CECONOMY

# Results Presentation
# Q1 2017/18

Dusseldorf, 9 February 2018

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# Overview

## 01

## Highlights

## 02

## Performance

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## Outlook

# 01

# Highlights

Pieter Haas, CEO

# Key aspects that impacted our Q1 performance

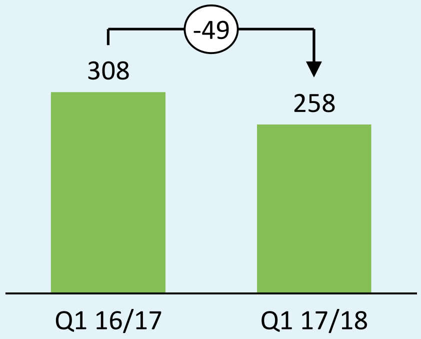
1. **Negative technical effects in Italy**
   – To reverse over the course of the current year

2. **Costs for the build-up of the CECONOMY holding**
   – Large part of expected HQ cost increase for the full year occurred in Q1

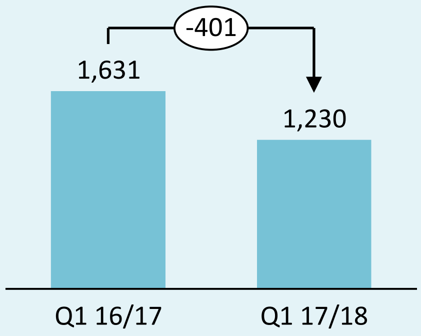
3. **Lower December profit not offset by strong Black Friday**
   a) Strong sales growth around Black Friday to support leading market position
   b) Weaker-than-anticipated high margin December sales, also resulting in higher levels of new stock

▶ We expected that sound sales in December would offset the first two effects

**EBIT*** (in €m)




**Change in NWC** (in €m)



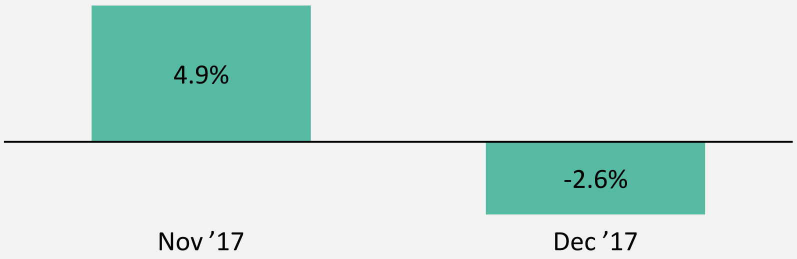

*EBIT in Q1 2016/17 before special items. Note: NWC = Net Working Capital acc. to Cash Flow Statement.

# Recap of Black Friday in Germany

## Record Black Friday…

- All-time record day on Black Friday in almost all countries (Black Friday group sales c. €250m) and particularly in Germany
- Successful multi-channel sales event with…
  - double digit bricks & mortar sales growth supported by double digit customer visit growth
  - double digit increase in online order volume

**Total sales in Germany** (yoy change)




## …with potential to improve

- Sales shifted into competitive period around Black Friday
- Due to campaign-driven weaker profitability around Black Friday, strong sales contribution in November was not enough to compensate weaker-than-anticipated December sales
- Such a shift in customer behaviour is expected to be permanent
- Black Friday will also be an important sales opportunity for us in the coming years; we will continue participating in Black Friday campaigns to defend our leading market position

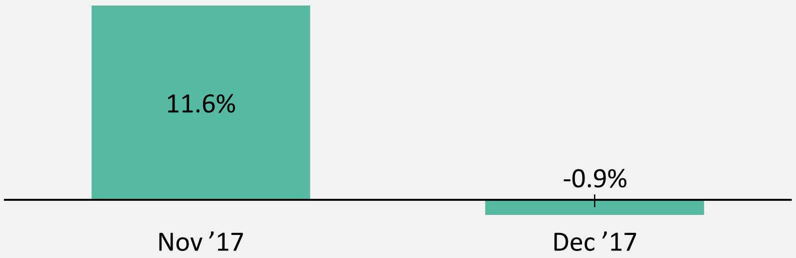
Record Black Friday not enough to compensate lower Christmas sales and profitability in Germany

# Lessons learnt from Spain

## Record Black Friday…

- // Similar to Germany, Spain saw strong sales growth around Black Friday with weaker sales in December
- // Bundling and better negotiated supplier deals helped to protect profitability despite strong sales pull forward to Black Friday

**Total sales in Spain** (yoy change)

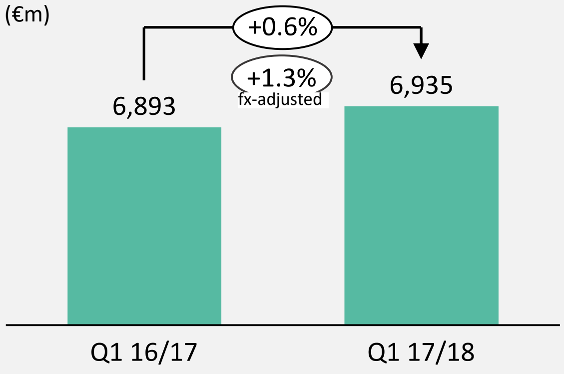



## …well managed in Spain

- // Close monitoring and steering by Spanish country organisation helped prevent strong margin deterioration
- // Negative front margin around Black Friday almost fully compensated by additional back margins
- // Focus on cross-selling bundles with promoting services and commissions during Black Friday campaign led to substantially higher services & commission income
- // Higher EBIT in November compensated for yoy decline of profitability in December

