EUROPEAN ECOMMERCE

INVESTMENT & INNOVATION: A COMPETITIVE MARKETPLACE?

THE ANALYST FOR CCIA

EXAMINING THE STATE OF INVESTMENT AND INNOVATION IN THE EUROPEAN ECOMMERCE MARKET, 2012 - 2015

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NOVEMBER 2015

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INVESTMENT & INNOVATION

Section 1: Executive Summary

Capital Inflows

Capital inflows to the European ecommerce market are increasing. The consistent trend since 2012 is of increased capital raising in the internet sector in Europe by European-domiciled businesses. Since 2012, our sample group of 25 listed pure ecommerce companies raised €12bn and our sample group of private ecommerce companies (a group of 500 companies, many in start-up/early development phase), raised over €5bn in that same period.

There is a clear upwards trend in capital raising over this period. For example, our public sample group raised €6bn in 2014 (and an estimated €8.8bn for 2015), up from €315m in 2012 (a 27x increase over the period), fuelled by a number of large high-profile IPOs, and our private sample group raised €1.5bn in 2014 (and an estimated €3.7bn in 2015), up from €819m in 2012 (a 4.5x increase).

Corporate Expenditure

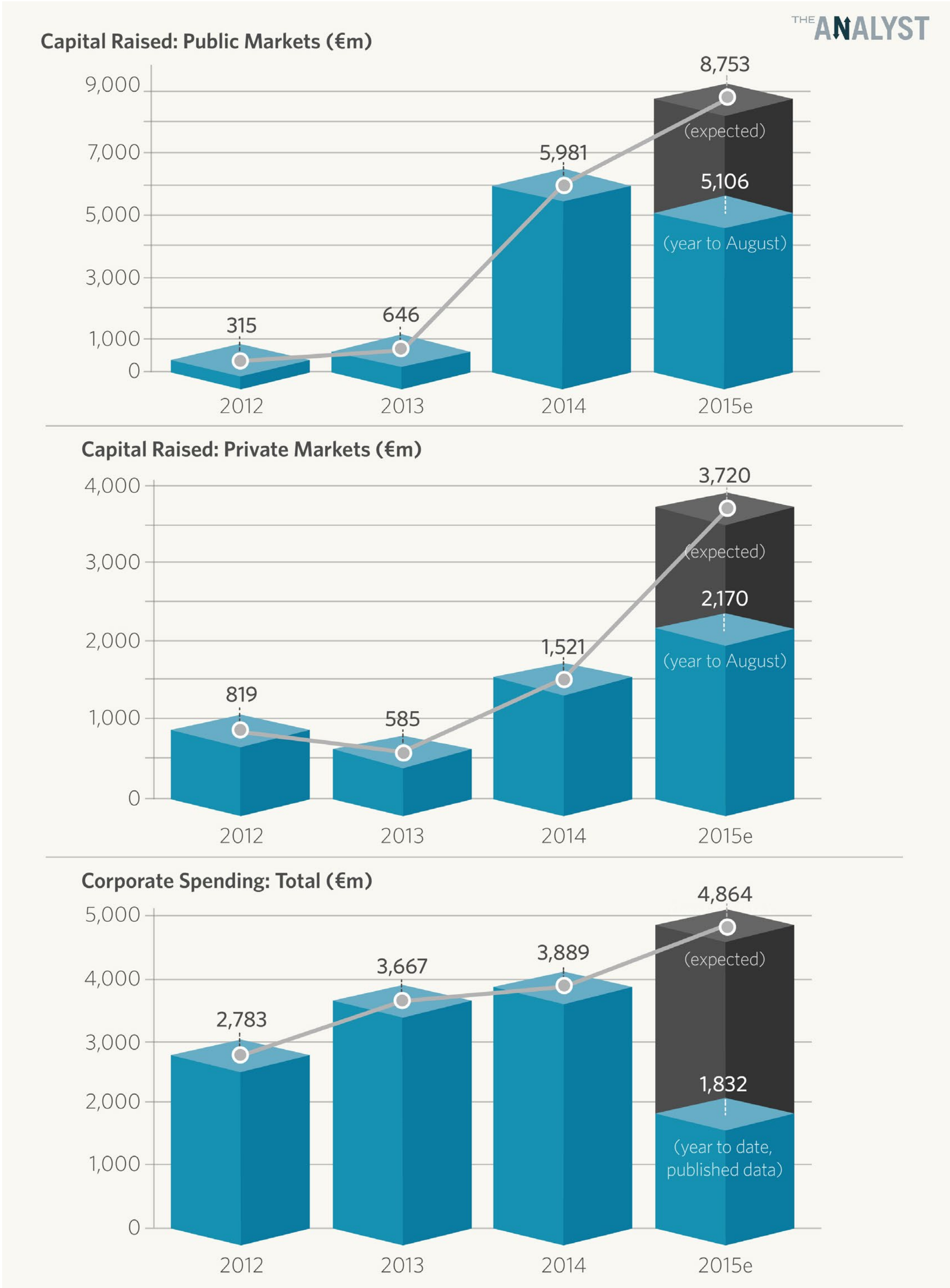
Corporate expenditure in the ecommerce sector is increasing rapidly. Infrastructure, marketing, human resource, and other operational spending shows a consistent increase, which demonstrates that corporates are able to deploy the capital they raise, and there are low barriers to building an ecommerce business in Europe. Our listed company ecommerce sample group has deployed at least €12bn in the period since 2012, and there is a clear upwards trend displayed in this sample group (from €2.8bn total in 2012, to an estimated €4.9bn in 2015).

Conclusions

In this research project we set out to discover the state of investment in the European ecommerce sector. Our findings were clear and unambiguous: the European ecommerce market is in excellent health, with strong levels of investment and innovation, and with a marked upwards trend during the period 2012-2015.

Capital is increasingly attracted to the sector, and good businesses with strong products are able to raise funds in the public and private equity markets and then deploy those funds through operational and capital spending.

European companies are increasingly choosing to deploy expenditure in the ecommerce sector, drawn by attractive returns on investment.



Executive Summary: European Ecommerce Success Stories

Throughout this report we have used examples from some of Europe's most successful and interesting ecommerce companies. Section 6 of the report provides a summary of the stories behind these names, and a brief introduction to these companies is set out below:

Zalando
Europe's largest mass-market fashion etailer, based in Germany and listed on the German Stock Exchange. After only eight years, Zalando's market capitalisation has reached €7bn. Zalando's brand recognition is now so high that its marketing spend is declining as a percentage of revenue (70% of its traffic is organic). In essence, Zalando is becoming its own 'platform', with a low level of reliance on others for advertising and traffic acquistion.

Rightmove
The UK's leading residential property portal, providing services to estate agents. Listed on the London Stock Exchange, Rightmove has won in an online world where many analysts would intuitively have expected a search player such as Google to lead, Rightmove operates increasingly independently of search referrals, which generate just 25% of Rightmove's traffic, of which 50% now comes from mobile.

Just Eat
The world's leading online food takeaway portal, providing services to restaurants. Listed on the London Stock Exchange. With it's 11m users, Just Eat is an online portal and a winning business model with low levels of capital employed. Just Eat has also succeeded in leveraging its mobile app, which now accounts for 38% of its orders.

Yoox Net-a-Porter
Europe's largest luxury fashion etailer, based in Italy, also providing ecommerce support to fashion brands. Listed on the Italian Stock Exchange. The recent merger between Yoox and Net-a-Porter created a €4bn market cap company with the technology and scale to roll out its model to an increasing number of luxury brands.

Farfetch
London-based fashion site for boutiques, providing platform services to smaller designers. On track to reach €440m of gross merchandise volume this year, last year they reported 270,000 customers and an average order value of €570.

Lyst
London-based fashion aggregator for designers and stores on one portal. Total sales rose from €35m a year ago to €130m today, with 11,500 brands now aggregated on the site.

WorldStores
'Umbrella brand' for 76 e-commerce sites, operating primarily in the home and garden sectors, based in the UK. Selling more than 750,000 product lines, WorldStores has sales above €135m and is investing in a delivery fleet to enable it offer a next day delivery service.

Delivery Hero
Formed by a Swedish entrepreneur, an online food ordering platform operator now operating in 34 markets across five continents. Delivery Hero processes over 7m orders monthly for its 200,000 restaurant partners and is at a revenue run-rate of €170m.

Windeln
A leading online retailer of baby and toddler products. Founded in 2010 and initially operating in Germany and Switzerland only, Windeln has now reached a €150m revenue run-rate, of which the majority comes from China.

Section 2: Mapping the European Ecommerce Landscape

In its broadest sense, the European ecommerce landscape could be taken to include all European businesses using the internet to sell products and services (i.e. almost all European businesses). However, for the purposes of our study we have narrowed the scope to focus on certain sectors. We chose a range of sectors which demonstrate varying degrees of internet penetration, and which together represent a sizeable proportion of European consumer spending.

The sectors on which our work focused included:
- Clothing, shoes and accessories
- Consumer electronics
- Electrical household appliances
- Computer games and software
- Toys and childcare articles
- Media: books (including e-books), CDs, DVDs, and Blu-Ray discs
- Cosmetic and healthcare products
- Sports and outdoor equipment (excluding clothes and shoes)
- Restaurant, food & grocery
- Travel and transportation
- Marketplaces
- House and garden

Our methodology for selecting our samples of ecommerce companies is set out in the relevant sections of this report. This methodology produced a focused sample set of 25 public and 500 private ecommerce companies which we analysed for capital raising activities (see Sections 3 and 4 respectively). For the public companies, which offer a higher level of financial disclosure, we were also able to analyse their corporate spending to assess whether and how they are using the capital raised (see Section 5).

