

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Zalando: An Equity Research Analysis of the
E-commerce Giant

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A Project carried out on the Master's in Finance Program, under the supervision of:

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DATE
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Abstract

This paper aims to make an accurate and exhaustive assessment of Zalando SE, a leading European platform that focuses on fashion and lifestyle. Through an analysis of the company's financial statements, macroeconomic environment and changing market dynamics, it strives to provide practical guidance for investors. Although the e-commerce sector is going through a period of high uncertainty, due to the Ukraine invasion and current inflation, Zalando has the capacity to overcome with its strong financial position. In addition, the pandemic had a long-lasting positive effect as it changed consumer behavior, allowing customers to get comfortable and at ease with being online. Not only that, but technology advances and sustainability issues are shifting the industry environment which allows Zalando to prosper due to its proactive investments in these areas. In conclusion, Zalando's strong balance sheet, the ability to overcome bad times and its sustainable competitive advantages lead to the belief the company will overperform.

Keywords (up to four): Zalando SE, Retail, E-commerce, Equity
Research

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This report is part of the “Zalando SE: Surfing the Wave of E-commerce: An Equity Research Analysis of the E-commerce Giant” report (annexed), developed by Marta Antunes Palha De Araújo (39347) and Bernardo Maria Pacheco Fonseca Lopes de Mendonça (49098) and should be read as an integral part of it.

ZALANDO SE

E-COMMERCE FASHION

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COMPANY REPORT

17 MAY 2023

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Surfing the E-commerce Wave

An Equity Research Analysis of the E-commerce Giant

- Tough economic outlook for 2023 and 2024, driven by high inflation, interest rates, and decreasing real wages.
- Shift in consumption patterns towards essential goods due to decreasing disposable income.
- High growth potential in the industry due to the fast-paced adoption of e-commerce.
- Increasingly tailored and immersive online shopping experiences outperforming traditional brick-and-mortar stores.
- Internet penetration expected to cross 90% in the next decade, facilitated by disruptive technologies such as Starlink and 5G networks.
- 2021-2027 EU funding plan further propelling internet accessibility and digital growth.
- Zalando leading the European e-commerce fashion scene with the largest fulfillment network.
- Over 1 million square meters of fulfillment space across Europe.
- Wide brand variety with over 7000+ brands available on the platform.
- High consumer engagement, with 1 in 4 active e-commerce fashion consumers in Europe purchasing from Zalando at least once in 2022.

Company description

Zalando SE is a leading European e-commerce company founded in Berlin, Germany. It provides a personalized online shopping experience through its platform that offers a wide range of fashion and online products.

Recommendation: BUY

Price Target FY23: 44.94 €

Price (as of 9-Jul-23) 31.81 €

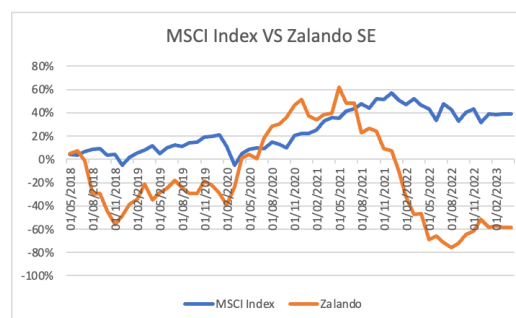
Reuters: ZALG.DE, Bloomberg: ZAL:GR

52-week range (€) 19.18-45.81

Market Cap (€m) 7,984

Outstanding Shares (m) 294

Source: Bloomberg



Compounded monthly return of the past 5 years

Source: Bloomberg

(Values in € millions)	2022	2023E	2024F
Revenues	10,345	9,623	11,529
Yoy Growth	-0.1%	-7.0%	19,8%
EBITDA	393	125	386
Yoy Growth	-40%	-68%	209%
Net Profit	69	-222	-11
Yoy Growth	-66%	-421%	-95%
FCFF	-270	-207	-379
Yoy Growth	-415%	24%	-84%
EPS	0.26	-0.84	-0.04

Source: Analysts estimates

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Introduction

Zalando SE is a leading European fashion E-tailer based in Germany. The company offers a wide range of lifestyle and fashion products through a platform that comprises over 7000 brands. This research analyses the company's financial performance and prospects as well as provides insight into how it is expected to evolve. The report is thus divided into two parts: one written by Marta Palha de Araújo and the other written by Bernardo Lopes de Mendonça. The first part comprises of a macroeconomic outlook, in order to understand the trends and the industry environment Zalando currently faces, an assessment of the company's financial health based on measures such as ratios and an evaluation of Zalando's current competitive landscape, highlighting the key differences between them. Plus, it also counts with the revenue model which has comprehensive research based on the potential market size and consumer spending. The second part finishes the revenue reasoning and incorporates advanced research on Zalando's net working capital and costs, in addition to how they're expected to evolve as well as a detailed explanation on the company's invested capital in intangibles and capex. In line with the whole report, it shares the writers' opinions on the future trajectory of Zalando. It also elaborates on how the company is valued and possible risks along with deviations of said valuation. The e-commerce sector is facing a period of change and transformation. From the Covid-19 pandemic accelerating the online transition to the high inflation affecting consumers, and different transformations in the industry such as the technology advances, Zalando is undergoing a defining time for the industry.

As Zalando has a strong financial health as well a sustainable competitive advantage, it is expected for the company to come out from it at the top. Zalando's market share is expected to increase as well as its operating margins and the company is expected to maintain high levels of investments in both capex and intangibles in order to stay relevant and compete with general e-commerce firms like Amazon. The costs assessed took into account the job cuts the company will have in 2023 and the increases in wages due to the shortage of drivers and the overall not so good macroeconomic environment. By combining both reports, an investor is able to gain deep knowledge of Zalando and understand the target price of 44.94€.

▪ Market Share

The European e-commerce fashion sector is experiencing rapid evolution, with Zalando emerging as one of the strongest contenders. Zalando's competitive landscape, as discussed before, is deeply diversified, and as such, to better understand how Zalando's market share will evolve, a deeper analysis of its advantages towards its competitor had to be made.

Zalando's direct competitors, other fashion e-commerce platforms that also have a presence in Europe, differ in many important aspects, but especially in balancing growth and profitability. While Zalando has a strong balance sheet and benefits from having a vast fulfilment centre's network, the other companies are still very much behind. Among mid/lower market e-tailers such the fashion ones, Zalando has currently the most powder with net cash of €953 million to invest in M&A, warehouses, and technology during a tough cycle for e-commerce fashion, allowing it to exit at even a stronger position during an up term of the cycle. While Asos and Boohoo (with a net cash of -€177 and €2 million respectively) may struggle to invest through the cycle and miss opportunistic investments.

Moreover, no other fashion e-tailer can compete with Zalando in terms of size, which entails a positive feedback loop mechanism that gives Zalando the ability to maintain a sustainable competitive advantage and may lead to a significant growth in market share. This mechanism, also called the flywheel effect, is based on the first-mover advantage that characterizes Zalando. The company entered the e-commerce market at a time where traditional brick-a-mortar stores were the most popular option among consumers and buying clothes online was not as usual. As such they were able to build a loyal customer base and established themselves as a key player. Now Zalando benefits from it, due to the fact that brands, stylists and other interested parties have more incentives to partner with Zalando than with other fashion e-tailers as it has a bigger platform that reaches more people. And by having more brands, it attracts more customers as well, creating this loop that makes it extremely difficult for other brands to catch up, reinforcing its growth trajectory. This also gives Zalando the capacity to build strong relationships with brands by providing other levels of support in marketing, data analytics and more, that the other companies simply cannot match.

Also, by relying more on their own personal brands, and even in the case of Boohoo relying 100% on it, these companies struggle more with the state of the economy and thus, are more exposed to systematic risk, as they do not have the flexibility to pass on some of their costs to its partners like Zalando does. Regarding the high shipping costs and the rise in overall costs, they will feel much more such

effects on their operations than a more hybrid platform like Zalando, potentially decreasing their competitiveness.

From our point of view, the most threatening competitors are the general e-commerce giants that also sell fashion products. Those companies benefit from also having a very efficient fulfilment centre in Europe and a level of scale that e-tailers lag, even more with the strong cross-selling effect they have from offering different types of products. Even so, they lack fashion focus and have been failing to recognize the brands' necessity of expressing the lifestyles they want to convey and to be perceived as unique and inspiring brands, which is something that Zalando prides itself on always doing. In fact, they recently updated the user interface of their app to facilitate brands telling their stories and building deeper connections with customers. However, we have to keep in mind that this is something they can easily replicate. It is also worth mentioning the sustainability issues that are becoming increasingly more important. As consumers start basing their purchases on ethics, these e-commerce companies will lose some of their strength. Being Amazon the strongest player in the general category, sustainability-wise it does not do so good. Movements such as "Boycott Amazon" keep appearing which disapproves on how the company does not respect worker's rights. Even TikTok influencers have openly stated their refusal to work with the company. ([Tech Explore, 2022](#)) Thus, we do not believe the company's sustainability goals will surpass the amount of bad press Amazon has on the matter. Although no such movements are known for Alibaba, as another important example, consumers perceive the company as having untrustworthy suppliers and with little quality control of those. ([E-commerce platforms, 2018](#)) therefore, we believe that Zalando will remain a strong player, but still has a huge threat regarding the general e-commerce players, given their strong infrastructure and for having a significant amount of capital to deploy in order to expand its market presence in the fashion sector. This way, we believe that in order to Zalando protect its market share, the logic course of action would be to keep investing in new technology that improves consumer experience, acquisition of brands (M&A) and investing in strong partnerships as well as having a strategy with sustainability at its core.

Although it also competes with brands that have a strong online presence, such as H&M and Zara and even social media platform like Instagram and Tiktok, we do not think these pose a real threat because of the lack of online scale for the first, and the non-existent e-commerce infrastructure for the latter. And once again, among them, we believe the more sustainable brands will be the ones to prevail.

Besides sustainability, technological advances are also an important matter that will affect market share. Even though, most consumers are said to prefer retailers with AR experiences and admitted they would shop more if they used AR ([ThreeKit, 2023](#)), not many firms are able to keep up with the cost of investing in it. In fact, when senior executives of many retail firms were interviewed, most stated not to be prepared to support the technological advances in the sector, being the greatest obstacles to their implementation: budget (64%), the lack of internal resources (55%) and the lack of executive buy-in (42%). ([MarketingDive, 2019](#)). The barriers to enter are becoming increasingly high and Zalando seems to be drifting away from the competitors as time passes.

In conclusion, Zalando's strategic advantages, such as its adaptability to local markets, strong brand partnerships, first-mover advantage, stronger financial position among direct competitors, fashion focus, and a vast fulfilment network, place it in a strong position to increase its market share thus we assumed a fast increase in the market share of Zalando over the next 5 years and then a slower paced increase resulting from the flywheel effect until it reaches around 15% in 2050.

- **Expansion to New Markets**

Zalando plans to become the starting point of Fashion in Europe and thus it is expected from them a to continue to expand to other countries in the upcoming years. Two main factors influence this expansion decision: the cost of fulfillment of orders, size of the potential market and country risk.

Analysing the market size of the countries where Zalando is not currently operating, Portugal, Greece, and Ukraine emerge as the most promising options. However, due to the unpredictable future circumstances in Ukraine, it's difficult to estimate when Zalando might expand there.

Portugal appears as the clear choice for the next step in Zalando's expansion, particularly given the existing contract with DHL to manage orders in Spain. Given that DHL also operates in Portugal, there's an opportunity to enhance scalability in the Iberian Peninsula.

Greece, the next largest market, does not share the same proximity to the fulfilment centre as Portugal. However, it's expected that Zalando might pursue simultaneous expansion into multiple countries, leveraging the opportunity for economies of scale during marketing campaigns.

To reflect Zalando's ongoing expansion efforts, we predict that the company will expand to Portugal and Greece at the beginning of the economic upswing in 2026.

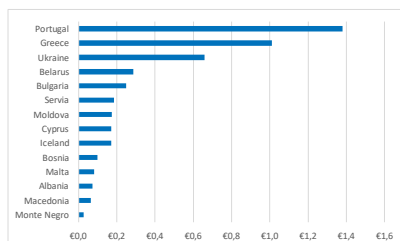


Figure 29 – E-commerce fashion yearly consumption in 2026 (€ Billions)
Source: Analysts' Graph based on Statista, Eurostat

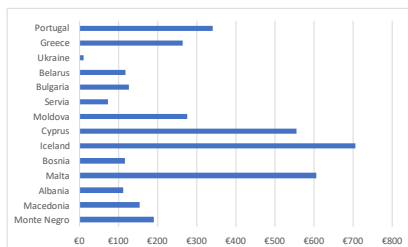


Figure 30 – E-commerce fashion spending per capita per year in 2026
Source: Analysts' Graph based on Statista, Eurostat

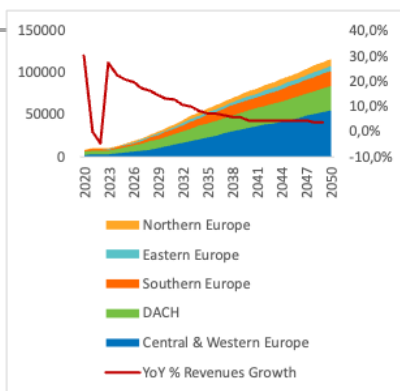


Figure 31 – Zalando Revenues Forecast
Source: Analysts' Estimate



Figure 32 – Zalando's fulfilment strategy
Source: Zalando's Website

	Fulfilment centers	Date added	Area (000's)	€/Sqm
Concluded	Erfurt	2011	126	499
	Mönchengladbach	2013	134	1 052
	Lahr	2016	130	941
	Szczecin (Grzyfino)	2016	130	1 494
	Verona	2018	130	937
	Lodz	2018	130	683
	Olsztynek ¹	2019	130	560
	Rotterdam	2019	140	1 404
Development	Giessen	2022	130	1 200
	Bydgoszcz	2022	140	1 200
	Białe Błota	2022	100	1 200
	Montreuil-sur-le-jard	2022	130	1 200
	Total		1 550	

¹ Olsztynek is an offprice exclusive fulfilment centre.

Figure 33 – Zalando's fulfilment centres and estimates of the fit-out costs per Sqm.
Source: Analysts' Table based on Company Information

Revenues

Zalando is well positioned to capitalize on the fast-paced growth of the e-commerce fashion segment. The afore mentioned points-of-difference over its competitors creates conditions for Zalando to capture market. We project a CAGR of 16.2% until 2032 and 9.4% until 2050. Underlying a strong short to medium term growth and a slower growth over the long term. This dual-phase growth model reflects the company's potential to not just capitalize on the current e-commerce boom, but also to benefit from the flywheel effect to maintain its momentum in the longer run.

Capex and Intangibles

Property Plant and Equipment

Regarding Zalando fulfilment operation it utilizes a blend of in-sourcing and out-sourcing services. Regarding the in-sourcing operations they operate in 8 big-box fulfilment centres across 5 countries which span over 1,050,000 Sqm, being the biggest fulfilment network solely dedicated to fashion.

In a move to further optimize its operations and decrease delivery lead times, Zalando has announced that it is expanding its infrastructure by constructing 4 additional distribution centres, which will add an extra 500,000 square meters by 2025. Moreover, in early 2021 Zalando improved efficiency by reorganizing its network in two fulfilment zones North-East zone and South-West zone. This allows Zalando to tailor the inventory to the differences in preferences in different geographies. However, if someone orders an item that is exclusively storage in the other side will pay a delivery fee, thus it will not hurt Zalando margins.

This substantial logistics network results from Zalando's proactive investment strategy which aims to enhance its proximity to customers, reducing delivery times, and promoting sustainable delivery options making the process smoother for consumers. This approach is imperative for Zalando to keep capturing market share from competitors.

Apart from its directly operated centres, Zalando collaborates with third-party operators to manage nine smaller-scale fulfilment centres. A historical trend shows that Zalando typically outsources fulfilment services when entering remote new markets. This approach enables the company to establish its brand and assess market conditions before committing to long-term leasing contracts for built-to-suit facilities.

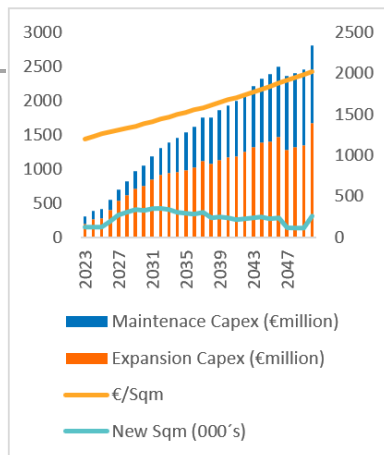


Figure 34 – Zalando's Capex investment
Source: Analysts' Table based on Company Information

A prime example of this strategy is Zalando's expansion into Italy. Initially, the company partnered with a third-party operator for a 20,000 square meter satellite fulfilment centre near Milan in 2015. As the brand grew more popular, Zalando transitioned to a long-term leasing contract for a 130,000 square meter built-to-suit facility in Verona in 2019. This centre now serves not only Italy but also southern France and Switzerland, exemplifying the scalability of Zalando's logistics model.

Zalando has also adapted this strategy in Spain due to scalability challenges. The company established an exclusive partnership with DHL to operate a 37,500 square meter fulfilment centre near Madrid. Since DHL operated in all of Iberian Peninsula it will facilitate Zalando's expansion to Portugal as we anticipate. This transition is expected to increase profit margins due to stronger bargaining power with DHL as the operations grow.

Looking forward the PPE capex in the next few years is expected to be related with the 4 new fulfilment centres that started development in 2022. The cost per Sqm is expected to be around the cost of Rotterdam (Best comparable) but with a slight hair cut derived from possible economy scales of in the development of 4 centers simultaneously, and thus we expect an average cost of €1,200/Sqm for the new centers. After 2025 We expect the company to maintain a capacity of €8,602 Revenue per Sqm of €1,283/Sqm which will be updated with inflation along the years.

▪ Intangibles

Zalando envisions to become the starting point of e-commerce fashion in Europe by making significant investments in intangible assets that facilitate and foster the building of long-term customer relationships.

