



# Roadshow presentation

November 2020



# Agenda

## **Our vision: The Starting Point for Fashion**

Platform as key lever  
to become the Starting Point

do.More sustainability strategy

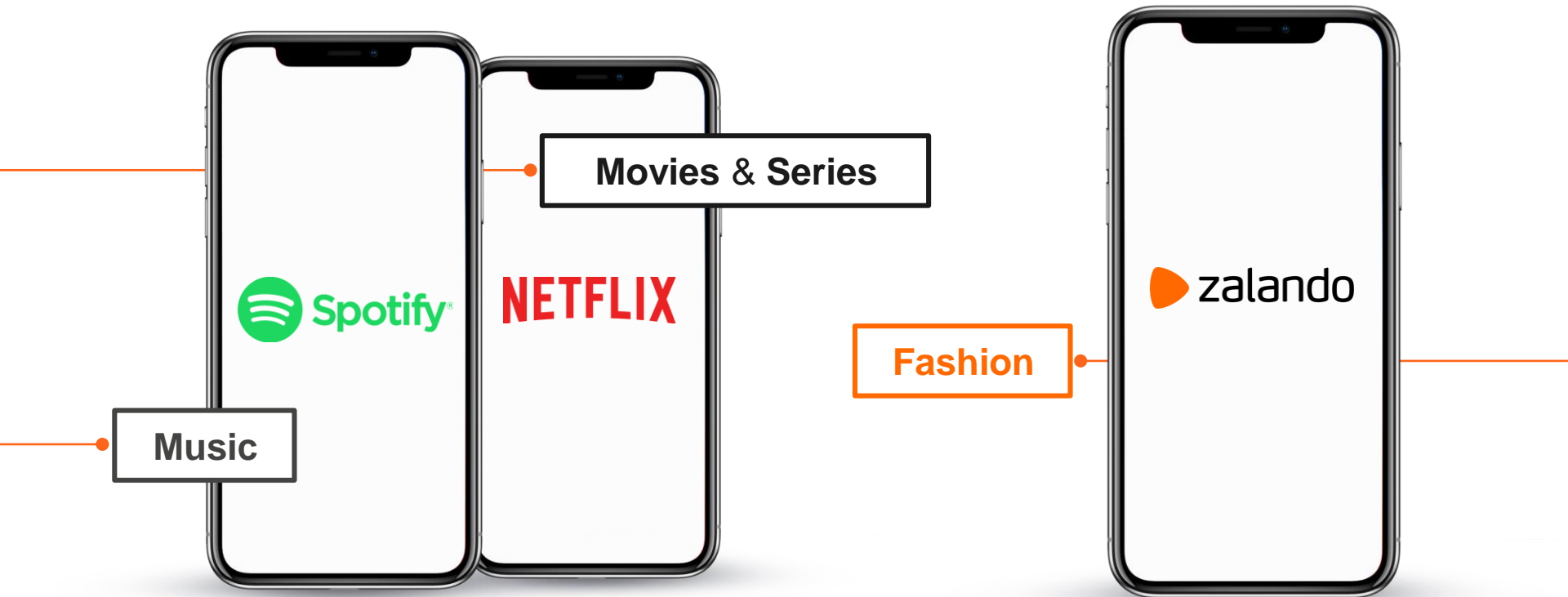
Our business model of the future

Business Update Q3/2020

Q3/2020 Results



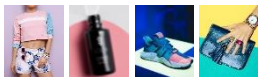
## Our vision: To become the Starting Point for Fashion