Section 3: Capital Flow into the European Ecommerce Sector 2012 - 2015

Public Markets

Summary

- **Over €12bn capital inflows into public equities in our ecommerce sample set domiciled in Europe since 2012.**
- **Capital flows in our sample group have increased by over 27x from 2012 to 2015e.**
- **Over €5bn has been invested into our sample group so far in 2015 (to August), with our estimated full year figure investment level for 2015 being €8.8bn.**
- **Healthy public equity markets in ecommerce in Europe.**

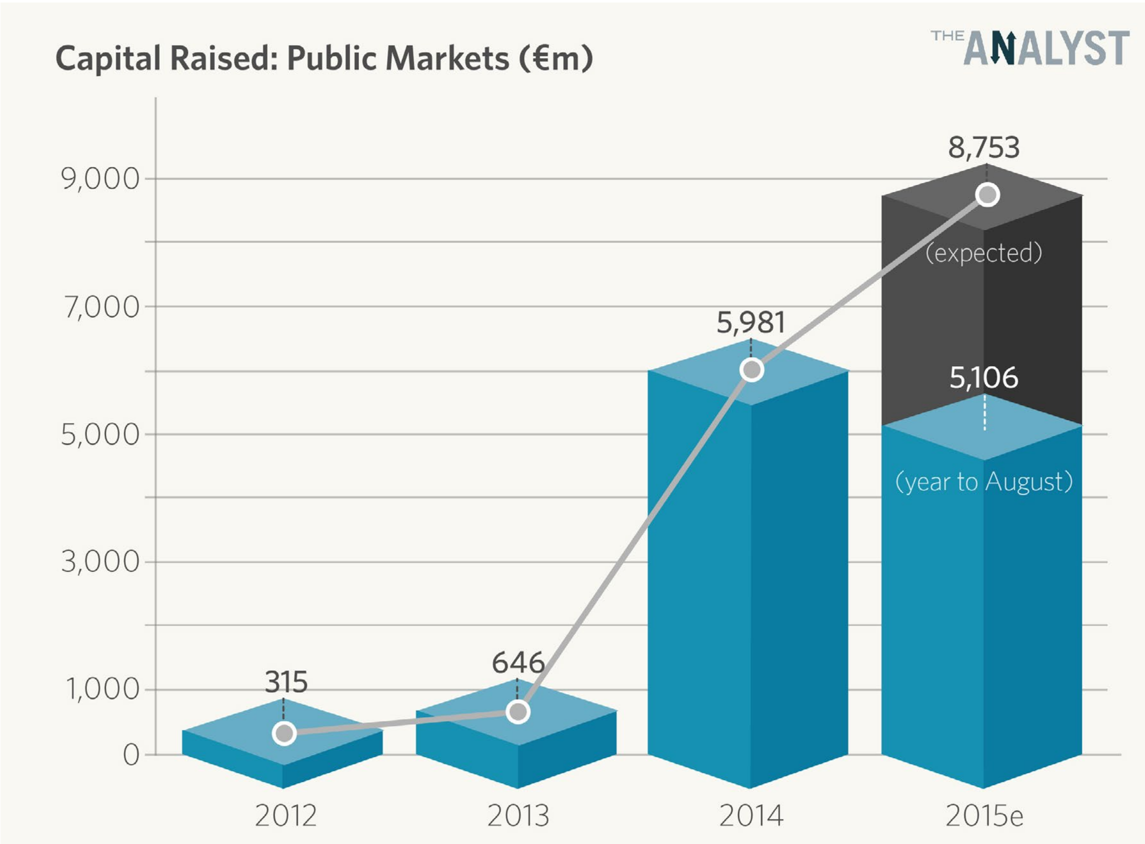
Research Process

- We aggregated capital raising volumes from over 80 ecommerce companies in the public markets in Europe.
- We then excluded companies in media and publishing, marketing, software and payments, to select 25 public, pure ecommerce companies listed on the public markets in Europe in the sectors relevant for this study.
- This included primary and secondary fund raising. Primary capital is ‘fresh’ money raised from new, or existing, investors, whereas secondary capital is the sale of equity by existing investors.
- The aggregate amount is important to consider as it fully reflects the flow of capital into these businesses, and the willingness of investors to put capital into ecommerce.
- Year to date figures for 2015 are for the period to 31st August 2015.

Findings

Exhibit: Aggregate Capital Flow into Public Equity

Year	Capital Raised (€m)	Change YoY
2012	315	
2013	646	105%
2014	5,981	826%
2015 ytd	5,106	
TOTAL	**12,048**	
2015e	8,753	46%
TOTAL est.	**15,695**	



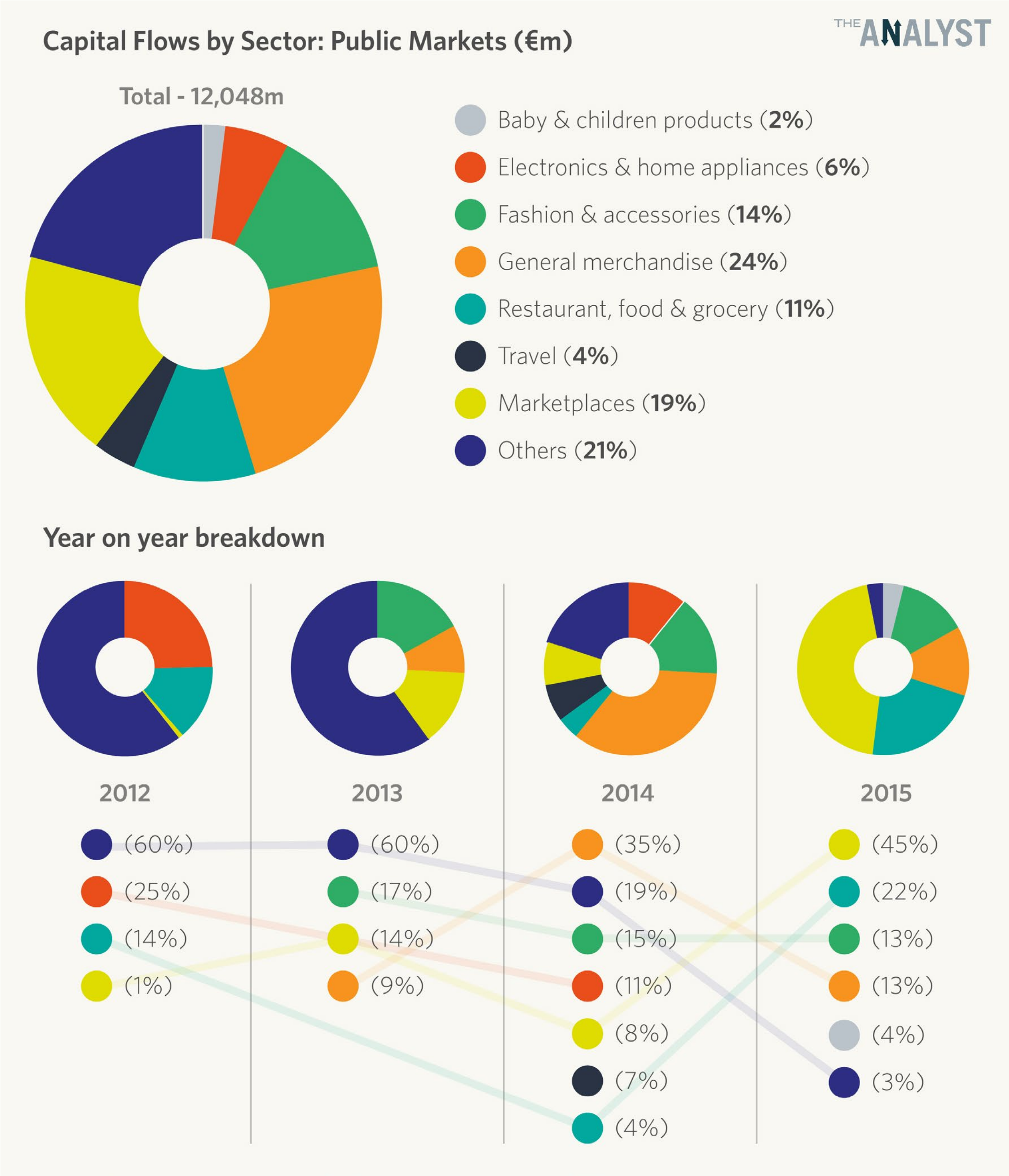
We conclude that capital inflows to the sector increased strongly through the period under consideration, from just €315m in 2012, to €6bn in 2014, which represented the true emergence of the European sector in the public markets. By August 2015, €5.1bn had been raised year to date, implying a full year expectation of €8.8bn, a 46% increase on the prior year.

2014 marked a watershed a year for the sector, with the high profile initial public offerings of Just Eat (raised €1.9bn), Rocket Internet (€1.6bn), AO World (€575m), Zalando (€900m), and Zoopla (€522m). These were scaled, pure, internet businesses, with strong market positions and profitability that had emerged over preceding years and were ready for the public markets.

In 2014, European domiciled businesses took center stage in a sector that had hitherto been driven by some larger global technology companies. The emergence of these European-listed businesses demonstrates the willingness of entrepreneurs to aggressively build new business models and leverage the internet channels to access consumers across the continent.

Some of these business models are now market leaders on the global stage. Most notably, Zalando and ASOS are now global leaders in ecommerce fashion, whilst Just Eat is expanding globally funded by its profitable online takeaway business in its home markets. Looking at Rightmove, we note that ecommerce is particularly advanced in the real estate sector in the UK, for example compared to the USA.

Capital raisings were spread across different segments of ecommerce. The exhibit overleaf shows the breakdown by sub-sector.



