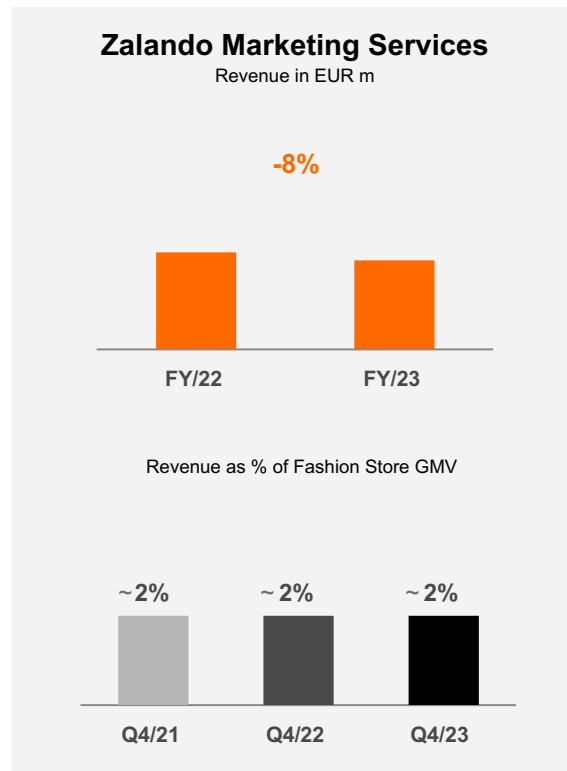
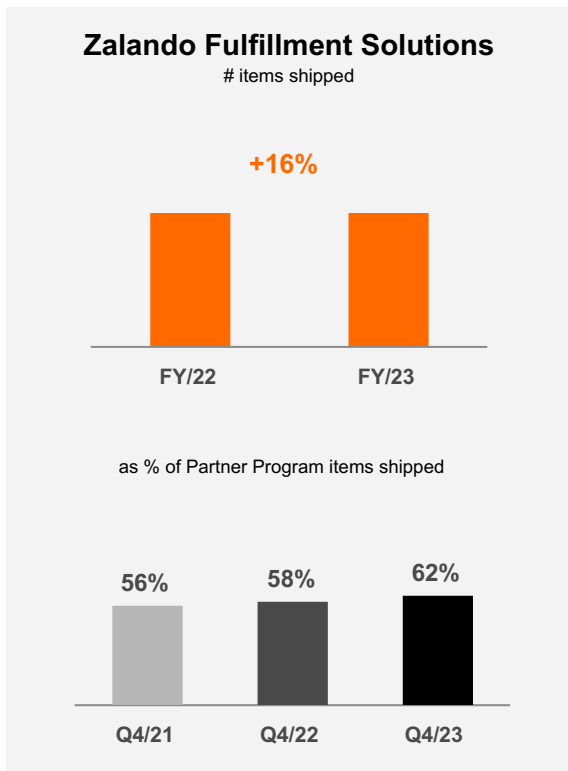
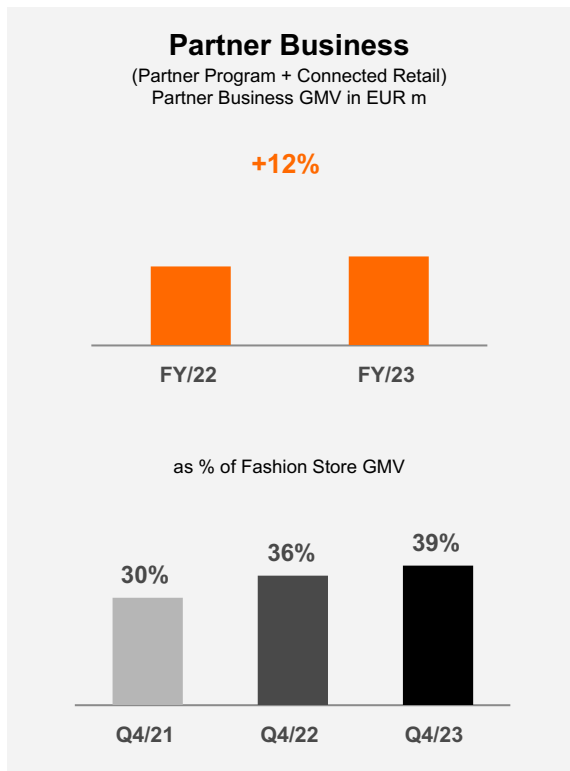
- Advertising revenue (ZMS)
- Other B2B revenues (Tradebyte)
- Highsnobiety

