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marimekko

Half-year Financial Report 1-6/2019

Marimekko Corporation, Half-year Financial Report, 15 August 2019 at 8.30 a.m.

Net sales grew by 3 percent and comparable operating profit improved by 18 percent in Q2

The second quarter in brief

- Net sales rose by 3 percent to EUR 29.1 million (Q2/2018: 28.2). Growth in net sales was generated primarily by retail sales in Finland and wholesale sales in EMEA. Finnish wholesale sales declined due to the fact that there were no nonrecurring promotional deliveries of corresponding size to those that took place in the comparison period.
- Operating profit was EUR 3.7 million (9.1). Operating profit for the comparison period included a nonrecurring taxable capital gain of EUR 6.0 million on the sale of the company's head office. Comparable operating profit rose by 18 percent to EUR 3.7 million (3.1).
- Earnings were boosted by improved relative sales margin and sales growth. More moderate discount promotions, product portfolio optimisation and an increase in the share of retail sales of net sales contributed to the improvement in relative sales margin. Higher fixed costs had a weakening impact on results.

January-June in brief

- Net sales rose by 8 percent to EUR 56.3 million (1-6/2018: 52.3). Sales grew in all market areas except North America. Growth came primarily from retail sales in Finland and wholesale sales in EMEA and the Asia-Pacific region. Finnish wholesale sales declined due to the fact that there were no nonrecurring promotional deliveries of corresponding size to those that took place in the comparison period.
- Operating profit was EUR 6.3 million (10.3). Operating profit for the comparison period included a nonrecurring taxable capital gain of EUR 6.0 million on the sale of the company's head office. Comparable operating profit rose by 47 percent to EUR 6.3 million (4.3). In 2018, most of the company's earnings were generated during the second and third quarters of the year, contrary to the normal situation.
- Operating profit was boosted by sales growth and improved relative sales margin. Higher fixed costs had a weakening impact on results.

Financial guidance for 2019 (as revised on 22 July 2019)

The Marimekko Group's net sales for 2019 are forecast to be higher than in the previous year and comparable operating profit is also expected to be higher than in the previous year, amounting at the most to approximately EUR 15 million.

In its interim report of 16 May 2019, the company estimated that the Group's net sales for 2019 would be higher than in the previous year and that comparable operating profit would be approximately at the same level as the year before.

KEY FIGURES

(EUR million)	4-6/ 2019	4-6/ 2018	Change, %	1-6/ 2019	1-6/ 2018	Change, %	1-12/ 2018
Net sales	29.1	28.2	3	56.3	52.3	8	111.9
International sales	12.4	12.1	2	26.7	24.2	10	48.3
<i>% of net sales</i>	42	43		47	46		43
EBITDA	6.8	9.8	-30	12.5	11.7	7	20.2
Comparable EBITDA	6.8	3.7	83	12.5	5.7	121	14.7
Operating profit	3.7	9.1	-60	6.3	10.3	-39	17.7
Comparable operating profit	3.7	3.1	18	6.3	4.3	47	12.2
<i>Operating profit margin, %</i>	12.7	32.4		11.2	19.7		15.8
<i>Comparable operating profit margin, %</i>	12.7	11.1		11.2	8.2		10.9
Result for the period	2.6	7.3	-65	4.5	7.9	-43	13.7
Earnings per share, EUR	0.32	0.90	-65	0.56	0.98	-43	1.70
Comparable earnings per share, EUR *	0.32	0.31	4	0.56	0.38	45	1.15
Cash flow from operating activities	7.2	5.6	30	10.2	3.7	177	12.2
<i>Return on investment (ROI), %</i>				26.3	45.9		47.6
<i>Equity ratio, %</i>				35.5	68.9		70.0
Gross investments	0.4	0.4	1	0.9	0.8	16	1.3
Personnel at the end of the period				453	456	-1	445
outside Finland				99	104	-5	102
Brand sales ¹	52.9	85.5	-38	112.5	143.0	-21	248.4
outside Finland	31.9	65.4	-51	71.9	106.5	-32	167.2
<i>proportion of international sales, %</i>	60	76		64	74		67
Number of stores				147	156	-6	153

* Taking account of similar items as in comparable operating profit. Tax effect included.

The change percentages in the table were calculated on exact figures before the amounts were rounded to millions of euros. Reconciliation of key figures to IFRS can be found in the table section of this half-year financial report.

IFRS 16 had an impact on the change in comparable EBITDA, cash flow from operating activities, and equity ratio. The figures for gross investments do not include the impact of IFRS 16.

Brand sales for the comparison period were boosted by sales of licensed products available worldwide for a limited time.

¹ Brand sales are given as an alternative non-IFRS key figure. Brand sales, consisting of estimated sales of Marimekko products at consumer prices, are calculated by adding together the company's own retail net sales and the estimated retail value of Marimekko products sold by other retailers. The estimate, based on Marimekko's realised wholesale sales and royalty income, is unofficial and does not include VAT. The key figure is not audited.

TIINA ALAHUHTA-KASKO
President and CEO

“The growth in Finnish retail sales seen earlier in the year continued in the second quarter, supporting the overall trend in net sales. Our Finnish wholesale figures showed a year-on-year decline due to the absence of the significant nonrecurring promotional deliveries made in the comparison period. Comparable operating profit increased thanks to a stronger relative sales margin.

“In the April-June period of 2019, our net sales grew by 3 percent to EUR 29.1 million (28.2). Sales in Finland increased by 4 percent, boosted by 12 percent growth in retail sales. This growth was supported by our annual springtime promotion, which was very successful this year. At the same time, domestic wholesale sales fell by 18 percent. The reason for the decline was that, in the comparison period in 2018, our wholesale figure for Finland was favourably affected by nonrecurring promotional deliveries, which did not take place on a similar scale this year. International sales grew by 2 percent, with growth achieved particularly in wholesale in EMEA, while the wholesale figures for North America decreased year-on-year. Our comparable operating profit grew to EUR 3.7 million (3.1) due, in particular, to a stronger relative sales margin. More moderate discount promotions, product portfolio optimisation and an increase in the share of retail sales of net sales contributed to the improvement in sales margin.

