



ricardo.de AG

1st Quarter 2000/2001 report

## 1st Quarter 2000/2001

### ricardo continues with process of consolidation

#### Loss reduced by 48 per cent against previous quarter

As was the case in the fourth quarter of the 1999/2000 fiscal year, the main focus within the first quarter of the new fiscal year 2000/2001 was on reining back costs and enhancing our platform activities. In addition, the proposed merger with the UK-based online auctioneer QXL.com plc continues to be one of our overriding priorities. The merger between both companies is to be completed in the second quarter of 2000/2001.

In the past six months ricardo.de has paved the way for accelerated profitability: the level of own-account trading will be reduced considerably and is to include interesting, high-margin products only. This strategy will lead to substantially lower warehousing and processing risks. At the same time ricardo intends to strengthen its commission business. The success of this approach is reflected in the Q1 2000/2001 financial results.

#### Key Facts and Figures (US GAAP)

	Q1 00/01	Q1 99/00
Registered Members	950,000	250,000
Gross Auction Value	EUR 22.8m	EUR 13.0m
Revenues	EUR 4.8m	EUR 3.0m
Quarterly Income (excl. goodwill)	EUR – 5.0m	EUR – 1.3m
Quarterly Income (incl. goodwill)	EUR – 11.1m	EUR – 1.3m
Quarterly Earnings per Share (incl. goodwill)	EUR – 1.39	EUR – 0.17
Number of Employees at 30 Sept 00	140	27

## Corporate Developments in the 1st Quarter

- 06.07.00 ricardo auctions lost property of airlines
- 17.07.00 ricardo.de AG concludes acquisition of Veiling.com
- 17.07.00 according to a Gruner + Jahr survey, ricardo.de is the most well-known online auctioneer by far
- 24.07.00 ricardo and Fondszentrum auction debis investment funds
- 27.07.00 ricardo.de enhances its service – automatic bidding agents are sent out to hunt for the best prices
- 01.08.00 major charity auction hosted by ricardo and Warner Music: Madonna, Cher, Eric Clapton, Sasha and many others make generous donations for a good cause
- 18.08.00: ricardo.de AG and QXL.com plc agree on revised merger terms
- 20.09.00 ricardo and amica online with cooperation agreement

## Business Operating Review

We are delighted with the number of new members we have been able to attract: 130,000 new members in the 1st quarter. This is all the more impressive when one considers that marketing expenditure for the period mentioned was reduced by 75 per cent against the previous quarter. In the future, ricardo intends to focus on augmenting the volume of transactions per member by means of special loyalty schemes.

The Gross Auction Value (GAV) jumped by 75 per cent, from EUR 13.0 million to EUR 22.8 million. Based on the company's strategic realignment of the past six months, towards a more low-risk and high-margin platform approach, the proportion of C2C transactions was increased noticeable.

Revenues grew by 63 per cent, up from EUR 3.0 million to EUR 4.8 million. This result is in line with expectations, particularly in view of the fact that the reduction of own-account activities in favour of the more lucrative commission structure results in lower revenue contributions from this area. During the period under review we were able to reduce the value of goods in stock by EUR 3.0 million to EUR 2.0 million. In this quarter the company has also generated revenues from commission activities and listing fees. Furthermore, ricardo has achieved significant revenues from the sale of advertising space.

The loss in the first quarter of 2000/2001 amounted to EUR 11.1 million in contrast to EUR 1.3 million in the first quarter of the previous fiscal year. Of the EUR 11.1 million, EUR 6.2 million is attributable to non cash-effective amortization of goodwill and stock write-downs. When compared with Q4 1999/2000 the loss was reduced by 48 per cent. Thus, the



consolidation process has already borne fruit. The company has, in particular, focused on lowering the level of marketing expenditure by approximately 75 per cent – without noticeable reduction of membership growth. The area of Customer Care, too, has witnessed a noticeable reduction in costs of approximately 30 per cent thanks to more tight organisation – and without inducing any loss of quality.

The company's concerted effort to reduce costs is underlined by the so-called "cash-burn rate": ricardo diminished this rate from EUR 7.7 million in Q4 1999/2000 to EUR 3.0 million in the first quarter. As at 30 September 2000, ricardo.de AG had at its disposal EUR 17.8 million in cash and cash equivalents.

## **Merger with QXL**

The strategic aim of ricardo has always been – and continues to be – to achieve the necessary critical mass and to extend the company's leading position within the German market into the rest of Europe. The merger with QXL.com, a UK-based competitor, affords the company an excellent opportunity to achieve its ambitions.

On 16 May 2000 ricardo.de AG and QXL.com plc announced their intention to merge both companies as part of a share-for-share exchange. The proposed exchange ratio was 42.6 QXL shares for each ricardo.de share.

