EVLI

VERKKOKAUPPA.COM

Internet Retail/Finland, June 28, 2019

Company update

E-commerce taking market share

Verkkokauppa.com is a growth story with good fundamentals and solid business model. The company continues focusing on growth and enhancing consumer experience. We see Verkkokauppa.com's mid-term outlook remaining favorable, despite of the tightened competition.

Growth company with strong focus on consumer experience

Verkkokauppa.com's revenue CAGR in 2010-2018 was 13.5%, which has been mainly supported by competitive pricing, strong online positioning, new product categories as well as the new Raisio store. The competition has continued fierce and price-driven, forcing the market to consolidate and smaller competitors exit the market. With a small physical footprint, the company has an efficient and scalable cost base enabling competitive pricing and strong reliance against competition. The company has strong net cash position which enables investments in growth. Verkkokauppa.com has made extensive investments in marketing from Q4'18 onwards and focuses on improving consumer experience. These investments should support further growth but will hamper EBIT improvement this year.

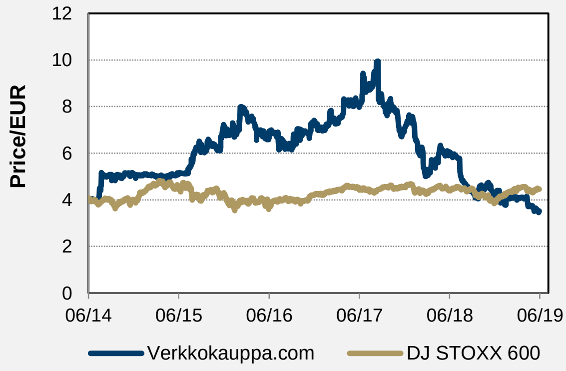
Growth expected to continue despite of tight competition

We see Verkkokauppa.com's outlook for mid-term favorable and expect the company to continue growing in FY19-21E with annual growth of ~9%. We see that if consumer migration to online shopping continues strong, the company's scalable cost base will support improvements in profitability. We expect EBIT to be flat at EUR 13m in 2019E but to improve in 2020E-2021E. The biggest concerns are related to the Finnish GDP growth which is expected to slow down in 2019-2020 and to fierce competition in the market.

"Buy" with TP of EUR 4.7

We have not made changes to our estimates. On our estimates, Verkkokauppa.com is trading ~45% EV/EBIT discount vs. peer group in 2019E-2020E. We value Verkkokauppa.com's base case at EV/EBIT multiple of 11x. Our recommendation remains BUY with TP of EUR 4.7

Rating: BUY



Share price, EUR (Last trading day's closing price)	3.52
Target price, EUR	4.7
Latest change in rating	19-Feb-19
Latest report on company	13-May-19
Research paid by issuer:	Yes
No. of shares outstanding, '000's	45,065
No. of shares fully diluted, '000's	45,065
Market cap, EURm	159
Free float, %	50.0
Exchange rate	1.000
Reuters code	VERK.HE
Bloomberg code	VERK FH
Average daily volume, EURm	na.
Next interim report	9-Aug-19
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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	432	13	3.1%	12	0.21	33.8	0.7	12.9	22.0	0.18
2018	478	13	2.8%	12	0.21	19.8	0.3	17.3	12.3	0.20
2019E	522	13	2.5%	11	0.20	17.6	0.3	11.4	10.5	0.21
2020E	569	17	3.1%	16	0.28	12.5	0.2	11.1	7.6	0.22
2021E	621	20	3.3%	19	0.34	10.4	0.2	9.9	6.3	0.24

Market cap, EURm	159	BV per share 2019E, EUR	0.8	CAGR EPS 2018-21, %	17.7
Net debt 2019E, EURm	-23	Price/book 2019E	4.2	CAGR sales 2018-21, %	9.1
Enterprise value, EURm	135	Dividend yield 2019E, %	6.0	ROE 2019E, %	24.0
Total assets 2019E, EURm	188	Tax rate 2019E, %	20.0	ROCE 2019E, %	19.0
Goodwill 2019E, EURm	0	Equity ratio 2019E, %	20.6	PEG, P/E 19/CAGR	0.8

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

Investment summary

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

Verkkokauppa.com is a Finnish online focused retailer offering over 65,000 products in over 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 13.5% in 2010-2018. Growth has been primarily driven by market share increases which have been supported by competitive pricing, strong online positioning, new Raisio store as well as new product categories. Verkkokauppa.com's consumer electronics market share in 2018 was ~23-24%. The company has been able to win market share constantly despite of the tightened 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 online platform is strong. E-commerce is ~12 % of Finnish retail market and it is estimated that 1% or EUR 400m of retail sales moves to online annually. The company has four physical stores of which, Raisio store is the newest one. The company previously had plans to open a 5th store but at this moment, these plans have been buried. 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. The company has been able to invest in growth supported by strong net cash position. In 2018 the company strengthened its management team and emphasized the importance of consumer experience. Verkkokauppa.com started to focus more on marketing last year by launching brand campaigns and tv commercials on a regular basis. The company has indicated that investments in marketing will continue throughout the year.

Combined market share of the three biggest market players is ~66%

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) continued to increase their market shares in 2018, resulting in a combined market share of ~66%. 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.

Cross border shopping continues strong, though Finnish customer prefer domestic retailers

Based on our knowledge, Amazon is not planning to enter the Finnish market in the near future, though online shopping from foreign online stores still continues strong. However, Finnish customers tend to prefer domestic retailers. Norwegian Komplett launched an online retail business in Finland in H2'17 but exited the market already one year after in H2'18. Danish Proshop launched a Finnish website in 2017 but as a small competitor in the Finnish market, we are not particularly concerned about that.

We expect EBIT to be flat in 2019E but to improve in 2020E-2021E

Verkkokauppa.com was able to grow faster than the market in Q1'19 with revenue growth of 13% y/y. H2 is normally stronger for Verkkokauppa.com and we expect revenue growth of ~ 9.3% for 2019E which indicates that the surprisingly strong growth seen in Q1 should normalize later in 2019E. We expect gross margin to be at ~14.7% in 2019E as fierce competition will keep the prices low. We see EBIT to remain flat at EUR 13m in 2019E but to improve in 2020E-2021E supported by growing net sales and scalable cost base.

We retain our rating "Buy" with TP of EUR 4.7

We concluded a scenario analysis and value Verkkokauppa.com at EV/EBIT of 11x, based on the average of Verkkokauppa.com's 3yr forward EV/EBIT during 2018-2019. On our estimates, Verkkokauppa.com is trading ~45% EV/EBIT discount vs. peer group in 2019E-2020E. As our estimates are intact, we keep our rating "Buy" with TP of EUR 4.7.

Scenario analysis – Verkkokauppa.com

Key assumptions behind base case estimates:

- No Amazon in the Nordics in the mid-term
- Competition remains tight in the market
- No longer expecting the 5th store to open in mid-term

Key assumptions behind pessimistic estimates:

- Verkkokauppa.com's underlying growth slows down to ~5% in 2019 and 2020E
- Slower growth vs. base case weakens fixed cost scalability slightly
- Price-driven competition will increase, impacting the gross margin

Key assumption behind optimistic estimates

- Consumers migrate online faster than in base case, supporting OPEX scalability
- Verkkokauppa.com's underlying growth reaches ~15% in 2019 and 2020E
- Company reaches somewhat higher gross margin than in base case, either via easier competition or higher capital allocation to Apuraha
- No Amazon in the Nordics in the mid-term

Verkkokauppa.com Scenario estimates	2016	2017	2018	2019E	2020E	2021E	2016	2017	2018	growth (%) 2019E	2020E	2021E	CAGR 18-21E
Revenue													
Pessimistic	**371**	**432**	**478**	**522**	**549**	**581**	**8 %**	**16 %**	**11 %**	**9 %**	**5 %**	**6 %**	**7 %**
Base case	**371**	**432**	**478**	**522**	**569**	**621**	**8 %**	**16 %**	**11 %**	**9 %**	**9 %**	**9 %**	**9 %**
Optimistic	**371**	**432**	**478**	**522**	**601**	**697**	**8 %**	**16 %**	**11 %**	**9 %**	**15 %**	**16 %**	**21 %**
Gross margin													
Pessimistic	15,6%	14,5%	15,1%	14,7%	14,6%	14,5 %	-	-	-	-	-	-	-
Base case	15,6%	14,5%	15,1%	14,7%	15,0%	15,0%	-	-	-	-	-	-	-
Optimistic	15,6%	14,5%	15,1%	14,7%	15,3%	15,5 %	-	-	-	-	-	-	-
Fixed costs as % of sales (adj.)													
Pessimistic	11,7%	10,3%	11,3%	11,3%	11,3%	11,3%	-	-	-	-	-	-	-
Base case	11,7%	10,3%	11,3%	11,3%	11,4%	11,5%	-	-	-	-	-	-	-
Optimistic	11,7%	10,3%	11,3%	11,3%	10,9%	10,7%	-	-	-	-	-	-	-
Fixed costs (adj.)													
Pessimistic	-43	-44	-54	-59	-62	-66	10 %	2 %	21 %	10 %	5 %	6 %	7 %
Base case	-43	-44	-54	-59	-65	-71	10 %	2 %	21 %	10 %	10 %	10 %	10 %
Optimistic	-43	-44	-54	-59	-65	-75	10 %	2 %	21 %	10 %	11 %	14 %	18 %
Adj. EBIT													
Pessimistic	**13,2**	**13,5**	**13,3**	**12,9**	**15,0**	**17,1**	**19 %**	**2 %**	**-1 %**	**-3 %**	**17 %**	**14 %**	**9 %**
Base case	**13,2**	**13,5**	**13,3**	**12,9**	**17,4**	**20,4**	**19 %**	**2 %**	**-1 %**	**-3 %**	**35 %**	**17 %**	**15 %**
Optimistic	**13,2**	**13,5**	**13,3**	**12,9**	**23,4**	**31,5**	**19 %**	**2 %**	**-1 %**	**-3 %**	**81 %**	**35 %**	**54 %**
Adj. EBIT margin													
Pessimistic	3,6%	3,1%	2,8%	2,5%	2,7%	2,9%	-	-	-	-	-		-
Base case	3,6%	3,1%	2,8%	2,5%	3,1%	3,3%	-	-	-	-	-		-
Optimistic	3,6%	3,1%	2,8%	2,5%	3,9%	4,5%	-	-	-	-	-		-

Source: Evli Research

Verkkokauppa.com's 3yr forward EV/EBIT multiples, after each quarterly report published during 2018-2019 were (based on our estimates):

- 13.2x in Feb 2018 (2020E EV/EBIT)
- 10,6 in May 2018 (2020E EV/EBIT)
- 11,7 in Jul 2018 (2020E EV/EBIT)
- 9,9 in Oct 2018 (2020E EV/EBIT)
- 7,4 in Feb 2019 (2021E EV/EBIT)

Scenario fair values:
Pessimistic EUR 3
Base case EUR 5
Optimistic EUR 7

Based on these, Verkkokauppa.com's 3yr forward EV/EBIT has been ~11x on average during 2018-2019. We value our base case 2020E EV/EBIT at 11x and arrive to EUR 5 fair value. Our pessimistic 2020E EBIT estimate and a lower 2020E EV/EBIT multiple of 7x would yield a fair value of EUR 3 while optimistic 2020E EBIT estimate and a higher 2020E EV/EBIT multiple of 13x would yield a fair value of EUR 7.

