

MQ Holding AB – Interim report

MQ captures market shares and delivers strong earnings increase

Healthy sales in key months combined with Christmas shopping and sales, as well as early demand for spring fashion generated a strong second quarter for MQ. Earnings are significantly better than the year-earlier period. The positive trend from the first quarter continued and improved during the second quarter.

Second quarter (December 2013–February 2014)

- Net sales amounted to SEK 417 million (396), up 5.3 percent. Sales in comparable stores increased 3.4 percent (according to the Swedish Retail Institute Index, the market contracted by 0.4 percent.)
- The gross margin was 49.6 percent (49.5).
- Operating profit amounted to SEK 20 million (4), corresponding to an operating margin of 4.9 percent (0.9).
- Profit after tax amounted to SEK 14 million (1), corresponding to SEK 0.40 (0.02) per share after dilution.
- Cash flow from operating activities was SEK 49 million (34).

First six months (September 2013 - February 2014)

- Net sales amounted to SEK 789 million (760), up 3.8 percent. Sales in comparable stores increased 1.6 percent (according to the Swedish Retail Institute Index, the market contracted by 1.3 percent.)
- The gross margin was 54.5 percent (54.8).
- Operating profit amounted to SEK 55 million (25), corresponding to an operating margin of 7.0 percent (3.2).
- Profit after tax amounted to SEK 39 million (14), corresponding to SEK 1.12 (0.40) per share after dilution.
- Cash flow from operating activities was 55 million (29).



Events during the second quarter

- No significant events occurred during the second quarter.

Events after the end of the reporting period

- MQ's brand portfolio strengthened in March with three new brands; Sail Racing, Ilse Jacobsen and A-One.
- One store in Malmö closed; Malmö entré.

Key figures

SEK m	Q2 Dec-Feb 13/14	Q2 Dec-Feb 12/13	Period Sep-Feb 13/14	Period Sep-Feb 12/13	Rolling 12 months Mar 13-Feb 14	Financial year Sep-Aug 12/13
Net sales	417	396	789	760	1,491	1,463
Gross margin, %	49.6	49.5	54.5	54.8	55.2	55.3
Operating profit	20	4	55	25	80	50
Operating margin, %	4.9	0.9	7.0	3.2	5.4	3.4
Profit after financial items	18	1	50	18	68	36
Profit for the period	14	1	39	14	87	62
Earnings per share before dilution, SEK	0.40	0.02	1.12	0.40	2.51	1.79
Earnings per share after dilution, SEK	0.40	0.02	1.12	0.40	2.50	1.79
Number of stores, at the end of the period	122	119	122	119	122	122



Comments by the CEO

MQ's performance improved during the second quarter. A stronger and more honed customer offering generated higher sales than the industry and MQ has captured market shares. The action programme, which began the fiscal year, delivered continuous improvements in all areas. This resulted in significantly better earnings for the quarter than in the year-earlier period.

We started the quarter with a well-adapted range, strengthened by the new brands that were introduced in the autumn – Filipa K, Whyred and Elvine. A well-executed sales period meant that we were early with the first launches of the spring season, which corresponded to customers' expectations and the weather. We had high demand for new seasonal products in February.

All in all, this meant a positive sales trend, while the gross margin was kept at a satisfactory level. We succeeded in reversing certain key figures in the right direction, which is reflected in the strong improvement in earnings.

The action programme continued to generate the expected effect. Savings continue according to plan; our focus is more rational, while we can be gratified that MQ is moving ahead in our desired direction. The chain and its stores are taking a step forward in a competitive market. Each improvement potential is reviewed and implemented.

MQ's brand portfolio is now being strengthened by three new brands: Sail Racing, which is sporty, high-tech fashion for men, with a sea theme. Ilse Jacobsen, with attractive feminine dresses, in colours and patterns to enhance personality. A-One offers a new exciting jacket collection for both men and women, designed by the duo Bernadotte & Kylberg. This collection is sold exclusively at MQ.

