

INTERIM REPORT for 1 January – 30 September 2016: Good growth, profitability and market share gains in Q3

Verkkokauppa.com Oyj – Interim report (unaudited) 21 October 2016, 8:00 a.m.

1 July – 30 September 2016 in brief

- Revenue 92.6 million euros (7–9/2015: 83.2), growth of 11%
- Gross profit 14.5 million euros (12.3), growth of 17%
- Gross margin 15.6% of revenue (14.8%)
- Operating profit 3.9 million euros (2.9)
- Operating margin 4.2% of revenue (3.5%)
- Net profit 3.1 million euros (2.3)
- Earnings per share 0.07 euros (0.05)

KEY RATIOS	7-9/2016	7-9/2015	Change%	1-9/2016	1-9/2015	Change%	1–12/2015
Revenue, € thousands	92,611	83,244	11%	256,180	236,109	9%	343,682
Gross profit, € thousands	14,453	12,310	17%	39,801	35,485	12%	51,783
Gross margin, % of revenue	15.6%	14.8%		15.5%	15.0%		15.1%
Comparable EBITDA, € thousands	4,244	3,205	32%	8,237	7,099	16%	12,258
Comparable EBITDA, %	4.6%	3.9%		3.2%	3.0%		3.6%
Comparable operating profit, € thousands	3,933	2,897	36%	7,310	6,232	17%	11,087
Comparable operating margin, % of revenue	4.2%	3.5%		2.9%	2.6%		3.2%
Net profit, € thousands	3,141	2,338	34%	5,378	1,150	368%	5,354

1 January – 30 September 2016 in brief

- Revenue 256 million euros (1–9/2015: 236), growth of 9%
- Gross profit 39.8 million euros (35.5), growth of 12%
- Gross margin 15.5% of revenue (15.0%)
- Operating profit 6.7 million euros (2.8)
- Comparable operating profit 7.3 million euros (6.2)
- Operating margin 2.6% of revenue (1.2%)
- Comparable operating margin 2.9% of revenue (2.6%)
- Net profit 5.4 million euros (1.2)
- Comparable net profit 5.9 million euros (5.1)
- Earnings per share 0.12 euros (0.03)
- Comparable earnings per share 0.13 euros (0.11)

BUSINESS OUTLOOK

Verkkokauppa.com Oyj's business operations are estimated to develop positively within a medium term time frame. The management believes that the company will succeed in further growing its market share in its chosen segments. The strong balance sheet enables the company to continue expanding its operations in accordance with its strategy. Nevertheless, the business outlook includes uncertainties, especially due to macroeconomic developments. The Finnish Ministry of Finance estimated on 15 September 2016 that the Finnish GDP will grow by 1.1% during 2016.

FINANCIAL GUIDANCE

In 2016 the company revenue and comparable operating profit are expected to exceed the level of 2015.

CEO SAMULI SEPPÄLÄ'S REVIEW

Business is back on track with good growth and profitability in Q3, following a slightly weaker Q2. During the reporting period, Verkkokauppa.com enjoyed good sales growth and improved its profit and market share, while the overall retail market in Finland remained tough. The current intense price competition is unlikely to continue for very long, as it will probably not be sustainable for the industry overall.

Verkkokauppa.com will continue its efforts to be the most transparent low-cost online retailer, while living up to its credo of being "probably always cheaper". The company will launch features to further improve transparency, such as a price barometer and market price –tools, zip-code-based delivery estimates, and in-store maps with information on product locations. These customer empowering features will be launched in October/November along with a new more mobile friendly website aiming for higher number of visitors and conversion rate. The company will continue to focus on low operating costs by providing Finland's best self-service technology and avoiding products with high handling costs, such as fresh food or apparel and fashion.

The company's new service warehouse in Vantaa is fully operational, ready for the busiest sales season and major campaigns like Singles' Day, Black Friday, Tax Returns Week and Boxing Day. The new warehouse will replace the existing Bunkkeri warehouse by the end of the year and will also allow customer pickups.