We currently give more emphasize to base case estimates

We have put more emphasize on our base case estimates than on our optimistic and pessimistic estimates. We keep our rating "Buy" with TP of EUR 4.7.

Fair value	Weight (%)	Comment
3	25 %	2020E EV/EBIT 7x
5	60 %	2020E EV/EBIT 11x
7	15 %	2020E EV/EBIT 13x
4,7		

	EV/EBIT 2020E						
Pessimistic	**2,0x**	**4,0x**	**6,0x**	**8,0x**	**10,0x**	**12,0x**	**14,0x**
EV (with 2020E pessimistic EBIT)	30	60	90	120	150	180	210
Net debt 2019E	-23	-23	-23	-23	-23	-23	-23
Equity value	53	83	113	143	173	204	234
Equity value per share	**1,2**	**1,8**	**2,5**	**3,2**	**3,8**	**4,5**	**5,2**
Base case	**2,0x**	**4,0x**	**6,0x**	**8,0x**	**10,0x**	**12,0x**	**14,0x**
EV (with 2020E base case EBIT)	35	70	104	139	174	209	244
Net debt 2019E	-23	-23	-23	-23	-23	-23	-23
Equity value	58	93	128	162	197	232	267
Equity value per share	**1,3**	**2,1**	**2,8**	**3,6**	**4,4**	**5,2**	**5,9**
Optimistic	**2,0x**	**4,0x**	**6,0x**	**8,0x**	**10,0x**	**12,0x**	**14,0x**
EV (with 2020E optimistic EBIT)	47	93	140	187	234	280	327
Net debt 2019E	-23	-23	-23	-23	-23	-23	-23
Equity value	70	117	163	210	257	304	350
Equity value per share	**1,6**	**2,6**	**3,6**	**4,7**	**5,7**	**6,7**	**7,8**

Company overview – Verkkokauppa.com

Verkkokauppa.com's primary business is consumer electronics

Verkkokauppa.com is a Finnish retailer offering over 65,000 products in over 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 some B2B sales as well. The company's operations are in Finland.

Business model combines online and physical stores

Business model combines online and physical stores

Verkkokauppa.com sells its products both online and via physical stores. The company does not report the sales split between stores and online but has indicated at the time of the IPO in spring 2014 that roughly half of sales came from online. We understand online sales have grown faster since. 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. E-commerce is ~12 % of Finnish retail market at the moment. The company stated that EUR 400m or 1% of sales from physical stores moves to online annually. The company also indicated that most of its online sales comes from mobile purchases.

Physical footprint increased 2017 and 2018 – now focusing online

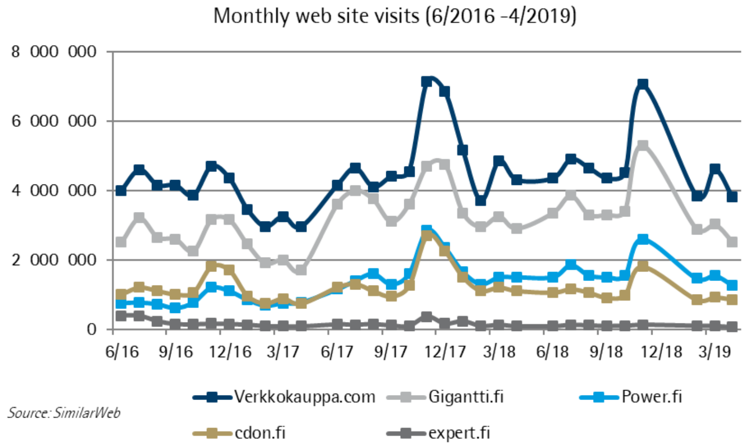
Four physical stores located in Helsinki, Pirkkala, Oulu and Raisio

Verkkokauppa.com currently has four physical stores located in Helsinki, Pirkkala (Tampere region), Oulu and Raisio (Turku region). The company's physical footprint has been increasing in 2017-2018. Stores in Pirkkala and Oulu were enlarged during 2017, and the company opened its 4th store to Raisio (Turku region) in March 2018. The company had a lot reservation in East Helsinki for the 5th store. Verkkokauppa.com is not expecting to open the 5th store in the near future, thus the lot reservation has been cancelled with no further obligations to the company.

Company has the most visited website among domestic competitors

The most visited website among domestic competitors

Verkkokauppa.com is a leading online player in Finland. The company's website is the most visited among competitors and it targets to achieve a reference status when it comes to product information and customer reviews. It also has a strong and known brand in Finland.



Source: SimilarWeb

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% 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. The company also aims to develop its private label offering. New product categories would support future revenues. The company launched a new product category earlier in 2019 thus it is unlikely that there will be a second one later in 2019. With new product categories the company seeks to compete with other market areas, of which the newest launch of ball game products is an example.

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 also sold its old receivables as a part of their risk management strategy. 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 17 for our take on the financial implications of Apuraha).

Consumer experience and brand recognition at the heart of the action

Marketing: Verkkokauppa.com has stated that one of its main focuses in 2019 is to enhance consumer experience and brand recognition. The company started to invest heavily in marketing in Q4'18 and plans to continue that in 2019. Increased visibility on tv, improvements in store experiences and increased brand communication are likely to boost Verkkokauppa.com's brand recognition and bring more consumers which would support sales growth.

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 5^{th} 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

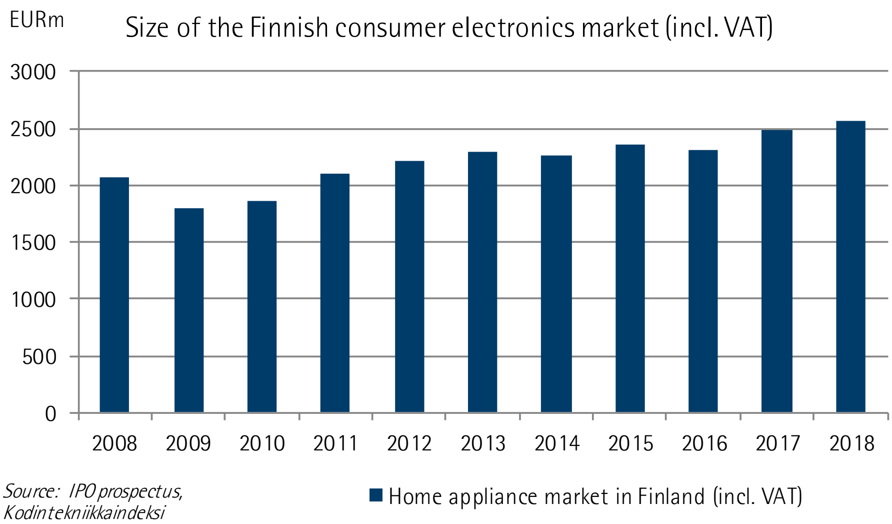
New logistics centre: The company has indicated that they do not have near-term plans to set up a new logistics centre but as logistics is one of the main drivers of the company's operations and correlates with sales, the company considers new logistical opportunities in a regular basis. Verkkokauppa.com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

M&A: Verkkokauppa.com has indicated that they are open to expand their services with possible acquisitions in the future but is not currently seeking partners actively.

Market overview and competitive landscape

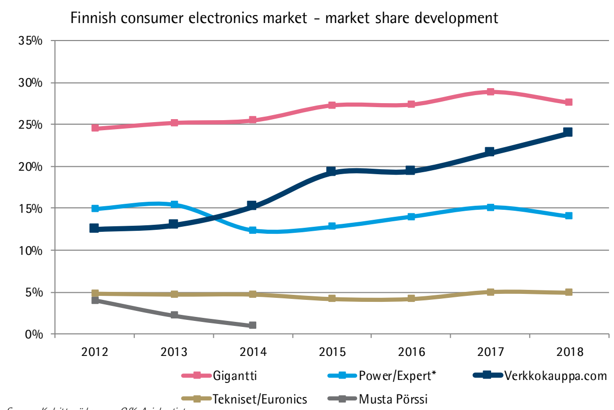
The size of Finnish consumer electronics market is some EUR 2bn (Excl. VAT)

The size of the Finnish consumer electronics market is EUR ~2.5bn (incl. VAT) while the size of the overall retail market in Finland is some EUR ~40-42bn. Excluding VAT the size of the Finnish consumer electronics market is some EUR 2bn. The estimated GDP growth in 2019 is 1.6 % and 1.5% in 2020 (Bank of Finland). Because of weakening purchasing power, the companies are competing for marginal market shares.

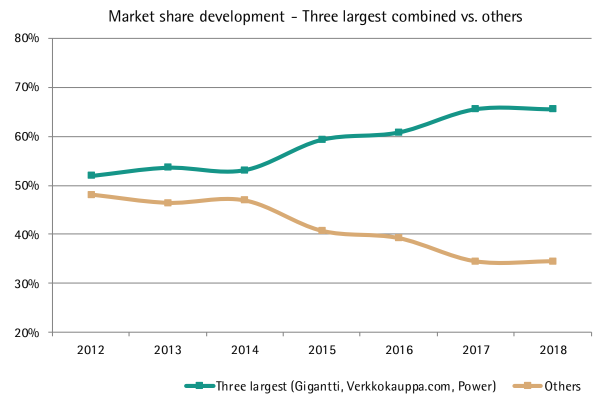


Source: IPO prospectus, Kodintekniikkaindeksi

Combined market share of the three largest players ~65,5% in 2018



Source: Kehittyvä kauppa, GfK, Asiakastieto
*2012-2013 market share figures include the entrepreneurs who left Expert during 2014 to re-start Veikon Kone



Source: Kehittyvä kauppa, GfK, Asiakastieto

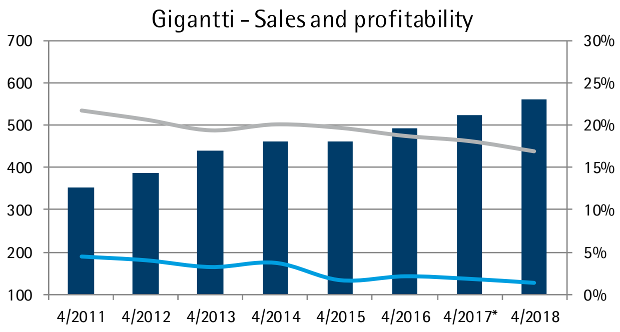
Verkkokauppa.com's main domestic competitors are Gigantti and Power

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 revenue EUR ~164m in Finland), although its business is B2B focused (~94% 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

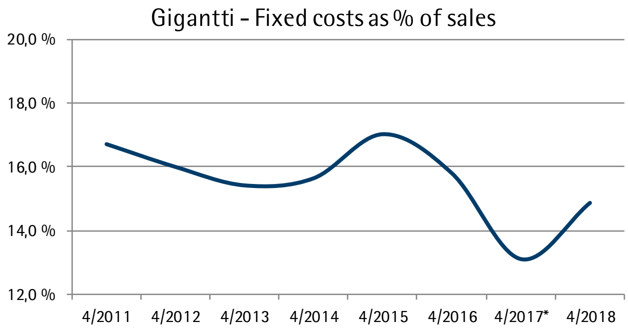
Gigantti is the market leader with 41 physical stores in Finland

Gigantti is the market leader in Finland with revenue of some EUR 563m in 4/2018 (according to Asiakastieto). Gigantti 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. Gigantti has been able to increase its market shares together with Verkkokauppa.com in recent years but its profitability has been in decline. Gigantti has had a higher gross margin than Verkkokauppa.com, supported by centralized purchases in Elkjop (ie. 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 tight price-driven competition in the market. Gigantti has an extensive network of 41 stores in Finland.



