

Estimates cut ahead of Q3

We cut estimates ahead of Q3 on anticipation of tighter competition. Peer multiples have also dropped notably since our latest update in mid-Aug. We conclude risk/reward is still not attractive enough, and keep "Hold" rating intact.

Revenue growth has been guided to improve in H2

Verkkokauppa.com reached only 3% revenue growth in H1 as wholesale volumes declined significantly compared to last year. Market growth was also limited in H1 at ~2%, according to GfK. We understand market growth in Q3 has offered no better tailwind than in H1. However, in H2 wholesale volumes should no longer give headwind as they have been guided flat in H2. We expect revenue growth to improve to 11% in Q3 from the 3% in H1, driven primarily by the new store in Raisio but also by slight underlying growth. Stronger growth has been guided for H2.

Competition seems to have intensified during Q3

Based on a talk with management intensity of competition seems to have increased during Q3 with more active campaigning by competitors. Verkkokauppa.com has repeatedly reminded that it stands ready to respond should pricing tighten and to use price as tool to speed up growth. We expect a modest gross margin of 14.1% in Q3, which is better than last year's multi-year low of 13.1%, but slightly below 14.3% of Q2.

Raisio to continue burdening margins in H2

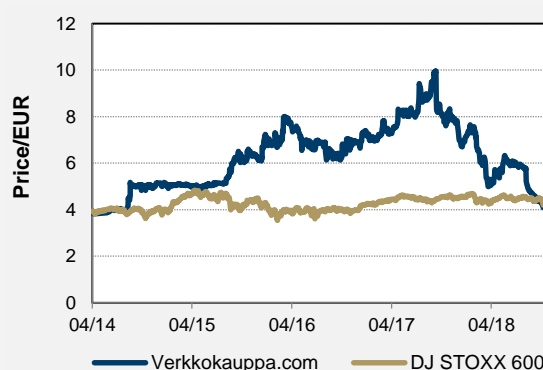
Verkkokauppa.com's new store in Raisio had a somewhat disappointing start with higher than expected OPEX and slower than anticipated ramp-up. The company has stated it will continue to invest in prices and OPEX to boost the store in H2.

Estimates cut ahead of Q3 – "Hold" intact, TP EUR 4.5 (5.7)

We have cut estimates and expect Q3 revenue of EUR 117m with adj. EBITDA of EUR 2.6m. Our FY18E adj. EBITDA estimate is down by 6%. Corresponding FY19-20E estimates are down by 3%. Peer multiples for FY18-20E have also dropped by ~10-15% since our latest update in mid-Aug. We reflect lower estimates and peer valuation in our scenario analysis and conclude risk/reward is still not attractive enough, considering there is little room for disappointments in H2 for guidance to hold, and as the risk of Amazon remains an overhang on the stock.

Rating

□ HOLD



Share price, EUR (Last trading day's closing price) 4.09

Target price, EUR 4.5

Latest change in recommendation 06-Oct-17

Latest report on company 13-Aug-18

Research paid by issuer: Yes

No. of shares outstanding, '000's 45,065

No. of shares fully diluted, '000's 45,065

Market cap, EURm 184

Free float, % 50.0

Exchange rate 0.000

Reuters code VERK.HE

Bloomberg code VERK FH

Average daily volume, EURm na.

Next interim report 26-Oct-18

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2016	371	13	3.4%	13	0.23	32.1	0.8	17.3	22.7	0.17
2017	432	12	2.7%	12	0.22	32.7	0.6	16.5	22.9	0.18
2018E	468	10	2.1%	10	0.18	23.2	0.3	-181.6	14.5	0.19
2019E	516	14	2.8%	14	0.25	16.2	0.3	22.9	10.3	0.20
2020E	597	16	2.8%	15	0.26	15.4	0.2	17.9	9.1	0.23
Market cap, EURm			184	BV per share 2018E, EUR		0.9	CAGR EPS 2017-20, %			7.0
Net debt 2018E, EURm			-41	Price/book 2018E		4.5	CAGR sales 2017-20, %			11.4
Enterprise value, EURm			144	Dividend yield 2018E, %		4.6	ROE 2018E, %			19.5
Total assets 2018E, EURm			141	Tax rate 2018E, %		19.9	ROCE 2018E, %			20.5
Goodwill 2018E, EURm			0	Equity ratio 2018E, %		29.3	PEG, P/E 18/CAGR			1.0

All the important disclosures can be found on the last pages of this report.

