

Tokmanni's Business Review for 1 January–30 September 2021

Revenue increased and EBIT improved

THIRD QUARTER 2021 HIGHLIGHTS

- Revenue grew by 7.0% (13.1%) and was EUR 280.1 million (261.7)
- Like-for-like revenue for stores grew by 5.4% (11.6%)
- Comparable gross profit totalled EUR 95.1 million (89.0), with the comparable gross margin being 34.0% (34.0%)
- Comparable EBIT amounted to EUR 26.1 million (24.0), representing 9.3% of revenue (9.2%)
- Cash flow from operating activities amounted to 12.5 million (6.1)
- Earnings per share, diluted was EUR 0.32 (0.29)

JANUARY–SEPTEMBER 2021 HIGHLIGHTS

- Revenue grew by 8.2% (13.2%) and was EUR 807.7 million (746.7)
- Like-for-like revenue for stores grew by 7.0% (11.8%)
- Comparable gross profit totalled EUR 275.6 million (251.4), with the comparable gross margin being 34.1% (33.7%)
- Comparable EBIT amounted to EUR 65.2 million (54.9), representing 8.1% of revenue (7.4%)
- Cash flow from operating activities amounted to 51.9 million (61.5)
- Earnings per share, diluted was EUR 0.80 (0.63)

TOKMANNI'S OUTLOOK FOR 2021

Tokmanni's outlook remains unchanged. Tokmanni forecasts revenue growth for 2021. Group profitability measured in euros (comparable EBIT) is expected to improve and to be EUR 105–115 million.

TOKMANNI'S CEO MIKA RAUTAINEN:

Tokmanni's sales and result continued to increase – ready for the peak season of the year

Tokmanni's sales continued to develop favourably in the third quarter. We succeeded in increasing our revenue by a further 7.0% (13.1%) from the high level achieved in the corresponding period of the previous year. The number of customer visits increased by 1.3%, and the average basket size grew by 5.7%. In the third quarter, the highest increases in sales were recorded in the categories of leisure goods, home electronics products, apparel and garden products. Sales growth was supported by the Tokmanni Klubi customer loyalty programme, which was launched in August and has attracted great interest among customers and partners. Around 0.5 million customers have already joined the programme. Online store sales continued to grow as well, by 64.7% (154.8%) in the third quarter.

The gross margin in the third quarter was at the same level as in the previous year. The gross margin was affected by the launch of our customer loyalty programme and the related discounts for new members, as well as our decision to keep prices low for customers despite an increase in sourcing prices during the third quarter. The global market situation is exceptional at the moment. The prices of raw materials have increased markedly, and availability has decreased for some products. Freight costs have also increased significantly. However, thanks to good partnerships and agreements, Tokmanni's freight costs have increased less than market prices, and freight capacity has been available. This has enabled us to ensure a good availability of products in stores over the past quarter and for the Christmas season. Despite cost pressures, Tokmanni's good performance continued in the third quarter, driven by increased revenue, and our comparable EBIT improved to EUR 26.1 million (24.0).

Tokmanni's new strategy period and the related measures are progressing well. The launch phase of strategy projects involves significant investments, such as the introduction of a customer loyalty programme. However, these investments are necessary for the successful implementation of Tokmanni's strategy.

The Christmas season has started. Shelves are full, products are available, and our employees are looking forward to serving customers. Tokmanni's main purpose is to provide customers with benefits and satisfaction through low prices and pleasant shopping experiences.