On 18 August 2000 a revised exchange ratio of 34 QXL shares per ricardo share was announced. The revised ratio was agreed upon in view of the fact that ricardo.de AG's fourth quarter had not fulfilled the expectations of QXL.com plc. As a result, ricardo shareholders will hold roughly 39 per cent of the fully diluted share capital of the joint company.

QXL.com plc and ricardo.de AG operate similar business models. The joint company will trade under the name QXL ricardo plc and will operate online auctions throughout Europe – in 13 countries and eleven languages. In all, QXL ricardo will be able to boast more than 2 million registered users.

The offer by QXL for shares in ricardo (the "Offer") has completed and all the conditions of the Offer have now been fulfilled. Valid acceptances of the Offer have been received in respect of a total of approximately 7.4 million ricardo shares (including publicly and directly tendered shares and shares to be transferred to a QXL.com plc subsidiary upon completion of the Business Combination Agreement). Upon completion of the agreement, QXL will have certain control rights over approximately 235,000 further ricardo shares. Therefore, the total number of ricardo shares controlled by QXL represents approximately 92% of the issued share capital of ricardo and approximately 89% on the basis of the fully diluted share capital of ricardo.

## **Products**



Boasting up to 14 hours of live auctions, ricardo's "Live Channel" is a unique platform in Germany and, indeed, in Europe – in terms of its level of sophistication, its scope and its frequency. It therefore assumes a cutting-edge position within the market and acts as an outstanding marketing instrument.

In future, the "Private Channel" will represent the very core of the company's overall activities. In the past months ricardo has introduced value-added services such as escrow accounts, services and offline assistants, and has spearheaded numerous product improvements, such as expanding the range of categories on offer, setting up bidding agents and introducing featured listings with a money-back guarantee. The company intends to carry out further improvements to its product offering and aims at strengthening its operations within the area of consumer-to-consumer business.

The level of quality inherent in our product offering has been well received, and this includes the independent German testing body Stiftung Warentest. Germany's best-known online auctioneer, ricardo, underwent vigorous testing. The outcome of this acid test: "good" – none of those tested by the Berlin-based experts received an "excellent". "Best Escrow Account" went to ricardo. We were therefore the winner within the "Security" category. As "test" magazine put it: "The system operated by ricardo.de offers the best level of customer security". Security also includes the level of transparency when it comes to ricardo's general terms and conditions. Stiftung Warentest's verdict: "ricardo.de has shown how it should be done. Its terms and conditions are well placed and clearly visible to all users". Of all the online auctioneers tested, ricardo.de is the only one that does not have inadmissible clauses within its general terms and conditions. The company's voluntary inclusion of a guarantee was also much applauded. ricardo was also given top marks when it came to user-friendliness and handling: aspects such as the bidding process, up-to-date presentation, product search functions and the seller's form were considered to be the best within the field.

### **ricardoBIZ and Shareholdings**

The company's business-to-business operations will not as such form a core activity of the newly created QXLricardo. In the first quarter of 2000/2001 all investments within this area were reduced considerably. The company is currently reviewing possible options with regard to ricardoBIZ.

ricardo.de future GmbH has equity interests in the following companies: (1) Allocation Network GmbH, Munich (approx. 25% share), (2) tallyman AG, Hamburg (approx. 25% share). tallyman is the German equivalent to the US site priceline.com. (3) myParadise.de AG (approx. 10% share). In addition to the founders, shareholders also include ricardo.de future GmbH and Rewe. (4) Contingate AG (approx. 26% share). Contingate is an information and processing platform for transport industry products and is expected to go online by the end of the year 2000. (5) Kilowatthandel AG, Leipzig, (approx. 18.3% share). (6) Similan.com Pte Ltd, Singapore, (approx. 17.5% share). Similan is one of the leading online auctioneers in Asia, with seven offices in the region (Singapore, Malaysia, Hong Kong, the Philippines, Taiwan, Korea and China) and dynamic growth.



The book value of the shareholdings amounts to EUR 6.1 million. The Management Board of ricardo.de AG is of the opinion that the market value of the shareholdings corresponds at least with the book value.

## **Staff**

As at 30 September 2000, ricardo.de AG including its subsidiary companies in Switzerland, the Netherlands and the United Kingdom employed 140 members of staff. The average employee headcount (HGB) in Q1 00/01 was 146 including 4 apprentices. Employees are able to participate in the success of the company by means of stock-option schemes. These options have not yet been exercised.

