Valuation of Zalando SE

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Executive summary

The purpose and main objective of this report is to estimate the intrinsic value per share of the leading online fashion e-tailer Zalando SE as of 1 January 2017 by using renowned models, market practice and applicable public information. The valuation is carried out in a structured approach, covering aspects from larger industry drivers to firm specific factors.

The valuation process is initiated with a brief overview of the European online fashion market followed by a introduction of Zalando. Next, a strategic analysis is performed, addressing the industry and company specific attributes using theoretically accepted frameworks such as Porter's five forces. The analysis shows that the industry is characterised by strong scale benefits and high entry and size barriers, coupled with strong indications of a "winner-takes-it-all"-market. Zalando is very well positioned to become a European champion in fashion due to its strong technological and operational capabilities. The financial analysis focuses on sales growth and profitability, evidencing the scale benefits in the market, with Zalando's financials showing excellent trends both in maintaining high sales growth and increasing profitability. Competition tends to erode competitive advantages and, with them, profitability. Therefore, companies must continually seek and exploit new sources of competitive advantage if they are to create long-term value. Zalando shows outstanding tendencies in doing so by optimising its platform to stay ahead of the game.

The findings are collectively used to forecast future cash flows and are the basis for the discounted cash flow valuation, which result in an intrinsic value per share of EUR 47.6, corresponding to over 30% upside potential to the observed share price of SEK 36.1. The WACC is estimated to be 6.5%.

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1 Introduction

1.1 Problem discussion

Both political and economic uncertainty are at their highest level for years, with valuations at all-time highs driven to some extent by the low and negative interest rate environment. The macro environment continues to face numerous challenges with low inflation, slow GDP growth and geopolitical issues. Nevertheless, some companies have proven to be able to show strong organic growth in an environment where organic growth is hard to come by, making it particularly interesting to value a fast growing company's potential cash flows against the current market value.

Zalando, a German online fashion e-tailer has displayed impressive growth since its inceptions in 2008, growing from EUR 6 million in 2009 to EUR 3 billion in 2015, and becoming the European go-to platform in online fashion. The ability to increase its profitability in a time where the company sees its medium term growth corridor at 20-25% annually and in an industry with many competitors, both offline and online, is impressive. However, Zalando's track-record may be strong, but it's not very long and growing so quickly involves significant execution risks. The company has over the latter years shown that it is up to the task, and in 2014, the company turned positive EBIT for the first time through a continuation of leveraging its operational capabilities.

As such, Zalando makes an excellent valuation case and a thorough analysis of the industry and the company will determine whether the impressive historical performance is likely to result in sustainable competitive advantage. In this thesis, I will answer the most important question all investors asks themselves: is Zalando's fairly valued?

The aim of this thesis is to arrive at a valuation estimate and then elaborate on any discrepancies with the observed market value and its probable causes. The selected topic is highly aligned with the author's interests and will add valuable personal insights and knowledge in this particular field in finance.

1.2 Research question

The combination of a rapidly growing company gaining profitability and an industry comprised of many competitors both offline and online make Zalando a stimulating company to analyse and value. To evaluate the observed market valuation of Zalando, relevant theories and market practices are used to answer the scope of this thesis:

What is the intrinsic value per share of Zalando as per 1 January 2017?

To fully evaluate Zalando's business and arrive at a theoretical share price, a number of sub-questions is analysed and will serve as an outline for this thesis and subsequently answered in their context in relevant sections:

- Which are the industry's main characteristics and drivers?
- Are key trends present and important for the industry's future performance?
- How does Zalando differentiate itself from competitors?

- How has the financial performance been and what are the drivers?
- How is Zalando expected to perform going forward?
- What is the appropriate WACC?
- Which variables affect the value the most?
- How will more optimistic or more pessimistic assumptions change the valuation?
- How does the intrinsic valuation compare to traded comparable companies?

1.3 Delimitations

To maintain the scope of this thesis and only examine the most relevant and driving factors of the company's value, several delimitations are set. Furthermore, delimitations are applied to only account for information available before and on 30 December 2016, meaning that the valuation and its underlying assumptions are valid as of that date.

This report is based solely on publicly available data and sources that are available to the ordinary investor such as company reports, financial databases and market research. The valuation is executed using theoretically accepted approaches which are applied among industry professionals. This thesis stress the application of valuation models rather than discussing their accuracy. While the models and methods used has their shortcomings, they are considered adequate to provide with an analytical and reasonable answer to the research question.

1.4 Scientific view

The applied scientific view in this thesis is chosen by the nature of the research question and the use of secondary sources to answer it. The choice of scientific view is imperative as it demonstrates how the world is viewed, how assumptions are made and how the research process is steered. Thereby, social constructionism is expected to be the most satisfactory.

Pragmatism implies that the choice of which scientific view to use is secondary to the research question, that is that the research question should determine which view to use. However, pragmatism is not a firm belief and can be adjusted if considered suitable. This proposes that the research itself is more essential than the selected view and could be conducted in the way which is perceived to be most appropriate. Although pragmatism is appealing due its flexibility, a more specific distinction is preferred, but the scientific view is selected to best suit the research question, in accordance with pragmatism. Ontology is concerned with nature of reality. This raises questions of the assumptions researchers have about the way the world operates and the commitment held to particular views and can be separated into objectivism and subjectivism. Objectivism refers to that social actors within social entities do not influence them and similar organisations would naturally behave similarly. In contrary, subjectivism holds the view that organisations are a product of social actors' actions and beliefs and is constantly in flux, commonly referred to as social constructionism. (Saunders et al. 2009)

Social constructionism is assumed to be most appropriate due to the exclusive use of secondary sources, applications of models and frameworks that to some extent are affected by subjective

preferences or decisions. By recognising that there is no objective truth, the used data and models are critically assessed. Similarly, the valuation is based on assumptions and preferences and should accordingly be viewed as subjective.

2 Methodology

The report will take the standpoint from an investor's perspective and thus only use publicly available information from secondary sources, such as company reports, financial and statistical databases, market research and online resources.

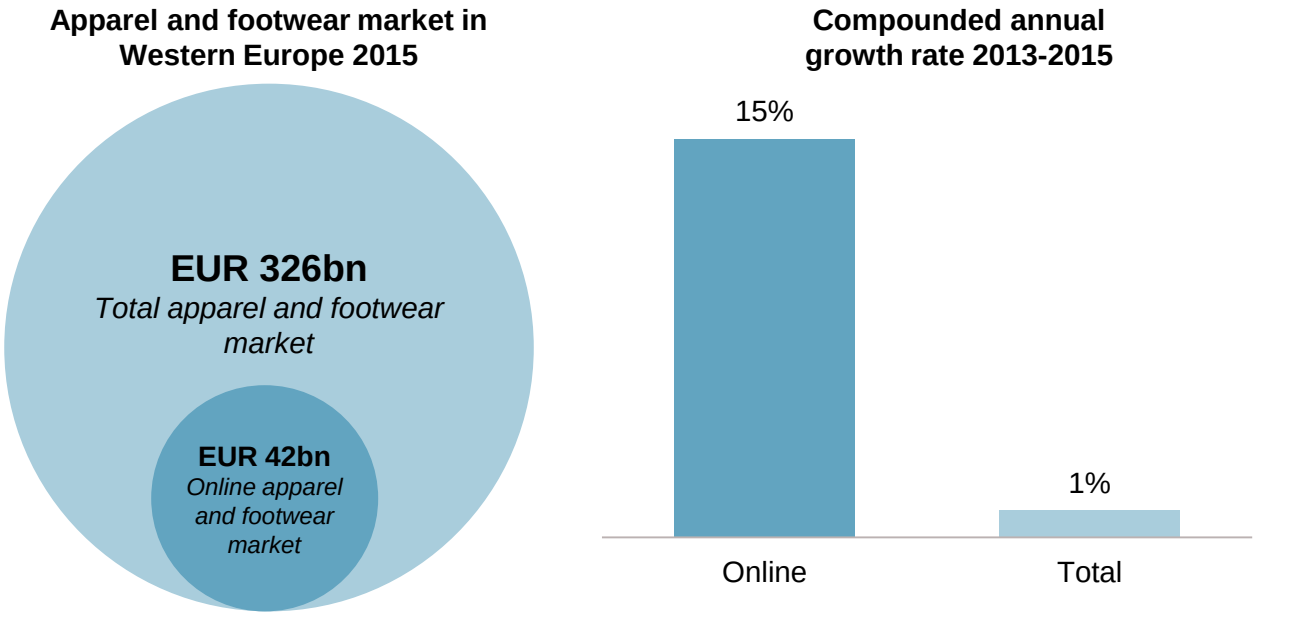
The primary purpose of the thesis is to arrive at a valuation estimate of Zalando, with the iterative process largely based on Koller, Goedhart and Wessels' (2015) "*Valuation: Measuring and managing the value of companies*" and Petersen and Plenborg's (2012) "*Financial Statement Analysis: Valuation, Credit analysis, Executive compensation*". As these are highly regarded in both the world of academia and amongst industry professionals, an in-depth analysis of the presented theories is regarded outside the scope of this report.

The strategic analysis begins with an industry analysis. Following Porter's five forces, the most influential forces are identified. Next, the strategic analysis is concluded by an analysis on company level by applying an adapted value chain analysis which takes a deep dive into the business model of Zalando and its key operations to find any key competitive advantages. The strategic analysis and the applied frameworks have mostly been based on Grant's (2010) *"Contemporary Strategic Analysis",* and McAfee's (2009) *"Competitive Solutions: the Strategist's Toolkit"*, but is further complemented where considered appropriate. Zalando will also be benchmarked against its main competitors in order to understand the relative differences between the companies.

3 Market overview

According to Euromonitor international, the Western European fashion market (apparel, footwear and accessories) was worth EUR 326 billion in 2015. Online retail made up about 13% of the total. While total European retail is growing by low single digits, online retail is expanding by mid-teen numbers. The trend looks set to continue for many years ahead.

Figure 1: Apparel and footwear market overview



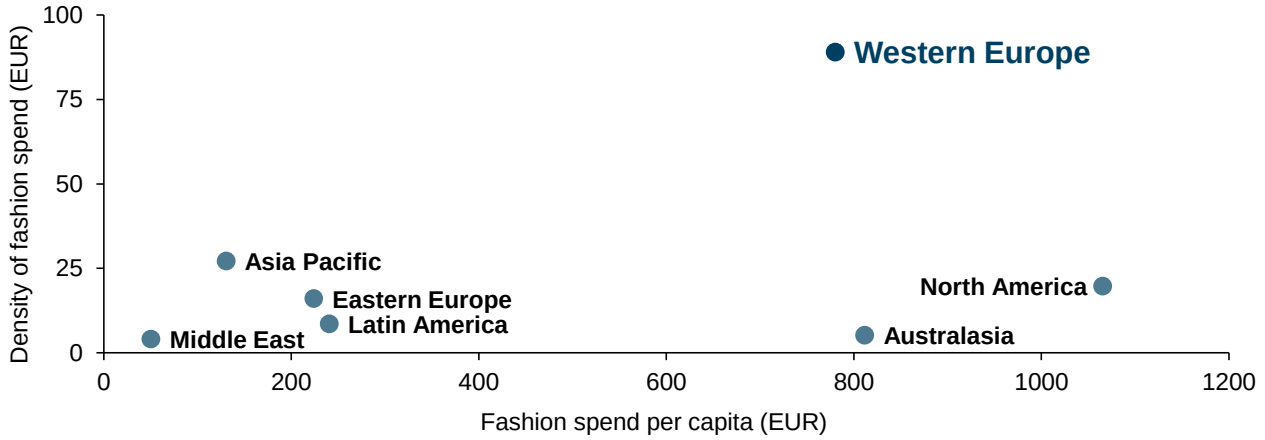
Note: Western Europe data includes: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.
Source: Authors illustration based on data from Euromonitor international

3.1 Europe an ideal market for e-commerce

Western Europe represents a highly attractive demographic for fashion e-commerce as it has one of the highest fashion spends per capita globally of EUR 800 in 2015, which ranks just behind North America and Australasia (see Figure 2). This suggests a revenue potential per capita of roughly EUR 640 net after VAT.

Furthermore, Western Europe as an online market benefits from the highest density of fashion spend globally (estimated to be EUR 87 thousand per km^2, as compared with the Asia Pacific region, which has the second highest density of fashion spend at EUR 24,000 per km^2). High density of fashion spend supports online retailers by enabling higher fulfilment speed and lower fulfilment costs. The size of the European fashion market, combined with the typically high gross margins in online fashion and its potential for a high degree of operating efficiency, create a very attractive market opportunity.

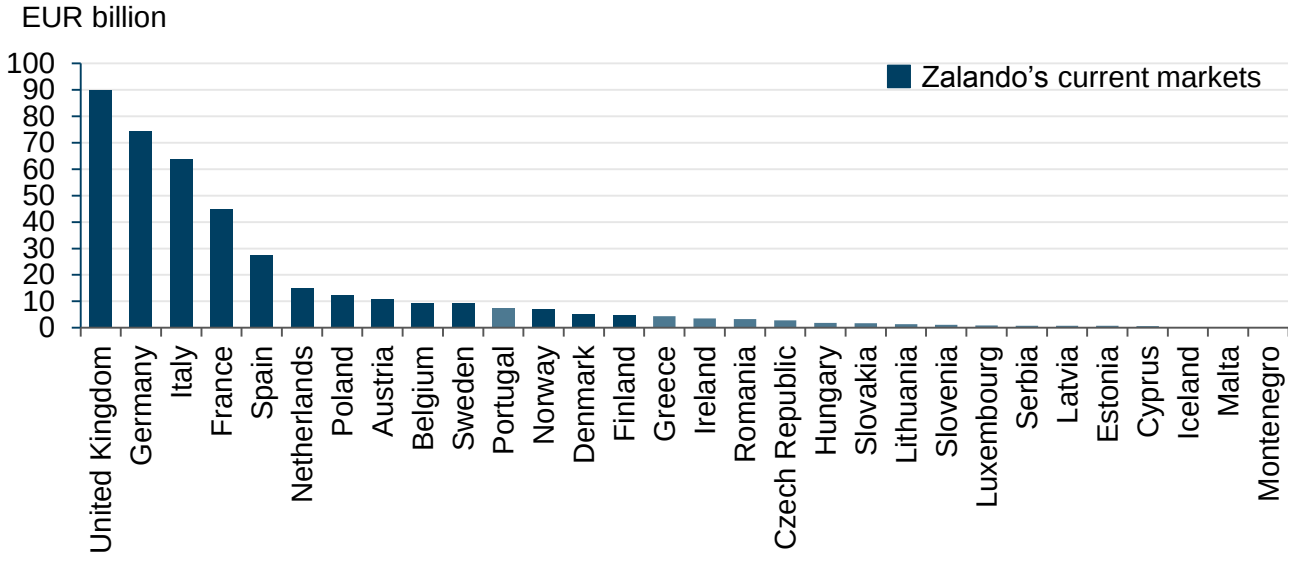
Figure 2: Relationship between fashion spend per capita and density of fashion spend



Note: Density of fashion spend id defined as fashion spend in EUR'000 per square km.
Source: Authors illustration based on data from Euromonitor international

Germany, UK and Italy are the largest fashion markets in Europe, together accounting for over half of European clothing spend. While Zalando has already entered most of the large fashion markets in Europe, there are a number of additional countries that are candidates for expansion – most notably Portugal, Greece and Ireland. Russia is omitted from Figure 2 primarily due to difficulty obtaining accurate market data for the region.

Figure 3: Fashion spend by country (2015)

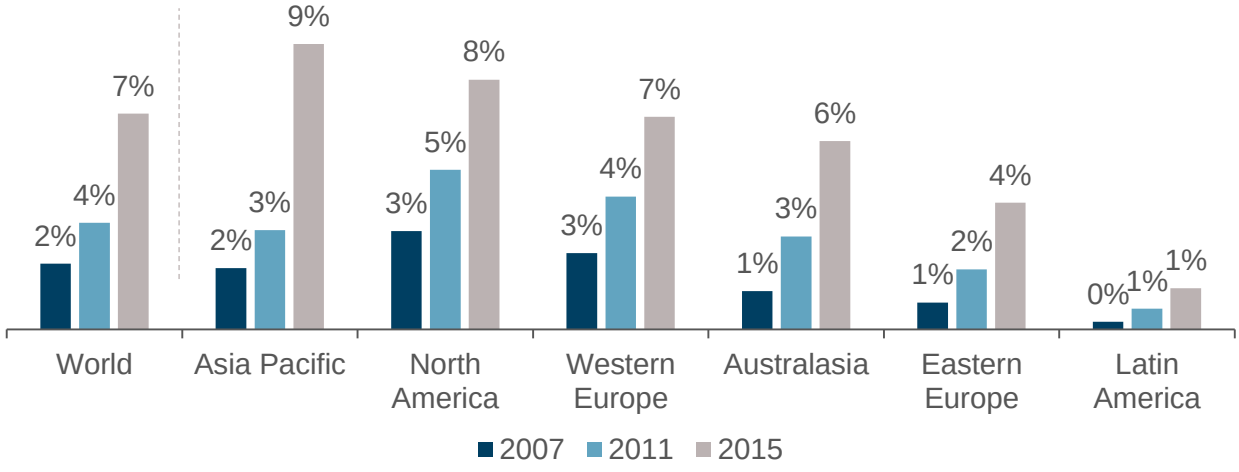


Source: Eurostat

3.2 Online penetration

E-commerce adoption varies significantly across the world by region. While online retail penetration in North America amounted to 6.7% in 2013, online retail penetration in Western Europe amounted to 5.5% while online retail penetration in Eastern Europe (excluding Russia) amounted to 3.4%. A number of factors are contributing to the varying pace of transition to online retail in various markets, including differences among regions in respect of the availability of broadband internet connections, varying confidence in online shopping and payments, and customers' experience with e-commerce predecessors such as catalogue- and home-shopping.

Figure 4: Online retail penetration by region



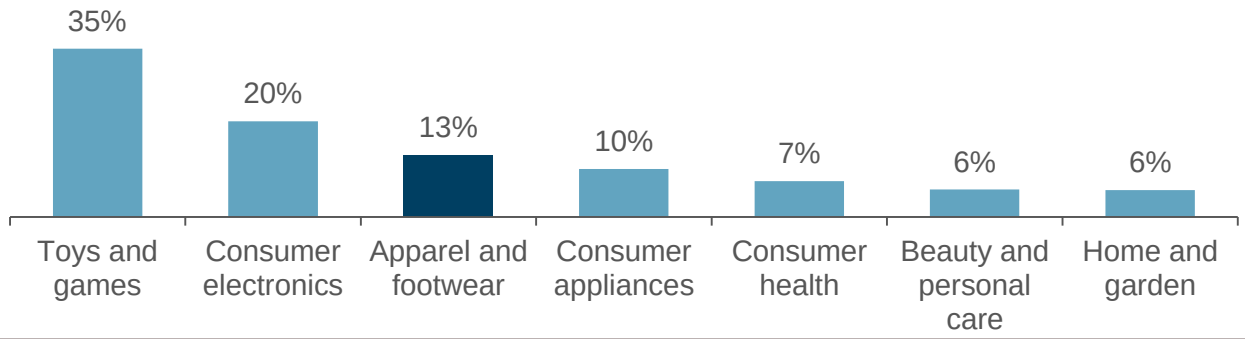
Source: Authors illustration based on data from Euromonitor international

There are several factors underlying the increasing online penetration, including:

- *Availability:* Over the recent years, internet has become an ever-increasing integral part of day-to-day behaviours and an increasing important task for people when allocating their daily time.
- *Selection:* Given the virtually limitless shelf space, e-commerce offers the opportunity for a large selection that can be browsed through efficiently.
- *Convenience:* Online shopping provides a level of convenience not available in traditional brick and mortar retailers as customers are able to order merchandise at their convenience, with a large selection of the most current selection and high levels of availability.

Currently, fashion has a relatively low online market penetration with c. 9% market share. Categories that consist of easily comparable, price-transparent, commoditized items such as consumer electronics or toys & games, have demonstrated an earlier increase in online retail penetration compared with other categories.

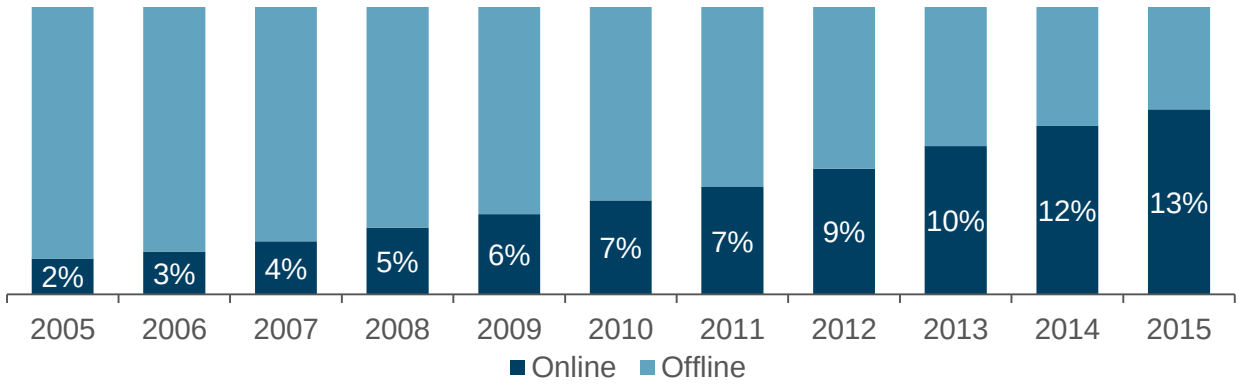
Figure 5: Online retail penetration by category in Western Europe (2015)



Source: Authors illustration based on data from Euromonitor international

While the overall fashion market remains fairly stable, there is a continued shift in spending offline to online. As e-commerce models evolve and consumers become more comfortable shopping online (with online retailers helping them to overcome hurdles unique to the online fashion category, such as accurate sizing and returns), there are strong indications that penetration in consumer categories like fashion will continue to rise. Both fashion as an e-commerce category and Europe as a region have significant growth potential for online penetration, and forecasts are showing above-average growth of European fashion e-commerce going forward.

Figure 6: Evolution of online sales in the Apparel and footwear market (Western Europe)



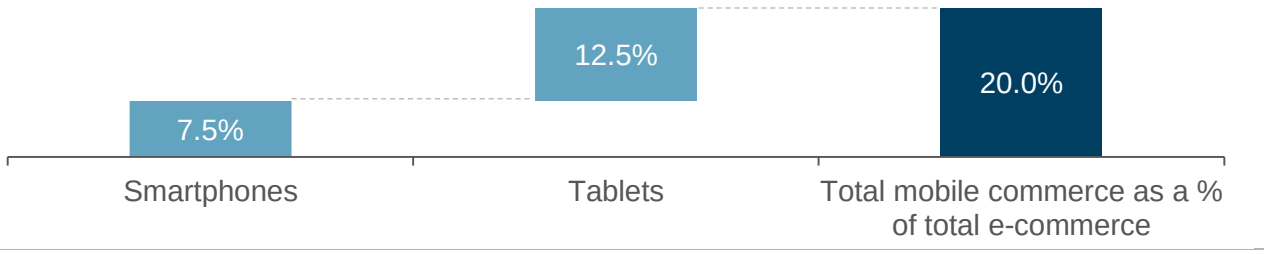
Source: Authors illustration based on data from Euromonitor international

3.3 Mobile Commerce

The proliferation of mobile devices such as smartphones and tablets has significantly contributed to the strong growth of online retail. The number of mobile devices in use in Europe (excluding Russia) grew from only 208 million in 2009 to 480 million in 2013 and is expected to further grow with a CAGR of 12% to 852 million in 2018. As a result, the number of European mobile online shoppers is expected to grow from 51 million in 2013 to 110 million in 2018 representing a 17% CAGR.

(Zalando, 2014b) Today, m-commerce represents approximately 20% of all e-commerce in Europe as shown in Figure 7.

Figure 7: Mobile commerce in Europe (2015)



Source: Authors illustration based on data from Statista

With access to their mobile devices anytime and practically anywhere, consumers now have the opportunity to browse and shop throughout the day and on the go rather than only when they are in front of a desktop computer. Content and presentation are particularly relevant for fashion as a lifestyle oriented retail category, and mobile devices further enable the sharing of such content through the application interface. Mobile devices can also prompt consumers to visit mobile websites and leverage mobile apps for marketing purposes via push notifications, increasing the daily interaction with the customer.

4 Zalando in brief

4.1 Introduction to Zalando

Zalando is the leading online fashion retailer in Europe with approximately EUR 3 billion of sales and c. 20 million active customers across 15 countries, with a particular strength in Germany, which accounts for almost 50% of revenue. Its custom-built, proprietary IT systems enable efficient, data-driven decisions across the business. The company has a very large range of product assortment, including over 1,500 third-party and private-label brands and focus on customer convenience,

Figure 8: Zalando snapshot

15 European countries
Germany, Austria, Netherlands, France, Italy, United Kingdom, Switzerland, Sweden, Belgium, Spain, Denmark, Finland, Poland, Norway, Luxembourg.

>1,500 brands
Trusted partner to well-known brands including Nike, Adidas, Boss, Ralph Lauren and G-star, small local brands tailored for each market as well as a some private brands.

~200,000 products
Offering includes shoes, clothing, accessories and sportswear with the introduction of approximately 1,000 new fashion articles each day

Source: Author's illustration based on Zalando (2016a, 2016b)

4.2 History of Zalando

Founded in 2008 as an online shoe retailer in Germany, listed in 2014 on the Frankfurt Stock Market and incorporated in Germany's second most important equity index, the MDAX in 2015, Zalando has become an important European growth company in a very short period of time. Zalando strives for building an ecosystem in the fashion lifestyle space, connecting brands, customers, stylists, bloggers, fashion magazines in one arena or platform that it provides. (Zalando 2014b) Table 1 summaries some key events in the history of Zalando.

Table 1: Key events in the history of Zalando

2008/09	▪ Founded in Berlin, Germany, with a focus on shoes. ▪ Building market leadership in Germany. ▪ Defining its value proposition.
2010/11	▪ Category expansion to apparel, sports, accessories and private label.
2011/12	▪ Geographic expansion to 15 European markets with a combined population of 425 million. ▪ Building highly localised market leadership in terms of revenue, traffic, brand awareness and active customers.
2013/14	▪ Building basis for sustained growth. ▪ Invests in proprietary technology and logistics infrastructure. ▪ Focus on mobile innovation. ▪ IPOs on the Frankfurt Stock Exchange
2015/16	▪ Continued strong focus on expansion and operating leverage.

Source: Authors illustration based on Zalando (2014b, 2015)

4.3 Strategic framework

Zalando's mission is to create the world's best online fashion experience. It's business model formed by three building blocks: fashion, technology and operations. Fashion represents the company's product offering, technology underpins every step of the company's value chain and operations is the key pillar in achieving high customer satisfaction. To reach its goal of achieving a market share of more than 5% in all its markets, the company has outlined five strategies, listed below (Zalando 2016a, 2014b)

i. Grow its share of total addressable market

The total addressable market for apparel and footwear in Western Europe is large, with total consumer spending of approximately EUR 326 billion in 2015, of which the online market represents 13%. But despite being the European leader in pure-play online fashion with revenues just below EUR 3 billion in 2015, Zalando has c. 1% market share of the total addressable market. (Zalando 2016a) To increase its share of total addressable market, the company focuses both on growing its active customer base as well as growing its share of wallet mainly through continued shift to online shopping, smart marketing campaigns and leveraging its data analysis to personalise its offering to each customer. (Zalando 2014b)

ii. Enhance the mobile customer experience.

As the mobile shopping are becoming an increasingly integral part of e-commerce, Zalando believes mobiles will further strengthen its market position. Through continued investments in its technology platform, particularly prioritising the development of its apps and websites with the objective of becoming the most used fashion app with a convenient mobile shopping experience. (Zalando 2014b)

iii. Help brands to win online.

By leveraging its market position, Zalando can offer the leading fashion brands a one-stop shop to 15 European markets. The company is working with its core brand partners to bring more exclusive and up-front styles to its assortment. (Zalando 2014b)

iv. Selectively expand scope of its business.

While Zalando intends to retain its focus on online fashion, it sees benefits and potential by expanding into new geographies and by adding new lifestyle categories of products to its offering; thereby monetising its strong e-commerce and logistical platform through value-added services. (Zalando 2014b)

v. Focus on profitable growth.

The company is focused on profitably growth through several initiatives. First, by focusing on reducing cost of sales as a proportion of revenue through leveraging its platform to negotiate more favourable purchasing and inventory risk sharing terms. Second, by focusing on an increasing share of in-season re-ordering, continuing to improve its pricing algorithm, and by growing the share of revenue generated through Zalando's private brands. Third, by further reducing fulfilment costs through continuous efficiency improvements. Fourth, by further reducing marketing costs as a percentage of revenue by leveraging its strong brand name in its customer acquisition process as well as by increasing share of wallet and returning customers. (Zalando 2014b)

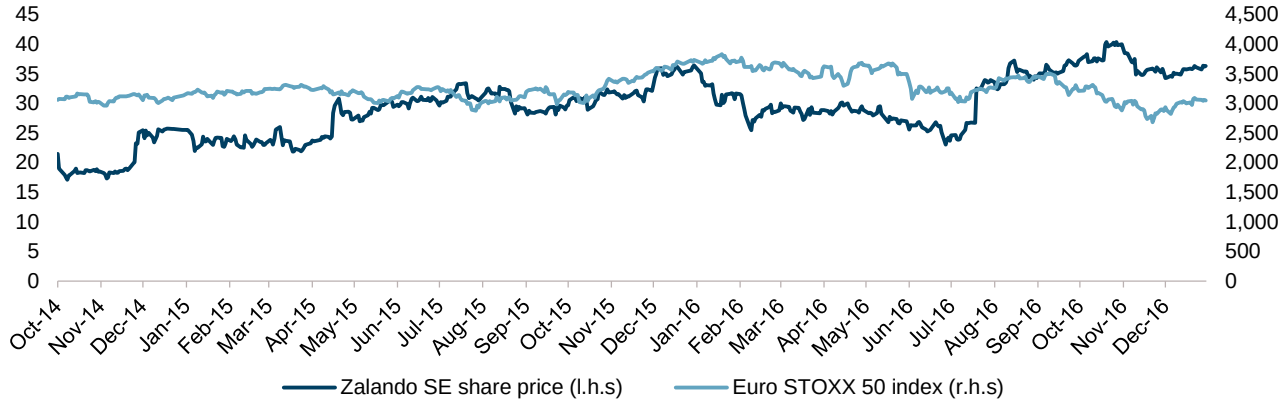
4.4 Share price development

Zalando became a listed company after its IPO in 2014 and has since then traded in the range of EUR 20 to EUR 40. Figure 9 illustrates that Zalando has outperformed the Euro STOXX 50 index since its listing.

