Corporate News

Deltícom AG: Preliminary H1 Results

Hanover, 19 July 2012 – Delticom (German Securities Code (WKN) 514680, ISIN DE0005146807, stock market symbol DEX), Europe's leading online tyre dealer, has published preliminary figures for the first half year. Against a backdrop of weak summer tyre markets the company recognised revenues of € 193.3 million in H1 12, a minus of 2.5 % year-on-year. Earnings before interest and taxes (EBIT) amounted to € 13.2 million.

After the season had already experienced a difficult start due to poor weather conditions, second quarter summer tyre sales fell yet again significantly short of tyre trade expectations. The reason for this market weakness is not just the poor consumer sentiment in the crisis-ridden European countries. Even in Germany, sales have been coming down significantly year-on-year. According to a first draft evaluation of a poll among German tyre dealers conducted by the BRV (Bundesverband Reifenhandel und Vulkaniseur-Handwerk e. V.), the first five months of the year saw a decline of revenues for summer tyres of approximately 15 %.

Revenues. In this challenging environment H1 12 group revenues declined by 2.5 % to € 193.3 million (H1 11: € 198.3 million). In the second quarter the company recognised revenues of € 107.8 million (Q2 11: € 112.9 million, –4.6 %). Q2 12 revenues in the E-Commerce division were down year-on-year by 5.1 % and amounted to € 104.0 million (H1 12: –2.7 % to € 184.9 million). Quarterly revenues in the Wholesale division grew by 13.5 % to € 3.8 million, after prior-year revenues of € 3.4 million (H1 12: € 8.4 million, +2.1 %).

Gross margin. The cost of goods sold decreased in the reporting period by 1.9 %, from € 144.9 million in Q2 11 to € 142.2 million. The gross margin for Q2 12 was 26.9 % (Q2 11: 27.7 %). For the first half year the gross margin was 26.4 %, after 26.9 % in the prior-year period.

Part of this decline is attributable to the price pressure arising from weak end-customer demand. Still, for Delticom the main driver for the gross margin trend over the past months has been the development of own summer tyre stocks which have been cut back significantly, in line with deteriorating selling conditions. As a result, the share of spot drop-ship business with third parties increased, which usually carries a lower gross margin then selling from own stocks. Currently Delticom holds fewer summer tyres on stock than in the preceding years.

Other operating income. Other operating profit decreased by 33.7 % to € 2.1 million (H1 11: € 3.1 million), thereof gains from exchange rate differences to the order of € 1.0 million (H1 11: € 2.3 million). FX losses have to be accounted for as line item in the other operating expenses (H1 12: € 2.5 million, H1 11: € 2.7 million). The balance of FX income and losses totalled € –1.5 million (H1 11: € –0.4 million). Altogether, the gross profit worsened by –5.9 % year-on-year, from € 56.5 million to € 53.2 million.

Personnel expenses. In the reporting period on average 142 staff members were employed at Delticom (H1 11: 108). The reason for the increase was the buildup of qualified staff for our new warehouse facility which was opened in Q2 last year. Personnel expenses amounted to € 4.4 million (H1 11: € 3.5 million).

The H1 12 personnel expenses ratio stood at 2.3 % (staff expenditures as percentage of revenues, H1 11: 1.8 %).

Other operating expenses. In H1 12 other operating expenses totalled € 34.2 million, an increase of 2.2 % over the prior-year value of € 33.5 million.

Among the other operating expenses, transportation costs is the largest line item. For H1 12 it amounted to € 16.2 million (H1 11: € 16.2 million). The share of transportation costs against revenues went up from 8.2 % in H1 11 to 8.4 % in H1 12.

Due to the expansion of warehouse capacity, rents and overheads increased by 63.5 %, from € 1.9 million to € 3.0 million. Stocking costs came in at € 1.6 million, 23.9 % lower than prior-year's € 2.2 million. This was mainly due to taking qualified part-time and temporary workers on the payroll.

In the reporting period, advertising costs totalled € 4.3 million. This equates to a ratio of marketing expenses to revenues of 2.2 % (H1 11: € 3.9 million or 2.0 %). In order to support the sales of summer tyres in the peak season, Q2 12 marketing spent of 2.1 % of revenues was higher than last year's 1.7 %.

Depreciation. In line with our gradual warehouse capacity expansion and the parallel investments into warehousing infrastructure, depreciation rose by 63.7 % from € 0.8 million in 2011 to € 1.3 million. The low absolute level of depreciation underlines the low capital intensity of Delticom's business.

