



# AHLERS AG

## QUARTERLY STATEMENT Q1 2017/18

(December 1, 2017 to February 28, 2018)

### PERFORMANCE IN THE FIRST THREE MONTHS OF THE FISCAL YEAR 2017/18

#### Q1 2017/18 - Highlights

- Growing jeans revenues at Baldessarini, Pierre Cardin and Pioneer Authentic Jeans but weak suits sales in Q1 2017/18 in a declining market environment
- Sales revenues down by EUR 2.4 million primarily due to shift in revenues to Q2 2018 and lower sales of own retail
- Lower revenues send consolidated earnings falling by EUR 0.9 million despite slightly improved gross profit margin
- Equity ratio of 55 percent reflects solid financial position
- Forecast for full year remains unchanged: moderately higher revenues and growing earnings expected

#### Dr. Stella A. Ahlers, CEO of Ahlers AG:

“The situation in the clothing retail sector remains challenging. This is reflected in the general industry figures but also in our own retail sales, which have a relatively low share of total sales. On the upside, however, are our denim-sales revenues. Here exist many innovations, such as the increased wearer comfort offered by new stretch qualities. Our Pierre Cardin Futureflex-Stretch suits are equally popular in the market. The collections of Pionier Workwear have been modernised, which is paying off in the form of rising revenues. But in spite of such successes, business remains tough. We therefore continue to attach top priority to refining our strategy, leveraging market opportunities and cutting costs. We are swiftly building up a distribution company in Russia in order to make further inroads into the market. After the first three months, our revenue and earnings figures are below expectations, especially in our own Retail segment. We assume, that we reach the revenue and earnings forecast published in the Annual Report.”

## 1. EARNINGS, FINANCIAL AND NET WORTH POSITION

### **Consolidated revenues influenced by seasonal shifts and declining retail sales**

The European clothing market remained difficult in the first three months of the fiscal year 2017/18 (December 2017 to February 2018). This is reflected in the general industry figures but also in our own retail sales, which declined by 7.9 percent (EUR 0.6 million). This was mainly attributable to reduced sales per square metre but also to the closure of some stores.

In addition, the first quarter of 2017/18 was influenced by a shift of revenues from the first to the second quarter, which is the result of the more effectively timed delivery of seasonal merchandise and the growing consignment sales. In Q1 2017/18, revenues of EUR 1.3 million or 2.1 percent of the prior year revenues shifted to the following months.

### **Jeans up, suits down**

Adjusted for the shift in deliveries, jeans sales of Baldessarini, Pierre Cardin and Pioneer Authentic Jeans picked up noticeably. By contrast, the suits and jackets business was difficult, as the market is currently characterised by low demand, albeit with the exception of the Futureflex stretch suit.

Adjusted for the shift in deliveries revenue growth of EUR 0.5 million or 1.5 percent was generated in Germany. Revenues generated outside Germany declined by EUR 2.2 million. Total Group revenues decreased by EUR 2.4 million or 3.8 percent to EUR 60.7 million in the first quarter of 2017/18 (previous year: EUR 63.1 million).

### **E-commerce faced with risen return rates**

Ahlers attaches top priority to growing its e-commerce operations but this entails certain surprises due to the dynamic development. While Black Friday led to an unexpectedly strong increase in sales revenues, it was followed by a sharp rise in the number of returns, which remained high in the following months. This resulted in modest net revenues and rising order picking and freight costs. The situation normalised as the summer season started and is expected to stay like this in the coming months.

## EARNINGS POSITION

### **Revenues send earnings falling despite slightly improved gross profit margin**

In the first three months of FY 2017/18, the gross profit margin picked up by a moderate 0.5 percentage points to 52.6 percent due to lower price discounts and customs advantages resulting from production in Sri Lanka. This dampened the effect of revenues on gross profit, which declined by EUR 1.0 million to EUR 31.9 million (-3.0 percent). Personnel expenses rose by EUR 0.3 million to EUR 12.9 million in the reporting period as a result of the collective wage agreements, the employment of previous temporary workers as well as the strengthening of the e-commerce operations and the IT department in the go-live phase of the ERP (Enterprise Resource Planning) project. Moreover, marketing and order picking expenses in the e-commerce segment were slightly higher than in the previous year, which led to a moderate increase in net operating expenses/income (EUR 0.1 million). Total operating expenses, which comprise personnel and other operating expenses plus depreciation, increased by EUR 0.5 million or 1.7 percent to EUR 29.1 million (previous year: EUR 28.6 million). As a result, EBIT before special effects declined by EUR 1.5 million from EUR 4.3 million to EUR 2.8 million. While there were no special effects in the same period of the previous year, Ahlers sold an unused piece of land outside the Sri Lankan premises at a price that was EUR 0.2 million above the very low carrying amount. The financial result was on a par with the previous year. The tax rate was more or less the same in both years and not influenced by special effects. Consolidated earnings after taxes declined by EUR 0.9 million or 31.0 percent from EUR 2.9 million to EUR 2.0 million in the first three months of 2017/18.