Key figures

	7-9/ 2021	7-9/ 2020	Change %	1-9/ 2021	1-9/ 2020	Change %	1-12/ 2020
Revenue, MEUR	280.1	261.7	7.0%	807.7	746.7	8.2%	1 073.2
Like-for-like revenue development, %	5.4	11.6		7.0	11.8		12.3
Customer visit development %	1.3	4.3		1.2	3.6		3.2
Gross profit, MEUR	95.2	89.0	7.0%	276.8	251.3	10.1%	370.9
Gross margin, %	34.0	34.0		34.3	33.7		34.6
Comparable gross profit, MEUR	95.1	89.0	6.9%	275.6	251.4	9.7%	371.6
Comparable gross margin, %	34.0	34.0		34.1	33.7		34.6
Operating expenses	-53.1	-49.4	7.5%	-163.1	-151.4	7.8%	-211.5
Comparable operating expenses	-53.3	-49.5	7.8%	-163.6	-150.8	8.5%	-210.9
EBITDA, MEUR	42.8	40.4	6.1%	116.1	102.7	13.1%	163.6
EBITDA, %	15.3	15.4		14.4	13.8		15.2
Comparable EBITDA, MEUR	42.5	40.3	5.5%	114.4	103.3	10.7%	164.9
Comparable EBITDA, %	15.2	15.4		14.2	13.8		15.4
Operating profit (EBIT), MEUR	26.4	24.1	9.6%	66.9	54.3	23.2%	98.9
Operating profit margin EBIT, %	9.4	9.2		8.3	7.3		9.2
Comparable EBIT, MEUR	26.1	24.0	8.6%	65.2	54.9	18.7%	100.2
Comparable EBIT, %	9.3	9.2		8.1	7.4		9.3
Net financial items, MEUR	-2.5	-2.5	-0.1%	-7.6	-7.5	1.5%	-10.0
Net capital expenditure, MEUR*	9.0	2.0	356.9%	14.9	8.3	79.6%	12.8
Net debt / comparable EBITDA **	2.0	2.6		2.0	2.6		2.0
Net cash from operating activities, MEUR	12.5	6.1		51.9	61.5		151.1
Return on capital employed, %	4.4	4.1		11.1	9.2		16.2
Return on capital employed %, rolling 12 months	18.6	14.2		18.6	14.2		16.3
Return on equity, %	9.5	10.0		23.6	21.6		35.4
Return on equity %, rolling 12 months	40.3	33.1		40.3	33.1		37.4
Equity ratio, %	28.2	24.7		28.2	24.7		27.7
Number of shares, weighted average during the financial period (thousands)	58 731	58 819		58 731	58 830		58 825
Diluted number of shares, weighted average during the financial period (thousands)	58 779	58 851		58 770	58 848		58 850
Earnings per share, basic (EUR/share)	0.32	0.29		0.81	0.64		1.21
Earnings per share, diluted (EUR/share)	0.32	0.29		0.80	0.63		1.21
Personnel at the end of the period	4 031	3 956		4 031	3 956		4 056
Personnel on average in the period	4 226	3 996		4 142	3 811		3 873

* Net capital expenditure, excluding non-current receivables from others

** Rolling 12 months comparable EBITDA

Adjustments affecting comparability

Tokmanni reports EBITDA and EBIT as its key performance indicators and makes adjustments to improve comparability and provide a better view of Tokmanni's operational performance. EBITDA is a non-IFRS indicator that represents operating profit before depreciation. Comparable EBITDA and comparable EBIT represent the same indicators excluding items that Tokmanni's management considers to be exceptional and non-recurring, including changes in the fair value of electricity and currency derivatives, which are adjusted by Tokmanni, as they are unrealised gains or losses related to Tokmanni's open cash flow hedge positions and are therefore not related to Tokmanni's operational performance during the review periods.

Tokmanni's management uses the comparable EBITDA margin and comparable EBIT margin as key performance indicators to assess Tokmanni's underlying operational performance.

Adjustments affecting comparability					
MEUR	7-9/2021	7-9/2020	1-9/2021	1-9/2020	1-12/2020
Gross profit	95.2	89.0	276.8	251.3	370.9
Changes in fair value of currency derivatives	-0.1	0.0	-1.1	0.1	0.7
Comparable Gross Profit	95.1	89.0	275.6	251.4	371.6
 Operating expenses	 -53.1	 -49.4	 -163.1	 -151.4	 -211.5
Changes in fair value of electricity derivatives	-0.2	0.0	-0.5	0.6	0.6
Comparable operating expenses	-53.3	-49.5	-163.6	-150.8	-210.9
 EBITDA	 42.8	 40.4	 116.1	 102.7	 163.6
Operating profit (EBIT)	26.4	24.1	66.9	54.3	98.9
Changes in fair value of currency derivatives	-0.1	0.0	-1.1	0.1	0.7
Changes in fair value of electricity derivatives	-0.2	0.0	-0.5	0.6	0.6
Comparable EBITDA	42.5	40.3	114.4	103.3	164.9
Comparable operating profit (adj. EBIT)	26.1	24.0	65.2	54.9	100.2

MARKET DEVELOPMENT

According to statistics compiled by the Finnish Grocery Trade Association (FGTA), the non-grocery market grew by 4.5% during the third quarter of 2021. The revenue of department store and hypermarket chains increased by 4.3% during the quarter. Tokmanni grew by 7.0%.

According to the FGTA statistics, the non-grocery market increased by 6.4% in January–September 2021. The revenue of department store and hypermarket chains grew by 5.7%. Tokmanni grew by 8.2% in January–September, outperforming the market considerably.

The member companies of the FGTA operate the department store and hypermarket chains of K-Citymarket, Prisma, Sokos, Stockmann, Tokmanni and Minimani. It is important to note that the statistics compiled by the FGTA only cover part of the market relevant for Tokmanni.

