

Riding the wave

Verkkokauppa.com's growth story has continued over the years and the company's revenue CAGR in 2010-2019 was 12.6 percent. Now the company has started to put more emphasis on profitability. We keep our rating "BUY" with TP of EUR 6.3.

Focusing on profitable growth

Verkkokauppa.com's revenue CAGR in 2010-2019 was 12.6 percent. The growth has been mainly supported by competitive pricing, strong online positioning and new product categories. The competition in the consumer electronics market has continued fierce and price driven. The company's efficient and scalable cost base driven by small physical footprint enables competitive pricing and strong reliance against competition. The company has a strong net cash position which enables investments in growth. The company has started to put more emphasis on profitability of which the first evidences have already been seen.

Better profitability improvement via gross margin increase

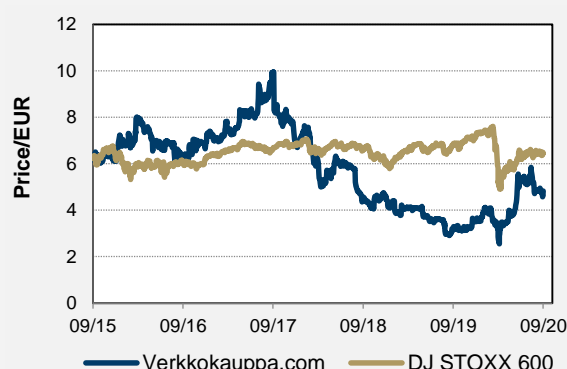
Verkkokauppa.com's future growth is depended on the online migration. According to the company, online sales represent some 12-13 percent of the total Finnish retail market. The company's extremely good performance in H1'20 has been partly driven by the COVID-19, as sales grew by 11 percent and adj. EBIT grew by over 240 percent. It is challenging to estimate how permanent the market changes will be. However, increased online demand benefits e-commerce players such as Verkkokauppa.com. At the same time, risks related to the overall economic outlook and declining purchasing power have increased. Due to the low and scalable cost base we expect the company's profitability to improve together with revenue growth. However, we see that better profitability improvement stems from higher gross margin levels.

"BUY" with TP of EUR 6.3 intact

We have slightly increased our estimates and expect sales in 20E-21E to grow by ~7 percent and ~4 percent, respectively. We also expect profitability to improve and adj. EBIT margin of 3.2-3.3 percent in 20E-21E. We value Verkkokauppa.com by using our scenario analysis which indicates a fair value of EUR 6.3. On our estimates, Verkkokauppa.com trades at 20E-21E EV/EBIT multiple of 10.9x and 10.7x, which translates into ~60 percent discount compared to the peers. 20E-21E EV/Sales multiple is ~30 percent below peers. We keep our rating "BUY" with TP of EUR 6.3.

Rating

BUY



Share price, EUR (Last trading day's closing price) 4.83

Target price, EUR 6.3

Latest change in rating 27-Apr-20

Latest report on company 27-Jul-20

Research paid by issuer: YES

No. of shares outstanding, '000's 44,712

No. of shares fully diluted, '000's 44,712

Market cap, EURm 216

Free float, % 42.2

Exchange rate 1.000

Reuters code VERK.HE

Bloomberg code VERK FH

Average daily volume, EURm -

Next interim report 23-Oct-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	538.8	17.8	3.3%	11.8	0.30	16.2	0.4	10.9	5.5	0.23
2021E	559.3	17.9	3.2%	14.0	0.29	16.6	0.3	10.7	6.5	0.24
2022E	577.7	19.2	3.3%	13.1	0.31	15.3	0.3	9.8	6.1	0.25
Market cap, EURm		216	Gearing 2020E, %			-53.8	CAGR EPS 2019-22, %			22.0
Net debt 2020E, EURm		-21	Price/book 2020E			5.5	CAGR sales 2019-22, %			4.6
Enterprise value, EURm		195	Dividend yield 2020E, %			4.8	ROE 2020E, %			35.2
Total assets 2020E, EURm		169	Tax rate 2020E, %			18.4	ROCE 2020E, %			28.9
Goodwill 2020E, EURm		0	Equity ratio 2020E, %			23.9	PEG, P/E 20/CAGR			4.0

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

Investment summary

Verkkokauppa.com offers over 65,000 products in 26 main categories

Verkkokauppa.com is a Finnish online focused retailer offering over 65,000 products in 26 different main product categories. The company's main category is consumer electronics but the company has heavily extended its product range to other categories as well. The company has a strong record of growth with a revenue CAGR of 12.6 percent in 2010-2019. Growth has been primarily driven by market share increases which have been supported by competitive pricing, strong online positioning, physical stores well as new product categories. Verkkokauppa.com's consumer electronics market share in 2019 was ~24 percent. The company has been able to win market share constantly despite of the fierce and price driven competition.

Small physical footprint enables competitive pricing and strong resilience against competition

Verkkokauppa.com has a small physical footprint but the presence of the online platform is strong. It is estimated that e-commerce is currently ~12-13 percent of the Finnish retail market and we expect the online migration will further speed up due to the COVID-19. The company has four physical stores and at the moment it has no plans to open a fifth store. The company's cost structure is scalable and efficient caused by a small physical footprint which enables competitive pricing and strong resilience against competition in the market. The company has been able to invest in growth supported by strong net cash position. The company has continued its marketing investments and the results of the increased marketing activities are already showing. The company was one of the top ten brands in Finland and its website had over 72 million visitors in 2019.

Combined market share of the three biggest market players is ~65 percent

Competition in the Finnish consumer electronics market has been fierce during the past ~5-10 years, which has led to a consolidation of the market. Consolidation have been largely between mid-sized companies. Several competitors have either scaled down or exited the market due to profitability issues, with the largest players benefiting from this. The three largest players (Gigantti, Verkkokauppa.com and Power) had a combined market share of ~65 percent in 2019 (Verkkokauppa.com and Power were able to increase their market shares). Price driven competition has added pressure on prices and the market participants are forced to adjust their prices in order to protect market shares. Many smaller competitors, who have been able to stay in the market, have their physical stores located in smaller towns. If these competitors exited the market it is likely that the existing consumers would move to online stores, benefiting large online players.

Amazon's launch in the Nordics might happen soon

Rumors about Amazon entering the Nordic market have been hovering over the years but now the entry of the online giant truly seems to be close by. The company has recruited actively in the Nordics and it has been confirmed that there will be a warehouse in Eskilstuna, Sweden. Even though the Swedish launch could already happen by the end of this year there are no clear signs when the possible Finnish launch would take place. Despite of Amazon and other cross-border shopping, Verkkokauppa.com is well positioned in the Finnish e-commerce market and it has a strong brand.

We expect 20E sales growth of ~7 percent y/y and adj. EBIT growth of ~58 percent

Verkkokauppa.com's revenue growth in H1'20 was 11 percent y/y while adj. EBIT grew by ~240 percent y/y. H2 is normally stronger for Verkkokauppa.com. We expect FY20E revenue growth of ~7 percent (EUR 539m) thus the extremely strong growth seen in H1 should normalize during H2E. We expect gross margin to be at 15.5 percent in 20E. The improvement is driven by improved category management, sales mix and decreased wholesale sales. We expect adj. EBIT to be EUR 17.8m (+58 percent y/y) in 20E. As there are many temporary market changes boosting sales and gross margin in 20E we don't expect further profitability improvement in 21E.

Sales in 21E-22E are expected to grow by 3-4 percent

Our scenario analysis (we have put more emphasis on our base case and optimistic case estimates) indicates a fair value of EUR 6.3. On our estimates, Verkkokauppa.com is trading ~60 percent EV/EBIT discount and ~30 percent EV/Sales discount vs. peer group in 20E-21E. We keep our rating "BUY" with TP of EUR 6.3.

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Company overview – Verkkokauppa.com

Verkkokauppa.com's primary business is consumer electronics

Verkkokauppa.com is a Finnish retailer offering over 65,000 products in 26 different main product categories. The company's primary business is consumer electronics, although the company has expanded its offering to cover other areas as well. Majority of the revenue comes from B2C sales although the company has B2B sales as well (~55k corporate customers). The company's operations are in Finland. Verkkokauppa.com was listed to Nasdaq First North list in 2014 and to Nasdaq's main list in 2019. The company's revenue in 2019 was EUR 504m (5.5 percent y/y).

Business model combines online and physical stores

Business model combines online and physical stores

Verkkokauppa.com sells its products both online and via four physical stores. The company does not report the sales split between stores and online but indicated in the 2019 listing prospectus that nearly half of the revenue comes from the physical stores – meaning that more than half of the revenue comes from online sales. In addition to representing an important sales channel, physical stores also serve the purpose of being showrooms for suppliers' products, improving the company's position among suppliers. Approx. 12 percent of the company's total sales in 2019 came from outside of Finland. The share was ~16 percent in Q1'20. Sales coming from outside of Finland consist of trading to wholesalers and retail sales to foreign B2C customers.

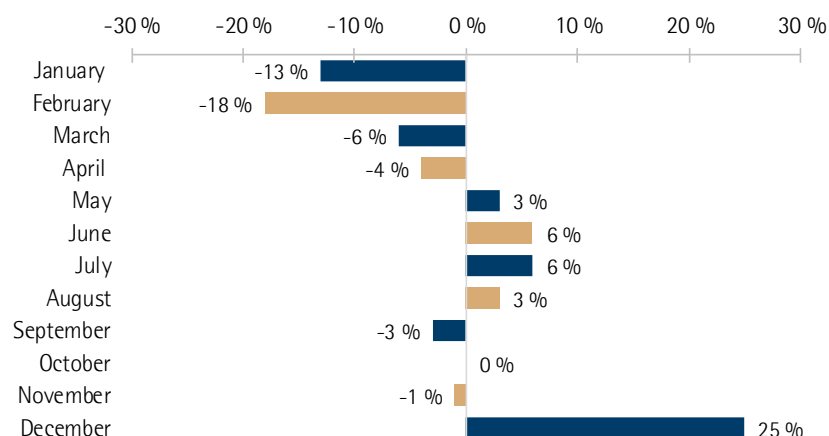
In 2019, ~12 percent of sales came from outside of Finland

Share of e-commerce is ~12-13 percent of the Finnish retail market

In 2019, the share of e-commerce was approx. 14 percent of the total global retail sales and it is estimated that the share will increase up to 22 percent by 2023 (Statista). In 2019, Finnish consumers shopped online with approx. EUR 3bn (Postnord). Verkkokauppa.com estimated that at the moment, the share of e-commerce is ~12-13 percent of the Finnish retail market. This is still below the Nordic and European average. The COVID-19 has also speeded up the leap into online during this year. The total online sales in Finland is forecasted to have CAGR of 4.6 percent from 2020 to 2024 (Statista).

The company's business is seasonal, as in general, H1 is weaker in terms of both revenue and profitability while Q4 is the strongest quarter, driven by campaigns such as Black Friday, Cyber Monday and Singles' day but also due to Christmas. Therefore, predicting the full-year performance is challenging.

Figure 1: monthly retail sales compared to average monthly sales (2000-2018)



Source: Statistics Finland

Focusing online, with a support of the physical stores

Four physical stores located in Helsinki, Pirkkala, Oulu and Raisio

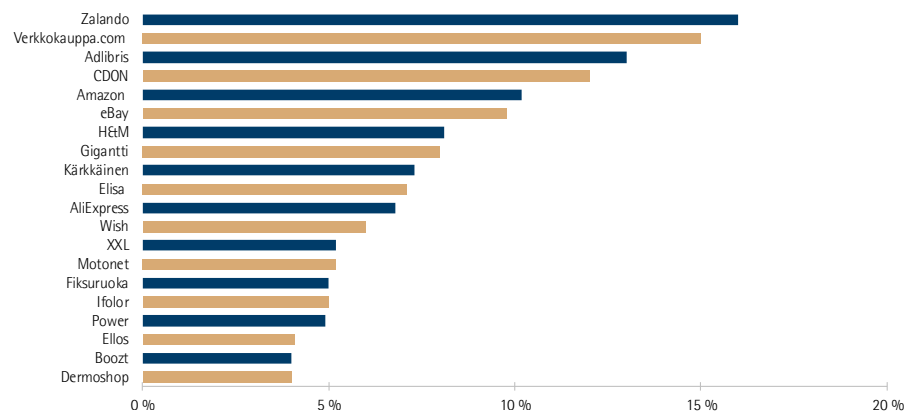
Verkkokauppa.com currently has four physical stores located in Helsinki, Pirkkala (Tampere region), Oulu and Raisio (Turku region). The company's physical footprint increased in 2017-2018 but since then the company has focused on expanding its online store and improving the physical stores. Stores in Pirkkala and Oulu were enlarged during 2017, and the company opened its 4th store to Raisio (Turku region) in March 2018. Currently, the company is not expecting to open a new physical store.

Most popular online store among domestic competitors

The most visited website among domestic competitors

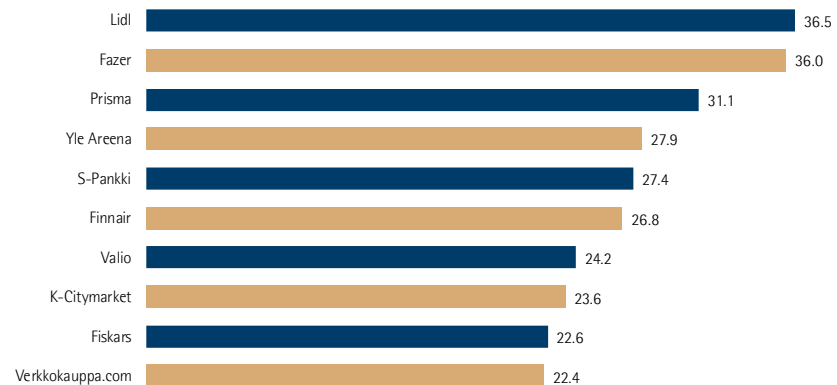
Verkkokauppa.com is a leading online player in Finland. The company's online shop is the most popular among domestic competitors and the second popular among domestic and foreign online shops. Only German Zalando is more popular. The webpage is also the most visited among Finnish competitors (SimilarWeb). The company's webstore had over 72 million visits in 2019 (28 percent y/y) and 37 million visits during H1'20. Verkkokauppa.com's brand image has improved during the years and the company was able to make it to the Finland's top 10 brands list in 2019 (YouGov BrandIndex).

