



# Zalando Q4/23 Earnings Call

March 13, 2024  
Dr. Sandra Dembeck (CFO)

zalando



## Executive summary

- 01 In 2023 we delivered on our revised topline guidance and achieved the top end of our adjusted EBIT range -in what was a challenging year for online fashion retail**  
Significant y-o-y improvement in adj. EBIT of EUR 165m to EUR 350m with an adj. EBIT margin of 3.5% while GMV growth was at (1.1)% and revenue growth at (1.9)%
- 02 In the forth quarter and throughout peak trading, amidst continued weak demand, we focused on increasing profitability and improved gross margin**  
Cautious wholesale buy translated into lower overstock lifting Q4 gross margin by 1.2pp to 39.4% with inventory being down c. 20%, Q4 adj. EBIT +25% yoy to EUR 183m
- 03 The partner business demonstrated strong performance in Q4 continuing its success track**  
Partner Program share at 39.2% in Q4 (+2.8pp YoY), with 62% of all Partner Program items shipped with ZFS (Zalando Fulfillment Solutions) vs 58% in Q4 2022
- 04 We exit 2023 with a strong cash position of EUR 2.5bn**  
Strong free cash flow generation of 684m in FY 2023 driven by higher net income and lower inventories. Cash position at EUR 2.5bn
- 05 In 2024 we return to growth, continue to increase profitability and invest in future growth**  
GMV and revenue growth of 0% - 5% and 0% - 5% respectively, adj EBIT in the range of EUR 380m to EUR 450m, CAPEX of EUR 250 - 350m and negative net working capital



## We delivered on our revised 2023 guidance

Despite continued weak consumer demand even during peak trading, we delivered adjusted EBIT at the top end of our initial guidance<sup>2</sup>

		FY 2023	Revised 2023 guidance	
Growth	GMV	(1.1)%	<b>(2)% – 1%</b>	✓
	Revenue	(1.9)%	<b>(3)% – (0.5)%</b>	✓
Profitability	Adjusted EBIT <sup>1</sup> (in EUR m)	349.9	<b>300 – 350</b>	✓
Cash	Capex (in EUR m)	263.2	<b>260 – 300</b>	✓
	Net working capital (in EUR m)	(441.8)	<b>negative</b>	✓

<sup>1</sup> Excludes equity-settled share-based payment expense ("SBC"), restructuring costs, non-operating one-time effects and acquisition-related expenses

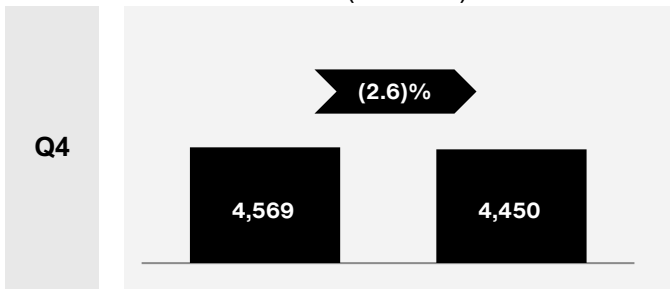
<sup>2</sup> Initial GMV guidance at 1% – 7%, Revenue guidance at (1)% – 4%, Adj. EBIT at EUR 280 – 350m, CAPEX at EUR 300 – 380m



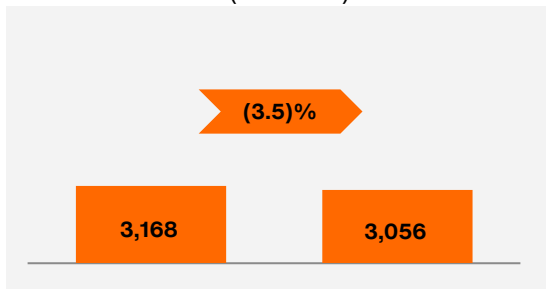


# Delivering significant profitability improvement in an ongoing challenging online market environment

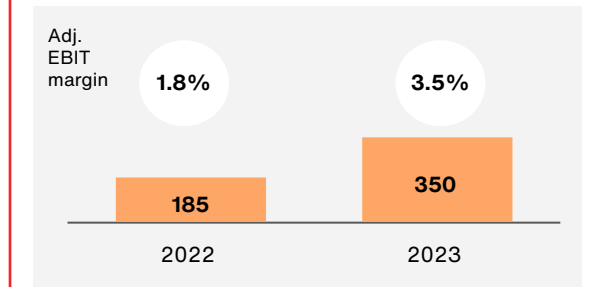
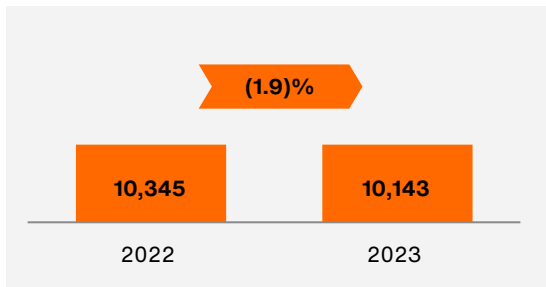
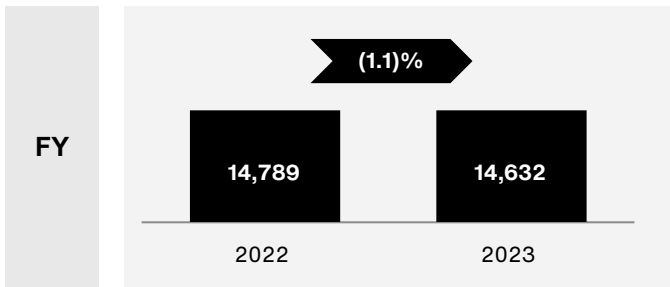
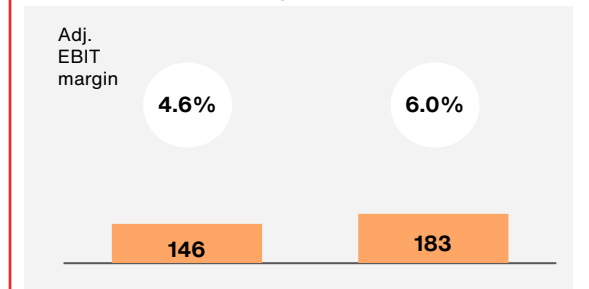
**Group GMV<sup>1</sup>**  
(in EUR m)