# Our vision is build on two key levers - deep customer relationships and our platform strategy

## Key lever 1

### Deep Customer Relationships



Assortment



Digital Experience



Convenience



Loyalty program



Sustainability & Circularity

Bottom Line Growth

Operating Leverage & Gross Margin Expansion

Topline & Market Share growth



Starting Point for Fashion

Superior & Holistic Customer Experience

## Key lever 2

### Platform Strategy

**ZMS**

Zalando Marketing Services

**ZFS**

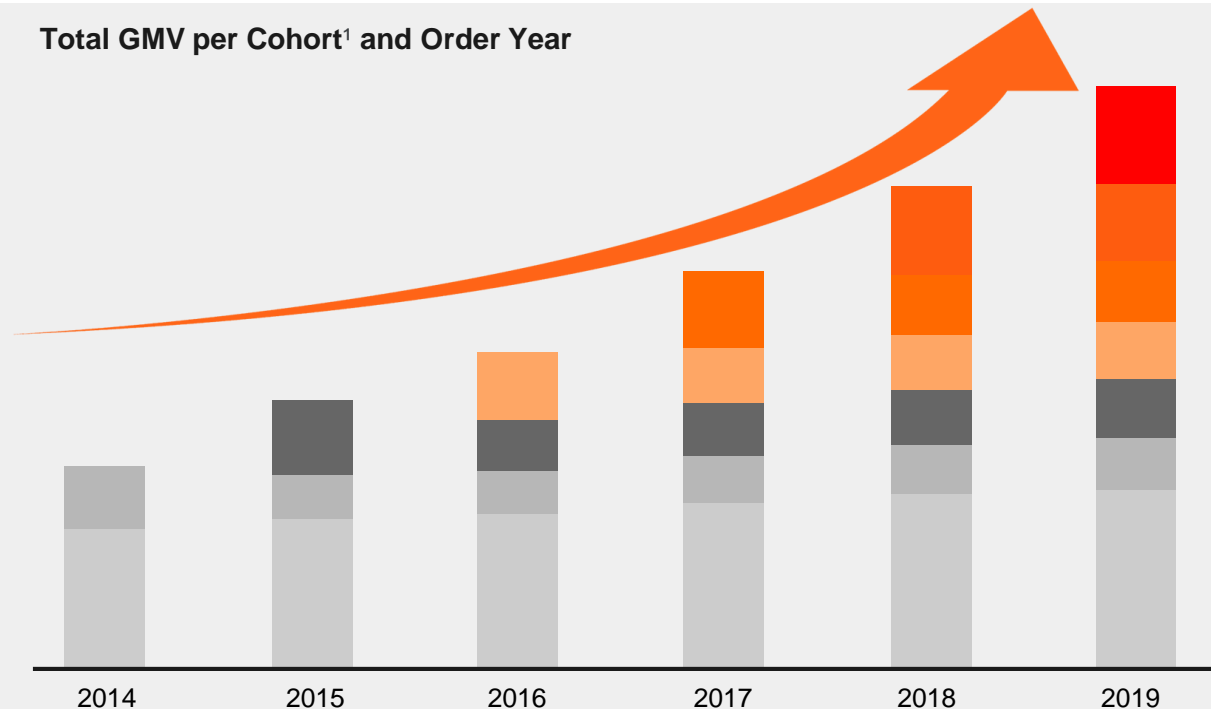
Zalando Fulfillment Solutions



Partner Program

## Cohort analysis shows that we are creating a healthy customer base

Total GMV per Cohort<sup>1</sup> and Order Year



1. Old cohorts grow again over time

2. Customer churn goes down

3. Every new cohort is bigger than the previous one

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

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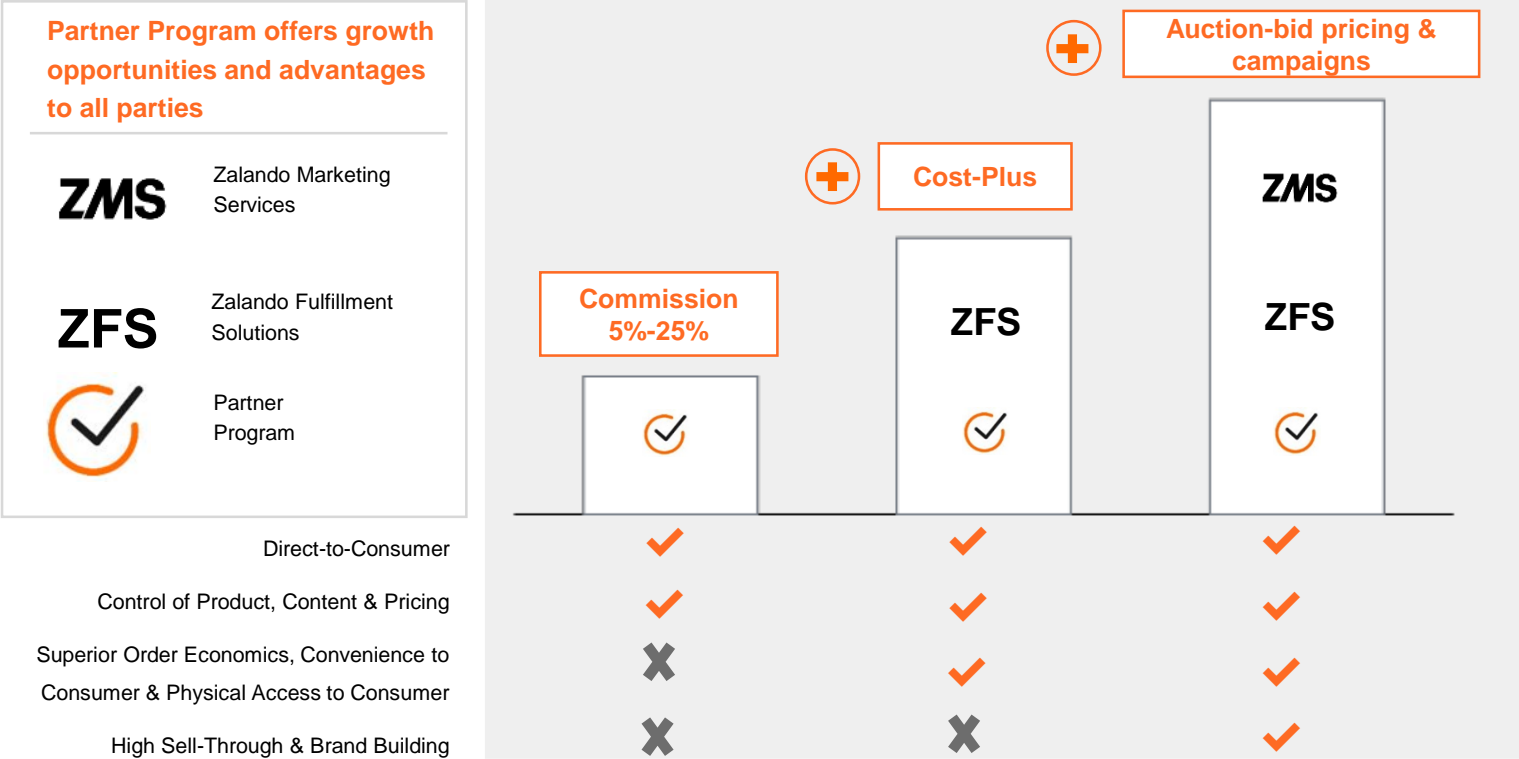




# The platform strategy is one key lever towards being the Starting Point

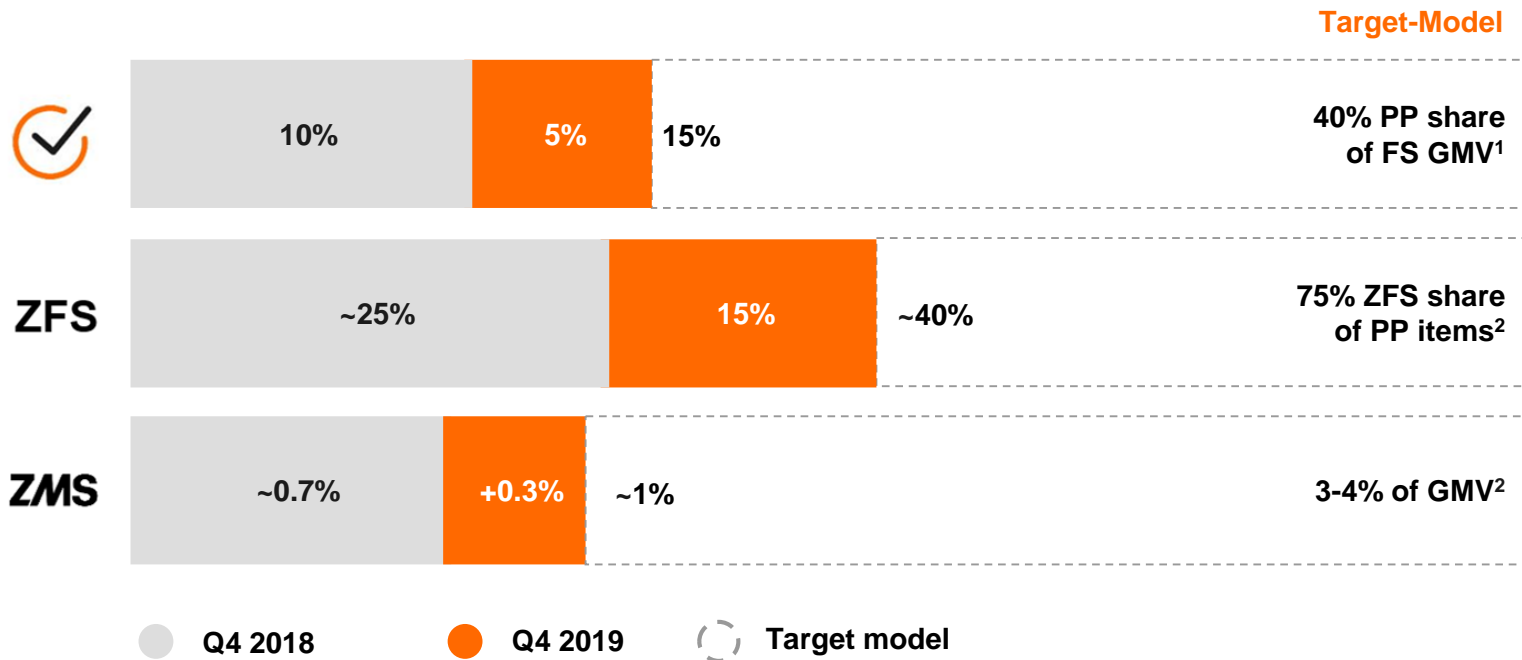


Only in partnership with our brand partners, we are able to offer a superior experience for our customers to enjoy





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



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.

