Corporate News

Delticom AG: EBITDA almost doubled in the second quarter despite 10 % revenues decrease

Hanover, August 13, 2020 –Delticom AG (German Securities Code (WKN) 514680, ISIN DE 00005146807, stock market symbol DEX), Europe's leading online retailer for tyres and complete wheels, has published its report for the for the first half year of 2020.

- **Revenues in H1 20 down 16.4 % due to COVID-19, catch-up effects occurred in the course of Q2**
- **15 million € less revenues in H1 from the discontinuation of businesses**
- **Q2 Group revenues -10 % yoy, excluding the effect of discontinued operations -6 % yoy**
- **EBITDA in Q2 almost doubled to € 3.8 million (Q2 19: € 1.9 million)**
- **Positive free cash flow in H1 due to optimized working capital management**
- **Earnings forecast for the full year raised due to the positive development in Q2**

Business in the first six months

Market environment. A mild winter compared to the previous year resulting in lower demand for winter tyres at the beginning of the year were followed this year by cold temperatures in the last decade of March. This delayed the start of the summer season in the classic changeover countries by a few weeks and thus into the second quarter. In addition, the shutdown decisions of various European countries aimed to get a grip on the COVID-19 pandemic also had an impact on the demand for replacement tyres.

According to recent market data from the German Rubber Industry Association (WdK) and the European Tyre and Rubber Manufacturers' Association (ETRMA), the number of replacement car tyres sold to consumers in Germany fell by 19.5 % in the first six months of the current year. While sales of summer tyres fell by 23.3 %, business with all-season tyres increased by 1.2 %. Sales of winter tyres were 29.6 % lower than in the previous year.

With regard to the European replacement tyre market, the ETRMA figures also show a downward trend for the tyre industry. In the largest sub-segment in terms of volume, consumer tyres (passenger car, SUV and light truck tyres), sales were down 21.7 % over the first half of the year. The decline in unit sales in the second quarter was 31.3 %, a drop of more than 15 million units.

Revenues. In the first six months of the current fiscal year, the Delticom Group generated revenues of € 238 million, a decrease of 16.4 % after € 285 million in the comparable period. The decline is partly due to the closure of unprofitable subsidiaries. The effect on revenues from the discontinuation of businesses (Gourmondo Food GmbH, All you need GmbH, automotive spare parts and oils) amounted to around € -15 million in H1 2020.

In total, the Delticom Group generated revenues of € 93 million in the first quarter of the current fiscal year (Q1 19: € 122 million, -23.9 %). Adjusted for the effect of discontinuing operations, the decline in sales in Q1 amounts to 20 %. In the core business, revenues development in the first quarter of 2020 was affected not only by weather-related shifting effects, but also by the lockdown measures taken by individual states to contain the COVID-19 pandemic from mid-March (which tends to mark the start of the summer tyre season).

In the second quarter, the company generated revenues of € 145.0 million, a decline of 10.7 % compared with the same quarter last year. Adjusted for the effect of discontinued operations, Q2 sales are 6% lower. With the mild temperatures in April, demand has gained momentum in the relevant conversion countries. Although we also saw effects of the corona crisis on the domestic market in terms of volume and sales development, these were less pronounced than on the market as a whole. During the crisis, many customers in this country took advantage of the benefits of contactless online tyre purchasing. In the rest of Europe, the second quarter showed a mixed picture. In selected countries, the progressive easing of COVID-19 restrictions led to a gradual increase in demand for replacement tyres and a corresponding catch-up effect in sales. In Southern European countries, which were badly hit by the COVID-19 crisis, demand in the second quarter was again significantly lower than in the prior-year quarter.

Gross margin. The cost of goods sold (COGS) is the largest expense item; it considers the purchase price of sold products (mainly tyres). Group COGS decreased by 18.3 % from € 222 million in H1 19 to € 182 million in H1 20. The company achieved a gross margin of 23.7 % in the reporting period, after 21.9 % in the corresponding prior-year period. Despite a difficult market environment, the company succeeded in increasing the margins in its core business during the period under review, in line with its objective of improving profitability, by means of numerous measures taken.

Other operating income. Other operating income decreased in the reporting period by 38.8 % to € 8.9 million (H1 19: € 14.5 million). This decline is partly due to the weaker sales volume compared to the previous year.

