Whitman Howard Corporate

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LONDON

Koovs*

Retail | 7 May 2019

BUY

Initiation | Encouraging early signs

Koovs has updated on trade over the second half of the financial year. This period included roughly a quarter where its operations were running with renewed marketing support following its re-financing. We think these results are encouraging.

The company is also announcing the next stage of Future Lifestyle Fashions Limited's (FLFL) investment of £10.5m in two tranches at a blended price of 15p per share in a mixture of ordinary and convertible preference shares which has been subject to Indian regulatory clearance (the prefs are also subject to shareholder approval). Clearly this is positive for the investment case.

The trading update contains some encouraging numbers even if against a period affected by low funding. We would pick out the customer visits re-achieving company record levels, +67% Gross Order Value (GOV) 4Q and the improvement in the full year trading margin (gross profit) indicating a 2H margin of low-mid 20%s suggesting a more stable industry pricing environment.

The Indian e-commerce market has been severely disrupted following the 2017 government moves to take large denomination currency out of circulation ("demonetisation") and introduce the centralised Goods and Services Tax (GST), both of which contributed to severe discounting. Some stability seems to be re-emerging.

More recently moves to limit discounting through e-com platforms promise a more balanced growth of online retailing where non-price attributes may prosper. This plays very much to Koovs' strategies.

Overall, therefore, we may be seeing some stability re-emerging against which a re-capitalised Koovs may benefit. Forecasts are somewhat tentative against this backdrop. But we currently anticipate EBITDA moving towards break-even in 2021/22.

Our initial TP of 20p values the shares at 150% of forecast 3/22 sales which is consistent with the comparator group having adjusted for Koovs' relative immaturity.

Summary Financials

Year to March (£m)	2019E	2020E	2021E	2022E
Revenue	8.5	14.3	30.5	82.5
EBITDA	-13.2	-16.8	-19.1	-7.2
FCF	-14.9	-14.4	-18.0	-11.8
EV/Sales (%)	395	307	203	89
EV/EBITDA	-2.5	-2.6	-3.2	-10.3

TARGET PRICE	PREVIOUS TARGET
20p	N/A
SHARE PRICE	**UPSIDE/DOWNSIDE**
8.7p	130%

Market Data

Ticker	KOOV LN
Market Cap (GBPm inc FLFL 1st tranche)	35
52 Week High/Low (GBP p)	24.9/6.3
Shares in issue(m incl FLFL 1st tranche)	402
Free Float m(%)	43
Net Debt (3/19E GBP inc bonds)	3

Next Event

Prelims

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Up and Running Again

Re-financing – the story so far

Re-finance summary

Koovs has been in the process of a re-financing since the beginning of 2018/19. This may be summarised as follows:

Figure 1: 2018/19 and subsequent Re-financings

	Shares Issued	Convertible Shares	Cash £m	VIK £m
FLFL Shares July 2018	57.9		5.8	
HT tranche 1	42.0			4.2
Placing Shares	67.5		10.1	
Subscription Shares	12.5		1.9	
FLFL Shares May 2019	45.8	24.0	10.5	
Total	**225.7**	**24.0**	**28.3**	**4.2**
HT tranches 2-4	126.0		-5.4	12.6

Source: Company

£45.1m since beginning of 2018/19 inc VIK

The re-financing has been a mixture of straight equity raises, strategic investment by Future Lifestyle Fashion Limited – part of one of India's leading retail groups – and a substantial Value in Kind (VIK) deal with the HT Media (Hindustan Times/Times of India) Group. The value of funds and VIK to date including the full amount of the FLFL investment announced today (assuming completion of the convertible preference share issue) will be £32.5m (Cash from shares £28.3m and VIK £4.2m). A further £12.6m of VIK may be drawn down in future. In 2017/18 Koovs raised £8.9m via a convertible bond.

FLFL second tranche in more detail

The current funding round from FLFL is split between £3.7m ordinary shares at 8p per share (45.8m shares) and £6.8m of preference shares (24m prefs) which will be compulsorily convertible after one year one to one into ordinary shares. The prefs are subject to shareholder consent. We have assumed in our calculations that these shares are issued and convert in line with this schedule. The blended price of the two elements together is 15p per ordinary share after conversion.