Verkkokauppa.com base case estimates

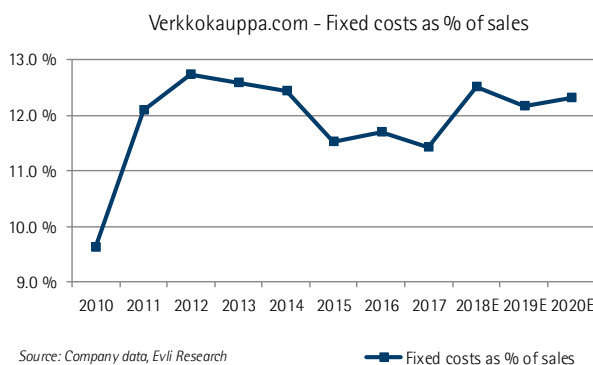
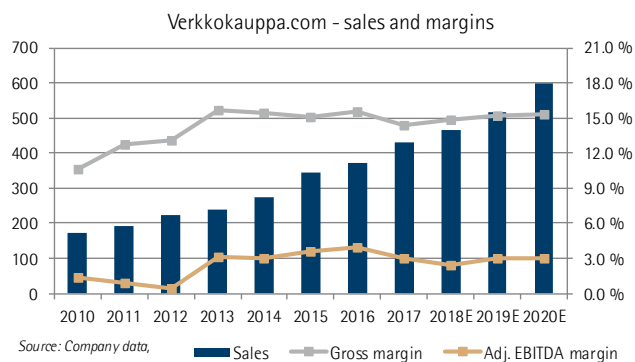
We have cut estimates and expect Q3 revenue of EUR 117m with adj. EBITDA of EUR 2.6m. Our FY18E adj. EBITDA estimate is down by 6%. Corresponding FY19-20E estimates are down by 3%. Verkkokauppa.com guides revenue of EUR 460-500m and adj. EBITDA of EUR 11-14m for 2018E. There is little room for disappointments for guidance to hold.

Verkkokauppa.com model	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	173.1	191.6	224.5	238.0	275.8	343.7	371.5	431.8	467.5	516.0	597.4
<i>Growth-%</i>	-	10.7 %	17.2 %	6.0 %	15.9 %	24.6 %	8.1 %	16.2 %	8.3 %	10.4 %	15.8 %
Cost of goods and services	-154.7	-167.1	-195.2	-200.7	-233.2	-291.9	-313.7	-369.5	-397.9	-437.6	-506.0
<i>Growth-%</i>	-	8.1 %	16.8 %	2.8 %	16.2 %	25.2 %	7.5 %	17.8 %	7.7 %	10.0 %	15.6 %
<i>% of sales</i>	89.4 %	87.2 %	86.9 %	84.3 %	84.6 %	84.9 %	84.4 %	85.6 %	85.1 %	84.8 %	84.7 %
Gross profit	18.4	24.5	29.3	37.4	42.6	51.8	57.8	62.3	69.6	78.4	91.4
<i>Gross margin</i>	10.6 %	12.8 %	13.1 %	15.7 %	15.4 %	15.1 %	15.6 %	14.4 %	14.9 %	15.2 %	15.3 %
Fixed costs adj.	-16.6	-23.2	-28.6	-29.9	-34.3	-39.6	-43.4	-49.3	-58.4	-62.8	-73.5
<i>Growth-%</i>	-	39.1 %	23.6 %	4.7 %	14.5 %	15.5 %	9.6 %	13.7 %	18.4 %	7.5 %	17.0 %
<i>% of sales</i>	9.6 %	12.1 %	12.7 %	12.6 %	12.4 %	11.5 %	11.7 %	11.4 %	12.5 %	12.2 %	12.3 %
Other income	0.6	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation and amortization	-0.8	-0.9	-0.9	-0.9	-1.0	-1.2	-1.3	-1.3	-1.4	-1.5	-1.6
NRLs included in EBIT	0.0	0.0	0.0	0.0	0.0	-3.4	-0.6	0.0	0.0	0.0	0.0
Adj. EBITDA	2.4	1.7	0.9	7.5	8.4	12.3	14.5	13.0	11.3	15.7	18.0
<i>Adj. EBITDA margin</i>	1.4 %	0.9 %	0.4 %	3.2 %	3.1 %	3.6 %	3.9 %	3.0 %	2.4 %	3.0 %	3.0 %
Adj. EBIT	1.6	0.8	0.0	6.6	7.5	11.1	13.2	11.7	9.9	14.2	16.4
<i>Adj. EBIT margin</i>	0.9 %	0.4 %	0.0 %	2.8 %	2.7 %	3.2 %	3.6 %	2.7 %	2.1 %	2.8 %	2.8 %
Reported EBIT	1.6	0.8	0.0	6.6	7.5	7.7	12.6	11.7	9.9	14.2	16.4
<i>Reported EBIT margin</i>	0.9 %	0.4 %	0.0 %	2.8 %	2.7 %	2.2 %	3.4 %	2.7 %	2.1 %	2.8 %	2.8 %
Net financials*	-0.8	-0.9	-0.7	-1.2	-1.9	-0.9	0.0	0.4	0.0	0.0	0.0
Profit before taxes	0.8	-0.1	-0.7	5.5	5.5	6.8	12.6	12.1	9.9	14.2	16.4
Taxes	-0.1	0.0	0.0	-1.4	-1.2	-1.4	-2.4	-2.3	-2.0	-2.8	-3.3
<i>Tax rate (%)</i>	16.6 %	0.0 %	0.0 %	25.6 %	22.2 %	19.9 %	19.4 %	19.3 %	19.9 %	20.0 %	20.0 %
Other items (appropriations)	-0.1	-0.2	0.0	0.1	0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Net income	0.6	-0.3	-0.7	4.2	4.5	5.4	10.2	9.8	7.9	11.4	13.2
Average number of shares (million)	7.5	7.5	7.5	7.5	7.5	45.1	45.1	45.1	45.1	45.1	45.1
EPS	0.08	-0.04	-0.09	0.56	0.60	0.12	0.23	0.22	0.18	0.25	0.29
Dividend and capital return	-	-	-	0.04	0.85	0.15	0.17	0.18	0.19	0.20	0.23
<i>Payout ratio (%)</i>				7%	142%	126%	74%	84%	108%	80%	80%