Figure 2: The most popular online shops in Finland



* From which of the following online shops have you made purchases during the past 6 months? (Jun-Jul, 2019)
Source: Kantar TNS

Figure 3: Finland's best brands in 2019



Source: YouGov BrandIndex
"measures the 'buzz' of companies
Question: 'If you've heard anything about the brand in the last two weeks, through advertising, news or word of mouth, was it positive or negative?'

Business development opportunities

Most important business development projects/opportunities that in our view can be considered as future revenue and profitability drivers include:

Historically, the company has launched one new category per year

Developing the offering: Verkkokauppa.com aims to continue launching new product categories also in the future. Historically the company has launched one new category per year (on average) and has gained about 1 percent market share in the new categories per operating year in Finland (on average). Key criteria in launching new product categories is the gross margin to be achieved and that the products are suitable for their low-cost online model and efficient logistics. New subcategories are also launched on a regular basis. The company also aims to develop its private label offering. The company has over 2,000 products under its own labels in several product categories. Most of the private label products are manufactured in China.

Responding to the increasing trend of domesticity

The company is launching a new platform, verkkokauppa.fi, which sells only products from Finnish companies. With the new platform, the company aims to respond to the continuously increasing trend of domesticity and to support smaller Finnish businesses. We don't expect this to have a significant impact on Verkkokauppa.com's sales as such, but rather through increasing brand awareness and improved brand image.

Apuraha financing represents an opportunity to improve margins

Apuraha: Verkkokauppa.com launched its own customer financing service (Apuraha) in 2015 in collaboration with Lindorff to complement its existing payment method offering. Issuance of company financed Apuraha credit began in spring 2016 and capital allocation to Apuraha has been gradually increased since. Q4'2018 onwards Apuraha has been solely financed by Verkkokauppa.com. The company is also selling the receivables that are due over 60 days to mitigate risk. Apuraha financing is expected to continue, although it is noteworthy the company has not issued specific targets on how much capital is to be allocated to Apuraha credits. Increasing capital allocation to Apuraha represents an opportunity to improve margins (see page 20 for our take on the financial implications of Apuraha).

Consumer experience and brand recognition at the heart of the action

Marketing: One of Verkkokauppa.com's main focus is to enhance consumer experience and brand recognition. The company started to invest heavily in marketing in late 2018 and that has continued throughout 2019 and 2020. Increased visibility on tv, improvements in store experiences and increased brand communication has boosted Verkkokauppa.com's brand recognition. This is likely to continue and bring more consumers which supports sales growth. In 2019, the company had over 72 million visitors in its website (28 percent growth compared to 2018). In H1'20 the webpage had some 37 million visitors.

B2B business offering increasing opportunities

B2B sales: Verkkokauppa.com offers services to its B2B customers as well and the importance of the segment has increased during the last years. Currently the company has some 55,000 corporate customers. The general customer expectations in the segment are moving closer to B2C business, where personalized shopping experience, visibility as well as quick and reliable deliveries are key factors to enhance customer experience. Verkkokauppa.com aims to answer to the changing expectations by for instance improving its B2B platform. We see the B2B business to offer increasing opportunities to the company.

Other future development projects/opportunities include:

New stores are believed to reach break-even EBITDA in about one year's time

5th store: Event though Verkkokauppa.com has stated it has no plans to open its 5th store in the near future, possible store opening in the long-term is still possible. This would support longer-term revenue prospects while burdening short-term earnings due

to ramp-up costs. New stores are in general believed to reach break-even EBITDA in about one years' time.

Logistics is one of the main drivers of the company's operations

New logistics centre: The management has indicated that they don't have near-term plans to set up a new logistics centre but as logistics is one of the main drivers of the company's operations and correlates with sales, the company considers new logistical opportunities in a regular basis. Verkkokauppa.com currently has its main warehouse in Posti's rental premises in Vantaa. The current setup in Vantaa should not limit growth anytime soon. The company also has a logistics centre in Jätkäsaari which operates at full capacity.

Planning on sticking with the core business

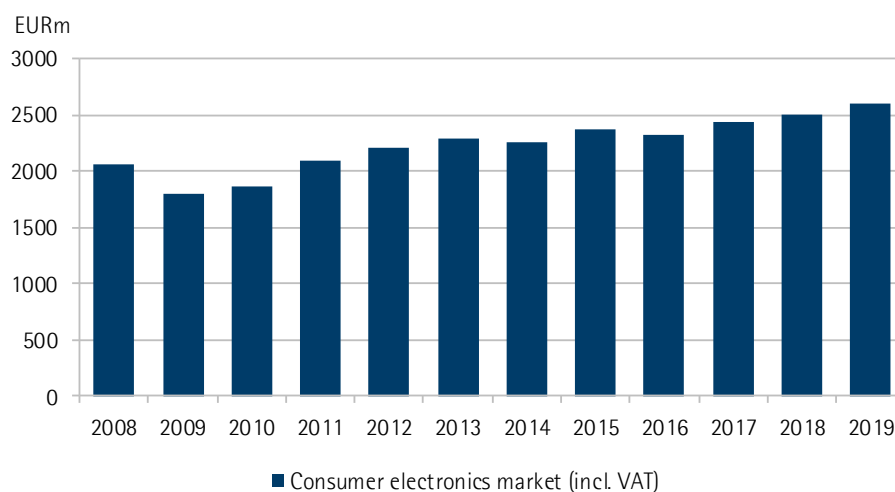
M&A: In addition to organic growth, Verkkokauppa.com has indicated that they are open to develop their business through acquisitions and other corporate actions (e.g. partnership agreements) in the future. The increased liquidity due to the listing of the company's shares to the main list would also enable the company to use its shares more effectively in potential M&A activities. The company indicated that it is not planning to expand its operations outside of its core business thus the potential companies to acquire would most probably be other Finnish (e-commerce) retailers (non-chains). We don't expect the company to expand to other Nordic countries in the short-term but see future M&A activities in the Nordics possible.

Market overview and competitive landscape

The size of Finnish consumer electronics market is some EUR 2.6bn

The size of the Finnish consumer electronics market is EUR ~2.6bn (Kehittyvä kauppa) while the size of the overall retail market in Finland is some EUR 42bn. During the last years, the consumer electronics market has remained relatively flat, with growth rate varying from -2 percent to 5 percent (2012-2019). This year is likely to be exceptional as for instance in Q2'20, the market growth was over 9 percent (GfK). The Finnish GDP is forecasted to decline by some 7 percent in 2020 (Bank of Finland). In 2021-2022, the estimated GDP growth is approx. 3 percent. However, there are significant uncertainties with the forecasts at the moment due to the weak visibility of the pandemic situation and the total impacts of it. Because of weakening purchasing power, the companies are competing for marginal market shares.

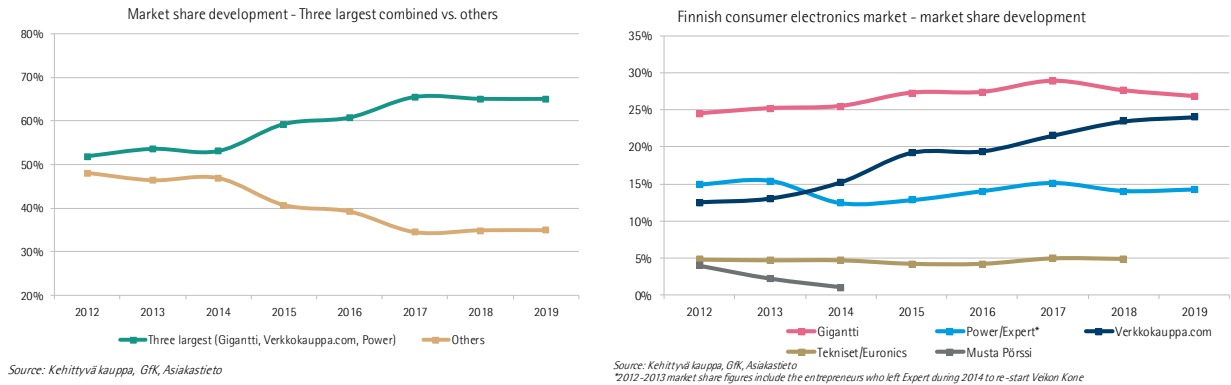
Figure 4: Size of the Finnish consumer electronics market



Source: IPO prospectus (2014), Kodintekniikkaindeksi, Kehittyvä Kauppa

Combined market share of the three largest players ~65% in 2019

Figure 5: Finnish consumer electronics market



Verkkokauppa.com's main domestic competitors are Gigantti and Power

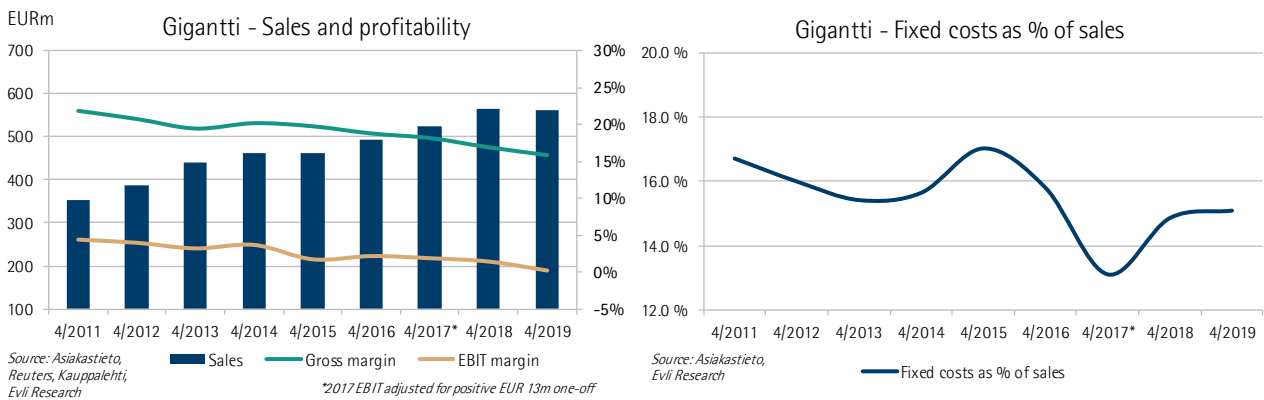
Verkkokauppa.com's main domestic competitors in Finland are Gigantti and Power. Smaller competitors in Finland include Tekniset/Euronics and Veikon Kone. Dustin can also be mentioned as a small competitor (total 2019 revenue of EUR ~156m in Finland), although its business is B2B focused (~95% of Dustin Group's revenues come from B2B segment). General retailers such as Kesko and S-Group also still have some consumer electronics sales, although especially Kesko has scaled down its consumer electronics business in recent years.

Gigantti is the market leader in Finland

Gigantti is the market leader with 41 physical stores in Finland

Gigantti is the market leader in Finland with revenue of some EUR 563m in 4/2019 (Asiakastiето). The company is part of Elkjop which includes businesses in Norway, Sweden, Finland and Denmark. Elkjop is owned by Dixon's Carphone, which is listed in London. Gigantti's competitive advantage is largely based on its large scale, centralized purchasing and logistics in Elkjop. Until 2017, Gigantti was able to increase its market share together with Verkkokauppa.com but during the last couple of years, its market share has been declining. Gigantti's profitability has also been in decline. Gigantti has had a higher gross margin than Verkkokauppa.com, supported by centralized purchases in Elkjop (i.e. higher volume) as well as higher share of services in the sales mix, but its gross margin has been in decline in recent years following fierce and price driven competition in the market. Gigantti has an extensive network of 41 stores in Finland.

Figure 6: Gigantti's performance



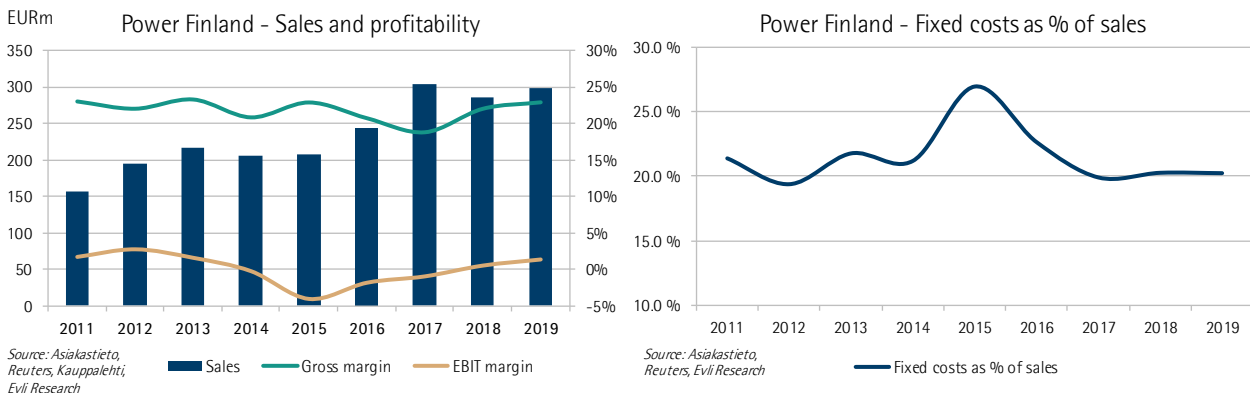
Power is the third biggest in Finland

Power's store network and re-branding is completed and the company was able to reach black figures in 2018-2019

The second main competitor in the market is Power Finland (previously Expert ASA). The company's sales performance was sluggish before the re-branding into Power in spring 2016. Since spring 2016 many of the old Expert-branded stores have been re-branded into Power stores. New Power stores have also been opened. In H2'19, all the remaining Expert stores were closed in Finland and the Finnish website was shut down. Currently, there are 44 Power stores in Finland. Re-branding and store openings have burdened Power Finland's profitability but the company was able to reach black figures in 2018-2019.

