

Quarterly Statement Q3 2019



Zalando at a Glance

Key Figures

	Jul 1 – Sep 30, 2019	Jul 1 – Sep 30, 2018	Jan 1 – Sep 30, 2019	Jan 1 – Sep 30, 2018
Group key performance indicators				
Site visits (in millions)	1,000.3	728.7	2,910.6	2,176.6
Mobile visit share (in %)	84.8	80.0	83.6	78.4
Active customers (in millions)	29.5	25.1	29.5	25.1
Number of orders (in millions)	34.7	27.7	102.3	82.1
Average orders per active customer (LTM*)	4.6	4.3	4.6	4.3
Average basket size** (LTM, in EUR)	56.6	57.7	56.6	57.7
Results of operations				
Gross merchandise volume*** (GMV) (in EUR m)	1,894.9	1,520.9	5,673.1	4,594.1
Revenue (in EUR m)	1,521.1	1,200.2	4,496.6	3,726.3
EBIT (in EUR m)	-6.9	-55.7	66.7	16.5
EBIT (as % of revenue)	-0.5	-4.6	1.5	0.4
Adjusted EBIT (in EUR m)	6.3	-38.9	114.5	55.5
Adjusted EBIT (as % of revenue)	0.4	-3.2	2.5	1.5
EBITDA (in EUR m)	39.5	-33.7	207.2	75.9
EBITDA (as % of revenue)	2.6	-2.8	4.6	2.0
Adjusted EBITDA (in EUR m)	52.7	-16.9	255.0	115.0
Adjusted EBITDA (as % of revenue)	3.5	-1.4	5.7	3.1
Financial position				
Net working capital (in EUR m)	-69.7	-84.3****	-69.7	-84.3****
Equity ratio (as % of balance sheet total)	37.7	47.9****	37.7	47.9****
Cash flow from operating activities (in EUR m)	-0.7	-25.9	84.0	-21.1
Cash flow from investing activities (in EUR m)	-88.0	-4.8	-169.2	-98.0
Free cash flow (in EUR m)	-88.7	-30.3	-80.6	-138.8
Capex (in EUR m)	-88.0	-60.6	-185.5	-169.3
Cash and cash equivalents (in EUR m)	867.0	877.0	867.0	877.0
Other				
Employees (as of the reporting date)	13,693	15,619****	13,693	15,619****
Basic earnings per share (in EUR)	-0.05	-0.17	0.06	-0.02
Diluted earnings per share (in EUR)	-0.05	-0.17	0.06	-0.02

pp = percentage points

For an explanation of the performance indicators please refer to the glossary to the annual report 2018 (section 4.1).

Rounding differences may arise in the percentages and numbers shown in this quarterly statement.

*) Calculated based on the last twelve months (LTM)

**) The calculation and definition of the average basket size was changed in 2019. It now consists of the GMV divided by the number of orders. In the prior-year period, it was calculated as transactional revenue divided by the number of orders. In the table above, the new definition and calculation method was applied for both the current and prior-year periods. Average basket size as per the prior-year definition is EUR 55.2 per Q3 2019 (Q3 2018: EUR 57.5) and EUR 57.3 per YTD Q3 2019 (YTD Q3 2018: EUR 59.4).

***) GMV (gross merchandise volume) is defined as the value of all merchandise sold to customers after cancellations and returns and including VAT, dynamically reported. It does not include B2B revenues (e.g. Partner Program commission, Zalando Marketing Services or Zalando Fulfillment Solutions) and other B2C revenues (e.g. service charges); these are included in revenue only. GMV is recorded based on the time of the customer order.

****) As of Dec 31, 2018

Content

1.1 FINANCIAL PERFORMANCE OF THE GROUP

- Zalando increased revenue by 26.7% to EUR 1,521.1m, GMV grew by 24.6%, number of orders up by 25.4%.
- More than one billion site visits, number of active customers increased to 29.5m, average orders per active customer at 4.6.
- EBIT margin improved by 4.2 percentage points, mainly driven by a lower cost of sales ratio (1.6 percentage points) and a decrease in fulfillment cost ratio (1.5 percentage points).
- Full-year guidance confirmed: GMV growth of 20% to 25%, revenue growth around the low end of this range; adjusted EBIT expected in the upper half of the range between EUR 175m and EUR 225m; capital expenditure of EUR 300m expected.

1.1 Financial Performance of the Group

In the third quarter of 2019, we achieved strong growth and significantly improved profitability, compared to a challenging third quarter of 2018.