Merchandise revenue in EUR m

Service revenue in EUR m



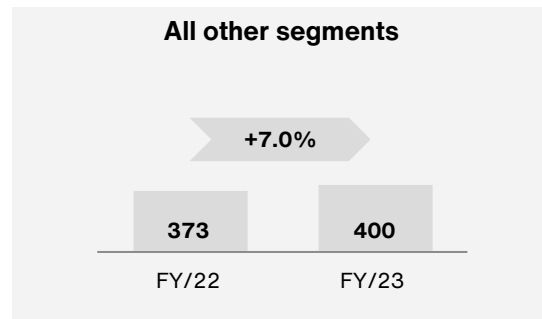
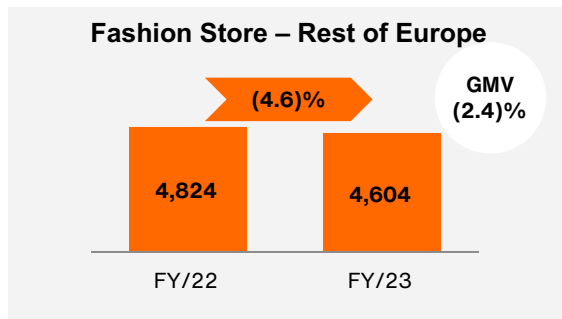
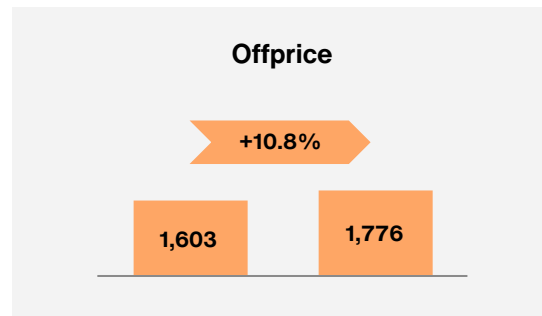
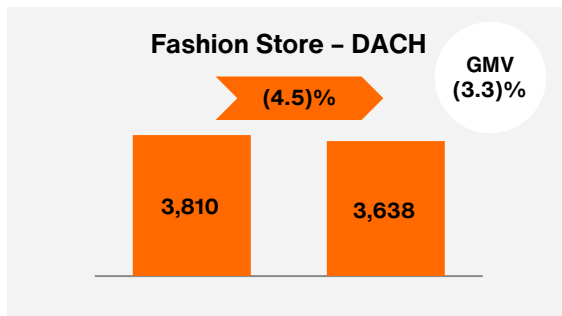
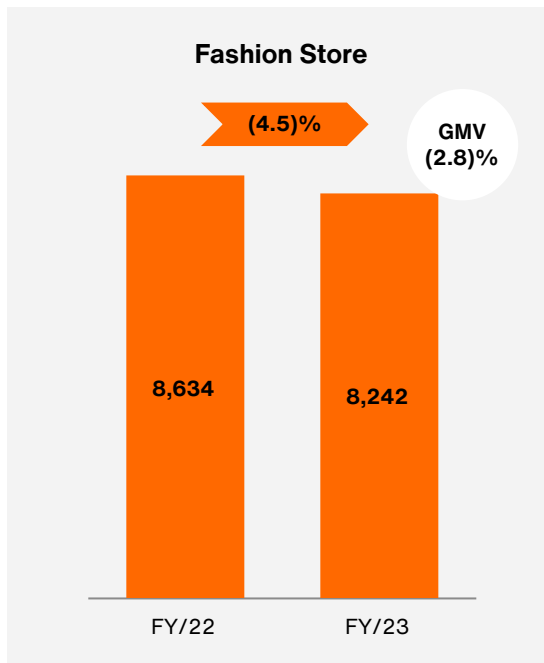
Our partners continue to grow their Direct-to-Consumer business on Zalando