Source: Asiakastieto, Reuters, Kauppalehti, Evli Research

*2017 EBIT adjusted for positive EUR 13m one-off



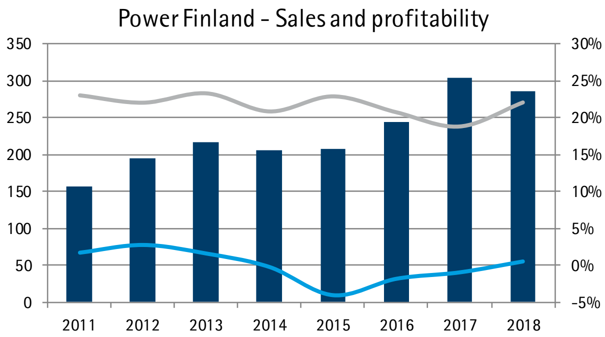
Source: Asiakastieto, Evli Research

Power is the third biggest in Finland

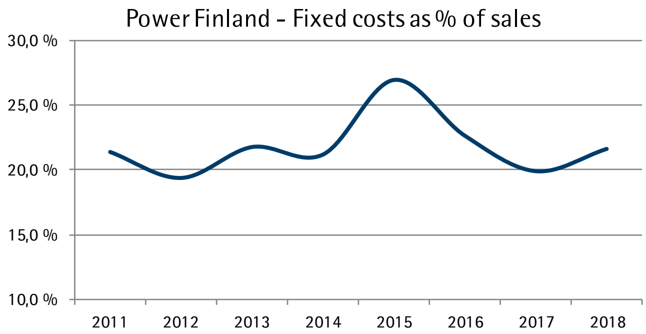
Power's store network and re-branding is completed and the company was able to reach black figures in 2018

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. We understand Power's store network ramp-up and re-branding is now largely completed. Re-branding and store openings have burdened Power Finland's profitability but the company was able to reach black figures in 2018.

Power Finland is part of Power International AS which has businesses in Norway, Denmark, Finland and Sweden under Power and Expert brands. 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 ~3.8bn.



Source: Asiakastieto, Reuters, Kauppalehti, Evli Research

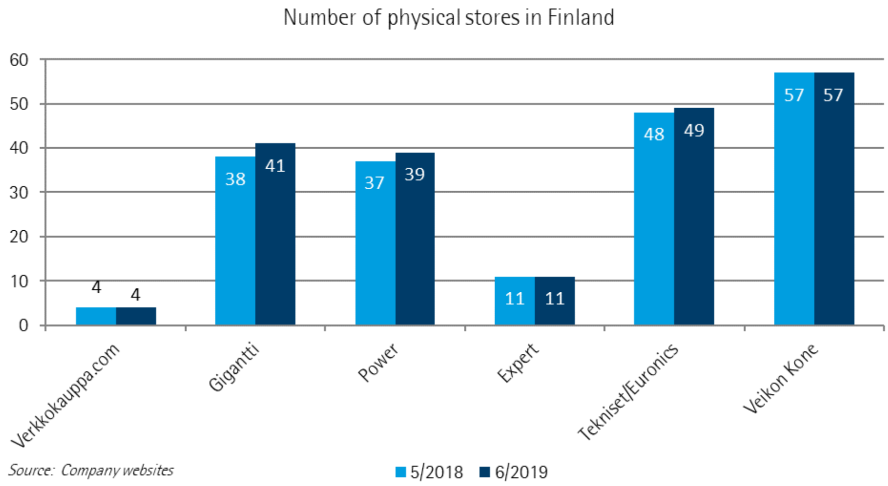


Source: Asiakastieto, Reuters, Evli Research

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

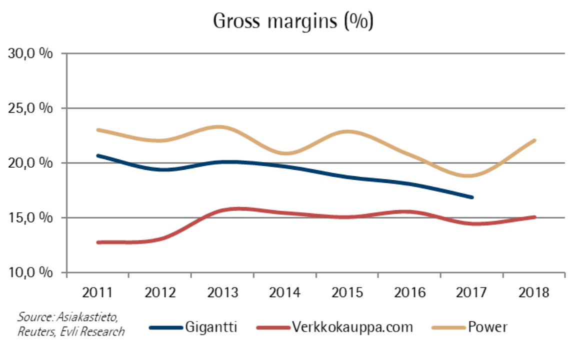
Small physical footprint enables an efficient cost structure

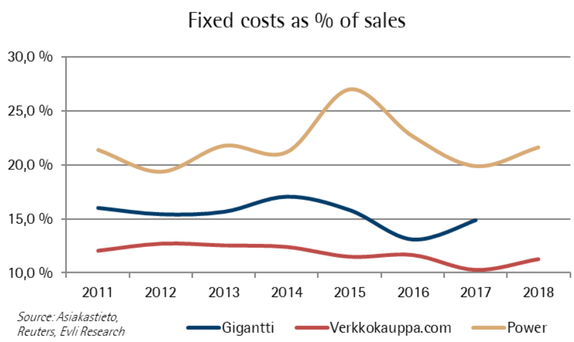
Compared to domestic competitors, Verkkokauppa.com has the competitive advantage of having only four physical stores. Main domestic competitors Gigantti and Power have close to 40 stores. Small physical footprint translates into an efficient cost structure, which provides the company with competitive advantage. 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 (see page 5).



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% gross margin in the Finnish retail sector. This should give the company opportunities to continue launching new higher-margin categories in the future.

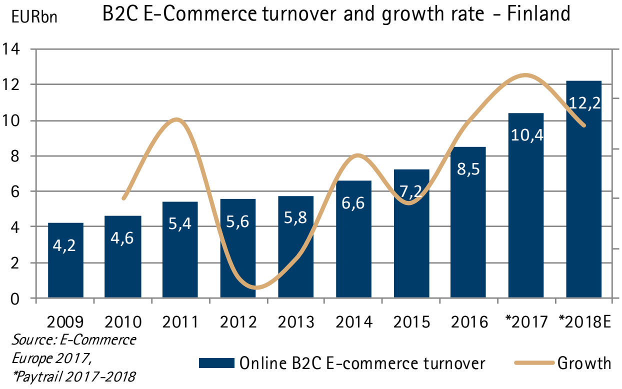


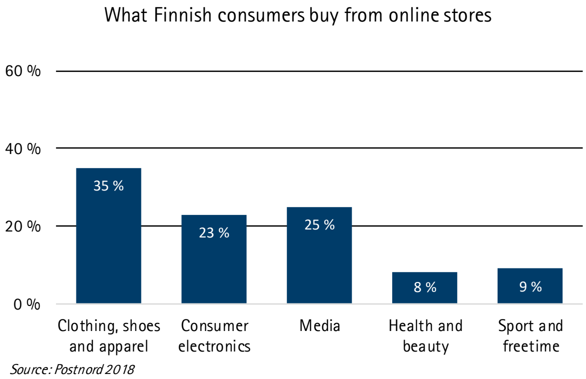


B2C e-commerce

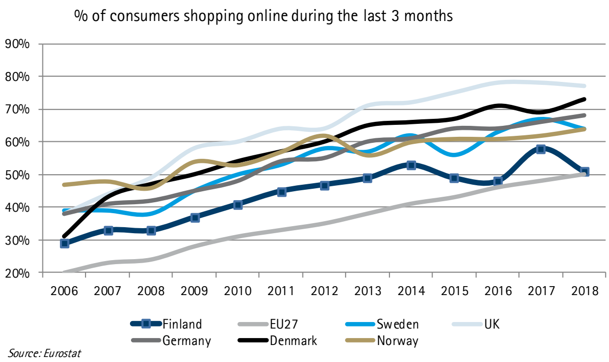
Clothing, consumer electronics and media are popular among Finnish online shoppers

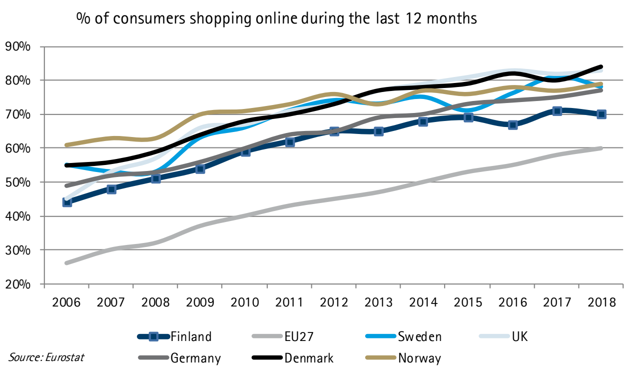
According to Paytrail (2018), online sales of goods and services in Finland totaled close to EUR 12bn in 2018. According to Postnord, clothing, consumer electronics and media are the segments Finnish consumers buy the most from online stores. The Finnish Commerce Federation estimates that net sales from online stores was some three billion euros in 2018.



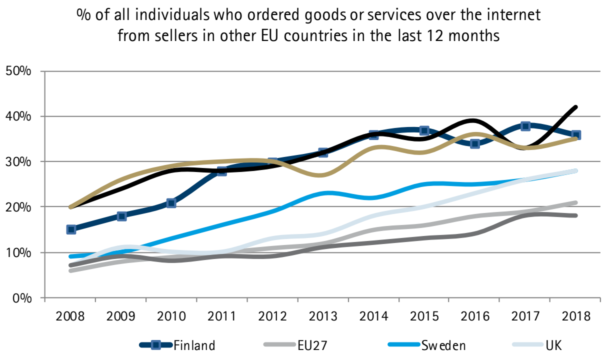


While Finnish consumers have increased their online purchases quite steadily over the last 10 years according to Eurostat, the relative share of online shoppers has remained below the developed European and Nordic levels.