The company's key intangible assets include proprietary technology, intellectual property, brand recognition, and sustainability initiatives. These assets allow to increase operational efficiency, sustainable development customer retention and market share acquisition and thus play a crucial role in Zalando's future growth.

Zalando launched Zalando Research in late 2016, focusing on advancements in data science, machine learning, and artificial intelligence as part of its long-term growth strategy. The company operates six specialized technology hubs, four in Germany, one in Ireland, and one in Finland. The Berlin hub primarily focuses on app development, algorithms, and operations, while the Irish centre concentrates on data science and engineering research. The Helsinki hub is dedicated to customer-facing technologies, particularly mobile. Zalando's strategy also involves extensive data collection and analysis to facilitate localized pricing, personalization, and the development of a real-time insight platform for fashion.

- **Main Projects**

Investment App

Zalando, a leading online fashion platform, recently introduced a new digital tool known as the "Investment App". This innovation is part of Zalando's broader strategy to enhance its financial planning and analysis (FP&A) processes. It allows for better oversight of large capital expenditures across the company.

The app was developed following a comprehensive review of existing systems and processes within Zalando's various departments, such as Accounting, Treasury, and Operations. The main objective was to improve collaboration, transparency, and decision-making in managing large investments.

Moreover, in 2022 Zalando developed a new software for the connected retail business and has intention to further stretch in 2023.

Connected Retail Software

In 2022, Zalando made significant progress in their connected retail business by creating a new software. This software helps its partners track their sales and returns data more effectively.

Zalando's platform gives partners the freedom to manage their stock. Partners can decide which products to sell, the quantity, the timing, and the price. The platform also helps optimize the purchasing process and offers insights on customer behaviour and product assortment.

Looking forward to 2023, Zalando plans to continue improving its platform. The company aims to strengthen the platform with software upgrades focused on logistics and automation. These technological investments show Zalando's concern of retaining partners, crucial to maintaining key partnerships that differentiate them from competitors.

ChatGPT powered fashion assistant

In line with their effort to tailor the experience to their customers, in April 2023, Zalando announced the launch of a ChatGPT powered fashion assistant. Initially being tested in selected customers in the UK, Germany, Ireland, and Austria. This assistant aims to streamline the online shopping experience by interpreting and responding to customer inquiries.

This move represents Zalando's push towards improving customer experiences and understanding their preferences better. The assistant, by offering personalized recommendations and 24/7 interactions, stands to enhance user satisfaction and

operational efficiency, which could bolster customer retention rates and brand loyalty.

The launch also sets the stage for future AI-driven services and features, possibly including personalized fashion and beauty advice, or outfit creation services. This development could reinforce Zalando's competitive position and is worth monitoring closely for its potential positive impact on Zalando's financial performance and market share.

Virtual Fitting Room pilot

Zalando, the German e-tailer, is expanding its virtual fitting room pilot across its 25 markets, enhancing online shopping experiences by allowing customers to create a 3D avatar for trying on jeans from different brands. This follows successful trials with Puma and Zalando's private label, Anna Field, involving over 30,000 customers.

Vice President of Size and Fit, Stacia Carr, emphasized the initiative's purpose in understanding customer interaction with new technology to develop a scalable solution. The company's dedicated in-house team uses machine learning and computer vision to predict sizing. leading to a 10% decrease in size-related returns where size advice was given.

Zalando's upcoming body measurement feature, which will offer personalized advice based on actual measurements, further underscores its commitment to enhancing customer experience and reducing return rates. These strategies could potentially bolster customer retention and financial performance.

• **Mergers & Acquisitions**

Zalando is actively growing its portfolio through smart investments and acquisitions, with a clear focus on technology, sustainability, and brand exclusivity. Important technology investments, such as LatticeFlow and Magazino, are improving Zalando's AI and logistics efficiency, while investments in Fashwell and Meepl are set to enhance the online shopping experience for customers with ai-based image recognition and 3d scanning solutions.

Zalando's commitment to sustainable practices in the fashion industry is evident in their investments in companies like Circ, Ambercycle, and Infinited Fibe which aim to develop sustainable yarns from old clothing. These investments may position Zalando positively in the eyes of consumers who are increasingly looking for sustainable products.

The acquisition of Highsnobiety, a popular online streetwear and lifestyle magazine, is a strategic move that boosted Zalando's reputation, particularly

Company Name	Sector
nugg.ad	Enterprise Applications
Le New Black	Enterprise Applications
Magazino	Enterprise Applications
Circ	Environment Tech
Ambercycle	Environment Tech
Infinited Fiber	Environment Tech
PAIR Finance	FinTech
Highsnobiety	Media & Entertainment
Tradebyte	Retail
Amaze	Retail
Fision (Meepl)	Retail
LatticeFlow	Technology
Fashwell	Technology

Figure 35 – Zalando’s M&A
Source: Analysts’ Table based on Company Information

amongst younger, fashion-conscious customers. This helps in building customer loyalty, which is crucial for maintaining and capturing market share.

Zalando has also bought data management platform nugg.ad, Tradebyte, and fashion app Amaze to strengthen its digital presence and create new ways for customers to engage with the brand. These strategic moves highlight Zalando's commitment to improving customer experiences, leading in technology, promoting sustainability, and securing exclusive brand partnerships.

- **Discussion**

In conclusion, as the fashion commerce sector continues to transition towards the digital, Zalando is expected to work towards making this transition seamless for consumers. It's reasonable to expect that the company will continue to leverage strategic acquisitions as a tool to bolster customer loyalty and consolidate its market standing. Furthermore, Zalando's ongoing efforts to advance its technological capabilities are projected to augment operational efficiency, driving higher margins in the process. Consequently, it's believed that the company's investment in intangible assets and mergers and acquisitions (M&A) will grow at the same pace as revenues.

Operating Expenses

- **Personnel Expenses**

Due to the economic slowdown, Zalando has announced a hiring freeze and a job cut of up to 5%. ([Financial Times, 2023](#)) Thus, we expect that the number of employees will decrease accordingly and eventually rise throughout the years until it gets to a workforce growth of 6% in 2025. In the statement, the online retailer also announced the cut was not going to affect those in selling and distribution which is reflected in our analysis.

Moreover, Zalando is currently focusing on automation, in areas such as shuttle technology, bag sorter, warehouse robotics and many others. As such, we predict the current employment growth rate will slow down, especially in the costs related to sales and fulfilment and distribution.

Taking the high costs of last-mile delivery and the shortage of drivers into consideration, it is reasonable to assume that wages for fulfilment and distribution will increase at a higher rate than the others. Thus, seeing the overall growth in wages and benefits of the transportation and storage sector presented in table 36, we expect a 4% increase this year. Eventually, supply will meet demand and the

Labour Hour Nominal cost yoy comparison

	2021		2022	
	Q4	Q1	Q2	Q3
Transportation & Storage	3,40%	4,60%	4,10%	4,50%

Figure 36 – Growth of labour costs
Source: Eurostat

growth rate for wages in distribution will converge with those from administrative and costs of goods sold, which rise in accordance with consumer spending.

▪ Non-Personnel Expenses

Fulfilment and distribution costs have slightly bigger values in 2026 and 2027, in line with the predicted expansion to Portugal and Greece. By entering new markets, Zalando will incur in a higher marketing spend as well as increase its overall logistics costs, thus being reflected in the first two years. Other than that, we accounted for the high scalability of its European logistics network, contemplating a lower percentage of revenues throughout the years. This decrease is also largely due to the implementation of AR in Zalando's core strategy, entailing less returns and a lower number of trips per customer. With more and more people getting over the AR stigma and using the technology to try on new clothes and picking the right size, we believe less unnecessary deliveries will be made, lowering selling and distribution costs which will in turn improve the overall operating margin. Marketing spend will also not be as relevant throughout the years, as Zalando becomes well-established in all operating markets. Costs of goods sold will also be affected by economies of scale, and thus are forecasted accordingly. Moreover, with Zalando increasingly focused on transitioning to a platform business by giving more importance to the partner program, the costs of goods' percentage of revenue will decrease. This is because it works commission based and gives Zalando the ability to pass on some of the cost to its partners. In 2025, they are aiming to have 50% of gross merchandise value come from the partner program which they already have 36% of in 2022 (vs 30% in 2021), showcasing a positive outlook to reach its goal.

Administrative costs are expected to remain constant at 1% as there is no major event nor a specific strategy to tackle it, although Zalando is trying to be more efficient in terms of overhead costs.

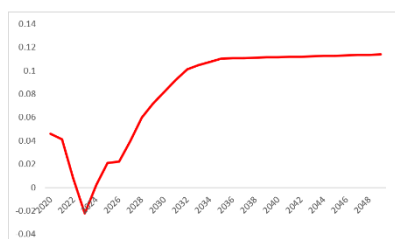


Figure 37 – Operating Margin
Source: Analysts' Estimates



Figure 38 – EBITDA Margin
Source: Analysts' Estimates

▪ Margins

The DACH area and the Rest of Europe have different operating costs as Zalando, given the secured efficient logistics in the German-speaking countries.

As the company becomes more and more established in the other countries the EBITDA margin is expected to slowly catch up to the DACH countries. Still, we believe that the DACH margin will always be slightly bigger than those of the rest of Europe, as it has the lowest average distance to Zalando's logistics centre. With all this in mind, we are expecting Zalando's operating margin to go up to 11.4% in the long run.

Net Working Capital

Average Holding Period amounted to, on average, 105 days which is positive when compared to its peers. However, we believe this will be even lower in the future as Zalando recognizes a lower wholesale business inbounds, due to disruptions in the supply chain. This resulted in a higher accumulation of merchandise. As Zalando becomes more efficient, and in a post-war environment, we expect the holding period will go down given its ability to sell it faster.

Average Collection Period, on the other hand, is considerably worse than its peers Asos and About you. Still, the possibility of convergence is very small as Zalando recently launched a revolutionary “try now, pay later” method of payment. The idea is to mimic the advantages of having a physical store, where one can try the product and pay later if it fits the customer’s needs. With more and more people, choosing to pay this way, we expect Zalando’s accounts receivables will increase, as this will give about 14 days for customers to decide if they are getting the product or not – the collection of money will take longer. [\(Zalando, 2022\)](#)

Sensitivity Analysis						
EV	11705	Long term Growth				
Share Price	€44,94	2,16%	2,66%	3,16%	3,66%	4,16%
WACC	10,34%	54	55	57	58	60
	10,84%	48	49	50	52	53
	11,34%	43	44	45	46	47
	11,84%	39	40	40	41	42
	12,34%	35	36	36	37	37

Figure 39 – Sensitivity analysis of WACC and growth rate on the stock price.
Source: Analysts’ Estimates

Sensitivity Analysis						
EV	11705	Long term Growth				
Share Price	€1,299	2,16%	2,66%	3,16%	3,66%	4,16%
WACC	10,34%	71%	74%	79%	84%	90%
	10,84%	55%	57%	59%	62%	67%
	11,34%	39%	40%	41%	44%	48%
	11,84%	24%	25%	26%	29%	31%
	12,34%	18%	19%	19%	20%	21%

Figure 40 – Sensitivity analysis of WACC and growth rate on the potential return.
Source: Analysts’ Estimates

Average Payable Period was assumed to keep improving. Although the pandemic may have influenced the result in 2020 and 2021, the same change was not as accentuated in its peers, leading us to believe that the relationship with suppliers is indeed improving, allowing Zalando to take more time to settle its current debt. As such, we believe that its accounts payables will increase.

Still, we believe that Zalando’s strong cash conversion cycle will remain negative throughout the years, which suggests the company can finance itself through its operations.

Valuation

Discount Rate

Zalando's debt structure comprises two convertibles: a 5-year senior unsecured bond and a 7-year unsecured bond, both of equal rank. To calculate the cost of the debt, we considered each bond's respective yield to maturity (5.9% and 6.4%), the probability of default, the potential of default amount, and the remaining time until maturity.

We used Moody's annual credit study for reference, but since Zalando has never been rated by an external entity, we assumed an A+ rating. This assumption is based on Zalando's interest coverage ratio over the past 5 years. The resulted cost of debt for Zalando is estimated to be 5.94%. For the cost of equity, we used the Capital Asset Pricing Model (CAPM). We took the 30-year German bund as the

risk-free rate, which stands at 2.29%, and a market risk premium of 5.50% estimated by KPMG. We also incorporated the country risk premium. To calculate this, we used a weighted average of the Country Risk Premium (CRP) values from Professor Aswath Damodaran's January 2023 report by the Zalando revenue per country in Europe. This resulted in a country risk premium of 0.78%. Subsequently, it entailed a 11.34% WACC, which when applied to the forecasted Free Cash Flows results in a target price of 44.94€, in 31/12/2023 with a potential upside of 41%.

Risk Analysis

Consumer Behaviour & Market Share

Over this report we underline that the e-commerce fashion is set for a launch over the next years. However, the underlying assumption behind this regard's consumer behaviour. We constantly assume that there will be a continuation in the trend of consumers preferring convenience over a face-to-face experience. We assume that cannibalization proportionate to advancements in technology and thus, if consumers can have a store like experience in the metaverse with the added benefit of having a super smart AI store employee that is at your service 24h per day they will choose it over real human contact. Although this is where we are currently heading, it can be a trend that will fade away, consumers may prefer to come back to the physical world with real human fashion advise with all the inefficiencies it comes with. The same applies for the opposite scenario, people may value shopping with their families or friends in the comfort of their own houses with all the help that they need without having to commute or to get to the store during the working hours of the stores. Humans have inherited the necessity of relating with each other, but perhaps virtual interaction will be valued equally to fiscal interaction leading to an even faster of e-commerce fashion that what we are accounting in our model.

With that said It is a reasonable assumption that e-commerce fashion penetration on population rate will continue for the convenience that it offers (shopping out of hours, no commuting...) but the cannibalization effect (among already active consumers) will heavily depend on future consumer behaviour.

The second main assumption in this report is that Zalando can conquer a significant part of the market share. Although, they already proved to be a worthy opponent by leading e-commerce fashion in Europe and capture a significant market share driven by reasons such as being always in the forefront of e-commerce fashion innovations and fulfilment solutions it doesn't mean that their competitive advantages can't erode over time.

		Sensitivity Analysis					
EV		11705	% of total spending spent in e-commerce yoy growth				
Share Price		€44.94	0%	50%	100%	150%	200%
Market share yoy growth	50%	€13	€19	€24	€28	€31	
	75%	€22	€28	€34	€40	€43	
	100%	€30	€38	€45	€51	€56	
	125%	€38	€47	€55	€63	€68	
	150%	€45	€55	€64	€72	€79	

Figure 41 – Sensitivity analysis of the level of consumption of e-commerce fashion and market share on the stock price.

Source: Analysts' Estimates

		Sensitivity Analysis					
EV		11705	% of total spending spent in e-commerce yoy growth				
Return		41%	0%	50%	100%	150%	200%
Market share yoy growth	50%	-58%	-41%	-25%	-12%	-3%	
	75%	-32%	-12%	8%	24%	37%	
	100%	-5%	18%	41%	61%	77%	
	125%	20%	47%	73%	97%	116%	
	150%	43%	72%	101%	128%	149%	

Figure 42 – Sensitivity analysis of the level of consumption of e-commerce fashion and market share on the potential return.

Source: Analysts' Estimates

It is imperative to not be myopic our best estimates in the base scenario and thus we explored outcomes for different levels of growth of E-commerce consumption as a % of total consumption and growth of the market share of Zalando.

Final Recommendation

Looking at our sensitivity analysis, it is possible to denote that even our worst-case scenario where growth stays at 2.16% and the WACC goes up to 12.34% entails a share price of 35€. This is above current share price making us believe the risk is not very significant. Still, for the market share the company is affected by changes, bearing an accentuated risk in case there is a significant change. Yet, we were drastic in the different scenarios analysed, and keeping in mind Zalando's competitive advantages as well as the growth we expect the company to have, our final recommendation is to buy.