STORE NETWORK DEVELOPMENT

Expanding the store network is one of the key ways of growing Tokmanni's revenue and operating profit. Tokmanni has an efficient process of rolling out and ramping up new stores. Tokmanni aims to grow its store network to more than 220 stores in Finland by the end of 2025, which means around six new stores every year.

At the end of September, Tokmanni had 195 stores (30 September 2020: 190). Tokmanni announced in January–September 2021 that it will open new stores in Kittilä and Nurmijärvi and in Rusko in Oulu. In addition, the company will move to better locations and larger facility in Leppävirta. Earlier this year, Tokmanni relocated to larger facilities in the Trio shopping centre in the Lahti city centre and the Forum Jyväskylä shopping centre in the Jyväskylä city centre, closed its store in Tornio, acquired the business operations of the Kemi and Tornio stores of the TEX chain, and opened new stores in Kausala in Iitti and in the Kaari shopping centre in Kannelmäki in Helsinki and expanded its store in Kaarina.

More information about Tokmanni's stores is available on our website on the "New store development" page at https://ir.tokmanni.fi/en/investors/tokmanni-as-an-investment/new_stores, and on the "News and media" page at <https://ir.tokmanni.fi/en/news-and-media>.

Tokmanni considers a store to be new or relocated over the duration of its opening year and the following calendar year. On average, a new store becomes profitable after around 12 months and reaches its full capacity within around 24 months.

FINANCIAL DEVELOPMENT

Seasonality

Tokmanni's business is subject to seasonality, which has a significant impact on its revenue, profitability and cash flows. Generally, Tokmanni's revenue, profitability and cash flows are lowest in the first quarter and highest in the fourth quarter due to Christmas sales.

Revenue

July–September 2021

In the third quarter of 2021, Tokmanni's revenue grew by 7.0% (13.1%) to EUR 280.1 million (261.7). Product categories with good sales included leisure, home electronics, apparel and garden. Tokmanni's online sales accounted for 1.6% (1.1%) of its total revenue, with an increase of 64.7% (154.8%) year-on-year.

Like-for-like revenue grew by 5.4% (11.6%) in the third quarter. Like-for-like customer visits in stores decreased by 0.6% and the total number of customers grew by 1.3% year-on-year. The like-for-like average basket in stores grew by 6.0% to EUR 20.14 (19.00).

Direct imports accounted for 27.4% of sales (26.4%) in the third quarter. These can be broken down into products purchased using Tokmanni's sourcing company in Shanghai, which accounted for 17.3% (17.0%), and other direct imports, which accounted for 10.1% (9.3%). The brands managed by Tokmanni (private label products, exclusive brands and non-branded products) represented 32.1% of third-quarter sales (31.3%).

January–September 2021

Revenue for January–September 2021 grew by 8.2% to EUR 807.7 million (746.7). Product categories with good sales in January–September included leisure, home electronics, apparel and garden - similar to the situation in the third quarter. Tokmanni's online sales accounted for 1.7% (1.1%) of its total revenue, constituting an increase of 66.9% (118.7%) year-on-year.

Like-for-like revenue increased by 7.0% (11.8%) in January–September 2021. Like-for-like customer visits in stores were at the previous year's level, and the total number of customers grew by 1.2% year-on-year. The like-for-like average basket in stores grew by 7.0% to EUR 20.36 (19.03).

Direct imports accounted for 26.2% of sales (25.2%) in January–September. These can be broken down into products purchased using Tokmanni's sourcing company in Shanghai, which accounted for 16.2% (15.5%), and other direct imports, which accounted for 10.0% (9.6%). The brands managed by Tokmanni (private label products, exclusive brands and non-branded products) represented 31.8% (30.9%) of sales in January–September.

Profitability

July–September 2021

In the third quarter of 2021, gross profit totalled EUR 95.2 million (89.0), corresponding to a gross margin of 34.0% (34.0%). The gross margin was negatively affected by the launch of the customer loyalty programme and the related discounts for new members, as well as decision to keep its prices low for customers despite an increase in sourcing prices. The prices of raw materials have increased markedly, and availability has decreased for some products. Freight costs have also increased significantly. However, thanks to good partnerships and agreements, Tokmanni's freight costs have increased less than market prices, and freight capacity has been available. Tokmanni's current agreement on foreign freight is valid until the spring of 2023. Comparable gross profit was EUR 95.1 million (89.0), corresponding to a gross margin of 34.0% (34.0%).