“Our net sales in the January-June period of 2019 rose by 8 percent to EUR 56.3 million (52.3). Growth was achieved in all market areas except North America. International sales grew by 10 percent. Operating profit for the corresponding period in 2018 included a nonrecurring taxable capital gain of EUR 6.0 million on the sale of our head office in the second quarter. This meant that our operating profit for the January-June period showed a year-on-year decline, but our comparable operating profit improved by 47 percent and amounted to EUR 6.3 million (4.3). It is also worth noting that, in 2018, most of our earnings accrued in the second and third quarters, which represented a departure from the usual pattern. All in all, I feel that we can be satisfied with our performance in the first half of 2019.

“On 22 July 2019, we raised our estimate of the comparable operating profit for the full year. The adjustment was mainly due to higher-than-estimated anticipated licensing income in the Asia-Pacific region.

“With regard to the remainder of 2019, it is good to note that, in 2018, our domestic wholesale sales were boosted by nonrecurring promotional deliveries; this year the total value of promotional deliveries will be lower than last year, and the major deliveries will occur in the second half-year. We also estimate that more expenses will be recognised in the latter half of the year than in 2018. As we have previously indicated, our investments in growth are substantially higher this year than last: we are revamping our store network and our head office as well as improving information systems to strengthen our digital business. This represents the continuation of our long-term commitment to building Marimekko into an even more appealing phenomenon internationally and pursuing our primary goals of reaching a broader customer base and achieving stronger growth and profitability.

“In May, we published our sustainability review for 2018. Sustainability is one of the most transformative megatrends affecting our industry and we believe that, in the future, customers around the world will increasingly incorporate the sustainability perspective into their buying decisions. Marimekko’s operations



and design philosophy have always been based on a sustainable approach: we want to provide our customers with timeless, practical and durable products that bring them long-lasting joy and that they will not want to throw away. Going forward, we intend to focus even more on extending the life cycle of our products while continuing our efforts to develop the sustainability of our supply chain and reduce environmental impacts.”

OPERATING ENVIRONMENT

The following outlook information is based on materials published by Confederation of Finnish Industries EK and Statistics Finland.

The global economic outlook this year and next remains cautious. Trade policy tensions and the simultaneously weakening real economy are contributing to uncertainty. Growth in the United States continues to be fairly strong, but the economy is expected to slow down. The growth of the Chinese economy will also decelerate due to weaker exports and lower investment growth, but private consumption will remain strong. The probability of the global economy performing worse than expected is set to increase as autumn approaches.

Economic conditions in Finland have remained fairly good and the situation is currently considered to be slightly better than average. Nevertheless, the outlook has weakened further due to the slowing down of the economy. Retail sales increased substantially during the summer, and sales are expected to grow further in the coming months. Retail trade confidence in June was below the EU average. Consumer confidence declined during the summer months, and consumers' view of their current and future financial situation was subdued. Their view of the Finnish economy continued to be pessimistic.

(Confederation of Finnish Industries EK: Economic Review, May 2019; Business Tendency Survey, July 2019; Confidence Indicators, July 2019. Statistics Finland: Consumer Survey, July 2019.)

The working-day-adjusted turnover of Finnish retail trade was up by 2.3 percent on the previous year's January-June period; the volume of sales rose by 2.2 percent. In June 2019, sales grew by 4.9 percent and sales volume by 4.4 percent. (Statistics Finland: Turnover of Trade, retail trade flash estimate, June 2019.)

NET SALES

Net sales in the second quarter

In the April-June period of 2019, the Group's net sales rose by 3 percent relative to the same period last year and were EUR 29,137 thousand (28,213). Retail sales grew by 9 percent, whereas wholesale sales fell by 3 percent. Net sales in Finland rose by 4 percent; international sales were up 2 percent. Growth in net sales was generated primarily by retail sales in Finland and wholesale sales in EMEA.

Net sales in Finland were EUR 16,782 thousand (16,153). Retail sales rose by 12 percent and comparable retail sales² by 17 percent. Wholesale sales declined by 18 percent due to the fact that there were no nonrecurring promotional deliveries of corresponding size to those that took place in the comparison period.

In the company's second-biggest market, the Asia-Pacific region, net sales fell by 1 percent to EUR 5,107 thousand (5,147). Wholesale sales in the region declined by 4 percent. In the most important country of the market area, Japan, sales fell by 17 percent, which was partly due to the fact that, in 2018, deliveries for the third quarter were transferred to the comparison period. Retail sales grew by 14 percent; this growth came from Australia.

² Includes both bricks-and-mortar and online sales.

Net sale in the January-June period

In the January-June period of 2019, the Group's net sales grew by 8 percent to EUR 56,253 thousand (52,302). Retail sales rose by 10 percent and wholesale sales by 6 percent. Sales grew in all market areas except North America. Net sales in Finland were up by 5 percent and international sales by 10 percent. Growth came primarily from retail sales in Finland and wholesale sales in EMEA and the Asia-Pacific region.

Net sales in Finland rose to EUR 29,568 thousand (28,064). Retail sales grew by 12 percent and comparable retail sales² by 15 percent. Wholesale sales declined by 10 percent due to the fact that there were no nonrecurring promotional deliveries of corresponding size to those that took place in the comparison period. In 2018, there were promotional deliveries in each quarter and the largest deliveries took place in the second and final quarters.

In the Asia-Pacific region, net sales grew by 6 percent to EUR 11,902 thousand (11,224). Wholesale sales in the region rose by 9 percent. In Japan, wholesale sales remained at the same level as in the comparison period. Retail sales grew by 14 percent; this growth came from Australia.

