Stockmann Group
January 2015
CFO Pekka Vähähyppä
Stockmann in brief

• International multichannel retailer founded in 1862
• Preliminary revenue in 2014 approx. EUR 1 843 million
• Approx. 55 000 shareholders on Nasdaq OMX Helsinki

Department Store Division

16 department stores and 11 other stores in 4 countries; 3 online stores

Fashion Chain Division

668 stores in 16 countries (Lindex 488, Seppälä 180); 2 online stores
Stockmann today: over 650 stores in 16 countries, operations in 21 countries.

Revenue by market area in 2014:
- Finland 48%
- Sweden and Norway 28%
- Russia 16%
- Baltic countries and Central Europe 9%

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Per Thelin appointed Stockmann’s new CEO as of 10 November 2014

- Born 1958, Swedish citizen
- Latest consultant and senior advisor (clients e.g. Atria, Electrolux Retail)
- Previous work experience:
  - President & CEO, Inflight Service Group 2010-2011
  - President & CEO, Venue Retail Group AB 2006-2009
  - CEO, MT Owner AB 2005-2006
  - President & CEO, Biltema 2003-2004
- 40 years experience in retail, starting at Foodmarket AB in 1970s
New strategic direction
Stockmann Group’s new strategy

• Process of revising Stockmann’s strategy started in summer 2014
• New reporting structure as of 1 January 2015

• **Stockmann Retail** will focus on Stockmann department and online stores
  – A new owner is searched for Hobby Hall
  – Closing down Stockmann Beauty cosmetic stores in Finland

• **Real Estate** aims to maximize the value of the real estate holdings
  – Focus on the Group’s properties in Helsinki, St Petersburg, Tallinn, and Riga

• **Fashion Chains’** focus is increasingly on Lindex
  – **Lindex**’s goal is to expand successfully on international markets and to support this strategy, an operational Board of Directors was elected in October
  – **Seppälä**’s operations are planned to be downsized significantly in Finland and in Estonia, and to be close down in Latvia, Lithuania, and Russia
Stockmann Group’s strategic path

- Focusing on key businesses
- Streamlining other, non-core businesses
- Ensuring efficiency and agility in all operations

Strategic direction chosen, new corporate structure

Downsizing Seppälä, closing Stockmann Beauty, searching a new owner to Hobby Hall

Developing Lindex independently for a world-class fashion experience

Stockmann Retail and Real Estate: ensuring a top-notch shopping experience

Growth and added value

Efficiency & agility

Transparency & focus
Strategic direction: Placing the inspirational customer experience at the core

**Stockmann Retail**
- Top-notch shopping experience in department and online stores
- Turnaround in profitability

**Real Estate**
- Enhancing customers’ shopping experience by attractive new tenants
- Maximum cash flow and growing value of properties

**Lindex**
- Affordable fashion experience, that is more feminine, inspiring, joyful and sustainable
- Stable growth in existing and new markets

Creating added value to customers and shareholders
Developing Lindex into a world-class brand

- New Board of Directors elected to develop and govern Lindex independently, but as part of the Stockmann Group
  - External Board members have extensive experience in fashion and international businesses
- Lindex aims to achieve growth by opening new stores both in existing and new markets
  - Lindex will open its first own store in London in March 2015, in the Westfield Stratford City shopping centre
  - The local UK online store already been launched
  - Plans to enter the Chinese market will be studied further
Downsizing Seppälä’s operations

- Focus on smaller-scale operations in Finland and Estonia due to unprofitable business
  - Around 70 stores to remain in Finland and 19 in Estonia; closing around 50 stores in Finland during 2015
  - Closing remaining 30 stores in Latvia, Lithuania and Russia during 2015

Seppälä’s operating result 2004–2014

- 182 stores (Finland 130, Baltics 36, Russia 16)
- Personnel approx. 1100 (Finland 800, Baltics 200, Russia 100)
- Revenue 92.3 mEUR in 2014

- Preliminary estimate for 2014 over EUR 25 million, excl. non-recurring items
Stockmann Retail’s four strategic building blocks

1. Renewed customer focus
   - Clear target group

2. Rationalized scope of operations
   - Highlighting key product categories
   - Optimal sales space & store network

3. Modernized operating model
   - Efficient and agile support functions
   - New culture & capabilities
   - Stores at the core

4. Strong partnership: Retail – Real estate
   - Complementing offering with new tenants
   - Efficient use of premises
   - New brand identity
Aiming at fundamentally transforming the current department store business

FROM

• Everything for everybody

• Wide assortment offered to a wide target group

• Revenue growth through broad assortment and retail space expansion

• Wholesale business model

• It is all about the Stockmann offering

TO

• Clear value proposition and target group

• Optimized assortment highlighting key categories and signature areas

• Seeking higher turnover and better profitability by optimizing space allocation

• New business models besides e.g. concession, consignment, risk sharing

• Strengthening the Retail offering by complementary tenant mix
Renewed value proposition:
Signed for you

Stockmann is the destination for inspirational shopping
providing a top-notch shopping experience

- Best-in-class service
- Best mix of brands and choices
- Loyalty is truly rewarded
Highlighting key product categories

• Stockmann’s future selection will have a stronger focus on fashion, cosmetics, food in Stockmann Delicatessen and home products
  – Stockmann is planning to withdraw from the electronics and home appliances product category, sold today in department stores in Finland and at stockmann.com

• Stockmann Retail’s offering will be complemented with goods and services from attractive new retail tenants

