



Market data

EPIC/TKR	KOOV
Price (p)	12
12m High (p)	57
12m Low (p)	6
Shares (m)	175
Mkt Cap (£m)	21
EV (£m)	20
Free Float*	31%
Market	AIM

*As defined by AIM Rule 26

Description

Koovs is an online retailer of western fashion across India. It has an experienced management team growing brand awareness and the highest Net Promoter Score (NPS) in its vertical.

Company information

CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli
	+44 20 7151 0170
	www.koovs.com

Key shareholders

Waheed Alli (Dir.)	19%
Anant Nahata (Dir.)	23%
Michinoko	11%
Ruffer	11%
Hindustan Times Media	5%
Times of India	4%

Diary

Before end-Sep'18	Prelims
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Analyst

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Koovs

Successful fund raising

Koovs has today announced a major deal with Hindustan Times Media ("HT"). HT is taking a substantial stake in Koovs in exchange for advertising and marketing credit, providing a cornerstone investor for Koovs' fundraising and endorsing Koovs' strategy to become a major player in Indian fashion e-commerce. We would expect this deal to provide significant encouragement to other investors looking to fund Koovs' next stage of development. We have not yet adjusted any of our forecasts as the deal remains conditional on further fund raising, which has not yet been agreed – but the company remains confident that terms will be agreed.

- ▶ **Advertising deal:** HT has agreed to provide Koovs with £24m of advertising and media services over two years in exchange for £16.8m-worth of equity, provided Koovs raises a minimum of £6m cash of new equity. The balance of the media spend is to be provided in cash by Koovs.
- ▶ **Two-year structure:** The equity will be subscribed for in four equal tranches over two years, with the price determined as the average traded price of Koovs' shares over the prior three months. If the share price rises sustainably on the back of the deal, then future tranches will be at a higher price.
- ▶ **Valuation:** Conventional valuation metrics are unhelpful. We take our forecast EBITDA for Dec'22, apply a Boohoo/ASOS multiple and discount the value back to today. Even at a 25% discount, the EV comes out at £357m, including the funds to be raised. The current price is a poor indicator of the inherent value.
- ▶ **Risks:** The company still needs to raise more finance; it has been diligently preserving cash but it needs a further ca.£27m to flourish. Once refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast and damaging discounting by Koovs' indirect competitors.
- ▶ **Investment summary:** Once the money is raised, Koovs will be an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge and the backing of a major Indian digital media player.

Financial summary and valuation

Year-end Mar (£m)	2017	2018E	2019E	2020E	2021E	2022E
Visits (m)	79	65	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.89	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV	18.5	14.5	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.2	3.6	12.1	25.8	70.4
Trading margin	2%	11%	21%	27%	30%	44%
EBITDA	-20.0	-14.4	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	398	398	398	398
EV/sales (x)	1.1	1.5	0.8	0.3	0.2	0.1

Source: Hardman & Co Research

Cornerstone investor

HT Media is an Indian media company that publishes, among other things, the Hindustan Times (English), Hindustan (Hindi) and Mint (national business newspaper). It already has a 5% stake in Koovs from an earlier media-for-shares deal, but the scale and timing of this deal are critical.

The deal is cleverly constructed: the £24m is split into four tranches of £6m. HT will receive £4.2m-worth of shares, based on a trailing three-month average, price every six months, and Koovs will pay a further £1.8m in cash in exchange for £6m-worth of advertising spend. The whole deal is conditional on Koovs raising a minimum of £6m of additional cash, which the company needs, in any case, to be able to make use of the advertising credit. Its objective remains to raise a total of £50m – i.e. £27.2m in addition to the advertising commitment and the £6m minimum conditional cash raise.

As the company stated in March, it is looking to raise up to £50m to take Koovs from a successful start-up to a very substantial and profitable player in the burgeoning Indian online retail sector. In our forecasts, we have assumed a marketing spend of £10.5m in FY19 and £14m in FY20 – this deal will cover the vast majority of that planned spend. The marketing is critical to Koovs' success: revenue is linked directly to advertising spend, and profitable revenue even more so. The advertising in HT properties will focus on brand advertising, which has the double benefit of both building the brand and driving better customers to the site to buy clothes. Customers driven to the site by brand advertising are twice as likely to purchase as those driven by performance advertising. Furthermore, consultant Redseer reports that brand (53%) is by far the most important criteria for fashion buyers, well ahead of price (29%), colour (10%) and design (8%).

In order to maximise the benefit of the advertising, Koovs needs to widen and deepen its product offering to ensure that it is able to satisfy as many browsers as possible. It still needs to grow revenue very substantially to become profitable; so additional equity is needed to fund the trading losses until the critical mass is reached. In our report ([“Poised to clean up – the emerging ASOS of India”, March 2018, available on the Hardman website](#)), we forecast that Koovs would trade at a very small gross profit in FY19, before making its first EBITDA profit in FY22.

A crucial part of the path to profitability is continuing to raise the brand awareness. Two years ago, it was 1%; now it is around 18%-21%. The objective is to get this to around the 70% level enjoyed by the sector leader, Myntra. This deal should, in our view, go a long way towards achieving that aim.

Koovs has been operating with lower marketing spend and narrower product ranges to preserve capital, while it raised new finance. It has continued to develop the product and test different marketing strategies, but it needs the additional capital to jump-start the growth after what will have been a flat year in FY18.

Investment conclusion

This deal looks very smart to us: future equity tranches will be far less dilutive if the share price responds positively, and the backing of a major traditional and digital media player in India should be encouraging for existing and new investors to back the company's bold ambitions. The company still needs to confirm new cash equity subscriptions to survive; with them, it will be well positioned to exploit the huge opportunity that is the Indian e-commerce market.

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