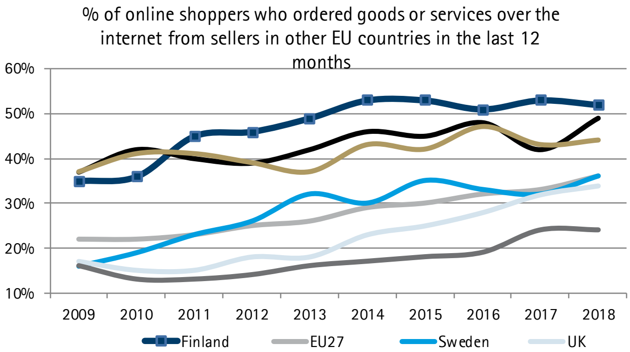




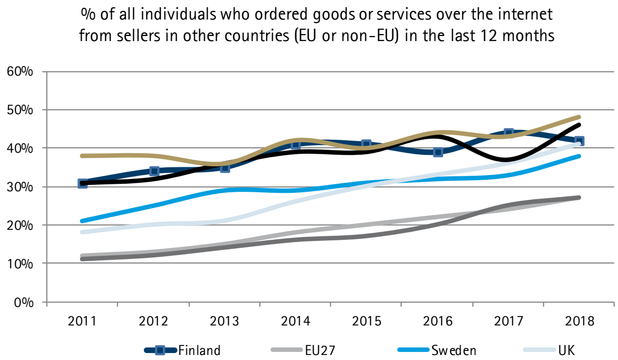
While online purchasing has become more common, not all purchases are from Finnish sellers. According to Eurostat, the relative share of both all individuals and online shoppers ordering goods or services over the internet from abroad sellers has been increasing.



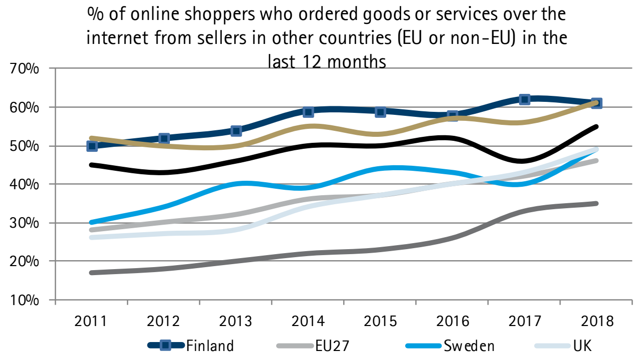
Source: Eurostat



Source: Eurostat



Source: Eurostat

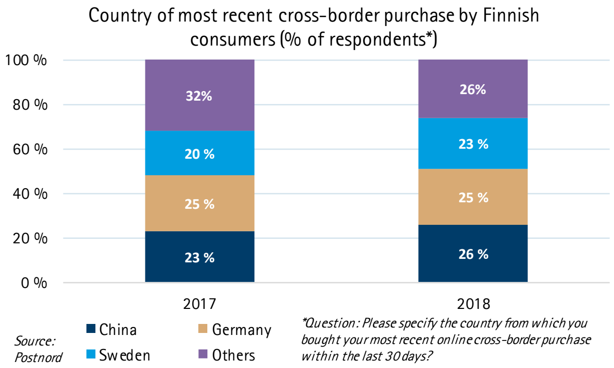


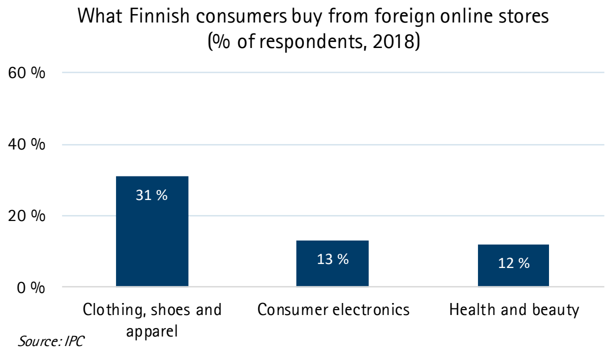
Source: Eurostat

Cross-border purchases

Especially Chinese and Swedish online stores are gaining popularity

According to Postnord, Finnish consumers have increasingly purchased goods from Chinese online stores. Swedish online stores are also increasing their popularity among Finnish consumers. Most popular product categories in 2018 were (1) clothing, shoes and apparel, (2) consumer electronics and (3) health and beauty. According to Paytrail (2018) five most popular foreign websites were eBay (28% of respondents), Wish (24%), Zalando (17%), Amazon (16 %) ja AliExpress (16%).





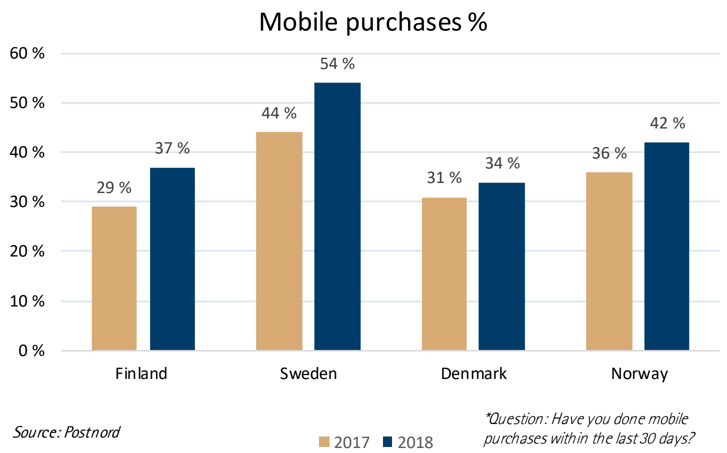
We expect Verkkokauppa.com to retain its competitiveness against foreign competition

While cross-border online trade in general is likely to continue gaining 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.

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, 37% of Finnish consumers had used mobile device for shopping in 2018 while in 2017 29% of consumers had used mobile device for shopping. 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.



Financial performance, estimates and outlook

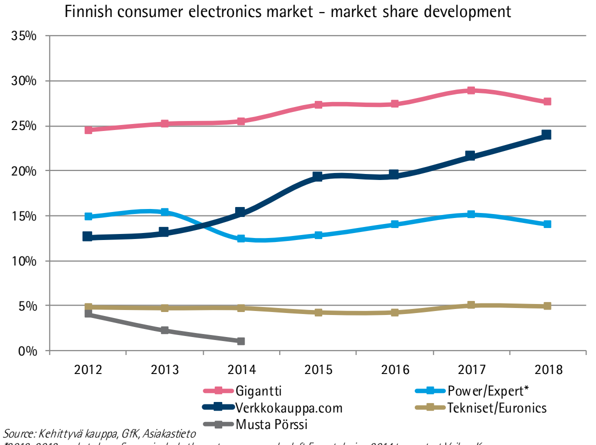
Consumer electronics market is expected to be relatively flat in the near future

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 the near future, meaning online taking market share from physical stores.

Rapid revenue growth primarily via market share increase

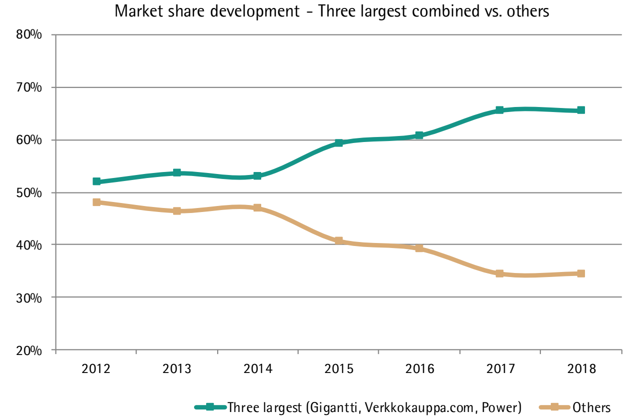
Verkkokauppa.com's revenue CAGR in 2010-2018 has been 13.5%

Verkkokauppa.com's revenue CAGR has been 13.5% in 2010-2018 with the annual growth rate varying between 6-25%. 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% market share in the new categories per operating year in Finland (on average).



Source: Kehittyvä kauppa, GfK, Asiakastieto

**2012-2013 market share figures include the entrepreneurs who left Expert during 2014 to re-start Veikon Kone*



Source: Kehittyvä kauppa, GfK, Asiakastieto

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. Verkkokauppa.com has the competitive advantage of having only four physical stores. As the 5th store opening is not being considered at the moment, the company's physical footprint will remain clearly smaller compared to domestic competitors. Due to a 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. Verkkokauppa.com also has a strong online presence via its website which is the most visited site among competitors in Finland. (See page 5). 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 home appliance/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 two largest players (Gigantti and Verkkokauppa.com). Last year, only Verkkokauppa.com was able to increase its market share among the top three online retailers.

Despite of the tight competition, the combined market share of smaller competitors is ~34%

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 ~34%. 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.

Sales growth in 2018 and Q1'19 was supported by Raisio store

Raisio store was opened in March 2018

Verkkokauppa.com physical footprint increased in last year as Raisio store was opened in March 2018. With no further expectations of opening the 5th store in the near future, the company has four physical stores in Finland.

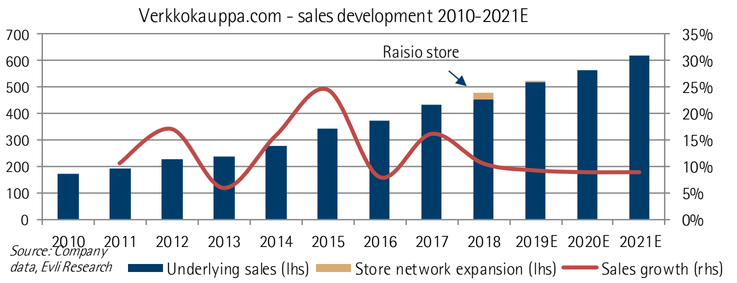
Raisio store boosted sales in 2018 and in Q1'2019

Verkkokauppa.com does not report the sales split between online and physical stores, but the company indicated in spring 2014 (IPO) that the sales split between physical stores and online was roughly 50/50. We understand online sales have grown faster since. With certain assumptions for average sales/m2 and sales space in new stores, we estimate each new store may boost the company's annual sales by EUR ~24-45m. Raisio store boosted sales in 2018 and Q1'2019 but growth is expected to stabilize Q2'19 onwards. We estimated the total sales increase from Raisio store to be EUR 25m.