## EARNINGS POSITION

EUR million	Q1 2017/18	Q1 2016/17	Change in %
<b>Sales</b>	<b>60.7</b>	<b>63.1</b>	<b>-3.8</b>
Gross profit	31.9	32.9	-3.0
in % of sales	52.6	52.1	
Personnel expenses	-12.9	-12.6	-2.4
Balance of other expenses/income *	-14.8	-14.7	-0.7
<b>EBITDA *</b>	<b>4.2</b>	<b>5.6</b>	<b>-25.0</b>
Depreciation and amortisation	-1.4	-1.3	-7.7
<b>EBIT *</b>	<b>2.8</b>	<b>4.3</b>	<b>-34.9</b>
Special effects	0.2	0.0	
Financial result	-0.2	-0.2	0.0
<b>Earnings before taxes</b>	<b>2.8</b>	<b>4.1</b>	<b>-31.7</b>
Income taxes	-0.8	-1.2	33.3
<b>Consolidated net income for the year</b>	<b>2.0</b>	<b>2.9</b>	<b>-31.0</b>

\* before special effects

### Revenues in Premium segment decline due to seasonal shift and own Retail operations

Sales revenues of the three premium brands – Baldessarini, Pierre Cardin and Otto Kern – declined by EUR 1.3 million from EUR 44.8 million to EUR 43.5 million in the reporting period (-2.9 percent). This reduction was attributable to the lower revenues generated by the company's own retail stores and to the seasonal shift in revenues from Q1 to Q2 in the amount of EUR 0.4 million. By contrast, jeans sales at Baldessarini and Pierre Cardin picked up but failed to fully offset the declines in other segments. As of the reporting date, the Premium segment accounted for 71.7 percent of total revenues (previous year: 71.0 percent).

The slightly improved gross profit margin (0.7 percentage points) failed to fully offset the revenue effect on the Premium segment's gross profit. The results of the Baldessarini, Pierre Cardin and Otto Kern premium brands declined because of the gross profit and the increased other operating expenses. The Premium segment's EBIT before special effects dropped by EUR 1.1 million from EUR 3.2 million to EUR 2.1 million.

### Growing revenues at Pioneer Authentic Jeans and Pionier Workwear

#### Decline in revenues and earnings in the Jeans, Casual & Workwear segment mainly due to shifts to second quarter

In the first three months of FY 2017/18, sales revenues in the Jeans, Casual & Workwear segment were strongly influenced by the shift in revenues in the amount of EUR 0.9 million. Adjusted for this effect, the segment's revenues were still down by a moderate EUR 0.2 million or 1.1 percent on the same period of the previous year. Most importantly, Pioneer Authentic Jeans' adjusted revenues increased by 5.4 percent overall and by 4.7 percent in the important German home market. Pionier Workwear grew by 11.1 percent overall and by a pleasant 7.7 percent in Germany. Total revenues of all brands in the segment amounted to EUR 17.2 million, down EUR 1.1 million on the same period of the previous year (EUR 18.3 million). The segment's share in total revenues fell from 29.0 percent to 28.3 percent on the reporting date.

The results of the brands of the Jeans, Casual & Workwear segment (Pioneer Authentic Jeans, Pionier Jeans & Casuals, Pionier Workwear and Jupiter) were materially influenced by the lower revenues. The gross profit margin remained stable and operating expenses were more or less on a par with the previous year. As a consequence, the segment's result before special effects dropped by EUR 0.4 million from EUR 1.1 million to EUR 0.7 million due to the reduced revenues.