HT Media deal

The HT Media deal provides Koovs with in total £24m of advertising spend. Each tranche of £6m is paid for by the issue of 4.2m shares (initially at 10p per share and subsequently at lower of 3-month average price or the price of the most recent equity fundraise by Koovs) and a cash payment of £1.8m. The cash payment to HT Media is not made until the marketing is used. There are currently three "undrawn" tranches of this financing and the media related to the first tranche has not been used yet. Our figures above net the cash payments required to draw down the ad spend in the stated VIK amount.

Clearly this process has allowed Koovs to emerge on a firm footing after a period when its immature but growing business model was materially disrupted by external factors.

Brief synopsis of Market Factors

Market backdrop

There have been a number of significant events in the Indian consumer and e-commerce markets in recent years. These form the backdrop to Koovs' operations and need to be understood.

Favourable background conditions

General background conditions have been favourable to the development of e-commerce. A very large population has seen strong growth in smartphone and social media usage. India has more Facebook users than the USA for context.

Plus Digital India

This growth has been supported by the Digital India programme of the central government, which has among other innovations introduced biometric passports for nearly one billion Indians and required all government benefit recipients to open bank accounts.

Infrastructure investment led by platforms

There has been significant investment in digital infrastructure largely led by the growth of the main e-com platforms – previously Indian-owned Flipkart, Amazon and to a lesser degree Alibaba associated PAYTM. In 2018 Flipkart was bought by WalMart for $16bn.

Supporting services have followed

Alongside the platforms there has also been substantial investment in payment systems and logistics. This said payment is still predominantly with cash on delivery, which is a limiting factor on overall market growth.

Base in-efficient

Logistics investment is significant with much coming from external investors. Cheapness of labour and poor transport infrastructure have limited the efficiency of picking systems (not much automation) and delivery time development.

Growth in cities

The structure of the population between major metropolitan centres – so-called Metros – and more rural areas has some bearing on how the market is developing. Most growth to date has been in the larger cities. The seven largest Metros – National Capital Region (Delhi), Mumbai, Kolkata, Bangalore, Pune, Hyderabad and Chennai - collectively account for around 120m of India's 1.3bn population within their metropolitan areas (NCR 46m).

Western v traditional clothing styles

Koovs has a fashion assortment based on Westernised fashions. The Indian clothing market splits broadly between Western and traditional clothing with the urban areas more important for the former.

FDI

India's retail provision is dominated by small independent retailers. Successive governments have tried to protect these retailers by preventing foreign ownership of many retail distribution channels. The Foreign Direct Investment (FDI) rules have been modified regularly in recent years but essentially attempt to prevent large multi-product foreign retailers from operating in India.

Put simply

The rules are quite complex but essentially 100% direct ownership is allowed for single brand retailers (subject to conditions) and Wholesale/Cash & Carry. FDI is not allowed for Multi-brand retailers.

Online FDI

FDI in e-commerce has been governed by different rules which have recently been tightened up. A distinction has been made between platform ownership where 100% overseas ownership has been allowed and selling one's own inventory where FDI rules have been applied to companies selling online.

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In practice this led to the main platforms selling both on behalf of others but also themselves through effectively controlled subsidiaries set up with Indian partners. These "subsidiaries" have been used to discount heavily with the extent of discounting often masked by marketing support provided by the platform owner.

Heavy discounting via controlled companies

These rules have been changed since the Flipkart acquisition by WalMart in 2018. The controlled subsidiaries are now only allowed to account for 25% of sales through any platform and their purchase and support practices are subject to scrutiny to avoid in-price manipulation.

New rules

These new regulations have only recently been implemented and their effect on the rate of online development has yet to be seen. In theory lower levels of discounting should slow the growth of the overall market. But clearly they should also improve profitability overall.

Likely effects positive and negative

Koovs operates as a wholesaler for the purposes of FDI. It sells product to the Indian retail operating company on a wholesale basis and the Indian company, operated by a local company – Marble – operates the retail side of the business.