## **Outlook**

The Management Board is satisfied with the company's performance in the first quarter. The measures introduced, particularly those relating to the reduction in costs, have already borne fruit. Our objective for the near future is to maintain our momentum in terms of consolidating our business and guiding the company ever-closer towards its operational break-even point. This is to be brought about by implementing a leaner cost structure, by harnessing the effects of cost synergy within the areas of Technology and Marketing as generated by the merger with QXL, by reducing own-account trading and focusing more and more on our platform and commission structure, and by placing even greater emphasis on schemes to attract and hold customers. One of the main priorities for the second quarter is to reduce to zero the level of goods in stock. All B2C activities will subsequently be processed by implementing the so-called drop-ship model, i.e. the warehouse and logistics are the responsibility of the respective business partners.

Moreover, business is to be boosted even further by introducing additional revenue-generating services. This includes – as in the past – the selling of "reach" in the form of standard media offerings (banners and featured listings) and by means of media packages and special auctions to be performed in association with manufacturers of branded goods.

## Consolidated Balance Sheet as at 30 September 2000 (HGB)

Assets				Liabilities & Equity			
		09/30/00	09/30/99			09/30/00	09/30/99
	EUR ('000)	EUR ('000)	EUR ('000)		EUR ('000)	EUR ('000)	EUR ('000)
A. Outstanding investment in subscribed capital		-		A. Stockholders' equity			
Assets				I. Subscribed capital	8,080		7,840
I. Intangible assets				II. Additional Paid-In Capital	72,748		46,845
1. Conceptual development and software	1,510		332	III. Currency adjustments	93		-
2. Goodwill	34,649	36,159	-	IV. Balance sheet result	(28,277)	52,644	(5,832)
							48,853
II. Property and equipment		1,205	689				
III. Financial assets				B. Accrued liabilities			
1. Equity investments	6,572		-	Other accrued liabilities		3,101	275
2. Associated companies	249	6,821	-	C. Liabilities			
				I. Bonds	156		75
		44,185	1,021	II. Liabilities to banks	244		756
B. Current assets				III. Accounts payable	5,480		3,045
I. Inventories				IV. Liabilities to associated companies	21		-
1. Goods	1,968		1,514	V. Other liabilities	16,338	22,239	1,293
2. Down payments	40	2,008	-				
II. Receivables and other assets				D. Deferred income		350	-
1. Accounts receivable	4,655		472				
2. Receivables from associated companies	860		-				
3. Other assets	9,084	14,599	2,144				
III. Securities		16,558	47,870				
IV. Cash and bank deposits		817	1,270				
C. Prepaid expenses		167	6				
		<b>78,334</b>	<b>54,297</b>			<b>78,334</b>	<b>54,297</b>

## Consolidated Income Statement (HGB)

		1st Quarter 00/01	1st Quarter 99/00
	EUR ('000)	EUR ('000)	EUR ('000)
1. Revenues		5,723	3,039
2. Other operating income		181	35
3. Materials costs			
a) Costs of raw and other materials purchased	4,603		2,945
b) Costs of services purchased	6	4,609	
4. Personnel costs			
a) Salaries and wages	1,327		292
b) Social security expenses and expenses for old-age pensions	265	1,592	33
5. Amortization and depreciation			
a) of intangible and fixed assets	396		111
b) of goodwill	8,972		-
c) of current assets	255	9,623	-
6. Other operating expenses		4,392	1,288
7. Other interest and similar income		68	227
8. Losses from associated companies		59	-
9. Interest and similar expenses		17	1
10. Income from ordinary activities		(14,320)	(1,369)
11. Extraordinary expenses		14	4,053
12. Annual loss		(14,334)	(5,422)
13. Loss carry-forward from the previous year		(13,943)	(410)
14. Withdrawal from additional paid-in capital		-	
15. Balance sheet result		<u>(28,277)</u>	<u>(5,832)</u>

1st Qtr 00/01    1st Qtr 99/00

Earnings per share (per German Commercial Code):                      EUR - 1.79                      EUR - 0.69

(Number of shares as at 30 Sep 2000: 8,080,332; average for the quarter: 8,000,221)

## Statement of cash flows (HGB)

1 July 2000 to 30 September 2000

	09/30/00		09/30/99
	EUR ('000)		EUR ('000)
Income for the quarter	(14,334)		(5,422)
+/- Depreciation and amortization/additions	9,368		111
+/- Change in accrued liabilities	277		(57)
+/- Earnings on equity investments	59		
A) Cash flow	(4,630)		(5368)
<u>Changes in current assets and other liabilities</u>			
-/+ Increase/decrease in inventories	1,807		(686)
-/+ Increase/decrease in accounts receivable	(18)		(157)
-/+ Increase/decrease in other receivables and current assets	(7,222)		(1,698)
-/+ Increase/decrease in prepaid expenses	(26)		147
+/- Increase/decrease in other short-term borrowings	0		0
+/- Increase/decrease in other liabilities	6,727		3,476
B) Cash flow from operating activities	1,268		1,082
- Purchases of fixed assets	(346)		(797)
C) Cash flow from investing activities	(346)		(797)
Proceeds received from increase in capital			
+/- Proceeds for increase in capital not yet recorded			52,710
- Offsetting of costs of the IPO	(4)		
+/- Proceeds/payments from convertible debt instruments	244		
+/- Increase/decrease in financing liabilities	240		52,710
D) Cash flow from financing activities	6		
E) Changes due to exchange rate adjustments and consolidation	(3,462)		47,628
Changes to cash and cash equivalents (A+B+C+D+E)	20,837		1,511
Cash and cash equivalents as at 1 July 2000	<b>17,375</b>		<b>49,139</b>
<b>Cash and cash equivalents as at 30 September 2000</b>			
Financial assets on hand:	16,558		47,870
Other securities	817		1,269
Cash on hand, cash in banks	<b>17,375</b>		<b>49,139</b>
<b>Total:</b>			