**Group revenue**  
(in EUR m)

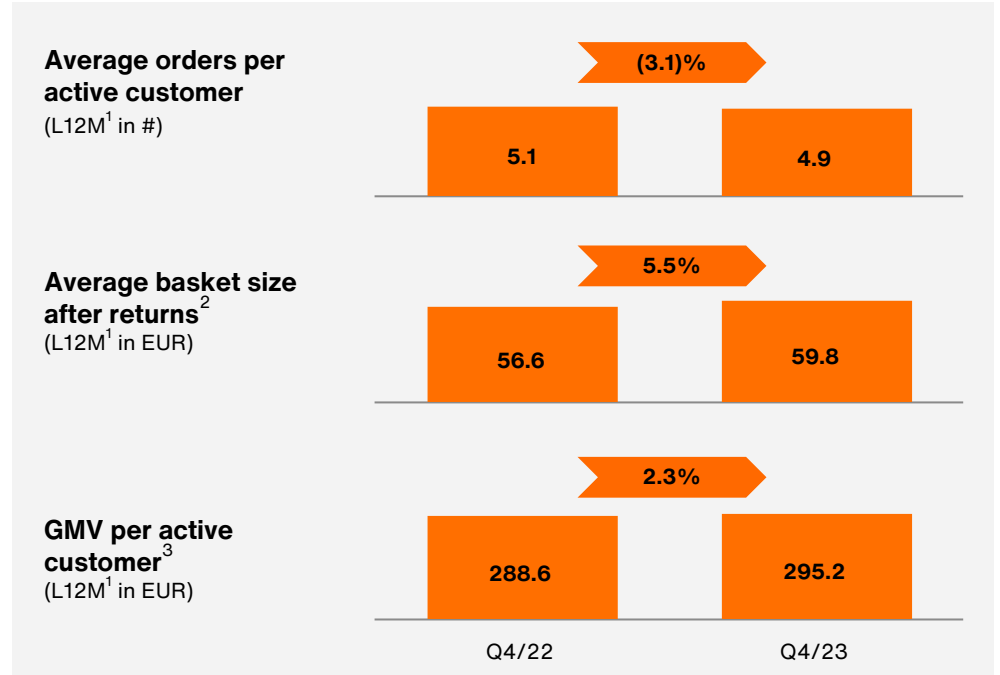
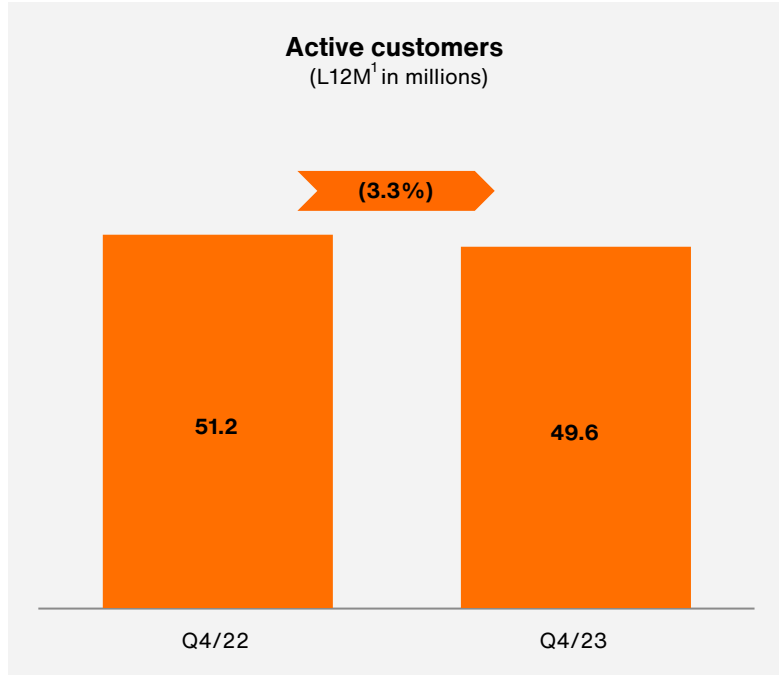


