

## Kogan.com

### Strong cash generation in FY18, ROCE doubled

Kogan.com (KGN) is a portfolio of retail, marketplace and consumer services including kogan.com, DickSmith.com, Kogan Marketplace, Kogan Mobile, Kogan Internet, Kogan Insurance and Kogan Travel. The company is focused on delivering in-demand products and services in a more affordable, digitally efficient and accessible manner. KGN listed on the ASX in July 2016, after raising \$50m at \$1.80/share, and subsequently outperformed its FY16 and FY17 prospectus forecasts. The company delivered FY18 NPAT (adjusted for one-time costs) of \$14.1m, an increase of 148% on FY17 NPAT. Total dividends almost doubled to \$0.13/share from \$0.077/share. Kogan's performance using the RaaS RAP 5-point rating system increased to 5 out of 5 in FY18, compared with 3/5 in FY17 as a result of improving ROCE (now 43% vs 20%) and improving gross OCF/EBITDA (115% vs 87%).

### Strategy

Kogan.com started life as an online electronics retailer offering in-demand products at affordable prices and has subsequently leveraged its brand into marketplace and consumer services in mobile, broadband, insurance, travel, health and pet insurance. The company has also signed a partnership deal with Vodafone NZ, New Zealand's largest mobile carrier, for Kogan to deliver a low cost service in that market which has few mobile virtual network operators. Kogan.com's value for money consumer strategy has taken it into exclusive brands (44.2% of gross profit), global brands (18.3% of GP) and partner brands (20.5% of GP). Mobile grew its share of gross profit to 14.9% in FY18 from 7.0% on pcp. Kogan.com has 1.388m active customers, up 45.3% on pcp.

### FY18 result

The company reported significant improvement in operating cashflows in H218 with operating cash conversion at the full year increasing to 122.9% compared with 32.2% at H118. The lift in operating cashflows before financing and tax to \$24.5m was in part due to a \$5.9m decrease in net working capital. FY18 revenues increased 42.4%, while EBITDA margins lifted 46.5% to 6.3%. Kogan.com estimates it now has a 2.0% share of Australia's online retail sales.

### Reverse DCF

We have undertaken a reverse DCF of Kogan using the FY18 operating cashflows after capex and taxation as a base and applying a 10% discount rate and 2.0% terminal rate. The current share price of \$6.21/share implies CAGR in free cashflows from FY18 to FY27 of 13.9%.

#### Earnings history (A\$m)

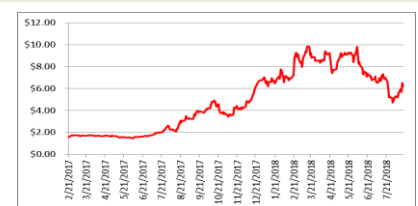
Y/E	Revenue	EBITDA*	EBIT	Pro forma NPAT*	Stat. NPAT	DPS (c)	Pro Forma EPS(c)*	PE (x)	P/CF (x)	Yield (%)
6/16	211.2	4.0	1.6	0.8	0.8	-	1.5	405.9	50.5	-
6/17	289.5	12.5	8.7	6.7	3.7	7.7	7.2	86.9	52.6	1.2
6/18	412.3	26.0	20.7	14.1	14.1	13.0	15.1	41.2	20.9	2.1

Source: Company data \*EBITDA adjusted for transaction costs associated with IPO in FY17

#### Share details

ASX Code	KGN
Share Price (at 17 August)	\$6.21
Market Capitalisation	\$582M
Number of shares	93.7M
Enterprise Value	\$538MM
Sector	Retailing
Free Float	47.1%

#### Share price performance (12 months)



#### RaaS RAP 5-point score\* = 5/5

Revenue increasing (1); EPS increasing (1); Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

#### Upside Case

- Strong private label online retail brand
- End to end automation keeps costs down
- Leveraging brand into other verticals, consumer services

#### Downside Case

- Potential competition from global heavyweight Amazon
- Barriers to entry in internet retailing are low
- Inventory turn has slowed since IPO to 3-4 times per half year compared with 4-5 times pre IPO

#### Catalysts

- Trading update at November AGM
- Expansion of partners and verticals

#### Comparative companies (Australia & NZ)

JBH, HVN

#### Substantial Shareholders

Kogan Management and Ruslan Kogan 40.98%, Shafer Corporation and David Shafer 12.08%

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