



CDON AB

Far View Presentation- Manual of Ideas

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CDON Summary

Business

- CDON operates an e-commerce marketplace in the Nordics
- Spun-out of Qliro Group in November 2020 in a 1 for 30 split
- Insiders own just under 30% of the company and have purchased shares in the open market since the spin

Why Is It Interesting

- Marketplaces are highly attractive business models with limited capital needs and the potential for high margins at scale
- Strong competitive position in an underpenetrated market
- CDON's rapid third-party (3P) marketplace growth is obscured by the planned decline of the company's first-party (1P) sales
- Significantly undervalued compared to other European marketplaces and private market transactions

Upside

- Continued growth in 3P Gross Merchandise Value (GMV) should drive rapid earnings growth due to fixed cost structure
- Based on a large discount to peer multiples **stock could have upside to ~SEK 500-600.**
- Greater than expected growth or valuation closer to European peers could drive significant further upside.

Risks

- Risks include execution, increased competition in Nordics, technology risks, higher than expected cost inflation and Swedish small-cap risk

CDON AB	
Price (1/8/20)	251.00
Shares	6.0
Mkt Cap (SEK)	1,503.7
Net Cash	45.5
EV (SEK)	1,458.2

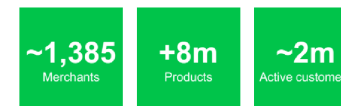
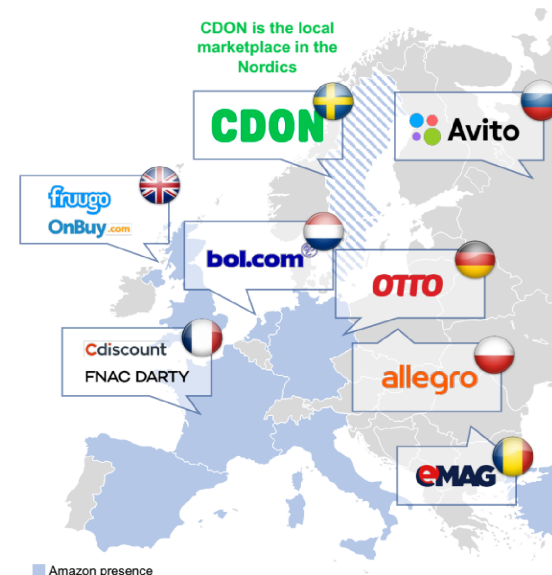
What is CDON

CDON is the leading Nordic marketplace (SWE/NOR/FIN/DNK)

- Offers 3P merchandise from >1,300 Nordic retailers
- Supplemented by sales of 1P merchandise in underserved legacy media categories
- Currently has 28mln visits & 863k orders from over **2mln customers** (10% of Nordics shopping age population)

Spun out of Qliro Group in November 2020 in a 1 for 30

- Separated because it was believed that CDON had reached sufficient size to develop further on its own
- Qliro Group renamed Nelly AB



Marketplace Business Model

Marketplaces allow merchants to list their goods on the website in exchange for various fees

- Fees include transaction fees, advertising fees, subscription fees, and financing commissions

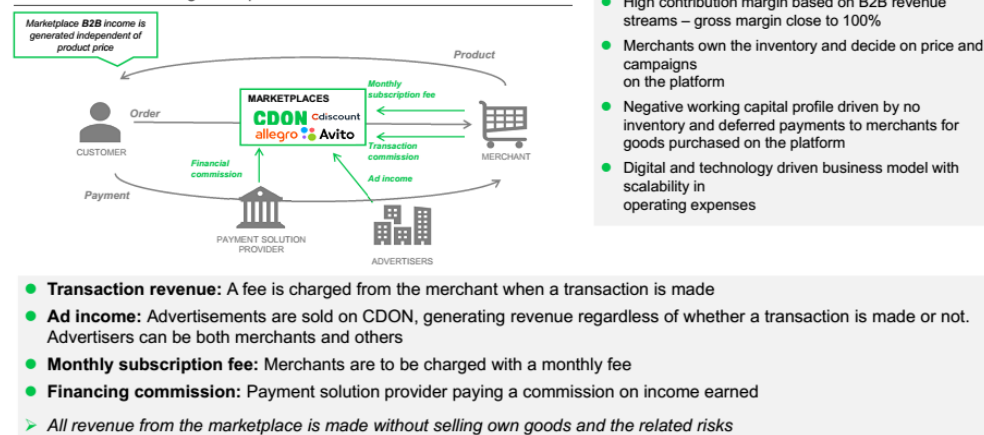
The Marketplace business model is inherently attractive