FY revenues 2023 by segment

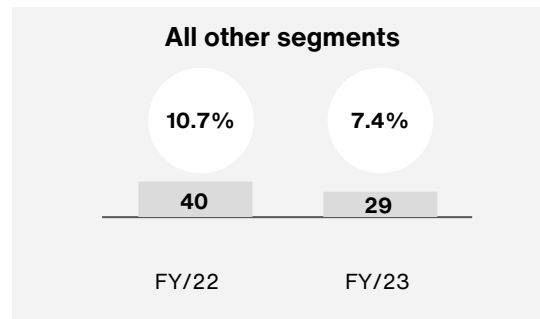
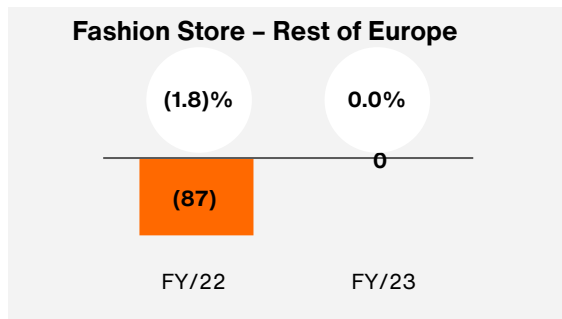
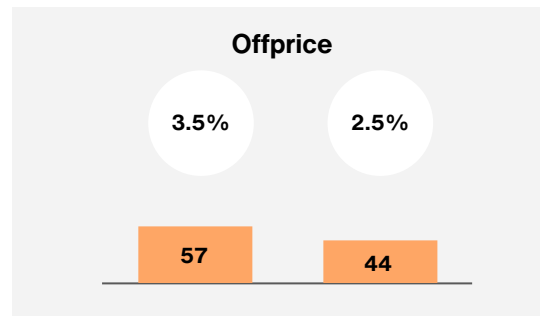
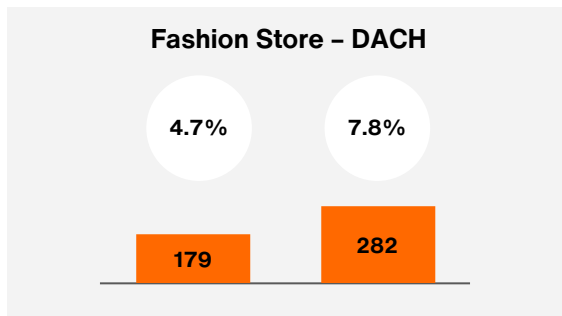
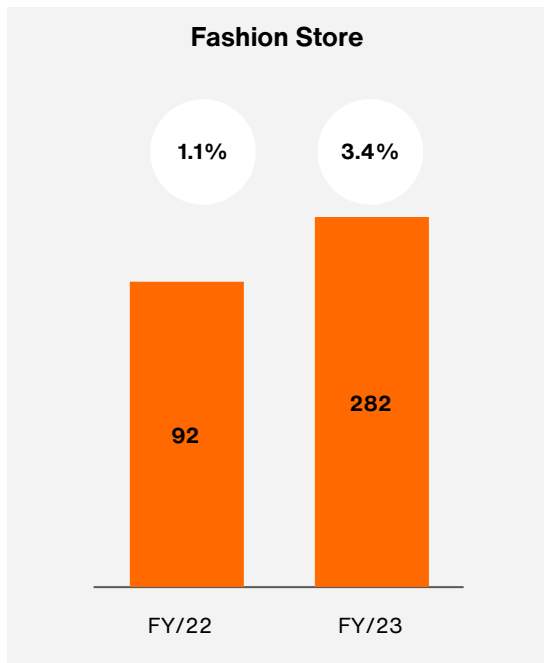
Revenue¹ (EUR m) - % growth yoy





