

CDON

Sector: Software

Early Days

Redeye initiates coverage of CDON, a high-margin and capital-light online marketplace with 2.3 million active customers and 1,500 connected merchants. While the recent rally has driven valuation to unsupported levels and the company now faces a formidable competitor in Amazon, we see long-term value in its exciting marketplace transformation and strengthening network effects.

Highly scalable model

CDON gives investors access to the only local marketplace at scale (8% of the Nordic population). Its model's attractions are: i) high gross margins (~94%); ii) low capital-intensity (no inventory needed, deferred merchant fees), iii) scalability (relatively low incremental operating expenses); iv) lower risk than traditional e-commerce (no inventory); and v) moats from network effects and a well-known and trusted brand.

Well-positioned in a growing market

In 2020 CDON increased its third-party sellers by 46% y/y and nearly doubled gross merchandise value (GMV) - up 86% y/y. Both are healthy indicators of outperformance against an underlying market that has seen a ~40% uptick due to the pandemic. Although its platform is under-monetized, a new platform and merchant hub with extensive features should drive conversion and add new revenue streams - increasing the effective take rate.

Facing Amazon's muscle

Amazon made its long-awaited arrival in Sweden last October. While we expect it to grab a market-leading position, we still view CDON's overall proposition as competitive for both consumers and merchants. Accordingly, it should be able to grow market share too.

Demanding valuation

International buying since CDON's spin-off from Qliro in November has driven an enormous rally in the stock (now >5x the spin-off price after peaking close to SEK 1000). As current levels place it above our Base Case fair value (SEK 500) and in sight of our Bull Case (SEK 1000), we look for strong execution and positive returns on recent investments.

CDON - near-term forecasts

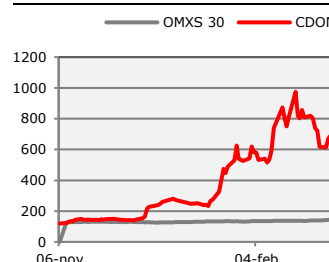
(SEKm)	2018	2019	2020	Q1'21E	Q2'21E	Q3'21E	Q4'21E	2021E	2022E	2023E
GMV	2082	1946	2375	485	651	666	1098	2901	3560	4124
Marketplace GMV share (%)	28%	49%	75%	81%	86%	88%	86%	86%	91%	94%
Net sales	1560	1112	795	137	158	149	262	707	733	766
Gross margin (%)	13%	19%	31%	39%	46%	49%	46%	45%	55%	63%
EBIT margin (%)	Neg	Neg	Neg	-6%	4%	6%	13%	6%	12%	18%
EBIT				-8	6	9	34	41	89	135
EPS				-1,1	1,0	1,3	5,1	5,8	12,2	18,6
EV/GMV								1,3x	1,0x	0,9x
EV/Sales								5,2x	5,0x	4,8x
EV/EBIT								89,5x	40,7x	26,9x

Source: CDON, Redeye Research

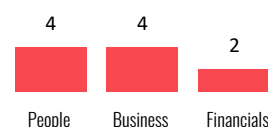
FAIR VALUE RANGE

BEAR	BASE	BULL
200	500	1000

CDON.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	CDON.ST
Market	Mid Cap
Share Price (SEK)	635
Market Cap (MSEK)	3813
Net Debt 21E (MSEK)	-170
Free Float	58,7%
Avg. daily volume ('000)	13

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Investment Case

High margins, growth outperformance

CDON's new marketplace business model earns high gross margins above 90% and does not tie capital up in inventory. Instead it operates as a merchant of merchants (B2B), helping third-party sellers connect to a large Nordic customer base and benefit from low customer acquisition costs. Nordic e-commerce has grown at above 10% CAGR in the last decade and grew by ~40% in 2020 on the back of the pandemic and social distancing. CDON is set to grow faster than the overall market, as it has done historically. High growth combined with operating leverage sets it up for strong EBIT margin expansion.

Powering up under-monetized platform

CDON's effective take rate is 11.5% (Marketplace sales/Gross merchandise value). It could boost this by developing the advertisement segment and offering merchant/marketplace services such as BI tools and analytics. Recent investments in the platform and the merchant hub give us some confidence of this happening in the near to medium term. The international benchmark is around 15%, which indicates that CDON's platform is under-monetized.

Room for more than one

We do not believe Nordic e-commerce is a 'winner-takes-all' market and see room for two or more multi-category marketplaces, such as Amazon and CDON – particularly as the market enjoys significant tailwinds as more and more commerce and consumers go online. CDON is well-positioned as a local marketplace leader and has a well-recognized and trusted brand in the region (85% brand awareness in Sweden, for example).

Very capable management

CDON has very capable management operating with a clear roadmap. In just a few years, CEO Kristoffer Väliharju (who is on a temporary leave because of an irregular heartbeat) and his team have transformed CDON from an e-tailer to the only local Nordic marketplace at scale. We regard their capabilities very highly.

Counter-thesis

Challenging risk/reward

The stock has surged more than 4x in recent times (from SEK 120 in November to SEK 635). A few international investors have gobbled up around 25% of the outstanding shares in just four months. If these institutions stop buying, the price could fall as they have practically constituted the whole buying side.

The rally has also priced in a lot of medium to long-term positive outcomes. Although we expect CDON's marketplace to continue gaining more merchants and consumers and consolidating its local leadership, it must still execute successfully.

Return to flat trend

Before the Covid-19 pandemic and social distancing, CDON's active customer base remained relatively flat at 1.7-1.8 million for several years. If the recent shift to online shopping proves not as sticky as we anticipate, CDON could return to this trend again – leading to a slower growth rate for the marketplace. That would impact its commission-based fees and ancillary revenues heavily.

Recent reviews suggest a mediocre customer experience. Moreover, Nordic e-commerce is quite mature, and many niche e-commerce players have both well-recognized brands and well-oiled operations (with strong assortments, delivery solutions, support, etc.). If CDON's marketplace growth slows down, current valuation would be hard to defend as scale is paramount for a marketplace's profitability.

CDON's new investments in a better platform and merchant hub with extensive features will strengthen the value proposition and drive relevancy, conversion and stickiness. We also see considerable potential in a new checkout where the best last-mile delivery alternatives are clearly visible.

Up against Amazon

Amazon is a formidable competitor, especially on the consumer side. Amazon.se has +150 million items in its selection and a very strong brand as the 'Everything store'. When Amazon introduces Prime to Nordic consumers and other services such as Amazon Music, TV streaming, etc., we believe its attractions will become even greater. Prime could potentially lock CDON out from a large customer group with little incentive to shop elsewhere.

CDON's response has been good relations with its merchants. An easy on-boarding process, a well-developed hub and no threat of it competing with them are some of the value propositions, besides an already large customer base (8% of the Nordic population). That could lead to a better assortment, which could attract more customers in turn.

Rite stays on?

Rite Ventures is the principal owner of CDON, having invested in Qliro Group in 2016. A 180-day lock-up agreement will end on 5 May. We have no indication that Rite is planning to sell, but divestment would be negative for the case.

Catalysts

Optimizing the platform

CDON introduced a new platform in October 2020 that is highly automated and scalable. As optimizing the platform requires significant data, any signs of this would be highly positive. These could be better relevancy and higher conversion rate, which would increase gross merchandise value (GMV) on the platform.

Attracting major merchants

Winning a large merchant, such as Verkkokauppa, IKEA or H&M, would boost CDON's selection and customer experience. It would also provide an edge over rivals.

Higher effective take rate

An important catalyst for the case is the effective take rate trend. We believe the underlying commission-based rate is around 10% and that other marketplace/merchant services will play a major role in the strengthening that we forecast. Indications of improving monetization, such as higher ad income and merchant fees (monthly subscriptions), could act as a catalyst.

Company Description

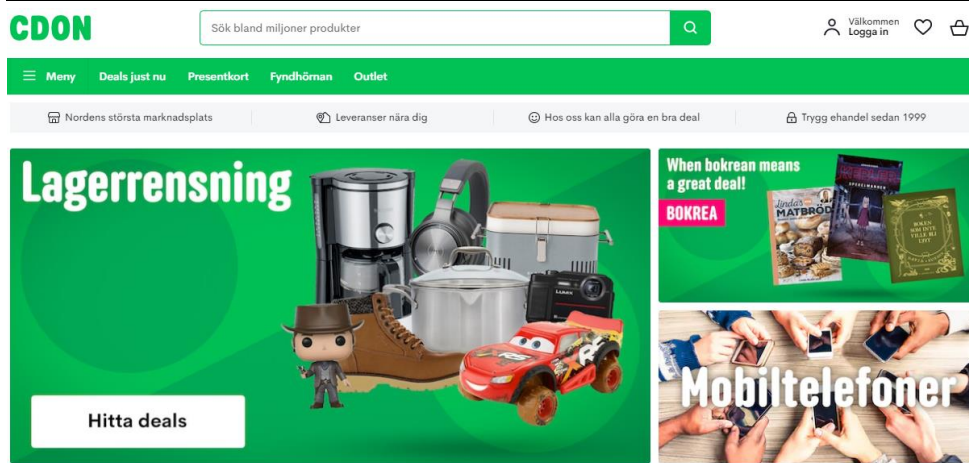
CDON was founded in 1999 as one of the first e-commerce players of scale in the Nordic region. Its offering initially focused on consumer electronics, but in 2013, CDON allowed third-party merchants to sell over its platform via its platform, which added new product categories such as toys, shoes, sport and leisure items, etc.

CDON was previously part of the Qliro Group but was spun-off in a Lex Asea dividend fashion, and on 6 November 2020, CDON started trading on Nasdaq First North Growth as a stand-alone company.

The business is divided into two distinct segments: retail and marketplace. CDON Retail operates as a traditional e-commerce company, selling consumer electronics primarily to Nordic customers (high volumes at low margins). It holds inventory and manages support functions but outsources distribution/warehousing. In 2017/18, management took the strategic decision to focus on the marketplace and phase out the retail business (it acts as a complementary merchant on the platform today, filling certain product category gaps).

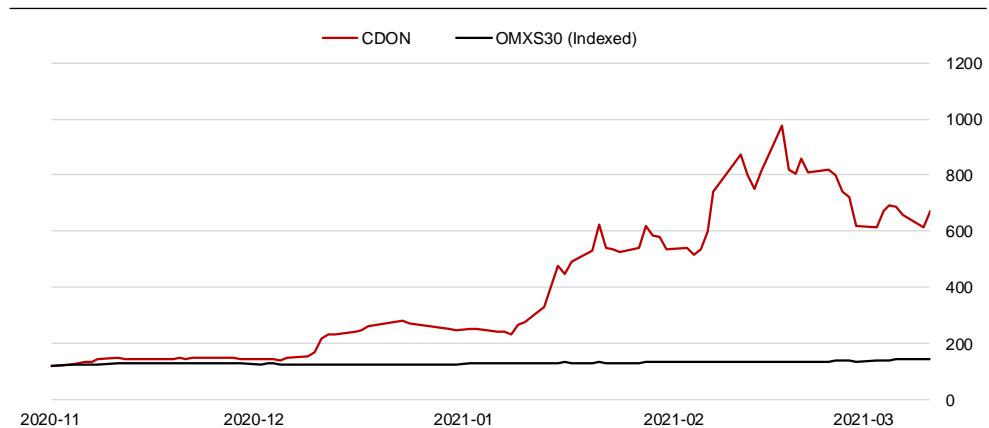
CDON Marketplace is a platform that connects +1,500 third-party sellers with 2.3 million active customers (around 8% of the Nordic population). It is one of the largest online marketplaces in the region, and the business model (B2B) differs significantly from a traditional online retailer (B2C). CDON Marketplace facilitates transactions between connected merchants and customers, and its revenues are primarily commission-based. It also has ancillary revenue streams from advertisements and other merchant/marketplace services. The marketplace does not have to build up or manage any inventory, as it relies solely on the third-party sellers' warehouses and distribution set ups, making the model asset-light (in contrast to CDON Retail).

Leading marketplace in the Nordic region



Source: CDON, Redeye Research

Share Price Development



Source: NASDAQ, Redeye Research

CDON started trading on First North on 6 November 2020, at SEK 120. The share soon gained investor attention, primarily from overseas, and began to climb. CDON has gone from a market capitalization of slightly more than SEK 700m to SEK 3.7bn, or around >400% in just a few months. In that period, CDON has only published one quarterly report.

Buyers and sellers between November 6 and March 1

Broker	Buys	Sells	Net	Broker	Buys	Sells	Net
CSV	814 403	-33 099	781 304	XTXE	1 050 443	-1 050 848	-405
IEGG	501 843	-182 931	318 912	AIV	2 825	-9 090	-6 265
GSAG	611 738	-365 389	246 349	LFB	19 266	-27 156	-7 890
TMB	771 645	-534 256	237 389	BBB	3 612	-11 520	-7 908
MLEX	536 135	-391 169	144 966	PAS	160 650	-169 326	-8 676
VFB	298 279	-167 683	130 596	DDB	36 634	-47 810	-11 176
CITI	52 953	-13 858	39 095	NRD	238 509	-251 150	-12 641
BBI	60 470	-35 683	24 787	KCM	31 361	-44 999	-13 638
SGL	33 278	-14 246	19 032	SBN	13 437	-27 202	-13 765
JYB	25 526	-10 990	14 536	EPB	200	-16 043	-15 843
SYD	13 616	-4 946	8 670	UBS	112 112	-128 031	-15 919
BRC	6 626	-120	6 506	INT	0	-24 591	-24 591
DBL	9 439	-3 458	5 981	MSE	420 048	-449 895	-29 847
SIS	365	0	365	CAR	80 974	-163 574	-82 600
SSWM	168 773	-168 696	77	SWB	143 597	-233 509	-89 912
JTEU	1 274	-1 202	72	JPAG	191 309	-296 627	-105 318
AAL	116	-81	35	SHB	92 062	-270 988	-178 926
N/A	188 201	-188 201	0	NON	3 495 133	-3 702 867	-207 734
ABC	7 893	-7 933	-40	ENS	409 420	-886 012	-476 592
MGF	4 340	-4 736	-396	AVA	1 451 854	-2 130 471	-678 617

Source: Holdings, Redeye Research

A handful of funds, including ADW Capital Management, Far View Partners, Lizard Investors, and Eden Alpha, have bought around one-fourth of all outstanding shares over the open market in less than four months, pushing the share price upward. The broker data shows a discrepancy between foreign and Nordic investors (primarily retail), as the latter have been selling much of their stake.

The most vocal and active buyer has been ADW Capital Management, a Miami-based fund. It is today the second-largest owner of CDON (15% ownership), and while we have not received

any response from the fund, we still have a decent understanding of its near-term assessment of CDON's potential.

In the leading Swedish financial newspaper Dagens Industri, ADW Capital's manager, Adam D. Wyden, recently said that CDON's share price should be SEK 3,000 (which implies 24x the November spin-off price). He argues that international investors do not have the same 'emotional baggage' as their Nordic counterparts and can thus make a more sober valuation of CDON in its current state (the marketplace model) and 'avoiding the taint' of the old retail unit (DVDs and CDs). Mr. Wyden estimates that CDON could grow its gross merchandise value (GMV) to SEK 4bn in 2021 (60% growth y/y) and that the market as a whole could grow 30-40% this year (we interpret this as general marketplace growth, as the e-commerce market is estimated to grow by less than 10% y/y (according to PostNord) after a strong pandemic-influenced 2020 with 40% growth). We also know from the conference call after CDON's Q4 report that ADW Capital believes CDON's effective take rate is very low (it was 14.3% and 11.5% in 2019 and 2020, respectively) versus an international benchmark of around 15%. Furthermore, Mr. Wyden argues there is room for more than one (read: Amazon) multi-category marketplace. Lastly, ADW Capital has much faith in the principal owner Rite Ventures and the day-to-day management. It seems to us that ADW Capital could be a genuine long-term owner.

We agree with much of ADW Capital's assessment, such as the under-monetization of the platform, that there is room for more than one multi-category marketplace in the Nordic region, management's capabilities, and that CDON's new marketplace business model is underappreciated. We are more conservative on the probability of a full-fledged positive outcome (which we interpret as Mr. Wyden considering SEK 3,000 a fair price), the implementation rate for new features that can increase the take rate, and overall GMV growth rate. We also acknowledge that the Nordic e-commerce space is quite mature and sophisticated. Many e-tailers have competitive offerings and well-established brands with loyal customer bases that buy directly from them.

We want to add that Rite Ventures has a lockup agreement (180 days), ending on 5 May 2021. Rite Ventures invests for the long term, and we have no indications it is planning to sell (all or part of) its stake. But we highlight the lockup agreement, as Rite selling would be a negative catalyst for the share price.

Online Marketplaces – the Business Model

An online marketplace business model is attractive for several reasons:

- High gross margins
- Capital-light – third-party merchants own the inventory, and deferred payments to merchants can lead to negative working capital
- Scalable model – incremental operating expenses are relatively low at a certain size (cost efficiencies relative to a traditional mall/e-commerce platform)
- Lower risk than traditional e-commerce companies (no risk of obsolete inventory)
- Moats in the form of network effects and brand recognition (being top-of-mind when shoppers search for products)
- Strong underlying market growth as more commerce goes online

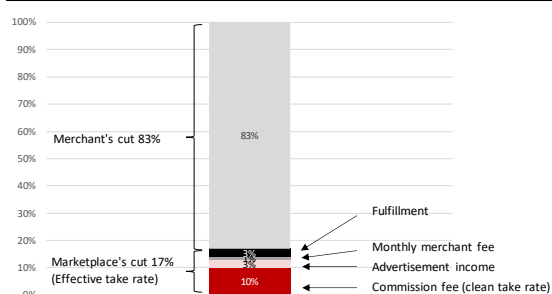
Gross merchandise value and take rate

An online marketplace is a type of e-commerce site that connects buyers and sellers. It creates efficiency as buyers and sellers may have trouble finding each other without the service, and thus, it acts as a digital middleman (or like an online shopping mall). Marketplaces differ from regular e-commerce sites because third-party merchants supply the goods and services. Therefore, the marketplace does not necessarily have to keep inventory (if it does not offer fulfillment services). The business model is, as a result, asset-light in its purest form. Marketplaces also include a transaction element (commission fees).

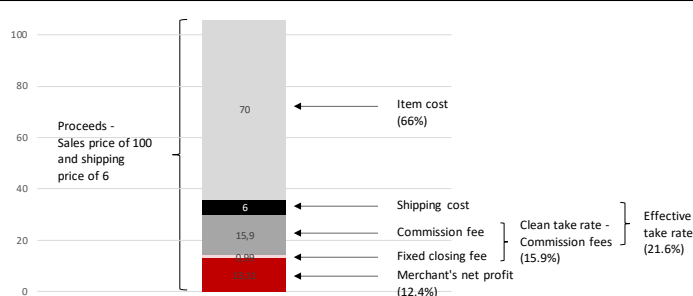
There are two key metrics for any marketplace: **gross merchandise value (GMV)** and **take rate**. The GMV is simply the value of everything sold through the marketplace at any given time, and so it is much larger than the marketplace's revenues. It shows the platform's liquidity. The take rate is the percentage of transaction value that accrues to the platform owner. Deciding an appropriate take rate is critical since this is the cornerstone of the marketplace's monetizing and business model. Usually, take rates are in the 5-20% range, with 10-15% seemingly most common. Depending on the marketplace's product mix, its take rate can vary a little. Low-margin products, such as consumer electronics, usually net lower take rates, while higher-margin products, such as sports items, can carry a little higher take rate. GMV multiplied by the take rate is the main component of a marketplace's revenues.

Marketplaces can also have additional revenue streams, such as advertisements, merchant fees, fulfillment services, shipping, payment solutions, and so on. Note that some marketplaces, including CDON, do not report a clean take rate (solely commission fees). Blended take rates include other revenues, making direct comparisons between marketplaces challenging at times.

A theoretical effective take rate of a marketplace's GMV



A theoretical net profit of a merchant after direct marketplace costs

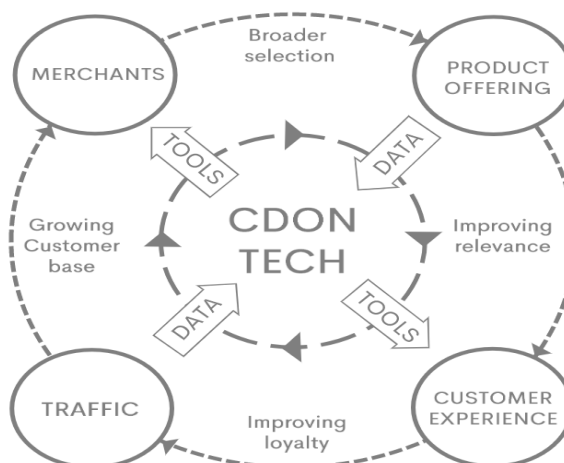


Source: Redeye Research

Network effects

Marketplaces and similar platforms are closely associated with the power of network effects - or virtuous cycles. Network effects kick in when the value of a product/service depends on how many other users there are. When a new user joins the network, it increases the overall value for other system users.

CDON's two-sided network effects



Source: CDON, Redeye Research

In the case of CDON, it looks something like this: low prices (many pricing options) and the ease of finding products attract customers. Additional customers increase the volume of sales, attracting more commission-paying third-party sellers to the marketplace. Additional third-party sellers translate into a larger selection and lower prices (as competition intensifies). This, in turn, improves the customer experience even further and leads to more active buyers.