NET SALES BY MARKET AREA

(EUR 1,000)	4-6/ 2019	4-6/ 2018	Change, %	1-6/ 2019	1-6/ 2018	Change, %	1-12/ 2018
Finland	16,782	16,153	4	29,568	28,064	5	63,537
Scandinavia	2,094	2,215	-5	4,219	4,122	2	9,017
EMEA	3,166	2,274	39	6,644	4,887	36	10,321
North America	1,987	2,424	-18	3,921	4,005	-2	8,193
Asia-Pacific	5,107	5,147	-1	11,902	11,224	6	20,811
International sales, total	12,355	12,060	2	26,685	24,238	10	48,342
Total	29,137	28,213	3	56,253	52,302	8	111,879

All figures in the table have been individually rounded to thousands of euros, so there may be rounding differences in the totals. A more comprehensive table with breakdown into retail sales, wholesale sales and royalties by market area can be found in the table section of this half-year financial report.

FINANCIAL RESULT

In the April-June period of 2019, the Group's operating profit was EUR 3,691 thousand (9,145). Operating profit for the comparison period included a nonrecurring taxable capital gain of EUR 6,027 thousand on the sale of the company's head office. Comparable operating profit was also EUR 3,691 thousand (3,118). Earnings were boosted by improved relative sales margin and sales growth. More moderate discount promotions, product portfolio optimisation and an increase in the share of retail sales of net sales contributed to the improvement in relative sales margin. Growth in net sales was generated primarily by retail sales in Finland and wholesale sales in EMEA. Higher fixed costs, especially marketing expenses and the estimated effects of the long-term, share-based incentive scheme for management, had a weakening impact on results. Due to IFRS 16, rental expenses decreased and depreciation correspondingly increased markedly.

² Includes both bricks-and-mortar and online sales.

In the January-June period of 2019, the Group's operating profit was EUR 6,281 thousand (10,299). Operating profit for the corresponding period of 2018 included a nonrecurring taxable capital gain of EUR 6,027 thousand on the sale of the company's head office. Comparable operating profit was also EUR 6,281 thousand (4,272). In 2018, most of the company's earnings were generated during the second and third quarters of the year, contrary to the normal situation. Operating profit was boosted by sales growth and improved relative sales margin. Growth in net sales came primarily from retail sales in Finland and wholesale sales in EMEA and the Asia-Pacific region. More moderate discount promotions, product portfolio optimisation and an increase in the share of retail sales of net sales in the second quarter contributed to the improvement in relative sales margin. Higher fixed costs, especially marketing expenses, the estimated effects of the long-term, share-based incentive scheme for management as well as expenses related to the personnel share issue, had a weakening impact on results. Due to IFRS 16, rental expenses decreased and depreciation correspondingly increased markedly. During the period under review, the net effect of IFRS 16 on operating result was EUR +252 thousand.

In the January-June period, marketing expenses were EUR 3,150 thousand (2,590), or 6 percent of the Group's net sales (5).

As a result of the adoption of IFRS 16, the Group's depreciation increased to EUR 6,221 thousand (1,382), representing 11 percent of net sales (3).

In the January-June period, operating profit margin was 11.2 percent (19.7) and comparable operating profit margin was also 11.2 percent (8.2). In the second quarter of the year, operating profit margin was 12.7 percent (32.4) and comparable operating profit margin 12.7 percent (11.1).

Net financial expenses in the January-June period were EUR 658 thousand (114), or 1 percent of net sales (0). Financial items include exchange rate differences amounting to EUR -139 thousand (-48). The impact of IFRS 16 on interest expenses was EUR -471 thousand.

Result for the first half of the year before taxes was EUR 5,624 thousand (10,185). Result after taxes was EUR 4,511 thousand (7,925) and earnings per share were EUR 0.56 (0.98).

BALANCE SHEET

The consolidated balance sheet total as at 30 June 2019 was EUR 85,795 thousand (50,483). Equity attributable to the equity holders of the parent company was EUR 30,440 thousand (34,398), or EUR 3.75 per share (4.25).

Non-current assets at the end of June 2019 stood at EUR 42,649 thousand (5,421). The adoption of IFRS 16 has increased assets by EUR 37,895 thousand.

At the end of the period under review, net working capital was EUR 13,092 thousand (13,949). Inventories were EUR 22,283 thousand (20,991).

CASH FLOW AND FINANCING

In the April-June period of 2019, cash flow from operating activities was EUR 7,198 thousand (5,552), or EUR 0.89 per share (0.69). Cash flow before cash flow from financing activities was EUR 6,394 thousand (15,772).

In the January-June period, cash flow from operating activities was EUR 10,217 thousand (3,690), or EUR 1.26 per share (0.46). Cash flow before cash flow from financing activities was EUR 9,042 thousand (13,629). In the cash flow statement, the adoption of IFRS 16 increased cash flow from operating activities and reduced cash flow from financing activities by EUR 5,127 thousand. The additional dividend

paid for 2018 also had an impact on cash flow from financing activities; the regular and additional dividends paid totalled EUR 15,003 thousand (4,045).

With the adoption of IFRS 16, the Group's financial liabilities rose to EUR 38,113 thousand (399).

At the end of the review period, the Group's cash and cash equivalents amounted to EUR 12,811 thousand (15,460). The additional dividend paid for 2018 reduced the amount of cash and cash equivalents. In the comparison period, cash and cash equivalents were increased, among other things, by the sale of the company's head office in the second quarter of 2018. In addition, the Group had unused committed credit lines of EUR 13,000 thousand (13,000).

The Group's equity ratio at the end of the period was 35.5 percent (68.9). Gearing was 83.1 percent (-43,8). Due to the adoption of IFRS 16, the ratio of net debt to EBITDA at year end (a new long-term financial goal) will be reported for the first time at the end of the financial year 2019.

INVESTMENTS

The Group's gross investments in the January-June period of 2019 were EUR 907 thousand (780), or 2 percent of net sales (1). Most of the investments were devoted to revamping the company's headquarter premises, to IT systems and to store premises. The investment figure does not include the impact of IFRS 16.

STORE NETWORK

At the end of the period, there were 147 Marimekko stores and shop-in-shops and online store reached customers in 32 countries. E-commerce is of growing importance in the company's business. In addition to its own online store, the company also has distribution through other online channels.