In parallel, work to develop MQ's proprietary brands is continuing. As Acting Product Range Manager, I see great potential in further refining the range as the core of MQ's customer offering.

The first half of the year was characterised by major activity in all areas. We have reversed the earlier negative trend and are now on our way. The chain, the culture and the customer offering are connected. MQ is becoming more distinct.



Christina Ståhl
President and CEO, MQ Holding AB



Operations

The MQ Group is a retailer of women's and men's fashion in the Swedish and Norwegian markets. The range, which focuses on fashion-conscious consumers, contains a mix of proprietary and external brands.

Store network

The stores are located throughout Sweden from Ystad in the south to Luleå in the north. MQ was launched in Norway in September 2010 and currently has five stores located in Oslo, Jessheim, Drammen and Kristiansand. All stores sell both women's and men's fashions. At the end of the period, the total number of stores was 122.

Market

The market for ready-to-wear clothing in Sweden had another weak period and the sales trend was negative during the second quarter (Dec 2013 - Feb 2014), with a decline of 0.4 percent and the 12-month period (Mar 2012 - Feb 2013), with a decline of 0.6 percent.

Comments on financial performance

Net sales

Second quarter, December 2013 - February 2013
 Net sales amounted to SEK 417 million (396) during the quarter, up 5.3 percent. MQ's sales in comparable stores rose 3.4 percent year-on-year, compared with the market decline of 0.4 percent. Sales of women's fashion rose 8.2 percent to SEK 185 million (171) and sales of men's fashion by 3.1 percent to SEK 232 million (225).

Six-month period, September 2013 - February 2014
 Net sales amounted to SEK 789 million (760) during the six-month period, up 3.8 percent. MQ's sales in comparable stores rose 1.6 percent year-on-year, compared with the market decline of 1.3 percent. Sales of women's fashion increased 7.4 percent to SEK 377 million (351) and sales of men's fashion by 0.7 percent to SEK 412 million (409).

Earnings

Second quarter, December 2013 - February 2014
 Gross profit totalled SEK 207 million (196), corresponding to a gross margin of 49.6 percent (49.5).

Other external costs and personnel expenses for the quarter amounted to SEK 179 million (185). The cost level declined by SEK 6 million, despite the new stores and inflation, which is a result of the current action programme.

Operating profit during the quarter amounted to SEK 20 million (4), corresponding to an operating margin of 4.9

percent (0.9). Depreciation/amortisation according to plan amounted to SEK 8 million (10). Net financial items for the second quarter amounted to an expense of SEK 2 million (expense: 3). Profit after financial items amounted to SEK 18 million (1). Profit after tax amounted to SEK 14 million (1).

Six-month period, September 2013 - February 2014
 Gross profit totalled SEK 431 million (416), corresponding to a gross margin of 54.5 percent (54.8).

Other external costs and personnel expenses for the six-month period amounted to SEK 361 million (376). The cost level declined by SEK 15 million, despite the new stores and inflation, which is a result of the SEK 50 million savings programme for the financial year.

Operating profit for the six-month period was SEK 55 million (25), corresponding to an operating margin of 7.0 percent (3.2). Depreciation/amortisation according to plan amounted to SEK 17 million (20). Net financial expense for the six-month period amounted to SEK 5 million (expense: 7). Profit after financial items amounted to SEK 50 million (18). Profit after tax amounted to SEK 39 million (14).

Expansion

Efforts to find new store locations are proceeding as planned. The further development of MQ Shop Online is continuing.

Cash flow

MQ's cash flow from operating activities during the six-month period amounted to SEK 55 million (29). The positive trend was generated from better results in the form of higher sales and lower costs. Cash flow after investments amounted to SEK 51 million (11).

Inventories

At 28 February 2014, the value of inventories was SEK 255 million (223). The increase was due to early deliveries of spring goods compared with the year-earlier period, as well as more stores. In connection with the strengthening and sharpening of our offering, we want to generate more focus and give a better impression of the store already at the start of the season, which will initially result in higher inventories than the year-earlier period. In total, the composition of inventories is adjudged to be at a satisfactory level.

