

## Towards online driven department store

Online pioneer Verkkokauppa.com has shown strong growth figures over the years and with its new strategy, the company targets strong, profitable growth by expanding to new categories and utilizing its strong online platform.

### Strong track record

Finnish online retailer Verkkokauppa.com has grown at a CAGR of 11.5% (2010-21). The company has positioned well to the megatrend of online transition with its most visited and known webstore among Finns. By expanding its presence in low online penetration categories, the company aims to tap market share from the original brick-and-mortar stores. With a low OPEX base, the company is committed to executing price-driven business in price-sensitive consumer electronics markets while improving its gross margin through evolving product categories. With a strong brand, local warehousing, and fast deliveries the company aims to expand its 150,000+ active customer base.

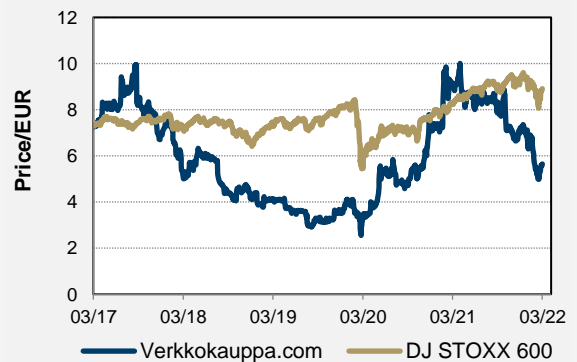
### Strategy execution has started well

Verkkokauppa.com renewed its strategy in 2021 and expects to reach a revenue of EUR 1bn and 5% EBIT margin by 2025. In Feb 2022, Verkkokauppa.com acquired a Finnish webstore e-ville.com. With the acquisition, the company gets an experienced sourcing team and new resources to develop its own brands. Moreover, the automated warehouse is in a testing phase and is expected to operate by the end of Q1'22. We expect to see some enhancements in efficiency during H2'22 since, with the new automated warehouse, the utilization rate of the rental warehouse decreases, and efficiency improves in Jätkäsaari warehouse.

### HOLD with a target price of 6.0 (6.5)

Verkkokauppa.com's peers have also experienced a decline in valuation multiples. Omnichannel peer group median is valued with a 22-23E P/E of 12-11x while Verkkokauppa.com is trading at 15-13x. We find the premium justified, given stronger earnings growth expectations. Even though we don't see the war affecting Verkkokauppa.com's business directly yet, the uncertainty limits potential returns in the short-term. We retain our HOLD-rating and adjust our TP to 6.0 (6.5).

### Rating

■ HOLD


Share price, EUR (Last trading day's closing price) 5.65

Target price, EUR 6.0

Latest change in	04-Feb-22
Latest report on company	04-Feb-22
Research paid by issuer:	YES
No. of shares outstanding,	44,742
No. of shares fully diluted,	44,742
Market cap, EURm	253
Free float, %	50.8
Exchange rate	1.000
Reuters code	VERK.HE
Bloomberg code	VERK.FH
Average daily volume, EURm	0.0
Next interim report	28-Apr-22
Web site	<a href="http://verkkokauppa.com/en/investors/">verkkokauppa.com/en/investors/</a>

Analyst	Arttu Heikura
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Telephone	

■ 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
2020	553.6	20.4	3.7%	12.8	0.34	20.7	0.5	14.6	4.0	0.45
2021	574.5	20.3	3.5%	-1.0	0.34	21.2	0.6	15.7	-0.3	0.25
2022E	610.0	22.3	3.7%	32.3	0.37	15.2	0.4	10.2	12.8	0.27
2023E	659.7	26.8	4.1%	22.4	0.45	12.5	0.3	8.1	8.9	0.28
2024E	712.4	31.3	4.4%	26.9	0.55	10.3	0.3	6.5	10.6	0.30
Market cap, EURm	253			Gearing 2022E, %	-62.7		CAGR EPS 2021-24, %		17.7	
Net debt 2022E, EURm	-26			Price/book 2022E	6.1		CAGR sales 2021-24, %		7.4	
Enterprise value, EURm	227			Dividend yield 2022E, %	4.7		ROE 2022E, %		43.3	
Total assets 2022E, EURm	186			Tax rate 2022E, %	20.0		ROCE 2022E, %		39.6	
Goodwill 2022E, EURm	0			Equity ratio 2022E, %	23.0		PEG, P/E 22/CAGR		0.9	

## Investment case

Online driven department store with a strong consumer electronics background

Verkkokauppa.com is a Finnish online-focused retailer operating through its four megastores and the most visited webstore. The company's assortment consists of over 80,000 SKUs and 26 different product categories. By expanding its presence in evolving categories, the company is transforming towards a department store whereas it was known for its consumer electronics assortment in the past. At the same time, the company's profitability will eventually improve since evolving categories typically consists of products with more attractive margins.

Ambitious growth targets with the new strategy

Verkkokauppa.com renewed its strategy for the period of 2021-2025. By the end of 2025, the company aims for revenue of EUR 1bn and EBIT of 50m (5% EBIT margin). Compared to our estimates, Verkkokauppa.com's financial targets are very ambitious, and the company has lots to prove. The company seeks growth from online transition, new product categories, corporate clients, own brands, and new businesses. Profitability improvement is gained by enhancing operative efficiency and scalability. Investment of automated warehouse of Jätkäsaari, that enhances efficiency, is almost finished and the operations are expected to start by the end of Q1'22.

Operates with an asset-light business model

With low store-count and a strong online presence, Verkkokauppa.com operates with a record low cost-structure. Low OPEX base enables the company to execute price driven business to compete in price-sensitive consumer electronics market. Verkkokauppa.com has local warehousing which enables fast product deliveries, fulfillment, and good product availability. With its strong brand and high consumer trust (NPS 72), the company has ability to gain new customers, especially online and a track record of active customers of 150,000+ speaks about the customer loyalty Verkkokauppa.com is enjoying.

Growth is accelerated through acquisitions

In February 2022, the company acquired e-commerce platform e-ville.com to strengthen its sourcing and development of its own brands. In our view, the acquisition was strategically justified even though e-ville.com (2020 revenue: EUR 10m) is very small compared to Verkkokauppa.com. Through the acquisition, Verkkokauppa.com gets an experienced sourcing team located in China with good contacts to Chinese product manufacturers.

Market opportunity lies in the increase of online penetration

Verkkokauppa.com operates in markets that face quite moderate growth, but the potential lies in the online transition where retail moves from brick-and-mortar to online. The company has the most visited and known webstore in Finland and is at the pole position to gain new online shoppers. Consumer electronics market faced softness during H2'21 and we expect the market to remain weak during H1'22. There have been signs of a slowdown in retailing due to demand shifting to services as COVID-19 restrictions have gradually been removed. We, however, expect evolving categories to remain strong, driven by new product categories and online transition. Also, B2B customer segment has shown very strong growth figures lately.

Financial performance improves after soft year of 2021

In 2022, we expect Verkkokauppa.com to grow by 6.2% y/y to EUR 610m. In our estimates, H1'22 will continue soft, but we expect the company to show strong growth figures the during second half of the year 2022. The growth is driven by online transition, increasing share of evolving categories, and corporate clients. We expect EBIT to improve to EUR 22.3m (3.7% margin) driven by the first signs of enhanced efficiency. Furthermore, we estimate the growth to accelerate, and profitability to improve during 2023-24.

HOLD with a TP of 6.0 (6.5)

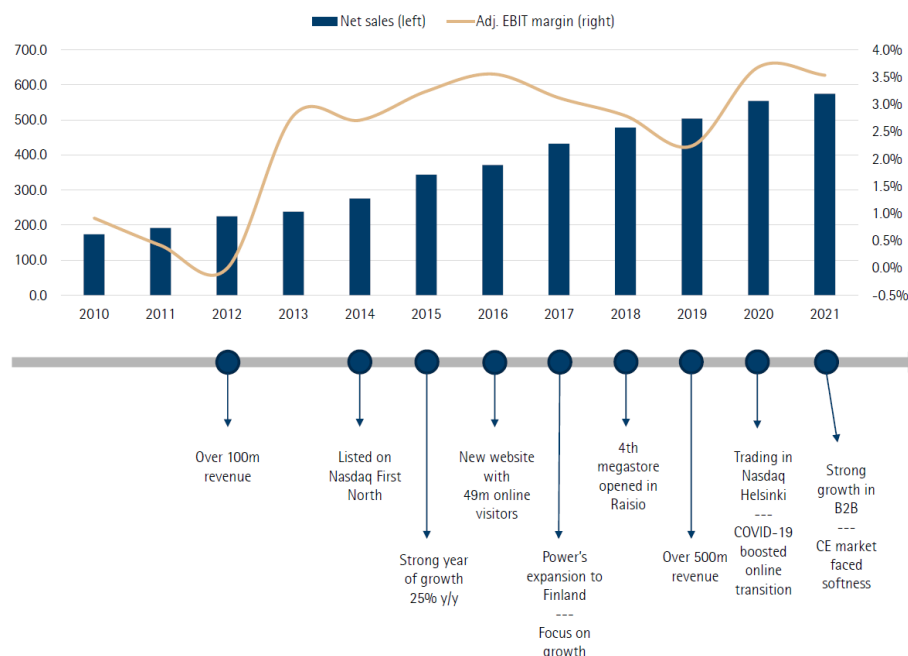
Verkkokauppa.com is currently valued with a 22-23E P/E multiples of 15-12x, while omnichannel peer group median stands at 22-23E P/E 12-11x. Long-term investment case is, in our view, quite attractive, but short-term returns are limited due to uncertainty caused by increased inflation and the war between Russia and Ukraine. We retain our HOLD-rating and adjust our target price to 6.0 (6.5).

## Company overview

Developing towards an online-driven department store

Verkkokauppa.com is a Finnish retailer, that markets, sells, and distributes its products and services through its webstore, pick-up network, and four megastores in Helsinki, Raisio (Turku region), Pirkkala (Tampere region), and Oulu. The company was founded in 1992 in Espoo, Finland, to provide consumer electronics products online, but the company has lately widened its offering to several new product categories. The company has been online-oriented from the beginning and Verkkokauppa.com is the most visited webstore and the largest e-commerce player in Finland. Utilizing the space of four megastores and with its self-developed webstore, the company masters over 80,000 products and 26 different product categories. Over time, Verkkokauppa.com is developing towards an online-driven department store. The company employed 825 persons at the end of December 2021.

Figure 1: Timeline (net sales figures in EURm)



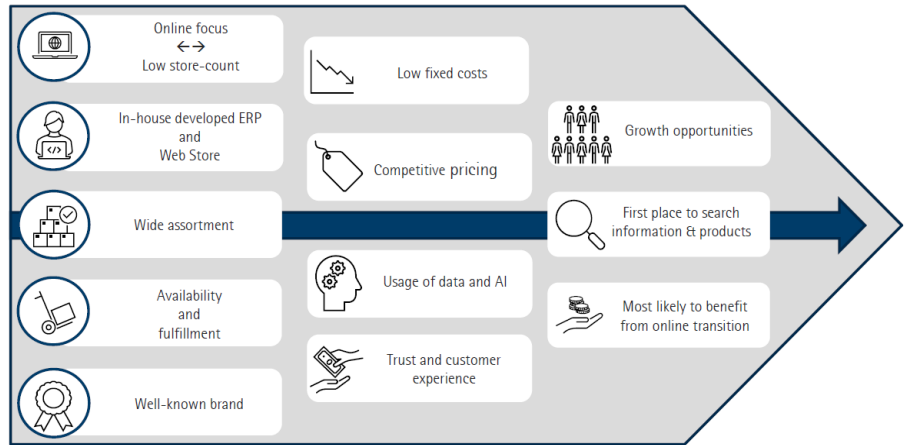
Source: Verkkokauppa.com, Evli Research

## Business model

Online focus enables asset-light business model

Verkkokauppa.com has an agile and scalable business model that combines a webstore and four megastores. The integrated and omnichannel business model serves a different kinds of customer needs. The fact that 43% of Finns have founded a product online but placed the purchase in brick-and-mortar proves the purpose and functionality of the company's integrated business model. Furthermore, the business model is asset-light and investments needs are low.

Figure 2: Business model in a nutshell



Source: Evli Research

Largest and most visited website in Finland

The company's website is the largest (2021: online sales of EUR 344m) and most visited (2021: visitors of 80m) in the Finnish e-commerce market. Online sales represented 60% of the company's total sales in 2021. In our view, the company is well-positioned for the intensifying online transition, where retail moves rapidly from brick-and-mortar to online. For example, the company has performed extremely well during severe pandemic times when most of the purchases were placed online.

Selling products for consumers, businesses, and overseas

Verkkokauppa.com divides its business into three customer segments: Consumers, B2B sales, and Exports. Consumer sales represented 72%, while B2B was 21% and the Exports segment was only 7% of total sales in 2021. End customers of the Consumers business segment appreciate the easiness of shopping and cheap prices. Customers are price-sensitive and used to compare prices between suppliers. B2B segment is divided between small and medium-sized businesses (SMB), large enterprises, and the public sector. SMB represents a major part of the company's sales, while large enterprises and public corporations use larger product vendors or OEMs. A major part of B2B revenue comes from electronics (laptops, displays, etc.) and office supplies. B2B customers are approaching the same consuming habits that regular consumers have. Export business is a low margin and wholesale type of business where products are sold in batches. The segment has taken the hardest hit from the pandemic and the recovery is expected to start after the restrictions have been removed. In addition, Verkkokauppa.com offers financial (Apuraha) and other services, such as assembly, mobile subscriptions, and maintenance, to enhance its customer experience and improve profitability.

Figure 3: Sales split in 2021



Source: Verkkokauppa.com, Evli Research

Low cost-structure enables price-driven business

Due to low store-count, high online focus, self-developed IT and eCommerce platform, and efficient supply chain, logistics, and in-house processes, the company has achieved a record low cost-structure and is able to execute price-driven business. The price competition in the Finnish consumer electronics market is high, and the company has a clear competitive advantage of cost-effectiveness over its competitors. Verkkokauppa.com’s customer promise “Probably always cheaper” ensures that customers are probably better off to search products first from its webstore. Automatization of Jätkäsaari warehouse is going to further improve the cost-effectiveness of Verkkokauppa.com.

Well-known Verkkokauppa.com brand as a growth enabler

Verkkokauppa.com brand is well-known in Finland and has won several recognitions, for example, #1 Brand Index’s Buzz – Positive talk about brands (among its peer group)<sup>1</sup>, 3.8 points in Trust & Reputation research<sup>2</sup>, and #1 domestic webstore<sup>3</sup>. Over 115k monthly active clients (2020), 80m webstore visitors (2021), and an NPS-score of 72 indicate the popularity of the Verkkokauppa.com brand. 99% of Finnish nationals are familiar with the Verkkokauppa.com brand, and 80% of men and 70% of women have bought something from the company’s store or webstore.