## ZFS unlocks positive platform dynamics for partners...

Fast Internationalization to  
all our European Markets



Superior Order Economics  
through shared parcels

~50%

lower shipping costs (on  
average) per item for  
brands

Making shopping economics in  
some case better than own e-com

Allows offering of low  
price point assortment

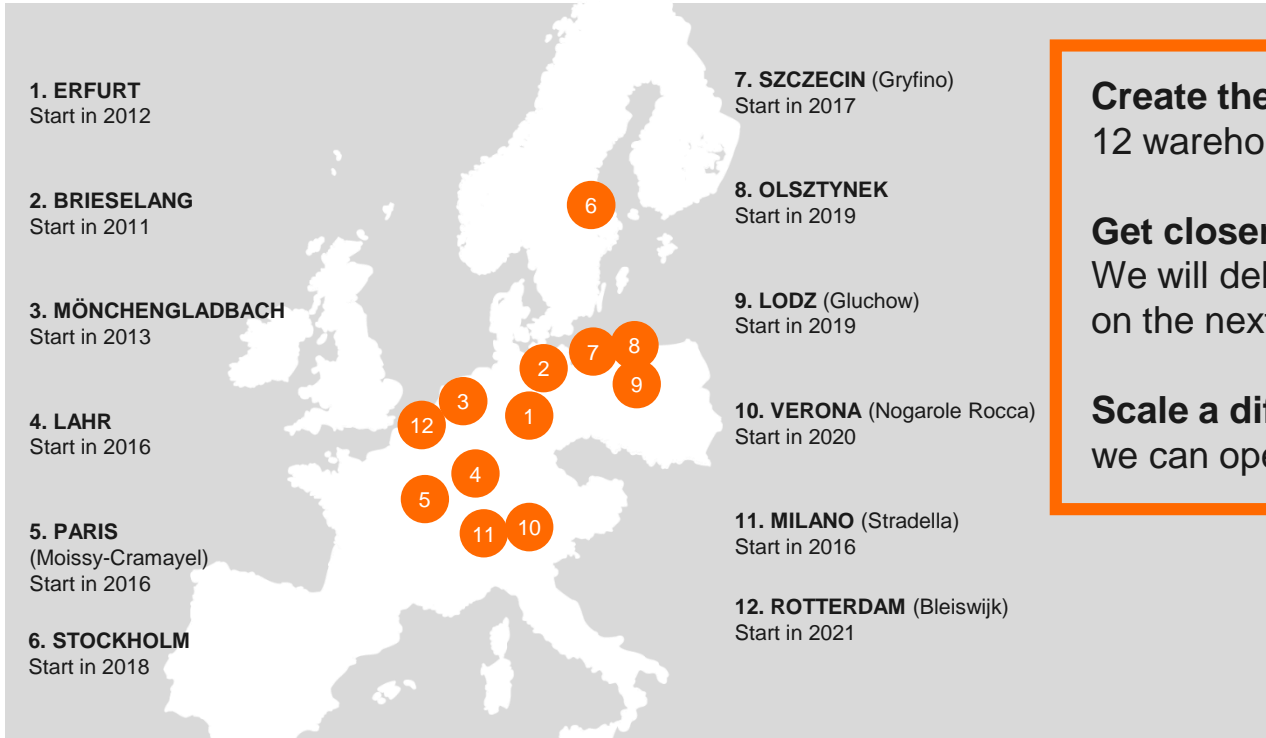
Bershka P&B  
MANGO PULL&BEAR  
next  
stradivarius OYSHO  
JACK & JONES®  
VERO MODA®

Unmatched  
Zalando Convenience



We get closer to our customers  
by delivering **30% of orders on  
the next day** by 2020

## ...by leveraging our European logistic network



**Create the capacity for future growth:**  
12 warehouses allow > 14bn GMV

**Get closer to our customers:**  
We will deliver 30% of orders  
on the next day by 2020<sup>1</sup>

**Scale a differentiating asset** which  
we can open up to brand partners

(1) 3pm cut-off time

## With Zalando Marketing Services brands can drive growth and branding ...

Brands can reach Europe's largest fashion audience **at the point of sale...**



**>1,000m site visits**

**>35m Active Customers**

**17 fashion markets**

...to push sales and to build their brand in a **multi-brand environment**

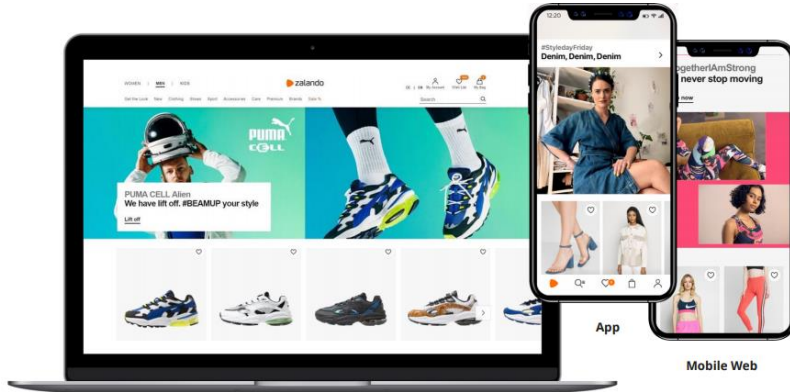


**>2,500 brands**

**>640,000 products**

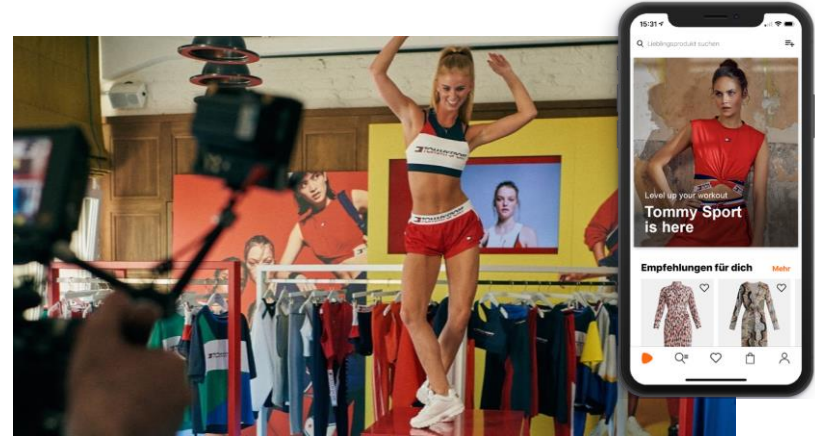
...by tailoring content and reaching customers across all relevant touchpoints on and off Zalando's premises

## Growth campaigns



- Boost sales across whole assortment or specific products with targeted advertising formats
- Extensive data insights to identify the best growth opportunities

## Branding campaigns



- Tailored branding campaigns and strategies
- Data-driven, integrated campaigns across all consumer touchpoints
- Specific target groups and exclusive Zalando audiences

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**do.**More sustainability strategy

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Business Update Q3/2020

Q3/2020 Results





# do.MORE 2023 Strategy: Becoming a sustainable fashion platform with a net-positive impact for people and the planet

Take a stand			Style with care	Shape our future	
					
<b>Carbon Neutrality</b>	<b>Optimized Packaging</b>	<b>Increased Ethical Standards</b>	<b>More Sustainable Fashion</b>	<b>Apply Principles Of circularity</b>	<b>Upskilling</b>
Of our operations, All deliveries And returns	Minimize waste and Keep materials in use; Eliminate single-use plastics	We will work Only with Partners who Align with them	Generate 20% of GMV by more Sustainable products	And extend the life of at least 50m fashion products	Our employees Receive skilling Chances that match Future work needs



# Bringing the do.MORE strategy to life by setting science-based targets



As first platform worldwide, we set **science-based targets** to reduce carbon emissions in line with the **1.5 degrees Celsius Paris Agreement** figure.