Revenue increase from new stores (est.) - Verkkokauppa.com

Store network before 2017-2018 expansion		
Jätkäsaari (Helsinki)	6000	m2
Pirkkala (Tampere)	3200	m2
Oulu	2200	m2
Total	**11400**	**m2**
Sales (2013)	238	EURm
Assumed share from stores	50 %	
Store sales	119	EURm
Sales space	11400	m2
Avg. sales/m2 (2013E)	**10439**	**EUR/m2**
Sales (2016)	371	EURm
Assumed share from stores	40 %	
Store sales	149	EURm
Sales space	11400	m2
Avg. sales/m2 (2017E)	**13035**	**EUR/m2**

Sales add from new stores					Comment
Case 1: one new store	3000	-	4500	m2	Evli assumption
Case 2: two new stores	6000	-	9000	m2	Evli assumption
EUR/m2	8000	-	10000	EUR/m2	Evli assumption, year 1
Sales add (one store)	**24**	**-**	**45**	**EURm**	Evli est.
Sales add (two stores)	**48**	**-**	**90**	**EURm**	Evli est.

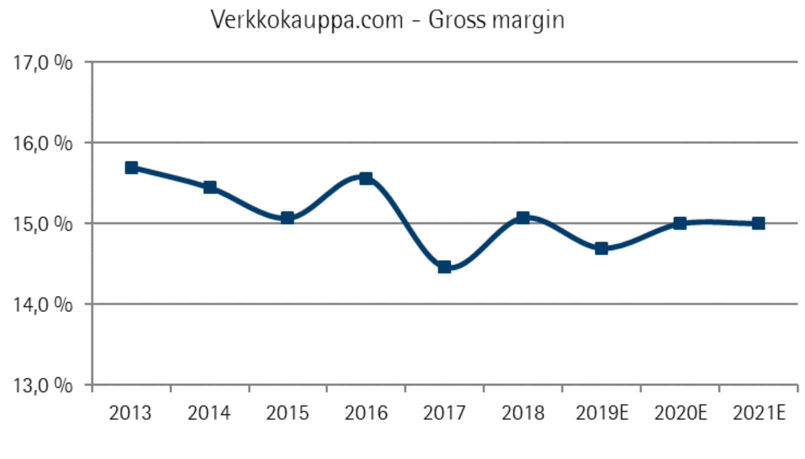


Source: Company financials, IPO prospectus, Evli Research

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%) in 2013-2018. 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.



Source: Company data, Evli Research

We see annual sales growth of ~9.3% in 2019E

In 2018, the company was able to increase profit margin from 2017 and it totaled ~15 % in 2018. In Q1'2019 gross margin declined caused by aggressive price-driven competition. As competition is expected to continue fierce and the company is ready to respond to it with competitive prices, it is likely that the margin will remain in the same level throughout 2019. Sales growth in Q1'2019 was surprisingly good (13 % y/y) and is not expected to continue as strong throughout the year. We foresee annual sales growth of ~9.3% in 2019E. We see 2019E EBIT being roughly at the same level as in 2018 at EUR ~13m. However, if the competition will ease the estimates will be upgraded.

Competitive threats in 2019-2020

Finnish GDP growth is expected to decrease in 2019 and in 2020

As the Amazon rumors faded from last year and only couple new competitors entered the market, we are not concerned about Verkkokauppa.com's market share development. The company stated that its major threats are related to macroeconomic factors and especially to Finnish GDP growth. The Bank of Finland estimates GDP growth of 1.6% in 2019 and to 1,5% in 2020 (vs. 2.2% in 2018 and 2.6% in 2017). Purchasing power is unlikely to increase in the near future and Verkkokauppa.com is not expecting the overall consumer electronics market to grow. Fierce competition with domestic and foreign competitors is not expected to ease which has an impact on margins and market shares.

OPEX base is low and scalable

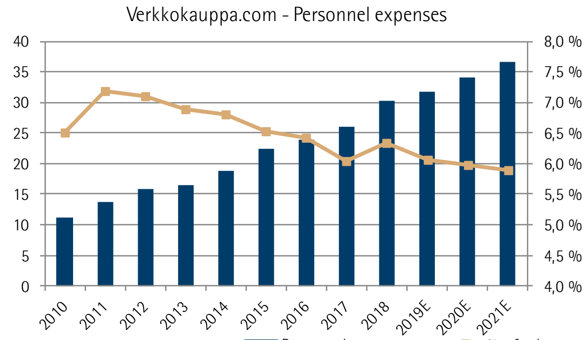
Verkkokauppa.com's OPEX base is low and scalable due to a relatively small physical footprint

Verkkokauppa.com's OPEX base is low (11-13% of revenue in recent years) compared to the overall retail sector in Finland (~25-30% 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 percentage of revenue has declined from 12.6% in 2013 to 11.3% in 2018.

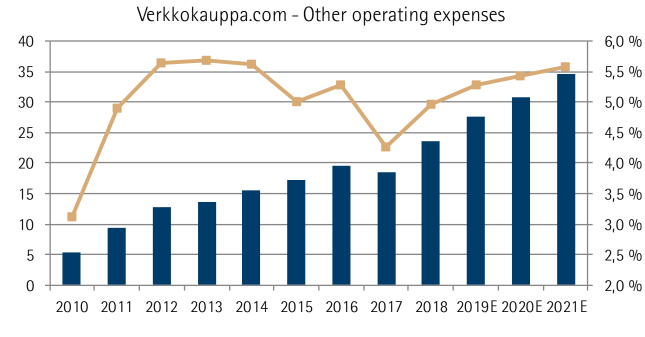
Increased marketing expenses are impacting OPEX

In 2019E we expect OPEX as percentage of revenue to be 11.3%. In 2018, the ramp-up costs of the Raisio store increased OPEX, which will not have an effect anymore. Simultaneously, increased marketing expenses will increase OPEX. We expect OPEX growth to slow down in 2020E and to stay relatively flat in 2021E.

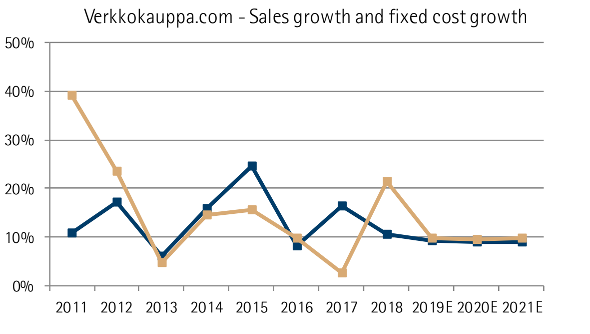
Based on discussions with the company, Raisio store had a negative impact on 2018E earnings. We expect the store to reach break-even EBITDA within its first operating year. We expect the Raisio store to have a positive EBITDA contribution in 2019E-H1'2020E.



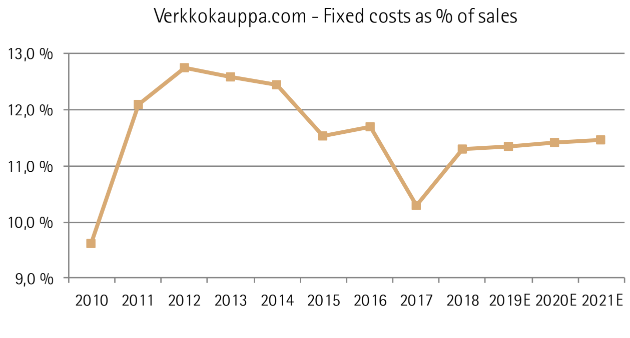
Source: Company data, Evli Research



Source: Company data, Evli Research



Source: Company data, Evli Research



Source: Company data, Evli Research

Verkkokauppa.com has traditionally had a strong focus on keeping the OPEX base low and efficient. We expect this to continue.

Apuraha financing

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

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 profit distribution model) but from Q4'2018 onwards Apuraha for B2C consumers has been solely financed by Verkkokauppa.com. Last year the company also sold old receivables as a part of the company's risk management strategy. These receivables were written off from the company's balance sheet in 2018. The company continues to sell over 60 days old receivables which will reduce risks related to receivables. Based on historical balance sheet information we calculate that the outstanding loan base of company-financed Apuraha credits was some EUR ~9-10m at the end of 2018 vs. EUR ~5-6m at the end of 2017:

Old receivables are sold as a part of risk management strategy

Apuraha loan base*	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Sales	238	276	344	371	432	478
Trade receivables	4,8	4,7	5,0	7,7	12,4	16,8
% of sales	**2,0%**	**1,7%**	**1,5%**	**2,1%**	**2,9%**	**3,5%**
"Normal" trade receivables % of sales assumption (2016 onwards)				**1,5%**	**1,5%**	**1,5%**
Implied "normal" trade receivables 2016-2018				5,6	6,5	7,2
Implied Apuraha loan base*	**0,0**	**0,0**	**0,0**	**2,1**	**6,0**	**9,6**

Source: Company data, Evli Research **Company-financed*

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

	Loan base EURm (financed by Verkkokauppa.com)					
Apuraha illustrative example	**5**	**10**	**15**	**20**	**25**	**30**
Effective annual interest assumption	30 %	30 %	30 %	30 %	30 %	30 %
Interest income	**1,5**	**3,0**	**4,5**	**6,0**	**7,5**	**9,0**
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	-0,5	-0,9	-1,4	-1,8	-2,3	-2,7
Operating income	**1,0**	**1,9**	**2,9**	**3,8**	**4,8**	**5,7**

Source: Evli Research

Interest income/other income from Apuraha in 2018 was EUR 3.1m

Income from company-financed Apuraha in 2018 was EUR 3.1m including interest income and other income. We expect Verkkokauppa.com to gradually increase company-financed Apuraha origination but maintain moderate expectations for gross margin development in FY19- 21E, as we expect competition to be fierce in the mid-term.

