

**Verkkokauppa.com Oyj**

# **Solid performance in a highly price-driven market in Q4**

Nordea Mid-Quarter Update, Helsinki

6 March 2024 | Mikko Forsell, CFO | Verkkokauppa.com Oyj

# Q4 & FY 2023 results

- › Market development
- › Q4 & FY 2023 performance
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- › Strategy update
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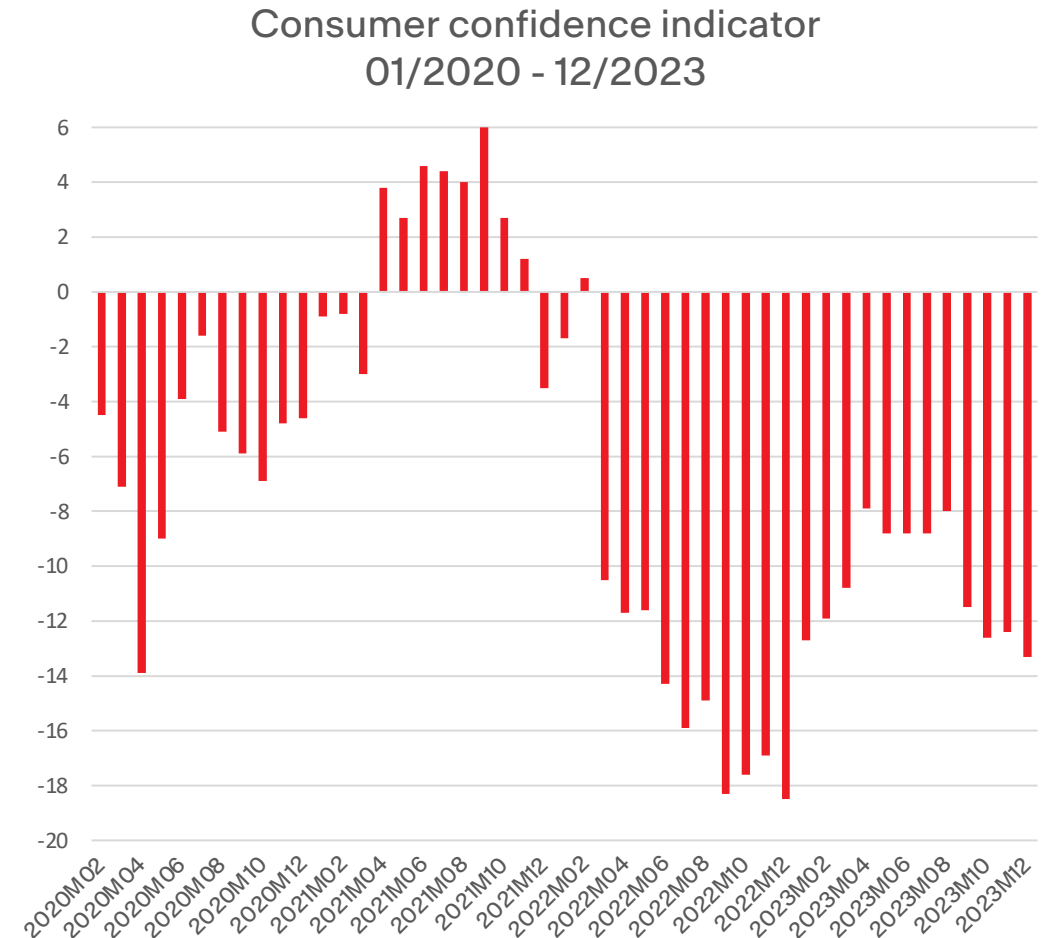


# Market development



# Consumer confidence continued to weaken in December 2023

- According to Statistics Finland, consumer confidence continued to weaken, and was at -13.3 in December (Nov. -12.4, Oct. -12.6). Inflation was 3.6% (3.3% in Nov.)
- The time was still regarded as very unfavorable for buying durable goods. Plans to spend money were very low and the CE market declined by -5% during the quarter
- Estimates of consumer's own financial situation fell to the lowest level since 2000
- Private consumption declined clearly in 2023. Higher prices and weak consumer confidence in the economy will continue to weigh on private consumption growth in 2024\*)
- On a positive note, inflation has slowed down during 2023





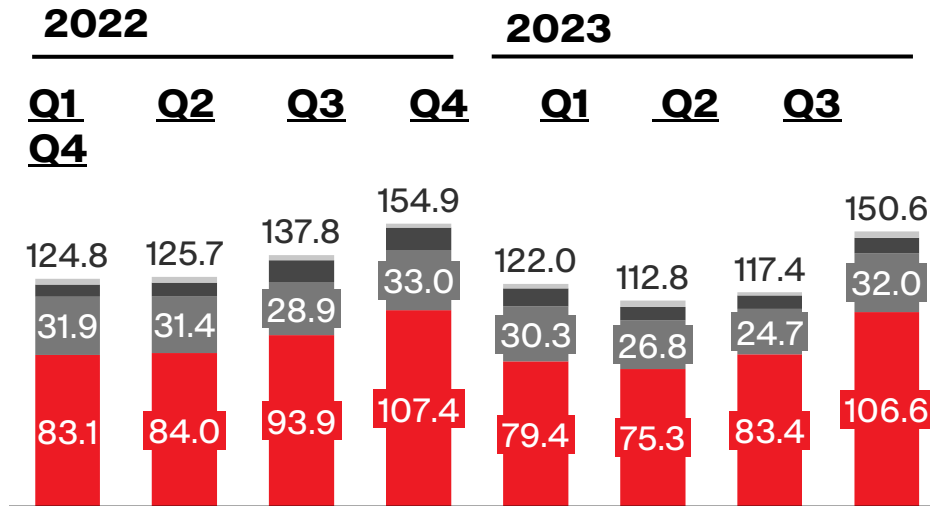
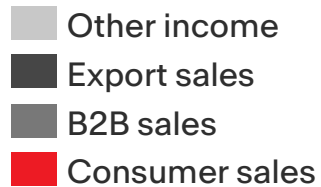
# Q4 & FY 2023 performance

# Market share gains in a declining market

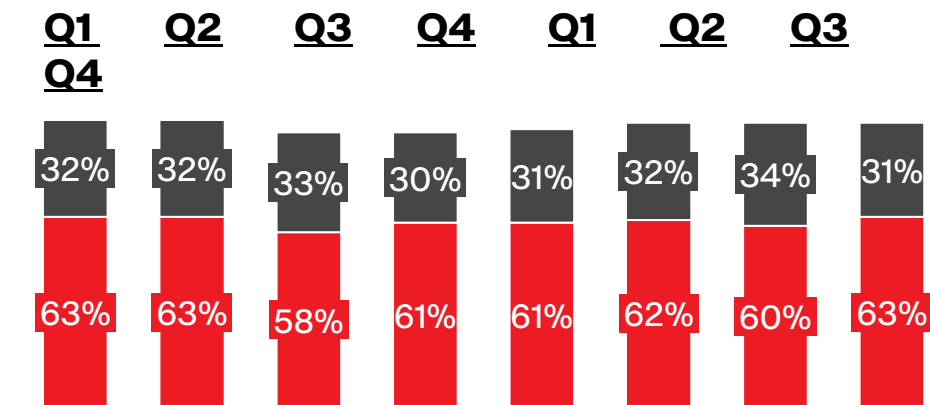
## Q4/2023 development

Group revenue declined by -2.8% YoY and was EUR 150.6 million

### Revenue, EUR million



### Sales channel mix, (sales excl. Export), % of sales



### Customer segments

- › Sales for both Consumer and B2B customer segments in euros were on par with the previous year
- › Export business declined by -30.1% and its share of total sales was 6% (8%)