Sample group: 25 pure e-commerce companies

Exhibit: Data Set – Capital Raising in Public Markets, 2012-2015

Company	Sub-Sector	Country of Domicile	Countries of Operations	Capital Raised in Public Market (£m) 2012	2013	2014	2015 (YTD)
Acheter-Louer.fr	E-commerce (property)	France	France	3			
AO World	E-commerce (home appliances)	UK	UK			487	
ASOS	E-commerce (fashion)	UK			94		
Auto Trader	E-commerce (auto)	UK	UK				1,594
Axel Springer	Media	Germany			76		
Banzai SpA	E-commerce	Italy					41
Boohoo	E-commerce (fashion)	UK	UK			300	
Cnova	E-commerce					122	
eDreams Odigeo	E-commerce (travel)	Spain	Global			340	
Eniro	Online classifieds	Sweden	Europe				74
Freelance.com	Job portal						1
Getgoods.de AG	E-commerce (electronics)	Germany		65			
JustEat	E-commerce (food takeaway)	UK	Global			554	832
Lastminute.com NV	E-commerce (travel)					178	
Moneysupermarket.com	Price comparison	UK			200	130	93
MySale	E-commerce (fashion)	UK	Global				
Ocado	E-commerce (online supermarkets)	UK	UK	36			
Online Brands Nordic AB	E-commerce (jewellery)	Sweden				1	
Only-Apartments	E-commerce (travel)	Spain	Europe				
Qliro Group AB	E-commerce	Sweden	Europe		50	55	
Rocket Internet	E-commerce	Germany	Global			1,515	436
United Internet	Online Media			155	128	281	
Verkkokauppa.com Oyj	E-commerce (electronics & home appliances)					54	
Windeln.de	E-commerce (children's products)	Germany					153
Zalando	E-commerce (fashion)	Germany	Europe			420	477
Zoopla	E-commerce (property)	UK	UK			387	
TOTAL			(£m)	256	548	4,823	3,700
			(€m)	315	646	5,981	5,106

Private Markets

Summary

- **Over €5bn raised by our private markets sample group since 2012.**
- **Capital flows increased by 4.5x during the period.**
- **Over €2bn raised by our sample group so far in 2015, full year likely to exceed €3.5bn**
- **Healthy private capital markets in ecommerce in Europe, but balance of volumes increasingly shifting to public markets.**

Research Process

- We aggregated capital raising volumes in the private markets by looking at venture capital and private equity inflow in over 500 ecommerce companies in Europe. This represents principally primary capital raises to early-stage companies and start-ups in the sector.
- The aggregate amount is important to consider as it fully reflects the flow of private capital into these businesses, and the willingness of investors to put capital into ecommerce.
- This private amount should be considered alongside the public capital raises discussed above.
- Deal volumes tend to be smaller, with just eight corporates raising a cumulative amount above €100m in the period under consideration.
- Investment is well-spread across the different sub sectors of ecommerce.
- Year to date figures for 2015 are for the period to 31st August 2015.

Exhibit: Aggregate Capital Flow from Private Equity Sources (2012-2015)

Year	Capital Raised (€m)	Change YoY
2012	819	
2013	585	-29%
2014	1,521	160%
2015 ytd	2,170	
TOTAL	5,094	
2015e	3,720	145%
TOTAL est.	6,644	

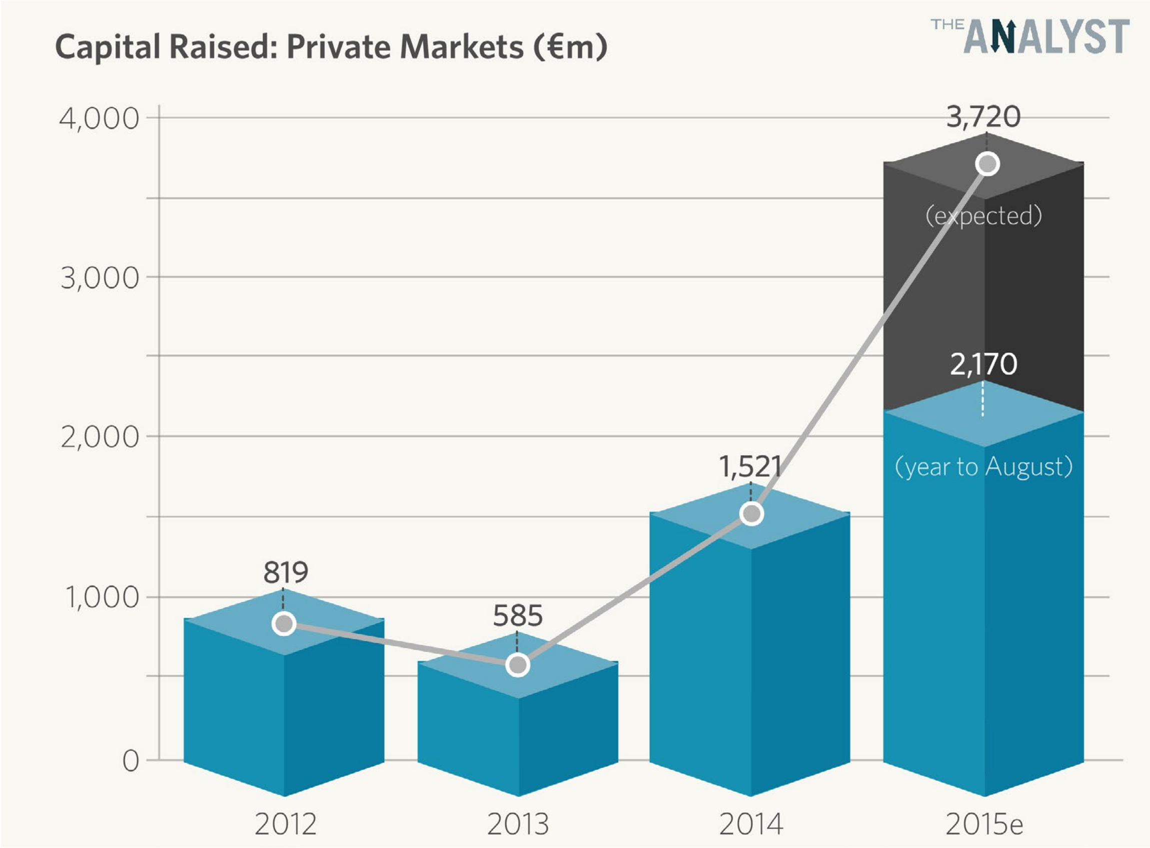
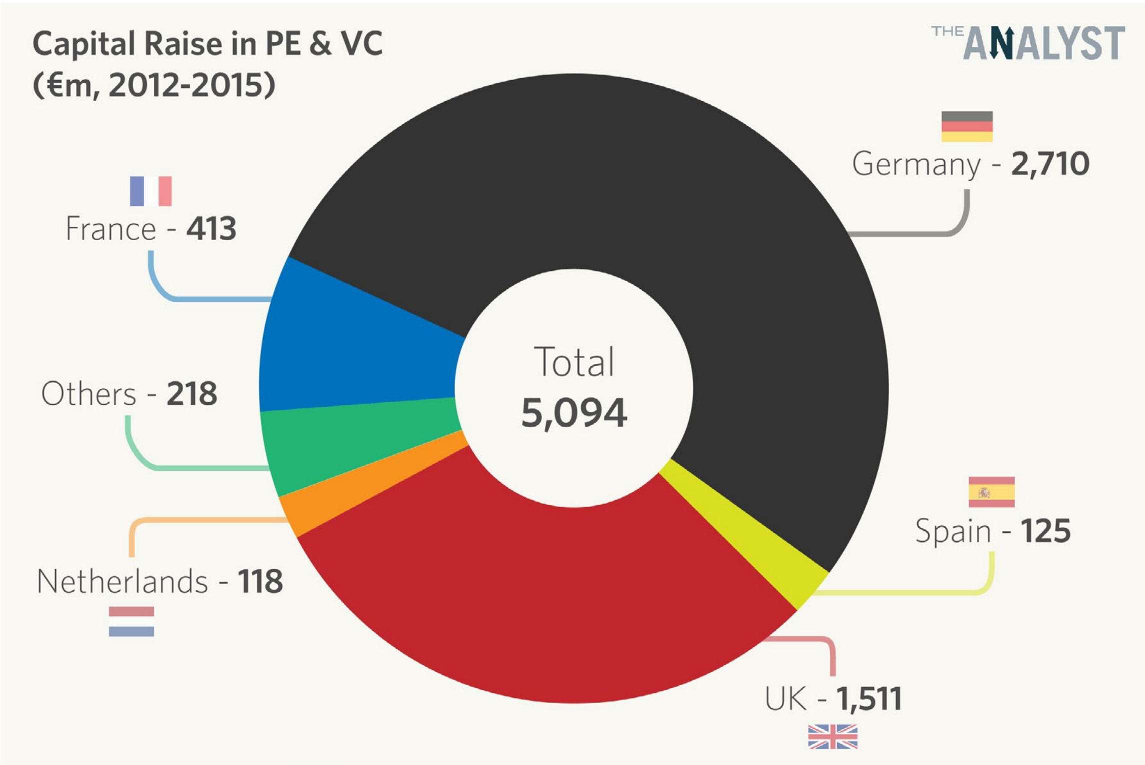
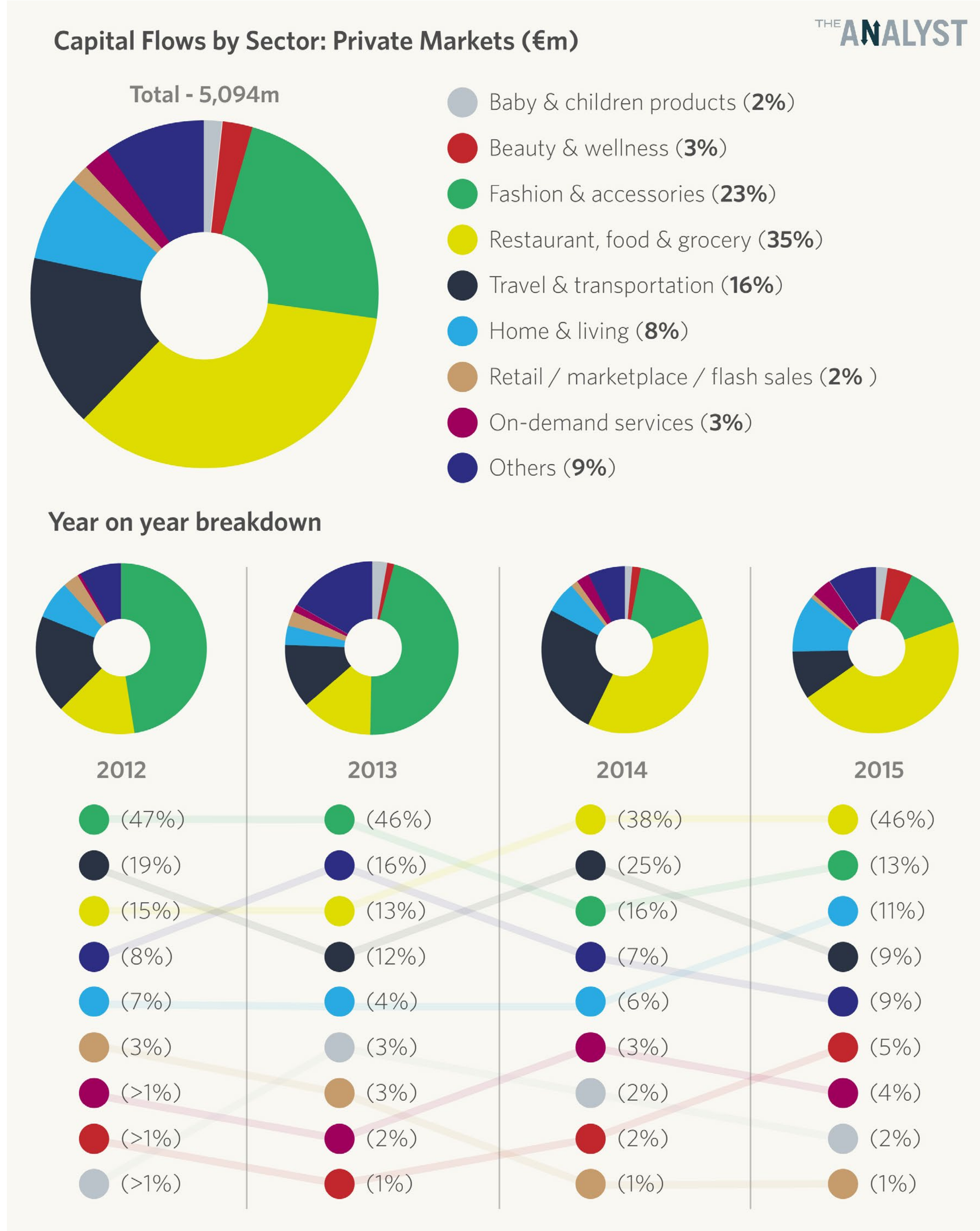