Base case estimates – Verkkokauppa.com

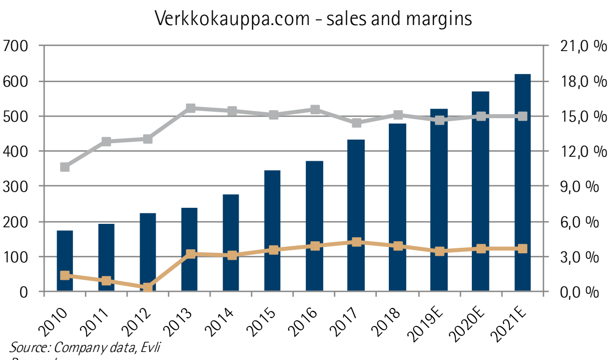
Verkkokauppa.com model	2010 FAS	2011 FAS	2012 FAS	2013 FAS	2014 FAS	2015 FAS	2016 FAS	2017 IFRS	2018 IFRS	2019E IFRS	2020E IFRS	2021E IFRS
Sales	**173,1**	**191,6**	**224,5**	**238,0**	**275,8**	**343,7**	**371,5**	**431,9**	**477,8**	**522,4**	**569,5**	**620,7**
Growth-%	-	*10,7 %*	*17,2 %*	*6,0 %*	*15,9 %*	*24,6 %*	*8,1 %*	*16,3 %*	*10,6 %*	*9,3 %*	*9,0 %*	*9,0 %*
Cost of goods and services	-154,7	-167,1	-195,2	-200,7	-233,2	-291,9	-313,7	-369,4	-405,8	-445,7	-484,0	-527,6
Growth-%	-	*8,1 %*	*16,8 %*	*2,8 %*	*16,2 %*	*25,2 %*	*7,5 %*	*17,8 %*	*9,9 %*	*9,8 %*	*8,6 %*	*9,0 %*
% of sales	*89,4 %*	*87,2 %*	*86,9 %*	*84,3 %*	*84,6 %*	*84,9 %*	*84,4 %*	*85,5 %*	*84,9 %*	*85,3 %*	*85,0 %*	*85,0 %*
Gross profit	**18,4**	**24,5**	**29,3**	**37,4**	**42,6**	**51,8**	**57,8**	**62,5**	**72,0**	**76,8**	**85,4**	**93,1**
Gross margin	*10,6 %*	*12,8 %*	*13,1 %*	*15,7 %*	*15,4 %*	*15,1 %*	*15,6 %*	*14,5 %*	*15,1 %*	*14,7 %*	*15,0 %*	*15,0 %*
Fixed costs adj.	-16,6	-23,2	-28,6	-29,9	-34,3	-39,6	-43,4	-44,5	-54,0	-59,3	-64,9	-70,9
Growth-%	-	*39,1 %*	*23,6 %*	*4,7 %*	*14,5 %*	*15,5 %*	*9,6 %*	*2,5 %*	*21,4 %*	*9,7 %*	*9,6 %*	*9,2 %*
% of sales	*9,6 %*	*12,1 %*	*12,7 %*	*12,6 %*	*12,4 %*	*11,5 %*	*11,7 %*	*10,3 %*	*11,3 %*	*11,3 %*	*11,4 %*	*11,4 %*
Other income	0,6	0,4	0,1	0,1	0,1	0,1	0,1	0,1	0,4	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	-5,2	-3,6	-2,0
NRIs included in EBIT	0,0	0,0	0,0	0,0	0,0	-3,4	-0,6	0,0	0,0	0,0	0,0	0,0
Adj. EBITDA	**2,4**	**1,7**	**0,9**	**7,5**	**8,4**	**12,3**	**14,5**	**18,0**	**18,4**	**18,1**	**21,0**	**22,8**
Adj. EBITDA margin	*1,4 %*	*0,9 %*	*0,4 %*	*3,2 %*	*3,1 %*	*3,6 %*	*3,9 %*	*4,2 %*	*3,9 %*	*3,5 %*	*3,7 %*	*3,7 %*
Adj. EBIT	**1,6**	**0,8**	**0,0**	**6,6**	**7,5**	**11,1**	**13,2**	**13,5**	**13,3**	**12,9**	**17,4**	**20,8**
Adj. EBIT margin	*0,9 %*	*0,4 %*	*0,0 %*	*2,8 %*	*2,7 %*	*3,2 %*	*3,6 %*	*3,1 %*	*2,8 %*	*2,5 %*	*3,1 %*	*3,3 %*
Reported EBIT	**1,6**	**0,8**	**0,0**	**6,6**	**7,5**	**7,7**	**12,6**	**13,5**	**13,3**	**12,9**	**17,4**	**20,8**
Reported EBIT margin	*0,9 %*	*0,4 %*	*0,0 %*	*2,8 %*	*2,7 %*	*2,2 %*	*3,4 %*	*3,1 %*	*2,8 %*	*2,5 %*	*3,1 %*	*3,3 %*
Net financials*	-0,8	-0,9	-0,7	-1,2	-1,9	-0,9	0,0	-1,6	-1,7	-1,6	-1,5	-1,4
Profit before taxes	**0,8**	**-0,1**	**-0,7**	**5,5**	**5,5**	**6,8**	**12,6**	**11,8**	**11,7**	**11,3**	**15,9**	**19,4**
Taxes	-0,1	0,0	0,0	-1,4	-1,2	-1,4	-2,4	-2,4	-2,3	-2,3	-3,2	-3,9
Tax rate (%)	*16,6 %*	*0,0 %*	*0,0 %*	*25,6 %*	*22,2 %*	*19,9 %*	*19,4 %*	*20,0 %*	*20,0 %*	*20,0 %*	*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
Net income	**0,6**	**-0,3**	**-0,7**	**4,2**	**4,5**	**5,4**	**10,2**	**9,5**	**9,3**	**9,0**	**12,7**	**15,5**
Average number of shares (million)	7,5	7,5	7,5	7,5	7,5	45,1	45,1	45,1	45,1	45,1	45,1	45,1
EPS	**0,08**	**-0,04**	**-0,09**	**0,56**	**0,60**	**0,12**	**0,23**	**0,21**	**0,21**	**0,20**	**0,28**	**0,34**
Dividend and capital return	**-**	**-**	**-**	**0,04**	**0,85**	**0,15**	**0,17**	**0,18**	**0,20**	**0,21**	**0,22**	**0,24**
Payout ratio (%)				*7 %*	*142 %*	*126 %*	*74 %*	*87 %*	*96 %*	*105 %*	*78 %*	*70 %*

Source: Company data, Evli Research

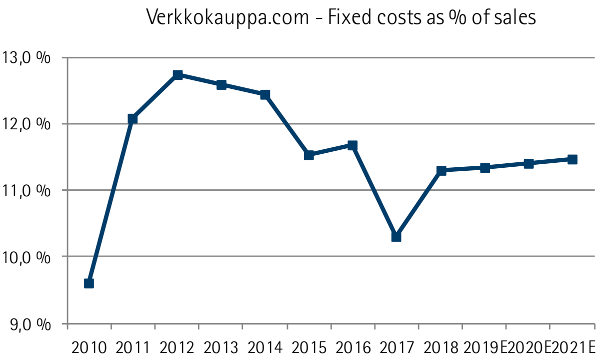
Note: IFRS figures include impact of IFRS 16 from 2017 onwarrds

**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

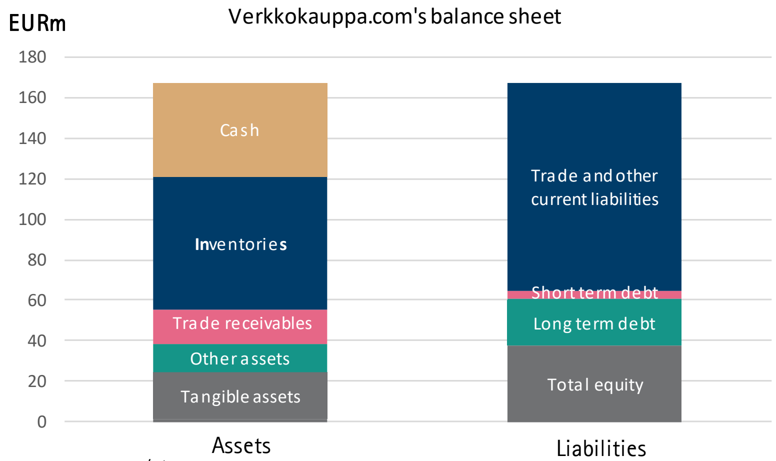


Source: Company data, Evli Research

Balance sheet information

Verkkokauppa.com has strong balance sheet

Verkkokauppa.com's balance sheet is strong with EUR ~20m net cash position (with IFRS 16 changes) at the end of 2018. We expect net cash to remain somewhat flat at EUR ~23m at the end of 2019E. 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. The company indicated that strong net cash position is also used for growing dividend payout.



source: company data

Financial targets

Verkkokauppa.com issued new medium-term financial targets in Feb 2018 (with IFRS 16 impacts). These are:

- 10-20% annual revenue growth (previous: 10-20% revenue growth)
- 2.5-4.5% EBIT margin (previous: 3-5% EBITDA margin)

Growth is the company's #1 priority.

Guidance for 2019E

2019 guidance:
Revenue EUR 500-550m
EBIT EUR 11-17m

Revenue is guided to be EUR 500-550m and EBIT between EUR 11-17m in 2019E. Weakening GDP growth is likely to have negative impact on sales. The company is not expecting to reach as good revenue growth throughout the year as in Q1'19. The ramp-up costs from Raisio store are no longer burdening profitability but increased marketing costs will increase OPEX. Sales from Raisio store is expected to normalize from Q2'19 onwards.

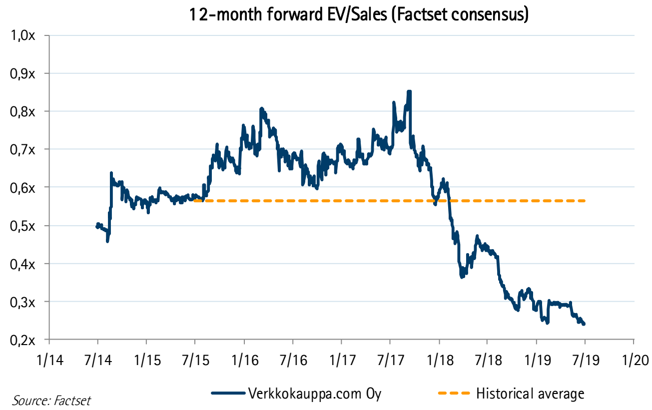
Dividend policy

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.

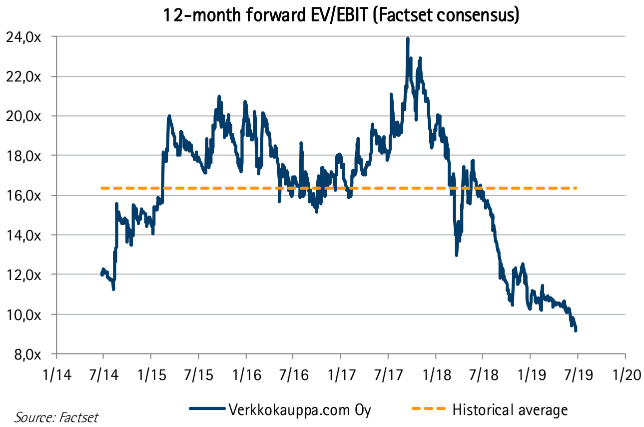
Valuation

Historical valuation

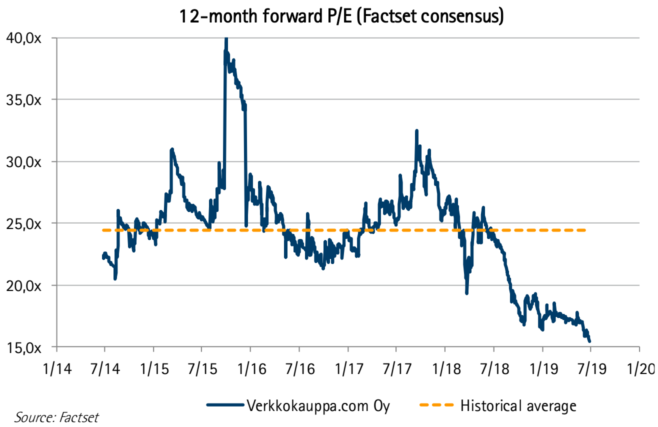
Verkkokauppa.com has been listed in First North list since spring 2014. Since then the company's shares have traded at an average 12m forward-looking EV/Sales multiple of 0.6x, average EV/EBIT multiple of 16.3x and average P/E of 24.4x (based on Factset consensus estimates).