Koovs' FDI status

While it is now becoming slightly historic we draw attention to government actions which have adversely affected Koovs since 2016. These were the government's surprise announcement of withdrawal of large denomination INR 500 and above banknotes in November 2016 and the introduction of the national Goods and Services Tax in July 2017.

De-monetisation and GST

Both of these measures had the effect of reducing economic activity and requiring clearance of significant amounts of inventory in supply chains geared up for rapid growth.

Both generated heavy clearance requirements

While both the de-monetisation and the GST introduction were severely negative in their immediate effects we regard both as positive for the longer term development of e-commerce.

But both positive for longer term

De-monetisation was designed to force more people into the banking system (by exchanging their large denomination notes for bank deposits) and thereby the overall tax "net". India suffers from a very low tax take as a predominantly cash economy which in turn affects the level of government expenditure on infrastructure. Infrastructure spend and more people in the banking system are ultimately good for e-com.

De-monetisation forced people into banking/tax system

Similarly, GST while aimed at bringing more businesses into the tax net and reducing "leakage" from a more fragmented mainly state-based structure has also had the effect of providing consistency within India which should allow some of the friction costs caused by different state tax regimes in areas like logistics to reduce thereby improving delivery/logistics performance.

GST harmonises fiscal system

India is effectively under-capitalised in terms of retail support structures because of the overall historic structure of retail provision. The growth of the major platforms, the spread of smartphone ownership and social media participation, and the efforts of central government in terms of Digital India and encouraging people into the financial system are stimulating growth of both infrastructure and transactions over the longer term.

Under-capitalisation being addressed by digitisation

Current Indian elections highlight that there is a constant balance here between modernisation and the interests of the traditional economy. Generally we feel that the incumbent government "gets it" so far as the potential benefits of digitisation are concerned. But it will not in our view be a fully market-driven e-commerce

Market likely to continue to see interventions market and will be subject to some interventions. We regard this as supportive to the Koovs model, which is based in our view on non-price attributes.

H&M's stamp of approval

We would also note the recent announcement by Hennes & Mauritz that it intends to sell its product online in India via the Myntra and Jabong online platforms. These are Flipkart subsidiaries. While this is a logical move as H&M has 41 physical stores in India the fact that it is going via a platform as well as its existing URL and App speaks to the attraction of scalability and ability to sell at full-price. We would doubt that H&M would want to go this route unless it felt that the overall Indian online clothing market was showing more positive characteristics.

Koovs Snapshot

New business, experienced management

We will be writing a fuller more descriptive note to follow the 2018/19 Prelims. Koovs has been in existence as an online fashion retailer since late 2012. Its Chair Waheed Alli is a former Chair of ASOS (Koovs' CEO Mary Turner is another former ASOS senior executive).

Young fashion

As mentioned, it specialises in Western style fashion apparel and footwear for young fashion-conscious customers. The website sells a mixture of third-party brands and own-label product (under a Designed-in-London strapline). It currently shows about 8000 Stock Keeping Units (SKUs) with a medium-term aspiration to have a much wider range of around 35,000 SKUs. In e-commerce range tend to drive visit conversion into orders.

Curator

Koovs presents itself as a "curator" of fashion product in that it sells product in an aspirational way rather than as a commodity. To do this it has created an image of its positioning and the lifestyle that its products help its customers to achieve.

Contemporary image support

This is done both by the attractiveness of the product and by how it is presented in collections. It is also supported by extensive use of social media and influencers (generally up-and-coming Bollywood actors).

This approach has had traction and Koovs regularly achieves well-above competitor recognition rates which have recovered over recent times.

Three main ways of acquiring customers

As with other e-com operators Koovs spends significant amounts in online marketing to attract customers and build the brand. This splits into three main areas – click-through rates from search engines/affiliate marketing (mainly Google), paid advertising on social media (mainly Facebook) and traditional (some digital) advertising with Times of India/Hindustan Times.

But high customer acquisition cost market wide

The Indian e-commerce market is immature and therefore suffers from a relatively high cost of customer acquisition. Order conversion rates are relatively low at around 1-2% of visits and Average Order Value is also low reflecting consumption per head levels.