### Sales revenues by Segments

EUR million	Q1 2017/18	Q1 2016/17	Change in %
Premium Brands*	43.5	44.8	-2.9
Jeans, Casual & Workwear	17.2	18.3	-6.0
<b>Total</b>	<b>60.7</b>	<b>63.1</b>	<b>-3.8</b>

\* incl. „miscellaneous“ EUR 0.1 million (previous year: EUR 0.1 million)

### EBIT before special effects by segments

EUR million	Q1 2017/18	Q1 2016/17	Change in %
Premium Brands	2.1	3.2	-34.4
Jeans, Casual & Workwear	0.7	1.1	-36.4
<b>Total</b>	<b>2.8</b>	<b>4.3</b>	<b>-34.9</b>

## FINANCIAL AND NET WORTH POSITION

### Solid and essentially unchanged balance sheet structure

As of the quarterly reporting date, the balance sheet structure and the financial position were largely unchanged from the prior year reporting date. At EUR 75.9 million, inventories were slightly lower than the previous year's EUR 76.4 million due to the reduced volume of raw materials and in spite of the larger stock of finished goods. As a result and because of higher trade payables, net working capital declined by 0.7 percent or EUR 0.7 million to EUR 101.8 million. Net financial liabilities were on a par with the previous year. As a result of the investments made in the ERP system over the past months, non-current fixed assets in the balance sheet picked up, whereas current assets declined at a similar rate. As a result, total assets also remained stable at EUR 189.8 million (previous year: EUR 190.1 million).

### Equity ratio at 55 percent

At 54.9 percent, the equity ratio stood at the usual high level and slightly below the previous year's 56.2 percent. The moderate reduction was attributable to the fact that equity capital declined (Feb. 28, 2018: EUR 104.1 million; change: EUR -2.8 million) because of the lower result and temporary exchange rate effects. As the increase in net working capital was lower than in the previous year due to seasonal factors, cash flow from operating activities, at EUR -9.2 million, was slightly higher than the previous year's EUR -9.6 million. At EUR 1.6 million, capital expenditures were higher than in the prior year period (EUR 0.9 million) due to the ERP project; this effect should tend to be reversed in the course of the year.

### Building up Ahlers RUS

Our Russian joint venture continues to proceed according to plan. Ahlers RUS took up operations on March 1, 2018. We held 33 percent of the shares at the end of March 2018 and should shortly reach the desired 60 percent following the approval of the respective authorities. The company will be responsible for the wholesale operations of Pierre Cardin and Pioneer and operate Pierre Cardin stores in Russia. The remaining 40 percent then are held by a long-standing business partner of Ahlers AG.

### Key management and financial indicators

		Q1 2017/18	Q1 2016/17
Sales	EUR million	60.7	63.1
Gross margin	in %	52.6	52.1
EBITDA*	EUR million	4.2	5.6
EBITDA-Margin*	in %	6.9	8.9
EBIT*	EUR million	2.8	4.3
EBIT-Margin*	in %	4.6	6.8
Net income	EUR million	2.0	2.9
Profit margin before taxes	in %	4.7	6.4
Profit margin after taxes	in %	3.2	4.6
Earnings per share			
common shares	in EUR	0.12	0.19
preferred shares	in EUR	0.17	0.24
Cash flow from operating activities	EUR million	-9.2	-9.6
Net Working Capital**	EUR million	101.8	102.5
Equity ratio	in %	54.9	56.2
Employees on key date		2,079	2,122

\* before special effects

\*\* Inventories, trade receivables and trade payables

## 2. POST BALANCE SHEET EVENTS

No events of special significance for the Group occurred between the end of the first three months and the publication of the quarterly statement.

### 3. FORECAST

#### **Market environment for apparel remains challenging despite good framework conditions**

As of the reporting date, most European economies were growing and booming. The economic institutes predict that this will continue to be the case for some time to come. Accordingly, consumer spending is picking up. In spite of these good framework conditions and the low prior year base, the sales of the German clothing retail sector continued to contract in the first three months of the current fiscal year. It is to be feared that this trend will continue or, at best, stabilise. The growing online clothing sales have so far failed to offset the downward trend in physical fashion stores.

#### **Moderately higher revenues and increasing earnings expected in FY 2017/18**

The Management Board has confirmed the revenue forecast issued in the 2016/17 Annual Report, according to which consolidated revenues will pick up moderately in FY 2017/18. The revenue effect of the discontinued activities of Gin Tonic and the private label business will hardly play a role.

Management continues to expect earnings to increase at a medium double-digit percentage rate in FY 2017/18. The performance of the clothing retail sector remains difficult to predict. We therefore emphasise that the forecast is subject to high uncertainty.

#### **Aiming for unchanged balance sheet structures and improved operating cash flow**

Reducing the company's net working capital remains a key objective of the management. Together with slightly higher depreciation/amortisation and the expected consolidated earnings, cash flow from operating activities should pick up in FY 2017/18. Reduced capital expenditures that are lower than depreciation/amortisation should lead to clearly positive free cash flow. The very solid balance sheet structure should essentially remain unchanged and rather tend to improve.