**Group adjusted EBIT**  
(in EUR m, margin in % of revenues)





## Decrease in active customer base from lower new customer acquisition, GMV per active customer continues to increase



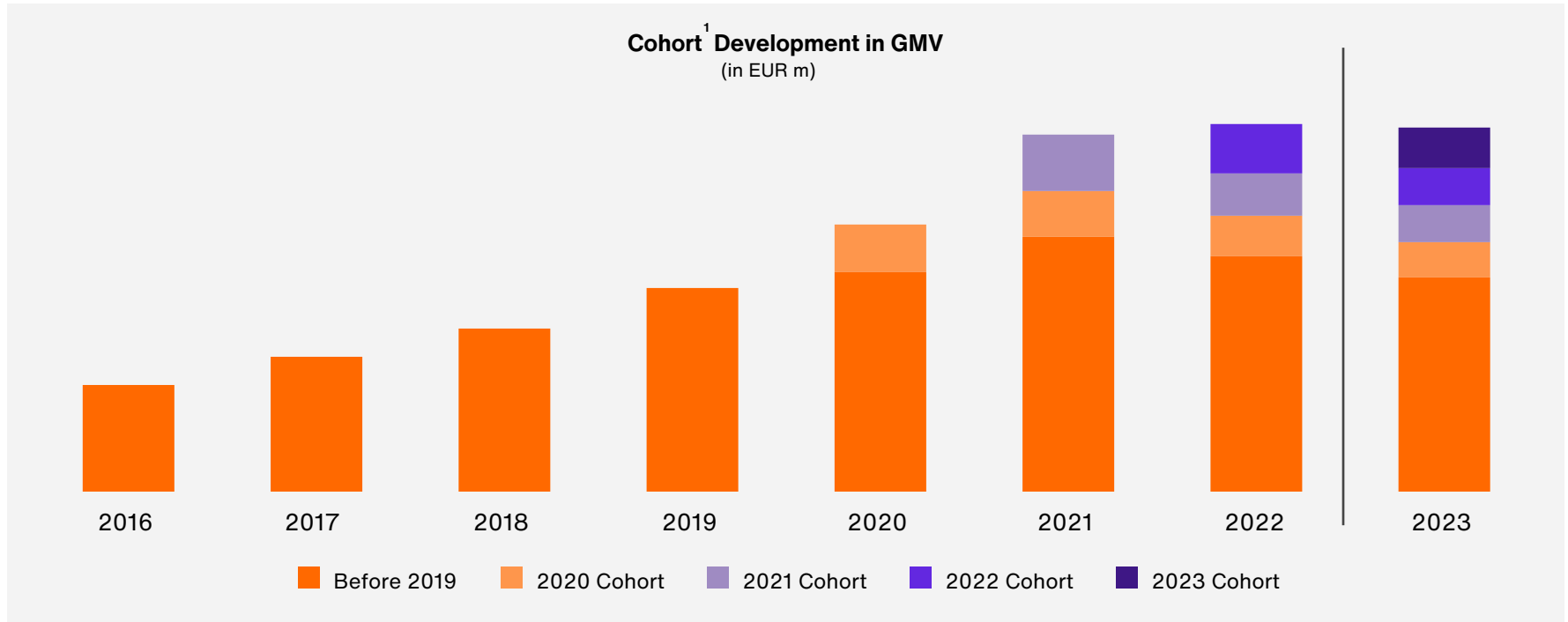
<sup>1</sup> L12M = last twelve months

<sup>2</sup> Defined as GMV divided by the number of orders

<sup>3</sup> Defined as GMV divided by the number of active customers



## Macro environment and focus on profitable growth reflected in customer cohort dynamics

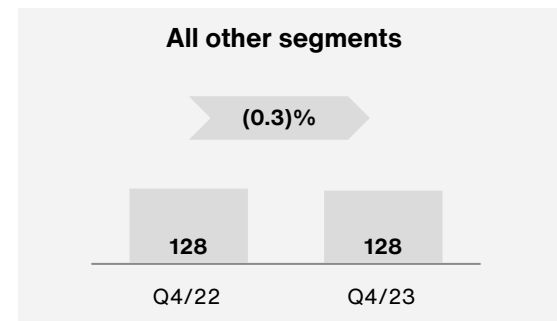
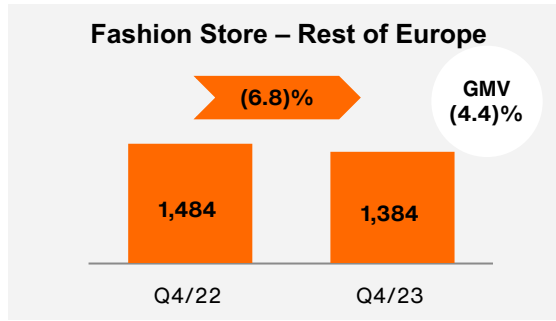
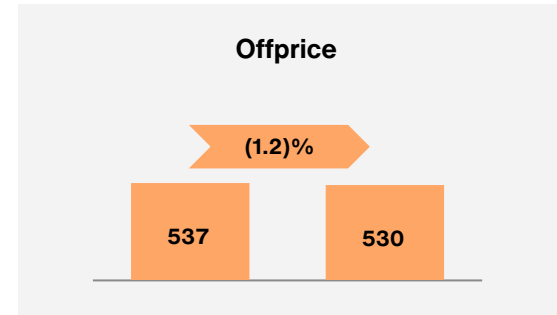
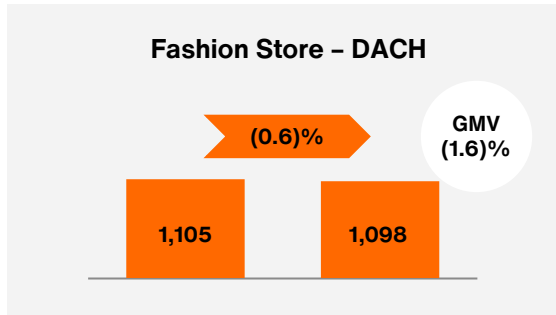


6 <sup>1</sup>Cohort refers to customers grouped by the calendar year in which they first placed an order with Zalando. Bar shows EUR m GMV.



## DACH Fashion Store, Offprice and all other segments broadly flat

Revenue<sup>1</sup> (EUR m) - % growth yoy



7 <sup>1</sup> Q4/23 contains EUR (84)m | Q4/22 EUR (87)m reconciliation of internal revenues. Q4/22 Fashion Store revenues restated. All other segments include Highsnobiety.



## Significant step up in profitability in DACH and Rest of Europe

Adjusted EBIT<sup>1</sup> (EUR m) - margin in % of revenue







## Improvement in gross margin and continued efficiency gains in fulfillment drive adjusted EBIT expansion in Q4

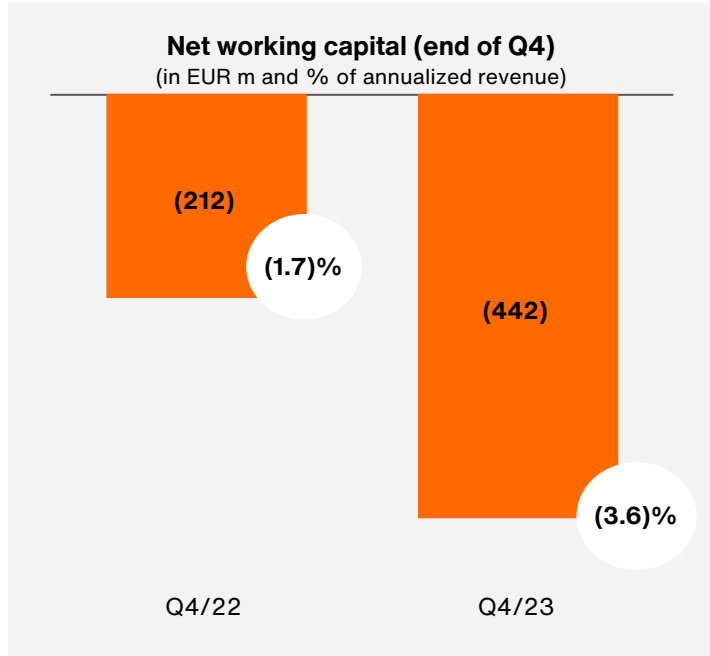
Costs and margins (in % of revenue)	FY/22	FY/23	YoY Δ	Q4/22	Q4/23	YoY Δ
Gross profit	39.2%	38.7%	(0.5)pp	38.1%	39.4%	1.2pp
Fulfillment costs	(26.2)%	(24.2)%	2.0pp	(22.9)%	(22.0)%	0.9pp
Marketing costs	(7.7)%	(7.4)%	0.3pp	(7.9)%	(8.3)%	(0.4)pp
Administrative expenses & Other	(4.5)%	(5.2)%	(0.7)pp	(4.4)%	(4.2)%	0.2pp
EBIT	0.8%	1.9%	1.1pp	3.0%	4.9%	1.9pp
Adjusted EBIT <sup>1</sup>	1.8%	3.5%	1.7pp	4.6%	6.0%	1.4pp

Focus on profitable growth during peak trading and prudent wholesale buy

Improved order economics and scaling of our partner business more than offsetting higher transportation cost