- Negative working capital (don't hold inventory)
- Potential for significant profitability at scale as a result of relatively fixed technology expenses

The marketplace business model is inherently attractive

CDON

Revenue earned through multiple income streams



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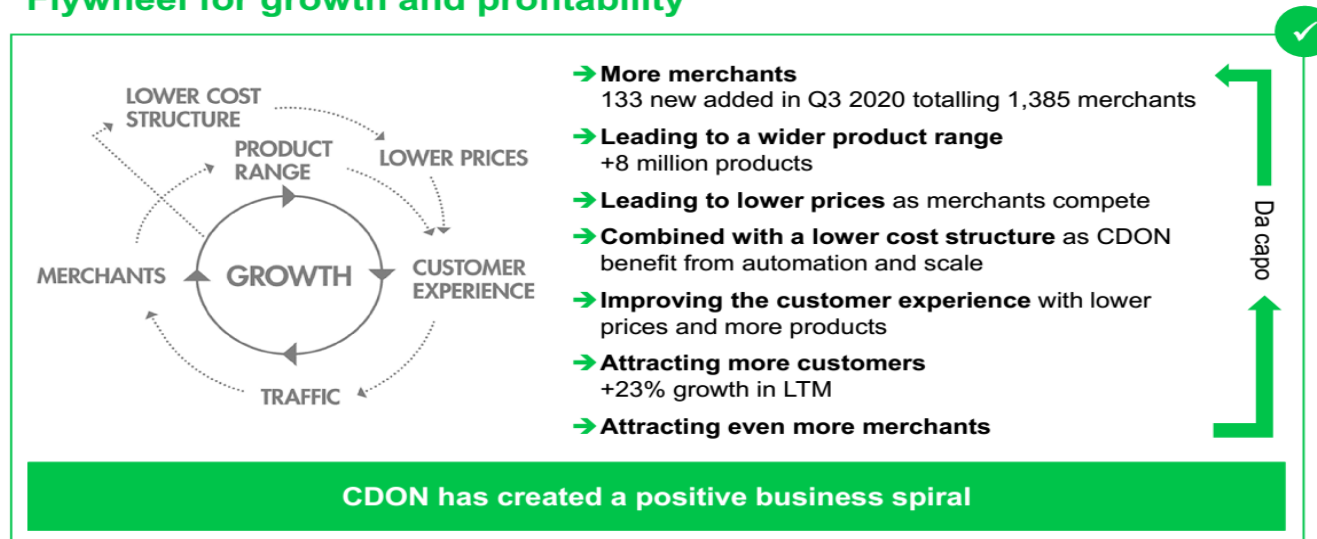
Marketplace Flywheel

Marketplaces also benefit from an attractive growth flywheel

- As merchants join the marketplace, they increase the supply of goods for customers
- This increased supply makes the marketplace a more attractive shopping destination for customers
- As the experience improves and customer transactions increase, the marketplace becomes a more attractive route to market for other merchants

#1 Nordic marketplace and online shopping destination

Flywheel for growth and profitability



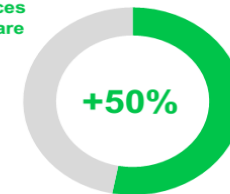
■ Underpenetrated Market

Significantly underpenetrated market

- In a recent podcast interview, CDON CEO Kristoffer Väliharju commented, “It is very interesting to look at the behavior outside the Nordic region. Marketplaces account for more than **50% of global e-commerce sales and are still growing very fast. In the Nordic countries, it is only a couple of percent though, so there is so much left.**”
- While CDON only has a small portion of e-commerce sales, it **already has 10% of the shopping age population in its customer base, suggesting a huge opportunity to grow GMV if they can grow share of wallet**
- Nordics online penetration is far below other European peers

...are **Marketplaces** that have become aggregators for less digital-savvy merchants and destinations for online shopping...