Third Quarter Consolidated Income Statement

IN EUR M	Jul 1 – Sep 30, 2019	As % of revenue	Jul 1 – Sep 30, 2018	As % of revenue	Change
Revenue	1,521.1		1,200.2		26.7%
Cost of sales	-896.4	-58.9%	-726.5	-60.5%	1.6pp
Gross profit	624.7	41.1%	473.7	39.5%	1.6pp
Selling and distribution costs	-560.2	-36.8%	-459.7	-38.3%	1.5pp
Administrative expenses	-72.9	-4.8%	-70.4	-5.9%	1.1pp
Other operating income	1.8	0.1%	1.4	0.1%	0.0pp
Other operating expenses	-0.2	0.0%	-0.7	-0.1%	0.0pp
Earnings before interest and taxes (EBIT)	-6.9	-0.5%	-55.7	-4.6%	4.2pp

Nine Months Consolidated Income Statement

IN EUR M	Jan 1 – Sep 30, 2019	As % of revenue	Jan 1 – Sep 30, 2018	As % of revenue	Change
Revenue	4,496.6		3,726.3		20.7%
Cost of sales	-2,592.1	-57.6%	-2,170.1	-58.2%	0.6pp
Gross profit	1,904.5	42.4%	1,556.1	41.8%	0.6pp
Selling and distribution costs	-1,620.2	-36.0%	-1,351.8	-36.3%	0.2pp
Administrative expenses	-221.0	-4.9%	-195.8	-5.3%	0.3pp
Other operating income	10.8	0.2%	10.8	0.3%	0.0pp
Other operating expenses	-7.3	-0.2%	-2.9	-0.1%	-0.1pp
Earnings before interest and taxes (EBIT)	66.7	1.5%	16.5	0.4%	1.0pp

Development of GMV and Revenue

In the third quarter of 2019, GMV increased by EUR 374.0m compared to the prior-year period to EUR 1,894.9m. This corresponds to year-on-year GMV growth of 24.6%. The growth is driven by an increase in the number of orders by a larger customer base. In Q3 2019, our site had more than 1 billion visits. The group had 34.7 million orders in Q3 2019 compared to 27.7 million orders in Q3 2018, an increase of 25.4%. As of September 30, 2019, the group had 29.5 million active customers compared to 25.1 million active customers as of September 30, 2018. This corresponds to an increase of 17.5%. Revenue reached EUR 1,521.1m, increasing by EUR 320.8m compared to the prior year. This corresponds to year-on-year revenue growth of 26.7%, driven by the aforementioned factors. Revenue growth was higher than GMV growth in Q3 2019 due to a revenue recognition shift as more orders have been fulfilled than placed and an over-proportional scaling of certain B2B services (Zalando Marketing Services and Zalando Fulfillment Solution) that are not reflected in the definition of GMV.

In the first nine months of 2019, GMV increased by 23.5% to EUR 5,673.1m (prior year: EUR 4,594.1m) while revenue showed a 20.7% rise to EUR 4,496.6m (prior year: EUR 3,726.3m). The main driver behind the strong growth is a higher number of total orders. A larger customer base placed orders more frequently than in the corresponding prior-year period, with the average number of orders per active customer rising by 7.6%, also supported by an increasing use of mobile devices. The increase in GMV was higher than the increase in revenue. This is the result of the growth of the Partner Program, as this is fully reflected in the GMV metric while revenue only includes the commission income and service fees from partners.

Development of EBIT

The group recorded an EBIT of EUR -6.9m in the third quarter of 2019 (prior year: EUR -55.7m), which corresponds to an EBIT margin of -0.5% (prior year: -4.6%). The increase in the EBIT margin of 4.2 percentage points was mainly driven by the cost of sales ratio which improved by 1.6 percentage points, by the fulfillment cost ratio which improved by 1.5 percentage points and by the administration cost ratio which improved by 1.1 percentage points.

In Q3 2019, cost of sales rose by EUR 169.9m from EUR 726.5m to EUR 896.4m, with the gross margin increasing by 1.6 percentage points from 39.5% to 41.1%. Cost of sales improved due to better buying conditions, an earlier start into the fall/winter season and less allowances for goods due to defective returns.

Selling and distribution costs rose by 21.9% from EUR 459.7m to EUR 560.2m. This corresponds to a decrease as a percentage of revenue of 1.5 percentage points from 38.3% to 36.8%. Selling and distribution costs consist of fulfillment and marketing costs.