### Sales channels

- › Online sales, a slight decline of -0.5%
- › Offline sales -2.6%

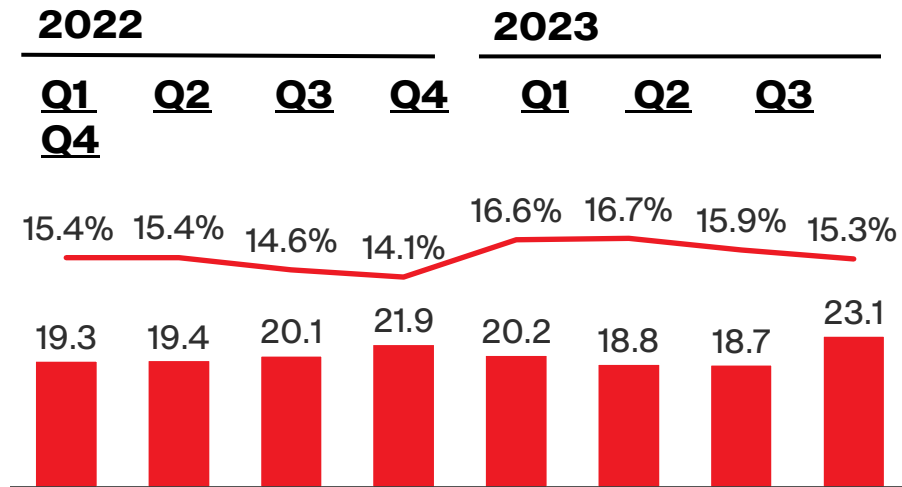
### Categories

- › Our private label sales continued strong and increased by +28.7%
- › Core categories sales grew by +1.5%
- › Positive performance in small domestic appliances, also IT, and gaming categories performed well
- › Consumer electronic market declined by -5%, according to GfK
- › Sales in the evolving product categories declined by -23.8%



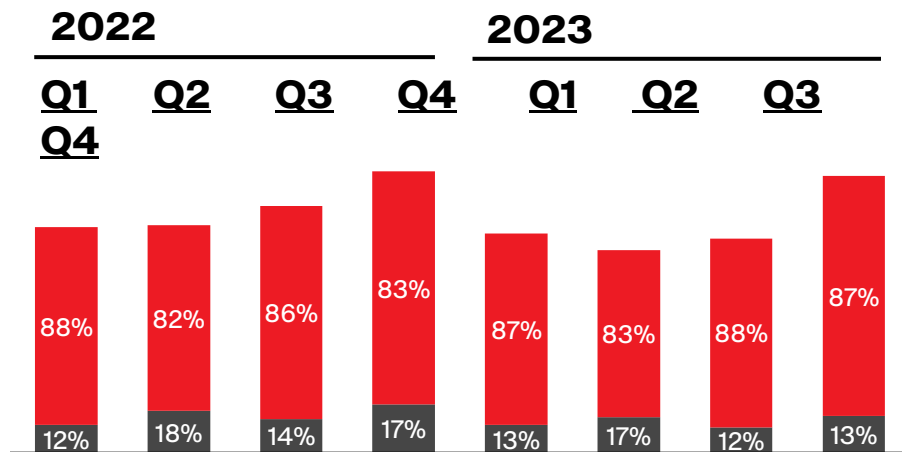
# Gross margin impacted by price driven market

**Gross profit and margin, EUR million and % of revenue**



**Product mix, % of sales**

■ Core categories  
■ Evolving categories



## Q4/2023 development

Gross profit totaled EUR 23.1 million and 15.3% of revenue

- › Gross margin was positively impacted by a good demand of higher margin private label products, +28.7% y-on-y, as well as optimized campaigning, pricing and assortment
- › Yet profitability was impacted by tough price competition in the market
- › During the comparison period, gross profit deteriorated by a write-down of EUR 1.6 million



# Well executed profitability program offset the impact of inflation

EUR million	Q4/2023	Q4/2022	Change	2023	2022	Change
<b>Revenue</b>	<b>150.6</b>	154.9	-2.8%	<b>502.9</b>	543.1	-7.4%
<b>Gross profit</b>	<b>23.1</b>	21.9	1.2 MEUR	<b>80.9</b>	80.6	0.3 MEUR
<b>Personnel costs</b>	<b>9.9</b>	11.1	-10.5%	<b>36.7</b>	40.2	-8.8%
<b>Other operating expenses</b>	<b>9.7</b>	8.9	9.4%	<b>33.5</b>	33.4	0.2%
<b>Operating profit</b>	<b>1.8</b>	0.8	1.0 MEUR	<b>4.7</b>	2.3	2.4 MEUR
<b>Comparable operating profit</b>	<b>1.6</b>	0.8	0.8 MEUR	<b>6.1</b>	3.5	2.6 MEUR
<b>Net profit</b>	<b>1.2</b>	0.5	0.7 MEUR	<b>2.1</b>	0.3	1.7 MEUR

EUR million	Q4/2023	Q4/2022	FY 2023	FY 2022
<b>Gross margin</b>	<b>15.3%</b>	14.1%	<b>16.1%</b>	14.8%
<b>Operating margin</b>	<b>1.2%</b>	0.5%	<b>0.9%</b>	0.4%
<b>Comparable operating margin</b>	<b>1.1%</b>	0.5%	<b>1.2%</b>	0.6%

## Q4/2023 development

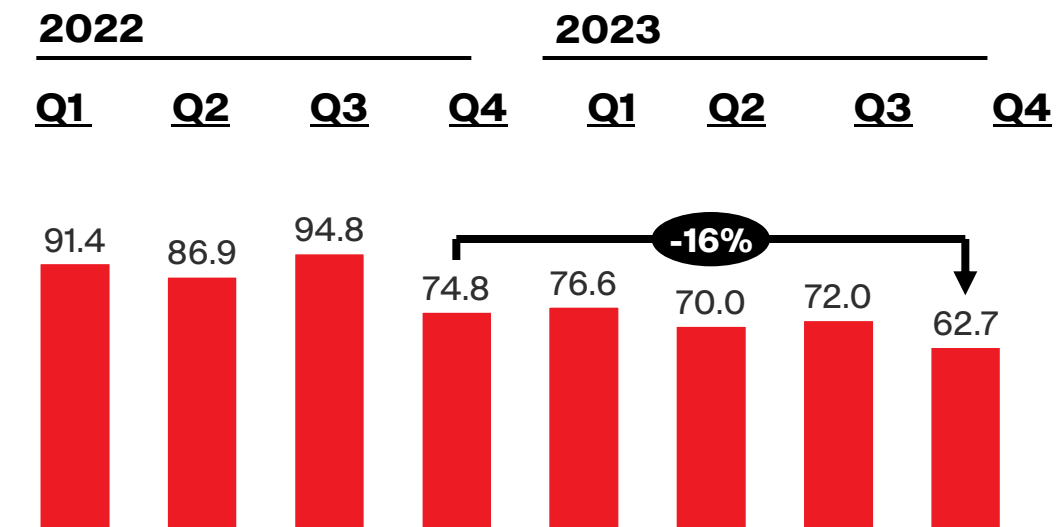
- › Personnel costs declined by -10.5% as result of the change negotiations and the successful adaptation of personnel to the current demand
- › Other operating expenses increased by 9.4% mainly due to higher credit losses on customer financing
- › External personnel costs were on a higher level due to increased use of extras during peak demand
- › Marketing costs were elevated due to additional investments to gain market share
- › During the comparison period, EBIT was deteriorated by a write-down of EUR 1.6 million related to the inventory