Selected events

- *October 2014:* Zalando IPOs at a share price of EUR 21.5 and trades downwards post-IPO.
- *November 2014:* Zalando on track for profitable 2014 after strong Q3 2014 results.
- *April 2015:* First quarter 2015 group revenues and adjusted EBIT develops above analyst expectations.
- *July 2019:* Zalando grows group revenues by 24-26% to EUR 909-924 million at 7.5-9.5% adjusted EBIT margin in Q2 2016 and increases margin guidance for the full year 2016.

Figure 9: Share price development (EUR)



Source: Author's illustration based on data from S&P Capital IQ

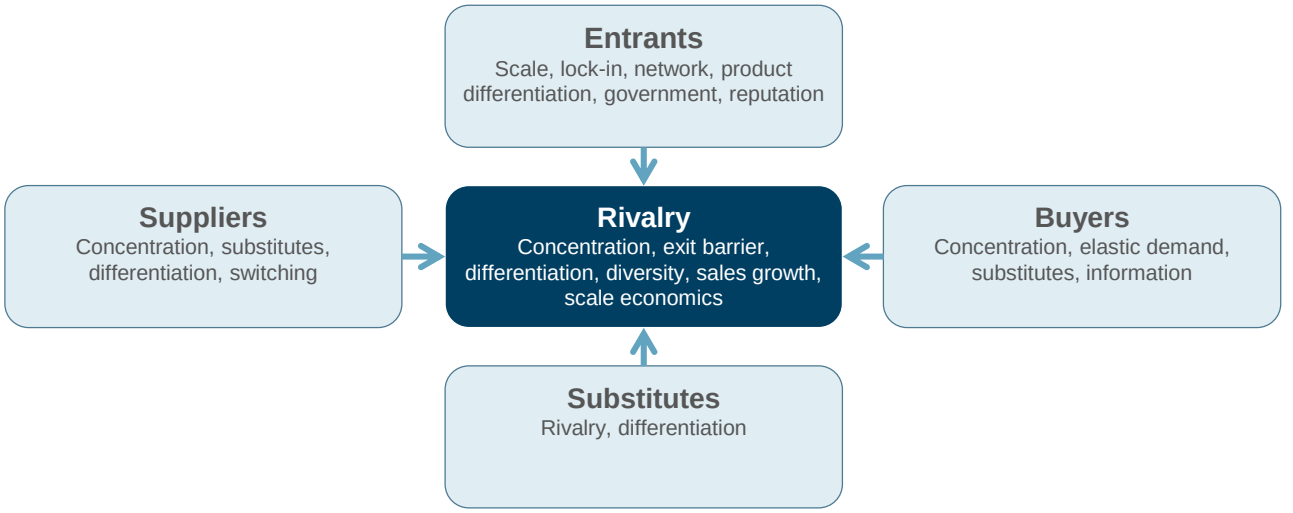
5 Strategic and financial analysis

Zalando is a migration story, not a retail sales story: consumers are buying more online regardless of trends in retail sales. Consequently, the Zalando story is not about the macro environment, but the structural shift in the fashion retail industry. Hence, the focus of the strategic analysis will be on the industry and Zalando.

5.1 Industry analysis

The foundation of industry analysis is efficiency. The perspective of industry analysis is Darwinian — the fit survive, and the unfit do not. Fit means efficient. The efficient provider of goods and services survives over the long haul, and inefficient providers decline and exit, or are taken over and reorganized by fit providers. (McAfee 2009) This part of the report will analyse the online fashion industry using Porter's five forces, illustrated in Figure 10. By using the five forces as a framework for the analysis, it is possible to examine the ability of others to expropriate some or all of a firm's profits. (Grant 2010)

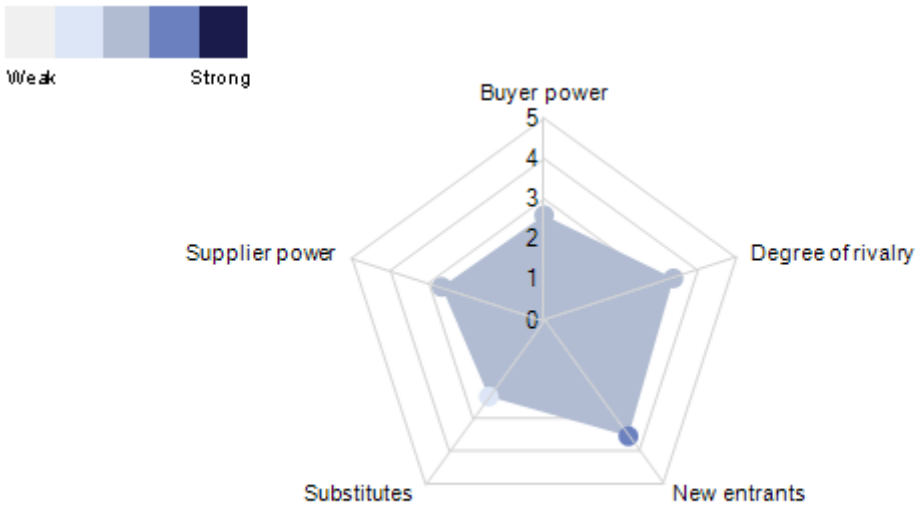
Figure 10: Porter's five forces



Source: Author's illustration

As displayed in Figure 11, low barriers to entry in the industry as a whole mean there is a high likelihood of new entrants in this market; however, as the analysis will show, the online fashion market is more intensive with large players having significant advantage over smaller players and new entrants. Zalando is active in a winner-takes-it-all online fashion market with barriers to entry and size being related to scale economics, strong brand names, complicated logistics and IT infrastructure leading to superior value offering, and low supplier bargaining power through large and attractive platforms.

Figure 11: Forces driving competition in the apparel retail industry in Europe



Source: Marketline (2016)

5.1.1 Threat of entry

Competitive theory suggests that industry profits will attract new entrants, who will cause erosion of the prices and subsequently the profits pf the industry and ultimately driving profits to the competitive level at which the firms just cover their costs of capital. If an entry barrier exists, entry is prevented or prohibited to some extent. To achieve sustainable profits over market rates of return, entry barriers are necessary and consequently a major focus of business strategies. (McAfee 2009) Low switching costs for buyers and a low level of product differentiation make it easier for new entrants to compete with existing players. While the fashion industry in general is receptive to new entrants similar to most retail industries, there are several barriers to grow to a large industry player in the online fashion industry, which is further discussed under 5.1.5.

5.1.2 Bargaining power of buyers

There are two main sources of buyer bargaining power. First, if the buyer can readily switch to alternative suppliers, the buyer can negotiate favourable terms through the threat of switching. (McAfee 2009) While online shoppers comprise of mostly small individual buyers with no financial impact (thereby reducing relative bargaining power of each buyer), they also have zero switching costs and can migrate from one site to the next with no effort, meaning that small competitive advantage positively impacting user experience can result in a disproportionate increase in traffic and order volume.

Retailers differentiate by positioning themselves based on styles of clothing offered, meaning buyer power is weakened. Apparel is an essential item for consumers, and they are significantly exposed

to the penetration of marking icons and images into most forms of media. However, key success factors for retailers is awareness of fashion trends and subsequent demand.

5.1.3 competition from substitutes

The third force in the analysis regards possible substitutes and the risks associated with such substitutes. (Grant 2010) In the apparel industry, while there are no substitutes as such, there are alternatives to offline and online retailers. One option is online purchasing clothing directly from the manufacturer as opposed to the conventional distribution chain. Other substitutes include tailoring, factory shops, homemade clothing, and second hand clothing, although these pose a minimal threat to market players. (Marketline, 2016)

5.1.4 power of suppliers

Suppliers have bargaining power with the firm in the same type of circumstances when the firm has bargaining power over buyers. That is, when there are few suppliers and few substitutes and switching costs are large, suppliers are going to have substantial bargaining power. (McAfee 2009)

The key suppliers in this industry are clothing manufacturers and wholesalers. These are typically small to medium sized enterprises, giving retailers the possibility to source from both. The wholesale and clothing manufacturing sectors are fairly fragmented. The lack of diversity between suppliers weakens their power, as the apparel retail industry is highly important to their business. (Marketline, 2016)

5.1.5 rivalry between competitors

While the previous four forces are external to the industry, rivalry is the internal industry force driving down profitability through price competition. The level of rivalry is dependent on industry growth, number of competitors, scale economics and exit barriers. (McAfee 2009) The European apparel retail industry is typically composed of large numbers of similar retailers, many of which are independents and small. Retailers continue to fine-tune their promotional strategies, with many relocating their discounted goods by introducing year-around sales to attract new customers. (Marketline, 2016) However, to grow into a significant online fashion retailer, there are strong barriers beyond pricing with significant scale benefits.

First, acquiring an integrated technology platform is expensive and continuous investments is not easily copied by competitors. As consumers place more importance on overall experience, online retailers are introducing new attractions to drive visits and earn more time with their shoppers. Jifeng et al. (2012) show that IT is able to confer a competitive advantage by enhancing critical organizational capabilities such as operational capability, customer service, and ability to innovate. Online shopping has an element of entertainment, whereby the consumer has money to spend but is not necessarily looking for a specific item and will often spontaneously commit to a purchase upon discovery. As a result, the efficacy of an online retailer's recommendation engine and the proper utilisation of user data can have a significant impact on both conversion rates and customer retention. While many online retailers utilise a product recommendation engine, fully leveraging a large and rapidly growing data set can be very difficult and costly – this provides a competitive

advantage and economies of scale versus smaller retailers that have not had the opportunity to fully scale their platform in-house.

Second, one of the key logistical challenges for online apparel retailers is the high volume of products returned by consumers. Returns are a significant cost for all online retailers and requires a major reverse logistics operation (Aitken and Harrison, 2013). In the online fashion industry, returns from consumers are mainly caused by commercial agreements toward the consumers. Minimising the rate of returns obviously is desirable for retailers; however, relaxed returns policies is a must to increase consumer satisfaction and reduce perceived purchase risk for the consumer, thereby potentially increasing sales. Being flexible in accepting returns and providing consumers with a variety of means to support their returns may lead to loyalty and, thus, increased sales for the retailers; however, it requires an efficient returns process to keep costs down, making returns management is a significant barrier to entry. (de Leeuw et al., 2017) Also, there is an evident need for speed in the online fashion industry, which further complicate logistics for fashion e-tailers.

Third, as shown in Aghekyan-Simonian et al. (2012) the online fashion retailers' image signals the quality of the experience with respect to time spent and security issues in the online store. Hence, a strong brand name further reduces perceived purchase risk for consumers. Furthermore, there is an increasing focus on localisation to be relevant to consumers across individual countries, including adaption to different languages, currencies, fashion brands, logistics, and payment methods.

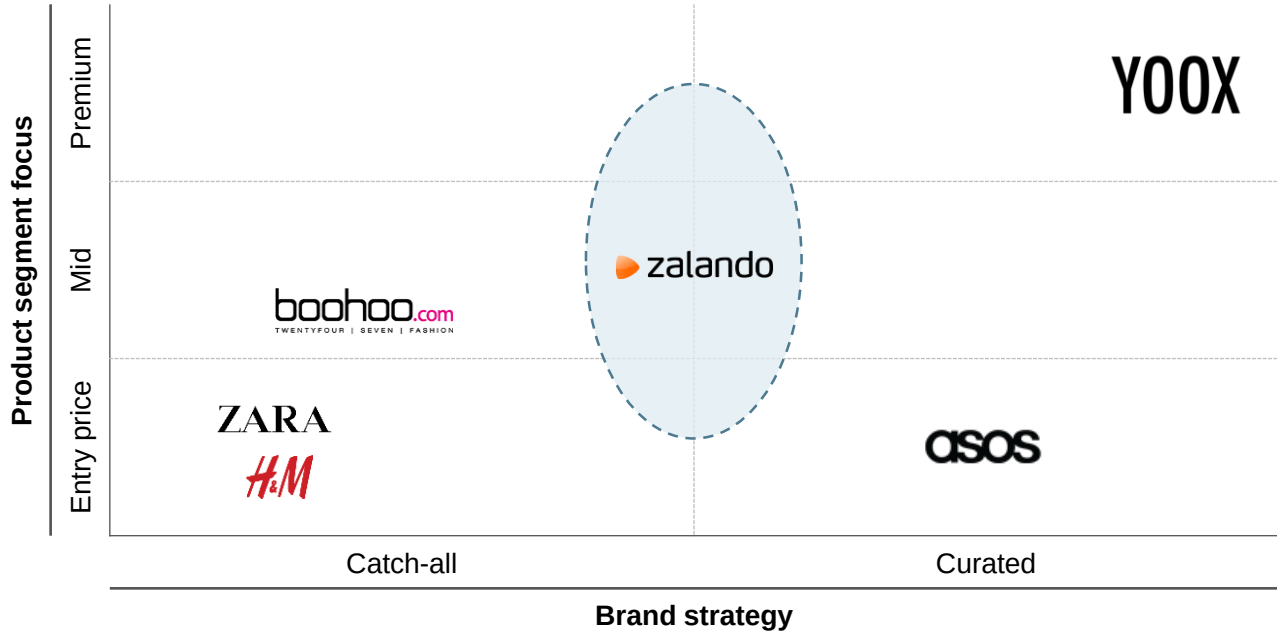
Fourth, the online fashion sales is heavily driven by marketing, hence economies of scale in marketing is perceived as a significant competitive advantage in the industry. Hence, with low product differentiation, large fashion e-tailers can continue to grab a larger share of the market through their advertising budget.

5.1.5.1 Competitive landscape

As the online fashion industry in Europe is large and highly attractive, Zalando face competition from both online and offline retailers including general e-commerce retailers, fashion e-commerce retailers, vertically integrated fashion companies and offline fashion retailers. (Zalando, 2014b)

- *General e-commerce retailers:* General e-commerce companies, such as Amazon, are often trying to increase their presence across a range of categories including fashion, but lack the fashion focus and localisation of product offering. (Zalando, 2014b)
- *Fashion e-commerce retailers:* There are a number of fashion e-tailers. However, only a few are of material size. Many of these companies target different markets or different customer groups. Competitors include Asos, Boohoo and YOOX. (Zalando, 2014b)
- *Vertically integrated fashion retailers:* Consist off offline focused vertically integrated retailers that have expand their presence to online. However, their online platform and infrastructure often lacks scale, and the larger competitors' infrastructure is often ill-suited for the e-commerce. Competitors include H&M, Inditex and Uniqlo. (Zalando, 2014b)

Figure 12: Illustration of competitive landscape



	zalando	General e-commerce	Online e-commerce	Vertical fashion players
Examples		amazon	asos YOOX boohoo.com	H&M ZARA
Online scale	●	●	◑	◔
Fashion focus	●	◔	●	●
Buy-in from brands	●	◔	◑	Not meaningful
E-commerce infrastructure	●	●	◑	◔
Localisation	●	◑	●	◑

Source: Author's illustration based on Zalando (2016c)

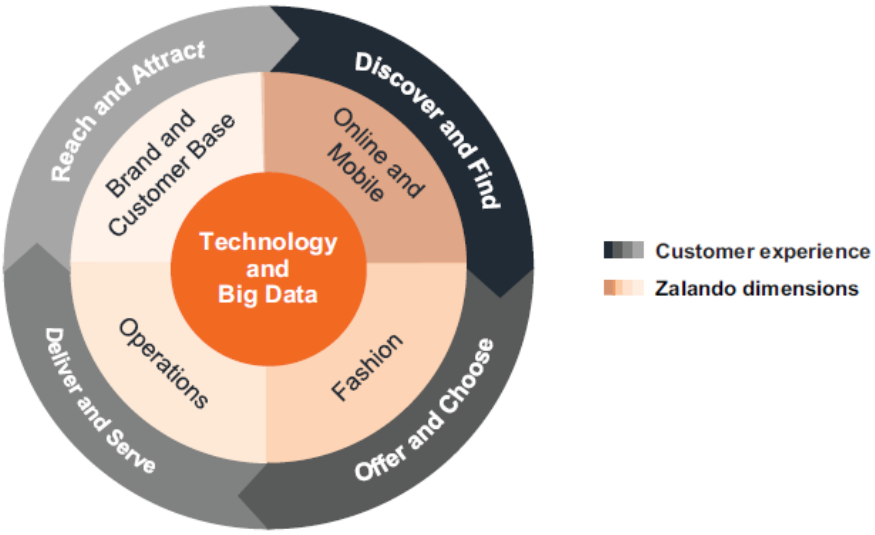
5.2 Company analysis

According to Michael Porter in Competitive Advantage (1985), "superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price". Porter describes a technique called "value chain analysis," which "disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation." While pricing is an important factor in consumer behaviour, to perform the firm analysis, I apply an adapted value chain analysis proposed

by Porter (1985) to Zalando's business model illustrated Figure 13 that describes the business and its most important primary and supporting activities. The analysis will discuss Zalando's primary value-reaction activities that create any competitive advantages against its key competitors named in previous section.

As can be seen below, Zalando is a data-driven company with technology lying at the heart of all the products and services offered on its platform while underpinning all of its internal processes. Due to Zalando's competitive advantage in logistics and IT, the relative high bargaining power of customers has positive impact. The high buyer bargaining power means that customers have high demands on fashion e-tailers in terms of time-to-market, offering, value-add services, logistics, marketing strategy and IT-services/features, which makes it costly for smaller players to compete. Zalando's market leading position, financial power and operating capabilities results in them being able to meet higher consumer demand while other, smaller e-tailers, are not able to. Hence, the market environment favours large players generally, and Zalando specifically.

Figure 13: The Zalando business model



Source: Zalando (2016a)

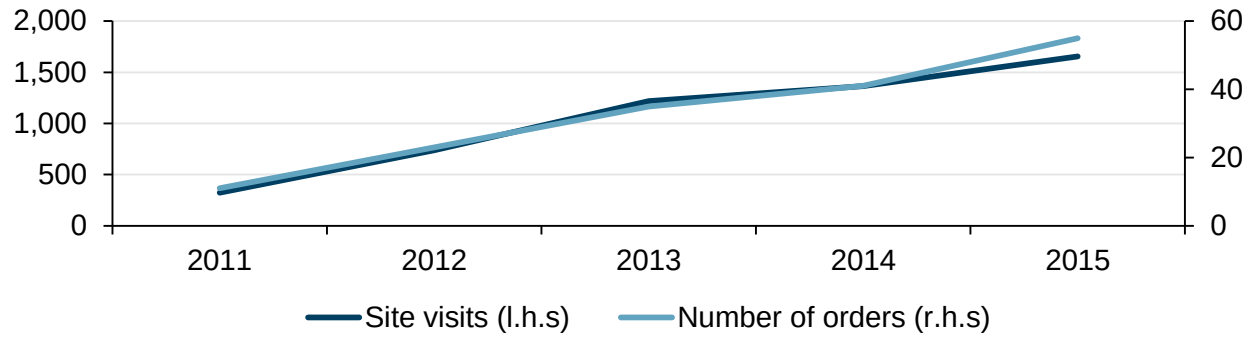
5.2.1 Brand and Customer Base

Zalando has a strong focus on creating a strong brand name in order to create barriers to entry and scale. Zalando's marketing spend across channels and devices follows a data-driven strategy with a strict return on investment logic at its core. With its channel attribution logic, Zalando employs a customer acquisition cost rational to determine an adequate level of marketing investment to acquire a new customer. Its maximum acquisition costs are defined based on the expected Customer Lifetime Value within a 24 months period.

Brand recognition drives free organic traffic to e-commerce websites. In the first half of 2014, organic traffic accounted for more than 70% of the Zalando traffic, including direct type-ins, for example

www.zalando.de, as well as free traffic related to customer relationship management, social media and search engine optimization channels. (Zalando, 2014b)

Figure 14: Site visits and number of orders (million)



Source: Authors illustration based on Zalando (2013 ,2014a, 2015, 2016a)

Zalando engages with consumers across multiple channels and devices including mobile. As a first step, the company strives to establish strong brand awareness in newer markets. Subsequently, the company acquires customers and drive retention. (Zalando, 2014b) Ultimately, these two factors are the key revenue drivers for the company.

Figure 15: Strategies to attract and retain customers

Establish strong brand awareness	Acquire customers and drive retention	Drive engagements and build up loyalty
TV Award winning TV campaigns with execution focused on performance	**Display** Ability to run display campaigns at scale on performance metrics	**Direct mailings** Personalized mailings to cross-sell, reactivate and tap full customer potential
Display and video Extend TV campaigns through display and video campaigns	**Affiliate** Strong partnerships with quality fashion publishers	**Social media** Inspirational campaigning and individual communication
PR / Co-operations Strengthen fashion image via large co-operations	**SEA**(1) +300m keywords to capture fashion demand on search engines	**Inspiration / Magazine** Seasonal fashion inspiration for top customers
	SEO(2) Highest visibility to capture organic search traffic	

(1) Search engine advertising.
(2) Search engine optimization.

Source: Zalando (2014b)

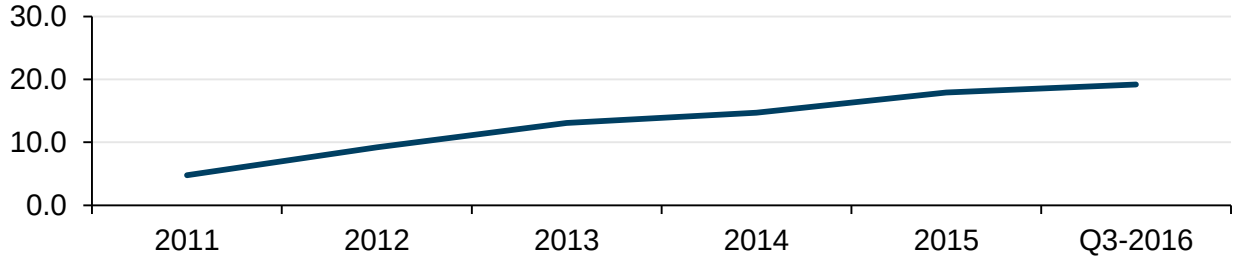
Thebrandticker.com (2016) values Zalando's brand at EUR 3.7bn, placing it slightly above the middle of the list of the world's 500 most valuable brands. Without a shop window and a predominantly branded offer, marketing is probably one of the most important functions of an online retailer and one where there is a significant potential to leverage scale. The company's share of returning customers have steadily increased from 50% in 2011 to 70% in 2015. (Zalando, 2016e)

5.2.2 Online and Mobile

By amassing a large repository of SKU-level purchase data, site browsing behaviour and shopper-specific information on a granular level (e.g. gender, age, geography), Zalando can tailor product recommendations to each user in order to maximize conversion. Personalisation is accomplished through smart collection and treatment of usage data ("big data"), enhancing the customer experience. Such solutions are not easily replicable for smaller competitors, highlighting that barriers to entry are higher than they might appear. The company has created web shops and apps custom-made to local needs including a local domain with local language, local campaign and teasers and local pricing. The data used in our algorithms is in almost all cases country-specific to adjust for local preferences.

With a register of c. 20 million European fashion customers, Zalando is sitting on a large amount of highly valuable information. Zalando knows the shopping patterns and preferences of its customers and also has information on creditworthiness. This data is valuable not only for Zalando but also for brand partners and retailers in other product categories.

Figure 16: Active customers at period end (million)



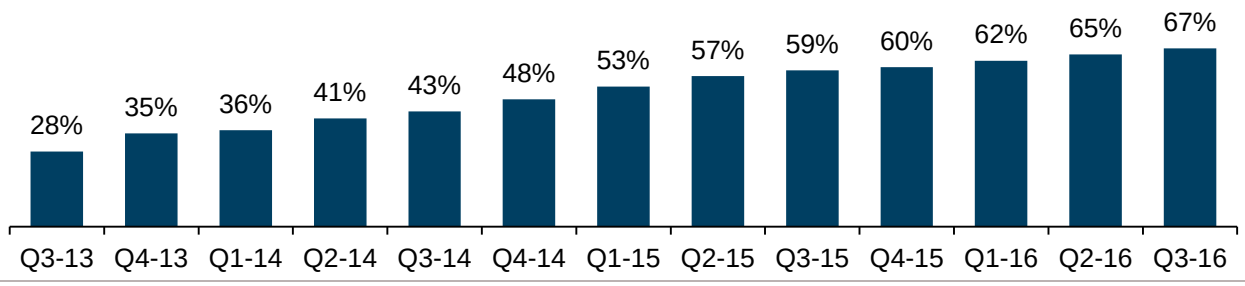
Source: Authors illustration based on Zalando (2013 ,2014a, 2015, 2016a, 2016b)

In order to ensure that it could scale while continuing to iterate on the processes that influence user experience and order maximization, Zalando chose to build its own systems in-house. All business processes are run out of ZEOS, the company's proprietary platform, which is maintained and built upon by over 1,000 IT employees, including onsite/customer experience staff. The company notes that three-quarters of its engineering efforts are dedicated to new initiatives, with only 25% left to maintenance. Furthermore, as Zalando expands into new geographies there is little incremental cost of scaling its platform due to its proprietary nature.

At the same time, the centralized technological platform and infrastructure enables Zalando to further scale and the company has the financial power to invest in continuous advancement of our web shop and mobile customer experience on a pan-European level. The increase in mobile use offers new

opportunities to strengthen its relationships with its customers, particularly in terms of enhancing convenience and making our customer interaction and engagement more personalised and relevant. Zalando has spent a lot of time adapting sites for mobile, and launching several generations of apps for iOS and Android, with the importance of mobile commerce being evident in Figure 17.

Figure 17: Percentage of mobile visitor traffic to Zalando



Source: Zalando (2016d)

Apps present an unique opportunity for Zalando to acquire and retain new customers as app-users are more loyal and more engaged. Near half the company's app customers are under the age of 30. (Zalando, 2016d). According to Zalando (2016d), app customers:

- spend 2x as much as they do on Zalando's desktop website;
- spend 4x as much as they do on Zalando's mobile website;
- order more and place more items in their order;
- spend longer on the app;
- visit Zalando up to 6x more than on other channels;
- interact with their wish list 2-4x more.

5.2.3 Fashion

With 200,000 fashion articles from more than 1,500 brands, Zalando aims to offer its customers one of the broadest and most exciting selections of fashion products available. By introducing around 1,000 new fashion articles every day, they strive to achieve a high degree of freshness and encourage its customers to discover new trends frequently. They offer everything one can wear: shoes, clothing, accessories and sportswear from large global, small local, fast fashion and private brands. Due to its data bank and strong teams of employees with both fashion and commercial expertise, Zalando has a successful track-record of predicting demand in the ever shifting fashion industry. (Zalando, 2014b)

To ensure a strong customer focus, its sourcing and merchandising organization is split into three primary product categories: Women, Men, and Specialty (which includes children's fashion and sportswear). These categories are subsequently subsided into three parts: Buying (responsible for brand acquisition, product selection and order placement), product supply management (responsible for sourcing), and merchandising (responsible for sales). (Zalando, 2014b)

Zalando's wide assortment of apparel and footwear attracts a large and still rapidly growing number of customers, many of whom return again and again, driving marketing-costs-to-sales downward. On top, Zalando represents a major market opportunity for third-party brands, which offer favourable and flexible sourcing terms given its importance as a partner, thereby boosting its gross margin. Such factors yield significant scale benefits and operating leverage.

5.2.3.1 Online retailer to fashion platform

Following Amazon's footsteps, Zalando has opened up its website to third party retailers selling direct to consumers through its fashion platform. The transition into marketplace in 2000 allowed Amazon to become the largest general retailer in developed markets, as it has given it access to product much faster than it would have otherwise (The Guardian, 2015). Zalando could go through a similar transformation in European fashion. Where there is heavy fragmentation of suppliers (in this case fashion industry) a marketplace can provide significant value to consumers by concentrating all choice and allowing for comparison and filtering.

Zalando offers brands the ability to sell through the Zalando platform, without Zalando itself ever owning the inventory. This gives brands the ability to retain control over the customer data (although it is shared with Zalando) and product pricing. This could potentially trigger a step change in its ability to sign vertically integrated retailers, as they could simultaneously sell the same product through the Zalando platform and their own sites. In 2015, top brands such as Adidas, GAP and Nike signed up to its marketplace together with more than 1,000 individual brand shops (Zalando, 2016a). Where there is heavy fragmentation of suppliers, a marketplace can provide significant value to consumers by concentrating all choice and allowing for comparison and filtering and has very much promise moving forward.

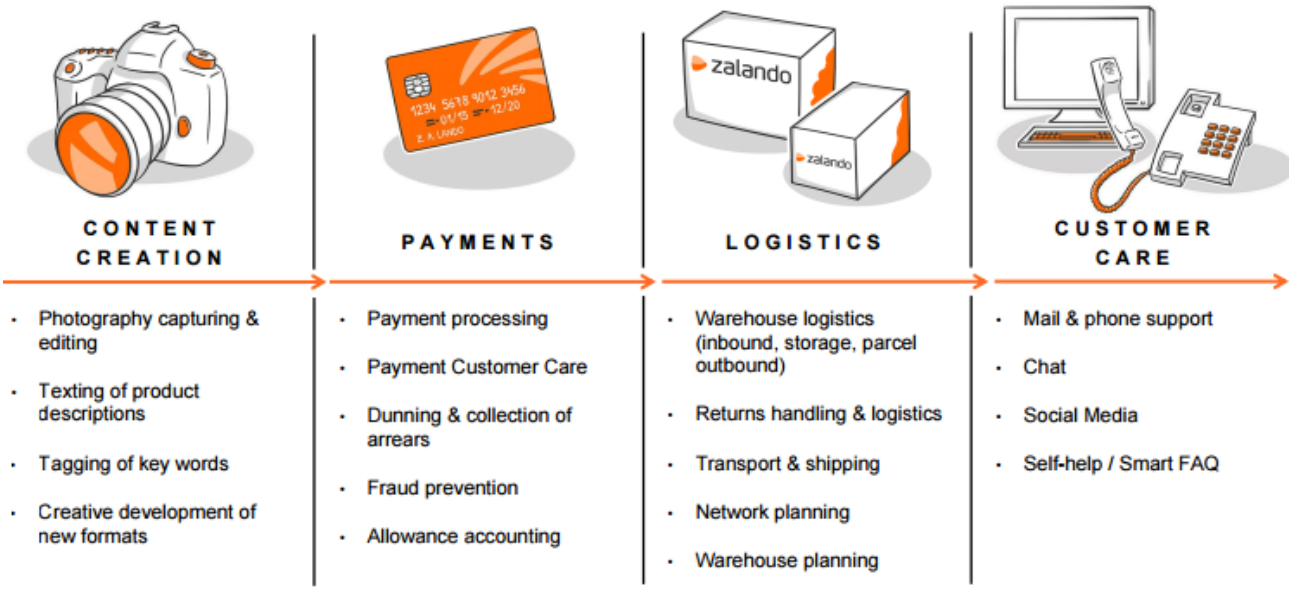
5.2.4 Operations

With operations comprising logistics, customer care, payments and content creation (illustrated Figure 18), it is the largest area of employment and encompasses most customer touch points.