Marimekko does not report the proportion of online sales separately as digital service solutions are constantly increasing the integration of e-commerce and in-store retailing. The company's own e-commerce net sales are included in retail sales and sales through other online channels in wholesale sales.

STORES AND SHOP-IN-SHOPS

	30.6.2019	30.6.2018	31.12.2018
Finland	63	63	65
Scandinavia	10	11	11
EMEA	1	1	1
North America	6	17	6
Asia-Pacific	67	64	70
Total	147	156	153

A more comprehensive table with breakdown into the company's own retail stores, retailer-owned Marimekko stores and shop-in-shops can be found in the table section of this half-year financial report.

PERSONNEL

In the January-June period of 2019, the number of employees averaged 435 (431). At the end of the period, the Group had 453 employees (456), of whom 99 (104) worked outside Finland. The number of employees working outside Finland was broken down as follows: Scandinavia 35 (38), EMEA 5 (5), North

America 33 (32) and the Asia-Pacific region 26 (29). The personnel at company-owned stores totalled 258 (257) at the end of the period.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING

The resolutions of Marimekko Corporation's Annual General Meeting 2019 have been reported in the stock exchange release of 17 April 2019 and in the interim report of 16 May 2019.

SHARES AND SHAREHOLDERS

Share capital and number of shares

At the end of the period under review, the company's fully paid-up share capital, as recorded in the Trade Register, amounted to EUR 8,040,000 and the number of shares totalled 8,129,834.

Shareholdings

According to the book-entry register, Marimekko had 10,138 shareholders at the end of the period (7,800). Of the shares, 12.2 percent were owned by nominee-registered or non-Finnish holders (10.3).

Marimekko Corporation held 20,000 of its own shares as at 30 June 2019. These shares accounted for 0.25 percent of the total number of the company's shares. Marimekko shares held by the company carry no voting rights and no entitlement to dividends.

Information on the largest shareholders can be found on the company's website at company.marimekko.com under Investors/Share information/Shareholders.

Share trading and the company's market capitalisation

In the January-June period of 2019, a total of 791,228 Marimekko shares were traded, representing 9.7 percent of the shares outstanding. The total value of the share turnover was EUR 20,769,116. The lowest price of the share was EUR 20.80, the highest was EUR 31.50 and the average price was EUR 26.25. At the end of the period, the closing price of the share was EUR 26.00. The company's market capitalisation on 30 June 2019 was EUR 210,855,684, excluding the Marimekko shares held by the company (120,424,750).

Authorisations

The Annual General Meeting held on 12 April 2018 authorised the Board of Directors to decide on the acquisition of a maximum of 100,000 of the company's own shares. The authorisation is valid until 12 October 2019. The shares would be acquired with funds from the company's unrestricted equity, which means that the acquisition would reduce funds available for distribution. The shares would be acquired otherwise than in proportion to the shareholdings of the shareholders through public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. The shares would be acquired to be used as a part of the company's incentive compensation program, to be transferred for other purposes or to be cancelled. The authorisation includes the right of the Board of Directors to decide on all of the other terms and conditions of the acquisition of the shares. In May 2018, the Board decided to make use of the authorisation granted to it. As at 30 June 2019, Marimekko Corporation held 20,000 of its own shares, representing 0.25 percent of the total number of the company's shares.

The General Meeting of 12 April 2018 also authorised the Board of Directors to decide on a share issue, against consideration in deviation from the shareholders' pre-emptive right, directed to the company's personnel or other personnel groups designated by the Board, including the company's freelance

designers. The authorisation is valid until 12 October 2019. The total number of new shares to be offered for subscription pursuant to the authorisation may not exceed 150,000 shares. The authorisation includes the right of the Board of Directors to decide on all of the other terms and conditions of the share issue. Pursuant to the authorisation obtained, the Board decided to arrange a directed share issue to the company's personnel and freelance designers in Finland in March 2019.

At the end of the review period, the Board of Directors had no valid authorisations to issue convertible bonds or bonds with warrants.

Personnel share issue

In its stock exchange release of 27 February 2019, Marimekko announced that the Board of Directors had decided on the detailed terms and conditions as well as schedule of the company's personnel share issue. The complete terms and conditions of the share issue are attached to the stock exchange release.

In its stock exchange release of 1 April 2019, the company announced that the Board of Directors had approved a total of 40,224 subscriptions for new shares. The total subscription price of the new shares was EUR 725,988. The shares subscribed for in the share issue represent 0.50 percent of the company's existing shares and the voting rights carried by the existing shares before the share issue.

In the share issue, a maximum total of 150,000 new shares in the company were offered for subscription. The subscription price was EUR 11.45 per share for the first fifty shares (50 percent discount from the average share price in January) and EUR 20.60 per share for the shares subscribed for after the first fifty shares (10 percent discount from the average share price in January).

Half of those entitled to subscribe took part in the share issue. Subscriptions were made by a total of 229 company employees and freelance designers out of 472 who were entitled.

The shares approved in the share issue were entered into the Trade Register on 11 April 2019 and admitted to public trading on Nasdaq Helsinki Ltd on 12 April 2019. After the registration of the new shares, the number of shares in Marimekko Corporation totals 8,129,834.

The personnel share issue has been accounted for in accordance with IFRS 2. The subscription price paid by the subscribers, totalling EUR 725,988.00, has been recorded in the reserve for invested non-restricted equity, and the discount granted by the company to the subscribers has been recorded as expense and in retained earnings. The amount recorded in employee benefit expenses and in retained earnings is EUR 194,851.52.

MAJOR RISKS AND FACTORS OF UNCERTAINTY

Factors of uncertainty over the global economic trend affect the retail trade and consumer confidence in all of the company's market areas. The company's major strategic risks are associated with changes in consumers' purchasing behaviour and buying power, especially in Finland and Japan, which are the company's biggest single countries for business.

