



Zalando FY/2019 Earnings Call

February 27th, 2020



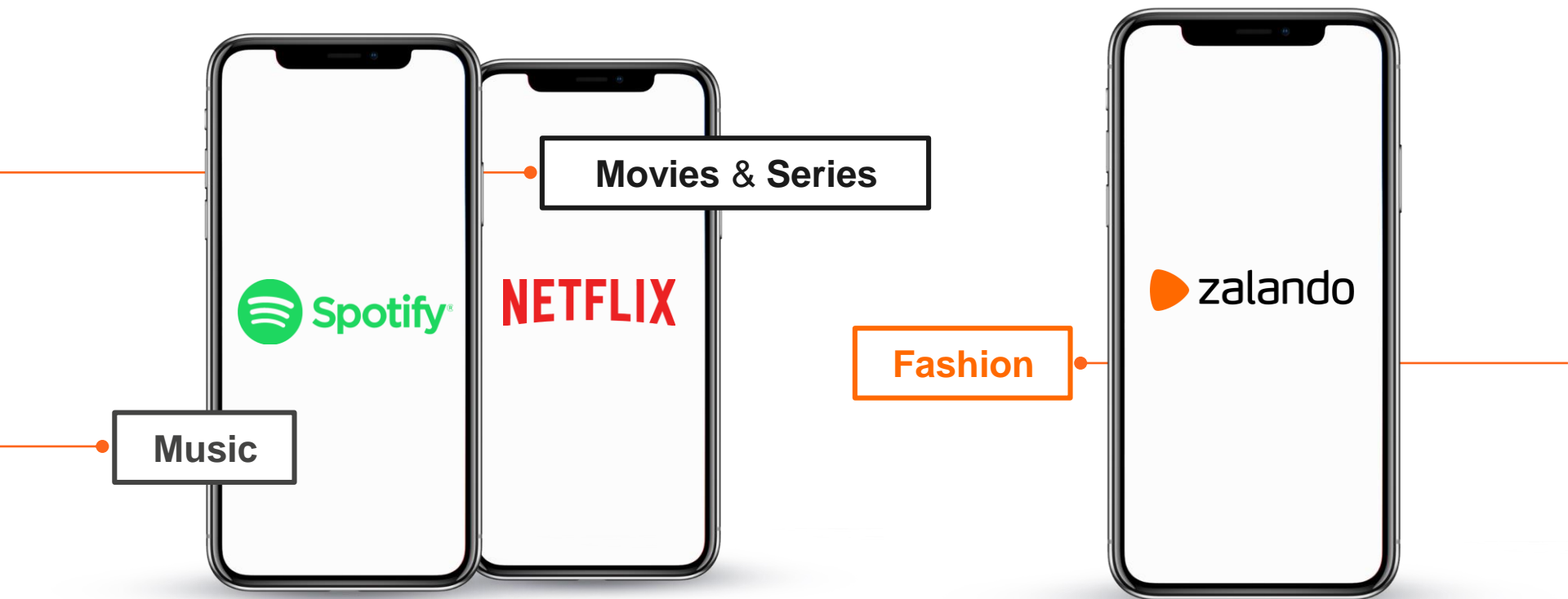
Building the Starting Point for Fashion

Rubin Ritter

Co-CEO

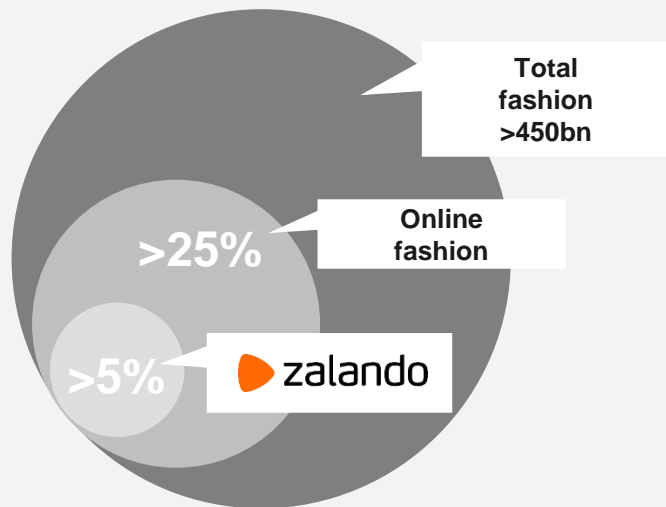


Our vision: To become the Starting Point for Fashion

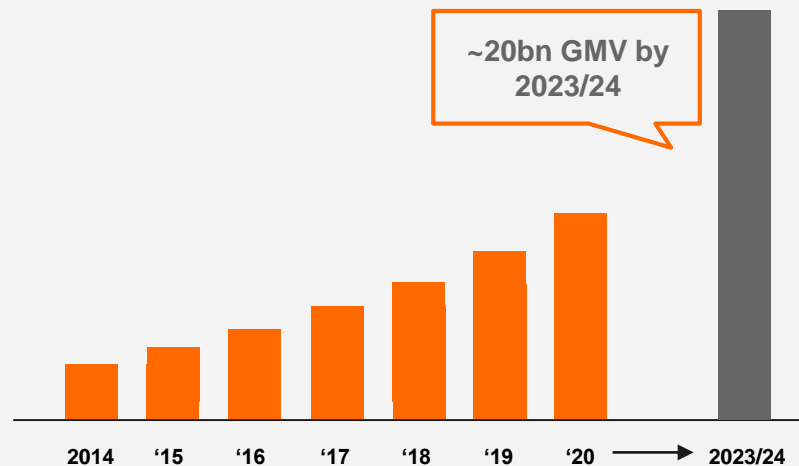


We remain convinced that online fashion is a long-term growth opportunity

We are targeting a huge market opportunity¹,...