Figure 4: Customer loyalty among Finnish retailers



Source: ASML Asiakkuusindeksi 2021, Evli Research

Smooth and fast fulfillment as a competitive advantage

The company shines with its ability to beat the local competitors in fulfillments. The company’s next-day delivery network covers already 75% of Finns, while Gigantti covers ~30-40%. The company aims to improve the next-day delivery network to cover over 90% and the same-day network to cover over 50% of Finland’s population. Verkkokauppa.com offers a wide range of delivery options and pick-up possibilities. The product can be collected from megastore (Helsinki pick-up store 24/7) and parcels can be delivered to the home, Posti’s postal offices, or nearest pick-up point. At its fastest, the company delivers products in 3 hours.

Transforming towards the online-driven department store

With its 26 product categories and 80,000+ products, Verkkokauppa.com’s business is becoming more type of department store and hence it is competing against companies in new industries. The company divides its assortment into two categories. Core categories contain mostly consumer electronics-related products and Evolving categories consist of non-consumer electronics products that usually have more attractive margins, but still, have low online penetration. Nowadays, core categories represent ~50-70% of

<sup>1</sup> You Gov: Brand Index 2021

<sup>2</sup> T-Media: Trust & reputation May 2021

<sup>3</sup> Posti: Suuri verkkokauppatutkimus 2021

Verkkokauppa.com's total sales. Through its platform, the company is able to simulate new product categories and test their potential in terms of sales. The company intends to increase the share of higher-margin evolving categories and find new "untapped" categories. In addition to global brands, the company's assortment includes over 1,500 private label products, and by the acquisition of e-ville.com, we expect the share of private label products to clearly increase in the coming years. The company's management has indicated that its assortment grows weekly by 100+ products.

More scalability with automated warehousing

Unlike the other players, Verkkokauppa.com uses local warehousing. The company's main warehouses are in Helsinki (next to the Jätkäsaari's megastore) and Vantaa (rental). With a transaction-based billing, Vantaa's rental warehouse causes some growth-linked expenses. As the automatization (and expansion in terms of SKUs) of Jätkäsaari warehouse is finished, more products can be stored in Jätkäsaari and growth-linked costs decrease in the rental warehouse. In addition, each megastore has its warehouse with limited capacity. Verkkokauppa.com has a wide and modern procurement network. Goods are bought usually from local or global wholesale sellers or OEMs, from 750+ different suppliers. According to the company's management, Verkkokauppa.com's purchasing team has been innovative during times of scarce availability, and the company has performed comparably well in placing purchases. With the acquisition of e-ville.com, Verkkokauppa.com obtains an experienced sourcing team and strengthen its foothold in China's purchasing market.

### Competitive advantages

The business model describes competitive advantages well

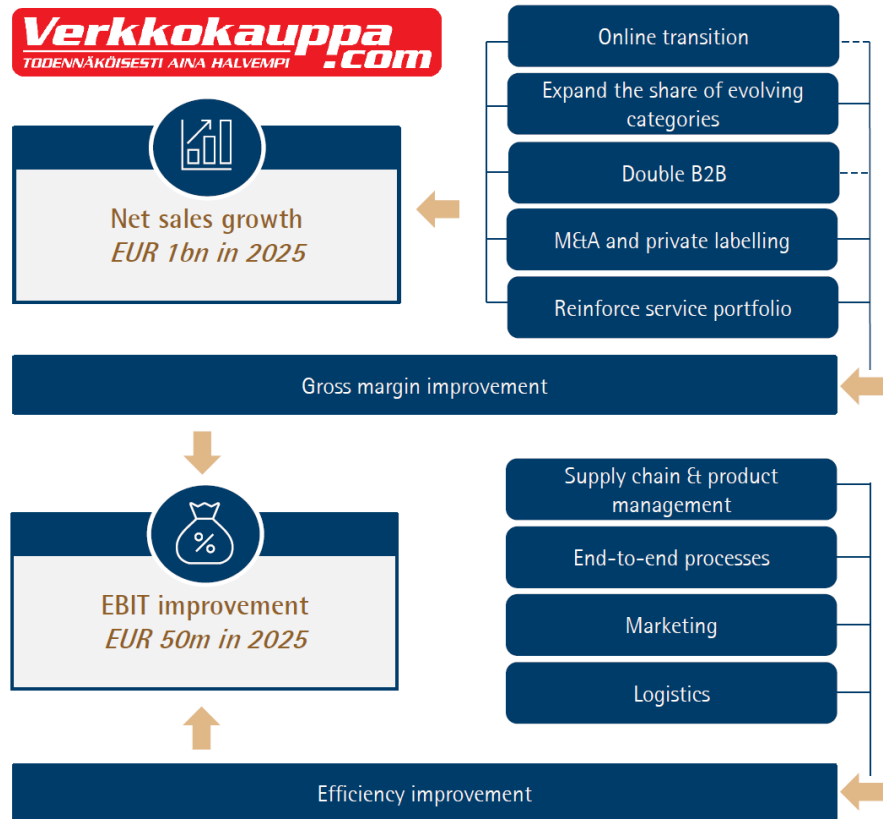
In our view, the company's business model describes well the competitive advantages of Verkkokauppa.com. The company has positioned well for the global megatrend of online transition. Omnichannel distribution services the different kinds of needs. The company's technological backbone increases the ability to adjust quickly in the changing environment and helps to gain information on customer behavior using AI. Verkkokauppa.com has one of the industry's lowest cost-structures providing an advantage in price competition. The ever-growing assortment offers opportunities for growth and profitability improvement. As the company widens the assortment and gains market share, new industry arrivals have a longer path to reach the consumer trust that Verkkokauppa.com is enjoying. Verkkokauppa.com brand is appreciated and well-known among local nationals and has been recognized with several awards. The entry barriers of the consumer electronics market are somewhat high due to few large players (Verkkokauppa.com, Gigantti, Power), low attractiveness due to tight margins, and furthermore, developing online capacities like Verkkokauppa.com has, requires a lot of assets and know-how. We see Amazon as a competitive threat, but according to the company's management, currently, Verkkokauppa.com has an advantage in the availability, localness, and delivery times that Amazon cannot beat from Central Europe.

### Strategy and financial targets

Growth ambition to a next level

Verkkokauppa.com's strategy was revised in 2021 and the company shifted up its growth ambitions by targeting EUR 1bn revenue by the end of 2025. The company's vision is to stay as an e-commerce pioneer with the support of continuous innovations and developments.

Figure 5: Verkkokauppa.com's 2025 strategy

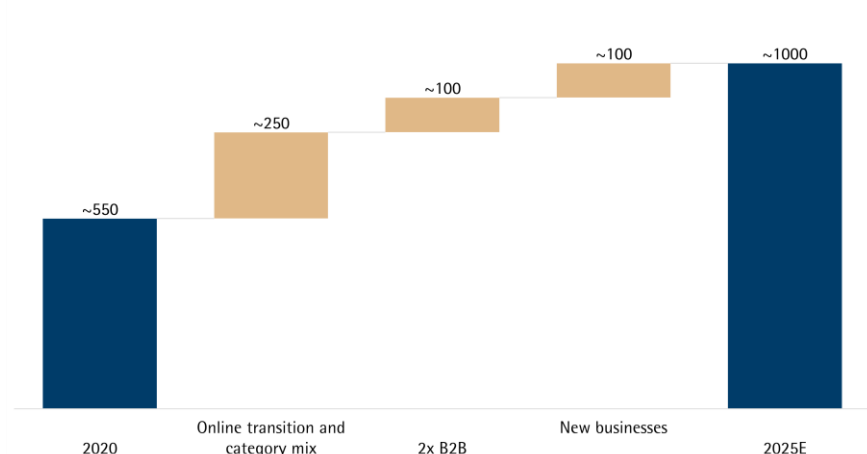


Source: Verkkokauppa.com, Evli Research

Growth from online transition and new product categories

Verkkokauppa.com is seeking growth both within its core categories as well as by expanding into new categories with attractive margin potential, especially online. Additionally, the company sees growth opportunities in the B2B segment, private labelling, and value-added services. The company aims to double its B2B and private label business by the end of 2025. In addition, Verkkokauppa.com is looking for potential new businesses and M&A opportunities, especially among local complementary e-commerce companies. In February 2022, the company closed its first-ever M&A action by acquiring the Finnish e-commerce platform e-ville.com.

Figure 6: Growth sources in EURm

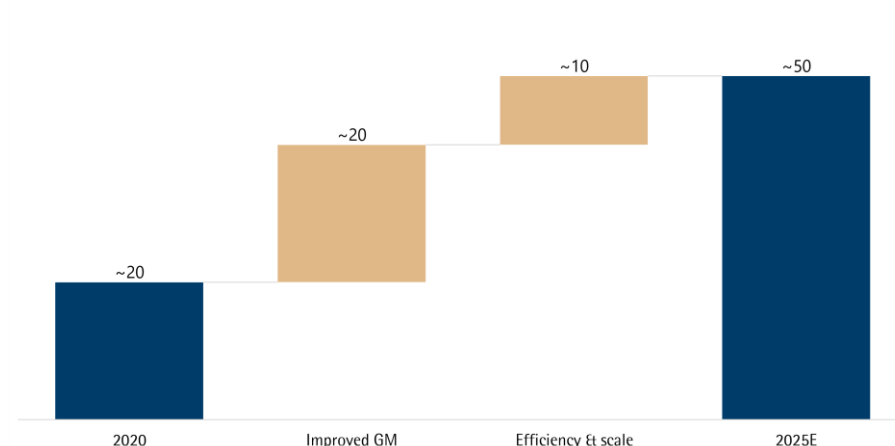


Source: Verkkokauppa.com, Evli Research

EBIT improvement through higher-margin products and scalability

By increasing the gross margin and enhancing the operational efficiency and scalability the company aims to achieve EUR 50m operating profit (EBIT) in 2025. Gross margin is improved by expanding the share of higher-margin categories, innovating new private label products, growing the service business, and finding new businesses with higher profitability. In order to further improve the EBIT margin, the company aims to lower its fixed costs from 11.5% to below 10% by enhancing logistics, automatizing supply chain and product management, and improving marketing performance and segmentation.

Figure 7: EBIT improvement in EURm



Source: Verkkokauppa.com, Evli Research

Targeting a 2%-p improvement in the gross margin

The gross margin improvement from ~16% (2021) to ~18% (2025) is obtained by increasing the share of higher-margin products in the category mix and developing more private-labeled products. Category mix is estimated to improve the gross margin by some 100-150 bps and private label by ~50 bps.

The company names its official long-term financial targets as:

- By the end of 2025, the company targets a revenue of EUR 1bn
- an EBIT of EUR 50m (~5% margin)
- lowering the fixed costs below 10%
- distributing quarterly growing dividends to shareholders.

## Assortment

The assortment grows by 100+ products a week

Verkkokauppa.com's assortment is one of the widest in the Finnish e-retail markets and, according to the company, most exciting. In line with its assortment strategy, the company has grown its assortment by 100+ products per week and is open to every product that is suitable for its online business and fits its logistics. The company's management has disclosed that groceries and fashion are segments where Verkkokauppa.com has no intentions to expand. Verkkokauppa.com is searching for new product categories where the online penetration is low, as an idea to accelerate the online transition and gain market share. The company splits its assortment into two segments: core and evolving categories. In addition, the company has disclosed a segment where lies potential product categories, called untapped categories.



Core categories represent 50-70% of total net sales

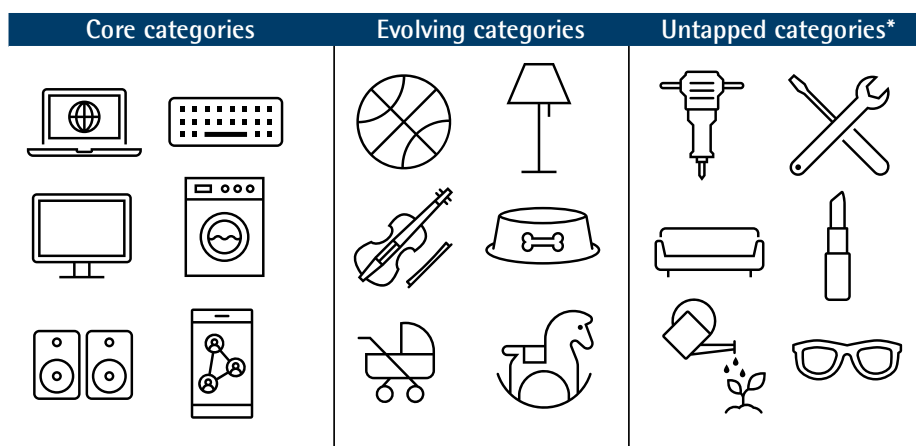
Evolving and untapped categories create more profitable growth

**Core categories** consist of consumer electronics goods, usually with low margins. The company has been building its business around the category's product during the last 30 years. According to the company's management, core categories represent 50-70% of Verkkokauppa.com's total net sales, but ever-growing evolving categories will at some point reduce the share of core categories.

**Evolving categories** consist of retail goods that are usually bought from brick-and-mortar and online competition and penetration is relatively low. Usually, the products have more attractive margins than the core category's products. The products fit online well, and the purchase won't require on-site visits from the customer as the company has comprehensive product information and reviews online.

**Untapped categories** are product categories where Verkkokauppa.com has no significant offering yet, but it's an area where the company is constantly searching for and testing new opportunities. The company has named a few potential untapped categories, such as cosmetics, DIY, furniture, and interior decorating. According to the company's management, untapped categories have attractive margins that have a positive contribution to the group-level profitability.

Figure 8: Product categories



Source: Verkkokauppa.com, Evli Research  
 \* Potential product categories

Intends to expand own brands

According to its assortment strategy, Verkkokauppa.com intends to increase the share of private label products, i.e., double the current revenue until 2025. In 2021, the product portfolio of private labels exceeded 1,500 SKUs. By increasing the share of its brands, the company expects to improve its gross margin by some 50 bps by the end of 2025.