This virtuous cycle, often called the flywheel, can take on different forms. Some marketplaces, most notably Amazon, are more directly involved in the flywheel and aggressively push it forwards. Amazon competes directly with other merchants on the platform, and the founder and CEO, Jeff Bezos, has a telling quote: "Your margin is my opportunity." In other words, if third-party sellers do not enhance the customer experience and reduce their prices, Amazon will. The company has an economic engine that uses growth and massive scale to improve the customer experience through greater selection and lower prices.

Building other revenue sources around the marketplace

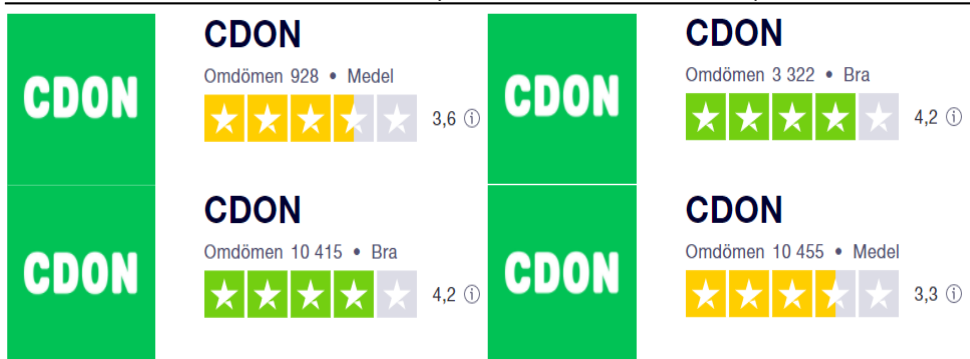
Global commerce company Shopify, which offers an integrated back office for merchants, estimates that average revenue per user is approximately USD 1,653 (SEK ~14,000) for a typical small and medium-sized retail business. Services can be payments, marketing, analytics, inventory and fulfillment, order management, apps, capital, shipping, etc.

Fulfillment and logistics

CDON is, for now, solely a platform company enabling third-party sellers to reach a broader mass of people while simultaneously giving primarily Nordic customers easy access to millions of products in one place, with many pricing and shipping options. The current business model is asset-light and outsources inventory and logistics to third parties (fulfillment by merchants). This also poses a brand risk, as CDON's customer experience is in the hands of hundreds of varied merchants, their support functions, inventory management,

and logistics solutions. Almost all of the negative ratings from customers refer to support and shipping.

Customer reviews from Denmark, Norway, Sweden and Finland at Trustpilot



Source: Trustpilot, Redeye Research

The natural tendency of many larger marketplaces is to start offering fulfillment and shipping services for their third-party sellers. Some marketplaces, including Amazon, Otto, and BOL.com, see this service as one of their core competencies and competitive advantages. Fulfillment services and logistic fleets scale locally, and GMV must be a certain size for this to pay off (possibly SEK >20-25bn). Otherwise, full-service logistics providers such as UPS, FedEx, Budbee, PostNord, or Axla Logistics, are more cost-efficient. Most third-party merchants use full-service logistics.

Fulfillment by Amazon in Sweden - price examples

Lagringskostnader per månad (baserat på kubikmeter/månad)		
	Jan till sep	Okt till dec
Kläder, skor och väskor	164 kr	227 kr
Andra kategorier i standardformat	273 kr	378 kr
Kategorier i extra stort format	189 kr	263 kr

Brödrost Produktmåttskategori: Standardpaket Mått: 25,5 x 18,5 x 17 cm Utgående fraktvikt: 2,2 kg		
Sälj via Amazon.se Expediering från lager i Sverige 41,94 kr expedieringskostnad per enhet 2,63 kr lagringskostnad per månad (oktober) 44,57 kr / enhet	Sälj via marknad i EU Expediering från lager i Sverige 106,26 kr (€ 10,12) expedieringskostnad per enhet 2,63 kr lagringskostnad per månad (oktober) 108,89 kr / enhet	Sälj via marknad i EU Expediering från lokalt lager i varje EU-marknad Från 41,94 kr expedieringskostnad per enhet Från 2,63 kr lagringskostnad per månad (oktober) Från 44,57 kr / enhet

Source: Amazon Services, Redeye Research

Infrastructure investments add another layer to the flywheel equation as the marketplace owns one of the most important parts of the customer experience: fast and reliable deliveries (including the last mile). The price is capital intensity and added complexity, but improved efficiency (when executed correctly) is a clear competitive advantage.

There is also a middle ground, where a marketplace can partner with a full-service logistics company and create a 'fulfillment by' solution. An example is Amazon's fulfillment center in Eskilstuna, Sweden, where it has partnered up with Kuehne + Nagel to have the possibility to store items closer to the end-customers, rather than shipping everything from abroad (mostly from Germany). We believe CDON will follow this strategy and form a partnership with a fulfillment-and logistics specialist, as its sales volumes are too low to create a fleet of CDON-branded lorries. Larger European marketplaces, such as established Pan-European Amazon, Cdiscount, BOL.com, and Otto, have invested heavily in fulfillment services and offer these to connected third-party merchants.

By controlling the supply chain, a marketplace can improve more than just the customer experience. CDON's management has listed a few other advantages: 1) delivery-to-consumers for merchants without that option today; 2) connected partner marketplaces, such as Cdiscount, would benefit from an intermediate warehouse in the Nordic region, as its revenues through CDON's platform increase; and 3) smaller third-party sellers that reach volume but are reluctant to build their own warehouse solution, would benefit from having a fulfillment service provided (at least partly) by CDON. As the market moves toward frictionless delivery, speed and convenience will become more of a hygiene-factor than something extra.

As CDON's GMV grows, more focus will undoubtedly fall on the fulfillment and logistics side of the business. There are past examples of marketplaces that have lost ground to those owning the last mile (for example, eBay vs. Amazon, Grub and Just Eat vs. Dash and Uber vs. Deliveroo).

Fulfilment by Cdiscount



Dispatch your orders
from every sales
platform with
Cdiscount • Fulfilment

Our logistic expertise is now at your disposal for all your online orders:

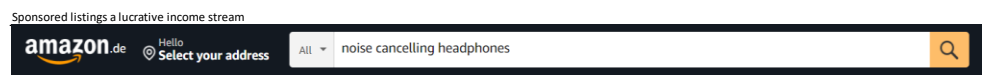
- Storage, preparation, packing and shipment of all your products at competitive prices
- 20 European countries available on top of France
- Support for all logistics matters

Source: Cdiscount, Redeye Research

Advertisement income

Online marketplaces own prime digital real estate as millions of eyeballs reach the front page and search through the website. Years of insight into consumers' actual buying habits, rather than just their search habits, provides enticing data for advertisers. It can create a closed loop that shows them how effective every spent Krona or Euro is. Advertisement banners and sponsored listings are two ways to monetize this.

Sponsored listings a lucrative income stream



Source: Amazon, Redeye Research

Advertisement banners are straightforward: advertisers/merchants buy a spot on the website that can generate brand awareness and/or lead to direct clicks and purchases. Sponsored listings can be a thornier issue, though. Advertisers/merchants bid to gain prominent spots at the top of product search results, which can then capture customers' attention. The sponsored listing is often tied to a specific keyword. For example, on Amazon's website, a coveted search term such as 'noise-cancelling headphones' can be sold for more than USD 7 per click, according to JungleScout, regardless of whether the customer goes on to buy the product or not. Even so, the statistics favor the advertisers because just over one in 10 clicks, on average, results in a buy, says Marketplace Pulse.

The cons of expanded ad revenues are three-fold: 1) if the marketplace favors paid content above better recommendations, it could hurt conversion; 2) it could risk becoming a 'pay-to-

play platform,' where sponsored listings effectively become a listings tax on third-party sellers already paying commissions; and 3) sponsored listings could be a source of friction between the marketplace and third-party sellers. Rivals' brands could show up above a search result for a specific product. It is a balancing act every marketplace must make, but it is also an area where to invest in and use to drive merchants' return on investment and thereby boost ad spending.

Advertisement on Allegro's front page



Source: Allegro, Redeye Research

Regardless, advertisement is a high-margin business, and many marketplaces demonstrate the monetization potential. Although Amazon is an outlier and not really comparable to CDON, the size of its ad business is fascinating. Its 'Other' revenue segment mainly includes advertisement revenue, and in 2020, it accounted for more than USD 21bn, or 4.3% of the total estimated GMV of USD 490bn. It makes this revenue segment alone as big as Salesforce or McDonald's.

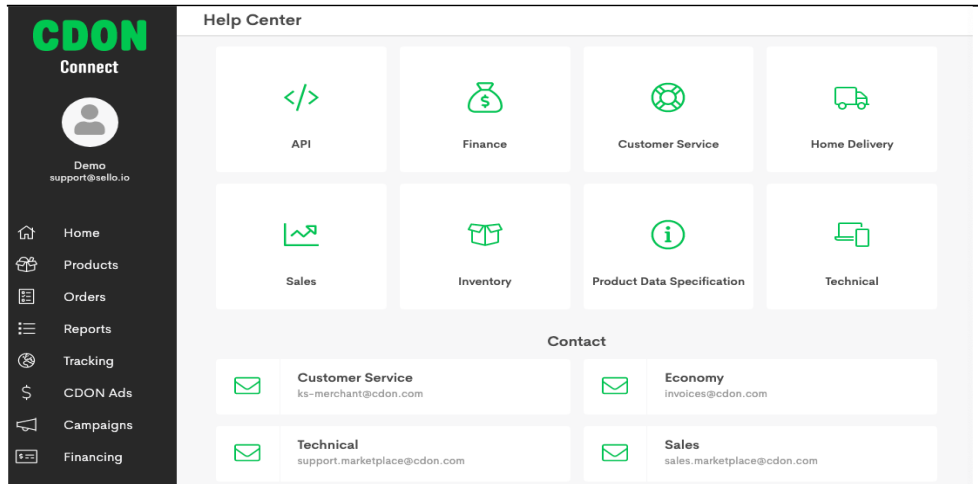
A more comparable company is Allegro.eu, which stated in its IPO prospectus that ad revenues represented 0.9% of its GMV, "well below benchmarks of up to 3% at other marketplace businesses." Sponsored offers constituted almost 80% of Allegro's gross advertisement revenues, while banners accounted for slightly less than 20%. (External network ads provided ~3%). Note, however, that Allegro's merchant base is significantly bigger than CDON's and that the value of its sponsored listings hinges on many merchants competing for the same search word. Nonetheless, today CDON derives almost no revenues from ads, which hurts the effective take rate. This shows CDON's untapped monetization potential in this area when more third-party sellers flock to the marketplace.

Other merchant/marketplace services/fees

Marketplaces can offer third-party sellers a merchant hub, from which they can manage everything from pricing and inventory to campaigns and where they can access analytical tools and data (depending on the marketplace's information-sharing policies). Merchant hubs have many names. At Mercadolibre, it is called the Seller Center, while CDON calls it CDON Connect.

Merchant services can improve the data-driven personalization of a marketplace, in turn driving relevancy and conversion rates. Compared to a physical store, where a customer can see around hundred items at a time, a mobile or computer screen can only show a few. A good merchant hub, therefore, carries tremendous value, allowing basic and extra features to be monetized.

CDON Connect - the merchant hub



Source: CDON, Redeye Research

Marketplaces price themselves at varying degrees. Some, such as JD and Amazon, take flat monthly fees of SEK ~8,300 and SEK 410, respectively. Others, such as Tmall, have different tier levels or prices depending on the product category. In China, it is not uncommon to see annual services fees in the range of USD 5,000-10,000 (SEK ~42,300-84,600). The monthly/annual fees add a SaaS characteristic to the marketplace as the revenues are highly recurring. CDON introduced a flat monthly fee of SEK 299 in October 2020.

Connecting marketplaces



Source: Cdiscount, Redeye Research

There is an ongoing trend among European marketplaces to connect and offer home-market merchants the possibility to sell to a broader consumer base abroad, partly in response to Amazon. Cdiscount, which started to collaborate with CDON in June 2020, is an initiator of one of the larger pan-European networks: International Marketplace Network.

It is unclear how high the potential take rate on external marketplaces could be, but we believe it could be significantly lower than on the proprietary platform. Marketplaces such as CDON use aggregators to connect multiple merchants to their platform at once in a smooth and cost-efficient manner. We believe the aggregator business model resembles CDON's role were it to facilitate connections to external marketplaces.

The aggregator Sello has take rates ranging from 4% (EUR 1 in sales) to adjusted rates (EUR >50,000). The take rates at EUR 2,500 and EUR 10,000, are 2% and 1.5% respectively.

Sharespine starts at SEK 495 a month, with no volume-based fees at 100 orders, but extra order volumes can be added. Business enterprise starts at SEK 5,495 a month. Meanwhile, Starweb takes SEK 995 a month, with a 1.5% take rate (Business Standard), or SEK 1,995 a month and a 1% take rate (Business Plus).

Aggregators - a swift and easy way to add new merchants



Source: CDON, Redeye Research

This suggests to us that marketplaces can potentially take around 2% on the external platforms if they supply some additional services and tools through their merchant hubs. An external marketplace connection could potentially also nudge up the monthly merchant fee.

To summarize: a marketplace can add many types of merchant/marketplace services on top of its commission-based revenue base. Some marketplaces have quite a low transactional fee but add additional ones, such as listing fees, advertisement/promotional fees, offsite ads fees, subscription fees, in-person selling fees, payment processing fees, shipping fees, pattern fees, currency conversion fees, and so on and on. This is the main reason why the effective take rates can vary so much.

People and Owners

Management

Kristoffer Väliharju joined CDON in June 2017 as COO and has been the company's CEO since September 2018. Before CDON, Mr. Väliharju worked at Dell for almost 11 years, in roles ranging from EMEA software product manager to senior sales manager of Nordic distribution. While there, he established a broadline distribution from scratch and grew it to USD 120m in annual sales. Mr. Väliharju also worked at Dustin Group, for around three years, where he was responsible for areas such as product management, Nordic vendor strategy, and sales to small and medium-sized businesses. We argue that Mr. Väliharju has a track record of good leadership skills and a relentless focus on customer value. As CDON's COO, he worked to improve profitability and efficiency and to create room for further scalability and growth. He has also made CDON a more agile company with faster decision-making and rollouts. Mr. Väliharju owns around 12,500 shares in the company, some of which were bought after the spin-off.

Mr. Väliharju is currently on temporary leave (maximum 6 months) for health reasons (planned surgery for a heart condition). In the meantime, former CDON chairman Marcus Lindqvist has taken on the role of temporary CEO. Mr. Lindqvist was previously CEO and chairman of Qliro Group and knows CDON and the marketplace business well. Although we consider CDON to be in good hands with Mr. Lindqvist, we hope Mr. Väliharju can return sooner rather than later, as his work has been essential in the marketplace transformation.

Niclas Szieger became CFO of CDON in March 2018, having joined the company in September 2017 as the head of business control. Mr. Szieger is an experienced business controller with previous positions in Kährs Group, Akzo Nobel, and Axis Communications. He owns around 10,500 shares in CDON.

Other management team members include CCO David Olhed, CTO Peter Rosenfors, CHRO Kajsa Helmbäck, and CTO Rasmus Jung Demse. All of them, except for Mr. Olhed, were appointed to these new management roles during 2020. However, the team is experienced from similar roles at other companies.

CDON's Management				
Name	Position	Joined role	Background	# of CDON shares
Marcus Lindqvist	Temporary CEO	2021	Former Chairman of CDON	3 666
Kristoffer Väliharju	CEO (on temporary leave)	2018	Dell, Dustin	12 562
Niclas Szieger	CFO	2018	Kährs, Akzo Nobel, Axis	10 539
David Olhed	CCO	2014	Various roles within CDON	4 144
Peter Rosenfors	CTO	2020	Axis, Palette Software, FordonData	489
Kajsa Helmbäck	CHRO	2020	FordonsData, Svevia, Manpower, Bravida	-
Rasmus Jung Demse	CPO	2020	Resurs Bank, Phonera/ComHem B2B	1336

CDON's Board of Directors				
Name	Position	Joined role	Other	# of CDON shares
Josephine Salenstedt	Chairwoman	2021	Söder Sportfiske, Paradox Interactive, Doro	1 574 782*
Christoffer Häggblom	Board member	2018	Verkkokauppa, Nelly Group, Lemonsoft, Acervo	1 574 782*
Niklas Andersson	Board member	2020	-	-
Kristina Lukes	Board member	2020	Nelly Group	436

Source: Nasdaq Stockholm, Redeye Research

*Representing Rite Ventures

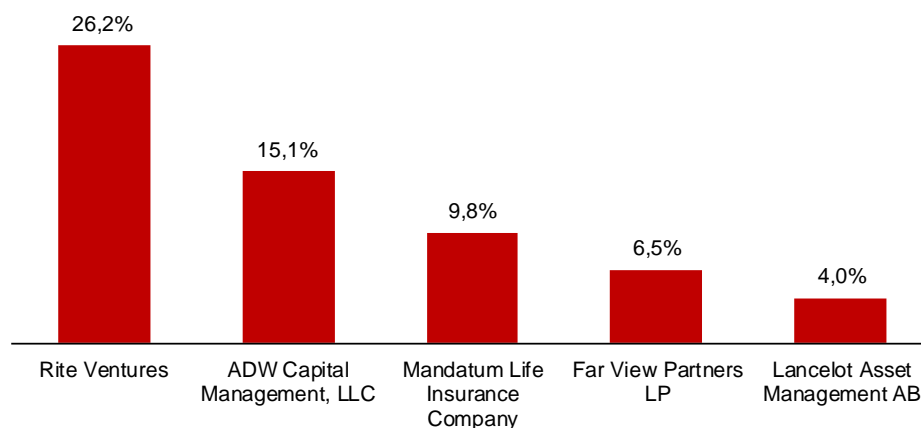
Board of directors and principal owners

CDON has four directors, two of whom, Josephine Salenstedt (chairwoman) and Christoffer Häggblom, are associated with the company's largest owner, Rite Ventures. Rite invested in Qliro Group in 2016 and focuses on Swedish and Finnish companies within IT-services, SaaS, and e-commerce. Rite is an active investor that aims to transform and position early-growth

companies for expansion to the midmarket. It has conducted exits in companies such as G5, DIBS, Klikki, and Nebula. Current holdings include CDON, Qliro, Nelly, and Doro, among others. The other two directors are independent from any major shareholder. Niklas Andersson has deep technical expertise and has worked at or helped companies such as Mathem, Kinnevik, and Doktor24. Kristina Lukes is the CEO of Nelly and has a broad knowledge of business development, sales, and marketing.

CDON has attracted much attention from international investors since its spin-off, most notably ADW Capital, with manager Adam D. Wyden at the helm, which has become the second-largest shareholder. Six of CDON's 15 largest shareholders are from outside the Nordic region.

Top 5 Shareholders



Ownership

Rank	Shareholder	Total Shares	Share Capital	Voting Rights
1	Rite Ventures	1,6	26,2%	26,2%
2	ADW Capital Management, LLC	0,9	15,1%	15,1%
3	Mandatum Life Insurance Company	0,6	9,8%	9,8%
4	Far View Partners LP	0,4	6,5%	6,5%
5	Lancelot Asset Management AB	0,2	4,0%	4,0%
6	Avanza Pension	0,1	2,2%	2,2%
7	Lizard Investors LLC	0,1	2,0%	2,0%
8	Adrigo Asset Management	0,1	1,8%	1,8%
9	Eden Alpha	0,1	1,2%	1,2%
10	eQ Asset Management Oy	0,0	0,8%	0,8%
11	Nordnet Pensionsförsäkring	0,0	0,6%	0,6%
12	True Value Investments SGIC	0,0	0,5%	0,5%
13	Origo Fonder	0,0	0,3%	0,3%
14	Kristoffer Väliharju	0,0	0,2%	0,2%
15	Handelsbanken Fonder	0,0	0,2%	0,2%
Total 15 Largest Shareholders		4,3	71,4%	71,4%
Others		1,7	28,6%	28,6%
Total Number of Shares		6,0	100,0%	100,0%

Source: Modular Finance AB as of 2021-03-17

Free Float 58,7%

Value Proposition

CDON's value proposition

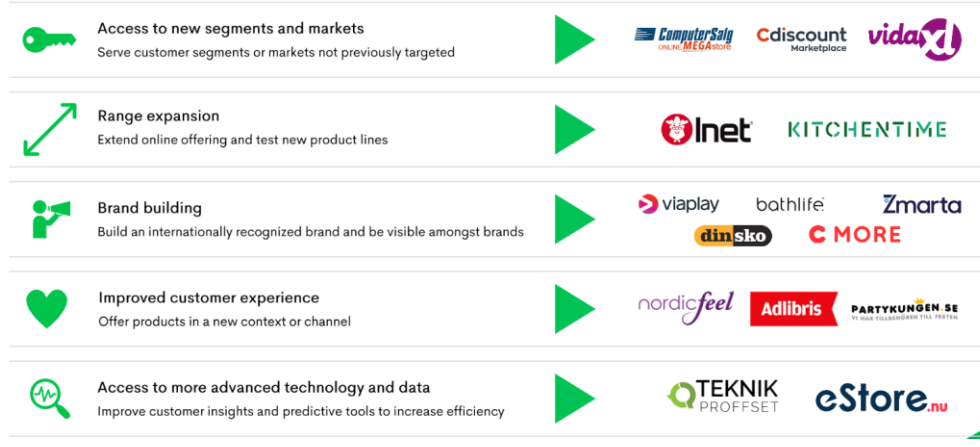


Source: CDON, Redeye Research

Merchant side

One of CDON's main priorities over the past couple of years has been to remove the barriers to entry for third-party sellers to access its marketplace. Large merchants, such as Adlibris, use an API and can easily update their extensive catalog frequently. Small to medium-sized merchants can use CDON's proprietary program Imse, a web scraper that speedily integrates the third-party sellers' products into CDON's marketplace. Lastly, the smallest merchants (<1000 items) can use a simple drag-and-drop functionality.