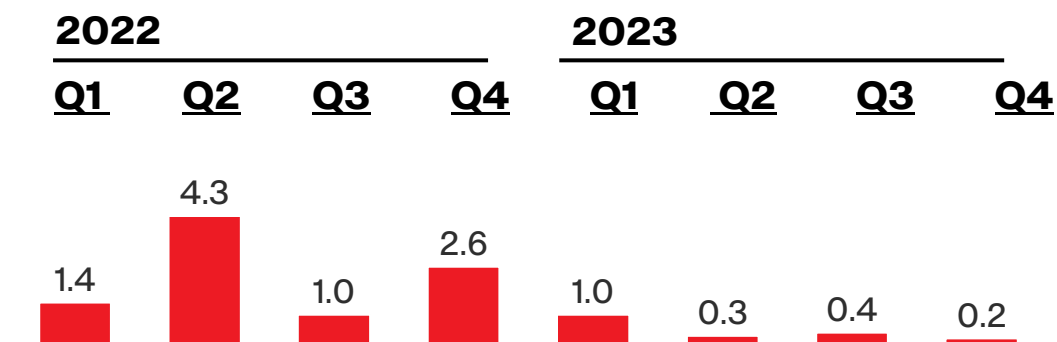


# Well executed inventory management – down by -16%

**Inventories,**  
EUR million



**Investments,**  
EUR million



## Balance sheet and cash flow on 31 December 2023

- › Inventory in a healthy level, declined by -16% and EUR 12 million YoY, and totaled EUR 62.7 million.
- › Investments during January-December were EUR 1.9 million (9.3). The main investments were the website renewal and development related to business analytics.
- › January-December cash flow from operating activities improved significantly, and was EUR 20.3 million (1.5)
- › Cash at hand was EUR 31.9 million (21.2)
- › Equity ratio at the end of December was 16.2% (15.8%)
- › At the end of December, the group had a total of EUR 21.3 million in loans from financial institutions (24.1)



# FY 2023 Financial performance - year of a profit improvement actions



## Revenue

EUR 502.9 million  
-7.4% vs. 2022



## Gross profit

EUR 80.9 million  
(2022: EUR 80.6 million)

## Gross margin

16.1%  
(2022: 14.8%)



## Comparable EBIT

EUR 6.1 million  
(2022: EUR 3.5 million)



## Operating Cash flow

EUR 20.3 million  
(2022: EUR 1.5 million)

On the comparison period, gross profit was impacted by an inventory write-down of EUR 1.6 million



# 2023 operative highlights

1. We focused on securing profitability and managed well to adapt our business on lower demand, to increase flexibility and as a result to improve cost efficiency
2. We optimized assortment and streamlined delivery flows by utilizing automation and technologies
3. We exceeded our target to reduce our inventory value to a healthy level, still securing the availability and good service level
4. We completed a largest-ever renewal project of our online store to provide a superior customer experience
5. We improved our delivery speed by introducing one-hour home deliveries in the Helsinki metropolitan area
6. We renewed our strategy for the period of 2024-2028 with new financial target

# Highlights of our sustainability work in 2023

**We launched a trade-in service, which promotes circular economy**

**We multiplied the assortment available of used products**

**We sell products that customer actually need and kept the product return rate low: 0.7%**

**We invested in diversity by establishing a diversity team and hiring senior experience experts**

**We ensured responsible working conditions: 99.8% of our private label product suppliers were audited**

**We invested in our learning culture and well-being at work and halved the number of occupational accidents**

Return rate remained extremely low:

**0.7%**

2022: 0.7%



# We achieved targeted savings and operational efficiency with the profitability improvement program

**Profitability improvement program:**  
capture full potential of core business

## Operational performance & cost savings

1. Lean supply chain and inventory
2. Indirect spend reduction
3. Marketing mix optimization
4. Efficiencies across business operations

## Commercial excellence

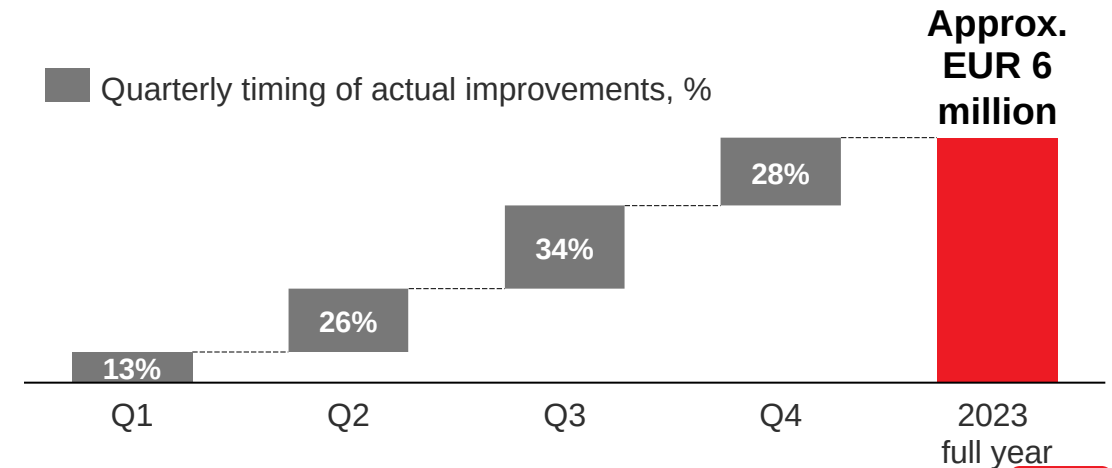
4. Assortment optimization
5. Dynamic pricing
6. Efficient customer acquisition, conversion, and retention