Power Finland is part of Power International AS which has businesses in Norway, Denmark, Finland and Sweden under Power and Expert. While purchases and logistics are centralized similar to Gigantti, the scale of Power International AS is clearly smaller with combined sales of EUR ~1bn vs. Elkjop some EUR ~4bn in 2019.

Figure 7: Power Finland's performance

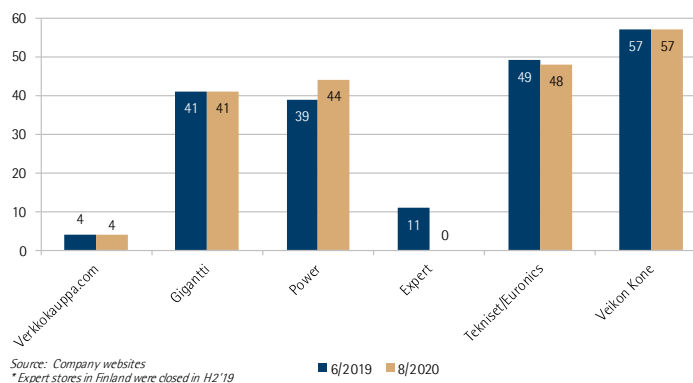


Verkkokauppa.com's physical store network is clearly smaller than domestic competitors'

Small physical footprint enables efficient cost structure

Compared to domestic competitors, Verkkokauppa.com has the competitive advantage of having only four physical stores. Main domestic competitors Gigantti and Power have both approximately 40 stores. Small physical footprint translates into an efficient cost structure, which provides the company competitive advantages. Another thing giving competitive advantage is Verkkokauppa.com's strong online presence – the company's website (verkkokauppa.com) has more visits than gigantti.fi or power.fi (SimilarWeb).

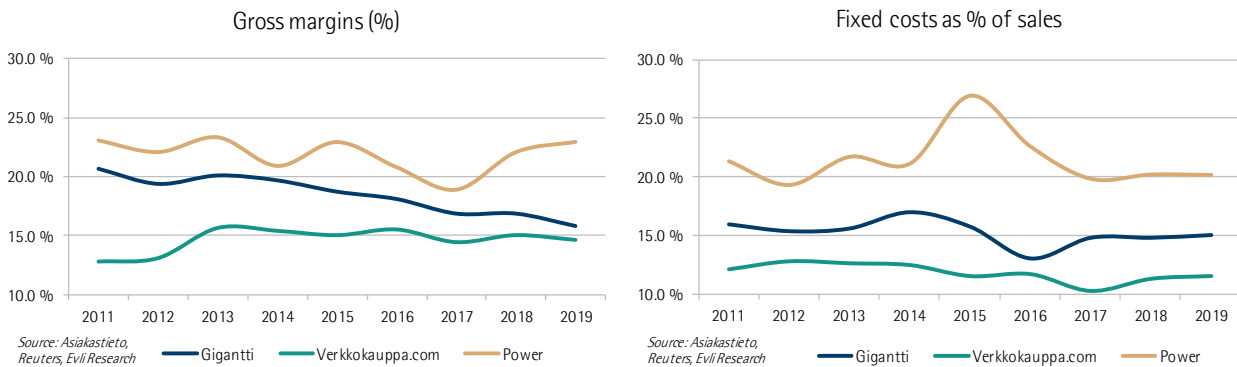
Figure 8: Number of physical stores in Finland



Verkkokauppa.com's fixed cost base is lower than its main competitors

In addition to having a smaller physical footprint and lower fixed costs as % of sales compared to main domestic competitors, Verkkokauppa.com also has the lowest gross margin among main competitors. This is likely to be impacted by differences in the sales mix. Verkkokauppa.com's gross margin is thin compared to an average ~30 percent gross margin in the Finnish retail sector. This should drive the company to continue launching new higher-margin categories in the future.

Figure 9: Verkkokauppa.com vs. its domestic competitors

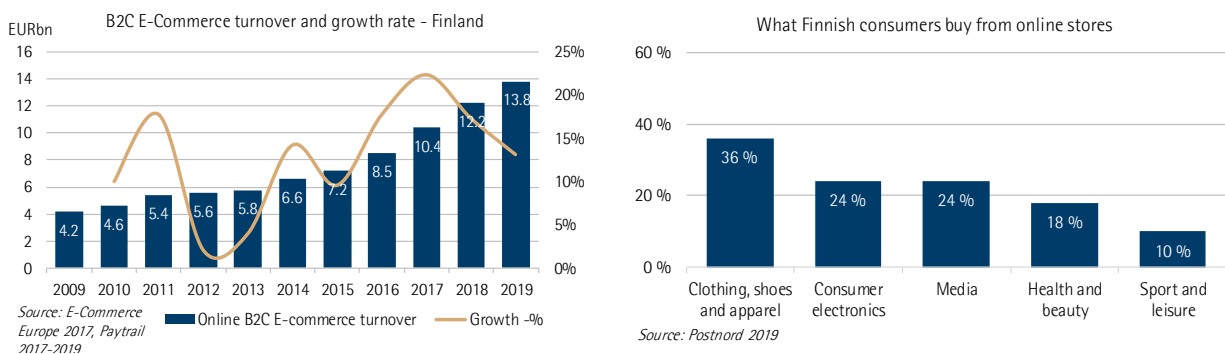


B2C e-commerce

Clothing, consumer electronics and media are popular among Finnish online shoppers

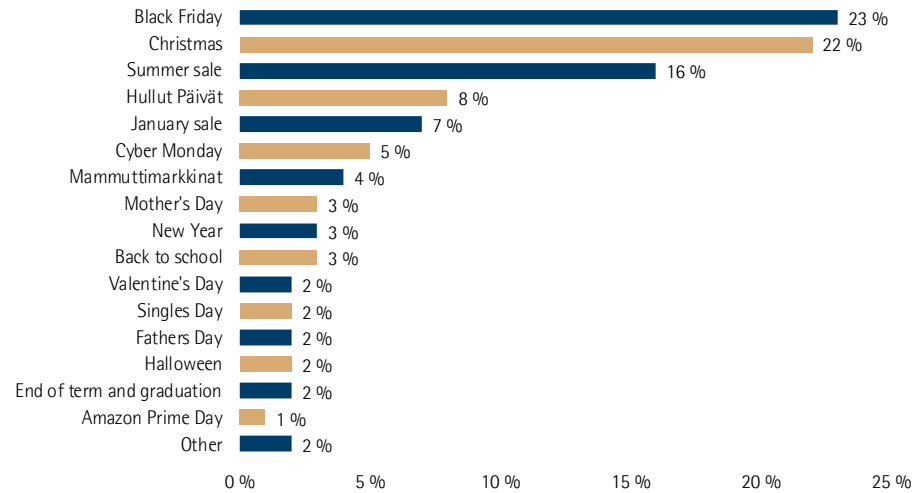
According to Paytrail, the total online sales of goods and services (incl. traveling) in Finland totaled close to EUR 13.8bn in 2019. The most popular categories among Finnish online shoppers are clothing, consumer electronics and media, followed by health & beauty and sport & leisure. In recent years, online purchases made by Finnish consumers have significantly increased. At the same time, the increase in the share of Finnish retail stores selling digitally has been stronger in Finland than in any other country in Europe. The share of Finnish retail businesses selling digitally is even higher than in Sweden (Finnish Commerce Federation).

Figure 10: E-commerce in Finland



Global campaigns have become more popular also in Finland and nowadays Black Friday is even more popular than Christmas season among Finnish consumers.

Figure 11: online shopping during campaigns

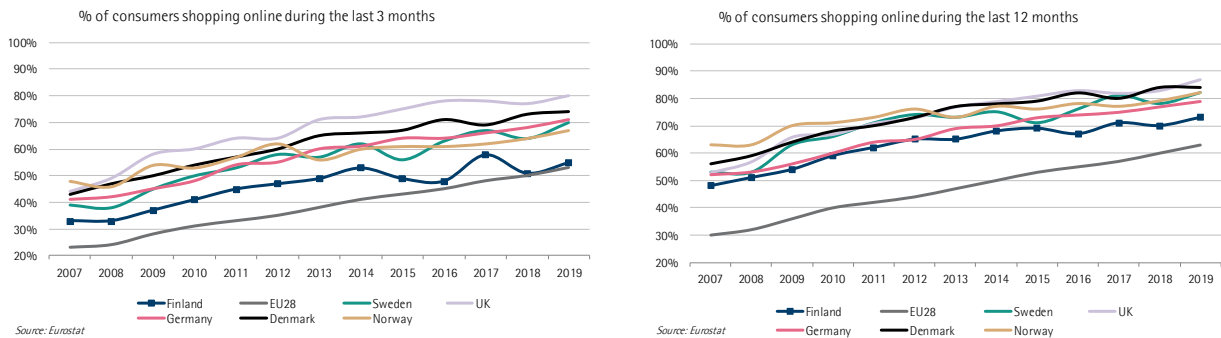


*During which of the following campaigns or other peak periods have you been shopping online?
Source: Kantar TNS (2019)

The share of online shoppers is below the European and Nordic levels

While Finnish consumers have increased their online purchases quite steadily over the last 10 years according to Eurostat, the relative share of online shoppers has remained below the developed European and Nordic levels.

Figure 12: Online shopping trends



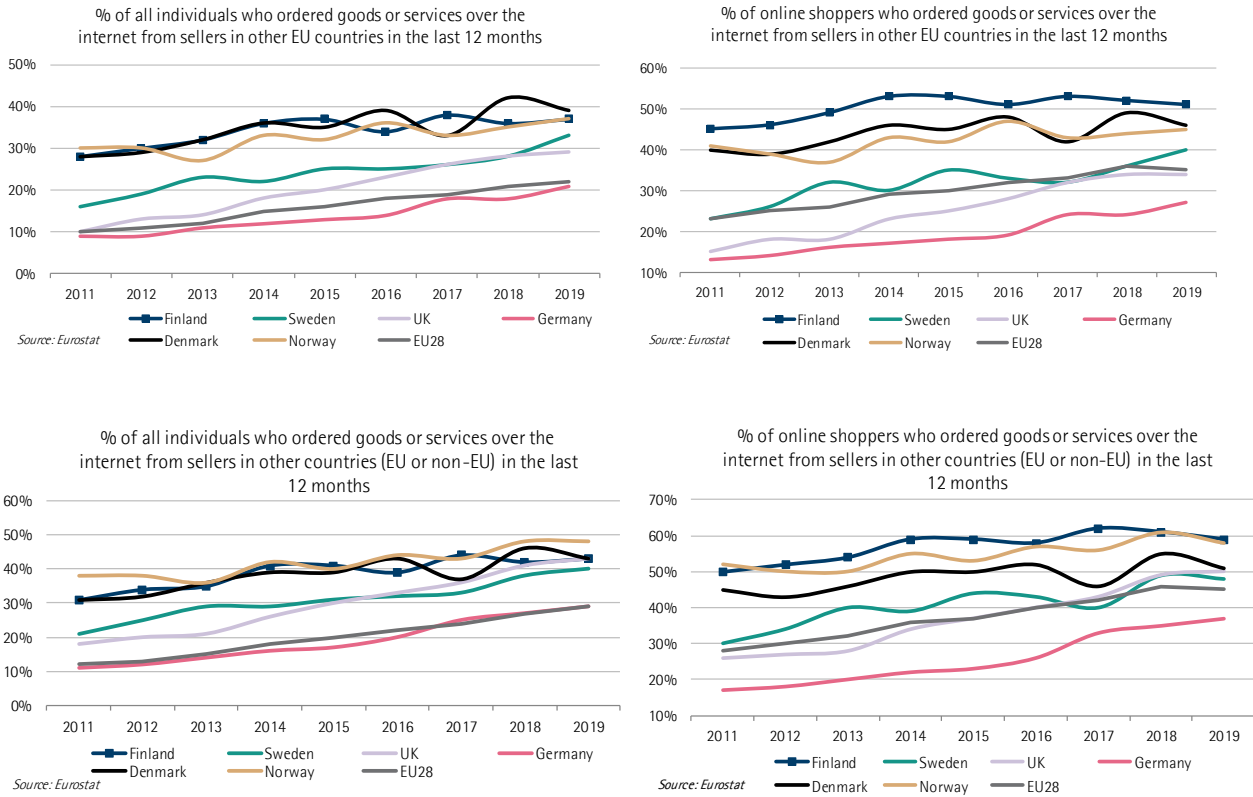
Cross-border purchases

Finland is one of the least exporting European countries

While online purchasing has become more common, not all purchases are from Finnish sellers. In general, the rate of Finnish individuals and online shoppers ordering goods or services over the internet from abroad sellers has been strong. According to the Finnish Commerce Federation, the Finnish online e-commerce hasn't reached the international customer base and Finland is one of the least exporting European countries along with countries like Poland and Hungary. As mentioned above, at the same time, the increase in the share of Finnish retail stores selling digitally has been stronger in Finland than in any other European country. The domesticity trend has also led to a situation where domestic online stores are taking market share from foreign online stores (Postnord).