CDON's value proposition to merchants



Source: CDON, Redeye Research

CDON provides third-party sellers with the opportunity to connect with a diverse population of Nordic shoppers online at a low customer acquisition cost. Some merchants gain access to new segments and markets not previously targeted, such as Denmark's ComputerSalg, which has successfully found new customers beyond its home market. Other merchants use CDON's channels to test new product lines (outside of their main channel) or to extend their online offering (perhaps by selling last year's inventory).

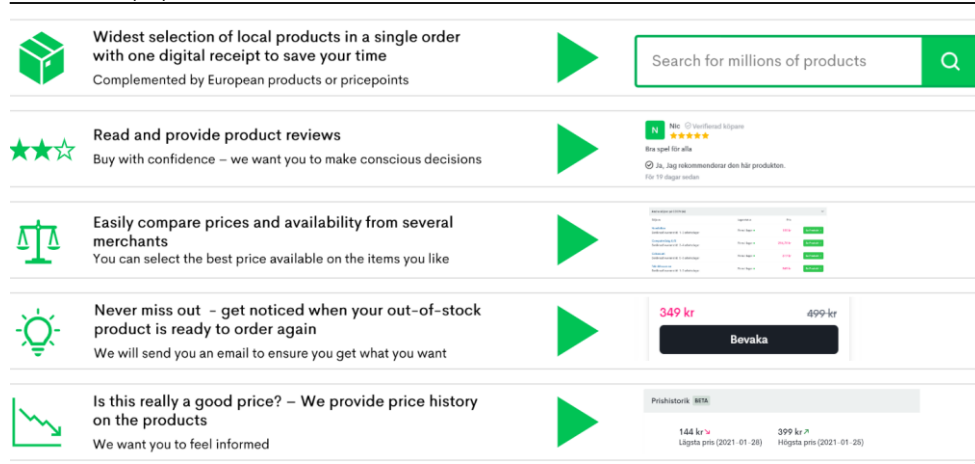
CDON has >8 million products on its platform, and many companies want to be visible next to brands and items that complement their own value proposition and positioning. The marketplace is also an easy way to rapidly gain international exposure to all the Nordic countries. Many products complement each other well, while having everything in one place can greatly improve customer experience by making searching easier.

Finally, CDON has invested considerably in a so-called merchant center, which is an internal support hub for third-party sellers. With the help of data collected from the platform, CDON can assist merchants with insights and analytics. This, in turn, could boost pricing management, content management, campaign management, etc. Many of the tools will be automated and optimized to help drive sales more effectively. In other words, this carries substantial value for the merchants.

Consumer side

CDON is a well-recognized brand, offering an online shopping mall with an unmatched local product range. While the largest bricks and mortar chains can stock 40,000-80,000 items in one store, CDON can showcase >8 million products that are just a few clicks away. As the number of its third-party merchants increases, so does the number of products, the pricing and shipping options, etc., and the whole value proposition is strengthened.

CDON's value proposition to consumers



Source: CDON, Redeye Research

A good way to look at the consumer side of the value proposition is to use the three Ds: discovery, decision-making, and delivery.

Discovery

CDON has invested resources in a new automated platform that optimizes itself for every customer's preference. The idea is to ease the last digital mile when customers already have a particular product in mind and to improve the site's suggestion functionality. Better matchmaking between recent purchases and search history can drive volumes of sales and commission fees.

Large marketplaces often have a clear competitive advantage as the starting point in the customer journey. For many customers, Amazon and Taobao are a more natural starting point in their core markets than search engines. By being upstream and top of mind, dominant marketplaces can secure a larger share of a customer's wallet.

Our impression is that CDON's customers often use the site when they have specific products in mind rather than for inspiration. However, better site optimization and a stronger members' club could increase this relevance.

Decision-making

CDON offers one of the broadest assortments in the Nordic region. With an optimized platform (with large data sets), various customer preferences should be matched with the assortment more effectively, giving both customers and third-party sellers great value.

CDON's size has another clear decision-making benefit: customer reviews. Every new customer review adds to the business's defensibility, as reviews enhance customer experience, meaning more customers, who in turn write more reviews. It is a classic network effect. CDON also uses reviews from third-party sites, such as Winning Moves, if a product lacks Swedish reviews. The reviews also have an additional side benefit as they discipline the supply side. Good reviews mean more business and push the products higher up in the discovery list, and bad reviews work the other way around. It is an organic carrot and sticks function.

Delivery

The logistics, inventory management, and most of the support are outsourced to full-service logistics and third-party merchants (fulfillment by merchants). Although CDON has a strict code of conduct, we see a clear chink in its armor. When reading through hundreds of customer reviews of CDON Marketplace, the delivery and support functions are the main target of criticism. This decentralization puts some customers in an awkward spot, and the lack of overview and clear ownership of failed deliveries feed their frustration. Customers can face different treatment depending on the third-party seller. It is the downside of fulfillment by merchants.

We believe CDON has promising investment opportunities in areas such as checkout, where it could add visible last-mile alternatives through logistics companies. An investment in this would be significant for CDON and should increase conversion, as today's checkout lacks some transparency and a 'best option available' functionality.

Business Overview and Strategy

CDON is divided into two distinct parts, each with very different business models. CDON Retail is a legacy business that started in 1999. It was an e-commerce pioneer and one of the Nordic region's largest e-businesses. In 2013, CDON opened the marketplace on its site and started to sell third-party merchandise alongside its own products. The marketplace has been the main focal point since 2017/18. CDON Retail has simultaneously shrunk its sales volumes and focused on complimentary products that third-party sellers do not yet offer through the marketplace in order to make sure customers have the broadest available selection.

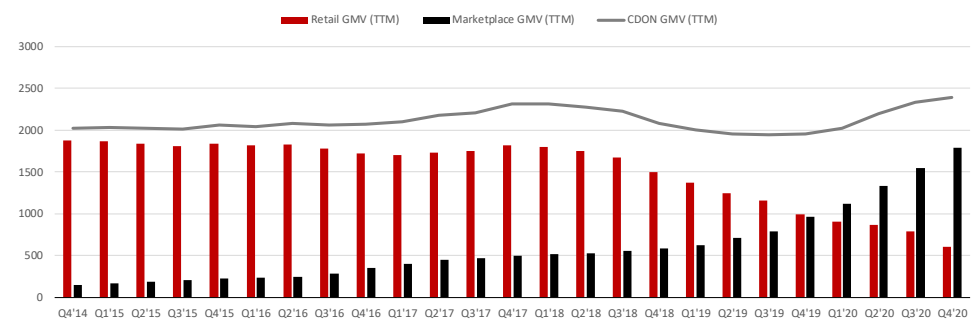
CDON's P&L - retail vs marketplace			CDON's balance sheet - retail vs marketplace		
(2020, SEKm)	Retail (1P)	Marketplace (3P)	Transformation	Retail (1P)	Marketplace (3P)
GMV	597,7	1777,3	Inventory	Yes	No
Net sales	590,2	205,2	Receivables	Yes	Low
Cost of goods	Yes	No	Deferred merchant payments	No	Yes
Fulfilment costs	Yes	No	Working capital need	Extensive	Negative/Low
Postage costs	Yes	No			
Freight	Yes	No			
Other*	Yes	Yes			
Total COGS	534,7	12			
Gross profit	55,5	193,1			
Gross margin	9,4%	94,1%			

Source: CDON, Redeye Research

* Including bank costs and credit card fees, and similar

Source: CDON, Redeye Research

CDON's total GMV (TTM) in SEKm



Source: QIiro Group, CDON, Redeye Research

CDON Retail

CDON Retail sells its own merchandise, mostly low-margin consumer electronics. The business model is straightforward but not easy to execute. CDON Retail has a warehouse in Ljungby, Småland, owned and operated by PostNord. Its products are primarily imported from China and sold through the CDON website. CDON has good agreements with importers and logistics companies, as it is a high-volume, long-standing customer in the area. That lessens the drag on the overall company's profitability. We do not see any direct moats in the CDON Retail business.

Although the business segment is profitable on an EBIT level, we are unsure of its ROIC. Most likely, this is very low, as the gross margin on retail sales is around 10%, and the company needs to hold inventory. CDON is actively shrinking its retail offering and encouraging third-party sellers to manage all sales on the marketplace platform. As soon as a new third-party merchant joins the marketplace with a product offering that overlaps with CDON Retail, the retail unit closes its own category. These are orderly closures, and the speed of them has ticked up since 2018 (the retail TTM GMV has dropped by SEK 1.2bn from SEK 1.8bn in early 2018 to around SEK 600m in 2020). The remaining part is mainly physical media (DVDs and CDs), and this market is contracting by 20% a year owing to structural decline.

CDON Retail

Rayman Legends

★★★★★ (5) [Skriv en recension](#) | Xbox One**179 kr**

Lägg i varukorgen

Tryggt köp - Handla säkert på CDON. [Läs mer](#)

Lagerstatus: Finns i lager

Beräknad leveranstid från 1 arbetsdag

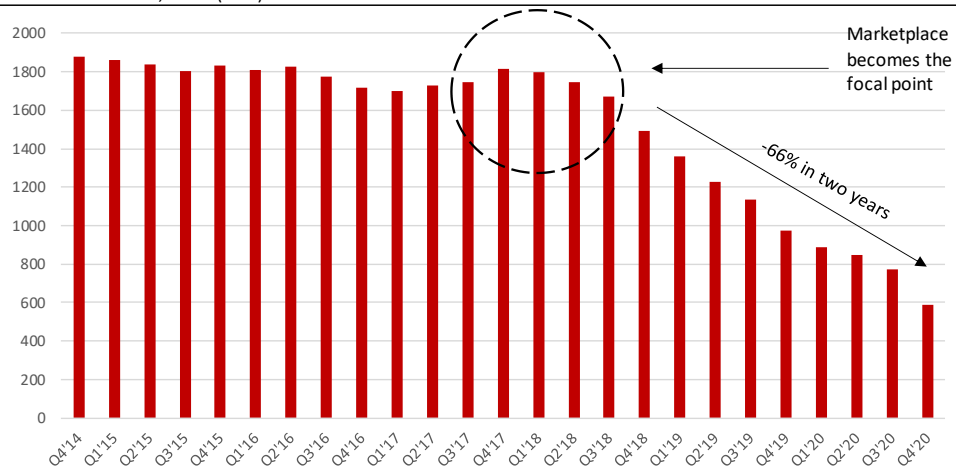
Säljs och skickas av **CDON**

- Äventyr, Barn
- Xbox One

Source: CDON website, Redeye Research

We see this business unit as a complementary leg to the marketplace. It is a way for CDON to secure a broad selection and enhance the overall customer experience. The generated goodwill has a value, although it is hard to quantify. Most likely, it can be seen in larger customer baskets or more frequent purchases in the marketplace, rather than in the retail unit's numbers. We believe CDON Retail will be closed down eventually, as CDON does not have a plan, as far as we are aware, to compete with its third-party merchants, as some other marketplaces do (Amazon and Ozon, for example).

CDON's 1P revenues, SEKm (LTM)



Source: CDON, Redeye Research

CDON Marketplace

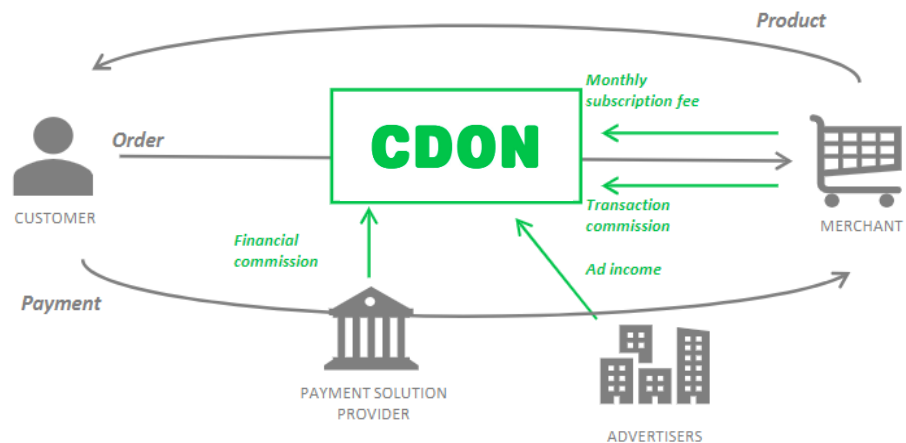
CDON Marketplace is the company's focus and growth area. CDON Retail's orderly fade-out blurs the major strides that the marketplace business has made over the years when viewing CDON's consolidated income statement. CDON Marketplace is the Nordic region's largest local marketplace, with +1,500 third-party merchants, >8 million products, and 2.3 million visitors (in 2020).

Third-party sellers on CDON Marketplace



Source: CDON, Redeye Research

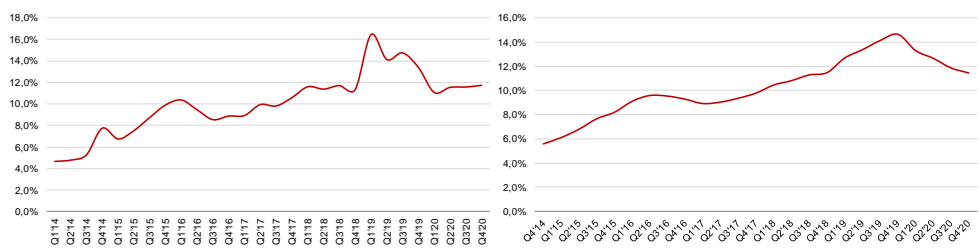
CDON's new business model



Source: CDON, Redeye Research

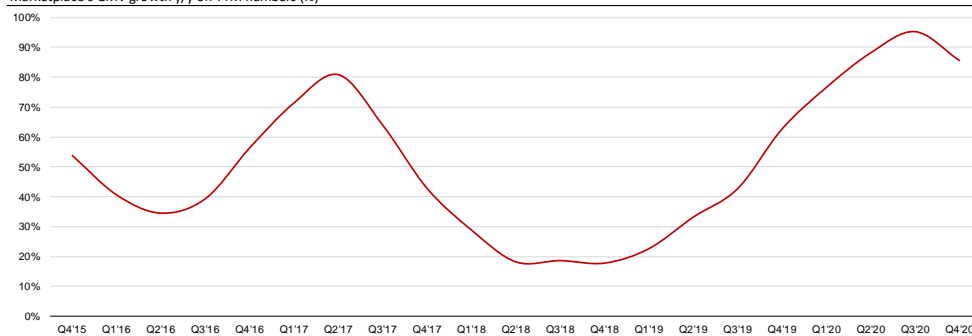
The primary revenue source is a commission fee on all goods sold on the marketplace. CDON's reported take rate (the marketplace's net sales divided by the gross merchandise value) has historically been a blended variant, including transaction fees, financial income from the Qliro agreement, and advertisement income. Since Q4'20, it also includes additional service revenues, such as the merchant subscription fees. The reported take rate (effective) was 11.7% in Q4'20, and although CDON does not disclose its clean take rate (solely commission-based), we estimate it to be around 10%. The more customers that buy over the marketplace from third-party sellers, the more CDON will earn from transaction fees. We believe the current rate will be sustainable in the long-term, as it is on a normal level internationally and below Amazon's referral fee.

CDON's blended take rate: quarterly on the left, TTM on the right



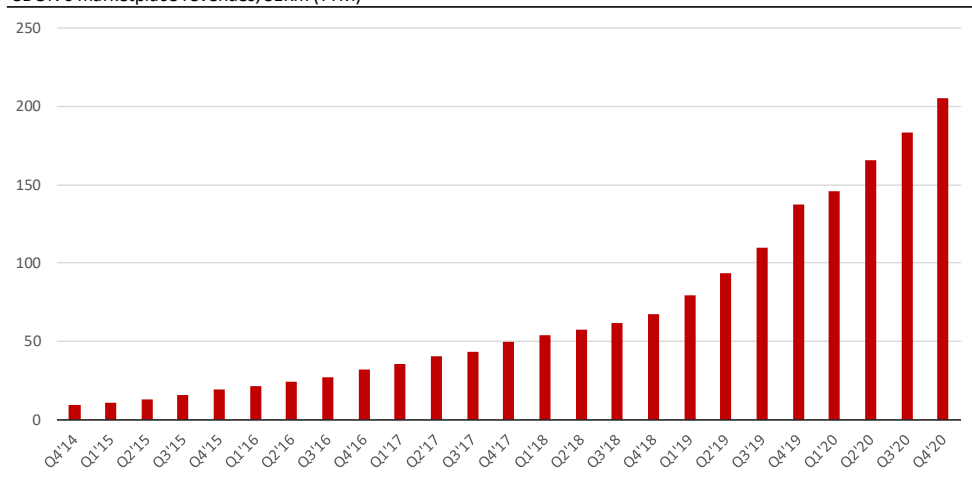
Source: CDON, Redeye Research

Marketplace's GMV growth y/y on TTM numbers (%)



Source: Qliro Group, CDON, Redeye Research

CDON's marketplace revenues, SEKm (TTM)



Source: CDON, Redeye Research

However, the effective take rate will likely move upwards in the coming years, as we believe CDON's platform is under-monetized. As we previously stated, we estimate the transactional commission level to be around 10%. The effective take rate was 11.5% in 2020, which suggests that 10% of this (SEK 183.4m) was from commissions, and 1.5% from merchant/marketplace services (SEK 21.7m). That includes revenues from Qliro, ads, merchant fees, and so on.

Shopify, which offers an integrated back office for merchants, estimates that the average revenue per user is approximately USD 1,653 (SEK ~14,000) for a typical small to medium-sized retail business. Peer marketplaces' effective take rates also confirm that there is probably room for further revenue expansion on the platform. Below, we list various add-on revenues that we believe will gradually boost CDON's effective take rate:

- Advertisement income (banners and sponsored listings)
- Monthly merchant subscription fees (launched in October 2020)
- Additional services through CDON Connect (BI tools/analytics, fulfillment etc.)
- Take rate on external marketplaces (such as Cdiscount)

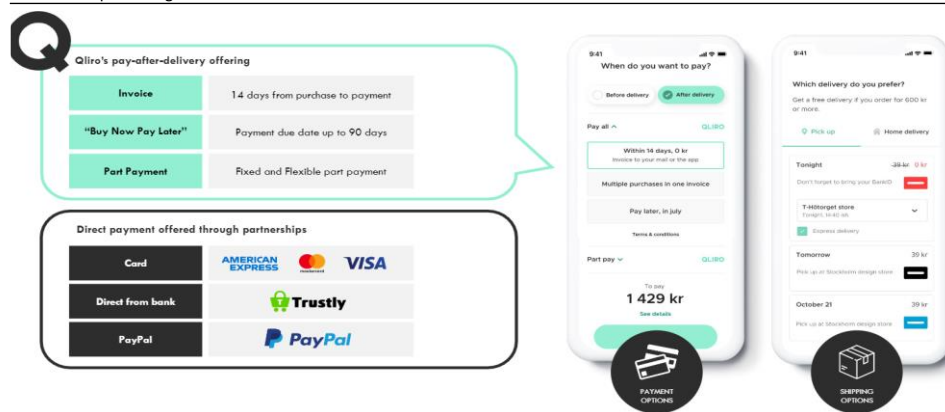
Today, CDON has barely any advertisement revenues at all. The banners are few and undeveloped, and sponsored listings have not yet been introduced (projected to go online during 2021). Given that Allegro, a similar marketplace, has ad revenues of 1% of its GMV and the IPO prospectus states that "advertising services remain underpenetrated," we see 1% of GMV as an achievable milestone for CDON in a couple of years. In 2020, this would have added around SEK 24m in high gross margin sales. At the benchmark of 3% of GMV, it would

have added SEK >70m. When the new automated website (platform) has been optimized, we believe CDON will focus on the advertising side, where some low-hanging fruit awaits.

CDON co-operates with Qliro, which offers direct payment, invoices, 'buy now pay later' options, and part payments for the platform's customers. The financial commissions have been included in the overall take rate historically, even before the changes in Q4'20. Installment plans are bread-and-butter, but Sweden introduced new rules in June 2020, making direct payments the default option, rather than having installment plans as preselect in the checkout. We do not believe this will affect CDON too much.

Some marketplaces, such as Amazon, Etsy, and Mercadolibre, have developed their own payment solutions. CDON has a partnership agreement with Qliro that runs until 2024, which rules out any project in the near-term in this area. One could anticipate an investment here in the medium to long-term, however. Etsy Payment, for example, charges 3.0%-4.5% + USD 0.25 per transaction and Amazon charges 2.9% + USD 0.29 on domestic goods. Such a solution would increase the effective take rate noticeably, but we are unsure at what GMV such an investment would make economic sense. CDON's agreement with Qliro already provides it with financial commissions, and although we do not know the amount (since this is embedded in the overall take rate), we believe it is far below 3%.