## Normalised inventory levels result in improvement of net working capital



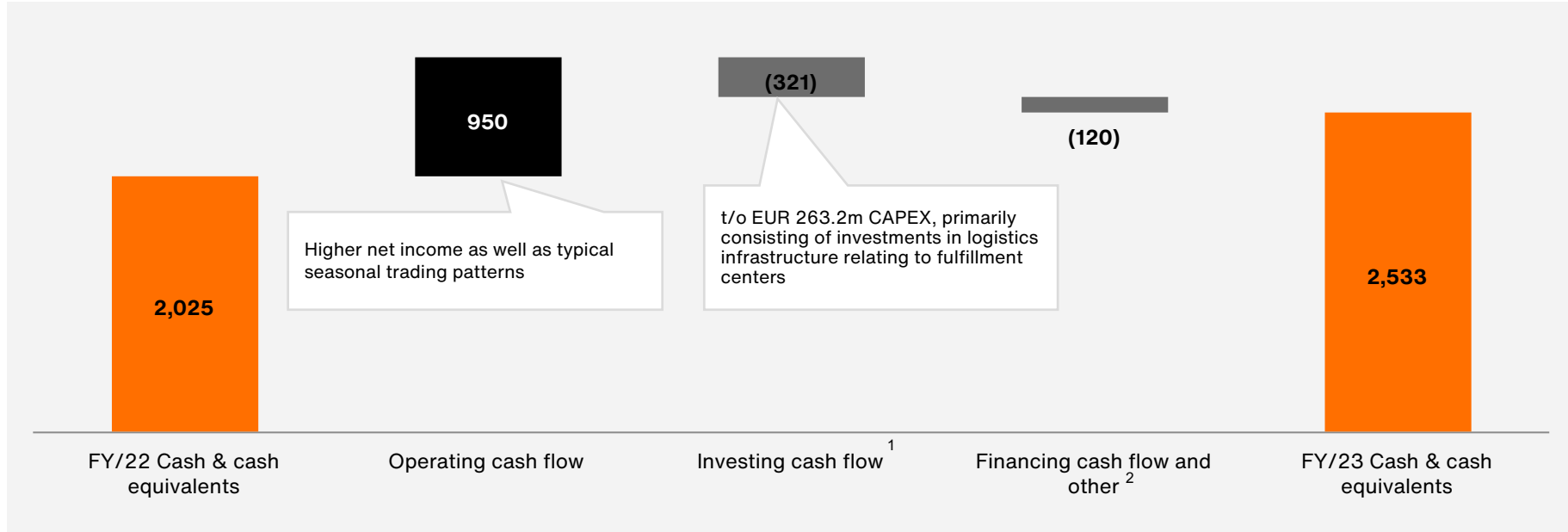
EUR m	Q4/22	Q4/23	YoY Δ
Inventories	1,810	1,441	(20.4)%
Trade receivables	913	899	(1.5)%
Trade payables	2,934	2,782	(5.2)%
<b>Net working capital</b>	<b>(212)</b>	<b>(442)</b>	

Conservative wholesale buy and reduced overstock



## Cash and cash equivalents increased to EUR ~2.5 billion

in EUR m






11 <sup>1</sup> Includes investments in fixed assets of EUR (190.5)m and intangible assets of EUR (72.7)m, payments for acquisitions of EUR (6.1)m and investments in term deposits of EUR (50.0)m

<sup>2</sup> Includes financing cash flow of EUR (123.6)m and effect of exchange rate on cash and cash equivalents of EUR 3.2m



## We stayed committed and delivered on our two main ambitions for 2023, profitable growth and continued investment through the cycle

Key objective	Immediate focus & decisive action	Achievements
 <b>Strengthen gross margin</b>	<ul style="list-style-type: none"> <li>• More conservative wholesale buy, scale up via re-order and partner business</li> </ul>	✓
	<ul style="list-style-type: none"> <li>• Increase relevance of assortment and drive customer engagement towards black prices</li> </ul>	(✓)
	<ul style="list-style-type: none"> <li>• Update partner commission table</li> </ul>	✓
 <b>Simplify for speed of execution</b>	<ul style="list-style-type: none"> <li>• Reduce complexity in our organisation and simplify for speed of execution</li> </ul>	✓
	<ul style="list-style-type: none"> <li>• Operating model in line with customer-centric decision making to accelerate our strategy</li> </ul>	✓
 <b>Selectively invest in future growth</b>	<ul style="list-style-type: none"> <li>• Continue to invest in logistics network built out, yet pace adjusted to current macro environment</li> </ul>	✓
	<ul style="list-style-type: none"> <li>• Continued investment in key capabilities which power the platform</li> </ul>	✓

✓ Actions implemented (✓) Ongoing

## Our 2024 guidance

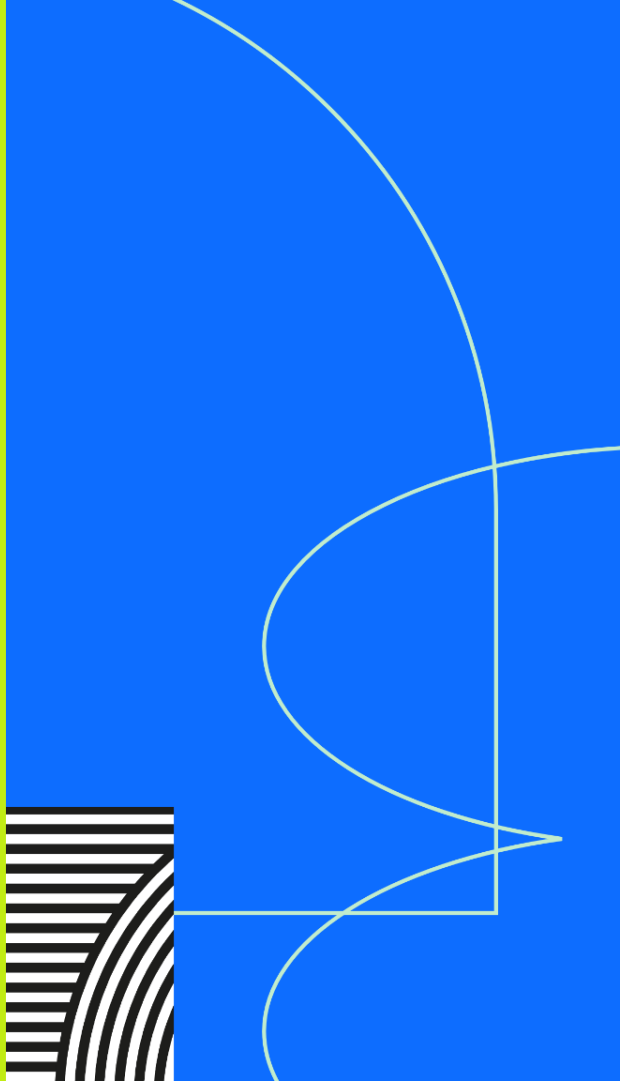
In 2024 we return to growth, continue to increase profitability and invest in future growth

		Guidance 2024
Growth	GMV	0% - 5%
	Revenue	0% - 5%
Profitability	Adjusted EBIT <sup>1</sup> (in EUR m)	380 - 450
Cash	Capex (in EUR m)	250 - 350
	Net working capital (in EUR m)	negative

13 <sup>1</sup> Excludes equity-settled share-based payment expense ("SBC"), restructuring costs, non-operating one-time effects and acquisition-related expenses



