

Puilo Plc's Half-year Financial Report for February - July 2022: Excellent performance in a difficult operating environment

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PUILO PLC, HALF-YEAR FINANCIAL REPORT, 15 SEPTEMBER 2022 at 8.30 EET

Highlights Q2/2022

- Net sales increased by 11.9% (+5.2%) and were EUR 89.2 million (79.8)
- Like-for-like store net sales increased by 7.9% (-4.0%)
- Online store net sales decreased by 1.6% (+45.2%)
- Gross profit was EUR 32.5 million (29.6) and gross margin was 36.5% (37.2%)
- Adjusted EBITA was EUR 18.0 million (16.8), which corresponds to an adjusted EBITA margin of 20.2% (21.1%)
- EBIT was EUR 17.1 million (14.9) which corresponds to 19.2% of net sales (18.6%)
- Operating free cash flow was EUR 29.6 million (8.5)
- Earnings per share were EUR 0.15 (0.13)
- Earnings per share excluding listing expenses were EUR 0.16 (0.15)
- No new stores were opened during the second quarter (1 new store)

Highlights H1/2022

- Net sales increased by 7.2% (+11.5%) and were EUR 148.1 million (138.2)
- Like-for-like store net sales increased by 2.4% (+2.5%)
- Online store net sales decreased by 4.6% (+33.3%)
- Gross profit was EUR 53.1 million (51.0) and gross margin was 35.9% (36.9%)
- Adjusted EBITA was EUR 24.2 million (25.5), which corresponds to an adjusted EBITA margin of 16.4% (18.5%)
- EBIT was EUR 23.0 million (22.2) which corresponds to 15.5% of net sales (16.0%)
- Operating free cash flow was EUR 32.8 million (15.4)
- Earnings per share were EUR 0.20 (0.19)
- Earnings per share excluding listing expenses were EUR 0.21 (0.22)
- No new stores were opened during the reporting period (3 new stores)

Figures are in millions of euros unless otherwise stated and have been rounded. Hence the sum of individual figures may differ from the total shown. Puilo's financial year starts on 1 February and ends on 31 January the following year. The figures in parentheses refer to the comparison period the previous year, unless otherwise stated. The information in this report is unaudited.

Key figures

EUR million	Q2/2022	Q2/2021	H1/2022	H1/2021	2021
Net sales	89.2	79.8	148.1	138.2	270.1
Net sales development (%)	11.9%	5.2%	7.2%	11.5%	13.2%
Like-for-like store net sales development (%)	7.9%	-4.0%	2.4%	2.5%	2.6%
Online store net sales development (%)	-1.6%	45.2%	-4.6%	33.3%	20.8%
Gross profit	32.5	29.6	53.1	51.0	99.6
Gross margin (%)	36.5%	37.2%	35.9%	36.9%	36.9%
Adjusted EBITA*	18.0	16.8	24.2	25.5	48.4
Adjusted EBITA margin (%)*	20.2%	21.1%	16.4%	18.5%	17.9%

EBITA*	17.4	15.2	23.6	22.7	45.6
EBITA margin (%)*	19.5%	19.0%	15.9%	16.5%	16.9%
EBIT	17.1	14.9	23.0	22.2	44.5
EBIT margin (%)	19.2%	18.6%	15.5%	16.0%	16.5%
Net income	13.1	10.3	17.3	15.2	31.9
EPS (EUR)	0.15	0.13	0.20	0.19	0.38
EPS excl. listing expenses (EUR)	0.16	0.15	0.21	0.22	0.42
Operating free cash flow	29.6	8.5	32.8	15.4	10.8
Net debt / adjusted EBITDA	1.5	1.6	1.5	1.6	1.7
Number of stores (end of period)	34	33	34	33	34
Number of personnel converted into full-time employees (FTE)	748	725	708	675	663

Puulo's financial year starts on 1 February and ends on 31 January the following year

* Operating profit before the amortisation of Puulo trademark

Earnings per share has been calculated for all periods presented considering the free-of-charge share issue (split) executed during the financial period 2021.

Outlook for the financial year 2022

Puulo forecasts that net sales will increase. However, net sales growth is forecasted to be below the long-term annual growth target for the current financial year (net sales annual organic growth in excess of 10%). Puulo forecasts adjusted EBITA to be EUR 40-50 million.

The forecast includes elements of uncertainty due to the energy crisis, development of the COVID-19 pandemic, the war in Ukraine, rising interest rates, inflation causing decline in purchasing power and the effects of these.