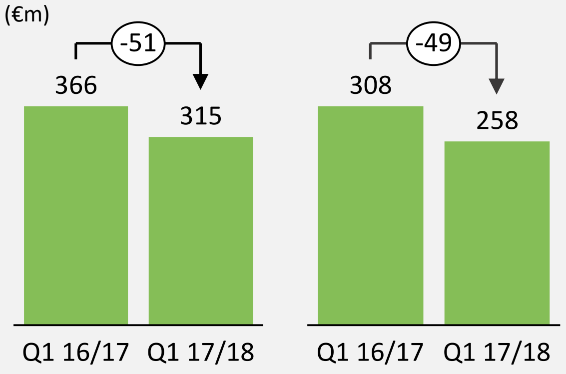
Spain serves as a group-wide best practice for steering of Black Friday going forward

# Sales up, but EBITDA/EBIT and change in NWC below prior year



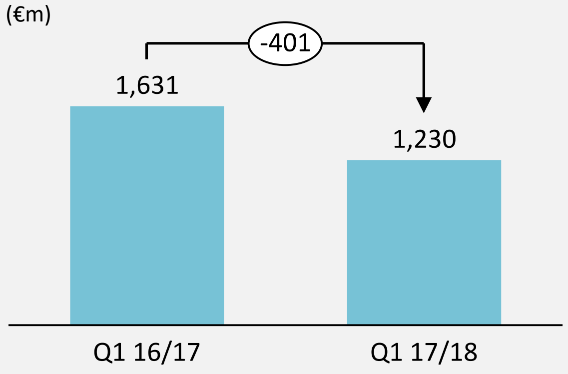

**Sales**

- // **Total sales increased by +0.6% to €6,935m (+1.3% fx-adjusted)**
- // Spain & Turkey main drivers for fx-adjusted sales growth; Germany broadly unchanged
- // Lower sales in Russia & Switzerland
- // Online sales again strong with +12% yoy
- // Services & Solutions sales up +6% yoy




**EBITDA*** **EBIT***

- // **Earnings below prior-year period**
- // Gross margin declined by -0.8%p. to 19.1%
- // Negative technical phasing effect in Italy
- // Costs for build-up of CECONOMY holding
- // Shift of December sales into more competitive November, esp. in Germany




**Change in Net Working Capital (NWC)**

- // **Change in NWC was around €-400m lower**
- // Rise in inventories due to weaker-than-anticipated December sales
- // Lower payables due to adverse product mix effects
- // Increase in receivables driven by later income & higher sales of telco contracts

* EBITDA and EBIT including Fnac Darty; EBITDA & EBIT in Q1 2016/17 before special items. Note: NWC = Net Working Capital acc. to Cash Flow Statement.