Income Statement

	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031	31/12/2032	31/12/2033	31/12/2034	31/12/2035
Revenues	7982	10354	10345	9623	11529	13536	15795	18586	21742	25351	29008	33000	37220	41328	45214	49111
Cost of Sales	-4561	-5988	-6233	-6081	-7208	-8389	-9721	-11364	-13212	-15312	-17428	-19723	-22136	-24469	-26667	-28839
Gross Profit	3421	4366	4112	3541	4320	5147	6075	7222	8530	10038	11581	13277	15084	16859	18546	20271
Selling and Distribution Costs	-2579	-3389	-3336	-3125	-3617	-4120	-4888	-5524	-6129	-6968	-7789	-8658	-9546	-10582	-11573	-12566
Administrative expenses	-272	-338	-396	-305	-336	-370	-414	-469	-530	-598	-669	-747	-831	-917	-996	-1089
Other Operating Income/Expense	8	21	13	14	18	19	23	28	32	38	43	49	55	61	67	73
EBITDA	578	660	393	125	386	676	796	1257	1904	2510	3166	3920	4762	5422	6045	6689
Depreciations and Amortizations	-211	-236	-312	-339	-361	-395	-447	-518	-600	-694	-786	-887	-993	-1092	-1184	-1274
EBIT	367	425	81	-215	25	282	349	739	1304	1816	2379	3033	3769	4329	4861	5415
Stratutory Taxes	-112	-130	-25	0	-7	-86	-106	-225	-397	-554	-725	-925	-1149	-1320	-1482	-1651
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	-3	-5	-15	-7	-9	-10	-9	-10	-10	-9	-10	-10	-9	-10	-10	-9
CORE NOPAT	252	290	42	-222	8	185	233	504	896	1253	1644	2099	2610	3000	3369	3754
Interest and similar income	16	4	9	10	7	9	9	8	8	8	8	8	8	8	8	8
Result of investments accounted	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Financial Result	-7	-15	12	-3	-2	2	-1	-1	0	-1	0	0	0	0	0	0
Non-Core EBT	10	-11	20	6	5	11	7	8	9	8	8	8	8	8	8	8
Stratutory Taxes	-3	3	-6	-2	-2	-3	-2	-2	-3	-2	-2	-2	-2	-2	-2	-2
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	7	-7	5	2	0	2	1	1	1	1	1	1	1	1	1	1
Other non-current income/expenses	8	-30	52	0	0	0	0	0	0	0	0	0	0	0	0	0
NON-CORE NOPAT	22	-44	71	6	3	9	6	6	7	7	7	7	7	7	7	7
TOTAL NOPAT	275	246	113	-216	12	195	240	511	904	1260	1651	2106	2617	3007	3376	3761
Financing																
Interest and similar expenses	-58	-59	-63	-8	-32	-49	-74	-98	-108	-102	-78	-34	0	0	0	0
Tax Shield	18	18	19	3	10	15	23	30	33	31	24	10	0	0	0	0
Financing Result	-40	-41	-44	-6	-22	-34	-52	-68	-75	-71	-54	-24	0	0	0	0
Comprehensive income	234	205	69	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761

	31/12/2036	31/12/2037	31/12/2038	31/12/2039	31/12/2040	31/12/2041	31/12/2042	31/12/2043	31/12/2044	31/12/2045	31/12/2046	31/12/2047	31/12/2048	31/12/2049	31/12/2050
Revenues	53032	57333	61059	64995	68955	72815	76923	81292	85948	90438	95197	98423	101757	105205	108770
Cost of Sales	-31138	-33659	-35841	-38147	-40466	-42725	-45129	-47686	-50411	-53037	-55821	-57704	-59651	-61664	-63745
Gross Profit	21894	23674	25218	26848	28490	30090	31793	33606	35537	37401	39377	40718	42106	43541	45025
Selling and Distribution Costs	-13565	-14651	-15609	-16610	-17616	-18596	-19639	-20748	-21929	-23067	-24274	-25088	-25930	-26800	-27699
Administrative expenses	-1195	-1290	-1383	-1482	-1584	-1684	-1791	-1905	-2028	-2149	-2276	-2368	-2465	-2564	-2668
Other Operating Income/Expense	79	85	90	96	102	108	114	120	127	134	141	146	151	156	161
EBITDA	7223	7809	8316	8853	9392	9918	10478	11073	11708	12319	12968	13408	13862	14333	14819
Depreciations and Amortizations	-1362	-1460	-1538	-1621	-1703	-1779	-1861	-1948	-2042	-2128	-2220	-2264	-2310	-2357	-2464
EBIT	5861	6349	6778	7232	7690	8139	8617	9125	9666	10191	10748	11144	11553	11976	12354
Stratutory Taxes	-1787	-1936	-2067	-2205	-2345	-2482	-2627	-2782	-2947	-3107	-3277	-3398	-3523	-3651	-3767
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	-10	-10	-9	-10	-9	-9	-10	-9	-9	-10	-9	-9	-10	-9	-10
CORE NOPAT	4064	4404	4702	5017	5336	5648	5980	6333	6709	7074	7462	7736	8021	8315	8578
Interest and similar income	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Result of investments accounted	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Financial Result	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Core EBT	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Stratutory Taxes	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other non-current income/expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NON-CORE NOPAT	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
TOTAL NOPAT	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Financing															
Interest and similar expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Shield	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Result	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Comprehensive income	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585

Free Cash Flows

	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031	31/12/2032	31/12/2033	31/12/2034	31/12/2035
Core NOPAT	252	290	42	-222	8	185	233	504	896	1253	1644	2099	2610	3000	3369	3754
Core Invested Capital	-167	-161	-304	-89	-352	-441	-625	-830	-1008	-1088	-1186	-1344	-1497	-1556	-1612	-1714
Change in PP&E	-102	-149	-180	-84	-134	-134	-228	-318	-360	-410	-409	-443	-464	-440	-402	-395
Change in Intangibles & Goodw	-43	-27	-151	-76	-228	-278	-336	-411	-493	-508	-604	-789	-899	-1007	-1109	-1212
Change in Other Operating Net	49	-18	-25	-76	-30	-72	-83	-126	-146	-146	-143	-155	-161	-150	-133	-129
Investment in NWC	-71	33	58	148	40	43	23	26	-9	56	50	42	27	41	33	22
	-82	-32	-567	-400	-695	-696	-1017	-1155	-1121	-923	-728	-590	-384	-113	145	327
Core FCF	€85	€129	€-263	€-311	€-344	€-255	€-392	€-326	€-112	€165	€458	€754	€1,113	€1,443	€1,757	€2,041
Non-Core Nopat	22	-44	71	6	3	9	6	6	7	7	7	7	7	7	7	7
Non-Core Invested Capital	87	-138	-79	98	-39	-7	17	-9	0	3	-2	0	0	0	0	0
Change in Financial Assets	-4	-84	-39	54	-23	-3	9	-5	0	1	-1	0	0	0	0	0
Change in non-financial asset	87	-88	-82	84	-29	-9	16	-7	0	3	-2	0	0	0	0	0
Change in Tax Liabilities	4	34	43	-40	12	5	-7	3	0	-1	1	0	0	0	0	0
Non-Core FCF	€109	€-181	€-8	€104	€-36	€3	€24	€-3	€8	€10	€5	€7	€7	€7	€7	€7
Investing FCF	195	-52	-270	-207	-379	-253	-368	-329	-104	174	463	762	1121	1450	1764	2048
Financial Result	-40	-41	-44	-6	-22	-34	-52	-68	-75	-71	-54	-24	0	0	0	0
Change in Net Debrt	-387	231	403	212	402	287	420	397	179	-103	-409	-738	-1121	-1450	-1764	-2048
Debt CF	€-427	€190	€359	€207	€379	€253	€368	€329	€104	€-174	€-463	€-762	€-1,121	€-1,450	€-1,764	€-2,048
Changes in equity	467	68	-20	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761
Comprehensive Income	234	205	69	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761
Transaction with shareholders	€232	€-137	€-89	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Investing FCF	-195	52	270	207	379	253	368	329	104	-174	-463	-762	-1121	-1450	-1764	-2048

	31/12/2036	31/12/2037	31/12/2038	31/12/2039	31/12/2040	31/12/2041	31/12/2042	31/12/2043	31/12/2044	31/12/2045	31/12/2046	31/12/2047	31/12/2048	31/12/2049	31/12/2050
Core NOPAT	4064	4404	4702	5017	5336	5648	5980	6333	6709	7074	7462	7736	8021	8315	8578
Core Invested Capital	-1780	-1938	-1927	-2053	-2146	-2216	-2352	-2495	-2649	-2723	-2877	-2688	-2782	-2879	-3391
Change in PP&E	-389	-429	-346	-364	-359	-337	-360	-385	-412	-380	-404	-194	-201	-208	-473
Change in Intangibles & Goodw	-1314	-1427	-1525	-1628	-1732	-1833	-1941	-2056	-2178	-2296	-2421	-2505	-2593	-2683	-2777
Change in Other Operating Net	-125	-138	-104	-110	-106	-95	-102	-110	-118	-104	-111	-28	-29	-30	-184
Investment in NWC	48	57	48	50	50	49	52	55	59	56	60	40	41	42	44
	503	528	848	912	1043	1216	1277	1343	1410	1629	1708	2361	2457	2557	1796
Core FCF	€2,284	€2,466	€2,775	€2,964	€3,189	€3,432	€3,628	€3,838	€4,060	€4,352	€4,585	€5,049	€5,239	€5,436	€5,187
Non-Core Nopat	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Non-Core Invested Capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Financial Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in non-financial asset	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Tax Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Core FCF	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7
Investing FCF	2291	2473	2782	2971	3196	3439	3635	3845	4067	4359	4592	5056	5246	5442	5194
Financial Result	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Net Debrt	-2291	-2473	-2782	-2971	-3196	-3439	-3635	-3845	-4067	-4359	-4592	-5056	-5246	-5442	-5194
Debt CF	€-2,291	€-2,473	€-2,782	€-2,971	€-3,196	€-3,439	€-3,635	€-3,845	€-4,067	€-4,359	€-4,592	€-5,056	€-5,246	€-5,442	€-5,194
Changes in equity	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Comprehensive Income	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Transaction with shareholders	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Investing FCF	-2291	-2473	-2782	-2971	-3196	-3439	-3635	-3845	-4067	-4359	-4592	-5056	-5246	-5442	-5194

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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ZALANDO SE

COMPANY REPORT

E-COMMERCE FASHION

17 MAY 2023

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Surfing the E-commerce Wave

An Equity Research Analysis of the E-commerce Giant

- Tough economic outlook for 2023 and 2024, driven by high inflation, interest rates, and decreasing real wages.
- Shift in consumption patterns towards essential goods due to decreasing disposable income.
- High growth potential in the industry due to the fast-paced adoption of e-commerce.
- Increasingly tailored and immersive online shopping experiences outperforming traditional brick-and-mortar stores.
- Internet penetration expected to cross 90% in the next decade, facilitated by disruptive technologies such as Starlink and 5G networks.
- 2021-2027 EU funding plan further propelling internet accessibility and digital growth.
- Zalando leading the European e-commerce fashion scene with the largest fulfillment network.
- Over 1 million square meters of fulfillment space across Europe.
- Wide brand variety with over 7000+ brands available on the platform.
- High consumer engagement, with 1 in 4 active e-commerce fashion consumers in Europe purchasing from Zalando at least once in 2022.

Company description

Zalando SE is a leading European e-commerce company founded in Berlin, Germany. It provides a personalized online shopping experience through its platform that offers a wide range of fashion and online products.

Recommendation: BUY

Price Target FY23: 44.94 €

Price (as of 9-Jul-23) 31.81 €

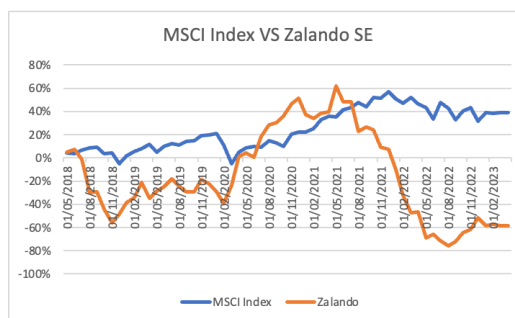
Reuters: ZALG.DE, Bloomberg: ZAL:GR

52-week range (€) 19.18-45.81

Market Cap (€m) 7,984

Outstanding Shares (m) 294

Source: Bloomberg



Compounded monthly return of the past 5 years

Source: Bloomberg

(Values in € millions)	2022	2023E	2024F
Revenues	10,345	9,623	11,529
Yoy Growth	-0.1%	-7.0%	19,8%
EBITDA	393	125	386
Yoy Growth	-40%	-68%	209%
Net Profit	69	-222	-11
Yoy Growth	-66%	-421%	-95%
FCFF	-270	-207	-379
Yoy Growth	-415%	24%	-84%
EPS	0.26	-0.84	-0.04

Source: Analysts estimates

2022-2023_Spring_39347_49098

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Zalando Overview

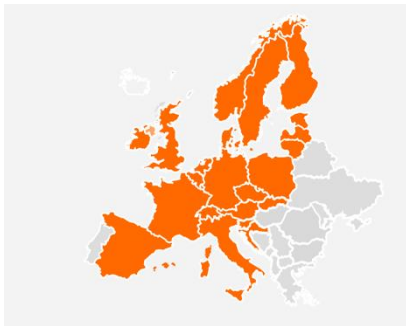


Figure 1: Zalando's operating markets
Source: Zalando Investors Factbook 2022

Zalando SE was founded in 2008 in a basement of a shared apartment in Berlin as an idea between two friends. It started as an online shoe store that would offer free delivery and a 100-day right of return during a time when it was uncommon to do so. As such, they were able to attract many clients and grow to become the leading European online platform for fashion and lifestyle.

Zalando currently operates in 25 different markets, having learned to adapt its marketing, communications, and services to adapt to the culture of each country. It has evolved from being a fashion retailer which only sold footwear to becoming an online platform that connects all the players in the Fashion industry: consumers, retailers, brands, stylists, factories, and even advertisers.

The company takes prides in keeping the “start-up” spirit at heart with the hunger to disrupt the market by innovating.

Business Units

Zalando is composed by three different business units: Fashion Store, Off-price and “All other Segments”.

The *Fashion Store* segment accounts for over 80% of sales. It is composed by the online fashion store platform which connects over 7000 brands to customers including Zalando's own private labels (Anna Field, Even&Odd, Friboo, Pier One, Yourturn and ZIGN). This segment allows for new companies to adhere to the platform in two ways: wholesale and Zalando partner program (ZPP):

In the traditional wholesale model, Zalando purchases products directly from brands and resells them to customers on their platform. Zalando earns revenue by selling these products at a higher price than what they were purchased for. This also allows Zalando to control the stock and ensure a certain level of product availability.

ZPP allows brands to sell their products directly through the Zalando platform. The partners are responsible for holding the inventory, while Zalando provides the online platform and customer base. Zalando charges a commission on each sale made through this program. This model allows Zalando to offer a wider variety of products without having to hold additional merchandise. After becoming partners, the brands can choose to further integrate their operations with a variety of different services mainly, Zalando Fulfilment Solutions (ZFS), and Zalando Marketing Solutions (ZMS). In the ZFS Zalando takes care of logistics for their partners. This includes storage, shipping, and return. Partners benefit from Zalando's extensive

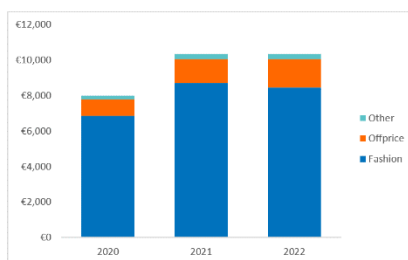


Figure 2: Zalando's Revenue by Segment
Source: Analysts' Graphs based on Company Information

logistics network and experience, while Zalando earns revenue for providing these services. This also helps to ensure a consistent customer experience across the platform. ZMS includes a range of marketing services to its partners. These services include targeted advertising, promotional campaigns, and analytics. Zalando's large customer base and data-driven approach can provide partners with valuable insights and exposure. Zalando charges for these services and thus creates another source of revenue and a new level of partnership integration

The second business unit is the Off-price segment which allows to expedite excess stock to consumers that are more price sensitive. It is composed by the Zalando Lounge platform where customers can find heavily discounted prices (members only). This segment also composes the Zalando Outlet stores.

The third business unit is the *All Other Segments* and includes services such as Zalando Pay and Zalando Marketing Solutions (ZMS) through which Zalando has worked with emblematic brands such as Adidas and Asics.

Macroeconomic Outlook & Future Trends

Driven by changing consumer behaviours, technological advancements, and the long-lasting effects of the Covid-19 pandemic. E-commerce platforms offer convenience, wider product selection, and personalized shopping experiences to consumers at any hour of the day. However, as any industry there are core challenges to overcome such as sustainable fashion and time for delivery as well as short-term risks like high levels of inflation; high interest rates and decreasing real wages. Nevertheless, we expect a continuation of the transition towards e-commerce in the fashion industry in the foreseeable future.

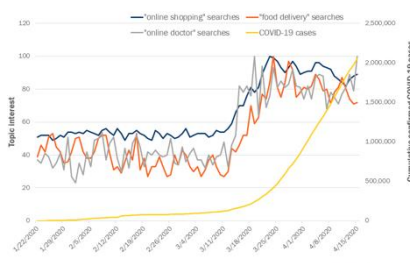
Covid-19 and E-commerce

In 2021, e-commerce was the second-fastest growing sector in Europe ([Financial Times, 2021](#)). This rapid increase was reflected in the performance of Zalando, which experienced unprecedented growth that year. With brick-and-mortar stores closing or adapting to restrictions, consumers had little to no choice but to embrace online shopping. However, as Covid-19 restrictions are being lifted, people are able to return to brick-and-mortar stores and spend money on travel and physical experiences, which questions whether e-commerce growth will slow down.

Prior to the pandemic, e-commerce was already having a significant growth, representing approximately 25% of 2019's total retail sales in Europe ([McKinsey, 2021](#)). The pandemic forced many consumers to overcome their hesitation regarding online shopping, enabling them to grow comfortable with online payments and other aspects of digital transactions. Thus, it is reasonable to argue



Figure 3: ZMS Campaign for Adidas
Source: Zalando SE Website



Source: Google Trends topic interest over time (normalized to index with scale 0-100); Johns Hopkins Coronavirus Resource Center
BROOKINGS
Figure 4 – Worldwide Google searches (including online shopping) in the pandemic
Source: Brookings

that Covid-19 accelerated the transition of consumer behaviour towards online services.

Although growth in e-commerce may return to single-digit rates instead of the 30% seen in 2020 ([Digital Commerce 360, 2021](#)), it is unlikely that the sector will experience a full reversal to pre-covid levels. The lasting effects of the pandemic on consumer behaviour is likely to persist. This assertion is reflected in Zalando's revenue in 2022, which, while not as high as in 2021, remains considerably above pre-pandemic levels ([Zalando, 2022](#)). However, we believe that in 2022 was a transition year and consumers will continue to adjust to a post-pandemic world.

Looking at Zalando, by offering its support during those challenging times, launching a zero-commission program with weekly pay-outs, it ensured a lot of new brands would join the platform and created a certain degree of loyalty between them ([Zalando, 2020](#)).

Finally, consumers increased comfort with online shopping cultivated during Covid-19, is expected to have a long-lasting effect on consumer behaviour and to drive to high growth rates of consumer adoption to e-commerce in the future.

Ukraine Invasion and Inflation

In 2023, the e-commerce fashion industry is undergoing a period of high uncertainty due to a confluence of global events, notably the Ukraine invasion and the ongoing inflationary process. Both occurrences have created a challenging environment for businesses across different industries.

The Ukraine invasion in 2022 is having far-reaching economic implications across the globe. It has disrupted global supply chains and caused significant fluctuations in currency markets. Ukraine may not be among the largest players but is still a key player in the global textile industry with more than 2500 manufacturing plants and exporting mainly to European countries ([Textile Infomedia, 2023](#)). Since the beginning to the conflict textile production capabilities hampered and some brands seen their supply chains disrupted affecting day to day operations. Additionally, the conflict, has led to fluctuations in currency markets, impacting purchasing power of consumers in Europe and beyond. This could potentially affect e-commerce fashion platforms like Zalando, as consumers may become more conservative in their spending habits.

