

Shifts focus towards profitability

Verkkokauppa.com's Q4 result didn't meet the expectations as sales were negatively impacted by the postal strike and the changed timing of tax refunds. Q4 sales were EUR 159.9m (Evli 168.9m) while EBIT amounted to EUR 4.5m (Evli 6.0m). We keep our rating "HOLD" with TP of EUR 3.5 (3.3).

Q4 result hampered by the postal strike

Verkkokauppa.com's Q4 result missed expectations as sales growth of 2.6% y/y remained below market growth (Gfk: 4.4%), amounting to EUR 159.9m vs. our EUR 168.9m (cons. 164m). Headwind from the postal strike was stronger than anticipated and the changed timing of tax refunds hampered December sales. Black Friday sales were however better than ever. Gross profit was down by 3% y/y due to heavy campaigning during Black Friday. EBIT was EUR 4.5m vs. our EUR 6.0m (cons. 5.6m) resulting from weakened gross profit. '19 dividend proposal was in line at EUR 0.21 vs. our EUR 0.21 (cons. 0.21).

Prioritizing profitability in '20E

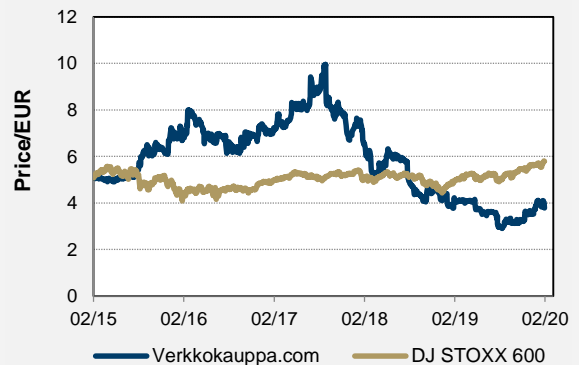
Verkkokauppa.com has normally prioritized growth over profitability, which has weighed down margins, as the competition in the consumer electronics market has been extremely tight and price driven. In '20E, the company shifts its focus towards profitability and aims for more moderate growth. We thus expect the growth to be somewhat in line with the market growth (GfK '19 estimate: 2.9% y/y). In order to strengthen efficiency especially in logistics, the company has commenced to seek opportunities within drop shipping (direct delivery from manufacturer to the customer). This allows Verkkokauppa.com to expand its product assortment without logistical pressures. The company also aims to launch a new subcategory in H1'20E and to increase its private label assortment during 20E, which should have a positive impact on profitability, as private labels normally provide better margins. We expect '20E-'21E sales growth of 3.2-3.5% y/y and EBIT growth of 12-18% y/y.

"HOLD" with TP of EUR 3.5 (3.3)

Verkkokauppa.com guided '20E revenue of EUR 510m-530m and EBIT of EUR 12-15m. We have lowered our '20E sales estimate by some 5% and expect '20E sales of EUR 520m (3.2% y/y), which is at the midpoint of the guidance. Our view of EBIT development is rather conservative as the market is highly competitive and price driven. Despite of the good control over costs we expect to get more visibility on the actions to be taken for more efficient operations. We expect EBIT to grow by ~18% y/y in '20E, amounting to EUR 13.3m. On our estimates, Verkkokauppa.com trades at '20E-'21E EV/EBIT multiple of 10.1x and 9.0x, which translates into ~60-70% discount compared to the peers. We keep our rating "HOLD" with TP of EUR 3.5 (3.3).

Rating

HOLD



Share price, EUR (Last trading day's closing price) 3.78

Target price, EUR 3.5

Latest change in rating 12-Aug-19

Latest report on company 05-Feb-20

Research paid by issuer: YES

No. of shares outstanding, 45,065

No. of shares fully diluted, 45,065

Market cap, EURm 170

Free float, % 50.0

Exchange rate 1.000

Reuters code VERK.HE

Bloomberg code VERK FH

Average daily volume, EURm na.

Next interim report 24-Apr-20

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BUY HOLD SELL

KEY FIGURES

| | Sales EURm | EBIT EURm | EBIT % | FCF EURm | EPS EUR | P/E (x) | EV/Sales (x) | EV/EBIT (x) | FCF yield % | DPS EUR |
|--------------------------|---------------|--------------|-------------------------|-------------|------------|------------|-----------------------|----------------|----------------|------------|
| 2018 | 477.8 | 13.3 | 2.8% | 6.4 | 0.21 | 19.8 | 0.3 | 12.3 | 3.5 | 0.20 |
| 2019 | 504.1 | 11.3 | 2.2% | 7.4 | 0.17 | 20.4 | 0.3 | 12.4 | 4.6 | 0.21 |
| 2020E | 520.1 | 13.3 | 2.6% | 26.5 | 0.21 | 18.1 | 0.3 | 10.1 | 15.5 | 0.22 |
| 2021E | 538.2 | 14.9 | 2.8% | 10.7 | 0.24 | 16.1 | 0.2 | 9.0 | 6.3 | 0.23 |
| 2022E | 557.3 | 16.5 | 3.0% | 12.2 | 0.28 | 13.6 | 0.2 | 8.0 | 7.2 | 0.25 |
| Market cap, EURm | | 170 | Gearing 2020E, % | | | -98.8 | CAGR EPS 2019-22, % | | | 17.1 |
| Net debt 2020E, EURm | | -36 | Price/book 2020E | | | 4.7 | CAGR sales 2019-22, % | | | 3.4 |
| Enterprise value, EURm | | 134 | Dividend yield 2020E, % | | | 5.8 | ROE 2020E, % | | | 25.9 |
| Total assets 2020E, EURm | | 170 | Tax rate 2020E, % | | | 20.0 | ROCE 2020E, % | | | 23.1 |
| Goodwill 2020E, EURm | | 0 | Equity ratio 2020E, % | | | 21.8 | PEG, P/E 20/CAGR | | | 1.1 |