Source: Factset



Source: Factset



Source: Factset

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 peer groups and within each of the group, making direct comparability challenging.

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	0,8x	0,7x	0,6x	16,1x	11,7x	8,9x	40,2x	26,1x	17,9x	15,5 %	4,3 %
Delticom AG										na.	na.
Dustin Group AB	0,7x	0,7x	0,6x	14,3x	12,7x	11,6x	16,3x	14,3x	12,9x	10,2 %	10,1 %
Groupe LDLC SA	0,2x	0,1x		8,5x	5,3x		18,3x	7,9x		na.	na.
Qliro Group AB	0,4x	0,3x	0,2x	8,5x	5,6x	2,0x	19,8x	9,7x	2,7x	-0,8 %	na.
Zalando SE	1,4x	1,2x	1,0x	29,4x	23,0x	18,2x	59,5x	44,0x	33,1x	18,4 %	35,2 %
Physical store-focused Nordic and European peers											
CECONOMY AG	0,1x	0,1x	0,1x	2,5x	2,1x	1,7x	4,0x	3,0x	2,6x	0,8 %	131,5 %
Dixons Carphone plc	0,1x	0,1x	0,1x	3,6x	3,2x	2,8x	6,5x	5,3x	4,4x	-0,2 %	0,2 %
Unieuro SpA	0,1x			4,0x			7,2x			na.	na.
XXL ASA	0,7x	0,6x	0,6x	6,4x	5,5x	4,9x	12,8x	10,5x	9,0x	6,3 %	26,2 %
Large international e-commerce peers											
Alibaba Group Holding Ltd. Sponsored ADR	5,6x	4,0x	3,0x	19,3x	14,0x	10,3x	33,9x	22,7x	16,0x	29,4 %	25,5 %
Amazon.com, Inc.	3,3x	2,7x	2,2x	21,5x	16,4x	12,7x	51,1x	34,7x	23,3x	17,8 %	38,5 %
eBay Inc.	3,7x	3,4x	3,0x	10,8x	9,9x	8,6x	13,2x	11,9x	10,3x	5,3 %	14,2 %
JD.com, Inc. Sponsored ADR Class A	0,5x	0,4x	0,3x	29,2x	17,0x	12,4x	170,9x	39,0x	23,0x	16,1 %	57,6 %
Rakuten, Inc.	1,6x	1,4x	1,3x	10,0x	13,3x	10,6x	16,4x	39,0x	24,5x	14,0 %	-28,9 %
Online-focused Nordic and European peers	**0,7x**	**0,7x**	**0,6x**	**14,3x**	**11,7x**	**10,2x**	**19,8x**	**14,3x**	**15,4x**	**12,8 %**	**10,1 %**
Physical store-focused Nordic and European peers	**0,1x**	**0,1x**	**0,1x**	**3,8x**	**3,2x**	**2,8x**	**6,8x**	**5,3x**	**4,4x**	**0,8 %**	**26,2 %**
Large international e-commerce peers	**3,3x**	**2,7x**	**2,2x**	**19,3x**	**14,0x**	**10,6x**	**33,9x**	**34,7x**	**23,0x**	**16,1 %**	**25,5 %**
Verkkokauppa.com (Evli est.)	**0,3x**	**0,2x**	**0,2x**	**7,5x**	**6,3x**	**5,7x**	**10,5x**	**7,6x**	**6,3x**	**9,1 %**	**17,7 %**
Verkkokauppa.com vs. Online-focused Nordic and EU peers median	*-64 %*	*-65 %*	*-65 %*	*-47 %*	*-46 %*	*-44 %*	*-47 %*	*-46 %*	*-59 %*		

VERKKOKAUPPA.COM PEER GROUP	EBIT-% 19	EBIT-% 20	EBIT-% 21	ROCE-% 19	ROCE-% 20	ROCE-% 21	Div-% 19	Div-% 20	Div-% 21	ROE 19	P/B 19
Online-focused Nordic and European peers											
ASOS plc	2,0%	2,6%	3,1%	11,1%	14,9%	18,2%	0,0%	0,0%	0,0%	8,7%	4,4x
Delticom AG											
Dustin Group AB	4,4%	4,7%	4,9%	12,5%	13,8%	14,7%	4,0%	4,5%	4,9%	17,9%	3,1x
Groupe LDLC SA	0,8%	1,7%					0,0%	7,6%		3,2%	0,8x
Qliro Group AB	1,9%	3,6%	7,2%	3,5%	6,4%	12,2%	0,0%	0,0%	0,0%	1,0%	1,7x
Zalando SE	2,3%	2,7%	3,0%	8,0%	10,0%	12,3%	0,0%	0,0%	0,0%	5,6%	6,0x
Physical store-focused Nordic and European peers											
CECONOMY AG	1,7%	2,1%	2,2%	23,8%	26,4%	26,0%	2,8%	4,5%	4,7%		
Dixons Carphone plc	2,3%	2,6%	3,0%	5,5%	6,1%	7,1%	6,1%	6,2%	6,2%	6,1%	0,5x
Unieuro SpA	1,5%						7,2%			43,5%	3,1x
XXL ASA	5,6%	6,1%	6,4%	7,4%	8,5%	9,1%	2,6%	5,2%	6,4%	7,9%	1,0x
Large international e-commerce peers											
Alibaba Group Holding Ltd. Sponsored ADR	16,4%	17,8%	19,0%	9,9%	12,0%	12,9%	0,0%	0,0%	0,0%	19,2%	4,9x
Amazon.com, Inc.	6,4%	7,8%	9,6%	13,4%	15,5%	18,1%	0,0%	0,0%	0,0%	20,5%	14,3x
eBay Inc.	28,0%	28,5%	28,6%	19,0%	19,8%	20,2%	0,8%	0,8%	0,7%	57,0%	8,3x
JD.com, Inc. Sponsored ADR Class A	0,3%	1,0%	1,5%	1,6%	6,4%	9,4%	0,0%	0,0%	0,0%	9,6%	4,3x
Rakuten, Inc.	9,9%	3,7%	5,2%	5,5%	2,1%	5,3%	0,3%	0,3%	0,4%	8,8%	2,0x
Online-focused Nordic and European peers	**2,0%**	**2,7%**	**4,0%**	**9,6%**	**11,9%**	**13,5%**	**0,0%**	**0,0%**	**0,0%**	**5,6%**	**3,1x**
Physical store-focused Nordic and European peers	**2,0%**	**2,6%**	**3,0%**	**7,4%**	**8,5%**	**9,1%**	**4,4%**	**5,2%**	**6,2%**	**7,9%**	**1,0x**
Large international e-commerce peers	**9,9%**	**7,8%**	**9,6%**	**9,9%**	**12,0%**	**12,9%**	**0,0%**	**0,0%**	**0,0%**	**19,2%**	**4,9x**
Verkkokauppa.com (Evli est.)	**2,5 %**	**3,1 %**	**3,3 %**	**19,0%**	**23,2%**	**25,0%**	**6,0%**	**6,3%**	**6,8%**	**24,0%**	**4,2x**

Source: Factset, Evli research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	3.52	PV of Free Cash Flow	121	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	7.21	PV of Horizon value	192	WACC, %	7.0	Market risk premium, %	5.8
Share price potential, %	104.8	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	8.0	Marketable securities	47	Minimum WACC, %	6.5	Equity beta coefficient	0.80
Minimum value	6.6	Debt - dividend	-35	Maximum WACC, %	7.5	Target debt ratio, %	20
Horizon value, %	61.3	Value of stock	325	Nr of shares, Mn	45.1	Effective tax rate, %	26

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	478	522	569	621	652	684	719	754	792	832	848	865
Sales growth, %	*10.6*	*9.3*	*9.0*	*9.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*2.0*	*2.0*
Operating income (EBIT)	13	13	17	20	22	23	24	26	27	25	25	26
EBIT margin, %	*2.8*	*2.5*	*3.1*	*3.3*	*3.4*	*3.4*	*3.4*	*3.4*	*3.4*	*3.0*	*3.0*	*3.0*
+ Depreciation+amort.	5	5	4	2	1	1	1	2	1	1	1	
- Income taxes	-3	-3	-3	-4	-4	-5	-5	-5	-5	-5	-5	
- Change in NWC	-5	-2	-3	-3	0	0	0	0	0	0	0	
NWC / Sales, %	*-2.2*	*-1.7*	*-1.0*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-3	-1	-1	-1	-2	-2	-2	-2	-2	-3	-3	-3
Investments / Sales, %	*0.6*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	8	13	13	15	17	18	18	20	20	19	18	367
= Discounted FCF (DFCF)		12	12	12	14	13	13	13	12	10	9	192
= DFCF min WACC		13	12	12	14	13	13	13	13	11	10	223
= DFCF max WACC		12	12	12	13	13	12	13	12	10	9	167

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	103	102	117	156	478	116	111	127	169	522	569	621
EBITDA	4	2	5	7	18	4	2	5	7	18	21	23
EBITDA margin (%)	*3.9*	*2.2*	*4.2*	*4.6*	*3.9*	*3.1*	*2.0*	*4.0*	*4.3*	*3.5*	*3.7*	*3.7*
EBIT	3	1	4	6	13	2	1	4	6	13	17	20
EBIT margin (%)	*2.6*	*1.0*	*3.2*	*3.8*	*2.8*	*2.0*	*0.8*	*2.9*	*3.6*	*2.5*	*3.1*	*3.3*
Net financial items	0	0	0	0	-2	0	0	0	0	-2	-1	-1
Pre-tax profit	2	1	3	6	12	2	0	3	6	11	16	19
Tax	0	0	-1	-1	-2	0	0	-1	-1	-2	-3	-4
Tax rate (%)	*18.7*	*21.2*	*20.6*	*19.9*	*20.0*	*20.2*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	2	0	3	4	9	2	0	3	4	9	13	15
EPS	0.04	0.01	0.06	0.10	0.21	0.03	0.01	0.06	0.10	0.20	0.28	0.34
EPS adjusted (diluted no. of shares)	0.04	0.01	0.06	0.10	0.21	0.03	0.01	0.06	0.10	0.20	0.28	0.34
Dividend per share	0.00	0.00	0.00	0.00	0.20	0.00	0.00	0.00	0.00	0.21	0.22	0.24
SALES, EURm												
Verkkokauppa.com	103	102	117	156	478	116	111	127	169	522	569	621
Total	103	102	117	156	478	116	111	127	169	522	569	621
SALES GROWTH, Y/Y %												
Verkkokauppa.com	*2.7*	*3.4*	*10.8*	*22.3*	*10.6*	*12.8*	*8.4*	*8.4*	*8.4*	*9.3*	*9.0*	*9.0*
Total	*2.7*	*3.4*	*10.8*	*22.3*	*10.6*	*12.8*	*8.4*	*8.4*	*8.4*	*9.3*	*9.0*	*9.0*
EBIT, EURm												
Verkkokauppa.com	3	1	4	6	13	2	1	4	6	13	17	20
Total	3	1	4	6	13	2	1	4	6	13	17	20
EBIT margin, %												
Verkkokauppa.com	*2.6*	*1.0*	*3.2*	*3.8*	*2.8*	*2.0*	*0.8*	*2.9*	*3.6*	*2.5*	*3.1*	*3.3*
Total	*2.6*	*1.0*	*3.2*	*3.8*	*2.8*	*2.0*	*0.8*	*2.9*	*3.6*	*2.5*	*3.1*	*3.3*