As prices increase, the real wages of consumers decrease they shift consumption to essential goods over discretionary purchases such as fashion. This shift in consumer behaviour results in a squeeze of the margins of e-commerce fashion platforms.

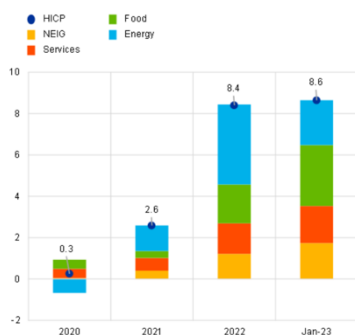


Figure 5 – Euro area HICP inflation
 Source: European Central Bank (ECB)

Energy inflation also plays its role, pressuring down the operational margin of companies in the fashion industry adding further uncertainty to the industry in 2023 ([The ECB Blog, 2023](#)).

Rising Shipping Costs

Another major threat to the industry has been the steep increase in shipping costs. The covid-19-induced increase in online shopping, led to an increase in the shipping demand which resulted in serious capacity constraints. According to the International Road transport union the shortage of drivers (of around 10%) is expected to get worse in the coming years ([Truck Mobility Info, 2023](#)). As such wages for truck drivers are expected to pick up, which will affect overall shipping costs. On top of it all, gas prices that were already in an upwards direction will be further impacted by Saudi Arabia and other countries cutting oil production. ([Financial Times, 2023](#)). With wages and gas prices expected to increase, the outlook for the shipping costs in the future is negative. However, ocean freight has been improving, driven by an increase in the efficiency of ship congestion, which is having a positive impact on the costs of companies that ship worldwide ([McKinsey, 2022](#)). This increase in truck transportation prices led to e-commerce platforms to defend their margins by starting to charge for returned products. Inditex, imposed a fee for returned products moved consumers back to their physical stores, which in turn improved their margins ([Bloomberg, 2022](#)). However, for e-tailers like Boohoo this change has left customers unsatisfied as they can't try the clothes beforehand ([Skynews, 2022](#)). Even companies who have resisted charging for returns, they imposed a minimum order value to offer shipping and increased membership prices. Likewise, Zalando introduced a minimum cart size to offer shipping in the second semester of 2022. In a further attempt to retain margins they cut the costs with marketing ([Zalando, 2022](#)).



Figure 6 – Percentage of unfilled truck drivers positions in 2021, by region.
 Source: International Road Union

Technological Advancements

One of the primary challenges faced by online shopping has been the inability for consumers to try products and experiment with different combinations before making a purchase. Augmented Reality (AR) is revolutionizing the e-commerce landscape by providing a solution to this problem. AR technology enables consumers to visualize a 3D model of a product, leading to more confident purchasing decisions. ([E-commerce Germany, 2023](#)) Many companies, such as Sephora and Nike, have already started implementing AR in their businesses, and Zalando is no exception.



Figure 7 – Zalando Pop-up store in Madrid
Source: Neo2Magazine

Previously, Zalando operated Zalon, a platform offering personalized style advice from professional, which was later discontinued and integrated as a permanent feature for Zalando Plus members. Customers can input their preferences and budget, while professional stylists curate outfits tailored to their needs. Additionally, Zalando provides individual size recommendations. (RetailDetail, 2022) In 2020, the company acquired Fision, a technology start-up that developed an app acting as a 3D body scanner. With just two photos, a 3D avatar is created for customers, enabling a virtual fitting room experience. This innovative approach not only allows customers to try on various clothes and combinations but also reduces incorrect purchases due to sizing, contributing to Zalando's sustainability efforts. (Hilpert, L. & Zumstein, D., 2023) Zalando further showcased its pioneering approach to AR with the 4-day launch of a pop-up store featuring no physical clothes. Customers were scanned upon entry, allowing them to virtually 'try on' any item from Zalando's extensive catalog. (Retail Detail, 2019)

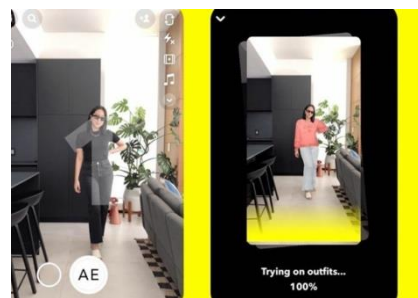


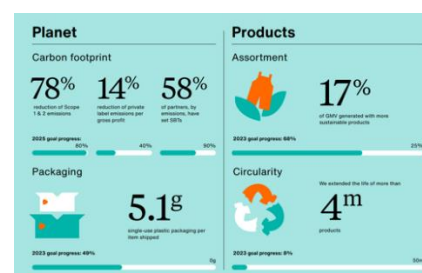
Figure 8 – Zalando try-on filter on Snapchat
Source: RetailOptimizer

However, AR is not the sole technological trend driving the industry. Machine Learning and Artificial Intelligence (AI) are increasingly employed to meet customer needs, leveraging customer data to offer personalized experiences. Simple chatbots, for instance, utilize AI to significantly improve customers' journeys. As a result, investments in technology are projected to grow, aligning with Zalando's strategy. The company's production of proprietary software will lead to a corresponding increase in intangible assets.

Included in these technological changes is automation. Companies have increasingly invested in making repetitive tasks automated, saving in employee costs. In fact, retail and consumer goods is set to be the biggest spender in automation for the next five years. (Mckinsey, 2023). Zalando has already started investing in that area, which entails lower personnel growth in the upcoming future.

Sustainable Shopping

With increasing available knowledge about the impact of consumerism on the environment and society, there has been a marked shift towards sustainable and ethical consumption patterns. Still, consumers are struggling to base their purchasing decision on sustainability, mainly due to lack of awareness. (Financial Times, 2021). According to a 2023 Google cloud report on consumer goods, 82% of consumers prefer businesses that prioritize the planet and humanity over profits which may lead to a deceleration of the fast fashion industry (Google Cloud, 2023). The European Union is also addressing the sustainability challenge by introducing new regulations that require businesses to incorporate environmental costs into



their pricing strategies, which would further encourage responsible consumer behaviour. ([Financial Times, 2021](#))

Recognizing the growing significance of sustainability, Zalando has acknowledged that embracing sustainable practices will be crucial to remain relevant and competitive in the future. ([Financial Times, 2021](#)) To facilitate sustainable shopping, Zalando has introduced a user-friendly filter that allows customers to easily identify and choose sustainable clothing options. This feature demonstrates the company's dedication to providing a seamless and convenient shopping experience while promoting responsible consumption. In 2021, one of the company's founders reported that over 50% of Zalando's customers had purchased a product with a sustainability icon, a significant increase from 20% in 2020 ([Zalando, 2021](#)). Furthermore, Zalando expanded its sustainable product offerings from 140,000 in 2021 to over 180,000 in 2022, accounting for 17% of its gross merchandise value (GMV) ([Zalando, 2022](#)).

Zalando has not only succeeded in reducing emissions from its order fulfilment processes but also demonstrated a commitment to investing in further sustainability improvements. The company's focus on sustainable practices is expected to result in an increased market share, positioning it ahead of fast fashion competitors.

Competitive Landscape

In the fast-growing e-commerce fashion industry, Zalando emerged to a pole position in the European market. Strong partnerships with brands and maintaining a vanguardist position in technological advancements and strong fulfilment network allowed it to successfully tap the market, namely in the DACH region where it currently holds a market share of 13.1%.

The competitive landscape has evolved significantly and is frequently changing, with new entrants and changing market dynamics. Currently, there is five different types of competitors: 1) General e-commerce; 2) Fashion e-commerce; 3) Vertical Fashion Integrators, 4) Brand own e-commerce; and 5) Social media e-commerce.

1) General e-commerce platforms include giants as Amazon and Alibaba and more local players like Otto (with higher impact in Germany and Eastern Europe), that offer a wide range of products in their portfolio including fashion products. These companies stand a strong opposition to Zalando as they are already established in e-commerce, having a high level of brand awareness and thus able to reach a broad number of consumers and operate with high margins by conducting its business on a large scale.

Figure 9 – Zalando Sustainability Progress in 2022
Source: Zalando Sustainability Report 2022

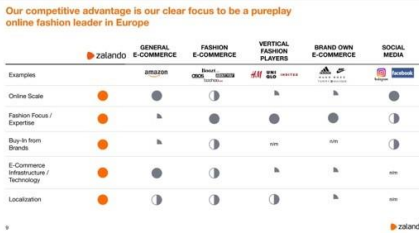


Figure 10 – Zalando’s competitors and its competitive advantages
Source: Zalando Investors Factbook 2022

2) Fashion e-commerce platforms (E-Tailers) are the direct competitors of Zalando as they follow a similar business model: they focus in providing a convenient online shopping experience while offering a wide range of fashion and lifestyle products.

3) Vertical fashion players and 4) Brand own e-commerce, these differ as the first controls every aspect of the supply chain, including retail, while the latter relies on third-party suppliers and manufacturers to sell their products. Both these types of players have a strong online presence and, subsequently, fight for market share against Zalando.

5) Social media e-commerce refers to the integration of online shopping features on social media platforms, enabling users to discover and purchase fashion products directly from the content shared. These competitors benefit from the opportunity of making the shopping experience seamless to consumers by facilitating consumption without leaving the platform through direct links. Meta and Tik Tok are prominent players in the European market.

Peer Comparison

In a way to access Zalando financial performance as an e-tailer the present peer comparison includes direct competitors in terms of size, business model and geographic location. Thus, the following companies were considered: ASOS, Farfetch and About You.

ASOS relies more on its own private labels, accounting for 40% of their total sales but lacks in diversity with only 850+ brands while Zalando has 7000+. Also, the Target audience focus on a younger audience than Zalando, using Tiktok as its main form of advertising.

Farfetch is a luxury fashion marketplace with prices that targets high income consumers. They rely solely on its marketplace model, only having launched its first private brand in 2021 Both ASOS and Farfetch are present worldwide.

About you, is the e-tailer that resembles the most to Zalando. Is also based in Germany, only operates in EU countries, and offers marketing services to partners. However, in terms of size, is falling behind. Having been created in 2014 vs Zalando’s 2008, it falls behind Zalando that benefited from a head start.

Main Financials.

Liquidity

	2019	2020	2021	2022
Current Ratio				
Zalando	1,35	1,68	1,61	1,44
Farfetch	1,38	2,52	2,33	1,80
About you	1,38	1,30	1,92	-
Asos	0,81	1,19	1,50	1,56
Quick Ratio				
Zalando	0,83	1,22	1,11	0,95
Farfetch	1,11	2,33	2,05	1,41
About you	0,82	0,67	1,21	-
Asos	0,11	0,42	0,72	0,48
Cash Ratio				
Zalando	0,47	0,90	0,74	0,55
Farfetch	0,69	2,02	1,50	0,83
About you	0,32	0,34	0,91	-
Asos	0,00	0,48	0,64	0,32

Figure 11 – Zalando Liquidity Ratios compared with its peers.
 Source: Analysts' Table

Zalando presents a high level of liquidity. The current ratio has always been significantly above 1 for the past four years, meaning that company is easily able to cover its short-term liabilities with its short-term assets. Moreover, it is possible to denote by the quick ratio, that Zalando still relies to a certain degree in selling some of its inventory to cover its short-term debt. Even though, in 2020 and 2021, Zalando had a very strong quick ratio (1.22 and 1.11 respectively), those years were very atypical, mainly due to strong effects of the pandemic. Regarding the cash ratio, once again, an uprise in the pandemic years, having reached the value of 0.9 in 2020. In 2022 the company was able to cover 55% of its debt with only cash and cash equivalents, proving to be a considerably safe company.

When compared to its peers, it is possible to note that Farfetch is constantly more liquid throughout the years. ASOS however, has been improving its current ratio, surpassing Zalando in 2022. Still, when looking at the quick and cash ratio, it is possible to denote that Zalando is better off, which suggests that ASOS relies a more on selling its inventory. In the case of About You, it's 2022 results are not out yet, but looking at past years it is possible to see that the company's overall liquidity is improving, excelling Zalando in 2021. However, it is not possible to conclude how the company performed liquidity-wise post-pandemic.

Capital Structure

Regarding capital structure, Zalando has a high level of excess cash that leads to a negative level of net debt. The level of Net cash has been decreasing throughout the years. This alongside with an increase in invested capital, results in a increasing of the gearing ratio, reaching -3% in 2022. Likewise, the debt-to-equity ratio is also around -3% for that year because of the decrease in net cash.

Regarding debt-to-EBITDA, has been continuously decreasing since 2018. The level of Debt to Core Result Before Taxes was -7.58 in 2018, this ratio increased to 0.90 in 2022. The decrease in the pandemic years was driven by a higher EBITDA during the period. In 2022, as EBITDA and level of net cash decreased the level of debt-to-EBITDA ratio dropped to -0.9. In general, a level of net debt below zero entails a strong financial stability and comfort to invest in the future

	2018	2019	2020	2021	2022
Gearing Ratio					
Net Debt	€903	€320	€707	€476	€73
Invested Capital	€645	€1,364	€1,444	€1,743	€2,126
Gearing ratio	140%	23%	49%	27%	3%
D/E					
Net Debt	€903	€320	€707	€476	€73
Equity	€1,549	€1,684	€2,151	€2,219	€2,199
D/E	58%	19%	33%	21%	3%
Debt / Core Result Before Taxes					
Net Debt	€903	€320	€707	€476	€73
EBITDA	€119	€156	€367	€425	€81
Debt/Core Result Before Taxes	7.58	1.93	1.93	1.12	0.90
Solvency Ratio					
Equity	€1,549	€1,684	€2,151	€2,219	€2,199
Liabilities	€1,685	€2,649	€4,344	€4,678	€5,427
Solvency Ratio	0.92	0.64	0.50	0.47	0.41
Financial Autonomy Ratio					
Equity	€1,549	€1,684	€2,151	€2,219	€2,199
Assets	€3,234	€4,333	€6,495	€6,897	€7,626
Financial Autonomy Ratio	0.48	0.39	0.33	0.32	0.29

Figure 12 – Zalando Capital Structure Ratios
 Source: Analysts' Table

Profitability

In line with what was expected due to the COVID-19 restrictions being lifted, all companies suffered a steep decrease in revenue growth. Nevertheless, they still managed to keep it positive, in contrast with Zalando who saw its revenues slightly decline. Still, to better understand the financial health of the company

When looking at profitability, it is important to note that all gross margins have been decreasing in the past three years for the more established companies. Moreover, Zalando has had a gross margin constantly lower than its peers, apart from About You, which constantly showed a worse result after 2019. However, Zalando stands strong when taking into consideration all the operating expenses, highlighting its efficient logistics. Both Farfetch and About You have constantly shown a negative operating profit, in the analysed years. In the case of Asos, although it presented a better operating margin in 2021, with a difference of around 0.8 p.p., a negative EBIT in 2022, resulted in an also negative operating margin, putting Zalando in a better financial position for that year. The same can be seen for the profit margins, apart from Farfetch. However, although Farfetch manages to overcome its negative operating margin in the past two years to an impressive number such as 65.2% in 2021, this is mainly due to gains on items held at fair value and remeasurements, which means assets the company owns have appreciated and, therefore, this cannot be seen as a sustainable profit margin over the long term. In comparison to its peers we proceeded to compare the profitability ratios

Therefore, it is possible to conclude that even though Zalando does not have the best gross margins, it has substantially less, on average, operating expenses than its peers.

Main Drivers and Forecasts

Revenue Model

Our analysis was confined to Europe, as Zalando has no immediate plans to expand beyond this region mainly because of challenges of efficient logistics planning and the highly competitive markets in Asia and the US. Zalando's established a strong logistics network in Europe making more reasonable to assume that Zalando will continue to expand within other European countries in the foreseeable future.

The revenue model consists of three stages: (1) determining the market size of the e-commerce fashion industry; (2) analysing consumer spending to get an insight

	2019	2020	2021	2022
Gross Margin				
Zalando	42.55%	42.52%	41.78%	39.20%
Farfetch	45.04%	46.06%	45.05%	44.17%
About you	43.17%	40.72%	40.90%	-
Asos	48.81%	47.42%	45.43%	43.63%
Operating Margin				
Zalando	2.56%	4.60%	4.10%	0.78%
Farfetch	-40.13%	-37.03%	-21.10%	-36.57%
About you	-10.68%	-4.76%	-6.92%	-
Asos	1.28%	4.63%	4.86%	-0.25%
Profit Margin				
Zalando	1.54%	2.83%	2.27%	0.16%
Farfetch	-36.60%	-199.12%	65.17%	14.89%
About you	-10.73%	-5.14%	-7.18%	-
Asos	0.90%	3.47%	3.28%	-0.78%

Figure 13 – Zalando Profitability Margins compared to its peers.
Source: Analysts' Table

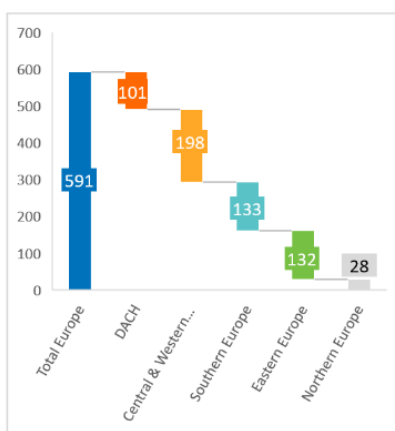


Figure 14 – Europe's Population
Source: Analysts' Graph

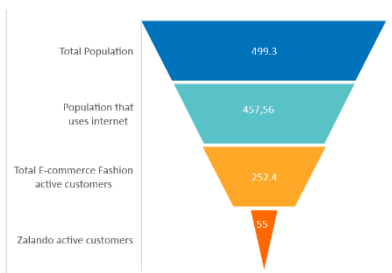


Figure 15 – Market Share Funnel of Zalando
Source: Analysts’ Estimates, based in Eurostat, Statista and Zalando 2022 Annual Report

Population CAGR 2022-2032	
Total Europe	0,1%
DACH	0,1%
Central & Western Europe	0,1%
Southern Europe	-0,1%
Eastern Europe	0,4%
Northern Europe	0,5%

Figure 16 – Europe’s population expected compounded annual growth rate by region.
Source: Analysts’ Estimates

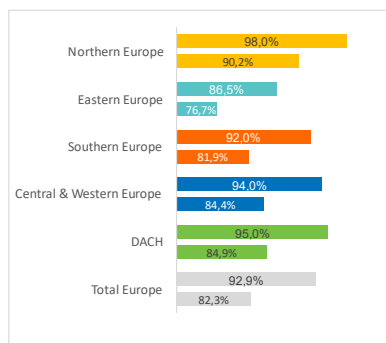


Figure 17 – Internet penetration rate by region
Source: Analysts’ Graphs based on Eurostat

Internet Penetration Rate CAGR 2022 - 2032	
Total Europe	1.2%
DACH	1.1%
Central & Western Europe	1.1%
Southern Europe	1.2%
Eastern Europe	1.2%
Northern Europe	0.8%

Figure 18 – Europe’s expected internet penetration compounded annual growth rate by region.
Source: Analysts’ Estimates

of the average amount spent per person on e-commerce fashion; and (3) evaluating Zalando's market share.

