

**Quarterly
Statement**
Q3 2020



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Zalando at a Glance

Key Figures

	Jul 1 – Sep 30, 2020	Jul 1 – Sep 30, 2019	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019
Group key performance indicators				
Site visits* (in millions)	1,268.5	1,000.3	3,702.2	2,910.6
Mobile visit share* (as a %)	87.2	84.8	85.9	83.6
Active customers (in millions)	35.6	29.5	35.6	29.5
Number of orders (in millions)	44.0	34.7	127.5	102.3
Average orders per active customer (LTM**)	4.8	4.6	4.8	4.6
Average basket size (LTM**) (in EUR)	57.2	56.6	56.4	56.6
Results of operations				
Gross merchandise volume (GMV***) (in EUR m)	2,455.9	1,891.2	7,192.7	5,664.3
Revenue (in EUR m)	1,849.8	1,521.1	5,408.7	4,496.6
EBIT (in EUR m)	105.1	-6.9	190.4	66.7
EBIT (as % of revenue)	5.7	-0.5	3.5	1.5
Adjusted EBIT (in EUR m)	118.2	6.3	231.5	114.5
Adjusted EBIT (as % of revenue)	6.4	0.4	4.3	2.5
EBITDA (in EUR m)	156.9	39.5	345.1	207.2
EBITDA (as % of revenue)	8.5	2.6	6.4	4.6
Adjusted EBITDA (in EUR m)	170.1	52.7	386.2	255.0
Adjusted EBITDA (as % of revenue)	9.2	3.5	7.1	5.7
Financial position				
Net working capital (in EUR m)	-222.6	-147.7****	-222.6	-147.7****
Equity ratio (as % of total assets)	30.9	38.9****	30.9	38.9****
Cash flow from operating activities (in EUR m)	212.5	-0.7	337.4	84.0
Cash flow from investing activities (in EUR m)	0.8	-88.0	-84.2	-169.2
Free cash flow (in EUR m)	213.3	-88.7	253.2	-80.6
Capex (in EUR m)	-31.9	-88.0	-123.0	-185.5
Cash and cash equivalents (in EUR m)	2,596.1	867.0	2,596.1	867.0
Other				
Employees (as of the reporting date)	13,709	13,763****	13,709	13,763****
Basic earnings per share (in EUR)	0.23	-0.05	0.38	0.06
Diluted earnings per share (in EUR)	0.22	-0.05	0.36	0.06

For an explanation of the performance indicators, please refer to the glossary to the annual report 2019 (section 4.1).

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

*) Based on the change in consent management following the privacy requirements, part of the data is estimated on a statistical method.

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

****) 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 like express delivery fees); these are included in revenue only. GMV is recorded based on the time of the customer order.

*****) As of Dec 31, 2019

1.1 Financial Performance of the Group

In the third quarter of 2020, overall business performance continued to be exceptionally strong. In Q3 2020, GMV and revenue grew by 29.9% and 21.6%, respectively. The strong growth was in particular driven by the accelerated consumer demand shift towards digital offerings in the course of the ongoing coronavirus pandemic. With the outstanding top line growth, Zalando significantly improved its cost of sales ratio, supported by the release of inventory valuation allowances of EUR 35.0m – creating a positive one-time effect on profitability. In addition, the company achieved efficiency gains in fulfillment costs, resulting in EBIT and adjusted EBIT of EUR 105.1m and EUR 118.2m, respectively, for the third quarter of 2020.

Third Quarter Consolidated Income Statement

IN EUR M	Jul 1 – Sep 30, 2020	As % of revenue	Jul 1 – Sep 30, 2019	As % of revenue	Change
Revenue	1,849.8	100.0%	1,521.1	100.0%	0.0pp
Cost of sales	-1,029.2	-55.6%	-896.4	-58.9%	3.3pp
Gross profit	820.7	44.4%	624.7	41.1%	3.3pp
Fulfillment costs	-493.0	-26.7%	-437.2	-28.7%	2.1pp
Marketing costs	-145.4	-7.9%	-123.0	-8.1%	0.2pp
Administrative expenses	-80.1	-4.3%	-72.9	-4.8%	0.5pp
Other operating income	3.7	0.2%	1.8	0.1%	0.1pp
Other operating expenses	-0.9	0.0%	-0.2	0.0%	0.0pp
Earnings before interest and taxes (EBIT)	105.1	5.7%	-6.9	-0.5%	6.1pp