CDON has a partner agreement until 2024 with Qliro



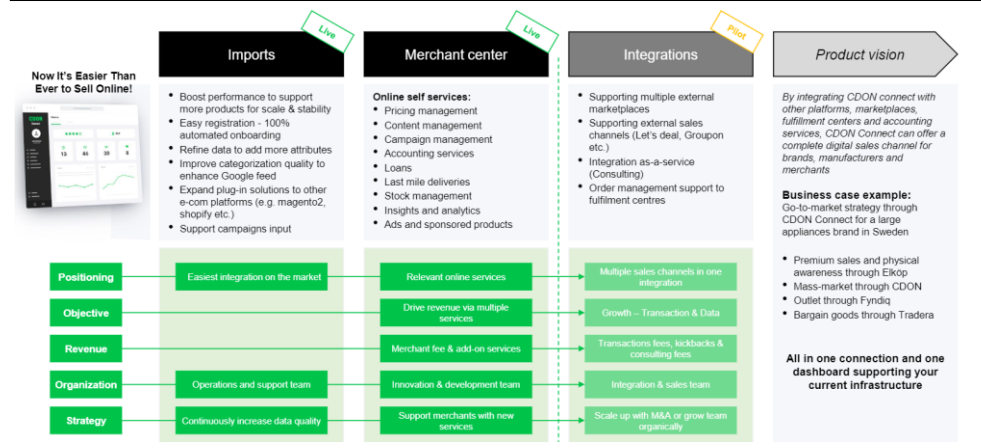
Source: Qliro, Redeye Research

In October 2020, CDON introduced a monthly merchant fee of SEK 299. Based on the current 1,513 merchants, this fee will add an extra ~SEK 5.5 million a year and introduce a SaaS element to its business. A positive side effect of introducing monthly fees is that it can ensure that all merchants are active on the platform. Many third-party sellers might sign up and remain inactive (the 1,513 merchants mentioned in the Q4'20 report only represents active sellers¹). A monthly fee could be a wake-up call to either become more active on the platform or to leave. So far, we do not know any merchants that have left the marketplace because of the fee structure.

Tightly coupled with the monthly fee is the expanded range of services through the CDON Connect merchant hub. Via CDON Connect, merchants can manage everything on the site, such as pricing, content, campaigns, advertisement, insights, analytics, etc. They can also compare their prices with other sellers on the marketplace, optimize their SEO, access real-time sales tracking, customer wish lists, and so on. CDON has invested considerably in the third-party seller part of the flywheel, making it easy and attractive to be a part of the marketplace.

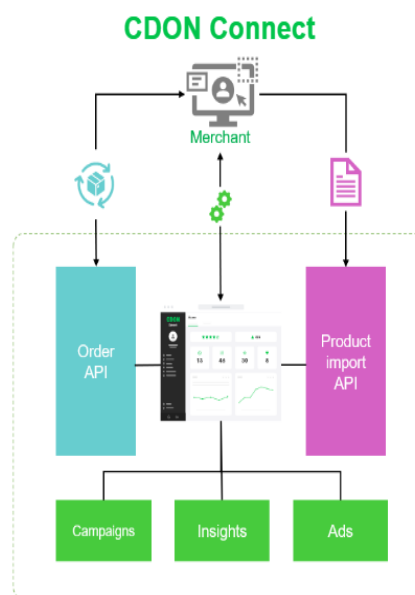
¹ A few years ago, the numbers included both active and inactive merchants, making historical comparison difficult to do.

CDON Connect - the marketplace's merchant center



Data-driven decisions and personalization are becoming increasingly important. CDON can invest in capabilities that most merchants cannot and then leverage its IT infrastructure (artificial intelligence and analytical tools) to help merchants sell more. There are significant opportunities in areas such as data-driven pricing, optimizing promotions, mark-downs, etc. And in a world where most shoppers are on smartphones, personalization is a key strength, as only a handful of items can be shown on a screen at any one time. If CDON can help merchants display relevant products and advertisements, it can create value for merchants and customers alike.

CDON Connect - an overview



Source: CDON, Redeye Research

We also believe CDON will be able to offer its merchants access to external marketplaces through CDON Connect and thereby expand their potential customer pool. We have already seen other European marketplaces create networks, and Cdiscount, which has connected some parts of its assortment to CDON, has been a driving force. We believe CDON could earn a take rate of around 2% of GMV, in line with or slightly above the aggregators that fulfill a similar role.

CDON+ - the loyalty program

DINA FÖRDELAR SOM MEDLEM:

- Fri frakt på alla köp över 100 kr (gäller standardleverans)
- Återbäring på allt du handlar*

CDON+ FÖR 199 KR:

Om du handlar för minst 599 kr erbjuder vi dig medlemskap i CDON+ för endast 199 kr. (ord. pris 299 kr)

Source: CDON, Redeye Research

Lastly, we would like to mention CDON+, the site's loyalty program. It has not been prioritized for a long time, but we believe there could be some real hidden value in this area. Although the extra fees from CDON+ (SEK 199-299/year) would not be profitable alone (because of the free shipping and free-of-charge return arrangements), a well-developed loyalty program would drive GMV growth, and thus generate commission fees. Marketplaces such as Allegro.eu and Etsy have shown how important loyalty programs are for overall growth. The average cohort of SMART! subscribers (Allegro's loyalty program) spend 55% more in the 12 months following sign up than in the month prior to subscribing. The table below also illustrates the value of habitual customers.

The value of loyal repeat customers

		Year 1	Year 2	Year 3	Year 4
AVG GMS	2012	\$96	\$163	\$173	\$181
PER BUYER	2013	\$96	\$161	\$168	\$174
	2014	\$99	\$157	\$164	\$169
	2015	\$101	\$158	\$163	\$180
	2016	\$101	\$157	\$174	\$187

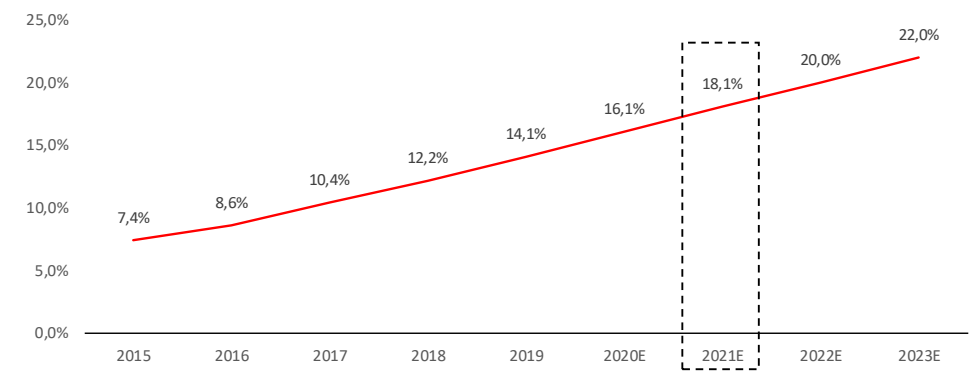
Etsy Cohort of 2016, 2015, 2014, 2013, and 2012 Active Buyers

Source: Etsy, Redeye Research

Market Outlook

The shift to e-commerce is one of the world's ongoing megatrends. Over the past couple of decades, the internet has uprooted many old consumer behaviors and set the stage for a new breed of retail companies with limited or no physical presence. While some traditional bricks and mortar companies have been driven out of business, others have adapted and shifted to a strong e-commerce offering. Globally, e-commerce's share of total retail sales is steadily growing and is expected by Statista to hit >18% in 2021.

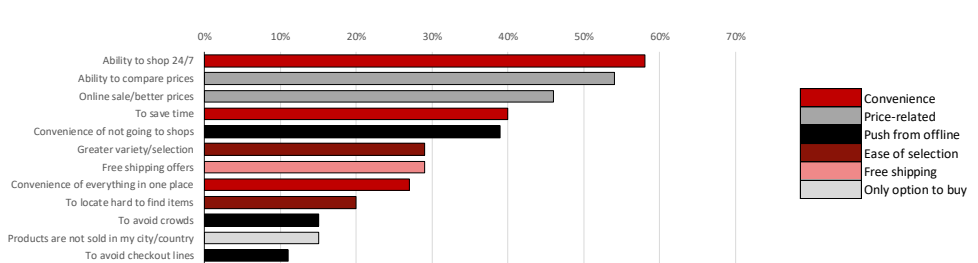
E-commerce share of total global retail sales



Source: Statista, Redeye Research

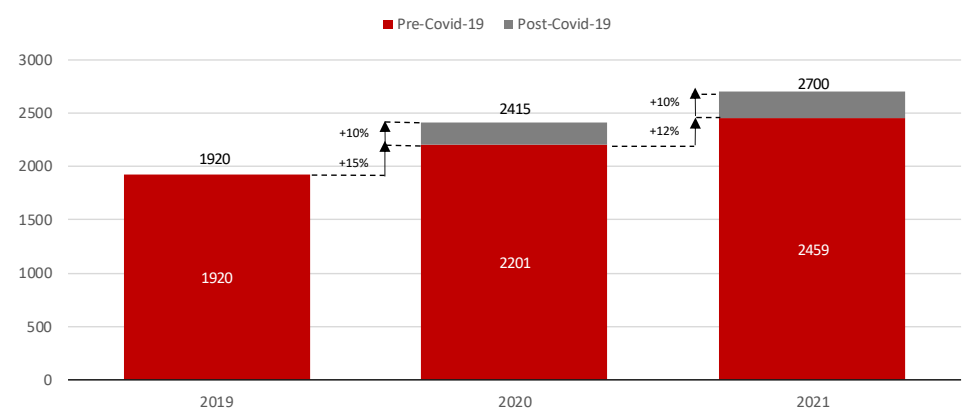
There are many reasons why shoppers opt for online purchases, but they can generally be grouped into a few overarching categories, including convenience, price, and selection. The advantages are hard for physical stores to successfully compete with.

Reasons consumers shop online instead of in stores



Source: Smartinsights, Redeye Research

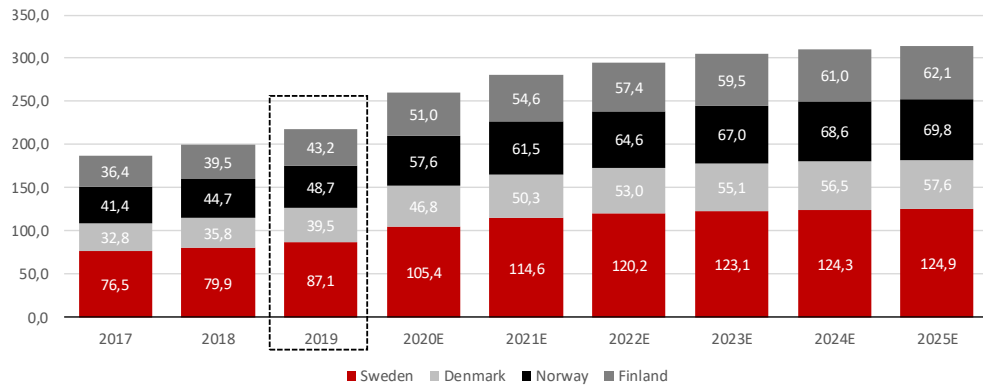
Global e-commerce revenue forecast (USDbn)



Source: Statista, Redeye Research

The Covid-19 pandemic accelerated an already rapid trend, as people following distancing measures have ordered more products online, to be delivered directly to their homes or to pick-up-locations.

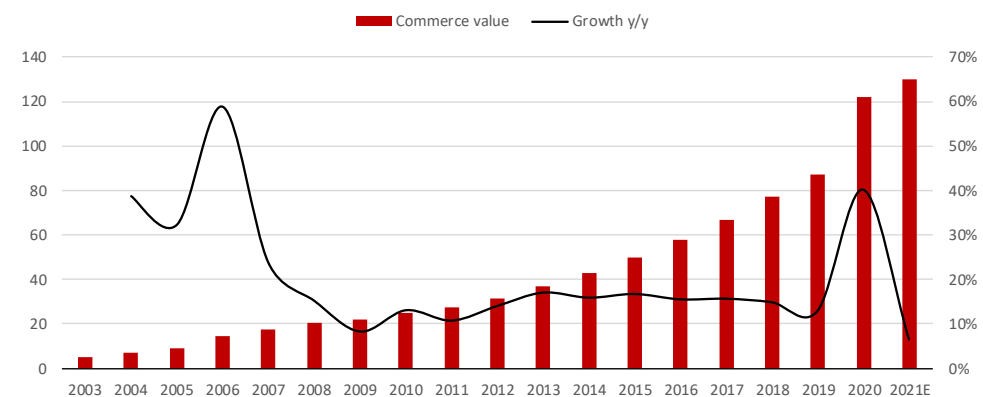
B2C Ecommerce market in the Nordic region (SEKbn)



Source: Statista, Redeye Research

There are a few estimates for the size and growth of the Nordic region's B2C e-commerce. At the lower end, we find Statista, estimating an e-commerce value of around SEK 218bn in 2019. Boston Consulting Group's (BCG) estimates are somewhat higher at roughly EUR 24bn. The state-owned postal company PostNord's estimates are in the same ballpark, at a total market size of SEK 243bn in 2019. However, we must highlight the exact figures are not known. For example, PostNord's home-market estimates in Sweden varied at SEK 87-95bn in 2019. Nonetheless, Sweden, which is also CDON's largest market, is a great example of the whole region's explosive e-commerce growth in the past two decades. The Swedish e-commerce market showed a CAGR of 17.4% for 2011-20. Excluding 2020, the CAGR was 14.9% (2011-19).

Sweden's ecommerce in (SEKbn)

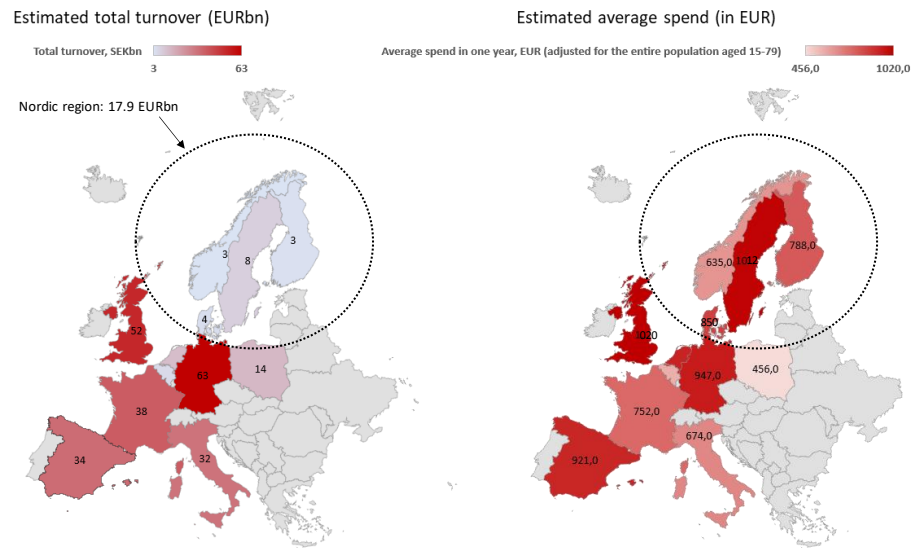


Source: PostNord, Redeye Research

CDON's Board of Directors	2015-19 CAGR (percentage)	2019-24E CAGR (percentage)
Sweden	15,4	14,5
Norway	11,2	9,8
Finland	8,5	7,1
Denmark	13,2	9,2
Nordics	12,6	10,8

Source: CDON, Euromonitor International, Retailing 2019 edition, Redeye Research

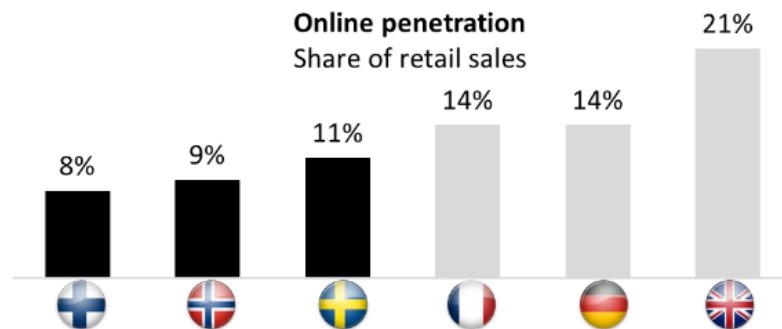
A snapshot of Europe's e-commerce (when asking consumers about their shopping behavior) - conducted H1 2020



Source: E-commerce in Europe 2020 (PostNord), Redeye Research

The problem of the exact total addressable market finds its way into the forecasts as well. First and foremost, growth in 2020 is set to be high because of the Covid-19 pandemic. PostNord estimates growth in Sweden last year at around 40% y/y. There are a few estimates beyond 2020, ranging from Statista's 3.8% CAGR for 2021-25E to Euromonitor's 10.8% CAGR for 2019-24E (note that Euromonitor's definition of e-commerce differs from that of PostNord, BCG, and Statista, as it also includes services, streaming, and B2B).

E-commerce penetration pre-corona



Source: CDON, Redeye Research

We have been in contact with e-commerce experts at PostNord, responsible for tracking the Nordic region's progress. They estimate Swedish e-commerce's share of total retail sales is around 14% (up from 11% in 2019). Given that the e-commerce penetration grade has been somewhat lower in the other Nordic countries (8% in Finland and 9% in Norway in 2019), we estimate that total Nordic penetration could be around 12%, slightly less than in France and Germany and far below the UK, China, and South Korea. These experts also stated that it is not improbable for e-commerce to reach a 25% market share in 2030, depending on technological development and consumer behavior (groceries in particular).

Redeye's e-commerce market size estimates at different growth rates (base year 2020 - SEK 340bn)

Growth	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
3%	350	361	372	383	394	406	418	431	444	457
4%	354	368	383	398	414	430	448	466	484	504
5%	357	375	394	414	434	456	479	503	528	554
6%	361	382	405	429	455	483	512	542	575	609
7%	364	389	417	446	477	511	546	585	625	669
8%	367	397	429	463	500	540	583	630	680	734
9%	371	404	441	480	523	571	622	678	739	805
10%	374	412	453	498	548	603	663	729	802	882
11%	378	419	465	516	573	636	706	784	870	966
12%	381	427	478	535	600	671	752	842	943	1057

Source: Redeye Research

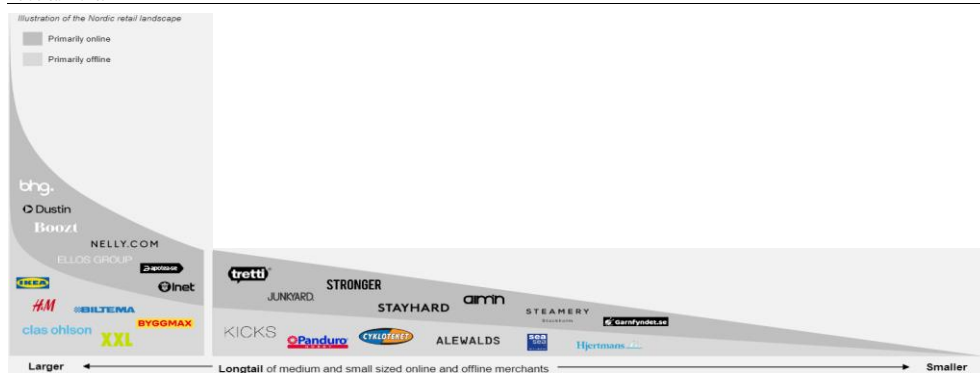
An e-commerce penetration grade of around 12% would indicate a total retail estimate of SEK 2.8 trillion (based on a market size of approximately SEK 340bn²). In a scenario where retail sales grow by 2% a year until 2030, the total retail sales number would increase to SEK 3.4 trillion. This would, in turn, translate into an e-commerce market size of SEK 850bn with a 25% penetration grade or a CAGR of almost 10%. That would put our estimates much higher than Statista's forecasts but in line with Euromonitor's (note that the forecasts were only until 2024-25 and had 2019 as the base year). Should the e-commerce market instead constitute 20% of total retail sales in 2030, all things being equal, the CAGR would be ~7%. Even smaller differences in the assumptions have a great impact on the final numbers and growth rates. The main point is perhaps not the total size, but instead that the market is growing at high single-to-low double-digit numbers and should continue doing so for some time.

Retail growth X Growing e-commerce share X Growing marketplace penetration

Source: Redeye Research

On top of retail and e-commerce growth, we believe the Nordic region will see a mounting acceptance of marketplaces, partly driven by Amazon's Swedish market entry. The low customer acquisition cost that marketplaces enable is highly valuable for e-commerce players and retailers alike. We consequently believe CDON is set to grow even faster than the overall market, which the marketplace's GMV has also done historically. GMV grew by 86% in 2020, which can be compared with Sweden's e-commerce growth of 40%.

Nordic retail market



Source: CDON, Redeye Research

Lastly, Shopify, which offers an integrated back office for merchants, estimates that the average revenue per user is approximately USD 1,653 (SEK ~14,000) for a typical small and medium-sized retail business. The Nordic region has ~116,000 enterprise retailers, which

² Based on the 2019 estimate of SEK 243bn multiplied by the 40% Swedish growth, as we believe the e-commerce growth should be similar in the neighboring countries of Norway, Denmark, and Finland in 2020.

would translate into a total addressable market of SEK 1.6bn (at the high end) for merchant back-office services. It also indicates that CDON's merchant market share is 1.3% (somewhat higher than CDON's e-commerce market share).