Investments

Investments during the period totalled SEK 4 million (18) and mainly pertained to investments in existing stores. Two stores in Helsingborg and Täby were remodelled and moved to better locations.

Financing and liquidity

At 28 February 2014, interest-bearing net debt amounted to SEK 276 million, compared with SEK 332 million a year earlier. At the end of the period, cash and cash equivalents amounted to SEK 23 million (27). Interest-bearing net debt/EBITDA was 2.4 (3.0) for the 12-month period of March 2013–February 2014.

Events during the second quarter

No significant events occurred during the second quarter.

Events after the end of the reporting period

MQ's brand portfolio is now being strengthened with three new brands: Sail Racing, which is sporty, high-tech fashion for males, with a focus on the sea. Ilse Jacobsen, with attractive feminine dresses, in colours and patterns to enhance personality. A-One offers a new exciting jacket collection for both males and females, designed by the duo Bernadotte & Kylberg. This collection is sold exclusively at MQ.

Employees

The average number of full-time employees during the 12-month period (March 2013- February 2014) was 612 compared with 629 in the year-earlier period.

Related-party transactions

There were no material related-party transactions during the period.

Risks and uncertainties

MQ's operations are exposed to a number of risks that are completely or partly beyond the company's control, but which could impact sales and earnings. The risks to which the company is exposed include the economic trend, shifts in fashion and interest-rate and currency risks. MQ is dependent on consumer preferences with respect to trends, design and quality. MQ makes conscious efforts to develop its trend monitoring, information systems, forecasts and supply chain management and to shorten lead times in the development of products to minimise the risks in fashion shifts. The purchasing power of Swedish consumers is a prerequisite for retail growth. This is particularly important for growth in the high price ranges, characterised by high fashion content among

retailers and brand specialists. It is probable that a change in Sweden's economic growth would impact the purchasing power of consumers and thus growth in the retail sector. Financial risks pertain to fluctuations in the company's earnings and cash flow resulting from movements in exchange rates, interest rates, liquidity and credit risks. The Group's financial risks are managed by the Group's finance department, which is in charge of identifying and minimising the risk of negative effects on earnings and improving the predictability of future earnings. For further information about financial instruments and risk management, reference is made to the Administration Report and to Notes 23 and 24 of the Annual Report for the 2012/2013 financial year.

Parent Company

The Parent Company's net sales for the six-month period amounted to SEK 6 million (6) and its profit after financial items to SEK 11 million (28). No investments were made by the Parent Company during the period.

Accounting policies

This condensed consolidated interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and applicable regulations of the Swedish Annual Accounts Act. The interim report for the Parent Company has been prepared in accordance with Chapter 9 of the Swedish Annual Accounts, Interim Financial Reporting. For the Group and the Parent Company, the same accounting policies and measurement principles have been applied as in the most recent Annual Report. Derivative instruments are measured at fair value, which amounted to SEK 1 million as at 28 February 2014. For currency contracts (currency forward contracts), the fair value is determined based on measurement from credit institutions if such is available. If such is not available, the fair value is calculated by discounting the difference between the contracted forward rate and the forward rate that can be subscribed on the balance-sheet date for the remaining contract period. According to IFRS 7, financial instruments must be categorised in three categories based on the input data used to measure the fair value. The first category pertains to financial instruments listed in an active market. The second category pertains to financial instruments that are not listed in an active market but where other market information can be used to obtain a measurement. The final category pertains to measurements where there are no market listings, as well as other market data. Methods for obtaining a measurement for the third category consist primarily of discounted cash flows. All MQ's derivatives belong to the second category.

The Board of Directors and the CEO give their assurance that the interim report provides a fair overview of the development of the Group's and Parent Company's operations, financial position and earnings, and also describes material risks and uncertainties facing the Parent Company and companies included in the Group.