Estimates

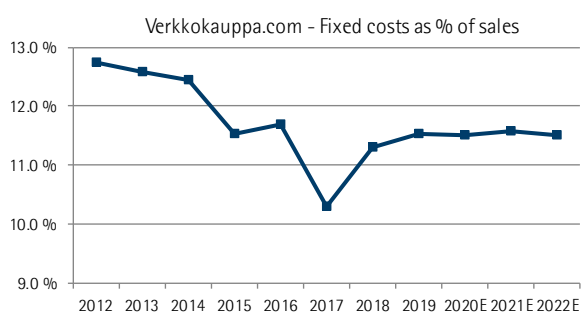
| Verkkokauppa.com model | 2011 FAS | 2012 FAS | 2013 FAS | 2014 FAS | 2015 FAS | 2016 FAS | 2017 IFRS | 2018 IFRS | 2019 IFRS | 2020E IFRS | 2021E IFRS | 2022E IFRS |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sales | 191.6 | 224.5 | 238.0 | 275.8 | 343.7 | 371.5 | 431.9 | 477.8 | 504.1 | 520.1 | 538.2 | 557.3 |
| <i>Growth-%</i> | <i>10.7 %</i> | <i>17.2 %</i> | <i>6.0 %</i> | <i>15.9 %</i> | <i>24.6 %</i> | <i>8.1 %</i> | <i>16.3 %</i> | <i>10.6 %</i> | <i>5.5 %</i> | <i>3.2 %</i> | <i>3.5 %</i> | <i>3.6 %</i> |
| Cost of goods and services | -167.1 | -195.2 | -200.7 | -233.2 | -291.9 | -313.7 | -369.4 | -405.8 | -430.2 | -442.3 | -456.4 | -472.0 |
| <i>Growth-%</i> | <i>8.1 %</i> | <i>16.8 %</i> | <i>2.8 %</i> | <i>16.2 %</i> | <i>25.2 %</i> | <i>7.5 %</i> | <i>17.8 %</i> | <i>9.9 %</i> | <i>6.0 %</i> | <i>2.8 %</i> | <i>3.2 %</i> | <i>3.4 %</i> |
| <i>% of sales</i> | <i>87.2 %</i> | <i>86.9 %</i> | <i>84.3 %</i> | <i>84.6 %</i> | <i>84.9 %</i> | <i>84.4 %</i> | <i>85.5 %</i> | <i>84.9 %</i> | <i>85.3 %</i> | <i>85.0 %</i> | <i>84.8 %</i> | <i>84.7 %</i> |
| Gross profit | 24.5 | 29.3 | 37.4 | 42.6 | 51.8 | 57.8 | 62.5 | 72.0 | 73.9 | 77.8 | 81.8 | 85.3 |
| <i>Gross margin</i> | <i>12.8 %</i> | <i>13.1 %</i> | <i>15.7 %</i> | <i>15.4 %</i> | <i>15.1 %</i> | <i>15.6 %</i> | <i>14.5 %</i> | <i>15.1 %</i> | <i>14.7 %</i> | <i>15.0 %</i> | <i>15.2 %</i> | <i>15.3 %</i> |
| Fixed costs adj. | -23.2 | -28.6 | -29.9 | -34.3 | -39.6 | -43.4 | -44.5 | -54.0 | -58.1 | -59.8 | -62.2 | -64.1 |
| <i>Growth-%</i> | <i>39.1 %</i> | <i>23.6 %</i> | <i>4.7 %</i> | <i>14.5 %</i> | <i>15.5 %</i> | <i>9.6 %</i> | <i>2.5 %</i> | <i>21.4 %</i> | <i>7.6 %</i> | <i>3.0 %</i> | <i>4.0 %</i> | <i>3.0 %</i> |
| <i>% of sales</i> | <i>12.1 %</i> | <i>12.7 %</i> | <i>12.6 %</i> | <i>12.4 %</i> | <i>11.5 %</i> | <i>11.7 %</i> | <i>10.3 %</i> | <i>11.3 %</i> | <i>11.5 %</i> | <i>11.5 %</i> | <i>11.6 %</i> | <i>11.5 %</i> |
| Other income | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 |
| Depreciation and amortization | -0.9 | -0.9 | -0.9 | -1.0 | -1.2 | -1.3 | -4.6 | -5.1 | -5.1 | -5.1 | -5.2 | -5.2 |
| NRI included in EBIT | 0.0 | 0.0 | 0.0 | 0.0 | -3.4 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adj. EBITDA | 1.7 | 0.9 | 7.5 | 8.4 | 12.3 | 14.5 | 18.0 | 18.4 | 16.3 | 18.4 | 20.1 | 21.7 |
| <i>Adj. EBITDA margin</i> | <i>0.9 %</i> | <i>0.4 %</i> | <i>3.2 %</i> | <i>3.1 %</i> | <i>3.6 %</i> | <i>3.9 %</i> | <i>4.2 %</i> | <i>3.9 %</i> | <i>3.2 %</i> | <i>3.5 %</i> | <i>3.7 %</i> | <i>3.9 %</i> |
| Adj. EBIT | 0.8 | 0.0 | 6.6 | 7.5 | 11.1 | 13.2 | 13.5 | 13.3 | 11.3 | 13.3 | 14.9 | 16.46 |
| <i>Adj. EBIT margin</i> | <i>0.4 %</i> | <i>0.0 %</i> | <i>2.8 %</i> | <i>2.7 %</i> | <i>3.2 %</i> | <i>3.6 %</i> | <i>3.1 %</i> | <i>2.8 %</i> | <i>2.2 %</i> | <i>2.6 %</i> | <i>2.8 %</i> | <i>3.0 %</i> |
| Reported EBIT | 0.8 | 0.0 | 6.6 | 7.5 | 7.7 | 12.6 | 13.5 | 13.3 | 11.3 | 13.3 | 14.9 | 16.5 |
| <i>Reported EBIT margin</i> | <i>0.4 %</i> | <i>0.0 %</i> | <i>2.8 %</i> | <i>2.7 %</i> | <i>2.2 %</i> | <i>3.4 %</i> | <i>3.1 %</i> | <i>2.8 %</i> | <i>2.2 %</i> | <i>2.6 %</i> | <i>2.8 %</i> | <i>3.0 %</i> |
| Net financials* | -0.9 | -0.7 | -1.2 | -1.9 | -0.9 | 0.0 | -1.6 | -1.7 | -1.5 | -1.5 | -1.6 | -1.6 |
| Profit before taxes | -0.1 | -0.7 | 5.5 | 5.5 | 6.8 | 12.6 | 11.8 | 11.7 | 9.7 | 11.8 | 13.3 | 14.9 |
| Taxes | 0.0 | 0.0 | -1.4 | -1.2 | -1.4 | -2.4 | -2.4 | -2.3 | -2.0 | -2.4 | -2.7 | -3.0 |
| <i>Tax rate (%)</i> | <i>0.0 %</i> | <i>0.0 %</i> | <i>25.6 %</i> | <i>22.2 %</i> | <i>19.9 %</i> | <i>19.4 %</i> | <i>20.0 %</i> | <i>20.0 %</i> | <i>20.1 %</i> | <i>20.0 %</i> | <i>20.0 %</i> | <i>20.0 %</i> |
| Other items (appropriations) | -0.2 | 0.0 | 0.1 | 0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income | -0.3 | -0.7 | 4.2 | 4.5 | 5.4 | 10.2 | 9.5 | 9.3 | 7.8 | 9.4 | 10.6 | 11.9 |
| Average number of shares (million) | 7.5 | 7.5 | 7.5 | 7.5 | 45.1 | 45.1 | 45.1 | 45.1 | 45.1 | 45.1 | 45.1 | 45.1 |
| EPS | -0.04 | -0.09 | 0.56 | 0.60 | 0.12 | 0.23 | 0.21 | 0.21 | 0.17 | 0.21 | 0.24 | 0.26 |
| Dividend and capital return | - | - | 0.04 | 0.85 | 0.15 | 0.17 | 0.18 | 0.20 | 0.21 | 0.22 | 0.23 | 0.25 |
| <i>Payout ratio (%)</i> | | | <i>7 %</i> | <i>142 %</i> | <i>126 %</i> | <i>74 %</i> | <i>87 %</i> | <i>96 %</i> | <i>122 %</i> | <i>105 %</i> | <i>98 %</i> | <i>95 %</i> |