Competition

Strong e-commerce niche players

The Nordic countries all have high internet penetration (+95%) and well-built infrastructure, but the e-commerce penetration has lagged behind the frontrunners, such as the UK, the US, and South Korea. Marketplace penetration has also been low, only a few percentage points, compared with the global average of 50%. CDON has less than 1% of the market share, and Amazon's international sites had a ~2% market share before the Swedish domain launch. The largest marketplace has been fashion site Zalando. BCG³ cites a few reasons for the low marketplace penetration: 1) there has been a lack of push by strong physical retailer to online channels; 2) the Nordic region has not had a clear pureplay marketplace (CDON's marketplace is still in its early days); and 3) e-commerce players have, except in Denmark, had geographically challenging last-mile delivery (low population density, mountain ranges, seas, etc.). Marketplaces have often acted as a catalyst for greater e-commerce penetration, and the countries with the highest adoption, such as the UK, China, and South Korea, all have a long history of large pureplay marketplaces.

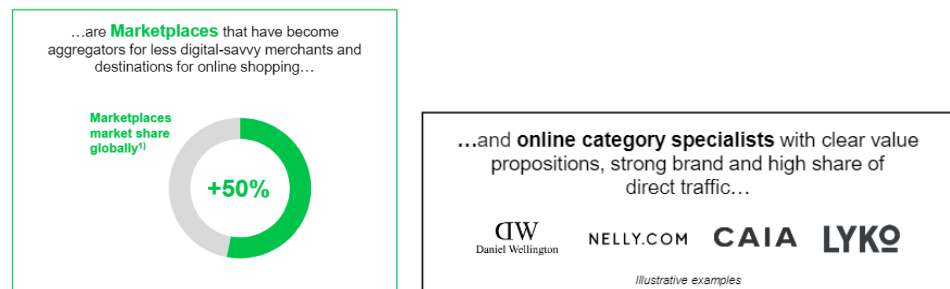
Strong e-commerce players in the Nordic region



Source: Apotea, Redeye Research

Strong product category leaders (niche players) have come to dominate the online space in the Nordic region. Examples include Apotea, which has emerged as a pharmacy leader, Adlibris and Saxo, which are strong in the book category, Lyko in the beauty and care segment, and Verkkokauppa and Elgiganten in consumer electronics.

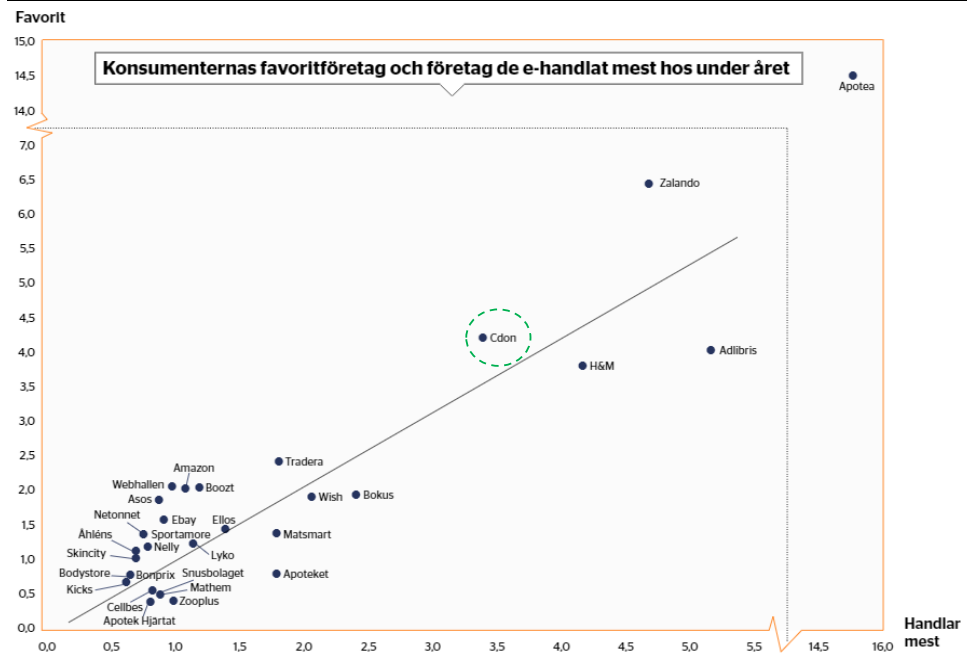
Winners in e-commerce



Source: CDON, Redeye Research

³ We highly recommend BCG's 'Disruption at our doorstep – Amazon's arrival in Sweden and the Nordics'.

Swedish consumers' favorite e-commerce companies and their buying habits



Source: E-barometern Årsrapport 2019, Redeye Research

Fast and reliable delivery

**Airmee**

Omdömen 14 504 • Utmärkt

**budbee****Budbee** % Sammanslagning

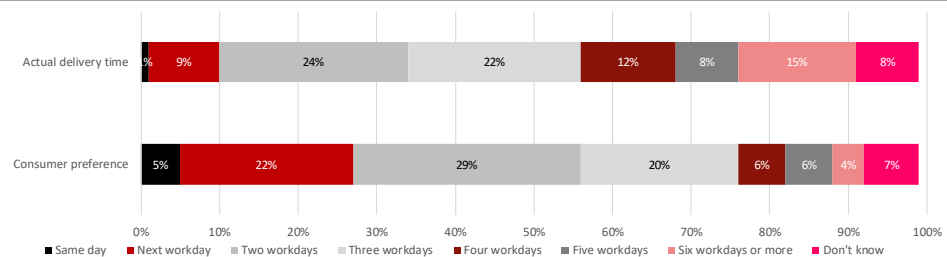
Omdömen 35 194 • Utmärkt



Source: Trustpilot, Redeye Research

There are a few marketplaces as well, such as CDON, Zalando, Wish, Fyndiq and Amazon, but they are not 'standouts' in the way the US Amazon site is, which represents ~40% of domestic e-commerce. The Nordic niche players quite competitive pricing, rapid and reliable delivery, strong loyalty programs, and free shipping. In that sense, much of the low-hanging fruit that early marketplaces have historically taken advantage of does not exist in the Nordic region, where e-commerce is already quite well-functioning and efficient.

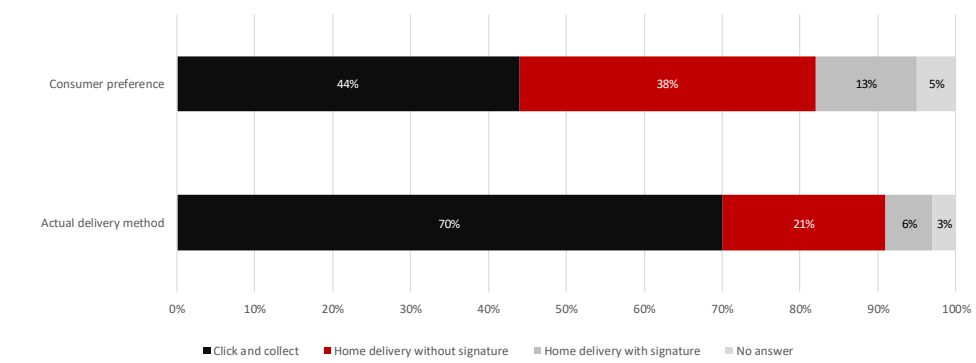
Consumer expectation versus actual delivery method in Sweden (2018)*



Source: E-barometern Q2 2018, Redeye Research

* The answers do not add up to 100% in the report (due to rounding)

Consumer expectation versus actual delivery method in Sweden (2019)



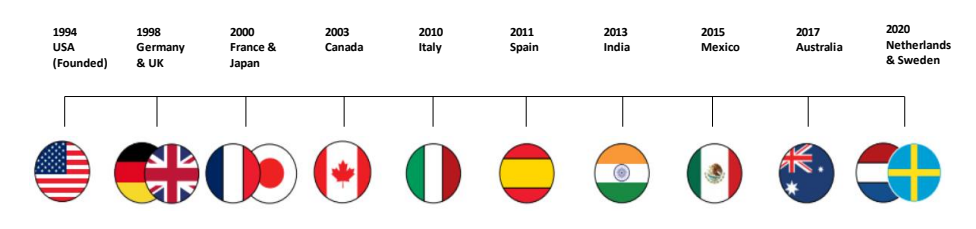
Source: E-barometern 2019, Redeye Research

That said, we still see a discrepancy between consumer preferences and actual performance, as the charts above highlight. And although niche e-commerce players are strong in the Nordic region, we believe marketplaces have an important role to fill. CDON and Amazon can both offer low customer acquisition costs for e-tailers and retailers alike, along with new sales channels and exposure to large (new and complementary) customer groups. We believe most e-commerce players and retailers will use a multi-homing strategy and be present on many channels beyond their own websites. We have already seen some merchants, such as Ellos, being on both CDON and Amazon, indicating that one does not have to exclude the other.

Amazon

CDON's main competitor is Amazon, which has a similar business proposal. It is a multi-category one-stop-shop for consumers, and around 60% of its revenues stem from a marketplace model.

Amazon's geographical expansion



Source: E-barometern, Amazon, Redeye Research

Amazon launched its Swedish site on 28 October 2020. Amazon.se offers +150 million products (versus +500 million products available on the US Amazon site). The product range includes 12 categories: books, toys, baby articles, tools/hardware, pet articles, home and garden, health and beauty, apparel, shoes, auto, sports and outdoor, and electronics.

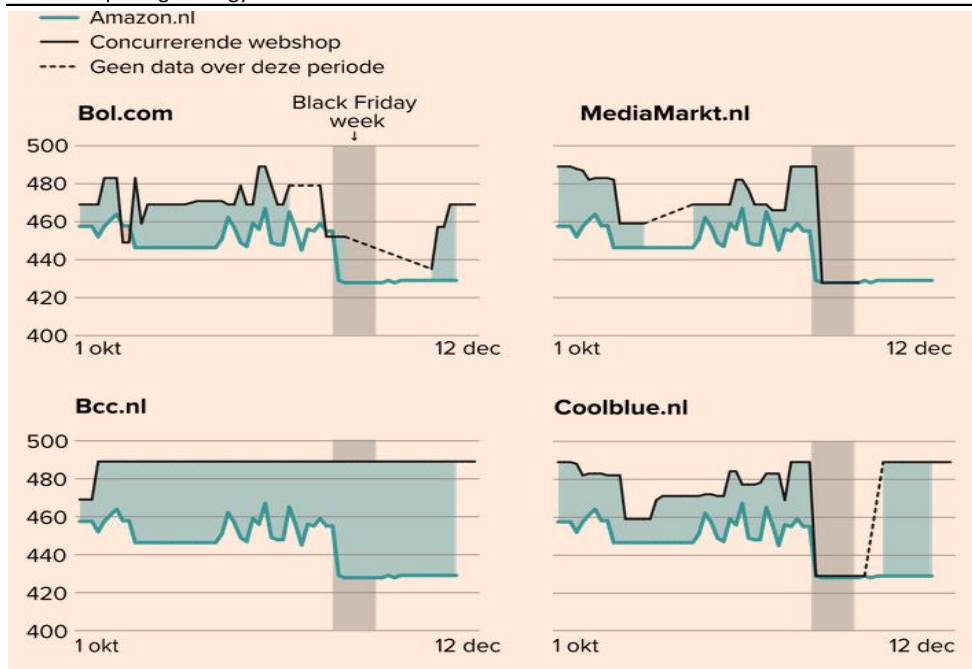
BCG conducted a comparison between amazon.se and leading Swedish category peers in November 2020, which showed that Amazon's selection dwarfed all others. Amazon offered 7x the number of laptops compared with the niche leader, 57x the number of hammers, 9x the number of Lego sets, 18x the number of fridges and freezers, and 12x the number of lipsticks. Amazon ensures a broad selection on all markets by lowering the barriers for established merchants to enter new markets (such as Sweden) by not taking any additional international fee (thus giving German and French merchants, for example, access to the Nordic region).

Amazon enjoyed a ~2% market share in the Nordic region in 2019, through cross-border trading, mainly via the German and UK sites. In November 2020, the first full month of operation, amazon.se had more than 11 million visits in Sweden (CDON had almost 42 million Nordic visits in Q4'20).

As with CDON's marketplace, third-party sellers can set their own prices on Amazon, and the combination of free price-setting and multiple merchants competing for the same customer, causes the prices to drop. Amazon also sells its own products on its marketplace and frequently enters 'pricier' segments and forces prices down, to the customer's delight but to the third-party sellers' consternation. There has been some controversy in this area, as Amazon has been accused of monopolistic behavior, forcing merchants to provide it with information, and later copying and reselling the product under a private label. Amazon has also shown a willingness to operate at low margins or at breakeven, focusing on volume and scale rather than profitability. The retail business has been subsidized by other parts of the Amazon conglomerate (such as its cloud service business AWS).

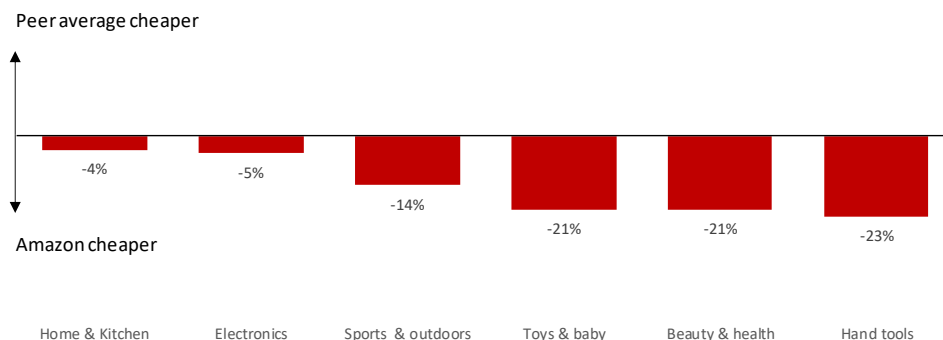
Price consulting firm Simon-Kucher says that the tipping point for when consumers shift their shopping behavior is at around 10% in pricing differences. In the Netherlands, a market Amazon entered in March 2020, its prices were about 6-8% lower than the peer average according to BCG, and 7-9% cheaper than at BOL.com (leading local marketplace) and Mediamarkt, according to Dutch business newspaper Het Financieele Dagblad. It was also 15-18% cheaper than Wehkamp and Coolblue, two other e-commerce peers. BOL.com has, however, started to match prices better. In October 2020, the price difference was around 6%, but it had shrunk to only 0.9% in categories such as consumer electronics (on items such as iPhones) by the end of November last year.

Amazon's pricing strategy in the Netherlands



Source: Omnia Retail, Redeye Research

On average - Amazon's pricing is competitive in Sweden

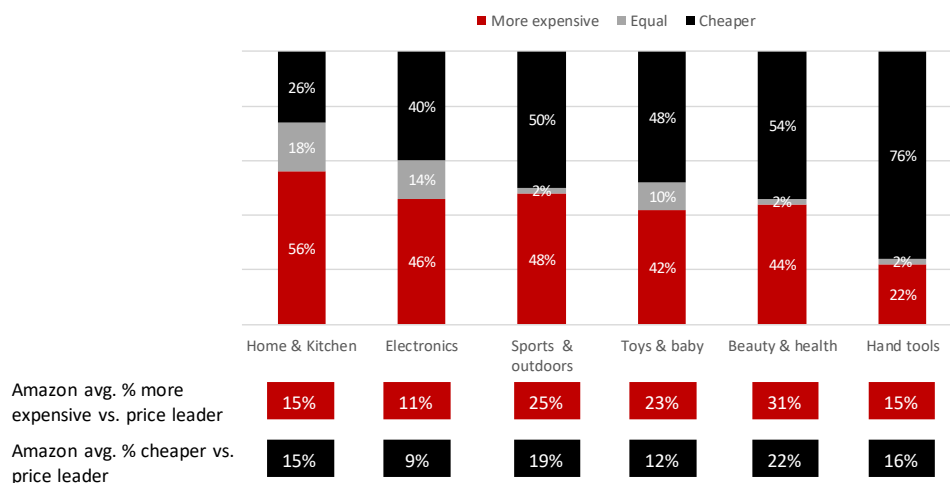


Source: BCG, Redeye Research

Amazon's pricing is competitive in Sweden and below the peer average, as in the Netherlands. But the average does not reveal the full picture, as BCG's deep dive in November 2020 showed.

When Amazon's prices were compared with those of the price leader for the respective top product (instead with the average), Amazon offered lower prices on 26-76% of the examined items. This clearer picture shows that although Amazon's pricing is competitive overall, it does not always lead on the single product level. Instead, it is evenly priced with the other price leaders. We have come to the same conclusion when we have explored certain product categories, and CDON's management confirms this as well.

Amazon's pricing in relation to the cheapest peer in top products (Sweden)



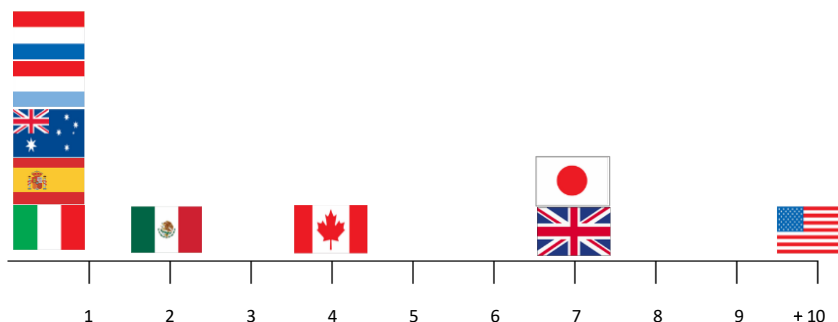
Source: BCG, Redeye Research

Besides broad selection and low prices, Amazon competes on great customer loyalty and delivery. The basis of the loyalty offering is its Prime subscription service, including free delivery, Prime Video, Amazon Music, e-books, access to certain promotions, etc. It costs USD 119 (~SEK 1000) a year, and in the US alone, more than 50% of households have a subscription (+100 million). Worldwide +150 million Prime subscriptions are active.

Perhaps the most important feature is the unlimited free delivery and the quite high annual fee, encouraging consumers to commit to Amazon when they join the loyalty program. Consumers are incentivized to order more frequently since the delivery charge has basically

already been paid. More frequent orders mean more deliveries at smaller volumes per customer, which translates into lower margins. But simultaneously, the Prime subscription has shown tremendous stickiness, and customers spend more of their total wallet share on Amazon's website, giving it larger total volumes (and a higher lifetime value per customer).

Amazon Prime's introduction post country launch (in years)

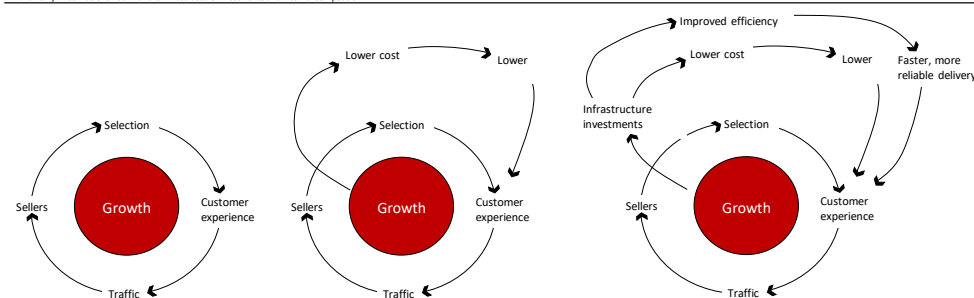


Source: Amazon, Redeye Research

Amazon Prime is currently not available in Sweden (or the other Nordic countries), but other recent market launches (Australia in 2017 and Netherlands/Luxemburg in early 2020) indicate that the Prime program should go online sooner rather than later in Sweden (within the first year). Prime and Amazon's strong logistics are two competitive advantages that are hard for any competitor to overcome.

Amazon has previously entered markets and competed on its superior logistics model, and it has often been the driving force towards faster and more reliable deliveries. But the Nordic market has matured considerably in the past couple of years, and Amazon's delivery options today, are more or less in line with the Nordic average – in delivery time, costs, and where the threshold for free shipping lies. Nonetheless, Amazon has invested around USD 60bn in fulfillment and logistics solutions in the past six years, and it has high warehouse density in continental Europe that could be used to service the Nordic region (especially Denmark). Amazon has also partnered with Kuehne + Nagel and opened a fulfillment center in Eskilstuna, Sweden, where it can store items closer to end-customers and possibly drive down the delivery time. Amazon is already offering same-day delivery in certain parts of its core markets, such as in Germany and the UK.

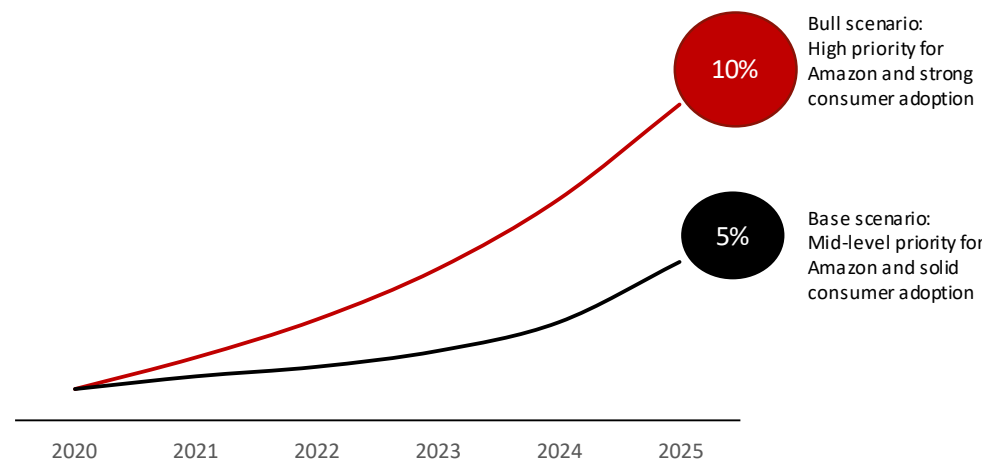
Amazon's flywheel has evolved with the infrastructure investments and internal competition



Source: samseely.com, Redeye Research

We expect Amazon to gradually expand its fulfillment and delivery system in the Nordic region and probably own the last mile (at least partly). Fulfillment by Amazon (warehouse and logistic services) is already available for Swedish merchants, and the pricing is divided into two main fees: a shipping fee (SEK 25-150 per parcel, depending on size, weight, and destination) and a storage fee (SEK 160-380 per cubic meter/month, depending on the type of product and at what season).