Domestic online stores taking market share from the foreign online stores

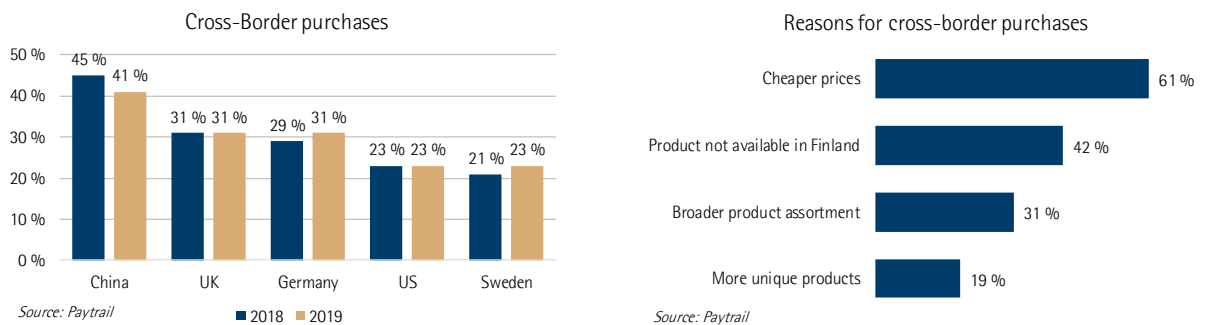
Figure 13: cross border e-commerce



Swedish and German online stores becoming more popular

According to Postnord, Finnish consumers have increasingly purchased goods from Chinese online stores. The Finnish Commerce Federation estimates that approx. 13 percent of the euros Finns spend on digital purchases goes to China. However, the share has dropped from last year. Swedish and German online stores are increasing their popularity among Finnish consumers and it is forecasted that German online stores will benefit from the Brexit. Most popular cross-border product categories in 2019 were (1) clothing and shoes, (2) consumer electronics and (3) Media (Postnord). According to Posti, five the most popular foreign websites are Wish, eBay, Amazon, Zalando and AliExpress.

Figure 14: From where Finnish buy online and why



We expect Verkkokauppa.com to retain its competitiveness against foreign competition

Among Finnish consumers, cheaper prices are the main reason for cross-border purchases followed by a situation where a product cannot be found from Finnish shops. Also, foreign online stores might offer wider product assortment and more unique products. While cross-border online trade in general is likely to continue gaining

The Finnish consumer electronics market is competitive compared to many international markets

popularity, we consider the overall Finnish consumer electronics market to be fairly competitive compared to many international markets and would expect Verkkokauppa.com to largely retain its competitiveness against foreign competition, with solid prospects to increase market share domestically. We are not particularly concerned of increasing cross-border trade weakening the company's mid-term growth outlook. However, the potential entry of Amazon to the Finnish market is likely to change the playground.

Amazon

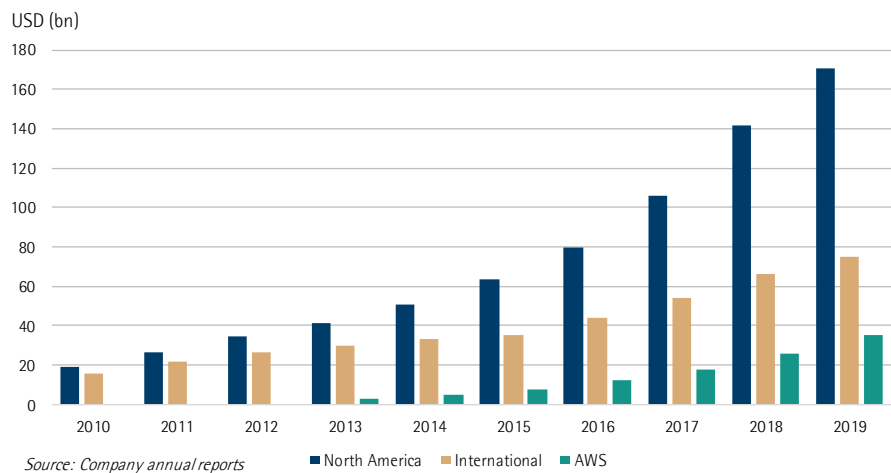
Amazon is recruiting in the Nordic region and establishing a warehouse to Sweden

Rumors of the US online giant Amazon (2019 revenue: USD 280.5bn) entering the Nordic market have been circulating for years but now it truly seems that the Nordic, or at least the Swedish launch is close by. The company started active recruitments in the Nordics earlier this year and it has confirmed to establish a 15,000 square meters warehouse to Eskilstuna, Sweden. It is still unknown whether (and when) there will be a Finnish platform but it is likely that Amazon prioritizes Sweden, Norway and Denmark before entering to Finland. Therefore, the Finnish launch could happen somewhere between the next 1-3 years. We however note that it has been possible for Finns to purchase through Amazon via its other (e.g. German) websites. Of course, the delivery times have been longer and the delivery costs higher.

In 2019, 61 percent of sales came from North America

Despite of the strong presence in the European market, Amazon's home market, North America is generating most of the revenue. In 2019, 61 percent of revenue came from North America, ~27 percent from International sales and 12 percent from AWS (Amazon Web Services).

Figure 15: Amazon revenue development



Third party sellers can sell their products through FBA and FBM

Amazon's business model allows the third party sellers to sell their products through Fulfilled by Amazon (FBA), where the third party seller's items are stored to Amazons fulfillment centres and shipped from there. Another option is Fulfilled By Merchant (FBM), where the goods are stored in a third party seller's inventory and delivered by a third party merchant.

Amazon has been in Europe for more than 20 years

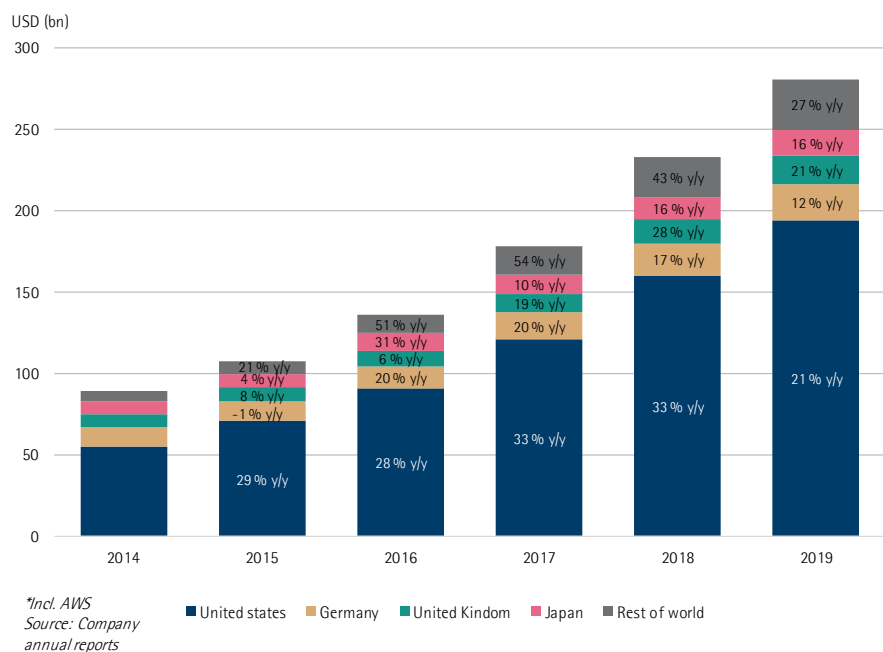
Amazon has been present in the European market for over 20 years and its main European markets have been Germany and UK. Online stores in Germany and UK were opened already in 1998.

The entry of Amazon doesn't necessarily mean the end of other retailers

Even though the entry of Amazon is likely to bring changes to the Finnish retail market, the examples from Europe show that with a strong brand and good business model it is

possible to compete against Amazon. German retailer OTTO (founded in 1947) is a European e-commerce pioneer as it launched its online store already in 1995. Amazon.de was established in 1998 and it is nowadays Germany's most popular online store. Despite of the strong presence of Amazon in Germany, OTTO has also been able to grow. Its 2010-2019 revenue CAGR is approx. 4 percent and even though its sales are well below Amazon's, it has a meaningful market share in the German retail market. Also, the British online retailers, such as Argos (owned by Sainsbury) and John Lewis have been able to compete alongside Amazon.uk. The Dutch online focused retailer Bol.com has 2012-2019 revenue CAGR of over 34 percent, despite of the strong presence of Amazon in the Netherlands.

Figure 16: Amazon's global revenue development



Verkkokauppa.com has a strong brand and positioning in the Finnish e-commerce market

Verkkokauppa.com has geographical advantages

Amazon's advantages are wide product assortment and customer engagement

Verkkokauppa.com's already strong brand and positioning in the Finnish e-commerce market gives the company advantages against the online giant. In addition, it has geographical advantages. The company's main warehouse is located in Finland and it is much larger than Amazon's warehouse in Sweden (15,000m2). Secondly, the company has four physical stores which the customers can use. This makes a big difference as the customer service and enhancement tend to be more personalized in physical stores. The store in Jätkäsaari has also a 24/7 pickup point which creates flexibility. The geographical positioning and good partner networks enable Verkkokauppa.com to have quick delivery times. For instance, the company has same day deliveries but also 3h deliveries in the capital area. This is something Amazon is probably not able to offer in the near future. In order to compete with delivery times, Amazon would need to establish several fulfillment centres across the country. Even in this case, it is unlikely that the company would be able to have all its offering in Finland. Therefore, it would still need to deliver the products from other countries.

As mentioned earlier, the consumer electronics market in Finland is fairly competitive compared to many other countries thus it would be relatively challenging to gain significant market share growth in this. The major advantages of Amazon are its mass-market consumers targeted products and wide product assortment Its logistics is also very efficient. The company is also extremely good at customer engagement (e.g. Amazon prime). Verkkokauppa.com has indicated that it will continue on focusing of

being competitive in its targeted product categories. Thus, the company is not aiming to expand its offering to non-suitable categories in the fear of Amazon.

Finnish consumers value high Finnish brands which impacts on customer behavior

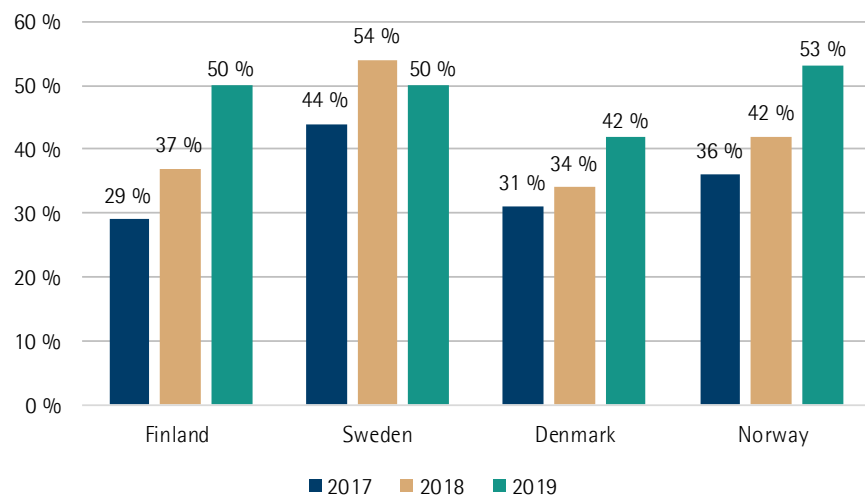
Logistics and product assortment are not the only things that matter. Finnish consumers value high Finnish brands and the trend of domesticity has only increased its importance during the coronavirus time. This is also the opportunity Verkkokauppa.com is using by launching the "only Finnish" platform (verkkokauppa.fi). We expect this to further strengthen the company's brand image. The return policy is also often seen more convenient and reliable with Finnish retailers. In many countries, Amazon has started to collaborate with its competitors and even this could happen also with Finnish competitors, we see the collaboration between Verkkokauppa.com and Amazon quite unlikely. See page 23 for Amazon scenarios.

E-commerce is going mobile

Mobile purchasing is rapidly gaining popularity

While retail is rapidly moving online recent trends show that e-commerce is going mobile in a fast phase. According to Postnord, 50 percent of Finnish consumers had used mobile device for shopping in 2019 while in 2018 was 37 percent. The growth in mobile purchases has been the strongest in Finland, compared to other Nordic countries. Verkkokauppa.com is continuously improving their customer experience online and in mobile and we see the current trends are supporting the company's business model.

Figure 17: mobile purchases in Nordic countries



Source: Postnord

*Question: Have you done mobile purchases within the last 30 days?

Financial performance, estimates and outlook

Consumer electronics market is expected to be relatively flat in the near future

Verkkokauppa.com's business has developed favorably in the long run. We expect similar development to continue in upcoming years, assuming no major changes take place in the competitive field. However, the consumer electronics market is expected to be relatively flat in a long run and online taking market share from physical stores.

Rapid revenue growth primarily via market share increase

Verkkokauppa.com's revenue CAGR in 2010-2019 has been 12.6 percent

Verkkokauppa.com's revenue CAGR was 12.6 percent in 2010-2019 with the annual growth rate varying between ~5-25 percent. The company's growth has been primarily based on market share increases and launch of new product categories. The company has been able to grow in each quarter since listing on exchange. Historically the company has launched one new category per year (on average) and has gained about 1 percent market share in the new categories per operating year in Finland (on average). The company has also launched new subcategories frequently.

Due to a small physical footprint the cost base is efficient, which has allowed competitive pricing

Verkkokauppa.com's market share increases have been primarily based on competitive prices, strong online presence and consumer online migration which has speeded up resulting from the coronavirus and movement restrictions. Verkkokauppa.com has the competitive advantage of having only four physical stores. Due to the small physical footprint the company's cost base is efficient, which in turn has allowed competitive and aggressive pricing policies compared to traditional retail and industry peers in recent years. The company aims continuously to enhance user experience online and in mobile.