Marketplaces market share globally¹⁾



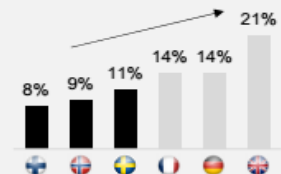
...in high growth markets with long run-way of growth left driven by online migration

E-Commerce market growth¹⁾

+13%

CAGR 2015-19 in the Nordics

Online penetration Share of retail sales²⁾



Strong Competitive Position

CDON benefits from its strong brand recognition

- 1P retailer in Nordics for over 20 years

*“There is an **incredible value to having a four-letter domain that most people in the Nordics actually know.** It takes time to build that domain and we have done that for 21 years and it is great, so we stand for something that most people associate with e-commerce.”- CEO Kristoffer Valiharju*

Largest marketplace in the Nordics and considers itself the only local player at scale

- Local competitors are mainly much other small regional players and
- Some competition from vertical marketplaces (ex Zalando in fashion)

CDON's leading position is acknowledged by other European peers

- French Marketplace Cdiscount launched on CDON in Q2 20

*“Sweden and the Nordic countries are a very attractive market for us, but it is also a fragmented market to enter on our own. Via **CDON, we can quickly and safely expand our sales to the Nordic markets. As the largest in the market, CDON was a given choice** and it feels safe that they know how we can best market our range in a cost-effective and attractive way to consumers here.”- Thomas Metivier, Cdiscount International Director*

■ Amazon

Many investors are worried about Amazon's launch of Amazon.se in 2020

- Swedish customers were already shopping on Amazon.de and having it delivered cross border

Amazon generally not a category killer in markets it enters late

- Very strong in early markets like US, UK and Germany; Later entry markets are less successful
 - *"They (Amazon) launched when the e-commerce market in general was very, very young in those markets," he says. "If you look at the recent launches, like in Australia, Turkey and the Netherlands, they have only been able to take a [small] per cent of the market. So I would say that the best guess is that they take a [small] percentage of the market here (Sweden)."- Michael Storakers- Head of Storakers McCann Sweden*
- Boston Consulting Group estimates Amazon will take **5-10% of the Swedish e-commerce market by 2025**, leaving plenty of room for CDON and other players

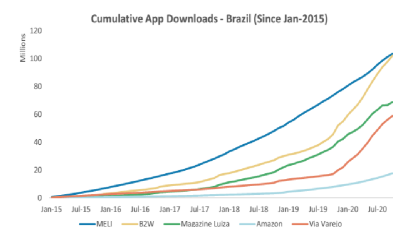
Amazon's Swedish launch has gone quite poorly

- No Prime, does not control local logistics network (and may never due to fear of Sweden's unions)
- Company using Argentine flag instead of Swedish Flag
- Rounding prices to the nearest ore (Swedish penny-not been used by retailers more than decade)
- Multiple translation mistakes due to machine translation to Swedish
 - children's puzzle with yellow rapeseed flowers described as having a "sexual assault flower motif"
 - football shirts labeled as "child sex attack shirt" .