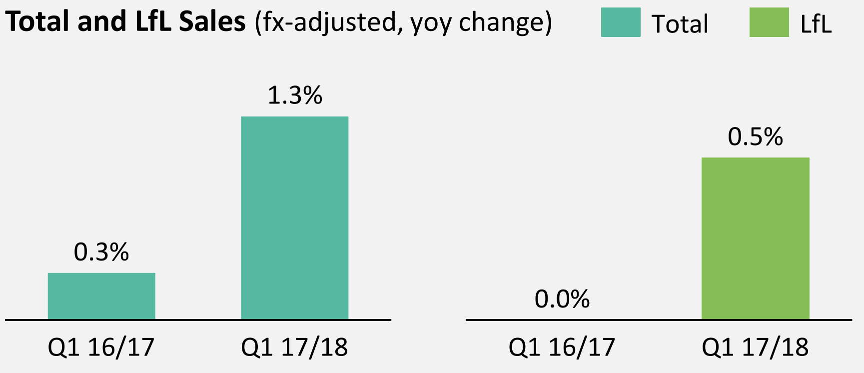
# 02

# Performance

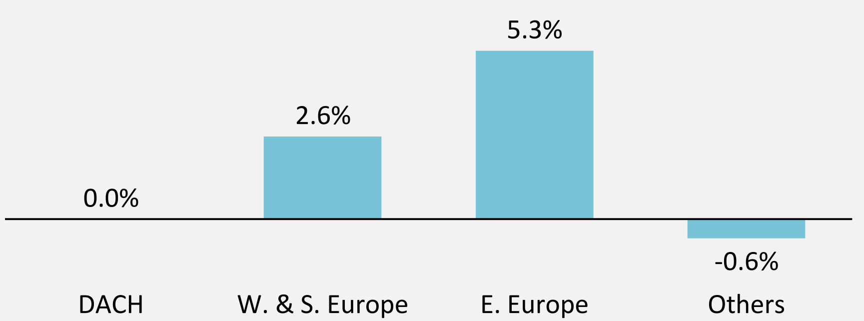
Mark Frese, CFO

# Strong sales around Black Friday, but weaker Christmas trading

**Total and LfL Sales** (fx-adjusted, yoy change)



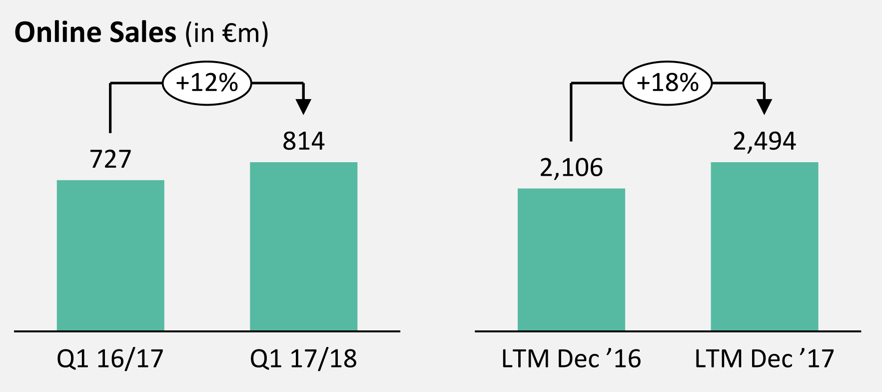

**Total Sales in Q1 17/18** (fx-adjusted, yoy change)

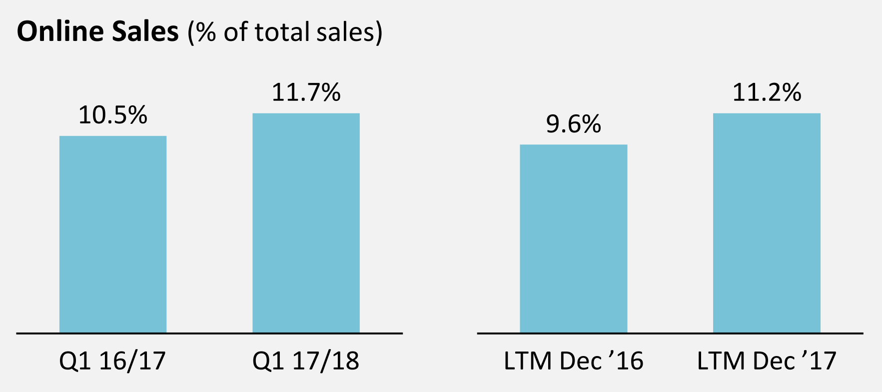



## Highlights

- // Sales in Germany slightly increased, but declined in Switzerland
- // Spain & Turkey led sales growth on an fx-adjusted basis
- // Stabilisation of sales in Italy and Sweden
- // Lower sales in Russia driven by stricter margin focus and rightsized store network
- // Decline in 'Others' driven by the closure of redcoon country operations
- // Oct – Jan (4M) sales adjusted for fx-effects grew by +0.5% or +1.6% excl. the German Saturn VAT campaign in January in the prior year

# Online was once again the key sales driver



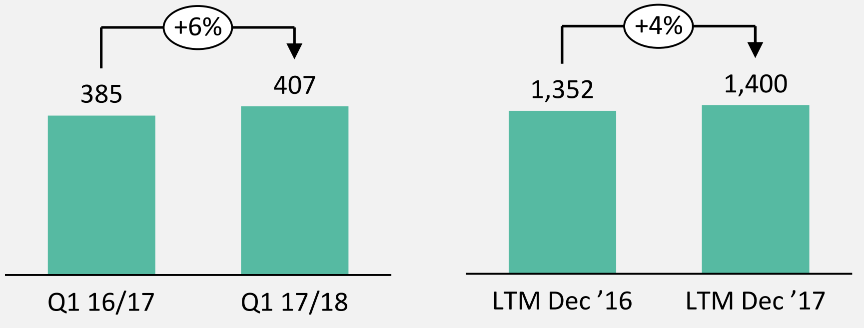




## Highlights

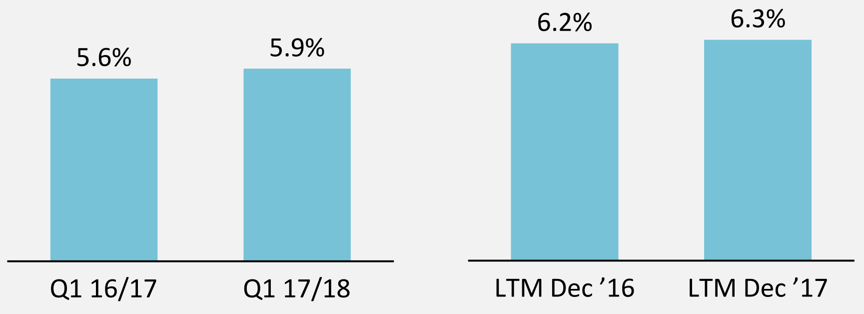
- // Online generated sales of MediaMarkt and Saturn increased by +22% yoy or 12% including pure player (e.g. redcoon), respectively
- // Online now accounts for 11.7% of total sales vs. 10.5% in the prior-year period
- // Pick-up rate remained high at around 44% vs. 42% in the prior-year period
- // Positive impact of Black Friday campaigns on online visits and conversion across all countries
- // Online assortment increased slightly to c. 352k SKUs

