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Financial perspective

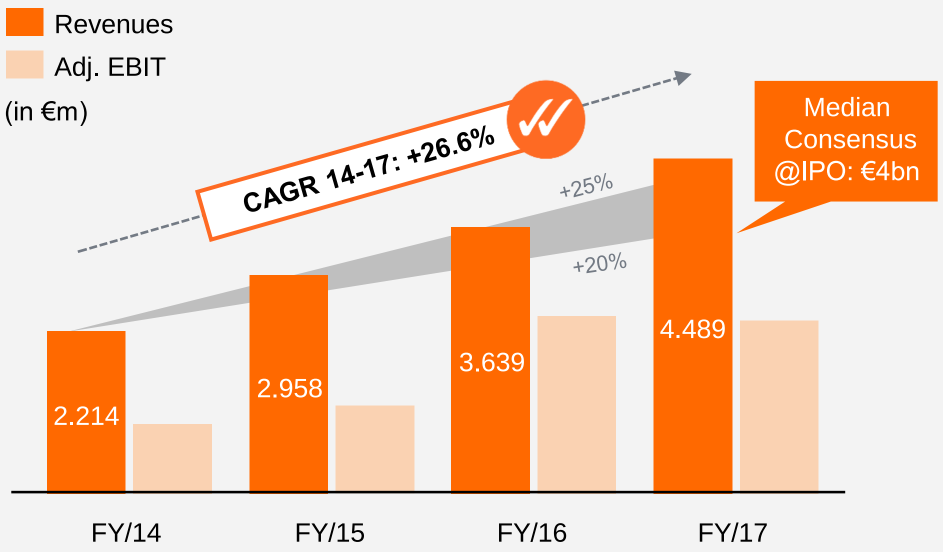
Capital Markets Day 2018

Birgit Haderer

June 5, 2018

Looking back three years – Delivered on targets

"Target of **20-25% revenue growth** p.a."[1]



(1) Multi-year outlook communicated at IPO.

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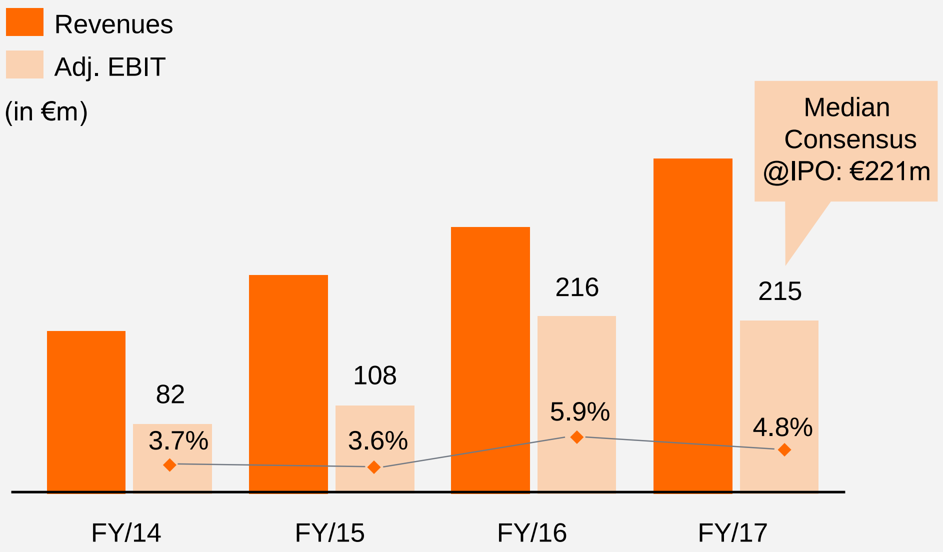
Looking back three years – Delivered on targets

"Target of **20-25% revenue growth** p.a."[1]

"No focus on margin expansion"[1]