Operating expenses were EUR 53.1 million (49.4), or 19.0% of revenue (18.9%). Comparable operating expenses were EUR 53.3 million (49.5), or 19.0% of revenue (18.9%). Personnel expenses represented EUR 30.8 million (28.1) of total operating expenses, or 11.0% (10.7%) of revenue. The increase in operating expenses in euros was mainly due to the higher sales volume, which is the factor with the highest impact on salaries in stores. Salaries also increased following a pay rise of 1.3% for employees covered by the commercial sector's collective agreement on 1 April 2021. This had an impact of around EUR 0.4 million on personnel expenses in the third quarter. Furthermore, the reduction in the employer's pension insurance (TyEL) contributions implemented because of the coronavirus pandemic was discontinued at the turn of the year. In July–September 2020, the reduction in the TyEL contributions had an impact of around EUR 0.8 million on Tokmanni's personnel expenses.

EBITDA amounted to EUR 42.8 million (40.4), and the EBITDA margin was 15.3% (15.4%). Comparable EBITDA totalled EUR 42.5 million (40.3), and the comparable EBITDA margin was 15.2% (15.4%).

EBIT totalled EUR 26.4 million (24.1), and the EBIT margin was 9.4% (9.2%). Comparable EBIT totalled EUR 26.1 million (24.0), and the comparable EBIT margin was 9.3% (9.2%).

Net financial items totalled EUR -2.5 million (-2.5). The result before taxes was EUR 23.9 million (21.6). Taxes amounted to EUR -4.8 million (-4.3). The net result was EUR 19.1 million (17.3).

Diluted earnings per share were EUR 0.32 (0.29). The return on capital employed was 4.4% (4.1%), and the return on equity was 9.5% (10.0%).

January–September 2021

In January–September 2021, gross profit amounted to EUR 276.8 million (251.3), corresponding to a gross margin of 34.3% (33.7%). The gross margin was impacted positively by the sales mix and the increase in the share of direct imports and private label products. The gross margin was negatively affected by the launch of the customer loyalty programme and the related discounts for new members, as well as Tokmanni's decision to keep its prices low for customers despite the increase in sourcing prices. Comparable gross profit was EUR 275.6 million (251.4), corresponding to a gross margin of 34.1% (33.7%).

Operating expenses were EUR 163.1 million (151.4), or 20.2% of revenue (20.3%). Comparable operating expenses were EUR 163.6 million (150.8), or 20.3% of revenue (20.2%). Personnel expenses represented EUR 97.2 million (87.8) of total operating expenses, or 12.0% (11.8%) of revenue. The increase in operating expenses in euros was mainly due to the higher sales volume, which has caused salaries to increase in stores in particular. In addition, the increase in personnel expenses was due to the rise mentioned above under "July–September 2021" and the discontinuation of the reduction in TyEL-contributions. In January–September 2020, the reduction in the TyEL contributions had an impact of around EUR 1.7 million on Tokmanni's personnel expenses.

EBITDA amounted to EUR 116.1 million (102.7), and the EBITDA margin was 14.4% (13.8%). Comparable EBITDA totalled EUR 114.4 million (103.3), and the comparable EBITDA margin was 14.2% (13.8%).

EBIT totalled EUR 66.9 million (54.3), and the EBIT margin was 8.3% (7.3%). Comparable EBIT totalled EUR 65.2 million (54.9), and the comparable EBIT margin was 8.1% (7.4%).

Net financial items totalled EUR -7.6 million (-7.5). The result before taxes was EUR 59.2 million (46.8). Taxes amounted to EUR -11.9 million (-9.4). The net result was EUR 47.3 million (37.4).

Diluted earnings per share were EUR 0.80 (0.63). The return on capital employed was 11.1% (9.2%), and the return on equity was 23.6% (21.6%).

Balance sheet, financing and cash flow

At the end of September, Tokmanni's inventories amounted to EUR 277.1 million (257.0). The increase in inventories was mainly due to the fact that Christmas season products were stocked earlier than ever before. In addition, the inventory value reflects the high inventory value of the acquired TEX stores. Inventories also increased as a result of business growth.

The Group's cash flow from operating activities totalled EUR 12.5 million (6.1) in the third quarter of 2021. In January–September, its cash flow decreased to EUR 51.9 million (61.5) year-on-year. More capital was tied up in inventories than in the previous year, which had a negative impact on the cash flow in January–September. Tokmanni's cash and cash equivalents stood at EUR 26.7 million (18.0) at the end of September, and its financial position is stable.