The fulfillment cost ratio as a percentage of revenue decreased in the third quarter of 2019 by 1.5 percentage points in comparison to the prior-year period. The decrease in the fulfillment cost ratio in Q3 2019 is primarily attributable to higher efficiency of fulfillment centers due to a higher level of utilization across most of our sites driven by the strong sales growth.

Compared to the prior-year period, marketing costs increased by EUR 26.3m from EUR 96.7m to EUR 123.0m in Q3 2019, leaving the percentage of revenue unchanged at 8.1%. The absolute marketing spend increased as we kept investing savings in fulfillment costs in new customer acquisition.

The administration cost ratio improved by 1.1 percentage points to 4.8% compared to the prior-year period, due to lower personnel costs in relation to the revenue.

The development in the first nine months of 2019 can be summarized as follows: the EBIT margin as a percentage of revenue increased by 1.0 percentage points from 0.4% in the first nine months of 2018 to 1.5% in the first nine months of 2019. This increase resulted from a slight increase in gross margin, a slightly lower selling and distribution cost ratio and a slightly lower administration cost ratio. Gross margin increased by 0.6 percentage points to 42.4% due to better buying conditions and less allowances for goods due to defective returns. As a percentage of revenue, selling and distribution costs decreased by 0.2 percentage points from 36.3% in the first nine months of 2018 to 36.0% in the first nine months of 2019. This development is mainly driven by a decrease in the fulfillment cost ratio which was slightly offset by an increased marketing cost ratio. The marketing cost ratio rose by 0.4 percentage points to 7.8% in the first nine months of 2019 resulting primarily from conscious long-term oriented investments in personalized marketing to attract customers and drive customer development. Fulfillment costs as a percentage of revenue decreased by 0.7 percentage points from 28.9% in the first nine months of 2018 to 28.2% in the first nine months of 2019 due to a higher efficiency of fulfillment centers. At the same time Zalando continues to build its European logistics network and to invest in the customer and brand proposition.

Adjusted EBIT

To assess the operating performance of the business, Zalando's management also considers adjusted EBIT and the adjusted EBIT margin before expenses for equity-settled share-based payments, restructuring costs and non-operating one-time effects.

In the third quarter of 2019, Zalando generated an adjusted EBIT of EUR 6.3m (prior year: EUR -38.9m), which translates into an adjusted EBIT margin of 0.4% (prior year -3.2%). The development of adjusted EBIT and adjusted EBIT margin stems from the aforementioned drivers of unadjusted EBIT. In the first nine months of 2019, expenses for share-based payments increased compared to the first nine months of 2018 mainly resulting from the grant of options under the new Management Board programs LTI 2018 and LTI 2019.

EBIT includes the following expenses from equity-settled share-based payments. More information can be found in the notes to the annual financial statements 2018 (Section 3.5.7 (20.)).

Share-Based Compensation Expenses per Functional Area

IN EUR M	Jul 1 – Sep 30, 2019	Jul 1 – Sep 30, 2018	Change	Jan 1 – Sep 30, 2019	Jan 1 – Sep 30, 2018	Change
Expenses for equity-settled share-based payments	13.2	16.8	-3.6	34.7	28.2	6.5
Cost of sales	0.9	1.0	-0.2	2.4	2.6	-0.3
Selling and distribution costs	2.3	3.6	-1.3	6.1	7.3	-1.2
thereof marketing costs	0.6	0.9	-0.3	1.5	1.5	0.0
thereof fulfillment costs	1.7	2.7	-0.9	4.6	5.7	-1.1
Administrative expenses	10.0	12.2	-2.2	26.2	18.3	7.9

In the first nine months of 2019, EBIT included restructuring costs of EUR 13.1m incurred in connection with the reorganization of the private label business in Q1 2019 (thereof EUR 10.3m in cost of sales, EUR 2.4m in administrative expenses, and EUR 0.4m in marketing costs). These costs are also adjusted for in the calculation of adjusted EBIT. In the first nine months of 2018, EBIT contained restructuring costs of EUR 10.9m that were incurred mainly in connection with the implementation of a new setup for the marketing department in Q1 2018.

1.2 Results by Segment

The condensed segment results for the third quarter of 2019 show a strong improvement in revenue for the Fashion Store and Offprice segments and a significant decrease in revenue in all other segments. While EBIT increased in the Fashion Store, it decreased in the Offprice and all other segments compared to the prior-year period.