With 200,000 colours and styles from 1,500 brands, and 1,000 new products coming in every day, content creation needs an industrialised approach to cope with the volumes and the need to get new product on the website as soon as the inventory is available. At the same time, it is the shop window, so the way that the product is displayed is important. Zalando has in-house content creation which allows them to ensure high quality of its product presentation. (Zalando 2014b)

Generally, payment in Europe is more than it looks. As well complex as delivery and returns, another area where there are significant differences across e-commerce markets in Europe is in payments. Zalando has probably gone further to localise its payment mechanisms than the vast majority of competing retailers and brands and operates more than 20 different payment methods. The use of local solutions is critical to maintaining high levels of conversion at checkout. One of the many Big Data applications is in payments. (Zalando 2014b, 2016a)

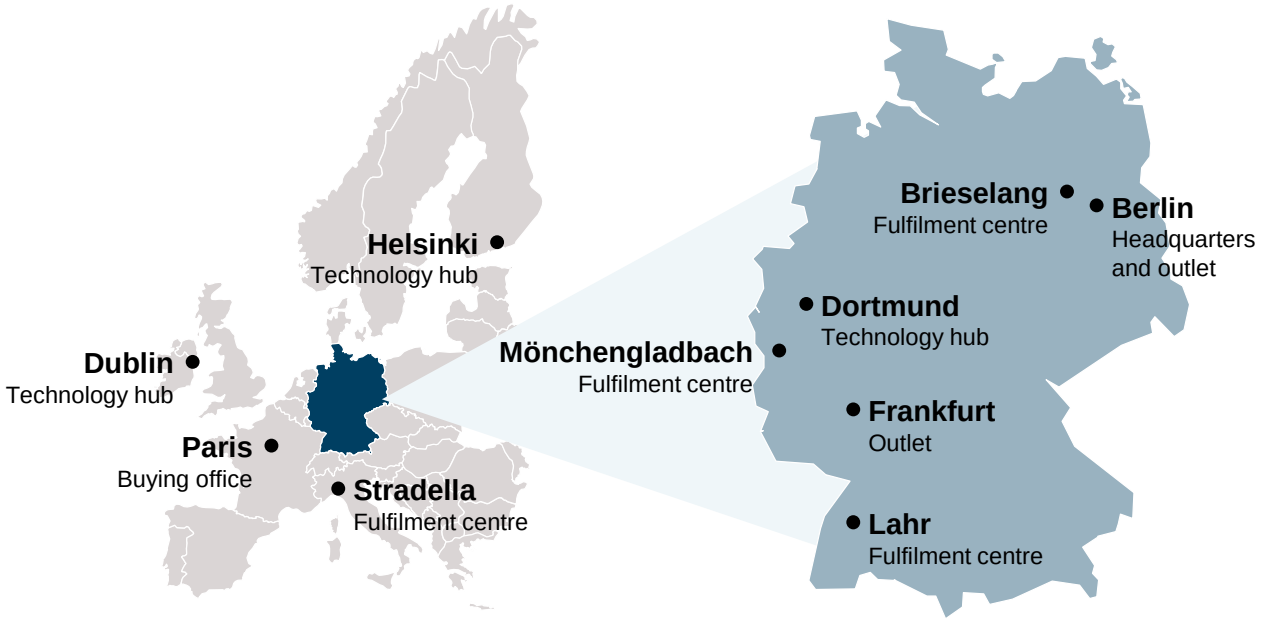
Figure 18: Zalando's operations



Source: Zalando (2016e)

However, its most important activates to achieve a strong competitive advantage is its logistics and technology. Zalando's massive IT resources and agile system development increase its advantages over the competition. Advanced technology in fulfilment centres cuts the costs per handled unit. Extending its connectivity with brands offers faster replenishment of popular articles, translating to higher revenues and gross margins.

Figure 19: Operational footprint



Source: Author's illustration based on Zalando (2016a)

5.2.4.1 Logistics

Zalando's fulfilment centres are strategically situated in mid-Europe with approximately 85% of all customers and 65% of the European population are located within a 750km radius, or 9-hour truck drive. The company manages this infrastructure through its in-house developed proprietary fulfilment IT system. (Zalando 2016a) Spain and Southern Italy are further but small markets for e-commerce at present.

To offer its customers a high level of convenience such as (i) free and fast delivery, (ii) free and easy returns and (iii) free customer support, Zalando has invested in a purpose-built, fully integrated and scalable fulfilment infrastructure consisting of four dedicated fulfilment centres which are strategically located in Germany to efficiently serve its customers throughout Europe. With c. 440,000 m^2 of floor space (at maximum build-out) its existing fulfilment centres will allow Zalando to expand to approximately EUR 7bn in revenue without additional capex needed. Zalando owns the majority of its inventory, which enables it to ship goods immediately on receipt of a customer order.(Zalando 2016a, 2016b)

In order to efficiently serve each of market, Zalando has divided the shipping processes for its customer parcels into two separate steps. First, line-haul transportation between its fulfilment centres and the destination country. Second, in-country delivery within the destination country. Line haul transports are bulk transports carried out by truck. (Zalando, 2014b)

Zalando's fulfilment team manages its fulfilment and return centres, in which the company stores its inventory, process customer orders and handle returns. Stock allocation between the multiple sites is very complex and managed via in-house algorithms and systems. These initiatives reduced

multiple warehouse orders by 30% from 2013 to 2014); however, by pushing slow-moving stock keeping units (or “SKUs”) into the partner programme described in 5.2.3.1, Zalando should be looking to cap the range of inventory that it manages itself.

As previously discussed, return rates for e-commerce are a significant cost for all retailers. For instance, in Germany return rates have historically been at least 50%, demanded by customers and enabled by free returns and payment methods which frequently require the customer to pay only if they keep the item. Zalando’s return rates are approximately 50% and lower in newer markets. However, these high return rates are an asset for large players such as Zalando. In its advertising it plays on the free returns as a method for using one's 'bedroom as a fitting room', thereby minimising perceived risk for the customers of shopping at Zalando’s platform. For foreign and smaller retailers, free returns are a significant barrier to entry without the scale or infrastructure to manage them efficiently. By running eight decentralised return centres throughout Europe, operated mainly by external service providers, Zalando guarantees convenient and fast returns and reimbursement processes for its customers, while allowing the company to reduce logistics costs by bundling return transports. Approximately 99% of returned items are available for re-sale. By using its data bank, the company aims to reduce its return rates through better product presentation including sizing information and recommendation. (Zalando, 2014b)

5.2.4.2 Technology and big data

Zalando has built a robust and highly scalable technology platform, which is based on a combination of proprietary and selected third-party technologies to support customer and brand requirements, including high volumes of data traffic, large numbers of transactions per day, and rapid order fulfilments. It regularly subjects it to stress tests with data loads ten times those of normal operations. These exercises are intended to ensure safety of operation and capability to accommodate continued rapid growth. The company has reconstructed its IT systems numerous times throughout its short history. As the speed of development is very fast, parts of the architecture is independently upgradeable, making the system more agile. (Zalando, 2014b) The company’s internal developed technology solutions include:

- Zalando’s modular back-end process platform manages and integrates various processes integral to carrying out customer orders, including order processing and payment, fulfilment, returns, inventory management, and customer service. (Zalando, 2014b)
- Zalando’s proprietary fulfilment management system runs the company’s fulfilment centres, integrating automation into the warehousing process. This system allows Zalando to manage inventory, track and fulfil orders, and accept returns, as well as to provide real time information on order status and expected delivery time to its service agents. (Zalando, 2014b)
- Zalando has a proprietary fraud detection system which calculates the risk/revenue trade-off more accurately and provides Zalando with control over both the payment experience for its customers and fraud risks. (Zalando, 2014b)

5.3 Financial analysis

This part will focus on the financial statements of Zalando and aims to provide an understanding of the company's current and historical financial position. The analysis will be based on reported income statements, balance sheets and cash flow statements, complemented by the supplementary notes.

The analysis first looks at Zalando's growth and margins which are the core elements of value creation. Companies create value for their shareholders by investing cash today to generate more cash in the future. The amount of value that is created is the difference between cash inflows and the cost of the investments made, adjusted to reflect the fact that tomorrow's cash flows are worth less than today's because of the time value of money and the riskiness of future cash flows. (Koller et al. 2015)

Examining trends in the Zalando's long-run performance will strengthen that the forecasts of future cash flows are made based on reasonable assumptions about the company's key value drivers. Lastly, I assess the company's financial health to determine whether it has the financial resources to conduct business and make investments for growth.

Full income statement, balance sheet, cash flow analysis and a summary of the Company's key metrics can be found in Appendix 1.0 – 1.4.

5.3.1 Accounting Policy

Zalando's historical financial statements in this report follow the International Financial Reporting Standards (IFRS) as adopted by the EU. The condensed interim consolidated financial statements were prepared in accordance with IAS 34 Interim Financial Reporting in conjunction with IAS 1 Presentation of Financial Statements. (Zalando 2016a)

5.3.1.1 Accounting quality

Petersen and Plenborg (2012) argue that is important that accounting policies are the same over time (time-series analysis) and across firms (cross-sectional analysis). This ensures that differences in return on invested capital over time or across firms are not attributed to changes in accounting policies but rather to changes in the underlying profitability of operation. Furthermore, Sales and revenue recognition is of particular interest since the majority of other line items are either directly or indirectly linked to sales in a DCF valuation and should thus be given particular consideration.

Accounting policy can be divided into conservative accounting and liberal accounting. The treatment of development costs clearly displays the difference between the two, where conservative accounting expense development costs and liberal accounting capitalize the development cost. The difference in policy does not affect DCF valuation but it will affect the company comparable analysis (Petersen & Plenborg 2012).

Zalando's historical financials do not contain large amounts of one-offs. The company has very low sales generated from sources other than its core business. Similarly, special items such as restructuring costs, write-downs or other significant line items that significantly reduce conformity

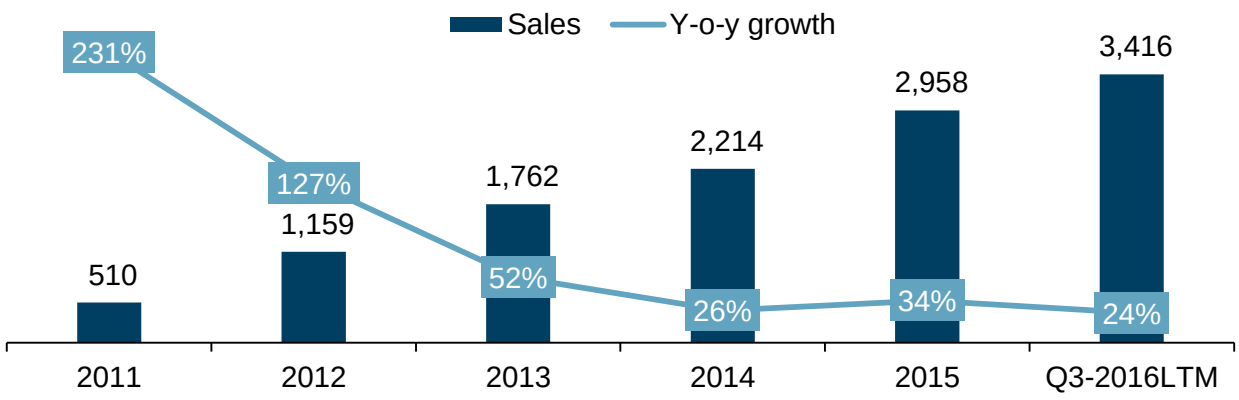
over the years are not present to a larger extent. Zalando's financial statements are transparent and believed to present a representative picture of the financial performance and be indicative for future estimation.

5.3.2 Growth analysis

Sustaining high growth presents a major challenge to companies. Given the natural life cycle of products, the only way to achieve consistently high growth is to consistently find new product markets and enter them successfully in time to enjoy their more profitable high-growth phase. Understanding a company's potential for growing sales in the future is critical to valuation and strategy assessment. (Koller et al. 2015) Historically, Zalando has had a strong focus on increasing sales and, by that, gaining the scale benefits in the market. Figure 20 displays Zalando's top-line development since 2011.

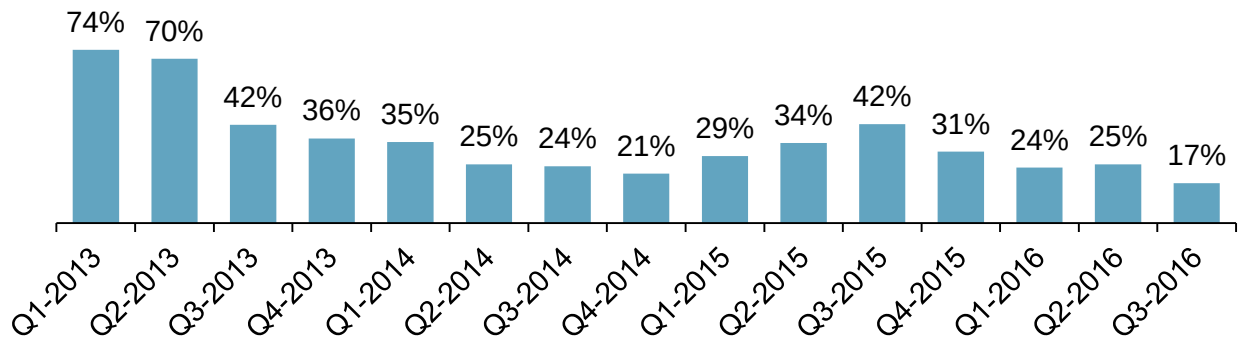
While Zalando's sales growth has decreased from 2011, it has remained at the company's target levels of 20-25% on a LTM basis. As shown in Figure 21, while Zalando's LTM sales growth fulfil this target, for the first time in its history, Zalando's y-o-y growth was below its target level in the third quarter of 2016.

Figure 20: Sales development (EUR million)



Source: Authors illustration based on Zalando (2013 ,2014a, 2015, 2016a)

Figure 21: Quarterly sales growth (y-o-y)



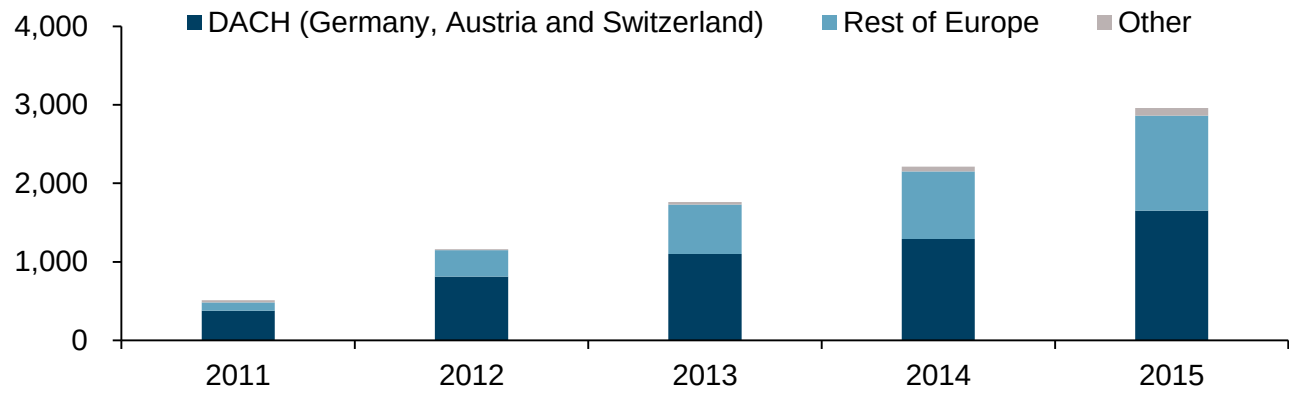
Source: Authors illustration based on Zalando (2013 ,2014a, 2015, 2016a)

Zalando reports revenue on a business area basis, which is broke down in three regions:

- DACH[1] (c. 53% of 2015 sales);
- Rest of Europe (c. 41% of 2015 sales);
- Other[2] (c. 6% of 2015 sales).

DACH remains the largest business area for the group, but with Rest of Europe growing at a faster pace, as illustrated in Figure 22. From 2011 to 2015, Rest of Europe grew at CAGR of c. 84% compared to 43% for DACH and 59% for Other.

Figure 22: Sales by business area (EUR million)



Source: Authors illustration based on Zalando (2013 ,2014a, 2015, 2016a)

[1] Germany, Austria and Switzerland

[2] Lounge, Stores and Partner Programme

Most investors look at ecommerce shares on EV/sales multiple basis. Marketplaces however trade on higher multiples because margins are significantly higher. This leads to lower earnings volatility even if the revenue upside might be lower. They also generate more FCF for the same EBITDA given lower capital needs. The correlation between forward looking EBITDA margin and EV/sales multiple is 0.68. The relationship is illustrated in Figure 23. The relationship indicates that while growth is an important factor, the level of profitable growth and certainty is key in determining market value.

Figure 23: Correlation between EBITDA margin and EV/Sales for global internet shares

Source: S&P Capital IQ (consensus estimates)

5.3.3 Profitability analysis

It is well documented that ROIC is a better analytical tool than return on equity (ROE) or return on assets (ROA) for understanding the company's financial performance. While ROE mixes operating performance with capital structure and ROA includes non-operating assets and ignores the benefits of accounts payable and other operating liabilities, ROIC focuses solely on a company's operations. (Koller et al. 2015) Figure 24 displays the company's ROE and ROIC performance from 2013-2015. However, as there are significant scale benefits, much effort has historically been focused on growth, with its profitability measures distorted due to investments in marketing and other opex to drive sales.

The key driver of Zalando's increase in ROE and ROIC has been the company's margin expansion. From 2013-2015, EBIT margin increased by 10 percentage points. In the following sub-sections, I will discuss the factors effecting its margins.

Figure 24: Historical ROE and ROIC

	2013	2014	2015
ROE	**-23.0%**	**5.6%**	**10.1%**
Net borrowing cost	*-0.8%*	*-0.4%*	*-0.3%*
Net debt / equity	*-75.8%*	*-82.0%*	*-83.5%*
ROIC	**-91.4%**	**42.0%**	**61.1%**
1 - Cash tax rate	*99.4%*	*81.8%*	*140.4%*
EBIT margin	*-6.2%*	*3.7%*	*3.6%*
Revenue / invested capita	*14.2*	*18.0*	*14.5*

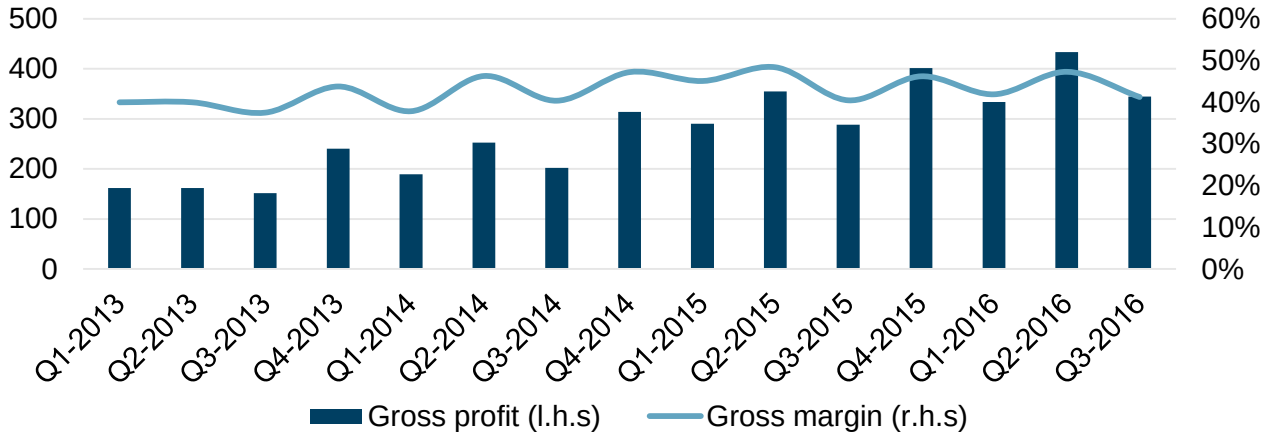
Source: Note: ROIC =NOPAT/Invested Capital or ROIC = (1 - Operating Cash Tax Rate) × EBIT / Revenues × Revenues/(Invested Capital) ; ROE = Net income/Book value of equity or ROE =ROIC + (ROIC – net borrowing costs) × net debt / equity. All balance sheet items are averages of the previous year and current year and figures. (Petersen & Plenborg 2012) All figures adjusted for shareholder based compensation.
Authors illustration based on Zalando (2014a, 2015, 2016a)

5.3.3.1 Gross margins

Zalando's gross margins have tended to be quite volatile, reflecting the extreme rates of growth and the inevitable tension of having sufficient depth and range of stock to maximise growth, and minimising the impact of clearance. Other factors include its category mix shift from shoes to apparel, and the addition of new brands/selection.

Many of Zalando's processes around buying, managing inventory, commercial terms etc. have changed significantly over the past years. Apart from controlling clearance and mark-down, gross margins should be trending up over time as buying scale grows, and own label sales continue to grow.

Figure 25: Zalando's gross profit (EUR) and margin

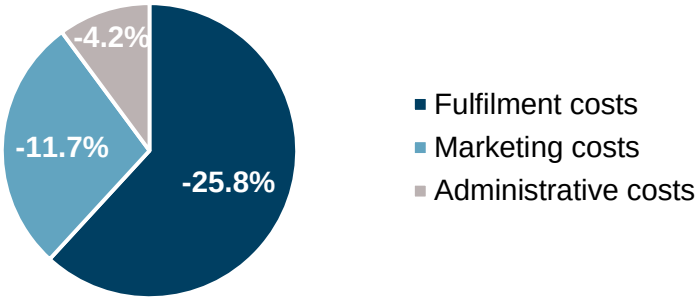


Source: Authors illustration based on Zalando (2014a, 2015, 2016a)

5.3.3.2 Opex trends

In 2015, the breakdown of opex (excl. shareholder based compensation) comprises of 3 key elements, displayed in Figure 26.

Figure 26: Opex breakdown as a % of sales

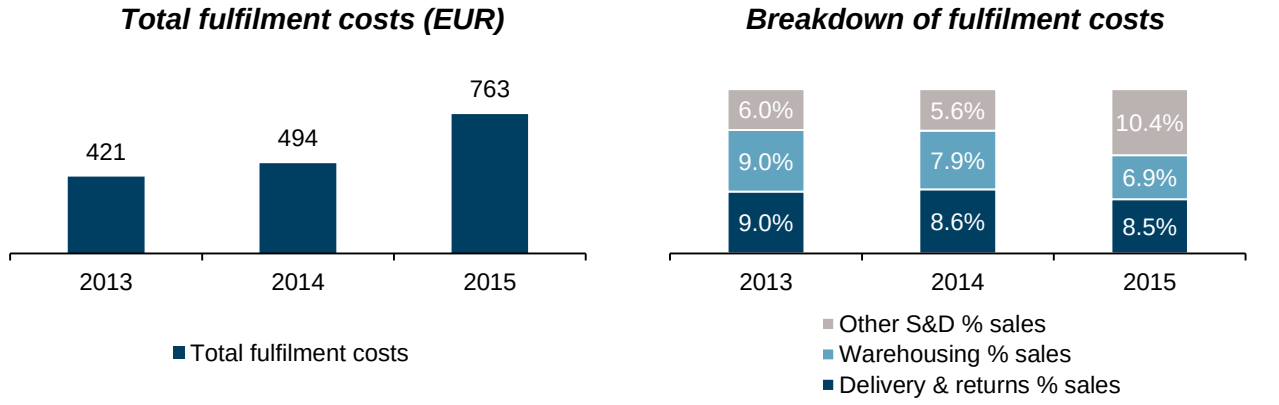


Source: Authors illustration based on Zalando (2016a)

5.3.3.2.1 Fulfilment costs

Fulfilment costs consist of delivery and returns, warehousing, content creation, customer service and payment processing costs. Zalando's fulfilment expense definition differs from some of its e-commerce peers such as Amazon. Zalando's fulfilment expense includes the cost of shipping, whereas Amazon recognises shipping revenue in revenue and shipping cost in cost of goods sold. While Zalando has ramped up the workforce significantly, major part of new employees has been in logistics, which is included in fulfilment costs.

Figure 27: Zalando's fulfilment cost (EUR)



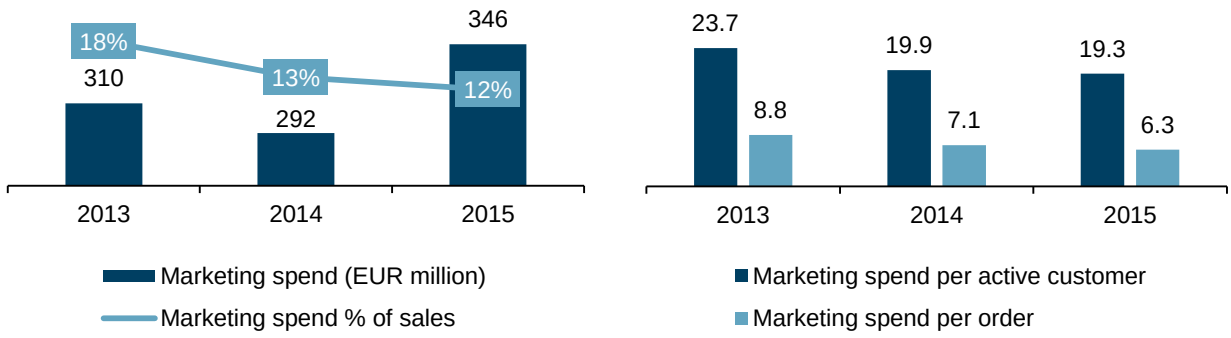
Note: S&D = Selling and distribution costs.
Source: Authors illustration based on Zalando (2014a, 2015, 2016a)

5.3.3.2.2 Marketing costs

To drive rapid growth historically, Zalando has been investing significantly in marketing to grow its brand awareness and achieved it. As shown in Figure 28, Zalando is marketing spend is becoming more efficient although it is increasing in total terms. This does demonstrate what can be achieved

as Zalando matures as well as the scale benefits in its marketing efforts. Furthermore, it is also a testament of the company's ability to leverage big data and more personalised marketing towards its target group, as well as an increasing number of returning customers. That said, it's quite likely that the natural leverage one would expect to be slightly offset by expansion into new products, services or markets moving forward.

Figure 28: Zalando's marketing cost (EUR)

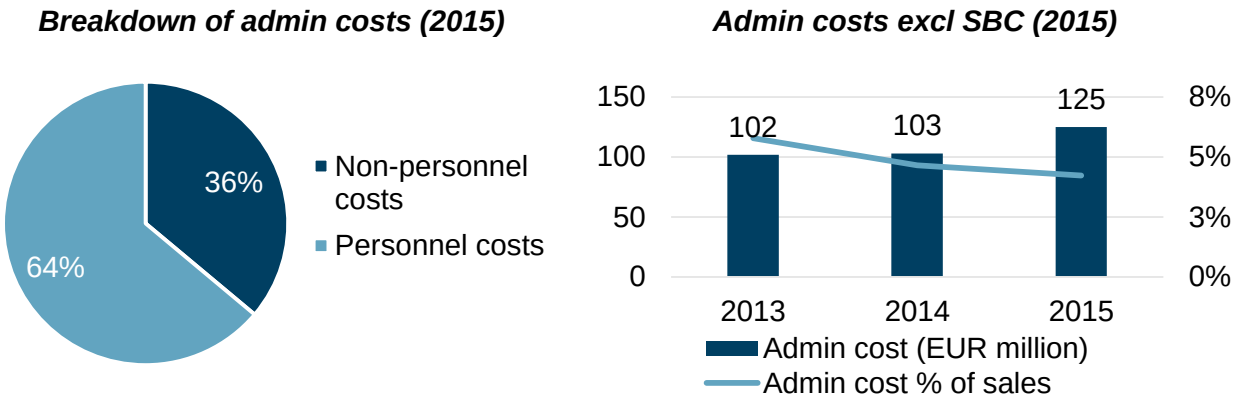


Source: Authors illustration based on Zalando (2014a, 2015, 2016a)

5.3.3.2.3 Administration costs

Administrative expenses mainly consist of personnel costs (excluding logistics), office expenses and advisory and legal costs. These have historically been between 4%-6% of sales.

Figure 29: Zalando's administration costs (EUR million if applicable)



Source: Authors illustration based on Zalando (2014a, 2015, 2016a)

Share based compensation and current option schemes

Share based compensation is provided to all of the top c. 60 members of staff and is a key tool to attract and retain top talent. Option schemes vest equally over four years, but can only be exercised at the end of the scheme.

Table 2: Current option schemes

Million	Vested	Outstanding	Total	Strike price	ITM shares	Proceeds	Share price as per 30/12/2016	Repurchased shares
SOP 2011	*1.72*	*1.01*	*2.73*	*5.65*	*2.73*	*15.43*	*36.13*	*0.43*
SOP 2013	*3.90*	*5.91*	*9.82*	*15.63*	*9.82*	*153.45*	*36.13*	*4.25*
SOP 2014	*1.83*	*4.64*	*6.47*	*17.70*	*6.47*	*114.49*	*36.13*	*3.17*
Total granted	***7.45***	***11.56***	***19.02***		***19.02***	***283.37***		***7.84***

Total outstanding shares, basic	***247.06***
Plus shares from ITM options	*19.02*
Less shares repurshased	*-7.84*
Fully diluted number of shares	***258.23***

Note: ITM = In the money
Source: Authors illustration based on Zalando (2016a)

It should be noted that full exercise of all current share options would bring in EUR 283m in cash, and it is possible that the company uses surplus funds to buy back shares as they vest, which is the assumption made in the calculations of fully diluted number of shares.

Total profit and loss costs were EUR 5.3m in 2013 (0.3% of sales), EUR 19.8 in 2014 (0.9% of sales) and EUR 17.9 in 2015 (0.6% of sales)

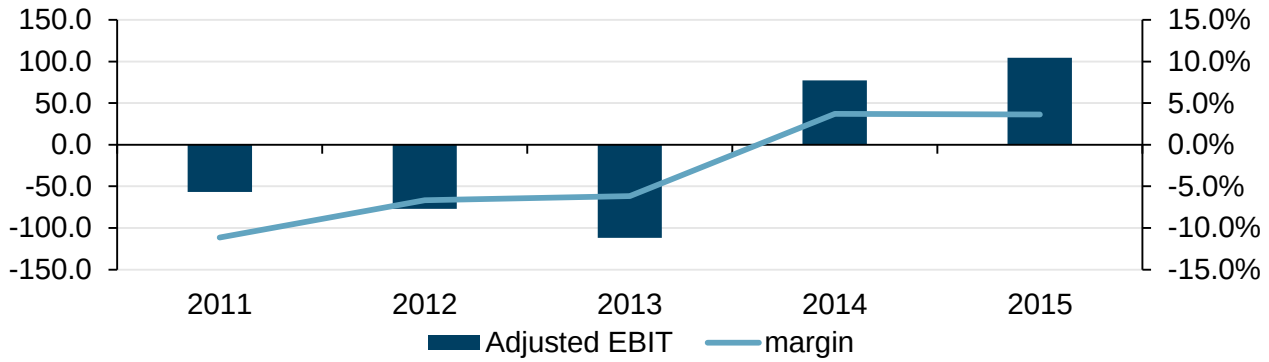
Adjusting for SBC

The majority of SBC costs are included in admin, although they also feature in Cost of Sales and other opex. SBC costs have been separated from all figures, and only included when “reported” is indicated.