# Appendix





## FY/23 GMV to revenue bridge

	2023 (in EUR m)	2022 (in EUR m)	Comment
<b>Group GMV</b>	<b>14,632</b>	<b>14,789</b>	Net <sup>1</sup> B2C merchandise value incl. VAT
Partner Business GMV	4,911	4,389	39% (34%) of Fashion Store GMV (incl. Connected Retail)
Group GMV ex Partner Business	<b>9,721</b>	<b>10,400</b>	
VAT (excl. Partner Business VAT)	1,555	1,664	~ 16% of GMV
<b>Group NMV ex Partner Program</b>	<b>8,165</b>	<b>8,736</b>	Net <sup>1</sup> B2C merchandise value excl. VAT
Other merchandise revenue	+...	+...	e.g. B2B bulk sales revenue (offprice)
Revenue recognition	-/+...	-/+...	Point of order (GMV) vs. customer receipt (revenue)
<b>Revenue from the sale of merchandise</b>	<b>8,106</b>	<b>8,609</b>	IFRS standards, Zalando annual report
Partner Program commission	+...	+...	Incl. Connected Retail commissions
B2B service revenue	+...	+...	Zalando Fulfillment Solutions, Zalando Marketing Services, Tradebyte, Highsnobiety
Other B2C service revenue	+...	+...	e.g. shipping fees, express delivery charges, Zalando Plus, dunning fees
<b>Group revenue</b>	<b>10,143</b>	<b>10,345</b>	IFRS standards, Zalando annual report



## Merchandise and service revenue – segment view FY/23 (illustrative)



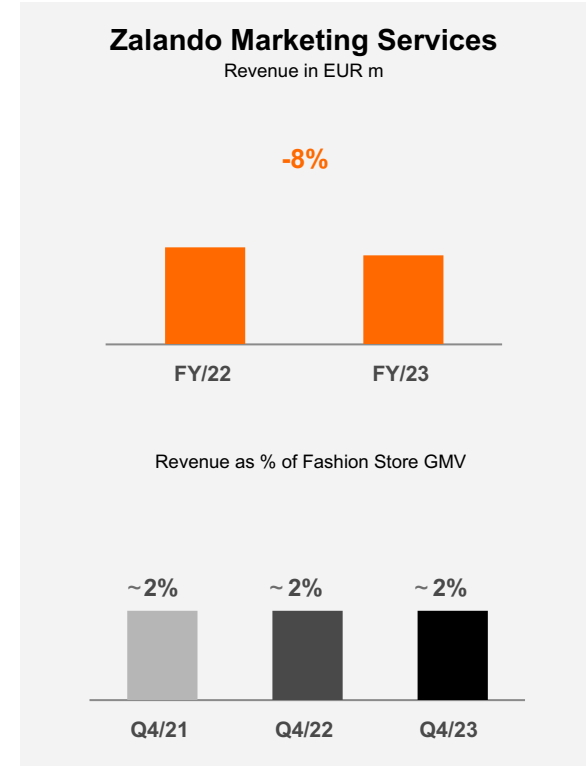
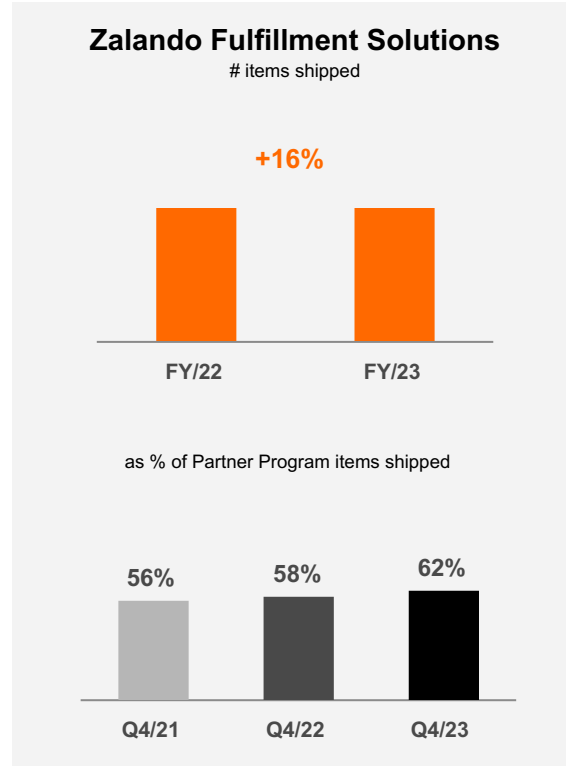
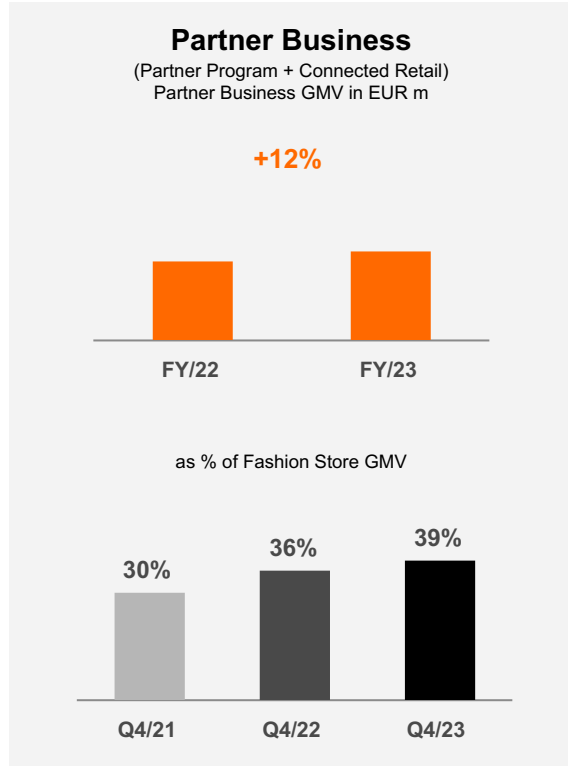
Merchandise revenue in EUR m