Longer term debate but short term metrics recovering

Part of the investment debate here is about how Koovs is able to improve its operational efficiency towards levels seen in clothing e-com operators in more mature economies with more advanced e-com provision. We will explore this in more detail in subsequent notes. But at this early stage in its post re-capitalisation phase we are encouraged that conversion ratios appear to be approaching those witnessed before marketing had to be reined back.

Future Retail Relationship

On 4th July 2018 Koovs entered an agreement with Future Lifestyle Fashions Limited (FLFL) part of the Future Retail (FR) Group led by Kishore Biyani. Under the initial agreement and today's Further Funding Agreement FLFL will become a 29.9% holder of Koovs shares in the event of conversion of its preference shares (its stake will be 25.8% of the enlarged capital after the first tranche). On 13th December 2018 Avni Kishore Kumar Biyani joined the Board of Koovs.

Link up announced July 2018

The deal is far more significant than a straight investment. FLFL is a leading physical retailer of fashion in India operating over 400 stores and 30 brands, while FR has in total over 2000 retail units, 22m sq ft of space and 500m annual customer visits.

Future a very important player in India

To date we understand that there have been multiple work groups between the two groups in areas of common interest. The most tangible output has been a Technical Services Contract between Koovs Marketing Consulting and FLFL to develop, host and maintain an online platform for the FLFL retail concept Brand Factory. This work has already been completed (and the results included in the 2018/19 results). Koovs and FR appear positive that this will be an important part of their relationship.

Some output already from collaboration

Koovs has also set out today some areas where the relationship with FLFL is already bearing fruit – namely agreement to open Koovs' concessions in 7 FLFL retail units, agreement for the use of Koovs' studio expertise (product imagery) and inclusion of a curated collection of FLFL products on Koovs' platform.

Early progress

We believe that the relationship will be highly significant for Koovs. FLFL brings access to a broad range of branded product to allow Koovs to develop its own range, notably at the more aspirational end where international brands have significance in the immature Indian urban market in particular.

Significance to Koovs

FLFL clearly believes that Koovs has much to offer in its own development of online in our opinion. We expect more information here at the Prelims.

The Trading Update

Koovs has presented selected financial data covering the year to 31st March 2019. This included the final period of the year when the company had moved back to a more normal pattern of trading after resuming its marketing activity.

Last part of financial year back to more normal trading

It has also announced that FLFL has subscribed for a second tranche of shares raising £10.5m at 15p per share [taking its stake up to 29.9%. This is positive for the shares in our view.

FLFL has subscribed for its second tranche of shares

The trading data covers only a relatively short period when the business was up and running properly (ie supported by marketing) again. This said we feel that some of the stats are encouraging and we believe that trade in the final quarter was good relative to anything done in the company's history.

Short period of more normal trade but closed out in decent shape

Koovs has presented Gross Order Value (GOV) stats, trading margin and some operational stats. GOV is what it says but it includes tax and has to be reduced for double counting of product returned and re-ordered. For reference in 2017/18 actual retail sales ex tax represented 66% of GOV.

GOV

Across the year GOV declined by 14%, representing -37% in 1H and + 13% 2H. These movements are difficult to interpret because of the slowdown seen in the previous

Recovery in 2H and 4Q

year and the fact that 2018/19 2H will have had a much strong exit than entry rate as the company was moving back towards more normal operations. In 4Q GOV increased by 67%.

Trading Margin improvement significant

The increase in Trading Margin to 18% of sales from 14% appears pretty significant subject to the provisos over time period covered. It would indicate that the 2H level was in the low-mid 20%s consistent with comments at the half year results. The significance is that it probably indicates that levels of discounting market-wide have abated allowing better economics to emerge.

Only the start

Obviously a gross margin in the 20s is nowhere near enough to be profitable/cash generative. But pricing stability – which should increase as the restrictions on platforms' own-product discounting become more embedded – and the Koovs strategies to drive full-price sales should allow this to increase.

Visitor numbers back to highest level already

The other stat we liked was the total visit numbers which increased by 16% to 76m. This is only slightly below the previous best year 2016/17. Again we would like to analyse this in the context of the pattern through the year and consider it in relation to conversion rates (to orders) which we would have expected to drop away a lot in the early part of the year and re-build in the post capitalisation phase.