Gothenburg 20 March 2014

Board of Directors
MQ Holding AB

Erik Olsson
Chairman of the Board

Göran Barsby
Board Member

Bengt Jaller
Board Member

Annika Rost
Board Member

Arthur Engel
Board Member

Mernosh Saatchi
Board Member

Michael Olsson
Board Member

Christina Ståhl
Chief Executive Officer

Meeting for analysts and media

Today at 08:30 a.m. (CET), MQ will be holding a press conference for analysts, the media and representatives of the capital markets at the MQ store in Sturegallerian, Stockholm, Sweden. It will also be possible to follow the presentation by teleconference/webcast (the presentation will be held in Swedish). To participate, please call +46 (0)8 505 564 74 in Sweden

Reporting schedule

Interim report, third quarter, March 2014–May 2014

18 June 2014

Year-end report, June 2014 - August 2014

7 October 2014

Interim report, first quarter, September 2014–November 2014

18 December 2014

This constitutes information that MQ Holding AB (publ) is legally obliged to publish under the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 21 March 2014, at 7:15 a.m.

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This interim report has been reviewed by the company's auditors.

Consolidated statement of earnings and Other comprehensive income

Condensed consolidated statement of comprehensive income in (SEK m)	Q2 Dec-Feb 13/14	Q2 Dec-Feb 12/13	Period Sep-Feb 13/14	Period Sep-Feb 12/13	Rolling 12 months Mar 13-Feb 14	Financial year Sep-Aug 12/13
Net sales	417	396	789	760	1,491	1,463
Other operating income	0	3	3	5	4	6
Total operating income	417	399	792	765	1,495	1,468
• Goods for resale	-210	-200	-358	-344	-668	-654
• Other external costs	-89	-94	-183	-196	-361	-374
• Personnel expenses	-90	-91	-178	-180	-350	-351
• Depreciation/amortisation	-8	-10	-17	-20	-35	-38
Operating profit	20	4	55	25	80	50
• Financial income	0	0	0	0	0	0
• Financial expenses	-2	-3	-5	-7	-12	-14
Profit after financial items	18	1	50	18	68	36
Tax on profit/loss for the period	-4	0	-11	-4	19	26
PROFIT FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS	14	1	39	14	87	62
OTHER COMPREHENSIVE INCOME						
Items that have been restated or that can be restated in profit for the period						
Translation difference	0	0	0	0	-1	-1
Changes in fair value of cash-flow hedging	3	1	-1	2	5	8
COMPREHENSIVE INCOME ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS	17	2	38	16	91	69
Earnings per share before dilution (SEK)	0.40	0.02	1.12	0.40	2.51	1.79
Earnings per share after dilution (SEK)	0.40	0.02	1.12	0.40	2.50	1.79
Average number of shares before dilution	34,631,507	34,631,507	34,631,507	34,631,507	34,631,507	34,631,507
Average number of shares after dilution	34,759,371	34,758,692	34,759,371	34,758,692	34,759,371	34,725,233

Consolidated balance sheet

Condensed consolidated balance sheet (SEK m)	28 February 2014	28 February 2013	31 August 2013
ASSETS			
Fixed assets			
Intangible fixed assets	1,204	1,205	1,205
Tangible assets	66	88	75
Total fixed assets	1,270	1,293	1,280
Current assets			
Inventories	255	223	291
Current receivables	85	64	114
Cash and cash equivalents	23	27	43
Total current assets	363	314	448
TOTAL ASSETS	1,632	1,607	1,728
EQUITY AND LIABILITIES			
EQUITY	896	820	872
Liabilities			
Interest-bearing long-term liabilities	201	271	221
Non-interest-bearing long-term liabilities	179	212	180
Interest-bearing current liabilities	98	88	134
Non-interest-bearing current liabilities	258	216	322
TOTAL EQUITY AND LIABILITIES	1,632	1,607	1,728