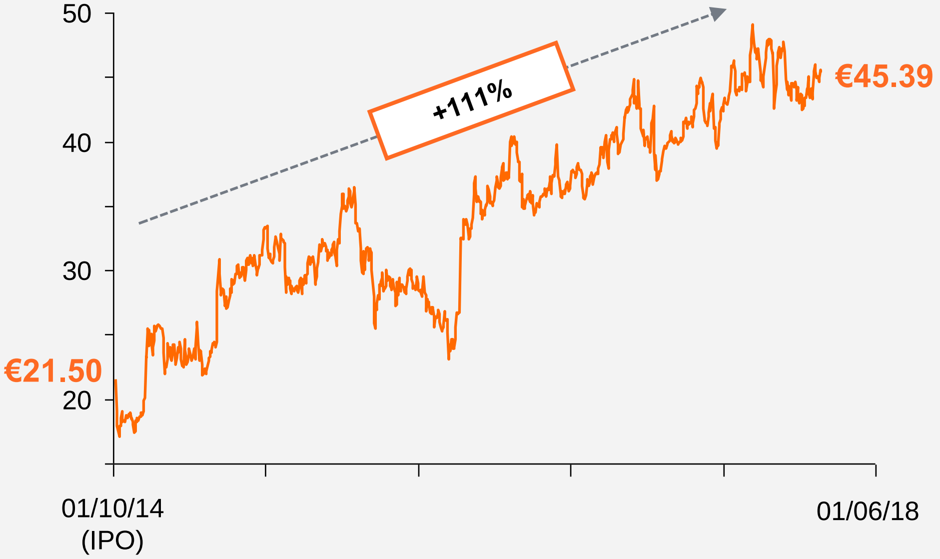
(1) Multi-year outlook communicated at IPO.

Looking back three years – Delivered on targets

"Target of **20-25% revenue growth** p.a."[1]

"No focus on margin expansion"[1]

Share price followed **delivery on plan**



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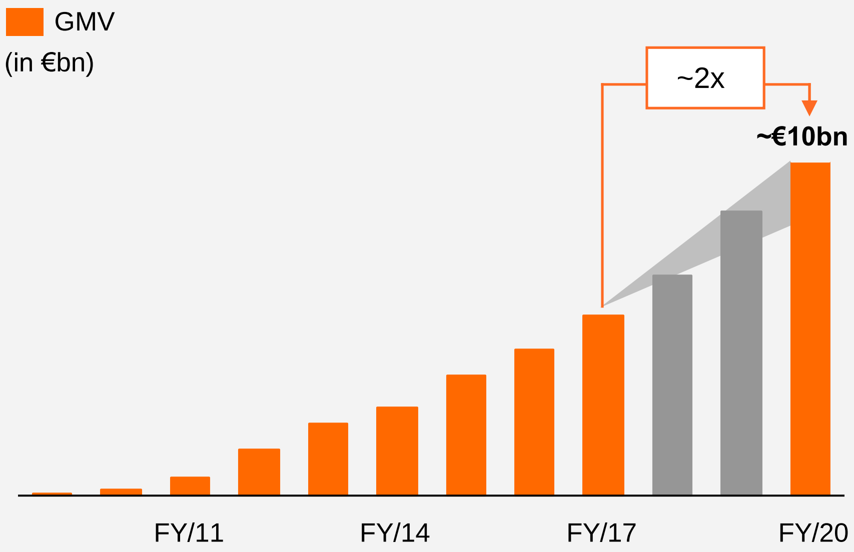
Looking three years ahead – Doubling topline again by 2020

#1 priority to focus on growth
with 20-25% topline CAGR through 2020

Outperformance of fashion online market
by factor 2-3x

No margin expansion in high growth phase



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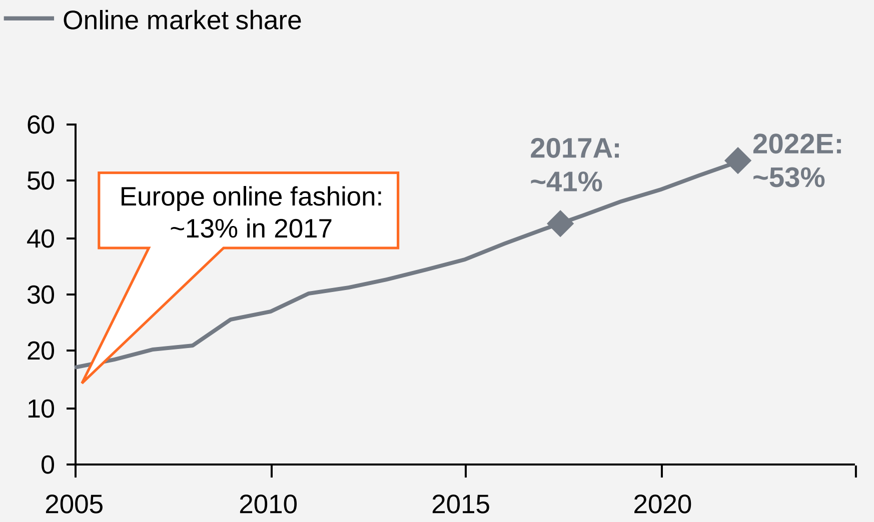
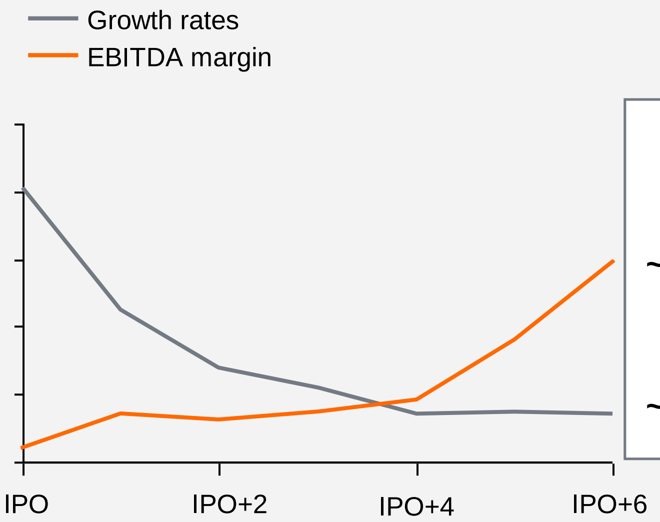
Long-term view – Looking at precedents

