

Zalando falls out of fashion as surprise loss knocks shares

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Shares in Zalando plunged as much as 13 per cent yesterday after the online fashion retailer surprised analysts by reporting a third-quarter loss and a lower full-year profit target.

Berlin-based Zalando, which ships shoes, clothes and fashion accessories to 15 European countries, said that investments to fund its expansion had caused the operating loss, which is expected to be between €18m and €32m. Analysts had forecast a €3m profit.

Zalando said that it had been forced to hire more staff to cope with its rapid expansion in a move that meant revenues for the quarter came in between 41 per cent and 43 per cent higher than a year earlier, at between €707m and €717m. This was comfortably ahead of analysts' expectations of €637m.

It also invested heavily in its technology capabilities in preparation for connecting a new distribution hub to its delivery network. In addition it spent on marketing for its new mobile app, on the basis that customers buy more via their phones.

"We remain committed to our profitable growth path, but are willing to trade-in some profitability to accelerate our growth and gain market share," said Rubin Ritter, one of Zalando's three co-chief executives.

But the group was also hit by a range of fraud cases in the first half of the year, which meant that it collected less money from its customers than it had expected. Zalando said the cases had cost it a "single-digit million amount".

As a result, Zalando said it expected

its annual operating margin to come in at 3-4 per cent, down from a previous forecast of 4.5 per cent.

But it raised its full-year sales growth forecast from 28-31 per cent to 33-35 per cent.

Despite the sharp sell-off in Zalando's shares — which regained some ground to close 5 per cent down at €28.93 in Frankfurt yesterday — analysts were relatively sanguine about the figures of the group, which listed amid much hype two years ago.

Andreas Riemann of Commerzbank said: "Management lowered the margin target to account for the earnings shortfall . . . but expects the fourth quarter to

€18m-€32m

Zalando's
expected
third-quarter
operating loss

5%

The closing share
price fall, after an
intraday low of
13%

be profitable again. Hence we regard the third quarter as an investment quarter not a structural problem."

Claire Huff of RBC said that Zalando would "continue to face the ongoing trade-off between accelerating top-line growth and expanding its operating margin", pointing out that there was "limited precedent for online retailers achieving both".

"I would much rather that Zalando's management concentrate on longer term sustainable growth and customer acquisition than on short-term margin expansion," she said.

Zalando is due to provide full details of its third-quarter results next month.