Figure 9: Examples of Verkkokauppa.com's private label brands

	PROCASTER	Anton Oliver	STRÖME	GZR
2020 sales in millions	3.2	1.6	2.4	1.7
Assortment	TVs, Audio & HiFi	Large appliances and grills	Small appliances	Bicycles and e-bicycles

Source: Verkkokauppa.com, Evli Research

Constantly searching for potential product categories

The company is constantly investigating potential product categories which fit its logistics and online in general. Fashion is currently out of the option due to its high return rates as well as fresh foods for the reason of its inconvenient logistics. Given the low cost-structure of online business, the company is able to use very attractive pricing in product testing. Testing is usually made with narrow product selection and, if successful, the selection is typically widened. The latest testing was made in small power tools with a limited number of SKUs

### Apuraha financing and other services

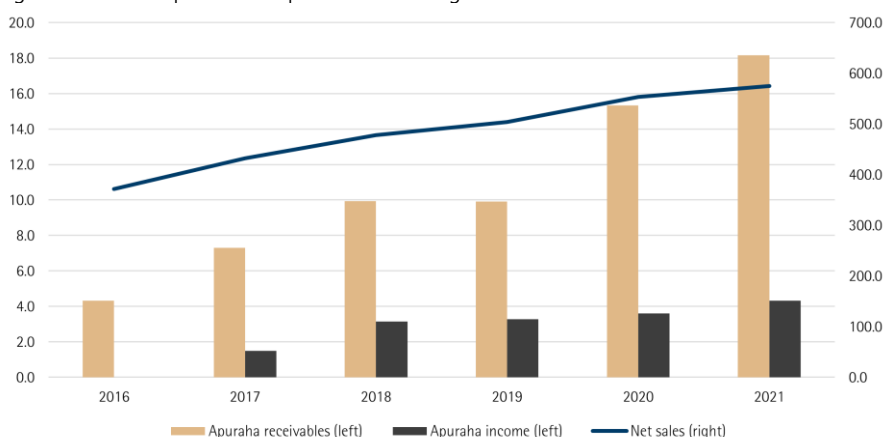
Verkkokauppa.com launched its financing service in 2015

Verkkokauppa.com launched its customer financing service, Apuraha, in 2015. Apuraha service started in early 2016. Apuraha was first financed in collaboration with Lindorff (with a shared profit distribution model) but from Q4'18 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.

Apuraha improves gross margins

The company's strategic move of financing customers' purchases using its balance sheet, on one hand, decreases the return on assets due to swelled balance sheet, but on the other hand, improves gross margin in products financed by Apuraha.

Figure 10: Development of Apuraha financing



Source: Verkkokauppa.com, Evli Research

Providing other services to support customer experience and profitability

In addition to Apuraha, the company provides near-product services to enhance customer experience and raise profitability. The services are typically linked to the purchase, in-store or online. To name such services: product installation (large appliances), insurance (phones, etc.), and extended warranties (laptops, etc.). In addition, the company has disclosed that it's investigating other service opportunities that stand alone from the product purchase. The aim is to utilize its existing customer base and platform to offer some undisclosed services.

## Financial performance

COVID-19 restrictions boosted the online transition further

Verkkokauppa.com's business has developed favorably during the last decade. In 2020, the consumer electronics market showed strong growth figures driven by an online transition which was boosted by COVID restrictions. The market enjoyed extensive margins in 2020 and during the first half of 2021, but a softish market environment and increased price competition narrowed gross margin towards "normal" levels during H2'21.

## Sales development

The growth streak of 33 consecutive quarters was broken in Q4'21

Verkkokauppa.com has managed to grow its topline for 33 consecutive quarters, while in Q4'21 its revenue declined as a result of the soft consumer electronics market. The growth has mostly come from gaining market share, while the consumer electronics market has shown relatively moderate growth figures. Finnish consumer electronics market has grown at a CAGR of 2.1% (2015-21), while Verkkokauppa.com's topline has grown at a CAGR of 11.5% (2010-21), mainly driven by the online sales and new product categories.

The online share will increase, but the omnichannel model supports the purchase path

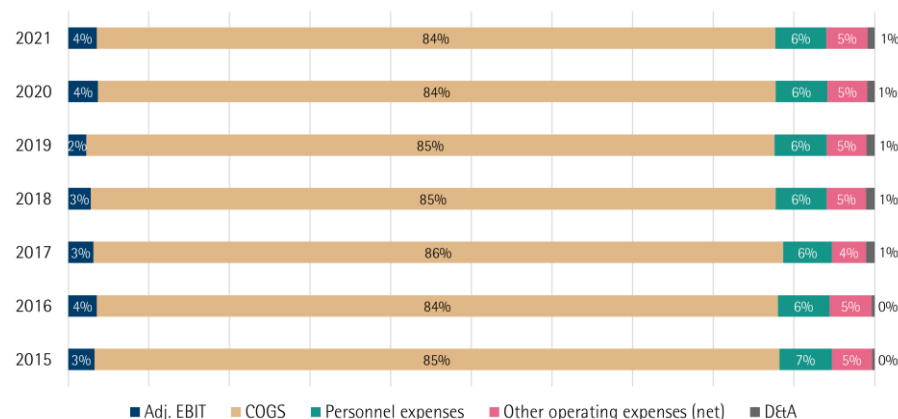
During the last few years, retail has been moving online rapidly and the company has, in our view, been the main driver of the online transition alongside the COVID-19's restrictions and other side-effects. About 60% of Verkkokauppa.com's revenue is generated online, but the bound of the final purchase method is wavering given the fact that the first touch on the purchase might start from webstore but end up in a brick-and-mortar megastore or vice versa.

## Cost structure

High competition is undoubtedly reflected in the margins

Verkkokauppa.com's OPEX base is low (2021: 11.6% of net sales) compared to the overall retail sector in Finland (~20-30% in recent years). Low store count makes the cost structure scalable as the company intends to increase online sales. Since consumer electronics have relatively high average prices, most of the company's costs consist of material and service expenses. As the company has only 4 stores, the personnel expenses represent only ~6% of costs. Other operating expenses, i.e., marketing, administrative expenses, and other expenses represent only ~5% of total costs. Depreciation and amortization are only ~1% of the cost structure as a result of light capital structure.

Figure 11: Cost structure

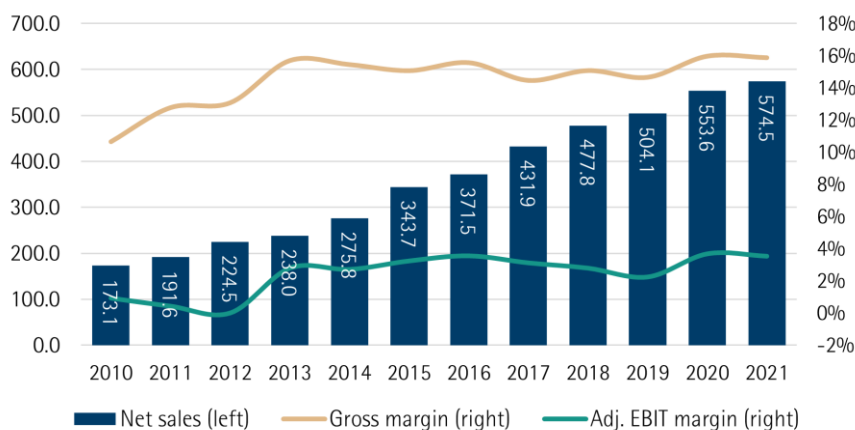


Source: Verkkokauppa.com, Evli Research

### Profitability

During 2015-21, the gross margin has varied between 14-16% and the EBIT margin between 2-4%. Gross margin is highly dependent on the category mix and the level of given discounts. During the COVID-19 (3/2020-6/2021), the competition was eased off temporarily and the 2020 gross margin improved to 16%. After COVID-19 restrictions were removed in stages, part of consumption shifted from goods to services. The situation has led the market to increased price competition and the 2021 gross margin fell slightly short of the previous year, gross margin amounting to 15.9%.

Figure 12: Net sales, gross margin, and adjusted EBIT margin in EURm

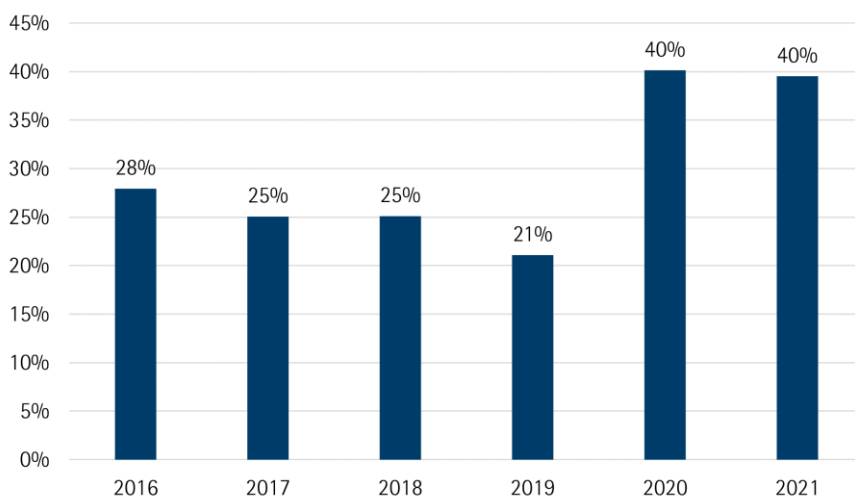


Source: Verkkokauppa.com, Evli Research

Light equity structure enables high ROE

Despite tight profitability margins and historical earnings disappointments, the company has been yielding a high return on equity for the investors. ROE-% has been varying around 25%, but during 2020-21 the company scored ROE-% of 40%, which is spectacularly high for a retail company. The high level of ROE-% can be explained mainly by the light equity structure.

Figure 13: Return on equity



Source: Verkkokauppa.com, Evli Research

**Balance sheet**

Verkkokauppa.com has an asset-light balance sheet

Verkkokauppa.com's omnichannel business model is an asset-light and investment needs are scarce. At the end of 2021, the company's balance sheet totaled EUR 172.3m. The company's inventories are usually high (2021: EUR 88m) due to the nature of retailing business. Due to supply chain issues and weak product availability, Verkkokauppa.com has increased its inventories on purpose to secure its selection during uncertain times. During recent years, trade receivables have been increasing due to the growth of Verkkokauppa.com's financing services. At the end of 2021, Verkkokauppa.com's cash position of EUR 20.9m weakened from the comparison period (2020: EUR 42.5m) due to an increase in the net working capital and higher dividends distributed (2020 included an additional dividend). By holding a solid cash position, the company taps into solid terms of purchases and can use cash allowances which will improve its gross margin. The company is debt-free with net debt of EUR -0.8m. Verkkokauppa.com's equity totaled EUR 35.7m at the end of 2021, with an equity ratio of 22%. Long-term debt consists of lease liabilities and provisions, totaling EUR 17m, while short-term debt amounted to EUR 4m at the end of 2021. Current liabilities amounted to EUR 115.6m, trade payables representing the majority (EUR 77.6m).

Figure 14: Balance sheet at the end of 2021 (in EURm)

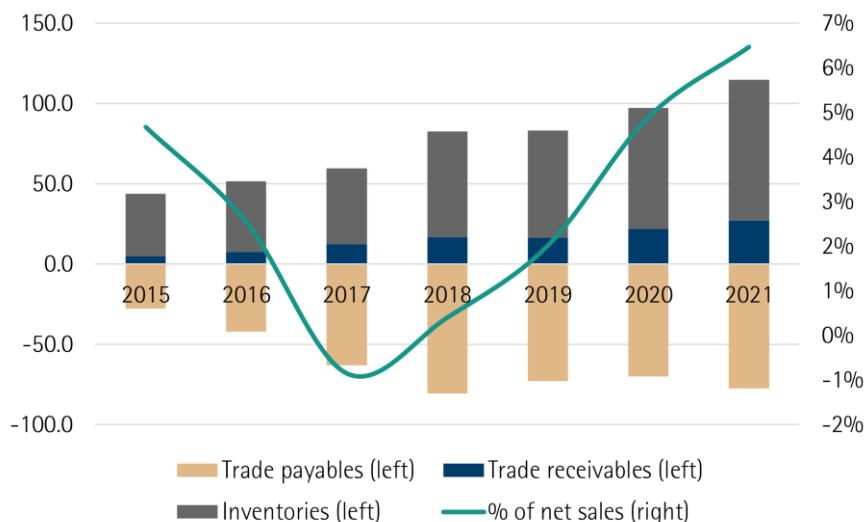


Source: Verkkokauppa.com, Evli Research

Higher inventories have increased the NWC

Historically, Verkkokauppa.com's net working capital has been seen near zero, but in recent years, the NWC has been slightly increasing. The trend is explained by higher inventories which is a product of the increased need for preparing for seasons and campaigns due to low visibility to product availability.

Figure 15: Net working capital in EURm

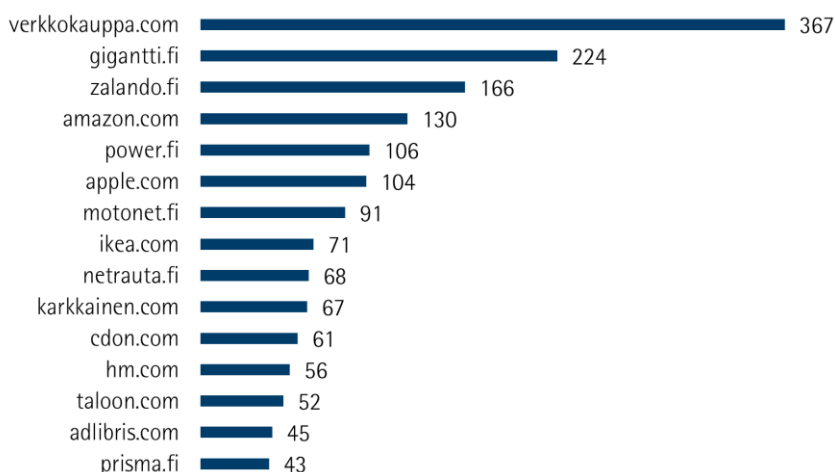


Source: Verkkokauppa.com, Evli Research

## Market overview and competition

### E-commerce in Finland

Figure 16: 2020 online revenue in Finland in EURm (excl. exports)

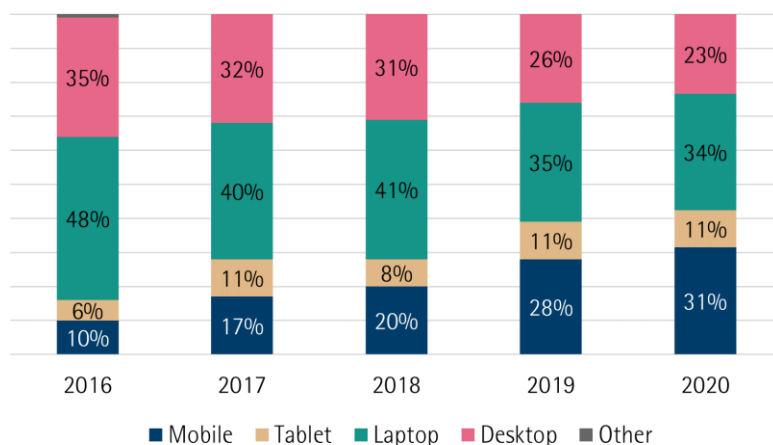


Source: *Kehittyvä kauppa – Kaupan tekijät 2021, Evli Research*

Millennials use mobile devices to place online orders

Retail is increasingly moving online and ~30% of online purchases are placed via mobile device in 2020 (according to Posti's market research). Also, Verkkokauppa.com and other global e-commerces expect the positive trend to continue. Only 23% of online purchases were placed using desktop in 2020. Yet, the most used device is a laptop, but the share has been declining during last years, driven by increased usage of mobile phones.