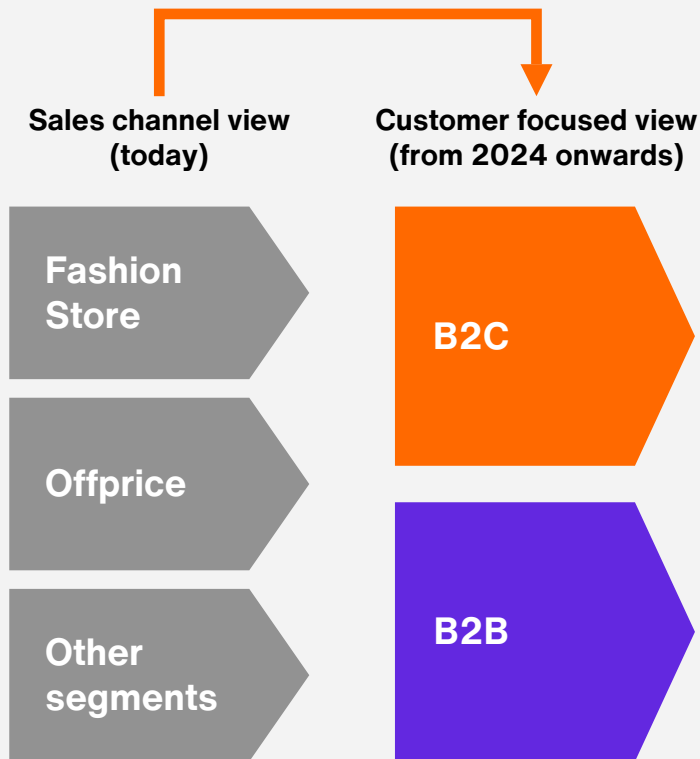
FY adjusted EBIT by segments

Adjusted EBIT¹ (EUR m) - margin in % of revenue



Our new segment reporting from 2024 onwards

- Our steering and decision-making starts from a customer point of view, now we are shifting from a sales channel view to a customer-focused distinction between B2C and B2B.
- Our external reporting will be adjusted to reflect these two operating segments.
- The majority of our business revenues is located in our B2C business and its supporting services, including our partner business and Zalando Marketing Services (ZMS).
- The B2B segment will comprise services that provide B2B products we offer to our partners on and off our Zalando Platform to meet their business needs (i.e. ZEOS including Zalando Fulfillment Solutions and Tradebyte as well as Highsnobiety as another brand-facing business of the Zalando group).





Our new segments and its components

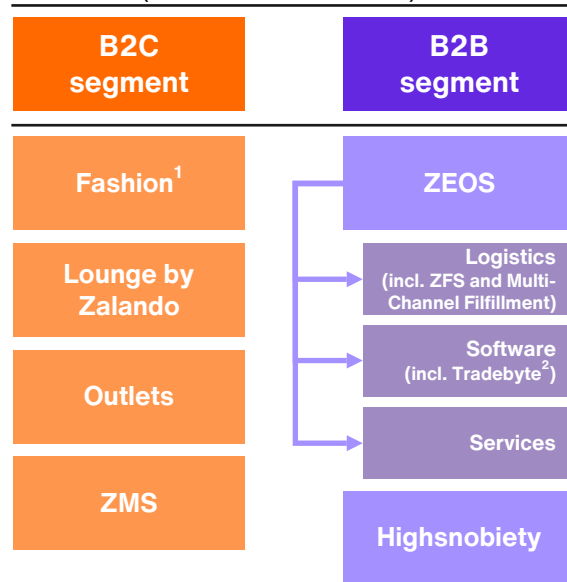
We adjust our segment reporting from a sales channel view (Fashion Store, Offprice) to a segment reporting view and distinguish between serving our **B2C customers** on the Zalando platform & **B2B customers** on and off Zalando platform.

Old segment reporting

Reported Segments	Fashion Store	Offprice	Other segments
Components (Without external reporting)	Fashion ¹	Lounge by Zalando	ZMS
	ZFS	Outlets	Tradebyte
	Multi-Channel Fulfillment		Highsnobiety

New segment reporting

(from Q1 2024 onwards)





How do **FY/23 numbers** translate into **new segment reporting**? (1/2)

Old segment reporting¹

FY/23	Group	Fashion Store	Offprice	All other segments
GMV (in EURm)	14,632	12,630	2,001	No GMV contribution
Revenue (in EURm)	10,143	8,242	1,776	400
Gross margin (in %)	38.7%	40.2%	34.9%	25.5%
Adj. EBIT (in EURm)	350	282	44	29
Adj. EBIT margin (in %)	3.5%	3.4%	2.5%	7.4%

New segment reporting¹

Group	B2C segment	B2B segment
14,632	14,632	No GMV contribution
10,143	9,298	855
38.7%	41.2%	12.6%
350	312	39
3.5%	3.3%	4.6%