Exhibit: Capital Raise in PE & VC (2012 - 2015)

Country	Capital Raised (€m)	% of Total
France	413	8%
Germany	2,710	53%
Spain	125	2%
Netherlands	118	2%
UK	1,511	30%
Others	218	4%
TOTAL	5,094	100%





Section 4: Corporate Spending in the European Ecommerce Sector 2012 - 2015

Summary

- **Over €10bn SG&A (selling, general and administrative expenses) accumulated by our public company sample group since 2012 to date.**

- **Over €4bn expected to be spent by the sample group on SG&A in 2015. Sector spending increasing by at least 25% this year.**

- **€1.5bn invested by our sample group in assets since 2012, with €600m expected in 2015. Lower levels of capital expenditure relative to SG&A demonstrates the capital-light nature of ecommerce, and ability to operate on the existing infrastructure.**

- **Corporates are willing and able to spend the capital they raise. More businesses are raising more money and spending more to build scale.**

Research Process

- Having discussed the volume of capital inflow into the sector, we moved onto analysing the deployment of this capital, as measured by SG&A expenditure and capital investment by the companies that have raised the capital.

- The data sources are multiple, with varying levels of disclosure amongst the different public companies, as well as different accounting methodologies. However, this data shows a clear and consistent trend, and should be viewed as a barometer of ongoing investment by corporates in their business.

- SG&A includes, but is not limited to, websites, marketing, warehousing, delivery and administrative operating expenditure. Companies spend this money each year to run their business, employ their staff, channel and supply their products.

- Capital expenditure includes, but is not limited to, capital spend on property; plant and equipment; intangible assets such as software; technology; and other long-term asset creation. Companies spend their money each year on operational and capital expenditure. Capital spend analysis therefore gives a picture of the asset base which is being created by European ecommerce companies under consideration.

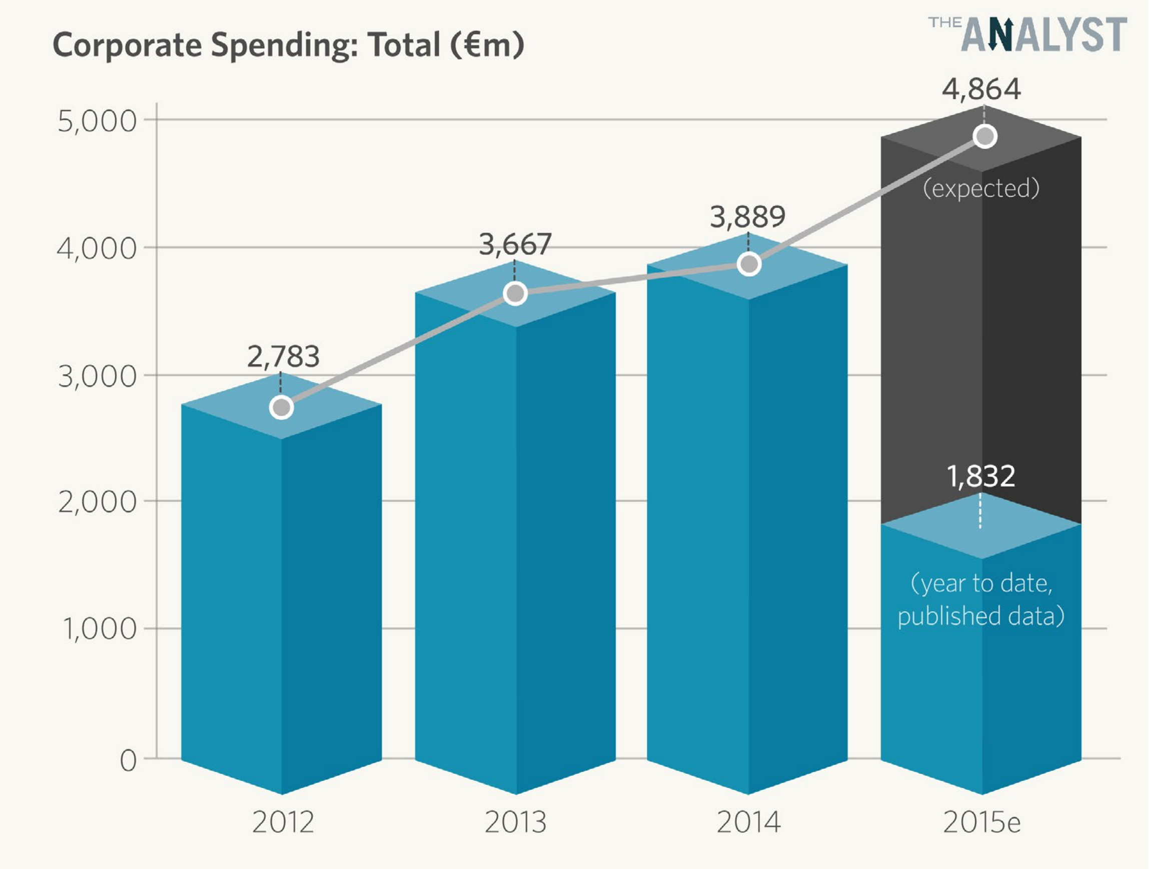
- Due to the limited disclosure requirements for private companies, this section only considers corporate spending by public companies (our 25 company sample group).