Source: Company data, Evli Research

Note: IFRS figures include impact of IFRS 16 from 2017 onwards

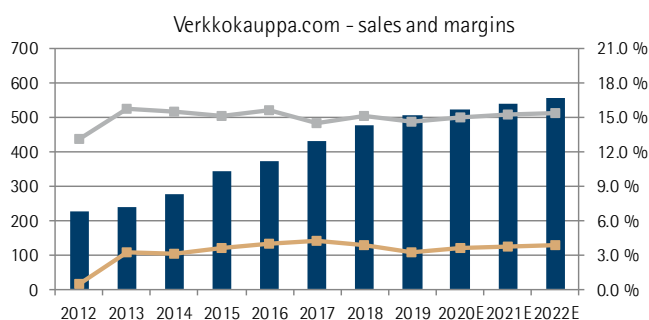
*2014 net financials include a EUR 1.9m one-off item due to IPO

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



Source: Company data, Evli Research

■ Fixed costs as % of sales



Source: Company data, Evli Research

■ Sales ■ Gross margin ■ Adj. EBITDA margin

Valuation

| VERKKOKAUPPA.COM PEER GROUP | EV/Sales 19 | EV/Sales 20 | EV/Sales 21 | EV/EBITDA 19 | EV/EBITDA 20 | EV/EBITDA 21 | EV/EBIT 19 | EV/EBIT 20 | EV/EBIT 21 | Sales CAGR 18-21 | EPS CAGR 18-21 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Online-focused Nordic and European peers | | | | | | | | | | | |
| ASOS plc | 1.1x | 0.9x | 0.8x | 27.0x | 18.8x | 14.4x | 83.5x | 49.4x | 31.8x | 16.3 % | -3.3 % |
| Dustin Group AB | 0.7x | 0.6x | 0.6x | 13.7x | 11.1x | 10.0x | 16.3x | 16.0x | 13.6x | 10.8 % | 8.1 % |
| Groupe LDLC SA | 0.2x | 0.2x | 0.1x | 8.0x | 5.2x | 3.5x | 6.2x | 9.9x | 5.6x | 10.8 % | na. |
| Qliro Group AB | 0.3x | 0.2x | | 15.0x | 8.5x | | | | | na. | na. |
| Zalando SE | 1.7x | 1.4x | 1.2x | 30.7x | 24.8x | 20.2x | 65.1x | 50.6x | 39.8x | 18.4 % | 38.1 % |
| Physical store-focused Nordic and European peers | | | | | | | | | | | |
| CECONOMY AG | 0.0x | 0.0x | 0.0x | 1.7x | 1.2x | 1.0x | 2.6x | 1.7x | 1.5x | 0.3 % | 134.6 % |
| Dixons Carphone plc | 0.2x | 0.2x | 0.2x | 5.0x | 4.4x | 3.8x | 10.4x | 8.5x | 6.8x | 1.7 % | 2.3 % |
| Unieuro SpA | 0.1x | 0.1x | 0.1x | 3.5x | | | 6.2x | 5.0x | 4.7x | 6.1 % | 0.8 % |
| XXL ASA | 0.7x | 0.6x | 0.6x | 10.8x | 6.9x | 5.5x | | 45.6x | 20.7x | -0.6 % | -31.5 % |
| Large international e-commerce peers | | | | | | | | | | | |
| Alibaba Group Holding Ltd. Sponsored ADR | 7.6x | 5.7x | 4.4x | 25.2x | 19.1x | 14.5x | 42.4x | 29.6x | 21.4x | 30.9 % | 26.2 % |
| Amazon.com, Inc. | 3.7x | 3.0x | 2.5x | 24.3x | 20.3x | 15.8x | 71.9x | 55.4x | 38.2x | 21.1 % | 28.1 % |
| eBay Inc. | 3.2x | 3.5x | 3.0x | 9.5x | 9.4x | 8.8x | 11.4x | 11.3x | 10.6x | 3.6 % | 14.8 % |
| JD.com, Inc. Sponsored ADR Class A | 0.7x | 0.6x | 0.4x | 29.2x | 20.0x | 14.6x | 51.8x | 33.1x | 21.6x | 19.9 % | 76.1 % |
| Rakuten, Inc. | 1.4x | 1.1x | 1.0x | 9.9x | 11.6x | 8.9x | 25.1x | 260.3x | 33.2x | 16.4 % | -42.4 % |
| Online-focused Nordic and European peers | 0.7x | 0.6x | 0.7x | 15.0x | 11.1x | 12.2x | 40.7x | 32.7x | 22.7x | 13.6 % | 8.1 % |
| Physical store-focused Nordic and European peers | 0.2x | 0.2x | 0.2x | 4.3x | 4.4x | 3.8x | 6.2x | 6.7x | 5.8x | 1.0 % | 1.6 % |