5.3.3.3 EBIT

When growing an internet retailer, customers will almost always cost more to acquire than they will initially contribute in profit. Any management team, therefore, faces a balancing act between growth and profitability. Like many other e-tailers, Zalando has so far prioritised growth and building awareness over profitability. As the business has scaled, cost ratios have been improving rapidly and the Zalando’s margin turned positive for the first time in 2014.

Figure 30: Zalando's gross profit (EUR) and margin



Source: Authors illustration based on Zalando (2013, 2014a, 2015, 2016a)

5.3.4 Liquidity risk

Liquidity is a crucial for any business, as it is an requirement to fund profitable investments and, in worst cases, lack of liquidity leads to bankruptcy. Financial ratios are often used to predict a company's short- and long-term liquidity risk. Table 3 summaries some key metrics for Zalando. The current ratio sometimes excludes the impact of inventory. This variation of the current ratio is also defined as the quick ratio. The basic idea of the quick ratio is that only the most liquid current assets are included. (Petersen & Plenborg 2012) Zalando has typically run a flat net working capital position at year end, and as illustrated below, the company is highly liquid covering its short-term obligations as well as having a strong net cash position to fund future growth.

In 2015, Zalando made progress with its platform strategy, in order to build the infrastructure for online and mobile fashion commerce that brings customers, brands and intermediaries together on the Zalando platform. Key enablers for the platform strategy are investments into Zalando's technology and fulfilment capabilities. To strengthen its technology capabilities, Zalando opened tech hubs in Dublin and Helsinki, and increased headcount to approximately 1,000 tech employees.

Table 3: Historical financial ratios

	2013	2014	2015
Current ratio	2.3x	2.1x	2.1x
Quick ratio	1.7x	1.5x	1.5x
Interest coverage ratio	51.5x	48.6x	n.m.
Capex as a % of sales	2.0%	5.5%	3.1%
Capex ratio	2.6x	1.2x	2.3x
Liquidity cycle (days)	-15.9	-15.9	-16.0
Days inventory in hand	111.2	110.2	109.2
Days trade receivable in hand	18.5	18.4	18.4
Days trade payable in hand	-145.6	-144.6	-143.6
Net debt/EBITDA (excl. restricted cash)	-7.7x	-3.8x	-3.3x
Net debt/equity (excl. restricted cash)	-75%	-69%	-70%

Current ratio=(Current assets)/(Current liabilities); Quick ratio=(Current assets-inventory)/(Current liabilities); Interest coverage ratio (cash)=(Operating cash flow)/(Net financial expense); CAPEX ratio =(Operating cash flow)/CAPEX; Liquidity cycle = 365/(COGS/inventory)+365/(revenue/accounts receivable)+365/(COGS/accounts payable). (Petersen & Plenborg 2012)
Source: Authors illustration based on Zalando (2014a, 2015, 2016a)

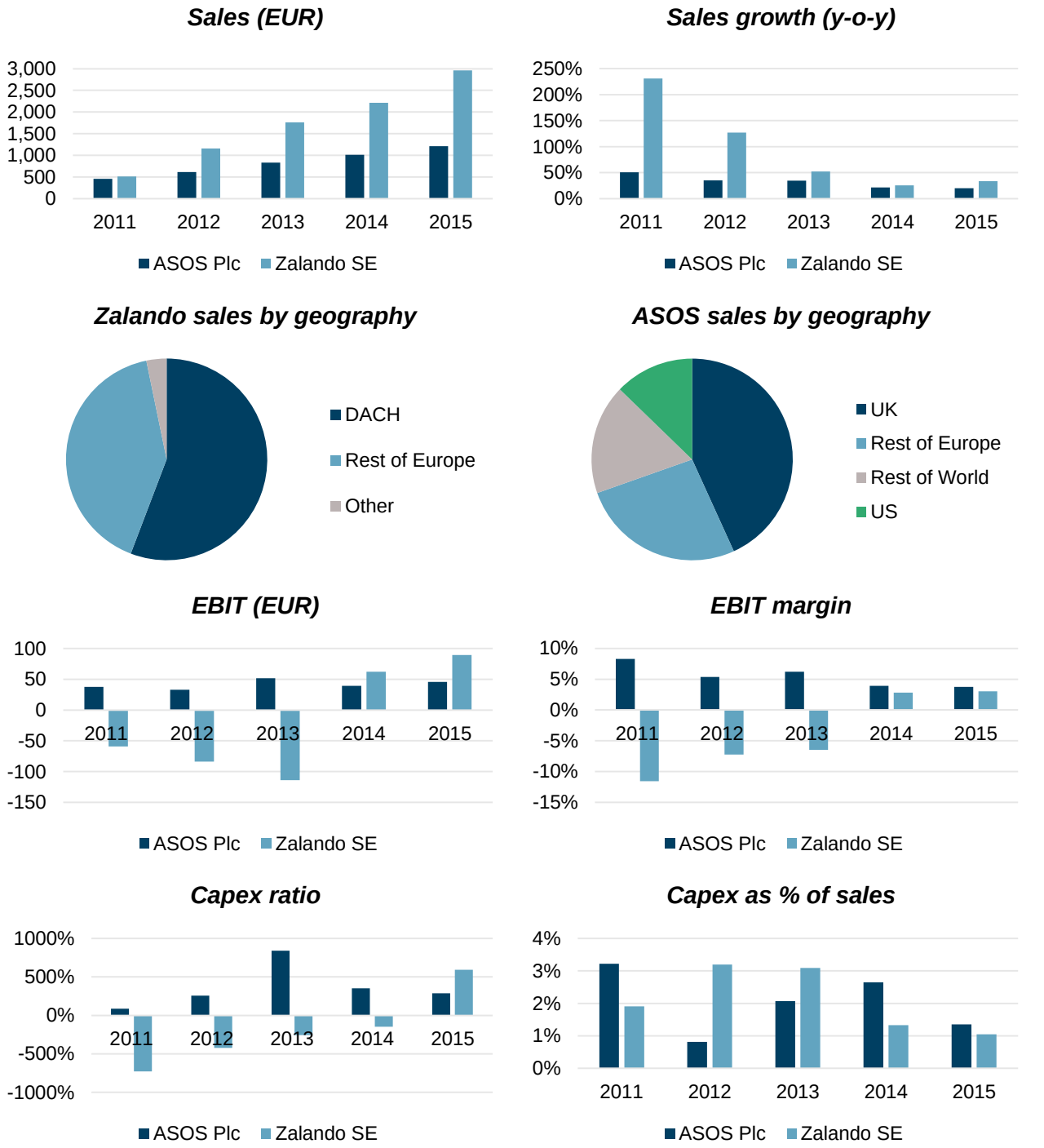
5.3.5 Zalando versus ASOS

ASOS is a very similar business to Zalando and often considered its main peer. Like Zalando, it is a 'pure-play' online retailer based in Europe. Like Zalando, ASOS has managed to achieve significant scale and focused on the mass-market consumer. It too has built a customer proposition centred on offering a wide range of branded goods. To maintain long-term relationships with the brands, it also broadly respects its suppliers' suggested pricing architecture. While Zalando is already twice the size of ASOS, ASOS is still very much a 'growth story' with both businesses are growing sales at similar rates.

While ASOS has a much more defined customer demography (ages 16-25 represent approximately 50% of sales), it is targeting that segment worldwide. ASOS is attempting to build a global business, while Zalando is pursuing a multi-local strategy in Europe.

Another strategic difference between the two businesses is that Zalando has deliberately placed much greater emphasis on growth than ASOS. ASOS's management, while still wanting to grow rapidly, has long since taken the view that delivering profits, and generating enough cash to self-fund its expansion, is important. Because it has given much greater priority to growth, Zalando has grown far more quickly than ASOS, with the scale benefits in the market being evidence in Zalando's profitability in the latter years. Zalando's operating costs metrics have been improving significantly in recent years, as the business benefits from the scale that it has achieved. By contrast, ASOS does not seem to be seeing any significant benefit from operating leverage. On the contrary, its opex-to sales ratio has actually been rising in recent years.

Figure 31: Zalando vs. ASOS in graphs



Source: Authors illustration based on Zalando (2013 ,2014a, 2015, 2016a), ASOS (2013, 2014, 2015, 2016)

5.4 Summary

The findings from the strategic and financial analysis are summarised and concretised into key strengths, weaknesses, opportunities and threats (SWOT) to create a clear transition into the forecasting section. In addition, the opportunities and threats identified lay the groundwork for the scenario analysis in section 7.1.2.2. Table 4 summaries the SWOT analysis.

Table 4: SWOT

Strengths	***Weaknesses***
▪ Unique market position ▪ Operating leverage ▪ Considerable IT resources ▪ Broad assortment ▪ Innovative	▪ Short track-record ▪ Competitive market ▪ High return-rates
Opportunities	***Threats***
▪ Continuation of structural shift in fashion towards online ▪ Third party marketplace ▪ New geographical markets ▪ Extending platform with new product categories	▪ Execution risk in expansion ▪ Increased competition from vertically integrated, local and global players ▪ Margin pressure in a competitive market

Source: Authors illustration

Zalando clearly has strengths and opportunities which outweigh its weaknesses and threats. However, these are in many cases interrelated. Zalando is very well positioned to become a European champion in fashion due to its strong technological and operational capabilities. Zalando is a data-driven company with technology lying at the heart of all the products and services offered on its platform while underpinning all of its internal processes – and master IT and logistics is key in ecommerce.

The major threat that is fronting Zalando is the execution risk in growing 20-25% (company's target) and expanding to new geographies, widen its assortment, introducing new product-lines, etc. While the company has been up to the task to date, the track-record is relative short and yet to be proven. The greatest challenge in creating an effective fashion platform is being able to use data to curate the content for each user. Also, while there are entry and size barriers in the market, there is a risk of losing the localisation factor (i.e. adapting assortment based on market) when growing too large. This can be seen in the rise of Boozt.com in Nordics since 2013.

Furthermore, while vertically integrated players today lack the online infrastructure, the structural shift to online fashion can force them to invest and change their business model. Competition may also increase from giant players such as Amazon who have the financial capabilities compete more aggressively, but today lack the focus on fashion. This scenario is reflected in my bear scenario in section 7.1.2.2.2.

That said, Zalando has some clear opportunities ahead of them. Zalando has a scalable website and the capabilities to deal with large scale fulfilment and delivery to all of continental Europe. Zalando has the leading European fashion platform, and the growth of its marketplace strategy can transform the European fashion market. Where there is heavy fragmentation of suppliers, a marketplace can provide significant value to consumers by concentrating all choice and allowing for comparison and filtering. Zalando's has a strong case to attract new brands to their platform could also attract large vertically integrated retailers such as H&M and Zara, who are today not willing to sale wholesale. The success of the Zalando's marketplace scenario is reflected in my bull scenario in section 7.1.2.2.1.

6 Forecasting

After Zalando's IPO in 2014, the company has increased its focus on expansion and a goal of maintaining annual revenue growth of 20-25%. At the same time, the profitability of the company is steadily increasing as a result of the significant scale benefits in the industry. This section provides the forecast of Zalando's financials based on the previous information and analysis in this report, namely the industry forces and the company specific abilities. As all financial forecasting is based on no more than educated assumptions, it involves a high degree of uncertainty. Complete income statement, balance sheet and cash flow forecasts can be found in Appendix 1.0 – 1.3.

6.1 Forecast period

As the time goes by the uncertainty for every assumption becomes larger. Thus, it is prefer-able to divide the forecasting into an explicit period and then value the remaining cash flows as a perpetuity. The most important parameter to consider when deciding on the length of the explicit forecasting period is if steady state has been achieved, i.e. when the company's capital earns a constant rate of return (Koller et al. 2015).

Koller et al. (2015) further argue that the explicit period should be between ten and fifteen years in most cases. A shorter period commonly underestimates the company's intrinsic value or it has to be compensated in the continuing value. They also recommend that the explicit period is split into two part, the first lasting for the first five to seven years while the second lasts for the remainder. The first period will be as comprehensive as possible whereas the second period focuses on fewer drivers and is less detailed.

Following these guidelines, the explicit forecasting period will extend for 11 years, i.e. from 2016E-2026E since that period will be sufficient to forecast the expansion of stores and enough to converge to the steady state. Furthermore, the more detailed period will stretch for the first six years, i.e. 2016E-2021E and the second period will stretch for the remainder of the period i.e. 2021E-2026E. As 3 quarters of actual data is available for 2016E, it is less impacted by the assumptions and have been calculated on a run-rate basis (normalised for seasonality).

6.2 Income statement

The following subsections will address the forecast of the line items on the income statement. The fully projected income statement can be viewed in its completeness in Appendix 1.0.

6.2.1 Zalando's targets

Zalando's own long-term financial targets easily render an EBIT margin target of around 10%. Even though the company is young and its history is limited, we note that management's guidance so far has generally been on the low side compared to the outcome Zalando is targeting medium-term sales growth of c. 20-25%. (Zalando 2016a)

Table 5: Zalando's financial targets

	2013	2014	2015	Zalando's target
Gross margin	40.6%	43.5%	45.3%	~45% – 47%
Fulfilment costs	23.9%	22.3%	25.8%	~24% – 25%
Marketing costs	17.6%	13.2%	11.7%	~6% – 8%
Admin + other costs	5.3%	4.4%	4.1%	~4% – 5%
EBIT	-6.2%	3.7%	3.6%	~7% – 13%

Source: Authors illustration based on Zalando (2016e)

6.2.2 Sales

Generally, long-term sales growth for large companies is largely driven by the growth of the markets in which they operate. Although advances in market share contribute to sales in the short term, these are far less important for long-term growth. (Koller et al. 2015)

Assuming an annual growth rate of c. 2% for the overall Western European fashion market and a 10% annual growth rate for the online fashion market between 2017-22, the online market would move from a share of 13.5% of the total market in 2016E to 25.2% in 2026E. Based on my revenue estimates for Zalando, the company would move from a market share of 8.2% of the online fashion market in 2016E to 14.2% in 2024 and its share of the overall market would move from 1.1% in 2016E to 3.2% in 2026E.

Table 6: Market drivers

EURm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Total fashion market (Western Europe)	**329,256**	**335,114**	**342,217**	**350,707**	**359,913**	**369,829**	**377,226**	**384,770**	**392,465**	**400,315**	**408,321**	**2.2%**
% chg		*1.8%*	*2.1%*	*2.5%*	*2.6%*	*2.8%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	
Online fashion market (Western Europe)	**44,450**	**48,895**	**53,784**	**59,162**	**65,079**	**71,586**	**78,745**	**85,635**	**92,058**	**97,812**	**102,702**	**8.7%**
% chg		*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*8.8%*	*7.5%*	*6.3%*	*5.0%*	
Offline share	*86.5%*	*85.4%*	*84.3%*	*83.1%*	*81.9%*	*80.6%*	*79.1%*	*77.7%*	*76.5%*	*75.6%*	*74.8%*	
Online share	*13.5%*	*14.6%*	*15.7%*	*16.9%*	*18.1%*	*19.4%*	*20.9%*	*22.3%*	*23.5%*	*24.4%*	*25.2%*	
Zalando sales	**3,635**	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	**13.5%**
Share of total market	*1.1%*	*1.3%*	*1.6%*	*1.8%*	*2.1%*	*2.4%*	*2.5%*	*2.7%*	*2.8%*	*3.0%*	*3.2%*	
Share of online market	*8.2%*	*9.0%*	*9.9%*	*10.7%*	*11.5%*	*12.2%*	*12.2%*	*12.1%*	*12.1%*	*12.2%*	*12.5%*	

Source: Authors illustration. Total fashion market forecast 2016-2021 and online fashion market 2016 sourced from Eurostat.

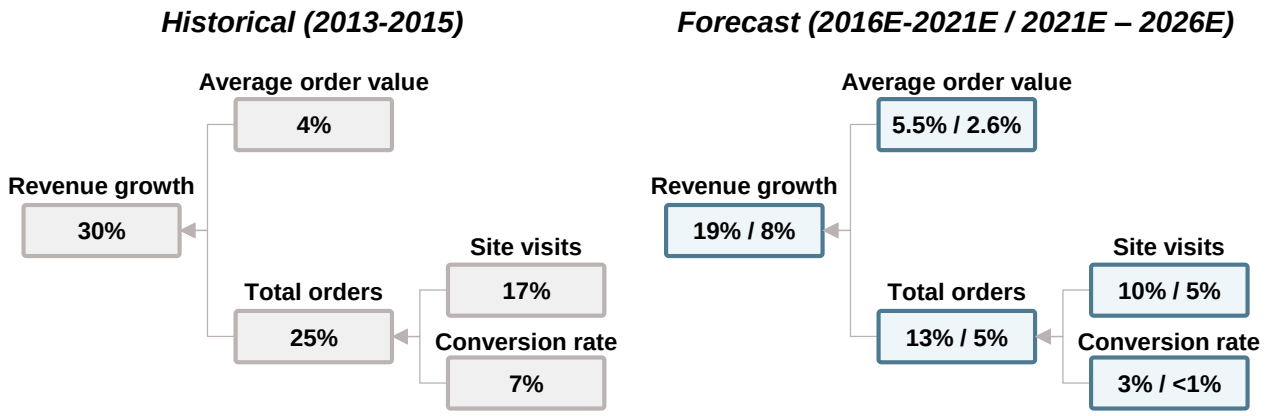
I argue that the conceivable limits for market share in the highly fragmented European fashion market, even for dominant brands or mono-brand retailers, does not apply in the same way to Zalando, as it is a multi-brand retailer and a fashion platform. The diversity of the European market can be viewed as an important opportunity for Zalando in relation to today's strong mono-brand

names. Both large global brands and small local brands will indirectly benefit from a larger Zalando, as it offers inroads on strong mono-brand players.

Going forward, the factors which can impact Zalando's revenue growth aside from consumer sentiment in each territory will include: 1) marketing spend, 2) launch in new territories, 3) addition of new product categories, as well as 4) site enhancements to improve conversion rates.

Figure 32 breaks down the sales drivers and compares the forecast period to historical figures.

Figure 32: Sales CAGR breakdown



Source: Authors illustration based on Zalando (2015, 2016a)

First, I assume site visits will increase in-line with the market forecast. However, this should be viewed as conservative as Zalando has a strong track record of beating the market through its marketing campaigns. Second, I assume the conversion rate will increase to a steady state of 4% in 2022E. Third, average order value (for forecasting purposes calculated as sales/number of orders) is assumed to increase with a CAGR of 4.1% as a results of the company's continuous efforts on recommended products and personalisation.

Trailing 12-month revenues and number of active customers implies that the average customer spends about EUR 150 with Zalando annually.(Zalando 2016b) It is likely that the typical Zalando customer spends more on fashion than the average person, but assuming expenditures in line with the per capita average implies that the average customer today allocates just below 25% of her or his fashion budget to Zalando. Customers have gradually increased their spending with Zalando over the past years, but at least 75% of their budget is still spent elsewhere. Given the very wide selection, offering a one-stop-shop with ~1,500 local and global brands, there is good potential for Zalando's share of wallet to keep expanding and increase average order value.

Table 7: Sales drivers

	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Online fashion market (EURbn)	42.0	44.4	48.9	53.8	59.2	65.1	71.6	78.7	85.6	92.1	97.8	102.7	8.7%
Online market (% chg)		*5.8%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*8.7%*	*7.5%*	*6.3%*	*5.0%*	
Zalando													
Site visits (m)	1,656	1,822	2,004	2,204	2,425	2,667	2,934	3,080	3,234	3,396	3,566	3,744	7.5%
% chg	*21.4%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	
Conversion rate	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	1.5%
Number of orders (m)	55	63	71	80	91	102	116	123	129	136	143	150	9.1%
% chg	*33.6%*	*13.3%*	*13.2%*	*13.1%*	*13.0%*	*12.9%*	*12.9%*	*6.6%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	
AOV (EUR)	53	58	62	66	70	73	76	78	80	82	84	86	4.0%
% chg	*0.0%*	*8.5%*	*7.5%*	*6.5%*	*5.5%*	*4.5%*	*3.5%*	*3.0%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	
Group sales (EURm)	**2,958**	**3,635**	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	**13.5%**
% chg	*33.6%*	*22.9%*	*21.9%*	*19.6%*	*18.6%*	*16.9%*	*15.0%*	*13.0%*	*11.0%*	*9.0%*	*7.0%*	*5.0%*	

Note the adjusted EBIT excludes share based compensation costs. AOV = average order value, calculated historically as net sales / number of orders.
Source: Author's estimates. Zalando (2013 ,2014a, 2015, 2016a)

The online fashion market growth combined with Zalando's marketing efforts drive people to its site. The companies offering, technology, and value-add services convert visitors to customers (which translates to orders) and determine the average order value. Group sales is forecasted by multiplying number of orders with average order value.

Furthermore, I expect Zalando to continue to expand its presence in the rest of Europe, with the segment growing with a CAGR of 17.3% and reaching 60% of the group's sales in 2026E.

Table 8: Zalando's sales growth

EURm	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Group Sales	**1,762**	**2,214**	**2,958**	**3,635**	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	**13.5%**
- DACH	1,056	1,234	1,580	1,803	2,129	2,486	2,870	3,277	3,700	3,921	4,068	4,215	4,360	4,503	9.6%
% of sales	*60%*	*56%*	*53%*	*50%*	*48%*	*47%*	*45%*	*44%*	*42%*	*41%*	*39%*	*38%*	*36%*	*35%*	
- Rest of Europe	630	863	1,212	1,578	1,993	2,488	3,071	3,748	4,522	5,124	5,684	6,300	6,976	7,719	17.2%
% of sales	*36%*	*39%*	*41%*	*43%*	*45%*	*47%*	*48%*	*50%*	*52%*	*53%*	*55%*	*57%*	*58%*	*60%*	
- Other	76	117	167	254	300	351	406	464	524	556	578	600	622	643	9.7%
% of sales	*4%*	*5%*	*6%*	*7%*	*7%*	*7%*	*6%*	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*	*5%*	

Source: Authors estimates

6.2.3 Gross margins

For 2016-2026E I model a rather steady increasing gross margin from the 2016 level, which is in line with Zalando's long-term target. However, I see upside to the long-term gross margin estimates from scale advantages in terms of improving sourcing terms with higher flexibility, as well as from the platform strategy. That said, Zalando may choose to reinvest such upside in its customer offering, opting for higher growth. For that reason I model a careful strengthening of the gross margin from 2016 and onward.

Table 9: Zalando's gross profit and margin development

EURm	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Group Sales	2,958	3,635	4,422	5,325	6,348	7,489	8,746	9,601	10,330	11,114	11,958	12,866	13.5%
Cost of sales	-1,620	-2,017	-2,447	-2,939	-3,494	-4,111	-4,788	-5,242	-5,624	-6,035	-6,475	-6,947	13.2%
% of sales	*-55%*	*-55%*	*-55%*	*-55%*	*-55%*	*-55%*	*-55%*	*-55%*	*-54%*	*-54%*	*-54%*	*-54%*	
Adjusted gross profit	**1,339**	**1,618**	**1,975**	**2,386**	**2,854**	**3,378**	**3,958**	**4,359**	**4,706**	**5,080**	**5,483**	**5,918**	**13.8%**
% of sales	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*46%*	*46%*	*46%*	*46%*	

Note the adjusted COGS excludes share based compensation costs.
Source: Author's estimates.

6.2.4 Operating expenditures

Table 10 summaries the opex development 2016E-2017E by line item.

Table 10: Opex development

EURm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Total opex	**-1,414**	**-1,706**	**-2,036**	**-2,405**	**-2,813**	**-3,255**	**-3,541**	**-3,775**	**-4,024**	**-4,289**	**-4,572**	**12.4%**
% of sales	*-39%*	*-39%*	*-38%*	*-38%*	*-38%*	*-37%*	*-37%*	*-37%*	*-37%*	*-36%*	*-36%*	
Fulfilment costs	-865	-1,055	-1,275	-1,524	-1,803	-2,112	-2,325	-2,509	-2,707	-2,921	-3,152	13.8%
% of sales	*-24%*	*-24%*	*-24%*	*-24%*	*-24%*	*-24%*	*-24%*	*-24%*	*-24%*	*-24%*	*-25%*	
Marketing costs	-373	-439	-512	-589	-671	-755	-797	-824	-850	-876	-901	9.2%
% of sales	*-10%*	*-10%*	*-10%*	*-9%*	*-9%*	*-9%*	*-8%*	*-8%*	*-8%*	*-7%*	*-7%*	
Administrative costs	-181	-216	-256	-300	-347	-398	-429	-453	-478	-504	-531	11.4%
% of sales	*-5%*	*-5%*	*-5%*	*-5%*	*-5%*	*-5%*	*-4%*	*-4%*	*-4%*	*-4%*	*-4%*	

Note the figures excludes share based compensation costs.
Source: Author's estimates.

6.2.4.1 Fulfilment costs

In the longer term, I expect Zalando to reap additional scale benefits, cutting cost per handled item in warehouses and renegotiating terms with freight forwarders. On the other hand, additional investments in the distribution footprint will be required as peripheral markets grow in importance. I model a rather modest increase in fulfilment-to-sales from 2016-26, with the cost ratio remaining slightly higher than the level accomplished in 2015. As such, I maintain there is a certain measure of conservatism in my estimates.

As its purchasing activities from vendors are on a global basis, I do not foresee a regional mix in this case but instead the impact manifests itself on the regional operating profit line as the incrementally higher cost to ship outside the core DACH regions generally skews higher.

6.2.4.2 Marketing costs

As described earlier, marketing has already been the largest contributor to cost leverage over the past 3 years. I expect these costs to increase in the coming years, as Zalando aims to expand rapidly, but at a slower pace than the revenue growth. This should continue given that each year a

higher % of sales is derived from returning customers in combination with better utilisation of big data in its marketing efforts. Ultimately, the marketing cost will be dependent on if Zalando focuses on high growth in new markets, in which it would need considerable marketing efforts. Hence, while marketing costs are expected to decrease, I estimate a steady state at approximately 7% of sales.

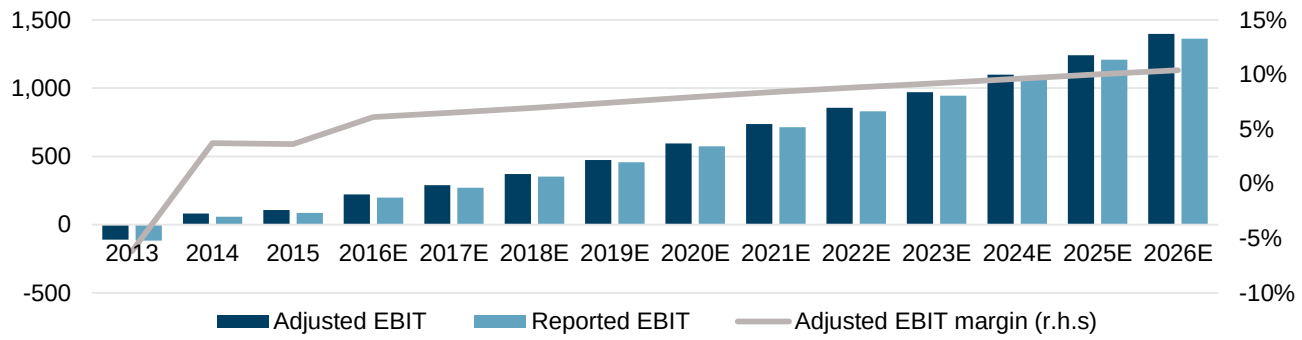
6.2.4.3 Administrative costs

Zalando guides for administrative expenses together with other operating income and expenses to trend toward c. 4-5% of sales, which is the basis of my forecast.

6.2.5 EBIT

I forecast Zalando's EBIT (excl. SBC) to increase six fold from 2016 to 2026E, corresponding to an earnings CAGR of 26%, and implying a margin growth from 3.6% in 2015 to 10.4% in 2026E.

Figure 33: EBIT development



Note the adjusted EBIT excludes share based compensation costs.
Source: Author's estimates. Zalando (2014a, 2015, 2016a)

6.2.6 Net income

6.2.6.1 Net financial expense

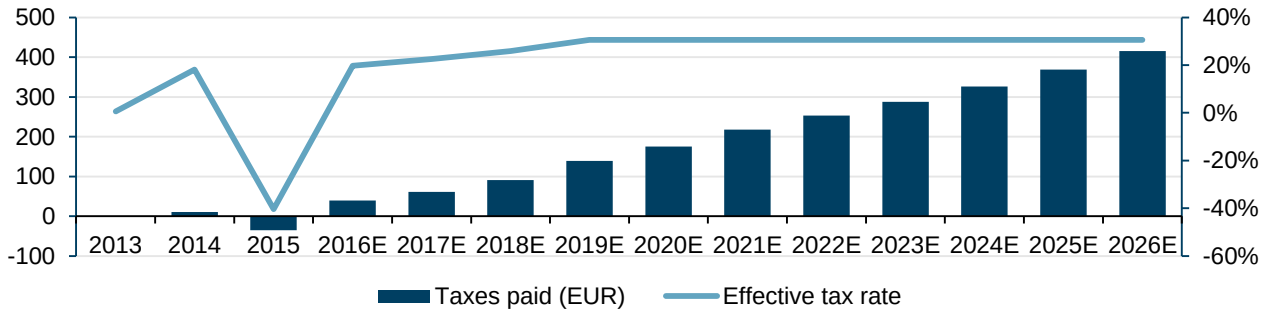
Zalando will be operating a balance sheet with a substantial degree of net cash. With interest rates as low as they are in Europe at present, and with the flexibility of new debt facilities, I would expect Zalando to use its otherwise unproductive cash balances tactically. I forecast its cash increasing to c. EUR 2 billon by 2020E and to c. EUR 6 billon by 2026E, but I only assume an interest rate of 0.25-0.5%. If it were to distribute the cash to shareholders or invest it in M&A, the investments will easily be accretive – another argument why P/E multiples are less preferred than EV/EBIT or EV/EBITDA multiples for internet stocks, including Zalando.

6.2.6.2 Tax rate

As Zalando has close to zero financial debt and carries cash of EUR 1 billon, the financial result should be modest and if anything slightly positive. Thus the operating result translates fairly unchanged to pre-tax profit. Zalando has historically held substantial tax losses carried forward, worth EUR 193.6m at year-end 2015, and given the German standard corporate tax rate of 30.5%,

this results in potential tax savings of c. EUR 59 million. Thus, the company should pay a lower than normal tax for some years going forward. In any given year losses can only be fully offset on profits up to EUR 1 million but only 60% of profits above EUR 1 million can be offset. The tax forecast assumes a lower effective tax rate until 2018E and can be found in Appendix 1.2.

