## Corporate News

# Delticom AG: Turnaround succeeded! Positive net income of € 7 million despite decrease in revenues // Expansion of the Management Board // Continuation of the US business

**Hanover, March 26, 2021 - Delticom AG (German Securities Code (WKN) 514680, ISIN DE 00005146807, stock market symbol DEX) today published its Annual Report 2020.**

- **Measures** taken across all business units to **reduce costs, optimise processes** and **increase efficiency** had a sustained impact
- Significant **improvement** in **EBITDA**
- **Positive net income** in the amount of € 7 million in 2020 – after a loss of € 41 million in 2019
- Clear **focus on profitability** also in **2021**

**Market environment.** The Corona pandemic and the associated restriction of mobility did not remain without consequences for the demand of replacement tyres last year. According to the German Rubber Industry Association (WdK) and the European Tyre and Rubber Manufacturers' Association (ETRMA), 10.4 % fewer replacement tyres were sold to consumers in Germany last year. Looking at the European replacement tyre market, the ETRMA figures also show a downward trend in sales. In the largest sub-segment by volume, 12.1 % less consumer tyres (passenger, SUV and light truck tyres) were sold over the year as a whole. In absolute terms, this corresponds to a decrease of more than 26 million units.

**Revenues.** Over the course of 2020, Delticom group generated revenues of € 541.3 million, a decrease of 13.5 % from prior-year's € 625.8 million. The discontinuation of unprofitable business areas led to a decrease in revenues of around € 30 million compared to the previous year. Revenues in the core business in the past financial year are 9 % behind the previous year due to cost-cuttings in marketing and price adjustments. The pandemic-related restrictions at the relevant times of the season in the European core markets in both the summer and winter business and the overall reduced mobility led to a significant decline in demand for replacement tyres in Europe last year. Our business performance is not completely independent of the underlying market development. Notwithstanding this, we assume that those tyre buyers who were unable to postpone the purchase of replacement tyres last year increasingly took advantage of online tyre purchasing. Our focus on profitability last year was accompanied by the objective of generating sufficiently profitable revenues. With regard to the weaker business development in December, the lower end of the forecasted revenues range (€ 550 million) was undercut by 1.6 %. Due to the renewed lockdown measures in Europe and the tightening of the lockdown in Germany at the seasonal peak, which was delayed due to the weather, revenues at the end of the year were somewhat weaker than we had expected.

**Gross margin.** The gross margin (trading margin excluding other operating income) came in at 22.7 %, compared with 21.6 % the previous year. In line with its objective to sustainably increase profitability in its core business, the company succeeded in increasing its gross margin in a difficult market environment influenced by Corona.

**Other operating income.** Other operating income decreased in 2020 by 12.4 % to € 33.0 million (2019: € 37.6 million). In the course of the past financial year, the opportunity arose to realise a profit contribution from project development, which was realised at the end of the reporting year. This contribution to earnings amounts to € 9.5 million. In the previous year, income of € 14.0 million was generated from the participation in an ongoing logistics/property project. The year-on-year decrease in other operating income is therefore not attributable to the operating business, in which marketing subsidies, proceeds from transport losses and other income are regularly recognized. In addition, other operating income includes gains from exchange rate differences in the amount of € 3.7 million (2019: € 3.4 million). FX losses have been accounted for as line item in the other operating expenses (2020: € 5.4 million, 2019: € 6.5 million). In the reporting period the balance of FX income and losses totalled € –1.6 million (2019: € –3.1 million).

**Gross profit.** In the reporting period, gross profit decreased by 9.7 % from € 172.7 million to € 155.9 million compared to the previous year due to the decreasing revenues development. Gross profit in relation to total income of € 574.2 million (2019: € 663.4 million) amounted to 27.1 % (2019: 26.0 %).

**Personnel expenses.** On 31.12.2020, the group had a total of 177 employees (including trainees). In the reporting period on average 196 staff members were employed at Delticom group (previous year: 261). Personnel expenses totalled € 14.3 million (2019: € 19.9 million, –28.4 %). The discontinuation of non-core businesses since the end of the 2019 financial year was gradually accompanied by a corresponding reduction in staff within the Delticom Group. The personnel expenses ratio (staff expenditures as percentage of revenues) amounted to 2.6 % in the past financial year (2019: 3.2 %).