Company likely to benefit if/when market consolidates further

Consumer electronics market has been consolidating via exits and scale downs

During the past ~5-10 years the Finnish consumer electronics market has been consolidating via exits and scale-downs by many of Verkkokauppa.com's competitors. Competition has been fierce and many of the smaller competitors have run their operations with either inadequate volume and/or with too high fixed costs. As a result of fierce competition, the market has been concentrating with particularly the three largest players (Gigantti, Power and Verkkokauppa.com). Last year, Verkkokauppa.com and Power were able to slightly increase their market shares whereas Gigantti lost market share.

Despite of the fierce competition, the combined market share of smaller competitors is ~35 percent

While competition in the Finnish consumer electronics market seems to have continuously tightened, the combined market share of all others except the three largest (Gigantti, Verkkokauppa.com and Power) remains meaningful at ~35 percent. Considering the ever-tightening competition (both domestic and cross-border), further scale-downs and/or exists by smaller players look likely in the mid-term. This would most likely benefit the three largest players and increase their market share.

Very competitive market in 2019, sales in H1'20 driven by the rapidly changed market

Black Friday increased its importance in 2019, but the strike of Posti hampered sales

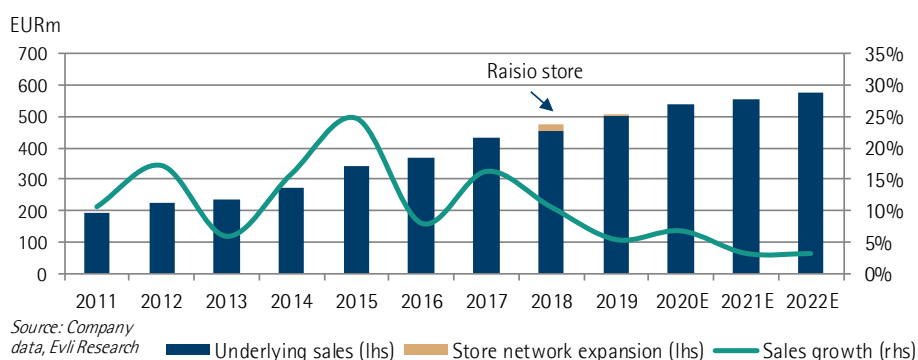
Verkkokauppa.com has four physical stores of which the Raisio store is the most recently opened one (March 2018). The increase in sales due to the opening was shown in early 2019 figures, but the sales have normalized after that. The competition in the consumer electronics market continued fierce and price driven throughout 2019, with market growth rate of 2.9 percent (GfK). Verkkokauppa.com's FY19 revenue growth outpaced the market growth as it grew by 5.5 percent y/y. The company's most important season is the final quarter and the campaigns such as Black Friday continued to increase their importance. Dark clouds were formed over the online store market in November due to the strike of Posti, which also impacted Verkkokauppa.com's operations.

COVID-19 changed the world in early 2020 and e-commerce took a big leap

Verkkokauppa.com was one of the winners of the changed environment

The world changed in the beginning of 2020 as the COVID-19 spread from Wuhan, China across the globe. The Finnish government decided on movement restrictions in mid-March and also the work environment changed as many people switched from their offices to work remotely. Due to the movement restrictions, online sales exploded and the rapid move to home offices boosted the consumer electronics market. For instance, in Q2'20, the consumer electronics market increased by 9.1 percent (GfK). We however see this only as a temporary market change and the long-term trend in the market is expected to remain as it was prior the pandemic. Due to its strong online presence, Verkkokauppa.com was well positioned to the rapid and sudden market change. The company was also quickly able to improve its delivery option offering to secure customer satisfaction. In H1'20, Verkkokauppa.com's revenue increased by 11 percent compared to the previous year.

Figure 18: Verkkokauppa.com – sales development 2011-2022E



Outlook remains blurry due to the COVID-19 and its total impacts

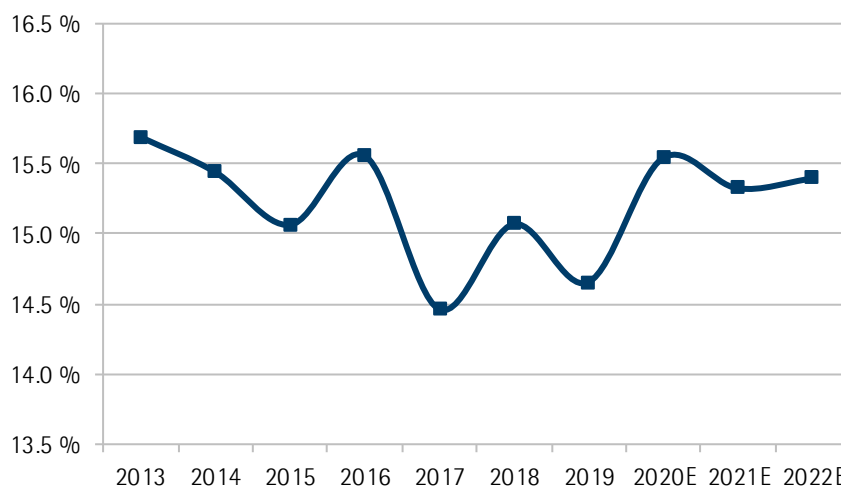
The outlook of H2'20E remains blurry due to the weak visibility caused by the COVID-19 and the overall economic development. The Bank of Finland has estimated that the Finnish GDP declines by some 7 percent in 2020. In the worst case scenario, the decline is 11 percent. The estimated growth in 2021-2022 is some 3 percent. The weakening economic situation will further decrease purchasing power, which was already in decline and impact on consumer behavior. At the same time, we see increasing online migration, which benefits Verkkokauppa.com. Anyhow, we expect the sales growth to normalize during H2'20E. Sales development in 21E-22E depends largely on the pace of online migration and the overall economic development. In addition, the possible entry of Amazon could have an impact on the outlook.

Fierce competition and wholesale deliveries impacting gross margin

Verkkokauppa.com's gross margin is impacted by price-driven competition and wholesale deliveries

Verkkokauppa.com's gross margin has been quite stable (between 14-16 percent) in 2013-2019. Most important factors impacting the gross margin in recent years have been the intensity of competition in the market as well as size of wholesale/B2B deliveries (these are low-margin deliveries). Launch of new product categories has also supported the gross margin per se, but the impact has not emerged in figures, as reaching meaningful volumes in new categories typically takes time and as simultaneously pricing/competition in "old" product categories has tended to increase over time. Gross margin development has an important role in the company's strategy to seek more profitable growth.

Figure 19: Verkkokauppa.com's gross margin development



Source: Company data, Evli Research

■ Gross margin

In 2019, gross margin slightly declined but in H1'20, it was clearly above the average

In 2019, the company's gross margin declined by 4ppt from 2018 as it was ~14.7 percent (15.1 percent in 2018). This was due to the extremely competitive and price driven competition in the consumer electronics market. The company also prioritized growth over profitability which is shown in the figures. In H1'20, gross margin was higher than on average, at 16.4 percent, due to sales mix and improved category management. Also, the consumer electronics market was not as price driven as normally. In addition, wholesale sales to outside of Finland decreased. We expect gross margin to improve to 15.5 percent this year and to remain in the same levels also in 21E-22E.

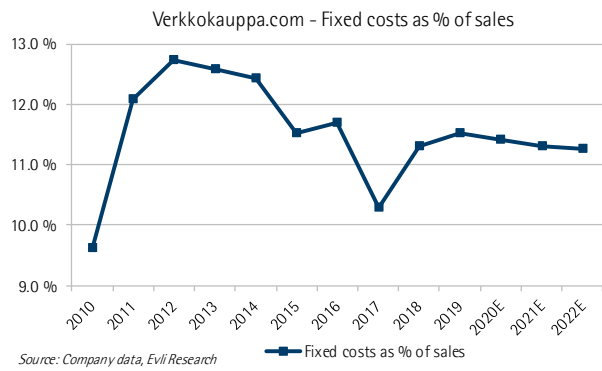
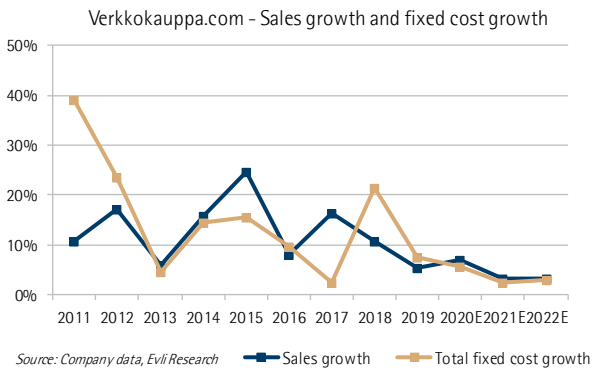
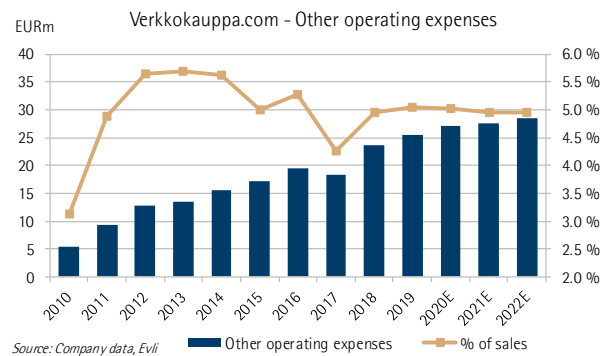
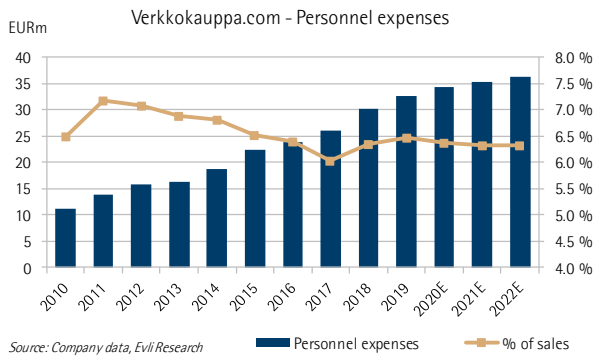
OPEX base is low and scalable

Verkkokauppa.com's OPEX base is low and scalable due to a relatively small physical footprint

Verkkokauppa.com's OPEX base is low (10-12 percent of revenue in recent years) compared to the overall retail sector in Finland (~20-30 percent in recent years) and compared to main competitors (see page 9). With a relatively small physical footprint the OPEX base is scalable too: OPEX as % of revenue has declined from 12.6 percent in 2013 to 11.5 percent in 2019 (even though the company has increased its investments into growth, e.g. marketing). In 2020E, we expect OPEX as % of revenue to be 11.4 percent. We expect OPEX growth to slow down in 2021E and OPEX as % of revenue to stay relatively flat at 11.3 percent in 21E-22E.

The Raisio store opened in March 2018 had a negative impact on 2018 earnings. We expect the store reached break-even EBITDA in 2019 and has had positive EBITDA contribution since then.

Figure 20: Verkkokauppa.com's expenses

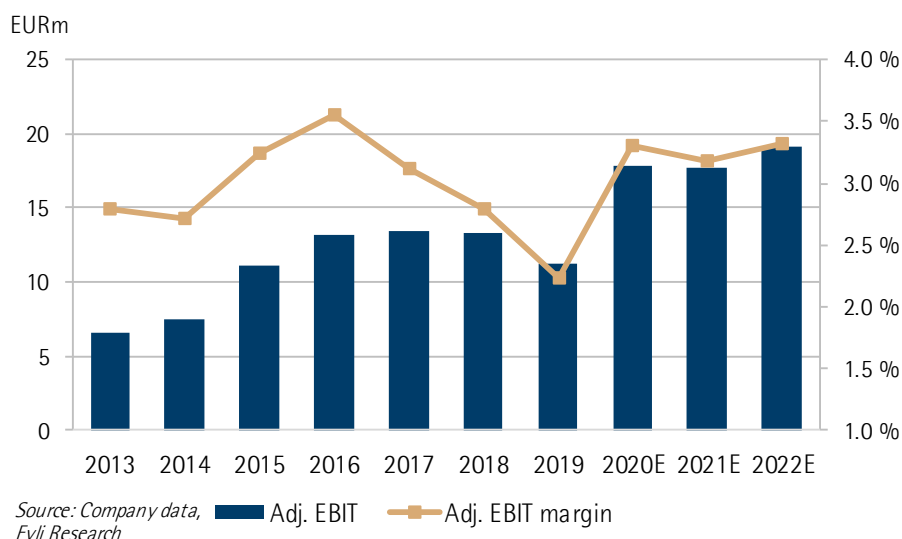


Shifting focus to more profitable growth

Verkkokauppa.com has traditionally had a strong focus on keeping the OPEX base low and efficient. We expect this to continue. The company has shifted its focus to more profitable growth and we have already seen some evidence of the successful strategy execution. In H1'20, this was partly helped by the changed market conditions which impacted gross margin development positively but in addition to that, category management has been successful and the company has been able to add categories and products that are offering higher margins to its sales mix.

The company's mid-term target is to have adj. EBIT margin between 2.5-4.5 percent. In 2019, the company did not quite reach this level but on average, the company has been able to reach the lower end of the scale. We expect the company's adj. EBIT margin to reach over 3 percent in 20E-22E but reaching the higher end of the target is still relatively far.