Limited relevance but re-assuring

Overall, therefore, there is clearly some significant encouragement here in terms of the market and Koovs own performance, albeit covering a short period. Numbers for the full year are, however, in our view going to be of limited relevance given the limited period of "normal" trading.

Forecasts

Forecasts presented on a more meaningful basis

We present our forecasts on a hybrid basis incorporating the result to include Indian Retail plus the UK Wholesale. Koovs' statutory accounts are presented on a wholesale basis.

Early stage forecasting

We would stress that as with other online apparel companies forecasting is subject to above-average uncertainty especially in the early development stage. That said we have just witnessed the Boohoo full year results wherein two of the three brands (Pretty Little Thing and Nasty Gal) grew annual sales by 100% or more. Given that Boohoo claimed to have driven two thirds of the total market growth in the UK relevant age group markets over the last two years Koovs should be able to grow substantially given the size of its market and that it does not have to grow at the expense of other operators.

Key assumption

As we have discussed previously India is a very different market to the Western clothing and e-com apparel markets. Koovs in particular is running with a very narrow range (currently c 8000 SKUs). The forecasts turn to a degree on the assumption that widening this range considerably (to around 22,000 SKUs in 2021/22 and out to around 35,000 thereafter) will improve operating metrics such as order conversion and Average Order Value. This in turn will improve the economics of customers and thereby reduce the average cost of acquiring them.

Encouraging early signs

As we speak Koovs is on the early stages of this journey. But signs since it started trading after the re-capitalisation are encouraging in our view.

Services sales and profit

Our forecast for 2018/19 includes estimated income from FR under Koovs' technical services contract in the trading profit/margin. This explains the difference between our forecast and the 18% trading margin disclosed in the Trading Update which relates to the continuing online business. Revenue is included in sales but not in GOV.

Shape of forecast out-turn

We will present a fuller review of our forecasts with the Prelims. They show a significant up-scaling of sales over the forecast period with EBITDA remaining in loss over the three-year period as the company continues to drive growth through marketing.

Reducing losses in outer year despite high marketing

We expect to see EBITDA losses reduce in the outer year as operating ratios improve as described. But at this point for reference we still have marketing representing 17% of sales against Boohoo's recent 9.4%.

Gross margin improvement

We also assume that Koovs moves to a more sustainable gross (or "trading") margin over the forecast period. This is not an exceptionally demanding level in our view. But it does represent a big improvement for Koovs. We would note that Koovs has improved its gross margin by around 2400 bps over the last three years and we believe it has a credible brand and buying strategy which will be reinforced by its increased scale and relationship with FLFL.

Figure 2: Profit & Loss Account 2017/18 – 2021/22

Year to March GBP m	2018	2019E	2020E	2021E	2022E
Visits	65.9	76.2	102.9	164.6	263.3
% chg yoy	-16.0%	15.6%	35.0%	60.0%	60.0%
GOV GBP	14.7	12.8	22.0	47.0	127.2
% chg yoy	-21.0%	-13.0%	71.8%	113.7%	170.6%
Sales	9.7	8.5	14.3	30.5	82.5
% chg yoy	-23.0%	-12.4%	67.9%	113.7%	170.6%
Trading Profit	1.3	1.9	3.3	10.1	37.1
Trading Margin % of sales	14.0%	23.0%	23.0%	33.0%	45.0%
Distribution	2.2	1.8	3.1	5.5	9.1
% of sales	23.0%	22.0%	22.0%	18.0%	11.0%
Labour	4.4	3.5	4.7	6.2	10.4
% of sales	45.9%	42.6%	32.8%	20.3%	12.6%
Other cash opex exc mkting	3.6	3.9	4.7	6.4	11.1
% of sales	38.0%	47.3%	32.9%	20.8%	13.4%
EBITDA pre marketing	-8.9	-7.4	-9.2	-8.0	6.6
% of sales	-93.0%	-88.9%	-64.8%	-26.1%	7.9%
Marketing	5.6	6.2	8.1	11.7	13.9
% of sales	58.7%	75.0%	56.8%	38.3%	16.8%
Cost per visit (p)	8.5	8.2	7.9	7.1	5.3
EBITDA	-14.5	-13.6	-17.4	-19.6	-7.3
% of sales	-151.6%	-163.8%	-121.6%	-64.4%	-8.9%

Source: Company, WH Research

Cash flow follows EBITDA trends

The Cash Flow follows the pattern of EBITDA closely as one might expect with relatively little fixed capital deployment but expansion of working capital with scale. Our "Other" line in operating cashflow relates principally to pre-paid marketing under the HT Media deal.