Source: Company data, Evli Research

*2014 net financials include a EUR 1.9m one-off item due to IPO

*2015 net financials include EUR 0.9m of NRLs due to the Teosto dispute



Scenario analysis – Verkkokauppa.com

Key assumptions behind base case estimates:

- No Amazon in the Nordics in the mid-term
- Competition remains tight in the market as before
- 5th store will be open in 2020E, boosting 2020E revenue by EUR 35m

Key assumptions behind pessimistic estimates:

- Amazon will have a retail business in the Nordics from start of 2019E onwards
- Amazon's entry will notably increase competition, impacting the gross margin
- Verkkokauppa.com's underlying growth slows down to ~4-5% in 2019E and 2020E (ie. without the 5th store); incl. the 5th store growth reaches 5-10% in 2019-2020E
- 5th store will be open in 2020E, boosting 2020E revenue by EUR 35m
- Slower growth vs. base case somewhat weakens fixed cost scalability

Key assumptions behind optimistic estimates:

- Consumers migrate online faster than in base case, supporting OPEX scalability
- Verkkokauppa.com's underlying growth reaches ~15% in 2019E and 2020E (ie. without the 5th store); incl. the 5th store growth reaches 17-20% in 2019-2020E
- Company reaches somewhat higher gross margin than in base case, either via easier competition or higher capital allocation to Apuraha
- No Amazon in the Nordics in the mid-term
- 5th store will be open in 2020E, boosting 2020E revenue by EUR 35m

Verkkokauppa.com Scenario estimates	2015	2016	2017	2018E	2019E	2020E	growth (%)						CAGR 17-20E
							2015	2016	2017	2018E	2019E	2020E	
Revenue													
Pessimistic	344	371	432	468	491	540	25%	8%	16%	8%	5%	10%	8%
Base case	344	371	432	468	516	597	25%	8%	16%	8%	10%	16%	11%
Optimistic	344	371	432	468	547	656	25%	8%	16%	8%	17%	20%	18%
Gross margin													
Pessimistic	15.1%	15.6%	14.4%	14.9%	14.8%	14.7%	-	-	-	-	-	-	-
Base case	15.1%	15.6%	14.4%	14.9%	15.2%	15.3%	-	-	-	-	-	-	-
Optimistic	15.1%	15.6%	14.4%	14.9%	15.4%	15.6%	-	-	-	-	-	-	-
Fixed costs as % of sales (adj.)													
Pessimistic	11.5%	11.7%	11.4%	12.5%	12.5%	12.6%	-	-	-	-	-	-	-
Base case	11.5%	11.7%	11.4%	12.5%	12.2%	12.3%	-	-	-	-	-	-	-
Optimistic	11.5%	11.7%	11.4%	12.5%	11.9%	11.8%	-	-	-	-	-	-	-
Fixed costs (adj.)													
Pessimistic	-40	-43	-49	-58	-61	-68	15%	10%	14%	18%	5%	11%	11%
Base case	-40	-43	-49	-58	-63	-73	15%	10%	14%	18%	7%	17%	14%
Optimistic	-40	-43	-49	-58	-65	-77	15%	10%	14%	18%	11%	19%	15%
Adj. EBITDA													
Pessimistic	12.3	14.5	13.0	11.3	11.4	11.4	46%	18%	-10%	-13%	1%	0%	-4%
Base case	12.3	14.5	13.0	11.3	15.7	18.0	46%	18%	-10%	-13%	39%	15%	11%
Optimistic	12.3	14.5	13.0	11.3	19.2	25.0	46%	18%	-10%	-13%	70%	30%	49%
Adj. EBIT													
Pessimistic	11.1	13.2	11.7	9.9	9.9	9.9	49%	19%	-11%	-15%	0%	0%	-6%
Base case	11.1	13.2	11.7	9.9	14.2	16.4	49%	19%	-11%	-15%	43%	15%	12%
Optimistic	11.1	13.2	11.7	9.9	17.8	23.5	49%	19%	-11%	-15%	79%	32%	54%
Adj. EBITDA margin													
Pessimistic	3.6%	3.9%	3.0%	2.4%	2.3%	2.1%	-	-	-	-	-	-	-
Base case	3.6%	3.9%	3.0%	2.4%	3.0%	3.0%	-	-	-	-	-	-	-
Optimistic	3.6%	3.9%	3.0%	2.4%	3.5%	3.8%	-	-	-	-	-	-	-
Adj. EBIT margin													
Pessimistic	3.2%	3.6%	2.7%	2.1%	2.0%	1.8%	-	-	-	-	-	-	-
Base case	3.2%	3.6%	2.7%	2.1%	2.8%	2.8%	-	-	-	-	-	-	-
Optimistic	3.2%	3.6%	2.7%	2.1%	3.2%	3.6%	-	-	-	-	-	-	-