Amazon's projected market share in the Nordics, by BCG



Source: BCG, Redeye Research

The ~2% market share even before the launch of the amazon.se domain suggests great customer value, as people shop at a relatively inaccessible site because of the selection. Swedish customer reviews are likewise interesting, as they have long been abysmal. Some of the ratings are due to import duties, but most are tied to slow/faulty deliveries and weak support functions at Amazon.

Amazon's customer ratings (amazon.se on the upper one and amazon in general on the bottom) - Swedes are commenting on both quite interchangeably



Source: Trustpilot, Redeye Research

Nonetheless, consumers are still using amazon.se at a high rate, and thanks to add-ons such as Prime, fast delivery, Amazon Hub, Amazon Fresh, and Amazon Flex, we believe even more will use the platform. BCG estimates that Amazon will take a 5% market share by 2025 in its base scenario, where the Nordic region receives a moderate priority. In BCG's bull scenario, with a 10% market share by 2025, Amazon puts more focus on the Nordic region and strengthens the flywheel's customer experience side to drive more traffic. The services mentioned above are instrumental in that scenario and will play a major role in whether BCG's bull scenario of 10% will be met or not.

We believe Amazon will become the largest marketplace in the Nordic region and surpass Zalando (which has a very strong position in its fashion niche) in just a few years. This would make CDON the second-largest multi-category marketplace (its current market share is around 1%). For now, CDON's 'modular model' with fulfillment by merchants, specialist logistics carriers, and no internal competition with its own third-party sellers seems able to withstand Amazon's entry play. Bear in mind that the whole cake is getting bigger as well. The underlying retail growth coupled with the increased share of e-commerce and marketplace acceptance, will help CDON's website traffic and the intake of new merchants. We believe many merchants will take a multi-homing approach and be present on CDON, Amazon, and their own e-store.

We also see a looming risk that Amazon could overshadow CDON. The consumer side, in particular, worries us. When people start signing up for Prime membership and begin using Amazon as the starting point in their shopping journey instead of search engines or price comparison sites, CDON could stand to lose large swathes of customers. The critical question is how CDON can make itself relevant versus Amazon in the customers' eyes.

We believe the answer lies in CDON's relationships with its merchants and the attraction power it has. CDON's focus is the Nordic region, and it knows these consumers very well, while Amazon's focus is on a global level. CDON is flexible and offers easy integration to its platform, personal account managers, and is transparent with its data. By contrast, Amazon has a higher take rate (15.6% versus CDON's 11.5%), competes against its own merchants (which is a big risk for them), is not transparent with platform data, and has a quite cumbersome integration process. It does, however, offer fulfillment services, a larger international exposure, and huge traffic volumes.

For CDON, unique and local brands not found on Amazon should give it an edge on the consumer side – and make its competitor the 'almost everything store'. Moreover, if CDON were to connect to many different marketplaces in Europe and be able to keep items close to end-customers in the Nordic region, it could also rival the selection in the future. BOL.com, which goes toe-to-toe with Amazon in the Netherlands, has around 30 million items (compared with CDON's >8 million).

CDON's stated differences with Amazon (Q2'20)

Features	CDON	amazon	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

Source: Qliro, CDON, Redeye Research

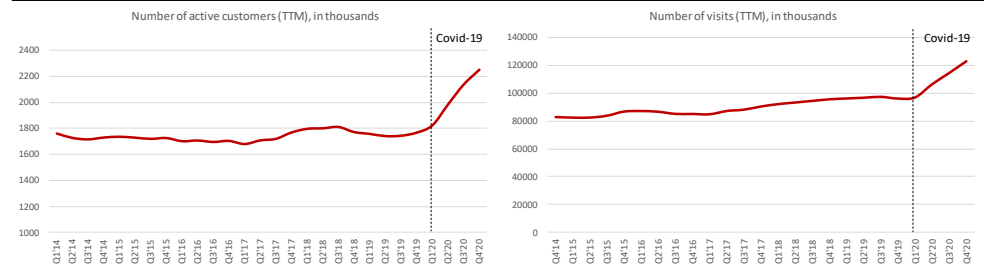
Financials

The journey so far – operational data

CDON's focus on the marketplace started in 2017/18 and since then, it has simultaneously grown one business (the marketplace unit) and actively closed down large parts of another (the retail unit). Moreover, three years is not a long time, and many of the marketplace peers have been active for more than a decade, some since the early 2000s (the main competitor, Amazon, launched its marketplace in November 2000). CDON is, in other words, a very young marketplace, even if the company has been around for a long time, which should be remembered.

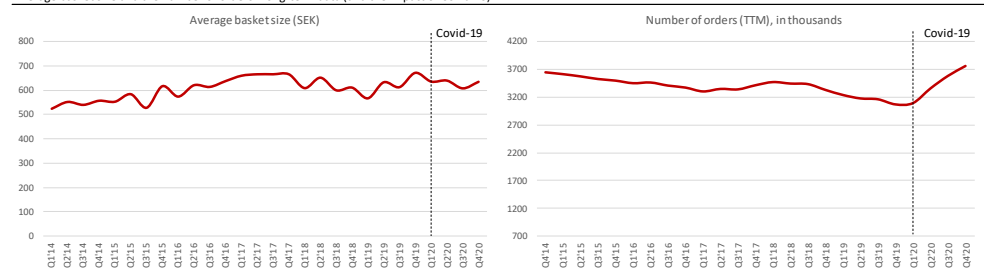
When looking at operational data, such as the number of active customers, number of visits, average basket size and number of orders, one can see a relatively flat trend between Q1'18 and Q1'20, before Covid-19 hit the Nordic region and social distancing led to consumers shopping online more.

Active customers and number of visits - long-term data (and the impact of Covid-19)



Source: QIiro, CDON, Redeye Research

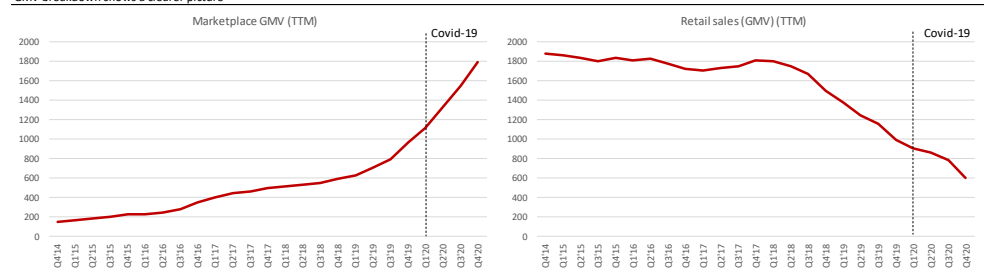
Average basket size and the number of orders - long-term data (and the impact of Covid-19)



Source: QIiro, CDON, Redeye Research

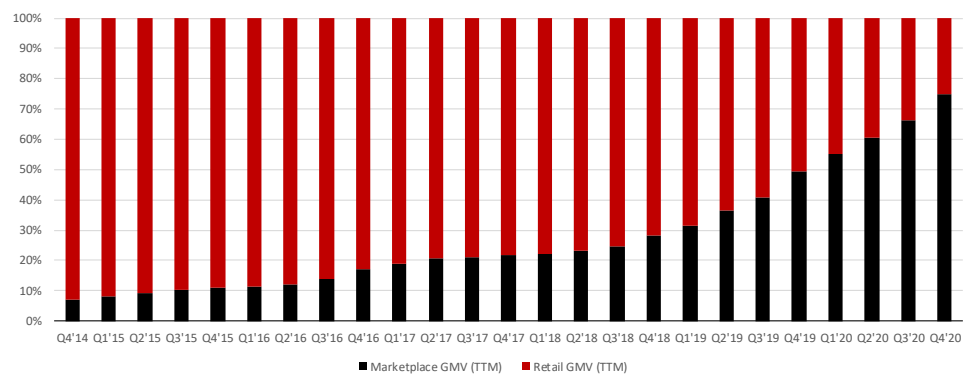
We believe there are three fundamental questions here: 1) how much of the flat trend is due to the orderly closure of CDON Retail?; 2) how sticky is the new consumer behavior (from Covid-19) and will consumers continue to shop on CDON at this level when things go back to normal?; 3) what will CDON's recently made, ongoing, and planned investments do to these trends? These three questions are hard to answer, as the information is either not public, or will be decided upon in the future.

GMV breakdown shows a clearer picture



Source: QIiro, CDON, Redeye Research

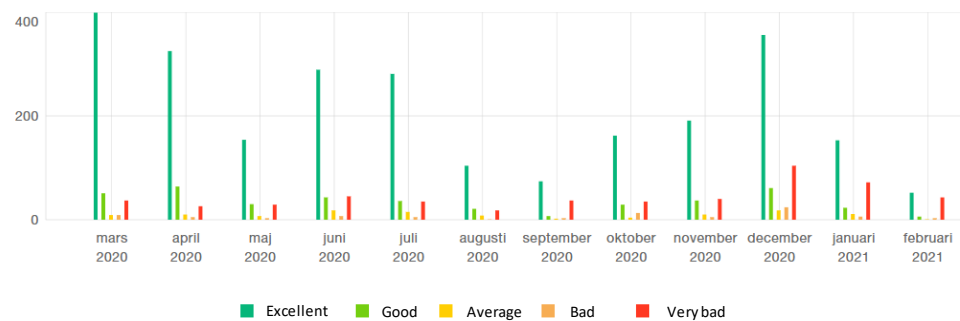
Marketplace and retail GMV (share of total)



Source: Qliro, CDON, Redeye Research

The flat development on the company level disappears when we break down the two units' GMV numbers. This suggests to us that they cancel each other out. We do not have the same granular data on the operational side for the marketplace versus the retail. However, we know that CDON has been good at migrating much of its retail sales over to third-party merchants, keeping the selection fairly intact over the years. We therefore believe the 1.7-1.8 million customers that were active before the Covid-19 pandemic are, to a large degree, the same. But we also believe there is *real* growth. Merchants such as Adlibris and Dogman offer items that CDON never did. And in 2020, CDON added 477 new merchants (from 1,036 to 1,513), a 46% increase, which enhances the selection part of the flywheel and grows the GMV on the platform. Much of the future growth will thus not be transferred sales, but rather new sales, which we believe will be seen in the operational data in the form of new active customers groups and larger customer baskets.

CDON's customer ratings are falling

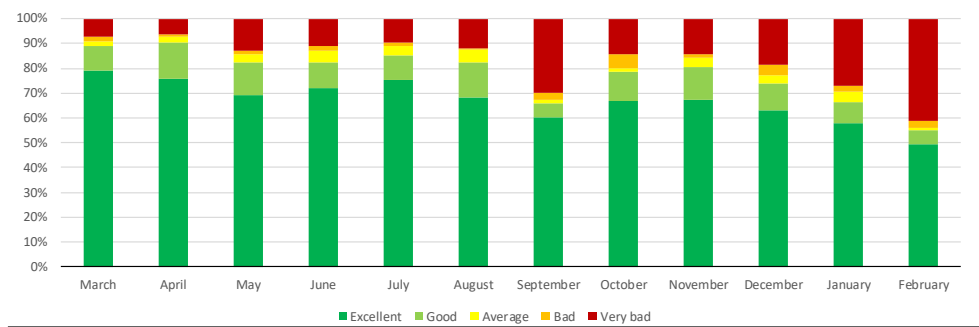


Source: Trustpilot, Redeye Research

Some have described Covid-19's impact on e-commerce as if several years happened in a few months. Although we believe some of the effects will vanish once things go back to normal, we also anticipate some real stickiness in the recent uptick. Customers that have a pleasant experience with CDON will likely return and order more. A worrying trend is the growing dissatisfaction with customer experience, mainly related to delivery and support. CDON has historically scored very high and won several awards, such as Årets onlinevaruhus ('Online warehouse of the year'). But in February 2021, *very bad* reviews in the Swedish market were almost as common as excellent reviews, and while CDON is actively responding to customer concerns (>80% of all the negative reviews had received a response from CDON), we cannot track the progress and end-customer satisfaction. According to PwC, almost 60% of all customers will walk away from a company they like after several bad experiences, and around 30% after just one. We know that some of these bad experiences are

due to the new platform and should thus be resolved as time passes, but nonetheless, the customer experience side could have a short-term decelerating effect.

Customer rating trend

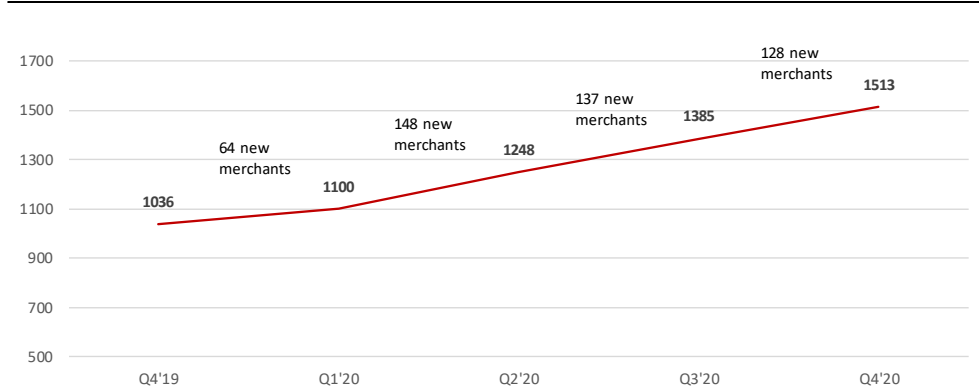


Source: Trustpilot, Redeye Research

On the other hand, the Covid-19 pandemic has been a wake-up call for many retailers. We have seen strong merchant intake on the platform (+46% y/y), and we believe many companies are evaluating their online strategies. CDON is perfectly positioned, as it has invested considerably in an easy onboarding process and in CDON Connect, its merchant hub. The pandemic's impact on retailers, CDON's strong value proposition, and Amazon's Swedish market entry (and the associated media coverage) have undoubtedly put the spotlight on the marketplace model, which we believe will have long-term ripple effects.

We, therefore, believe the recent uptick suggests stickiness, especially on the merchant side. Should CDON be able to return the customer experience to good/excellent (which it is working on), it should gain more long-term active customers. Bear in mind that Amazon, which has the same delivery and support problems as CDON, is faring even worse in its customer reviews. The sudden surge of online orders in the wake of the pandemic has certainly put a strain on many merchants' capacity levels. It could be a variable in the latest customer experience drop and should, with time, reverse to better levels, if merchants invest to meet the demand.

Number of active merchants on CDON Marketplace



Source: CDON, Redeye Research

Lastly, we would like to quickly discuss the investment side. There has been much focus on the merchant part of the flywheel, with the implementation of a merchant hub offering extensive tools and easy onboarding. We do not have data on the number of active merchants before Q4'19, but the 46% increase y/y suggests that the onboarding is working well. It is hard to know how the trend would have looked without Covid-19, but the investments were necessary, regardless. CDON has built an attractive platform for potential

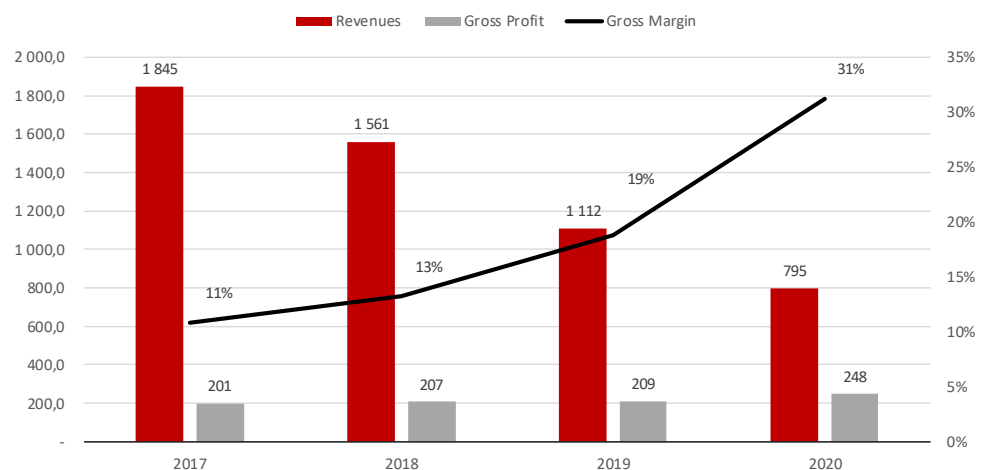
partners, which should drive the assortment side of the flywheel in the medium to longer term as well.

In October 2020, CDON rolled out a new, highly automated, and scalable platform tailored to marketplaces. The platform came online right before the speak season (Black Friday/Week and Christmas sales) and will enhance the customer experience with improved relevancy and new features (such as price comparison over time and between different options). Although the new platform hurts conversion and customer experience in the short term, it will be essential in the long term. We believe the new marketplace platform will perform well when it has been given enough data, and this should be seen in the operational numbers.

We also believe CDON could invest in a new checkout, where last-mile delivery options with logistics companies would be clearly visible. Such investments would greatly reduce friction and increase customer experience and conversion.

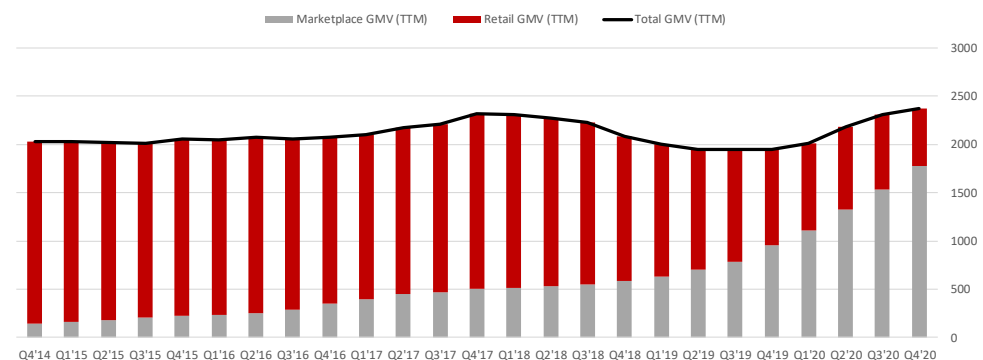
The journey so far – financial data

CDON's revenues and gross profit trend in different directions (MSEK)



Source: CDON, Redeye Research

The GMV breakdown between the marketplace and retail (MSEK)



Source: CDON, Redeye Research

On a consolidated level, CDON looks like a paradox. Its revenues are plummeting, but gross profits are increasing. The ongoing transformation from a retail to a marketplace model renders historical revenues misleading and the current growth rate, on a consolidated level, less relevant. Instead, we believe the marketplace's GMV growth is the key, as it is the single most important metric for CDON. Marketplace GMV (including marketplace services) was at

an all-time high of SEK 1,777.3m at the end of 2020, up almost 86% y/y. The five-year CAGR has been more than 50%. We believe it is better to look at the two business units separately to assess their unique characteristics and drivers better. In 2020, the marketplace represented 26% of revenues but 78% of gross profits.

Breakdown of the effective take rate - Redeye's estimates										
	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	FY'19	FY'20
Effective take rate (%)	16,4%	14,1%	14,7%	13,4%	11,1%	11,5%	11,6%	11,7%	14,3%	11,5%
Commission (%)	12,0%	11,5%	11,5%	11,0%	10,5%	10,5%	10,5%	10,0%	11,4%	10,3%
Marketplace service fees (%)	4,4%	2,6%	3,2%	2,4%	0,6%	1,0%	1,1%	1,7%	2,9%	1,2%
Gross margin (%)	92,2%	93,5%	94,3%	91,7%	93,5%	93,7%	94,5%	94,5%	92,8%	94,1%
Marketplace revenues (MSEK)	24,8	28,3	30,6	53,5	33,5	47,9	48,5	75,2	137,2	205,1
Commission (MSEK)	18,1	23,0	23,9	43,9	31,8	43,6	44,0	64,1	108,9	183,4
Marketplace service fees (MSEK)	6,7	5,3	6,7	9,6	1,7	4,3	4,5	11,1	28,3	21,7
Gross profit (MSEK)	22,9	26,5	28,8	49,1	31,3	44,9	45,8	71,1	127,3	193,1
(% of CDON's total gross profit)	52%	64%	68%	60%	71%	78%	82%	78%	61%	78%

Source: CDON, Redeye Research

We estimate that CDON's commission-based take rate is around 10% and that the other merchant/marketplace service fees are somewhere below 2% (including monthly merchant fees, financial commission, advertisement, etc.). CDON does not disclose the exact numbers due to competitive considerations. A clean take rate of 10% would be in line with the corresponding rates for international e-commerce marketplaces, but bear in mind it can fluctuate a little, depending on the type of items being sold over the marketplace. Some items carry a take rate of >10%, while for others it is <10%, largely owing to the items' margins.