## We want to achieve two targets by 2025

### We commit ...



1

To reduce scope 1 and 2 **greenhouse gas (GHG) emissions by 80 %** by 2025 against a 2017 base year.<sup>1, 2</sup>

To increase annual sourcing of **renewable electricity** from 34 % in 2017 to **100%** by 2025.



2

To reduce scope 3 GHG emissions from **private label products by 40 %** per million euros gross profit by 2025 from a 2018 base year.<sup>3</sup>

That **90 % of our suppliers will have science-based targets** by 2025.<sup>4</sup>

- 1) Scope 1 refers to direct greenhouse gas emissions (GHG) that occur from sources controlled by Zalando (e.g. emissions in our warehouses)
- 2) Scope 2 refers to indirect GHG emissions from consumption of purchased electricity and distant heating
- 3) Scope 3 refers to all other (indirect) value chain GHG emissions
- 4) Emissions covering purchased goods and services sold on its platform, packaging and last-mile-delivery partners

# 1.5

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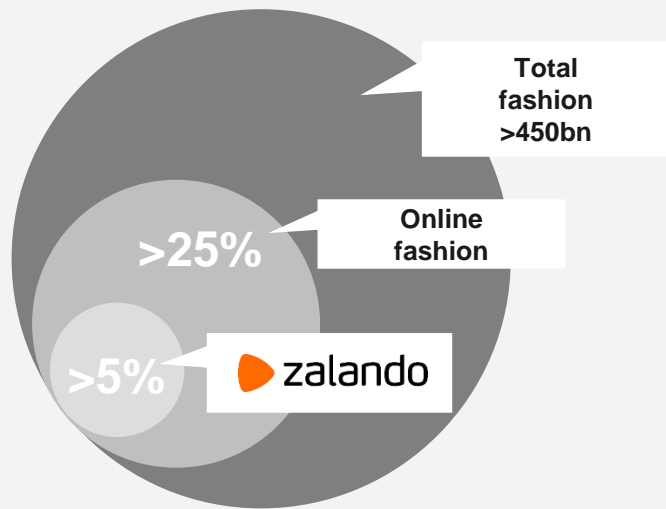
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Q3/2020 Results

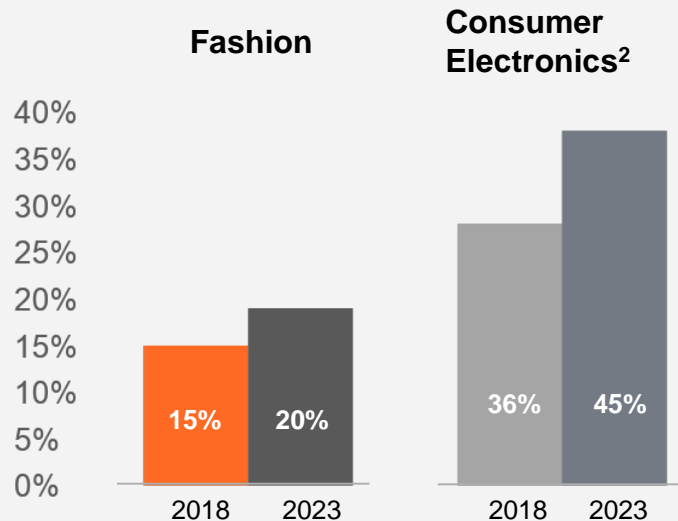


# We remain convinced that online fashion is a long-term growth opportunity

We are targeting a massive opportunity in 5-10 years<sup>1</sup>...



...with low online share compared to other categories



(1) Source: Company estimates and Euromonitor International forecasts, February 2019. 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.

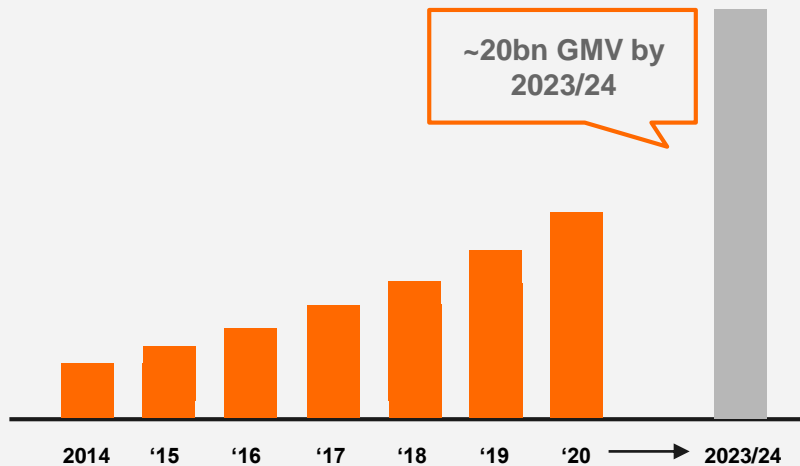
Fashion data incl. apparel and footwear, bags and luggage, jewelry and watches. Data for Europe (excluding Russia) inclusive of sales tax

(2) Source: United States online penetration, Statista, last update 2018-10

# We aim to achieve a scale of 20bn EUR GMV by 2023/24

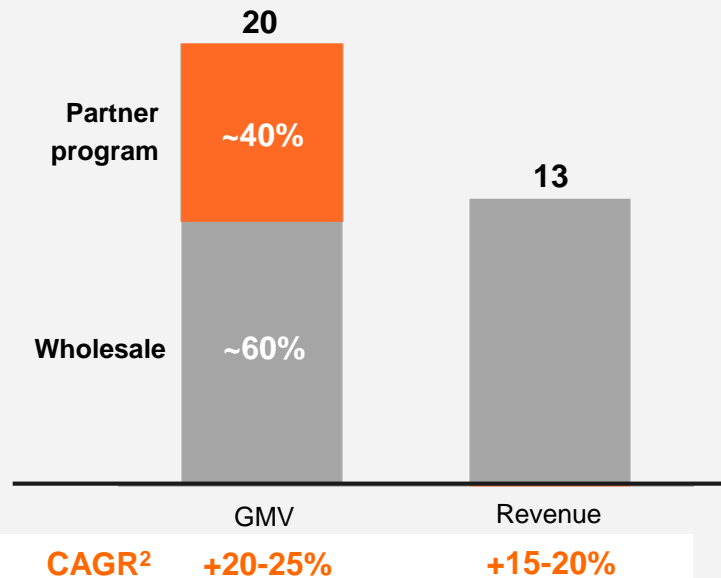
## Growth Ambition 2023/24

in €bn GMV<sup>(1)</sup>



## Business Model Mix 2023/24

in €bn



(1) GMV (Gross Merchandise Volume) incl. VAT

(2) 5-year CAGR (2018-2023): high end of range, 6-year CAGR (2018-2024): low end of range

## Platform model to drive higher long-term profitability at scale

### Target Margin (growth in line with / slightly above online market)




In % of revenue	Wholesale <sup>1</sup>	Partner Program	Group margin impact <sup>2</sup>
<b>Gross margin</b>			↑
<b>Fulfillment costs</b>			→
<b>Marketing costs</b>			↓
<b>Admin expense</b>			↓
<b>Adj. EBIT margin</b>	<b>6-8%</b>	<b>20-25%</b>	<b>10-13%</b>

#### Key assumptions:

- PP share ~50% of GMV
- ZFS share ~75% of PP items
- ZMS revenue 3-4% of GMV
- Operating leverage and fixed cost degression
- Cash Flow: WC neutral and CapEx slightly above D&A

(1) Wholesale includes Offprice and Private label  
 (2) Trend vs. 2018 cost lines

## Financial profile during transition to platform model

	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"><li>• Cash flow negative</li><li>• NWC neutral</li><li>• Capex of 4-5% of revenue</li></ul>		Target margin leading to a strong cash generation

## Investment highlights - the Starting Point for Fashion

1

Our vision is to become the **Starting Point for Fashion**, the destination that consumers gravitate to for all their fashion needs.