Source: Evli Research

Verkkokauppa.com's 3yr forward EV/EBIT multiples, after each quarterly report published during 2016-2018, but before Amazon rumors picked up in spring 2018, were (based on our estimates):

- 13.6x in Feb 2016 (2018E EV/EBIT)
- 14.3x in May 2016 (2018E EV/EBIT)
- 14.4x in Aug 2016 (2018E EV/EBIT)
- 15.1x in Oct 2016 (2018E EV/EBIT)
- 12.3x in Feb 2017 (2019E EV/EBIT)
- 14.6x in May 2017 (2019E EV/EBIT)
- 15.6x in Jul 2017 (2019E EV/EBIT)
- 16.3x in Oct 2017 (2019E EV/EBIT)
- 13.2x in Feb 2018 (2020E EV/EBIT)

Based on these Verkkokauppa.com's 3yr forward EV/EBIT has been ~14x on average during 2016-2018.

Given peer EV/EBITDA and EV/EBIT multiples for FY18-20E have recently declined by ~10-15% (see page 5), we now value our (lowered) base case 2020E EBIT at 12x (previously 14x) and arrive to EUR 5 (7) fair value. We now value our (lowered) pessimistic 2020E EBIT estimate at 10x (previously 11x), which yields a fair value of EUR 3 (4). We now value our (lowered) optimistic 2020E EBIT estimate at 14x (previously 15x) and arrive to EUR 8 (9) fair value.

	EV/EBIT 2020E					
	6.0x	8.0x	10.0x	12.0x	14.0x	16.0x
Pessimistic						
EV (with 2020E pessimistic EBIT)	59	79	99	118	138	158
Net debt 2018E	-41	-41	-41	-41	-41	-41
Equity value	100	119	139	159	179	198
Equity value per share	2.2	2.7	3.1	3.5	4.0	4.4
Base case						
EV (with 2020E base case EBIT)	99	132	164	197	230	263
Net debt 2018E	-41	-41	-41	-41	-41	-41
Equity value	139	172	205	238	271	304
Equity value per share	3.1	3.8	4.5	5.3	6.0	6.7
Optimistic						
EV (with 2020E optimistic EBIT)	141	188	235	281	328	375
Net debt 2018E	-41	-41	-41	-41	-41	-41
Equity value	181	228	275	322	369	416
Equity value per share	4.0	5.1	6.1	7.1	8.2	9.2

Source: Evli Research

Giving 40%/50%/10% weights to pessimistic/base/optimistic estimates, we arrive to a target price of EUR 4.5. We currently give more emphasis to pessimistic and base case estimates than to optimistic estimates, as there is little room for disappointments in H2 for guidance to hold, and as the risk of Amazon remains an overhang on the stock.

Scenario	Fair value	Weight (%)	Comment
Pessimistic	3	40%	2020E EV/EBIT 10x
Base case	5	50%	2020E EV/EBIT 12x
Optimistic	8	10%	2020E EV/EBIT 14x
Weighted average	4.5	100%	
Target price (EUR)	4.5		

Source: Evli Research

Valuation vs. peers

Median EV/EBITDA and EV/EBIT multiples among online-focused Nordic and European peers, which is our primary peer group for Verkkokauppa.com, were at the time of our latest update in mid-August 2018:

- EV/EBITDA: 24.4x for 2018E, 13.3x for 2019E and 10.1x for 2020E
- EV/EBIT: 21.6x for 2018E, 18.1x for 2019E and 13.7x for 2020E

Current median multiples for the online-focused Nordic and European peer group are:

- EV/EBITDA: 20.5x for 2018E, 11.8x for 2019E and 9.0x for 2020E
- EV/EBIT: 18.7x for 2018E, 16.0x for 2019E and 10.7x for 2020E

Peer multiples have thus declined by ~10-15% for 2018-2020E since our latest update in mid-August.