...aiming for €20bn GMV by 2023/24

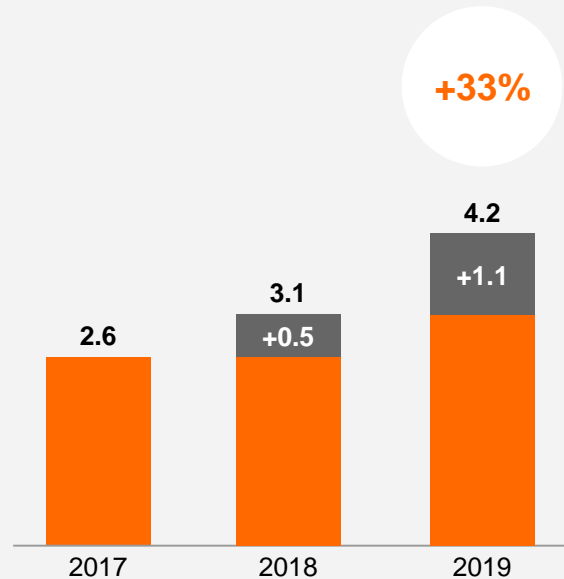


(1) Source: Company estimates and Euromonitor International forecasts, February 2020. Euromonitor forecasts the overall European Fashion Market to grow to roughly 450bn EUR over the next 5-10 years. Values based on actuals and estimates; fixed exchange rates. Fashion data incl. apparel and footwear, bags and luggage, jewelry and watches. Data for Europe (excluding Russia) inclusive of sales tax