**Profit improvement of EUR 10 million per annum, of which EUR 5-8 million realized in 2023**

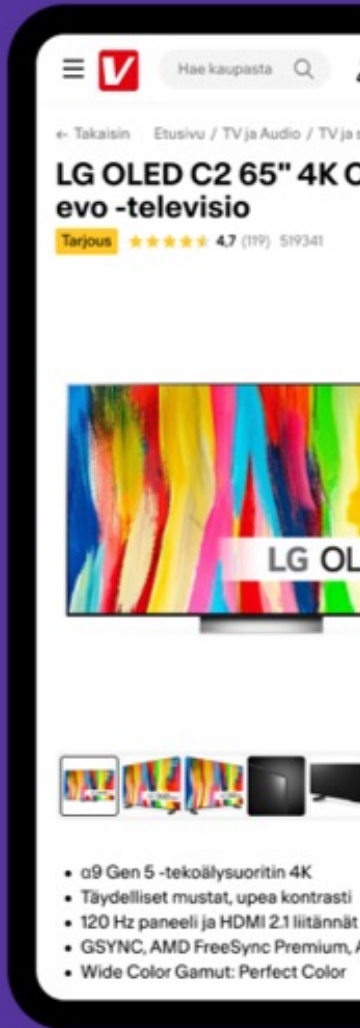
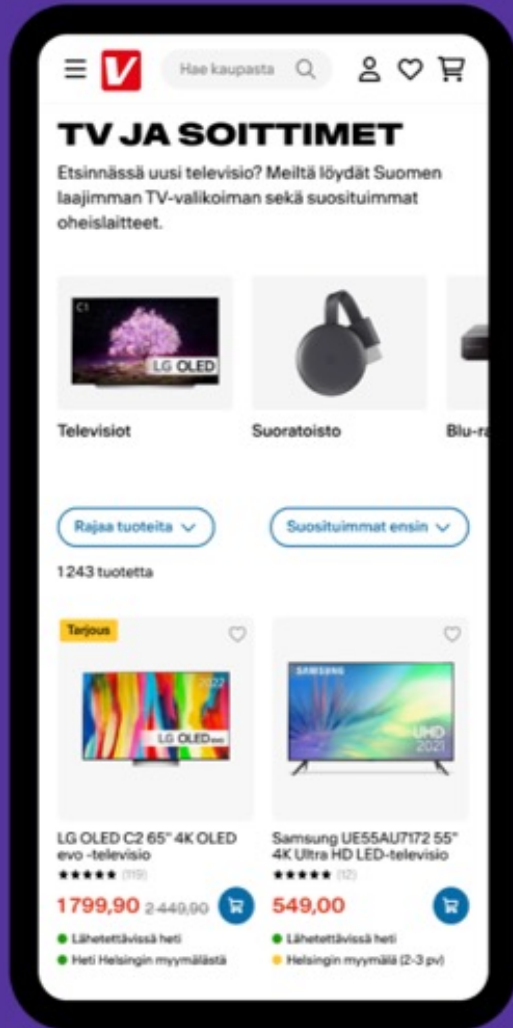
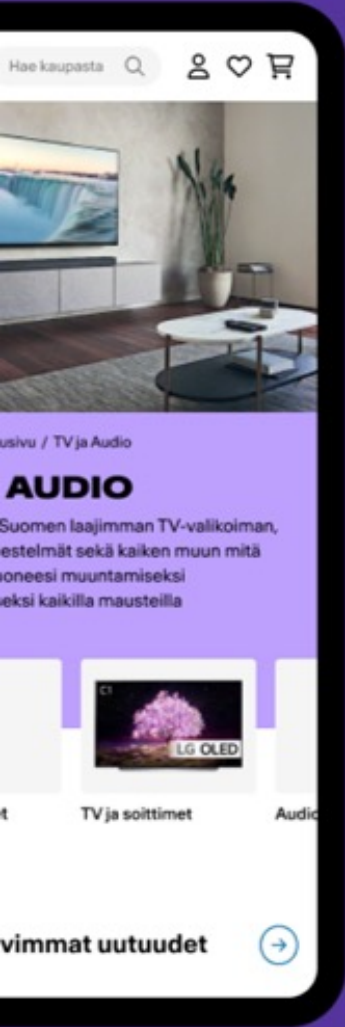
**2023: We achieved our targets**  
*Quarterly timing of improvements*

**During 2023, company managed to capture the planned profitability improvements.**

During Q4 we continued the rigid cost control and also see benefits from the commercial improvement measures



# Online store renewal is delivering commercial results and improved efficiency



- Verkkokauppa.com's new online store strengthens its customer-focused strategy and enhances scalability across various product categories.
- The updated online platform provides a more user-friendly shopping experience with further enhancements planned.
- The online store's revamp has led to notable commercial outcomes and boosted the efficiency of e-commerce operations.

**+ 21 %**

**Revenue of customers using the navigation menu YoY**

**+564%**

**Sale attributed to cross sell recommendations YoY**

**-21%**

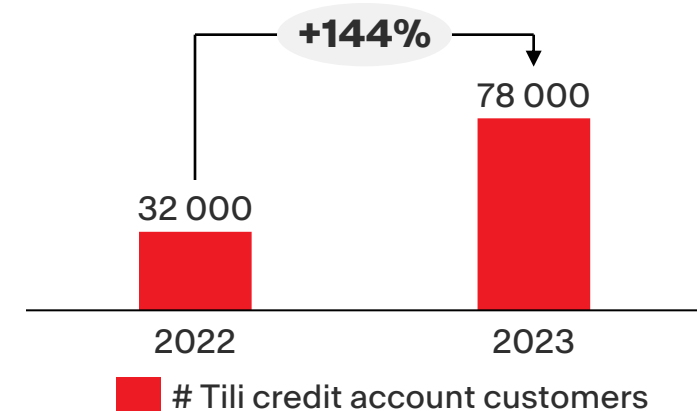
**Basket abandonments YoY**

# New customer services Over 78 000 credit account customers with thousands of instant trade-in transactions

## Our new services; customer credit account together with trade-in service are creating the foundation for the new norm of owning

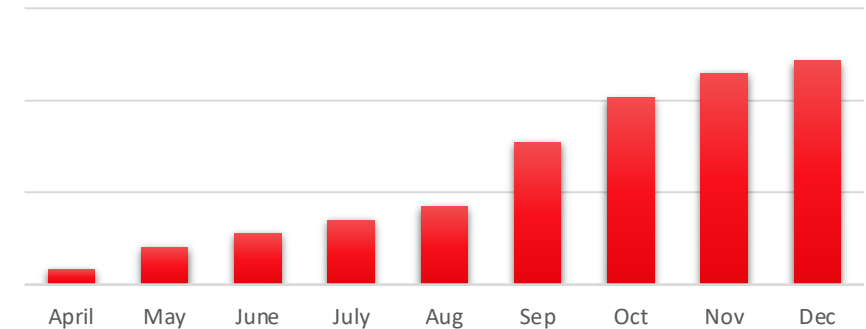
- In 2023, we continued to scale customer credit account service with the total number of customers more than doubling from 2022 to over 78 000 Finnish consumers
- In April 2023, we launched first of its kind fully online instant trade-in service, which is fully integrated into customer credit account
- Trade-in service is accelerating re-commerce shift to online and prolonging the lifecycle of electronics with thousands of transactions to date
- Currently our trade-in service covers +3 000 unique products (phones, laptops, smartwatches, tablets) with plans to extend the range