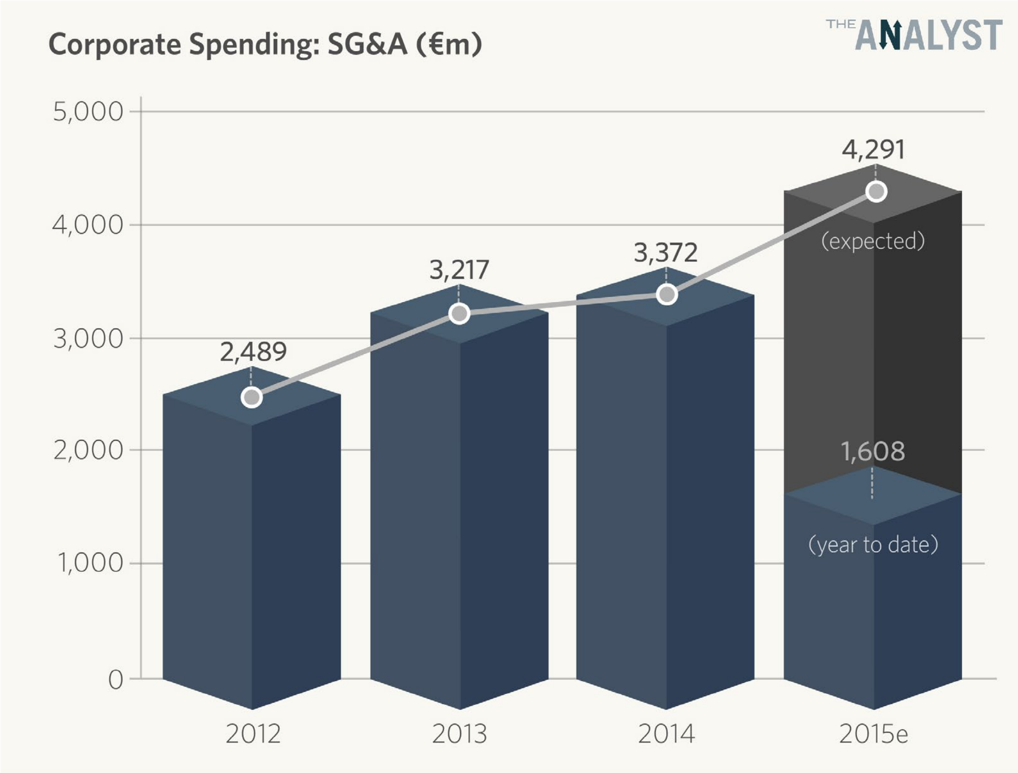
- The year to date figures for 2015 are based on the latest published data. The dates vary depending on each company's reporting schedule and appropriate pro rata adjustments have been made for the full year estimates.

Findings

Exhibit: Corporate Spending

Year	SG&A (€m)	Capex (€m)	TOTAL	Change YoY
2012	2,489	294	2,783	
2013	3,217	450	3,667	32%
2014	3,372	517	3,889	6%
2015 ytd	1,608	224	1,832	
TOTAL	10,686	1,485	12,170	
2015 est.	4,291	572	4,864	25%
TOTAL est.	13,370	1,833	15,202	





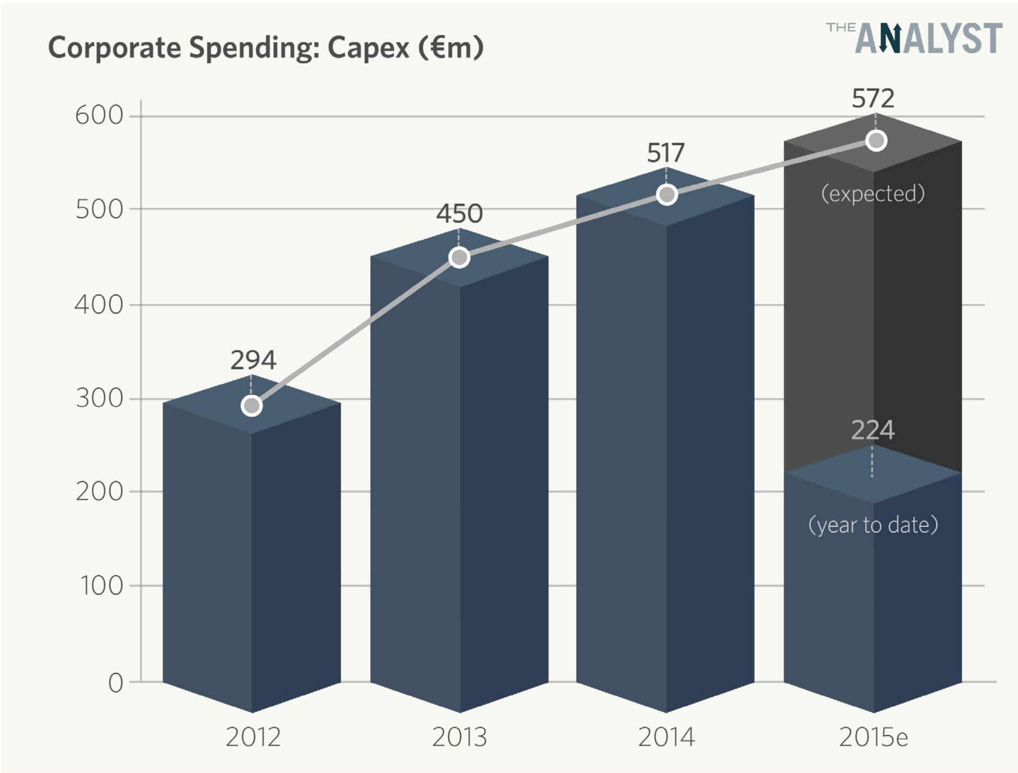


Exhibit: Visualisation Showing SG&A by Companies Under Consideration

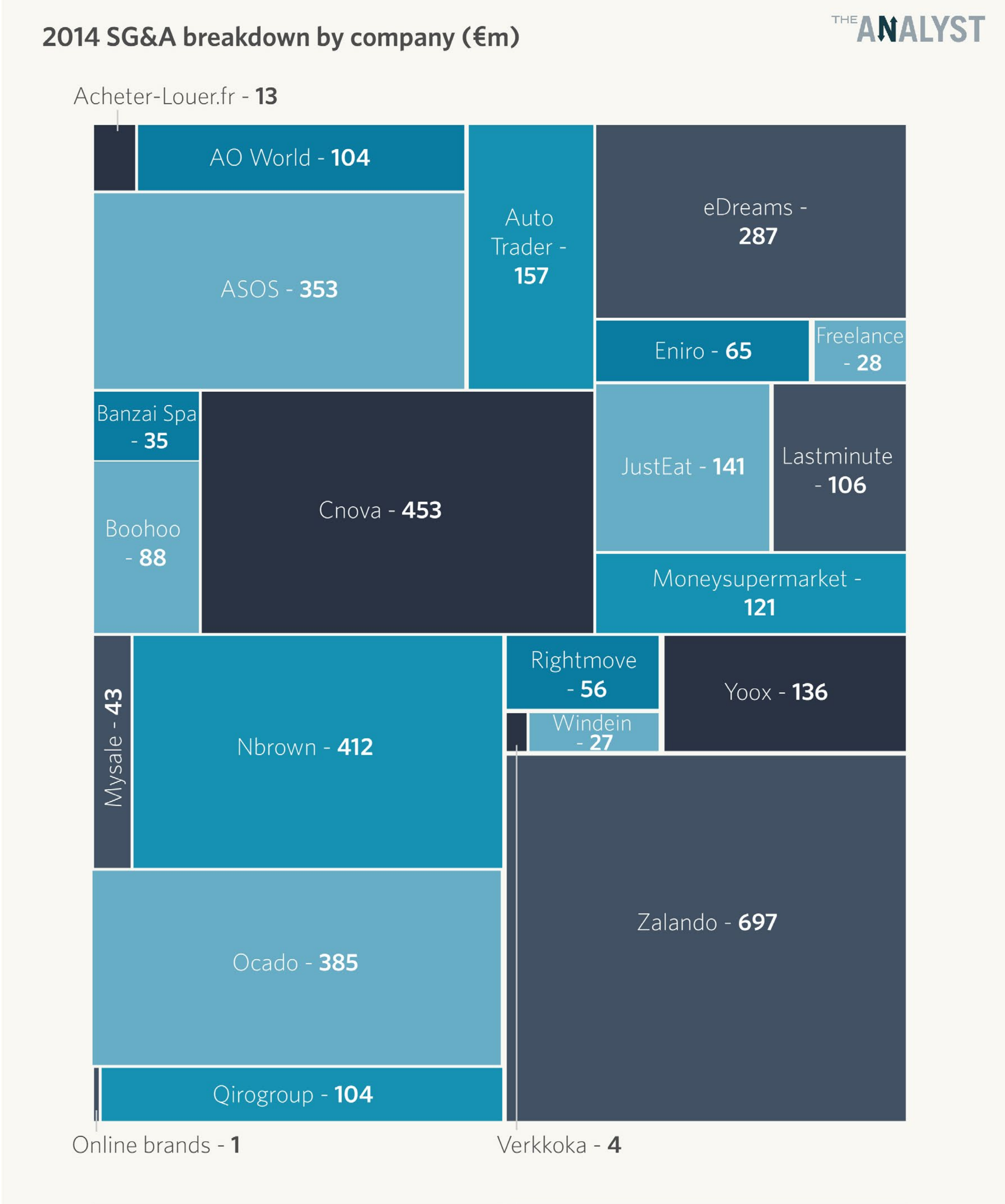
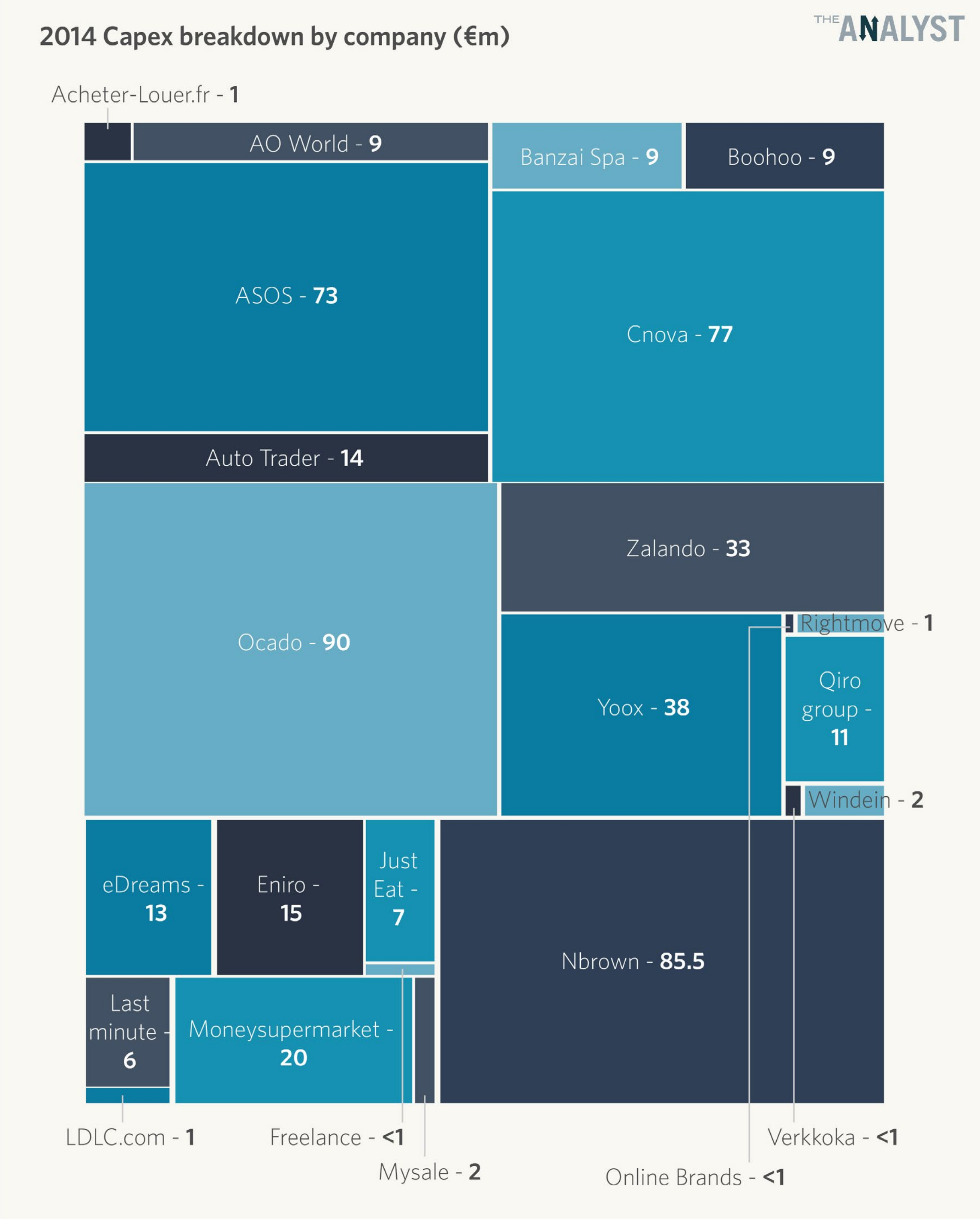