Segment Development for the Quarter

Segment Results of the Group Q3 2019

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,397.8	160.4	42.2	1,600.5	-79.4	1,521.1
thereof intersegment revenue	68.6	0.0	10.8	79.4	-79.4	0.0
Earnings before interest and taxes (EBIT)	-1.7	1.9	-7.1	-7.0	0.1	-6.9
Adjusted EBIT	9.5	3.2	-6.4	6.2	0.1	6.3

Segment Results of the Group Q3 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	1,101.3	112.8	111.4	1,325.4	-125.1	1,200.2
thereof intersegment revenue	39.3	0.0	85.9	125.1	-125.1	0.0
Earnings before interest and taxes (EBIT)	-54.8	7.0	-6.5	-54.3	-1.3	-55.7
Adjusted EBIT	-40.9	8.1	-4.7	-37.5	-1.3	-38.9

Financial information for the Fashion Store segment, including intersegment transactions, is broken down into the DACH and Rest of Europe regions as follows:

Fashion Store Results by Region Q3 2019

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	666.7	731.1	1,397.8
thereof intersegment revenue	33.9	34.7	68.6
Earnings before interest and taxes (EBIT)	34.5	-36.2	-1.7
Adjusted EBIT	40.1	-30.7	9.5

Fashion Store Results by Region Q3 2018

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	542.4	558.9	1,101.3
thereof intersegment revenue	20.3	18.9	39.3
Earnings before interest and taxes (EBIT)	-15.0	-39.8	-54.8
Adjusted EBIT	-7.8	-33.1	-40.9

In Q3 2019, revenue in the Fashion Store segment grew by 26.9%, increased in the Offprice segment by 42.2% and decreased by 62.1% in all other segments, compared to the prior-year period. The Fashion Store segment continued to generate the highest absolute level of revenue, while the Offprice segment showed the highest percentage increase in revenue. The revenue increase in the Fashion Store is driven by an increase in the number of orders across all regions. The revenue increase in the Offprice segment is mainly attributable to the good performance and growth of Zalando Lounge, especially in Germany and its younger markets Poland and Spain. The decrease in revenue in all other segments is attributed to the reorganization of the private label business in Q1 2019. The private label business was restructured and under a new setup integrated into the Fashion Store segment from Q2 2019 onwards. The majority of the revenue in all other segments was contributed by ZMS (Zalando Marketing Services) and Zalon. ZMS revenue grew significantly in Q3 2019 compared to the prior-year period.

The Fashion Store segment realized an EBIT margin of -0.1% in Q3 2019, an increase of 4.9 percentage points compared to the prior-year period. This increase mainly stemmed from an improved gross margin as a result of better buying conditions, an earlier start into the fall/winter season and less allowances for goods for defective returns and a lower fulfillment cost ratio. It was partly compensated by a higher marketing cost ratio due to conscious long-term oriented investments in personalized marketing to attract customers and drive customer development. The Offprice segment recorded EBIT of EUR 1.9m with the EBIT margin decreasing from 6.2% in the prior-year period to 1.2% in Q3 2019, mainly attributed to higher fulfillment costs due to the entry into new markets and the ramp-up of a new fulfillment center. All other segments recorded a decrease of 11.0 percentage points, resulting in an EBIT margin of -16.9% in the third quarter of 2019, mainly caused by the shift of the private label business to the Fashion Store segment, partly compensated by the ongoing margin improvement of our emerging businesses.

Segment Development for the First Nine Months

Segment Results of the Group for the First Nine Months 2019

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	4,144.4	452.9	190.1	4,787.4	-290.8	4,496.6
thereof intersegment revenue	192.8	0.0	98.0	290.8	-290.8	0.0
Earnings before interest and taxes (EBIT)	92.7	10.5	-37.1	66.1	0.6	66.7
Adjusted EBIT	121.4	14.0	-21.6	113.8	0.6	114.5

Segment Results of the Group for the First Nine Months 2018

IN EUR M	Fashion Store	Offprice	All other segments	Total	Reconciliation	Total Group
Revenue	3,428.6	347.8	311.9	4,088.3	-362.0	3,726.3
thereof intersegment revenue	120.1	0.0	241.9	362.0	-362.0	0.0
Earnings before interest and taxes (EBIT)	17.7	22.2	-24.2	15.7	0.8	16.5
Adjusted EBIT	51.1	24.1	-20.4	54.8	0.8	55.5