In 2019, we have delivered towards our growth ambition

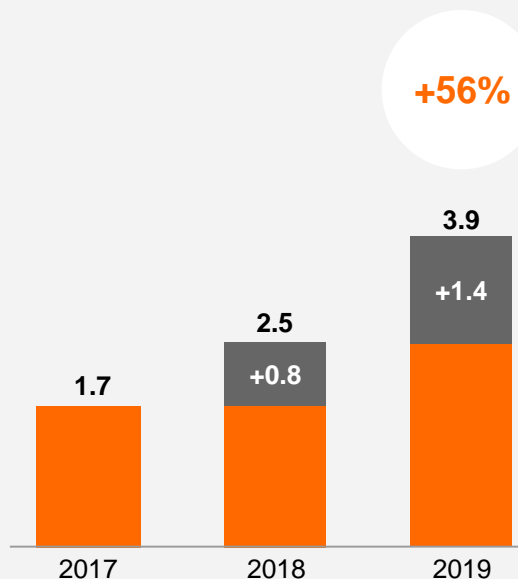
Visits
in bn #

+33%



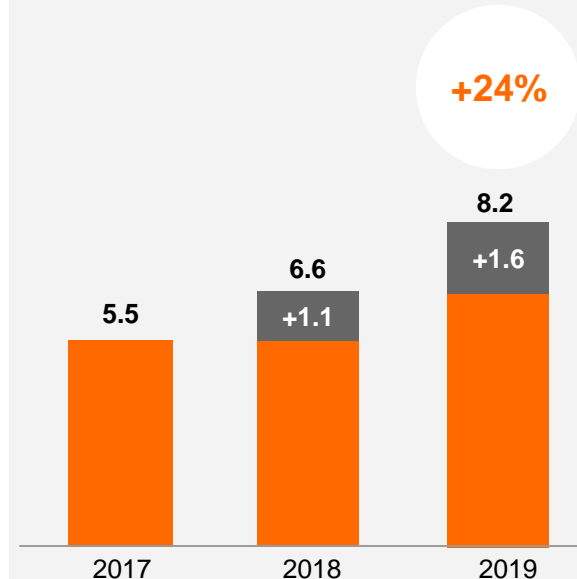
App GMV
in bn €

+56%



GMV
in bn €

+24%



We are taking decisive and transformative steps to enable our future growth

Starting Point for Fashion

1

Deepen Customer Relationships

Zalando plays an indispensable role in customers' lives

2

Grow Active Customer Base

Zalando is relevant to a broad audience across Europe

3

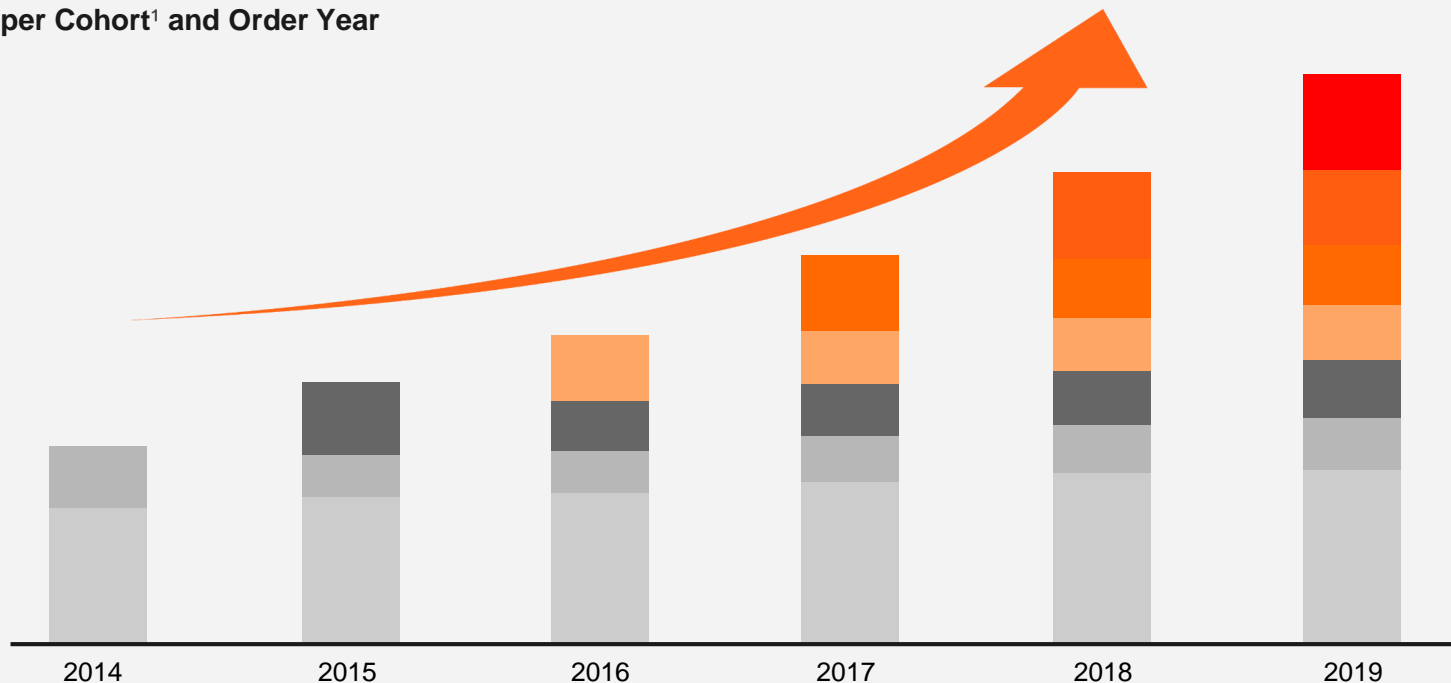
Drive Platform Transition

Zalando is the digital strategy for fashion brands

Cohort analysis shows deeper and healthier customer relationships

1

Total GMV per Cohort¹ and Order Year



(1) Cohort refers to customers grouped by the calendar year in which they first placed an order with Zalando.

Zalando Plus is set to become an essential lever in deepening our relationship with our most valuable customers

1

Plus customers are a lot happier, ...
Net-Promoter-Score¹

+4



...engage more with us...
Sessions per user¹

+70%



...and hence spend more
GMV per active Customer¹

>3x



(1) Comparison of NPS, Sessions per User and GMV per active customer is based on FY/19 numbers based on Plus vs Non-Plus Customers in Germany

Zalando to launch pre-owned category on main destination after testing since 2018, connecting buyers and sellers of pre-owned products

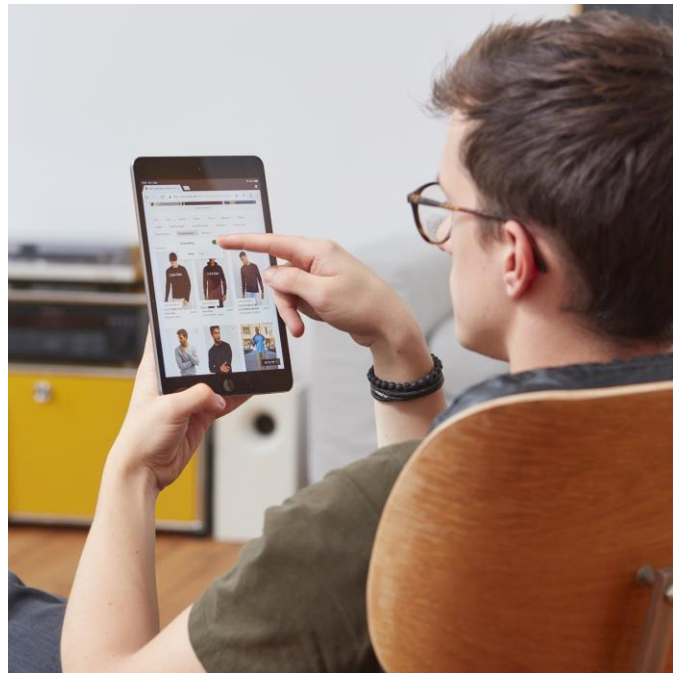
1



Customers declutter their wardrobe



Pre-owned



Customers discover pre-owned item on Zalando

Stronger cohort dynamics and our data-driven marketing approach allow us to scale active customer growth

2

In 2018, we refined our Marketing approach...

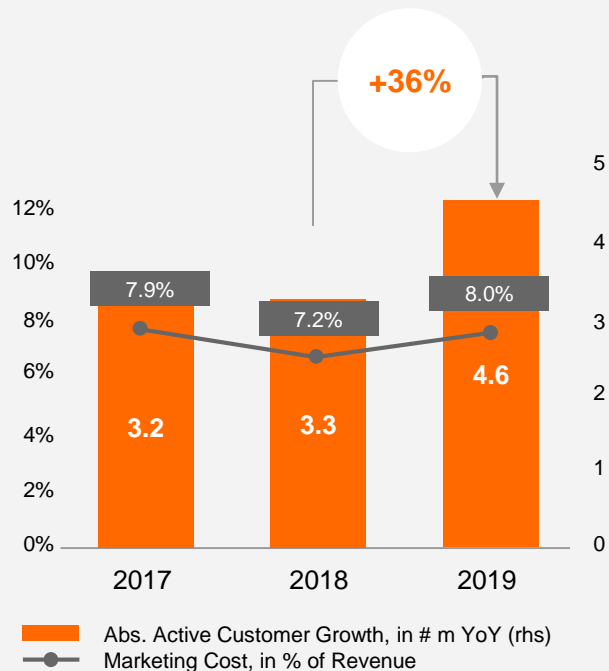
“The Amazing Ways Retail Giant Zalando Is Using Artificial Intelligence (...) To Understand Its Customers Better.”

(Forbes, 2019)

“German fashion retailer Zalando plans to roll out an online shopping service that uses artificial intelligence to make personalized suggestions.”

(Handelsblatt, 2018)

...which has resulted in an acceleration of Active Customer Growth



Our 2020 initiatives to drive Active Customers growth

2

We double down on Premium

Large segment

Market Size: ~40bn EUR

Shifting online

16% online CAGR

Customer interest

20m searches for luxury brands we do not have yet

Order economics

Above average basket sizes



Getting closer to our Spanish customers by opening a local warehouse

1. Erfurt

2. Brieselang

3. Mönchengladbach

4. Lahr

5. Paris (FR)

6. Stockholm (SE)

7. Szczecin (PL)

8. Olsztynek (PL)

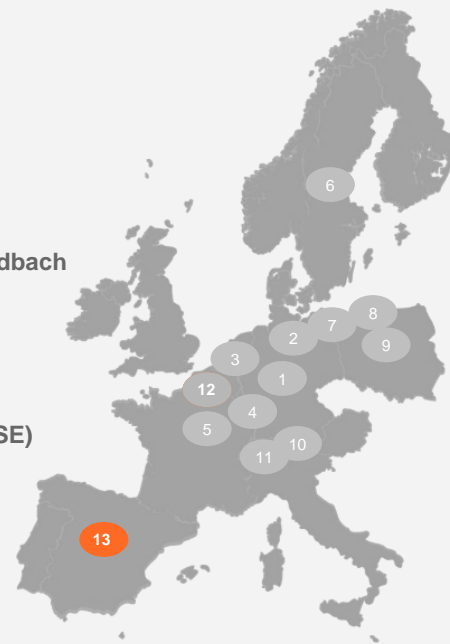
9. Lodz (PL)