Figure 17: Preferred online purchase device

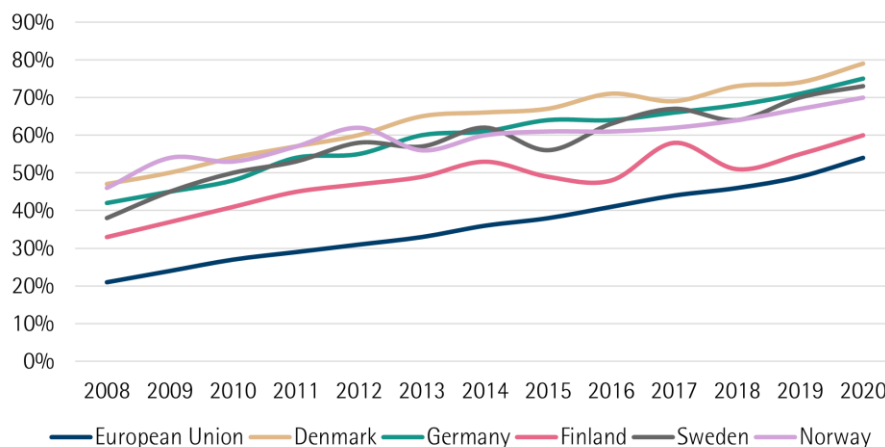


Source: *Posti, Evli Research*

Peer comparison: There is much room for online transition in Finland

The Finnish online consumption is clearly lower than in peer countries and there is still room for the online transition in Finnish retailing. While Finland's online score is 60%, the comparable peer Sweden's score is over 70% in 2020. Denmark holds a record score, approximately 80%. Over time, Finland has come a bit late in online development than other Scandinavians.

Figure 18: Online development in EU



Source: Eurostat, Evli Research

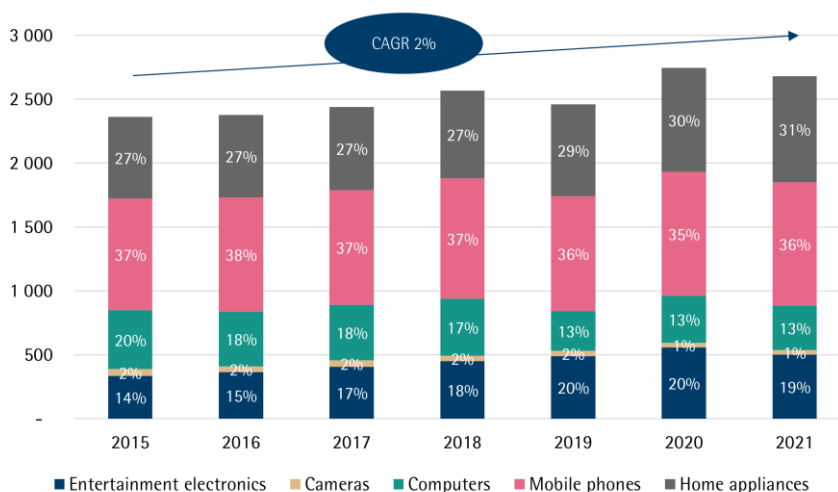
\* Individuals having ordered/bought goods or services for private use over the internet in the last three months

### Consumer electronics

Finnish CE market amounts to EUR 2.7m and grows with a CAGR of 2%

In 2021, Finnish consumer electronics sales amounted to EUR 2.68bn (incl. VAT). The market is quite mature and has grown at a CAGR of ~2% (2015-2021) and the company expects the pace to remain the same in the following years. The growth has been strong in entertainment electronics (audio and television), the segment has grown at a CAGR of 7% during 2015-2021. In 2020, during the pandemic when consumers were mostly spending time at home, consumer electronics took a boost by growing 11% y/y driven by entertainment, computers, mobile phones, and home appliances. The market saw some softness during H2'21, while part of the consumption shifted from goods to services and the market declined by 2% y/y in 2021.

Figure 19: Finnish consumer electronics sales (incl. VAT) in EURm



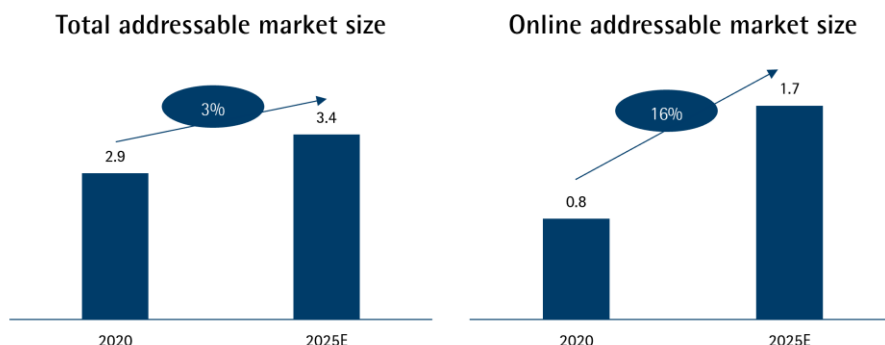
Source: GfK, ETK ry, Evli Research



The online market grows at a CAGR of 16%

In the company's estimations, the core categories market in Finland is EUR 2.9bn, and with annual growth of 3%, the market is estimated to be worth EUR 3.4bn in 2025. The addressable online market is estimated to be around EUR 800m. The company's management expects the online penetration to improve to 50% by 2025, providing a EUR 900m online market opportunity. The company noted its market share to be around 16% in the core categories market.

Figure 20: Addressable market sizes in core categories in EURbn



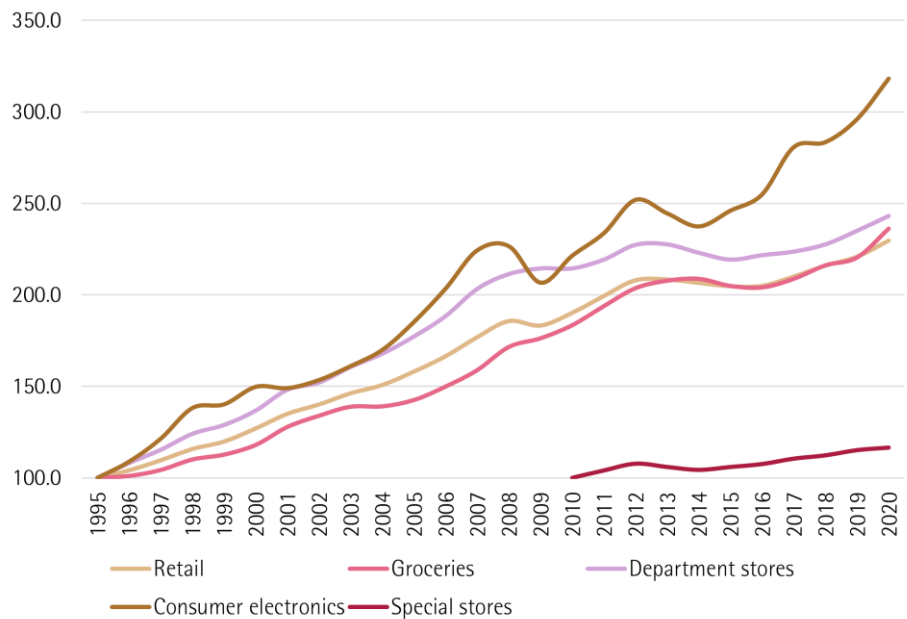
Source: Verkkokauppa.com, Evli Research

### Evolving categories

Fragmented evolving categories moving online fast

Evolving product categories' markets are altogether fragmented with no dominant players (excl. sports and pet supply) and the online penetration is still relatively low. In our understanding, Verkkokauppa.com's market share is yet marginal in each sub-category. The company is determined to focus on product categories that have low online penetration but fit easily online. For example, the company has the widest selection in the tennis rackets in Finland but has a marginal market share in the entire sports market. During recent years the company has shown strong growth figures in Sports, Home & Lightning, and Toys, while it sees major potential in Pet supply, Kid & Baby supply, and Bags & Travel. Each sub-market faces quite moderate growth, but the market opportunity lies in the online transition which the company expects to accelerate shortly.

Figure 21: Indexed commerce development in Finland

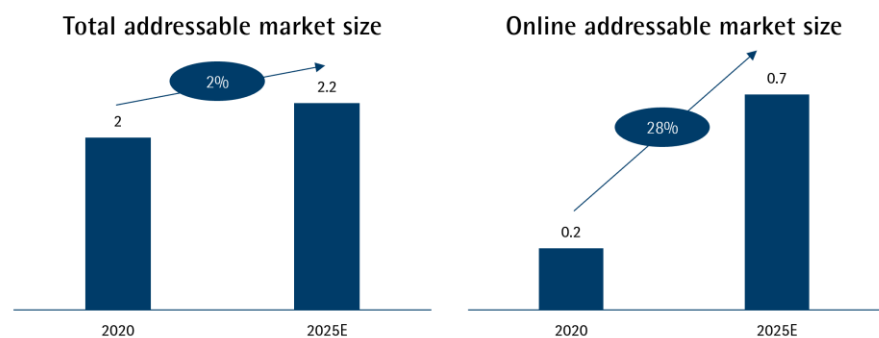


Source: Stat.fi, Evli Research

Online market EUR 700m in 2025

In its strategy update, the company estimated the total market size of its evolving categories to be EUR 2bn, with an annual growth rate of 2%. The market estimate includes only the products that Verkkokauppa.com sees as suitable for its business model. The opportunity lies in the online penetration and the company expects the online market to grow at a CAGR of 28%, totaling EUR 700m in 2025.

Figure 22: Addressable market sizes in other categories in EURbn



Source: Verkkokauppa.com, Evli Research

### B2B

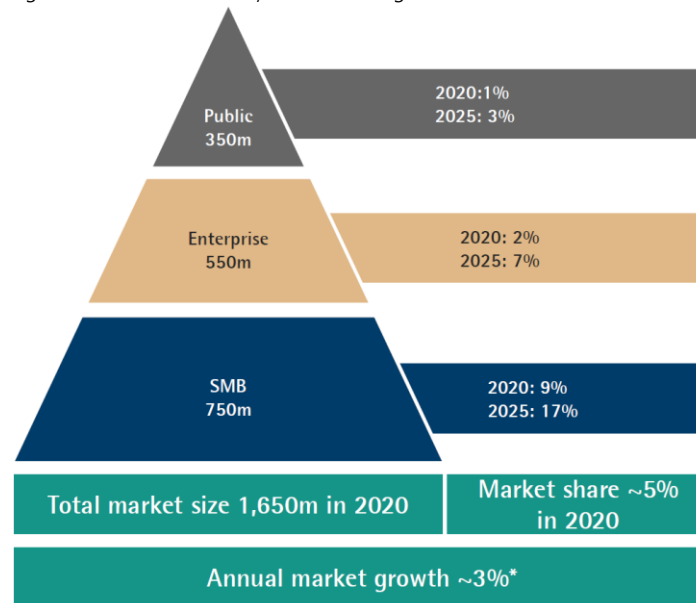
B2B customer behavior has seen some changes in the recent years

B2B customers' behavior is rapidly shifting towards the type of B2C behavior. B2B customers value self-service, convenience, and easiness of shopping. Customers are not eager to spend too much time or money while placing purchases. According to the company's management, the same megatrends apply in the B2B market as in B2C and in fact, the online transition is somewhat faster among B2B customers.

Opportunity lies in the SMB segment

During 2015-20, Verkkokauppa.com doubled its B2B revenue and it is targeting to execute the same by 2025. The company has disclosed the total market size to be approx. EUR 1.65bn which divides into segments of small & mid-sized businesses (SMB), large enterprises, and public sector in 2020. With its 50,000+ active corporate clients, the company holds approx. 5% market share. The company targets a 17% share in SMB, 7% share in enterprise, and 3% share in public markets by the end of 2025.

Figure 23: B2B market by customer segment



Source: Verkkokauppa.com, Evli Research

\* Evli's estimate

### Additional market opportunities

Drop shipping could potentially support logistically tricky product categories

**Drop shipping** is a fulfillment method in which a retailer fulfills orders but doesn't store the goods in its inventory and products are distributed directly from suppliers to customers. Drop shipping releases working capital to other needs and lowers inventory risk. With drop shipping, the assortment can be much wider without having to invest in additional warehousing and logistics. However, the method reduces the product-specific margins. By putting reliance on a drop shipping partner, the company partly loses control over its customer experience. In our view, Verkkokauppa.com could apply drop shipping in its untapped categories whose logistics may be challenging (for instance in relatively large objects).

Potential revenue sources from a third-party marketplace

**Third-party marketplace:** Verkkokauppa.com could utilize its e-commerce platform and expand to the third-party marketplace and further strengthen the assortment under its website. The third-party marketplace enables e-commerce platforms for small-sized businesses and private persons to list their merchandise. Earnings models that have been widely used in the existing marketplaces vary between:

- Commissioned model
- Ad based model
- Subscription-based model
- Free-to-use model

In our view, in the case of Verkkokauppa.com opening its marketplace, the company could start with a free-to-use model by gaining new customers and merchandisers. At

the moment, the most used marketplace in Finland is called Tori.fi, which is free for both customers and merchants, but by additional payments, the listings gain more visibility.

Products are typically either fulfilled by the merchant or the marketplace itself. The service has also its dark sides, as scams are common in the model fulfilled by the merchant. Extra investments to logistics must be made before Verkkokauppa.com could start using the fulfilled by marketplace model (marketplace delivers and stores the third-party products listed on its website).