Financial information for the Fashion Store segment, including intersegment transactions, is broken down into the DACH and Rest of Europe regions as follows:

Fashion Store Results by Region for the First Nine Months 2019

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	2,020.4	2,124.0	4,144.4
thereof intersegment revenue	96.7	96.1	192.8
Earnings before interest and taxes (EBIT)	119.5	-26.9	92.7
Adjusted EBIT	134.0	-12.5	121.4

Fashion Store Results by Region for the First Nine Months 2018

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	1,720.2	1,708.4	3,428.6
thereof intersegment revenue	62.5	57.6	120.1
Earnings before interest and taxes (EBIT)	52.2	-34.5	17.7
Adjusted EBIT	68.8	-17.7	51.1

In the Fashion Store segment, revenue rose by 20.9% in the first nine months of 2019 compared to the corresponding prior-year period, and thus the Fashion Store continues to be the strongest segment in terms of absolute revenue. In the Offprice segment, revenue grew by 30.2% while in all other segments total revenue declined by 39.1% for the aforementioned reasons.

The EBIT margin in the Fashion Store segment increased by 1.7 percentage points from 0.5% in the first nine months of 2018 to 2.2% in the first nine months of 2019. This improvement mainly resulted from a higher gross margin and a lower fulfillment cost ratio, partly compensated by a higher marketing cost ratio. The main drivers behind this development were higher warehouse efficiency, good buying conditions and less allowances for goods for defective returns. The Offprice segment recorded an EBIT margin of 2.3%. The decrease from 6.4% in the prior-year period is mainly attributable to higher fulfillment costs, resulting from the entry into new markets and the ramp-up of a new fulfillment center. The EBIT margin in all other segments decreased by 11.8 percentage points to -19.5% in the first nine months of 2019 in comparison to the first nine months of 2018, mainly driven by the shift of the private label business to the Fashion Store segment, partly compensated by savings in our emerging businesses. In Q1 2019 restructuring costs of EUR 13.1m incurred in connection with the reorganization of the private label business were recorded in all other segments.

Adjusted EBIT

EBIT comprises the following expenses from equity-settled share-based payments:

Share-Based Compensation Expenses per Segment

IN EUR M	Jul 1 – Sep 30, 2019	Jul 1 – Sep 30, 2018	Change	Jan 1 – Sep 30, 2019	Jan 1 – Sep 30, 2018	Change
Expenses for equity-settled share-based payment	13.2	16.8	-3.6	34.7	28.2	6.5
Fashion Store	11.2	13.8	-2.6	28.8	23.4	5.3
Offprice	1.3	1.1	0.2	3.4	1.8	1.6
All other segments	0.7	1.9	-1.2	2.5	2.9	-0.5

EBIT furthermore includes the above-mentioned restructuring costs incurred in connection with the reorganization of the private-label business in Q1 2019 with EUR 13.1m in all other segments. In the prior-year period, EBIT also contained restructuring costs of EUR 10.0m in the Fashion Store segment, EUR 0.1m in the Offprice segment and EUR 0.8m in all other segments.

The Fashion Store segment realized an adjusted EBIT margin of 0.7% in the third quarter of 2019, which translates into an increase of 4.4 percentage points when compared to the prior-year period. The Offprice segment recorded an adjusted EBIT margin of 2.0%, a decline of 5.1 percentage points in the adjusted EBIT margin compared to the prior-year period. All other segments generated an adjusted EBIT margin of -15.3% in the third quarter of 2019, representing a decrease of 11.1 percentage points. The development in adjusted EBIT and adjusted EBIT margin resulted almost exclusively from the aforementioned drivers described for unadjusted EBIT.

1.3 Cash Flows

The liquidity and financial development of the Zalando group are presented in the following condensed statement of cash flows:

Condensed Statement of Cash Flows

IN EUR M	Jul 1 – Sep 30, 2019	Jul 1 – Sep 30, 2018	Jan 1 – Sep 30, 2019	Jan 1 – Sep 30, 2018
Cash flow from operating activities	-0.7	-25.9	84.0	-21.1
Cash flow from investing activities	-88.0	-4.8	-169.2	-98.0
Cash flow from financing activities	4.1	31.1	-42.0	-67.2
Change in cash and cash equivalents	-84.6	0.4	-127.2	-186.4
Exchange-rate-related and other changes in cash and cash equivalents	-2.8	1.8	-0.8	-1.3
Cash and cash equivalents at the beginning of the period	954.4	874.7	995.0	1,064.7
Cash and cash equivalents as of Sep 30	867.0	877.0	867.0	877.0