| Large international e-commerce peers | 3.2x | 3.0x | 2.5x | 24.3x | 19.1x | 14.5x | 42.4x | 33.1x | 21.6x | 19.9 % | 26.2 % |
| Verkkokauppa.com (Evli est.) | 0.3x | 0.3x | 0.2x | 8.7x | 8.0x | 7.5x | 12.4x | 10.1x | 9.0x | 3.4 % | 17.1 % |
| <i>Verkkokauppa.com vs. Online-focused Nordic and EU peers median</i> | <i>-58 %</i> | <i>-58 %</i> | <i>-64 %</i> | <i>-42 %</i> | <i>-28 %</i> | <i>-39 %</i> | <i>-69 %</i> | <i>-69 %</i> | <i>-60 %</i> | | |
| VERKKOKAUPPA.COM PEER GROUP | EBIT-% 19 | EBIT-% 20 | EBIT-% 21 | ROCE-% 19 | ROCE-% 20 | ROCE-% 21 | Div-% 19 | Div-% 20 | Div-% 21 | ROE 20 | P/B 20 |
| Online-focused Nordic and European peers | | | | | | | | | | | |
| ASOS plc | 1.3% | 1.9% | 2.5% | 7.2% | 9.9% | 13.2% | 0.0% | 0.0% | 0.0% | 8.7% | 5.4x |
| Dustin Group AB | 4.0% | 3.9% | 4.2% | 10.7% | 10.6% | 11.9% | 4.1% | 4.2% | 4.7% | 17.3% | 2.6x |
| Groupe LDLC SA | 3.6% | 1.7% | 2.6% | | | | 0.0% | 1.0% | 2.0% | 9.2% | 1.3x |
| Qliro Group AB | -3.2% | -0.5% | | | | | 0.0% | 0.0% | | -2.8% | 1.2x |
| Zalando SE | 2.6% | 2.9% | 3.1% | 8.9% | 10.7% | 12.4% | 0.0% | 0.0% | 0.0% | 7.6% | 6.7x |
| Physical store-focused Nordic and European peers | | | | | | | | | | | |
| CECONOMY AG | 1.9% | 2.2% | 2.3% | 22.0% | 18.1% | 18.9% | 0.0% | 4.1% | 4.6% | 26.2% | 2.1x |
| Dixons Carphone plc | 2.3% | 2.8% | 3.3% | 6.3% | 7.4% | 8.7% | 4.9% | 4.9% | 5.0% | 8.4% | 0.7x |
| Unieuro SpA | 1.6% | 1.9% | 1.9% | | | | 8.0% | 8.3% | 8.4% | | |
| XXL ASA | -3.2% | 1.4% | 2.7% | -3.8% | 1.6% | 3.3% | 0.0% | 0.0% | 1.3% | -0.5% | 0.5x |
| Large international e-commerce peers | | | | | | | | | | | |
| Alibaba Group Holding Ltd. Sponsored ADR | 18.0% | 19.2% | 20.5% | 9.4% | 11.4% | 13.1% | 0.0% | 0.0% | 0.0% | 19.2% | 4.8x |
| Amazon.com, Inc. | 5.2% | 5.5% | 6.6% | 10.6% | 11.1% | 12.7% | 0.0% | 0.0% | 0.0% | 16.0% | 12.0x |
| eBay Inc. | 28.2% | 31.3% | 28.8% | 21.6% | 22.0% | 23.2% | 1.0% | 1.7% | 1.7% | 77.9% | 9.9x |
| JD.com, Inc. Sponsored ADR Class A | 1.3% | 1.7% | 2.1% | 7.4% | 9.6% | 12.1% | 0.0% | 0.0% | 0.0% | 16.1% | 4.9x |
| Rakuten, Inc. | 5.8% | 0.4% | 3.1% | 2.9% | 0.2% | 1.3% | 0.5% | 0.5% | 0.5% | 0.1% | 1.6x |
| Online-focused Nordic and European peers | 2.6% | 1.9% | 2.8% | 8.9% | 10.6% | 12.4% | 0.0% | 0.0% | 1.0% | 8.7% | 2.6x |
| Physical store-focused Nordic and European peers | 1.7% | 2.0% | 2.5% | 6.3% | 7.4% | 8.7% | 2.4% | 4.5% | 4.8% | 8.4% | 0.7x |
| Large international e-commerce peers | 5.8% | 5.5% | 6.6% | 9.4% | 11.1% | 12.7% | 0.0% | 0.0% | 0.0% | 16.1% | 4.9x |
| Verkkokauppa.com (Evli est.) | 2.2% | 2.6% | 2.8% | 18.2% | 23.1% | 26.6% | 6.1% | 5.8% | 6.1% | 25.9% | 4.7x |