Gross profit. In view of a decrease in revenues, gross profit amounted to € 65.3 million. Following a previous year´s figure of € 76.9 million, this corresponds to a decrease of 15.0 %. Gross profit in relation to total income of € 247 million (H1 19: € 299 million) amounted to 26.5 % (H1 19: 25.7 %).

Personnel expenses. On average, the company employed 207 staff in the first six months of the current fiscal year (H1 19: 281). On the reporting date 30.06.2020, a total of 188 employees worked for the Group (30.06.2019: 274). Personnel expenses amounted to € 7.5 million in the reporting period (H1 19: € 9.3 million). The 19.3 % decrease is mainly due to the closure of non-profitable subsidiaries and the associated gradual reduction in personnel until the final cease of the related operations.

Other operating expenses. The largest single item within other operating expenses is transport costs. In view of the decrease in revenues, these amounted to € 24.1 million after € 28.9 million in the comparative period (-16.4 %). The share of transportation costs against revenues remained nearly unchanged in the reporting period at 10.1% (H1 19: 10.1%).

Marketing. In the reporting period, € 8.4 million (H1 19: € 13.7 million, -38.5 %) was spent on marketing. The decline in marketing costs is significantly higher than the decline in sales in H1 2020. In addition to the discontinuation of business units, the development of marketing costs in the reporting period is due in particular to the measures introduced last year to reduce costs and to increase efficiency in the core business. Marketing expenses as a percentage of group revenues were 3.5 % (H1 19: 4.8 %).

EBITDA. EBITDA for the second quarter stood at € 3.8 million (Q2 2019: € 1.9 million, +99.4 %) and came in significantly higher than in the previous quarter (Q1 2020: € -5.3 million, Q1 2019: € -5.6 million). Thanks to the positive effects of the closure of loss-making subsidiaries and the measures taken to increase efficiency and to optimize costs in the core business, EBITDA improved by a total of € 2.2 million in H1 2020 compared to the same period of the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to € -1.5 million in the reporting period (H1 19: € -3.7 million, +59.8 %). This corresponds to an EBITDA margin of -0.6 % (H1 19: -1.3 %). For the first half of the current fiscal year, earnings before interest, taxes, depreciation and amortization are burdened by restructuring costs of € 3.9 million. The operating EBITDA is accordingly higher by this amount.

Depreciation. Depreciation and amortization amounted to € 4.7 million in the reporting period, compared with € 6.8 million in H1 19. The decrease of 31.0 % mainly results from the closure of unprofitable subsidiaries whose fixed assets were written off at the end of the financial year 2019.

Financial and Legal. Financial and legal expenses in the reporting period amounted to € 6.3 million, after € 3.2 million in the previous year (+93.6 %). The significant increase is mainly due to legal and consulting costs in the amount of € 3.9 million incurred in connection with the restructuring of the company.

EBIT. In view of the increase in profitability and the lower depreciation and amortisation compared with the previous year, earnings before interest and taxes (EBIT) amounted to € -6.2 million – after € -10.5 million in H1 19 an improvement of € 4.3 million. The return on sales margin (EBIT as a percentage of revenues) was -2.6 % (H1 19: -3.7 %). Earnings before interest and taxes for the second quarter were positive at € 1.5 million (Q2 2019: € -1.7 million, +191.1 %), after € -7.7 million in Q1 2020 (Q1 2019: € -8.8 million, +13.0 %).

Income taxes. The tax result for the first six months was € 1.5 million (H1 19: € 2.9 million) and resulted mainly from deferred taxes.

Net income. Consolidated net income in the first half of the year totalled € -5.9 million (H1 19: € -8.0 million). This corresponds to earnings per share (EPS) of € -0.47 (H1 19: € -0.64). The net result for Q2 2020 amounted to € 2.5 million. The effect on earnings from deferred taxes amounted to € 1.7 million and thus fully compensated the restructuring costs in Q2.

Inventories. Among the current assets, inventories are the biggest line item. Since the beginning of the year, stocks have decreased by € 1.4 million to € 61.5 million (31.12.2019: € 62.9 million). By closing-date comparison, inventories are € 37.6 million lower (30.06.2019: € 99.2 million). The development over the past twelve months results from stringent working capital management. As of 30.06.2020, the share of inventories in the balance sheet total amounted to 34.8 % (31.12.2019: 33.4 %, 30.06.2019: 38.4 %).

