

MQ Holding AB – Interim report

MQ continues to strengthen earnings and cash flow

MQ's financial trend remains positive. Lower costs together with an increased gross margin generated stronger earnings for the period. Development efforts have entered a new phase where the focus is on strengthening MQ in a commercial context in all channels. A manager with a broad retail background has been recruited for Norway, thereby giving the business in Norway a new start.

Second quarter (December 2014-February 2015)

- Net sales amounted to SEK 417 million (417). Sales in comparable stores/online increased 0.3 percent (according to the Swedish Retail Institute Index, the market's like-for-like sales grew 1.2 percent.) During the period, a new omnichannel department has been created at MQ as boundaries between in-store sales and online sales have been erased. MQ has therefore chosen to report like-for-like sales and online sales together.
- The gross margin was 50.0 percent (49.6).
- Operating profit amounted to SEK 26 million (20), corresponding to an operating margin of 6.2 percent (4.9).
- Profit after tax was SEK 19 million (14), corresponding to SEK 0.55 (0.40) per share after dilution.
- Cash flow from operating activities was SEK 60 million (49).

First six months (September 2014-February 2015)

- Net sales amounted to SEK 774 million (789), down 1.9 percent. Sales in comparable stores/online declined 1.5 percent (according to the Swedish Retail Institute Index, the market's like-for-like sales were down 0.8 percent).
- The gross margin was 55.1 percent (54.5).
- Operating profit amounted to SEK 65 million (55), corresponding to an operating margin of 8.3 percent (7.0).
- Profit after tax was SEK 49 million (39), corresponding to SEK 1.38 (1.12) per share after dilution.
- Cash flow from operating activities was SEK 70 million (55).



Events during the second quarter

- During the period, a new omnichannel department was created to more clearly integrate MQ's sales channels: online sales, loyalty club and in-store.
- The external brand, Didriksons, was launched on MQ Shop Online.

Events after the end of the reporting period

- A manager with a broad retail background has been recruited for Norway.

Key figures

SEK m	Q2 Dec- Feb 14/15	Q2 Dec-Feb 13/14	Six months, Sep-Feb 14/15	Six months, Sep-Feb 13/14	Rolling 12 months March-Feb 14/15	Financial year Sep-Aug 13/14
Net sales	417	417	774	789	1,506	1,520
Gross margin, %	50.0	49.6	55.1	54.5	56.5	56.2
Operating profit	26	20	65	55	141	132
Operating margin, %	6.2	4.9	8.3	7.0	9.4	8.7
Profit after financial items	25	18	62	50	136	123
Profit for the period	19	14	49	39	106	96
Earnings per share before dilution, SEK	0.55	0.40	1.38	1.12	3.00	2.77
Earnings per share after dilution, SEK	0.55	0.40	1.38	1.12	3.00	2.77
Number of stores, at the end of the period	120	122	120	122	120	121



Comments by the CEO

MQ's action package, together with a cost-conscious corporate culture, continues to generate positive effects on earnings and cash flow. The lower cost level remains, at the same time as enhanced procedures for functions, such as purchasing are contributing to increased gross margins. Together with a more attractive range, this had considerable significance for the trend in the second quarter, which was dominated by Christmas shopping and the sales period. It is satisfying to report a sales period in which MQ was able to reduce the proportion of sales items, sell off the sales stock and, in parallel, raise the gross margin. We face the spring with a well-balanced and healthy inventory at the right level. The higher USD exchange rate has no impact since MQ hedges the majority of its currency needs.

Sales were in line with the preceding year. We have identified continued improvement potential in this area through the addition of new sales channels and developing the commercial offering. During the period, a new omnichannel department was created to more clearly integrate MQ's sales channels: online sales, loyalty club and in-store.

In Sweden, MQ Shop Online is an established and profitable sales channel that generates a steadily growing stream of customers. Operations are now being expanded to Norway with the start of the Norwegian MQ Shop Online in March. In March, a manager with a broad retail background was recruited for Norway. It is now time to give Norway its rightful focus as a growth market.