Near-term strategic risks include risks related to changes in the company's design, product assortment and product distribution and pricing. Digitisation in retail trade and the intensified competition and rapidly changing operating environment that this entails also bring risks and new revenue generation models. The company's ability to design, develop and commercialise new products that meet consumers' expectations while ensuring effective production, sourcing and logistics has an impact on the company's sales and profitability. International e-commerce increases the options available to consumers and multichannel business is of growing importance in the retail trade. Maintaining competitiveness in a rapidly changing operating environment being revolutionised by digitisation demands agility, efficiency and the constant re-evaluation of operations.

The company's growth is based primarily on expanding e-commerce, on partner-led retail in Asia, as well as on increasing the sales per square metre of existing stores in the company's main market areas. The Asia-Pacific region is Marimekko's second-biggest market, and it plays an important role in the company's growth and internationalisation. Changes in distribution channel solutions may impact the company's sales and profitability. Major partnership choices, partnering contracts and other collaboration agreements involve considerable risks. With the company's internationalisation and the growing interest in its brand, risks related to grey exports have increased, which may have an impact on the company's sales and profitability. Store lease agreements in Finland and abroad also contain risks.

Intellectual property rights play a vital role in the company's success, and the company's ability to manage and protect these rights may have an impact on the value and reputation of the company. Agreements with freelance designers and fees paid to designers based on these agreements are also an essential part of the management of intellectual property rights. As the company internationalises, the risks of infringements of its intellectual property rights may increase, particularly in Asia.

Prominent among the company's operational risks are those related to internationalisation and digitisation. There are risks associated with information system reliability, dependability and compatibility. With digitisation, various risks related to cybersecurity have also increased. Malfunctions in data communications or, for example, in the company's own online store, may disrupt business or result in lost sales. There are also risks associated with procurement and logistics processes and price fluctuations for raw materials and procurements. The company primarily uses subcontractors to manufacture its products. Of the sustainability aspects of manufacturing, those related to the supply chain and enhancing its transparency, in particular, are of growing significance to customers. Compliance with sustainable business methods is important in maintaining customers' confidence; any failures or errors in this area will involve reputation risks. Any delays or disturbances in supply, or fluctuations in the quality of products, may have a harmful impact on business. As product distribution is expanded and operations are diversified, risks associated with inventory management also grow. As Marimekko is a small company, ongoing modernisation and development projects increase risks related to key personnel.

Climate change is expected to bring an increase in various extreme phenomena such as floods, typhoons and hurricanes. Marimekko has stores in areas in which such extreme phenomena may occur, and if they damage stores or cause momentary changes in consumers' purchasing behaviour, it may result in lost sales as well as expenses. Extreme phenomena may also affect the availability of products if they cause damage to the company's suppliers' factories. Furthermore, climate change or extreme weather may cause droughts, soil depletion or other changes in growth conditions, which could impact the availability and price of Marimekko's most used raw material, cotton.

Among the company's financial risks, those related to the structure of sales, price trends for factors of production, changes in cost structure, changes in exchange rates (particularly the US dollar, Swedish krona and Australian dollar), taxation, and customers' liquidity may have an impact on the company's financial status.

MARKET OUTLOOK AND GROWTH TARGETS FOR 2019

Uncertainty in the global economy is forecast to continue, partly because of the unpredictability of the political situation. Consumer demand forecasts vary among Marimekko's different market areas.

Finland, Marimekko's important domestic market, represents about half of the company's net sales. Sales in Finland are expected to be roughly on a par with the previous year. Wholesale sales in 2018 were boosted by nonrecurring promotional deliveries; there were promotional deliveries in each quarter and the largest deliveries took place in the second and final quarters. There will be no promotional deliveries of comparable size in 2019. The total value of promotional deliveries will be lower than last year, and the major deliveries will occur in the latter half of the year.

The Asia-Pacific region is Marimekko's second-largest market and it plays a significant part in the company's internationalisation. Japan is clearly the most important country in this region to Marimekko. The other countries' combined share of the company's net sales is still relatively small, as operations in these countries are at an early stage compared with Japan. Japan already has a very comprehensive network of Marimekko stores. Sales growth is supported by developing the operations of existing stores, optimising the product range and increasing online sales. This year, net sales in the Asia-Pacific region are forecast to grow. The company sees increasing demand for its products in this area especially in the longer term.

Marimekko has become aware of cases of grey exports and has taken due action. The control of the cases may have a weakening impact on the company's sales and earnings.

The key drivers of the company's growth are its own e-commerce and other online sales channels, partner-led retail in Asia, and increasing the sales per square metre of existing stores in Finland and the international markets. The main thrust in new openings is on retailer-owned Marimekko stores and other wholesale channels. The aim is to open approximately 10 new Marimekko stores and shop-in-shops in 2019.

Anticipated royalty income in 2019 is expected to be higher than estimated and to exceed the figure for the previous year.

More costs than in 2018 are expected to occur in the remaining half of the year. The expenses of marketing operations for the full year 2019 are forecast to be higher than in 2018 (EUR 6.3 million³). Total investments are estimated to grow significantly relative to the previous year (EUR 1.3 million). Most of the investments will be used to revamp the store network and the company's headquarter premises as well as to improve IT systems to underpin digital business. The expenses of the personnel share issue and estimated effects of the long-term bonus system targeted at the company's Management Group are expected to exert a drag on the company's results. The effects will depend on the trend in the price of the company's share during the year.

Due to the seasonal nature of Marimekko's business, the major portion of the company's net sales and earnings are traditionally generated during the last two quarters of the year, and this is expected to be the case in 2019 as well. The share of holiday sales in particular of the company's net sales for the last quarter is considerable and the outcome of the holiday season has an impact on results for the whole year.

FINANCIAL CALENDAR FOR 2019

The interim report for the January-September period will be issued on Wednesday 6 November 2019 at 8.30 a.m.

Helsinki, 14 August 2019

Marimekko Corporation
Board of Directors

³ The classification method for marketing expenses has changed in 2019; to maintain comparability, the figures for 2018 have been restated accordingly.