# Solid growth of Services & Solutions sales

**Services & Solutions Sales** (in €m)



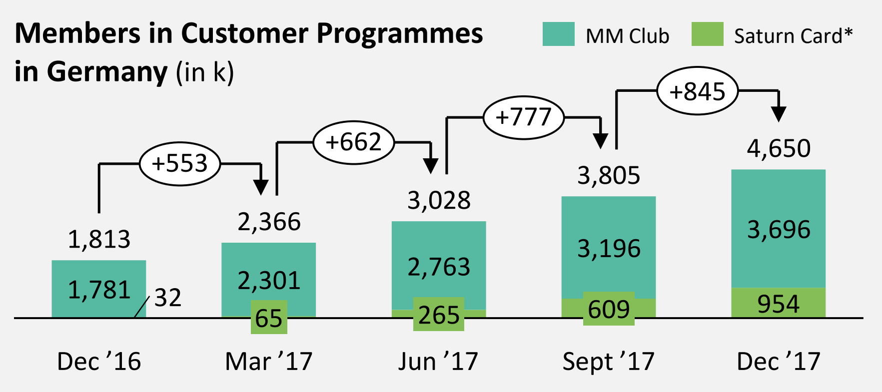

**Services & Solutions Sales** (% of total sales)

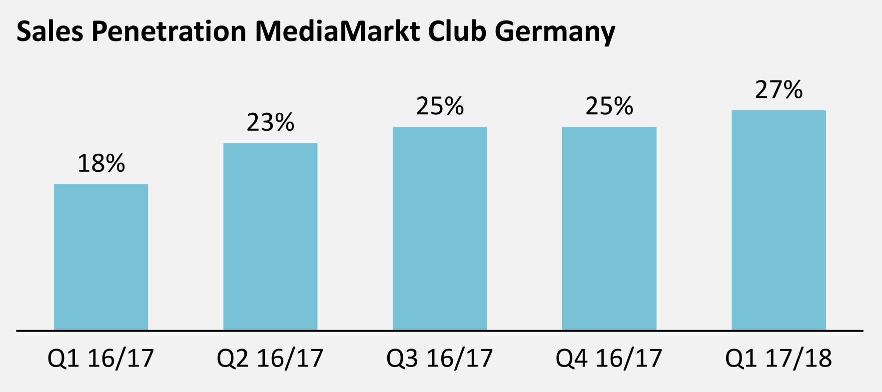



## Highlights

- // Services & Solutions sales up +6% yoy, largely driven by repair services as well as insurances, financing and extended warranties
- // Services & Solutions now account for 5.9% of total sales vs. 5.6% one year ago
- // Services "smart bars" now already implemented in 682 stores (+40 vs. September 2017)
- // At home consultation and installation service of Deutsche Technikberatung (DTB) available now in 225 stores in Germany; full roll-out by mid 2018 expected

# Our customer programmes continued to grow strongly



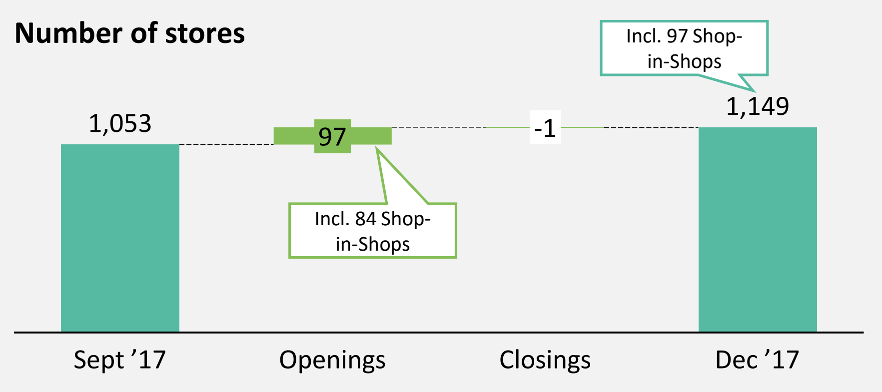



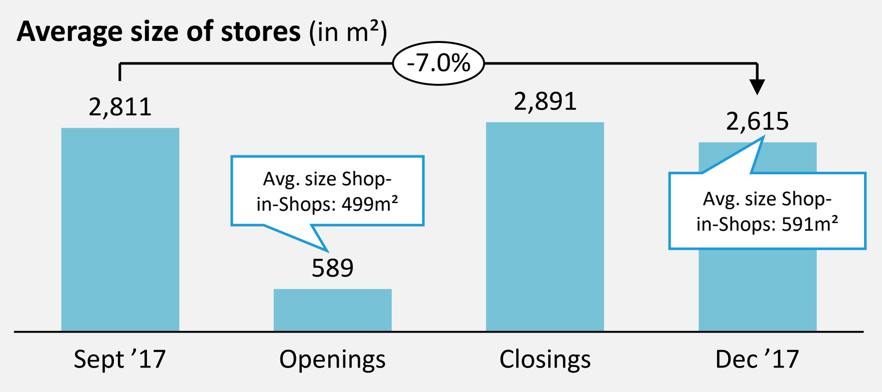

## Highlights

- // German MediaMarkt Club continues strong growth in number of members, counting 3.7m in December 2017 vs. 3.2m in September 2017
- // 27% of sales are generated by MediaMarkt Club members in Germany
- // Saturn Card in Germany counted more than 950k members in December 2017 vs. more than 600k in September 2017
- // Spain launched the MediaMarktClub in December
- // Around 16.2m members now enrolled in customer programmes across 10 countries

*Nov 16-Apr 17: Saturn Card pilot running with 14 pilot stores; nation-wide roll-out of Saturn Card on 29 May 2017.