Development efforts have entered a new phase. These include a project aimed at clearly profiling MQ as a brand destination for a broad customer group. Among other things, the store concept must perform better in terms of sharper product display, changes in tempo and in-store communication.

In parallel with the other development work, we are continuing to update and refine the product range by adding fashion content and strong brands. In line with our strategy, more launches will occur on MQ Shop Online. Didriksons, Part Two, Dry Lake and BZR Bruuns Bazaar will be launched before summer 2015 on MQ Shop Online. In August, the attractive Hope brand will be launched in 17 stores.

A high tempo marked the first six months of 2014/2015. We are meeting strong earnings figures from last year but, despite this, are continuing to deliver improved earnings. By intensifying efforts to create growth, MQ will continue to progress toward its vision of becoming the leading retailer of fashion brands in the Nordic region.



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 four 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 120.

Market

The market for ready-to-wear clothing in Sweden posted positive like-for-like sales in the second quarter (Dec 2014-Feb 2015), up 1.2 percent and the six-month period (Sep 2014-Feb 2015) posted a negative trend of 0.8 percent.

Comments on financial performance

Net sales

Second quarter, December 2014-February 2015

Net sales amounted to SEK 417 million (417) for the quarter. MQ's sales in comparable stores/online increased 0.3 percent during the second quarter, compared with the market's like-for-like sales grew of 1.2 increase. During the period, a new omnichannel department was created at MQ since boundaries between in-store sales and online sales have been erased. MQ has therefore chosen to report like-for-like sales and online sales together. Sales of women's fashion rose 7.0 percent to SEK 198 million (185) and sales of men's fashion decreased 5.6 percent to SEK 219 million (232).

Six-month period, September 2014-February 2015

Net sales amounted to SEK 774 million (789) during the six-month period, down 1.9 percent. MQ's sales in comparable stores/online declined 1.5 percent year-on-year, compared with the market's like-for-like sales decline of 0.8 percent. Sales of women's fashion rose 2.9 percent to SEK 388 million (377) and sales of men's fashion decreased 6.3 percent to SEK 386 million (412).

Earnings

Second quarter, December 2014-February 2015

Gross profit amounted to SEK 208 million (207), corresponding to a gross margin of 50.0 per cent (49.6).

Other external costs and personnel expenses for the quarter amounted to SEK 182 million (179). Costs increased SEK 3 million and the cost base included costs of SEK 6 million re-invoiced to the landlord which positively impacted earnings under other income. Excluding this item, costs decreased SEK

3 million, which is a result of an extremely cost-conscious organisation.

Operating profit during the quarter amounted to SEK 26 million (20), corresponding to an operating margin of 6.2 percent (4.9). Depreciation/amortisation according to plan amounted to SEK 7 million (8). Net financial items for the second quarter amounted to an expense of SEK 1 million (expense: 2). Profit after financial items amounted to SEK 25 million (18). Profit after tax was SEK 19 million (14).

Six-month period, September 2014-February 2015

Gross profit amounted to SEK 426 million (431), corresponding to a gross margin of 55.1 per cent (54.5).

Other external costs and personnel expenses for the six-month period amounted to SEK 354 million (361). Costs increased SEK 13 million and the cost base included costs of SEK 6 million re-invoiced to the landlord which positively impacted earnings under other income. The decrease in costs was attributable to the preceding year's savings programme and a cost-conscious corporate culture.

Operating profit for the six-month period was SEK 65 million (55), equal to an operating margin of 8.3 percent (7.0).

Depreciation/amortisation according to plan amounted to SEK 14 million (17). Net financial items for the six-month period were an expense of SEK 2 million (expense: 5). Profit after financial items amounted to SEK 62 million (50). Profit after tax was SEK 49 million (39).

Establishing stores

Efforts to find new store locations are proceeding as planned in both Sweden and Norway.

Cash flow

MQ's cash flow from operating activities during the six-month period amounted to SEK 70 million (55). The positive trend was generated from better results in the form of a higher gross margin and lower costs as well as a lower inventory. Cash flow after investments amounted to SEK 60 million (51).