Service revenue in EUR m





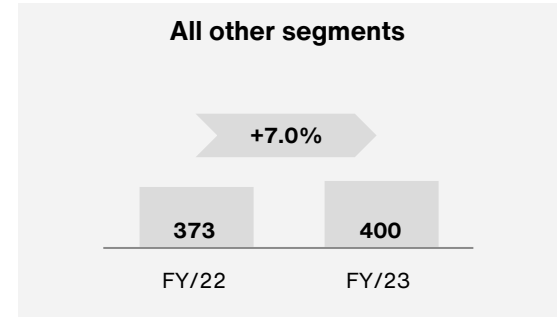
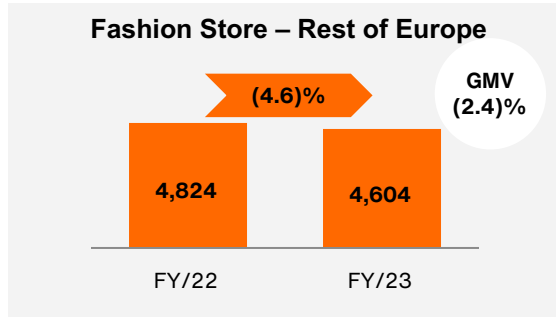
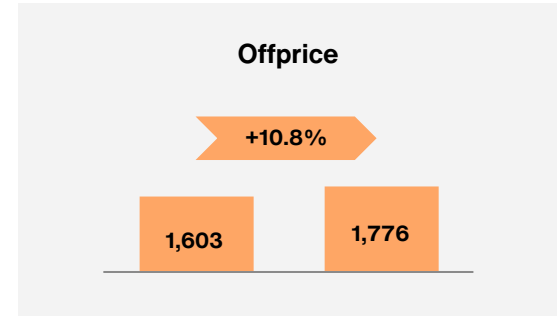
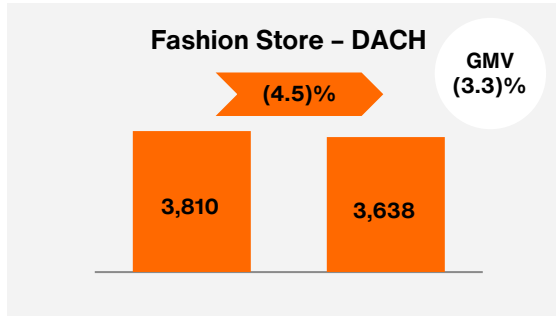
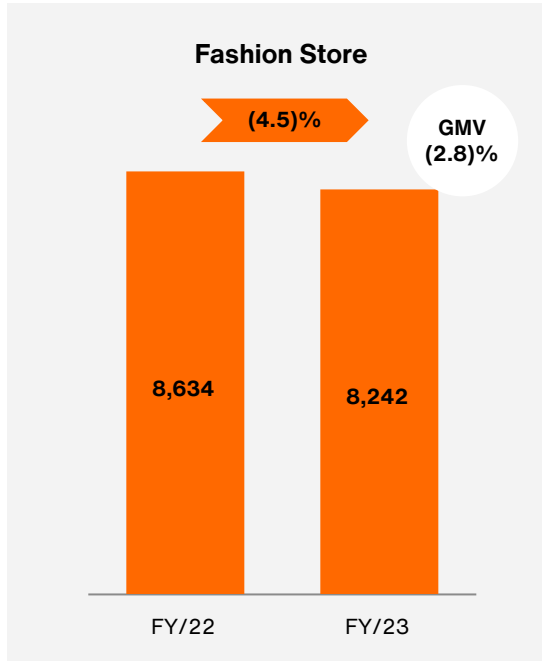
# Our partners continue to grow their Direct-to-Consumer business on Zalando





# FY revenues 2023 by segment

Revenue<sup>1</sup> (EUR m) - % growth yoy

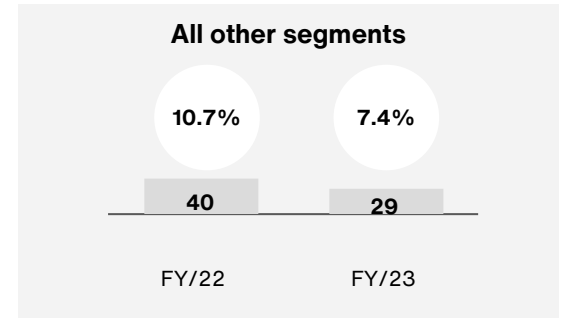
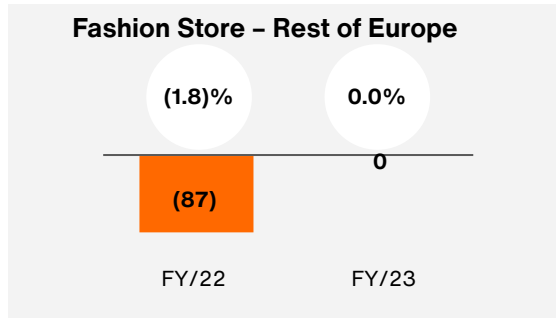
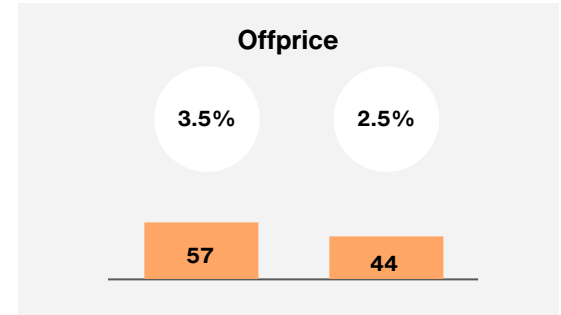
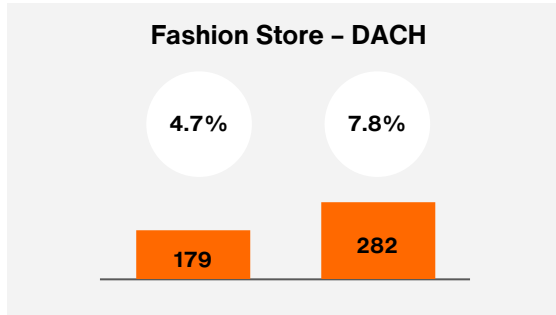
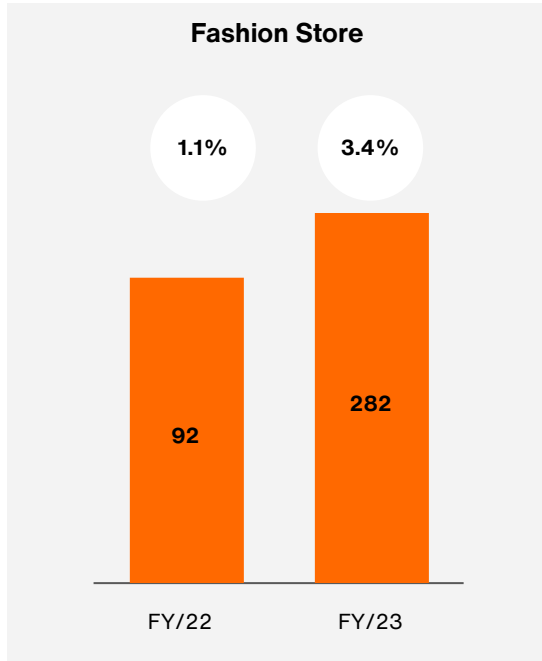


20 <sup>1</sup> FY/23 contains EUR (274)m | FY/22 EUR (266)m reconciliation of internal revenues. FY/22 Fashion Store revenues restated. All other segments include Highsnobility.