# Opening of Shop-in-Shops and further rightsizings led to continued reduction in average store size

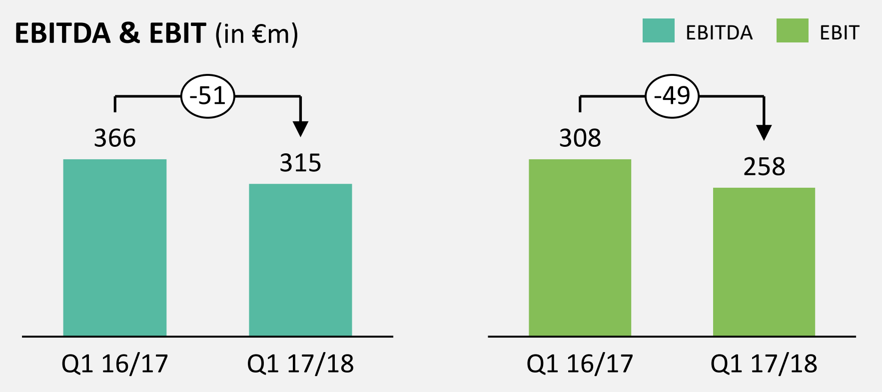


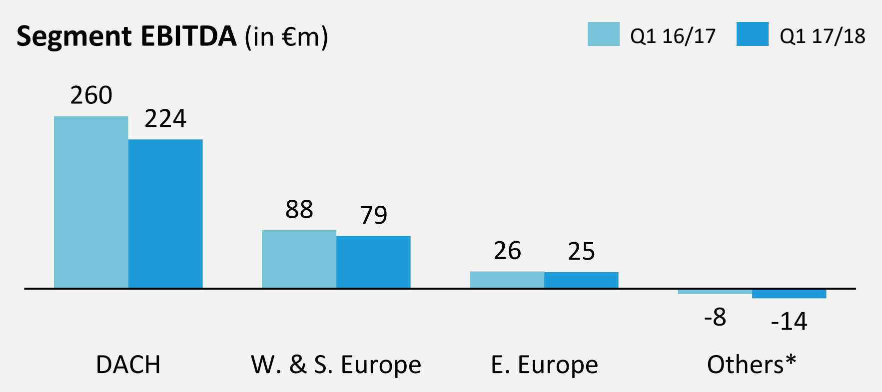




## Highlights

- // Selective store expansion continued with 13 openings (excl. Shop-in-Shops) and 1 closure in Russia
- // Out of this, 4 stores opened in Turkey and 2 stores in both Germany and Austria, respectively
- // Additional openings in Spain, Belgium, Poland, Russia and Switzerland (1 store each)
- // 84 additional Shop-in-Shops opened in Russian METRO Cash & Carry stores; in total, 97 Shop-in-Shop solutions now live in Russia (89), Belgium (6) and Hungary (2)
- // Average store size further reduced by -7% since September 2017 due to openings of smaller formats, especially the Shop-in-Shops, and further store rightsizings

# Profitability below prior-year period




Note: EBITDA & EBIT in Q1 2016/17 before special items. *Others: Including consolidation.

## Highlights

- // Gross margin declined by -0.8%p. from 19.8% to 19.1%
- // Price reductions around Black Friday, in particular in Germany, to support leading market position; resulted in shift of December sales into more competitive November
- // Lower earnings in Western & Southern Europe mainly attributable to negative technical effects in Italy, which will be compensated over the course of this year
- // Stabilisation in Russia and Sweden
- // Decline in “Others” due to costs for the build-up of the CECONOMY AG holding, which however had higher base effects in Q1 compared to the remaining quarters

# EPS mainly impacted by decline in EBIT

| €m | Q1 16/17 | Q1 17/18 | Change |
|---|---|---|---|
| **EBITDA** | **366** | **315** | **-51** |
| margin (%) | 5.3% | 4.5% | -0.8%p. |
| **EBIT** | **308** | **258** | **-49** |
| margin (%) | 4.5% | 3.7% | -0.7%p. |
| Net financial result | 1 | 2 | 1 |
| **Earnings before taxes** | **309** | **260** | **-48** |
| Income taxes | -149 | -116 | 33 |
| as % of earnings before taxes | 48.1% | 44.4% | -3.7%p. |
| **Profit or loss for the period** | **160** | **145** | **-15** |
| Non-controlling interest | 39 | 36 | -2 |
| **Net income** | **121** | **108** | **-13** |
| **EPS (€)** | **0.37** | **0.33** | **-0.04** |

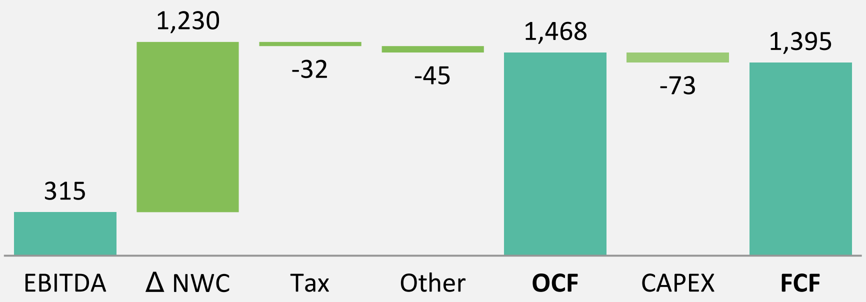
## Highlights

- Net financial result virtually unchanged due to low interest rate on new debt (“Schuldschein” and CPs)
- Tax rate in line with FY 16/17
- Share of minority interest at the lower-end of the full-year expectation of 25-30% of profit or loss for the period
- EPS mainly impacted by decline in EBIT, but positive tax effect

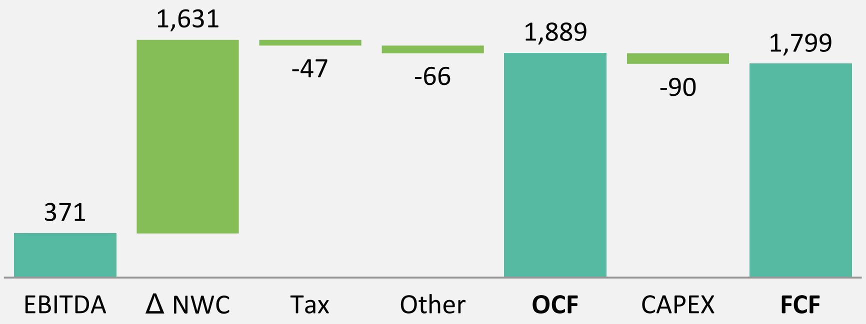
Note: All figures in Q1 2016/17 before special items.