Exhibit: Visualisation Showing Capex by Companies Under Consideration



Section 5: Return on Capital of Online Retail

Summary

- **We examined the variance in return on capital (ROC) of online retail, compared to offline retail.**
- **Online return on capital is still substantially below offline return on capital. However, in our view this is due to the immaturity of the business models, rather than factors inherent to online retail.**
- **When scaled, online retail will have a faster capital turn than offline models. This is due to the lower physical asset requirement for an online model.**
- **Early evidence suggests online models will generate higher margins than offline. This is due to lower costs required to service the customer.**
- **Online retail will therefore have a higher return on capital than offline. However, currently most online players operate with significant excess capacity, and have not scaled revenue to 'maturity' levels.**

Example: Zalando and ASOS vs. Gap and H&M

- Zalando and ASOS, the online players, have operating margins estimated at 4-5%, compared to offline retailers Gap and H&M at 11% and 14% respectively.
- H&M and Gap turn their assets at 4-5x per annum, compared to Zalando and ASOS at 2-5x. Therefore, the online models, although more 'mature' than some ecommerce models (as measured by scale and profitability) operate at lower returns on capital than the offline models, which is counter-intuitive.
- We believe that the differential in ROC is explained by the non-scaled nature of the online models. Zalando and ASOS each have warehouse capacities to handle twice their current revenue levels. At this level of revenue, operating margins will be significantly higher than currently (we estimate 8-10%), and asset turns will be double. Margins will continue to increase as scale grows.
- Therefore, Zalando and ASOS will generate ROC higher than the offline peer group at maturity.
- However, in the near term online players will continue to invest profit growth in marketing initiatives, network building, range expansion and new geographies. Given the immaturity of the European online fashion model, online players will continue to

to invest heavily in growth, rather than seeking to scale operating profitability to mature levels at this stage.

Example: Ocado vs. Sainsbury and Tesco

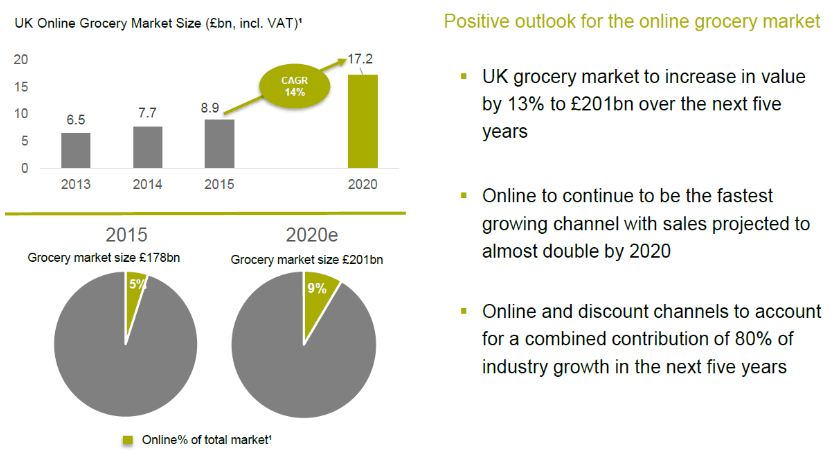
- Ocado has an operating margin of 2%, but a return on capital exceeding 10%. This is despite heavy investment in future technology and international platform businesses that do not generate any revenue today. We estimate Ocado's core UK business has operating margins of 6-7%.

- Tesco and Sainsbury have returns on capital of 6% and 12% respectively. These returns have been pressured in recent years by increased competition in the grocery industry in the UK.

- Ocado will have higher margins than the offline competition due to its low cost model. By saving on property, labour, utilities and warehouse costs, Ocado has a 15-20% cost advantage (as measured by percentage of revenue) against the offline players.

- This cost advantage is invested in delivery and fulfillment to get the grocery order to the customers' doors (whereas the customer travels to the store and completes that part of the supply chain themselves in the traditional model). Therefore, Ocado will not have margins 15-20% higher than offline, but rather 5% (we estimate Ocado's long-term margin will be around 10%).

- Capital turn will be markedly faster at Ocado, providing a 'mature' return on capital close to 30% on our estimates. At the moment online penetration in the grocery industry is 5%, and is expected to increase to 9% by 2020. At this point we would expect Ocado's ROC to far exceed that of the offline incumbents.



Source: Ocado Group plc – 2015 Half Year Results

- Ocado is likely to compete against additional online players in the future. However, Ocado has already scaled its business to above £1bn revenue, with a reputation for quality service. It will be difficult for other online entrants (no matter how well established in other areas of online retail) to compete with Ocado initially, and their entry is likely to put more pressure on the offline incumbents rather than the existing online operator.

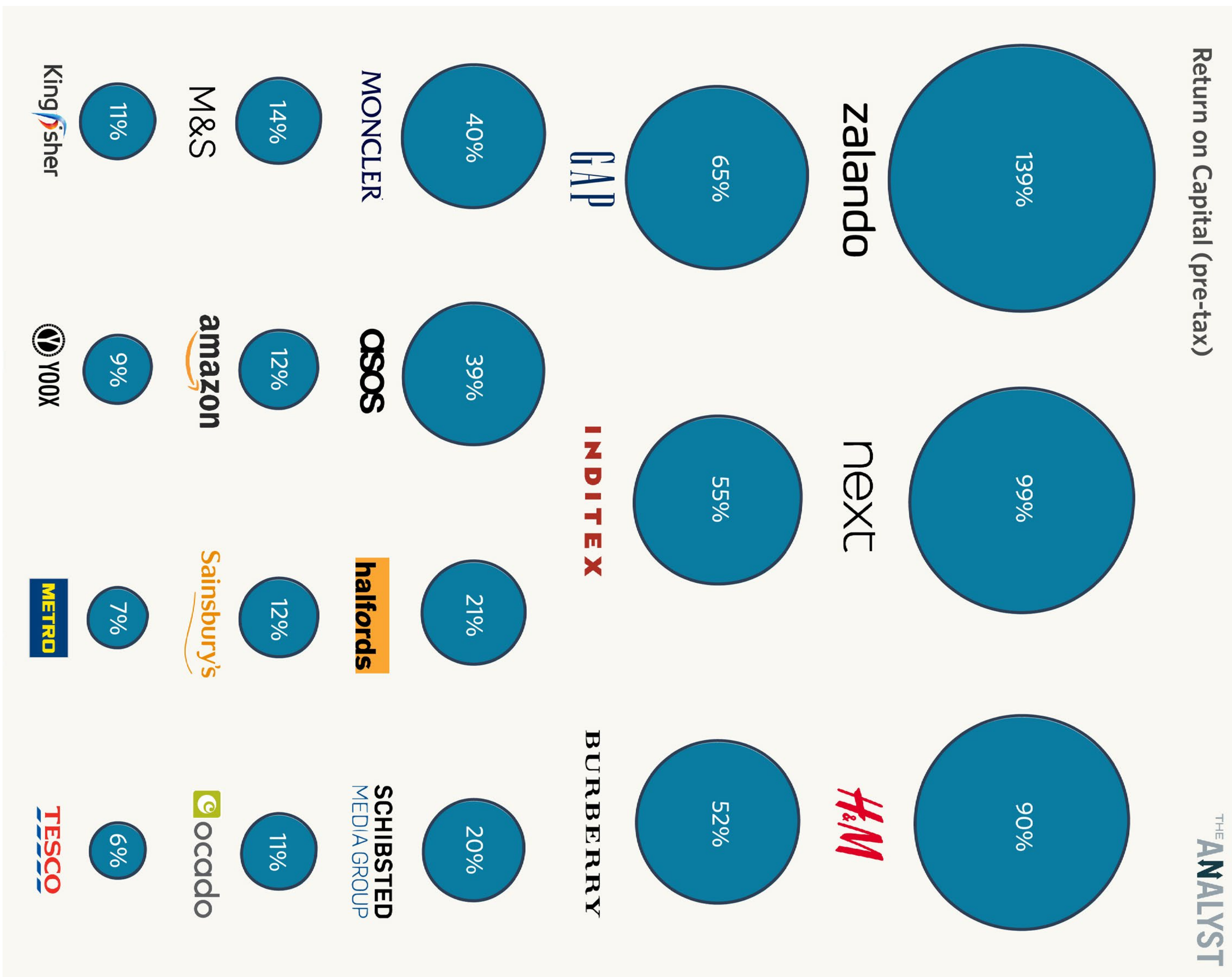
- Ocado spends almost nothing on marketing. This is because the presence of the Ocado vans provides significant brand awareness, and the company has a strong reputation for customer service, with a loyal, and growing customer base. Ocado spends approximately £10m per year in marketing costs (and extensively uses leafleting), indicating their use of digital marketing services e.g. paid search is minimal.