Our analysis was further divided into five key geographical regions: DACH, the company's original launch region; Central and Western Europe; Southern Europe; Eastern Europe; and Northern Europe.

▪ **Market Size**

We gained an understanding of the market size by combining three key indicators: Total Population, Internet Penetration, and E-commerce Fashion Adoption among Internet users. The market size was calculated as follows:

$$\text{Market Size} = \text{Total Population} \times \text{Internet Penetration} \times \text{E-commerce Fashion Penetration Rate within Internet users}$$

Thus, being defined by the number of people that bought a clothing item online. In 2022, the market size consisted of 206.9 million active customers, which represented 54.3% of Europe's total population. Zalando captured approximately one-quarter of the market with 55 million active customers. We anticipate rapid growth in the market size, primarily due to ongoing efforts to increase Internet penetration rates and e-commerce fashion adoption, which is driven by factors such as fashion industry trends, consumer behaviour, and greater convenience of online shopping.

• **Total Population**

Currently Europe has a population of 591 million people where 101 million bought shoes, or accessories through an online platform in the last 12 months. from the DACH Region, 198 million in Central & Western Europe, 133 million in Southern Europe; 132 million in Eastern Europe and 28 million in Northern Europe. During the forecasted period (2022-2032) it is expected that the total European population will grow by 0.1% CAGR. Northern Europe and Eastern Europe to grow at a faster rate and Southern Europe to decrease total population.

• **Internet Penetration**

Europe is among the economies with the highest penetration rate of internet, counting with a penetration rate of 82,3% in 2022. Nevertheless, the level of penetration is not equal in every region in Europe. While the Northern Europe and the Central & Western Europe have penetration rates of 90% and 84% respectively, the Southern Europe and Eastern Europe sit around 82% and 77%.

In the forecasted period we assume that there will be a convergence among different economies. For countries in the European Union this convergence will

happen even faster with the help of programs such as The Digital Europe Program (DIGITAL) and Connecting Europe Facility (CEF) which aim to accelerate the digital transformation of Europe and social cohesiveness by investing in digital innovation and improvement of digital skills of the population, ensuring that everyone can benefit from digital services. In fact, the allocated budget for Cohesion policy 2021-2027 was €392 Billion meaning it is expected an accelerated conversion among EU-countries, including accessibility of Internet. Besides that, the technological advancements such as internet satellite, 5g and 6g networks will also have an impact on the penetration rate. The development of wireless networks will have a stronger impact in rural areas where traditional wired infrastructure are hard and expensive to be deployed making it more affordable for the population to use the internet. Additionally, as generations renovate the penetration rate will naturally increase.

With that said we assumed that by 2032 the internet penetration rate expect that the internet penetration rate will be around 98% for the Northern Europe (Δ 7.8p.p); 94% for the Central & Western Europe (Δ 9.6 p.p); 92% for Southern Europe (Δ 10.1p.p); and 86.5% for Eastern Europe (Δ 9.8p.p).

• **E-commerce Fashion Penetration**

Regarding e-commerce fashion adoption among internet users, Europe has a 56.7% penetration rate. The DACH region leads with the highest rate of 68%, while Eastern Europe lags behind with a lower rate of 42%. Looking at the yoy % growth trends, it has been consistent at 7% across all regions, except for Southern Europe, which has been having a slight deceleration in recent years, dropping from 7.5% in 2019 to 4.3% in 2022.

We expect that this rate will decrease as saturation is approached (100% penetration). A fast-paced adoption is expected in the next 10 years and then continue to slowly increase over time. Eastern Europe is expected to grow at a faster rate as it converges to the Rest of Europe.

The main drivers for the increase in the e-commerce fashion penetration rate in the following years are the opportunities e-commerce offers that satisfy the growing consumer need for personalized, seamless, and convenient experiences (Mckinsey, 2021). Indeed, fashion consumers deliberately seek out these types of experiences, as fashion focus on self-expression making it crucial to offer users a smooth and pleasant experience in a growing omnichannel industry.

Technology allows to build on consumers' buying preferences and therefore make tailored suggestions and offers when online shopping. In fact, AI-assistants, for example in the form of chatbots, prove to be more and more useful in serving

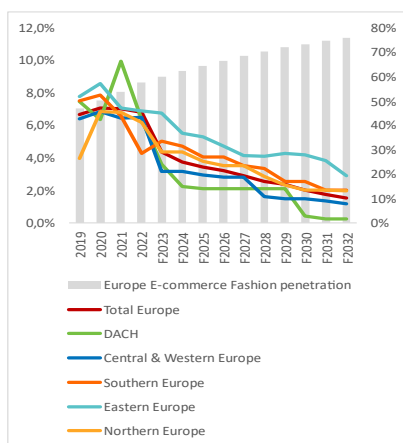


Figure 19 – E-commerce penetration rate among internet users per region!!
Source: Analysts' Estimates

E-Commerce Fashion Penetration CAGR 2022 - 2032	
Total Europe	3.5%
DACH	3.0%
Central & Western Europe	2.9%
Southern Europe	4.1%
Eastern Europe	5.2%
Northern Europe	3.7%

Figure 20 – Europe's expected Fashion penetration compounded annual growth rate by region.
Source: Analysts' Estimates

clients, becoming increasingly more human-like, such as Google’s conversational [Dialogflow platform](#).

Furthermore, offering augmented reality as an e-commerce option is swiftly becoming an effective way to boost user experience by allowing people to try on clothes, shoes or apparel without having to be inside a store ([Vogue, 2021](#)).

The metaverse also plays its part in the increase of the e-commerce fashion penetration rate, as a greater amount of internet users will spend more time in this immersive, digital, interactive world and they even consider shopping the top activity that they would like to explore ([Toluna, 2023](#)). Some retailers like Forever 21 have already began partnering with platforms like Roblox to create virtual fashion ecommerce stores in its metaverse ([Business Wire, 2021](#)).

Moreover, being able to co-create products from the comfort of your own home is also a feature that is giving and will continue to give e-commerce a leverage over offline commerce. “Brands are adjusting their virtual activations to trade in creativity and cocreation alongside traditional products” within current and upcoming metaverse and web3 technologies ([Wunderman Thompson, 2023](#)), thus making online shopping more personalized than ever.

Lastly, a general consumer behaviour shift into more digital purchases during COVID-19 made consumers more willing to consider using the internet to perform purchases in the future ([Mckinsey, 2020](#)).

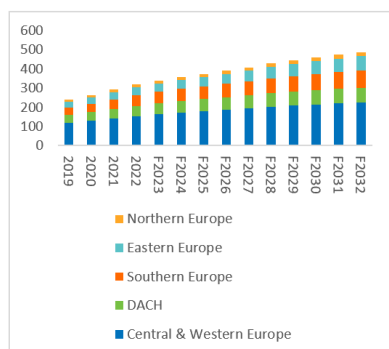


Figure 21 – E-commerce Fashion Market Size by active consumers (in million)
Source: Analysts’ Estimates

Market Size (Active Customers) CAGR 2022 - 2032	
Total Europe	5,6%
DACH	4,8%
Central & Western Europe	5,2%
Southern Europe	6,6%
Eastern Europe	6,6%
Northern Europe	6,2%

Figure 22 – E-commerce Fashion’s market size expected compounded annual growth rate by region
Source: Analysts’ Estimates

• **Forecast**

Combining the aforementioned growth factors of the active e-commerce fashion active customers, we expect a fast adoption of the e-commerce fashion services.

Europe to grow from 265,1 Million to 553 million (5.6% CAGR) during the forecasted period. Southern and Eastern Europe to grow faster at a pace of 6.6% and DACH at a slower pace of 4.8% as it approaches a saturation point.

▪ **Consumer Spending**

Regarding consumer spending, we gathered data on the total e-commerce fashion consumption for each country from 2018 to 2022. Calculated by:

$$\text{E-commerce Fashion Spending per Capita} = \frac{\text{Total E-commerce Fashion Spending}}{\text{Total Active Customers}}$$

Over the past few years, we have observed a notable volatility in consumer spending trends, largely driven by external factors.

In 2020, there was a 7.5% contraction in consumer spending, primarily due to the restrictive measures implemented related to COVID-19 pandemic. As families decreased their spending, the savings rate increased. However, the fashion e-commerce segment emerged as a bright spot within this challenging environment, capturing a greater share of consumer spending, up 22.3% from the previous year, as lockdown measures drove a shopping towards online.

In 2021, the relaxation of pandemic-related restrictions resulted in a resurgence of consumer spending, which increased by 10.5% as families began addressing pending expenses. While the easing of restrictions saw consumers reverting to brick-and-mortar shopping, the pandemic-induced boost to e-commerce proved resilient. Despite a 7.7% yoy decrease, the proportion of spending in online channels remained elevated compared to pre-pandemic levels.

In 2022, geopolitical events, specifically the Ukraine invasion, exerted significant inflationary pressures on the global economy, leading to a rise in consumer spending by 10.2% and lead families to draw down their pandemic savings. Notably, we observed a significant shift in consumer behaviour as families prioritized essential goods, including housing, energy, and food, over non-essential items. This led to a contraction in the share of e-commerce fashion spending of 18.8%.

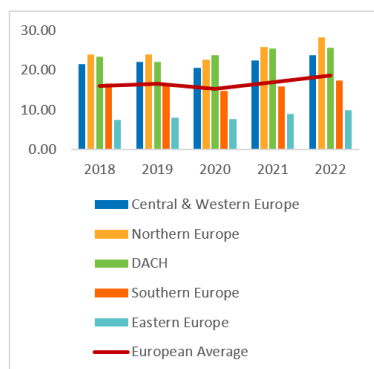


Figure 23 – Average Total Consumer Spending per capita per region
 Source: Analysts' Graph based on Statista

• Consumer Spending Overview

Currently, the average of the total consumer spending in Europe is 19.4 thousand €. Northern Europe has the highest average consumer spending per capita of 29.4 thousand €; then Central & Western Europe of 24.8 thousand €; southern Europe with 18.1 thousand € and finally Eastern Europe of 19.44 thousand €.

Beginning in 2020, the Covid-19 pandemic significantly affected consumer spending, resulting in a 4.3% decline in overall spending. This reduction was largely driven by decreased expenditure in sectors such as travel, tourism, hospitality, entertainment, events, and fuel. The household savings rate in the euro area rose from a quarterly average of around 13% of Gross Disposable Income (GDI) in 2019 to an average of around 21% between 2020-Q2 and 2021-Q2. Starting in the second half of 2021, the savings rate gradually dropped back to pre-pandemic levels, reaching 13.2% in 2022-Q2. As we analyse the landscape of consumer spending in Europe, the current average stands at €19.4 thousand. Notably, Northern Europe leads the pack, demonstrating the highest average consumer spending per capita at €29.4 thousand, followed by Central & Western Europe at €24.8 thousand, Southern Europe and Eastern Europe round out the group with respective averages of €18.1 thousand and €19.44 thousand.

• **E-commerce Fashion Spending per Capita**

Drilling down into the data on e-commerce fashion spending per active customer provides insight into per-customer expenditure trends within this sector.

From 2018 to 2022, e-commerce fashion spending per active customer in Europe reached a high point of €626.4 before declining to €566 in 2022.

Central Europe displayed a Compound Annual Growth Rate (CAGR) of 1.7%, peaking at an average spending of €819 per active customer in 2021. However, this region also witnessed the most significant reduction in 2022, with a 13.6% decrease to €707.

Northern Europe, with a comparable CAGR of 2.1% to Central and Western Europe, reported an average spending of €663 per active customer in 2022.

Southern Europe, despite being the fastest growing region in terms of e-commerce fashion spending per active customer (with a 9.1% CAGR), showed more resilience in 2022, with a decrease of 7.6%, resulting in an average spending of €439.

Eastern Europe, although having the lowest spending in e-commerce fashion, demonstrated growth each year except for 2019, with a 6.8% CAGR. It was the only region to experience growth in 2022, leading to an average spending of €286.2 per active customer.

Shifting Behaviour

In 2018, the proportion of e-commerce fashion spending to total consumer spending per capita varied across regions, ranging from 2% to 3.6%. This variation can be ascribed to regional differences in disposable income and cultural factors. However, by 2020, we observed a convergence in these percentages, with e-commerce fashion spending representing between 3.0% and 3.9% of total consumer spending.

During this interval, the European average saw an uptick from 3% in 2018 to 3.7% in 2020. This expansion materialized despite an overall decline in consumer spending, including in the fashion sector, underscoring the consumer shift towards online shopping channels. From 2020 to 2022, the percentages across regions further harmonized, falling within a band of 2.3% to 2.9%, with the pan-European average receding to 2.8%.

As restrictions lifted in 2021, fashion consumers reverted to offline shopping channels and escalated their expenditure in other sectors that had been restrained in 2020. The additional dip in e-commerce fashion spending in 2022 can be tied to

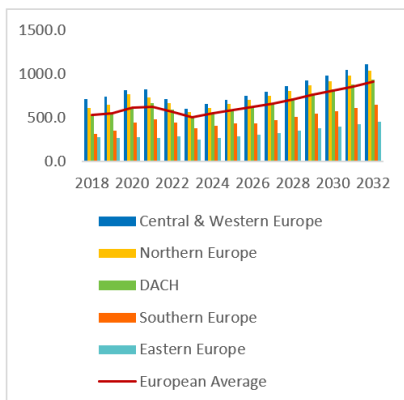


Figure 24 – Average Consumer spending in e-commerce fashion per capita
Source: Analyst’s Estimates

the continued relaxation of pandemic-related restrictions, surging inflation, and escalating interest rates, which prompted consumers to adopt a more prudent stance towards their spending. Consequently, a more significant fraction of their total income was allocated towards essential expenditures such as food, housing, electricity, gas, and fuel.

- **Forecast**

We expect consumer spending to stagnate in 2023. This assumption is based on the analysis of the overall consumer sentiment and consumer behaviour but also on economic indicators, such as inflation rates, oil and energy prices and interest rates, which all together support our belief.

- **Impact of Inflation**

We anticipate that inflation will exert a negative force on total consumer spending, with an explicitly adverse impact on e-commerce fashion consumption.

The Harmonised Indices of Consumer Prices (HICP), our inflation measurement, reveals a decline from its peak of 10.6% in October 2021 to 7% in April 2023. Notably, an inverse correlation appears to exist between inflation in essential items and the consumption of e-commerce fashion, which makes it imperative to analyse the prospects of energy and food inflation:

Energy inflation in 2022 was significantly influenced by the shortage of natural gas supply. Post the Ukraine invasion, Russia's natural gas supply to Europe hit its lowest level since the 1980s, during the Cold War. This led to an unprecedented 13% drop in Europe's natural gas consumption, largely attributed to record-high gas prices and milder weather conditions. For 2023, we expect that energy inflation will persist at the current low levels of 2.5%. This is underpinned by our expectation of a slight decrease in Europe's gas demand, given the ongoing efforts to deploy renewable energy, increase energy consumption efficiency, and electrify heating systems, thereby reducing dependence on Russian energy. Nonetheless, we must acknowledge the risk where Russian piped gas supplies are entirely cut off, and the global Liquefied Natural Gas balance tightens. Under these circumstances, as per the IEA report, the European Union might need to reduce its demand by 8%, which would trigger an inflation rebound of energy in the second half of 2023. ([IEA, 2022](#)).

Food inflation, on the other hand, is expected to be more persistent in 2023 due to several contributing factors. These include droughts, disruptions in trade flows, rising fertilizer expenses, diseases affecting crops, and increasing labor costs, all of which exert upward pressure on food prices. ([Bloomberg, 2023](#)) The elevation

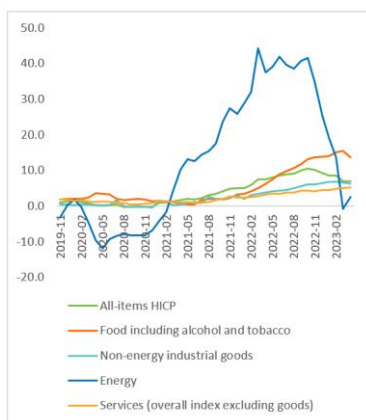


Figure 25 – Headline Inflation
 Source: European Central Bank (ECB)

of fertilizer expenses is associated with escalating energy prices, while the prediction of heightened disease prevalence in 2023 is linked to the ongoing effects of climate change. (IFPRI, 2022) Labour costs are projected to increase due to the inflationary environment causing wage inflation as workers demand higher pay to maintain their standard of living. Food insecurity has been a rising European concern even before the war, due to climate change. The Ukraine invasion amplified food price inflation by disrupting not only imports of food commodities such as wheat and sunflower oils (for which Russia and Ukraine combined accounted for 29% and 62% of global exports respectively) (The World Bank, 2022), but also imports of grain and fertilizers. These disruptions led to a historical peak in food, alcohol & tobacco inflation, reaching 15.5% in April 2023.

Finally, inflation remains one of the most significant consumer concerns and represents a major challenge for the e-commerce fashion industry. This increasing inflation pressure is likely to erode households' purchasing power. Therefore, we expect consumers to allocate a larger portion of their disposable income towards essential items, thereby curtailing spending on non-essential items, including fashion, shoes, and accessories.