The company will continue to invest in new categories and cost-saving technologies while retail continues going online. An estimated 1% or 400 million euros of retail sales moves online every year in Finland. The current estimated level of online sales is 10% or 4 billion euros out of the 40 billion euros retail business. The company's revenue will continue to grow in 2016 and in the medium term, even though the general situation and demand in the retail business remains weak in Finland.

KEY RATIOS AND PERFORMANCE INDICATORS

	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Revenue, € thousands	92,611	83,244	256,180	236,109	343,682
Gross profit, € thousands	14,453	12,310	39,801	35,485	51,783
Gross margin, % of revenue	15.6%	14.8%	15.5%	15.0%	15.1%
Comparable gross profit, € thousands	14,453	12,310	39,801	35,485	51,783
Comparable gross margin, % of revenue	15.6%	14.8%	15.5%	15.0%	15.1%
EBITDA, € thousands	4,244	3,205	7,637	3,687	8,846
EBITDA, %	4.6%	3.9%	3.0%	1.6%	2.6%
Comparable EBITDA, € thousands	4,244	3,205	8,237	7,099	12,258
Comparable EBITDA, %	4.6%	3.9%	3.2%	3.0%	3.6%
Operating profit, € thousands	3,933	2,897	6,711	2,821	7,676
Operating margin, % of revenue	4.2%	3.5%	2.6%	1.2%	2.2%
Comparable operating profit, € thousands	3,933	2,897	7,310	6,232	11,087
Comparable operating margin, % of revenue	4.2%	3.5%	2.9%	2.6%	3.2%
Net profit, € thousands	3,141	2,338	5,378	1,150	5,354
Comparable net profit, € thousands	3,141	2,515	5,858	5,055	8,814
Equity ratio, %	42.6%	45.7%	42.6%	45.7%	45.2%
Return on investment, % rolling 12 months	34.4%	16.7%	34.4%	16.7%	20.9%
Net gearing, %	-85.9%	-69.7%	-85.9%	-69.7%	-86.5%
Earnings per share (EPS) revised by share split, €	0.07	0.05	0.12	0.03	0.12
Comparable earnings per share (EPS) revised by share split, €	0.07	0.06	0.13	0.11	0.20
Earnings per share (EPS) revised by share split (diluted), €	0.07	0.05	0.12	0.03	0.12
Comparable earnings per share (EPS) revised by share split (diluted), €	0.07	0.06	0.13	0.11	0.20
Number of shares at end of period	45,065,130	45,065,130	45,065,130	45,065,130	45,065,130
Average number of shares at end of period revised by share split	45,065,130	45,065,130	45,065,130	45,065,130	45,065,130
Number of shares at end of period revised by share split	45,065,130	45,065,130	45,065,130	45,065,130	45,065,130
Number of personnel* at end of period	556	544	556	544	561

*The number of personnel includes both full- and part-time employees.

Verkkokauppa.com Oyj will change its reporting terminology in accordance with the guidelines issued by the European Securities and Markets Authority (ESMA) concerning Alternative Performance Measures. Verkkokauppa.com replaces the previously used term “excluding non-recurring items” with the term “comparable”.

Verkkokauppa.com presents Alternative Performance Measures to reflect the underlying business performance and to enhance comparability between financial periods. Comparable performance measures exclude the income statement impact of certain non-operational items affecting comparability. Items affecting comparability are presented in the financial table section.

An item affecting comparability is an income or expense arising from non-recurring or rare events. Items affecting comparability are recognised in the profit and loss statement within the corresponding income or expense group.

REVENUE AND PROFITABILITY DEVELOPMENT

July–September 2016

In July–September, Verkkokauppa.com Oyj's revenue grew by 11% year on year. Revenue grew by 9.4 million euros, totalling 92.6 million euros (83.2). Revenue increased particularly in televisions, computers, computer peripherals, small (SDA) domestic appliances and toys & gifts.

According to GfK, the demand for consumer electronics increased by 11% during July–September in Finland.

As in the previous quarter and in the comparison period, a part of the sales increase was due to large wholesale volumes to customers who export the goods, as well as B2B sales. This part of sales decreased year on year. The volume of these sales is typically difficult to estimate and their profitability is low. However, these sales contribute to the company's purchasing volumes and thus improve the company's position in relation to its suppliers.