Statement of changes in equity

Specification of changes in the Group's equity (SEK m)	Sep-Feb 2013/14	Sep-Feb 2012/13	Financial year Sep-Aug 2012/13
Equity, opening balance	872	834	834
Total comprehensive income	38	16	69
Buyback of own shares/incentive programme	0	0	-1
Dividend	-14	-30	-30
EQUITY, CLOSING BALANCE	896	820	872

Consolidated cash-flow statement

Condensed consolidated cash-flow statement (SEK m)	Q2 Dec-Feb 2013/14	Q2 Dec-Feb 2012/13	Period Sep-Feb 2013/14	Period Sep-Feb 2012/13	Financial year Sep-Aug 2012/13
Cash flow from operating activities before changes in working capital	28	8	74	30	56
Changes in working capital	21	26	-19	-1	1
Cash flow from operating activities	49	34	55	29	57
Cash flow from investing activities					
Acquisition of intangible assets	0	-1	-1	-2	-2
Acquisition of tangible assets	-2	-3	-3	-16	-22
Cash flow after investing activities	47	30	51	11	32
Financing activities					
<i>Amortisation</i>	-20	-20	-20	-20	-320
<i>Loans raised</i>	0	0	0	0	250
<i>Dividend</i>	-14	-30	-14	-30	-30
<i>Utilisation of overdraft facility</i>	-20	23	-37	27	73
Cash flow from financing activities	-53	-27	-71	-23	-27
Cash flow for the period	-6	3	-20	-11	5
Cash and cash equivalents at the beginning of the period	29	23	43	38	38
Cash and cash equivalents at the end of the period	23	27	23	27	43

Key figures

	Q2 Dec-Feb 2013/14	Q2 Dec-Feb 2012/13	Period Sep-Feb 2013/14	Period Sep-Feb 2012/13	Rolling 12 months Mar 13-Feb 14	Financial year Sep-Aug 2012/2013
Growth in net sales, %	5.3	-6.2	3.8	-5.2	0.5	-4.6
Sales growth, comparable stores, %	3.4	-8.7	1.6	-7.7	-2.9	-7.4
Gross margin, %	49.6	49.5	54.5	54.8	55.2	55.3
Operating profit, SEK m	20	4	55	25	80	50
Operating margin, %	4.9	0.9	7.0	3.2	5.4	3.4
Profit/loss after financial items	18	1	50	18	68	36
Profit for the period	14	1	39	14	87	62
Total depreciation/amortisation, SEK m	-8	-10	-17	-20	-35	-38
Earnings per share before dilution, SEK	0.40	0.02	1.12	0.40	2.51	1.79
Interest-bearing net debt, SEK m	276	332	276	332	276	312
Interest-bearing net debt/EBITDA, multiple	2.4	3.0	2.4	3.0	2.4	3.5
Equity/assets ratio, %	55	51	55	51	55	50
Equity, SEK m	896	820	896	820	896	872
Average number of shares before dilution	34,631,507	34,631,507	34,631,507	34,631,507	34,631,507	34,631,507
Average number of shares after dilution	34,759,371	34,758,692	34,759,371	34,758,692	34,759,371	34,725,233

Shareholder structure

Largest shareholder as of 28 February 2014

Name	Number of shares	Votes and capital, %
DANSKE CAPITAL SVERIGE AB	4 592 920	13,1%
JALLER KLÄDCENTER AB	2 662 000	7,6%
ÖRESUND, INVESTMENT AB	2 462 796	7,0%
LÄNSFÖRSÄKRINGAR FONDFÖRVALT. AB	1 975 015	5,6%
JPM CHASE NA	1 334 858	3,8%
LANCELOT AVALON	1 286 887	3,7%
DNB - CARLSON FONDER	1 184 509	3,4%
SVENSKA LÄRARFONDER	1 103 073	3,1%
UNIONEN	1 100 000	3,1%
CATELLA FONDFÖRVALTNING	1 093 870	3,1%
HANDELSBANKEN FONDER AB RE JPMEL	963 172	2,7%
SKANDIA FONDER	743 023	2,1%
ANDRA AP-FONDEN	566 860	1,6%
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	537 914	1,5%
NORDEA BANK AB (PUBL.) - SECURITIES FINANCE	511 102	1,5%
Total 15 largest	22 117 999	63%
Other	13 038 508	37%
Total	35 156 507	100%