Amazon as a Late Mover

Markets where Amazon has entered late and struggled include Brazil, Netherlands, Singapore and Australia

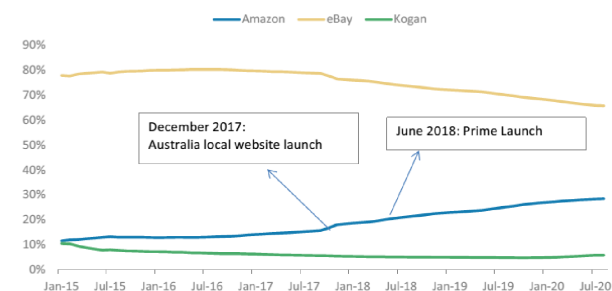
Exhibit 21: Amazon is yet to make headway in Brazil



Source: Sensor Tower, Morgan Stanley Research

We look first at the case study of Amazon in Brazil, where its segment share is lower than the US. Today, Amazon is not the leading eCommerce player in Brazil, despite entering in 2012 (although until 2017 it just had a books and digital media offering). At that time, Brazil already had several established eCommerce players, notably MercadoLibre, which had a c14% segment share. Overall eCommerce penetration was only 2%.

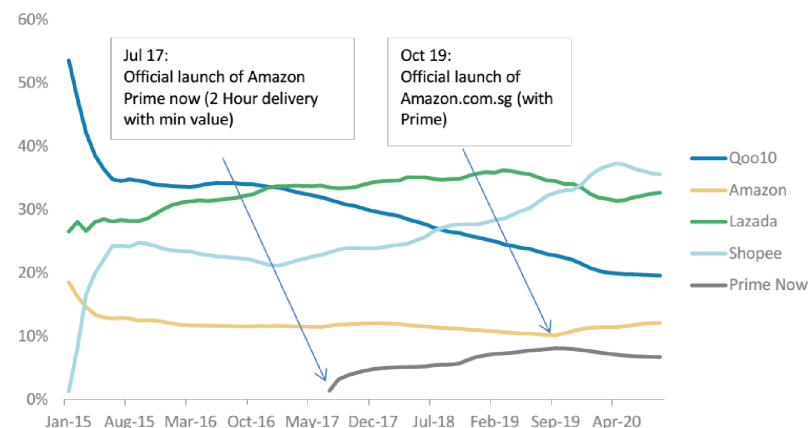
Exhibit 24: Australia download share



Source: Sensor Tower, News Media. Note: We only compare Amazon, eBay and Kogan (which has shown strong up-and-coming performance recently), but there are other significant eCommerce players in the region which may be bigger and are excluded. Nevertheless, Amazon is second.

Despite a seemingly aggressive move (Singapore is currently the "hub" for Amazon in South East Asia with [recent expansions](#)), Amazon still lags behind incumbent Lazada and the number-two player Shopee, which entered the market in 2015 after Lazada in May 2014. While actual GMV estimates are difficult to find, in terms of download share in Singapore, Amazon only has 12% of downloads among the top 4 players, vs Lazada at 33%, Shopee at 36%, and Qoo10 at 20%, although its share continues to grow.

Exhibit 23: Singapore download share



Source: Sensor Tower, News Media

Amazon Entry drives Marketplace Acceptance

Amazon's entry has driven increased awareness about the value of marketplaces


- “Is it a threat? I would say that Amazon is more of an opportunity. **All of a sudden, 60,000 retailers in Sweden will ask themselves, ‘how do we relate to marketplaces?’**. Since Project Dancing Queen was announced, **CDON’s marketplace has actually seen, he boasts, “an accelerated intake of new merchants.”**

Amazon is good at taking care of customers but not as good at dealing with merchants

- CDON sees itself as a local champion for Nordic merchants who want to avail themselves of the marketplace model without succumbing to pressure **from Amazon**
- Less than 100 sellers on Amazon are Sweden-based**

Why merchants partner up with CDON
- Comparing CDON to Amazon

CDON

Features	CDON		Why CDON
Geographical reach	Nordic	Global	Merchants looking to expand in the Nordics
Brand	Local	Global leader	Merchants wanting to leverage CDON's established local brand
Integration	Quick & easy	Cumbersome	One of the quickest and easiest integrations on the market
Merchant fees	Lower	Higher	Compelling market-led and customer-oriented fee structure - Current fees are on average ~25% lower across comparable categories
Merchants support	Personal	Automated	Dedicated Account Manager offered to all merchants on CDON's platform
Dependency on own inventory (1P)	36% of GMV ¹⁾	47% of GMV ²⁾	Actively reducing 1P sales in favour of 3P sales
Merchants access to data	Transparent	Less transparent	100% transparent – more willing to share data with merchants since lower share 1P sales
Platform policy	Flexible	Rigid	Case-by-case judgement in dialogue with merchants