VERKKOKAUPPA.COM PEER GROUP	EV/Sales 18	EV/Sales 19	EV/Sales 20	EV/EBITDA 18	EV/EBITDA 19	EV/EBITDA 20	EV/EBIT 18	EV/EBIT 19	EV/EBIT 20	Sales CAGR 17-20	EPS CAGR 17-20
Online-focused Nordic and European peers											
ASOS plc	1.7x	1.3x	1.1x	24.8x	19.1x	14.9x	39.8x	32.6x	26.3x	24.3 %	24.7 %
Delticom AG	0.2x	0.1x	0.1x	8.7x	6.2x	5.2x	18.7x	9.3x	7.4x	5.9 %	90.0 %
Dustin Group AB	0.8x	0.6x	0.6x	16.2x	11.9x	10.8x	18.3x	13.4x	11.9x	7.1 %	10.2 %
Groupe LDLC SA	0.3x	0.2x	0.2x	8.1x	6.3x	5.0x	12.1x	8.9x	6.7x	13.9 %	34.7 %
Qliro Group AB	0.6x	0.6x	0.5x	90.8x	11.6x	7.2x		18.5x	9.4x	-2.6 %	105.8 %
Zalando SE	1.3x	1.1x	0.9x	29.1x	22.0x	17.1x	48.7x	34.3x	26.5x	20.6 %	20.1 %
Physical store-focused Nordic and European peers											
CECONOMY AG	0.1x	0.1x	0.1x	2.0x	1.8x	1.6x	2.9x	2.6x	2.3x	-0.1 %	5.4 %
Dixons Carphone plc	0.2x	0.2x	0.2x	4.3x	4.1x	4.0x	6.6x	6.4x	6.1x	0.5 %	-6.0 %
Unieuro SpA	0.1x	0.1x		3.0x	2.7x		4.5x	4.1x		na.	na.
XXL ASA	0.7x	0.6x	0.6x	8.9x	7.4x	6.5x	11.6x	9.3x	8.1x	12.0 %	9.9 %
Large international e-commerce peers											
Alibaba Group Holding Ltd. Sponsored ADR	6.0x	4.1x	2.9x	18.1x	13.0x	9.3x	32.5x	20.3x	13.4x	39.1 %	22.9 %
Amazon.com, Inc.	3.5x	2.8x	2.3x	25.7x	19.5x	14.1x	75.2x	47.1x	30.4x	27.5 %	108.4 %
eBay Inc.	3.2x	2.8x	2.4x	9.5x	8.6x	7.3x	11.6x	10.5x	8.8x	11.5 %	17.2 %
JD.com, Inc. Sponsored ADR Class A	0.5x	0.4x	0.3x	44.7x	20.0x	11.9x		88.5x	27.3x	23.6 %	na.
Rakuten, Inc.	1.2x	1.1x	1.0x	6.6x	7.5x	7.3x	9.8x	12.7x	13.3x	14.6 %	-19.3 %
Online-focused Nordic and European peers	0.7x	0.6x	0.6x	20.5x	11.8x	9.0x	18.7x	16.0x	10.7x	10.5 %	29.7 %
Physical store-focused Nordic and European peers	0.1x	0.1x	0.2x	3.6x	3.4x	4.0x	5.6x	5.3x	6.1x	0.5 %	5.4 %
Large international e-commerce peers	3.2x	2.8x	2.3x	18.1x	13.0x	9.3x	22.1x	20.3x	13.4x	23.6 %	20.1 %
Verkkokauppa.com (Evli est.)	0.3x	0.3x	0.2x	12.7x	9.3x	8.3x	14.4x	10.3x	9.1x	11.4 %	7.0 %
<i>Verkkokauppa.com vs. Online-focused Nordic and EU peers median</i>	-56%	-53%	-55%	-38%	-21%	-8%	-23%	-36%	-15%		

VERKKOKAUPPA.COM PEER GROUP	EBIT-% 18	EBIT-% 19	EBIT-% 20	ROCE-% 18	ROCE-% 19	ROCE-% 20	Div-% 18	Div-% 19	Div-% 20	ROE 18	P/B 18
Online-focused Nordic and European peers											
ASOS plc	4.1%	4.1%	4.2%	20.0%	19.9%	19.8%	0.0%	0.0%	0.0%	21.3%	10.7x
Delticom AG	0.8%	1.5%	1.7%				3.7%	6.8%	8.7%	6.6%	1.8x
Dustin Group AB	4.4%	4.7%	5.0%	11.3%	12.8%	13.8%	3.5%	4.0%	4.6%	20.9%	4.1x
Groupe LDLC SA	2.1%	2.6%	2.9%				2.9%	3.7%	4.9%	10.6%	1.3x
Qliro Group AB	-1.3%	3.0%	5.4%	-2.1%	5.1%	9.1%	0.0%	0.0%	0.0%	-14.0%	2.0x
Zalando SE	2.7%	3.2%	3.5%	8.8%	12.0%	14.5%	0.0%	0.0%	0.0%	5.2%	5.0x
Physical store-focused Nordic and European peers											
CECONOMY AG	2.1%	2.2%	2.3%	24.2%	23.5%	22.7%	4.4%	6.0%	6.5%	25.4%	2.3x
Dixons Carphone plc	3.0%	3.0%	3.1%				7.0%	7.0%	7.1%	7.2%	0.6x
Unieuro SpA	2.2%	2.3%					9.5%	9.5%		42.4%	2.4x
XXL ASA	6.2%	7.0%	7.2%	11.9%	13.8%	14.6%	4.8%	5.6%	6.3%	11.5%	1.4x
Large international e-commerce peers											
Alibaba Group Holding Ltd. Sponsored ADR	18.4%	20.4%	22.0%	11.2%	14.5%	16.9%	0.0%	0.0%	0.0%	21.0%	5.4x
Amazon.com, Inc.	4.7%	6.0%	7.5%	11.9%	14.9%	17.0%	0.0%	0.0%	0.0%	19.9%	19.7x
eBay Inc.	27.2%	26.9%	27.4%	14.0%	15.6%	16.6%	0.0%	0.0%	0.0%	32.4%	4.4x
JD.com, Inc. Sponsored ADR Class A	-0.4%	0.4%	1.0%	-2.6%	3.3%	8.9%	0.0%	0.0%	0.0%	7.4%	4.7x
Rakuten, Inc.	12.3%	8.7%	7.5%	6.4%	4.7%	4.2%	0.6%	0.6%	0.6%	11.3%	1.5x
Online-focused Nordic and European peers	2.4%	3.1%	3.8%	10.1%	12.4%	14.2%	1.4%	1.8%	2.3%	8.6%	3.1x
Physical store-focused Nordic and European peers	2.6%	2.6%	3.1%	18.1%	18.7%	18.6%	5.9%	6.5%	6.5%	18.5%	1.9x
Large international e-commerce peers	12.3%	8.7%	7.5%	11.2%	14.5%	16.6%	0.0%	0.0%	0.0%	19.9%	4.7x
Verkkokauppa.com (Evli est.)	2.1 %	2.8 %	2.8 %	20.5%	23.0%	21.8%	4.7%	4.9%	5.7%	19.5%	4.5x