Figure 34: Tax forecast



Source: Author's estimates. Zalando (2014a, 2015, 2016a)

6.2.7 Sector peer comparisons

There are notable differences between the peer companies, but all are online fashion pure-plays. YOOX has a niche in the luxury segment operating globally, while boohoo.com sells only private labels, ASOS is very focused on a young audience, also with a global ambition; meanwhile Zalando targets wider customer segments, focused on Europe. As illustrated below, Zalando's growth and profitability is well in-line with its peers. The high sales and EBIT growth estimates for all peers signal that the market sees strong scale benefits, with all players growing at a faster rate than the market is expected to.

Table 11: Sales growth estimates

Sales growth (y-o-y)	2016E	2017E	2018E	2019E	2020E
ASOS Plc	25.7%	25.8%	23.1%	20.4%	21.4%
boohoo.com plc	37.0%	48.4%	37.5%	26.4%	30.3%
YOOX Net-A-Porter Group S.p.A.	13.8%	18.5%	17.7%	18.3%	15.7%
Amazon.com, Inc.	27.7%	22.8%	21.0%	16.4%	14.8%
Zalando (author estimates)	22.9%	21.9%	19.6%	18.6%	16.9%
Zalando (consensus)	24.4%	22.2%	22.7%	19.8%	15.8%

Note: All estimates (except author's) are consensus.
Source: Authors illustration based on data from S&P Capital IQ

Table 12: EBIT growth estimates (reported EBIT)

EBIT growth (y-o-y)	2016E	2017E	2018E	2019E	2020E
ASOS Plc	19.8%	29.0%	30.9%	27.5%	28.7%
boohoo.com plc	26.4%	80.6%	24.5%	27.8%	25.5%
YOOX Net-A-Porter Group S.p.A.	109.4%	12.6%	32.4%	35.8%	37.1%
Amazon.com, Inc.	83.0%	72.1%	68.3%	48.1%	35.0%
Zalando (author estimates)	127.3%	32.7%	29.2%	28.4%	26.1%
Zalando (consensus)	122.9%	34.4%	34.6%	33.6%	21.8%

Note: All estimates (except author's) are consensus.
Source: Authors illustration based on data from S&P Capital IQ

Table 13: EBIT margin estimates (reported EBIT)

EBIT margin %	2016E	2017E	2018E	2019E	2020E
ASOS Plc	4.3%	4.4%	4.6%	4.9%	5.2%
boohoo.com plc	7.8%	9.5%	8.6%	8.7%	8.4%
YOOX Net-A-Porter Group S.p.A.	5.2%	4.9%	5.5%	6.3%	7.5%
Amazon.com, Inc.	3.0%	4.2%	5.8%	7.4%	8.7%
Zalando (author estimates)	5.6%	6.1%	6.6%	7.1%	7.5%
Zalando (consensus)	5.4%	6.0%	6.5%	7.3%	7.7%

Note: All estimates (except author's) are consensus.
Source: Authors illustration based on data from S&P Capital IQ

6.3 Balance sheet and cash flow

To arrive at the free cash flow (FCF), a complete forecast is required for all individual line items on the balance sheet. The complete forecasted balance sheet can be found in Appendix 1.1 and the cash flow statement can be found in Appendix 1.2.

6.3.1 Working capital

I anticipate that Zalando will remain working capital neutral with only very small outflows for working capital requirements. The company carries a large inventory as a result of its broad offering, estimated to be EUR 604 million in 2016E and 110 days inventory in hand. However, its inventory levels are expected to decrease (assumed 1 day per year) as Zalando's supplier terms improve with increased re-order flexibility, the number of articles decrease while supporting a higher sales base, and as the platform strategy grabs a larger share of sales. However, as the platform strategy is yet to be tested, its effect on working capital is yet to be seen. As such, it is not priced in the estimates below – providing an upside potential for releasing additional cash.

Zalando has historically run a flat net working capital (NWC) position at year end and while there are several variables affecting NWC both positively and negatively, I assume that working capital will remain broadly flat (slightly increasing release of cash) over the forecast period.

Table 14: Working capital forecast

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Inventories	**609**	**732**	**871**	**1,026**	**1,196**	**1,380**	**1,497**	**1,591**	**1,690**	**1,796**	**1,908**
% of sales	16.8%	16.6%	16.4%	16.2%	16.0%	15.8%	15.6%	15.4%	15.2%	15.0%	14.8%
Days inventory in hand	110.2	109.2	108.2	107.2	106.2	105.2	104.2	103.2	102.2	101.2	100.2
Trade and other receivables	**183**	**223**	**267**	**318**	**374**	**435**	**477**	**511**	**549**	**589**	**632**
% of sales	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Days trade receivable in hand	18.4	18.4	18.3	18.3	18.2	18.2	18.1	18.1	18.0	18.0	17.9
Trade and other payables	**799**	**963**	**1,148**	**1,355**	**1,584**	**1,831**	**1,990**	**2,120**	**2,258**	**2,405**	**2,562**
% of sales	22.0%	21.8%	21.6%	21.4%	21.1%	20.9%	20.7%	20.5%	20.3%	20.1%	19.9%
Days trade payable in hand	-144.6	-143.6	-142.6	-141.6	-140.6	-139.6	-138.6	-137.6	-136.6	-135.6	-134.6
Net working capital	**-6**	**-8**	**-9**	**-11**	**-13**	**-15**	**-17**	**-18**	**-20**	**-21**	**-23**

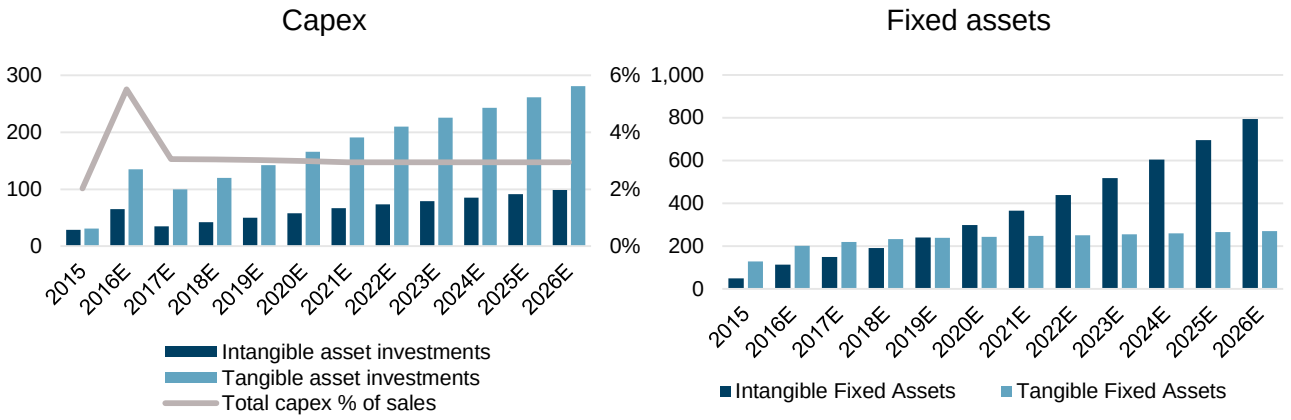
Source: Author's estimates

6.3.2 Fixed assets

Aside from working capital, Zalando maintains a relatively capital-light model, with most property being leased. In-line with its peers, software development costs are capitalised until the relevant project or system goes live. I expect its intangible assets to drive the majority of value in its fixed asset base.

As described previously, Zalando is very well-invested. The fulfilment footprint is expanded in 2016 with a large fulfilment centre build out in Lahr, Germany, and first satellite warehouse in Stradella, Italy, which explains the relatively higher share of capex spent in 2016E. This makes Zalando very well-invested. With 440,000 m^2 of floor space (at maximum build-out) its existing four fulfilment centres allows Zalando to expand to approximately EUR 7bn in revenue without additional capex needed. I therefore forecast the level of capex staying at approximately 3% of sales moving forward.

Figure 35: Fixed asset and capex



Source: Authors illustration based on Zalando (2016a)

6.3.3 Free cash flow

Zalando is also expected to be very cash generative due to its low capex and its fully invested warehouse facility that is working on c. 50% capacity. I forecast that Zalando will operationally see a FCF of EUR 43 million in 2016E, which is expected to grow to EUR 895 million by 2026E.

Table 15: Free cash flow development

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EBITDA	284	370	477	609	755	924	1,062	1,193	1,337	1,497	1,673
Change in NWC	4	1	2	2	2	2	1	1	1	1	2
Tax	-39	-61	-91	-139	-175	-217	-253	-288	-326	-369	-416
Net interest expenses	-5	0	3	8	9	11	12	13	14	15	16
Capex	-200	-135	-162	-192	-224	-258	-283	-305	-328	-353	-380
Free cash flow	**43**	**177**	**229**	**288**	**367**	**461**	**539**	**614**	**698**	**792**	**895**
% of sales	*1.2%*	*4.0%*	*4.3%*	*4.5%*	*4.9%*	*5.3%*	*5.6%*	*5.9%*	*6.3%*	*6.6%*	*7.0%*
Free cash flow yield (%)	*0.5%*	*1.9%*	*2.4%*	*3.1%*	*3.9%*	*4.9%*	*5.7%*	*6.6%*	*7.5%*	*8.4%*	*9.6%*

Source: Author's estimates

6.3.4 Profitability ratios

Return on equity (ROE) measures the return generated on the equity provided to a company by its shareholders. As a result, ROE incorporates an earnings metric net of interest expense. ROE is an important indicator of performance as companies are intently focused on shareholder returns. (Rosenbaum & Pearl 2009). Return on invested capital (ROIC) measures the return generated by all capital provided to a company. As such, ROIC utilises a pre-interest earnings statistic in the numerator, in this case NOPAT. Return on invested capital is an important ratio. In a valuation context it is a significant factor, since a higher rate of return will lead, ceteris paribus, to a higher (estimated) value. (Petersen & Plenborg 2012)

Given Zalando's modest capital requirements and high growth estimates, both in sales and margins, I forecast both ROE and ROIC to increase over the forecast period. From 2021E, the forecast assumes a ROE decline due to a high and increasing net cash position.

The ROIC breakdown is according to Koller et al. (2015) one of the most powerful equations in financial analysis as demonstrates the extent to which a company's ROIC is driven by its ability to maximize profitability (NOPAT divided by revenues), optimise capital turnover (measured by revenues over invested capital), or minimize operating taxes. A can be seen below, Zalando's ROIC is mainly driven by increasing margins (CAGR 5.9% 2016E-2026E). The company's ability to optimise capital turnover is expected to increase from 9.6 to 11.4 (CAGR 1.7%).

Table 16: Forecasted ROE and ROIC

	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
ROE	5.6%	10.1%	11.7%	13.4%	14.4%	14.9%	15.9%	16.5%	16.2%	15.5%	15.0%	14.5%	14.0%
Net borrowing cost	*-0.4%*	*-0.3%*	*-0.5%*	*0.0%*	*0.2%*	*0.5%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.3%*	*0.3%*	*0.3%*
Net debt / equity	*-82.0%*	*-83.5%*	*-72.4%*	*-69.8%*	*-71.1%*	*-72.8%*	*-74.7%*	*-76.5%*	*-78.3%*	*-79.8%*	*-81.1%*	*-82.2%*	*-83.2%*
ROIC	42.0%	61.1%	43.5%	44.4%	49.4%	53.6%	61.4%	69.1%	73.1%	75.5%	77.8%	80.2%	82.6%
1 - Cash tax rate	*81.8%*	*140.4%*	*80.2%*	*77.4%*	*74.1%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*
NOPAT margin	*3.7%*	*3.6%*	*6.1%*	*6.5%*	*7.0%*	*7.5%*	*7.9%*	*8.4%*	*8.9%*	*9.4%*	*9.9%*	*10.4%*	*10.9%*
Revenue / invested capital	*18.0*	*14.5*	*9.6*	*9.4*	*10.2*	*11.0*	*11.8*	*12.5*	*12.4*	*12.1*	*11.9*	*11.6*	*11.4*

Note: ROIC =NOPAT/Invested Capital or ROIC = (1 - Operating Cash Tax Rate) × EBIT / Revenues × Revenues/(Invested Capital) ; ROE = Net income/Book value of equity or ROE =ROIC + (ROIC – net borrowing costs) × net debt / equity. All balance sheet items are averages of the previous year and current year and figures. (Petersen & Plenborg 2012)
Source: Author's estimates.

7 Valuation

This part will use all the information and reflections made in the previous sections to estimate the intrinsic value per share of Zalando as of January 1, 2017. The section begins by an introductory overview of the applied valuation models followed by explanations and elaboration on key inputs and variables. Next, the intrinsic value of Zalando is estimated by a discounted cash flow (DCF) analysis which is benchmarked to a company comparable analysis.

Several valuation models exist and the valuation process is as much a matter of personal preferences as theoretical justifications. However, some models have stronger foothold among professionals and academics, with the most renowned models being the DCF as it relies solely on the flow of cash flows of the company, rather than on accounting-based earnings. (Koller et al. 2015)

7.1 Discounted cash flow

The emergence of the Internet and related technologies created impressive value for some high-growth enterprises at the end of the twentieth century. It also raised questions about the sanity of a stock market that appeared to assign higher value to companies the more their losses mounted. But as this chapter demonstrates, the DCF approach remains an essential tool for understanding the value of high-growth companies. (Koller et al. 2015)

The DCF model arrives at the enterprise value (EV) by discounting the FCF a firm generates. The cash flows are claimable by all investors, i.e. equity holders, debt holders and other non-equity claimants, and subsequently discounted using the WACC. The equity value is attained by deducting all non-equity and debt claims from the EV (Koller et al. 2015). The methodology can be presented as below (Petersen & Plenborg 2012):

$$EV = \sum_{t=1}^{n} \frac{FCF_t}{(1+WACC)^t} + \frac{1}{WACC - g} \times \frac{FCF_{n+1}}{(1+WACC)^t}$$

Where t is the time period, n is the number of time periods in the explicit period, and g is the long-term growth rate. The model is divided into two parts where the first term on the left hand side of the equation represents the cash flow in the explicit forecasting period. The second part of the equation relates to the terminal value and is estimated as a perpetuity (Petersen & Plenborg 2012).

The DCF approach has gained its popularity primarily due to its flexibility and dependency on cash flows rather than accounting based earnings, while at the same time providing a clear link between key value drivers instrumental in determining value creation (Koller et al. 2015). While valuation based on multiples can be heavily skewed due to market sensitivity, DCF model disregards any market conditions by only focusing on cash flows (Rosenbaum & Pearl 2009).

The DCF has shortcomings and they are important to understand. On the negative side, a DCF is only as strong as its assumptions. Unlikely, overly optimistic and otherwise flawed assumptions on future trends that fail to adequately capture the realistic set of opportunities and risks facing the target will also fail to produce a meaningful valuation. Furthermore, the DCF relies heavily on the

estimated value is derived from the terminal value, which makes it highly dependable on relevant inputs in order not to skew valuation results (Koller et al. 2015).

7.1.1 Weighted average cost of capital

WACC is a broadly accepted standard for use as the discount rate to calculate the present value of a company's projected FCF and terminal value. It represents the weighted average of the required return on the invested capital in a given company. (Rosenbaum & Pearl 2009) Thus, the WACC represents the opportunity cost for all investors and is calculated through following equation (Petersen & Plenborg 2012):

$$WACC = \frac{E}{D+E} \times r_e + \frac{D}{D+E} \times r_d \times (1-t)$$

Where E/(D+E) is the company's target equity ratio and D/(D+E) is the company's target debt ratio, r_e is the cost of equity, r_d is the cost of debt and t is the company's tax rate. As Zalando has a strong net cash position, the only relevant parameter for calculating WACC is the cost if equity.

7.1.1.1 Cost of equity

Cost of equity is the required annual rate of return that a company's equity investors expect to receive (including dividends), which is not observable in the market. The most preferred method is the Capital Asset Pricing Model (CAPM) and is calculated as (Rosenbaum & Pearl 2009):

$$Cost\ of\ equity(r_e) = r_f + \beta\left(r_m - r_f\right)$$

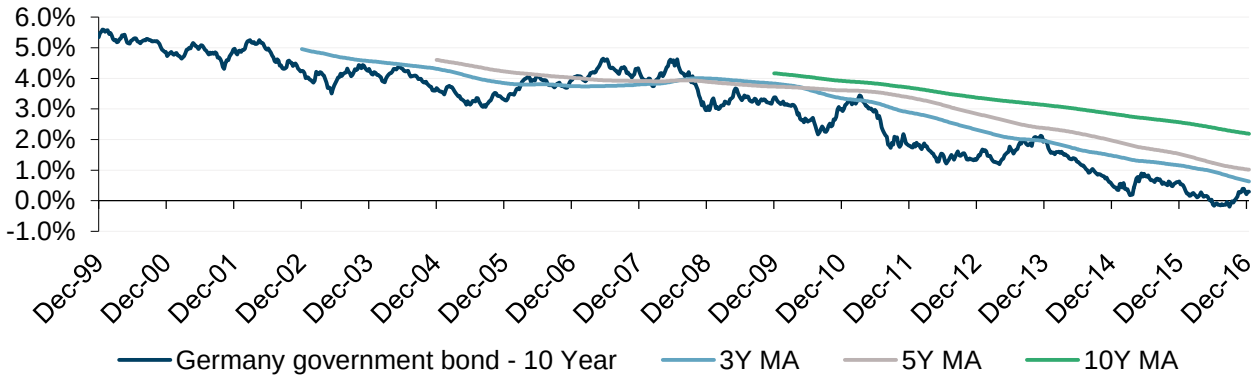
Where r_f is the risk-free rate, β is the levered beta, and r_m is the expected market return. The following sections will elaborate and estimate each input.

7.1.1.1.1 Risk-free rate

Theoretically, the risk-free rate should correspond to the return obtained by investing a riskless security. Although not truly risk free, government securities have been used as a proxy for the risk-free rate as they are backed by the state and thus deemed close to riskless. The actual risk-free rate used in CAPM varies with the prevailing yields for the chosen security. (Rosenbaum & Pearl 2009) The most important factors when deciding which government bond to use include duration and denomination. First, the duration of the bond should match the duration of the projected cash flows. Second, the bond should be denominated in the same currency as the company's cash flows (Koller et al. 2015).

Since Zalando is based in Germany with its cash flows stems from the European market, of which a vast majority is denominated in EUR, it is natural to select the German government bond. Furthermore, Koller et al. (2015) argues that one should use the 10-year German government bonds when valuing a European share in general, because they trade more frequently and have lower credit risk than bonds of other European countries. As of 1 January 2017, the 10-year German government bonds yielded 0.30%.

Figure 36: 10-year German government bond



Note: MA = Moving Average
Source: S&P Capital IQ

The current extremely low interest rate of approximately 0.3 per cent creates issues for valuation purposes that have not been presented before. Damodaran (2015a) argues that the problem can be dealt with in a few ways; normalise the interest rate, use intrinsic interest rate, use the rate as is or a combination where the current low interest rate is used in the beginning of the forecasting period and then normalize the level at the end of the explicit period. While caution needs to be applied when stepping away from current market indicators, using an average yield can smooth out medium-term volatility in risk-free rates. As such, I use the 5-year average of the 10-year German government bond as of 1 January 2017, which corresponds to c. 1%.

7.1.1.1.2 Market Risk Premium

The market risk premium is not observable in the market and needs to be estimated. The three most common methods are to (i) use historical returns to forecast future returns, (ii) forecast future market returns using a regression model and 3) back-solve for the market risk premium using DCF valuation. Koller et al. (2015) believe that a range around 5 percent is appropriate for the market premium. In this paper, I use Damodaran (2015a) estimation of the equity risk premium in Germany, which is calculated to be c. 5.8%, which is in-line with Koller et al. (2015).

7.1.1.1.3 Beta

As individual company's betas can at any point in time be heavily influenced by non-repeatable events, industry peer median is often more preferable rather than the historically measured beta for the company in question. (Koller et al. 2015) As such, I estimate the industry beta using five years

of monthly returns[3] against the MSCI World Index. The most common regression used to estimate a company's raw beta is the market model (Koller et al. 2015):

$$R_i = \alpha + \beta r_m + \varepsilon$$

Where R_i is the expected return on the asset, r_m is the expected return on the market index, α is the abnormal return on asset i, β is a measure of the responsiveness of asset i to the market index and ε is the asset-specific return (residual term). To neutralise the effects of different capital structures (i.e., remove the influence of leverage), each company's raw beta is unlevered to achieve the asset beta. (Rosenbaum & Pearl 2009)

$$\beta_u = \frac{\beta_L}{\left(1 + \frac{D}{E} \times (1 - t)\right)}$$

Where β_u is the unlevered beta, β_L is the levered beta, D/E is the debt-to-equity (market value of equity) and t is the marginal tax rate. Industry beta is calculated as the median beta of peers. This average unlevered beta is then re-levered using the company's target capital structure and marginal tax rate. Many academics and beta services also adjust a company's raw beta closer to the mean of all companies (called smoothing). Smoothing moves the point estimate of beta toward the overall average of 1. (Koller et al. 2015) Table 17 displays the calculations of industry beta.

Table 17: Industry beta

Company	Levered beta	Adjusted beta	1+D/E x (1-t)	Unlevered
ASOS Plc	0.687	0.791	1.000	0.791
boohoo.com plc	0.160	0.437	1.000	0.437
Zalando SE	1.487	1.326	1.001	1.325
YOOX Net-A-Porter Group S.p.A.	0.970	0.980	1.026	0.955
Amazon.com, Inc.	1.395	1.265	1.034	1.224
Average	**0.940**	**0.960**	**1.012**	**0.946**

Relevered beta used	**0.947**

Note: Adjusted Beta = 0.33 + 0.67(raw beta).
Source: Author's estimates based on data from S&P Capital IQ

7.1.1.1.4 CAPM

Using the inputs from previous sections, the cost of equity according to CAPM is estimated to be 6.48 per cent, as a result of the following calculation:

[3] Using more frequent return periods, such as daily and weekly returns, leads to systematic biases. (Koller et al. 2015) However, if 5-years of monthly returns are not available, max number time-periods are used.

$$6.48\% = 1.02\% + 0.947 \times 5.76\%$$

7.1.1.2 WACC equals CAPM

As Zalando has a strong net cash position and no target capital structure, WACC equals CAPM as per below:

$$WACC = \frac{E}{D+E} \times r_e + \frac{D}{D+E} \times r_d \times (1-t) = 1 \times 6.48\% + 0 \times 6.7\% \times 30.5\% = 6.48\%$$

7.1.2 Intrinsic value of Zalando

This section will estimate the value of Zalando according to the DCF as per 1 January, 2017. For comparison, the share closed at SEK 36.13 on the 30 December 2016 on the Frankfurt Stock Exchange.

The free cash flows are the ones derived and estimated in section six and discounted by the WACC calculated in the previous section. The discounting factor assumes a mid-year discounting to account for cash flow coming in throughout the year. The present value of the explicit period's free cash flow and terminal value constitute the EV.

To move from EV to implied price per share, net debt is deducted, giving equity value which is subsequently divided by fully diluted number of shares. The resulting implied share price from the DCF e is EUR 47.6, equivalent to a 32% upside potential to the share price as per 30 December 2016. The DCF model is presented in Table 18 as well as in Appendix 1.5.

Table 18: Discounted cash flow valuation

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	TV
Sales	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	
Sales growth (%)	*21.9%*	*19.6%*	*18.6%*	*16.9%*	*15.0%*	*13.0%*	*11.0%*	*9.0%*	*7.0%*	*5.0%*	
Adjusted EBIT	270	349	448	565	702	808	911	1,024	1,149	1,287	
margin (%)	*6.1%*	*6.6%*	*7.1%*	*7.5%*	*8.0%*	*8.4%*	*8.8%*	*9.2%*	*9.6%*	*10.0%*	
D&A	82	107	136	160	187	206	221	238	256	276	
Taxes	-61	-91	-139	-175	-217	-253	-288	-326	-369	-416	
NOPAT	**291**	**365**	**445**	**551**	**672**	**761**	**844**	**936**	**1,036**	**1,147**	
Change in Working Capital	1	2	2	2	2	1	1	1	1	2	
Capital Expenditure	-135	-162	-192	-224	-258	-283	-305	-328	-353	-380	
Free Cash Flow	**158**	**205**	**255**	**329**	**416**	**479**	**541**	**609**	**685**	**769**	**15,730**
Discount factor	0.97	0.90	0.85	0.79	0.74	0.69	0.65	0.61	0.57	0.53	0.53
Present Value of Cash Flows	**152**	**185**	**216**	**260**	**308**	**331**	**350**	**369**	**388**	**407**	**8,327**

Enterprise Value	**11,292**
- of which PV of cash flow	*26%*
- of which PV of terminal value	*74%*
Net debt	-1,002
Value of equity	**12,294**
Number of shares, basic	247.1
ITM share options	11.2
Fully diluted number of shares	258.2
Implied Value per Share (EUR)	**47.6**
Share price per 30 Dec 2017	*36.1*
% potential upside / (downside)	*32%*

Supporting calculations

WACC calculations	
Risk-free rate	*1.0%*
Market Risk Premium	*5.8%*
Beta	0.9
Equity cost of capital	*6.5%*
Total debt	*0%*
Total equity	*100%*
WACC	**6.5%**

Terminal FCF multiple	
WACC discount rate	**6.5%**
Terminal growth	**1.5%**
Implied exit multiple	**20.2x**

Source: Author's estimates.

7.1.2.1 Sensitivity analysis

The terminal value represents approximately 73% of the EV, displaying one of the great weaknesses of the DCF. The assumptions robustness will be tested by a sensitivity analysis where key variables are changed and through a scenario analysis where one optimistic and one pessimistic case are investigated.

7.1.2.1.1 WACC and terminal growth rate

Table 19 shows the value per share for different values of the WACC and the long-term growth rate. The analysis shows that a 1 percentage point positive move of either WACC and terminal growth rate results, ceteris paribus, in an increase of the share price of c. EUR 8.5 (+17%), while a negative move will under the same circumstances result in a decrease of the share price of c. EUR 5.5 (-11%). Hence, the share price is more sensitive to positive changes to the WACC and growth rate.

Furthermore, as discussed when estimating the cost of capital, the current low interest rate environment has brought additional considerations into the estimation of the cost of equity and analysing different values of the risk-free rate is therefore critical.

Table 19: Sensitivity: Terminal growth rate and WACC (implied share price, EUR)

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	47.1	44.2	41.8	39.8	38.0	36.5	35.2
0.5%	50.9	**47.3**	**44.4**	**41.9**	**39.9**	**38.1**	36.6
1.0%	55.6	**51.0**	**47.4**	**44.5**	**42.1**	**40.0**	38.2
1.5%	61.6	**55.8**	**51.2**	**47.6**	**44.7**	**42.2**	40.1
2.0%	69.7	**61.8**	**55.9**	**51.4**	**47.8**	**44.8**	42.3
2.5%	81.0	**69.9**	**62.0**	**56.1**	**51.6**	**47.9**	44.9
3.0%	98.2	81.3	70.2	62.3	56.3	51.8	48.1

Source: Author's estimates.

The base valuation provides a target EV/EBIT 2017E multiple of 41.8x, with the variation of 69.5x to 30.1x in the 1 percentage point change range.

Table 20: Sensitivity: Terminal growth rate and WACC (implied EV / EBITDA 2017E)

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	47.3x	42.2x	37.9x	34.3x	31.2x	28.5x	26.2x
0.5%	51.5x	**45.4x**	**40.5x**	**36.4x**	**32.9x**	**29.9x**	27.4x
1.0%	56.7x	**49.4x**	**43.6x**	**38.8x**	**34.9x**	**31.6x**	28.7x
1.5%	63.4x	**54.4x**	**47.4x**	**41.8x**	**37.2x**	**33.5x**	30.3x
2.0%	72.4x	**60.8x**	**52.1x**	**45.4x**	**40.1x**	**35.7x**	32.1x
2.5%	85.0x	**69.3x**	**58.2x**	**49.9x**	**43.5x**	**38.4x**	34.2x
3.0%	104.0x	81.4x	66.4x	55.8x	47.8x	41.7x	36.8x

Source: Author's estimates.

Since Zalando has no debt, and consequently WACC equalling cost of equity, Table 19 is also an indication on the effect of assuming different interest rates. As changes to WACC and terminal growth move close to linear, the risk-free assumption has only a limited effect on share price – that is, if one adjusts terminal growth with the risk-free assumptions and discussed earlier. Table 21 presents different beta values and their effect on the WACC and the estimated share price. A 0.1 increase (decrease) in the beta value results in an estimated share price of EUR 42.2 (54.5) representing a change of c. -11.4% (+14.4%). This emphases the high degree of uncertainty in the DCF as the end product is highly sensitive to changes in most of the parameters in the calculation of the cost of capital.

Table 21: Sensitivity: Terminal growth rate and Beta (implied share price, EUR)

		Terminal growth rate						
WACC	**Beta**	**0.0%**	**0.5%**	**1.0%**	**1.5%**	**2.0%**	**2.5%**	**3.0%**
4.7%	**0.65**	56.3	61.2	67.4	75.6	86.7	102.8	128.2
5.3%	**0.75**	49.6	**53.2**	**57.7**	**63.4**	**70.8**	**80.8**	95.2
5.9%	**0.85**	44.2	**47.0**	**50.3**	**54.5**	**59.7**	**66.4**	75.4
6.5%	**0.95**	39.8	**41.9**	**44.5**	**47.6**	**51.4**	**56.1**	62.3
7.1%	**1.05**	36.1	**37.8**	**39.8**	**42.2**	**45.1**	**48.5**	52.9
7.6%	**1.15**	33.0	**34.4**	**36.0**	**37.8**	**40.0**	**42.7**	45.8
8.2%	**1.25**	30.3	31.4	32.7	34.2	35.9	38.0	40.4

Source: Author's estimates.

7.1.2.2 Scenario analysis

While WACC and terminal growth are the key terminal value drivers, it is of interest to look at the effects of changing the sales and EBIT assumptions. Table 22 shows the value per share for different values of the terminal revenue (increased/decreased by 5%) and terminal adjusted EBIT margin.

Table 22: Sensitivity: Terminal sales and EBIT margin (implied share price, EUR)

		Terminal sales						
		11,031	**11,611**	**12,222**	**12,866**	**13,509**	**14,184**	**14,894**
Terminal adjusted EBIT margin	**8.5%**	32.3	34.4	36.7	39.1	41.5	44.0	46.7
	9.0%	34.7	**37.0**	**39.4**	**41.9**	**44.5**	**47.2**	50.0
	9.5%	37.1	**39.5**	**42.1**	**44.8**	**47.5**	**50.3**	53.3
	10.0%	39.5	**42.1**	**44.8**	**47.6**	**50.4**	**53.4**	56.5
	10.5%	42.0	**44.6**	**47.5**	**50.4**	**53.4**	**56.5**	59.8
	11.0%	44.4	**47.2**	**50.2**	**53.3**	**56.4**	**59.7**	63.1
	11.5%	46.8	49.8	52.8	56.1	59.4	62.8	66.4

Source: Author's estimates.