Nine Months Consolidated Income Statement

IN EUR M	Jan 1 – Sep 30, 2020	As % of revenue	Jan 1 – Sep 30, 2019	As % of revenue	Change
Revenue	5,408.7	100.0%	4,496.6	100.0%	0.0pp
Cost of sales	-3,146.7	-58.2%	-2,592.1	-57.6%	-0.5pp
Gross profit	2,262.0	41.8%	1,904.5	42.4%	-0.5pp
Fulfillment costs	-1,466.3	-27.1%	-1,269.8	-28.2%	1.1pp
Marketing costs	-374.2	-6.9%	-350.4	-7.8%	0.9pp
Administrative expenses	-245.9	-4.5%	-221.0	-4.9%	0.4pp
Other operating income	19.3	0.4%	10.8	0.2%	0.1pp
Other operating expenses	-4.5	-0.1%	-7.3	-0.2%	0.1pp
Earnings before interest and taxes (EBIT)	190.4	3.5%	66.7	1.5%	2.0pp

Key Performance Indicators

KEY PERFORMANCE INDICATORS	Jul 1 – Sep 30, 2020	Jul 1 – Sep 30, 2019	Change	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019	Change
Mobile visit share (as % of site visits)	87.2	84.8	2.4pp	85.9	83.6	2.4pp
Active customers (in millions)	35.6	29.5	20.7%	35.6	29.5	20.7%
Average orders per active customer (LTM)	4.8	4.6	3.3%	4.8	4.6	3.7%
Average basket size (LTM) (in EUR)	57.2	56.6	1.0%	56.4	56.6	-0.4%
Gross merchandise volume (GMV) (in EUR m)	2,455.9	1,891.2	29.9%	7,192.7	5,664.3	27.0%
Fulfillment cost ratio (as % of revenue)	26.7	28.7	-2.1pp	27.1	28.3	-1.2pp
Marketing cost ratio (as % of revenue)	7.9	8.1	-0.2pp	6.9	7.8	-0.8pp
Adjusted EBIT (in EUR m)	118.2	6.3	>100%	231.5	114.5	>100%

Development of GMV and Revenue in Q3 2020

In Q3 2020, GMV increased by EUR 564.7m compared to the prior-year period to EUR 2,455.9m. This corresponds to year-on-year GMV growth of 29.9%. The major driver of the GMV growth in Q3 2020 is the continued strong performance of the Partner Program and Zalando Lounge. The Partner Program more than doubled its volume and Zalando Lounge grew more than 50%, compared to the prior-year period. Along with that, Zalando continued to see strong new customer growth with many first-time fashion online shoppers. As of September 30, 2020, the group had 35.6 million active customers compared to 29.5 million active customers as of September 30, 2019. This 20.7% increase was also driving the increase in the number of orders, which went up by 26.7% in Q3. The rising number of active customers is accompanied by changes in customer shopping behavior. The change in customer mix with a high share of new customers and changing category mix with a higher share of need-based and a lower share of occasion-based categories resulted in a favorable development in the return rate in Q3, which we continue to regard as temporary in nature.

Revenue increased by EUR 328.8m from EUR 1,521.1m to EUR 1,849.8m compared to the prior-year period. This corresponds to year-on-year revenue growth of 21.6%. The increase in GMV was higher than the increase in revenue. This is the result of the strong 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 in Q3 2020

The group achieved a strong profitability level in the third quarter of 2020, recording EBIT of EUR 105.1m (prior year: EUR -6.9m) and a corresponding EBIT margin of 5.7% (prior year: -0.5%).

In Q3 2020, cost of sales rose from EUR 896.4m to EUR 1,029.2m, leading to a gross margin improvement of 3.3 percentage points compared to the prior-year period. The gross margin development is mainly driven by the strong sell-through of spring-summer items, leading to lower overstock levels and hence reduced allowances for goods. In Q3 2020, EUR 35.0m inventory valuation allowances were released, of which EUR 28.9m related to the exceptional inventory write-down of EUR 40.2m that Zalando recognized in Q1 2020 in response to revised sales expectations at the beginning of the coronavirus crisis. In Q2 2020, Zalando had already released EUR 11.3m of this exceptional write-down.