Source: Factset, Evli research

INTERIM FIGURES

| EVLI ESTIMATES, EURm | 2019Q1 | 2019Q2 | 2019Q3 | 2019Q4 | 2019 | 2020Q1E | 2020Q2E | 2020Q3E | 2020Q4E | 2020E | 2021E | 2022E |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net sales | 115.8 | 107.8 | 120.6 | 159.9 | 504.1 | 119.3 | 110.5 | 124.8 | 165.5 | 520.1 | 538.2 | 557.3 |
| EBITDA | 3.5 | 1.4 | 5.5 | 5.7 | 16.2 | 3.3 | 1.2 | 5.6 | 6.6 | 16.8 | 17.9 | 20.1 |
| <i>EBITDA margin (%)</i> | <i>3.1</i> | <i>1.3</i> | <i>4.6</i> | <i>3.5</i> | <i>3.2</i> | <i>2.8</i> | <i>1.1</i> | <i>4.5</i> | <i>4.0</i> | <i>3.2</i> | <i>3.3</i> | <i>3.6</i> |
| EBIT | 2.3 | 0.2 | 4.3 | 4.5 | 11.3 | 2.4 | 0.4 | 4.8 | 5.7 | 13.3 | 14.9 | 16.5 |
| <i>EBIT margin (%)</i> | <i>2.0</i> | <i>0.2</i> | <i>3.6</i> | <i>2.8</i> | <i>2.2</i> | <i>2.0</i> | <i>0.3</i> | <i>3.8</i> | <i>3.5</i> | <i>2.6</i> | <i>2.8</i> | <i>3.0</i> |
| Net financial items | -0.4 | -0.4 | -0.3 | -0.4 | -1.5 | -0.4 | -0.4 | -0.3 | -0.4 | -1.5 | -1.6 | -0.8 |
| Pre-tax profit | 1.9 | -0.2 | 4.0 | 4.1 | 9.8 | 2.0 | 0.0 | 4.4 | 5.3 | 11.8 | 13.3 | 15.7 |
| Tax | -0.4 | 0.0 | -0.8 | -0.8 | -1.9 | -0.4 | 0.0 | -0.9 | -1.1 | -2.4 | -2.7 | -3.1 |
| <i>Tax rate (%)</i> | <i>20.2</i> | <i>17.5</i> | <i>18.9</i> | <i>20.7</i> | <i>19.9</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> |
| Net profit | 1.5 | -0.2 | 3.3 | 3.2 | 7.8 | 1.6 | 0.0 | 3.5 | 4.3 | 9.4 | 10.6 | 12.5 |
| EPS | 0.03 | 0.00 | 0.07 | 0.07 | 0.17 | 0.04 | 0.00 | 0.08 | 0.09 | 0.21 | 0.24 | 0.28 |
| EPS adjusted (diluted no. of shares) | 0.03 | 0.00 | 0.07 | 0.07 | 0.17 | 0.04 | 0.00 | 0.08 | 0.09 | 0.21 | 0.24 | 0.28 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 | 0.21 | 0.00 | 0.00 | 0.00 | 0.00 | 0.22 | 0.23 | 0.25 |
| SALES, EURm | | | | | | | | | | | | |
| Verkkokauppa.com | 115.8 | 107.8 | 120.6 | 159.9 | 504.1 | 119.3 | 110.5 | 124.8 | 165.5 | 520.1 | 538.2 | 557.3 |
| Total | 115.8 | 107.8 | 120.6 | 159.9 | 504.1 | 119.3 | 110.5 | 124.8 | 165.5 | 520.1 | 538.2 | 557.3 |
| SALES GROWTH, Y/Y % | | | | | | | | | | | | |
| Verkkokauppa.com | <i>12.8</i> | <i>5.3</i> | <i>3.2</i> | <i>2.6</i> | <i>5.5</i> | <i>3.0</i> | <i>2.5</i> | <i>3.5</i> | <i>3.5</i> | <i>3.2</i> | <i>3.5</i> | <i>3.6</i> |
| Total | <i>12.8</i> | <i>5.3</i> | <i>3.2</i> | <i>2.6</i> | <i>5.5</i> | <i>3.0</i> | <i>2.5</i> | <i>3.5</i> | <i>3.5</i> | <i>3.2</i> | <i>3.5</i> | <i>3.6</i> |
| EBIT, EURm | | | | | | | | | | | | |
| Verkkokauppa.com | 2.3 | 0.2 | 4.3 | 4.5 | 11.3 | 2.4 | 0.4 | 4.8 | 5.7 | 13.3 | 14.9 | 16.5 |
| Total | 2.3 | 0.2 | 4.3 | 4.5 | 11.3 | 2.4 | 0.4 | 4.8 | 5.7 | 13.3 | 14.9 | 16.5 |
| EBIT margin, % | | | | | | | | | | | | |
| Verkkokauppa.com | <i>2.0</i> | <i>0.2</i> | <i>3.6</i> | <i>2.8</i> | <i>2.2</i> | <i>2.0</i> | <i>0.3</i> | <i>3.8</i> | <i>3.5</i> | <i>2.6</i> | <i>2.8</i> | <i>3.0</i> |
| Total | <i>2.0</i> | <i>0.2</i> | <i>3.6</i> | <i>2.8</i> | <i>2.2</i> | <i>2.0</i> | <i>0.3</i> | <i>3.8</i> | <i>3.5</i> | <i>2.6</i> | <i>2.8</i> | <i>3.0</i> |