## Total number of opened "Tili" credit accounts



## Good development in the demand of trade-in service

### The amount of trade-in transactions



The fastest deliveries

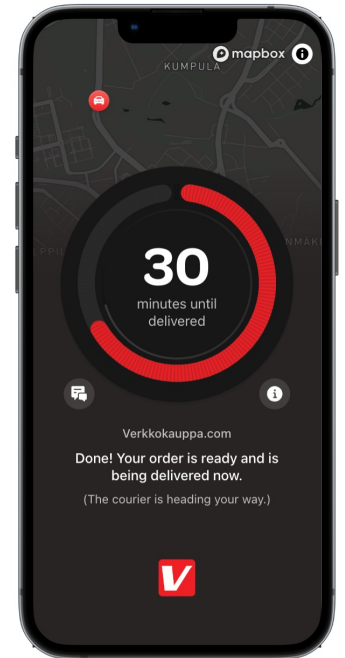
# We're extremely satisfied of customer demand for fast deliveries

## Fastest deliveries in Finland creating a new norm of buying

- In 2023, we tripled the amount of fast deliveries compared to 2022
- Growth was fueled by the scaling of one-hour delivery throughout the year in the capital area with world-class customer satisfaction
- In November, we launched a new service for major home appliances and TVs: four-hour / same day / next day delivery with installation and recycling services
- In 2024, scaling the express deliveries continues in the capital region as well as in other major cities

Monthly  
over 20 000  
fast delivery  
orders

\*at the end of 2023





# Updated Strategy 2024 - 2028

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# VERKKOKAUPPA.COM STRATEGY 2024-2028 SUMMARY

## ◆ EVOLUTION OF MARKET ENVIRONMENT

## ◆ HOW WE WILL WIN

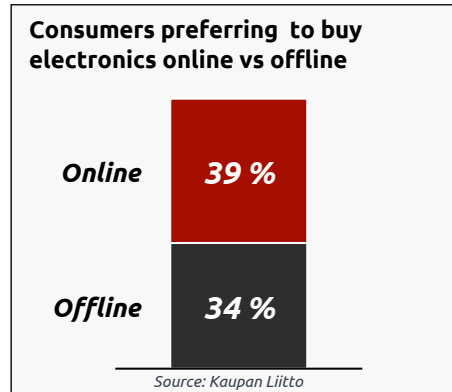
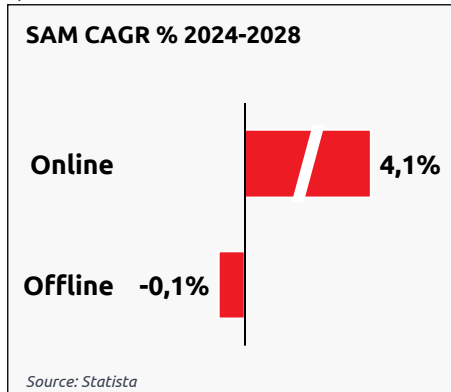
## ◆ FINANCIAL TARGETS



# Four market megatrends supporting our growth and position

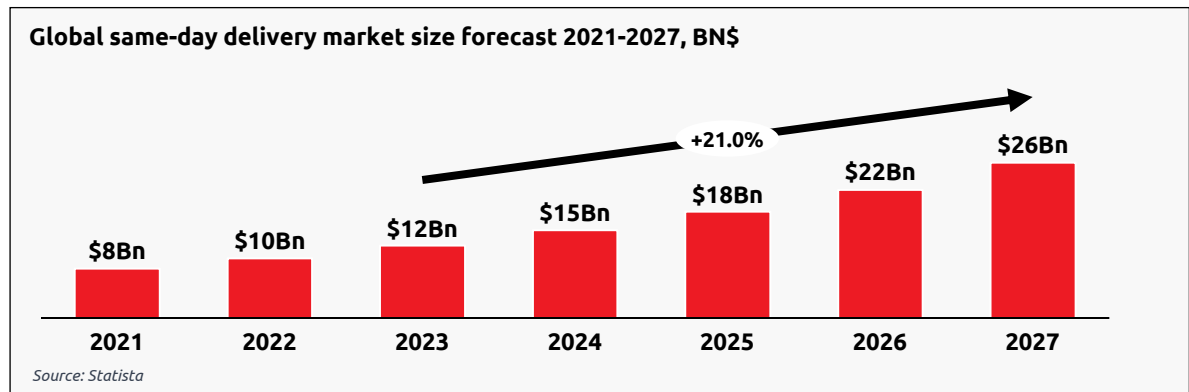
## Online market growth continues

Serviceable addressable market continues transitioning online (avg +4,1%) vs offline sales -0,1%



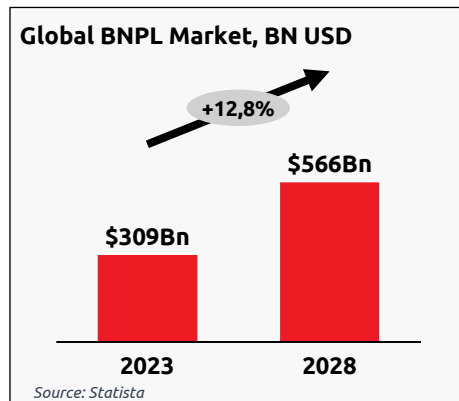
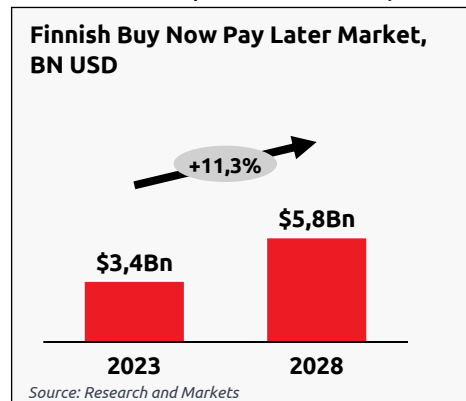
## + Fast and convenient shopping becoming a new norm

Fast home delivery enhanced with subscription model creates ultimate convenience that challenges traditional Brick & Mortar. Interest around fast deliveries is on a rise among younger generations.



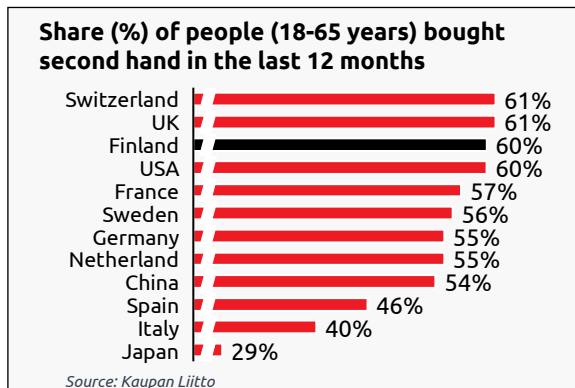
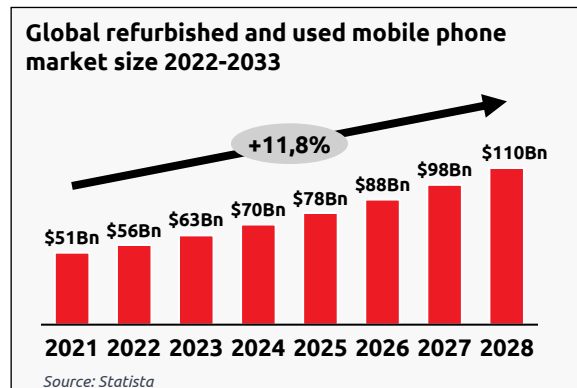
## Consumer behaviour is changing – new ways of buying

Products are increasingly purchased through leasing, subscription, as-a-service etc. Company already has assets (Tili) that can be further enhanced to turn part of our business towards subscription model and forward trade



## + Importance of Sustainability & circularity

Customers are looking for more sustainable choices. Device life cycle business is expected to grow significantly, offering opportunities to differentiate and build more recurring business models.