The quarterly results for 2019 are unaudited. There may be differences in totals due to rounding to the nearest thousand euros.

ACCOUNTING PRINCIPLES

This half-year financial report was prepared in compliance with IAS 34. Marimekko has applied the same accounting principles in this report as were applied in its 2018 financial statements, although at the start of the financial year the company adopted the IFRS 16 standard as described in the financial statements for 2018.

Marimekko has adopted the new standard IFRS 16 Leases for the financial year starting on 1 January 2019. The Group has decided to apply a modified retrospective transition approach for leases existing at the date of transition, and information for the comparative financial year has not been restated. Thus, the adoption of the standard has had no impact on retained earnings. The Group applies exemptions allowed in the standard to exclude short-term leases and leases where the underlying asset is of low value. Marimekko is a lessee. Lease contracts include headquarter and printing facilities in Helsinki, retail stores in Finland and other countries where Marimekko operates as well as company housing and leasing cars. In general, lease contracts vary from 1 year to 15 years.

At the end of the review period, the impact of IFRS 16 on the company's non-current assets was EUR 37.9 million. Correspondingly, non-current and current interest-bearing liabilities in the consolidated balance sheet include a total of EUR 38.1 million in lease liabilities. The adoption of IFRS 16 has also impacted key ratios which are based on balance sheet such as net debt as it has substantially increased both the Group's interest-bearing net debt and its non-current assets and will improve the Group's EBITDA by approximately EUR 10 million annually. During the period under review, the company recorded EUR 5.3 million in IFRS 16 depreciation, adjusted rental expense of EUR 5.6 million in other operating expenses and EUR 0.5 million in interest expenses. Therefore, key figures such as EBITDA are not comparable with the figures for the year before. The impact on EPS is not significant. In the cash flow statement, the adoption of IFRS 16 increased cash flow from operating activities and reduced cash flow from financing activities by EUR 5.1 million.

The personnel share issue has been accounted for in accordance with IFRS 2.

APPENDICES

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CONSOLIDATED INCOME STATEMENT

(EUR 1,000)	4-6/2019	4-6/2018	1-6/2019	1-6/2018	1-12/2018
NET SALES	29,137	28,213	56,252	52,302	111,879
Other operating income	186	6,106	373	6,221	6,522
Change in inventories of finished goods and work in progress	-696	139	23	164	1,169
Raw materials and consumables	-9,620	-10,900	-19,816	-19,896	-42,086
Employee benefit expenses	-6,747	-6,250	-13,643	-12,599	-26,188
Depreciation and impairments	-3,135	-617	-6,221	-1,382	-2,501
Other operating expenses	-5,434	-7,546	-10,686	-14,511	-31,075
OPERATING PROFIT	3,691	9,145	6,281	10,299	17,721
Financial income	-93	45	77	67	178
Financial expenses	-429	202	-735	-181	-346
	-522	247	-658	-114	-168
RESULT BEFORE TAXES	3,169	9,392	5,624	10,185	17,552
Income taxes	-597	-2,094	-1,113	-2,260	-3,855
NET RESULT FOR THE PERIOD	2,572	7,299	4,511	7,925	13,698
Distribution of net result to equity holders of the parent company	2,572	7,299	4,511	7,925	13,698
Basic and diluted earnings per share calculated on the result attributable to equity holders of the parent company, EUR	0.32	0.90	0.56	0.98	1.70

COMPREHENSIVE CONSOLIDATED INCOME STATEMENT

(EUR 1,000)	4-6/2019	4-6/2018	1-6/2019	1-6/2018	1-12/2018
Net result for the period	2,572	7,299	4,511	7,925	13,698
Items that could be reclassified to profit or loss at a future point in time					
Change in translation difference	33	-77	6	-55	-2
COMPREHENSIVE RESULT FOR THE PERIOD	2,605	7,222	4,517	7,870	13,696
Distribution of net result to equity holders of the parent company	2,605	7,222	4,517	7,870	13,696

CONSOLIDATED BALANCE SHEET

(EUR 1,000)	30.6.2019	30.6.2018	31.12.2018
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	978	809	342
Tangible assets	41,249	4,596	4,438
Other financial assets	16	16	16
Deferred tax assets	406	-	114
	42,649	5,421	4,910
CURRENT ASSETS			
Inventories	22,283	20,991	22,114
Trade and other receivables	8,052	8,608	6,916
Current tax assets	-	2	-
Cash and cash equivalents	12,811	15,460	23,174
	43,146	45,061	52,204
ASSETS, TOTAL	85,795	50,483	57,114
(EUR 1,000)	30.6.2019	30.6.2018	31.12.2018
SHAREHOLDERS' EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	8,040	8,040	8,040
Reserve for invested non-restricted equity	1,228	502	502
Treasury shares	-315	-96	-315
Translation differences	-43	-103	-49
Retained earnings	21,530	26,055	31,827
Shareholders' equity, total	30,440	34,398	40,005
NON-CURRENT LIABILITIES			
Deferred tax liabilities	-	16	-
Financial liabilities	27,819	212	202
	27,819	228	202
CURRENT LIABILITIES			
Trade and other payables	15,365	14,430	15,574
Current tax liabilities	1,878	1,222	1,128
Provisions	-	18	-
Financial liabilities	10,294	187	206
	27,536	15,856	16,908
Liabilities, total	55,355	16,085	17,110
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	85,795	50,483	57,114

The Group has no liabilities resulting from derivative contracts, and there are no outstanding guarantees or any other contingent liabilities which have been granted on behalf of the management of the company or its shareholders.