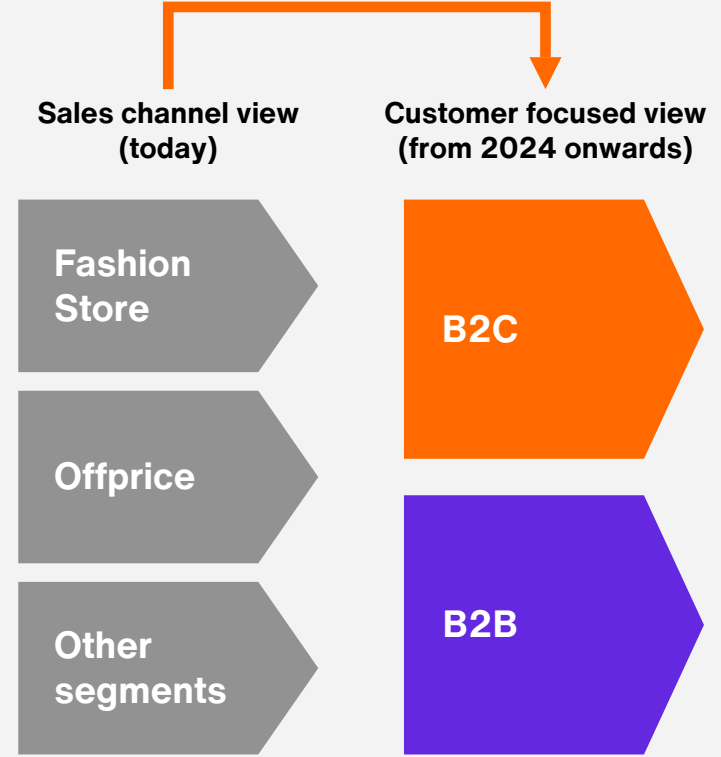
## FY adjusted EBIT by segments

Adjusted EBIT<sup>1</sup> (EUR m) - margin in % of revenue



## Our new segment reporting from 2024 onwards

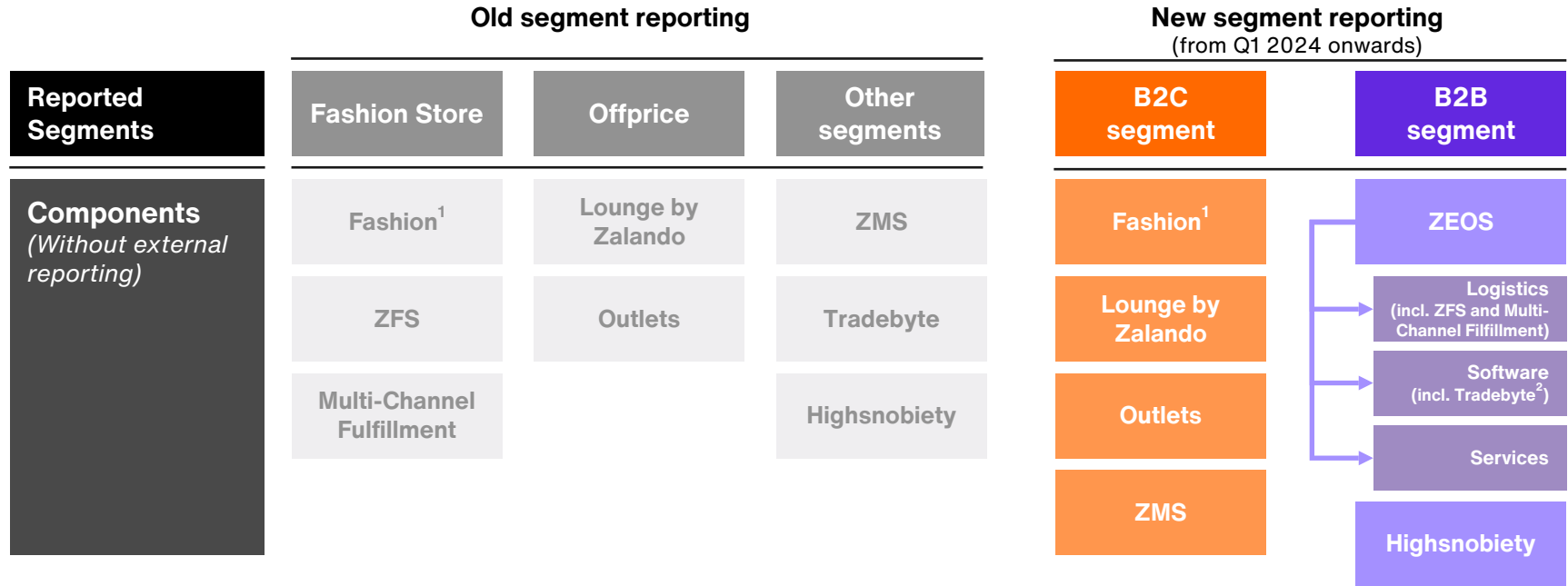
- Our steering and decision-making starts from a customer point of view, now we are shifting from a sales channel view to a customer-focused distinction between B2C and B2B.
- Our external reporting will be adjusted to reflect these two operating segments.
- The majority of our business revenues is located in our B2C business and its supporting services, including our partner business and Zalando Marketing Services (ZMS).
- The B2B segment will comprise services that provide B2B products we offer to our partners on and off our Zalando Platform to meet their business needs (i.e. ZEOS including Zalando Fulfillment Solutions and Tradebyte as well as Highsnobiety as another brand-facing business of the Zalando group).





## Our new segments and its components

We adjust our segment reporting from a sales channel view (Fashion Store, Offprice) to a segment reporting view and distinguish between serving our **B2C customers** on the Zalando platform & **B2B customers** on and off Zalando platform.





## How do **FY/23 numbers** translate into **new segment reporting**?

### Old segment reporting<sup>1</sup>

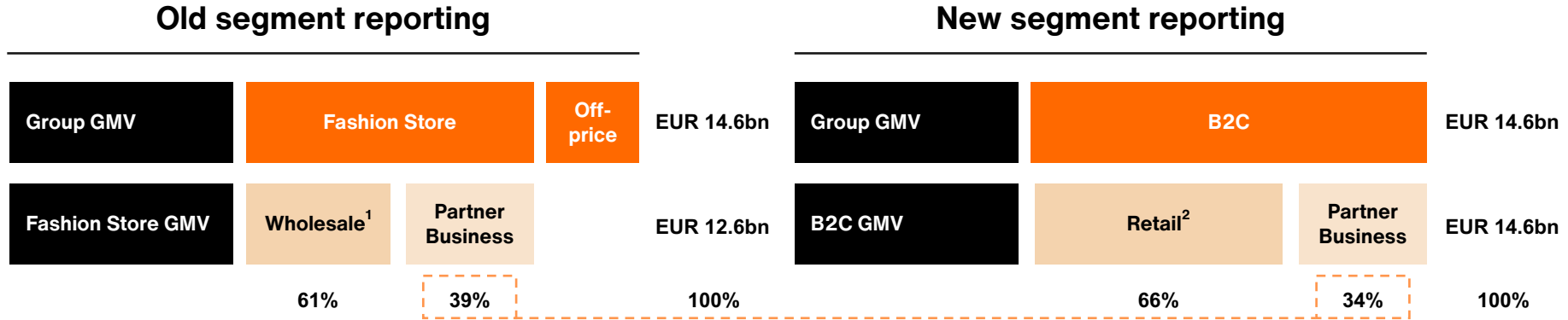
<b>FY/23</b>	<b>Group</b>	<b>Fashion Store</b>	<b>Offprice</b>	<b>All other segments</b>
<b>GMV</b> (in EURm)	14,632	12,630	2,001	No GMV contribution
<b>Revenue</b> (in EURm)	10,143	8,242	1,776	400
<b>Gross margin</b> (in %)	38.7%	40.2%	34.9%	25.5%
<b>Adj. EBIT</b> (in EURm)	350	282	44	29
<b>Adj. EBIT margin</b> (in %)	3.5%	3.4%	2.5%	7.4%