At the end of September 2021, Tokmanni's interest-bearing debt totalled EUR 386.8 million (413.8), including EUR 100.0 million (100.0) in non-current corporate bonds and loans from financial institutions and EUR 0 million (10.0) in current corporate bonds and loans from financial institutions. The remainder of the liabilities are lease liabilities reported under IFRS 16.

On 11 February 2021, Tokmanni signed an agreement on a financial rearrangement. Its new EUR 100 million loan, which will mature in February 2026, was used to repay the previous corresponding loan. As part of the financial arrangement, Tokmanni also agreed on a five-year credit facility of EUR 50 million. In addition to the above, the financing agreement includes an option for drawing down an additional loan of EUR 50 million in instalments. The option for an additional loan is valid for three years, and includes a conditional option to extend the loan by one year at a time for another two years.

The ratio of net debt to comparable EBITDA (rolling 12 months) was 2.0 at the end of September (2.6). Tokmanni intends to maintain an efficient long-term capital structure, and its long-term goal is to keep the ratio of net debt to comparable EBITDA to a level below 3.2.

Tokmanni's equity ratio was 28.2% (24.7%) at the end of September 2021.

Capital expenditure

Net capital expenditure in the third quarter totalled EUR 9.0 million (2.0). Net capital expenditure for January–September 2021 totalled EUR 14.9 million (8.3), including the acquisition of TEX stores. Capital expenditure was mainly related to the expansion of the store network, renovations of stores and the development of digital services, such as the customer loyalty programme.

Capital expenditure in 2021 is expected to be around EUR 20–22 million, including the acquisition of TEX stores.

The feasibility study and negotiations concerning the possibility of expanding the Tokmanni logistics centre in Mäntsälä are still in progress. If the project is implemented, the expanded logistics centre will replace some of the current external warehouses and will have an impact on the capital expenditure level in the coming years.

PERSONNEL

Tokmanni is a significant employer in Finland. At the end of September 2021, the company had 4,031 (3,956) employees. On average, Tokmanni had 4,142 (3,811) employees in January–September.

The personnel will be rewarded for their good sales performance in January–September with a bonus totalling EUR 1.0 million. In January–September 2021, personnel expenses totalled EUR 97.2 million (87.8),

representing 12.0% of revenue (11.8%). The higher sales volumes caused salaries to increase in stores in particular. Salaries also increased following a pay rise of 1.3% for employees covered by the commercial sector's collective agreement on 1 April 2021. In January–September 2020, the reduction in the TyEL contributions had an impact of around EUR 1.7 million on Tokmanni's personnel expenses.

RISKS AND BUSINESS UNCERTAINTIES

Tokmanni's risks and uncertainties are discussed in detail in the Report by the Board of Directors for 2020 and in the Financial Statements Bulletin as well as Tokmanni's website at <https://ir.tokmanni.fi/en/investors/tokmanni-as-an-investment/riskienhallinta>.

TOKMANNI'S OUTLOOK FOR 2021

Tokmanni's outlook remains unchanged. Tokmanni forecasts revenue growth for 2021. Group profitability measured in euros (comparable EBIT) is expected to improve and to be EUR 105–115 million.

Mäntsälä 29 October 2021

Tokmanni Group Corporation
Board of Directors

IR calendar

Tokmanni Group Corporation will publish its Financial Statement Release, Half Year Financial Report and two Business Reviews during 2022 as follows:

11 February 2022: Financial Statements Review for 2021
29 April 2022: Business Review for January-March 2022
29 July 2022: Half Year Financial Review for January-June 2022
28 October 2022: Business Review for January-September 2022

The 2021 Report by the Board of Directors and Financial Statements will be published during week 8.

Tokmanni's Annual General Meeting is planned to be held on 23 March 2022. Tokmanni's Board of Directors will summon the meeting at a later date.

Result presentation

Tokmanni's CEO Mika Rautiainen and CFO Markku Pirskanen will present the review to analysts, investors and media representatives on 29 October at 11:30 am in English (Finnish time).

The live webcast can be accessed via Tokmanni's website at <https://ir.tokmanni.fi/en> or through the link <https://tokmanni.videosync.fi/2021-q3-results/register>. On-demand version of the presentation will be available on the company's website later during the same day.

The participants can also join a telephone conference that will be arranged in conjunction with the live webcasts. The participants are asked to dial in 5-10 minutes prior to starting time using the phone number and passcode below.

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Tokmanni in brief

Tokmanni is the largest variety discount retailer in Finland measured by number of stores and revenue. In 2020, Tokmanni's revenue was EUR 1 073.2 million and it has approximately 4,000 employees. Tokmanni is the only nationwide variety discount retailer in Finland with almost 200 stores.

Distribution

Nasdaq Helsinki

Key Media