The base case forecast has been prepared through a careful analysis of the industry, the company and its financial performance and is believed to be the most probable outcome. However, as Table 22 shows, the assumption on margins and growth are to be questioned and re-examined. As such, a bull case and bear case will complement the main valuation to add additional insights. The full valuation of the two cases are presented in Appendix 1.6-1.7.

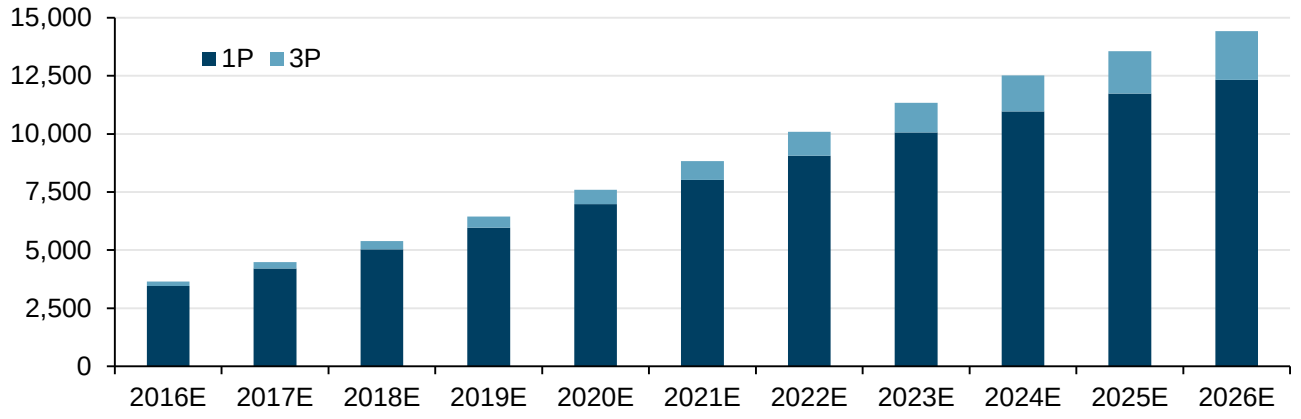
7.1.2.2.1 Bull case

The bull case is primarily driven by the success of Zalando's third party platform strategy (3P) and Zalando becoming the "European Amazon of fashion". Zalando has been running the partner program in DACH for four years, but only now has its scale started to become noticeable. Today, the market place is estimated to generate only 1% of Zalando's sales. These consignment sales are

accounted for on a gross margin basis, i.e. Zalando receives a percentage share of the sale price (take rate) which is recognised in the company's net sales. The growth of its consignment sales will mean an increase in net sales but no impact on fulfilment and shipping costs, and at the same time taking no inventory risk. Because the marginal risk and expense of listing an additional product on Zalando's third party marketplace are essentially zero, the 15% take rate it collects from third party merchants is essentially pure gross profit.

In the base case, the platform strategy is assumed to grow equal to the Zalando's wholesale business (1P); thus, no specific assumptions are made on the market place's growth rate. In the bull case, I assume the wholesale business to grow in-line with the base case assumptions, but the third party platform to grow at CAGR of 26.3% from 2016E-2026E. The top-line assumptions are illustrated in Figure 37.

Figure 37: Bull case – Sales development

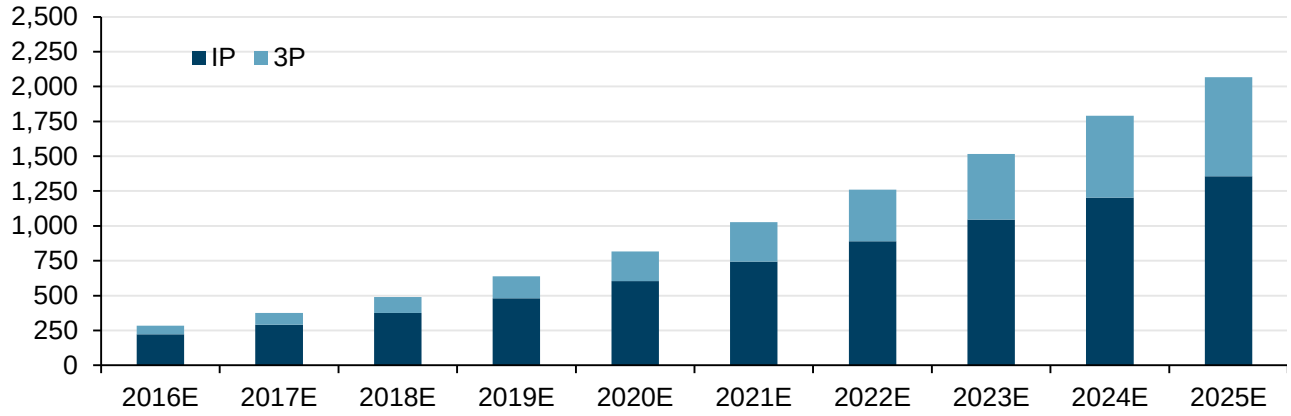


Source: Author's estimates.

Zalando's has a strong case to attract new brands to their platform which could also attract large vertically integrated retailers such as H&M and Zara, who are today not willing to sale wholesale. For existing users, it can lead to higher basket sizes and order frequencies. New customers might be attracted by the additional inventory.

While Zalando has not communicated its take rate, I assume the same 15% rate as Amazon charges for apparel products (Amazon, 2016). Zalando will however bear the cost associated with marketing, payment processing fees, IT and administrative costs; thus, I expect its EBIT margin to be close to 30% in 2016E and for it to increase to 40% in 2026E after Zalando has had the time to optimise its processes much like Amazon. The EBIT development is illustrated in Figure 38.

Figure 38: Bull case – Adjusted EBIT development



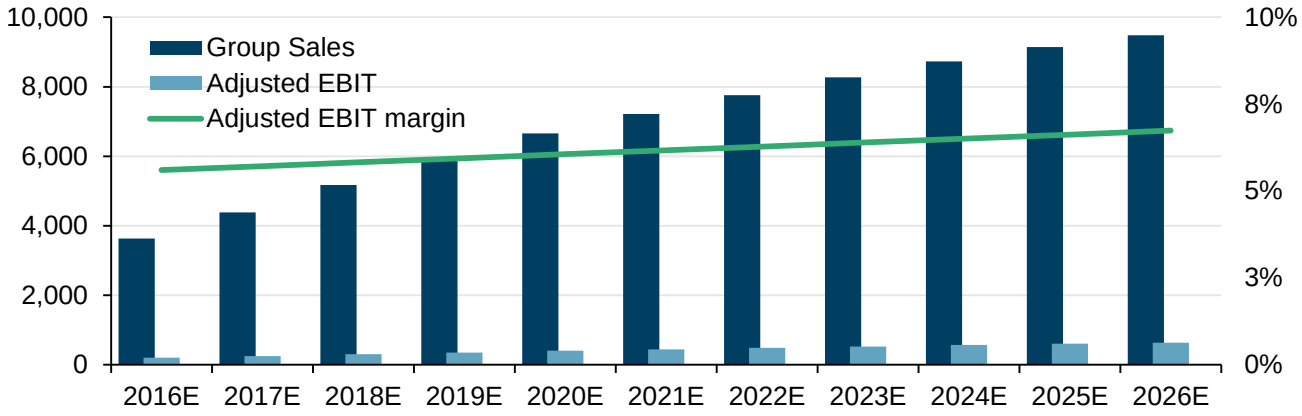
Source: Author's estimates.

By 2026E, the bull case assumes that the 3P platform will represent approximately 15% of sales and 36% of EBIT. This values Zalando at EUR 82.2 per share, representing an upside of 128% to the current share price and 73% to the base case valuation. The complete valuation and key assumptions can be found in Appendix 1.7.

7.1.2.2.2 Bear case

The bear case is driven by slowed sales growth due to increased competition from large online and offline retailers (such as Amazon, H&M and Zara), and local fashion e-tailers (such as Boozt.com in the Nordics), combined with margin pressure from increased marketing efforts to drive growth in an increasingly competitive market. The sales and EBIT developments are illustrated in Figure 39.

Figure 39: Bear case – Sales and EBIT development



Source: Author's estimates.

The sales CAGR 2016E-2026E is expected to decrease to 10.1% compared to 13.6% in base case. The relative high growth in the bear case is explained by the market forces driving online sales. The

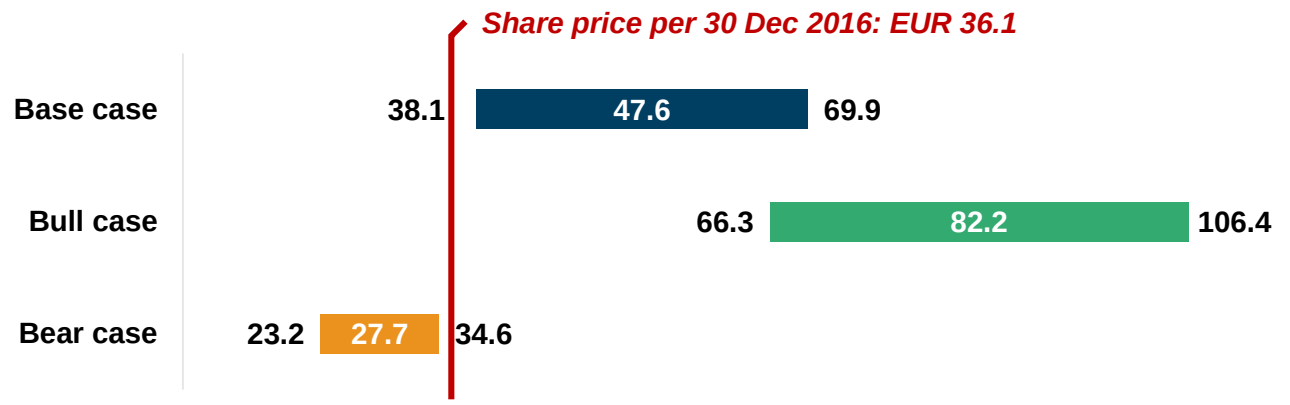
bear case still assumes margin improvements due to the tangible scale benefits in the industry. However, EBIT CAGR 2016E-2026E is expected to decrease to 12.1% compared to 20.2% in base case.

This values Zalando at EUR 27.7 per share, representing an downside of 23% to the current share price and 42% to the base case valuation. The complete valuation and key assumptions can be found in Appendix 1.7.

7.1.2.3 Summary

Figure 40 summarises the intrinsic valuation of Zalando. The range displays the sensitivity analysis of WACC and terminal growth for respective scenario. For investors, the analysis and scenarios indicate that downside risk to today's share price is clearly outweighed by the upside potential.

Figure 40: Base, Bull and Bear



Source: Author's estimates.

7.2 Comparable companies analysis

While DCF is the most accurate and flexible method for valuing companies, multiples provide insights in valuation. The foundation for relative valuation is built upon the premise that similar companies provide a highly relevant reference point for valuing a given target due to the fact that they share key business and financial characteristics, performance drivers, and risks. (Rosenbaum & Pearl 2009)

The comparable companies analysis will be based on EV/Sales, EV/EBITDA and EV/EBIT. Since the enterprise multiples are not skewed by capital structure, it is considered to be more relevant than e.g. P/E, which is both affected by the capital structure and more sensitive to differences in accounting treatment. (Rosenbaum & Pearl 2009)

Unlike backward-looking multiples, forward-looking multiples are consistent with the principles of valuation - in particular, that a company's value equals the present value of future FCF, not sunk costs. Empirical evidence shows that forward-looking multiples are indeed more accurate predictors of value than historical multiples are. The forward-looking multiples are based on consensus

estimates compiled by S&P Capital IQ while Zalando's are implied from the DCF-valuation.(Koller et al 2015)

7.2.1 Peer group

The main peer group is based on the publicly traded online fashion e-tailers, i.e. ASOS, Boohoo.com, YOOZ Net-A-Porter and Amazon. However, global internet peers are used as a benchmark due to the relative small size of publicly listed peers. These include companies in e-commerce, marketplace, online travel, gaming and gambling, classifieds and online media.

7.2.2 EV / Sales

Using my forecast, I find Zalando is undervalued compared to the online fashion industry in terms of EV / sales. On average, Zalando is 0.2-0.3x less valued on sales than its peers. The additional value would imply a share price of c. EUR 40.2.The EV/sales multiple has inherent limitations since it does not consider profitability in valuation (Rosenbaum & Pearl 2009).

However, most investors look at ecommerce shares on EV/sales multiple basis since a vast majority of e-commerce companies listed are relatively young and yet to achieve levels of profitability. This is very evident as many global internet comparables have sales multiples in the 4x-6x range, which would price Zalando at c. EUR 70 - 80. Internet companies are instead priced on growth and on their potential to become profitable in the future. That said, as shown previously, profitable growth is one of the most valuable trait for internet companies.

The intrinsic valuation show that Zalando should be valued on a 2.3x and 2.1x sales 2017E and 2018E, respectively.

7.2.3 EV / EBITDA

In terms of EV/EBITDA, the median multiples for the online fashion for 2017E and 2018E are 25.3x and 19.4x, respectively. By applying those multiples, Zalando's share price is estimated to SEK 38, still above the observed share price of SEK 36.1. Zalando's implied EV/EBITDA in 2017E is 23.6x, which is below ASOS and boohoo.com, but above YOOX and Amazon. It is higher than the e-commerce comparables in 2017E at 21.2x, but lower in 2019E at 19.8x, implying a share price in the range of c. EUR 32.8 - 38.9.

The intrinsic valuation show that Zalando should be valued on a 32.1x and 24.8x sales 2017E and 2018E, respectively. While this is much higher than the industry median, it is still lower than the value of its main peer ASOS.

7.2.4 EV / EBIT

Zalando has the lowest EV/EBIT 2017E and 2018E multiples when benchmarked to the main peer group. The median EV/EBIT multiples suggests a valuation of EUR 47.2 to EUR 56, which suggests an upside of c. 40% to the observed share price. The DCF valuation show that Zalando should be valued in-line with its industry peers in terms of EBIT.

7.2.5 Summary of comparable companies analysis

Table 23 shows the implied multiples of the forecast compared to consensus estimates and peers. The key take away from the relative valuation is that Zalando is relatively lower valued than its industry peers. Applying the median of online fashion multiples yields a Zalando share price of EUR 38-56, an indication of potential upside on the market.

The implied multiples by the DCF are higher than the industry median in terms of sales and EBITDA. Yet, it is not an outlier in the industry. The relative valuation indicates that Zalando is undervalued at the share price of EUR 36.1.

Table 23: Traded comparables

Company/industry	EV/Revenue			EV/EBITDA			EV/EBIT		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Online fashion									
ASOS Plc	2.2x	1.8x	1.5x	32.4x	25.2x	20.2x	50.4x	38.7x	30.0x
boohoo.com plc	5.1x	3.9x	3.1x	45.0x	36.5x	28.6x	55.7x	44.0x	34.9x
YOOX Net-A-Porter	1.6x	1.3x	1.1x	17.3x	13.5x	10.5x	32.0x	24.2x	17.8x
Amazon.com, Inc.	2.1x	1.8x	1.5x	18.2x	13.6x	10.7x	50.1x	29.7x	20.0x
Median	**2.2x**	**1.8x**	**1.5x**	**25.3x**	**19.4x**	**15.5x**	**50.3x**	**34.2x**	**25.0x**
e-Commerce									
Rocket Internet SE	12.1x	10.6x	0.0x	NM	NM	0.0x	NM	NM	0.0x
zooplus AG	0.7x	0.6x	0.5x	30.3x	21.5x	16.0x	32.4x	22.8x	16.4x
AO World Plc	1.0x	0.9x	0.7x	NM	54.7x	28.5x	NM	114.6x	34.5x
Ocado Group plc	1.2x	1.0x	0.9x	16.6x	13.4x	11.8x	52.7x	38.3x	31.1x
B2W - Companhia Digital	0.7x	0.6x	0.6x	7.4x	5.9x	4.5x	12.1x	8.7x	6.3x
JD.com, Inc.	0.7x	0.6x	0.5x	40.5x	24.8x	12.8x	NM	77.2x	14.7x
Vipshop Holdings Limited	0.6x	0.5x	0.4x	10.1x	7.9x	6.9x	12.6x	10.0x	7.5x
Wayfair Inc.	0.6x	0.5x	0.4x	NM	38.8x	13.7x	NM	NM	21.3x
Median	**1.2x**	**1.0x**	**0.7x**	**21.2x**	**19.8x**	**12.8x**	**32.4x**	**29.7x**	**17.8x**
Global internet comparables (industry median)									
Marketplaces	4.7x	4.0x	3.4x	14.3x	12.7x	10.8x	23.9x	20.1x	15.2x
Online travel agents	1.3x	1.3x	1.2x	6.8x	6.1x	5.8x	7.9x	7.7x	7.1x
Gaming & Gambling	4.2x	3.8x	3.6x	13.1x	10.1x	8.6x	14.4x	11.3x	9.4x
Classifieds	6.6x	6.0x	5.4x	17.2x	14.7x	13.3x	18.8x	15.9x	13.9x
Online media	4.1x	3.4x	2.8x	12.8x	11.4x	9.1x	19.1x	15.7x	13.5x
Zalando									
Zalando (consensus)	**1.7x**	**1.4x**	**1.2x**	**24.2x**	**18.1x**	**13.9x**	**29.0x**	**21.5x**	**16.1x**
Zalando (author estimates)	**1.9x**	**1.6x**	**1.3x**	**23.6x**	**18.3x**	**14.3x**	**30.8x**	**23.8x**	**18.6x**
Zalando (intrinsic value)	**2.6x**	**2.1x**	**1.8x**	**32.1x**	**24.8x**	**19.3x**	**41.8x**	**32.3x**	**25.2x**

Note: All analyst estimates are consensus. See Appendix 1.8 for a complete list of multiples. Zalando (author estimates) is the multiples given the prevailing share price per 30 December 2016 using the authors forecast. Zalando (intrinsic value) is the valuation implied by the discounted cash flow in section 7.1.
Source: Author's illustration based on data from S&P Capital IQ and authors estimates.

8 Conclusion

The purpose of this thesis was to estimate the intrinsic value per share of Zalando as per 1 January 2017. The valuation was performed using a discounted cash flow model, with assumptions built upon an extensive analysis of the online fashion industry and Zalando's business, market position and ability to attain sustainable competitive advantages.

The industry is growing at a fast pace with favourable trends for Zalando. Zalando is a migration story, not a retail sales story: consumers are buying more online regardless of trends in retail sales. Thus the Zalando story is not about a macro environmental play, but a structural shift in the fashion retail industry. It is characterised by strong scale benefits and, while not apparent, by high entry and size barriers, with strong indications of being a "winner-takes-it-all"-market. Zalando is very well positioned to become a European champion in fashion due to its strong technological and operational capabilities.

The observed industry characteristics together with the company's performance were fundamental in estimating future financial performance on which the DCF valuation was conducted. The intrinsic value was estimated to be EUR 47.6 in contrast to the observed market price of EUR 36.1, corresponding to a upside potential of 32%.

To complement the DCF valuation, Zalando was also valued using multiples of peers to see share price given how similar companies are valued. The comparable companies analysis showed that Zalando is lowered valued at prevailing prices on 30 December 2017 than its peers. The estimated share price based on the multiples in the peer group implied a share price on average of EUR 43, approximately 20% higher than the current share price.

The DCF is the preferred method due to its flexibility, acceptance and reliance on estimated cash flow. The flexibility is unfortunately one of the main drawbacks when applying the DCF framework as it is prone to estimation errors, dependent on realistic forecasts and highly sensitive to changes in the WACC. Despite its short-comings it is believed that the DCF is the most accurate method and that the underlying estimations and projections have been thoughtfully handled.

The estimated upside of 32 per cent is assumed to be driven by the market pricing uncertainty on Zalando's growth and margin improvement higher than assumed by the DCF. However, as shown in the sensitivity analysis, when adjusting the main drivers of the model, Zalando current share price is at low end – illustrating the disconnect between the market price and the company's cash flows. As the European go-to platform for fashion, the scenario analysis also shows that there is a large potential upside to the base case given that the third party strategy becomes successful.

In conclusion, Zalando is a young but high quality company with a unique positions to become a European champion in fashion, and this thesis shows that Zalando is undervalued at EUR 36.1. The intrinsic valuation is considered robust but reliant on Zalando's continuation growing rapidly and increasing profitability by leveraging its operational and technical capabilities.

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Appendix

Appendix 1.0 – Zalando's historical and forecasted income statement

Historical and forecasted income statement (EURm)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Group Sales	**1,762.0**	**2,214.0**	**2,958.2**	**3,635.0**	**4,422.0**	**5,325.1**	**6,347.7**	**7,489.4**	**8,746.0**	**9,601.4**	**10,330.2**	**11,114.3**	**11,958.0**	**12,865.7**
- DACH	1,056.1	1,234.0	1,580.1	1,803.0	2,128.8	2,485.8	2,870.5	3,277.4	3,699.6	3,921.2	4,068.1	4,214.6	4,359.9	4,503.0
- Rest of Europe	630.2	862.6	1,211.6	1,578.0	1,993.0	2,488.4	3,071.5	3,748.2	4,522.2	5,123.7	5,684.0	6,299.9	6,976.4	7,719.4
- Other	75.7	117.4	166.5	254.0	300.2	350.9	405.7	463.8	524.2	556.4	578.1	599.9	621.7	643.3
Cost of Sales (Reported)	**-1,046.5**	**-1,250.9**	**-1,619.5**	**-2,017.0**	**-2,447.1**	**-2,939.0**	**-3,493.9**	**-4,111.2**	**-4,787.9**	**-5,241.9**	**-5,624.4**	**-6,034.8**	**-6,475.1**	**-6,947.5**
Adjusted gross profit	**715.5**	**963.1**	**1,338.7**	**1,618.0**	**1,974.9**	**2,386.2**	**2,853.8**	**3,378.3**	**3,958.1**	**4,359.5**	**4,705.8**	**5,079.5**	**5,482.9**	**5,918.2**
Fulfilment costs	-421.9	-488.6	-762.5	-865.0	-1,055.4	-1,274.7	-1,523.9	-1,803.3	-2,112.0	-2,325.3	-2,509.1	-2,707.4	-2,921.3	-3,152.1
Marketing costs	-309.5	-295.6	-347.4	-373.0	-439.3	-511.7	-589.2	-670.8	-754.8	-797.4	-824.2	-850.5	-876.1	-900.6
Administrative costs	-102.4	-103.4	-124.5	-181.0	-216.4	-256.1	-299.8	-347.4	-398.2	-428.9	-452.7	-477.5	-503.6	-530.8
Other	9.6	6.4	3.2	4.7	5.6	6.5	7.5	8.6	9.7	10.3	10.7	11.1	11.5	11.9
Total operating costs (excl. SBC)	**-824.2**	**-881.2**	**-1,231.2**	**-1,414.3**	**-1,705.6**	**-2,036.0**	**-2,405.5**	**-2,812.9**	**-3,255.3**	**-3,541.3**	**-3,775.3**	**-4,024.3**	**-4,289.5**	**-4,571.7**
Adjusted EBITDA	**-93.8**	**107.7**	**141.7**	**283.7**	**370.3**	**477.2**	**609.3**	**755.3**	**923.6**	**1,061.7**	**1,192.5**	**1,337.1**	**1,496.7**	**1,672.9**
D&A	-14.9	-25.8	-34.2	-62.0	-82.0	-107.0	-136.0	-160.5	-187.4	-205.7	-221.3	-238.1	-256.2	-275.7
Adjusted EBIT	**-108.7**	**81.9**	**107.5**	**221.7**	**288.3**	**370.2**	**473.3**	**594.9**	**736.2**	**856.0**	**971.2**	**1,098.9**	**1,240.5**	**1,397.2**
SBC costs	-5.3	-19.8	-17.9	-18.0	-18.0	-21.0	-25.0	-29.5	-34.4	-37.8	-40.7	-43.8	-47.1	-50.7
EBIT (reported)	**-114.0**	**62.1**	**89.6**	**203.7**	**270.3**	**349.2**	**448.3**	**565.4**	**701.8**	**818.2**	**930.5**	**1,055.2**	**1,193.4**	**1,346.6**
EBITDA (reported)	**-99.1**	**87.9**	**123.8**	**265.7**	**352.3**	**456.2**	**584.3**	**725.8**	**889.1**	**1,023.9**	**1,151.8**	**1,293.3**	**1,449.6**	**1,622.2**
NOPAT	**-108.0**	**71.4**	**142.5**	**182.4**	**227.2**	**279.1**	**334.1**	**419.7**	**518.8**	**602.8**	**683.4**	**772.9**	**871.9**	**981.6**
Net financial expense	-3.3	-4.5	-3.0	-5.0	0.0	3.0	8.0	9.0	11.0	12.1	13.0	14.0	15.0	16.2
Adjusted EBT	**-112.0**	**77.4**	**104.5**	**216.7**	**288.3**	**373.2**	**481.3**	**603.9**	**747.2**	**868.1**	**984.2**	**1,112.9**	**1,255.6**	**1,413.4**
EBT (reported)	**-117.3**	**57.6**	**86.6**	**198.7**	**270.3**	**352.2**	**456.3**	**574.4**	**712.8**	**830.2**	**943.5**	**1,069.2**	**1,208.5**	**1,362.7**
Reported Tax	0.7	-10.5	35.0	-39.3	-61.1	-91.1	-139.2	-175.2	-217.4	-253.2	-287.8	-326.1	-368.6	-415.6
Adjusted net income	**-111.3**	**66.9**	**139.5**	**177.4**	**227.2**	**282.1**	**342.1**	**428.7**	**529.8**	**614.8**	**696.4**	**786.8**	**887.0**	**997.8**
Net income (reported)	**-116.6**	**47.1**	**121.6**	**159.4**	**209.2**	**261.1**	**317.1**	**399.2**	**495.4**	**577.0**	**655.7**	**743.1**	**839.9**	**947.1**

Historical and forecasted income statement (margin assumptions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Group Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
- DACH	59.9%	55.7%	53.4%	49.6%	48.1%	46.7%	45.2%	43.8%	42.3%	40.8%	39.4%	37.9%	36.5%	35.0%
- Rest of Europe	35.8%	39.0%	41.0%	43.4%	45.1%	46.7%	48.4%	50.0%	51.7%	53.4%	55.0%	56.7%	58.3%	60.0%
- Other	4.3%	5.3%	5.6%	7.0%	6.8%	6.6%	6.4%	6.2%	6.0%	5.8%	5.6%	5.4%	5.2%	5.0%
Cost of Sales (Reported)	**-59.4%**	**-56.5%**	**-54.7%**	**-55.5%**	**-55.3%**	**-55.2%**	**-55.0%**	**-54.9%**	**-54.7%**	**-54.6%**	**-54.4%**	**-54.3%**	**-54.1%**	**-54.0%**
Adjusted gross profit	**40.6%**	**43.5%**	**45.3%**	**44.5%**	**44.7%**	**44.8%**	**45.0%**	**45.1%**	**45.3%**	**45.4%**	**45.6%**	**45.7%**	**45.9%**	**46.0%**
Fulfilment costs	-23.9%	-22.1%	-25.8%	-23.8%	-23.9%	-23.9%	-24.0%	-24.1%	-24.1%	-24.2%	-24.3%	-24.4%	-24.4%	-24.5%
Marketing costs	-17.6%	-13.4%	-11.7%	-10.3%	-9.9%	-9.6%	-9.3%	-9.0%	-8.6%	-8.3%	-8.0%	-7.7%	-7.3%	-7.0%
Administrative costs	-5.8%	-4.7%	-4.2%	-5.0%	-4.9%	-4.8%	-4.7%	-4.6%	-4.6%	-4.5%	-4.4%	-4.3%	-4.2%	-4.1%
Other	0.5%	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total operating costs (excl. SBC)	**-46.8%**	**-39.8%**	**-41.6%**	**-38.9%**	**-38.6%**	**-38.3%**	**-38.0%**	**-37.7%**	**-37.5%**	**-37.2%**	**-36.9%**	**-36.6%**	**-36.3%**	**-36.0%**
Adjusted EBITDA	**-5.3%**	**4.9%**	**4.8%**	**7.8%**	**8.4%**	**9.0%**	**9.6%**	**10.1%**	**10.6%**	**11.0%**	**11.4%**	**11.7%**	**12.1%**	**12.5%**
D&A	-0.8%	-1.2%	-1.2%	-1.7%	-1.9%	-2.0%	-2.1%	-2.1%	-2.1%	-2.1%	-2.1%	-2.1%	-2.1%	-2.1%
Adjusted EBIT	**-6.2%**	**3.7%**	**3.6%**	**6.1%**	**6.5%**	**7.0%**	**7.5%**	**7.9%**	**8.4%**	**8.8%**	**9.2%**	**9.6%**	**10.0%**	**10.4%**
SBC costs	-0.3%	-0.9%	-0.6%	-0.5%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
EBIT (reported)	**-6.5%**	**2.8%**	**3.0%**	**5.6%**	**6.1%**	**6.6%**	**7.1%**	**7.5%**	**8.0%**	**8.4%**	**8.8%**	**9.2%**	**9.6%**	**10.0%**
EBITDA (reported)	**-5.6%**	**4.0%**	**4.2%**	**7.3%**	**8.0%**	**8.6%**	**9.2%**	**9.7%**	**10.2%**	**10.6%**	**11.0%**	**11.4%**	**11.7%**	**12.1%**
NOPAT	**-6.1%**	**3.2%**	**4.8%**	**5.0%**	**5.1%**	**5.2%**	**5.3%**	**5.6%**	**5.9%**	**8.9%**	**9.4%**	**9.9%**	**10.4%**	**10.9%**
Net financial expense	-0.2%	-0.2%	-0.1%	-0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Adjusted EBT	**-6.4%**	**3.5%**	**3.5%**	**6.0%**	**6.5%**	**7.0%**	**7.6%**	**8.1%**	**8.5%**	**9.0%**	**9.5%**	**10.0%**	**10.5%**	**11.0%**
EBT (reported)	**-6.7%**	**2.6%**	**2.9%**	**5.5%**	**6.1%**	**6.6%**	**7.2%**	**7.7%**	**8.1%**	**8.6%**	**9.1%**	**9.6%**	**10.1%**	**10.6%**
Reported Tax	0.0%	-0.5%	1.2%	-1.1%	-1.4%	-1.7%	-2.2%	-2.3%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Adjusted net income	**-6.3%**	**3.0%**	**4.7%**	**4.9%**	**5.1%**	**5.3%**	**5.4%**	**5.7%**	**6.1%**	**6.4%**	**6.7%**	**7.1%**	**7.4%**	**7.8%**
Net income (reported)	**-6.6%**	**2.1%**	**4.1%**	**4.4%**	**4.7%**	**4.9%**	**5.0%**	**5.3%**	**5.7%**	**6.0%**	**6.3%**	**6.7%**	**7.0%**	**7.4%**