2

The number 1 priority is to **focus on growth** with **20-25% topline CAGR** to achieve a scale of 20bn EUR GMV by 2023/24.

3

The most important building block on that journey is to transition our business towards a **true platform business**.

4

At scale our strategy will result in an **attractive financial profile**, characterized by double-digit margin profile and strong cash generation.

5

To become the starting point **we aim to invest** our economic surplus in our **customer experience across assortment, digital experience and convenience** to drive customer satisfaction and retention.



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**Business Update & Results Q3/2020**



## Q3 combined exceptional financial performance and continued progress towards our vision to become the Starting Point for Fashion

**Delivered exceptionally strong financial performance** with GMV growth of 29.9% and adjusted EBIT margin of 6.4% in Q3

**Continued to make progress on key strategic priorities** by winning almost 3m new customers, further enhancing our customer experience and accelerating our platform transition

**Enabled next level size & fit advice** for our customers by acquiring mobile body scanning developer Fision

**Upgraded FY/20 guidance** on the back of exceptionally strong and profitable growth in Q3

**Prepared to manage the upcoming peak season and to support our partners** as the second wave of the Covid-19 pandemic hits Europe



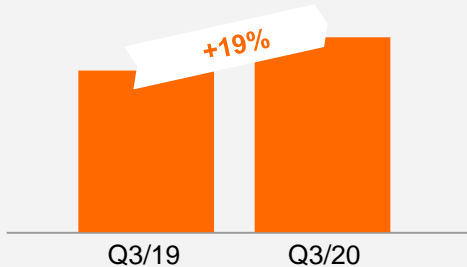
In Q3, we were able to make continued progress along all our key strategic priorities on our journey to become the Starting Point for Fashion

## Starting Point for Fashion

1

### Grow Active Customer Base

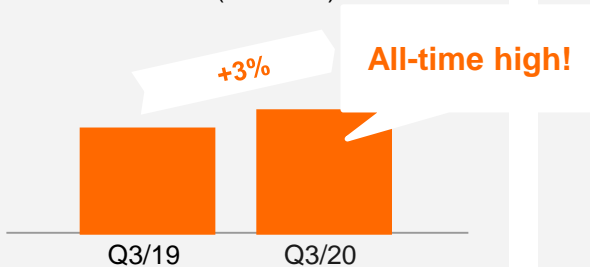
New Customers (in #m)



2

### Deepen Customer Relationships

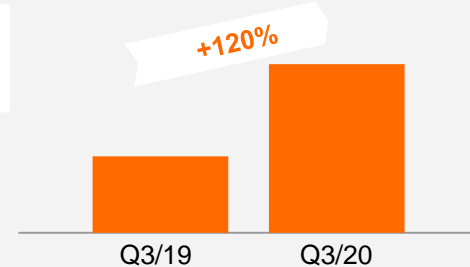
Order frequency per Active customers (LTM in #)



3

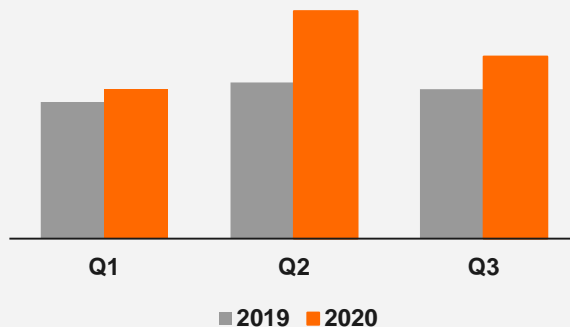
### Drive Platform Transition

Partner Program GMV

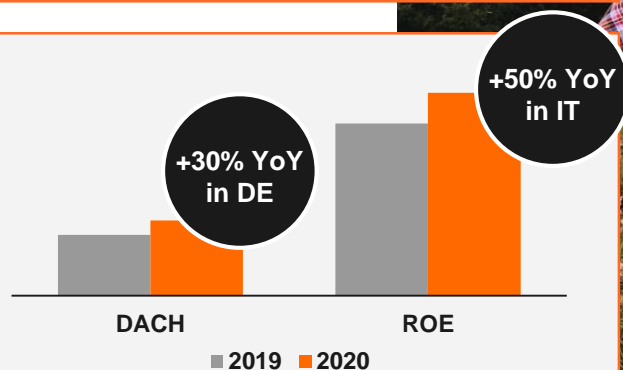


We continue to benefit from an accelerated offline to online shift as evidenced by strong new customer growth YTD, even in our most mature market Germany

New Customer Growth  
in m#



Split of New Customer Growth  
DACH vs RoE  
in m#



## By investing into further enhancing the customer experience along the entire customer journey, we drive customer engagement, order frequency and spend

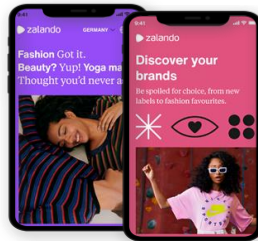
### Introduced Pre-Owned Fashion as new category

- Fast and simple process of trading-in over 3,000 brands in exchange for credit
- Products curated and quality checked by Zalando
- Better convenience with fast shipping and easy returns



### Rolled out more emotional user experience

- Visual redesign of app and web experiences creates richer overall experience to drive brand differentiation
- Enhanced welcome experience improves new customer onboarding and first time buying experience



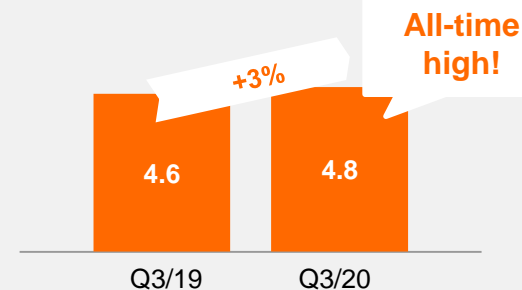
### Enabled next level size advice by acquiring Fision

- Further step to solve one of our customers' biggest problems - finding the right size & fit
- Body scanning app and virtual dressing room technologies allow also new customers to find the perfect fit



### Deepening customer relationships

Average orders per active customer  
(LTM in #)



**Doubling down on the success of our Connected Retail platform for fashion offline stores, we aim to further invest to triple the number of connected stores in 2021**