• Stockmann is negotiating to lease retail space from its department stores to Expert ASA Oy, a fast growing consumer electronics retail chain in Finland
  – Plan is to open the first Expert store in the Helsinki department store premises in May 2015
  – Aim is to expand the cooperation later to several other Stockmann department stores in Finland
Investing for the future

**Department stores and commercial concepts**
- Towards the store of the future: inspiring in-store experience
- E.g. New Tapiola department store to open in 2017

**Omnichannel infrastructure**
- Foundations for seamless experience across the channels
- E.g. Customer relationship management (CRM) and omnichannel sales tools

**New distribution center to open in 2016**
- Combines existing warehouses to one efficient center and enables the growth of ecommerce
Market environment and financial performance in 2014
Retail market in brief

• Finland
  – Extremely difficult market situation continued: low consumer confidence, declining purchasing power, and drop in demand for non-food products
  – Fashion market in Finland down 10% in November and in January-November market down 6% (TMA)
  – Structural changes in competition, online business, consumer behaviour

• Russia
  – Continuously weak economy and all-time-low Russian rouble, with a negative impact on purchasing power
  – Food import ban into Russia was set in force in August
  – Declining number of Russian tourists has a negative impact on sales in Finland and the Baltic countries, particularly from H2 2014 onwards

• Baltic countries
  – Stable market development – in Latvia the transition into euro in the beginning of 2014 boosted sales

• Sweden
  – Fashion market in 2014 on a par with 2013
Value of rouble and oil has collapsed in 2014
Omnichannel retail vs. traditional retail

- Share of online sales is growing, but online stores are not yet compensating for the dramatic decline in traditional retail
- Stockmann focuses on developing omnichannel retail i.e. combining the department store network and online business

1. Inspirational department stores
2. Click and collect points in all stores: every fourth order is currently delivered through stores
3. Developing Stockmann.com
   - Revenue growth 29% with almost 3 million visitors in H1 2014
   - Share of online 8% of revenue in the product categories sold online
   - Expansion into new product areas, e.g. cosmetics in October 2014
   - Over 1 300 brands already sold online
   - Developing paying methods: one time credit introduced in November 2014
   - Online expansion into the Baltic countries planned for 2015
Quarterly revenue, Stockmann Group

-8.3% -7.6%* -8.9% -10.9% -10%

* Excluding terminated franchising operations
Quarterly operating profit, Stockmann Group

EUR mill.

-50  -40  -30  -20  -10  0  10  20  30  40  50  60

1-3  4-6  7-9  10-12

2012  2013  2014
Maturity structure of interest-bearing liabilities

- EUR 700 million committed credit facilities, of which nearly EUR 300 million undrawn, due in February 2019
- EUR 150 million bond due in March 2018

As of 30 November 2014
Stockmann’s outlook for 2014

• Guidance revised on 14 October 2014:
  Stockmann estimates that the Group’s euro-denominated revenue in 2014 will decline on 2013. The Group’s operating result excluding non-recurring items is expected to be negative in 2014

• Capital expenditure estimated to amount to approximately EUR 60 million in 2014

• Target in Stockmann’s on-going strategy process is to improve the Group’s long-term competitiveness and profitability
Appendixes
Over 55 000 shareholders on Nasdaq Helsinki

- Listed in the Helsinki stock exchange in 1942

- Two series of shares
  - Series A: 10 votes
  - Series B: 1 vote

- Series B share is more liquid on the stock market

- Company’s market value approx. EUR 460 million

- Major shareholders, shares (votes):
  - HTT Holding Oy Ab 11.7% (10.7%)
  - Föreningen Konstsamfundet 9.4% (15.1%)
  - Svenska litteratursällskapet 7.6% (15.7%)
  - Niemistö Grouping 5.8% (9.4%)
  - Varma Mutual Pension Insurance 4.4% (0.9%)
  - Stiftelsen för Åbo Akademi 4.3% (6.7%)
Current department stores in Russia

MEGA SOUTH MOSCOW
Opened 4/2004

MEGA NORTH MOSCOW
Opened 12/2004

MEGA EAST MOSCOW
Opened 2/2007

METROPOLIS MOSCOW
Opened 2/2009

ROSTOKINO MOSCOW
Opened 3/2010

NEVSKY CENTRE ST. PETERSBURG
Opened 11/2010

EKATERINBURG
Opened 3/2011
Stockmann Group’s revenue in Q3 2014

- Revenue down 10.9%, to EUR 405.0 million (EUR 454.4 million), or down 8.1% at comparable exchange rates
- Revenue in Finland down 12.6%
- International operations down 9.4%, or down 4.7% at comparable exchange rates
  - Revenue was down on all markets
  - The Russian rouble, the Swedish krona and the Norwegian krone continued weaker than in 2013
Stockmann Group’s operating profit in Q3 2014

- Gross margin 49.6% (49.5%)
  - Increase in Lindex’s margin
- Operating costs EUR 198.7 million (EUR 195.7 million)
  - Marketing costs up in both divisions
  - In the Q3 2013 operating costs were down due to non-recurring cost savings; savings from structural changes mainly visible from 2015 onwards
- Depreciation EUR 17.2 million (EUR 18.4 million)
- Operating profit EUR -14.8 million (EUR 10.7 million)
  - Operating profit declined in both divisions and in particular in Finland
- Result for the quarter EUR -13.6 million (EUR 28.9 million, or EUR 3.8 million excluding Lindex tax refund of EUR 25.1 million)