Figure 21: Adj. EBIT margin development



Competitive threats in 2020-2022

Finnish GDP is expected to decline by ~7 percent in 2020

Decreasing purchasing power increasing uncertainties

The Amazon rumors have increased again as the company has been actively hiring people across the Nordics and it has confirmed that it is planning to have a warehouse in Sweden which is a clear evidence that the US based online giant will enter the Nordics soon. There will no doubt be impacts for the Finnish e-commerce market but it is still difficult to estimate the total magnitude of this (read more about Amazon in page 12). However, we are not particularly concerned about Verkkokauppa.com's mid-term market share development as there are no new domestic competitors in the market. The company stated that its major threats are related to macroeconomic factors and especially to Finnish GDP growth. The Bank of Finland estimates GDP decline of ~7 percent in 2020 and growth of ~3 percent in 2021-2022. Purchasing power is likely to decrease in the near future and fierce competition in the consumer electronics market with domestic and foreign competitors is not expected to ease which has an impact on margins and market shares (coronavirus boosted the market growth temporarily). However, Verkkokauppa.com's other categories should support profitable growth.

Apuraha financing

Apuraha has been solely finance by Verkkokauppa.com from Q4'18 onwards

Old receivables are sold as a part of risk management strategy

Verkkokauppa.com launched its own customer financing service (Apuraha) in 2015. Company financed Apuraha service started in early 2016. Apuraha was first financed in collaboration with Lindorff (with shared profit distribution model) but from Q4'2018 onwards Apuraha for B2C consumers has been solely financed by Verkkokauppa.com. From April 2019 onwards the company has sold its receivables that are due over 60 days as part of its risk management strategy. Based on historical balance sheet information we calculate that the outstanding loan base of company-financed Apuraha credits was some EUR ~9m at the end of 2019 vs. EUR ~10m at the end of 2018:

Apuraha loan base	2013	2014	2015	2016	2017	2018	2019
Sales	238	276	344	371	432	478	504
Trade receivables	4.8	4.7	5.0	7.7	12.4	16.8	16.5
% of sales	2.0%	1.7%	1.5%	2.1%	2.9%	3.5%	3.3%
"Normal" trade receivables % of sales assumption (2016 onwards)				1.5%	1.5%	1.5%	1.5%
Implied "normal" trade receivables 2016-2019				5.6	6.5	7.2	7.6
Implied Apuraha loan base*	0.0	0.0	0.0	2.1	6.0	9.6	8.9

Source: Company data, Evli Research

Assuming 20% effective interest, 2% loan losses and 30% C/I ratio (Bank Norwegian, Nordax, Santander Nordics), our calculations indicate Apuraha may boost the company's annual earnings by several millions depending on how much of company-financed Apuraha credits are originated:

Apuraha illustrative example	Loan base EURm (financed by Verkkokauppa.com)					
	5	10	15	20	25	30
Effective annual interest assumption	20 %	20 %	20 %	20 %	20 %	20 %
Interest income	1.0	2.0	3.0	4.0	5.0	6.0
Loan losses 2% (originated credit)	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6
Cost income ratio (CIR) assumption	30 %	30 %	30 %	30 %	30 %	30 %
Implied costs	-0.3	-0.6	-0.9	-1.2	-1.5	-1.8
Operating income	0.6	1.2	1.8	2.4	3.0	3.6

Source: Evli Research

*Temporary 10% interest ceiling valid until the end of 2020. Does not apply to commodity-related loans. (eg. hire purchase loans).

Interest income/other income from Apuraha in 2019 was EUR 3.3m

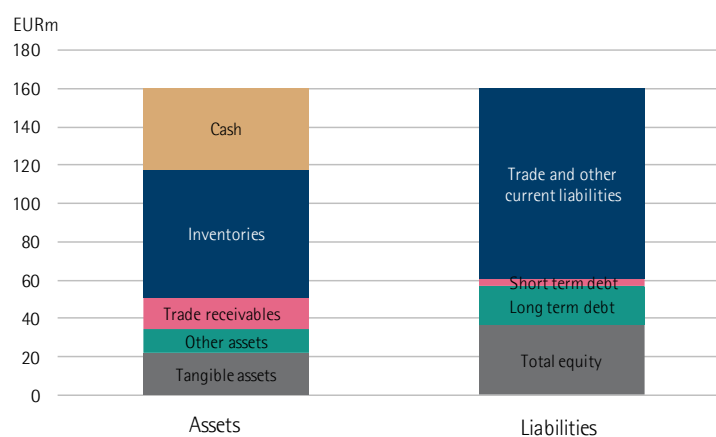
Income from company-financed Apuraha in 2019 was EUR 3.3m (EUR 3.1m in 2018) including interest income and other income. We expect Verkkokauppa.com to gradually increase the company-financed Apuraha origination.

Balance sheet information

Verkkokauppa.com has strong balance sheet

Verkkokauppa.com's balance sheet is strong with EUR ~19m net cash position at the end of 2019. We expect the net cash position to remain in same levels also in 2020E. The company has not issued specific targets of how it intends to allocate the net cash position but has indicated that investments in marketing (e.g. tv campaigns) and improving user experience online and in mobile will continue. Strong cash position could also be used for growing dividend payout. Due to the nature of business, inventories represents a large part of the company's total assets (~40%).

Figure 22: Verkkokauppa.com's balance sheet (2019)



Source: company data, Evli Research

Financial targets

Verkkokauppa.com's mid-term financial targets are the following

- 10-20 percent annual revenue growth
- Growing operating profit and adj. EBIT margin of 2.5-4.5 percent

Profitable growth is the company's #1 priority.

Guidance for 2020E

2020E guidance:
Revenue EUR 520-545m,
adj. EBIT EUR 13-18m

Revenue is guided to be EUR 520-545m and adj. EBIT between EUR 13-18m in 2020E. Weakening GDP growth is likely to have negative impact on sales. However, the visibility remains blurry due to the coronavirus pandemic and the weakening economic outlook increases risks in H2'20E.

Dividend policy

Verkkokauppa.com's dividend policy is to distribute a growing dividend with quarterly payout. Annual payout has been high in recent years and we expect high payout to continue, given strong balance sheet.

Base case estimates – Verkkokauppa.com

Verkkokauppa.com model	2010 FAS	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	173.1	191.6	224.5	238.0	275.8	343.7	371.5	431.9	477.8	504.1	538.8	559.3	577.7
<i>Growth-%</i>	-	10.7 %	17.2 %	6.0 %	15.9 %	24.6 %	8.1 %	16.3 %	10.6 %	5.5 %	6.9 %	3.8 %	3.3 %
Cost of goods and services	-154.7	-167.1	-195.2	-200.7	-233.2	-291.9	-313.7	-369.4	-405.8	-430.2	-455.0	-473.5	-488.7
<i>Growth-%</i>	-	8.1 %	16.8 %	2.8 %	16.2 %	25.2 %	7.5 %	17.8 %	9.9 %	6.0 %	5.8 %	4.1 %	3.2 %
<i>% of sales</i>	89.4 %	87.2 %	86.9 %	84.3 %	84.6 %	84.9 %	84.4 %	85.5 %	84.9 %	85.3 %	84.5 %	84.7 %	84.6 %
Gross profit	18.4	24.5	29.3	37.4	42.6	51.8	57.8	62.5	72.0	73.9	83.8	85.7	89.0
<i>Gross margin</i>	10.6 %	12.8 %	13.1 %	15.7 %	15.4 %	15.1 %	15.6 %	14.5 %	15.1 %	14.7 %	15.5 %	15.3 %	15.4 %
Fixed costs adj.	-16.6	-23.2	-28.6	-29.9	-34.3	-39.6	-43.4	-44.5	-54.0	-58.1	-61.5	-63.2	-65.1
<i>Growth-%</i>	-	39.1 %	23.6 %	4.7 %	14.5 %	15.5 %	9.6 %	2.5 %	21.4 %	7.6 %	5.7 %	2.8 %	3.0 %
<i>% of sales</i>	9.6 %	12.1 %	12.7 %	12.6 %	12.4 %	11.5 %	11.7 %	10.3 %	11.3 %	11.5 %	11.4 %	11.3 %	11.3 %
Other income	0.6	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	-0.8	-0.9	-0.9	-0.9	-1.0	-1.2	-1.3	-4.6	-5.1	-5.1	-5.0	-5.2	-5.2
NRIs included in EBIT	0.0	0.0	0.0	0.0	0.0	-3.4	-0.6	0.0	0.0	0.0	-0.8	0.0	0.0
Adj. EBITDA	2.4	1.7	0.9	7.5	8.4	12.3	14.5	18.0	18.4	16.3	22.8	23.1	24.3
<i>Adj. EBITDA margin</i>	1.4 %	0.9 %	0.4 %	3.2 %	3.1 %	3.6 %	3.9 %	4.2 %	3.9 %	3.2 %	4.2 %	4.1 %	4.2 %
Adj. EBIT	1.6	0.8	0.0	6.6	7.5	11.1	13.2	13.5	13.3	11.3	17.8	17.9	19.2
<i>Adj. EBIT margin</i>	0.9 %	0.4 %	0.0 %	2.8 %	2.7 %	3.2 %	3.6 %	3.1 %	2.8 %	2.2 %	3.3 %	3.2 %	3.3 %
Reported EBIT	1.6	0.8	0.0	6.6	7.5	7.7	12.6	13.5	13.3	11.3	17.0	17.9	19.2
<i>Reported EBIT margin</i>	0.9 %	0.4 %	0.0 %	2.8 %	2.7 %	2.2 %	3.4 %	3.1 %	2.8 %	2.2 %	3.2 %	3.2 %	3.3 %
Net financials*	-0.8	-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	0.8	-0.1	-0.7	5.5	5.5	6.8	12.6	11.8	11.7	9.7	15.5	16.3	17.6
Taxes	-0.1	0.0	0.0	-1.4	-1.2	-1.4	-2.4	-2.4	-2.3	-2.0	-3.0	-3.3	-3.5
<i>Tax rate (%)</i>	16.6 %	0.0 %	0.0 %	25.6 %	22.2 %	19.9 %	19.4 %	20.0 %	20.0 %	20.1 %	19.4 %	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	0.0	0.0
Net income	0.6	-0.3	-0.7	4.2	4.5	5.4	10.2	9.5	9.3	7.8	12.5	13.0	14.1
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	44.7	44.7	44.7
EPS	0.08	-0.04	-0.09	0.56	0.60	0.12	0.23	0.21	0.21	0.17	0.28	0.29	0.31
Dividend and capital return	-	-	-	0.04	0.85	0.15	0.17	0.18	0.20	0.21	0.23	0.24	0.25
<i>Payout ratio (%)</i>	-	-	-	7 %	142 %	126 %	74 %	87 %	96 %	122 %	82 %	83 %	79 %

Source: Company data, Evli Research

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

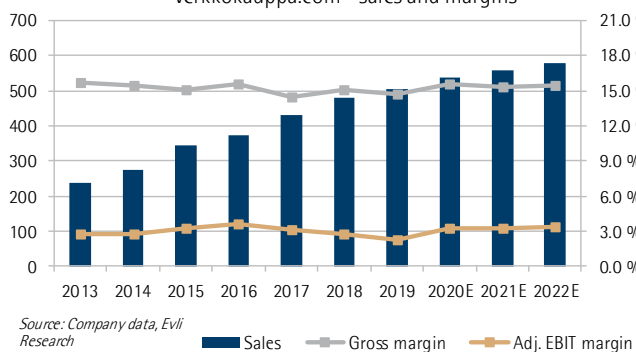
* PTP, Net Income & EPS calculated from reported figures

*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

Average number of shares excludes shares held by the company

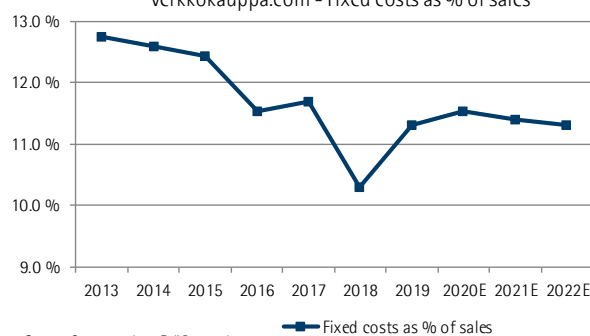
Verkkokauppa.com - sales and margins



Source: Company data, Evli Research

Sales Gross margin Adj. EBIT margin

Verkkokauppa.com - Fixed costs as % of sales



Source: Company data, Evli Research

Fixed costs as % of sales

Scenario analysis – Verkkokauppa.com

Key assumptions behind pessimistic estimates:

- Amazon starts operations also in Finland and/or the Swedish platform will be actively used by Finnish consumers
- Purchasing power decreased more than in base case
- Slower growth vs. base case weakens fixed cost scalability slightly
- Price driven competition will increase, impacting the gross margin

Key assumptions behind base case estimates:

- Amazon's entry to Sweden (and to other Nordic countries) – no significant or only little impacts to Finnish market and to Verkkokauppa.com's positioning
- Competition remains fierce in the market
- Purchasing power does not grow in the mid-term
- Coronavirus situation doesn't get worse and the worst case scenarios of the Finnish GDP growth doesn't happen

Key assumption behind optimistic estimates:

- Consumers migrate online faster than in base case, supporting OPEX scalability
- Verkkokauppa.com's underlying growth reaches ~10 percent in 20E and 6-7 percent in 21E-22E
- Company reaches somewhat higher gross margin than in base case, either via easier competition, higher capital allocation to Apuraha or more successful category management than in base case
- Amazon's presence in the Nordics remains low