3

### **Largest platform for fashion stores in Europe already today**



**~2,000**

**Active Stores**



**~6%**

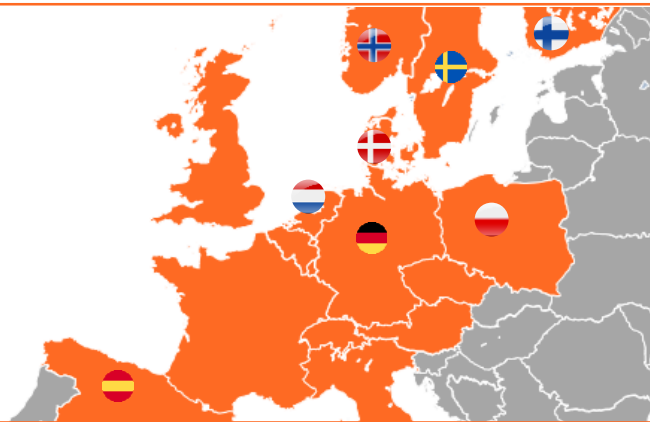
**GMV Share in DE Fashion Store in Q3**

### **Targeting to triple the size of our Connected Retail network in 2021**

- Drive geographic expansion with recent launch of Norway, Denmark, Finland (now available in 8 markets) and **extending to further markets in 2021**
- Invest into establishing **local sales force, B2B marketing and affiliate partnerships** for each market to accelerate store acquisition, onboarding and support
- Build up **dense networks in key metropolitan areas** to enable **locally relevant choice and better, more sustainable convenience**



**CONNECTED RETAIL**

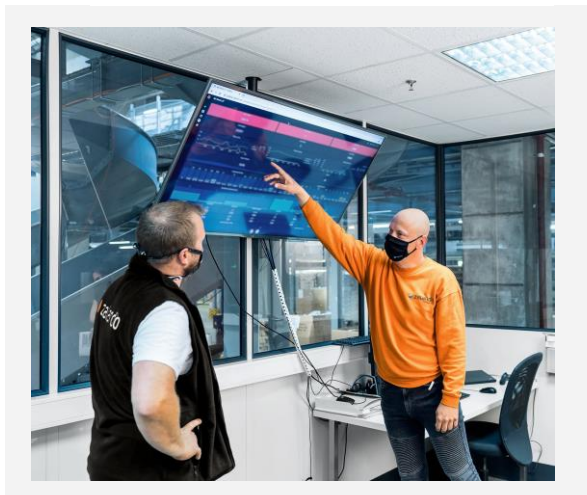




**As the second wave of COVID-19 sweeps across Europe, our number one priority remains health and safety and we are well prepared to manage the upcoming peak season**

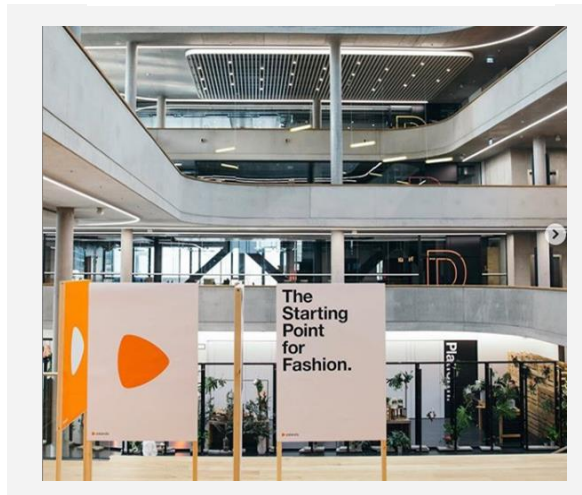
**Prio #1**

**Ensure safety of our people**



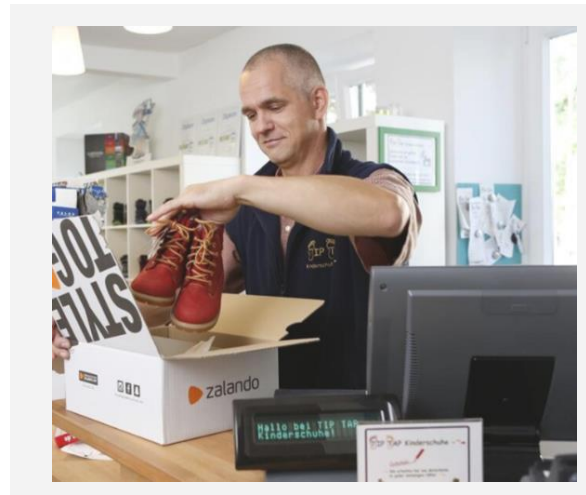
**Prio #2**

**Safeguard financial success**



**Prio #3**

**Be part of the solution**



**We have the right assets and the right strategy**

**Online Customer Reach**

**Strong Partnerships**

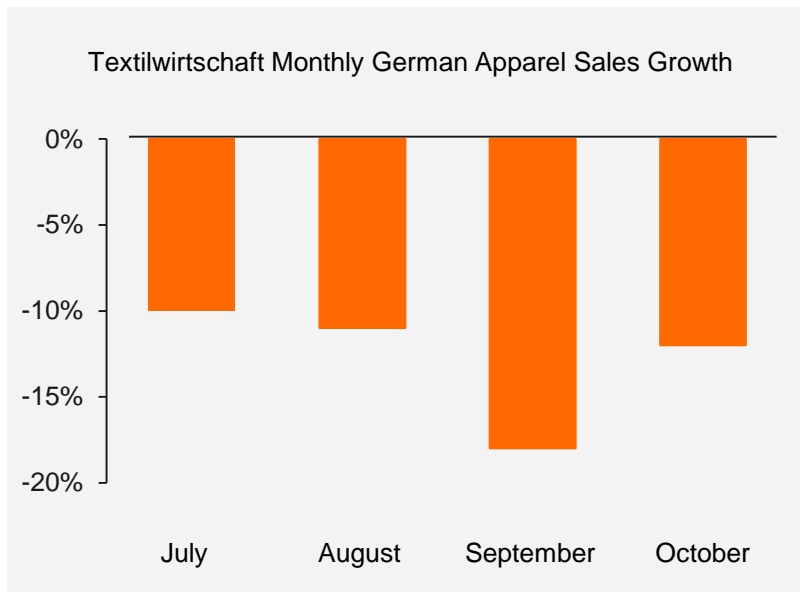
**European Logistics Network**

**Strong Cash Balance**



To be part of the solution for the overall fashion industry in these difficult times, we reinforce our support our partners by enabling them to leverage our platform even more