Misleading Financials

CDON's reported revenues do not accurately reflect its underlying growth

- Currently undergoing a shift from 1P to 3P which depresses revenue
 - 1P- Revenue=GMV; **3P- Revenue= ~10% of GMV**
 - Since 2017 TTM 1P GMV has declined 60% and is now only 26% of TTM GMV
 - Since 2017 TTM 3P GMV is up over 200%
 - **While total GMV is down only 4%, TTM revenue is down almost 50% from 2017**
- Reached inflection as 3P is now 80% of GMV in Q3 2020
- **3P revenue has 95% Gross Margins vs. ~10% for 1P revenue so continued 3P GMV growth should drive significant gross profit growth**

Attractive underlying profitability

LTM Q2 2020 (illustrative)	CDON Marketplace	CDON Retail
Net sales	148	867
Cost of goods	x	✓
Fulfilment costs	x	✓
Postage costs	x	✓
Freight	x	✓
Other ¹⁾	✓	✓
Cost of goods sold	-7	-782
Gross profit	141	85
Gross margin	95.3%	9.8%

Projections

- CDON growing 3P GMV>100% in 9mos 2020 as merchants and customers continue to join the platform
- Assuming moderating GMV growth till 2024, 3P GMV would be >SEK 6bln vs. SEK 2bln today
 - Combined with continued 1P decline and 2024 revenues should be flat
 - Gross profit should increase at a >25% CAGR
 - SG&A should be relatively fixed due to scalability of e-commerce platform
 - Historical financials show operating leverage as Q4 2019 (holiday season) was >100% of 2019 EBITDA due to significantly higher volume
- **PLEASE NOTE THESE ARE VERY ROUGH PROJECTIONS JUST TO SHOW THE SCALE OF THE OPPORTUNITY**

	A	E	P				
Marketplace- 3P	2018	2019	2020	2021	2022	2023	2024
GMV Growth		63.1%	99.3%	50.0%	40.0%	30.0%	20.0%
Take Rate	13.2%	11.8%	10.6%	10.5%	10.5%	10.5%	10.5%
Sales Growth		45.2%	79.9%	48.4%	40.0%	30.0%	20.0%
GPM	96.6%	95.7%	95.1%	95.0%	95.0%	95.0%	95.0%
GMV	601.2	980.8	1,954.7	2,932.1	4,104.9	5,336.3	6,403.6
Net Sales	79.4	115.3	207.4	307.9	431.0	560.3	672.4
Gross Profit	76.7	110.3	197.3	292.5	409.5	532.3	638.8
Retail- 1P	2018	2019	2020	2021	2022	2023	2024
Net Sales Growth		-32.7%	-33.5%	-30.0%	-30.0%	-30.0%	-30.0%
GPM	8.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Net Sales	1,480.8	996.4	662.6	463.8	324.7	227.3	159.1
Gross Profit	130.3	99.2	66.4	46.4	32.5	22.7	15.9
Total	2018	2019	2020	2021	2022	2023	2024
Net Sales	1,560.2	1,111.7	870.0	771.7	755.7	787.6	831.5
Gross Profit	207.0	209.5	263.7	338.9	441.9	555.0	654.7
SG&A	(239.4)	(209.7)	(266.7)	(306.7)	(352.7)	(405.6)	(466.5)
Other		(0.9)	-				
EBIT	(32.4)	(1.1)	(3.0)	32.1	89.2	149.4	188.2
D&A	11.7	16.0	34.0	39.1	45.0	51.7	59.5
EBITDA	(20.7)	14.9	31.0	71.2	134.2	201.1	247.7