The fulfillment costs in proportion to revenue decreased by 2.1 percentage points in the third quarter of 2020 compared to the prior-year period. The fulfillment cost ratio largely benefited from lower logistic costs, driven by higher utilization rates and overall efficiency gains. Furthermore, lower average return volumes due to a favorable return rate development led to proportionally lower transportation and handling costs.

The marketing cost ratio decreased slightly by 0.2 percentage points to 7.9% compared to the prior-year period driven by strong organic demand.

Compared to the prior-year period, administrative expenses increased by EUR 7.2m from EUR 72.9m to EUR 80.1m in Q3 2020, representing a decrease of 0.5 percentage points in proportion to revenue. The decrease in the administrative cost ratio is driven by the continued focus on overhead cost efficiency.

Development of GMV and Revenue in the First Nine Months

The development in the first nine months of 2020 can be summarized as follows: GMV and revenue increased by 27.0% and 20.3% respectively, reflecting both the sharp decline in customer demand during the first quarter of the year after the start of the coronavirus pandemic, and exceptionally strong growth in the second and third quarter on the back of the outstanding growth in new customers, the acceleration of the company's platform transition and the strong performance of Zalando Lounge.

Development of EBIT in the First Nine Months

EBIT margin in proportion to revenue increased by 2.0 percentage points from 1.5% in the first nine months of 2019 to 3.5% in the first nine months of 2020. The gross margin decreased slightly by 0.5 percentage points to 41.8%. While the gross margin was adversely affected by the exceptional inventory write-down in Q1 2020 as well as changes in country and product mix and a larger share of sales via Offprice in Q2 2020, it recovered in Q3 2020. The strong sales performance of SS2020 items led to lower overstocks and hence reduced levels of inventory write-downs, which almost offset the negative effects from the two preceding quarters. In proportion to revenue, both fulfillment and marketing costs decreased. Fulfillment costs in proportion to revenue improved (down 1.1 percentage points). The main drivers were higher warehousing costs during Q1 2020 due to lower utilization, which were clearly offset by overall efficiency gains and economies of scale

through higher utilization as well as lower average return volumes in the second and third quarter of the year. The marketing cost ratio decreased by 0.9 percentage points to 6.9% in the first nine months of 2020, resulting primarily from the strong organic demand and reduced relative investment levels in brand and performance marketing as part of the measures introduced in response to the coronavirus crisis in Q2, partially offset by an elevated spend in Q1 2020.

Development of Adjusted EBIT in Q3 2020 and in the First Nine Months

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 2020, Zalando generated an adjusted EBIT of EUR 118.2m (prior year: EUR 6.3m), which translates into an adjusted EBIT margin of 6.4% (prior year: 0.4%).

The development of adjusted EBIT and the adjusted EBIT margin stems from the aforementioned drivers of unadjusted EBIT.

EBIT includes the following expenses from equity-settled share-based payments. More information can be found in the notes to the annual financial statements 2019 (section 3.5.7 (20)).

Share-Based Compensation Expenses per Functional Area

IN EUR M	Jul 1 – Sep 30, 2020	Jul 1 – Sep 30, 2019	Change	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019	Change
Expenses for equity-settled share-based payments	13.2	13.2	0.0	41.1	34.7	6.4
Cost of sales	0.8	0.9	-0.1	2.7	2.4	0.3
Selling and distribution costs	2.1	2.3	-0.2	7.4	6.1	1.3
thereof marketing costs	0.4	0.6	-0.2	1.4	1.5	-0.1
thereof fulfillment costs	1.7	1.7	0.0	6.0	4.6	1.4
Administrative expenses	10.3	10.0	0.3	31.0	26.2	4.8

In the first nine months of 2020, EBIT contained no restructuring costs or non-operating one-time effects. 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).

1.2 Results by Segment

The condensed segment results for the third quarter of 2020 highlight in particular the outstanding performance of the Offprice segment and the steady growth in the Fashion Store segment.