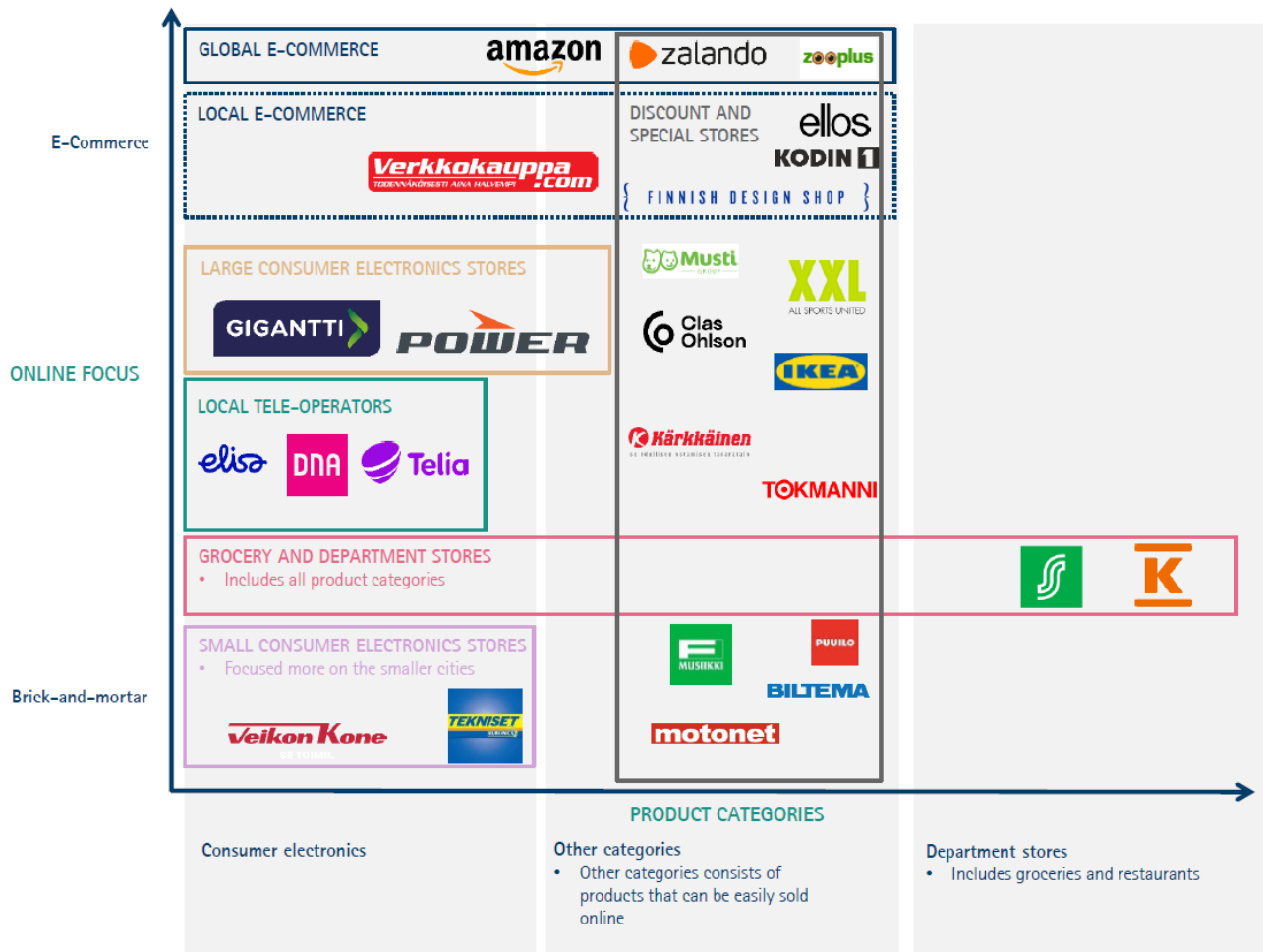
In our view, the strategic idea of establishing a marketplace would be to gain a larger customer base, grow the assortment, obtain new sources of revenue and compete in the ever-growing e-commerce field. The company hasn't officially disclosed any intentions to open a marketplace.

### Competition

The competitive field is much wider in evolving categories

Verkkokauppa.com utilizes its local warehousing and extensive assortment through its four megastores and webstore to compete against local branches of billion-dollar groups (Gigantti and Power). Over time, Verkkokauppa.com has gained market share in the Finnish consumer electronics market and aims to widen its presence in the evolving categories. In the evolving categories, the company competes against local department stores (Kesko and S-Group), discount stores, Gigantti, Power, and smaller brick-and-mortar or online stores.

Figure 24: Competitive landscape in Finnish retail markets



Source: Evli Research

Price-sensitiveness of customers leads to tight competition

**Core categories:** Competition in core categories is very tight. Consumers are usually price-sensitive due to high average prices, indicating that consumers conduct price comparisons between retailers. Relatively low customer loyalty has over time made the business price-driven and industry players enjoy tight margins. Only the companies that adhere to strict cost discipline will succeed in the market.

Main competitors are Gigantti and Power in core categories

Along with Verkkokauppa.com's main rivalries Gigantti and Power, the core categories include other consumer electronics retailers, such as smaller CE stores, local department stores, tele-operators, and global e-commerce. The competition is ruthless between the trial, Verkkokauppa.com, Gigantti, and Power, as long as consumer electronics represents a significant part of the company's assortment. At the same time, Gigantti and Power are also expanding their assortment over the bounds of CE and investing in their online

abilities.

Smaller players have a limited assortment

The assortment of tele-operators focuses on mobile devices and internet appliances. Department stores have nowadays a relatively wide assortment, but the CE selection is still a fraction of Verkkokauppa.com's. Some of Finland's consumption flows to global e-commerces, Amazon being the largest player.

The market has consolidated fair quickly

Tight competition has consolidated the market promptly. Gigantti, Verkkokauppa.com, and Power have shown strong organic growth and gained market share from smaller local CE retailers. Power brand also replaced the majority of Expert stores in 2016. Previously significant players (Anttila, Musta Pörssi, Stockmann, etc.) have had to close down or change operating models, under the price pressure of Gigantti, Verkkokauppa.com, and Power.

Price competition is less intensive in evolving categories

**Evolving categories:** The markets of evolving categories are fragmented where the power isn't focused on a few players (excl. pet supply and sports). The average purchase price is much lower than in core categories, indicating that price competition is less intensive. We present only significant or potential product segments, leaving Watches and Food & Drinks unreviewed.

Home & Lightning market has already online competition

*Home & Lightning:* The market consists of several medium-sized players and relatively large player IKEA (2020 revenue in Finland: EUR 377m). Home products are typically sold in the specialized, department, and discount stores in Finland. Traditional home & furniture stores are brick-and-mortar based, but the industry includes some e-commerce competitors such as Finnish Design Shop, Kodin1, Veke, and Ellos. We see the competition tight-ish since the market includes already known online-focused retailers.

Sports is dominated by the three largest players

*Sports:* XXL, Intersport (Kesko), and Stadium drive the market with 2020 sales of EUR 165m, 176m, and 100m respectively. Smaller sport equipment stores, such as Sportia and Budget Sport (Kesko), and department stores compete for market share alongside Verkkokauppa.com. The market is still brick-and-mortar dominated, but the arrival of XXL and Verkkokauppa.com's expansion has, in our view, boosted the online penetration. Cross-border purchases are not rare as Central-European online stores provide cheaper prices and wider assortments. The competition varies between sub-categories because some sub-categories have a very limited number of retailers in local markets. In our understanding, Verkkokauppa.com is a market leader in some sub-categories, such as tennis rackets and e-bicycles.

Verkkokauppa.com holds a solid position in the Toys market

*Toys:* The market lacks original toy stores as BR's and Toys R Us' parent company Top-Toy filed for bankruptcy in late 2018. In 2022, we see that the market is controlled by Verkkokauppa.com and the largest department stores (S-Group, Kesko, and Tokmanni). The trade has usually taken place in the brick-and-mortar, although the product fits suitably online. We see significant potential in the Toys category, not to mention that Verkkokauppa.com's current market share is strong. In our view, the competition is moderate and Verkkokauppa.com is most likely to benefit from the online transition first.

In our view, the competition in the Pet supply market is tight

*Pet supply:* The market is quite centralized and dominated by single-player, Musti Group, which has multiple brands in Nordics. In Finland, Musti operates under Musti & Mirri and Peten koiratarvike brands with an omnichannel business model. In our calculations, Musti holds ~40% market share from the total pet supply market. In addition, pet supplies are also delivered through standard department stores (S-Group, Kesko, Tokmanni) and smaller specialized pet supply stores with marginal market share. During recent years, the German online store Zooplus has expanded to Nordics with local language webstores. We see Zooplus as Verkkokauppa.com's main competitor as it operates fully online with a price-driven business model. Competing against the market-dominant and strong online player may make Verkkokauppa.com tighten its margins in order to gain some market share. Thus, we see the competition tight.

We expect Kid & Baby supply market's online penetration to increase significantly

*Kid & Baby supply:* The market is very fragmented with small, specialized retailers and department stores (S-Group, Kesko, Tokmanni, Kärkkäinen). The online penetration is, in our understanding, marginal. Alongside Verkkokauppa.com, Nordic webstore Jollyroom is accelerating the online transition with EUR 20m<sup>4</sup> revenue generated in Finland. We consider Verkkokauppa.com's online potential to be significant as online shopping millennials start to become parents. At the moment, we see the online demand to be finite but the competition to be neutral.

Cross-selling opportunities in Bags & Travel

*Bags & Travel:* The market is quite fragmented with small brick-and-mortar retailers as well as large global e-retailers. We see the market's competition tight-ish due to the fact that global and Nordic fashion e-retailers have a wide selection of bags in their assortment. For example, Zalando's brand is well-known in Finland and the company is 3<sup>rd</sup> largest player in terms of online sales of commercial goods, right after Verkkokauppa.com and Gigantti. However, we see the category complementing some CE products (laptop + briefcase) providing Verkkokauppa.com a cross-selling opportunity.

Finland's widest assortment in the Music market

*Music:* According to the company's management, Verkkokauppa.com has one of the widest musical instrument assortments in Finland and the online competition is rare. The market is fragmented, and musical instruments are sold typically in specialized brick-and-mortar stores. We see the online penetration low, but the company is efficiently moving the demand online.

## Amazon

Amazon had 12m SKUs in its webstore and 350m listing in its marketplace

During the recent decade, Amazon has expanded its e-commerce model worldwide and has been developing one of the leading online stores in several western countries. Amazon's business model enables highly scalable growth and light usage of capital. Alongside its online store with over 12m SKUs, Amazon also offers an online platform and fulfillment for 3<sup>rd</sup> party sellers. At the end of 2020, almost 350m products were listed on Amazon's third-party marketplace.

Amazon's competitive threat is approaching

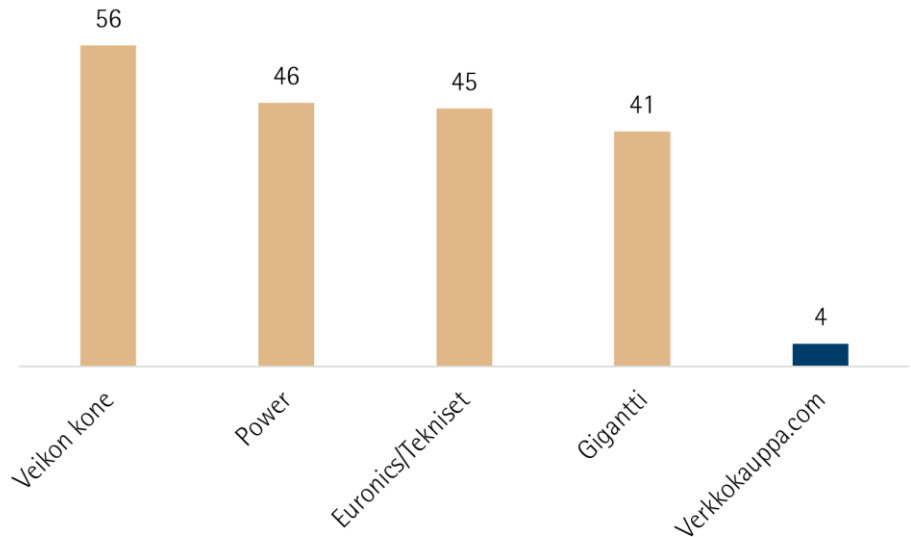
In late 2020, Amazon opened its first Nordic webstore and warehouse in Sweden. Despite the Nordic expansion, Amazon has already been present a while with its Central-Europe webstores and fulfillment centers. In our understanding, Germany's and United Kingdom's webstores deliver orders to Finland while the Swedish site won't, but there have been some rumors that the Finnish online store is going to be opened during 2022 with help of the fulfillment center in Sweden. However, we see the company first expanding to other Scandinavian countries before Finland. In our view, to cause a significant competitive threat to Verkkokauppa.com, it would require Amazon's direct presence in Finland (Finnish online store and local fulfillment).

We see the arrival of Amazon as a long-term threat, but also believe Verkkokauppa.com's ability to grow during the presence of local Amazon. As long as Verkkokauppa.com further accelerates the online transition and establishes its presence in the evolving categories, will it strengthen its competitive position against Amazon.

<sup>4</sup> *ecommerceDB:* <https://ecommercedb.com/en/store/jollyroom.fi>

**Development of main competitors**

Figure 25: Number of stores in Finland (12/2021)



Source: Companies' data, Evli Research

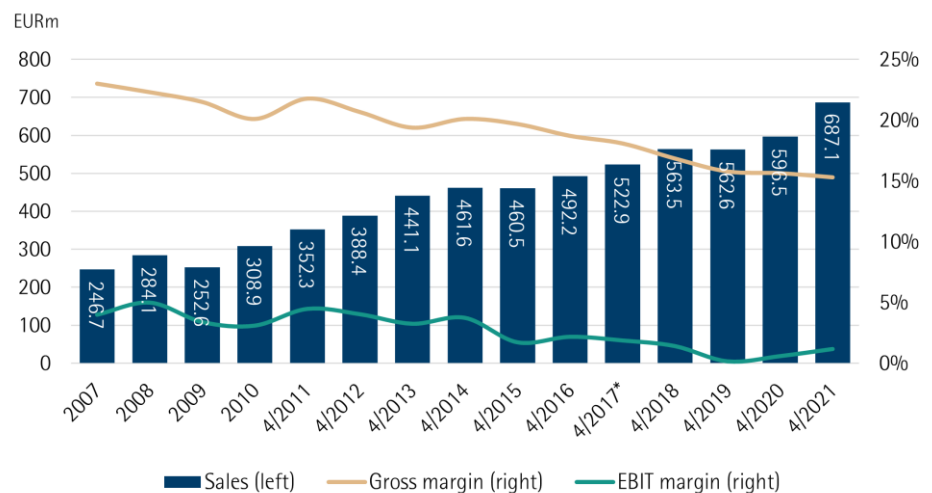
Gigantti is the leader of the Finnish CE market

**Gigantti** is the leader of the Finnish consumer electronics market with a revenue of EUR 687.1m. The company is part of Elkjop Group which operates in Norway, Sweden, Finland, and Denmark. Elkjop is owned by Currys Plc (formerly Dixon's Carphone Plc), which is listed on London Stock Exchange. Gigantti's competitive advantage is largely based on its large-scale, centralized purchasing and logistics by Elkjop.