Earnings performance. EBIT for the reporting period came down by 29.2 % from € 18.7 million to € 13.2 million, primarily due to higher fixed costs. This equates to an EBIT margin of 6.9 % (H1 11: 9.4 %). Second quarter EBIT saw a decline of 23.1 %, from prior-year's € 12.8 million to € 9.8 million. The quarterly EBIT margin was 9.1 % (Q2 11: 11.3 %).

Financial income for the first half year amounted to € 22.8 thousand (H1 11: € 92.0 thousand). On the back of higher funding needs for inventories financial expenses increased to € 109.0 thousand (H1 11: € 13.1 thousand), leading to a financial result of € –86.2 thousand (H1 11: € 79 thousand).

The expenditure for income taxes was € 4.4 million (previous year: € 6.0 million). The tax rate was 33.2 % (H1 11: 32.1 %).

In total, consolidated net income for the reporting period totalled € 8.8 million, after a prior-year amount of € 12.7 million.

Working Capital. Among the current assets, inventories is the biggest line item. They grew from the beginning of the year by € 28.6 million, totalling € 135.1 million on the reporting date (30.06.2011: € 103.3 million). In the corresponding prior-year period the increase in inventory value had amounted to € 51.1 million.

In the wake of the inventory build-up, the accounts payable increased from € 68.2 million by € 28.1 million or 41.2 % to € 96.4 million (30.06.2011: € 65.9 million). Taken together with accounts receivable of € 10.5 million (30.06.2011: € 11.9 million), the net working capital on 30.06.2012 amounted to € 45.4 million (30.06.2011: € 44.5 million).

Cash flow and liquidity position. Due to the favourable working capital development, the H1 12 cash flow from ordinary business activities (operating cashflow) of € –0.5 million was significantly better than in the comparison period (H1 11: € –30.2 million).

The majority of racks, forklifts and packaging machines for the new warehouse were purchased in 2011. This year's investments into property, plant and equipment have therefore just been € 0.4 million year-to-date (H1 11: € 4.5 million).

The dividend payment for fiscal year 2011 amounted to € 34.9 million. In H1 12 Delticom raised € 21.7 million short-term financial liabilities to help funding the inventory. Cash flow from financing activities in the reporting period totalled € –13.7 million.

Liquidity (cash and cash equivalents plus liquidity reserve) as of 30.06.2012 totalled € 7.7 million (30.06.2011: € 6.2 million). The company's net cash position (liquidity less liabilities from current accounts) amounted to € –18.0 million (30.06.2011: € 0.9 million).

Outlook. Rainer Binder (Co-CEO): "The European summer tyre markets are in distress. This does not leave us unaffected. Still, Delticom's business model has proven to be flexible and resilient. We are winning market share." Management plans for H2 volumes and gross margins to be higher year-on-year, on the back of attractively priced winter tyre stocks.

Frank Schuhardt (CFO): "For the months ahead, we will continue to strengthen our fulfillment capabilities even further. As a result, our earnings position will be burdened with higher fixed costs, like in the first half of the year." Visibility for the further course of business remains very low, though, in particular with regards to the winter tyre sales in the fourth quarter. Schuhardt adds: "Business has lagged behind our expectations so far. We have therefore decided to reduce the growth target for full-year revenues to +5 %. EBIT margins above 9 % are attainable only in the event of very favourable winter weather."

The full report for the first six months of 2012 will be published on 09 August 2012 within the "Investor Relations" section of the website www.delti.com .

Company profile:

Delticom, Europe's leading online tyre retailer, was founded in Hanover in 1999. With more than 100 online shops in 41 countries, the company offers its private and business customers an unequalled assortment of excellently priced car tyres, motorcycle tyres, bicycle tyres, truck tyres, bus tyres, special tyres, rims, complete wheels (pre-mounted tyres on rims), selected replacement car parts and accessories, motor oil and batteries. The independent website reifentest.com contains impartial information about tyre tests and helps the customers choose from more than 100 tyre brands and more than 25,000 tyre models. Delticom delivers either directly to the customer's home address, or to one of more than 30,000 service partners – affiliated garages which take delivery of tyres and then install these on the customer's vehicle. Delticom's Wholesale division also sells tyres to wholesalers domestically and abroad.

On the Internet at: www.delti.com
Selected online shops: www.reifendirekt.de, www.123pneus.fr, www.mytyres.co.uk, www.reifendirekt.ch

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