# OUR STRATEGY FOR 2024-2028

## We will **accelerate online transition** leading to profitable growth

# 1

### FASTEST FULFILMENT

- Blazing delivery speed a new norm of buying
- The most effortless shopping experience
- Automated product flows and intralogistics

# 2

### CURATED ASSORTMENT

- First one to introduce latest products and innovations
- Full assortment with best availability in selected categories
- High quality Private Label assortment

# 3

### NEW BUSINESS MODELS

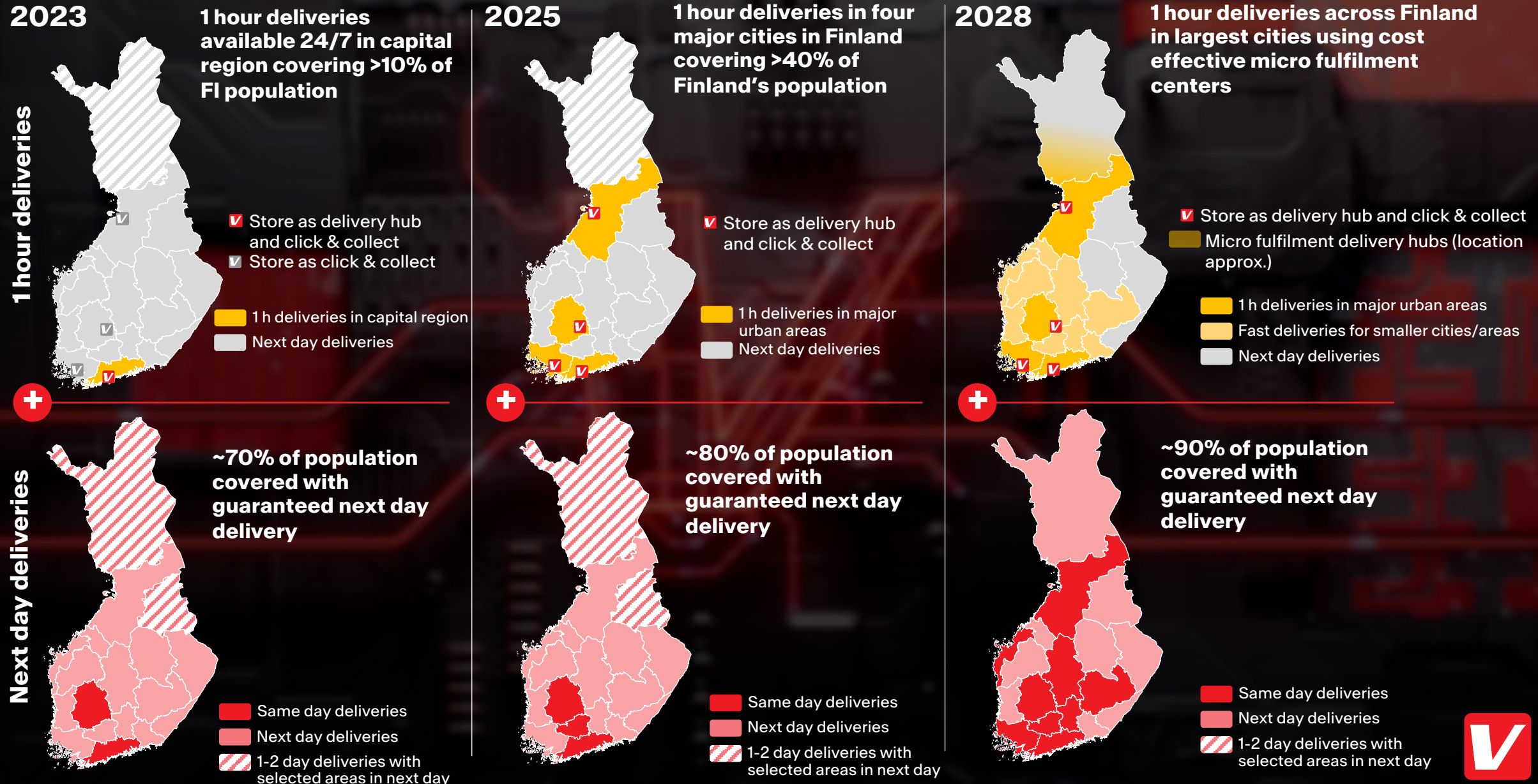
- New subscription-based services, new norm of owning
- New profit models e.g Retail as Media
- New fulfilment operating models

# 4

### OPERATIONAL EXCELLENCE

- Most efficient retail operations
- Feature-rich and leading own platform
- Data and AI powered way-of-working

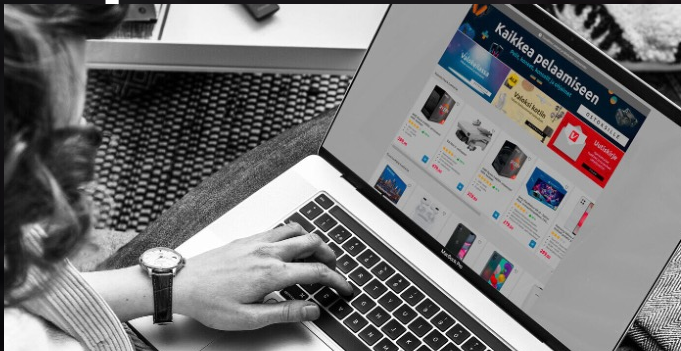
# We will make fast deliveries the new norm in Finland



\* All maps are illustrative



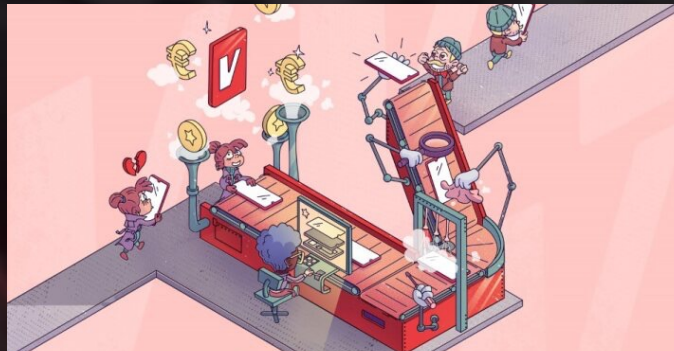
# New business models will enable steady growth and improved EBIT



## Retail as a media

**We will leverage our extensive customer base and 1<sup>st</sup> party customer data** to provide opportunities to our vendors and global brands.

This approach also unlocks the full potential of our unique data-driven insights, providing our partners with unparalleled access to a Finnish audience.



## Product life cycle services

**Subscription models compliment traditional unit purchase models** and transforms how we engage with our customers, fosters long-term relationships, provides a compelling/ steady subscription revenue stream and is a sustainable way forward.