### Our partners face significant challenges...



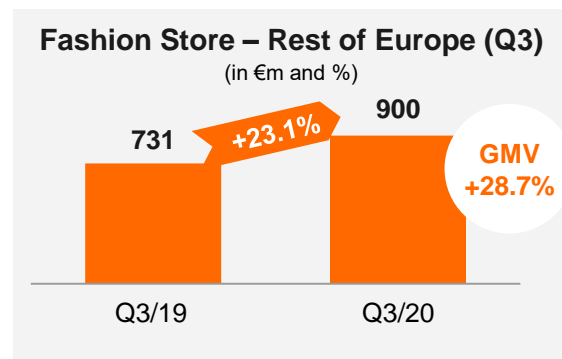
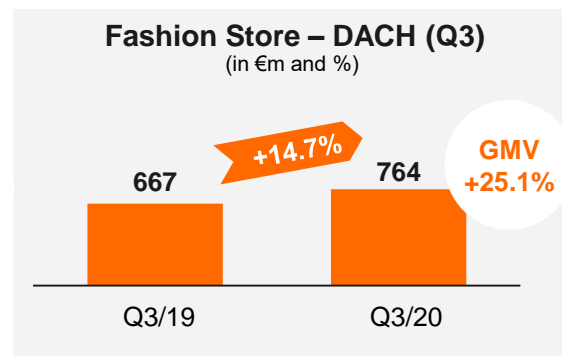
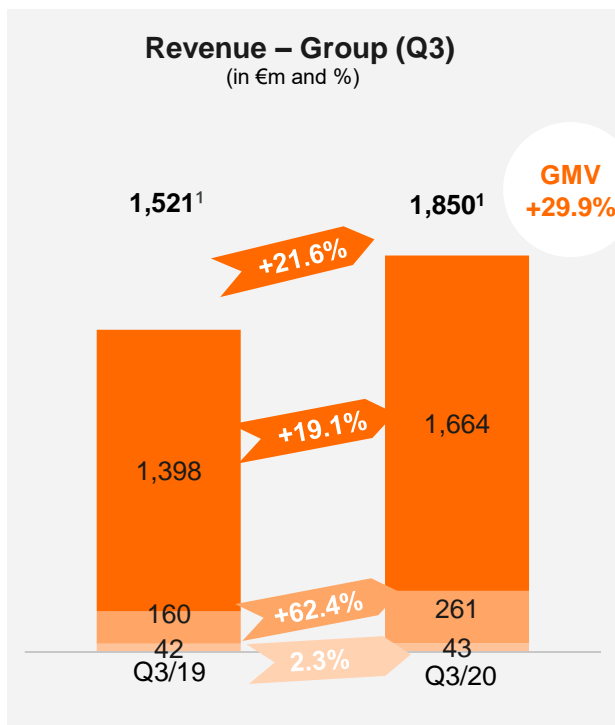
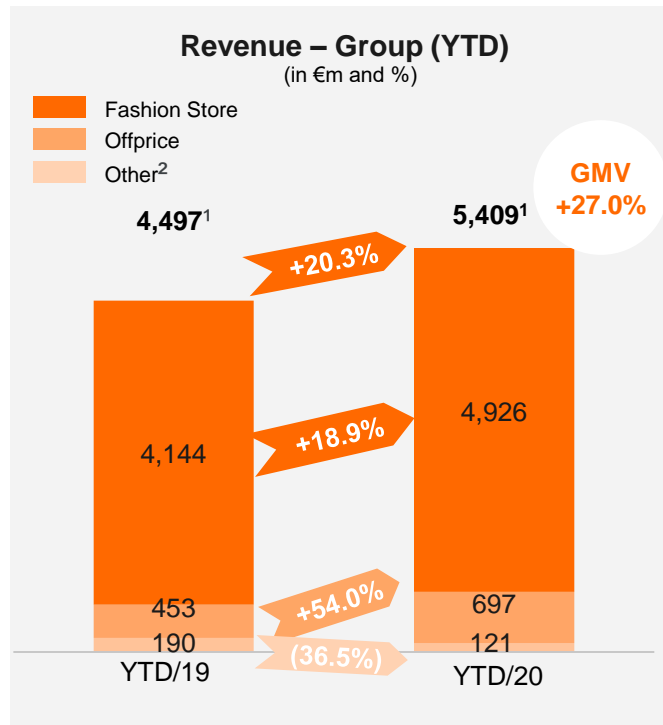
### ...and we are committed to support them through the 2nd wave

**Waiving all commissions for Connected Retail** sales to allow brands and stores to recoup lost offline revenues and to create a future-proof digital strategy

**Matching our partners marketing investments via ZMS** to increase the visibility of their brands and products across our European customer base and to drive incremental sales

**Providing liquidity support** through early payouts for Connected Retail and Partner Program partners

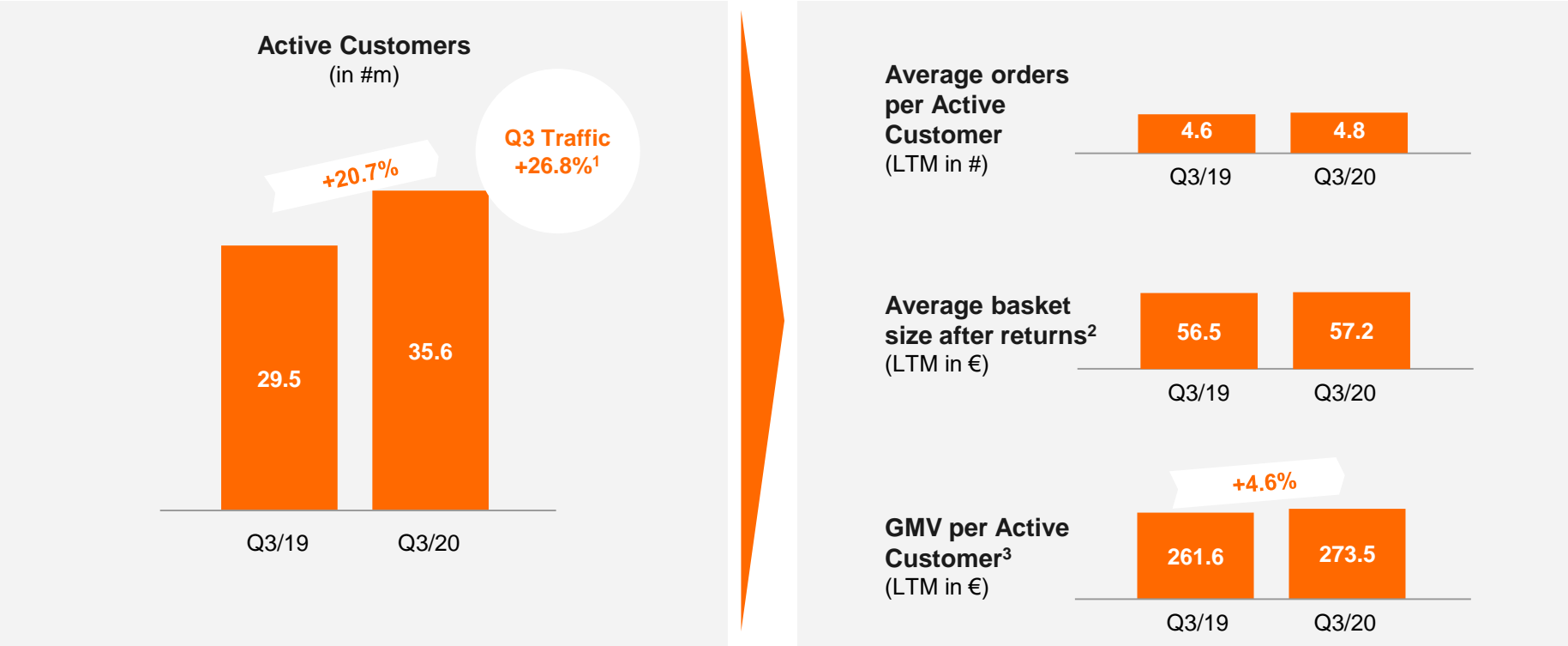
# Outstanding topline momentum fueled by very strong Partner Program and Lounge performance



1) YTD/20 (YTD/19) contains -€335.6m (-€290.8m) reconciliation; Q3/20 (Q3/19) contains -€118.2m (-€79.4m) reconciliation

2) Other segments including various emerging businesses; private label offering zLabels no longer presented as separate unit since Q1/19

# Key customer KPIs continue to show healthy dynamics

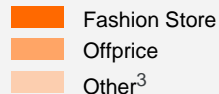


1) Based on the change in consent management following the privacy requirements, part of the data is estimated on a statistical method  
2) Defined as GMV divided by the number of orders  
3) Defined as GMV divided by the number of active customers