10. Verona (IT)

11. Milano (IT)

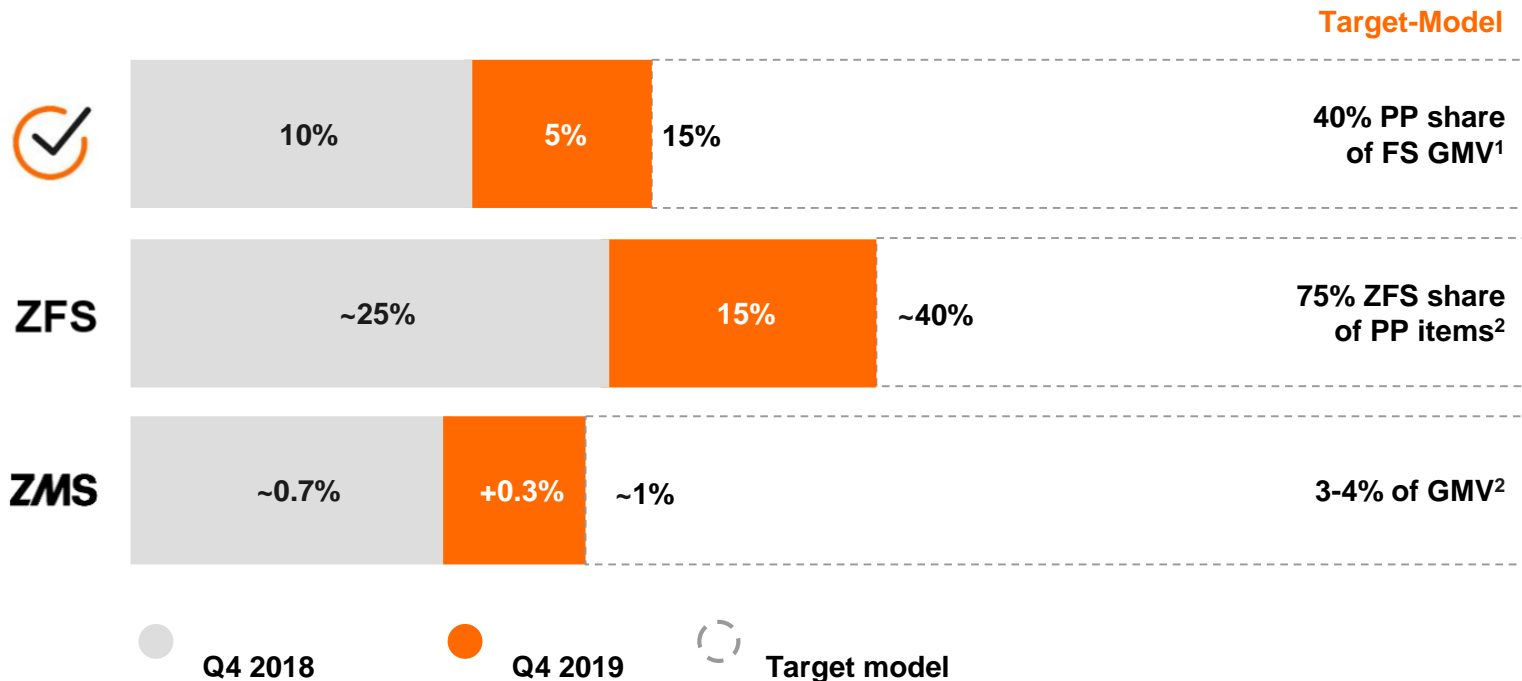
12. Rotterdam (NL)

13. Madrid (ES)



In 2019, we achieved important milestones in driving the Platform Transition

3



1) Partner Program share of 40% refers to our business model mix ambition for 2023/24. In our long-term target model, we aim for a 50% Partner Program share.

2) Refers to our long-term target model ambition.

In 2020, we will focus on four areas to drive the platform transition



- **Internationalization of existing Partners**
Partner Program
Share Germany: >25%
- **New Partner Integration & Range Extensions of existing Partners**
- **ZFS / Offprice Integration**
- **Next Generation of Tooling**



Building the
**Starting
Point**
for Fashion

Financial Update FY and Q4 / 2019

David Schröder **CFO**



In 2019, we made strong progress on our strategic agenda and delivered strong financial results

Starting Point Strategy:

Accelerated traffic (+33% YoY) and active customer growth (+4.6m YoY)

Platform Transition:

15% Partner Program share (+5pp) in Q4 and strong progress along our B2B services ZFS and ZMS