Personnel costs increased in July–September by 2.5% to 5.3 million euros (5.2). Increased personnel costs are mainly related to new expanded opening hours.

During the third quarter, other expenses increased by 1.0 million euros to 4.9 million euros (3.9).

Operating profit in July–September 2016 was 3.9 million euros (2.9) and net profit 3.1 million euros (2.3).

Earnings per share were 0.07 euros (0.05).

January–September 2016

In January–September, Verkkokauppa.com Oyj's revenue grew by 8.5% year on year. Revenue grew by 20.0 million euros, totalling 256 million euros (236). Revenue increased particularly in computers, televisions, computer peripherals and both major (MDA) and small (SDA) domestic appliances.

According to GfK, the demand for consumer electronics decreased by 3.4% during January–September in Finland.

Personnel costs increased by 12.9% to 18.3 million euros (16.2). Personnel costs include a holiday pay compensation of 0.6 million euros affecting comparability, which resulted from the company's internal audit identifying technical errors in the company's holiday pay accounting. Comparable personnel costs grew by 9.2% to 17.7 million euros (16.2). The number of personnel grew at a slower rate than revenue.

During the reporting period other expenses decreased, totalling 13.9 million euros (15.6). Comparable other expenses grew by 13.8% and were 13.9 million euros (12.2). Other expenses in the comparison period affecting comparability included a compensation of 3.4 million euros paid to Teosto.

Operating profit in January–September 2016 was 6.7 million euros (2.8) and net profit 5.4 million euros (1.2).

Comparable operating profit in January–September 2016 was 7.3 million euros (6.2) and net profit 5.9 million euros (5.1).

Earnings per share were 0.12 euros (0.03).

The comparison period included items affecting comparability of 4.3 million euros related to a legal dispute lost against Teosto ry regarding levies for private copying. Of these items affecting comparability, 3.4 million euros is included in other expenses and the interest of 0.9 million euros in financing expenses.

Comparable earnings per share were 0.13 euros (0.11)

FINANCE AND INVESTMENTS

Operating cash flow was 6.1 million euros (-4.1) in January–September 2016. In the reporting period, the improvement of the operating cash flow mainly resulted from the positive development of operations. In addition, the comparability in the cash flow of the comparison period was affected by items related to the Teosto legal dispute.

Ordinary seasonal fluctuations are reflected in cash and cash equivalents, cash flow and accounts payable, which usually reach the highest point at year-end and the lowest point at the end of the second quarter. Verkkokauppa.com has utilized the maximum amount of cash discounts.

During the reporting period the company invested in the development of new ERP features, which resulted in the capitalization of 0.4 million euros in the IT department's salary expenses and external technology consulting fees. The company also invested in ordinary store equipment and furniture. The net capital expenditures were 0.7 million euros (1.0) in January–September 2016.

The comparison period included financing expenses totalling 0.9 million euros of penalty interest affecting comparability relating to the Teosto legal dispute.

On 30 June 2016, Verkkokauppa.com had a revolving credit facility of 15 million euros, which had not been utilized.

FINANCIAL TARGETS

The company strives to grow faster than its operating market and targets an annual revenue growth of over 10 per cent in the medium term. The company's objective is to improve its EBITDA margin in the medium term when compared to the level of 2013. The company strives to secure a sufficient equity ratio to finance the growth of its business and aims to maintain an equity ratio of over 25 per cent taking into consideration the nature and seasonality of the company's business.

SHARES AND SHARE TRADING

The total number of shares in the company was 45,065,130 on 30 September 2016.

Over the reporting period 2,353,718 shares were exchanged on the NASDAQ OMX First North Finland market, representing 5.2% of all shares in the company. The highest share price was 8.20 euros and the lowest 6.10 euros. The average price in share trading was 6.88 euros. The total of the share trading was 16.2 million euros. The closing price was 6.20 euros, and the market value of all shares was 279 million euros at the end of the period.

The company does not own any of its own shares.

PERSONNEL, THE BOARD AND ADMINISTRATION

During the reporting period, the number of employees increased by 12, and the total number of employees was 556 (544) at the end of September 2016. The number of employees includes both full- and part-time employees.