CONSOLIDATED CASH FLOW STATEMENT

(EUR 1,000)	1-6/2019	1-6/2018	1-12/2018
CASH FLOW FROM OPERATING ACTIVITIES			
Net result for the period	4,511	7,925	13,698
Adjustments			
Depreciation and impairments	6,221	1,382	2,501
Capital gains on fixed assets	-	-6,073	-6,095
Financial income and expenses	658	114	168
Taxes	1,113	2,260	3,855
Cash flow before change in working capital	12,503	5,608	14,127
Change in working capital	-1,114	-222	1,549
Increase (-) / decrease (+) in current non-interest-bearing trade receivables	-1,428	-1,897	-317
Increase (-) / decrease (+) in inventories	-169	-71	-1,194
Increase (+) / decrease (-) in current non-interest-bearing liabilities	482	1,746	3,059
Cash flow from operating activities before financial items and taxes	11,389	5,386	15,675
Paid interest and payments on other financial expenses	-514	-196	-315
Interest received	-2	15	191
Taxes paid	-656	-1,514	-3,327
CASH FLOW FROM OPERATING ACTIVITIES	10,217	3,690	12,225
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in tangible and intangible assets	-1,175	-581	-1,073
Proceeds from sale of tangible and intangible assets	-	10,508	10,508
Sale of other investments	-	11	11
CASH FLOW FROM INVESTING ACTIVITIES	-1,175	9,938	9,446
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of treasury shares	-	-96	-315
Proceeds from share issue	726	-	-
Leasing payments	-5,127	-240	-349
Dividends paid	-15,003	-4,045	-4,045
CASH FLOW FROM FINANCING ACTIVITIES	-19,405	-4,381	-4,709
Change in cash and cash equivalents	-10,363	9,247	16,962
Cash and cash equivalents at the beginning of the period	23,174	6,212	6,212
Cash and cash equivalents at the end of the period	12,811	15,460	23,174

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR 1,000)		Equity attributable to equity holders of the parent company				
	Share capital	Reserve for invested non-restricted equity	Treasury shares	Translation differences	Retained earnings	Shareholder's equity, total
Shareholders' equity 1 Jan. 2018	8,040	502	-	-47	22,175	30,669
Comprehensive result						
Net result for the period					7,925	7,925
Translation differences				-55		-55
Total comprehensive result for the period				-55	7,925	7,870
Transactions with owners						
Dividends paid					-4,045	-4,045
Acquisition of treasury shares			-96			-96
Shareholders' equity 30 June 2018	8,040	502	-96	-103	26,055	34,398
Shareholders' equity 1 Jan. 2019	8,040	502	-315	-49	31,827	40,005
Comprehensive result						
Net result for the period					4,511	4,511
Translation differences				6		6
Total comprehensive result for the period				6	4,511	4,517
Transactions with owners						
Dividends paid					-15,003	-15,003
Personnel share issue		726				726
Share-based transactions, personnel share issue					195	195
Shareholders' equity 30 June 2019	8,040	1,228	-315	-43	21,530	30,440

INTANGIBLE AND TANGIBLE ASSETS

(EUR 1,000)	Intangible assets			Tangible assets
		Right-of-use assets	Other	Total
Acquisition cost, 1 Jan. 2019	9,622		27,830	27,830
Adoption of IFRS 16, 1 Jan. 2019	-	41,778	-	-
Translation differences	83	10	-582	-572
Classification adjustment	725	-	-725	-725
Increases	253	1,439	624	2,063
Decreases	-	-	-1,332	-1,332
Transfers between categories	170	-	-140	-140
Acquisition cost, 30 June 2019	10,853	43,227	25,674	68,901
Accumulated depreciation, 1 Jan. 2019	9,280	-	23,392	23,392
Translation differences	19	-14	-439	-454
Accumulated depreciation of decreases	-	-	-931	-931
Depreciation during the period	577	5,345	299	5,644
Accumulated depreciation, 30 June 2019	9,875	5,331	22,321	27,652
Book value, 30 June 2019	978	37,895	3,354	41,249
Book value, 1 Jan. 2019	342	-	4,438	4,438
Book value, 30 June 2019	978	37,895	3,354	41,249

KEY FIGURES

	1-6/2019	1-6/2018	Change, %	1-12/2018
Earnings per share, EUR	0.56	0.98	-43	1.70
Equity per share, EUR	3.75	4.25	-12	4.96
<i>Return on equity (ROE), %</i>	<i>31.7</i>	<i>42.9</i>		<i>38.8</i>
<i>Return on investment (ROI), %</i>	<i>26.3</i>	<i>45.9</i>		<i>47.6</i>
<i>Equity ratio, %</i>	<i>35.5</i>	<i>68.9</i>		<i>70.0</i>
<i>Gearing, %</i>	<i>83.1</i>	<i>-43.8</i>		<i>-56.9</i>
Gross investments, EUR 1,000 *	907	780	16	1,280
<i>Gross investments, % of net sales</i>	<i>2</i>	<i>1</i>		<i>1</i>
Contingent liabilities, EUR 1,000 **	574	45,970	-99	48,062
Average personnel	435	431	1	433
Personnel at the end of the period	453	456	-1	445
Number of shares outstanding at the end of the period	8,109,834	8,082,198		8,069,610
Average number of shares outstanding	8,090,500	8,088,953		8,080,095

* Excluding the impact of IFRS 16

** The marked change is due to the adoption of IFRS 16.

RECONCILIATION OF KEY FIGURES TO IFRS

(EUR million)	4-6/ 2019	4-6/ 2018	1-6/ 2019	1-6/ 2018	1-12/ 2018
Items affecting comparability					
Employee benefit expenses	-	-	-	-	-0.5
Other operating income	-	6.0	-	6.0	6.0
Items affecting comparability in operating result	-	6.0	-	6.0	5.5
EBITDA	6.8	9.8	12.5	11.7	20.2
Items affecting comparability	-	6.0	-	6.0	5.5
Comparable EBITDA	6.8	3.7	12.5	5.7	14.7
Operating result	3.7	9.1	6.3	10.3	17.7
Items affecting comparability in operating result	-	6.0	-	6.0	5.5
Comparable operating result	3.7	3.1	6.3	4.3	12.2
Net sales	29.1	28.2	56.3	52.3	111.9
Operating profit margin, %	12.7	32.4	11.2	19.7	15.8
Comparable operating profit margin, %	12.7	11.1	11.2	8.2	10.9