Segment Development for the Third Quarter

Segment Results of the Group Q3 2020

IN EUR M	Fashion Store	Offprice	All Other Segments	Total	Reconciliation	Total Group
Revenue	1,664.3	260.5	43.2	1,968.0	-118.2	1,849.8
thereof intersegment revenue	108.0	0.0	10.2	118.2	-118.2	0.0
Earnings before interest and taxes (EBIT)	78.0	27.0	-4.7	100.3	4.8	105.1
Adjusted EBIT	89.0	28.3	-3.9	113.4	4.8	118.2

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

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

Fashion Store by Region Q3 2020

IN EUR M	DACH	Rest of Europe	Fashion Store
Revenue	764.5	899.8	1,664.3
thereof intersegment revenue	57.5	50.6	108.0
Earnings before interest and taxes (EBIT)	64.0	14.0	78.0
Adjusted EBIT	68.7	20.2	89.0

Fashion Store 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

In Q3 2020, revenue in the Fashion Store segment grew by 19.1% compared to the prior-year period, continuing the strong reacceleration of growth in Q2 2020 compared to Q1 2020.

The revenue increase in the third quarter was supported by a significant increase in the number of orders, benefiting from the exceptionally high new customer acquisition. This was the combined result of the accelerated platform transition which allows Zalando to offer customers an even more attractive assortment and the accelerated consumer demand shift towards online shopping.

Profitability was strong in the Fashion Store segment, with an EBIT margin of 4.7% in Q3 2020, equivalent to an increase of 4.8 percentage points compared to the prior-year period.

The improvement was mainly driven by an increased gross margin. Strong seasonal sales led to lower overstock levels and hence reduced allowances on inventories. On top of that, fulfillment cost in relation to revenue improved on the back of efficiency gains and favorable developments in the return rate.

Zalando Lounge's outstanding performance was the driver of the revenue increase in the Offprice segment of 62.4% in Q3 2020 compared to the prior-year period. In the third quarter Zalando Lounge experienced continued growth in its customer base and daily active users as well as an improved gross basket value. At the same time, the Outlet stores, which were hit by the mandatory store closures as part of the government-imposed coronavirus containment measures, started to recover faster than expected thanks to the contribution of new store openings (Mannheim, Ulm and Düsseldorf). In total, the Offprice segment recorded an EBIT of EUR 27.0m with the EBIT margin increasing from 1.2% in the prior-year period to 10.4% in Q3 2020. The increase was mainly caused by an improved fulfillment cost ratio due to warehouse efficiency gains and favorable return rates, a slightly improved administrative cost ratio and marketing savings, partly offset by a decreased gross profit margin driven by higher discount levels.

The coronavirus crisis continued to impact the growth performance of all other segments in Q3 2020. Revenue grew only slightly by 2.3% compared to the prior-year period, while the EBIT margin improved by 6.0 percentage points to -10.9% as a result of cost structure improvements.

Segment Development for the First Nine Months

Segment Results of the Group for the First Nine Months 2020

IN EUR M	Fashion Store	Offprice	All Other Segments	Total	Reconciliation	Total Group
Revenue	4,926.2	697.5	120.7	5,744.3	-335.6	5,408.7
thereof intersegment revenue	307.8	0.0	27.9	335.6	-335.6	0.0
Earnings before interest and taxes (EBIT)	153.3	47.6	-14.5	186.4	4.1	190.5
Adjusted EBIT	187.5	51.9	-12.0	227.4	4.1	231.5

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

In the Fashion Store segment, revenue rose by 18.9% in the first nine months of 2020 compared to the corresponding prior-year period. This development reflects a combination of the steep decline in customer demand during the first quarter of the year at the start of the coronavirus pandemic and exceptionally strong growth in the second and third quarter. The EBIT margin in the Fashion Store segment increased by 0.9 percentage points from 2.2% in the first nine months of 2019 to 3.1% in the first nine months of 2020. Key drivers were cost of sales and fulfillment costs. The cost of sales ratio increased slightly compared to the corresponding prior-year period. The exceptional inventory write-offs as well as the country and product mix effects from Q1 and Q2 2020 could not be fully offset by the positive development in Q3 2020, which was driven by high seasonal sales that resulted in lower overstock and allowances on inventories. Overall, the fulfillment cost ratio improved compared to the prior-year period. It recovered fully from the effects of underutilization in Q1 2020 through significant efficiency gains and economies of scale in Q2 and Q3 2020. In addition, lower marketing investments led to a slightly improved marketing cost ratio compared to the prior-year period.