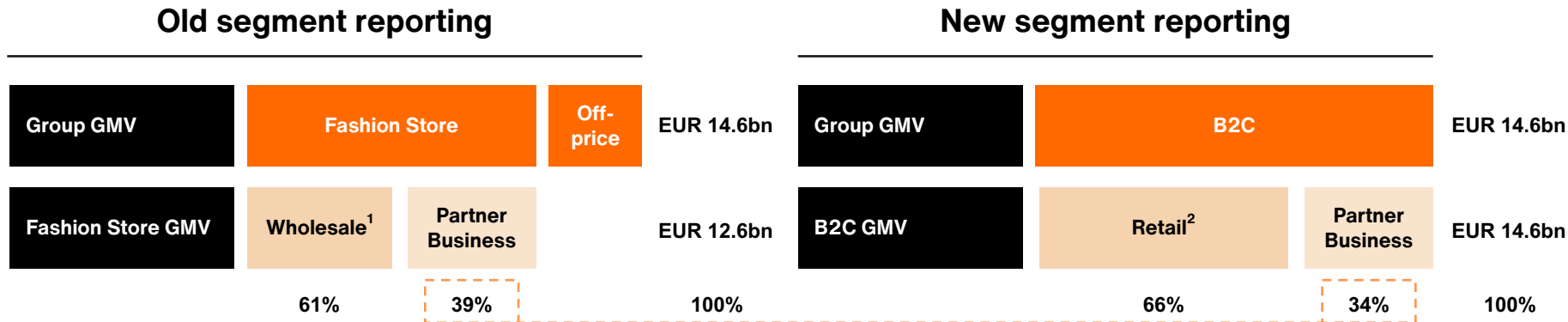


How do **FY/23 numbers** translate into **new segment reporting?** (2/2)

Legend		Quarter Q1/23	Quarter Q2/23	Half-year H1/23	Quarter Q3/23	Quarter Q4/23	Year FY/23
Zalando Group B2C segment B2B segment	Gross merchandise volume (GMV)* (in EUR m)	3,226.9	3,736.4	6,963.3	3,209.6	4,461.6	14,634.6
	Group Revenue (in EUR m)	2,255.6	2,556.3	4,811.9	2,274.9	3,056.3	10,143.1
	B2C	2,068.1	2,347.1	4,415.2	2,063.0	2,823.6	9,301.8
	B2B	189.7	212.0	401.7	215.8	237.0	854.5
	Reconciliation	(2.1)	(2.7)	(4.9)	(3.9)	(4.3)	(13.1)
	Group Adjusted EBIT (in EUR m)	(0.7)	144.8	144.1	23.2	182.7	349.9
	B2C	(4.8)	129.3	124.4	10.6	175.7	310.8
	B2B	4.1	15.5	19.7	12.6	7.0	39.2
	Group Adjusted EBIT margin (in %)	0.0 %	5.7 %	3.0 %	1.0 %	6.0 %	3.5 %
	B2C	(0.2) %	5.5 %	2.8 %	0.5 %	6.2 %	3.3 %
	B2B	2.2 %	7.3 %	4.9 %	5.8 %	2.9 %	4.6 %