- **Impact of Interest Rates**

We anticipate that interest rates will have a dual effect on consumer spending. As of May 2023, market expectations of future interest rates, as indicated by the yield on a 3-month Euribor forward, suggest an increase from 3.256% (May 2023) to a peak of 3.74% in October 2023, this further increase on high interest rates in the short term, will result in even stricter borrowing conditions, limiting even more growth of overall consumer spending. This will particularly impact e-commerce fashion, as consumers shift their spending towards housing and repaying other bank loans tied to interest rates. However, in the medium term, high interest rates will help control inflation, which in turn increases consumers' purchasing power and confidence in the economy. From 2024 interest rates are expected to decrease, considering that this expectation is tied to the expectation of lower Inflation this will lead to an increase overall consumer spending as consumers become more confident to spend on non-essential products and services including clothing, shoes, and accessories.

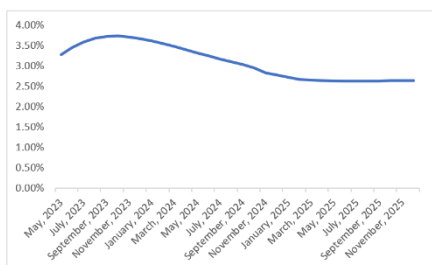


Figure 26 – Euribor 3-month forward
Source: Analysts' Graph based on Euribor_rates.eu

- **Discussion**

When it comes to the amount spent on e-commerce fashion, there are several factors to think about. On one hand, the rising cost of necessary items and limited availability of credit might cause people to spend less on e-commerce fashion. On the other hand, the ongoing shift from traditional in-store shopping to online fashion

shopping indicates a growing trend. We believe that these factors combined will result in a 15% drop in the amount spent on e-commerce fashion, which means a decrease from 2.8% in 2022 to 2.4% of all consumer spending in 2023.

Starting from 2024, things are expected to change. The inflation rate (Consumer Price Index) is projected to go down from 7.3% to 3.3%, which should bring down interest rates too. This is likely to make consumers feel more positive about the economy. Together with easier access to credit and less spending on essential items, this should allow for the start of wage increases. As a result, we predict a considerable increase in consumer spending of 2% in the second half of 2024, mostly driven by non-essential items, leading to a 6% rise in the amount spent on fashion.

In the following years, consumer spending is expected to gradually increase at a steady rate of 3.3%. As for the amount spent on fashion, we expect a continued shift from traditional in-store shopping to online fashion shopping over the next years.

This equilibrium is a result of the balancing forces at play: while the CPI is expected to decrease from 10,4% in 2022 to 7,3%

in 2023, the potential positive effect in consumer spending is expected to be offset by the increase in interest rates.

Consumer nominal income is also expected to increase as a compensation for inflation. However, we expect the real wages to decrease in 2023 making consumers more apprehensive on spending. As a result of the forces in play, we expect a consumer spending to stagnate (assumed 0% growth) for 2023.

In the years after consumer spending is expected to converge to the long-term nominal consumer spending growth of 3.3%.

Regarding the proportion spent in fashion we expect that a continued cannibalization of e-commerce fashion over traditional brick and mortar in next years. The proportion of consumer spending in fashion is expected to remain stable at 5% (similar to the years prior 2020), out of this we expect that in the long-term 80% will be from e-commerce channels.

• **Industry Value**

The e-commerce Fashion industry is in position for a strong growth with a projected CAGR of 10,7% CAGR until 2032 and 6.2% until 2050. Factors such as internet penetration and online shopping adoption driven by technological advancements and changing in consumer behaviour are driving this expansion. A personalized experiences and a small time for deliver are key drivers of success.

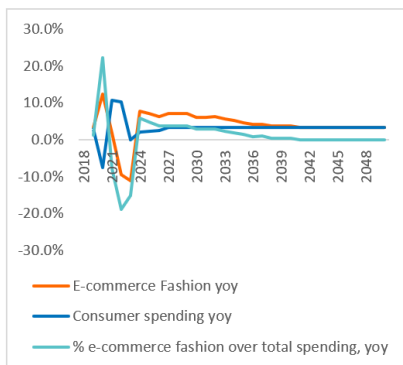


Figure 27 – Yoy growth of e-commerce fashion, consumer spending and total spending
Source: Analysts’ Graph based on Statista, Eurostat

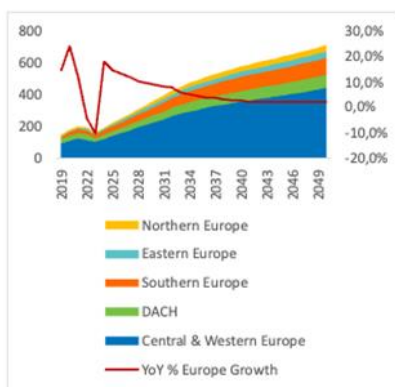


Figure 28 – E-commerce Fashion Industry Value
Source: Analysts’ Graph based on Statista, Eurostat

▪ Market Share

The European e-commerce fashion sector is experiencing rapid evolution, with Zalando emerging as one of the strongest contenders. Zalando's competitive landscape, as discussed before, is deeply diversified, and as such, to better understand how Zalando's market share will evolve, a deeper analysis of its advantages towards its competitor had to be made.

Zalando's direct competitors, other fashion e-commerce platforms that also have a presence in Europe, differ in many important aspects, but especially in balancing growth and profitability. While Zalando has a strong balance sheet and benefits from having a vast fulfilment centre's network, the other companies are still very much behind. Among mid/lower market e-tailers such the fashion ones, Zalando has currently the most powder with net cash of €953 million to invest in M&A, warehouses, and technology during a tough cycle for e-commerce fashion, allowing it to exit at even a stronger position during an up term of the cycle. While Asos and Boohoo (with a net cash of -€177 and €2 million respectively) may struggle to invest through the cycle and miss opportunistic investments.

Moreover, no other fashion e-tailer can compete with Zalando in terms of size, which entails a positive feedback loop mechanism that gives Zalando the ability to maintain a sustainable competitive advantage and may lead to a significant growth in market share. This mechanism, also called the flywheel effect, is based on the first-mover advantage that characterizes Zalando. The company entered the e-commerce market at a time where traditional brick-a-mortar stores were the most popular option among consumers and buying clothes online was not as usual. As such they were able to build a loyal customer base and established themselves as a key player. Now Zalando benefits from it, due to the fact that brands, stylists and other interested parties have more incentives to partner with Zalando than with other fashion e-tailers as it has a bigger platform that reaches more people. And by having more brands, it attracts more customers as well, creating this loop that makes it extremely difficult for other brands to catch up, reinforcing its growth trajectory. This also gives Zalando the capacity to build strong relationships with brands by providing other levels of support in marketing, data analytics and more, that the other companies simply cannot match.

Also, by relying more on their own personal brands, and even in the case of Boohoo relying 100% on it, these companies struggle more with the state of the economy and thus, are more exposed to systematic risk, as they do not have the flexibility to pass on some of their costs to its partners like Zalando does. Regarding the high shipping costs and the rise in overall costs, they will feel much more such

effects on their operations than a more hybrid platform like Zalando, potentially decreasing their competitiveness.

From our point of view, the most threatening competitors are the general e-commerce giants that also sell fashion products. Those companies benefit from also having a very efficient fulfilment centre in Europe and a level of scale that e-tailers lag, even more with the strong cross-selling effect they have from offering different types of products. Even so, they lack fashion focus and have been failing to recognize the brands' necessity of expressing the lifestyles they want to convey and to be perceived as unique and inspiring brands, which is something that Zalando prides itself on always doing. In fact, they recently updated the user interface of their app to facilitate brands telling their stories and building deeper connections with customers. However, we have to keep in mind that this is something they can easily replicate. It is also worth mentioning the sustainability issues that are becoming increasingly more important. As consumers start basing their purchases on ethics, these e-commerce companies will lose some of their strength. Being Amazon the strongest player in the general category, sustainability-wise it does not do so good. Movements such as "Boycott Amazon" keep appearing which disapproves on how the company does not respect worker's rights. Even TikTok influencers have openly stated their refusal to work with the company. ([Tech Explore, 2022](#)) Thus, we do not believe the company's sustainability goals will surpass the amount of bad press Amazon has on the matter. Although no such movements are known for Alibaba, as another important example, consumers perceive the company as having untrustworthy suppliers and with little quality control of those. ([E-commerce platforms, 2018](#)) therefore, we believe that Zalando will remain a strong player, but still has a huge threat regarding the general e-commerce players, given their strong infrastructure and for having a significant amount of capital to deploy in order to expand its market presence in the fashion sector. This way, we believe that in order to Zalando protect its market share, the logic course of action would be to keep investing in new technology that improves consumer experience, acquisition of brands (M&A) and investing in strong partnerships as well as having a strategy with sustainability at its core.

Although it also competes with brands that have a strong online presence, such as H&M and Zara and even social media platform like Instagram and Tiktok, we do not think these pose a real threat because of the lack of online scale for the first, and the non-existent e-commerce infrastructure for the latter. And once again, among them, we believe the more sustainable brands will be the ones to prevail.

Besides sustainability, technological advances are also an important matter that will affect market share. Even though, most consumers are said to prefer retailers with AR experiences and admitted they would shop more if they used AR ([ThreeKit, 2023](#)), not many firms are able to keep up with the cost of investing in it. In fact, when senior executives of many retail firms were interviewed, most stated not to be prepared to support the technological advances in the sector, being the greatest obstacles to their implementation: budget (64%), the lack of internal resources (55%) and the lack of executive buy-in (42%). ([MarketingDive, 2019](#)). The barriers to enter are becoming increasingly high and Zalando seems to be drifting away from the competitors as time passes.

In conclusion, Zalando's strategic advantages, such as its adaptability to local markets, strong brand partnerships, first-mover advantage, stronger financial position among direct competitors, fashion focus, and a vast fulfilment network, place it in a strong position to increase its market share thus we assumed a fast increase in the market share of Zalando over the next 5 years and then a slower paced increase resulting from the flywheel effect until it reaches around 15% in 2050.

- **Expansion to New Markets**

Zalando plans to become the starting point of Fashion in Europe and thus it is expected from them a to continue to expand to other countries in the upcoming years. Two main factors influence this expansion decision: the cost of fulfillment of orders, size of the potential market and country risk.

Analysing the market size of the countries where Zalando is not currently operating, Portugal, Greece, and Ukraine emerge as the most promising options. However, due to the unpredictable future circumstances in Ukraine, it's difficult to estimate when Zalando might expand there.

Portugal appears as the clear choice for the next step in Zalando's expansion, particularly given the existing contract with DHL to manage orders in Spain. Given that DHL also operates in Portugal, there's an opportunity to enhance scalability in the Iberian Peninsula.

Greece, the next largest market, does not share the same proximity to the fulfilment centre as Portugal. However, it's expected that Zalando might pursue simultaneous expansion into multiple countries, leveraging the opportunity for economies of scale during marketing campaigns.

To reflect Zalando's ongoing expansion efforts, we predict that the company will expand to Portugal and Greece at the beginning of the economic upswing in 2026.

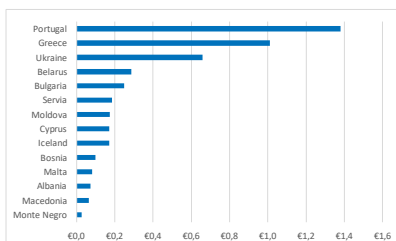


Figure 29 – E-commerce fashion yearly consumption in 2026 (€ Billions)
Source: Analysts' Graph based on Statista, Eurostat

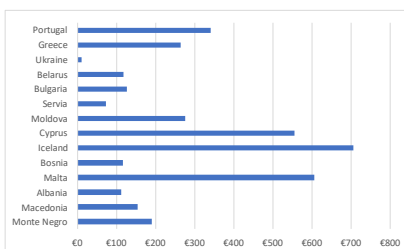


Figure 30 – E-commerce fashion spending per capita per year in 2026
Source: Analysts' Graph based on Statista, Eurostat

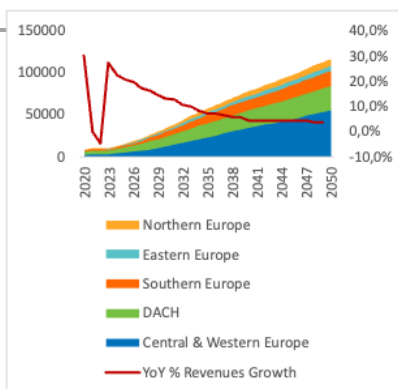


Figure 31 – Zalando Revenues Forecast
Source: Analysts' Estimate

Revenues

Zalando is well positioned to capitalize on the fast-paced growth of the e-commerce fashion segment. The afore mentioned points-of-difference over its competitors creates conditions for Zalando to capture market. We project a CAGR of 16.2% until 2032 and 9.4% until 2050. Underlying a strong short to medium term growth and a slower growth over the long term. This dual-phase growth model reflects the company's potential to not just capitalize on the current e-commerce boom, but also to benefit from the flywheel effect to maintain its momentum in the longer run.

Capex and Intangibles

Property Plant and Equipment

Regarding Zalando fulfilment operation it utilizes a blend of in-sourcing and out-sourcing services. Regarding the in-sourcing operations they operate in 8 big-box fulfilment centres across 5 countries which span over 1,050,000 Sqm, being the biggest fulfilment network solely dedicated to fashion.

In a move to further optimize its operations and decrease delivery lead times, Zalando has announced that it is expanding its infrastructure by constructing 4 additional distribution centres, which will add an extra 500,000 square meters by 2025. Moreover, in early 2021 Zalando improved efficiency by reorganizing its network in two fulfilment zones North-East zone and South-West zone. This allows Zalando to tailor the inventory to the differences in preferences in different geographies. However, if someone orders an item that is exclusively storage in the other side will pay a delivery fee, thus it will not hurt Zalando margins.

This substantial logistics network results from Zalando's proactive investment strategy which aims to enhance its proximity to customers, reducing delivery times, and promoting sustainable delivery options making the process smoother for consumers. This approach is imperative for Zalando to keep capturing market share from competitors.

Apart from its directly operated centres, Zalando collaborates with third-party operators to manage nine smaller-scale fulfilment centres. A historical trend shows that Zalando typically outsources fulfilment services when entering remote new markets. This approach enables the company to establish its brand and assess market conditions before committing to long-term leasing contracts for built-to-suit facilities.



Figure 32 – Zalando's fulfilment strategy
Source: Zalando's Website

	Fulfilment centers	Date added	Area (000's)	€/ Sqm
Concluded	Erfurt	2011	126	499
	Mönchengladbach	2013	134	1 052
	Lahr	2016	130	941
	Szczecin (Gryfino)	2016	130	1 494
	Verona	2018	130	937
	Lodz	2018	130	683
	Olsztynek ¹	2019	130	560
	Rotterdam	2019	140	1 404
Development	Giessen	2022	130	1 200
	Bydgoszcz	2022	140	1 200
	Białe Błota	2022	100	1 200
	Montreuil-sur-le-jard	2022	130	1 200
	Total		1 550	

¹ Olsztynek is an offprice exclusive fulfilment centre.

Figure 33 – Zalando's fulfilment centres and estimates of the fit-out costs per Sqm.
Source: Analysts' Table based on Company Information

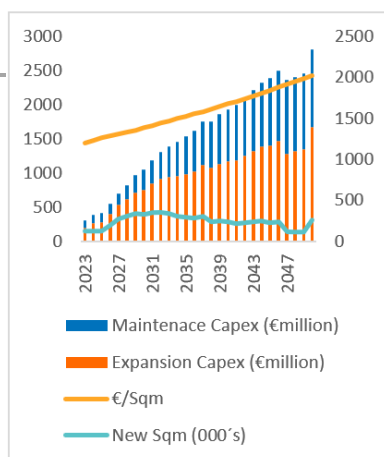


Figure 34 – Zalando's Capex investment
Source: Analysts' Table based on Company Information

A prime example of this strategy is Zalando's expansion into Italy. Initially, the company partnered with a third-party operator for a 20,000 square meter satellite fulfilment centre near Milan in 2015. As the brand grew more popular, Zalando transitioned to a long-term leasing contract for a 130,000 square meter built-to-suit facility in Verona in 2019. This centre now serves not only Italy but also southern France and Switzerland, exemplifying the scalability of Zalando's logistics model.

Zalando has also adapted this strategy in Spain due to scalability challenges. The company established an exclusive partnership with DHL to operate a 37,500 square meter fulfilment centre near Madrid. Since DHL operated in all of Iberian Peninsula it will facilitate Zalando's expansion to Portugal as we anticipate. This transition is expected to increase profit margins due to stronger bargaining power with DHL as the operations grow.

Looking forward the PPE capex in the next few years is expected to be related with the 4 new fulfilment centres that started development in 2022. The cost per Sqm is expected to be around the cost of Rotterdam (Best comparable) but with a slight hair cut derived from possible economy scales of in the development of 4 centers simultaneously, and thus we expect an average cost of €1,200/Sqm for the new centers. After 2025 We expect the company to maintain a capacity of €8,602 Revenue per Sqm of €1,283/Sqm which will be updated with inflation along the years.

▪ Intangibles

Zalando envisions to become the starting point of e-commerce fashion in Europe by making significant investments in intangible assets that facilitate and foster the building of long-term customer relationships.

The company's key intangible assets include proprietary technology, intellectual property, brand recognition, and sustainability initiatives. These assets allow to increase operational efficiency, sustainable development customer retention and market share acquisition and thus play a crucial role in Zalando's future growth.

Zalando launched Zalando Research in late 2016, focusing on advancements in data science, machine learning, and artificial intelligence as part of its long-term growth strategy. The company operates six specialized technology hubs, four in Germany, one in Ireland, and one in Finland. The Berlin hub primarily focuses on app development, algorithms, and operations, while the Irish centre concentrates on data science and engineering research. The Helsinki hub is dedicated to customer-facing technologies, particularly mobile. Zalando's strategy also involves extensive data collection and analysis to facilitate localized pricing, personalization, and the development of a real-time insight platform for fashion.

