

28 January 2022

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Kogan.com Ltd

Retailing

BUY

KGN A\$6.15

TARGET PRICE A\$7.18

Kogan.com Ltd. operates as an online retailer with a portfolio of retail and services businesses that includes Kogan Retail, Kogan Marketplace, Kogan Mobile, Kogan Broadband, Kogan Insurance and Kogan Travel. The company was founded by Ruslan Kogan in 2006 and is headquartered in South Melbourne, Australia.

Company Data

Number of shares	106.9 M
Market Capitalisation	\$657.4 M
Free float (%)	79.4
12-month high/low	\$19.66/\$6.15
Average Daily Turnover (\$m)	4.482550
% S&P/ASX200	0.034%
DDM Ranking	71
% All Ordinaries	0.029%
GICS Industry Group	Retailing

Source: FactSet, Barclay Pearce Capital

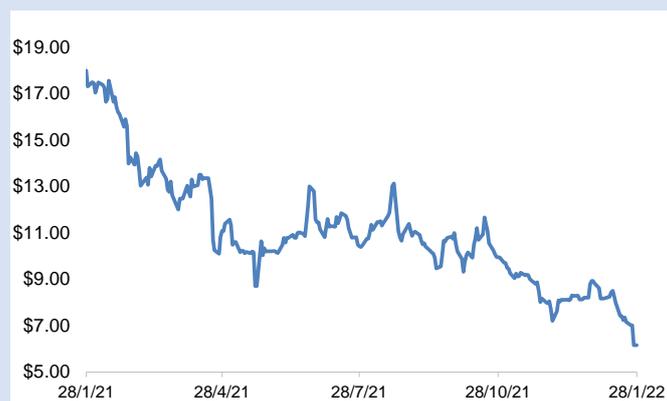
Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	780.70	829.38	1,151.66	1,286.76
EBITDA (\$M)	61.8	35.3	58.8	73.0
Reported NPAT (\$M)	3.5	6.3	16.8	40.4
Adjusted NPAT (\$M)	42.9	18.0	32.6	42.4
Reported EPS (c)	3.0	5.9	15.7	37.8
Adjusted EPS (c - FD)	41.0	16.3	29.6	38.1
Adjusted EPS growth (%)	46.4	-30.2	37.0	25.6
Adjusted P/E (x)	15.0	18.4	16.8	13.1
Dividend (c/sh)	16.0	7.9	18.1	23.7
Gross yield (%)	3.7	1.8	4.2	5.5
Net yield (%)	2.6	1.3	2.9	3.9
ROIC (%)	25.2	12.1	20.1	24.6

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

1HFY22 Business Update

On 28th January 2022, Kogan.com Limited (KGN) announced its 1HFY22 Business Update with the following highlights:

Financial Summary

- **Active Customers** grew to over 4,000,000, with more than 10% growth YoY in Kogan.com active customers to 3,314,000, and Mighty Ape had 757,000 Active Customers as at 31 December 2021.
- **Kogan First members** grew 176% YoY to 274,000 as at 31 December 2021, and 38.5% since 30 September 2021.
- **Gross Sales** of \$698.0 million grew more than 9% YoY, and a CAGR of more than 46% since 1HFY20.
- **Gross Profit** was impacted by continuing supply chain interruptions as a result of the current COVID situation and associated fluctuations in demand, resulting in a decline of just over 4% YoY to \$112.4 million, but achieved growth on 1HFY20 with a CAGR of more than 50%.
- **Operational Costs** during the half were impacted by COVID related interruptions resulting in increased logistic costs. Additionally, the Business continued to significantly invest in marketing to grow the platform, achieve Active Customer growth and scale the Kogan First loyalty program.
- **Adjusted EBITDA** was \$21.7 million.
- **Inventories** reduced from \$227.9 million (comprising \$191.8 million in warehouse, and \$36.1 million in transit) as at 30 June 2021 to \$196.8 million (comprising \$158.5 million in warehouse and \$38.3 million in transit) as at 31 December 2021.
- As at 31 December 2021 the Company had a strong capital position, with net cash (total cash less drawn debt) of \$39.7 million, after having funded the Tranche 2 payment in respect of the Mighty Ape Acquisition of A\$29.9 million during the half.

Founder and CEO of Kogan.com, Ruslan Kogan, said: "Over four million Aussie and Kiwi shoppers have recently experienced the choice, value, and delivery benefits of the Kogan.com Group. Every decision and action we take is for our customers, and the world class Kogan team jumps out of bed every morning to create a great experience for online shoppers. We have continued to re-invest in our customers through the Kogan First loyalty program to offer the best deals on a wide range of products, delivered quickly and efficiently. After launching late last year, Kogan Delivery Services is already making an impact with more than 100,000 orders delivered directly to customers since launch. As always we're obsessed with the long term, and our ever-improving customer experience continues to underpin business success."

Earnings Changes

KGN has reported adjusted EBITDA for H1FY22 of \$21.7m which is \$30m below last year's. Hence, we expect KGN's FY22 Adjusted EBITDA to be \$30-\$32m compared to market expectations of \$50.4m. Hence, we expect negative earnings revisions of 30% for FY22 and 10% for future years.

Valuation

We are adjusting our 12-month price target from \$12.54 to \$7.18 and retaining our BUY recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

Conflicts of Interest

Barclay Pearce Capital does not have any material interests in the financial product discussed in this Research Report nor will it receive any benefits in relation to the publication of this Research Report. Barclay Pearce Capital manages all Conflicts of Interest in accordance with its Conflicts of Interest Policy. Please contact us if you require any further information.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)