Growth momentum expected to continue beyond 2020 (example: Consumer Electronics, USA[1])



As growth slows, profitability typically increases (example: IPO tech companies, USA[2])



ZAL: Median Consensus[3]

~8% Adj. EBIT margin

~2% Revenue growth

(1) Source: Euromonitor International.
(2) US tech companies with IPO 2010-2013 and IPO size >$150m (sample size 36).
(3) Consensus terminal revenue growth and margin assumptions.

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Top five questions

1 Why is GMV not disclosed on an ongoing basis?

GMV to revenue bridge	Impact	Comment
GMV	+26.5%[1]	• B2C merchandise value, no IFRS figure • Ongoing disclosure not industry-standard
Partner program GMV	-	• Year-end 2017: high-single digit share of total GMV
Partner program commission	+	• Part of revenues, but not of GMV
VAT	-	• ~20% of revenue
B2B and other B2C revenue	+	• Part of revenue, but not of GMV (e.g. ZFS, ZMS, Zalando Plus, dunning charges)
Revenue recognition	+/-	• GMV and revenue recorded at different points in time[2]
Revenue	+23.4%[1]	• Defined by IFRS standards

(1) 2017 growth rates.
(2) Point of order (GMV) vs. customer receipt (revenue).

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2 What are key drivers for gross margin development?

Upside and downside levers

- Negotiating leverage due to scale
- Pricing algorithms / sell-through
- Partner program share

VS

- Lower price points
- Discounting (where required to be in line with market)
- Shift towards Rest of Europe

Market snapshot: Gross margin development[1]

	FY/17 vs FY/14	FY/17 vs FY/16
Zalando	**+0.3pp**	**-0.6pp**
Online competitor 1	+0.1pp	-0.2pp
Online competitor 2	-0.7pp	-0.7pp
Vertical competitor 1	-2.0pp	-0.7pp
Vertical competitor 2	-3.8pp	-3.8pp
Online competitor 3	-8.0pp	-1.8pp

(1) Source: Company Reports.

3 What are the main factors impacting fulfilment costs?

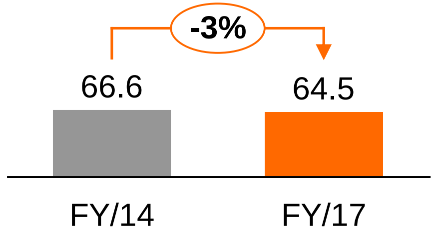
Upside and downside levers

- Negotiating leverage due to scale
- Warehouse automation
- Increase in basket size

VS

- Ramp-up costs / inefficiencies in new warehouses
- Invest into customer convenience
- Decrease in basket size

Deep-dive: basket size[1] levers



Return rate

+ Sizing
+ Product descriptions and videos
- Return proposition

Items per order

+ Order bundling
+ Cross-selling
- Increasing mobile share

Average item value

+ Higher price points
+ Improved pricing algorithms
- Lower price points

(1) Average basket size after returns. Defined as the transactional revenue (incl. VAT and transactional volume of Partner Program) after cancellations or returns, divided by the number of orders.

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4 How do you further optimize marketing spend?