Historical and forecasted income statement (y-o-y growth assumptions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Group Sales	**52.0%**	**25.7%**	**33.6%**	**22.9%**	**21.9%**	**19.6%**	**18.6%**	**16.9%**	**15.0%**	**13.0%**	**11.0%**	**9.0%**	**7.0%**	**5%**
- DACH	36.6%	16.8%	28.0%	14.1%	18.1%	16.8%	15.5%	14.2%	12.9%	6.0%	3.7%	3.6%	3.4%	3.3%
- Rest of Europe	87.6%	36.9%	40.5%	30.2%	26.3%	24.9%	23.4%	22.0%	20.6%	13.3%	10.9%	10.8%	10.7%	10.7%
- Other	51.4%	55.1%	41.8%	52.6%	18.2%	16.9%	15.6%	14.3%	13.0%	6.1%	3.9%	3.8%	3.6%	3.5%
Cost of Sales (Reported)	**67.7%**	**19.5%**	**29.5%**	**24.5%**	**21.3%**	**20.1%**	**18.9%**	**17.7%**	**16.5%**	**9.5%**	**7.3%**	**7.3%**	**7.3%**	**7.3%**
Gross Profit	**33.8%**	**34.6%**	**39.0%**	**20.9%**	**22.1%**	**20.8%**	**19.6%**	**18.4%**	**17.2%**	**10.1%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**
Fulfilment costs		15.8%	56.1%	13.4%	22.0%	20.8%	19.6%	18.3%	17.1%	10.1%	7.9%	7.9%	7.9%	7.9%
Marketing costs		-4.5%	17.5%	7.4%	17.8%	16.5%	15.2%	13.8%	12.5%	5.6%	3.4%	3.2%	3.0%	2.8%
Admin		1.0%	20.4%	45.4%	19.6%	18.3%	17.1%	15.9%	14.6%	7.7%	5.5%	5.5%	5.5%	5.4%
Other		-33.3%	-50.0%	46.9%	18.2%	16.9%	15.6%	14.3%	13.0%	6.1%	3.9%	3.7%	3.6%	3.4%
Total operating costs (excl. SBC)		**34.7%**	**6.9%**	**39.7%**	**14.9%**	**20.6%**	**19.4%**	**18.1%**	**16.9%**	**15.7%**	**8.8%**	**6.6%**	**6.6%**	**6.6%**
Adjusted EBITDA	**32.3%**	**-214.9%**	**31.6%**	**100.2%**	**30.5%**	**28.9%**	**27.7%**	**24.0%**	**22.3%**	**15.0%**	**12.3%**	**12.1%**	**11.9%**	**11.8%**
D&A	138.7%	73.2%	32.6%	81.3%	32.3%	30.5%	27.1%	18.0%	16.8%	9.8%	7.6%	7.6%	7.6%	7.6%
Adjusted EBIT	**40.9%**	**-175.4%**	**31.3%**	**106.2%**	**30.0%**	**28.4%**	**27.9%**	**25.7%**	**23.8%**	**16.3%**	**13.5%**	**13.2%**	**12.9%**	**12.6%**
SBC costs	-18.1%	273.6%	-9.6%	0.6%	0.0%	16.7%	19.0%	18.0%	16.8%	9.8%	7.6%	7.6%	7.6%	7.6%
EBIT (reported)	**36.4%**	**-154.5%**	**44.3%**	**127.3%**	**32.7%**	**29.2%**	**28.4%**	**26.1%**	**24.1%**	**16.6%**	**13.7%**	**13.4%**	**13.1%**	**12.8%**
EBITDA (reported)	**28.1%**	**-188.7%**	**40.8%**	**114.6%**	**32.6%**	**29.5%**	**28.1%**	**24.2%**	**22.5%**	**15.2%**	**12.5%**	**12.3%**	**12.1%**	**11.9%**
NOPAT	**39.1%**	**-166.1%**	**99.5%**	**28.0%**	**24.5%**	**22.8%**	**19.7%**	**25.6%**	**23.6%**	**16.2%**	**13.4%**	**13.1%**	**12.8%**	**12.6%**
Net Interest	237.1%	36.4%	-33.3%	66.7%	-100.0%	#DIV/0!	166.7%	12.5%	22.2%	9.8%	7.6%	7.6%	7.6%	7.6%
Adjusted EBITDA	**43.4%**	**-169.1%**	**35.0%**	**107.4%**	**33.0%**	**29.4%**	**29.0%**	**25.5%**	**23.7%**	**16.2%**	**13.4%**	**13.1%**	**12.8%**	**12.6%**
EBT (reported)	**38.7%**	**-149.1%**	**50.3%**	**129.4%**	**36.0%**	**30.3%**	**29.6%**	**25.9%**	**24.1%**	**16.5%**	**13.6%**	**13.3%**	**13.0%**	**12.8%**
Reported Tax	-228.4%	-1679.8%	-434.4%	-212.2%	55.6%	49.1%	52.8%	25.9%	24.1%	16.5%	13.6%	13.3%	13.0%	12.8%
Adjusted EBITDA	**41.6%**	**-160.1%**	**108.4%**	**27.2%**	**28.0%**	**24.2%**	**21.3%**	**25.3%**	**23.6%**	**16.0%**	**13.3%**	**13.0%**	**12.7%**	**12.5%**
Net income (reported)	**37.1%**	**-140.4%**	**157.9%**	**31.1%**	**31.2%**	**24.8%**	**21.4%**	**25.9%**	**24.1%**	**16.5%**	**13.6%**	**13.3%**	**13.0%**	**12.8%**

Appendix 1.1 – Zalando's historical and forecasted balance sheet

Historical and forecasted balance sheet (EURm)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Fixed Assets														
Tangible Fixed Assets	105.7	111.0	128.2	201.2	219.2	232.2	238.2	243.7	247.4	251.3	255.6	260.2	265.1	270.4
Investments	0.0	0.0	7.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Other	0.7	4.8	8.1	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Intangible Fixed Assets	21.3	29.0	48.8	113.8	148.8	190.8	240.8	298.8	365.8	439.4	518.5	603.6	695.2	793.8
Deferred tax assets	1.0	0.9	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5
Total Fixed Assets	**128.7**	**145.7**	**240.0**	**377.5**	**430.5**	**485.5**	**541.5**	**605.0**	**675.7**	**753.2**	**836.6**	**926.3**	**1,022.9**	**1,126.7**
Current Assets														
Inventories	332.5	348.3	493.5	609.1	732.3	871.4	1,026.4	1,196.5	1,380.3	1,496.8	1,590.6	1,690.2	1,795.7	1,907.7
Prepayments	0.8	0.9	1.4	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Trade and other receivables	87.2	140.1	149.7	183.5	222.6	267.3	317.7	373.9	435.4	476.7	511.4	548.7	588.8	631.7
Cash & Cash Equivalents	417.2	1,051.1	976.2	1,019.4	1,196.0	1,424.7	1,712.6	2,079.7	2,541.1	3,079.9	3,694.2	4,392.6	5,184.5	6,080.0
Restricted cash	47.4	48.3	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Income tax and other current assets		58.0	51.2	242.6	242.6	242.6	242.6	242.6	242.6	242.6	242.6	242.6	242.6	242.6
Total Current Assets	**943.1**	**1,639.9**	**1,876.4**	**2,068.9**	**2,407.4**	**2,820.0**	**3,313.3**	**3,906.7**	**4,613.4**	**5,310.0**	**6,052.8**	**6,888.1**	**7,825.6**	**8,875.9**
Total Assets	**1,071.8**	**1,785.6**	**2,115.4**	**2,446.4**	**2,837.9**	**3,305.5**	**3,854.8**	**4,511.7**	**5,289.1**	**6,063.2**	**6,889.4**	**7,814.4**	**8,848.4**	**10,002.7**
Liabilities														
Trade and other payables	410.0	492.1	646.0	799.0	962.7	1148.2	1355.4	1583.6	1831.2	1990.4	2120.2	2258.4	2405.4	2561.9
Short-Term Debt	3.2	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Long-Term Debt	17.0	17.6	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Other financial liabilities	37.8	62.5	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0
Other	45.0	60.4	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0
Provisions	4.7	6.3	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1
Income tax liabilities	0.1	8.7	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Prepayments	6.7	7.4	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Total Liabilities	**524.5**	**658.2**	**845.5**	**998.5**	**1162.2**	**1347.7**	**1554.9**	**1783.1**	**2030.7**	**2189.9**	**2319.7**	**2457.9**	**2604.9**	**2761.4**
Equity														
Share Capital	0.1	244.8	247.0	247.0	247.0	247.0	247.0	247.0	247.0	247.0	247.0	247.0	247.0	247.0
Share Premium	833.3	1120.4	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9	1140.9
Other Reserves (Incl. SBC from 2016E)						18.0	36.0	57.0	82.0	112.5	146.9	184.8	225.4	269.2
P&L Reserve	-286.6	-239.5	-117.9	41.6	250.8	511.9	829.0	1228.2	1723.6	2300.6	2956.3	3699.4	4539.3	5486.4
Total Shareholder Equity	**546.8**	**1126.7**	**1270.0**	**1447.5**	**1674.7**	**1956.8**	**2298.9**	**2728.6**	**3258.4**	**3873.3**	**4569.7**	**5356.5**	**6243.5**	**7241.3**
Total Equity + liabilities	**1,072.3**	**1,785.9**	**2,115.5**	**2,446.0**	**2,837.9**	**3,305.5**	**3,854.8**	**4,511.7**	**5,289.1**	**6,063.2**	**6,889.4**	**7,814.4**	**8,848.4**	**10,002.7**

Historical and forecasted balance sheet (assumptions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Fixed Assets														
Tangible Fixed Assets (Net)	6.0%	5.0%	4.3%	5.5%	5.0%	4.4%	3.8%	3.3%	2.8%	2.6%	2.5%	2.3%	2.2%	2.1%
Investments	0.0%	0.0%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other	0.0%	0.2%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Intangible Fixed Assets (Net)	1.2%	1.3%	1.6%	3.1%	3.4%	3.6%	3.8%	4.0%	4.2%	4.6%	5.0%	5.4%	5.8%	6.2%
Deferred tax assets	0.1%	0.0%	1.6%	1.3%	1.1%	0.9%	0.7%	0.6%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%
Total Fixed Assets	**7.3%**	**6.6%**	**8.1%**	**10.4%**	**9.7%**	**9.1%**	**8.5%**	**8.1%**	**7.7%**	**7.8%**	**8.1%**	**8.3%**	**8.6%**	**8.8%**
Current Assets														
Inventories	18.9%	15.7%	16.7%	16.8%	16.6%	16.4%	16.2%	16.0%	15.8%	15.6%	15.4%	15.2%	15.0%	14.8%
Prepayments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Trade and other receivables	4.9%	6.3%	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cash & Cash Equivalents	23.7%	47.5%	33.0%	28.0%	27.0%	26.8%	27.0%	27.8%	29.1%	32.1%	35.8%	39.5%	43.4%	47.3%
Restricted cash	2.7%	2.2%	0.4%	0.4%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Income tax and other current assets	3.3%	2.3%	8.2%	6.7%	5.5%	4.6%	3.8%	3.2%	2.8%	2.5%	2.3%	2.2%	2.0%	1.9%
Total Current Assets	**53.5%**	**74.1%**	**63.4%**	**56.9%**	**54.4%**	**53.0%**	**52.2%**	**52.2%**	**52.7%**	**55.3%**	**58.6%**	**62.0%**	**65.4%**	**69.0%**
Total Assets	**60.8%**	**80.7%**	**71.5%**	**67.3%**	**64.2%**	**62.1%**	**60.7%**	**60.2%**	**60.5%**	**63.1%**	**66.7%**	**70.3%**	**74.0%**	**77.7%**
Liabilities														
Trade and other payables	39.2%	39.3%	21.8%	22.0%	21.8%	21.6%	21.4%	21.1%	20.9%	20.7%	20.5%	20.3%	20.1%	19.9%
Short-Term Debt	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-Term Debt	1.0%	0.8%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other financial liabilities	2.1%	2.8%	2.5%	2.0%	1.7%	1.4%	1.2%	1.0%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Other	2.6%	2.7%	2.4%	2.0%	1.6%	1.3%	1.1%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Provisions	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Minorities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income tax liabilities	0.0%	0.4%	0.6%	0.5%	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Prepayments	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Liabilities	**29.8%**	**29.7%**	**28.6%**	**27.5%**	**26.3%**	**25.3%**	**24.5%**	**23.8%**	**23.2%**	**22.8%**	**22.5%**	**22.1%**	**21.8%**	**21.5%**
Equity														
Share Capital	0.0%	11.1%	8.3%	6.8%	5.6%	4.6%	3.9%	3.3%	2.8%	2.6%	2.4%	2.2%	2.1%	1.9%
Share Premium	47.3%	50.6%	38.6%	31.4%	25.8%	21.4%	18.0%	15.2%	13.0%	11.9%	11.0%	10.3%	9.5%	8.9%
Revaluation Reserve	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Reserves	0.0%	0.0%	0.0%	0.5%	0.8%	1.1%	1.3%	1.5%	1.7%	1.9%	2.0%	2.2%	2.4%	2.6%
Translation differences	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P&L Reserve	-16.3%	-10.8%	-4.0%	1.1%	5.7%	9.6%	13.1%	16.4%	19.7%	24.0%	28.6%	33.3%	38.0%	42.6%
Total Shareholders' Equities			**31.0%**	**50.9%**	**42.9%**	**39.8%**	**37.9%**	**36.7%**	**36.2%**	**36.4%**	**37.3%**	**40.3%**	**44.2%**	**48.2%**
Total Equity + liabilities	**61%**	**81%**	**72%**	**67%**	**64%**	**62%**	**61%**	**60%**	**60%**	**63%**	**67%**	**70%**	**74%**	**78%**

Appendix 1.2 – Zalando's historical and forecasted cash flow

Historical and forecasted cash flow statement (EURm)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Adjusted EBIT	**-108.7**	**81.9**	**107.5**	**221.7**	**288.3**	**370.2**	**473.3**	**594.9**	**736.2**	**856.0**	**971.2**	**1,098.9**	**1,240.5**	**1,397.2**
Depreciation	14.9	25.8	34.2	62.0	82.0	107.0	136.0	160.5	187.4	205.7	221.3	238.1	256.2	275.7
Changes in working capital	-38.4	25.4	36.0	3.7	1.4	1.6	1.8	2.0	2.2	1.5	1.3	1.3	1.4	1.6
(increase) / decrease in Inventories	*-101.5*	*-15.8*	*-145.2*	*-115.6*	*-123.2*	*-139.1*	*-155.0*	*-170.1*	*-183.8*	*-116.5*	*-93.8*	*-99.5*	*-105.6*	*-112.0*
(increase) / decrease in recivables	*-21.6*	*-52.9*	*-9.0*	*-33.8*	*-39.1*	*-44.7*	*-50.5*	*-56.1*	*-61.5*	*-41.3*	*-34.8*	*-37.3*	*-40.0*	*-42.9*
increase / (decrease) in payables	*101.1*	*94.9*	*154.9*	*153.0*	*163.7*	*185.4*	*207.2*	*228.2*	*247.6*	*159.3*	*129.8*	*138.2*	*147.0*	*156.4*
(increase) / decrease in restricted cash	*-16.4*	*-0.8*	*35.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Net interest expenses	-2.2	-4.5	-3.0	-5.0	0.0	3.0	8.0	9.0	11.0	12.1	13.0	14.0	15.0	16.2
Taxes paid	0.7	-10.5	35.0	-39.3	-61.1	-91.1	-139.2	-175.2	-217.4	-253.2	-287.8	-326.1	-368.6	-415.6
Net loss (gain) on fixed asset disposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income/(loss) attributed to minority in	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets and liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in provision	0.0	1.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash settled SBC	0.0	0.0	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	37.2	56.0	-52.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	**-96.5**	**175.1**	**154.5**	**243.1**	**311.6**	**390.7**	**479.9**	**591.1**	**719.4**	**822.0**	**919.0**	**1,026.3**	**1,144.6**	**1,275.0**
Capex	-73.8	-51.0	-60.0	-200.0	-135.0	-162.0	-192.0	-224.0	-258.0	-283.2	-304.7	-327.9	-352.7	-379.5
Intangible asset investments	-19.3	-21.5	-29.0	-65.0	-35.0	-42.0	-50.0	-58.0	-67.0	-73.6	-79.1	-85.1	-91.6	-98.6
Tangible asset investments	-54.5	-29.5	-31.0	-135.0	-100.0	-120.0	-142.0	-166.0	-191.0	-209.7	-225.6	-242.7	-261.1	-281.0
Free cash flow	**-170.3**	**124.1**	**94.5**	**43.1**	**176.6**	**228.7**	**287.9**	**367.1**	**461.4**	**538.8**	**614.3**	**698.4**	**791.9**	**895.5**
Acquisition of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	-171.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed asset sales and retirements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		-1.0												
Cash flow before financing	**-170.3**	**123.1**	**-77.3**	**43.1**	**176.6**	**228.7**	**287.9**	**367.1**	**461.4**	**538.8**	**614.3**	**698.4**	**791.9**	**895.5**
Capital increase/decrease	205.2	510.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange impact	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	**34.9**	**633.9**	**-74.9**	**43.1**	**176.6**	**228.7**	**287.9**	**367.1**	**461.4**	**538.8**	**614.3**	**698.4**	**791.9**	**895.5**
Cash and cash equivalents at the beginning of the year	382.3	417.2	1,051.1	976.2	1,019.4	1,196.0	1,424.7	1,712.6	2,079.7	2,541.1	3,079.9	3,694.2	4,392.6	5,184.5
Cash and cash equivalents at the end of the year	417.2	1,051.1	976.2	1,019.4	1,196.0	1,424.7	1,712.6	2,079.7	2,541.1	3,079.9	3,694.2	4,392.6	5,184.5	6,080.0

Historical and forecasted cash flow statement (assumptions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Capex % of sales	-4.2%	-2.3%	-2.0%	-5.5%	-3.1%	-3.0%	-3.0%	-3.0%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%
Intangible asset investments, % of sales	-1.1%	-1.0%	-1.0%	-1.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Tangible asset investments, % of sales	*-3.1%*	*-1.3%*	*-1.0%*	*-3.7%*	*-2.3%*	*-2.3%*	*-2.2%*	*-2.2%*	*-2.2%*	*-2.2%*	*-2.2%*	*-2.2%*	*-2.2%*	*-2.2%*

Tax scheme	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Reported EBT	-117.3	57.6	86.6	198.7	270.3	352.2	456.3	574.4	712.8	830.2	943.5	1,069.2	1,208.5	1,362.7
Income tax rate	*30.2%*	*29.1%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*
Expected tax expense/income	35.4	-16.8	-26.4	-60.6	-82.4	-107.4	-139.2	-175.2	-217.4	-253.2	-287.8	-326.1	-368.6	-415.6
Non-deductible expenses		-6.4	-5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrecognised deferred tax assets	-34.1	1.1	52.3	21.4	21.4	16.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate differences	-1.3	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Addbacks and reductions for trade tax purposes	-0.5			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognision of deferred taxes from prior periods	1.0	11.9	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	-0.3	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes paid	0.7	-10.5	35.0	-39.3	-61.1	-91.1	-139.2	-175.2	-217.4	-253.2	-287.8	-326.1	-368.6	-415.6
Effective tax rate	0.6%	18.2%	-40.4%	19.8%	22.6%	25.9%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Unused corporate income tax losses at the beginning of the year						**193.6**	**123.6**	**53.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Y-o-y chg				*-70.0*	*-70.0*	*-53.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Unused corporate income tax losses at the end of the year			**193.6**	123.6	53.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Potential tax saving (30.5% tax rate assumed)			59.0	37.7	16.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assumed tax savings				21.4	21.4	16.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Taxes paid (EUR)	-0.7	10.5	-35.0	39.3	61.1	91.1	139.2	175.2	217.4	253.2	287.8	326.1	368.6	415.6
Effective tax rate	0.6%	18.2%	-40.4%	19.8%	22.6%	25.9%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%

Appendix 1.3 – Key metrics

Key metrics														
	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Y-o-y growth														
Sales	52.1%	25.7%	33.6%	22.9%	21.7%	20.4%	19.2%	18.0%	16.8%	9.8%	7.6%	7.6%	7.6%	7.6%
Gross profit*	33.8%	34.6%	39.0%	20.9%	22.1%	20.8%	19.6%	18.4%	17.2%	10.1%	7.9%	7.9%	7.9%	7.9%
EBITDA*	-32.3%	214.9%	31.6%	100.2%	30.5%	28.9%	27.7%	24.0%	22.3%	15.0%	12.3%	12.1%	11.9%	11.8%
EBIT*	-40.9%	175.4%	31.3%	106.2%	30.0%	28.4%	27.9%	25.7%	23.8%	16.3%	13.5%	13.2%	12.9%	12.6%
NOPAT*	-39.1%	166.1%	99.5%	28.0%	24.5%	22.8%	19.7%	25.6%	23.6%	16.2%	13.4%	13.1%	12.8%	12.6%
EBT*	-43.4%	169.1%	35.0%	107.4%	33.0%	29.4%	29.0%	25.5%	23.7%	16.2%	13.4%	13.1%	12.8%	12.6%
Net income	-37.1%	140.4%	157.9%	31.1%	31.2%	24.8%	21.4%	25.9%	24.1%	16.5%	13.6%	13.3%	13.0%	12.8%
Margins analysis (as % of sales)														
Gross margin	40.6%	43.5%	45.3%	44.5%	44.7%	44.8%	45.0%	45.1%	45.3%	45.4%	45.6%	45.7%	45.9%	46.0%
EBITDA margin*	-5.3%	4.9%	4.8%	7.8%	8.4%	9.0%	9.6%	10.1%	10.6%	11.1%	11.5%	12.0%	12.5%	13.0%
EBIT margin*	-6.2%	3.7%	3.6%	6.1%	6.5%	7.0%	7.5%	7.9%	8.4%	8.9%	9.4%	9.9%	10.4%	10.9%
NOPAT margin*	-6.1%	3.2%	4.8%	5.0%	5.1%	5.2%	5.3%	5.6%	5.9%	6.3%	6.6%	7.0%	7.3%	7.6%
OPEX	-46.8%	-39.8%	-41.6%	-38.9%	-38.6%	-38.2%	-37.9%	-37.6%	-37.2%	-36.9%	-36.5%	-36.2%	-35.9%	-35.5%
Other														
Capital employed	1,072	1,786	2,115	2,446	2,838	3,305	3,855	4,512	5,289	6,063	6,889	7,814	8,848	10,003
Equity	547	1,127	1,270	1,447	1,675	1,957	2,299	2,729	3,258	3,873	4,570	5,357	6,243	7,241
Net debt	-397	-1,030	-959	-1,002	-1,179	-1,407	-1,695	-2,062	-2,524	-3,063	-3,677	-4,375	-5,167	-6,063
Invested capital	150	96	311	446	496	550	604	666	735	811	893	981	1,076	1,179
Financial ratios														
Current ratio	1.9x	2.6x	2.3x	2.1x	2.1x	2.1x	2.2x	2.2x	2.3x	2.4x	2.6x	2.8x	3.0x	3.2x
Quick ratio	1.2x	2.0x	1.7x	1.5x	1.5x	1.5x	1.5x	1.5x	1.6x	1.8x	1.9x	2.1x	2.3x	2.5x
Interest coverage ratio	-29.2x	38.9x	51.5x	48.6x	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Capex as a % of sales	4.2%	2.3%	2.0%	5.5%	3.1%	3.0%	3.0%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
Capex ratio	-1.3x	3.4x	2.6x	1.2x	2.3x	2.4x	2.5x	2.6x	2.8x	2.9x	3.0x	3.1x	3.2x	3.4x
Liquidity cycle (days)	-9.0	-18.9	-15.9	-15.9	-16.0	-16.0	-16.1	-16.1	-16.2	-16.2	-16.3	-16.3	-16.4	-16.4
Days inventory in hand	*116.0*	*101.6*	*111.2*	*110.2*	*109.2*	*108.2*	*107.2*	*106.2*	*105.2*	*104.2*	*103.2*	*102.2*	*101.2*	*100.2*
Days trade receivable in hand	*18.1*	*23.1*	*18.5*	*18.4*	*18.4*	*18.3*	*18.3*	*18.2*	*18.2*	*18.1*	*18.1*	*18.0*	*18.0*	*17.9*
Days trade payable in hand	*-143.0*	*-143.6*	*-145.6*	*-144.6*	*-143.6*	*-142.6*	*-141.6*	*-140.6*	*-139.6*	*-138.6*	*-137.6*	*-136.6*	*-135.6*	*-134.6*
Net debt/EBITDA (excl. restricted cash)	4.0x	-11.7x	-7.7x	-3.8x	-3.3x	-3.1x	-2.9x	-2.8x	-2.8x	-3.0x	-3.2x	-3.4x	-3.6x	-3.7x
Net debt/equity (excl. restricted cash)	-73%	-91%	-75%	-69%	-70%	-72%	-74%	-76%	-77%	-79%	-80%	-82%	-83%	-84%
ROE	-23.0%	5.6%	10.1%	11.7%	13.4%	14.4%	14.9%	15.9%	16.5%	16.2%	15.5%	15.0%	14.5%	14.0%
Net borrowing cost	*-0.8%*	*-0.4%*	*-0.3%*	*-0.5%*	*0.0%*	*0.2%*	*0.5%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.3%*	*0.3%*	*0.3%*
Average net debt/equity	*-75.8%*	*-82.0%*	*-83.5%*	*-72.4%*	*-69.8%*	*-71.1%*	*-72.8%*	*-74.7%*	*-76.5%*	*-78.3%*	*-79.8%*	*-81.1%*	*-82.2%*	*-83.2%*
ROIC	-91.4%	42.0%	61.1%	43.5%	44.4%	49.4%	53.6%	61.4%	69.1%	73.1%	75.5%	77.8%	80.2%	82.6%
1 - Cash tax rate	*99.4%*	*81.8%*	*140.4%*	*80.2%*	*77.4%*	*74.1%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*	*69.5%*
EBIT margin	*-6.2%*	*3.7%*	*3.6%*	*6.1%*	*6.5%*	*7.0%*	*7.5%*	*7.9%*	*8.4%*	*8.9%*	*9.4%*	*9.9%*	*10.4%*	*10.9%*
Revenue / invested capital	*14*	*18*	*15*	*10*	*9*	*10*	*11*	*12*	*12*	*12*	*12*	*12*	*12*	*11*

** Adjusted for SBC*

Valuation metric (current share price)											
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EV / Sales	2.3x	1.9x	1.6x	1.3x	1.1x	1.0x	0.9x	0.8x	0.7x	0.7x	0.6x
EV / EBITDA	31.3x	23.6x	18.3x	14.3x	11.5x	9.4x	8.1x	7.2x	6.4x	5.7x	5.1x
EV / EBIT	40.9x	30.8x	23.8x	18.6x	14.7x	11.9x	10.2x	9.0x	7.9x	7.0x	6.2x
EV / NOPAT	45.6x	36.7x	29.8x	24.9x	19.8x	16.1x	13.8x	12.2x	10.8x	9.6x	8.5x
P / E	58.5x	44.6x	35.7x	29.4x	23.4x	18.8x	16.2x	14.2x	12.6x	11.1x	9.9x
FCF yield	0.5%	1.9%	2.5%	3.1%	3.9%	4.9%	5.8%	6.6%	7.5%	8.5%	9.6%

Valuation metric (implied by DCF)											
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EV / Sales	3.1x	2.6x	2.1x	1.8x	1.5x	1.3x	1.2x	1.1x	1.0x	0.9x	0.9x
EV / EBITDA	42.5x	32.1x	24.8x	19.3x	15.6x	12.7x	11.0x	9.8x	8.7x	7.8x	7.0x
EV / EBIT	55.4x	41.8x	32.3x	25.2x	20.0x	16.1x	13.8x	12.1x	10.7x	9.5x	8.4x
EV / NOPAT	61.9x	49.7x	40.5x	33.8x	26.9x	21.8x	18.7x	16.5x	14.6x	13.0x	11.5x
P / E	77.1x	58.8x	47.1x	38.8x	30.8x	24.8x	21.3x	18.7x	16.5x	14.6x	13.0x
FCF yield	0.4%	1.4%	1.9%	2.3%	3.0%	3.8%	4.4%	5.0%	5.7%	6.4%	7.3%

Appendix 1.4 – Additional assumptions

	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Online fashion market (EURbn)	42.0	44.4	48.9	53.8	59.2	65.1	71.6	78.7	85.6	92.1	97.8	102.7	8.7%
Online market (% chg)		*5.8%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*8.7%*	*7.5%*	*6.3%*	*5.0%*	
Zalando													
Site visits (m)	1,656	1,822	2,004	2,204	2,425	2,667	2,934	3,080	3,234	3,396	3,566	3,744	7.5%
% chg	*21.4%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	
Conversion rate	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	1.5%
Number of orders (m)	55	63	71	80	91	102	116	123	129	136	143	150	9.1%
% chg	*33.6%*	*13.3%*	*13.2%*	*13.1%*	*13.0%*	*12.9%*	*12.9%*	*6.6%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	
Average order value (EUR, sales/no. orders)	53	58	62	66	70	73	76	78	80	82	84	86	4.0%
% chg	*0.0%*	*8.5%*	*7.5%*	*6.5%*	*5.5%*	*4.5%*	*3.5%*	*3.0%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	
Group sales (EURm)	**2,958**	**3,635**	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	**13.5%**
% chg	*33.6%*	*22.9%*	*21.9%*	*19.6%*	*18.6%*	*16.9%*	*15.0%*	*13.0%*	*11.0%*	*9.0%*	*7.0%*	*5.0%*	

EURm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16E-26E
Total fashion market (Western Europe)	**329,256**	**335,114**	**342,217**	**350,707**	**359,913**	**369,829**	**377,226**	**384,770**	**392,465**	**400,315**	**408,321**	**2.2%**
% chg		*1.8%*	*2.1%*	*2.5%*	*2.6%*	*2.8%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	
Online fashion market (Western Europe)	**44,450**	**48,895**	**53,784**	**59,162**	**65,079**	**71,586**	**78,745**	**85,635**	**92,058**	**97,812**	**102,702**	**8.7%**
% chg		*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*8.8%*	*7.5%*	*6.3%*	*5.0%*	
Offline share	*86.5%*	*85.4%*	*84.3%*	*83.1%*	*81.9%*	*80.6%*	*79.1%*	*77.7%*	*76.5%*	*75.6%*	*74.8%*	
Online share	*13.5%*	*14.6%*	*15.7%*	*16.9%*	*18.1%*	*19.4%*	*20.9%*	*22.3%*	*23.5%*	*24.4%*	*25.2%*	
Zalando sales	**3,635**	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	**13.5%**
Share of total market	*1.1%*	*1.3%*	*1.6%*	*1.8%*	*2.1%*	*2.4%*	*2.5%*	*2.7%*	*2.8%*	*3.0%*	*3.2%*	
Share of online market	*8.2%*	*9.0%*	*9.9%*	*10.7%*	*11.5%*	*12.2%*	*12.2%*	*12.1%*	*12.1%*	*12.2%*	*12.5%*	