# Negative NWC development weighed on Free Cash Flow

**Q1 2017/18: Free Cash Flow** (in €m)




**Q1 2016/17: Free Cash Flow** (in €m)




## Highlights

- // NWC decline driven by rise in inventories due to weaker-than-anticipated December sales, lower payables driven by changes in the product mix and increased receivables driven by later income & higher sales of telco contracts
- // Lower cash taxes due to tax refunds for previous years
- // Improved other OCF mainly benefiting from positive exchange rate effects
- // Free Cash Flow around €400m lower than in the prior-year period, which was entirely attributable to the negative NWC development

# 03
# Outlook

Mark Frese, CFO

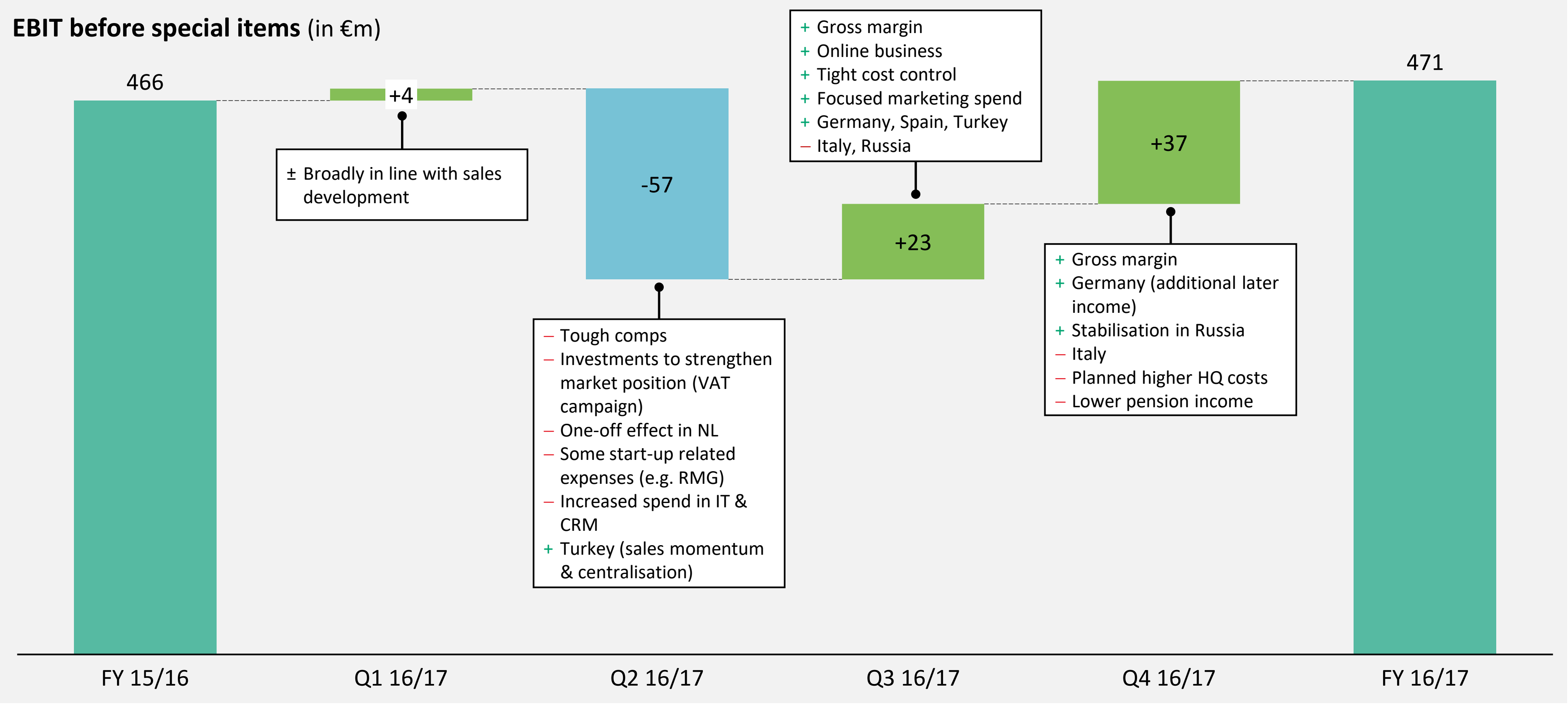
# Outlook

The outlook is adjusted for currency effects and portfolio changes.

| €m | FY 2016/17[1] | FY 2017/18 | Confirmed |
|---|---|---|---|
| Total sales | €22,155 | Slight increase [2] | ✓ |
| EBITDA (excl. Fnac Darty) | 704 | At least mid single-digit % growth | ✓ |
| EBIT (excl. Fnac Darty) | 471 | At least mid single-digit % growth | ✓ |
| Fnac Darty profit share (consensus) | n.a. | Low to mid double-digit €m amount | ✓ |

[1] EBITDA & EBIT in FY 2016/17 before special items. EBITDA & EBIT in FY 2017/18 as reported. [2] Correspondingly, a slight improvement in NWC compared with the previous year is expected.