In the Offprice segment, revenue grew by 54.0% in the first nine months of 2020 compared to the corresponding prior-year period. The Offprice segment recorded an EBIT margin of 6.8%, an increase of 4.5 percentage points compared to the prior-year period. The strong performance is mostly attributable to the outstanding development of Zalando Lounge during the first nine months, while the reduced sales volume of our Zalando Outlets had a smaller impact.

In all other segments total revenue declined by 36.5% during the first nine months of the year compared to the prior-year period, the main reason being the reorganization of the private label business in Q1 2019. The private label business was integrated into the Fashion Store segment in Q2 2019. Hence, private label business revenue shifted from all other segments to the Fashion Store segment. As private label business revenue solely comprises intersegment transactions with the Fashion Store segment, the shift did not impact Fashion Store revenue. In addition, the coronavirus pandemic slowed growth in all other segments. The EBIT margin in all other segments increased by 7.5 percentage points to -12.0% in the first nine months of 2020 in comparison to the first nine months of 2019, mainly driven by the fact that no restructuring costs were incurred in 2020.

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, 2020	Jul 1 – Sep 30, 2019	Change	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019	Change
Expenses for equity-settled share-based payment	13.2	13.2	0.0	41.1	34.7	6.4
Fashion Store	11.0	11.2	-0.2	34.2	28.8	5.4
Offprice	1.3	1.3	0.0	4.3	3.4	0.9
All other segments	0.8	0.7	0.1	2.5	2.5	0.0

The development in adjusted EBIT resulted almost exclusively from the drivers described for unadjusted EBIT above as no restructuring or other one-time effects were recorded during the first nine months of 2020. In the prior-year period, EBIT included 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. The private label business has been integrated into the Fashion Store segment since Q2 2019. Prior to that, it was part of all other segments.

1.3 Cash Flows

The liquidity and the 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, 2020	Jul 1 – Sep 30, 2019	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019
Cash flow from operating activities	212.5	-0.7	337.4	84.0
Cash flow from investing activities	0.8	-88.0	-84.2	-169.2
Cash flow from financing activities	1,004.2	4.1	1,366.0	-42.0
Change in cash and cash equivalents	1,217.5	-84.6	1,619.2	-127.2
Exchange-rate related and other changes in cash and cash equivalents	1.1	-2.8	0.3	-0.8
Cash and cash equivalents at the beginning of the period	1,377.5	954.4	976.5	995.0
Cash and cash equivalents as of September 30	2,596.1	867.0	2,596.1	867.0

In the third quarter of 2020, Zalando generated a positive cash flow from operating activities of EUR 212.5m (prior-year period: EUR -0.7m). The increase compared to the prior-year period of EUR 213.2m was driven by the strong positive net income before depreciation and the development in working capital. Predominantly, it related to an increase in inventories being offset by a more pronounced increase in trade payables, which both resulted from the higher business volume and stock inbound levels, as well as the lower impact on sales of the ongoing coronavirus crisis than was initially expected.

The cash flow from investing activities is mainly impacted by capital expenditures (capex), and cash received from the sale of assets. Capex is the sum of the payments for investments in property, plant and equipment and intangible assets excluding payments for acquisitions and amounted to EUR 31.9m (prior-year period: EUR 88.0m) in Q3 2020. It mainly included investments in the logistics infrastructure, relating primarily to the fulfillment centers in Olsztynek, Lodz (Gluchow) and Gardno as well as investments in internally developed software. Furthermore, cash flow from investing activities contained payments received for the sale of undeveloped land on the Zalando Campus of EUR 30.3m and from the sale of warehouse equipment (Brieselang) of EUR 2.4m.

In Q3 2020, Zalando placed two tranches of unsubordinated, unsecured convertible bonds with an aggregate principal amount of EUR 1,000.0m, which resulted in cash inflows from financing activities of EUR 999.2m. In addition, Zalando received EUR 23.0m from strike price payments relating to exercises of employee stock options and had cash outflows for the repayment of the principal portion of lease liabilities of EUR 17.3m during the third quarter of 2020.