| INCOME STATEMENT, EURm | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|--|-------------|------------|-------------|-------------|------------|------------|------------|------------|
| Sales | 343.7 | 371.5 | 431.9 | 477.8 | 504.1 | 520.1 | 538.2 | 557.3 |
| <i>Sales growth (%)</i> | <i>24.6</i> | <i>8.1</i> | <i>16.3</i> | <i>10.6</i> | <i>5.5</i> | <i>3.2</i> | <i>3.5</i> | <i>3.6</i> |
| EBITDA | 12.3 | 14.1 | 18.0 | 18.4 | 16.2 | 16.8 | 17.9 | 20.1 |
| <i>EBITDA margin (%)</i> | <i>3.6</i> | <i>3.8</i> | <i>4.2</i> | <i>3.9</i> | <i>3.2</i> | <i>3.2</i> | <i>3.3</i> | <i>3.6</i> |
| Depreciation | -1.2 | -1.3 | -4.6 | -5.1 | -4.9 | -3.5 | -3.1 | -3.6 |
| EBITA | 11.1 | 12.8 | 13.5 | 13.3 | 11.3 | 13.3 | 14.9 | 16.5 |
| Goodwill amortization / writedown | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 11.1 | 12.8 | 13.5 | 13.3 | 11.3 | 13.3 | 14.9 | 16.5 |
| <i>EBIT margin (%)</i> | <i>3.2</i> | <i>3.4</i> | <i>3.1</i> | <i>2.8</i> | <i>2.2</i> | <i>2.6</i> | <i>2.8</i> | <i>3.0</i> |
| Reported EBIT | 7.7 | 12.2 | 13.5 | 13.3 | 11.3 | 13.3 | 14.9 | 16.5 |
| <i>EBIT margin (reported) (%)</i> | <i>2.2</i> | <i>3.3</i> | <i>3.1</i> | <i>2.8</i> | <i>2.2</i> | <i>2.6</i> | <i>2.8</i> | <i>3.0</i> |
| Net financials | -0.9 | 0.0 | -1.6 | -1.7 | -1.5 | -1.5 | -1.6 | -0.8 |
| Pre-tax profit | 10.2 | 12.8 | 11.8 | 11.7 | 9.8 | 11.8 | 13.3 | 15.7 |
| Taxes | -1.4 | -2.4 | -2.4 | -2.3 | -1.9 | -2.4 | -2.7 | -3.1 |
| Minority shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 5.3 | 9.8 | 9.4 | 9.3 | 7.8 | 9.4 | 10.6 | 12.5 |
| Cash NRIs | -3.4 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-cash NRIs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BALANCE SHEET, EURm | | | | | | | | |
| Assets | | | | | | | | |
| Fixed assets | 3 | 3 | 5 | 5 | 6 | 7 | 8 | 8 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Right of use assets | 0 | 0 | 25 | 22 | 19 | 19 | 19 | 20 |
| Inventory | 39 | 44 | 47 | 66 | 67 | 62 | 65 | 67 |
| Receivables | 9 | 12 | 20 | 27 | 25 | 26 | 27 | 28 |
| Liquid funds | 31 | 42 | 52 | 47 | 42 | 55 | 56 | 58 |
| Total assets | 81 | 101 | 149 | 168 | 160 | 170 | 175 | 182 |
| Liabilities | | | | | | | | |
| Shareholder's equity | 36 | 39 | 37 | 38 | 37 | 36 | 37 | 39 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Convertibles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Lease liabilities | 0 | 0 | 29 | 26 | 23 | 19 | 19 | 20 |
| Deferred taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest bearing debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-interest bearing current liabilities | 45 | 61 | 82 | 103 | 100 | 114 | 118 | 123 |
| Other interest-free debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 81 | 101 | 149 | 168 | 160 | 170 | 175 | 182 |
| CASH FLOW, EURm | | | | | | | | |
| + EBITDA | 12 | 14 | 18 | 18 | 16 | 17 | 18 | 20 |
| - Net financial items | -1 | 0 | -2 | -2 | -1 | -2 | -2 | -1 |
| - Taxes | -1 | -2 | -4 | -3 | -2 | -2 | -3 | -3 |
| - Increase in Net Working Capital | -2 | 7 | 10 | -5 | -3 | 19 | 1 | 1 |
| +/- Other | -4 | -1 | 0 | 0 | 0 | 0 | 0 | 0 |
| = Cash flow from operations | 5 | 19 | 23 | 9 | 10 | 32 | 15 | 17 |
| - Capex | -1 | -1 | -2 | -2 | -2 | -5 | -4 | -5 |
| - Acquisitions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| + Divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| = Free cash flow | 4 | 18 | 21 | 6 | 7 | 26 | 11 | 12 |
| +/- New issues/buybacks | 0 | 0 | -4 | 0 | 0 | 0 | 0 | 0 |
| - Paid dividend | -6 | -7 | -7 | -8 | -9 | -10 | -10 | -10 |
| +/- Other | -2 | 0 | 0 | -3 | -3 | -5 | 0 | 0 |
| Change in cash | -5 | 11 | 10 | -5 | -4 | 12 | 1 | 2 |