**Other operating expenses.** Among the other operating expenses, transportation costs is the largest line item. Due to the decline in sales volumes and the measures implemented last year to further improve cost efficiency in the area of transport logistics, transport costs in the reporting period were with € 50.1 million 19.3 % lower than in the same period of the previous year (2019: € 62.2 million).

**Marketing.** Marketing expenses in the reporting period amounted to € 18.9 million, after € 28.6 million in the previous year. The significant decrease of 34.0 % is the result of comprehensive cost-cutting measures. The efficiency and contribution to earnings of the various marketing channels within the Delticom Group are closely monitored by means of a marketing controlling system newly set up last year, in order to allocate the measures in line with the sales and profitability targets. The marketing expense ratio is 3.5 % of revenues (2019: 4.6 %).

**EBITDA.** EBITDA for the reporting period increased by 326.6 % from € –6.6 million to € 15.0 million. The EBITDA margin for the fiscal year stood at 2.8 % (2019: –1.1 %). The significant increase in the operating result before interest, taxes, depreciation and amortisation in the last year goes hand in hand with the consistent cost management, the focus on the core business and the measures taken to increase margins and efficiency. The realized contribution to earnings from project developments in the amount of € 9.5 million compensated for both the extraordinary charges from restructuring in the amount of € 6.7 million and the € 0.5 million negative EBITDA contribution of the business units closed in the course of the year.

**Depreciation.** Depreciation on property, plant and equipment decreased in the year under review to € 2.1 million (2019: € 11.5 million). In the 2019 annual financial statements, impairments of € 7.9 million had to be recognised in connection with the deinvestment concept. The amortisation of intangible assets amounted to € 2.2 million in 2020 (2019: € 19.1 million). The decision to close unprofitable business units in 2019 as part of the restructuring concept resulted the same year in impairment losses of € 14.2 million on the corresponding assets of these business units in preparation for the discontinuation of operations. Due to the capitalization of the long-term lease for the warehouse location in the border triangle France, Germany and Switzerland, depreciation and amortization for rights of use according to IFRS 16 increased from € 4.8 million in the previous year to € 5.4 million. Overall, depreciation and amortisation decreased by 72.7 % from € 35.4 million to € 9.7 million in the reporting period. No material impairment losses were recognized in the fiscal year under review.

**EBIT.** The EBIT achieved in 2020 amounted to € 5.4 million, after € –42.1 million in the previous year. This corresponds to an EBIT margin of 1.0 % (2019: –6.7 %). In addition to the factors already described as having had a negative impact on earnings in the 2019 financial year, impairments on non-current assets of € 22.1 million were also necessary in connection with the deinvestment concept in the 2019 annual closing. The company has thus largely brought forward the factors affecting earnings from the closure of unprofitable business units to the 2019 group financial statements. Accordingly, no significant impairments were necessary in the 2020 financial year in connection with the closure of the various business units. The extraordinary factors of restructuring and refocusing, which had a negative impact on earnings last year, were fully compensated for by the extraordinary contribution to earnings from project developments. As a result, the improvement in EBIT last year is largely attributable to the positive development of costs and margins in the core business.

**Income taxes.** Due to the positive pre-tax earnings (EBT) of € 2.6 million, there is a current expense of € 0.9 million in the item "Taxes on income". The income in 2020 mainly results from the capitalization of deferred taxes on loss carryforwards in the amount of € 5.2 million, which Delticom can use in the future. This results in total tax income of € 4.3 million for 2020. In 2019, the tax income amounted to € 2.7 million.

**Net income.** The consolidated net income of € 6.9 million (respectively € 0.55 per share) is significantly higher than in the previous year (2019: € –40.8 million or € –3.27 per share). The group thus succeeded in returning to a positive consolidated result one year earlier than planned in the restructuring plan, despite the difficult market environment caused by Corona. With the measures taken to increase profitability, the company has cleared the way last year for sustainable profitable growth in its core European tyre business.

**Inventories.** The largest item in current assets is inventories. Against the backdrop of active working capital management, inventories were reduced by € 26.1 million to € 36.9 million over the course of the year (31.12.2019: € 62.9 million). Due to lower inventory levels during the year and the decrease in revenues, average Days Inventory Outstanding for 2020 (DIO, average inventory level divided by average cost of sales) decreased over the course of the past financial year, from 60.2 days in 2019 to 43.7 days in 2020.