CDON basically has no advertisement income, and it only recently introduced a monthly merchant fee. The merchant/marketplace fee area is the under-monetized part of the business, and we believe there is room for improvement. The slump in the effective take rate (14.3% in 2019 versus 11.5% in 2020) will likely be temporary and it should move upwards again soon thanks to the newly introduced merchant fees and the reintroduction of banners on the website and on sponsored listings (planned to be launched in 2021). CDON Marketplace's gross margin of 94% in 2020 reflects it being a highly scalable B2B software technology company.

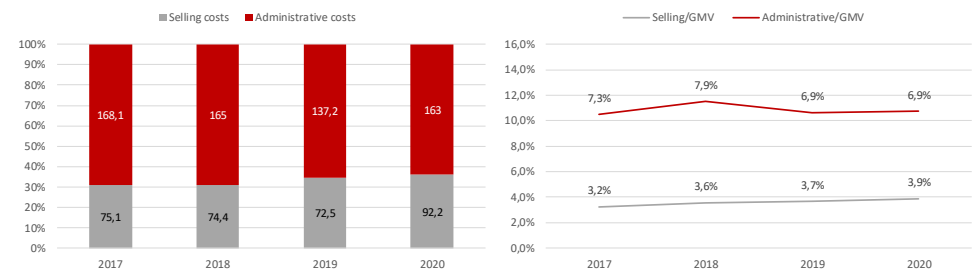
Breakdown of the retail sales										
	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	FY'19	FY'20
Gross margin	8,9%	8,0%	7,3%	9,0%	8,3%	8,7%	9,6%	10,6%	8,4%	9,4%
Net sales (MSEK)	235,7	189,4	181,3	368,1	150,8	148,9	105,9	184,6	974,5	590,2
Gross Profit	20,9	15,1	13,3	33,0	12,6	13,0	10,2	19,6	82,2	55,3
(% of CDON's total gross profit)	48%	36%	32%	40%	29%	22%	18%	22%	39%	22%

Source: CDON, Redeye Research

The physical media product market (DVDs, CDs, etc.) is seeing a structural decline of around 20% a year as it is replaced by digital content. CDON has phased out large chunks of its offering and has been able to strengthen its gross margin a little in the meantime, but it is still unclear how profitable CDON Retail is on a ROIC basis (probably very low).

We still believe the retail business carries financial value in the form of enhanced customer experience and perhaps a larger marketplace basket (although it is hard to prove from the outside). The unit will mean less and less with every passing year, as its gross profit contribution will shrink to a tiny share of the total. We believe the gross margin can stay at around 10% given the current product mix.

CDON's cost structure - administrative (relatively fixed) versus selling (relatively variable)

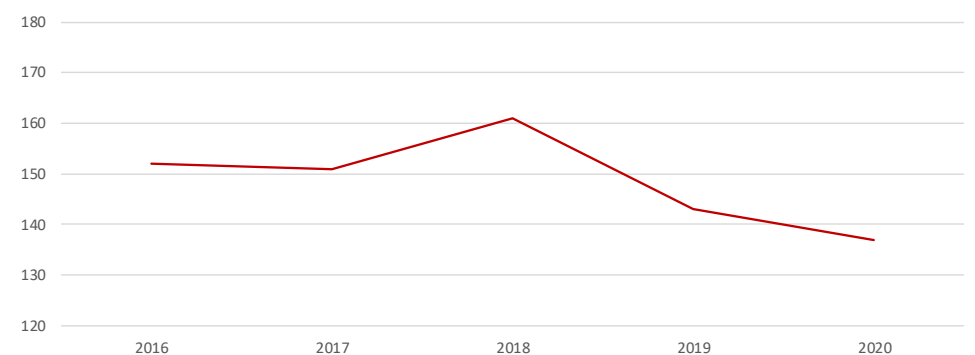


Source: CDON, Redeye Research

Below the gross margin, CDON reports two cost items, selling and administrative costs. Selling costs include marketing expenses and should be a variable cost linked to GMV and sales growth. CDON tracks marketing as a percentage of GMV; it has grown as a percentage with each year, likely due to CDON's marketplace investments, from a low ~3%/GMV to almost 4%/GMV. On the other hand, the administrative costs are largely fixed and thus add to CDON's operating leverage, dropping below 7% of GMV.

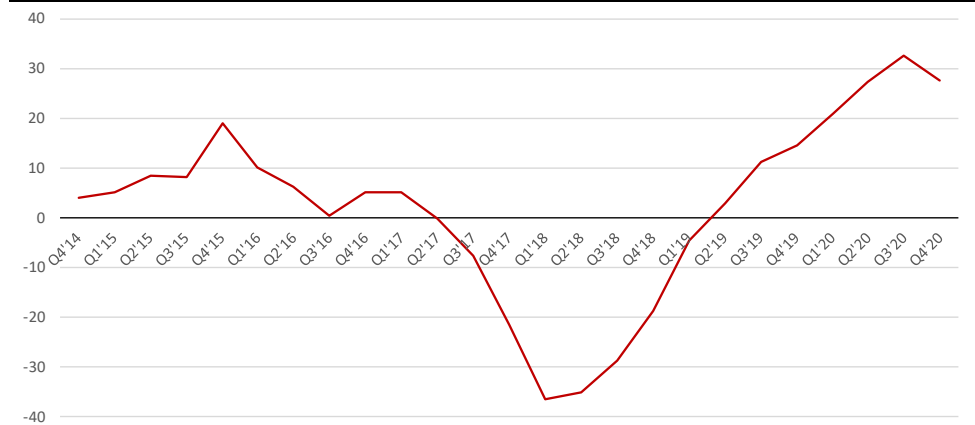
An interesting data point is CDON's headcount, which has steadily decreased since the marketplace became the focus. We expect the trend to flatten or slowly start going up again, as CDON will need specialists and merchant account managers. However, the number of employees is likely to remain quite low, provided that CDON does not start its own fulfillment services on its own, which we find highly unlikely.

The number of employees at CDON



Source: CDON, Redeye Research

EBITDA (TTM), in SEKm



Source: CDON, Redeye Research

Forecasts

GMV and sales forecasts

We highlighted in the market outlook segment that retail and e-commerce forecasts are very uncertain. CDON has a goal of growing its marketplace faster than the overall market, which we interpret as at least 10% a year in the medium term and even higher in the short term. The underlying market growth is based on more online consumption, thanks to convenience, price, and selection. CDON's well-recognized and trusted brand will benefit from the increased online wallet share among Nordic consumers.

We also believe internal projects will affect GMV substantially, including an optimized platform. Highlighting relevant content via fed ranking or suggested content is a key driver of engagement in any consumer system and will increase both relevancy and conversion. Those two levers are instrumental to the growth pace.

Lastly, CDON's easy onboarding, the media attention surrounding Amazon's Swedish market entry, and the ongoing pandemic will likely increase the number of merchants significantly in 2021 and in the medium term. There is ongoing marketplace acceptance in the Nordic region, and multi-homing (presence on more than one sales channel) will likely be the norm for many retailers. Although CDON takes a cut of the sales, the mere marketplace exposure increases sales volumes, which is net positive for merchants. As 1.3% of Nordic retailers are connected to the platform, we see serious growth potential in this area, as many are re-evaluating their online presence and strategy after a tough 2020. Furthermore, should any larger merchant connect, such as Finnish consumer electronics company Verkkokauppa or Swedish retailer H&M (perhaps with the previous season's assortment), we could see a noticeable impact on CDON's GMV as well.

CDON - Base Case near-term forecasts									
(SEKm)	2020	Q1'21	Q2'21	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
Marketplace GMV	1777	393,4	560,1	586,6	948,5	2489	3230	3860	4650
Growth YoY	86%	30%	35%	40%	48%	40%	30%	20%	20%
Retail GMV	598	91,2	91,3	79,9	149,8	412	330	264	224
Growth YoY	-40%	-40%	-40%	-25%	-20%	-31%	-20%	-20%	-15%
Total	2375	484,6	651,4	666,5	1098,3	2901	3560	4124	4874
Growth YoY	22%	7%	15%	27%	33%	22%	23%	16%	18%
Effective take rate	11,5%	12,0%	12,0%	12,0%	12,0%	12,0%	12,5%	13,0%	13,5%
Marketplace sales	205	47	67	70	114	299	404	502	628
Growth YoY	50%	41%	40%	45%	51%	46%	35%	24%	25%
Retail sales	590	90	90	79	148	408	330	264	224
Growth YoY	-39%	-41%	-41%	-26%	-21%	-31%	-19%	-20%	-15%
Total	795	137	158	149	262	707	733	766	852
Growth YoY	-28%	-25,4%	-19,9%	-3,6%	0,9%	-11,2%	3,8%	4,4%	11,3%
Marketplace gross profit	193	44	63	66	106	279	371	457	565
Retail gross profit	55	9	9	8	15	41	31	25	21
Total gross profit	248	53	72	74	121	320	403	482	586
Growth YoY	19%	21%	24%	32%	34%	29%	26%	20%	22%

Source: CDON, Redeye Research

CDON - Base Case near-term forecasts									
(SEKm)	2020	Q1'21E	Q2'21E	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
Commission-based (MSEK)	183,4	39,3	56,0	58,7	94,9	248,9	323,0	386,0	465,0
Commission-based (%)	10,3%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Marketplace/merchant services (MSEK)	21,7	7,9	11,2	11,7	19,0	49,8	80,8	115,8	162,8
Marketplace/merchant services (%)	1,2%	2,0%	2,0%	2,0%	2,0%	2,0%	2,5%	3,0%	3,5%
Effective take rate	11,5%	12,0%	12,0%	12,0%	12,0%	12,0%	12,5%	13,0%	13,5%

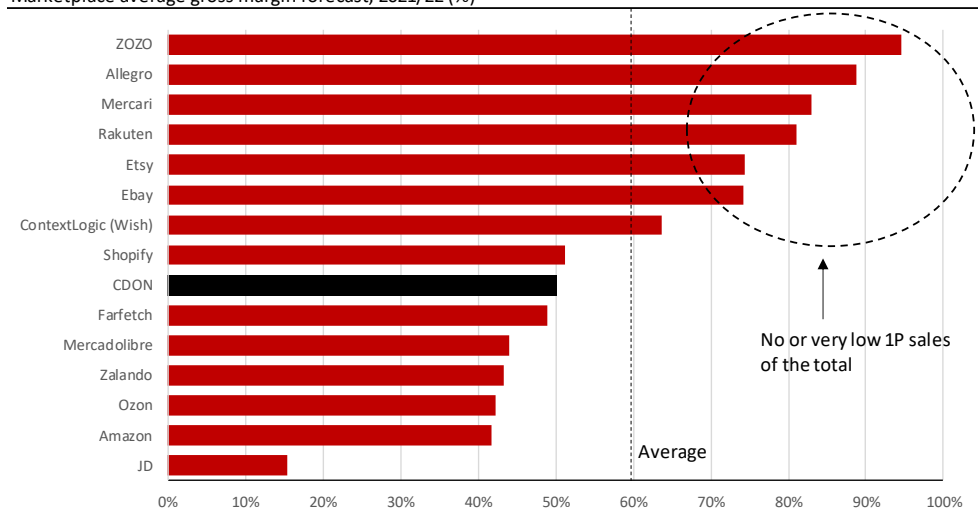
Source: CDON, Redeye Research

We estimate GMV will hit SEK 2.9bn in 2021 (22% growth y/y) and that the marketplace will account for 86% of the total. The new automated platform should add to GMV growth in the second half of 2021. We also estimate the effective take rate will increase to 12% in 2021, driven by more merchant/marketplace service fees. We argue that the under-monetization of the platform will slowly change for the better in the near to medium term, as will CDON's overall profitability (with an effective take rate gross margin of >90%).

Margin forecasts

We forecast an ongoing strengthening of the gross margin as the marketplace share of total GMV increases. The marketplace's gross margin of ~94% outclasses the retail unit's ~10%, and the sales mix transformation will benefit CDON. On a consolidated income statement level, the new CDON will unrecognizable in a few years' time. The graph below highlights the gross margin differences between marketplaces, depending on the 1P and 3P composition. CDON is low-middle with an estimated average gross margin of 50% for 2021/22.

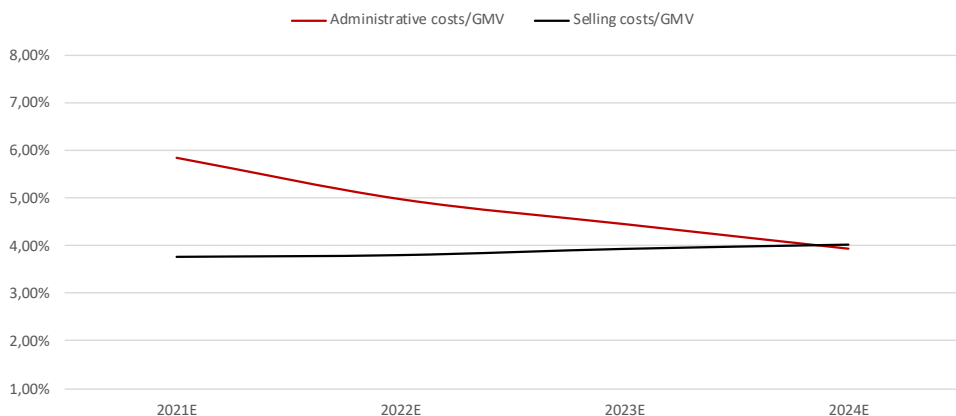
Marketplace average gross margin forecast, 2021/22 (%)



Source: Bloomberg, Redeye Research

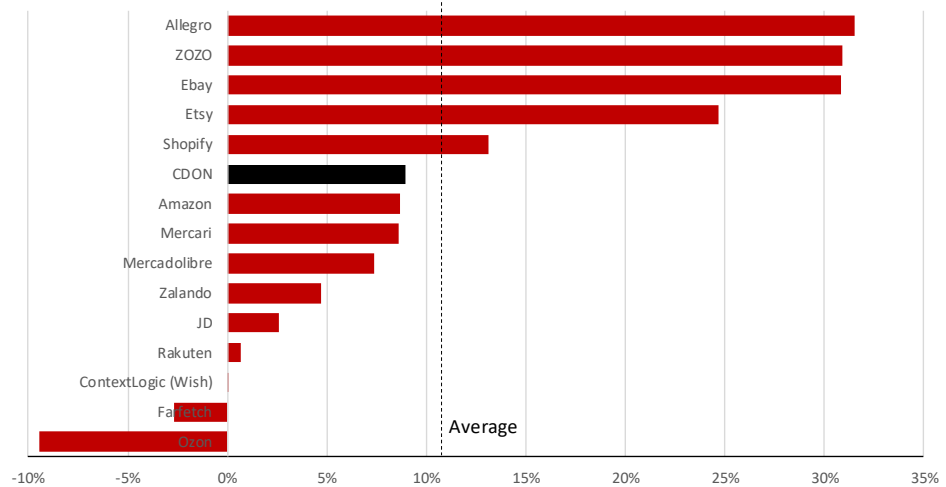
Administrative costs will add to the operating leverage below the gross margin, while selling costs will be more variable. CDON is a software technology company, and its staff are mainly IT specialists and customer account managers. The IT department scales well (we add only a few million SEK a year to our forecasts for new recruitments), while selling costs (primarily marketing) are an active ingredient in GMV growth (web traffic costs) and will likely remain at the current level for some time. We forecast (and track) administrative- and selling costs as a percentage of GMV, rather than net sales, as we believe this gives a more accurate picture.

Operating leverage going forward



Source: CDON, Redeye Research

Marketplace average EBIT margin forecast, 2021/22 (%)



Source: Bloomberg, Redeye Research

We believe CDON will break even on the EBIT level for full-year 2021. The scalable marketplace model can add new merchants at a low incremental cost and immediately start earning commissions on the new sales. The business model is a size game, and we would understand if CDON were to favor growth over margins in the near term. However, we believe management wants to prove the business model's worth to the investment community and report EBIT in the black. We estimate a strengthening of the margin in the coming years and believe it can approach 20-25% in a few years' time. The closest peers with a majority of their GMV coming from merchants have EBIT margins in that range and above. Lastly, we believe CDON will maintain its current investment pace (in capex terms).

CDON - Base Case near-term forecasts

(SEKm)	2020	Q1'21E	Q2'21E	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
GMV	2375	485	651	666	1098	2901	3560	4124	4874
Marketplace GMV share (%)	75%	81%	86%	88%	86%	86%	91%	94%	95%
EBIT margin (%)	Neg	-5,8%	4,1%	5,8%	12,8%	5,8%	12,2%	17,7%	23,3%

Source: CDON, Redeye Research

Valuation

Scenario analysis

Our Base, Bear and Bull Case scenarios reflect how network effects compound in both directions. The main ingredients are GMV, number of active customers, number of items and the number of connected merchants. We will track these (and some other metrics) rigorously, as they are the marketplace's electrocardiograms.

Whether network effects increase, or slow down, we do not see a linear increase/decrease in the Base Case going forward.

We use a WACC of 10% across all three cases. Over time, as the business matures and more debt financing is likely to be used, this moves toward 8%.

Share performance

As our Base Case (SEK 500) is below the current share price, we emphasize that enthusiasm for CDON's transformation has to be balanced by caution over the risk/reward at this valuation level.

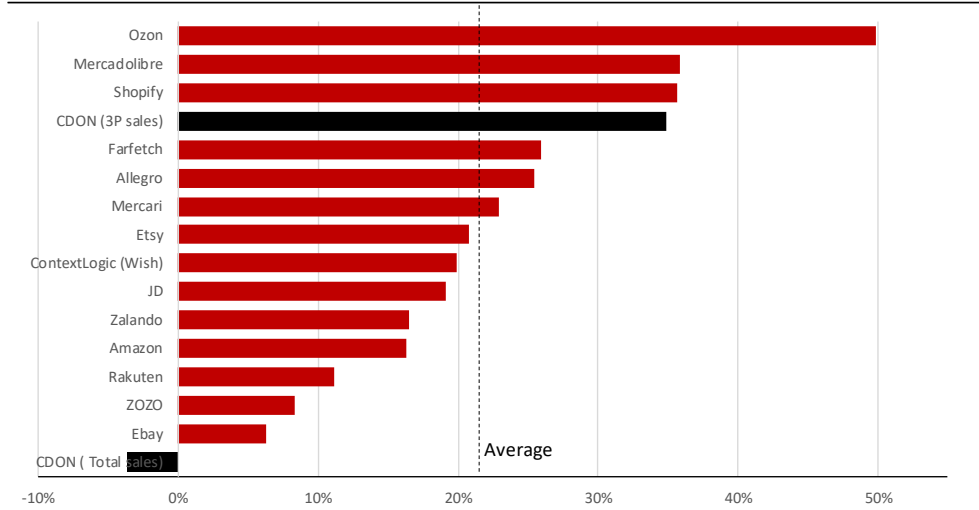
We are positive to the company and do not share some investors' dismissal of it as an old and tired CD/DVD e-tailer. CDON is quickly becoming a fast-growing, capital-light and high-margin business, with a good prospect of excellent ROIC. Focus should be on the marketplace (rather than consolidated revenues), GMV growth (effective take rate, number of active customers, etc.) and EBIT margin expansion (scale and cost control).

Physical media products will be just a few percentage points of total GMV as the other categories grow. To confuse the CD/DVD e-commerce business model with the marketplace model would be a mistake, as we have tried to highlight. We also see value in the four-letter name CDON and believe associations with CDs and DVDs will fade with time as customers come to relate it to a broad selection of items.

Even so, after the share's rally the company is no longer grossly undervalued as it was when spun off in November 2020. CDON could be a steal at current levels too if it grows substantially in coming years, but this still involves obstacles and uncertainties. It is easier said than done for CDON to achieve an effective take rate of >15% and trade at 3x GMV.

The recent price surge is due primarily to foreign funds buying all the shares they could get their hands on. We would rather see a share price form on the back of strong quarterly reports than on wishful optimism. We are more conservative than ADW Capital in our estimates, which shows in our Base Case compared to the SEK 3,000 mentioned to Dagens Industri.

Marketplace average sales growth forecast, 2021/22 (%)



Source: Bloomberg, Redeye Research

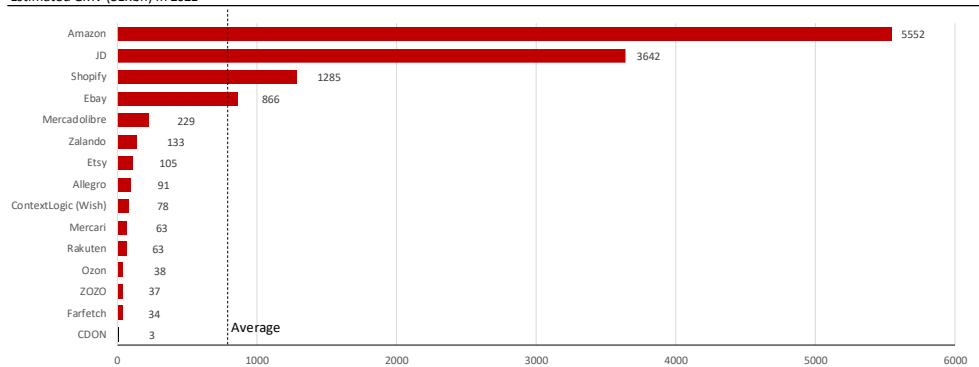
Spinning the 'flywheel'

Marketplaces' double-sided network effects are at the core of the CDON case. A positive view of the stock hinges on the belief that the company's 'flywheel' will spin faster.