# Recap: Building blocks for FY 2016/17



# In a nutshell: Key sales and profit drivers in Italy

## Recap FY 16/17

// Leading player in Italy with a market share of 13%

// Intense competitive environment driven by pricing pressure and heavy promotions

// Decentralised operations causing inefficiencies and expensive cost structures

// Sub-optimal buying and stock level decisions

// Services & Solutions proposition still in its infancy

// Divide between stationary and online operations

Significant decrease in profitability

## Initiatives FY 17/18

// New management in place

// Introduction of central category management approach (e.g. focused assortments with less complexity)

// Improved pricing strategy (e.g. full use of digital shelf labels potential) to cope in a still highly competitive and promotions driven market

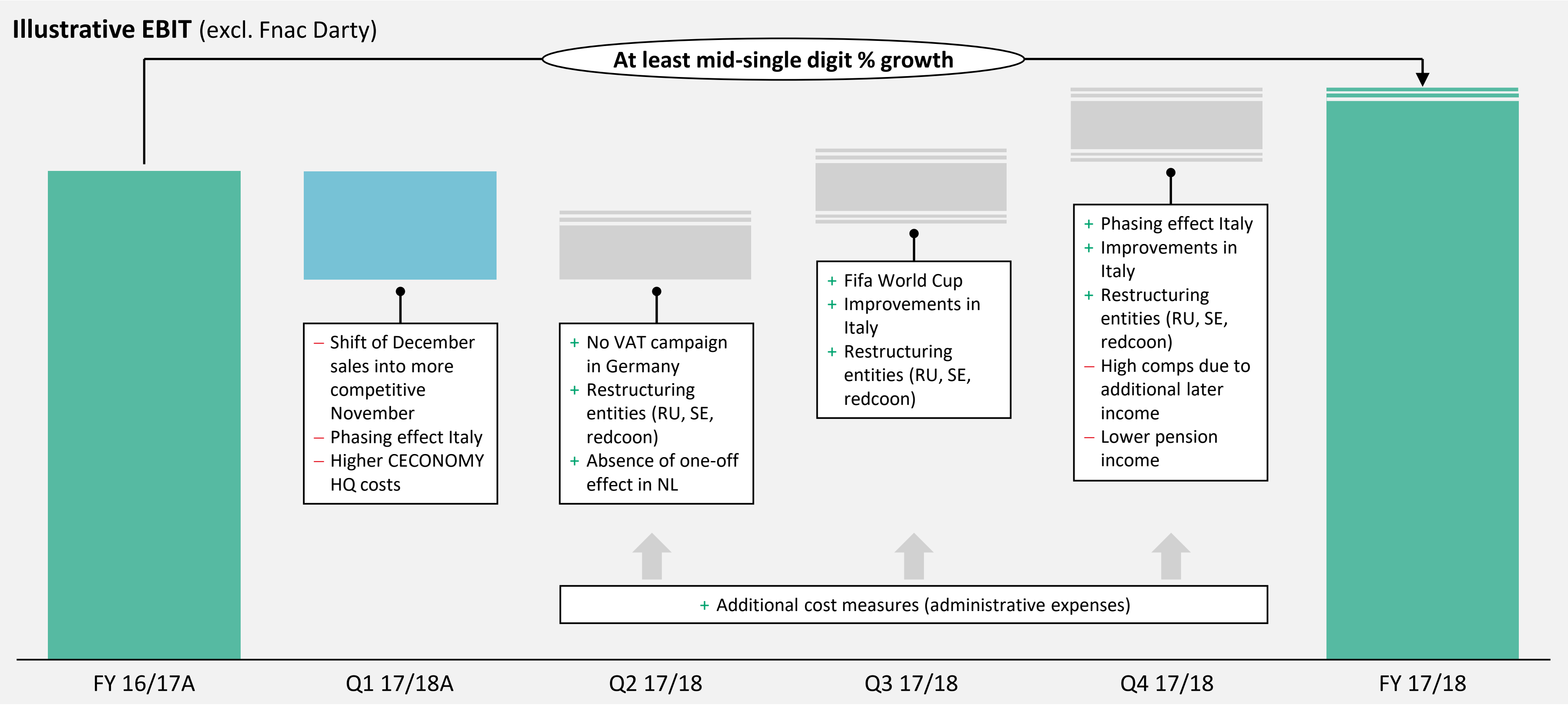
// Price reductions to defend leading market position

// Higher services income driven by increased warranty and financing sales (e.g. new streamlined offering at more attractive conditions)

// Cost savings from efficiency measures initiated in FY 16/17 (c. 10% FTE reduction in stores and head office)

Considerable profit improvement expected

# Building blocks for Q2 to Q4 2017/18



# Q&A

**Pieter Haas, CEO**

**Mark Frese, CFO**

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# Store network as per 31 December 2017

| | 30/09/2017 | Openings Q1 2017/18 | Closures Q1 2017/18 | 31/12/2017 |
|---|---|---|---|---|
| Austria | 50 | 2 | - | 52 |
| Belgium | 28 | 1 | - | 29 |
| Germany | 429 | 2 | - | 431 |
| Greece | 12 | - | - | 12 |
| Hungary | 24 | - | - | 24 |
| Italy | 116 | - | - | 116 |
| Luxembourg | 2 | - | - | 2 |
| Netherlands | 49 | - | - | 49 |
| Poland | 86 | 1 | - | 87 |
| Portugal | 10 | - | - | 10 |
| Russia | 57 | 85 (incl. 84 SiS) | -1 | 141 |
| Spain | 83 | 1 | - | 84 |
| Sweden | 27 | - | - | 27 |
| Switzerland | 27 | 1 | - | 28 |
| Turkey | 53 | 4 | - | 57 |
| **Total** | **1,053** | 97 (incl. 84 SiS) | -1 | **1,149** |