- **Main Projects**

Investment App

Zalando, a leading online fashion platform, recently introduced a new digital tool known as the "Investment App". This innovation is part of Zalando's broader strategy to enhance its financial planning and analysis (FP&A) processes. It allows for better oversight of large capital expenditures across the company.

The app was developed following a comprehensive review of existing systems and processes within Zalando's various departments, such as Accounting, Treasury, and Operations. The main objective was to improve collaboration, transparency, and decision-making in managing large investments.

Moreover, in 2022 Zalando developed a new software for the connected retail business and has intention to further stretch in 2023.

Connected Retail Software

In 2022, Zalando made significant progress in their connected retail business by creating a new software. This software helps its partners track their sales and returns data more effectively.

Zalando's platform gives partners the freedom to manage their stock. Partners can decide which products to sell, the quantity, the timing, and the price. The platform also helps optimize the purchasing process and offers insights on customer behaviour and product assortment.

Looking forward to 2023, Zalando plans to continue improving its platform. The company aims to strengthen the platform with software upgrades focused on logistics and automation. These technological investments show Zalando's concern of retaining partners, crucial to maintaining key partnerships that differentiate them from competitors.

ChatGPT powered fashion assistant

In line with their effort to tailor the experience to their customers, in April 2023, Zalando announced the launch of a ChatGPT powered fashion assistant. Initially being tested in selected customers in the UK, Germany, Ireland, and Austria. This assistant aims to streamline the online shopping experience by interpreting and responding to customer inquiries.

This move represents Zalando's push towards improving customer experiences and understanding their preferences better. The assistant, by offering personalized recommendations and 24/7 interactions, stands to enhance user satisfaction and

operational efficiency, which could bolster customer retention rates and brand loyalty.

The launch also sets the stage for future AI-driven services and features, possibly including personalized fashion and beauty advice, or outfit creation services. This development could reinforce Zalando's competitive position and is worth monitoring closely for its potential positive impact on Zalando's financial performance and market share.

Virtual Fitting Room pilot

Zalando, the German e-tailer, is expanding its virtual fitting room pilot across its 25 markets, enhancing online shopping experiences by allowing customers to create a 3D avatar for trying on jeans from different brands. This follows successful trials with Puma and Zalando's private label, Anna Field, involving over 30,000 customers.

Vice President of Size and Fit, Stacia Carr, emphasized the initiative's purpose in understanding customer interaction with new technology to develop a scalable solution. The company's dedicated in-house team uses machine learning and computer vision to predict sizing. leading to a 10% decrease in size-related returns where size advice was given.

Zalando's upcoming body measurement feature, which will offer personalized advice based on actual measurements, further underscores its commitment to enhancing customer experience and reducing return rates. These strategies could potentially bolster customer retention and financial performance.

• **Mergers & Acquisitions**

Zalando is actively growing its portfolio through smart investments and acquisitions, with a clear focus on technology, sustainability, and brand exclusivity. Important technology investments, such as LatticeFlow and Magazino, are improving Zalando's AI and logistics efficiency, while investments in Fashwell and Meepl are set to enhance the online shopping experience for customers with ai-based image recognition and 3d scanning solutions.

Zalando's commitment to sustainable practices in the fashion industry is evident in their investments in companies like Circ, Ambercycle, and Infinited Fibe which aim to develop sustainable yarns from old clothing. These investments may position Zalando positively in the eyes of consumers who are increasingly looking for sustainable products.

The acquisition of Highsnobiety, a popular online streetwear and lifestyle magazine, is a strategic move that boosted Zalando's reputation, particularly

Company Name	Sector
nugg.ad	Enterprise Applications
Le New Black	Enterprise Applications
Magazino	Enterprise Applications
Circ	Environment Tech
Ambercycle	Environment Tech
Infinited Fiber	Environment Tech
PAIR Finance	FinTech
Highsnobiety	Media & Entertainment
Tradebyte	Retail
Amaze	Retail
Fision (Meepl)	Retail
LatticeFlow	Technology
Fashwell	Technology

Figure 35 – Zalando’s M&A
Source: Analysts’ Table based on Company Information

amongst younger, fashion-conscious customers. This helps in building customer loyalty, which is crucial for maintaining and capturing market share.

Zalando has also bought data management platform nugg.ad, Tradebyte, and fashion app Amaze to strengthen its digital presence and create new ways for customers to engage with the brand. These strategic moves highlight Zalando's commitment to improving customer experiences, leading in technology, promoting sustainability, and securing exclusive brand partnerships.

- **Discussion**

In conclusion, as the fashion commerce sector continues to transition towards the digital, Zalando is expected to work towards making this transition seamless for consumers. It's reasonable to expect that the company will continue to leverage strategic acquisitions as a tool to bolster customer loyalty and consolidate its market standing. Furthermore, Zalando's ongoing efforts to advance its technological capabilities are projected to augment operational efficiency, driving higher margins in the process. Consequently, it's believed that the company's investment in intangible assets and mergers and acquisitions (M&A) will grow at the same pace as revenues.

Operating Expenses

- **Personnel Expenses**

Due to the economic slowdown, Zalando has announced a hiring freeze and a job cut of up to 5%. ([Financial Times, 2023](#)) Thus, we expect that the number of employees will decrease accordingly and eventually rise throughout the years until it gets to a workforce growth of 6% in 2025. In the statement, the online retailer also announced the cut was not going to affect those in selling and distribution which is reflected in our analysis.

Moreover, Zalando is currently focusing on automation, in areas such as shuttle technology, bag sorter, warehouse robotics and many others. As such, we predict the current employment growth rate will slow down, especially in the costs related to sales and fulfilment and distribution.

Taking the high costs of last-mile delivery and the shortage of drivers into consideration, it is reasonable to assume that wages for fulfilment and distribution will increase at a higher rate than the others. Thus, seeing the overall growth in wages and benefits of the transportation and storage sector presented in table 36, we expect a 4% increase this year. Eventually, supply will meet demand and the

Labour Hour Nominal cost yoy comparison

	2021		2022	
	Q4	Q1	Q2	Q3
Transportation & Storage	3,40%	4,60%	4,10%	4,50%

Figure 36 – Growth of labour costs
Source: Eurostat

growth rate for wages in distribution will converge with those from administrative and costs of goods sold, which rise in accordance with consumer spending.

▪ **Non-Personnel Expenses**

Fulfilment and distribution costs have slightly bigger values in 2026 and 2027, in line with the predicted expansion to Portugal and Greece. By entering new markets, Zalando will incur in a higher marketing spend as well as increase its overall logistics costs, thus being reflected in the first two years. Other than that, we accounted for the high scalability of its European logistics network, contemplating a lower percentage of revenues throughout the years. This decrease is also largely due to the implementation of AR in Zalando’s core strategy, entailing less returns and a lower number of trips per costumer. With more and more people getting over the AR stigma and using the technology to try on new clothes and picking the right size, we believe less unnecessary deliveries will be made, lowering selling and distribution costs which will in turn improve the overall operating margin. Marketing spend will also not be as relevant throughout the years, as Zalando becomes well-established in all operating markets. Costs of goods sold will also be affected by economies of scale, and thus are forecasted accordingly. Moreover, with Zalando increasingly focused on transitioning to a platform business by giving more importance to the partner program, the costs of goods’ percentage of revenue will decrease. This is because it works commission based and gives Zalando the ability to pass on some of the cost to its partners. In 2025, they are aiming to have 50% of gross merchandise value come from the partner program which they already have 36% of in 2022 (vs 30% in 2021), showcasing a positive outlook to reach its goal.

Administrative costs are expected to remain constant at 1% as there is no major event nor a specific strategy to tackle it, although Zalando is trying to be more efficient in terms of overhead costs.

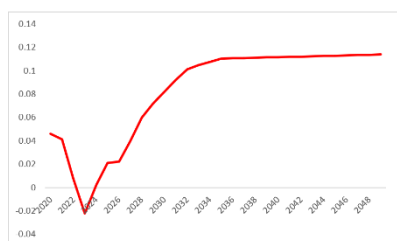


Figure 37 – Operating Margin
Source: Analysts’ Estimates

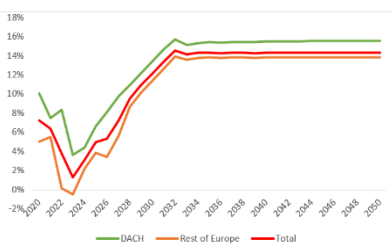


Figure 38 – EBITDA Margin
Source: Analysts’ Estimates

▪ **Margins**

The DACH area and the Rest of Europe have different operating costs as Zalando, given the secured efficient logistics in the German-speaking countries.

As the company becomes more and more established in the other countries the EBITDA margin is expected to slowly catch up to the DACH countries. Still, we believe that the DACH margin will always be slightly bigger than those of the rest of Europe, as it has the lowest average distance to Zalando’s logistics centre. With all this in mind, we are expecting Zalando’s operating margin to go up to 11.4% in the long run.

Net Working Capital

Average Holding Period amounted to, on average, 105 days which is positive when compared to its peers. However, we believe this will be even lower in the future as Zalando recognizes a lower wholesale business inbounds, due to disruptions in the supply chain. This resulted in a higher accumulation of merchandise. As Zalando becomes more efficient, and in a post-war environment, we expect the holding period will go down given its ability to sell it faster.

Average Collection Period, on the other hand, is considerably worse than its peers Asos and About you. Still, the possibility of convergence is very small as Zalando recently launched a revolutionary “try now, pay later” method of payment. The idea is to mimic the advantages of having a physical store, where one can try the product and pay later if it fits the customer’s needs. With more and more people, choosing to pay this way, we expect Zalando’s accounts receivables will increase, as this will give about 14 days for customers to decide if they are getting the product or not – the collection of money will take longer. [\(Zalando, 2022\)](#)

Sensitivity Analysis						
EV	11705	Long term Growth				
Share Price	€44,94	2,16%	2,66%	3,16%	3,66%	4,16%
WACC	10,34%	54	55	57	58	60
	10,84%	48	49	50	52	53
	11,34%	43	44	45	46	47
	11,84%	39	40	40	41	42
	12,34%	35	36	36	37	37

Figure 39 – Sensitivity analysis of WACC and growth rate on the stock price.
Source: Analysts’ Estimates

Sensitivity Analysis						
EV	11705	Long term Growth				
Share Price	€1,29%	2,16%	2,66%	3,16%	3,66%	4,16%
WACC	10,34%	71%	74%	79%	84%	90%
	10,84%	55%	57%	59%	62%	67%
	11,34%	39%	40%	41%	44%	48%
	11,84%	24%	25%	26%	29%	31%
	12,34%	19%	20%	21%	23%	24%

Figure 40 – Sensitivity analysis of WACC and growth rate on the potential return.
Source: Analysts’ Estimates

Average Payable Period was assumed to keep improving. Although the pandemic may have influenced the result in 2020 and 2021, the same change was not as accentuated in its peers, leading us to believe that the relationship with suppliers is indeed improving, allowing Zalando to take more time to settle its current debt. As such, we believe that its accounts payables will increase.

Still, we believe that Zalando’s strong cash conversion cycle will remain negative throughout the years, which suggests the company can finance itself through its operations.

Valuation

Discount Rate

Zalando's debt structure comprises two convertibles: a 5-year senior unsecured bond and a 7-year unsecured bond, both of equal rank. To calculate the cost of the debt, we considered each bond's respective yield to maturity (5.9% and 6.4%), the probability of default, the potential of default amount, and the remaining time until maturity.

We used Moody's annual credit study for reference, but since Zalando has never been rated by an external entity, we assumed an A+ rating. This assumption is based on Zalando's interest coverage ratio over the past 5 years. The resulted cost of debt for Zalando is estimated to be 5.94%. For the cost of equity, we used the Capital Asset Pricing Model (CAPM). We took the 30-year German bund as the

risk-free rate, which stands at 2.29%, and a market risk premium of 5.50% estimated by KPMG. We also incorporated the country risk premium. To calculate this, we used a weighted average of the Country Risk Premium (CRP) values from Professor Aswath Damodaran's January 2023 report by the Zalando revenue per country in Europe. This resulted in a country risk premium of 0.78%. Subsequently, it entailed a 11.34% WACC, which when applied to the forecasted Free Cash Flows results in a target price of 44.94€, in 31/12/2023 with a potential upside of 41%.

Risk Analysis

Consumer Behaviour & Market Share

Over this report we underline that the e-commerce fashion is set for a launch over the next years. However, the underlying assumption behind this regard's consumer behaviour. We constantly assume that there will be a continuation in the trend of consumers preferring convenience over a face-to-face experience. We assume that cannibalization proportionate to advancements in technology and thus, if consumers can have a store like experience in the metaverse with the added benefit of having a super smart AI store employee that is at your service 24h per day they will choose it over real human contact. Although this is where we are currently heading, it can be a trend that will fade away, consumers may prefer to come back to the physical world with real human fashion advise with all the inefficiencies it comes with. The same applies for the opposite scenario, people may value shopping with their families or friends in the comfort of their own houses with all the help that they need without having to commute or to get to the store during the working hours of the stores. Humans have inherited the necessity of relating with each other, but perhaps virtual interaction will be valued equally to fiscal interaction leading to an even faster of e-commerce fashion that what we are accounting in our model.

Sensitivity Analysis						
EV	11705	% of total spending spent in e-commerce yoy growth				
Share Price	€44.94	0%	50%	100%	150%	200%
Market share yoy growth	50%	€13	€19	€24	€28	€31
	75%	€22	€28	€34	€40	€43
	100%	€30	€38	€45	€51	€56
	125%	€38	€47	€55	€63	€68
	150%	€45	€55	€64	€72	€79

Figure 41 – Sensitivity analysis of the level of consumption of e-commerce fashion and market share on the stock price.

Source: Analysts' Estimates

Sensitivity Analysis						
Return	41%	% of total spending spent in e-commerce yoy growth				
		0%	50%	100%	150%	200%
Market share yoy growth	50%	-58%	-41%	-25%	-12%	-3%
	75%	-32%	-12%	8%	24%	37%
	100%	-5%	18%	41%	61%	77%
	125%	20%	47%	73%	97%	116%
	150%	43%	72%	101%	128%	149%

Figure 42 – Sensitivity analysis of the level of consumption of e-commerce fashion and market share on the potential return.

Source: Analysts' Estimates

With that said It is a reasonable assumption that e-commerce fashion penetration on population rate will continue for the convenience that it offers (shopping out of hours, no commuting...) but the cannibalization effect (among already active consumers) will heavily depend on future consumer behaviour.

The second main assumption in this report is that Zalando can conquer a significant part of the market share. Although, they already proved to be a worthy opponent by leading e-commerce fashion in Europe and capture a significant market share driven by reasons such as being always in the forefront of e-commerce fashion innovations and fulfilment solutions it doesn't mean that their competitive advantages can't erode over time.

It is imperative to not be myopic our best estimates in the base scenario and thus we explored outcomes for different levels of growth of E-commerce consumption as a % of total consumption and growth of the market share of Zalando.

Final Recommendation

Looking at our sensitivity analysis, it is possible to denote that even our worst-case scenario where growth stays at 2.16% and the WACC goes up to 12.34% entails a share price of 35€. This is above current share price making us believe the risk is not very significant. Still, for the market share the company is affected by changes, bearing an accentuated risk in case there is a significant change. Yet, we were drastic in the different scenarios analysed, and keeping in mind Zalando's competitive advantages as well as the growth we expect the company to have, our final recommendation is to buy.

Appendix

Financial Statements

Balance Sheet

	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031	31/12/2032	31/12/2033	31/12/2034	31/12/2035
Core																	
Operating Cash	€97	€120	€155	€155	€144	€173	€203	€237	€279	€326	€380	€435	€495	€558	€620	€678	€73
% of Sales	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.3%
Inventories	€1,098	€1,361	€1,547	€1,810	€1,500	€1,758	€2,023	€2,344	€2,740	€3,185	€3,692	€4,202	€4,755	€5,337	€5,899	€6,429	€6,953
Average Holding Period	108	108	94	105	105	105	105	105	105	105	105	105	105	105	105	105	10
Trade Receivables	€462	€603	€727	€913	€1,002	€1,232	€1,483	€1,774	€2,139	€2,502	€2,917	€3,338	€3,797	€4,283	€4,756	€5,203	€5,651
Average Collection Period	26	28	26	32	32	32	32	32	32	32	32	32	32	32	32	32	32
PPE	€708	€810	€959	€1,146	€1,230	€1,363	€1,497	€1,725	€2,043	€2,403	€2,813	€3,222	€3,665	€4,128	€4,568	€4,970	€5,365
Maintenance CapEx of Fulfillment Centers	€65	€73	€82	€108	€108	€118	€133	€149	€175	€211	€252	€299	€346	€397	€450	€501	€54
Expansion CapEx of Fulfillment Centers	€162	€102	€149	€186	€94	€149	€149	€255	€354	€401	€457	€455	€494	€517	€490	€448	€44
Δ Depreciation of Fulfillment Centers	€65	€73	€82	€108	€118	€133	€149	€175	€211	€252	€299	€346	€397	€450	€501	€547	€59
Right-of-Use Assets	€526	€480	€584	€679	€729	€808	€888	€1,023	€1,212	€1,425	€1,668	€1,910	€2,173	€2,448	€2,709	€2,947	€3,182
Intangible Assets (excl. Goodwill)	€143	€180	€207	€277	€363	€566	€818	€1,124	€1,499	€1,992	€2,580	€3,264	€4,053	€4,952	€5,960	€7,069	€8,280
Goodwill	€49	€56	€56	€137	€127	€152	€179	€209	€246	€246	€246	€246	€246	€246	€246	€246	€246
		0.7%	0.5%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Provisions	€46	€48	€54	€85	€79	€75	€88	€103	€121	€142	€165	€189	€215	€242	€269	€294	€320
% Revenues	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Trade Payables	€1,743	€2,098	€2,478	€2,983	€2,899	€3,456	€4,045	€4,714	€5,542	€6,389	€7,420	€8,456	€9,571	€10,728	€11,866	€12,934	€13,986
Average Payable Period	171	167	150	173	165	164	163	166	165	164	165	165	165	165	165	165	16
Customer's Returns and Gift Vouchers	€110	€131	€176	€203	€188	€226	€203	€221	€242	€261	€304	€348	€396	€447	€496	€543	€589
% Of Revenues	2%	2%	2%	2%	2.0%	2.0%	1.5%	1.4%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Other Liabilities	€61	€41	€76	€88	€82	€98	€115	€135	€158	€185	€216	€247	€281	€317	€352	€385	€418
% Of Revenues	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Total Core	€1,124	€1,292	€1,453	€1,757	€1,846	€2,198	€2,638	€3,264	€4,094	€5,102	€6,190	€7,377	€8,721	€10,218	€11,775	€13,387	€15,100
Financial Assets (Net)	€37	€40	€124	€164	€109	€132	€135	€126	€131	€131	€129	€130	€130	€130	€130	€130	€130
Moving Average of Past 3y																	
Non-Financial Assets (Net)	€212	€125	€213	€295	€211	€240	€249	€233	€241	€241	€238	€240	€240	€239	€240	€240	€240
Moving Average of Past 3y																	
Deferred Tax Liabilities (Net)	€2	€4	€22	€65	€30	€39	€45	€38	€41	€41	€40	€41	€41	€41	€41	€41	€41
Moving Average of Past 3y																	
Income Tax Liabilities (Net)	€8	€10	€25	€25	€20	€23	€23	€22	€23	€22	€22	€22	€22	€22	€22	€22	€22
Moving Average of Past 3y																	
Total Non-Core Invested Capital	€240	€152	€290	€369	€270	€310	€316	€299	€308	€308	€305	€307	€307	€306	€307	€306	€306
Total Invested Capital	1364	1444	1743	2126	2116	2507	2955	3563	4402	5410	6495	7684	9028	10524	12081	13693	15407
Excess Cash	€879	€2,524	€2,133	€1,870	€0	€0	€0	€0	€0	€0	€0	€0	€0	€547	€1,997	€3,761	€5,808
Borrowings, Inc. Leases	€559	€1,818	€1,657	€1,797	€139	€541	€828	€1,248	€1,644	€1,824	€1,720	€1,312	€574	€0	€0	€0	€0
Non-Controlling Interest	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Net Financial Assets	320	707	476	73	-139	-541	-828	-1248	-1644	-1824	-1720	-1312	-574	547	1997	3761	5808
Equity	1684	2151	2219	2199	1977	1966	2127	2315	2758	3586	4775	6372	8454	11071	14078	17454	21215
# Outstanding Shares	252,848,768	255,253,307	262,022,094	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672
Share Book Value	7	8	8	8	8	7	8	9	10	14	18	24	32	42	53	66	81
				€8													
Equity Injection		€232	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Dividends	€0	€137	€89	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Comprehensive Income	88.9	234	205	69	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761
Payout Ratio	0%	0%	67%	128%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