The model benefits from low customer acquisition costs and low barriers to entry for merchants. CDON has seen an influx of third-party sellers (46%), leading to a broader selection, so we do not have significant concerns about the merchant/selection side of its marketplace. It could connect to other European marketplaces as well, multiplying the number of items offered (remember that Amazon's 150 million items are spread out over many different countries and warehouses too). CDON also offers quick and easy integration, lower merchant fees, personal support for merchants, transparent data, no competition with its own merchants, and a flexible platform policy.

Overall, it has made itself an attractive partner. We believe merchants value this quality highly.

Estimated GMV (SEKbn) in 2021



Source: Factset, Bloomberg, Redeye Research

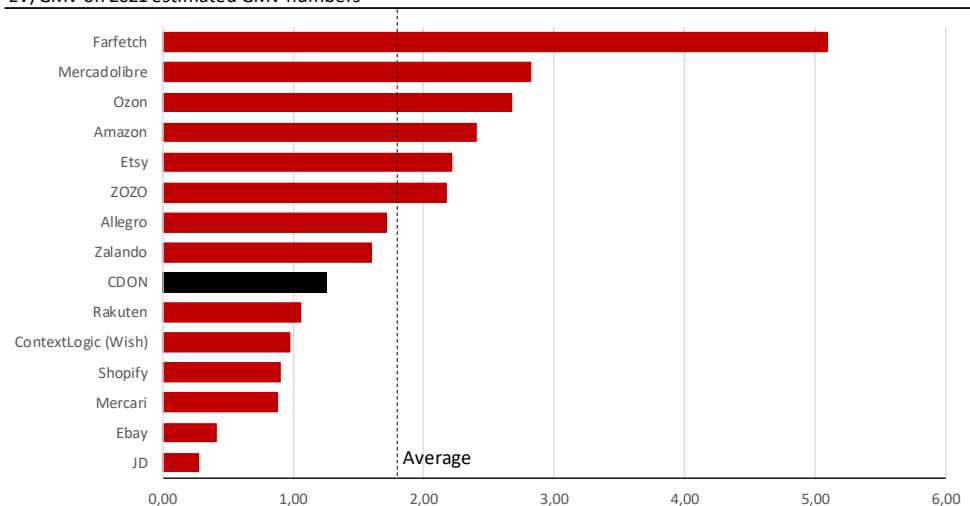
We are more concerned with the flywheel's customer side. It is true that CDON benefits from high brand awareness, being actively used by 8% of the Nordic population already. The current usage, alongside strong local e-commerce niche players, points toward a pretty decent customer experience. GMV growth of 86% in 2020 and the marketplace's historical growth rate are also good indicators. But customers spend rather small amounts on CDON's platform. Moreover, the average basket size has not increased in many years.

CDON's third-party GMV is equivalent to sales at Lyko, a niche beauty segment e-commerce player with 55,000 items. CDON has over 8 million items and 'countless categories' (beauty/health is one of the stronger ones), but it only narrowly surpasses the local online niche leader.

We believe Nordic customers will continue shopping at multiple e-commerce platforms as prices and deliveries are similar. CDON does not offer a Prime membership or Smart! feature to incentivize customers to spend a larger share of their total online wallet on its marketplace, which we see as a big weakness.

While the number of merchants has increased, and with it the assortment, we have not seen CDON's customers respond by committing a larger wallet share. The recent uptick is mainly due to more active customers, driven by social distancing. We would like to see a trend shift here, and perhaps the new marketplace platform is the 'Gordian Knot.'

EV/GMV on 2021 estimated GMV numbers



Source: Bloomberg, Redeye Research

Appropriate discount

We estimate that CDON trades at ~1.3x 2021 EV/GMV, which is below the peer average of ~1.8x. CDON is often compared to the Polish peer Allegro.eu, a local marketplace leader. While it trades at an EV/GMV of ~1.7x, we are not persuaded that CDON should fetch a similar multiple. While Allegro.eu's situation resembles CDON's in that it is a local leader, Amazon is at the doorstep, and its GMV is mostly from third-party sellers (which one can see in the gross margin comparison), it is not a perfect peer.

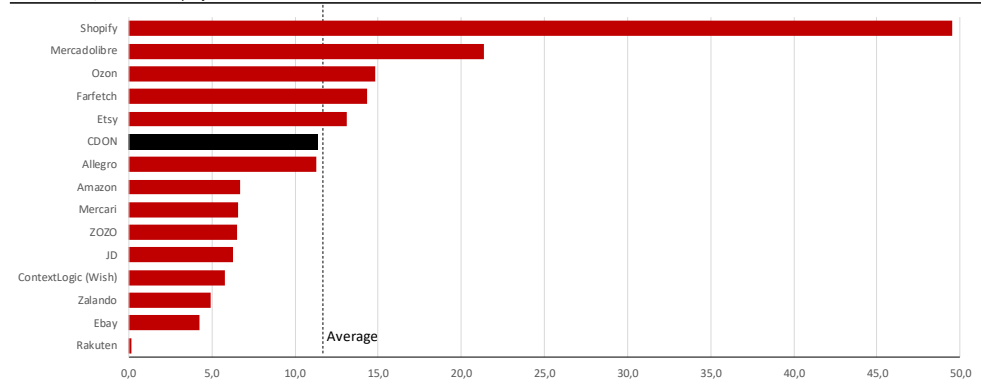
For one thing, Allegro.eu is far bigger and more dominant than CDON. >63% of all Poles aged 16 and above use the marketplace (compared to CDON's roughly 10% share of the same age group). Allegro.eu also has more than 128,000 merchants (CDON has 1,513); around 13 million active customers (CDON has around 2.3 million); and active customers shop more on Allegro than on CDON. Moreover, Polish e-commerce is growing faster than Nordic e-commerce, which is more mature (meaning Allegro.eu faces less competition in its domestic market).

Accordingly, we judge that CDON should trade at a discount. Only counting third-party GMV (and treating retail sales close to 0 in NPV) would put CDON at an EV/GMV of 1.46x - ~20%

below the peer average, which includes very strong names such as Mercadolibre, Amazon and Etsy). We believe this is fair, even though CDON's third-party GMV is growing faster, as this is from lower absolute numbers and its network effects are not comparable to the largest marketplaces.

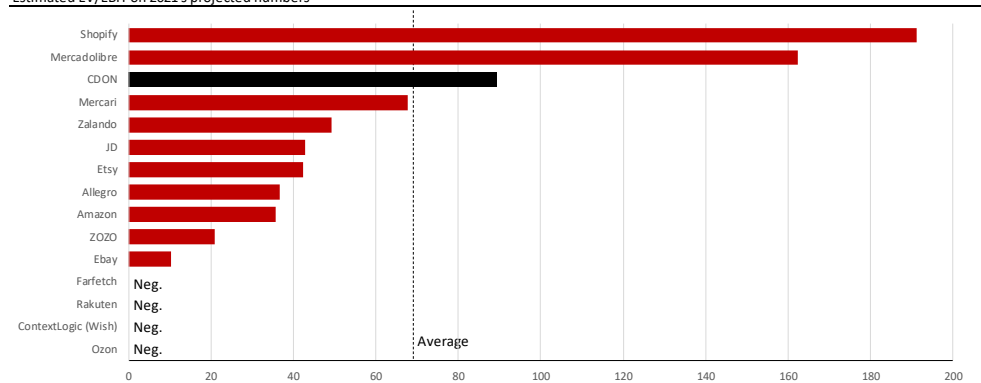
Estimated 2021 GMV sizes demonstrate this very clearly. CDON is significantly smaller than even second and third-tier marketplaces.

Estimated EV/GP on 2021's projected numbers



Source: Bloomberg, Redeye Research

Estimated EV/EBIT on 2021's projected numbers



Source: Bloomberg, Redeye Research

Adjusting the roadmap

CDON's short history is relevant to comparisons with peers that have already had many years, sometimes decades, to perfect their marketplaces – especially as change is so rapid in the online environment, which compounds this effect.

Nonetheless, CDON's energetic and focused management is a positive to the case. Moreover, they have the advantage of being able to observe other marketplaces' mis-steps and adjust their roadmap accordingly.

Base Case – SEK 500

Our Base case of SEK 500 is lower than the current share price of SEK 635. This is due to us wanting to see the recent investments pan out and increase relevancy/conversion on the platform. We would also like to see stickiness and that the inflow of active customers remains active after social distancing. Such signs would increase our confidence in the network effects, especially on the customer side. Our base case is still several multiples above the spin-off price.

Key assumptions

- Average organic sales growth of ~9% (2021-2035). The number is affected by the retail phase-out.
- Marketplace sales are expected to grow by ~20% a year (2021-2035).
- Terminal growth of 2%.
- Average EBIT margin of ~17.5% (2021-2035). Peaks at >23%.
- Terminal EBIT margin of ~12%.
- CDON grows faster than the overall e-commerce market in the Nordic region.
- CDON is the second-largest multi-category marketplace after Amazon.
- No M&A factored into forecasts.

CDON - Base Case near-term forecasts									
(SEKm)	2020	Q1'21	Q2'21	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
Marketplace GMV	1777	393,4	560,1	605,5	929,3	2488	3230	3860	4650
Growth YoY	86%	30%	35%	45%	45%	40%	30%	20%	20%
Retail GMV	598	91,2	91,3	79,9	149,8	412	330	264	224
Growth YoY	-40%	-40%	-40%	-25%	-20%	-31%	-20%	-20%	-15%
Total	2375	484,6	651,4	685,3	1079,1	2900	3560	4124	4874
Growth YoY	22%	7%	15%	30%	30%	22%	23%	16%	18%
Effective take rate	11,5%	12,0%	12,0%	12,0%	12,0%	12,0%	12,5%	13,0%	13,5%
Marketplace sales	205	47	67	73	112	299	404	502	628
Growth YoY	50%	41%	40%	50%	48%	46%	35%	24%	25%
Retail sales	590	90	90	79	148	408	330	264	224
Growth YoY	-39%	-41%	-41%	-26%	-21%	-31%	-19%	-20%	-15%
Total	795	137	158	152	260	707	733	766	852
Growth YoY	-28%	-25,4%	-19,9%	-2,1%	0,0%	-11,2%	3,8%	4,4%	11,3%
Marketplace gross profit	193	44	63	68	104	279	371	457	565
Retail gross profit	55	9	9	8	15	41	31	25	21
Total gross profit	248	53	72	76	119	320	403	482	586
Growth YoY	19%	21%	24%	35%	31%	29%	26%	20%	22%

Source: CDON, Redeye Research

Bear Case – SEK 200

Our Bear case of SEK 200 is still comfortably above the spin-off price in November 2020. In this scenario, we see a flattening trend once social distancing ends, which negatively affects the flywheel. CDON would still have a valuable spot in the Nordic e-commerce market, but not as prominent. The effective take rate does also take a hit because of the weaker network effects and stands still at 11.5%.

Key assumptions

- Average organic sales growth of ~4% (2021-2035). The number is affected by the retail phase out.
- Marketplace sales are expected to grow by 14% a year (2021-2035).
- Terminal growth of 2%.
- Flat effective take rate.
- Average EBIT margin of ~14% (2021-2035). Peaks at ~20%.
- Terminal EBIT margin of ~8%.
- CDON grows more or less in line with the Nordic e-commerce market.
- CDON ends up being a small to medium-sized local multi-category marketplace.
- No M&A factored into forecasts.

CDON - Bear Case near-term forecasts									
(SEKm)	2020	Q1'21	Q2'21	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
Marketplace GMV	1777,3	378,3	518,6	523,8	833,2	2254	2650	2920	3200
Growth YoY	86%	25%	25%	25%	30%	27%	18%	10%	10%
Retail GMV	598	91,2	91,3	79,9	149,8	412	330	264	224
Growth YoY	-40%	-40%	-40%	-25%	-20%	-31%	-20%	-20%	-15%
Total	2375	469,5	609,9	603,6	982,9	2666	2980	3184	3424
Growth YoY	22%	3%	8%	15%	19%	12%	12%	7%	8%
Effective take rate	11,5%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%
Marketplace sales	205,2	45	62	63	100	270	318	350	432
Growth YoY	50%	35%	30%	30%	33%	32%	18%	10%	23%
Retail sales	590,2	90	90	79	148	408	330	264	224
Growth YoY	-39%	-41%	-41%	-26%	-21%	-31%	-19%	-20%	-15%
Total	795,3	136	153	142	248	678	648	614	656
Growth YoY	-28%	-26,4%	-22,5%	-8,4%	-4,4%	-14,7%	-4,5%	-5,2%	6,8%
Marketplace gross profit	193,1	42	58	59	93	253	293	319	389
Retail gross profit	55,3	9	9	8	15	41	31	25	21
Total gross profit	248,4	51	67	67	108	294	324	344	410
Growth YoY	19%	17%	16%	19%	19%	18%	10%	6%	19%

Source: CDON, Redeye Research

Bull Case – SEK 1000

In our bull case we see strengthening network effects. The new platform (and probably an expanded cooperation with specialized logistics companies) improve the customer experience significantly. The platform stickiness increases for both customers and merchants, and so does the GMV. In our bull scenario, we estimate CDON to be a formidable local competitor to Amazon, connected to a European marketplace network.

Key assumptions

- Average organic sales growth of ~14% (2021-2035). The number is affected by the retail phase out.
- Marketplace sales are expected to grow by 25% a year (2021-2035).
- Terminal growth of 2%.
- Average EBIT margin of ~23% (2021-2035). Peaks at ~30%.
- Terminal EBIT margin of ~15%.
- Effective take rate moves toward an international average (~15%).
- CDON grows much faster than the overall Nordic e-commerce market.
- CDON establishes itself as the second largest Nordic marketplace (after Amazon).
- No M&A factored into forecasts.

CDON - Bull Case near-term forecasts									
(SEKm)	2020	Q1'21	Q2'21	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
Marketplace GMV	1777,3	408,5	580,9	628,5	961,4	2579	3470	4520	5650
Growth YoY	86%	35%	40%	50%	50%	45%	35%	30%	25%
Retail GMV	598	91,2	91,3	85,2	149,8	417	313	219	153
Growth YoY	-40%	-40%	-40%	-20%	-20%	-30%	-25%	-30%	-30%
Total	2375	499,7	672,1	713,7	1111,1	2997	3783	4739	5803
Growth YoY	22%	10%	19%	36%	34%	26%	26%	25%	22%
Effective take rate	11,5%	12,0%	12,0%	12,0%	12,0%	12,0%	12,5%	13,0%	14,0%
Marketplace sales	205,2	49,0	69,7	75,4	115,4	310	434	588	791
Growth YoY	50%	46%	46%	56%	53%	51%	40%	35%	35%
Retail sales	590,2	90	90	84	148	413	313	219	153
Growth YoY	-39%	-41%	-41%	-21%	-21%	-30%	-24%	-30%	-30%
Total	795,3	139	160	160	264	723	747	807	944
Growth YoY	-28%	-24,4%	-18,7%	3,1%	1,5%	-9,1%	3,3%	8,0%	17,1%
Marketplace gross profit	193,1	46	65	71	108	289	403	541	720
Retail gross profit	55,3	9	9	8	15	41	30	21	15
Total gross profit	248,4	55	74	79	123	331	433	561	734
Growth YoY	19%	25%	28%	41%	35%	33%	31%	30%	31%

Source: CDON, Redeye Research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 4

CDON has very capable management, with a clear roadmap of what it must do. We argue that Mr. Väliharju and his team have executed well so far and that CDON stands to have some interesting years ahead. There is no lack of passion and drive.

Business: 4

CDON's marketplace model attractions are: i) high gross margins (~94%); ii) low capital-intensity (no inventory needed, deferred merchant fees), iii) scalability (relatively low incremental operating expenses); iv) lower risk than traditional e-commerce (no inventory); and v) moats from network effects and a well-known and trusted brand.

We value these attributes highly, as they should allow CDON to earn a high ROIC. The durability is a tougher nut, but we believe CDON's strong value proposition will make it resilient. It hinges on how powerful the double-sided network effects will become.

Financials: 2

The phase-out of CDON Retail hurts the financial score. With time, we believe it will rise, as the marketplace model checks many of the positive characteristics. Had we only valued CDON Marketplace as a stand-alone company, the score would have looked better.

	2020	2021E	2022E	2023E	2024E
Income Statement					
Revenues	795,3	706,1	733,0	765,2	851,7
Cost of Revenues	546,9	386,3	330,6	283,9	265,7
Other COGS	-	-	-	-	-
Gross Profit	248,4	319,9	402,4	481,3	586,0
Selling Expenses	92,2	109,4	135,6	162,2	195,9
Administrative Expenses	163,0	169,7	177,4	183,7	191,6
R & D Expenses	-	-	-	-	-
Other Op. Expense / (Income)	(0,7)	-	-	-	-
Exchange Rate Differences	-	-	-	-	-
EBITDA	24,2	64,1	112,7	160,3	224,3
Depreciation	-	0,8	0,2	0,4	0,5
Amortization	30,3	22,7	23,1	24,5	25,4
Amortization of Right-to-Use Assets	-	-	-	-	-
EBIT	(6,1)	40,7	89,4	135,4	198,4
Associated Income / (loss)	-	-	-	-	-
Interest Income	0,1	1,4	1,5	2,2	3,2
Interest Expenses	-	-	-	-	-
Interest Expenses, Lease Liabilities	-	-	-	-	-
Exchange Rate Differences	-	-	-	-	-
Non-recurring Income / (Expenses)	-	-	-	-	-
EBT	(6,0)	42,1	91,0	137,7	201,6
Income Tax Expenses	-	4,2	19,1	28,9	42,3
Non-Controlling Interest	-	-	-	-	-
Net Income	(6,0)	37,8	71,9	108,7	159,3
Non-Recurring Items / (Loss), Post Tax	-	-	-	-	-
Recurring Net Income	(6,0)	37,8	71,9	108,7	159,3

	2020	2021E	2022E	2023E	2024E
Balance Sheet					
Current Assets					
Cash & Equivalents	170,3	153,0	221,4	320,5	479,8
Inventories	25,2	18,0	15,4	13,2	12,3
Accounts Receivable	6,7	9,7	10,0	10,5	11,6
Other Current Assets	31,8	28,2	29,3	30,6	34,1
Total Current Assets	234,0	208,9	276,2	374,8	537,9
Non-Current Assets					
Property, Plant & Equipment, Net	1,8	2,4	3,6	4,8	6,0
Goodwill	-	-	-	-	-
Intangible Assets	60,0	55,0	61,2	63,5	65,4
Right-of-Use Assets	-	-	-	-	-
Shares in Associates	-	-	-	-	-
Other Long-Term Assets	-	-	-	-	-
Total Non-Current Assets	61,8	57,4	64,8	68,3	71,4
Total Assets	295,8	266,3	341,0	443,1	609,2
Current Liabilities					
Short-Term Debt	-	-	-	-	-
Short-Term Lease Liabilities	-	-	-	-	-
Accounts Payable	133,5	84,7	77,0	66,1	61,7
Advances From Customers	-	-	-	-	-
Prepaid Income	-	-	-	-	-
Accrued Expenses	39,2	35,3	36,6	38,3	42,6
Other Current Liabilities	64,0	49,4	58,6	61,2	68,1
Total Current Liabilities	236,7	169,4	172,3	165,6	172,4
Non-Current Liabilities					
Long-Term Debt	-	-	-	-	-
Long-Term Lease Liabilities	-	-	-	-	-
Other Long-Term Liabilities	-	-	-	-	-
Total Non-current Liabilities	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-
Shareholder's Equity	58,9	96,7	168,6	277,3	436,6
Total Liabilities & Equity	295,8	266,3	341,0	443,1	609,2

	2020	2021E	2022E	2023E	2024E
Cash Flow Statement					
Operating Activities					
Net Income			71,9	108,7	159,3
Non-Controlling Interest			-	-	-
Associated Income / (loss)			-	-	-
Dividends Received from Associates			-	-	-
Depreciation			0,2	0,4	0,5
Amortization			23,1	24,5	25,4
Net Working Capital Change, Decrease / (Incre			4,0	(6,2)	3,1
Other Long-Term Liabilities, Increase / (Decrease)		-	-	-	-
Operating Cash Flow	29,6	1,8	99,2	127,4	188,3
Investing Activities					
Capital Expenditures	-	(1,4)	(1,5)	(1,5)	(1,7)
Intangible Assets	-	(17,7)	(29,3)	(26,8)	(27,3)
Other Long Term Assets	-	-	-	-	-
Acquisitions			-	-	-
Divestments			-	-	-
Goodwill			-	-	-
Investing Cash Flow	(22,8)	(19,1)	(30,8)	(28,3)	(29,0)
Financing Activities					
Short-Term Debt, Issuance / (Repayment)			-	-	-
Long-Term Debt, Issuance / (Repayment)			-	-	-
Share Issuance / (Repurchase)			-	-	-
Dividends Paid to Shareholders			-	-	-
Dividends Paid to Non-Controlling Interest			-	-	-
Repayment of Lease Liabilities			-	-	-
Other Financing Activities			-	-	-
Financing Cash Flow	(34,4)	-	-	-	-
Net Cash Flow	(27,6)	(17,3)	68,4	99,0	159,3
Cash Balance	170,3	153,0	221,4	320,5	479,8

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2021-03-18)

Rating	People	Business	Financials
5p	22	17	3
3p - 4p	96	77	38
0p - 2p	6	30	83
Company N	124	124	124

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Mark Siöstedt owns shares in the company: No

Mats Hyttinge owns shares in the company: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.