- The technology is applicable to European markets outside the UK, but this will require the adoption by an existing player (e.g. Carrefour in France) of the Ocado technology platform to provide their online fulfillment. Ocado is expected to announce its first international platform deal before the end of 2015.

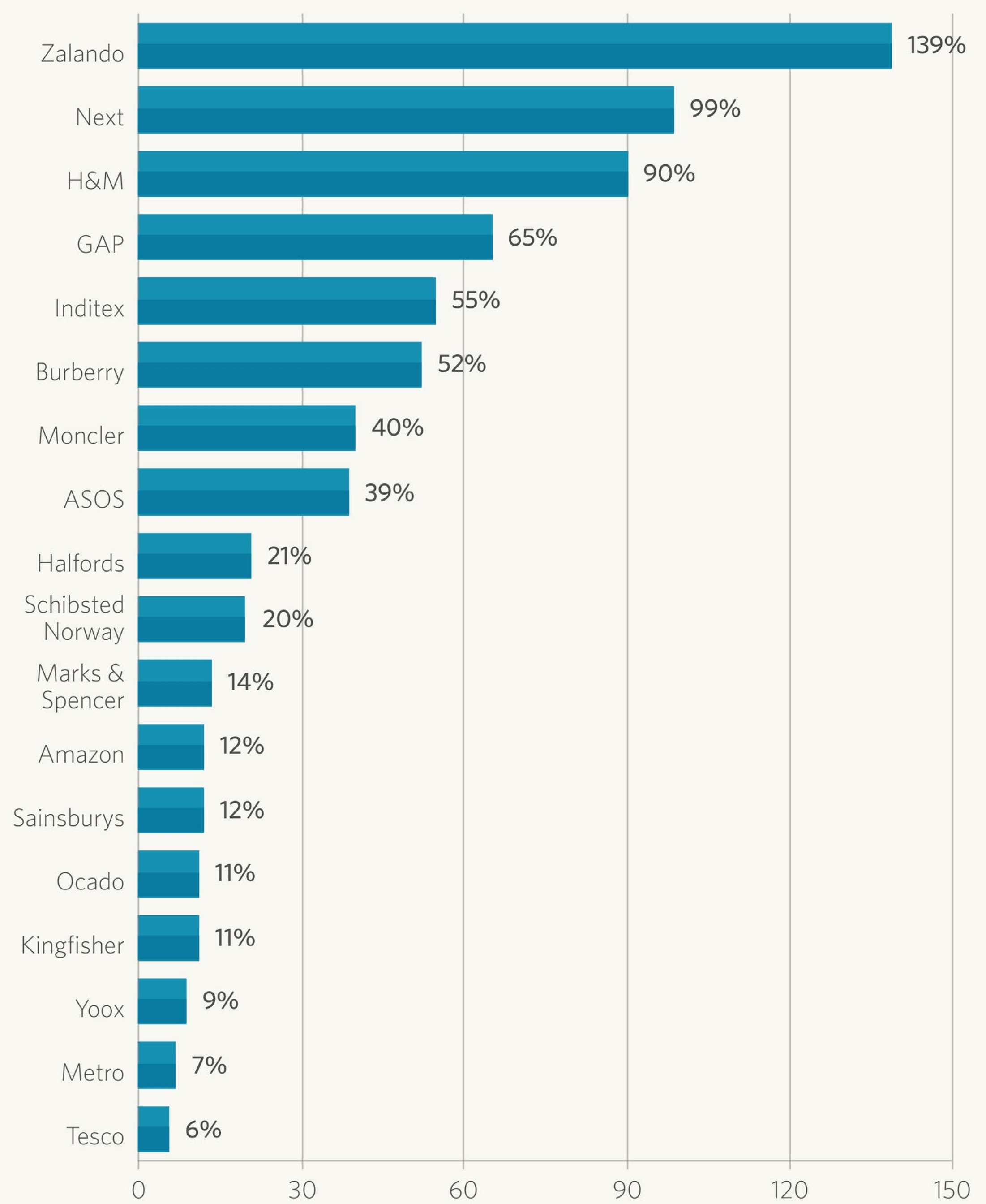
- As can be seen from the table overleaf and the infographic on the following page, no clear pattern can yet be discerned as to the relative ROC between online and offline models. Whilst Zalando's exceptionaly high ROC of 139% indicates the potential for online ROC, the immaturity of other online players masks this.

Exhibit: Key ROC metrics for online and offline ecommerce businesses

Company	Channel	Categories	Currency	Net Assets	Asset turn	Net Cash (Debt)	3-year Marketing Spend	Revenue (ltm)	Operating Profit (ltm)	Margin	Net Income	ROE	Return on Capital (pre-tax)
Zalando	Online	Apparel	EUR	1,182	2.0	1,104	2,089	2,401	109	4.5%	94	8%	139%
Next	Offline	Apparel	GBP	322	12.4	-499		4,000	812	20.3%	635	197%	99%
H&M	Offline	Apparel	SEK	47,239	4.1	16,693		192,793	27,606	14.3%	18,701	40%	90%
GAP	Offline	Apparel	USD	2,983	5.4	162		16,235	1,828	11.3%	1,128	38%	65%
Inditex	Offline	Apparel	EUR	10,207	1.8	4,106		18,726	3,334	17.8%	2,613	26%	55%
Burberry	Offline	Luxury Apparel	GBP	1,401	1.8	561		2,523	440	17.4%	336	24%	52%
Moncler	Offline	Luxury Apparel	EUR	415	1.9	-127	111	772	216	28.0%	146	35%	40%
ASOS	Online	Apparel	GBP	193	5.4	77	118	1,044	45	4.3%	36	19%	39%
Halfords	Offline	General Merchandise	GBP	368	2.8	-47		1,025	87	8.5%	66	18%	21%
Schibsted Norway	Offline	General Merchandise	NOK	6,930	2.2	-693	109	14,928	1,547	10.4%	751	11%	20%
Marks & Spencer	Offline	Apparel & Grocery	GBP	3,200	3.2	-1,642	477	10,311	701	6.8%	487	15%	14%
Amazon	Online	General Merchandise	USD	11,768	8.1	5,491	8,962	95,808	765	0.8%	-188	-2%	12%
Sainsbury	Offline	Grocery	GBP	5,539	4.3	-1,213		23,775	794	3.3%	416	8%	12%
Ocado	Online	Grocery	GBP	218	4.7	70	27	1,027	17	1.7%	7	3%	11%
Kingfisher	Offline	General Merchandise	GBP	6,229	1.8	394		10,966	652	5.9%	573	9%	11%
Yoox	Online	Luxury Apparel	EUR	159	3.6	-2	148	571	15	2.6%	11	7%	9%
Metro	Offline	Grocery	EUR	4,707	13.3	-2,290		62,480	467	0.7%	133	3%	7%
Tesco	Offline	Grocery	GBP	7,071	8.8	-9,607		62,284	1,022	1.6%	815	12%	6%
Next Directory	Online	Apparel	GBP	81				1,341	369	27.5%			
Media-Saturn (Metro)	Offline	Electronics	EUR					20,981	335	1.6%			



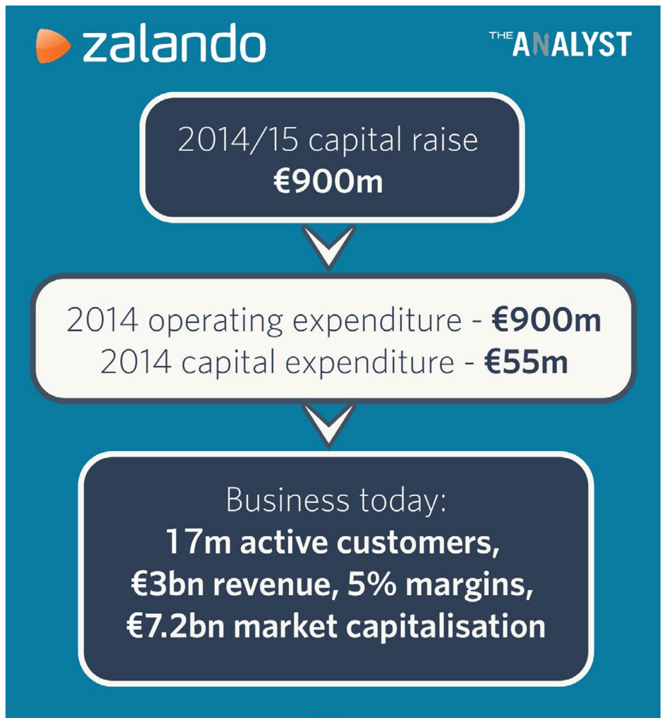
Return on Capital (pre-tax)



Section 6: Success Stories Case Study

Zalando

- Listed on the Frankfurt Stock Exchange in 2014, and has a market capitalisation of €7.2bn, having raised €900m on the public equity markets in 2014/15. We discuss Zalando in further detail in Section 7.
- The leading ecommerce fashion portal in Europe, and the largest worldwide, with revenues estimated at around €3bn for FY15, employing more than 9,000 people, primarily in the headquarters in Berlin, and the European fulfillment centres.
- Highly-profitable business, with 4.9% estimated operating margins, and an ROI exceeding 100%.
- Growing revenue at 30%, with 17 million active customers across Europe.
- Beginning to work with brand owners and other partners to build out the network, encourage repeat ordering and higher order values, whilst adding ancillary revenue services such as advertising and data.
- Invested €900m of operating expenditure and €55m of capital expenditure in Europe in 2014. Investment levels expected to increase by 25% in 2015.