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	276	344	371	432	478	522	569	621
Sales growth (%)	*15.9*	*24.6*	*8.1*	*16.3*	*10.6*	*9.3*	*9.0*	*9.0*
Costs	-267	-331	-357	-414	-459	-504	-548	-598
Reported EBITDA	8	12	14	18	18	18	21	23
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*3.1*	*3.6*	*3.8*	*4.2*	*3.9*	*3.5*	*3.7*	*3.7*
Depreciation	-1	-1	-1	-5	-5	-5	-4	-2
EBITA	7	11	13	13	13	13	17	20
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	7	11	13	13	13	13	17	20
EBIT margin (%)	*2.7*	*3.2*	*3.4*	*3.1*	*2.8*	*2.5*	*3.1*	*3.3*
Net financials	-2	-1	0	-2	-2	-2	-1	-1
Pre-tax profit	6	10	13	12	12	11	16	19
Extraordinary items	0	-3	-1	0	0	0	0	0
Taxes	-1	-1	-2	-2	-2	-2	-3	-4
Minority shares	0	0	0	0	0	0	0	0
Net profit	4	5	10	9	9	9	13	15
BALANCE SHEET, EURm								
Assets								
Fixed assets	3	3	3	29	27	23	21	20
% of sales	*1*	*1*	*1*	*7*	*6*	*4*	*4*	*3*
Goodwill	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Inventory	31	39	44	47	66	68	74	81
% of sales	*11*	*11*	*12*	*11*	*14*	*13*	*13*	*13*
Receivables	8	9	12	20	27	38	46	53
% of sales	*3*	*3*	*3*	*5*	*6*	*7*	*8*	*9*
Liquid funds	35	31	42	52	47	57	63	68
% of sales	*13*	*9*	*11*	*12*	*10*	*11*	*11*	*11*
Total assets	77	81	101	149	168	188	204	223
Liabilities								
Equity	37	36	39	37	38	38	41	46
% of sales	*13*	*10*	*10*	*9*	*8*	*7*	*7*	*7*
Deferred taxes	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	2	0	0	29	26	34	37	39
% of sales	*1*	*0*	*0*	*7*	*6*	*7*	*7*	*6*
Non-interest bearing current liabilities	38	45	61	82	103	115	125	137
% of sales	*14*	*13*	*17*	*19*	*22*	*22*	*22*	*22*
Other interest free debt	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total liabilities	77	81	101	149	168	188	204	223
CASH FLOW, EURm								
+ EBITDA	8	12	14	18	18	18	21	23
- Net financial items	-2	-1	0	-2	-2	-2	-1	-1
- Taxes	-1	-1	-2	-4	-2	-2	-3	-4
- Increase in Net Working Capital	-11	-2	8	11	-5	-2	-3	-3
+/- Other	17	-4	-1	0	0	0	0	0
= Cash flow from operations	11	5	19	25	9	13	13	15
- Capex	-1	-1	-1	-31	-3	-1	-1	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	10	4	18	-6	6	12	12	13
+/- Change in interest-bearing debt	-5	-2	0	29	-3	8	3	2
+/- New issues/buybacks	25	0	0	-4	0	0	0	0
- Paid dividend	0	-6	-7	-7	-8	-9	-9	-10
+/- Change in loan receivables	0	0	0	0	0	0	0	0
Change in cash	29	-5	11	11	-5	11	5	6

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	324	333	319	185	159	159	159
Net debt	-31	-42	-23	-20	-23	-26	-29
Enterprise value	294	291	296	164	135	133	130
Sales	344	371	432	478	522	569	621
EBITDA	12	14	18	18	18	21	23
EBIT	11	13	13	13	13	17	20
Pre-tax	10	13	12	12	11	16	19
Earnings	9	10	9	9	9	13	15
Book value	36	39	37	38	38	41	46
Valuation multiples							
EV/sales	0.9	0.8	0.7	0.3	0.3	0.2	0.2
EV/EBITDA	24.0	20.6	16.4	8.9	7.5	6.3	5.7
EV/EBITA	26.5	22.7	22.0	12.3	10.5	7.6	6.3
EV/EBIT	26.5	22.7	22.0	12.3	10.5	7.6	6.3
EV/operating cash flow	32.0	15.1	12.0	15.4	9.7	9.3	8.1
EV/cash earnings	29.3	25.0	23.1	11.3	9.5	8.1	7.4
P/E	37.0	32.1	33.8	19.8	17.6	12.5	10.4
P/E excl. goodwill	37.0	32.1	33.8	19.8	17.6	12.5	10.4
P/B	9.1	8.6	8.7	4.9	4.2	3.9	3.4
P/sales	0.9	0.9	0.7	0.4	0.3	0.3	0.3
P/CF	35.4	17.3	12.9	17.3	11.4	11.1	9.9
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*14.6*	*10.7*	*8.9*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*23.5*	*16.6*	*13.9*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*5.6*	*5.2*	*4.6*
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	0.19	0.23	0.21	0.21	0.20	0.28	0.34
EPS excl. goodwill	0.19	0.23	0.21	0.21	0.20	0.28	0.34
Cash EPS	0.22	0.26	0.29	0.32	0.32	0.36	0.39
Operating cash flow per share	0.20	0.43	0.55	0.24	0.31	0.32	0.36
Capital employed per share	0.11	-0.07	0.32	0.38	0.32	0.34	0.38
Book value per share	0.79	0.86	0.82	0.83	0.84	0.91	1.03
Book value excl. goodwill	0.79	0.86	0.82	0.83	0.84	0.91	1.03
Dividend per share	0.15	0.17	0.18	0.20	0.21	0.22	0.24
Dividend payout ratio, %	77.1	72.2	86.8	95.6	104.8	77.9	71.0
Dividend yield, %	2.1	2.2	2.6	4.8	6.0	6.3	6.8
Efficiency measures							
ROE	24.3	27.9	25.1	25.1	24.0	32.4	34.9
ROCE	29.9	34.5	25.7	20.5	19.0	23.2	25.0
Financial ratios							
Capex/sales, %	0.4	0.3	7.2	0.6	0.2	0.2	0.2
Capex/depreciation excl. goodwill,%	109.1	73.1	676.7	55.9	19.3	34.7	65.8
Net debt/EBITDA, book-weighted	-2.5	-3.0	-1.3	-1.1	-1.3	-1.2	-1.3
Debt/equity, market-weighted	0.0	0.0	0.1	0.1	0.2	0.2	0.2
Equity ratio, book-weighted	45.2	39.3	25.1	23.0	20.6	20.5	21.2
Gearing	-0.86	-1.08	-0.61	-0.54	-0.61	-0.62	-0.63
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

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

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Seppälä Samuli Sipi	22,287,281	78.451	49.5%
Rite Ventures Finland Ab	2,172,576	7.647	4.8%
Keva	2,171,000	7.642	4.8%
Keskinäinen Työeläkevakuutusyhtiö Varma	2,065,932	7.272	4.6%
Sijoitusrahasto Nordea Nordic Small Cap	1,690,607	5.951	3.8%
Ilmarinen Keskinäinen Eläkevakuutusyhtiö	1,276,646	4.494	2.8%
Evli Finnish Small Cap Fund	700,000	2.464	1.6%
Skogberg Ville Johannes	634,266	2.233	1.4%
Sr Danske Invest Suomen Pienyhtiöt	450,000	1.584	1.0%
Sijoitusrahasto Aktia Nordic Micro Cap	400,000	1.408	0.9%
Ten largest	33,848,308	119.146	75%
Residual	11,216,822	39.483	25%
Total	45,065,130	158.629	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Panu Porkka	Tyynenmerenkatu 11, 00220 Helsinki
CFO: Jussi Tallgren	Tel: +358 10 309 5555
IR: Jussi Tallgren	

DEFINITIONS

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

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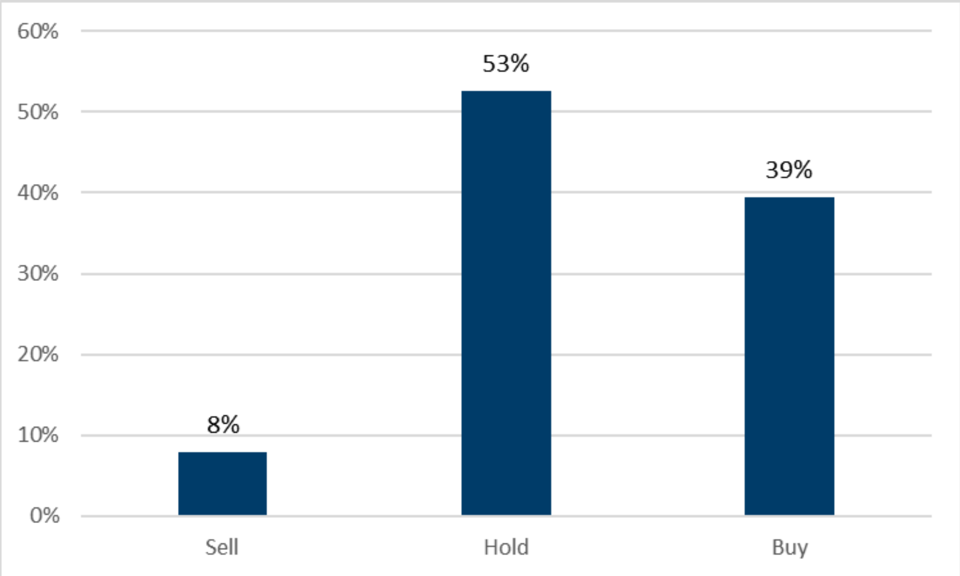
Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is updated at least 2 timer per year.



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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