In the third quarter of 2019, Zalando generated a negative cash flow from operating activities of EUR -0.7m (prior-year period: EUR -25.9m). The EUR 25.2m increase in operating cash flow was mainly driven by higher earnings before depreciation which were partly compensated by a higher cash outflow with regard to the net working capital, predominantly related to the bringing forward of the delivery peak with respect to the fall/winter collection in order to focus on outbound in Q4 2019. The cash flow from operating activities includes the effect from the partial reclassification of lease payments. According to the new accounting standard on leases (IFRS 16), cash payments for lease contracts are included in the cash flow from financing activities with the amount used for the repayment of the principal portion of lease liabilities (Q3 2019: EUR 15.3m) and in the cash flow from operating activities with the interest portion on lease liabilities (Q3 2019: EUR 3.3m). In prior-year periods, lease payments were entirely included in the cash flow from operating activities.

The cash flow from investing activities is mainly impacted by capex, being the sum of the payments for investments in fixed and intangible assets excluding payments for acquisitions, amounting to EUR 88.0m (prior-year period: EUR 60.6m). Capex mainly included increased investments in the logistics infrastructure of EUR 55.3m, relating primarily to the fulfillment centers in Verona (Nogarole Rocca), Italy, and in Rotterdam (Bleiswijk), Netherlands as well as investments of EUR 12.8m in internally developed software. Furthermore, in the prior-year period, payments of EUR 57.0m were received as a result of the one-off sale of our fulfillment center in Szczecin (Gyfino), Poland, which was leased back by Zalando after the sale.

As a result, the free cash flow decreased by EUR 58.5m, from EUR -30.3m in the prior-year period to EUR -88.7m in the third quarter of 2019.

Cash flow from financing activities includes payments received from capital increases amounting to EUR 20.4m in Q3 2019 comprising exercise price payments received for employee stock options

(prior-year period: EUR 32.2m). Furthermore, it includes cash outflows for the repayment of the principal portion of lease liabilities (EUR 15.3m). In the prior-year period, all lease payments were included in the cash flow from operating activities (see above).

Aggregate cash and cash equivalents decreased by EUR 87.4m in the third quarter, resulting in Zalando carrying cash and cash equivalents of EUR 867.0m as of September 30, 2019.

1.4 Financial Position

The group's financial position is shown in the following condensed statement of financial position.

Assets

IN EUR M	Sep 30, 2019		Dec 31, 2018		Change	
Non-current assets	1,378.7	32.7%	760.2	23.5%	618.4	81.3%
Current assets	2,837.4	67.3%	2,473.5	76.5%	363.8	14.7%
Total assets	4,216.0	100.0%	3,233.7	100.0%	982.3	30.4%

Equity and Liabilities

IN EUR M	Sep 30, 2019		Dec 31, 2018		Change	
Equity	1,589.1	37.7%	1,549.1	47.9%	40.0	2.6%
Non-current liabilities	540.7	12.8%	70.9	2.2%	469.8	662.3%
Current liabilities	2,086.2	49.5%	1,613.7	49.9%	472.5	29.3%
Total equity and liabilities	4,216.0	100.0%	3,233.7	100.0%	982.3	30.4%

Compared to December 31, 2018, Zalando's total assets increased by EUR 982.3m.

The accounting treatment for leases was changed in 2019 in accordance with the new accounting standard on leases (IFRS 16). This had a major impact on the statement of financial position, resulting in a carrying amount of right-of-use assets (non-current) of EUR 521.0m and total lease liabilities (current and non-current) of EUR 542.4m as of the end of Q3 2019. More information can be found in the notes to the annual financial statements 2018 (Section 3.5.3). Right-of-use assets mainly relate to lease contracts for fulfillment centers and office buildings.

In the first nine months of 2019, additions to intangible assets amounted to EUR 51.6m (prior year: EUR 41.7m) and additions to property, plant and equipment totaled EUR 138.1m (prior year: EUR 147.2m), mainly relating to the fulfillment centers in Verona (Nogarole Rocca), Italy, Rotterdam (Bleiswijk), Netherlands, Olsztynek and Lodz (Gluchow), Poland.

Inventories mainly comprise goods required for Zalando's wholesale business. The EUR 447.9m increase in inventories to EUR 1,267.4m predominantly relates to the delivery peak with respect to the fall/winter collection.