## Conversion of equity capital from German Commercial Code (HGB) to US GAAP

	Share capital	Add. paid-in capital	Other reserves	Balance sheet result	Currency adjustments	Total
	EUR ('000)	EUR ('000)	EUR ('000)	EUR ('000)	EUR ('000)	EUR ('000)
Stockholders' equity in accordance with HGB	8,080	72,748		-28,277	93	52,644
Previous years' adjustments to income		258	985	15,034		16,277
of which – withdrawal from add. paid-in capital for IPO expenses		-5,094				-5,094
Allocation to add. paid-in capital from previous year's media services granted above the initial offering price		116				116
Offsetting of development costs against previous years' add. paid-in capital		-77				-77
Unrealized gain on securities held for sale			144			144
Addition to equity investments due to non-applicability of associated company status				118		118
Adjustments to earnings for the fiscal year				3,200		3,200
Pro-rata share of currency adjustments attributable to Auktion 24					-5	-5
<b>Stock equity in accordance with US GAAP</b>	<b>8,080</b>	<b>67,951</b>	<b>1,129</b>	<b>-9,925</b>	<b>88</b>	<b>67,323</b>

## Conversion of consolidated results from HGB to US GAAP

	1st Quarter 00/01	1st Quarter 99/00
	EUR ('000)	EUR ('000)
Consolidated results according to HGB	-14,334	-5,422
1. Elimination of results relating to Auktion24 AG and Velling.com B.V. at the time of initial consolidation		
a) Amortization of goodwill	2,812	-
b) Company losses as at the initial consolidation	210	-
2. Adjustment of results from barter transactions	178	-
3. Offsetting of expenses attributable to the IPO against add. paid-in capital	-	4,053
4. Other differences	-	35
Consolidated results according to US GAAP	-11,134	-1,334
<b>Earnings per share (EUR):</b>	<b>-1.39</b>	<b>-0.17</b>
<b>Segment information in accordance with SFAS 131</b>		
Auction revenues:	3,820	2,805
Advertising income:	1,016	234
<b>Total:</b>	<b>4,836</b>	<b>3,039</b>

## Statement of cash flows (US GAAP)

1 July 2000 to 30 September 2000

	09/30/00	09/30/99
	EUR ('000)	EUR ('000)
Income for the quarter	(11,134)	(1,333)
+/- Depreciation and amortization/additions	6,540	106
+/- Change in accrued liabilities	122	(71)
+/- Earnings on equity investments	59	
A) Cash flow	(4,413)	(1,298)
<u>Changes in current assets and other liabilities</u>		
-/+ Increase/decrease in inventories	821	(686)
-/+ Increase/decrease in accounts receivable	(285)	(157)
-/+ Increase/decrease on other receivables and current assets	(6,491)	(1,698)
-/+ Increase/decrease in prepaid expenses	(37)	147
+/- Increase/decrease in other short-term borrowings	0	0
+/- Increase/decrease in other liabilities	7,036	3,476
B) Cash flow from operating activities	1,044	1,082
- Purchases of fixed assets	(302)	(813)
C) Cash flow from investing activities	(302)	(813)
Proceeds received from increase in capital		
+/- Proceeds for increase in capital not yet recorded		52,710
- Offsetting of costs of the IPO		(4,053)
+/- Proceeds/payments from convertible debt instruments	(4)	
+/- Increase/decrease in financing liabilities	244	0
D) Cash flow from financing activities	240	48,657
E) Changes due to exchange rate adjustments and consolidation	365	
Changes to cash and cash equivalents (A+B+C+D+E)	(3,066)	47,628
Cash and cash equivalents as at 1 July 2000	20,880	1,511
<b>Cash and cash equivalents as at 30 September 2000</b>	<b>17,814</b>	<b>49,139</b>
Financial assets on hand:		
Other securities	16,997	47,870
Cash on hand, cash in banks	817	1,269
<b>Total:</b>	<b>17,814</b>	<b>49,139</b>



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