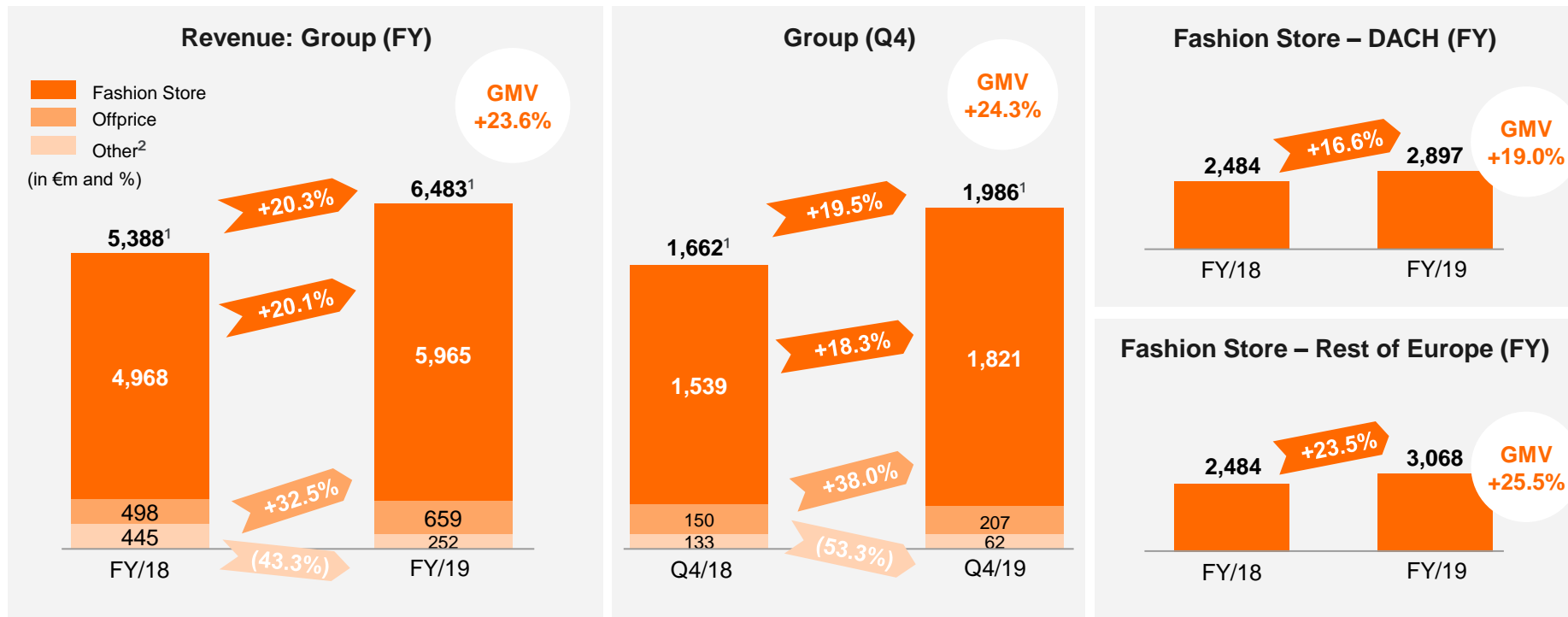
Strong Financial Performance:

GMV +23.6%, revenue +20.3%, adj. EBIT €224.9m

Operating Leverage:

Profit contribution before marketing increased (+0.8pp YoY) and admin cost ratio improved (-0.3pp YoY)

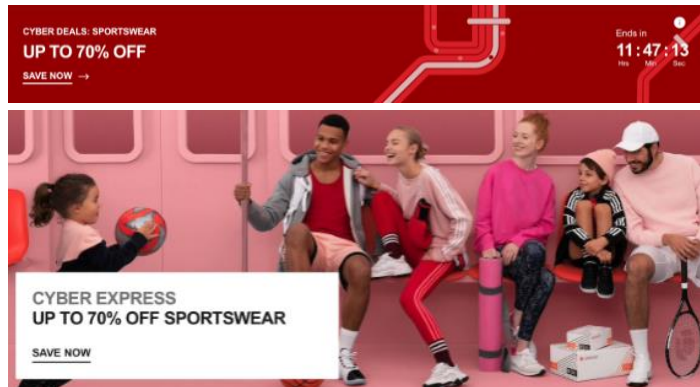
2019 saw an acceleration in GMV growth, driven by healthy customer demand and increasing adoption of Partner Program



1) FY/19 (FY/18) contains -€394m (-€522m) reconciliation of internal revenues; Q4/19 (Q4/18): -€103.3m (-€160.0m)

2) All other segments including various emerging businesses; private label offering zLabels no longer presented as separate unit since Q2/19

Cyber Week marked another important proof point for the potential of our platform business



~20%

Partner Program
Share

33m

Site Visits on
Black Friday

+5

YoY in NPS
in Cyber Week

~840k

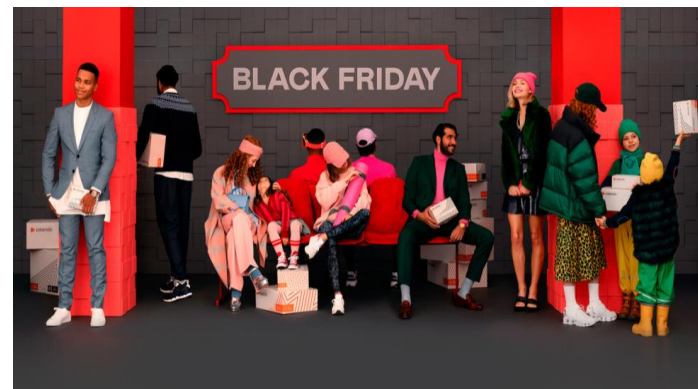
Newly Acquired
Customers

7,200

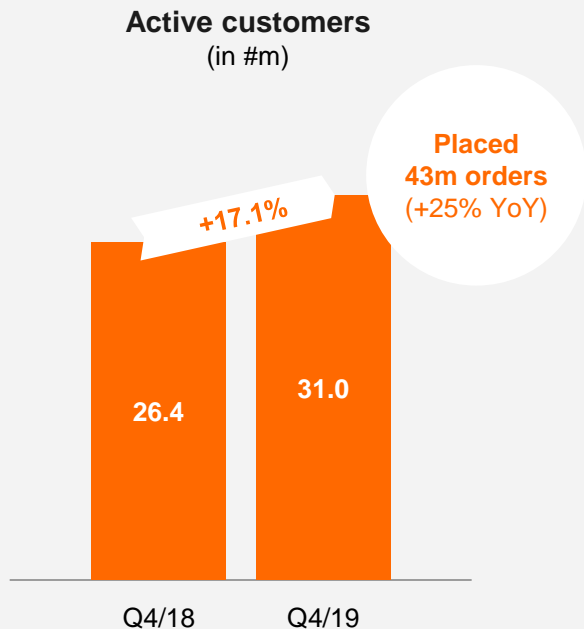
Orders/Minute
at Peak Times

32%

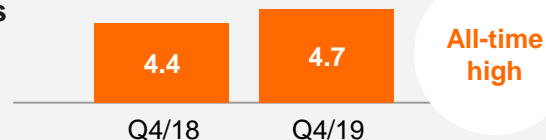
YoY GMV
Growth



We continue to grow our active customer base and to deepen our customer relationships