Appendix 1.5 – Base case DCF valuation

Discounted cash flow model	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	TV
Sales	**4,422**	**5,325**	**6,348**	**7,489**	**8,746**	**9,601**	**10,330**	**11,114**	**11,958**	**12,866**	
Sales growth (%)	*21.9%*	*19.6%*	*18.6%*	*16.9%*	*15.0%*	*13.0%*	*11.0%*	*9.0%*	*7.0%*	*5.0%*	
EBIT	270	349	448	565	702	808	911	1,024	1,149	1,287	
margin (%)	*6.1%*	*6.6%*	*7.1%*	*7.5%*	*8.0%*	*8.4%*	*8.8%*	*9.2%*	*9.6%*	*10.0%*	
D&A	82	107	136	160	187	206	221	238	256	276	
Taxes	-61	-91	-139	-175	-217	-253	-288	-326	-369	-416	
NOPAT	**291**	**365**	**445**	**551**	**672**	**761**	**844**	**936**	**1,036**	**1,147**	
Change in Working Capital	1	2	2	2	2	1	1	1	1	2	
Capital Expenditure	-135	-162	-192	-224	-258	-283	-305	-328	-353	-380	
Free Cash Flow	**158**	**205**	**255**	**329**	**416**	**479**	**541**	**609**	**685**	**769**	**15,730**
Discount factor	0.97	0.90	0.85	0.79	0.74	0.69	0.65	0.61	0.57	0.53	0.53
Present Value of Cash Flows	**152**	**185**	**216**	**260**	**308**	**331**	**350**	**369**	**388**	**407**	**8,327**

Enterprise Value	**11,292**
- of which PV of cash flow	*26%*
- of which PV of terminal value	*74%*
Net debt	-1,002
Value of equity	**12,294**
Number of shares, basic	247
ITM share options	11
Fully diluted number of shares	258
Implied Value per Share (EUR)	**47.6**

WACC Calculations	
Cost of capital	
Risk-free rate (10 year treasury)	1.0%
Market Risk Premium	*5.8%*
Beta	0.9
Equity cost of capital	6.5%
Cost of long-term debt (pre tax)	6.7%
Cost of debt (post tax, 30.5% tax rate)	4.7%
Weightning	
Total debt	0.0%
Total equity	100.0%
WACC calculations	
Total debt	0.0%
Total equity	6.5%
WACC	**6.5%**

Terminal FCF multiple	
WACC discount rate	6.5%
Terminal nominal growth	1.5%
Terminal FCF multiple	20.2x

Sensitivity: Implied value per share

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	47.1	44.2	41.8	39.8	38.0	36.5	35.2
0.5%	50.9	**47.3**	**44.4**	**41.9**	**39.9**	**38.1**	36.6
1.0%	55.6	**51.0**	**47.4**	**44.5**	**42.1**	**40.0**	38.2
1.5%	61.6	**55.8**	**51.2**	**47.6**	**44.7**	**42.2**	40.1
2.0%	69.7	**61.8**	**55.9**	**51.4**	**47.8**	**44.8**	42.3
2.5%	81.0	**69.9**	**62.0**	**56.1**	**51.6**	**47.9**	44.9
3.0%	98.2	81.3	70.2	62.3	56.3	51.8	48.1

Sensitivity: Implied exit EV/EBITDA

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	20.2x	18.3x	16.8x	15.5x	14.4x	13.4x	12.6x
0.5%	22.4x	**20.2x**	**18.3x**	**16.8x**	**15.5x**	**14.4x**	13.4x
1.0%	25.3x	**22.4x**	**20.2x**	**18.3x**	**16.8x**	**15.5x**	14.4x
1.5%	28.9x	**25.3x**	**22.4x**	**20.2x**	**18.3x**	**16.8x**	15.5x
2.0%	33.8x	**28.9x**	**25.3x**	**22.4x**	**20.2x**	**18.3x**	16.8x
2.5%	40.6x	**33.8x**	**28.9x**	**25.3x**	**22.4x**	**20.2x**	18.3x
3.0%	51.0x	40.6x	33.8x	28.9x	25.3x	22.4x	20.2x

Sensitivity: Implied value per share

EBIT margin \ Terminal revenue	11,031	11,611	12,222	12,866	13,509	14,184	14,894
8.5%	32.3	34.4	36.7	39.1	41.5	44.0	46.7
9.0%	34.7	**37.0**	**39.4**	**41.9**	**44.5**	**47.2**	50.0
9.5%	37.1	**39.5**	**42.1**	**44.8**	**47.5**	**50.3**	53.3
10.0%	39.5	**42.1**	**44.8**	**47.6**	**50.4**	**53.4**	56.5
10.5%	42.0	**44.6**	**47.5**	**50.4**	**53.4**	**56.5**	59.8
11.0%	44.4	**47.2**	**50.2**	**53.3**	**56.4**	**59.7**	63.1
11.5%	46.8	49.8	52.8	56.1	59.4	62.8	66.4

Sensitivity: Implied EV/EBITDA 2017E

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	47.3x	42.2x	37.9x	34.3x	31.2x	28.5x	26.2x
0.5%	51.5x	**45.4x**	**40.5x**	**36.4x**	**32.9x**	**29.9x**	27.4x
1.0%	56.7x	**49.4x**	**43.6x**	**38.8x**	**34.9x**	**31.6x**	28.7x
1.5%	63.4x	**54.4x**	**47.4x**	**41.8x**	**37.2x**	**33.5x**	30.3x
2.0%	72.4x	**60.8x**	**52.1x**	**45.4x**	**40.1x**	**35.7x**	32.1x
2.5%	85.0x	**69.3x**	**58.2x**	**49.9x**	**43.5x**	**38.4x**	34.2x
3.0%	104.0x	81.4x	66.4x	55.8x	47.8x	41.7x	36.8x

Sensitivity: Implied exit EV/EBITDA

WACC	Beta \ WACC	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
4.7%	0.65	56.3	61.2	67.4	75.6	86.7	102.8	128.2
5.3%	0.75	49.6	**53.2**	**57.7**	**63.4**	**70.8**	**80.8**	95.2
5.9%	0.85	44.2	**47.0**	**50.3**	**54.5**	**59.7**	**66.4**	75.4
6.5%	0.95	39.8	**41.9**	**44.5**	**47.6**	**51.4**	**56.1**	62.3
7.1%	1.05	36.1	**37.8**	**39.8**	**42.2**	**45.1**	**48.5**	52.9
7.6%	1.15	33.0	**34.4**	**36.0**	**37.8**	**40.0**	**42.7**	45.8
8.2%	1.25	30.3	31.4	32.7	34.2	35.9	38.0	40.4

Appendix 1.6 – Bull case DCF valuation

Bull case P&L

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16-26
Group Sales	3,653	4,477	5,392	6,446	7,603	8,836	10,099	11,343	12,518	13,564	14,424	14.7%
% growth	*23.5%*	*22.5%*	*20.4%*	*19.5%*	*17.9%*	*16.2%*	*14.3%*	*12.3%*	*10.4%*	*8.4%*	*6.3%*	
1P	**3,450.9**	**4,205.7**	**5,031.6**	**5,969.6**	**6,978.7**	**8,024.9**	**9,068.3**	**10,065.1**	**10,971.7**	**11,739.8**	**12,326.5**	**13.6%**
% growth	*22.9%*	*21.9%*	*19.6%*	*18.6%*	*16.9%*	*15.0%*	*13.0%*	*11.0%*	*9.0%*	*7.0%*	*5.0%*	
3P	**202.5**	**271.4**	**360.9**	**476.4**	**624.1**	**811.3**	**1,030.3**	**1,277.6**	**1,545.9**	**1,824.2**	**2,097.8**	**26.3%**
% growth	*35.0%*	*34.0%*	*33.0%*	*32.0%*	*31.0%*	*30.0%*	*27.0%*	*24.0%*	*21.0%*	*18.0%*	*15.0%*	
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16-26
Adjusted EBIT	284	376	490	638	816	1,028	1,261	1,517	1,790	2,068	2,338	23.5%
% margin	*7.8%*	*8.4%*	*9.1%*	*9.9%*	*10.7%*	*11.6%*	*12.5%*	*13.4%*	*14.3%*	*15.2%*	*16.2%*	
IP	**222.8**	**291.9**	**374.9**	**480.6**	**603.9**	**743.8**	**890.0**	**1,044.4**	**1,202.1**	**1,356.2**	**1,499.2**	**21.0%**
% margin	*6.1%*	*6.5%*	*7.0%*	*7.5%*	*7.9%*	*8.4%*	*8.8%*	*9.2%*	*9.6%*	*10.0%*	*10.4%*	
3P	**60.8**	**84.1**	**115.5**	**157.2**	**212.2**	**283.9**	**370.9**	**472.7**	**587.4**	**711.4**	**839.1**	**30.0%**
% margin	*30.0%*	*31.0%*	*32.0%*	*33.0%*	*34.0%*	*35.0%*	*36.0%*	*37.0%*	*38.0%*	*39.0%*	*40.0%*	
Tax calc.	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16-26
Adjusted EBIT	284	376	490	638	816	1,028	1,261	1,517	1,790	2,068	2,338	0
Net financial costs	-1.0	-3.3	-4.5	-3.0	-5.0	0.0	3.0	8.0	9.0	11.0	12.1	13.0
SBC	-18.0	-18.0	-21.0	-25.0	-29.5	-34.4	-37.8	-40.7	-43.8	-47.1	-50.7	10.9%
EBT	265	355	465	610	782	993	1,226	1,484	1,755	2,032	2,300	
Tax	-26.4	-86.8	-120.4	-169.7	-238.4	-303.0	-374.0	-452.8	-535.2	-619.6	-701.4	0.0
Tax rate	*-10.0%*	*-24.5%*	*-25.9%*	*-27.8%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	

Discounted cash flow model

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	TV
Sales	**4,477**	**5,392**	**6,446**	**7,603**	**8,836**	**10,099**	**11,343**	**12,518**	**13,564**	**14,424**	
Sales growth (%)	*22.5%*	*20.4%*	*19.5%*	*17.9%*	*16.2%*	*14.3%*	*12.3%*	*10.4%*	*8.4%*	*6.3%*	
EBIT	**358**	**469**	**613**	**787**	**993**	**1,223**	**1,476**	**1,746**	**2,021**	**2,288**	
margin (%)	*8.4%*	*9.1%*	*9.9%*	*10.7%*	*11.6%*	*12.5%*	*13.4%*	*14.3%*	*15.2%*	*16.2%*	
D&A	82	107	136	160	187	206	221	238	256	276	
Taxes	-87	-120	-170	-238	-303	-374	-453	-535	-620	-701	
NOPAT	**353**	**456**	**579**	**709**	**878**	**1,055**	**1,245**	**1,449**	**1,657**	**1,862**	
Change in Working Capital	1	2	2	2	2	1	1	1	1	2	
Capital Expenditure	-137	-164	-195	-227	-261	-298	-335	-369	-400	-426	
Free Cash Flow	**218**	**293**	**386**	**483**	**619**	**758**	**912**	**1,081**	**1,258**	**1,438**	**28,989**
Discount factor	0.97	0.90	0.85	0.79	0.74	0.69	0.65	0.61	0.57	0.53	0.53
Present Value of Cash Flows	**211**	**265**	**327**	**382**	**458**	**525**	**590**	**654**	**712**	**761**	**15,345**

Enterprise Value	**20,231**
- of which PV of cash flow	*24%*
- of which PV of terminal value	*76%*
Net debt	-1,002
Value of equity	**21,233**
Number of shares, basic	247.1
ITM share options	11.2
Fully diluted number of shares	258.2
Implied Value per Share (EUR)	**82.2**
Share price per 30 Dec 2017	*36.1*
% potential upside / (downside)	*128%*

Supporting calculations

WACC calculations	
Risk-free rate	*1.0%*
Market Risk Premium	*5.8%*
Beta	0.9
Equity cost of capital	*6.5%*
Total debt	*0%*
Total equity	*100%*
WACC	**6.5%**

Terminal FCF multiple	
WACC discount rate	**6.5%**
Terminal growth	**1.5%**
Implied exit multiple	**20.2**

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	77.8	74.5	71.4	68.4	65.6	62.8	60.2
0.5%	82.3	**78.8**	**75.4**	**72.3**	**69.2**	**66.3**	63.5
1.0%	87.5	**83.8**	**80.2**	**76.8**	**73.5**	**70.4**	67.3
1.5%	93.9	**89.8**	**85.9**	**82.2**	**78.7**	**75.3**	72.0
2.0%	101.6	**97.2**	**92.9**	**88.9**	**85.0**	**81.3**	77.7
2.5%	111.3	**106.4**	**101.7**	**97.2**	**92.9**	**88.8**	84.9
3.0%	123.8	118.3	113.0	108.0	103.1	98.5	94.1

Appendix 1.7 – Bear case DCF valuation

Bear case P&L

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	CAGR 16-26
Group Sales	3,635	4,383	5,171	5,949	6,654	7,214	7,755	8,266	8,733	9,142	9,481	10.1%
- DACH	**1,803.0**	**2,024.5**	**2,236.3**	**2,429.6**	**2,595.4**	**2,725.1**	**2,845.0**	**2,953.1**	**3,047.6**	**3,126.9**	**3,189.4**	**5.9%**
% of sales	*14.1%*	*12.3%*	*10.5%*	*8.6%*	*6.8%*	*5.0%*	*4.4%*	*3.8%*	*3.2%*	*2.6%*	*2.0%*	
- Rest of Europe	**1,578.0**	**1,991.3**	**2,432.3**	**2,872.5**	**3,276.0**	**3,603.6**	**3,927.9**	**4,242.1**	**4,539.1**	**4,811.4**	**5,052.0**	**12.3%**
% of sales	*30.2%*	*26.2%*	*22.1%*	*18.1%*	*14.0%*	*10.0%*	*9.0%*	*8.0%*	*7.0%*	*6.0%*	*5.0%*	
- Other	**254.0**	**367.4**	**502.4**	**647.3**	**782.8**	**884.8**	**982.3**	**1,070.9**	**1,146.0**	**1,203.4**	**1,239.5**	**17.2%**
% of sales	*52.6%*	*44.6%*	*36.7%*	*28.8%*	*20.9%*	*13.0%*	*11.0%*	*9.0%*	*7.0%*	*5.0%*	*3.0%*	
GP	1,618	1,958	2,317	2,675	3,001	3,265	3,521	3,766	3,991	4,192	4,361	10.4%
OPEX (excl. marketing)	**-1,041.3**	**-1,257.2**	**-1,485.0**	**-1,710.6**	**-1,915.6**	**-2,079.2**	**-2,238.1**	**-2,388.4**	**-2,526.3**	**-2,647.9**	**-2,749.5**	
Marketing	**-373.0**	**-449.8**	**-530.6**	**-610.5**	**-682.8**	**-740.2**	**-795.8**	**-848.2**	**-896.1**	**-938.1**	**-972.9**	
	-10.3%	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	*-10.3%*	
Adjusted EBIT	204	251	302	354	403	445	487	529	569	606	639	12.1%
Net financial costs	-1.0	-3.3	-4.5	-3.0	-5.0	0.0	3.0	8.0	9.0	11.0	12.1	13.0
SBC	-18.0	-18.0	-21.0	-25.0	-29.5	-34.4	-37.8	-40.7	-43.8	-47.1	-50.7	10.9%
EBT	185	229	276	326	369	411	453	496	534	570	600	
Tax	-26.4	-48.6	-62.8	-83.0	-112.4	-125.3	-138.0	-151.3	-162.8	-173.7	-183.1	0.0
Tax rate	*-14.3%*	*-21.2%*	*-22.8%*	*-25.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	*-30.5%*	

Discounted cash flow model

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	TV
Sales	**4,383**	**5,171**	**5,949**	**6,654**	**7,214**	**7,755**	**8,266**	**8,733**	**9,142**	**9,481**	
Sales growth (%)	*20.6%*	*18.0%*	*15.1%*	*11.8%*	*8.4%*	*7.5%*	*6.6%*	*5.6%*	*4.7%*	*3.7%*	
EBIT	**233**	**281**	**329**	**374**	**411**	**450**	**488**	**525**	**559**	**588**	
margin (%)	*5.3%*	*5.4%*	*5.5%*	*5.6%*	*5.7%*	*5.8%*	*5.9%*	*6.0%*	*6.1%*	*6.2%*	
D&A	82	107	136	160	187	206	221	238	256	276	
Taxes	-49	-63	-83	-112	-125	-138	-151	-163	-174	-183	
NOPAT	**266**	**325**	**382**	**422**	**473**	**517**	**558**	**600**	**641**	**681**	
Change in Working Capital	1	2	2	2	2	1	1	1	1	2	
Capital Expenditure	-134	-157	-180	-199	-213	-229	-244	-258	-270	-280	
Free Cash Flow	**134**	**169**	**204**	**225**	**262**	**290**	**316**	**344**	**373**	**403**	**8,117**
Discount factor	0.97	0.90	0.85	0.79	0.74	0.69	0.65	0.61	0.57	0.53	0.53
Present Value of Cash Flows	**129**	**153**	**172**	**178**	**194**	**201**	**204**	**208**	**211**	**213**	**4,297**

Enterprise Value	**6,160**
- of which PV of cash flow	*30%*
- of which PV of terminal value	*70%*
Net debt	-1,002
Value of equity	**7,162**
Number of shares, basic	247.1
ITM share options	11.2
Fully diluted number of shares	258.2
Implied Value per Share (EUR)	**27.7**
Share price per 30 Dec 2017	*36.1*
% potential upside / (downside)	*-23%*

Supporting calculations

WACC calculations	
Risk-free rate	*1.0%*
Market Risk Premium	*5.8%*
Beta	0.9
Equity cost of capital	*6.5%*
Total debt	*0%*
Total equity	*100%*
WACC	**6.5%**

Terminal FCF multiple	
WACC discount rate	**6.5%**
Terminal growth	**1.5%**
Implied exit multiple	**20.2**

Terminal growth rate \ WACC	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
0.0%	26.6	25.7	24.7	23.9	23.0	22.2	21.5
0.5%	27.9	**26.8**	**25.9**	**24.9**	**24.1**	**23.2**	22.4
1.0%	29.3	**28.2**	**27.2**	**26.2**	**25.3**	**24.3**	23.5
1.5%	31.1	**29.9**	**28.8**	**27.7**	**26.7**	**25.7**	24.8
2.0%	33.3	**32.0**	**30.8**	**29.6**	**28.5**	**27.4**	26.4
2.5%	36.0	**34.6**	**33.2**	**31.9**	**30.7**	**29.5**	28.4
3.0%	39.5	37.9	36.4	34.9	33.6	32.2	31.0

Appendix 1.8 – Comparable company analysis (consensus)

Company	Price	Mcap	EV	EV/Revenue			EV/EBITDA			EV/EBIT		
				FY2017	FY2018	FY2019	FY2017	FY2018	FY2019	FY2017	FY2018	FY2019
Classifieds												
Auto Trader Group plc	4.8	4.7	5.1	14.0x	13.1x	12.2x	20.4x	18.9x	17.1x	21.6x	19.6x	17.7x
Rightmove plc	45.7	4.2	4.2	15.3x	13.9x	12.2x	20.2x	18.3x	16.0x	20.4x	18.4x	16.2x
Zoopla Property Group Plc	3.7	1.5	1.7	6.6x	6.0x	5.4x	17.2x	15.1x	13.3x	18.8x	16.2x	14.2x
Scout24 AG	34.5	3.7	3.7	7.6x	6.9x	6.4x	14.5x	12.8x	12.2x	14.8x	13.1x	12.8x
REA Group Limited	37.8	5.0	5.2	10.5x	9.2x	8.3x	18.2x	16.0x	14.2x	20.8x	17.4x	15.4x
carsales.com Ltd	7.8	1.9	2.0	8.2x	7.5x	7.0x	16.1x	14.7x	13.8x	16.7x	15.3x	14.3x
SEEK Limited	10.2	3.5	4.0	5.7x	5.2x	4.7x	14.9x	13.2x	11.8x	17.8x	15.5x	13.6x
Zillow Group, Inc.	34.5	6.2	6.0	6.1x	5.1x	4.3x	27.0x	19.2x	14.7x	NM	81.2x	39.2x
TrueCar, Inc.	11.8	1.0	0.9	3.2x	2.9x	2.5x	51.5x	32.9x	21.9x	NM	NM	NM
Bitauto Holdings Limited	17.9	1.2	1.2	1.3x	1.1x	1.0x	9.2x	6.8x	4.4x	15.8x	10.2x	7.2x
Autohome Inc.	23.9	2.7	2.1	2.6x	2.2x	2.0x	8.8x	7.5x	6.4x	9.5x	7.3x	0.0x
Trade Me Group Limited	3.3	1.3	1.4	8.7x	8.1x	7.5x	13.5x	12.4x	11.4x	15.7x	14.3x	13.1x
58.com Inc.	26.5	3.8	3.8	2.8x	2.3x	2.0x	18.5x	10.1x	7.0x	28.9x	14.8x	8.5x
Info Edge (India) Limited	12.5	1.5	1.4	9.2x	7.2x	5.4x	78.8x	40.1x	32.4x	281.7x	92.9x	59.5x
Just Dial Limited	4.7	0.3	0.2	2.2x	1.8x	1.5x	14.8x	10.7x	7.7x	23.2x	16.2x	10.4x
Median				**6.6**	**6.0**	**5.4**	**17.2**	**14.7**	**13.3**	**18.8**	**15.9**	**13.9**
Online media												
Axel Springer SE	46.0	5.0	6.4	1.9x	1.8x	1.8x	10.3x	9.5x	9.4x	13.8x	12.9x	13.1x
Schibsted ASA	21.8	4.9	5.1	2.8x	2.6x	2.5x	17.6x	14.0x	11.7x	22.3x	16.7x	13.6x
Moneysupermarket.com Group PLC	3.4	1.9	1.9	4.8x	4.5x	3.9x	12.3x	11.5x	0.0x	14.3x	13.2x	0.0x
Mail.Ru Group Limited	17.4	3.6	3.5	4.9x	4.4x	4.0x	11.2x	9.8x	9.1x	14.1x	11.5x	12.1x
Yandex N.V.	19.1	6.1	5.5	4.0x	3.3x	2.8x	11.0x	9.0x	7.6x	18.5x	14.2x	12.4x
Naspers Limited	139.1	60.0	63.0	10.6x	9.5x	8.7x	165.5x	82.0x	60.4x	247.2x	152.8x	107.1x
Vostok New Ventures Ltd	7.8	0.7	0.7	2.6x	2.0x	1.6x	4.4x	3.1x	2.3x	NM	NM	0.0x
Alphabet Inc.	750.7	510.7	435.7	4.5x	3.9x	3.4x	10.9x	9.3x	8.4x	13.0x	11.1x	10.0x
Yahoo! Inc.	36.6	35.0	29.9	9.1x	9.1x	8.7x	36.4x	36.9x	31.4x	92.6x	85.5x	78.7x
Tencent Holdings Limited	23.2	217.4	218.4	7.9x	6.2x	5.0x	19.3x	15.6x	12.3x	22.4x	17.9x	14.5x
Baidu, Inc.	155.7	54.0	49.3	4.1x	3.4x	2.8x	17.6x	12.9x	11.1x	24.8x	16.6x	13.9x
Facebook, Inc.	109.0	314.1	289.4	8.3x	6.6x	5.4x	13.2x	10.3x	8.2x	14.7x	11.6x	9.4x
Twitter, Inc.	15.4	11.0	9.0	3.4x	3.1x	2.8x	11.3x	9.8x	8.3x	NM	NM	37.5x
XING AG	175.5	1.0	0.9	5.2x	4.4x	3.8x	15.7x	12.9x	10.2x	19.7x	15.9x	13.4x
IAC/InterActiveCorp	61.4	4.9	5.3	1.7x	1.5x	1.4x	9.2x	7.6x	6.6x	15.3x	11.9x	9.3x
Criteo S.A.	38.9	2.5	2.1	2.4x	1.9x	1.5x	7.8x	6.0x	4.5x	13.3x	10.2x	7.6x
Netflix, Inc.	117.3	50.3	51.3	4.9x	4.1x	3.6x	50.8x	31.1x	21.8x	68.3x	37.6x	24.0x
Pandora Media, Inc.	12.4	2.9	3.0	1.9x	1.5x	1.2x	NM	48.2x	13.5x	NM	NM	NM
Yelp Inc.	36.1	2.8	2.4	2.9x	2.4x	2.0x	15.6x	11.4x	8.4x	159.2x	43.6x	21.3x
RetailMeNot, Inc.	8.8	0.4	0.3	0.9x	0.9x	0.9x	4.7x	4.5x	4.1x	26.5x	30.1x	47.7x
Kakaku.com, Inc.	15.7	3.4	3.2	8.4x	7.5x	6.8x	16.7x	14.6x	13.2x	17.6x	15.4x	13.9x
Median				**4.1x**	**3.4x**	**2.8x**	**12.8x**	**11.4x**	**9.1x**	**19.1x**	**15.7x**	**13.5x**
e-Commerce												
ASOS Plc	58.1	4.8	4.6	2.2x	1.8x	1.5x	32.4x	25.2x	20.2x	50.4x	38.7x	30.0x
boohoo.com plc	1.6	1.8	1.7	5.1x	3.9x	3.1x	45.0x	36.5x	28.6x	55.7x	44.0x	34.9x
Zalando SE	36.3	9.0	7.8	1.7x	1.4x	1.2x	24.2x	18.1x	13.9x	29.0x	21.5x	16.1x
YOOX Net-A-Porter Group S.p.A.	26.9	3.6	3.5	1.6x	1.3x	1.1x	17.3x	13.5x	10.5x	32.0x	24.2x	17.8x
Rocket Internet SE	19.1	3.2	1.9	12.1x	10.6x	0.0x	NM	NM	0.0x	NM	NM	0.0x
zooplus AG	121.1	0.9	0.8	0.7x	0.6x	0.5x	30.3x	21.5x	16.0x	32.4x	22.8x	16.4x
AO World Plc	2.1	0.9	0.9	1.0x	0.9x	0.7x	NM	54.7x	28.5x	NM	114.6x	34.5x
Ocado Group plc	3.1	1.8	2.0	1.2x	1.0x	0.9x	16.6x	13.4x	11.8x	52.7x	38.3x	31.1x
Amazon.com, Inc.	710.4	337.5	338.1	2.1x	1.8x	1.5x	18.2x	13.6x	10.7x	50.1x	29.7x	20.0x
B2W - Companhia Digital	3.0	1.0	1.8	0.7x	0.6x	0.6x	7.4x	5.9x	4.5x	12.1x	8.7x	6.3x
JD.com, Inc.	24.1	34.2	33.4	0.7x	0.6x	0.5x	40.5x	24.8x	12.8x	NM	77.2x	14.7x
Vipshop Holdings Limited	10.4	6.1	6.0	0.6x	0.5x	0.4x	10.1x	7.9x	6.9x	12.6x	10.0x	7.5x
Wayfair Inc.	33.2	2.8	2.6	0.6x	0.5x	0.4x	NM	38.8x	13.7x	NM	NM	21.3x
Median				**1.2x**	**1.0x**	**0.7x**	**21.2x**	**19.8x**	**12.8x**	**32.4x**	**29.7x**	**17.8x**
Marketplaces												
JUST EAT plc	6.8	4.6	4.5	7.9x	6.6x	5.4x	23.8x	18.1x	14.0x	26.6x	20.1x	15.2x
Takeaway.com Holding B.V.	23.5	1.0	1.0	6.9x	5.3x	4.1x	NM	67.6x	19.0x	NM	101.8x	28.5x
GrubHub Inc.	35.6	3.1	2.8	4.7x	4.0x	3.4x	15.8x	12.7x	10.7x	23.9x	17.8x	14.7x
CTS Eventim AG & Co. KGaA	30.0	2.9	2.7	3.1x	3.0x	2.8x	12.9x	11.7x	10.8x	14.9x	13.3x	12.7x
eBay Inc.	28.1	31.4	32.4	3.6x	3.4x	3.3x	9.3x	8.7x	8.1x	11.5x	10.8x	10.4x
Alibaba Group Holding Limited	83.2	208.0	210.8	10.0x	7.6x	6.0x	21.8x	17.0x	13.7x	35.8x	26.1x	19.2x
Rakuten, Inc.	9.3	13.3	14.1	2.0x	1.8x	1.6x	9.6x	8.2x	7.3x	12.6x	10.4x	9.0x
Groupon, Inc.	3.1	1.8	1.4	0.4x	0.4x	0.4x	6.5x	5.2x	4.5x	NM	53.0x	17.4x
Start Today Co., Ltd.	16.4	5.3	5.2	9.1x	7.7x	6.7x	25.3x	21.4x	18.6x	26.9x	22.6x	19.6x
Median				**4.7x**	**4.0x**	**3.4x**	**14.3x**	**12.7x**	**10.8x**	**23.9x**	**20.1x**	**15.2x**
Online travel agents												
lastminute.com NV.	13.4	0.2	0.1	0.4x	0.4x	0.0x	3.8x	3.5x	0.0x	6.2x	5.4x	0.0x
eDreams ODIGEO, S.A.	3.0	0.3	0.6	1.3x	1.3x	1.2x	6.8x	6.1x	5.8x	7.9x	7.7x	7.1x
The Priceline Group Inc.	1388.8	68.5	71.3	6.0x	5.3x	4.6x	15.1x	13.0x	11.0x	15.9x	13.8x	11.7x
Median				**1.3x**	**1.3x**	**1.2x**	**6.8x**	**6.1x**	**5.8x**	**7.9x**	**7.7x**	**7.1x**
Gaming & Gambling												
888 Holdings plc	2.5	0.9	0.8	1.5x	1.4x	1.3x	8.7x	7.9x	7.1x	11.4x	10.0x	8.9x
Paddy Power Betfair plc	101.5	8.4	8.4	4.2x	3.8x	3.6x	16.0x	13.9x	12.4x	20.3x	16.6x	15.1x
Zynga Inc.	2.4	2.2	1.3	1.7x	1.5x	1.4x	14.0x	9.7x	8.3x	20.6x	11.3x	6.9x
Activision Blizzard, Inc.	34.2	25.4	27.6	4.3x	4.0x	3.7x	11.8x	10.1x	8.6x	12.4x	10.9x	9.4x
Electronic Arts Inc.	74.6	22.5	20.4	4.3x	4.1x	3.8x	13.1x	11.9x	10.6x	14.4x	12.7x	11.2x
Median				**4.2x**	**3.8x**	**3.6x**	**13.1x**	**10.1x**	**8.6x**	**14.4x**	**11.3x**	**9.4x**