Centralized purchases support Gigantti's margins

Gigantti has had a higher gross margin than Verkkokauppa.com, supported by centralized purchases by Elkjop (i.e., higher volume) as well as a higher share of services in the sales mix, but its gross margin has been in the trend of decline in recent years as an outcome of fierce and price-driven competition. Gigantti has an extensive network of 41 stores located in or near the largest cities of Finland.

Figure 26: Financial figures of Gigantti (deviant fiscal year) in EURm



Source: Asiakastiето, Reuters, Kauppalehti, Evli Research  
 \*2017 EBIT adjusted for positive EUR 13m one-off



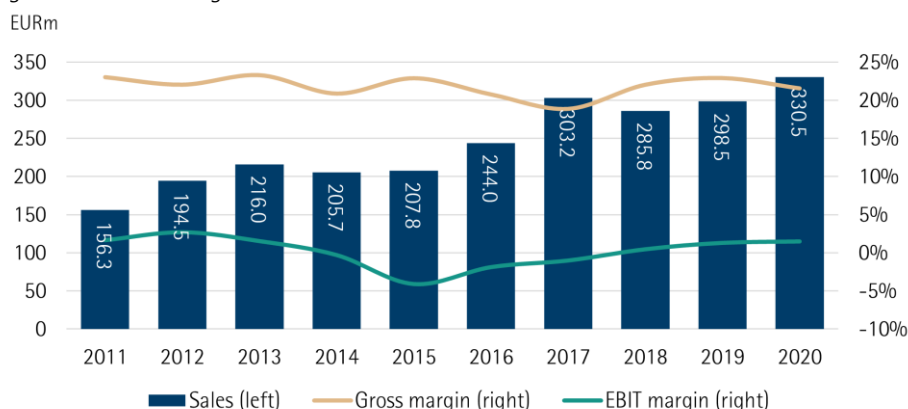
Power is 3<sup>rd</sup> largest in the Finnish CE market

**Power Finland** holds 3<sup>rd</sup> place in the Finnish consumer electronics market after Verkkokauppa.com with net sales of EUR 330.5m in 2020. Currently, there are 46 Power stores in Finland. Re-branding (from Expert to Power) and store openings have burdened Power Finland's profitability, but the company was able to reach black figures in 2018-2019 and the profitability has improved since to 1.5% EBIT margin.

Power also utilizes centralized purchases

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 ~1.4bn vs. Elkjop some EUR ~4.9bn in 2020.

Figure 27: Financial figures of Power in EURm

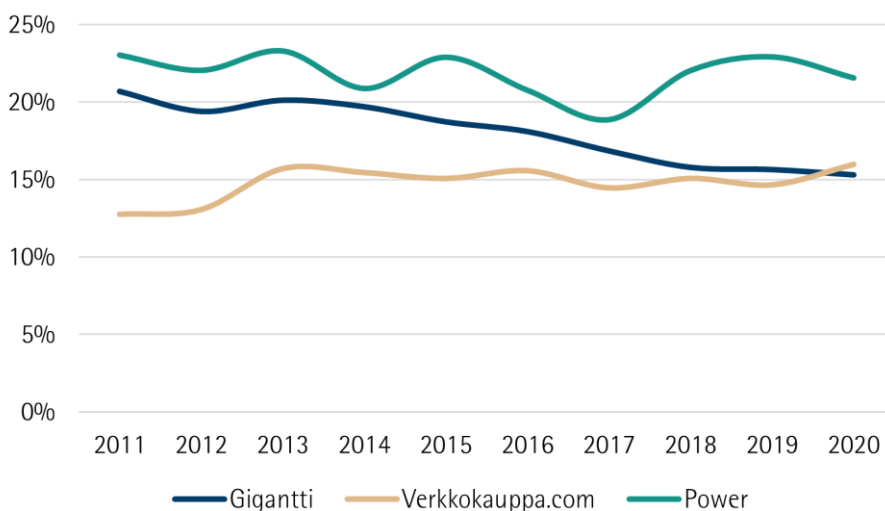


Source: Asiakastiето, Reuters, Kauppalehti, Evli Research

Verkkokauppa.com passed Power in terms of gross margin

With their centralized purchases and logistics, Gigantti and Power have had wider margins in the past. In 2020, Verkkokauppa.com surpassed Power in the level of gross margin, and by increasing the share of higher-margin products, Verkkokauppa.com has the capabilities to pursue the levels of Gigantti is currently generating.

Figure 28: Gross margins of the three largest players in the Finnish CE market

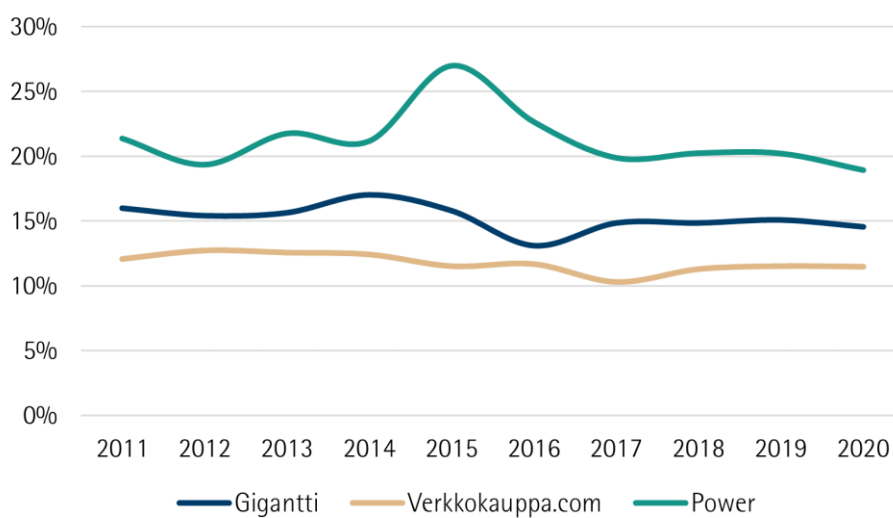


Source: Asiakastiето, Reuters, Verkkokauppa.com, Evli Research

Verkkokauppa.com has an advantage in the fixed costs

By low store-count and efficient in-house processes, Verkkokauppa.com runs the business with lower relative fixed costs than its main peers. Power's fixed costs are approx. 19% of net sales while Verkkokauppa.com wrote 11.5% of its net sales to personnel and other operating expenses. Gigantti is in between Power and Verkkokauppa.com, with ~15% relative fixed costs. In our view, Power's stronger growth investments (i.e., marketing) increase its fixed costs clearly above Gigantti and Verkkokauppa.com.

Figure 29: Development of fixed costs (as % of net sales)

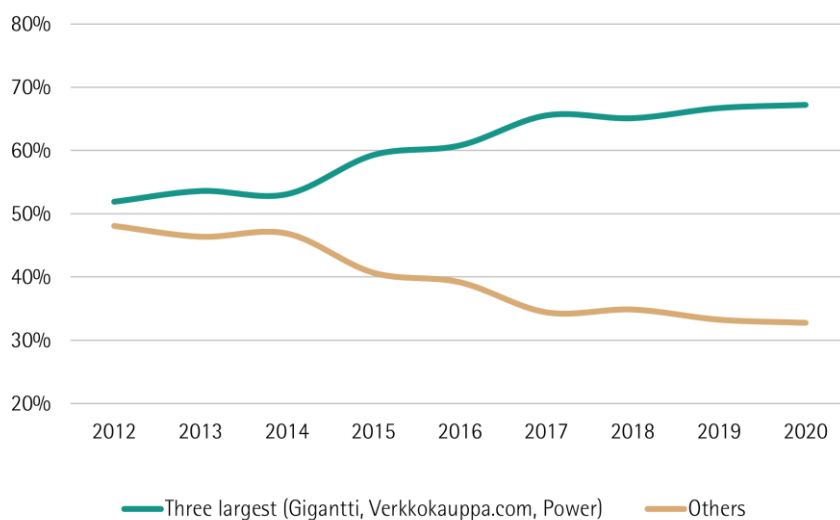


Source: Asiakastiето, Reuters, Verkkokauppa.com, Evli Research

70% of the market is controlled by the three largest players

The rate of consolidation has been up during the last decades and the market is now controlled by the three largest players, Gigantti, Verkkokauppa.com, and Power. In our calculations, the three largest players dominate the market with almost 70% market share. According to the company's management, Verkkokauppa.com's market share in CE was 16% in 2020.

Figure 30: Market share development in consumer electronics



Source: Kehittyvä kauppa, GfK, Asiakastiето

## Estimates and valuation

### Guidance

The company guides its FY 2022 as follows:

- Net sales to be between EUR 590-640m
- EBIT to be between EUR 19-25m

### Estimates

Back to solid growth

After soft year of 2021, we still expect the company's core categories to suffer from a weak market condition, and increased consumption of services to decline the demand for commercial goods. However, in our estimates, Verkkokauppa.com's topline will show solid growth rates during H2'2022 and pushing 2022 full year growth to 6.2%. Driven by revenue growth and efficiency investments, we expect Verkkokauppa.com's business to scale. With scalability and profitability improvement, also bottomline sees a strong ~18% p.a. growth during 2022-24.

H1'22 will be weak, but strategic business areas support topline to grow by 6.2%

Due to weak market condition of Finnish consumer electronics market, the company's revenue declines by 0.3% y/y in Q1'22, totaling EUR 133.6m. We expect the consumer electronics market to brighten during H2'22 supporting Verkkokauppa.com's topline to show solid growth figures in H2'22. Driven by increased share of evolving categories, online transition and strong B2B development, we expect Verkkokauppa.com to see a 2022 topline growth of 6.2% y/y, amounting to EUR 610m. In 2023-24, we estimate Verkkokauppa.com to grow from comparison period by 8.2% and 8% respectively. We don't expect the war to have a significant impact on the demand for Verkkokauppa.com's products. According to Nordea's credit card data, demand for commercial goods is stayed relatively flat during first weeks of the crisis.

Gross margin lacks due to component shortage

In 2022, we estimate gross margin to stay flat at 15.9% due to increased material and transportation costs. Relative growth of evolving categories and increased number of own brands will improve 23E gross margin to 16.2%. According to multiple component suppliers and purchasers, weak visibility to electronic component availability continues. It is hard to estimate how long component shortage lasts and its magnitude on the material costs.

Earnings in the trend of strong growth during 2023-24

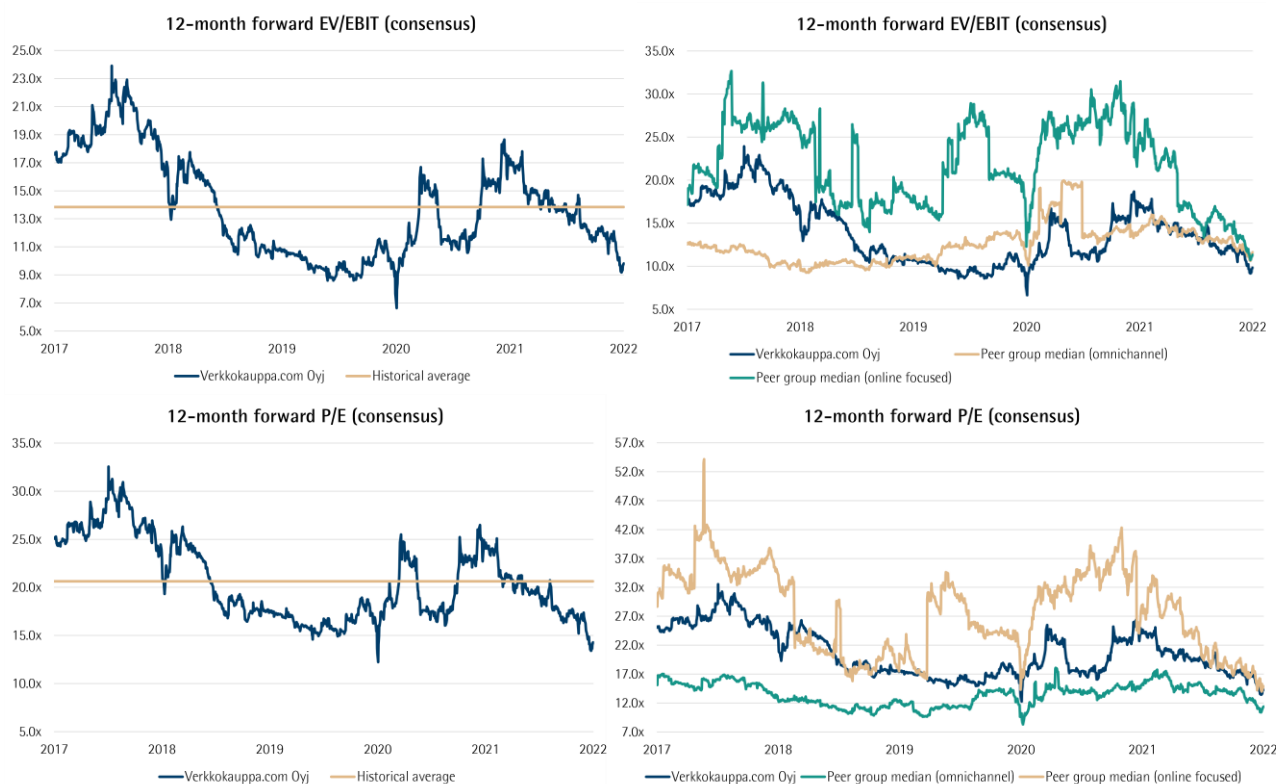
Investments to efficiency start to kick in during second half of 2022 as, on one hand, the utilization rate of Jätkäsaari automated warehouse increases and, on the other hand, the capacity in Vantaa's rental warehouse decreases. We expect a 22E EBIT of EUR 22.3m, reflecting a 3.7% margin. During 2023-24, enhanced efficiency and increased net sales improve the EBIT margin to 4.1% and 4.4% respectively. As an outcome of operating profit improvement, our earnings per share estimates will also improve during 2022-24. In 2022, our EPS estimate amounts to EUR 0.37 while 23-24E EPS see some stronger ~20% y/y growth. In our estimates, 23-24E EPS amount to EUR 0.45 and 0.55 respectively.

5-6% dividend yield gives solid foundation for expected return

In 2022-24, we expect Verkkokauppa.com to distribute 55-71% of its net income to shareholders as dividends. In 2022, we estimate Verkkokauppa.com to distribute a dividend of EUR 0.27 per share. Our 23-24E DPS estimates amount to EUR 0.28 and 0.30 respectively. With our DPS estimates dividend yield approximates to 5-6% during 2022-24, providing a solid contribution to expected return.