The company changed its outlook for the financial year 2022 with a stock exchange release on 7 September 2022.

Previously, the company forecasted adjusted EBITA to be EUR 35-45 million. The net sales forecast remained unchanged.

Puulo's long-term targets

There have been no changes in Puulo's long-term financial targets or growth expectations, announced in connection with the listing.

Puulo's long-term targets for the financial years 2021-2025:

- Growth: Net sales above EUR 400 million by the end of financial year 2025 with annual organic growth in excess of 10%.
- Profitability: Adjusted EBITA margin between 17 – 19% of net sales.
- Dividend policy: Puulo aims to distribute at least 80% of net income for each financial year in dividends, depending on the company's capital structure, financial position, general economic and business conditions, and future prospects.
- Leverage: Net debt to adjusted EBITDA below 2.0x.

CEO Juha Saarela's review

Puulo's performance in the second quarter (Q2) was excellent, and the expectations of the company were exceeded. It took some time to pick up pace in the first half of the year due to the global uncertainty at the beginning of the year and arrival of late spring but turned into strong demand in late spring and summer. The growth in sales was supported by successful product range, sufficient availability of goods, efficient marketing and -- above all -- the solid performance level of our entire personnel. This combination really got our customers moving!

Puulo's net sales grew strongly. The past Q2 reporting period could well be described as a commercial success, especially

considering the challenges in the operating environment. The company's net sales grew by 11.9% (+5.2%) and the like-for-like net sales +7.9% (-4.0%). The increase in net sales was mainly due to two components: the growth of the basket size, and more importantly the number of customers. This development was visible in almost all of our stores. We have managed to transfer the price increases to the sales prices quite well, which partly explains the increase in basket size. The share of price increases in sales growth is moderate, however, because we want to maintain affordable prices. Our biggest success in the period was the increase in the number of customers.

Puilo's adjusted EBITA in Q2 was EUR 18.0 million (16.8), an increase of EUR 1.2 million compared to the previous year. The adjusted EBITA in Q2 represented 20.2% (21.2%) of net sales, which we are satisfied with. The increase in adjusted EBITA is impacted by the growth in sales, and well-controlled operating expenses. The gross margin decreased compared to the previous year, but the gross margin in Q2 can be described as strong performance -- especially considering the high inflation. We managed to increase the share of high-margin products. We recorded strong growth in our private label products, in line with our strategy. In addition, we have been able to reduce the overstock that decreased our gross margin at the beginning of the year. The inventory level has decreased by approximately EUR 10 million during Q2. Our gross profit continues to be impacted in some extent by the additional transport and storage costs. However, these additional transport and storage costs are now clearly levelling off.

Our growth will continue in line with our strategy. We opened a new store at the beginning of September in Sastamala, and the next locations are Tornio and Lieto, where new stores will be opened by the end of the financial year. Puilo has signed lease agreements for the 2023 financial year for a total of four new stores, with one store to be opened in Kerava, one in Nummela, Vihti, as well as two in the capital region. We will announce the exact locations of the capital region's new stores at a later date.

There are currently more challenges than usual in the operating environment of the retail industry. During the beginning of the year, consumer demand shifted to services and tourism. As a further impact, consumer confidence is low. General inflation, the drastic increase in energy costs, war in Ukraine, and the possible comeback of Covid-19 restrictions are sure to keep us busy in the near future. Puilo's almost defensive business with low prices concept has proven its functionality also in challenging times: duct tape and cable ties have a steady market regardless of financial conditions. We are not immune to world events, but we believe that we can do better than average in these circumstances because discount retail has traditionally done well in difficult economic times. Let our strong Q2 results be proof of this confidence and persistence.

Towards the end of the financial year, our focus areas will be the previously mentioned: growing our store network, determined marketing, cost control, and optimising our inventory levels and storage costs. At the same time, we are already preparing next year's product planning and ordering.

With these numbers I wish you all a pleasant autumn.

Significant events of the reporting period

Performance matching share plan for key employees

On 20 April 2022 the Board of Directors of Puilo Plc decided to launch a new share-based incentive plan for the key employees of the company. The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long-term.