Inventories

At 28 February 2015, the value of inventories was SEK 251 million (255). In total, the composition of inventories is deemed to be at a satisfactory level.

Investments

Investments during the period totalled SEK 10 million (4) and pertained to investments in existing stores.

Financing and liquidity

At 28 November 2015, interest-bearing net debt amounted to SEK 160 million, compared with SEK 276 million at the same date in the preceding year.

At the end of the period, cash and cash equivalents totalled SEK 31 million (23). Interest-bearing net debt/EBITDA was 0.9 (2.4) for the 12-month period of March 2014–February 2015.

Events during the second quarter

During the period, a new omnichannel department was created to more clearly integrate MQ's sales channels: online sales, loyalty club and in-store. The external brand, Didriksons, was launched on MQ Shop Online.

Events after the end of the reporting period

A manager with a broad retail background has been recruited for Norway.

Employees

The average number of full-time employees during the 12-month period (March 2014–February 2015) was 579 compared with 593 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 that the company is exposed to 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, 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 Notes 23 and 24 of the Annual Report for the 2013/2014 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 45 million (11). 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 Act, 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 8 million at 28 February 2015.

Determining the fair value of currency forward contracts is based on valuations made by credit institutes, if such figures are available. If these are not available, the fair value is calculated by discounting the difference between the agreed forward rate and the forward rate that can be effected on the balance-sheet date for the remaining period of the contract. For other financial instruments, carrying amounts reflect their fair value.

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 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 to measurements where there are no market listings or other market data. Techniques to obtain a valuation for level three mainly involve discounting cash flows. All of MQ's derivatives belong to the second category.

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

Gothenburg, 17 March 2015

Board of Directors
MQ Holding AB

Claes-Göran Sylvén
Chairman of the Board

Annika Rost
Board Member

Bengt Jaller
Deputy Chairman

Michael Olsson
Board Member

Arthur Engel
Board Member

Mernosh Saatchi
Board Member

Anna Engebretsen
Board Member

Christina Ståhl
President and CEO

Meeting for analysts and media

On Wednesday, 18 March 2015 at 08:30 a.m., MQ will hold an analyst and media meeting for players in the capital market 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 calendar

Interim report, third quarter, March 2015–May 2015

16 June 2015

Year-end report, June 2015–August 2015

7 October 2015

Interim report, first quarter, September 2015–November 2015

17 December 2015

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 18 March 2015 at 07:15 a.m. (CET).

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This interim report has not 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 14/15	Q2 Dec-Feb 13/14	Period Sep-Feb 14/15	Period Sep-Feb 13/14	Rolling 12 months Mar 14-Feb 15	Financial year Sep-Aug 13/14
Net sales	417	417	774	789	1,506	1,520
Other operating income	7	0	8	3	10	5
Total operating income	424	417	782	792	1,516	1,525
• Goods for resale	-209	-210	-348	-358	-655	-666
• Other external costs	-97	-89	-185	-183	-358	-356
• Personnel expenses	-85	-90	-169	-178	-329	-337
• Other operating expenses	0	0	-2	0	-3	-1
• Depreciation/amortisation	-7	-8	-14	-17	-29	-31
Operating profit	26	20	65	55	141	132
• Financial income	0	0	0	0	1	0
• Financial expenses	-1	-2	-2	-5	-6	-9
Profit after financial items	25	18	62	50	136	123
Tax on profit for the period	-6	-4	-14	-11	-30	-28
PROFIT FOR THE PERIOD attributable to Parent Company shareholders	19	14	49	39	106	96
OTHER COMPREHENSIVE INCOME						
Items that have been restated or that can be restated in profit for the period						
Translation difference	1	0	0	0	-1	-1
Changes in fair value of cash-flow hedging	-3	3	2	-1	3	2
Incentive programmes	-	-	16 ¹	-	16 ¹	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS	17	17	67	38	125	97
Earnings per share before dilution (SEK)	0.55	0.40	1.38	1.12	3.00	2.77
Earnings per share after dilution (SEK)	0.55	0.40	1.38	1.12	3.00	2.77
Average number of shares before dilution	35,156,507	34,631,507	35,156,507	34,631,507	35,156,507	34,631,507
Average number of shares after dilution	35,156,507	34,759,371	35,156,507	34,759,371	35,156,507	34,667,053

¹ The incentive programme has been concluded and its impact on Other comprehensive income was SEK 16 million.