# Balance sheet per 31 December 2017

| €m | 31/12/2016* | 30/09/2017 | 31/12/2017 |
|---|---|---|---|
| **Non-current assets** | **1,758** | **2,144** | **2,121** |
| Intangible assets | 597 | 631 | 634 |
| Property, plant and equipment | 866 | 858 | 850 |
| Investment accounted for using the equity method | 0 | 458 | 457 |
| Other financial and non-financial assets | 296 | 197 | 179 |
| **Current assets** | **27,449** | **6,136** | **9,327** |
| Inventories | 3,288 | 2,553 | 3,541 |
| Trade receivables | 363 | 498 | 564 |
| Cash and cash equivalents | 2,452 | 861 | 2,324 |
| Other financial and non-financial assets | 2,252 | 2,224 | 2,897 |
| Assets held for sale | 19,095 | 0 | 0 |
| **Assets** | **29,207** | **8,280** | **11,448** |

Fnac Darty stake

Includes 1% stake of new METRO AG and 6.61% stake of METRO Properties

Includes 9% stake of new METRO AG

| €m | 31/12/2016* | 30/09/2017 | 31/12/2017 |
|---|---|---|---|
| **Equity** | **5,660** | **666** | **751** |
| **Non-current liabilities** | **855** | **1,062** | **1,057** |
| Provisions | 771 | 691 | 678 |
| Borrowings | 17 | 278 | 282 |
| Other financial and non-financial liabilities | 67 | 93 | 97 |
| **Current liabilities** | **22,693** | **6,551** | **9,640** |
| Trade payables | 7,565 | 4,929 | 7,830 |
| Provisions | 169 | 199 | 189 |
| Borrowings | 3 | 266 | 329 |
| Other financial and non-financial liabilities | 1,429 | 1,157 | 1,293 |
| Liabilities related to assets held for sale | 13,526 | 0 | 0 |
| **Equity and liabilities** | **29,207** | **8,280** | **11,448** |

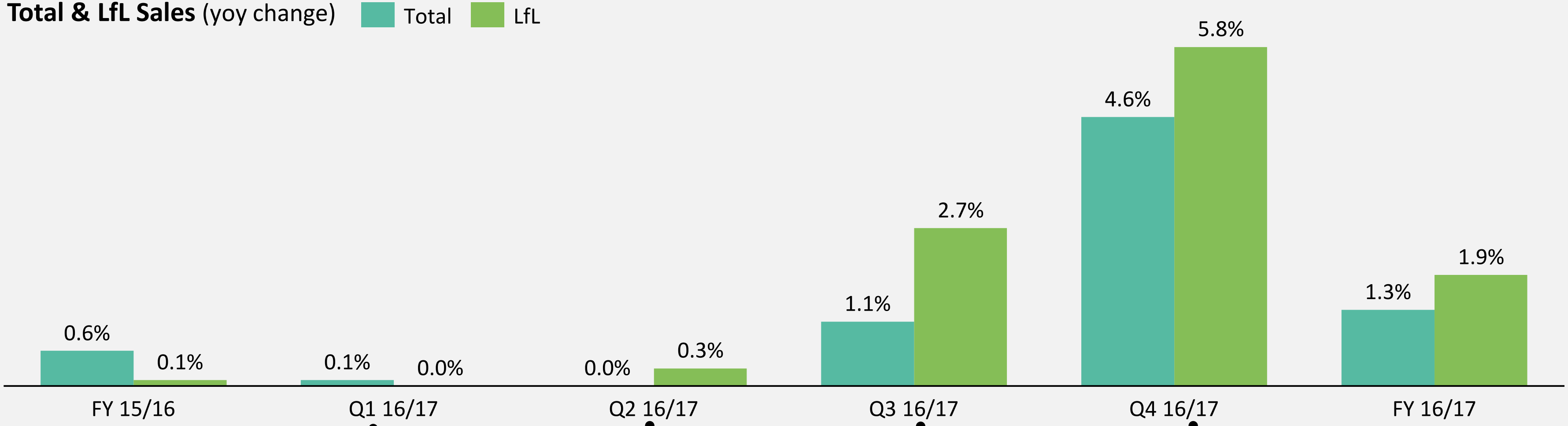
Includes promissory note (“Schuldschein“)

Includes commercial paper

* Adjusted view which represents only CECONOMY balance sheet as of 31/12/2016.

# Quarterly Sales Drivers FY 2016/17

**Total & LfL Sales** (yoy change)




**Q1 16/17**

- \+ Online business
- \+ Services & Solutions
- – Robust development in Oct. & Nov. (record Black Friday)
- – Disappointing Christmas business, delayed sales to 1st week of Jan.

**Q2 16/17**

- \+ Online business
- \+ VAT campaign in Germany
- \+ Turkey (sustained growth)
- – Italy (competitive environ.)
- – Switzerland (weaker online position vs. peers)
- – Russia
- – Services & Solutions, partly due to tough comps

**Q3 16/17**

- \+ Germany (white goods, TVs & mobile phones)
- \+ Spain, Turkey
- – Italy, Switzerland (declining store traffic)
- – Russia
- – redcoon closures

**Q4 16/17**

- \+ Easy comps
- \+ Investments to further strengthen market position
- \+ New product launches
- \+ Germany, Spain, Turkey
- \+ Signs of recovery in Italy and Switzerland
- – Russia

# Upcoming events

| | |
|---|---|
| AGM 2018 | Wednesday,  14 February 2018 |
| Q2/H1 2017/18 results | Thursday, 17 May 2018 |
| Q3/9M 2017/18 results | Tuesday, 14 August 2018 |
| FY 2017/18 results | Wednesday, 19 December 2018 |

CECONOMY

We empower life in the digital world