Valuation

Figure 31: Historical consensus valuations



Source: FactSet, Evli Research

Verkkokauppa.com trades between online-focused and omnichannel peer groups

Reflecting on history, Verkkokauppa.com has been valued below its online-focused peer group and above its omnichannel peer group. On average, Verkkokauppa.com has been trading at a P/E multiple of 20x during 2017-22, while now it stands clearly below the average at 15x (12-month forward). In our view, it's justified to accept Verkkokauppa.com valuation multiples above omnichannel but below online-focused peer group median, given its strong online position, but taking also into account that 40% of its revenue comes from brick-and-mortar. In addition, omnichannel peer group tends to have quite moderate growth rates in terms of sales and earnings, while online-focused peer group faces slightly higher growth rates than Verkkokauppa.com.

Multiple factors drove the decline in valuation

Recent decline in Verkkokauppa.com's valuation can be explained by four different factors: market performance, company's performance, decrease in general valuation levels, and geopolitical uncertainties. Consumer electronics market turned soft during 2021 which had a direct impact on the company's performance. General valuation levels rose after the COVID-19 crash of which impact on stock markets was smaller than expected. Retailers benefited from the increased consumption of commercial goods whereas service consumption was minimized due to restrictions. Online players gained market share since consumers increased their online shopping. Restrictions have been gradually removed and part of the consumption has shifted back to services and demand for commercial goods has weakened from H2'21 to date. Interest rate raises also tend to have a negative relationship with stock market valuation levels. The present value of cash flows decreases when interest rates increase and, at the same time, some investors shift back to bonds as they start to yield. First interest rate raises already started in the USA and ECB is expected to start raising rates during 2022. The war between Russia and Ukraine has further decreased the valuation levels, and as long as the tense geopolitical

situation continues, we expect multiples to remain relatively low. If the war and sanctions prolong far, they might have a negative long-lasting impact on global economy or at least European economies. Recessions typically lower consumer demand and thus impact Verkkokauppa.com's business outcomes.

Trades with a premium to its omnichannel peer group median

Nordic omnichannel retail peer group is valued with a 22-23E P/E multiple of 12-11x while Verkkokauppa.com is trading with a respective multiple of 15-12x, reflecting a premium to its peer median. We find the premium justified for Verkkokauppa.com since, with our estimates, the company sees a strong EPS growth and, with the current share price, the stock offers a solid dividend yield of ~5% p.a.

Long-term investment case attractive, short-term includes uncertainty

With strong earnings growth expectations and solid dividend yield during 2023-25, we see great long-term potential in Verkkokauppa.com's stock performance. With a fair value of EUR 9.9 per share, our DCF model also indicates long-term value creation. On the other hand, DCF is sensitive to assumptions and Verkkokauppa.com has long been undervalued against our DCF model. Inflation and the war between Russia and Ukraine have increased the uncertainty in the stock markets and valuation multiples both in omnichannel and online-focused peer groups have been in a trend of decline alongside Verkkokauppa.com. The uncertainty keeps us cautious considering short-term investment case and thus we find no need for rush.

HOLD with a TP of EUR 6.0 (6.5)

In contrast, considering historical valuation levels, Verkkokauppa.com's current valuation is quite attractive, given solid earnings growth and dividend yield. However, driven by a tense geopolitical situation and uncertainty, the acceptable valuation multiples have declined comprehensively. With our new target price, Verkkokauppa.com is trading with a 22E P/E multiple of 16x, reflecting a premium to its omnichannel peer group multiples. With the uncertainty restricting future visibility and decreased peer valuation multiples, we retain our HOLD rating and adjust our target price to EUR 6.0 (6.5).

Figure 32: Peer group valuation

VERKKOKAUPPA.COM PEER GROUP	EV/Sales			EV/EBITDA			EV/EBIT			Sales CAGR	EPS CAGR
	22	23	24	22	23	24	22	23	24	21-24	21-24
<b>Online-focused Nordic and European peers</b>											
ASOS plc	0.3x	0.3x	0.2x	5.4x	4.1x	3.2x	12.0x	8.5x	6.0x	13.8 %	4.7 %
BHG Group AB	0.9x	0.8x	0.6x	10.6x	8.6x	7.1x	14.8x	11.6x	9.4x	14.4 %	18.7 %
Boozt AB	1.1x	0.9x	0.8x	13.3x	10.9x	8.7x	20.8x	16.5x	12.7x	20.0 %	21.7 %
Delticom AG	0.2x	0.2x		4.3x	3.3x		5.8x	4.6x		2.3 %	53.5 %
Dustin Group AB	0.6x	0.5x	0.5x	10.1x	8.8x	8.0x	13.3x	11.3x	10.2x	16.2 %	13.4 %
Groupe LDLC SA	0.2x	0.2x		2.7x	2.0x		3.7x	2.6x		2.7 %	7.2 %
Zalando SE	1.0x	0.8x	0.7x	16.5x	12.6x	9.9x	28.3x	20.3x	14.9x	16.4 %	28.7 %
<b>Omnichannel retail Nordic and European peers</b>											
CECONOMY AG	0.1x	0.1x	0.1x	2.5x	2.0x	2.1x	6.9x	4.7x	5.1x	1.6 %	23.8 %
Clas Ohlson AB Class B	0.8x	0.8x		5.3x	5.2x		11.5x	11.0x		2.8 %	2.0 %
Currys PLC	0.2x	0.2x		3.6x	3.2x		7.9x	6.6x		-1.0 %	21.8 %
ICA Gruppen AB										2.5 %	-0.5 %
Kesko Oyj Class B	1.0x	1.0x	1.0x	9.9x	9.9x	9.6x	16.8x	16.8x	16.3x	1.7 %	-2.1 %
Kjell Group AB	0.8x	0.7x	0.6x	5.8x	5.2x	4.3x	11.1x	9.5x	7.7x	7.0 %	8.4 %
Musti Group Oyj	2.4x	2.1x	1.9x	13.1x	10.9x	9.6x	23.4x	18.1x	15.1x	6.8 %	14.4 %
Puuiilo Oyj	2.3x	2.0x		10.6x	9.3x		13.2x	11.5x		6.7 %	6.7 %
Tokmanni Group Oyj	1.1x	1.1x	1.0x	7.5x	7.0x	6.4x	12.3x	11.3x	10.1x	5.3 %	6.6 %
Unieuro SpA	0.2x	0.2x		3.9x	3.7x		9.6x	8.8x		-0.4 %	0.4 %
XXL ASA	0.6x	0.6x	0.4x	4.5x	4.3x	2.8x	12.8x	10.6x	6.6x	5.0 %	32.0 %
<b>Large international e-commerce peers</b>											
Alibaba Group Holding Ltd Sponsored ADR	1.4x	1.2x	0.8x	7.7x	5.9x	4.4x	14.6x	10.3x	7.0x	13.5 %	11.9 %
Amazon.com, Inc.	3.1x	2.6x	2.2x	20.4x	15.5x	11.7x	53.1x	34.5x	22.1x	17.2 %	20.3 %
eBay Inc.	3.7x	3.5x	3.2x	10.4x	9.8x	9.1x	12.0x	11.1x	10.0x	3.6 %	9.9 %
JD.com, Inc. Sponsored ADR Class A	0.5x	0.4x	0.3x	22.4x	14.0x	9.1x	45.5x	22.2x	13.1x	17.9 %	32.3 %
<b>Online-focused Nordic and European peers</b>	0.6x	0.5x	0.6x	10.1x	8.6x	8.0x	13.3x	11.3x	10.2x	14.4 %	18.7 %
<b>Omnichannel retail Nordic and European peers</b>	0.8x	0.8x	0.8x	5.6x	5.2x	5.3x	11.9x	10.8x	8.9x	2.8 %	6.7 %
<b>Large international e-commerce peers</b>	2.2x	1.9x	1.5x	15.4x	11.9x	9.1x	30.1x	16.7x	11.6x	15.4 %	16.1 %
<b>Verkkokauppa.com (Evli est.)</b>	0.4x	0.3x	0.3x	8.1x	6.6x	5.4x	10.1x	8.0x	6.4x	7.4 %	17.7 %
<i>Verkkokauppa.com vs. Online-focused Nordic and European peers median</i>	-35%	-38%	-56%	-20%	-24%	-32%	-24%	-30%	-37%		
<i>Verkkokauppa.com vs. Omnichannel retail Nordic and European peers median</i>	-55%	-57%	-64%	46%	27%	1%	-15%	-26%	-28%		
VERKKOKAUPPA.COM PEER GROUP	P/E			EBIT-%			Div-%			ROE	P/B
	22	23	24	22	23	24	22	23	24	22	22
<b>Online-focused Nordic and European peers</b>											
ASOS plc	21.3x	15.6x	12.0x	2.9%	3.4%	3.8%	0.0%	0.0%	0.0%	7.4%	1.6x
BHG Group AB	15.0x	11.5x	10.1x	6.0%	6.5%	6.8%	0.0%	0.0%	0.0%	10.6%	1.6x
Boozt AB	28.9x	23.1x	18.7x	5.5%	5.7%	6.2%	0.0%	0.0%	0.1%	12.1%	3.5x
Delticom AG	4.8x	4.6x		4.3%	4.3%		0.0%	0.0%		34.6%	1.7x
Dustin Group AB	12.6x	11.0x	10.1x	4.3%	4.6%	4.8%	4.4%	5.6%	6.2%	15.0%	1.9x
Groupe LDLC SA	6.7x	5.6x		5.7%	6.4%		6.4%	7.2%		23.7%	1.6x
Zalando SE	51.8x	36.0x	26.9x	3.5%	4.1%	4.7%	0.0%	0.0%	0.1%	10.4%	5.4x
<b>Omnichannel retail Nordic and European peers</b>											
CECONOMY AG	7.2x	5.7x	5.0x	1.8%	2.2%	2.3%	4.5%	5.7%	6.5%	21.7%	1.6x
Clas Ohlson AB Class B	13.7x	13.3x		7.4%	7.5%		6.3%	6.4%		24.7%	3.4x
Currys PLC	6.8x	5.8x		3.0%	3.3%		4.4%	5.0%		5.4%	0.4x
ICA Gruppen AB				4.5%	4.5%					11.3%	
Kesko Oyj Class B	19.5x	19.8x	19.0x	6.2%	6.1%	6.2%	4.0%	4.0%	4.4%	19.2%	3.8x
Kjell Group AB	10.6x	9.4x	8.3x	7.2%	7.3%	7.5%	5.7%	6.5%	7.5%	15.0%	1.6x
Musti Group Oyj	28.5x	22.5x	19.0x	10.3%	11.7%	12.5%	2.5%	3.4%	4.0%	17.6%	5.0x
Puuiilo Oyj	15.2x	13.5x	12.6x	17.4%	17.6%	18.1%	5.4%	6.1%	6.4%	49.8%	7.6x
Tokmanni Group Oyj	12.9x	11.7x	10.8x	9.0%	9.3%	9.5%	5.8%	6.1%	6.5%	29.2%	3.8x
Unieuro SpA	7.3x	6.9x		2.4%	2.5%		6.2%	6.7%		28.9%	2.1x
XXL ASA	10.9x	7.8x	6.8x	4.4%	5.4%	5.8%	4.5%	5.6%	6.7%	7.1%	0.8x
<b>Large international e-commerce peers</b>											
Alibaba Group Holding Ltd Sponsored ADR	13.3x	11.7x	10.5x	9.9%	11.3%	11.4%	0.0%	0.0%		12.2%	1.6x
Amazon.com, Inc.	67.7x	45.4x	30.3x	5.8%	7.4%	9.9%	0.0%	0.0%	0.0%	14.0%	9.5x
eBay Inc.	12.8x	11.6x	10.5x	30.8%	31.4%	32.0%	1.5%	1.4%	1.4%	29.7%	3.8x
JD.com, Inc. Sponsored ADR Class A	33.3x	21.9x	16.4x	1.0%	1.6%	2.2%	0.0%	0.0%	0.0%	8.1%	2.7x
<b>Online-focused Nordic and European peers</b>	15.0x	11.5x	12.0x	4.3%	4.6%	4.8%	0.0%	0.0%	0.1%	12.1%	1.7x
<b>Omnichannel retail Nordic and European peers</b>	11.9x	10.5x	10.8x	6.2%	6.1%	7.5%	4.9%	5.9%	6.5%	19.2%	2.7x
<b>Large international e-commerce peers</b>	23.3x	16.8x	13.5x	7.8%	9.4%	10.6%	0.0%	0.0%	0.0%	13.1%	3.2x
<b>Verkkokauppa.com (Evli est.)</b>	15.0x	12.4x	10.2x	3.7 %	4.1 %	4.4 %	4.7%	5.0%	5.4%	43.3%	6.1x
<i>Verkkokauppa.com vs. Online-focused Nordic and European peers median</i>	0%	8%	-15%								265%
<i>Verkkokauppa.com vs. Omnichannel retail Nordic and European peers median</i>	27%	17%	-5%								121%

Source: FactSet, Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	5.65 PV of Free Cash Flow	211 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	9.90 PV of Horizon value	231 WACC, %	8.4 Market risk premium, %	5.8
Share price potential, %	75.1 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	10.7 Marketable securities	21 Minimum WACC, %	7.9 Equity beta coefficient	1.10
Minimum value	9.2 Debt - dividend	-20 Maximum WACC, %	8.9 Target debt ratio, %	20
Horizon value, %	52.3 Value of stock	443 Nr of shares, Mn	44.7 Effective tax rate, %	26

DCF valuation, EURm	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Horizon
Net sales	574	610	660	712	734	748	763	779	794	810	826	843
<i>Sales growth, %</i>	<i>3.8</i>	<i>6.2</i>	<i>8.2</i>	<i>8.0</i>	<i>3.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	20	22	27	31	33	34	34	35	36	36	37	38
<i>Operating income margin, %</i>	<i>3.5</i>	<i>3.7</i>	<i>4.1</i>	<i>4.4</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>
+ Depreciation+amort.	5	5	6	6	6	5	5	5	5	5	5	5
EBITDA	25	28	33	37	39	39	40	40	41	42	42	
- Paid taxes	-4	-4	-5	-6	-7	-7	-7	-7	-7	-7	-7	-7
- Change in NWC	-14	17	2	1	0	0	0	0	0	0	0	0
<i>NWC / Sales, %</i>	<i>1.3</i>	<i>-1.5</i>	<i>-1.7</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.9</i>
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	0
- Operative CAPEX	-5	-2	-2	-2	-2	-2	-2	-2	-3	-3	-4	
<i>opCAPEX / Sales, %</i>	<i>1.3</i>	<i>1.0</i>	<i>0.9</i>	<i>0.7</i>	<i>0.7</i>	<i>0.6</i>	<i>0.6</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>0.8</i>
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	0
- Other items	0	0	0	0	0	0	0	0	0	0	0	0
= FCFF	3	38	28	30	30	31	31	31	31	32	32	508
= Discounted FCFF		35	24	24	22	21	19	18	17	16	14	231
= DFCF min WACC		35	24	24	23	21	20	19	17	16	15	262
= DFCF max WACC		35	24	24	22	20	19	17	16	15	14	205