Upside and downside levers

- Brand awareness
- Repeat customers
- Relevance of advertising
- Effective ROI steering

VS

- Strategic investments (e.g., app installs, beauty, 10 year anniversary campaign, new initiatives)

Deep-dive: taking marketing steering to the next level

✓ Ongoing A/B tests of all investments

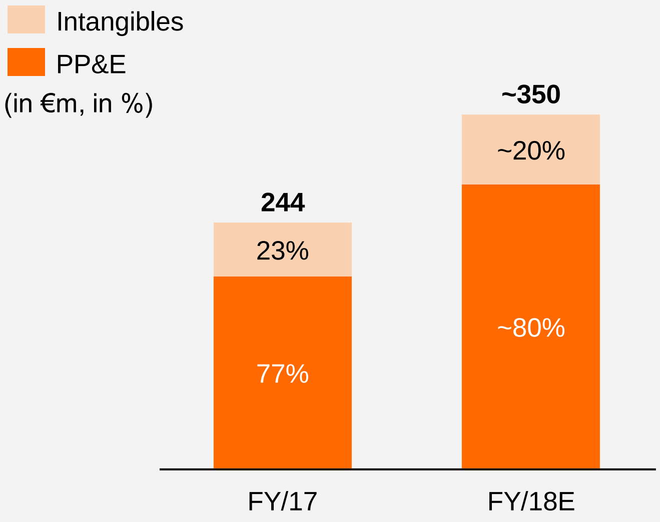
✓ Data science for accurate ROI forecasts

✓ Granular ROI steering

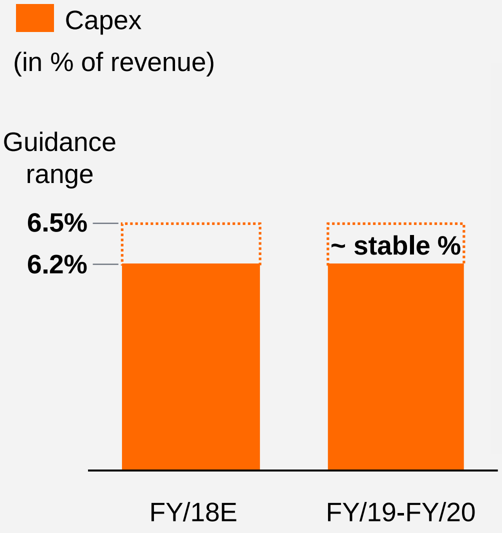
✓ Dynamic budget allocation

5 What is driving capital expenditure?

Capex components



Capex outlook



- ✓ Strategic capex into PP&E to enable growth
- ✓ Tech investments drive growth initiatives

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5A What is driving capital expenditure: PP&E

		Type	Construction start	Full capacity exp.	Capex (€m)	Size (k sqm)	Status
1	**Brieselang (GER)**	Hub	2011	2014	<50	~30	Done
2	**Erfurt (GER)**	Hub	2012	2015	~100	~130	Done
3	**Mönchengladbach (GER)**	Hub	2013	2017	~100	~130	Done
4	**Lahr (GER)**	Hub	2015	2018	~150	~130	Ramp-up
5	**Milan (IT)**	Spoke	2015	2018	<50	~40	Ramp-up
6	**Szczecin (PL)**	Hub	2016	2019	~150	~130	Ramp-up
7	**Paris (FR)**	Spoke	2016	2018	<50	~20	Ramp-up
8	**Stockholm (SWE)**	Spoke	2017	2018	<50	~50	Ramp-up
9	**Lodz (PL)**	Hub	2017	2021	~100	~130	Construction
10	**Olsztynek (PL)**	Hub (Lounge)	2018	2021	~100	~80	Construction
11	**Verona (IT)**	Hub	2018	2021	~150	~130	Construction

- Scaling capacity to allow for doubling by 2020
- „One year ahead“ capacity strategy since 2017 to provide leeway

All warehouses leased, excl. Szczecin (also land/building owned by Zalando).

5B What is driving capital expenditure: Intangibles[1]

Stable, conservative software capitalization approach

- ✓ Software engineers track their activities (tool-enabled)
- ✓ Only directly attributable product development costs which are expected to result in an asset
- ✓ All other activities (e.g. maintenance) are excluded
- ✓ Depreciation on average over three years

Market snapshot: Impact of software capitalization on FY/17 adj. EBIT margin[2]

	Reported	Excl. capitalization
Zalando	**4.8%**	**4.3%**
Online competitor 1	4.5%	1.5%
Online competitor 2	4.3%	2.9%
Online competitor 3	10.5%	10.1%

(1) Intangibles mostly includes capitalized, in-house developed software, plus other smaller components (e.g. brands, domain rights).
(2) Excluding intangibles capitalization and amortization. Fiscal years vary across competitors. Excl. stock-based compensation. Source: Company Reports.

We are excited to continue to deliver

	IPO	Past 3 years			Next 3 years		
Our multi-year outlook	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue growth 20-25%	✓	✓✓	✓	✓	**20-25% topline CAGR** as #1 priority to focus on growth		
Solid profitability	✓✓	✓	✓✓	✓	**No margin expansion** in high growth phase		
Free cash flow: neutral working capital, strategic capex spend	✓	✓	✓✓	✓	**Broadly stable capex as % of revenue** vs. FY/18E		

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