Herford, April 2018

The Management Board

#### **Forward-looking statements**

This report contains forward-looking statements, which are subject to a number of uncertainties that could cause actual results to differ materially from expectations of future developments should one or more of these uncertainties, whether specified or not, materialise or if any assumptions underlying the statements above prove to be incorrect.

## BALANCE SHEET STRUCTURE

<b>Assets</b>	<b>Feb. 28, 2018</b>		<b>Feb. 28, 2017</b>	
	EUR million	in %	EUR million	in %
Property, plant and equipment and intangible assets	42.8	22.5	40.8	21.5
Other non-current assets	19.5	10.3	19.7	10.4
Deferred tax assets	1.3	0.7	1.1	0.6
<b>Non-current assets</b>	<b>63.6</b>	<b>33.5</b>	<b>61.6</b>	<b>32.5</b>
Inventories	75.9	40.0	76.4	40.1
Trade receivables	41.1	21.6	40.3	21.2
Other current assets	4.7	2.5	6.7	3.5
Cash and cash equivalents	4.5	2.4	5.1	2.7
<b>Current assets</b>	<b>126.2</b>	<b>66.5</b>	<b>128.5</b>	<b>67.5</b>
<b>Total assets</b>	<b>189.8</b>	<b>100.0</b>	<b>190.1</b>	<b>100.0</b>

  

<b>Equity and liabilities</b>	<b>Feb. 28, 2018</b>		<b>Feb. 28, 2017</b>	
	EUR million	in %	EUR million	in %
<b>Equity</b>	<b>104.1</b>	<b>54.9</b>	<b>106.9</b>	<b>56.2</b>
Pension provisions	3.9	2.1	4.2	2.2
Other non-current liabilities and provisions	26.7	14.1	24.3	12.8
Deferred tax liabilities	1.6	0.8	2.4	1.3
<b>Non-current liabilities</b>	<b>32.2</b>	<b>17.0</b>	<b>30.9</b>	<b>16.3</b>
Current income tax payables	1.4	0.7	1.3	0.7
Other current liabilities and provisions	52.1	27.4	51.0	26.8
<b>Current liabilities</b>	<b>53.5</b>	<b>28.1</b>	<b>52.3</b>	<b>27.5</b>
<b>Liabilities</b>	<b>85.7</b>	<b>45.1</b>	<b>83.2</b>	<b>43.8</b>
<b>Total equity and liabilities</b>	<b>189.8</b>	<b>100.0</b>	<b>190.1</b>	<b>100.0</b>

## GROUP SEGMENT INFORMATIONS

as of February 28, 2018 (previous year as of February 28, 2017)

### by geographic

<b>region</b>	Premium Brands		Jeans, Casual & Workwear		Others		Total	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
KEUR								
<b>Germany</b>								
Sales	20,779	21,309	12,041	11,709	83	94	32,903	33,112
Net assets	96,207	97,283	22,605	24,098	18,266	18,286	137,078	139,667
<b>Western Europe</b>								
Sales	13,783	13,972	3,683	4,971	-	-	17,466	18,943
Net assets	14,774	13,277	8,197	9,255	-	-	22,971	22,532
<b>Central-/ Eastern Europe/ Other</b>								
Sales	8,816	9,443	1,484	1,594	-	-	10,300	11,037
Net assets	22,484	20,706	4,542	4,438	13	16	27,039	25,160

# Financial calendar

Quarterly statement Q1 2017/18	April 11, 2018
Analysts' conference in Frankfurt am Main	April 12, 2018
Annual Shareholders' Meeting in Düsseldorf	April 24, 2018
Half-year report 2017/18	July 11, 2018
Quarterly statement Q3 2017/18	October 10, 2018
Analysts' conference in Frankfurt am Main	October 11, 2018

## Ahlers AG

- was established by Adolf Ahlers in 1919 and listed as a joint stock corporation in 1987
- is family-run in the third generation by Dr. Stella A. Ahlers
- is one of the biggest listed European manufacturers of menswear
- produces fashion under seven brands, tailored to its respective target groups
- generates over 69 percent of its sales revenues from premium brands
- produces 7,000,000 fashion items per year
- manufactures one third of the production volume in its own factories
- employs some 2,000 people
- generates 13 percent of its sales revenues from its own Retail activities

## The brands



BALDESSARINI



OTTO KERN



JUPITER®