### New segment reporting<sup>1</sup>

<b>Group</b>	<b>B2C segment</b>	<b>B2B segment</b>
14,632	14,632	No GMV contribution
10,143	9,298	855
38.7%	41.2%	12.6%
350	312	39
3.5%	3.3%	4.6%



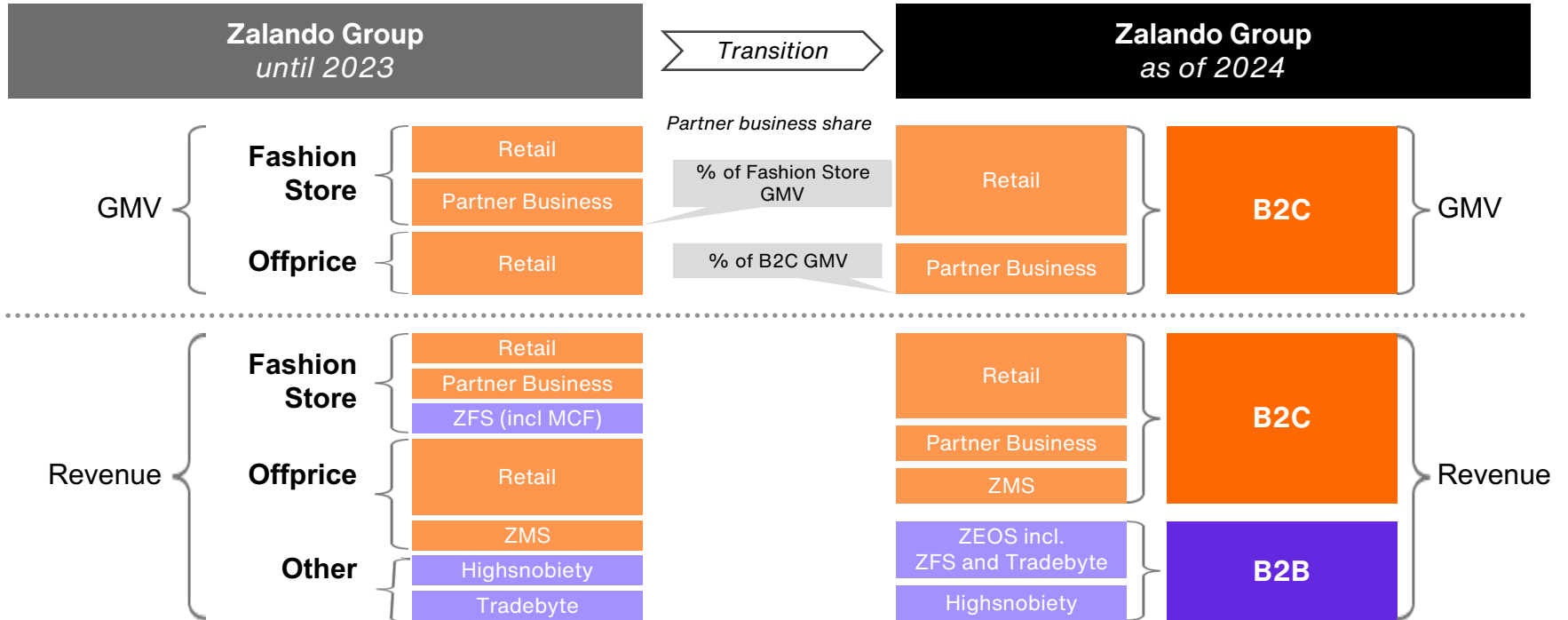
## GMV contributors in old and new world and its impact on **Partner Business share**



- New segment reporting leads to an adjustment of **platform KPIs** as we no longer report on Fashion Store GMV (EUR 12.6bn) and switch to B2C GMV (EUR 14.6bn).
- As a consequence, Partner Business share 2023 is rebased from 39% to 34%, with a Partner Business share target of 40-50% until 2028.
- Calculation of ZMS marketing intensity is adjusted accordingly, with a 2028 target of 3-4%.



# Summary | Transition to our new governance structure







# Issued share capital

## Share information

(as of Dec 31, 2023)

Type of shares	Ordinary bearer shares with no-par value (Stückaktien)
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated Market (Prime Standard)
Index listings	DAX
<b>Total number of shares outstanding</b>	<b>263,772,023</b>
<b>Issued capital</b>	<b>EUR 263,772,023</b>

## Stock options programs Management Board (as of Dec 31, 2023)

Program	# Options outstanding	Weighted average exercise price (EUR)
LTI 2018 <sup>2</sup>	4,296,949	47.44
LTI 2019	296,442	24.38
LTI 2021	2,596,413	24.80
ZOP 2021	77,634	11.13
<b>Total</b>	<b>7,267,438</b>	<b>38.02</b>

## Stock options programs Senior Management (as of Dec 31, 2023)

Program	# Options outstanding	Weighted average exercise price (EUR)
SOP 2014 <sup>1</sup>	415,061	26.98
EIP <sup>1</sup>	2,640,291	38.46
ZOP 2019	6,040,521	25.98
<b>Total</b>	<b>9,095,873</b>	<b>29.65</b>

27 <sup>1</sup> Settled with new shares

<sup>2</sup> Only to 35% to be settled with new shares, remaining backed by treasury shares



## Zalando Investor Relations Team



**Patrick Kofler**  
Director of IR

Patrick.Kofler@zalando.de



**Dorothee Schultz**  
Manager ESG IR

Dorothee.Schultz@zalando.de



**Andrea Frese**  
Senior Manager IR

Andrea.Frese@zalando.de



**Nils Pöppinghaus**  
Senior Manager IR

Nils.Poeppinghaus@zalando.de



**Ignacio Azpitarte Garay**  
Junior Manager IR

Ignacio.Azpitarte.Garay@zalando.de

### Team contact

T: +49 3020 9681 584  
Zalando SE  
Valeska-Gert-Straße 5  
10243 Berlin

investor.relations@zalando.de  
<https://corporate.zalando.com/en>



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You should not rely on these forward-looking statements as predictions of future events and we undertake no obligation to update or revise these statements.

Our actual results may differ materially and adversely from any forward-looking statements discussed on this call due to a number of factors, including without limitation, risks from macroeconomic developments, external fraud, inefficient processes at fulfillment centers, inaccurate personnel and capacity forecasts for fulfillment centers, hazardous material / conditions in production with regard to private labels, lack of innovation capabilities, inadequate data security, lack of market knowledge, risk of strike and changes in competition levels.