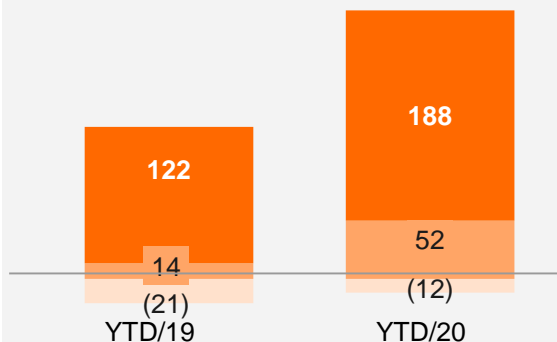
## Extraordinary profitability levels in Q3 driven by strong growth and special items

### Adj. EBIT – Group (YTD)

(in €m and %)



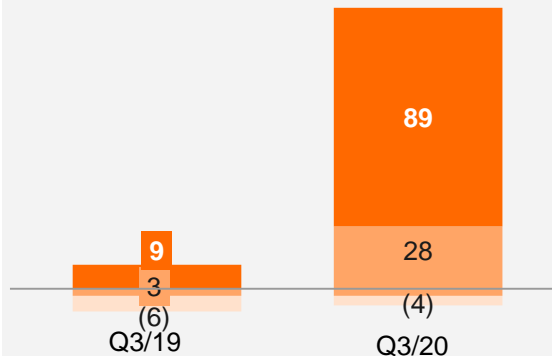
114.7<sup>1,2</sup> 2.6% 231.5<sup>1,2</sup> 4.3%



### Adj. EBIT – Group (Q3)

(in €m and %)

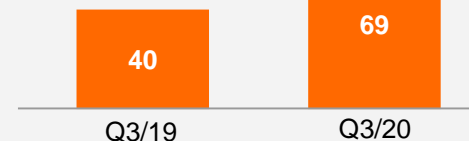
6.3<sup>1,2</sup> 0.4% 118.2<sup>1,2</sup> 6.4%



### Fashion Store – DACH (Q3)

(in €m and %)

6.0% 9.0%



### Fashion Store – Rest of Europe (Q3)

(in €m and %)

(4.2%) 2.2%



1) YTD/20 (YTD/19) contains €4.1m (€0.6m) reconciliation; Q3/20 (Q3/19) contains €4.8m (€0.1m) reconciliation

2) Excluding equity-settled share-based compensation (SBC) in YTD/20 of -41.1€m, YTD/19 of -34.7 €m, Q3/20 of -13.2 €m, Q3/19 of -13.2€m; and non-operating one-off effects in YTD/19 of -13.0€m

3) All other segments including various emerging businesses; private label offering zLabels no longer presented as separate unit since Q1/19

## Q3 profitability supported by release in inventory write-offs and continued benefit from lower return rates

Costs and margins (in % of revenue, unadjusted)	YTD			Q3			
	2019	2020	Delta	2019	2020	Delta	
Cost of sales	(57.6%)	(58.2%)	0.5pp	(58.9%)	(55.6%)	(3.3pp)	
Gross profit	42.4%	41.8%	(0.5pp)	41.1%	44.4%	3.3pp	Release in AoGs and less price investments
Fulfillment costs	(28.2%)	(27.1%)	(1.1pp)	(28.7%)	(26.6%)	(2.1pp)	Higher utilization & lower return rate
Marketing costs	(7.8%)	(6.9%)	(0.9pp)	(8.1%)	(7.9%)	(0.2pp)	Re-accelerated ROI based marketing
Administrative expenses & Other	(4.8%)	(4.3%)	(0.6pp)	(4.7%)	(4.1%)	(0.5pp)	
EBIT	1.5%	3.5%	2.0pp	(0.5)%	5.7%	6.1pp	
Adj. EBIT <sup>1</sup>	2.6%	4.3%	1.7pp	0.4%	6.4%	6.0pp	

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

## Upgraded FY/2020 outlook

**GMV growth of 25 – 27%, and Revenue growth of 20 – 22%**

**Adj. EBIT<sup>1</sup> of €375 – 425m**

**Negative net working capital and €230 – 280m in Capex<sup>2</sup>**

1) Excluding equity-settled share-based payment expense ("SBC") of ~€55m, restructuring costs and non-operating one-time effects for FY/20

2) Excludes M&A transactions

# Appendix

Management Board

The Zalando Share

Zalando Investor Relations Team



## Management Board



**Robert Gentz**  
Co-CEO

- Marketing / Sales
- Human Resources



**David Schneider**  
Co-CEO

- Fashion Offer (Assortment)



**Rubin Ritter**  
Co-CEO

- Strategy



**Jim Freeman**  
CTO

- Product
- Technology



**David Schröder**  
CFO

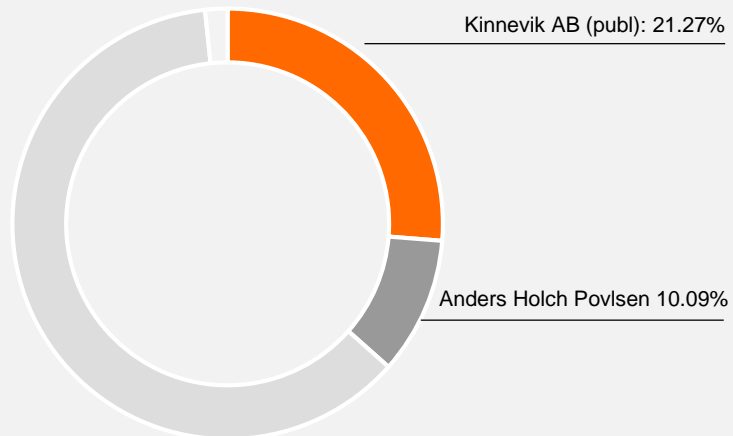
- Finance
- Operations



# The Zalando Share

## Shareholder structure<sup>1,2</sup>

Treasury shares. 1.63%



Other shareholders (free float) 67.01%

## Share information<sup>1</sup>

### Type of Shares

Ordinary bearer shares  
with no-par value (*Stückaktien*)

### Stock Exchange

Frankfurt Stock Exchange

### Market Segment

Regulated Market (*Prime Standard*)

### Index Listings

MDAX, STOXX600, FTSE4Goods

### First day of trading

October 1, 2014

### Issue price

EUR 21.50

### Total Number of Shares Outstanding

255,961,397

### Issued Share capital

EUR 255,961,397

1) As of 30 September 2020

2) Free float definition of Deutsche Börse

# Zalando Investor Relations Team



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<https://corporate.zalando.com/en>

## Upcoming events

All events  
are virtual

Date	Event
Thursday, November 12	JP Morgan Global Consumer, Retail &Luxury Conference
Thursday, November 12	HSBC Luxembourg Day
Wednesday, November 18-19	Morgan Stanley TMT Conference
Wednesday, November 18-19	Berenberg West Coast Consumer & E-Commerce Conference
Wednesday, November 18-19	Bank of America Consumer & Retail Virtual Conference
Tue-Thu, November 24-26	Roadshow Asia
Wednesday, December 2	Unicredit Convertible Bond Conference
Tuesday, December 8	Exane BNP Paribas New York Generalists Conference
Tuesday, March 2	FY/2020 Results

## 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.