Source: Factset, Evli research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	4.09 PV of Free Cash Flow	91 Long-term growth, %	2.5 Risk-free interest rate, %	2.25
DCF share value	7.93 PV of Horizon value	223 WACC, %	7.0 Market risk premium, %	5.8
Share price potential, %	93.8 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	8.8 Marketable securities	52 Minimum WACC, %	6.5 Equity beta coefficient	0.80
Minimum value	7.2 Debt - dividend	-8 Maximum WACC, %	7.5 Target debt ratio, %	20
Horizon value, %	71.1 Value of stock	357 Nr of shares, Mn	45.1 Effective tax rate, %	26

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	432	468	516	597	627	659	692	726	763	801	821	841
<i>Sales growth, %</i>	16.2	8.3	10.4	15.8	5.0	5.0	5.0	5.0	5.0	5.0	2.5	2.5
Operating income (EBIT)	12	10	14	16	20	23	24	25	27	24	25	25
<i>EBIT margin, %</i>	2.7	2.1	2.8	2.8	3.2	3.5	3.5	3.5	3.5	3.0	3.0	3.0
+ Depreciation+amort.	1	1	1	2	2	2	3	3	3	4	4	
- Income taxes	-2	-2	-3	-3	-4	-5	-5	-5	-5	-5	-5	
- Change in NWC	9	-10	-5	-4	0	0	0	0	0	0	0	
<i>NWC/Sales, %</i>	-3.2	-0.7	0.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-2	-2	-2	-3	-3	-3	-4	-4	-4	-4	-5	-5
<i>Investments/Sales, %</i>	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	17	-3	6	8	14	17	18	19	20	18	18	417
= Discounted FCF (DFCF)		-3	5	7	12	13	13	12	12	10	10	223
= DFCF min WACC		-3	5	7	12	13	13	13	13	11	10	262
= DFCF max WACC		-3	5	6	11	12	12	12	12	10	9	192

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3E	2018Q4E	2018E	2019E	2020E
Net sales	100	99	105	127	432	103	102	117	146	468	516	597
EBITDA	2	3	2	6	13	2	1	3	6	11	16	18
<i>EBITDA margin (%)</i>	2.4	2.6	2.0	4.7	3.0	2.3	0.7	2.3	3.8	2.4	3.0	3.0
EBIT	2	2	2	6	12	2	0	2	5	10	14	16
<i>EBIT margin (%)</i>	2.1	2.3	1.6	4.4	2.7	2.0	0.4	2.0	3.6	2.1	2.8	2.8
Net financial items	0	0	0	0	0	0	0	0	0	0	0	-2
Pre-tax profit	2	2	2	6	12	2	0	2	5	10	14	15
Tax	-1	0	0	-1	-2	0	0	0	-1	-2	-3	-3
<i>Tax rate (%)</i>	28.8	20.8	20.3	14.9	19.3	19.3	21.2	20.0	20.0	19.9	20.0	20.0
Net profit	2	2	1	5	10	2	0	2	4	8	11	12
EPS	0.03	0.04	0.03	0.11	0.22	0.04	0.01	0.04	0.09	0.18	0.25	0.26
EPS adjusted (diluted no. of shares)	0.03	0.04	0.03	0.11	0.22	0.04	0.01	0.04	0.09	0.18	0.25	0.26
Dividend per share	0.00	0.00	0.00	0.00	0.18	0.00	0.00	0.00	0.00	0.19	0.20	0.23
SALES, EURm												
Verkkokauppa.com	100	99	105	127	432	103	102	117	146	468	516	597
Total	100	99	105	127	432	103	102	117	146	468	516	597
SALES GROWTH, Y/Y %												
Verkkokauppa.com	19.6	23.7	13.8	10.5	16.2	2.6	3.2	11.0	14.4	8.3	10.4	15.8
Total	19.6	23.7	13.8	10.5	16.2	2.6	3.2	11.0	14.4	8.3	10.4	15.8
EBIT, EURm												
Verkkokauppa.com	2	2	2	6	12	2	0	2	5	10	14	16
Total	2	2	2	6	12	2	0	2	5	10	14	16
EBIT margin, %												
Verkkokauppa.com	2.1	2.3	1.6	4.4	2.7	2.0	0.4	2.0	3.6	2.1	2.8	2.8
Total	2.1	2.3	1.6	4.4	2.7	2.0	0.4	2.0	3.6	2.1	2.8	2.8