Receivables. Trade receivables usually follow the seasons, but reporting date effects are often unavoidable. At the end of the second quarter, receivables amounted to € 23.5 million (31.12.2019: € 31.1 million, 30.06.2019: € 43.2 million), thereof € 14.2 million accounts receivable (31.12.2019: € 10.5 million, 30.06.2019: € 20.0 million). The significant year-on-year decline is the result of tighter receivables management with regard to defaulting customers.

Payables. Trade accounts payable have been reduced by € 5.1 million from € 69 million at the beginning of the year to € 64 million. In a closing date comparison trade payables are € 42.6 million lower (30.06.2019: € 107.0 million). The significant reduction in comparison with the previous year is mainly due to lower inventories. Trade payables accounted for 36.4 % of the balance sheet total (31.12.2019: 36.9 %, 30.06.2019: 41.4 %).

Liquidity. Liquidity as of 30.06.2020 totalled € 4.8 million (31.12.2019: € 5.3 million, 30.06.2019: € 3.8 million). On 30.06.2020, the company's net cash position (liquidity less liabilities from current accounts) amounted to € -55.7 million (31.12.2019: € -59.0 million, 30.06.2019: € -63.9 million). Due to the seasonal nature of the business and the payment terms in the tyre trade, the use of credit lines at mid-year is typically the highest.

Cash flow. Due to the development in working capital, cash flow from operating activities for H1 20 improved to € 6.9 million (H1 19: € -25.3 million).

In the reporting period, Delticom invested € 0.7 million into property, plant and equipment (H1 19: € 1.5 million). Further € 0.2 million were invested in intangible assets (H1 19: € 2.2 million). As a result, the cash flow from investment activities totalled € -0.9 million (H1 19: € -3.6 million). During the first half of the year, the company has achieved a positive free cash flow of € 6.0 million (H1 19: € -28.9 million).

Outlook.

Delticom AG's management has adjusted its revenue forecast against the backdrop of declining revenues in the first half of 2020 as a result of the impact of the COVID-19 pandemic. Although the gradual easing measures during the course of the second quarter have resulted in a catch-up effect in selected European countries, it is unlikely that the revenues that were not recorded in H1 will be recovered in the second half of the year. Accordingly, consolidated revenues for the year as a whole is now expected to be in a range between € 550 and 570 million (previous forecast: € 600 to 630 million). Due to the successful turnaround management in recent months and the positive earnings development in Q2 2020, management has raised its earnings forecast for the full year. The Delticom group's EBITDA for the full year is expected to range between € +5 to +8 million (previous forecast: € +1 to +5 million). Restructuring costs will total around € 5 million in 2020 (previous forecast: € 4 million). Operating EBITDA will also be higher than originally planned at € +10 to +13 million (previously: € +5 to +9 million).

The process of raising debt and/or equity capital is still being implemented. In view of the planned liquidity gap in August, there is a good opportunity to close the shortfall from the operating business due to the optimization of working capital and tight liquidity management.

The report for the first six months 2020 stands ready for download within the "Investor Relations" section of the website www.delti.com.

<End of disclosure>

About Delticom:

With the brand Reifendirekt, Delticom AG is the leading company in Europe for the online distribution of tyres and complete wheels.

The product portfolio for private and business customers comprises an unparalleled range of more than 100 brands and around 18,000 tyre models for cars, motorcycles, trucks, commercial vehicles and buses. Complete wheels and rims complete the product range. The company operates 394 online shops and sales platforms in 73 countries, serving around 15 million customers.

As part of the service, the ordered products can be sent to one of Delticom's approximately 39,000 service partners worldwide for mounting at the customer's request.

Based in Hanover, Germany, the company operates primarily in Europe and the USA and has extensive expertise in the development and operation of online shops, internet customer acquisition, internet marketing and the establishment of partner networks.

Since its foundation in 1999, Delticom has built up comprehensive expertise in designing efficient and fully integrated ordering and logistics processes. The company's own warehouses are among its most important assets.

In fiscal year 2019, Delticom AG generated revenues of around 626 million euros. At the end of last year, the company employed 242 people.

Delticom AG shares have been listed in the Prime Standard of Deutsche Börse since October 2006 (ISIN DE0005146807).

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