Aggregate cash and cash equivalents increased by EUR 1,218.6m in the first third quarter of 2020, resulting in Zalando carrying cash and cash equivalents of EUR 2,596.1m as of September 30, 2020.

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, 2020		Dec 31, 2019		Change	
Non-current assets	1,482.1	23.0%	1,455.1	33.6%	27.0	1.9%
Current assets	4,947.8	77.0%	2,878.0	66.4%	2,069.8	71.9%
Total assets	6,429.9	100.0%	4,333.1	100.0%	2,096.8	48.4%

Equity and Liabilities

IN EUR M	Sep 30, 2020		Dec 31, 2019		Change	
Equity	1,988.9	30.9%	1,683.8	38.9%	305.2	18.1%
Non-current liabilities	1,805.5	28.1%	542.6	12.5%	1,262.9	232.7%
Current liabilities	2,635.4	41.0%	2,106.7	48.6%	528.7	25.1%
Total equity and liabilities	6,429.9	100.0%	4,333.1	100.0%	2,096.8	48.4%

Compared to December 31, 2019, Zalando's total assets increased by 48.4% to EUR 6,429.9m.

The statement of financial position is dominated by working capital, cash and cash equivalents as well as equity.

In the first nine months of 2020, additions to property, plant and equipment totaled EUR 109.1m (prior year: EUR 138.1m), mainly relating to the fulfillment centers in Rotterdam (Bleiswijk), Verona (Nogarole Rocca) and Olsztynek.

Right-of-use assets had a carrying amount of EUR 498.5m as of September 30, 2020.

These were primarily driven by lease contracts for fulfillment centers and office buildings in accordance with IFRS 16.

Inventories mainly comprise goods required for Zalando's wholesale business. The 34.4% increase in inventories to EUR 1,476.2m predominantly resulted from higher business volume and increased stock inbound levels. Driven by the strong sell-through of seasonal items, Zalando was able to release allowances on inventories of EUR 35.0m in Q3 2020. Of this, EUR 29.5m related to the exceptional inventory write-down of EUR 40.2m that Zalando recognized during the first quarter of the year in response to revised sales expectations at the beginning of the coronavirus crisis.

In Q2 2020 Zalando had already released EUR 11.3m of the exceptional write-down.

In the first nine months of 2020, equity increased from EUR 1,683.8m to EUR 1,988.9m.

The EUR 305.2m increase primarily stems from the positive net income of the period, from convertible bonds, from share-based compensation and from strike price payments received for employee stock option exercises. The equity ratio decreased from 38.9% at the beginning of the

year to 30.9% as of September 30, 2020, primarily due to the placement of two tranches of unsubordinated, unsecured convertible bonds with a principal amount of EUR 1,000.0m in the third quarter of 2020.

Non-current liabilities increased by EUR 1,262.9m to EUR 1,805.5m as of September 30, 2020. Of this, non-current borrowings rose by EUR 375.0m, when the credit lines from the revolving credit facility (RCF) were drawn in the first quarter of 2020. In addition to this convertible bonds were placed, resulting in a carrying amount of EUR 868.5m.

Current liabilities increased by EUR 528.7m to EUR 2,635.4m in the first nine months of 2020. The increase is mainly attributable to trade payables, which rose by EUR 459.7m, primarily due to deliveries of merchandise because of the higher business volume. Moreover, under reverse factoring agreements, suppliers' claims against Zalando totaling EUR 449.7m as of September 30, 2020 were transferred to various factoring providers (December 31, 2019: EUR 394.5m). These items were recognized in the statement of financial position under trade payables and similar liabilities.

Lease liabilities had a carrying amount of EUR 530.0m as of September 30, 2020, thereof EUR 461.8m non-current and EUR 38.6m current. They represent the discounted financial obligations resulting from lease contracts.

Net working capital, consisting of inventories and trade and other receivables less trade payables and similar liabilities, dropped from EUR -147.7m as of December 31, 2019 to EUR -222.6m as of September 30, 2020. The decrease mainly results from the increase in trade payables and similar liabilities, partly offset by the increase in inventories.