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	238	276	344	371	432	468	516	597
<i>Sales growth (%)</i>	6.0	15.9	24.6	8.1	16.2	8.3	10.4	15.8
Costs	-230	-267	-331	-357	-419	-456	-500	-579
Reported EBITDA	8	8	12	14	13	11	16	18
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	3.2	3.1	3.6	3.8	3.0	2.4	3.0	3.0
Depreciation	-1	-1	-1	-1	-1	-1	-1	-2
EBITA	7	7	11	13	12	10	14	16
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	7	7	11	13	12	10	14	16
<i>EBIT margin (%)</i>	2.8	2.7	3.2	3.4	2.7	2.1	2.8	2.8
Net financials	-1	-2	-1	0	0	0	0	-2
Pre-tax profit	5	6	10	13	12	10	14	15
Extraordinary items	0	0	-3	-1	0	0	0	0
Taxes	-1	-1	-1	-2	-2	-2	-3	-3
Minority shares	0	0	0	0	0	0	0	0
Net profit	4	4	5	10	10	8	11	12
BALANCE SHEET, EURm								
Assets								
Fixed assets	3	3	3	3	3	4	5	6
<i>% of sales</i>	1	1	1	1	1	1	1	1
Goodwill	0	0	0	0	0	0	0	0
<i>% of sales</i>	0	0	0	0	0	0	0	0
Inventory	23	31	39	44	48	51	57	66
<i>% of sales</i>	10	11	11	12	11	11	11	11
Receivables	8	8	9	12	21	29	38	48
<i>% of sales</i>	3	3	3	3	5	6	7	8
Liquid funds	23	35	31	42	52	56	62	72
<i>% of sales</i>	10	13	9	11	12	12	12	12
Total assets	57	77	81	101	124	141	161	191
Liabilities								
Equity	8	37	36	39	41	41	43	46
<i>% of sales</i>	3	13	10	10	9	9	8	8
Deferred taxes	0	0	0	0	0	0	0	0
<i>% of sales</i>	0	0	0	0	0	0	0	0
Interest bearing debt	7	2	0	0	0	16	24	37
<i>% of sales</i>	3	1	0	0	0	3	5	6
Non-interest bearing current liabilities	41	38	45	61	82	84	93	108
<i>% of sales</i>	17	14	13	17	19	18	18	18
Other interest free debt	1	0	0	0	0	0	0	0
<i>% of sales</i>	0	0	0	0	0	0	0	0
Total liabilities	57	77	81	101	124	141	161	191
CASH FLOW, EURm								
+ EBITDA	8	8	12	14	13	11	16	18
- Net financial items	-1	-2	-1	0	0	0	0	-2
- Taxes	-1	-1	-1	-2	-2	-2	-3	-3
- Increase in Net Working Capital	6	-11	-2	8	9	-10	-5	-4
+/- Other	0	17	-4	-1	0	0	0	0
= Cash flow from operations	11	11	5	19	20	-1	8	9
- Capex	0	-1	-1	-1	-2	-2	-2	-3
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	11	10	4	18	18	-3	6	6
+/- Change in interest-bearing debt	-2	-5	-2	0	0	16	9	12
+/- New issues/buybacks	0	25	0	0	0	0	0	0
- Paid dividend	0	0	-6	-7	-7	-8	-9	-9
+/- Change in loan receivables	0	0	0	0	0	0	0	0
Change in cash	9	29	-5	11	10	4	6	10