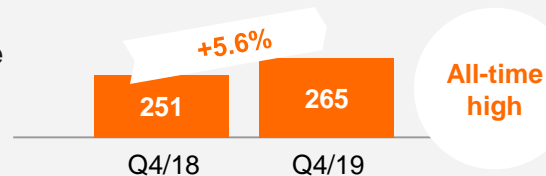
Average orders per active customer
(LTM in #)



Average basket size after returns¹
(LTM in €)



GMV per active customer²
(LTM in #)

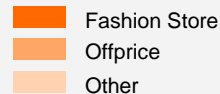


1) Defined as GMV divided by the number of orders

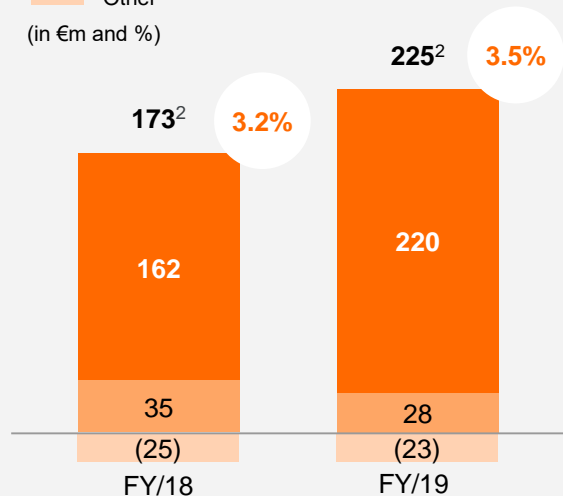
2) Defined as GMV divided by the number of active customers

Full year adjusted EBIT grew by 30% despite continued growth and platform investments

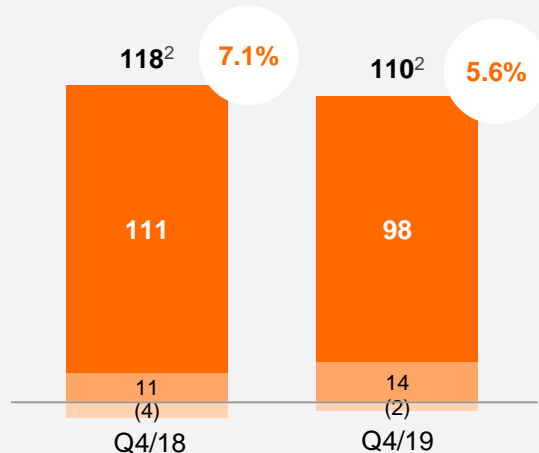
Adj. EBIT: Group (FY)¹



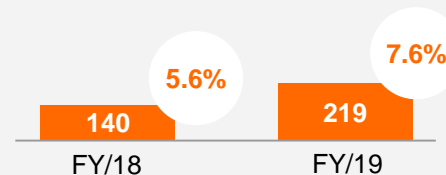
(in €m and %)



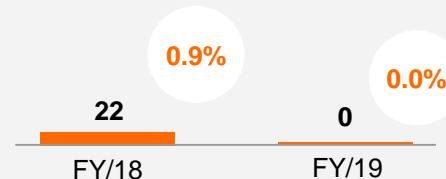
Group (Q4)¹



Fashion Store – DACH (FY)



Fashion Store – Rest of Europe (FY)



- 1) Excluding equity-settled share-based payment expense (SBC), restructuring costs and non-operating one-time effects of €59.1m in FY19 (FY18: €54.2m); Q4/19: €11.3m (Q4/18: €15.1m)
 2) FY19 (FY18) contains €0.6m (€0.7m) reconciliation of internal adj. EBIT; Q4/19 (Q4/18): €0.0m (€-0.1m).

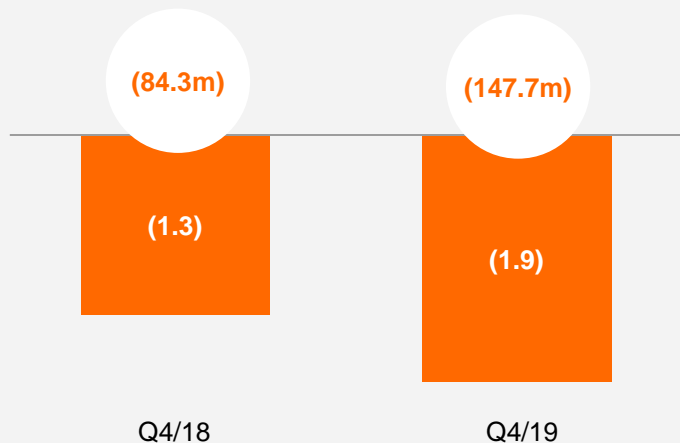
In 2019 our operating leverage increased due to higher profit contribution before marketing and lower admin costs

| Costs and margins ¹ (in % of revenue) | FY | | | Q4 | | | |
|---|---------|---------|---------|---------|---------|---------|--|
| | 2018 | 2019 | Delta | 2018 | 2019 | Delta | |
| Cost of sales | (57.6%) | (57.2%) | (0.4pp) | (57.0%) | (56.3%) | 0.7pp | <p>Price investments during Cyber Week to capture additional demand</p> <p>Continued high utilization</p> <p>Elevated marketing investment as guided</p> |
| Gross profit | 42.4% | 42.8% | 0.4pp | 43.7% | 43.0% | (0.7pp) | |
| Fulfillment costs | (27.7%) | (27.3%) | (0.4pp) | (25.4%) | (25.2%) | (0.2pp) | |
| Marketing costs | (7.2%) | (8.0%) | 0.8pp | (7.4%) | (8.6%) | 1.2pp | |
| Administrative expenses & Other | (4.3%) | (4.0%) | (0.3pp) | (3.8%) | (3.6%) | (0.2pp) | |
| Adj. EBIT | 3.2% | 3.5% | 0.3pp | 7.1% | 5.6% | 1.5pp | |