| KEY FIGURES | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|--|--------|--------|--------|--------|--------|--------|--------|
| M-cap | 333 | 319 | 185 | 159 | 170 | 170 | 170 |
| Net debt (excl. convertibles) | -42 | -23 | -20 | -19 | -36 | -37 | -38 |
| Enterprise value | 291 | 296 | 164 | 140 | 134 | 134 | 132 |
| Sales | 371 | 432 | 478 | 504 | 520 | 538 | 557 |
| EBITDA | 14 | 18 | 18 | 16 | 17 | 18 | 20 |
| EBIT | 13 | 13 | 13 | 11 | 13 | 15 | 16 |
| Pre-tax | 13 | 12 | 12 | 10 | 12 | 13 | 16 |
| Earnings | 10 | 9 | 9 | 8 | 9 | 11 | 13 |
| Equity book value (excl. minorities) | 39 | 37 | 38 | 37 | 36 | 37 | 39 |
| Valuation multiples | | | | | | | |
| EV/sales | 0.8 | 0.7 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| EV/EBITDA | 20.6 | 16.4 | 8.9 | 8.7 | 8.0 | 7.5 | 6.6 |
| EV/EBITA | 22.7 | 22.0 | 12.3 | 12.4 | 10.1 | 9.0 | 8.0 |
| EV/EBIT | 22.7 | 22.0 | 12.3 | 12.4 | 10.1 | 9.0 | 8.0 |
| EV/OCF | 15.6 | 12.8 | 18.5 | 14.7 | 4.3 | 9.2 | 7.7 |
| EV/FCFF | 17.0 | 12.9 | 18.6 | 14.8 | 4.4 | 9.7 | 8.5 |
| P/FCFE | 18.8 | 14.8 | 28.7 | 21.6 | 6.4 | 16.0 | 13.9 |
| P/E | 32.1 | 33.8 | 19.8 | 20.4 | 18.1 | 16.1 | 13.6 |
| P/B | 8.6 | 8.7 | 4.9 | 4.4 | 4.7 | 4.6 | 4.3 |
| Target EV/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 | 7.2 | 6.8 | 5.9 |
| Target EV/EBIT | 0.0 | 0.0 | 0.0 | 0.0 | 9.2 | 8.2 | 7.2 |
| Target EV/FCF | 0.0 | 0.0 | 0.0 | 0.0 | 4.6 | 11.4 | 9.8 |
| Target P/B | 0.0 | 0.0 | 0.0 | 0.0 | 4.3 | 4.3 | 4.0 |
| Target P/E | 0.0 | 0.0 | 0.0 | 0.0 | 16.7 | 14.9 | 12.6 |
| Per share measures | | | | | | | |
| Number of shares | 45,065 | 45,065 | 45,065 | 45,065 | 45,065 | 45,065 | 45,065 |
| Number of shares (diluted) | 45,065 | 45,065 | 45,065 | 45,065 | 45,065 | 45,065 | 45,065 |
| EPS | 0.23 | 0.21 | 0.21 | 0.17 | 0.21 | 0.24 | 0.28 |
| Operating cash flow per share | 0.41 | 0.52 | 0.20 | 0.21 | 0.70 | 0.32 | 0.38 |
| Free cash flow per share | 0.39 | 0.48 | 0.14 | 0.16 | 0.59 | 0.24 | 0.27 |
| Book value per share | 0.86 | 0.82 | 0.83 | 0.81 | 0.81 | 0.82 | 0.87 |
| Dividend per share | 0.17 | 0.18 | 0.20 | 0.21 | 0.22 | 0.23 | 0.25 |
| Dividend payout ratio, % | 72.2 | 86.8 | 95.6 | 123.4 | 105.2 | 97.8 | 89.8 |
| Dividend yield, % | 2.2 | 2.6 | 4.8 | 5.7 | 5.8 | 6.1 | 6.6 |
| FCF yield, % | 5.3 | 6.7 | 3.5 | 4.6 | 15.5 | 6.3 | 7.2 |
| Efficiency measures | | | | | | | |
| ROE | 27.9 | 25.1 | 25.1 | 21.1 | 25.9 | 28.9 | 32.9 |
| ROCE | 34.5 | 25.7 | 20.5 | 18.2 | 23.1 | 26.6 | 28.6 |
| Financial ratios | | | | | | | |
| Inventories as % of sales | 11.9 | 10.9 | 13.8 | 13.2 | 12.0 | 12.0 | 12.0 |
| Receivables as % of sales | 3.3 | 4.5 | 5.7 | 5.1 | 5.0 | 5.0 | 5.0 |
| Non-interest bearing liabilities as % of sales | 16.5 | 19.0 | 21.6 | 19.7 | 22.0 | 22.0 | 22.0 |
| NWC/sales, % | -1.4 | -3.6 | -2.2 | -1.5 | -5.0 | -5.0 | -5.0 |
| Operative CAPEX/sales, % | 0.3 | 0.4 | 0.5 | 0.4 | 1.0 | 0.7 | 0.9 |
| CAPEX/sales (incl. acquisitions), % | 0.3 | 0.4 | 0.5 | 0.4 | 1.0 | 0.7 | 0.9 |
| FCFF/EBITDA | 1.2 | 1.3 | 0.5 | 0.6 | 1.8 | 0.8 | 0.8 |
| Net debt/EBITDA, book-weighted | -3.0 | -1.3 | -1.1 | -1.2 | -2.1 | -2.0 | -1.9 |
| Debt/equity, market-weighted | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity ratio, book-weighted | 39.3 | 25.1 | 23.0 | 23.4 | 21.8 | 21.6 | 22.0 |
| Gearing, % | -108.0 | -61.3 | -54.3 | -52.1 | -98.8 | -99.0 | -98.2 |

COMPANY DESCRIPTION: Verkkokauppa.com is the most popular Finnish online retailer, offering over 65,000 products in over 26 different main product categories. The company has four physical stores and sells both B2C and B2B, with consumer electronics being its largest category. Verkkokauppa.com is listed on Nasdaq First North Finland.