Not much recent market behavioural evidence

We note that this forecast and the P&L are very sensitive to assumptions made over an extended period where the recent behavioural evidence in the relevant markets has been disrupted by market conditions.

Looking good at outer end of forecast period

Our overall premise though is that by the year to March 2022 Koovs will be starting to see the benefits of scale and its financials will not be bearing such a heavy weight of revenue "investment". Most recent trends are positive albeit over a short period.

Figure 3: Cash Flow 2017/18 – 2021/22

Year to March GBP m	**2018**	**2019E**	**2020E**	**2021E**	**2022E**
EBITDA	-14.5	-13.2	-16.8	-19.1	-7.2
Working Capital	-0.3	-1.6	-0.2	-2.4	-3.4
Other	0.8	1.6	2.8	3.9	0.0
Operating Cash Flow	-13.9	-13.2	-14.2	-17.5	-10.6
Tax	0.0	0.0	0.0	0.0	0.0
Interest	0.2	-1.6	0.0	0.0	0.0
Capex	-0.2	-0.1	-0.2	-0.5	-1.2
Free Cash Flow	-13.9	-14.9	-14.4	-18.0	-11.8
Share Issues (Net)	0.0	17.3	10.2	0.0	0.0
Other	0.3	0.0	0.0	0.0	0.0
Cash Flow	-13.6	2.4	-4.2	-18.0	-11.8
Net Cash (inc deposits)	**2.7**	**6.7**	**2.7**	**-15.3**	**-27.1**
Bonds/loans	-7.7	-9.4	-9.6	-9.6	-9.6
Net debt	-5.1	-2.7	-6.9	-24.9	-36.7

Source: Company, WH Research

Valuation

Online companies tend to share certain characteristics that makes valuation difficult in our opinion. Generally these relate to the cashflow and profit out-turn from business models that are set up to grow rapidly.

Online valuation difficult

Principally these relate to injecting capital in the form of marketing, customer acquisition cost and working capital at a disproportionate rate relative to the scale of the underlying business. This is necessary to achieve scale benefits in areas like buying through the rapid acquisition of a customer and sales base.

Disproportionate investment to grow

Investors are aware of this general shape in disruptor/online models and some consistency in appraising valuation has developed.

Investors aware

Overall investors are looking at scalability and whether the modal as grown-out will have favourable profit/cashflow characteristics. As we see below the market makes identifiable distinctions on the basis of profitability in the more developed e-com models. But they are also constantly aware of top-line growth falling within acceptable ranges.

What investors look for

In early-stage businesses investors are also making a more fundamental judgement – is the business going to make it to a fully operational scaled-up stage?

Will it run?

If we look at Koovs in the context of these debates we would make the following points:

Koovs specific debates

- The prize in India is very large indeed (we will amplify on this area in our next note)
- The Indian e-com market and Koovs itself are re-setting themselves after the disruptive effects of de-monetisation and the introduction of GST. As yet we are in the early stages of recovery.
- The Indian e-com markets are going to be affected by the new online FDI rules re discounting. These should improve profitability but probably at a lower rate of growth than previously market-wide.
- Koovs is well capitalised and has shown good signs of returning to a high growth performance with improved profitability already albeit very early stage.
- The FLFL and FR relationships are showing encouraging signs, not the least being the initial success of the Technical Services Contract and consequent building of online systems for FLFL retail concept Brand Warehouse.

On the flip side the Indian e-com and clothing online markets are both very immature and not yet performing to the same level operationally as in more developed economies where the comparator companies are based. In India's case this means high levels of cash transactions, and low conversion and basket size levels, both of which inhibit efficient operation by effectively raising the average cost of customer acquisition.