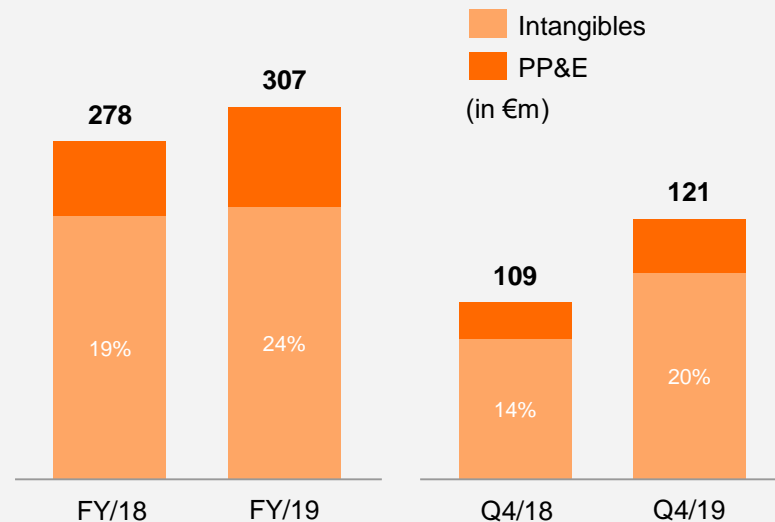
1) Excluding equity-settled share-based payment expense ("SBC"), restructuring costs and non-operating one-time effects

Working capital and capex developed in line with guidance

Net working capital (end of Q4)
(in % of annualized revenue)



Capital expenditure¹






1) Excluding payments for acquisitions of €1.7m in FY/19 (FY/18: €7.1m); Q4/19: €0.0m (Q4/18: €1.8m)

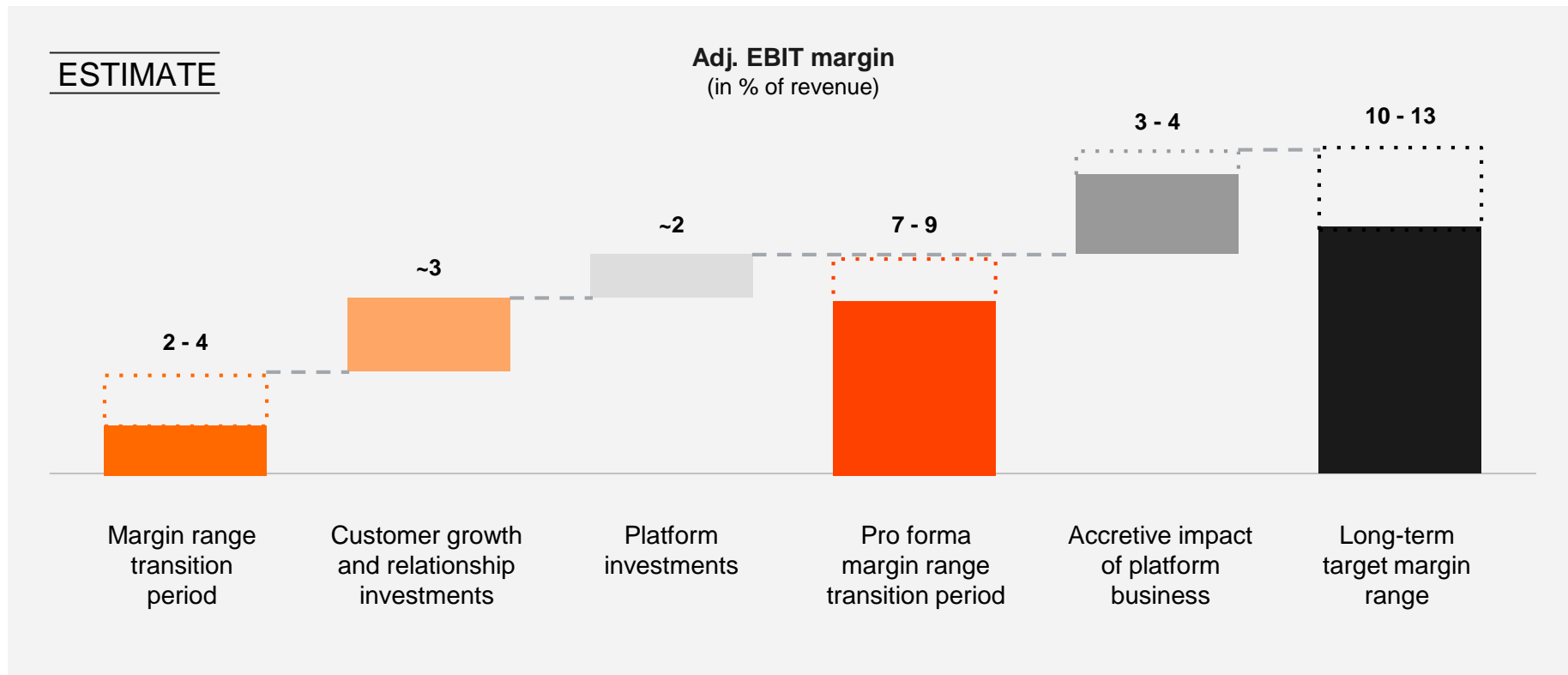
Outlook



With our strong 2019 performance we successfully managed the first year of our platform transition phase and delivered in the upper half of our target growth and profitability corridors

| | 2019 | Transition Phase 2019 – 2021 | Years Following | Target Model |
|---------------|---|---|--|--|
| GROWTH |  | Continued high GMV growth of 20-25% until 2023/24 | | Growth in line with / slightly above online market |
| PROFITABILITY |  | Margins between 2-4%, driven by growth investments and platform transition | Margins start to increase as platform transition progresses (e.g. impact of ZMS) | Target margin of 10-13% |
| CASH |  | <ul style="list-style-type: none">• Cash flow negative• NWC neutral• Capex of 4-5% of revenue | | Target margin leading to a strong cash generation |

We continue to invest significantly into above-market growth to maximize company value



For 2020, we remain committed to our previous transition phase guidance, with strong growth momentum and continued investments in our customers and our platform

GMV growth of 20-25% and Revenue growth of 15-20%

Adj. EBIT¹ of €225 – 275m

Slightly negative working capital and around €330m capex²

1) Excluding equity-settled share-based payment expense ("SBC") of ~€50m, restructuring costs and non-operating one-time effects for FY/20E