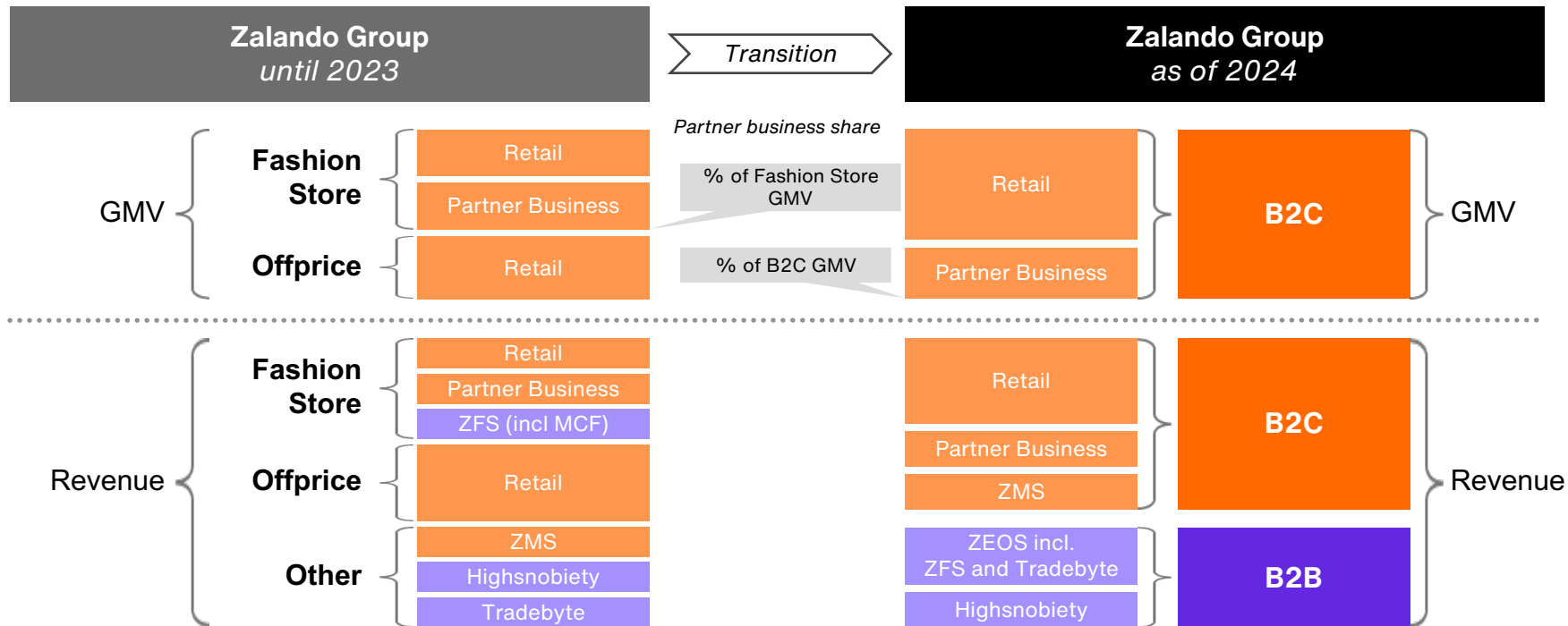
GMV contributors in old and new world and its impact on **Partner Business share**



- New segment reporting leads to an adjustment of **platform KPIs** as we no longer report on Fashion Store GMV (EUR 12.6bn) and switch to B2C GMV (EUR 14.6bn).
- As a consequence, Partner Business share 2023 is rebased from 39% to 34%, with a Partner Business share target of 40-50% until 2028.
- Calculation of ZMS marketing intensity is adjusted accordingly, with a 2028 target of 3-4%.



Summary | Transition to our new governance structure





Issued share capital

Share information

(as of Dec 31, 2023)

Type of shares	Ordinary bearer shares with no-par value (Stückaktien)
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated Market (Prime Standard)
Index listings	DAX
Total number of shares outstanding	263,772,023
Issued capital	EUR 263,772,023

Stock options programs Management Board (as of Dec 31, 2023)

Program	# Options outstanding	Weighted average exercise price (EUR)
LTI 2018 ²	4,296,949	47.44
LTI 2019	296,442	24.38
LTI 2021	2,596,413	24.80
ZOP 2021	77,634	11.13
Total	7,267,438	38.02

Stock options programs Senior Management (as of Dec 31, 2023)

Program	# Options outstanding	Weighted average exercise price (EUR)
SOP 2014 ¹	415,061	26.98
EIP ¹	2,640,291	38.46
ZOP 2019	6,040,521	25.98
Total	9,095,873	29.65

28 ¹ Settled with new shares

² Only to 35% to be settled with new shares, remaining backed by treasury shares



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Disclaimer

Certain statements in this communication may constitute forward looking statements. These statements are based on assumptions that are believed to be reasonable at the time they are made, and are subject to significant risks and uncertainties.

You should not rely on these forward-looking statements as predictions of future events and we undertake no obligation to update or revise these statements.

Our actual results may differ materially and adversely from any forward-looking statements discussed on this call due to a number of factors, including without limitation, risks from macroeconomic developments, external fraud, inefficient processes at fulfillment centers, inaccurate personnel and capacity forecasts for fulfillment centers, hazardous material / conditions in production with regard to private labels, lack of innovation capabilities, inadequate data security, lack of market knowledge, risk of strike and changes in competition levels.