■ European Marketplace Comps

Two European Marketplace Comps have recently listed; Allegro in Poland and Ozon in Russia

- Allegro shows that a **mature 3P marketplace can have over 50% EBITDA margins**; Japanese marketplace Mercari is targeting 40% adjusted operating margins in the medium term
- While both Allegro and Ozon are materially bigger in their core markets, their underlying businesses are broadly similar to CDON
- **Relative valuations are materially different**
 - Amazon is widely rumored to be entering Poland where it has a strong existing warehouse network to serve its German site
 - For a private market comp, Walmart acquired Indian marketplace Flipkart in 2018 for **2.8x GMV**

<i>TTM #s, Share Price 1/8/20</i>	Allegro	Ozon	CDON
EV/GMV	3.1	3.5	0.7
EV/Total Sales	27.3	6.1	1.5
EV/GP	28.8	22.5	6.0
EV/EBITDA	57.7	N/A	49.8

Valuation based on Projections

- If CDON can generate ~250mln of EBITDA in 2024, then the share would be worth >SEK 830 at 20x
 - Reasonable valuation for a company with a 70% EBITDA CAGR over 4 years
 - Discount that back 3 years at 20% at its **roughly SEK 500**.
- Valuing CDON at 1x 2024 GMV suggests a share price >SEK1,000 or ~SEK 600 discounted for 3 years
 - 6bln of GMV would still be a very small share of Nordic e-commerce market leaving a long-growth runway ahead of CDON

EBITDA- 2024	247.7
EV/EBITDA	20.0x
EV	4,953
Net Cash	45.5
Mkt Cap	4,999.0
Per CDON Share	834.4
Discount Rate	20%
Years	3.0
Discounted Share Price	482.9

3P GMV- 2024	6,403.6
Multiple	1.0x
EV	6,403.6
Net Cash	45.5
Mkt Cap	6,449.1
Per CDON Share	1,076.5
Discount Rate	20%
Years	3.0
Discounted Share Price	623.0

Management

CDON is led by Kristoffer Valiharju who has been with the company the past 3 years as COO

- Several years of e-commerce expertise; Previously worked at DTC retailer Dustin and in the DTC division of Dell computer



Since the spin in early November, insiders have purchased almost SEK 5.0mln of stock

- CDON's CEO also bought 23k shares of Qliro Group at SEK 6.03 before the split and 1 for 30 spin of CDON

Transaction Date	Name	Position	Acquisition/Disposition	Quantity	Price	Value
25/11/2020	Carl Kristoffer Väliharju	Chief Executive Officer (CEO) / Managing Directory	Acquisition	3,800	143.38	544,844.00
25/11/2020	Niclas Bela Szieger	Chief Financial Officer (CFO)	Acquisition	1,162	140.98	163,812.95
11/11/20	Niclas Bela Szieger	Chief Financial Officer (CFO)	Acquisition	3,073	130.00	399,490.00
11/11/20	Carl Kristoffer Väliharju	Chief Executive Officer (CEO) / Managing Directory	Acquisition	400	130.98	52,392.00
6/11/20	Christoffer Häggblom	Member of the Board of Directors	Acquisition	30,000	118.30	3,549,093.00
6/11/20	Marcus Lindqvist	Chairman of the Board	Acquisition	2,000	114.67	229,340.00

		TOTAL		40,435	122.15	4,938,972

Risks

Execution

CDON needs to be able to manage significant growth without issue. While successful with 100% growth during 2020, CDON needs to provide it can manage significantly higher levels of future GMV

Competition

Amazon is certainly a risk. It is possible that they are more successful in Sweden than they have been in other markets. Also possible that another competitor emerges.

Technology Risk

Data breaches, platform failures etc. could be a huge problem for CDON

Swedish Small Cap

Stock is relatively small and illiquid with minimal broker coverage

Sources

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CONTACT INFORMATION



Far View Capital Management, LLC

info@farviewcapitalmgmt.com

646-838-4401

www.farviewcapitalmgmt.com