**Liquidity.** Cash and cash equivalents registered net inflows of € 0.3 million. On 31.12.2020 liquidity totalled € 5.6 million (prior year: € 5.3 million). Despite the significant reduction in credit line utilization compared with the previous year, debt remained virtually unchanged at € 185.0 million (2019: € 179.9 million). This results from the capitalization of rights of use in connection with the new warehouse location in the border triangle. The current assets amounted to € 75.8 million (31.12.2019: € 99.4 million) on the balance sheet date. The decrease by € 23.7 million is primarily due to the reduction in inventories in a closing date comparison.

**Free cash flow.** The free cash flow (operating cash flow less cash flow from investing activities) increased from € –26.5 million to € 34.3 million.

**Equity.** Equity increased by € 6.5 million or 78.9 % from € 8.3 million to € 14.8 million. The increase is mainly attributable to the positive consolidated net income realized in the past fiscal year in the amount of € 6.9 million. As a result, the structure of liabilities and equity shows an increase in the equity ratio from 4.4 % to 7.4 % compared to the previous year.

**Outlook 2021**

For the current fiscal year 2021, Delticom Group expects total annual revenues in a range between € 550 million and € 590 million. The decisive factor for growth this year will be how quickly the European countries can lift the mobility restrictions and return to a degree of normality. The purchase of replacement tyres cannot be postponed indefinitely. Accordingly, a catch-up effect cannot be ruled out for the coming months following a significant decline in replacement tyre business last year. Taking into account that in the past fiscal year 2020 the closed business units still generated total sales in the single-digit million range, reaching the lower end of the sales corridor would mean moderate growth in the core business this year. With the forecasted revenues range for 2021, we sufficiently reflect the uncertainties about the development in the current year and furthermore take into account growth opportunities that may potentially arise from an overcoming of the pandemic in Europe expected for this year.

Despite the anticipated growth, our focus this year remains on profitability. For EBITDA, the Management Board is planning a range of € 16.0 million and € 20.0 million, depending on revenues. Management assumes that EBITDA will increase directly if the lower end of the revenues forecast is exceeded.

In the current financial year, too, the ongoing restructuring will result in extraordinary expenses. The Management board is planning this effect in the amount of around € 4 million.

Increasing digitization worldwide, coupled with steadily rising online penetration, is a key factor for future growth. As the market leader in European online tyre retailing, Delticom will continue to benefit from the growing importance of e-commerce as a sales channel in the medium term. As a result of the refocusing on the core business, a changed organizational structure and efficiency enhancements along the value chain, we will be able to tap existing growth potential in a more targeted manner in the future. In the medium term, we are aiming for an operating EBIT margin of 3 %.

**Expansion of the Management Board**

The company optimised its organisational structure in the past fiscal year in order to position Delticom for the future and to exploit the market potential in its core business with a high level of innovation over the next few years. Mr. Torsten Pötzsch was appointed as Chief Sales Officer (CSO) of Delticom AG with effect from January 01, 2021. Mr. Pötzsch has many years of management experience gained in a wide variety of companies and business models. He most recently held a management position at zooplus AG in Munich and has extensive expertise in the fields of e-commerce, sales & purchasing, shop and business development, as well as the necessary sensitivity for the transition of Delticom AG. The appointment of Mr. Pötzsch is an important step in the realignment of the company and goes hand in hand with the targeted organizational structure defined as part of the restructuring.

**Continuation of the US business**

In connection with the restructuring process, a consulting firm was commissioned in 2019, among other things, to find potential buyers for Delticom AG's US subsidiary. A possible sale was linked to the achievement of an appropriate sales price. This condition can not be met at the present time. As the US subsidiary has good success in revenues and earnings, Delticom AG's management has decided to discontinue the M&A process in the USA and to continue the profitable growth path there.

**The complete report for the 2020 financial year can be downloaded from the website [www.delti.com](http://www.delti.com) in the "Investor Relations" section.**

<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 600 brands and around 18,000 tyre models for cars and motorcycles. Complete wheels and rims complete the product range. The company operates 410 online shops and online distribution platforms in 74 countries, serving more than 15.9 million customers.

As part of the service, the ordered products can be sent to one of Delticom's approximately 38,000 workshop 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 2020, Delticom AG generated revenues of around 541 million euros. At the end of last year, the company employed 177 people.

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

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