The Performance Matching Share Plan includes one performance period, spanning approximately financial years 2022 - 2024. The performance criteria are the Total Shareholder Return of the Puilo share (TSR) and the Adjusted EBITA of the Puilo Group. The target group of the plan consists of a maximum of 75 persons, including the CEO, members of the Management Team, Store Managers and other key personnel. Primarily, the rewards from the plan will be paid partly in the company's shares and partly in cash by the end of May 2025. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participant. The rewards to be paid on the basis of the plan correspond to the value of an approximate maximum total of 315,000 Puilo Plc shares, including the proportion to be paid in cash. The final number of shares will depend on the participants' personal share acquisitions and the achievement of the targets set for the performance criteria.

Change of guidance

On 25 May 2022 Puilo changed its guidance for the financial year 2022 with a stock exchange release. According to the updated forecast net sales will increase. However, net sales growth is forecasted to be below the long-term annual growth target for the current financial year (net sales annual organic growth in excess of 10%). Puilo forecasts adjusted EBITA to be EUR 35 - 45 million.

The forecast includes elements of uncertainty due to the development of the COVID-19 pandemic, the war in Ukraine, rising interest rates, inflation causing decline in purchasing power and the effects of these.

Previously, the company forecasted that the net sales and the adjusted operating profit (adjusted EBITA) for the financial year 2022 in euros would increase compared to the financial year 2021.

Repurchase of own shares

On 17 June 2022, Puuilo announced that the company's Board of Directors had decided to use the authorization given by the Annual General Meeting held on 17 May 2022 to repurchase the company's own shares.

The repurchases started on 22 June 2022 and ended on 30 June 2022. During this period, Puuilo repurchased 315,000 shares for an average price of EUR 4.9020 per share, corresponding to approximately 0.37% of the total number of the company's shares, which is 84,776,953.

The repurchased shares are to be used for pay-outs under the share-based incentive plans of Puuilo Plc. The shares were repurchased through public trading on Nasdaq Helsinki at the market price prevailing at the time of repurchase.

Following the repurchases, the company holds a total of 315,000 shares.

Significant events after the end of the reporting period

Flagging notification

On 31 August 2022 Puuilo has received a notification in accordance with Chapter 9, Section 6 and 7 of the Finnish Securities Markets Act.

According to the notification, The Capital Group Companies, Inc.'s total indirect holdings in shares has increased above the threshold of 10% on 29 August 2022 and is now 10.03% of all of the registered shares in Puuilo. According to the previous notification, the total indirect holdings in shares were 7.49%.

Positive profit warning on 7 September 2022: Puuilo raises its guidance for the financial year 2022

Puuilo forecasts that net sales will increase. However, net sales growth is forecasted to be below the long-term annual growth target for the current financial year (net sales annual organic growth in excess of 10%). Puuilo forecasts adjusted EBITA to be EUR 40–50 million.

The forecast includes elements of uncertainty due to the energy crisis, development of the COVID-19 pandemic, the war in Ukraine, rising interest rates, inflation causing decline in purchasing power and the effects of these.

Previously, the company forecasted adjusted EBITA to be EUR 35–45 million. The net sales forecast remained unchanged.

Next financial reports

Puuilo's financial year starts on 1 February and ends on 31 January the following year. The company publishes Business Reviews for the first and third quarter, a Half-year Financial Report and a Financial Statements Release for the financial year 2022.

Business Review February – October 2022 on 15 December 2022

Financial Statements Release 2022 on 30 March 2023

Conference call in English and webcast in Finnish

The report will be presented for analysts, investors and the media on the publication date in English at 10:00 am EET (9:00 am CET) and in Finnish at 11.30 am EET (10:30 am CET).

The conference call in English can be followed live at <https://puuilo.videosync.fi/2022-q2-results>. Participate by calling the number according to your location a few minutes before the start of the event.

The webcast in Finnish will begin at 11.30 am EET at <https://puuilo.videosync.fi/2022-q2-tulos>.

Recordings of both events will be available later the same day at Puuilo's Investors website at <https://www.investors.puuilo.fi/en/reports-and-presentations>.

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About Puuilo Oyj

Puuilo is a Finnish retail store chain, known in particular for its wide product assortment, low prices, good store locations and convenient shopping experience. Due to its successful store concept, Puuilo has become one of the leading players in the Finnish discount retail market, and it is one of the largest retailers in Finland focusing on consumer goods, measured by net sales. Puuilo has more than 30 stores in different parts of Finland and an online store, which is an important part of Puuilo's omnichannel approach. The company is headquartered in Vantaa, Finland and its shares are listed in Nasdaq Helsinki. www.puuilo.fi

Attachments

- [Download announcement as PDF.pdf](#)
- [Puuilo Plc H1 2022 Half-Year Financial Report.pdf](#)