The election of the Board of Directors is explained below in the section on Annual General Meeting 2016.

RISKS AND UNCERTAINTIES

Verkkokauppa.com Oyj's risks and uncertainties reflect the market and general economic trends, for example, demand for consumer electronics, wholesale trade business, the business environment and competition. The company's business operations are also influenced by risks and uncertainties relating to, for example, business

strategy, investments, procurement and logistics, information technology, and other operative aspects of the business. The aforementioned risks and uncertainties may affect the company's operations, financial position and performance both positively and negatively. Risks and uncertainties have been presented in more detail in the Annual Report for year 2015.

LITIGATION

Verkkokauppa.com received a permission to appeal to the Supreme Court regarding the use of the domain name veneilijanverkkokauppa.com on 3 September 2014. The Supreme Court gave its decision on 11 March 2016 regarding the veneilijanverkkokauppa.com trademark issue. The Court of Appeals judgement was overruled and Oy Waltic Ab was denied the use of the veneilijanverkkokauppa.com trademark. Oy Waltic Ab was also obliged to pay 10,000 euros with penalty interest and a total of approximately 60,000 euros in Verkkokauppa.com's legal costs in different court instances.

ANNUAL GENERAL MEETING 2016

The Annual General Meeting was held in Helsinki on 15 March 2016. The financial statements for the year 2015 were approved and the Board Members and the CEO were discharged from liability with respect to financial year 2015. It was decided to pay a dividend of 0.15 euros per share, totalling 6,759,769.50 euros.

At the Annual General Meeting held on 15 March 2016 the following board members were re-elected: Christoffer Häggblom, Mikael Hagman, Minna Kurunsaari, Kai Seikku, Antti Tiitola, Henrik Weckström and Samuli Seppälä. The board elected Christoffer Häggblom as the Chairman of the Board. Samuli Seppälä is the company's Chief Executive Officer.

The Authorized Public Accountant PricewaterhouseCoopers Oy was elected as the auditor, with Authorized Public Accountant Ylva Eriksson acting as the Principal Auditor.

OTHER EVENTS DURING THE REPORTING PERIOD

Corporate sales and export director Matti Harjunen left Verkkokauppa.com on 11 January 2016. Antti Tiitola resigned from the Board of Directors as of 2 May 2016.

SUBSEQUENT EVENTS

There are no subsequent events that differ from usual business events, after the reporting period.

PRESS CONFERENCES

A press conference for analysts, investors and media will be held in Finnish at the Jätkäsaari premises in Helsinki at Tyynenmerenkatu 11, 6th floor, at 10:00 a.m. (EET) on Friday, 21 October 2016, in which Verkkokauppa.com Oyj's CEO Samuli Seppälä will present the developments in the reporting period.

A press conference in English will be held by LiveStream webcast on Friday, 21 October 2016 at 11:00 a.m. (EET). Questions can be sent beforehand or during the presentation via e-mail to investors@verkkokauppa.com.

Presentation materials for both events are available at www.verkkokauppa.com in the section Sijoittajat > Esitykset. For both press conferences, a LiveStream is available at www.verklive.com.

COMPANY RELEASES IN 2016

Verkkokauppa.com Oyj will publish its quarterly reports as follows:

- Financial statement release 2016 on Friday, 10 February 2017

Helsinki, Finland, 21 October 2016

Verkkokauppa.com Oyj

Board of Directors

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FINANCIAL INFORMATION

The financial statements release has been prepared in accordance with Finnish Accounting Standards and local legislation, and in compliance with the accounting principles in the financial statements of 31 December 2015. The company applies the new Accounting Act, effective from 1 January 2016, in the preparation of this interim report. The new Accounting Act has had no significant impact on the accounting principles; therefore, figures for the comparison periods have not been adjusted. The quarterly report has not been audited. The financial statements are audited at year-end.

Numbers presented in the quarterly report have been rounded and therefore columns or rows do not necessarily add up to the total amounts presented.