Indian market immaturity another factor to take into account

This is generic to investing in developing economies and also reflects to some extent the mobile based way that the Indian e-com market is developing in our view. In all markets we have observed mobile e-com exhibits relative inefficiency in terms of conversion. But the handsets clearly allow the market to grow more rapidly.

Function of mobile-borne development of market to a degree

We show below comparator metrics for the e-com retailers that investors are most likely to be used to - the large UK and European quoted companies ASOS, Boohoo and Zalando. We have also included Amazon for illustrative purposes. Again, we will present a more extensive analysis when we write after the Prelims. For now what is reasonable?

Comparators

The point we have already made in general terms is that these quoted companies are more mature than Koovs. So they are valued on a hybrid basis in our view. This means that in addition to growth characteristics there is some element of valuation in our view that makes a judgement on relative levels of profitability.

Hybrids

On the assumption that Koovs achieves these forecasts, were we to put ourselves in the position of valuing the stock in 2021/22 we believe that it would at that point still attract a significant premium valuation because it actually would still not be that large, would be in site of profitability and still growing rapidly.

What would it look like in 2021/22?

So this would argue for a substantial premium valuation to the 2021/22 forecasts. Against this Koovs is still a small operation by sales scale and still has to achieve these forecasts. This clearly suggests a more balanced view on valuation.

More balanced view required

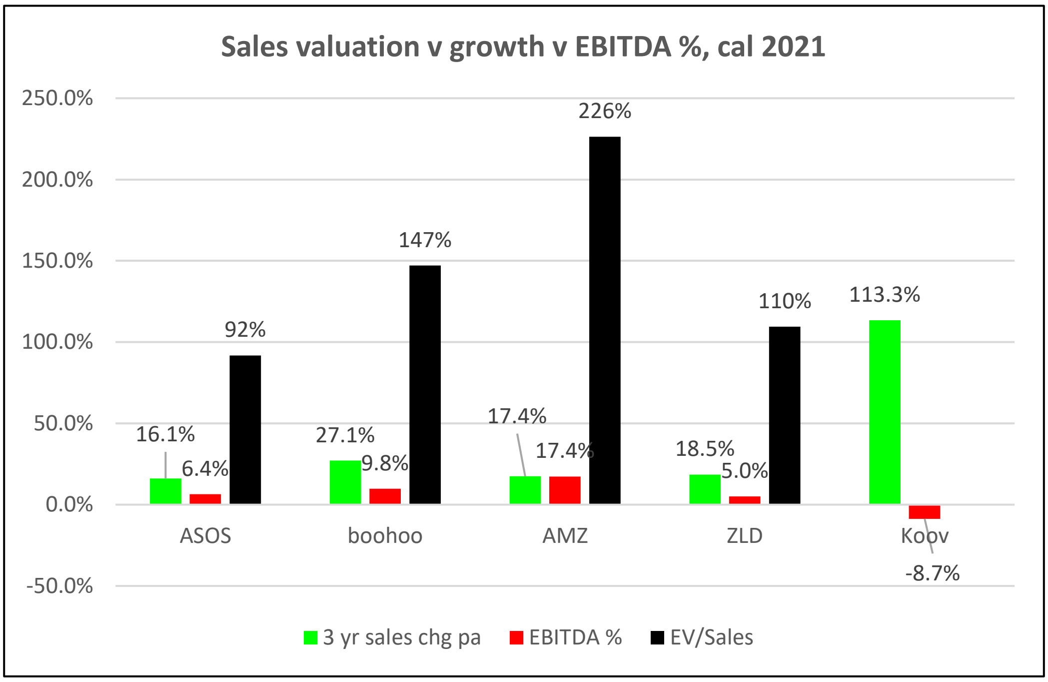
We feel that a compromise valuation would ascribe a moderate premium valuation to the sales base because of its growth. While Koovs has different characteristics to boohoo our general feeling is that the model is not dis-similar albeit Koovs may develop positioning more akin to ASOS as its range expands.

Boohoo comparison

Hence we have settled on a 150% valuation of outer year sales here resulting in an EV of around £125m and a target price of 20p per share.

TP 20p.

Figure 4: Valuation Comparators



Source: Market cons data priced 30 Apr 2019 intraday, WH Research

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