Parent Company income statement

Condensed income statement for Parent Company (SEK m)	Q2 Dec-Feb 2013/14	Q2 Dec-Feb 2012/13	Period Sep-Feb 2013/14	Period Sep-Feb 2012/13	Rolling 12 months Mar 13-Feb 14	Financial year Sep-Aug 2012/2013
Net sales	3	3	6	6	15	15
Other operating income	0	0	0	0	0	0
Total operating income	3	3	6	6	15	15
• Goods for resale	0	0	0	0	0	0
• Other external costs	-1	-2	-3	-3	-5	-5
• Personnel expenses	-3	-3	-5	-5	-16	-16
• Other operating expenses	0	0	0	0	0	0
• Depreciation/amortisation	0	0	0	0	0	0
Operating profit/loss	-1	-1	-2	-2	-6	-6
• Income from shares	14	31	14	31	14	31
• Financial income	2	3	4	6	9	11
• Financial expenses	-2	-3	-4	-6	-9	-11
Profit after financial items	12	29	11	28	8	25
Group contributions	0	0	0	0	6	6
Profit before tax	12	29	11	28	14	31
Tax on profit/loss for the period	0	0	0	0	0	0
PROFIT AFTER TAX	12	29	11	28	14	31

Parent Company balance sheet

Condensed balance sheet for Parent Company (SEK m)	28 February 2014	28 February 2013	31 August 2013
ASSETS			
Fixed assets			
Intangible assets	0	0	0
Tangible assets	0	0	0
Financial fixed assets	1,110	1,111	1,111
Total fixed assets	1,110	1,111	1,111
Current assets			
Current receivables	1	1	1
Cash and cash equivalents	1	1	0
Total current assets	2	2	1
TOTAL ASSETS	1,112	1,113	1,112
EQUITY AND LIABILITIES			
EQUITY	551	552	554
Liabilities			
Interest-bearing long-term liabilities	201	271	221
Interest-bearing current liabilities	40	40	40
Non-interest-bearing liabilities	320	250	297
TOTAL EQUITY AND LIABILITIES	1,112	1,113	1,112
Assets pledged as security			
Shares in subsidiaries	1,110	1,110	1,111
MQ brand	-	690	-
Contingent liabilities			
Guarantees related to subsidiaries' completion of leasing contracts	49	33	55
Guarantees related to MQ Retail AB	184	96	190
Total contingent liabilities	233	129	245

Definitions

Gross margin

Net sales less costs for goods sold as a percentage of sales.

EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortisation.

Equity

Consists of share capital, other contributed capital, reserves and retained earnings, including the Group's profit for the year.

Equity per share

Equity divided by the number of shares on the closing date.

Like-for-like sales

The term "comparable sales" is used to designate all sales in Sweden, with the exception of sales in new stores. A new store becomes comparable when it has been opened for one year.

Interest-bearing net debt

Interest-bearing liabilities minus cash and cash equivalents.

Interest-bearing net debt/EBITDA

Interest-bearing liabilities divided by EBITDA for the most recent twelve-month period.

Operating margin

Operating profit as a percentage of net sales for the period.

Equity/assets ratio

Equity as a percentage of total assets.



MQ is one of Sweden's leading retailers of fashion brands. Through a select mix of proprietary and external brands, MQ offers men's and women's clothes with a high fashion content in attractive stores. The store chain currently comprises 122 stores and the aim is to establish MQ as the leading retailer of fashion brands in the Nordic region. The MQ share is listed on NASDAQ OMX Stockholm since 18 June 2010. For more information, please visit our website at www.mq.se.