In the first nine months of 2019, equity increased from EUR 1,549.1m to EUR 1,589.1m. The EUR 40.0m increase stems from the positive net income of the period and from exercise price payments received for employee stock options, partly offset by repurchases of treasury shares. In the reporting period, the equity ratio decreased from 47.9% at the beginning of the year to 37.7% as of September 30, 2019, due to an increase in liabilities mainly resulting from the first time application of IFRS 16 and an increase in trade payables.

Lease liabilities have a carrying amount of EUR 542.4m as of September 30, 2019; of that amount EUR 474.2m are non-current and EUR 68.2m are current. They represent the discounted financial obligations resulting from lease contracts as per IFRS 16.

Current liabilities increased by EUR 472.5m in the reporting period. This increase is mainly attributable to trade payables, which rose by EUR 425.5m, rising from EUR 1,298.9m to EUR 1,724.4m, primarily due to recent deliveries of the fall/winter collection. Under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 378.7m as of September 30, 2019 were transferred to various factoring providers (December 31, 2018: EUR 374.6m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

1.5 Outlook

The guidance for 2019 contained in the half-year report 2019 has not changed.

Zalando continues to expect a growth of GMV of 20% to 25% and expects revenue growth around the low end of its guided range of 20% to 25%. The company expects the adjusted EBIT to be in the upper half of the adjusted EBIT range of EUR 175m to EUR 225m.

Zalando confirms its expected capital expenditure of EUR 300m.

Berlin, October 30, 2019

The Management Board

Robert Gentz

David Schneider

Rubin Ritter

James Freeman II

David Schröder

2.1 Consolidated Income Statement

Consolidated Income Statement

IN EUR M	Jul 1 – Sep 30, 2019	Jul 1 – Sep 30, 2018	Jan 1 – Sep 30, 2019	Jan 1 – Sep 30, 2018
Revenue	1,521.1	1,200.2	4,496.6	3,726.3
Cost of sales	-896.4	-726.5	-2,592.1	-2,170.1
Gross profit	624.7	473.7	1,904.5	1,556.1
Selling and distribution costs	-560.2	-459.7	-1,620.2	-1,351.8
Administrative expenses	-72.9	-70.4	-221.0	-195.8
Other operating income	1.8	1.4	10.8	10.8
Other operating expenses	-0.2	-0.7	-7.3	-2.9
Earnings before interest and taxes (EBIT)	-6.9	-55.7	66.7	16.5
Interest and similar income	2.4	1.4	7.9	3.7
Interest and similar expenses	-7.5	-3.9	-20.4	-10.7
Result of investments accounted for using the equity method	-0.5	0.0	-3.9	0.0
Other financial result	-6.2	0.9	-3.8	1.3
Financial result	-11.7	-1.7	-20.2	-5.7
Earnings before taxes (EBT)	-18.6	-57.3	46.5	10.8
Income taxes	5.0	15.6	-32.2	-15.7
Net income for the period	-13.6	-41.7	14.3	-5.0
Thereof net income attributable to the shareholders of ZALANDO SE	-13.6	-41.7	14.3	-4.8
Thereof net income attributable to non-controlling interests	0.0	0.0	0.0	-0.1

2.2 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

IN EUR M	Sep 30, 2019	Dec 31, 2018
Non-current assets		
Intangible assets	186.3	189.1
Property, plant and equipment	638.2	546.4
Financial assets	15.0	13.7
Right-of-use assets	521.0	n.a.
Deferred tax assets	4.2	2.3
Non-financial assets	12.4	3.8
Investments accounted for using the equity method	1.6	5.0
	1,378.7	760.2
Current assets		
Inventories	1,267.4	819.5
Prepayments	0.4	13.2
Trade and other receivables	387.2	395.1
Other financial assets	73.1	59.3
Other non-financial assets	242.3	191.4
Cash and cash equivalents	867.0	995.0
	2,837.4	2,473.5
Total assets	4,216.0	3,233.7

2.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position – Equity and Liabilities