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022Q1E	2022Q2E	2022Q3E	2022Q4E	2022E	2023E	2024E
Net sales	134.0	130.5	141.0	168.9	574.5	133.6	133.5	152.5	190.4	610.0	659.7	712.4
EBITDA	6.5	6.3	5.8	6.6	25.2	5.1	5.2	7.9	9.4	27.6	32.6	37.1
<i>EBITDA margin (%)</i>	<i>4.9</i>	<i>4.8</i>	<i>4.1</i>	<i>3.9</i>	<i>4.4</i>	<i>3.8</i>	<i>3.9</i>	<i>5.2</i>	<i>4.9</i>	<i>4.5</i>	<i>4.9</i>	<i>5.2</i>
EBIT	5.2	5.1	4.7	5.3	20.3	3.9	3.9	6.5	8.1	22.3	26.8	31.3
<i>EBIT margin (%)</i>	<i>3.9</i>	<i>3.9</i>	<i>3.3</i>	<i>3.2</i>	<i>3.5</i>	<i>2.9</i>	<i>2.9</i>	<i>4.3</i>	<i>4.2</i>	<i>3.7</i>	<i>4.1</i>	<i>4.4</i>
Net financial items	-0.3	-0.4	-0.3	-0.3	-1.4	-0.4	-0.4	-0.4	-0.4	-1.5	-1.5	-0.6
Pre-tax profit	4.9	4.7	4.3	5.0	18.9	3.5	3.5	6.1	7.7	20.8	25.3	30.7
Tax	-1.0	-1.0	-0.9	-1.0	-3.9	-0.7	-0.7	-1.2	-1.5	-4.2	-5.1	-6.1
<i>Tax rate (%)</i>	<i>20.4</i>	<i>21.3</i>	<i>20.0</i>	<i>20.1</i>	<i>20.5</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	3.9	3.7	3.5	4.0	15.1	2.8	2.8	4.9	6.2	16.7	20.3	24.5
EPS	0.09	0.08	0.08	0.09	0.34	0.06	0.06	0.11	0.14	0.37	0.45	0.55
EPS adjusted (diluted no. of shares)	0.09	0.08	0.08	0.09	0.34	0.06	0.06	0.11	0.14	0.37	0.45	0.55
Dividend per share	0.00	0.00	0.00	0.00	0.25	0.00	0.00	0.00	0.00	0.27	0.28	0.30
<b>SALES, EURm</b>												
Verkkokauppa.com	134.0	130.5	141.0	168.9	574.5	133.6	133.5	152.5	190.4	610.0	659.7	712.4
Total	134.0	130.5	141.0	168.9	574.5	133.6	133.5	152.5	190.4	610.0	659.7	712.4
<b>SALES GROWTH, Y/Y %</b>												
Verkkokauppa.com	<i>7.0</i>	<i>6.1</i>	<i>9.1</i>	<i>-4.0</i>	<i>3.8</i>	<i>-0.3</i>	<i>2.3</i>	<i>8.1</i>	<i>12.7</i>	<i>6.2</i>	<i>8.2</i>	<i>8.0</i>
Total	<i>7.0</i>	<i>6.1</i>	<i>9.1</i>	<i>-4.0</i>	<i>3.8</i>	<i>-0.3</i>	<i>2.3</i>	<i>8.1</i>	<i>12.7</i>	<i>6.2</i>	<i>8.2</i>	<i>8.0</i>
<b>EBIT, EURm</b>												
Verkkokauppa.com	5.2	5.1	4.7	5.3	20.3	3.9	3.9	6.5	8.1	22.3	26.8	31.3
Total	5.2	5.1	4.7	5.3	20.3	3.9	3.9	6.5	8.1	22.3	26.8	31.3
<b>EBIT margin, %</b>												
Verkkokauppa.com	<i>3.9</i>	<i>3.9</i>	<i>3.3</i>	<i>3.2</i>	<i>3.5</i>	<i>2.9</i>	<i>2.9</i>	<i>4.3</i>	<i>4.2</i>	<i>3.7</i>	<i>4.1</i>	<i>4.4</i>
Total	<i>3.9</i>	<i>3.9</i>	<i>3.3</i>	<i>3.2</i>	<i>3.5</i>	<i>2.9</i>	<i>2.9</i>	<i>4.3</i>	<i>4.2</i>	<i>3.7</i>	<i>4.1</i>	<i>4.4</i>



INCOME STATEMENT, EURm	2017	2018	2019	2020	2021	2022E	2023E	2024E
Sales	431.9	477.8	504.1	553.6	574.5	610.0	659.7	712.4
<i>Sales growth (%)</i>	<i>16.3</i>	<i>10.6</i>	<i>5.5</i>	<i>9.8</i>	<i>3.8</i>	<i>6.2</i>	<i>8.2</i>	<i>8.0</i>
EBITDA	18.0	18.4	16.2	25.4	25.2	27.6	32.6	37.1
<i>EBITDA margin (%)</i>	<i>4.2</i>	<i>3.9</i>	<i>3.2</i>	<i>4.6</i>	<i>4.4</i>	<i>4.5</i>	<i>4.9</i>	<i>5.2</i>
Depreciation	-4.6	-5.1	-4.9	-5.0	-5.0	-5.3	-5.8	-5.8
EBITA	13.5	13.3	11.3	20.4	20.3	22.3	26.8	31.3
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	13.5	13.3	11.3	20.4	20.3	22.3	26.8	31.3
<i>EBIT margin (%)</i>	<i>3.1</i>	<i>2.8</i>	<i>2.2</i>	<i>3.7</i>	<i>3.5</i>	<i>3.7</i>	<i>4.1</i>	<i>4.4</i>
Reported EBIT	13.5	13.3	11.3	19.6	20.3	22.3	26.8	31.3
<i>EBIT margin (reported) (%)</i>	<i>3.1</i>	<i>2.8</i>	<i>2.2</i>	<i>3.5</i>	<i>3.5</i>	<i>3.7</i>	<i>4.1</i>	<i>4.4</i>
Net financials	-1.6	-1.7	-1.5	-1.4	-1.4	-1.5	-1.5	-0.6
Pre-tax profit	11.8	11.7	9.8	19.0	18.9	20.8	25.3	30.7
Taxes	-2.4	-2.3	-1.9	-3.5	-3.9	-4.2	-5.1	-6.1
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	9.4	9.3	7.8	14.7	15.1	16.7	20.3	24.5
Cash NRIs	0.0	0.0	0.0	-0.8	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
<b>Assets</b>								
Fixed assets	5	5	4	4	7	9	9	10
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	25	22	19	17	16	15	15	14
Inventory	47	66	67	75	88	82	87	94
Receivables	20	27	27	33	35	37	40	43
Liquid funds	52	47	42	43	21	41	52	65
Total assets	149	168	160	174	169	186	204	226
<b>Liabilities</b>								
Shareholder's equity	37	38	37	41	36	41	50	62
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	29	26	23	22	20	15	15	14
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	0	0	0	0	0	0	0	0
Non-interest bearing current liabilities	82	103	100	110	116	128	139	150
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	149	168	160	174	172	186	204	226
<b>CASH FLOW, EURm</b>								
+ EBITDA	18	18	16	25	25	28	33	37
- Net financial items	-2	-2	-1	-1	-1	-1	-1	-1
- Taxes	-4	-3	-2	-2	-4	-4	-5	-6
- Increase in Net Working Capital	10	-5	-3	-5	-14	17	2	1
+/- Other	0	0	1	0	0	0	0	0
= Cash flow from operations	23	9	10	17	7	39	28	32
- Capex	-2	-2	-2	-4	-8	-6	-6	-5
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	21	6	8	13	-1	32	22	27
+/- New issues/buybacks	-4	0	0	-1	0	0	0	0
- Paid dividend	-7	-8	-9	-10	-20	-11	-12	-13
+/- Other	0	-3	-3	-2	-1	-1	0	-1
Change in cash	10	-5	-4	1	-22	20	10	13

KEY FIGURES	2018	2019	2020	2021	2022E	2023E	2024E
M-cap	185	159	320	319	253	253	253
Net debt (excl. convertibles)	-20	-19	-21	-1	-26	-36	-51
Enterprise value	164	140	299	318	227	216	202
Sales	478	504	554	574	610	660	712
EBITDA	18	16	25	25	28	33	37
EBIT	13	11	20	20	22	27	31
Pre-tax	12	10	19	19	21	25	31
Earnings	9	8	15	15	17	20	25
Equity book value (excl. minorities)	38	37	41	36	41	50	62
<b>Valuation multiples</b>							
EV/sales	0.3	0.3	0.5	0.6	0.4	0.3	0.3
EV/EBITDA	8.9	8.7	11.8	12.6	8.2	6.6	5.4
EV/EBITA	12.3	12.4	14.6	15.7	10.2	8.1	6.5
EV/EBIT	12.3	12.4	14.6	15.7	10.2	8.1	6.5
EV/OCF	18.5	14.4	17.7	47.7	5.9	7.6	6.4
EV/FCFF	18.6	14.4	18.8	110.0	6.0	7.8	6.7
P/FCFE	28.7	20.6	24.9	-329.2	7.8	11.3	9.4
P/E	19.8	20.4	20.7	21.2	15.2	12.5	10.3
P/B	4.9	4.4	7.9	8.9	6.1	5.1	4.1
Target EV/EBITDA	0.0	0.0	0.0	0.0	8.8	7.1	5.9
Target EV/EBIT	0.0	0.0	0.0	0.0	10.9	8.6	7.0
Target EV/FCF	0.0	0.0	0.0	0.0	7.5	10.4	8.1
Target P/B	0.0	0.0	0.0	0.0	6.5	5.4	4.3
Target P/E	0.0	0.0	0.0	0.0	16.1	13.3	10.9
<b>Per share measures</b>							
Number of shares	45,065	45,065	44,907	44,742	44,742	44,742	44,742
Number of shares (diluted)	45,065	45,065	44,907	44,742	44,742	44,742	44,742
EPS	0.21	0.17	0.34	0.34	0.37	0.45	0.55
Operating cash flow per share	0.20	0.22	0.38	0.15	0.87	0.63	0.71
Free cash flow per share	0.14	0.17	0.29	-0.02	0.72	0.50	0.60
Book value per share	0.83	0.81	0.90	0.80	0.92	1.11	1.38
Dividend per share	0.20	0.21	0.45	0.25	0.27	0.28	0.30
Dividend payout ratio, %	95.6	123.4	130.7	73.1	71.2	61.8	55.0
Dividend yield, %	4.8	6.1	6.3	4.4	4.7	5.0	5.3
FCF yield, %	3.5	4.9	4.0	-0.3	12.8	8.9	10.6
<b>Efficiency measures</b>							
ROE	25.1	21.1	40.1	39.5	43.3	44.5	44.0
ROCE	20.5	18.2	33.4	34.3	39.6	44.1	44.5
<b>Financial ratios</b>							
Inventories as % of sales	13.8	13.2	13.6	15.3	13.4	13.2	13.2
Receivables as % of sales	5.7	5.4	5.9	6.2	6.1	6.1	6.0
Non-interest bearing liabilities as % of sales	21.6	19.7	19.9	20.1	21.0	21.0	21.0
NWC/sales, %	-2.2	-1.1	-0.4	1.3	-1.5	-1.7	-1.8
Operative CAPEX/sales, %	0.5	0.4	0.7	1.3	1.0	0.9	0.7
CAPEX/sales (incl. acquisitions), %	0.5	0.4	0.7	1.3	1.0	0.9	0.7
FCFF/EBITDA	0.5	0.6	0.6	0.1	1.4	0.8	0.8
Net debt/EBITDA, book-weighted	-1.1	-1.2	-0.8	0.0	-0.9	-1.1	-1.4
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	23.0	23.4	24.5	21.4	23.0	25.0	28.0
Gearing, %	-54.3	-52.1	-52.2	-2.2	-62.7	-73.3	-82.3

**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	15,957,000	90.157	35.7%
Keskinäinen Työeläkevakuutusyhtiö Varma	3,865,932	21.843	8.6%
Mandatum Henkivakuutusosakeyhtiö	2,192,211	12.386	4.9%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	2,174,309	12.285	4.9%
Sijoitusrahasto Nordea Nordic Small Cap	1,476,669	8.343	3.3%
Sijoitusrahasto Evli Suomi Pieniyhtiöt	1,230,000	6.949	2.7%
Skogberg Ville Johannes	634,266	3.584	1.4%
Keskinäinen Vakuutusyhtiö Kaleva	566,475	3.201	1.3%
Op-Suomi Pieniyhtiöt	485,603	2.744	1.1%
Säästöpankki Kotimaa -Sijoitusrahasto	423,000	2.390	0.9%
Ten largest	29,005,465	163.881	65%
Residual	15,736,268	88.910	35%
Total	44,741,733	252.791	100%

#### EARNINGS CALENDAR

#### OTHER EVENTS

#### COMPANY MISCELLANEOUS

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IR: Marja Mäkinen

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

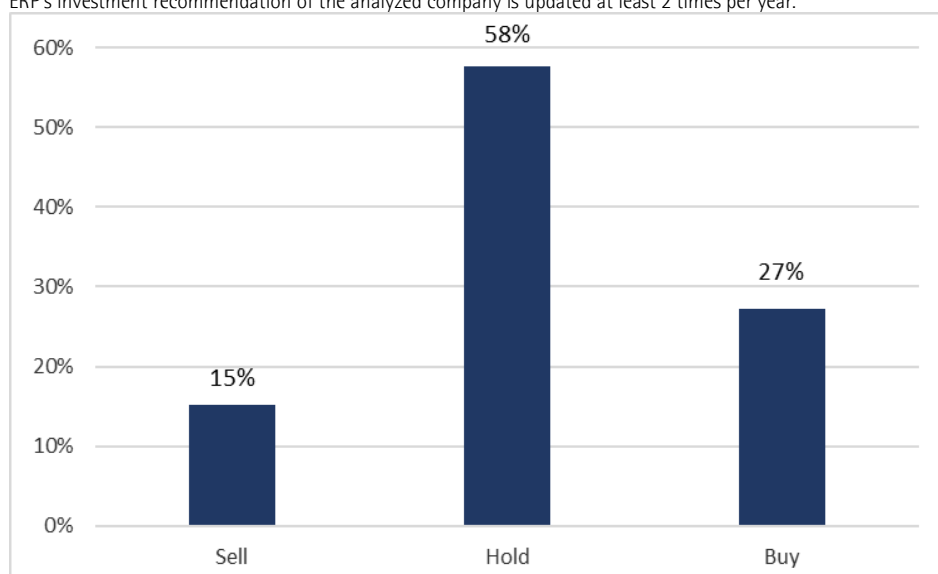
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< -10 %	SELL
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Name(s) of the analyst(s): Heikura

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