Verkkokauppa.com Scenario estimates	2016	2017	2018	2019	2020E	2021E	2022E	2016	2017	2018	2019	growth (%)			CAGR 19-22E	
Revenue																
Pessimistic	371	432	478	504	524	535	543	8 %	16 %	11 %	5 %	4 %	2 %	1 %	2 %	
Base case	371	432	478	504	539	559	578	8 %	16 %	11 %	5 %	7 %	4 %	3 %	5 %	
Optimistic	371	432	478	504	555	596	629	8 %	16 %	11 %	5 %	10 %	7 %	6 %	12 %	
Gross margin																
Pessimistic	15.6%	14.5%	15.1%	14.7%	15.1%	14.8 %	14.8 %	-	-	-	-	-	-	-	-	
Base case	15.6%	14.5%	15.1%	14.7%	15.5%	15.3 %	15.4 %	-	-	-	-	-	-	-	-	
Optimistic	15.6%	14.5%	15.1%	14.7%	16.0%	15.9 %	15.9 %	-	-	-	-	-	-	-	-	
Fixed costs as % of sales (adj.)																
Pessimistic	11.7%	10.3%	11.3%	11.5%	11.6%	11.6%	11.6%	-	-	-	-	-	-	-	-	
Base case	11.7%	10.3%	11.3%	11.5%	11.4%	11.3%	11.3%	-	-	-	-	-	-	-	-	
Optimistic	11.7%	10.3%	11.3%	11.5%	11.0%	10.6%	10.6%	-	-	-	-	-	-	-	-	
Fixed costs (adj.)																
Pessimistic	-43	-44	-54	-58	-61	-62	-63	10 %	2 %	21 %	8 %	5 %	2 %	2 %	3 %	
Base case	-43	-44	-54	-58	-62	-63	-65	10 %	2 %	21 %	8 %	6 %	3 %	3 %	4 %	
Optimistic	-43	-44	-54	-58	-61	-63	-67	10 %	2 %	21 %	8 %	5 %	4 %	6 %	7 %	
Adj. EBIT																
Pessimistic	13.2	13.5	13.3	11.3	13.8	13.0	12.7	19 %	2 %	-1 %	-16 %	23 %	-6 %	-2 %	4 %	
Base case	13.2	13.5	13.3	11.3	17.8	17.9	19.2	19 %	2 %	-1 %	-16 %	58 %	0 %	7 %	19 %	
Optimistic	13.2	13.5	13.3	11.3	23.2	26.5	28.0	19 %	2 %	-1 %	-16 %	106 %	14 %	6 %	58 %	
Adj. EBIT margin																
Pessimistic	3.6%	3.1%	2.8%	2.2%	2.6%	2.4%	2.3%	-	-	-	-	-	-	-	-	
Base case	3.6%	3.1%	2.8%	2.2%	3.3%	3.2%	3.3%	-	-	-	-	-	-	-	-	
Optimistic	3.6%	3.1%	2.8%	2.2%	4.2%	4.4%	4.5%	-	-	-	-	-	-	-	-	

Source: Evli Research

Verkkokauppa.com's average historical 12m forward-looking EV/EBIT multiple is ~15x. During the last years, the company's revenue growth has been extremely strong. The growth rate was slightly normalized last year and we expect (in our base case) more moderate growth rate (~3-4 percent) in 21E-22E. We value our base case 21E EV/EBIT at 13.0x and arrive to fair value of EUR 5.7. Our pessimistic 21E EBIT estimate and a lower 21E EV/EBIT multiple of 9.0x would yield a fair value of EUR 3.1 while our optimistic 21E EBIT estimate and a higher 21E EV/EBIT multiple of 15.0 would yield a fair value of EUR 9.4. We have put more emphasize on our base case and optimistic scenarios than on our pessimistic scenario. Our scenario analysis would yield a fair value of EUR 6.3.

Scenario	Fair value	Weight (%)	Comment
Pessimistic	3.1	20 %	2021E EV/EBIT 9x
Base case	5.7	50 %	2021E EV/EBIT 13x
Optimistic	9.4	30 %	2021E EV/EBIT 15x
Weighted average	6.3	100 %	
Target price (EUR)	6.3		

Source: Evli Research

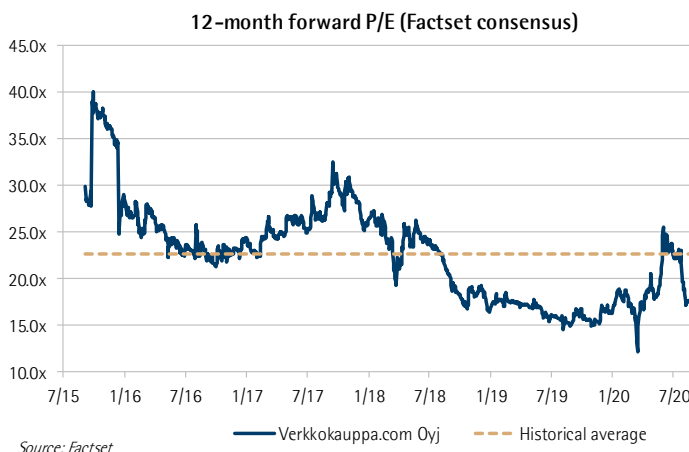
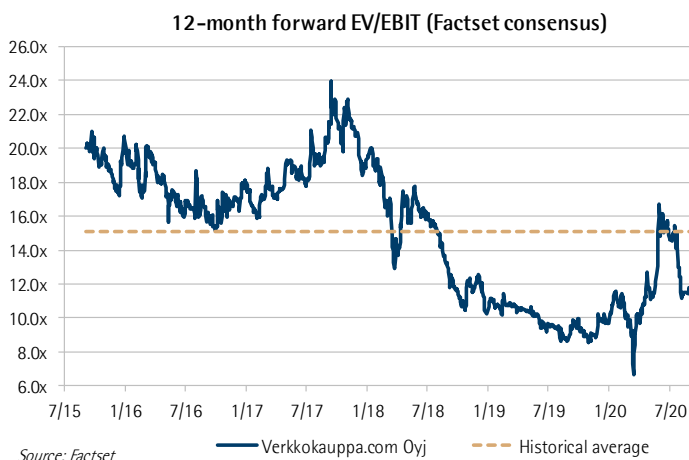
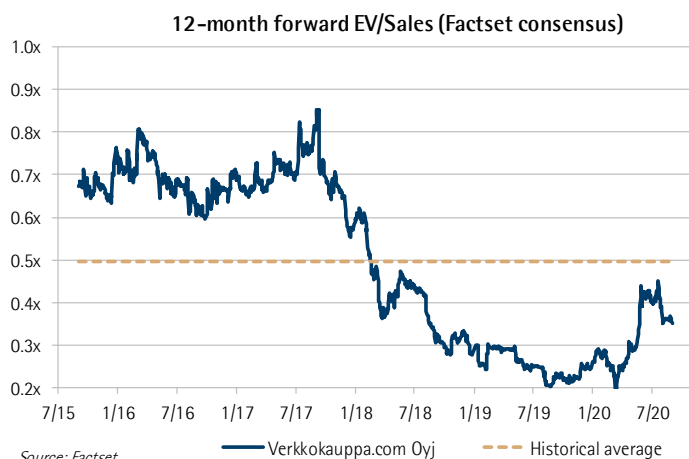
	EV/EBIT 2021E							
	4.0x	6.0x	8.0x	10.0x	12.0x	14.0x	16.0x	18.0x
Pessimistic								
EV (with 2021E pessimistic EBIT)	52	78	104	130	155	181	207	233
Net debt 2020E	-21	-21	-21	-21	-21	-21	-21	-21
Equity value	73	99	125	151	177	203	229	254
Equity value per share	1.6	2.2	2.8	3.4	4.0	4.5	5.1	5.7
Base case								
EV (with 2021E base case EBIT)	71	107	143	179	214	250	286	321
Net debt 2020E	-21	-21	-21	-21	-21	-21	-21	-21
Equity value	93	128	164	200	236	271	307	343
Equity value per share	2.1	2.9	3.7	4.5	5.3	6.1	6.9	7.7
Optimistic								
EV (with 2021E optimistic EBIT)	106	159	212	265	318	371	424	477
Net debt 2020E	-21	-21	-21	-21	-21	-21	-21	-21
Equity value	127	180	233	286	339	392	445	498
Equity value per share	2.8	4.0	5.2	6.4	7.6	8.8	10.0	11.1

Source: Evli Research

Valuation

Historical valuation

From 2015, the company's shares have traded at an average 12m forward-looking EV/Sales multiple of 0.5x, average EV/EBIT multiple of 15.1x and average P/E of 22.6x (based on Factset consensus estimates).



Relative valuation

The table below shows Verkkokauppa.com's valuation compared to three different peer groups, of which we consider the online-focused Nordic and European peers as most relevant for Verkkokauppa.com. We note that good peers with similar business profiles are difficult to find, and that the multiples vary notably both between the peers.

VERKKOKAUPPA.COM PEER GROUP	EV/Sales 20	EV/Sales 21	EV/Sales 22	EV/EBITDA 20	EV/EBITDA 21	EV/EBITDA 22	EV/EBIT 20	EV/EBIT 21	EV/EBIT 22	Sales CAGR 19-22	EPS CAGR 19-22
Online-focused Nordic and European peers											
ASOS plc	1.4x	1.2x	1.0x	18.3x	16.4x	13.6x	33.9x	31.9x	24.9x	13.9 %	62.9 %
Dustin Group AB	0.5x	0.5x	0.4x	10.0x	8.3x	7.3x	16.0x	12.5x	10.5x	7.0 %	9.3 %
Groupe LDLC SA	0.3x	0.3x	0.2x	4.6x	4.1x	3.5x	6.2x	5.5x	4.1x	12.5 %	70.2 %
Qliro Group AB	0.4x	0.4x	0.4x	12.7x	6.4x	4.5x		45.0x	11.0x	0.8 %	na.
Zalando SE	2.3x	2.0x	1.7x	38.5x	30.9x	24.4x	73.5x	56.0x	41.7x	17.8 %	34.7 %
Physical store-focused Nordic and European peers											
CECONOMY AG	0.2x	0.1x	0.1x	3.6x	2.8x	2.5x	18.0x	9.5x	7.6x	-0.1 %	14.2 %
Dixons Carphone plc	0.2x	0.2x	0.2x	4.9x	4.1x	3.5x	17.0x	8.7x	6.8x	-4.9 %	15.0 %
Unieuro SpA	0.2x	0.2x	0.3x	5.3x	4.6x	4.8x	25.9x	16.5x	15.9x	-0.4 %	-3.9 %
XXL ASA	0.8x	0.8x	0.8x	10.3x	7.7x	6.9x	61.7x	22.2x	17.8x	5.4 %	na.
Large international e-commerce peers											
Alibaba Group Holding Ltd. Sponsored ADR	6.7x	5.1x	4.0x	21.6x	16.5x	13.3x	33.5x	24.5x	17.8x	24.7 %	21.3 %
Amazon.com, Inc.	4.2x	3.5x	2.9x	29.0x	22.4x	17.2x	78.0x	52.7x	35.6x	18.9 %	36.1 %
eBay Inc.	3.8x	3.4x	3.0x	10.2x	9.3x	8.2x	12.1x	11.0x	9.7x	1.6 %	12.7 %
JD.com, Inc. Sponsored ADR Class A	1.0x	0.8x	0.6x	33.9x	22.4x	15.8x	52.9x	30.9x	19.8x	20.0 %	39.2 %
Rakuten, Inc.	1.2x	1.1x	1.0x	26.5x	16.6x	8.9x			23.7x	11.1 %	na.
Online-focused Nordic and European peers	0.5x	0.5x	0.4x	12.7x	8.3x	7.3x	25.0x	31.9x	11.0x	12.5 %	48.8 %
Physical store-focused Nordic and European peers	0.2x	0.2x	0.2x	5.1x	4.3x	4.2x	22.0x	13.0x	11.7x	-0.2 %	14.2 %
Large international e-commerce peers	3.8x	3.4x	2.9x	26.5x	16.6x	13.3x	43.2x	27.7x	19.8x	18.9 %	28.7 %
Verkkokauppa.com (Evli est.)	0.4x	0.3x	0.3x	8.5x	8.3x	7.7x	10.9x	10.7x	9.8x	4.6 %	22.0 %
<i>Verkkokauppa.com vs. Online-focused Nordic and EU peers median</i>	<i>-29 %</i>	<i>-28 %</i>	<i>-25 %</i>	<i>-33 %</i>	<i>0 %</i>	<i>6 %</i>	<i>-56 %</i>	<i>-66 %</i>	<i>-11 %</i>		
VERKKOKAUPPA.COM PEER GROUP	P/E 20	P/E 21	P/E 22	EBIT-% 20	EBIT-% 21	EBIT-% 22	Div-% 20	Div-% 21	Div-% 22	ROE 20	P/B 20
Online-focused Nordic and European peers											
ASOS plc	43.9x	43.4x	43.4x	4.2%	3.8%	4.2%	0.0%	0.0%	0.1%	13.2%	13.2x
Dustin Group AB	13.1x	10.9x	10.9x	3.2%	3.8%	3.2%	3.8%	5.4%	6.4%	14.7%	14.7x
Groupe LDLC SA	9.1x	8.5x	8.5x	4.6%	4.7%	4.6%	0.9%	3.2%	3.6%	25.4%	25.4x
Qliro Group AB		92.7x	92.7x	-3.7%	0.8%	-3.7%	0.0%	0.0%	0.0%	-9.0%	-9.0x
Zalando SE	122.3x	90.6x	90.6x	3.2%	3.5%	3.2%	0.0%	0.0%	0.0%	8.2%	8.2x
Physical store-focused Nordic and European peers											
CECONOMY AG	38.6x	9.2x	9.2x	0.9%	1.6%	0.9%	0.0%	1.8%	3.3%	4.8%	4.8x
Dixons Carphone plc	9.6x	6.5x	6.5x	1.4%	2.7%	1.4%	2.6%	4.7%	5.9%	4.8%	4.8x
Unieuro SpA	18.4x	11.4x	11.4x	0.7%	1.0%	0.7%	4.7%	4.0%	7.8%	11.8%	11.8x
XXL ASA		25.6x	25.6x	1.4%	3.7%	1.4%	0.0%	0.0%	0.9%	-0.3%	-0.3x
Large international e-commerce peers											
Alibaba Group Holding Ltd. Sponsored ADR	28.6x	23.3x	23.3x	20.0%	20.9%	20.0%	0.0%	0.0%	0.0%	17.6%	17.6x
Amazon.com, Inc.	104.5x	73.2x	73.2x	5.4%	6.7%	5.4%	0.0%	0.0%	0.0%	16.1%	16.1x
eBay Inc.	14.7x	13.3x	13.3x	31.1%	31.1%	31.1%	1.2%	1.3%	1.2%	75.6%	75.6x
JD.com, Inc. Sponsored ADR Class A	47.8x	34.0x	34.0x	1.8%	2.5%	1.8%	0.0%	0.0%	0.0%	13.5%	13.5x
Rakuten, Inc.				-5.3%	-1.6%	-5.3%	0.4%	0.4%	0.4%	-11.4%	-11.4x
Online-focused Nordic and European peers	28.5x	43.4x	43.4x	3.2%	3.8%	3.2%	0.0%	0.0%	0.1%	13.2%	13.2x
Physical store-focused Nordic and European peers	18.4x	10.3x	10.3x	1.1%	2.1%	1.1%	1.3%	2.9%	4.6%	4.8%	4.8x
Large international e-commerce peers	38.2x	28.7x	28.7x	5.4%	6.7%	5.4%	0.0%	0.0%	0.0%	16.1%	16.1x
Verkkokauppa.com (Evli est.)	16.2x	16.6x	15.3x	3.3 %	3.2 %	3.3 %	4.8%	5.0%	5.2%	35.2%	5.5%