INCOME STATEMENT

€ thousands	7-9/2016	7-9/2015	Change%	1-9/2016	1-9/2015	Change%	1-12/2015
REVENUE	92,611	83,244	11.3%	256,180	236,109	8.5%	343,682
Other income	14	23	-38.9%	72	63	14.1%	96
Cost of goods and services	-78,158	-70,934	10.2%	-216,379	-200,624	7.9%	-291,899
Personnel expenses	-5,323	-5,191	2.5%	-18,310	-16,213	12.9%	-22,402
Depreciation and amortization	-311	-309	0.8%	-926	-867	6.9%	-1,171
Other operating expenses	-4,899	-3,936	24.5%	-13,926	-15,647	-11.0%	-20,630
OPERATING PROFIT	3,933	2,897	35.8%	6,711	2,821	137.9%	7,676
Financial income and expenses	-6	26	-125.0%	10	-827	-101.2%	-882
PROFIT BEFORE APPROPRIATIONS AND TAXES	3,927	2,922	34.4%	6,721	1,993	237.2%	6,794
Appropriations	0	0		0	0		-82
Income taxes	-785	-584	34.4%	-1,343	-843	59.3%	-1,358
NET PROFIT	3,141	2,338	34.4%	5,378	1,150	367.6%	5,354

BALANCE SHEET

€ thousands	30.9.2016	30.9.2015	31.12.2015
ASSETS			
NON-CURRENT ASSETS			
Intangible assets total	1,249	1,087	1,179
Tangible assets total	1,534	1,900	1,788
Investments total	251	251	251
NON-CURRENT ASSETS TOTAL	3,034	3,238	3,218
CURRENT ASSETS			
Inventories	40,315	36,030	38,742
Receivables			
Non-current receivables	249	111	111
Trade receivables	138	0	0
Other receivables	111	111	111
Current receivables	10,004	8,211	8,484
Trade receivables	6,766	4,590	5,037
Other receivables	813	712	601
Receivables carried forward	2,425	2,909	2,847
Cash and cash equivalents	29,384	23,194	30,770
CURRENT ASSETS TOTAL	79,952	67,547	78,108
TOTAL ASSETS	82,986	70,785	81,325
LIABILITIES			
EQUITY			
Shareholders' capital			
Share capital	100	100	100
Other funds			
Invested non-restricted equity fund	25,493	25,493	25,493
Retained earnings	3,239	4,645	4,645
Profit (loss) for the period	5,378	1,150	5,354
EQUITY TOTAL	34,210	31,388	35,591
Depreciation reserve	82	0	82
Provisions	810	760	810
LIABILITIES			
Non-current liabilities	0	440	0
Interest-bearing debt	0	440	0
Current liabilities total	47,884	38,198	44,842
Interest-bearing debt	0	879	0
Advances received	2,563	2,028	2,501
Accounts payables	31,590	25,328	27,736
Other liabilities	4,201	4,010	4,450
Accrued expenses	9,530	5,953	10,156
LIABILITIES TOTAL	47,884	38,637	44,842
TOTAL LIABILITIES	82,986	70,785	81,325

CASH FLOW

€ thousands	1-9/2016	1-9/2015	2015
Cash flow from operating activities			
Profit before appropriations and taxes	6,721	1,993	6,794
Depreciation and amortization	926	867	1,171
Change in provisions	0	45	95
Interest paid and received	-10	827	882
Non-current receivables, increase (-), decrease (+)	-138	2	2
Current receivables, increase (-), decrease (+)	-1,520	-180	-490
Inventory increase (-), decrease (+)	-1,573	-5,173	-7,884
Non-interest-bearing debt, increase (+), decrease (-)	3,033	-701	6,492
NET CASH FROM OPERATING ACTIVITIES BEFORE FINANCING AND TAXES	7,441	-2,320	7,061
Interest paid and other operational financial expenses	-27	-1,021	-1,050
Interest received from operations	37	193	168
Taxes paid	-1,334	-935	-1,084
NET CASH FLOW FROM OPERATING ACTIVITIES	6,117	-4,082	5,096
Investments			
Intangible and tangible investments	-743	-791	-1,075
Other investments	0	-201	-201
NET CASH FLOW FROM INVESTMENTS	-743	-992	-1,276
Cash flows from financing activities			
Current interest-bearing debt, increase (+), decrease (-)	0	-659	-879
Non-current interest-bearing debt, increase (+), decrease (-)	0	0	-1,099
Dividends paid	-6,760	-6,384	-6,384
NET CASH FLOW FROM FINANCING ACTIVITIES	-6,760	-7,044	-8,362
NET INCREASE (+) / DECREASE (-) IN CASH AND CASH EQUIVALENTS	-1,386	-12,118	-4,543
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	30,770	35,312	35,312
CASH AND CASH EQUIVALENTS AT THE PERIOD END	29,384	23,194	30,770