## Additional new markets

**In addition to existing international wholesales operations, we will expand to new markets with strategic partnerships.**



# Long-term financial targets, by the end of 2028



## GROWTH

Top line growth (CAGR) of more than 5%, outgrowing the market

+



## PROFITABILITY

EBIT margin above 5%

+



## COST-EFFICIENCY

Fixed costs below 10% of revenue

+



## APPEALING DIVIDEND PAYOUT POLICY

Target to pay out 60-80% of annual net profit in quarterly growing dividends\*

\*However, in order to improve the company's equity ratio, the Board will propose to the AGM 2024 that no dividend be paid on the result for 2023.



# Market outlook and guidance





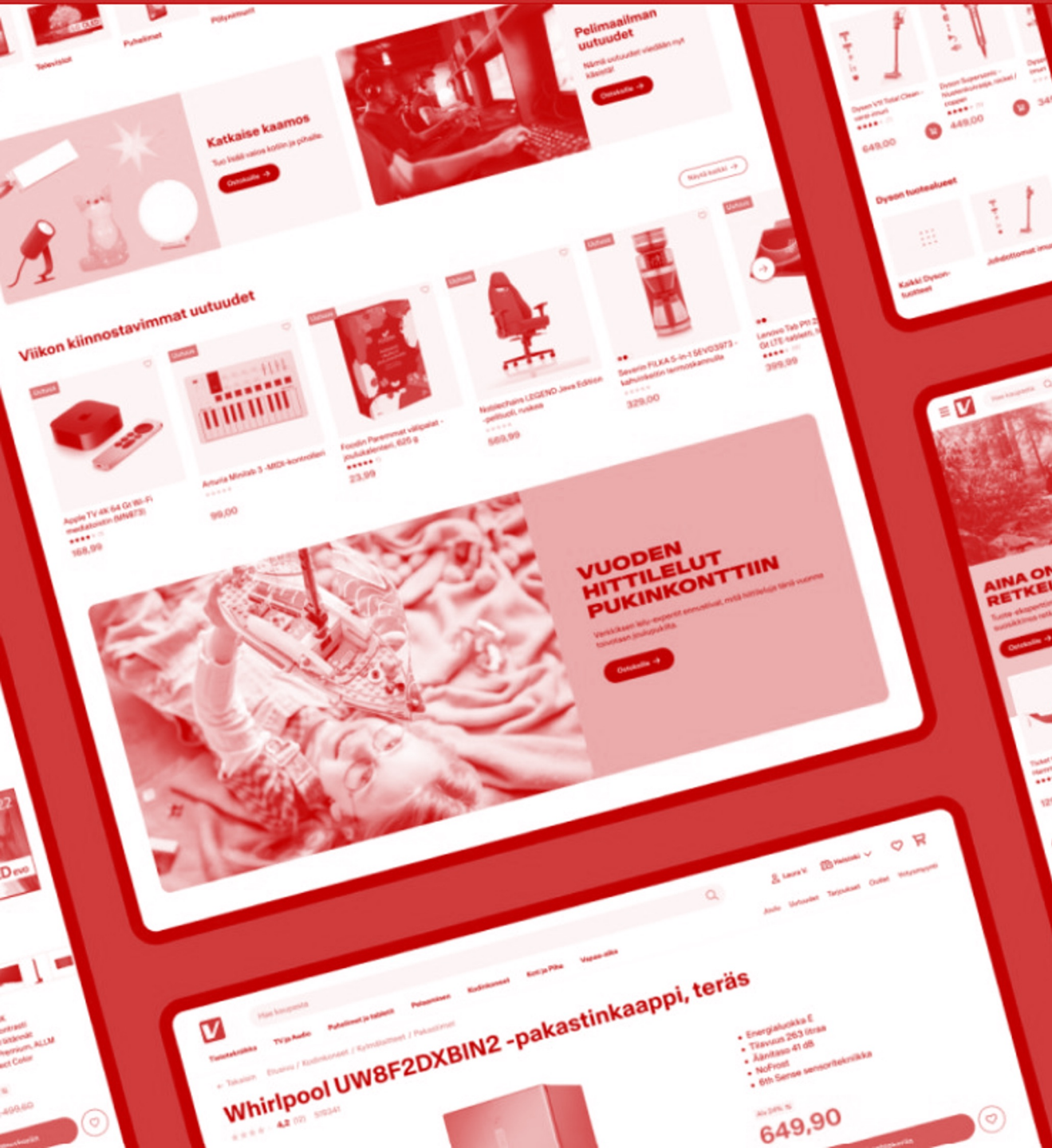
# Market outlook and short-term expectations

- › There is ongoing uncertainty about the future outlook concerning intensified geopolitical conflicts in the world
- › Due to the weak economy, the labor market situation is expected to deteriorate in 2024, which will have an impact on consumer confidence
- › The purchasing power of households is still under pressure. The financial markets are expecting interest rates to start decreasing during the coming years (2024-26)
- › We estimate consumer and B2B demand to continue to be soft for at least the first half of 2024

## The company believes that:

- › Our improved operational efficiency by leveraging technologies and our strategic development investments ensures that we are ready for growth as the market picks up
- › The executed profit improvement program and investments in automation makes the core business significantly more profitable and provides an excellent starting point for building sustainable growth
- › We will succeed in taking advantage of the online shift and gain market share in chosen product categories





# Financial guidance for 2024

Verkkokauppa.com expects revenue for 2024 to remain at the 2023 level and comparable EBIT to increase from 2023.

In 2023, revenue was EUR 502.9 million and comparable EBIT EUR 6.1 million.



# Key takeaways

# Key takeaways from 2023

- › Consumer confidence was low during the quarter and sank towards the end of year
- › Consumer market in home electronics declined, however, we performed well and increased market share in a declining market during Q4
- › During the quarter, we succeeded in inventory management, cash flow and cost efficiency measures
- › The gross margin was impacted by intense price competition and heavy campaigning
- › Private label sales was strong, growing by +26 % during the year
- › We achieved targeted savings and operational efficiency with the profit improvement program
- › Our pioneering one-hour speed delivery already accounts for more than 20% of all deliveries in the service area
- › We published an updated strategy to accelerate profitable, faster-than-market growth

**Thank you**

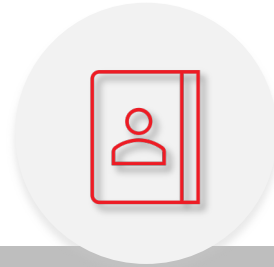


# More information



## Upcoming Financial events

- Annual general meeting is planned to be held on 4 April 2024 at 2 p.m. EET as a virtual-only AGM
- Interim report for January – March 2024 on Thursday 25 April 2024
- Half-year financial report for January – June 2024 on Thursday 18 July 2024
- Interim report for January – September 2024 on Thursday 24 October 2024
- Financial statements bulleting for the year 2024 on Thursday 6 February 2025.