INVESTMENT CASE: The company has a strong track record of growth with a revenue CAGR of 13.5% in 2010-2018. Growth has been primarily driven by market share increases which have been supported by competitive pricing, strong online positioning and new product categories. The company's cost structure is scalable and efficient caused by the small physical footprint which enables competitive pricing and strong resilience against competition in the market.

| OWNERSHIP STRUCTURE | SHARES | EURm | % |
|--|------------|---------|-------|
| Seppälä Samuli Sipi | 22,110,096 | 83.576 | 49.1% |
| Rite Ventures Finland Ab | 2,172,576 | 8.212 | 4.8% |
| Keva | 2,171,000 | 8.206 | 4.8% |
| Keskinäinen Työeläkevakuutusyhtiö Varma | 2,065,932 | 7.809 | 4.6% |
| Sijoitusrahasto Nordea Nordic Small Cap | 1,690,607 | 6.390 | 3.8% |
| Ilmarinen Keskinäinen Eläkevakuutusyhtiö | 842,723 | 3.185 | 1.9% |
| Evli Finnish Small Cap Fund | 694,000 | 2.623 | 1.5% |
| Skogberg Ville Johannes | 634,266 | 2.398 | 1.4% |
| Sr Danske Invest Suomen Pienyhtiöt | 467,380 | 1.767 | 1.0% |
| Sijoitusrahasto Aktia Nordic Micro Cap | 450,000 | 1.701 | 1.0% |
| Ten largest | 33,298,580 | 125.869 | 74% |
| Residual | 11,766,550 | 44.478 | 26% |
| Total | 45,065,130 | 170.346 | 100% |

EARNINGS CALENDAR

| | |
|------------------|-----------|
| April 24, 2020 | Q1 report |
| July 24, 2020 | Q2 report |
| October 24, 2020 | Q3 report |

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Panu Porkka
CFO: Mikko Forsell
IR: Mikko Forsell

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Tel: +358 10 309 5555

DEFINITIONS

| | | | |
|-----------------------|--|---------------------------|---|
| P/E | $\frac{\text{Price per share}}{\text{Earnings per share}}$ | EPS | $\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$ |
| P/BV | $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$ | DPS | Dividend for the financial period per share |
| Market cap | Price per share * Number of shares | OCF (Operating cash flow) | EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments |
| EV (Enterprise value) | Market cap + net debt + minority interest at market value – share of associated companies at market value | FCF (Free cash flow) | Operating cash flow – operative CAPEX – acquisitions + divestments |
| EV/Sales | $\frac{\text{Enterprise value}}{\text{Sales}}$ | FCF yield, % | $\frac{\text{Free cash flow}}{\text{Market cap}}$ |
| EV/EBITDA | $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$ | Operative CAPEX/sales | $\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$ |
| EV/EBIT | $\frac{\text{Enterprise value}}{\text{Operating profit}}$ | Net working capital | Current assets – current liabilities |
| Net debt | Interest bearing debt – financial assets | Capital employed/Share | $\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$ |
| Total assets | Balance sheet total | Gearing | $\frac{\text{Net debt}}{\text{Equity}}$ |
| Div yield, % | $\frac{\text{Dividend per share}}{\text{Price per share}}$ | Debt/Equity, % | $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$ |
| Payout ratio, % | $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$ | Equity ratio, % | $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$ |
| ROCE, % | $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$ | CAGR, % | Cumulative annual growth rate = Average growth per year |
| ROE, % | $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$ | | |

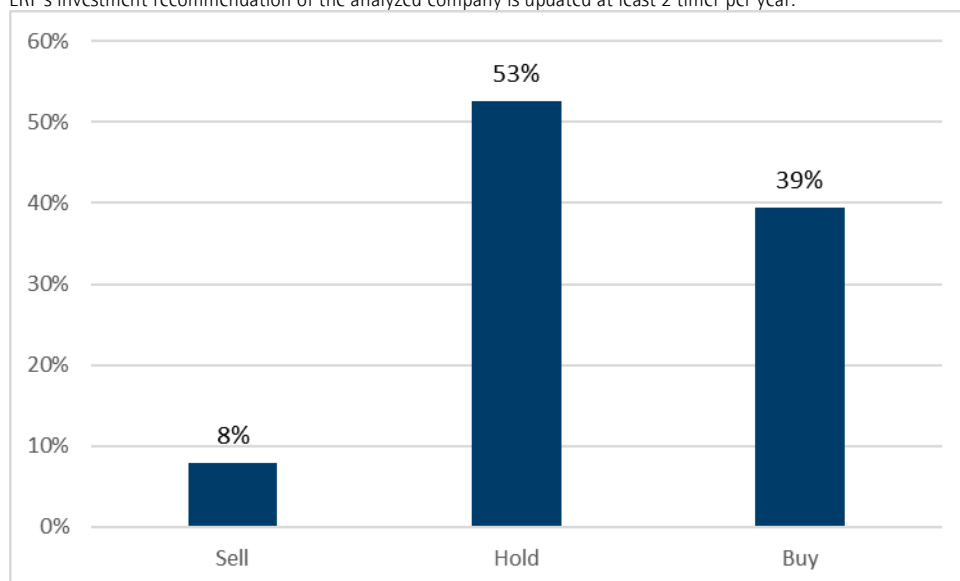
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Investment recommendations are defined as follows:

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

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The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Rissanen

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