STATEMENT OF EQUITY CHANGES

€, thousand	Share capital	Invested unrestricted equity fund	Retained earnings	Profit (loss) for the period	Total
EQUITY 1.1.2016	100	25,493	9,999	0	35,591
Dividends	0	0	-6,760	0	-6,760
Profit (loss) of the period	0	0	0	5,378	5,378
EQUITY 30.9.2016	100	25,493	3,239	5,378	34,210
EQUITY 1.1.2015	100	25,493	11,029	0	36,622
Dividends	0	0	-6,384	0	-6,384
Profit (loss) of the period	0	0	0	1,150	1,150
EQUITY 30.9.2015	100	25,493	4,645	1,150	31,388
EQUITY 1.1.2015	100	25,493	11,029	0	36,622
Dividends	0	0	-6,384	0	-6,384
Profit (loss) of the period	0	0	0	5,354	5,354
EQUITY 31.12.2015	100	25,493	4,645	5,354	35,591

ITEMS AFFECTING COMPARABILITY

€, thousands	7-9/ 2016	4-6/ 2016	1-3/ 2016	1-9/ 2016	7-9/ 2015	4-6/ 2015	1-3/ 2015	1-9/ 2015
Items affecting comparability in operating profit	0	0	-599	-599	0	0	-3,412	-3,412
Items affecting comparability in financial items	0	0	0	0	0	0	-913	-913
Items affecting comparability in taxes	0	0	120	120	-177	-267	865	421
Items affecting comparability, total	0	0	-479	-479	-177	-267	-3,460	-3,904

Items affecting comparability in year 2015 relate to a legal dispute lost against Teosto ry.
Items affecting comparability in year 2016 relate to a holiday pay compensation.

CALCULATION PRINCIPLES FOR THE COMPANY'S KEY RATIOS

- 1) Fixed costs = Personnel expenses + other operating expenses
- 2) Fixed costs, % = (Personnel expenses + other operating expenses) / Revenue x 100
- 3) Gross profit = Revenue – Cost of goods and services
- 4) Gross margin, % = (Revenue – Cost of goods and services) / Revenue x 100
- 5) EBITDA = Operating profit before depreciation
- 6) EBITDA, % = Operating profit before depreciation / Revenue x 100
- 7) Operating margin, % = Operating result / Revenue x 100
- 8) Comparable operating margin, % = Comparable operating result / Revenue x 100
- 9) Equity ratio = (Equity + depreciation difference x (1 – tax rate)) / (Total sum of the balance sheet – advances received) x 100
- 10) Return on capital employed (ROCE), rolling 12 months, % = (Net profit + financial expenses + taxes) / (Average equity + interest-bearing debt) x 100
- 11) Net gearing, % = (Interest-bearing debt – cash and cash equivalents – interest-bearing receivables) / Equity x 100
- 12) Earnings per share = Profit for the financial period / Monthly average number of shares adjusted by share issues
- 13) Comparable earnings per share = Comparable profit for the financial period / Monthly average number of shares adjusted by share issues
- 14) Earnings per share (diluted) = Profit for the financial period / Monthly average number of shares adjusted by share issues + number of shares according to subscription rights
- 15) Comparable earnings per share (diluted) = Comparable profit for the financial period / Monthly average number of shares adjusted by share issues + number of shares according to subscription rights
- 16) Average number of shares at end of the period revised by share split = Monthly average number of shares at the end of the period revised by share split
- 17) Number of employees at the end of the period = Average number of employees on the last week of the period