Source: Factset, Evli research

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	115.8	107.8	120.6	159.9	504.1	125.3	123.1	124.2	166.3	538.8	559.3	577.7
EBITDA	3.5	1.4	5.5	5.7	16.2	5.0	6.0	5.6	6.2	22.8	23.1	24.3
<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>4.0</i>	<i>4.9</i>	<i>4.5</i>	<i>3.7</i>	<i>4.2</i>	<i>4.1</i>	<i>4.2</i>
EBIT	2.3	0.2	4.3	4.5	11.3	3.8	4.8	4.3	5.0	17.8	17.9	19.2
<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>3.0</i>	<i>3.9</i>	<i>3.4</i>	<i>3.0</i>	<i>3.3</i>	<i>3.2</i>	<i>3.3</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	-1.6
Pre-tax profit	1.9	-0.2	4.0	4.1	9.8	3.4	4.5	3.9	4.5	16.4	16.3	17.6
Tax	-0.4	0.0	-0.8	-0.8	-1.9	-0.6	-0.7	-0.8	-0.9	-3.0	-3.3	-3.5
<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>17.8</i>	<i>15.7</i>	<i>20.0</i>	<i>20.0</i>	<i>18.4</i>	<i>20.0</i>	<i>20.0</i>
Net profit	1.5	-0.2	3.3	3.2	7.8	2.8	3.8	3.1	3.6	13.4	13.0	14.1
EPS	0.03	0.00	0.07	0.07	0.17	0.06	0.08	0.07	0.08	0.30	0.29	0.31
EPS adjusted (diluted no. of shares)	0.03	0.00	0.07	0.07	0.17	0.06	0.08	0.07	0.08	0.30	0.29	0.31
Dividend per share	0.00	0.00	0.00	0.00	0.21	0.00	0.00	0.00	0.00	0.23	0.24	0.25
SALES, EURm												
Verkkokauppa.com	115.8	107.8	120.6	159.9	504.1	125.3	123.1	124.2	166.3	538.8	559.3	577.7
Total	115.8	107.8	120.6	159.9	504.1	125.3	123.1	124.2	166.3	538.8	559.3	577.7
SALES GROWTH, Y/Y %												
Verkkokauppa.com	12.8	5.3	3.2	2.6	5.5	8.2	14.1	3.0	4.0	6.9	3.8	3.3
Total	12.8	5.3	3.2	2.6	5.5	8.2	14.1	3.0	4.0	6.9	3.8	3.3
EBIT, EURm												
Verkkokauppa.com	2.3	0.2	4.3	4.5	11.3	3.8	4.8	4.3	5.0	17.8	17.9	19.2
Total	2.3	0.2	4.3	4.5	11.3	3.8	4.8	4.3	5.0	17.8	17.9	19.2
EBIT margin, %												
Verkkokauppa.com	2.0	0.2	3.6	2.8	2.2	3.0	3.9	3.4	3.0	3.3	3.2	3.3
Total	2.0	0.2	3.6	2.8	2.2	3.0	3.9	3.4	3.0	3.3	3.2	3.3

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	343.7	371.5	431.9	477.8	504.1	538.8	559.3	577.7
<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>6.9</i>	<i>3.8</i>	<i>3.3</i>
EBITDA	12.3	14.1	18.0	18.4	16.2	22.8	23.1	24.3
<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>4.2</i>	<i>4.1</i>	<i>4.2</i>
Depreciation	-1.2	-1.3	-4.6	-5.1	-4.9	-5.0	-5.2	-5.2
EBITA	11.1	12.8	13.5	13.3	11.3	17.8	17.9	19.2
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	17.8	17.9	19.2
<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>3.3</i>	<i>3.2</i>	<i>3.3</i>
Reported EBIT	7.7	12.2	13.5	13.3	11.3	17.0	17.9	19.2
<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>3.2</i>	<i>3.2</i>	<i>3.3</i>
Net financials	-0.9	0.0	-1.6	-1.7	-1.5	-1.5	-1.6	-1.6
Pre-tax profit	10.2	12.8	11.8	11.7	9.8	16.4	16.3	17.6
Taxes	-1.4	-2.4	-2.4	-2.3	-1.9	-3.0	-3.3	-3.5
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	12.6	13.0	14.1
Cash NRIs	-3.4	-0.6	0.0	0.0	0.0	-0.8	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	9
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	25	22	19	17	16	14
Inventory	39	44	47	66	67	71	74	77
Receivables	9	12	20	27	25	28	29	29
Liquid funds	31	42	52	47	42	45	47	49
Total assets	81	101	149	168	160	169	174	180
Liabilities								
Shareholder's equity	36	39	37	38	37	39	42	46
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	17	16	14
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	0	0	0	0	0	7	7	7
Non-interest bearing current liabilities	45	61	82	103	100	105	109	113
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	81	101	149	168	160	169	174	180
CASH FLOW, EURm								
+ EBITDA	12	14	18	18	16	23	23	24
- Net financial items	-1	0	-2	-2	-1	-1	-2	-2
- Taxes	-1	-2	-4	-3	-2	-3	-3	-4
- Increase in Net Working Capital	-2	7	10	-5	-3	-1	1	-1
+/- Other	-4	-1	0	0	0	-1	0	0
= Cash flow from operations	5	19	23	9	10	16	19	18
- Capex	-1	-1	-2	-2	-2	-4	-5	-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	12	14	13
+/- New issues/buybacks	0	0	-4	0	0	0	0	0
- Paid dividend	-6	-7	-7	-8	-9	-10	-10	-11
+/- Other	-2	0	0	-3	-3	1	-2	-1
Change in cash	-5	11	10	-5	-4	3	2	2

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	333	319	185	159	216	216	216
Net debt (excl. convertibles)	-42	-23	-20	-19	-21	-25	-27
Enterprise value	291	296	164	140	195	191	189
Sales	371	432	478	504	539	559	578
EBITDA	14	18	18	16	23	23	24
EBIT	13	13	13	11	18	18	19
Pre-tax	13	12	12	10	16	16	18
Earnings	10	9	9	8	13	13	14
Equity book value (excl. minorities)	39	37	38	37	39	42	46
Valuation multiples							
EV/sales	0.8	0.7	0.3	0.3	0.4	0.3	0.3
EV/EBITDA	20.6	16.4	8.9	8.7	8.5	8.3	7.7
EV/EBITA	22.7	22.0	12.3	12.4	10.9	10.7	9.8
EV/EBIT	22.7	22.0	12.3	12.4	10.9	10.7	9.8
EV/OCF	15.6	12.8	18.5	14.7	12.1	10.0	10.3
EV/FCFF	17.0	12.9	18.6	14.8	13.0	10.4	10.9
P/FCFE	18.8	14.8	28.7	21.6	18.3	15.4	16.5
P/E	32.1	33.8	19.8	20.4	16.2	16.6	15.3
P/B	8.6	8.7	4.9	4.4	5.5	5.1	4.7
Target EV/EBITDA	0.0	0.0	0.0	0.0	11.4	11.1	10.4
Target EV/EBIT	0.0	0.0	0.0	0.0	14.6	14.4	13.3
Target EV/FCF	0.0	0.0	0.0	0.0	22.0	18.3	19.4
Target P/B	0.0	0.0	0.0	0.0	7.1	6.7	6.2
Target P/E	0.0	0.0	0.0	0.0	21.1	21.7	20.0
Per share measures							
Number of shares	45,065	45,065	45,065	45,065	44,712	44,712	44,712
Number of shares (diluted)	45,065	45,065	45,065	45,065	44,712	44,712	44,712
EPS	0.23	0.21	0.21	0.17	0.30	0.29	0.31
Operating cash flow per share	0.41	0.52	0.20	0.21	0.36	0.43	0.41
Free cash flow per share	0.39	0.48	0.14	0.16	0.26	0.31	0.29
Book value per share	0.86	0.82	0.83	0.81	0.88	0.94	1.02
Dividend per share	0.17	0.18	0.20	0.21	0.23	0.24	0.25
Dividend payout ratio, %	72.2	86.8	95.6	123.4	76.9	82.5	79.4
Dividend yield, %	2.2	2.6	4.8	6.1	4.8	5.0	5.2
FCF yield, %	5.3	6.7	3.5	4.6	5.5	6.5	6.1
Efficiency measures							
ROE	27.9	25.1	25.1	21.1	35.2	31.8	32.1
ROCE	34.5	25.7	20.5	18.2	28.9	27.9	29.2
Financial ratios							
Inventories as % of sales	11.9	10.9	13.8	13.2	13.2	13.2	13.4
Receivables as % of sales	3.3	4.5	5.7	5.1	5.2	5.1	5.1
Non-interest bearing liabilities as % of sales	16.5	19.0	21.6	19.7	19.5	19.5	19.5
NWC/sales, %	-1.4	-3.6	-2.2	-1.5	-1.1	-1.2	-1.0
Operative CAPEX/sales, %	0.3	0.4	0.5	0.4	0.8	0.9	0.9
CAPEX/sales (incl. acquisitions), %	0.3	0.4	0.5	0.4	0.8	0.9	0.9
FCFF/EBITDA	1.2	1.3	0.5	0.6	0.7	0.8	0.7
Net debt/EBITDA, book-weighted	-3.0	-1.3	-1.1	-1.2	-0.9	-1.1	-1.1
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	23.9	24.8	25.8
Gearing, %	-108.0	-61.3	-54.3	-52.1	-53.8	-59.2	-60.0

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.

INVESTMENT CASE: The company has a strong track record of growth with a revenue CAGR of 12.6% in 2010-2019. 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	22,011,342	106.315	49.2%
Rite Ventures Finland Ab	2,172,576	10.494	4.9%
Keva	2,171,000	10.486	4.9%
Keskinäinen Työeläkevakuutusyhtiö Varma	2,065,932	9.978	4.6%
Mandatum Henkivakuutusosakeyhtiö	1,673,378	8.082	3.7%
Sijoitusrahasto Nordea Nordic Small Cap	1,586,969	7.665	3.5%
Evli Finnish Small Cap Fund	644,000	3.111	1.4%
Skogberg Ville Johannes	634,266	3.064	1.4%
Keskinäinen Vakuutusyhtiö Kaleva	466,475	2.253	1.0%
Verkkokauppa.com Oyj	357,986	1.729	0.8%
Ten largest	33,783,924	163.176	76%
Residual	10,928,055	52.783	24%
Total	44,711,979	215.959	100%

EARNINGS CALENDAR	
October 23, 2020	Q3 report

COMPANY MISCELLANEOUS	
CEO: Panu Porkka	Tyynenmerenkatu 11, 00220 Helsinki
CFO: Mikko Forsell	Tel: +358 10 309 5555
IR: Mikko Forsell	

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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

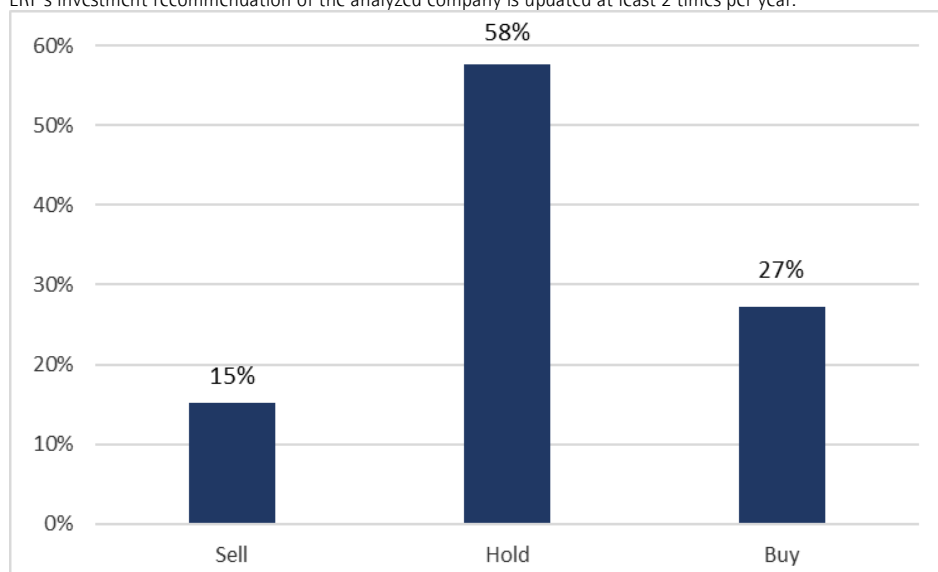
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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

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