IN EUR M	Sep 30, 2019	Dec 31, 2018
Equity		
Issued capital	248.6	247.9
Capital reserves	1,187.8	1,155.6
Other reserves	-12.1	-4.9
Retained earnings	165.0	150.7
Equity of shareholders of ZALANDO SE	1,589.3	1,549.2
Non-controlling interest	-0.2	-0.1
	1,589.1	1,549.1
Non-current liabilities		
Provisions	34.1	34.0
Lease liabilities	474.2	n.a.
Borrowings	3.4	5.6
Other financial liabilities	7.8	2.4
Other non-financial liabilities	1.1	5.5
Deferred tax liabilities	20.0	23.5
	540.7	70.9
Current liabilities		
Provisions	1.1	0.1
Lease liabilities	68.2	n.a.
Borrowings	2.8	2.8
Trade payables and similar liabilities	1,724.4	1,298.9
Prepayments received	39.7	36.1
Income tax liabilities	4.0	27.7
Other financial liabilities	104.6	104.6
Other non-financial liabilities	141.4	143.5
	2,086.2	1,613.7
Total equity and liabilities	4,216.0	3,233.7

2.3 CONSOLIDATED STATEMENT OF CASH FLOWS

2.3 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

IN EUR M	Jul 1 – Sep 30, 2019	Jul 1 – Sep 30, 2018	Jan 1 – Sep 30, 2019	Jan 1 – Sep 30, 2018
1. Net income for the period	-13.6	-41.7	14.3	-5.0
2. + Non-cash expenses from share-based payments	13.2	16.8	34.7	28.2
3. + Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	46.4	21.9	140.5	59.5
4. +/- Income taxes	-5.0	-15.6	32.2	15.7
5. - Income taxes paid, less refunds	-20.7	-10.9	-74.5	-31.6
6. +/- Increase/decrease in provisions	0.7	0.0	1.1	0.1
7. -/+ Other non-cash income/expenses	-1.3	0.1	5.2	0.7
8. +/- Decrease/increase in inventories	-404.4	-212.0	-447.9	-246.4
9. +/- Decrease/increase in trade and other receivables	14.6	-13.0	7.8	-45.1
10. +/- Increase/decrease in trade payables and similar liabilities	389.0	250.1	422.2	224.7
11. +/- Increase/decrease in other assets/liabilities	-19.5	-21.6	-51.6	-21.9
12. = Cash flow from operating activities	-0.7	-25.9	84.0	-21.1
13. + Proceeds from disposal of non-current assets	0.0	57.0	22.5	57.0
14. - Cash paid for investments in property, plant and equipment	-69.8	-47.3	-136.8	-132.5
15. - Cash paid for investments in intangible assets	-18.2	-13.2	-48.7	-36.9
16. - Cash paid for acquisitions of shares in associated companies and acquisition of companies and prepayments for such acquisitions	0.0	-0.8	-1.7	-5.3
17. +/- Cash received from/paid for investments in term deposits	0.0	0.0	-5.0	20.0
18. +/- Change in restricted cash	0.0	-0.4	0.4	-0.4
19. = Cash flow from investing activities	-88.0	-4.8	-169.2	-98.0
20. + Cash received from capital increase by the shareholders less transaction costs	20.4	32.2	37.0	35.0
21. - Repurchase of treasury shares	0.0	-0.4	-38.8	-100.5
22. - Cash repayments of loans	-1.0	-0.7	-2.1	-1.8
23. - Cash payments for the principal portion of lease liabilities	-15.3	0.0	-38.1	0.0
24. = Cash flow from financing activities	4.1	31.1	-42.0	-67.2
25. = Net change in cash and cash equivalents from cash-relevant transactions	-84.6	0.4	-127.2	-186.4
26. +/- Change in cash and cash equivalents due to exchange rate movements	-2.8	1.8	-0.8	-1.3
27. + Cash and cash equivalents at the beginning of the period	954.4	874.7	995.0	1,064.7
28. = Cash and cash equivalents as of Sep 30	867.0	877.0	867.0	877.0
Free cash flow	-88.7	-30.3	-80.6	-138.8

3.1 Financial Calendar 2020

Financial Calendar

Date	Event
Thursday, February 27	Publication of the Annual Report 2019
Thursday, May 7	Publication of the first quarter results 2020
Wednesday, May 20	Annual general meeting 2020
Tuesday, August 11	Publication of the second quarter results 2020
Wednesday, November 4	Publication of the third quarter results 2020

3.2 Imprint

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Statement Relating to the Future

This quarterly statement contains statements that relate to the future and are based on assumptions and estimates made by the management of ZALANDO SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. ZALANDO SE makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this quarterly statement. It is neither the intention of ZALANDO SE nor does ZALANDO SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this quarterly statement is published.

The quarterly statement is available in English and German. If there are variances, the German version has priority over the English translation. It is available for download in both languages at <https://corporate.zalando.com/en/investor-relations>.