1.5 Outlook

After exceptionally strong and profitable growth in the third quarter, Zalando raised its latest full year guidance provided in the Quarterly Statement for Q2 2020 published on August 11, 2020.

The company now expects to grow GMV by 25-27%, revenue by 20-22% and anticipates an adjusted EBIT of between EUR 375.0m and EUR 425.0m, EBIT of between EUR 325.0m and EUR 375.0m for the fiscal year 2020 (Q2 2020 guidance was: GMV growth: 20% to 25% and revenue growth: 15% to 20% in 2020, adjusted EBIT of EUR 250.0m to EUR 300.0m, EBIT of EUR 200.0m to EUR 250.0m).

As part of its platform strategy, the company will continue to invest in its European logistics network and technology infrastructure and has not revised its capex guidance of planned investments of EUR 230.0m to EUR 280.0m for the current year. Furthermore, the group expects net working capital to remain negative for the fiscal year 2020.

Berlin, November 4, 2020

The Management Board

Robert Gentz David Schneider Rubin Ritter James M. Freeman, II David Schröder

2.1 Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

IN EUR M	Jul 1 – Sep 30, 2020	Jul 1 – Sep 30, 2019	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019
Revenue	1,849.8	1,521.1	5,408.7	4,496.6
Cost of sales	-1,029.2	-896.4	-3,146.7	-2,592.1
Gross profit	820.7	624.7	2,262.0	1,904.5
Fulfillment costs	-493.0	-437.2	-1,466.3	-1,269.8
Marketing costs	-145.4	-123.0	-374.2	-350.4
Administrative expenses	-80.1	-72.9	-245.9	-221.0
Other operating income	3.7	1.8	19.3	10.8
Other operating expenses	-0.9	-0.2	-4.5	-7.3
Earnings before interest and taxes (EBIT)	105.1	-6.9	190.4	66.7
Interest and similar income	1.9	2.4	5.6	7.9
Interest and similar expenses	-15.6	-7.5	-32.6	-20.4
Result of investments accounted for using the equity method	0.0	-0.5	0.0	-3.9
Other financial result	-0.7	-6.2	-8.7	-3.8
Financial result	-14.3	-11.7	-35.7	-20.2
Earnings before taxes (EBT)	90.8	-18.6	154.7	46.5
Income taxes	-32.3	5.0	-60.1	-32.2
Net income for the period	58.5	-13.6	94.7	14.3
Thereof net income attributable to the shareholders of ZALANDO SE	58.5	-13.6	94.7	14.3
Thereof net income attributable to non-controlling interests	0.0	0.0	0.0	0.0

2.2 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position – Assets

IN EUR M	Sep 30, 2020	Dec 31, 2019
Non-current assets		
Intangible assets	200.2	192.8
Property, plant and equipment	749.2	708.4
Financial assets	16.6	10.1
Lease assets	498.5	525.6
Deferred tax assets	9.7	9.2
Non-financial assets	6.2	7.3
Investments accounted for using the equity method	1.7	1.7
	1,482.1	1,455.1
Current assets		
Inventories	1,476.2	1,098.3
Prepayments	1.1	0.1
Trade and other receivables	469.1	462.3
Other financial assets	96.0	42.8
Other non-financial assets	309.4	262.2
Cash and cash equivalents	2,596.1	976.5
	4,947.8	2,842.2
Assets held for sale	0.0	35.9
Total assets	6,429.9	4,333.1

Consolidated Statement of Financial Position – Equity and Liabilities

IN EUR M	Sep 30, 2020	Dec 31, 2019
Equity		
Issued capital	252.8	248.7
Capital reserves	1,376.5	1,200.5
Other reserves	0.0	-15.6
Retained earnings	359.8	250.4
Equity of shareholders of ZALANDO SE	1,989.1	1,683.9
Non-controlling interest	-0.2	-0.2
	1,988.9	1,683.8
Non-current liabilities		
Provisions	38.6	42.5
Lease liabilities	461.8	481.4
Borrowings	375.6	2.7
Convertible bonds	868.5	0.0
Other financial liabilities	11.3	4.2
Other non-financial liabilities	5.1	1.1
Deferred tax liabilities	44.6	10.7
	1,805.5	542.6
Current liabilities		
Provisions	1.3	3.4
Lease liabilities	68.2	68.0
Borrowings	2.8	2.8
Trade payables and similar liabilities	2,167.9	1,708.3
Prepayments received	49.4	35.0
Income tax liabilities	51.5	7.6
Other financial liabilities	110.1	128.2
Other non-financial liabilities	184.2	143.4
	2,635.4	2,096.7
Liabilities associated with assets held for sale	0.0	10.0
Total equity and liabilities	6,429.9	4,333.1