	31/12/2036	31/12/2037	31/12/2038	31/12/2039	31/12/2040	31/12/2041	31/12/2042	31/12/2043	31/12/2044	31/12/2045	31/12/2046	31/12/2047	31/12/2048	31/12/2049	31/12/2050
Core															
Operating Cash	€795	€860	€916	€975	€1,034	€1,092	€1,154	€1,219	€1,289	€1,357	€1,428	€1,476	€1,526	€1,578	€1,632
% of Sales	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Inventories	€7,507	€8,115	€8,641	€9,197	€9,756	€10,301	€10,880	€11,497	€12,154	€12,787	€13,458	€13,912	€14,382	€14,867	€15,369
Average Holding Period	105	105	105	105	105	105	105	105	105	105	105	105	105	105	105
Trade Receivables	€6,102	€6,597	€7,026	€7,479	€7,935	€8,379	€8,851	€9,354	€9,890	€10,407	€10,954	€11,325	€11,709	€12,106	€12,516
Average Collection Period	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32
PPE	€5,755	€6,184	€6,529	€6,894	€7,252	€7,589	€7,949	€8,333	€8,745	€9,125	€9,529	€9,723	€9,924	€10,132	€10,605
Maintenance CapEx of Fulfillment Cn	€592	€636	€686	€725	€767	€808	€847	€888	€932	€979	€1,023	€1,069	€1,091	€1,114	€1,138
Expansion CapEx of Fulfillment Cen	€434	€479	€385	€406	€400	€375	€401	€429	€459	€423	€451	€216	€224	€232	€527
Δ Depreciation of Fulfillment Center	€636	€686	€725	€767	€808	€847	€888	€932	€979	€1,023	€1,069	€1,091	€1,114	€1,138	€1,192
Right-of-Use Assets	€3,413	€3,667	€3,872	€4,088	€4,301	€4,500	€4,714	€4,942	€5,186	€5,411	€5,651	€5,766	€5,885	€6,008	€6,289
Intangible Assets (excl. Goodwill)	€9,595	€11,022	€12,547	€14,175	€15,908	€17,741	€19,682	€21,738	€23,916	€26,212	€28,633	€31,138	€33,731	€36,415	€39,192
Goodwill	€246	€246	€246	€246	€246	€246	€246	€246	€246	€246	€246	€246	€246	€246	€246
	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Provisions	€-345	€-373	€-397	€-423	€-449	€-474	€-501	€-529	€-559	€-589	€-620	€-641	€-662	€-685	€-708
% Revenues	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Trade Payables	€-15,098	€-16,322	€-17,381	€-18,498	€-19,623	€-20,719	€-21,885	€-23,124	€-24,446	€-25,719	€-27,069	€-27,983	€-28,927	€-29,903	€-30,912
Average Payable Period	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165
Customer's Returns and Gift Vouc	€-636	€-688	€-733	€-780	€-827	€-874	€-923	€-976	€-1,031	€-1,085	€-1,142	€-1,181	€-1,221	€-1,262	€-1,305
% Of Revenues	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Other Liabilities	€-452	€-489	€-520	€-554	€-588	€-620	€-655	€-693	€-732	€-771	€-811	€-839	€-867	€-896	€-927
% Of Revenues	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Total Core	€16,881	€18,819	€20,746	€22,798	€24,945	€27,161	€29,512	€32,008	€34,657	€37,380	€40,256	€42,944	€45,726	€48,605	€51,995
Financial Assets (Net)	€130	€130	€130	€130	€130	€130	€130	€130	€130	€130	€130	€130	€130	€130	€130
Moving Average of Past 3y															
Non-Financial Assets (Net)	€240	€240	€240	€240	€240	€240	€240	€240	€240	€240	€240	€240	€240	€240	€240
Moving Average of Past 3y															
Deferred Tax Liabilities (Net)	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41	€-41
Moving Average of Past 3y															
Income Tax Liabilities (Net)	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22	€-22
Moving Average of Past 3y															
Total Non-Core Invested Capital	€306	€306	€306	€306	€306	€306	€306	€306	€306	€306	€306	€306	€306	€306	€306
Total Invested Capital	€17,187	€19,125	€21,052	€23,105	€25,251	€27,467	€29,819	€32,314	€34,964	€37,686	€40,563	€43,250	€46,032	€48,911	€52,302
Excess Cash	€8,099	€10,572	€13,353	€16,325	€19,521	€22,960	€26,595	€30,440	€34,506	€38,865	€43,457	€48,513	€53,759	€59,201	€64,395
Borrowings, inc. Leases	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Non-Controlling Interest	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Net Financial Assets	8099	10572	13353	16325	19521	22960	26595	30440	34506	38865	43457	48513	53759	59201	€64,395
Equity	25286	29697	34406	39430	44772	50427	56414	62754	69470	76551	84020	91763	99791	108112	116697
# Outstanding Shares	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672	263,531,672
Share Book Value	96	113	131	150	170	191	214	238	264	290	319	348	379	410	€443
Equity Injection	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Comprehensive income	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Income Statement

	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031	31/12/2032	31/12/2033	31/12/2034	31/12/2035
Revenues	7982	10354	10345	9623	11529	13536	15795	18586	21742	25351	29008	33000	37220	41328	45214	49111
Cost of Sales	-4561	-5988	-6233	-6081	-7208	-8389	-9721	-11364	-13212	-15312	-17428	-19723	-22136	-24469	-26667	-28839
Gross Profit	3421	4366	4112	3541	4320	5147	6075	7222	8530	10038	11581	13277	15084	16859	18546	20271
Selling and Distribution Costs	-2579	-3389	-3336	-3125	-3617	-4120	-4888	-5524	-6129	-6968	-7789	-8658	-9546	-10582	-11573	-12566
Administrative expenses	-272	-338	-396	-305	-336	-370	-414	-469	-530	-598	-669	-747	-831	-917	-996	-1089
Other Operating Income/Expense	8	21	13	14	18	19	23	28	32	38	43	49	55	61	67	73
EBITDA	578	660	393	125	386	676	796	1257	1904	2510	3166	3920	4762	5422	6045	6689
Depreciations and Amortizations	-211	-236	-312	-339	-361	-395	-447	-518	-600	-694	-786	-887	-993	-1092	-1184	-1274
EBIT	367	425	81	-215	25	282	349	739	1304	1816	2379	3033	3769	4329	4861	5415
Stratutory Taxes	-112	-130	-25	0	-7	-86	-106	-225	-397	-554	-725	-925	-1149	-1320	-1482	-1651
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	-3	-5	-15	-7	-9	-10	-9	-10	-10	-9	-10	-10	-9	-10	-10	-9
CORE NOPAT	252	290	42	-222	8	185	233	504	896	1253	1644	2099	2610	3000	3369	3754
Interest and similar income	16	4	9	10	7	9	9	8	8	8	8	8	8	8	8	8
Result of investments accounted	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Financial Result	-7	-15	12	-3	-2	2	-1	-1	0	-1	0	0	0	0	0	0
Non-Core EBT	10	-11	20	6	5	11	7	8	9	8	8	8	8	8	8	8
Stratutory Taxes	-3	3	-6	-2	-2	-3	-2	-2	-3	-2	-2	-2	-2	-2	-2	-2
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	7	-7	5	2	0	2	1	1	1	1	1	1	1	1	1	1
Other non-current income/expenses	8	-30	52	0	0	0	0	0	0	0	0	0	0	0	0	0
NON-CORE NOPAT	22	-44	71	6	3	9	6	6	7	7	7	7	7	7	7	7
TOTAL NOPAT	275	246	113	-216	12	195	240	511	904	1260	1651	2106	2617	3007	3376	3761
Financing																
Interest and similar expenses	-58	-59	-63	-8	-32	-49	-74	-98	-108	-102	-78	-34	0	0	0	0
Tax Shield	18	18	19	3	10	15	23	30	33	31	24	10	0	0	0	0
Financing Result	-40	-41	-44	-6	-22	-34	-52	-68	-75	-71	-54	-24	0	0	0	0
Comprehensive income	234	205	69	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761

	31/12/2036	31/12/2037	31/12/2038	31/12/2039	31/12/2040	31/12/2041	31/12/2042	31/12/2043	31/12/2044	31/12/2045	31/12/2046	31/12/2047	31/12/2048	31/12/2049	31/12/2050
Revenues	53032	57333	61059	64995	68955	72815	76923	81292	85948	90438	95197	98423	101757	105205	108770
Cost of Sales	-31138	-33659	-35841	-38147	-40466	-42725	-45129	-47686	-50411	-53037	-55821	-57704	-59651	-61664	-63745
Gross Profit	21894	23674	25218	26848	28490	30090	31793	33606	35537	37401	39377	40718	42106	43541	45025
Selling and Distribution Costs	-13565	-14651	-15609	-16610	-17616	-18596	-19639	-20748	-21929	-23067	-24274	-25088	-25930	-26800	-27699
Administrative expenses	-1195	-1290	-1383	-1482	-1584	-1684	-1791	-1905	-2028	-2149	-2276	-2368	-2465	-2564	-2668
Other Operating Income/Expense	79	85	90	96	102	108	114	120	127	134	141	146	151	156	161
EBITDA	7223	7809	8316	8853	9392	9918	10478	11073	11708	12319	12968	13408	13862	14333	14819
Depreciations and Amortizations	-1362	-1460	-1538	-1621	-1703	-1779	-1861	-1948	-2042	-2128	-2220	-2264	-2310	-2357	-2464
EBIT	5861	6349	6778	7232	7690	8139	8617	9125	9666	10191	10748	11144	11553	11976	12354
Stratutory Taxes	-1787	-1936	-2067	-2205	-2345	-2482	-2627	-2782	-2947	-3107	-3277	-3398	-3523	-3651	-3767
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	-10	-10	-9	-10	-9	-9	-10	-9	-9	-10	-9	-9	-10	-9	-10
CORE NOPAT	4064	4404	4702	5017	5336	5648	5980	6333	6709	7074	7462	7736	8021	8315	8578
Interest and similar income	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Result of investments accounted	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Financial Result	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Core EBT	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Stratutory Taxes	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Core Tax Rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Tax Adjustments	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other non-current income/expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NON-CORE NOPAT	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
TOTAL NOPAT	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Financing															
Interest and similar expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Shield	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Result	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Comprehensive income	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585

Free Cash Flows

	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031	31/12/2032	31/12/2033	31/12/2034	31/12/2035
Core NOPAT	252	290	42	-222	8	185	233	504	896	1253	1644	2099	2610	3000	3369	3754
Core Invested Capital	-167	-161	-304	-89	-352	-441	-625	-830	-1008	-1088	-1186	-1344	-1497	-1556	-1612	-1714
Change in PP&E	-102	-149	-180	-84	-134	-134	-228	-318	-360	-410	-409	-443	-464	-440	-402	-395
Change in Intangibles & Goodw	-43	-27	-151	-76	-228	-278	-336	-411	-493	-588	-664	-789	-899	-1007	-1109	-1212
Change in Other Operating Net	49	-18	-25	-76	-30	-72	-83	-126	-146	-146	-143	-155	-161	-150	-133	-129
Investment in NWC	-71	33	58	148	40	43	23	26	-9	56	50	42	27	41	33	22
	-82	-32	-567	-400	-695	-696	-1017	-1155	-1121	-923	-728	-590	-384	-113	145	327
Core FCF	€85	€129	€-263	€-311	€-344	€-255	€-392	€-326	€-112	€165	€458	€754	€1,113	€1,443	€1,757	€2,041
Non-Core Nopat	22	-44	71	6	3	9	6	6	7	7	7	7	7	7	7	7
Non-Core Invested Capital	87	-138	-79	98	-39	-7	17	-9	0	3	-2	0	0	0	0	0
Change in Financial Assets	-4	-84	-39	54	-23	-3	9	-5	0	1	-1	0	0	0	0	0
Change in non-financial asset	87	-88	-82	84	-29	-9	16	-7	0	3	-2	0	0	0	0	0
Change in Tax Liabilities	4	34	43	-40	12	5	-7	3	0	-1	1	0	0	0	0	0
Non-Core FCF	€109	€-181	€-8	€104	€-36	€3	€24	€-3	€8	€10	€5	€7	€7	€7	€7	€7
Investing FCF	195	-52	-270	-207	-379	-253	-368	-329	-104	174	463	762	1121	1450	1764	2048
Financial Result	-40	-41	-44	-6	-22	-34	-52	-68	-75	-71	-54	-24	0	0	0	0
Change in Net Debrt	-387	231	403	212	402	287	420	397	179	-103	-409	-738	-1121	-1450	-1764	-2048
Debt CF	€-427	€190	€359	€207	€379	€253	€368	€329	€104	€-174	€-463	€-762	€-1,121	€-1,450	€-1,764	€-2,048
Changes in equity	467	68	-20	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761
Comprehensive Income	234	205	69	-222	-11	161	188	443	829	1189	1597	2082	2617	3007	3376	3761
Transaction with shareholders	€232	€-137	€-89	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Investing FCF	-195	52	270	207	379	253	368	329	104	-174	-463	-762	-1121	-1450	-1764	-2048

	31/12/2036	31/12/2037	31/12/2038	31/12/2039	31/12/2040	31/12/2041	31/12/2042	31/12/2043	31/12/2044	31/12/2045	31/12/2046	31/12/2047	31/12/2048	31/12/2049	31/12/2050
Core NOPAT	4064	4404	4702	5017	5336	5648	5980	6333	6709	7074	7462	7736	8021	8315	8578
Core Invested Capital	-1780	-1938	-1927	-2053	-2146	-2216	-2352	-2495	-2649	-2723	-2877	-2688	-2782	-2879	-3391
Change in PP&E	-389	-429	-346	-364	-359	-337	-360	-385	-412	-380	-404	-194	-201	-208	-473
Change in Intangibles & Goodw	-1314	-1427	-1525	-1628	-1732	-1833	-1941	-2056	-2178	-2296	-2421	-2505	-2593	-2683	-2777
Change in Other Operating Net	-125	-138	-104	-110	-106	-95	-102	-110	-118	-104	-111	-28	-29	-30	-184
Investment in NWC	48	57	48	50	50	49	52	55	59	56	60	40	41	42	44
	503	528	848	912	1043	1216	1277	1343	1410	1629	1708	2361	2457	2557	1796
Core FCF	€2,284	€2,466	€2,775	€2,964	€3,189	€3,432	€3,628	€3,838	€4,060	€4,352	€4,585	€5,049	€5,239	€5,436	€5,187
Non-Core Nopat	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Non-Core Invested Capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Financial Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in non-financial asset	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Tax Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Core FCF	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7	€7
Investing FCF	2291	2473	2782	2971	3196	3439	3635	3845	4067	4359	4592	5056	5246	5442	5194
Financial Result	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Net Debrt	-2291	-2473	-2782	-2971	-3196	-3439	-3635	-3845	-4067	-4359	-4592	-5056	-5246	-5442	-5194
Debt CF	€-2,291	€-2,473	€-2,782	€-2,971	€-3,196	€-3,439	€-3,635	€-3,845	€-4,067	€-4,359	€-4,592	€-5,056	€-5,246	€-5,442	€-5,194
Changes in equity	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Comprehensive Income	4071	4411	4709	5024	5342	5655	5987	6340	6716	7081	7468	7743	8028	8322	8585
Transaction with shareholders	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0
Investing FCF	-2291	-2473	-2782	-2971	-3196	-3439	-3635	-3845	-4067	-4359	-4592	-5056	-5246	-5442	-5194

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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