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	230	324	333	319	184	184	184
Net debt	-33	-31	-42	-52	-41	-38	-35
Enterprise value	196	294	291	267	144	147	149
Sales	276	344	371	432	468	516	597
EBITDA	8	12	14	13	11	16	18
EBIT	7	11	13	12	10	14	16
Pre-tax	6	10	13	12	10	14	15
Earnings	4	9	10	10	8	11	12
Book value	37	36	39	41	41	43	46
Valuation multiples							
EV/sales	0.7	0.9	0.8	0.6	0.3	0.3	0.2
EV/EBITDA	23.3	24.0	20.6	20.5	12.7	9.3	8.3
EV/EBITA	26.3	26.5	22.7	22.9	14.5	10.3	9.1
EV/EBIT	26.3	26.5	22.7	22.9	14.5	10.3	9.1
EV/operating cash flow	-43.0	32.0	15.1	13.9	-141.6	18.2	14.5
EV/cash earnings	37.4	29.3	25.0	24.1	15.4	11.4	11.0
P/E	53.4	37.0	32.1	32.7	23.2	16.2	15.4
P/E excl. goodwill	53.4	37.0	32.1	32.7	23.2	16.2	15.4
P/B	6.3	9.1	8.6	7.8	4.5	4.2	4.0
P/sales	0.8	0.9	0.9	0.7	0.4	0.4	0.3
P/CF	-50.3	35.4	17.3	16.5	-181.6	22.9	17.9
Target EV/EBIT	0.0	0.0	0.0	0.0	16.3	11.6	10.2
Target P/E	0.0	0.0	0.0	0.0	25.5	17.8	17.0
Target P/B	0.0	0.0	0.0	0.0	5.0	4.7	4.4
Per share measures							
Number of shares	7,511	45,065	45,065	45,065	45,065	45,065	45,065
Number of shares (diluted)	7,511	45,065	45,065	45,065	45,065	45,065	45,065
EPS	0.57	0.19	0.23	0.22	0.18	0.25	0.26
EPS excl. goodwill	0.57	0.19	0.23	0.22	0.18	0.25	0.26
Cash EPS	0.70	0.22	0.26	0.25	0.21	0.29	0.30
Operating cash flow per share	-0.61	0.20	0.43	0.43	-0.02	0.18	0.23
Capital employed per share	0.44	0.11	-0.07	-0.24	0.00	0.13	0.25
Book value per share	4.88	0.79	0.86	0.91	0.90	0.96	1.03
Book value excl. goodwill	4.88	0.79	0.86	0.91	0.90	0.96	1.03
Dividend per share	0.85	0.15	0.17	0.18	0.19	0.20	0.23
Dividend payout ratio, %	148.4	77.1	72.2	84.2	107.8	80.0	88.2
Dividend yield, %	2.8	2.1	2.2	2.6	4.6	4.9	5.7
Efficiency measures							
ROE	19.3	24.3	27.9	24.5	19.5	27.1	26.6
ROCE	27.8	29.9	34.5	29.4	20.5	23.0	21.8
Financial ratios							
Capex/sales, %	0.2	0.4	0.3	0.4	0.4	0.5	0.5
Capex/depreciation excl. goodwill, %	71.4	109.1	73.1	129.6	147.4	160.8	170.2
Net debt/EBITDA, book-weighted	-4.0	-2.5	-3.0	-4.0	-3.6	-2.4	-1.9
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Equity ratio, book-weighted	48.7	45.2	39.3	33.7	29.3	27.4	24.5
Gearing	-0.91	-0.86	-1.08	-1.27	-1.00	-0.87	-0.76
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION: Verkkokauppa.com is a Finnish retailer offering over 50,000 products in over 20 different main product categories. The company's primary business is to retail home appliances and consumer electronics, although the company has expanded its offering to cover other areas as well. Majority of revenue comes from B2C sales although the company has some B2B sales as well. The company's operations are in Finland.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Seppälä Samuli Sipi	22,487,496	91.974	49.9%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	2,304,509	9.425	5.1%
Keva	2,171,000	8.879	4.8%
Keskinäinen Työeläkevakuutusyhti	2,065,932	8.450	4.6%
Rite Ventures Finland Ab	1,967,576	8.047	4.4%
Sijoitusrahasto Nordea Nordic Small Cap	1,456,340	5.956	3.2%
Fondita Nordic Micro Cap Placeringsf	1,125,000	4.601	2.5%
Op-Suomi -Sijoitusrahasto	984,595	4.027	2.2%
Sijoitusrahasto Evli Suomi Pienyhtiöt	651,252	2.664	1.4%
Skogberg Ville Johannes	634,266	2.594	1.4%
Ten largest	35,847,966	146.618	80%
Residual	9,217,164	37.698	20%
Total	45,065,130	184.316	100%

EARNINGS CALENDAR

October 26, 2018

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Panu Porkka

Tyynenmerenkatu 11, 00220 Helsinki

CFO: Jussi Tallgren

Tel: +358 10 309 5555

IR: Jussi Tallgren

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales	$\frac{\text{Market cap}}{\text{Sales}}$	DPS	Dividend for the financial period per share
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS	$\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF	$\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share	$\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share	$\frac{\text{Sales}}{\text{Number of shares}}$
Net debt	Interest bearing debt – financial assets	EBITDA/Share	$\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share	$\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share	$\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share	$\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets	Balance sheet total
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x)	$\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share	$\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year

Important Disclosures

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<https://research.evli.com/JasperAllModels.action?authParam=key:461&authParam=x:G3rNagWrtf7K&authType=3>

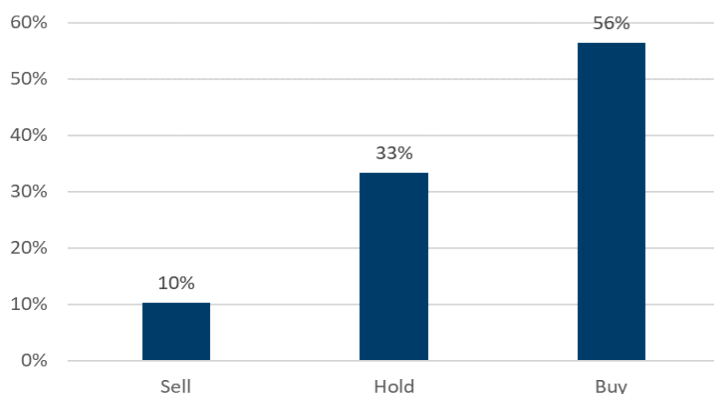
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:

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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 16th of April 2018. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Häyhä

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