2.3 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

IN EUR M	Jul 1 – Sep 30, 2020	Jul 1 – Sep 30, 2019	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019
1. Net income for the period	58.5	-13.6	94.7	14.3
2. + Non-cash expenses from share-based payments	13.2	13.2	41.1	34.7
3. + Depreciation of property, plant and equipment, lease assets and amortization of intangible assets	51.8	46.4	154.7	140.5
4. + Income taxes	32.3	-5.0	60.2	32.2
5. - Income taxes paid, less refunds	-3.1	-20.7	-34.9	-74.5
6. +/- Increase/decrease in provisions	-3.6	0.7	-6.3	1.1
7. -/+ Other non-cash income/expenses	2.3	-1.3	4.8	5.2
8. +/- Decrease/increase in inventories	-458.5	-404.4	-377.9	-447.9
9. +/- Decrease/increase in trade and other receivables	6.8	14.6	-6.8	7.8
10. +/- Increase/decrease in trade payables and similar liabilities	606.4	389.0	431.0	422.2
11. -/+ Increase/decrease in other assets/liabilities	-93.6	-19.5	-23.1	-51.6
12. = Cash flow from operating activities	212.5	-0.7	337.4	84.0
13. + Proceeds from disposal of non-current assets	26.7	0.0	32.7	22.5
14. + Payments received from the sale of shares in associated and other companies	6.0	0.0	6.0	0.0
15. - Cash paid for investments in property, plant and equipment	-15.3	-69.8	-69.3	-136.8
16. - Cash paid for investments in intangible assets	-16.6	-18.2	-53.6	-48.7
17. - Cash paid for acquisition of shares in associated companies and acquisition of companies and prepayments for such acquisitions	0.0	0.0	0.0	-1.7
18. +/- Cash received from/paid for investments in term deposits	0.0	0.0	0.0	-5.0
19. +/- Change in restricted cash	0.0	0.0	0.0	0.4
20. = Cash flow from investing activities	0.8	-88.0	-84.2	-169.2

Consolidated Statement of Cash Flows

IN EUR M	Jul 1 – Sep 30, 2020	Jul 1 – Sep 30, 2019	Jan 1 – Sep 30, 2020	Jan 1 – Sep 30, 2019
21. + Cash received from capital increases by the shareholders less transaction costs	23.0	20.4	44.1	37.0
22. - Repurchase of treasury shares	0.0	0.0	0.0	-38.8
23. +/- Cash received from loans/cash repayments of loans	-0.7	-1.0	372.9	-2.1
24. - Cash payments for the principal portion of lease liabilities	-17.3	-15.3	-50.1	-38.1
25. + Cash received from the issue of convertible bonds less transaction costs	999.2	0.0	999.2	0.0
26. = Cash flow from financing activities	1,004.2	4.1	1,366.0	-42.0
27. = Net change in cash and cash equivalents from cash-relevant transactions	1,217.5	-84.6	1,619.2	-127.2
Change in cash and cash equivalents due to changes in consolidation and 28. +/- exchange rate movements	1.1	-2.8	0.3	-0.8
29. + Cash and cash equivalents at the beginning of the period	1,377.5	954.4	976.5	995.0
30. = Cash and cash equivalents as of September 30	2,596.1	867.0	2,596.1	867.0
Free cash flow	213.3	-88.7	253.2	-80.6

3.1 Financial Calendar 2021

Financial Calendar 2021

Date	Event
Tuesday, March 2	Publication of the Annual Report 2020
Thursday, May 6	Publication of the first quarter results 2021
Wednesday, May 19	Annual General Meeting 2021
Thursday, August 5	Publication of the second quarter results 2021
Wednesday, November 3	Publication of the third quarter results 2021

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. 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>.