2) Excludes M&A transactions

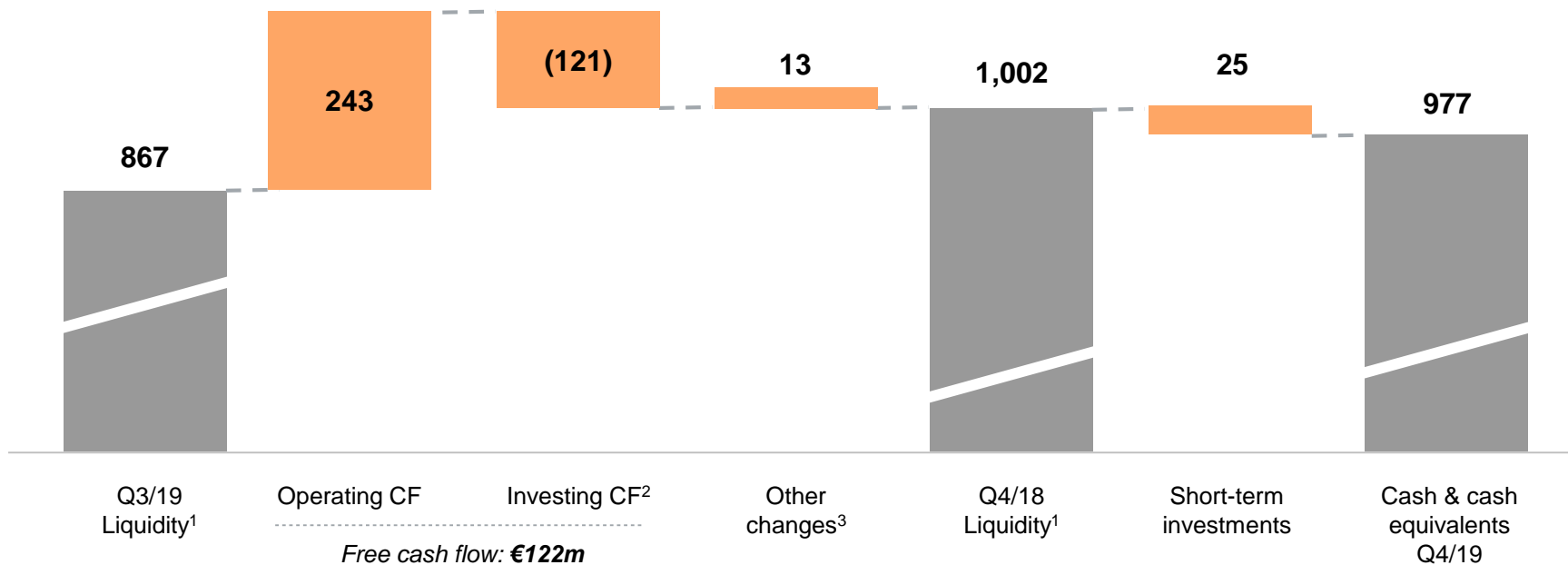
**Excluding a potential
negative impact from
Coronavirus**

Q&A



Liquidity position

(in €m)



- (1) Both Q3/19 and Q4/19 liquidity include investments into short-term deposits with maturity of more than 3 and less than 12 months of -€25m, respectively.
- (2) Includes investments in fixed and intangible assets and payments for acquisitions and change in restricted cash (+€0.0m)
- (3) Includes financing cash flow (-€15.4m) and effect of exchange rate on cash and cash equivalents (+€2.7m).

Issued share capital

SHARE INFORMATION

(AS OF DEC 31, 2019)

| | |
|---|---|
| Type of Shares | Ordinary bearer shares with no-par value (<i>Stückaktien</i>) |
| Stock Exchange | Frankfurt Stock Exchange |
| Market Segment | Regulated Market (<i>Prime Standard</i>) |
| Index Listings | MDAX |
| Total Number of Shares Outstanding | 252,848,768 |
| Issued Share Capital | €252,848,768 |

STOCK OPTION PROGRAMS MGMT BOARD (AS OF DEC 31, 2019)

| Program | # Options outstanding | Weighted average exercise price (EUR) |
|-----------------------|-----------------------|---------------------------------------|
| SOP 2011 ¹ | 1,346,400 | 5.65 |
| SOP 2013 ¹ | 9,275,200 | 15.56 |
| VSOP 2017 | 290.000 | 42.24 |
| LTI 2018 ² | 5,250,000 | 47.44 |
| VSOP 2018 | 500,000 | 29.84 |
| LTI 2019 | 784,000 | 15.71 |
| Total | 17,445,600 | 25.25 |

STOCK OPTION PROGRAMS SENIOR MGMT (AS OF DEC 31, 2019)

| Program | # Options outstanding | Weighted average exercise price (EUR) |
|-----------------------|-----------------------|---------------------------------------|
| SOP 2014 ¹ | 2,114,754 | 21.23 |
| EIP ¹ | 3,628,749 | 35.31 |
| VSOP 2017 | 459,166 | 42.24 |
| ZOP | 353,565 | 14.84 |
| Total | 6,556,234 | 30.15 |

1) Settled with new shares

2) Only to 43% dilutive / to be settled with new shares, remaining backed by treasury shares

Upcoming events

| Date | Event |
|---|---|
| Tuesday, March 3 | Roadshow Frankfurt |
| Wednesday/Thursday, March 4+5 | Roadshow London |
| Tuesday, Wednesday, Thursday, March 17-19 | Roadshow Scandinavia (Copenhagen, Oslo, Helsinki) |
| Monday, March 23 | Roadshow Stockholm |
| Tuesday, March 24 | Bankhaus Lampe Deutschlandkonferenz, Baden-Baden |
| Wednesday, March 25 | 2020 Credit Suisse Digital Consumer Retail Conference, London |
| Friday, March 27 | Roadshow Munich |
| Tuesday, March 31 | One-Stop-Shop Kepler Cheuvreux, Milan |
| Thursday, May 7 | Q1/2020 Results |
| Wednesday, May 20 | Annual General Meeting, Berlin |

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Disclaimer

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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.