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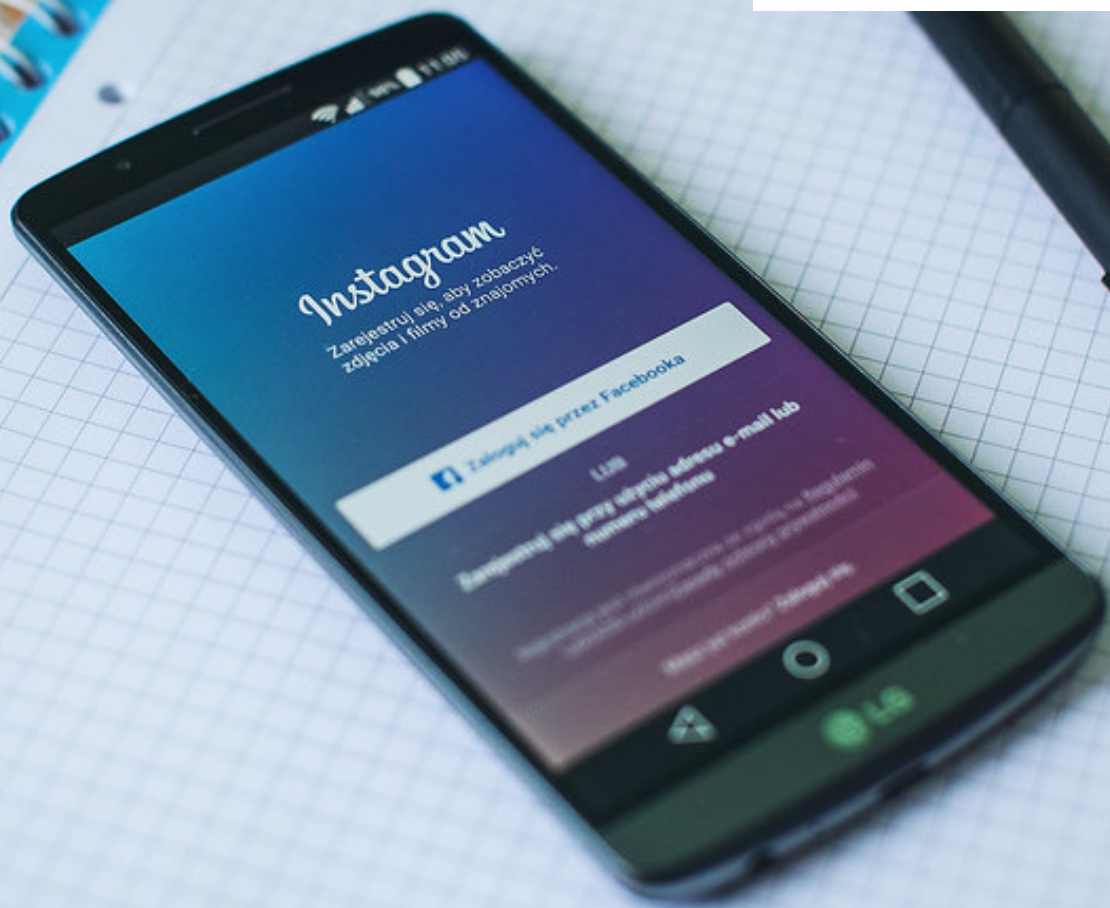
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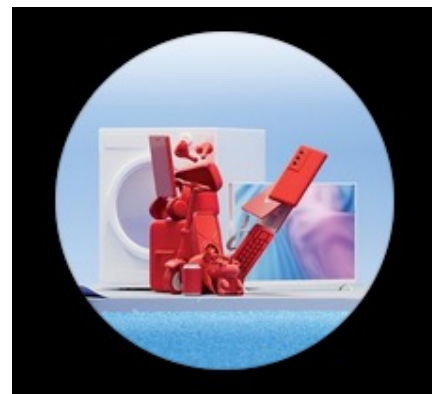




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# Appendix

> Quarterly Key Figures

# Quarterly Key Figures

	2023					2022				
	Q1	Q2	Q3	Q4	Q1-Q4 2023	Q1	Q2	Q3	Q4	Q1-Q4 2022
Revenue, eur million	122.0	112.8	117.4	<b>150.6</b>	<b>502.9</b>	124.8	125.7	137.8	154.9	543.1
Gross profit, eur million	20.2	18.8	18.7	<b>23.1</b>	<b>80.9</b>	19.3	19.4	20.1	21.9	80.6
Gross margin-%	16.6%	16.7%	15.9%	<b>15.3%</b>	<b>16.1%</b>	15.4%	15.4%	14.6%	14.1%	14.8%
EBITDA, eur million	1.6	2.3	3.7	<b>3.5</b>	<b>11.1</b>	2.0	0.5	3.2	2.2	7.8
EBITDA-%	1.3%	2.1%	3.1%	<b>2.3%</b>	<b>2.2%</b>	1.6%	0.4%	2.3%	1.4%	1.4%
Operating profit, eur million	0.04	0.8	2.1	<b>1.8</b>	<b>4.7</b>	0.7	-0.9	1.7	0.8	2.3
Operating profit-%	0.04%	0.7%	1.8%	<b>1.2%</b>	<b>0.9%</b>	0.5%	-0.7%	1.3%	0.5%	0.4%
Comparable operating profit, eur million	1.4	1.0	2.2	<b>1.6</b>	<b>6.1</b>	0.9	-0.2	2.1	0.8	3.5
Comparable operating profit-%	1.1%	0.8%	1.9%	<b>1.1%</b>	<b>1.2%</b>	0.7%	-0.2%	1.5%	0.5%	0.6%
Profit for the period, eur million	-0.4	0.2	1.1	<b>1.2</b>	<b>2.1</b>	0.2	-1.1	0.7	0.5	0.3
Interest-bearing net debt, eur million	25.6	22.8	20.3	<b>6.1</b>	<b>6.1</b>	18.2	28.6	29.8	19.7	19.7
Investments, eur million	1.0	0.3	0.4	<b>0.2</b>	<b>1.9</b>	1.4	4.3	1.0	2.6	9.3
Equity ratio, %	15.8%	16.5%	16.9%	<b>16.2%</b>	<b>16.2%</b>	20.2%	18.2%	16.3%	15.8%	15.8%
Gearing, %	98.2%	87.2%	74.2%	<b>21.5%</b>	<b>21.5%</b>	54.7%	92.4%	103.2%	74.6%	74.6%
Personnel at the end of period*	720	695	640	<b>677</b>	<b>677</b>	753	815	761	838	838
Basic earnings per share, euros	-0.01	0.00	0.03	<b>0.03</b>	<b>0.05</b>	0.00	-0.02	0.01	0.01	0.01
Diluted earnings per share, euros	-0.01	0.00	0.03	<b>0.03</b>	<b>0.05</b>	0.00	-0.02	0.01	0.01	0.01
Number of issued shares, 1,000 pcs	45,355	45,355	45,355	<b>45,355</b>	<b>45,355</b>	45,065	45,355	45,355	45,355	45,355
Number of treasury shares, 1,000 pcs	258	171	159	<b>146</b>	<b>146</b>	298	290	282	271	271
Weighted average number of shares outstanding, 1,000 pcs	45,096	45,183	45,195	<b>45,209</b>	<b>45,209</b>	44,747	45,047	45,073	45,083	45,083
Diluted weighted average number of shares outstanding, 1,000 pcs	45,354	45,252	45,264	<b>45,277</b>	<b>45,277</b>	45,189	45,473	45,439	45,342	45,342



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