NET SALES BY MARKET AREA

(EUR 1,000)	4-6/ 2019	4-6/ 2018	Change, %	1-6/ 2019	1-6/ 2018	Change, %	1-12/ 2018
Finland	16,782	16,153	4	29,568	28,064	5	63,537
Retail sales	13,255	11,833	12	21,805	19,499	12	45,062
Wholesale sales	3,485	4,274	-18	7,635	8,471	-10	18,299
Royalties	42	46	-8	128	95	34	176
Scandinavia	2,094	2,215	-5	4,219	4,122	2	9,017
Retail sales	1,294	1,555	-17	2,459	2,524	-3	5,283
Wholesale sales	800	660	21	1,760	1,598	10	3,733
Royalties	-	-	-	-	-	-	-
EMEA	3,166	2,274	39	6,644	4,887	36	10,321
Retail sales	376	363	4	749	748	0	1,493
Wholesale sales	2,706	1,810	50	5,700	3,939	45	8,426
Royalties	84	101	-17	195	199	-2	401
North America	1,987	2,424	-18	3,921	4,005	-2	8,193
Retail sales	1,464	1,383	6	2,459	2,335	5	5,222
Wholesale sales	460	911	-50	1,092	1,441	-24	2,664
Royalties	63	130	-52	370	229	62	307
Asia-Pacific	5,107	5,147	-1	11,902	11,224	6	20,811
Retail sales	1,018	895	14	2,022	1,781	14	4,024
Wholesale sales	4,089	4,252	-4	9,879	9,040	9	16,384
Royalties	-	-	-	-	403	-100	403
International sales, total	12,355	12,060	2	26,685	24,238	10	48,342
Retail sales	4,153	4,196	-1	7,689	7,389	4	16,023
Wholesale sales	8,055	7,632	6	18,432	16,018	15	31,207
Royalties	147	231	-36	565	831	-32	1,112
Total	29,137	28,213	3	56,253	52,302	8	111,879
Retail sales	17,408	16,030	9	29,494	26,887	10	61,085
Wholesale sales	11,539	11,906	-3	26,067	24,489	6	49,506
Royalties	189	277	-32	692	926	-25	1,288

STORES AND SHOP-IN-SHOPS

	30.6.2019	30.6.2018	31.12.2018
Finland	63	63	65
Company-owned stores	23	25	24
Company-owned outlet stores	12	12	12
Retailer-owned stores	13	13	13
Retailer-owned shop-in-shops	15	13	16
Scandinavia	10	11	11
Company-owned stores	7	7	7
Company-owned outlet stores	-	-	-
Retailer-owned stores	-	-	-
Retailer-owned shop-in-shops	3	4	4
EMEA	1	1	1
Company-owned stores	1	1	1
Company-owned outlet stores	-	-	-
Retailer-owned stores	-	-	-
Retailer-owned shop-in-shops	-	-	-
North America	6	17	6
Company-owned stores	4	4	4
Company-owned outlet stores	1	1	1
Retailer-owned stores	1	1	1
Retailer-owned shop-in-shops	-	11	-
Asia-Pacific	67	64	70
Company-owned stores	4	4	4
Company-owned outlet stores	-	-	-
Retailer-owned stores	52	48	54
Retailer-owned shop-in-shops	11	12	12
Total	147	156	153
Company-owned stores	39	41	40
Company-owned outlet stores	13	13	13
Retailer-owned stores	66	62	68
Retailer-owned shop-in-shops	29	40	32

Includes the company's own retail stores, retailer-owned Marimekko stores and shop-in-shops with an area exceeding 30 sqm. The company's own retail stores numbered 52 at the end of June 2019 (54).

NET SALES BY PRODUCT LINE

(EUR 1,000)	4-6/ 2019	4-6/ 2018	Change, %	1-6/ 2019	1-6/ 2018	Change, %	1-12/ 2018
Fashion	11,552	10,654	8	21,278	18,607	14	39,107
Home*	10,659	10,820	-1	20,202	20,677	-2	46,395
Bags and accessories*	6,926	6,740	3	14,772	13,019	13	26,377
Total	29,137	28,213	3	56,253	52,302	8	111,879

* As of the beginning of 2019, the product category of cosmetic bags is included in the home product line instead of bags and accessories. To maintain comparability, the figures for 2018 have been restated accordingly.

QUARTERLY TREND IN NET SALES AND EARNINGS

(EUR 1,000)	4-6/2019	1-3/2019	10-12/2018	7-9/2018
Net sales	29,137	27,116	29,740	29,836
Operating profit	3,691	2,591	1,237	6,185
Earnings per share, EUR	0.32	0.24	0.11	0.60

(EUR 1,000)	4-6/2018	1-3/2018	10-12/2017	7-9/2017
Net sales	28,213	24,089	29,841	27,220
Operating profit	9,145	1,154	2,382	4,400
Earnings per share, EUR	0.90	0.08	0.21	0.41

FORMULAS FOR KEY FIGURES

Comparable EBITDA, EUR:

Operating result - depreciation - impairments - items affecting comparability

Comparable operating result, EUR:

Operating result - items affecting comparability in operating result

Comparable operating result margin, %

Operating result - items affecting comparability in operating result x 100 / Net sales

Earnings per share (EPS), EUR:

(Profit before taxes - income taxes) / Adjusted number of shares (average for the financial year)

Equity per share, EUR:

Shareholders' equity / Number of shares, 30 June

Return on equity (ROE), %:

Rolling 12 months (Profit before taxes - income taxes) x 100 / Shareholders' equity (average for the financial year)

Return on investment (ROI), %:

Rolling 12 months (Profit before taxes + interest and other financial expenses) x 100 / Balance sheet total - non-interest-bearing liabilities (average for the financial year)

Equity ratio, %:

Shareholders' equity x 100 / (Balance sheet total - advances received)

Gearing, %:

Interest-bearing net debt x 100 / Shareholders' equity

Net working capital, EUR:

Inventories + trade and other receivables + current tax assets - tax liabilities - current provisions - trade and other payables