Consolidated balance sheet

Condensed consolidated balance sheet (SEK m)	28 February 2015	28 February 2014	31 August 2014
ASSETS			
Fixed assets			
Intangible fixed assets	1,203	1,204	1,203
Tangible assets	50	66	56
Total fixed assets	1,253	1,270	1,259
Current assets			
Inventories	251	255	250
Current receivables	74	85	100
Cash and cash equivalents	31	23	40
Total current assets	356	363	390
TOTAL ASSETS	1,609	1,632	1,650
EQUITY AND LIABILITIES			
Equity	975	896	955
Liabilities			
Interest-bearing long-term liabilities	155	201	175
Non-interest-bearing long-term liabilities	183	179	182
Interest-bearing current liabilities	41	98	53
Non-interest-bearing current liabilities	254	258	285
TOTAL EQUITY AND LIABILITIES	1,609	1,632	1,650

Statement of changes in equity

Specification of changes in the Group's equity (SEK m)	Period Sep-Feb 2014/15	Period Sep-Feb 2013/14	Financial year Sep-Aug 2013/14
Equity, opening balance	955	872	872
Total comprehensive income	67	38	97
Dividend	-48	-14	-14
EQUITY, CLOSING BALANCE	975	896	955

Consolidated cash-flow statement

Condensed consolidated cash-flow statement (SEK m)	Q2	Q2	Period	Period	Financial year
	Dec-Feb 2014/15	Dec-Feb 2013/14	Sep-Feb 2014/15	Sep-Feb 2013/14	Sep-Aug 2013/14
Cash flow from operating activities before changes in working capital	33	28	80	74	155
Changes in working capital	27	21	-10	-19	-3
Cash flow from operating activities	60	49	70	55	152
Cash flow from investing activities					
Acquisition of intangible assets	-1	0	-1	-1	-1
Acquisition of tangible assets	-6	-2	-9	-3	-7
Cash flow after investing activities	53	47	60	51	144
Financing activities					
<i>Amortisation</i>	-20	-20	-20	-20	-40
<i>Dividend</i>	-48	-14	-48	-14	-14
<i>Utilisation of overdraft facility</i>	0	-20	-1	-37	-93
Cash flow from financing activities	-68	-53	-69	-71	-146
Cash flow for the period	-15	-6	-9	-20	-2
Cash and cash equivalents at the beginning of the period	46	29	40	43	43
Cash and cash equivalents at the end of the period	31	23	31	23	40

Key figures

	Q2	Q2	Period	Period	Rolling 12	Financial year
	Dec-Feb 2014/15	Dec-Feb 2013/14	Sep-Feb 2014/15	Sep-Feb 2013/14	months Mar 14-Feb 15	Sep-Aug 2013/2014
Growth in net sales, %	0.0	5.3	-1.9	3.8	0.1	3.9
Sales growth, comparable stores/online, %	0.3	4.7	-1.5	2.4	1.1	2.6
Gross margin, %	50.0	49.6	55.1	54.5	56.5	56.2
Operating profit, SEK m	26	20	65	55	141	132
Operating margin, %	6.2	4.9	8.3	7.0	9.4	8.7
Profit after financial items	25	18	62	50	136	123
Profit for the period	19	14	49	39	106	96
Total depreciation/amortisation, SEK m	-7	-8	-14	-17	-29	-31
Earnings per share before dilution, SEK	0.55	0.40	1.38	1.12	3.00	2.77
Interest-bearing net debt, SEK m	160	276	160	276	160	188
Interest-bearing net debt/EBITDA, multiple	0.9	2.4	0.9	2.4	0.9	1.1
Equity/assets ratio, %	61	55	61	55	61	58
Equity, SEK m	975	896	975	896	975	955
Average number of shares before dilution	35,156,507	34,631,507	35,156,507	34,631,507	35,156,507	34,631,507
Average number of shares after dilution	35,156,507	34,759,371	35,156,507	34,759,371	35,156,507	34,667,053

Shareholder structure

Largest shareholders as of 28 February 2015

Name	Number of shares	Share capital, %
Öresund, Investment AB	5,300,000	15.1
Danske Capital Sweden AB	3,471,052	9.9
Jaller Klädcenter AB	3,062,000	8.7
Länsförsäkringar Fondförvaltning AB	1,705,241	4.9
Svenska Lärarfonder	1,281,084	3.6
Catella Fondförvaltning	1,153,883	3.3
Unionen	1,100,000	3.1
DNB – Carlson Fonder	1,049,884	3.0
Qviberg Engebretsen, Anna	971,836	2.8
Skandia Fonder	670,289	1.9
Försäkringsaktiebolaget, Avanza Pension	635,504	1.8
Handelsbanken Fonder AB RE JPMEL	593,827	1.7
Andra AP-Fonden	563,860	1.6
Qviberg, Jacob	450,000	1.3
CBNY-Dfa-Int Sml Cap V	382,912	1.1
Total 15 largest	22,391,372	63.7
Other	12,765,135	36.3
Total	35,156,507	100

Parent Company income statement

Condensed Parent Company income statement (SEK m)	Q2 Dec-Feb 2014/15	Q2 Dec-Feb 2013/14	Period Sep-Feb 2014/15	Period Sep-Feb 2013/14	Rolling 12 months Mar 14-Feb 15	Financial year Sep-Aug 2013/2014
Net sales	3	3	6	6	12	12
Other operating income	0	0	0	0	0	0
Total operating income	3	3	6	6	12	12
• Goods for resale	0	0	0	0	0	0
• Other external costs	-2	-1	-2	-3	-4	-4
• Personnel expenses	-3	-3	-6	-5	-13	-12
• Other operating expenses	0	0	0	0	0	0
• Depreciation/amortisation	0	0	0	0	0	0
Operating loss	-2	-1	-3	-2	-5	-4
• Income from shares	48	14	48	14	48	14
• Group contributions received	0	0	0	0	4	4
• Financial income	1	2	2	4	5	7
• Financial expenses	-1	-2	-2	-4	-5	-7
Profit after financial items	46	12	45	11	47	13
Tax on profit for the period	0	0	0	0	0	0
PROFIT AFTER TAX	46	12	45	11	47	13

Parent Company balance sheet

Condensed Parent Company balance sheet (SEK m)	28 February 2015	28 February 2014	31 August 2014
ASSETS			
Fixed assets			
Intangible assets	0	0	0
Tangible assets	0	0	0
Financial fixed assets	1,110	1,110	1,110
Total fixed assets	1,110	1,110	1,110
Current assets			
Current receivables	1	1	1
Cash and cash equivalents	0	1	0
Total current assets	1	2	1
TOTAL ASSETS	1,111	1,112	1,111
EQUITY AND LIABILITIES			
Equity	566	551	553
Liabilities			
Interest-bearing long-term liabilities	150	201	170
Interest-bearing current liabilities	40	40	51
Non-interest-bearing liabilities	355	320	337
TOTAL EQUITY AND LIABILITIES	1,111	1,112	1,111
Assets pledged as security			
Shares in subsidiaries	1,110	1,110	1,110
Contingent liabilities			
Guarantees related to subsidiaries' completion of leasing contracts	38	49	41
Guarantees related to MQ Retail AB	184	184	184
Total contingent liabilities	222	233	225

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 "like-for-like sales" is used to designate all sales in Swedish stores, with the exception of sales in new stores. A new store becomes comparable when it has been open for one year.

Interest-bearing net debt

Interest-bearing liabilities less 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 120 stores and the aim is to establish MQ as the leading retailer of fashion brands in the Nordic region. The MQ share has been listed on NASDAQ Stockholm since 18 June 2010. For more information, please visit our website at www.mq.se.