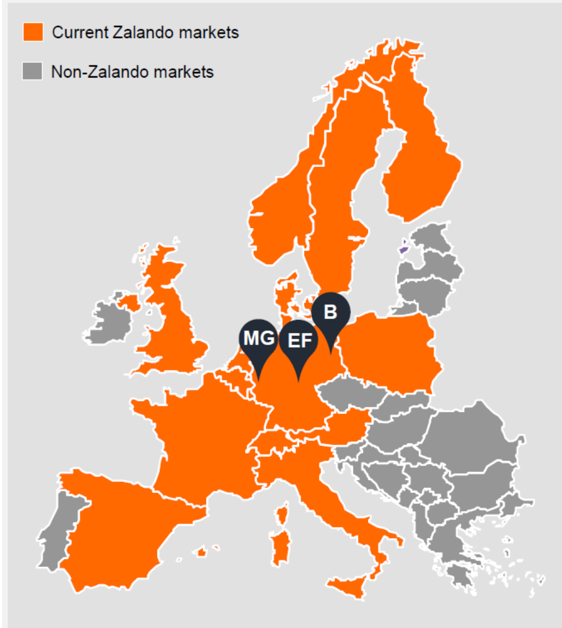


Zalando

KPI DEVELOPMENT

	2013	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15	Q2/15
Site Visits (m)[1]	1,217.0	331.8	322.7	321.7	387.6	1,363.8	392.8	411.8
Mobile Visit Share (in % of Site Visits)[2]	26.8%	36.2%	40.7%	43.3%	47.9%	42.3%	52.6%	56.6%
Active Customers (m)[3]	13.1	13.5	13.7	14.1	14.7	14.7	15.4	16.4
Number of Orders (m)[4]	35.1	9.7	10.4	9.7	11.6	41.4	12.0	14.0
Average Order per Active Customer	2.68x	2.74x	2.77x	2.81x	2.82x	2.82x	2.84x	2.89
Average Basket Size (in €)[5]	62.5	63.9	65.7	64.4	71.7	66.6	68.0	67.4
Fulfillment Cost Ratio (in % of revenue)[6]	24%	24%	23%	23%	20%	22%	25%	28%
Marketing Cost Ratio (in % of revenue)[7]	18%	14%	13%	11%	14%	13%	12%	12%

EVOLVING WAREHOUSE FOOTPRINT



✓ Build-out of sections 4 & 5 in Mönchengladbach

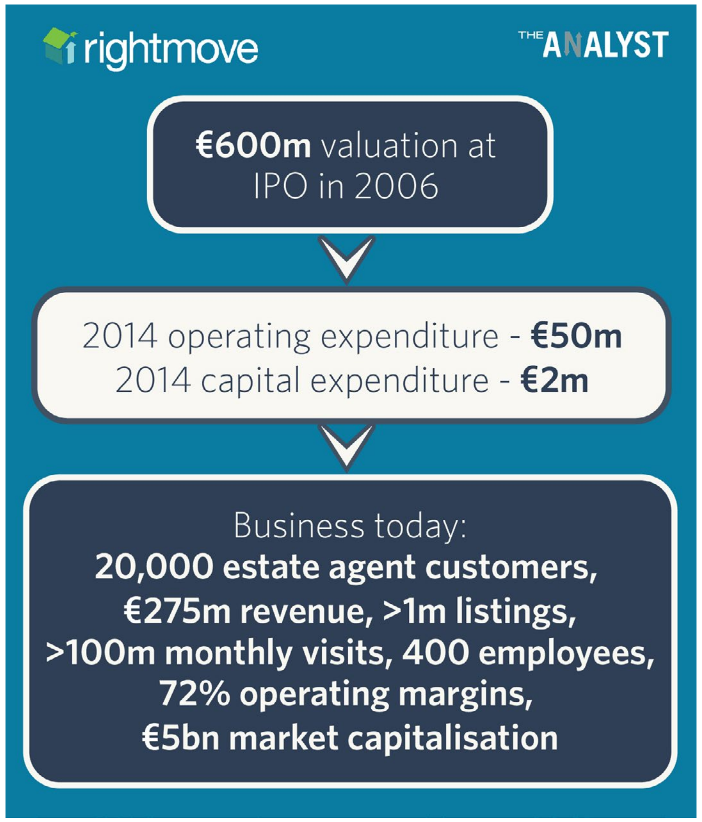
✓ Accelerate planning of new central hub in Germany

✓ Build-out of hub & spoke system with first satellite warehouse in Northern Italy (service provider)

Source: Zalando Q2 2015 Earnings Call, 13 August 2015

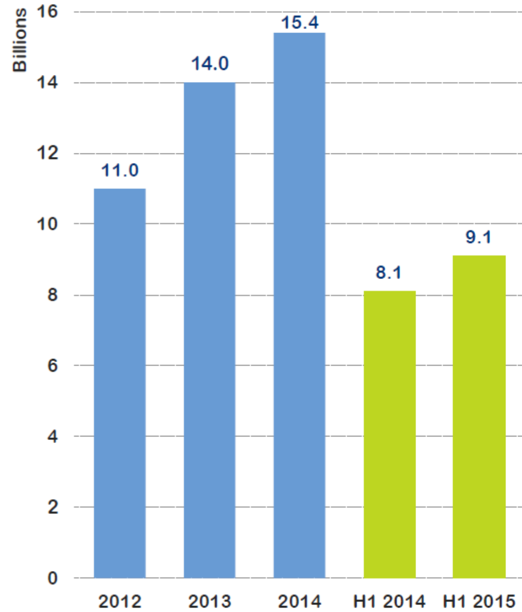
Rightmove

- Listed on the London Stock Exchange in 2006, and has a market capitalisation of £3.6bn (€5bn). Revenue will reach £200m (€277m) in the next twelve months, whilst the company is extremely profitable with 72% operating margins.
- The market-leading property portal, with 2.5x the number of website visitors compared to the market number two. Rightmove charges a higher price of twice its nearest competitor, but generates leads with a five-times greater likelihood of conversion for their estate agent partners.
- Works with 20,000 estate agents in the UK, who pay £750 per month on average.
- 400 employees and a very capital-light business model, operating a pure network/ portal model. Rightmove will invest just £50m in operating expenditure, and £2m in capital expenditure this year.
- The company has won in an online world, where many analysts would intuitively have expected a search player such as Google to lead. Rightmove operates increasingly independently of search referrals, which generate just 25% of Rightmove's traffic, of which 50% now comes from mobile.

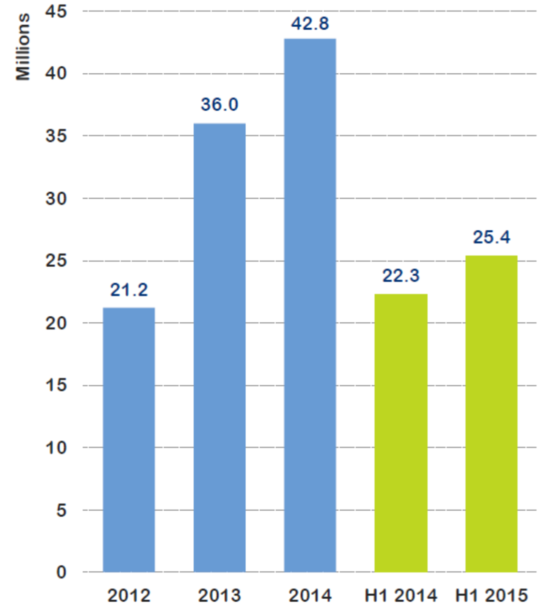


Rightmove

Page impressions



Leads



Revenue:
+16%
Revenue up to £93.1m (2014: £80.4m)

Profit:
+18%
Underlying operating profit[1] increased to £70.3m (2014: £59.6m)

EPS:
+24%
Underlying basic EPS[2] grew to 58.9p (2014: 47.5p)

Dividend:
+23%
Interim dividend increased by 3p to 16p per ordinary share (2014: 13p)

Cash returned:
£52.9m
All free cash flow returned to shareholders through dividends and buybacks (2014: £56.3m)

Advertisers:[3]
19,590
As 30 June 2015, up 1% (31 December 2014: 19,304)

Site traffic:
9.1bn
Page impressions for 6 months to 30 June 2015, up 13% (2015: 8.1bn pages)

ARPA:[3]
£740
Per month, up 10% (2014: £671)

Source: Rightmove Interim Results Presentation, 29 July 2015

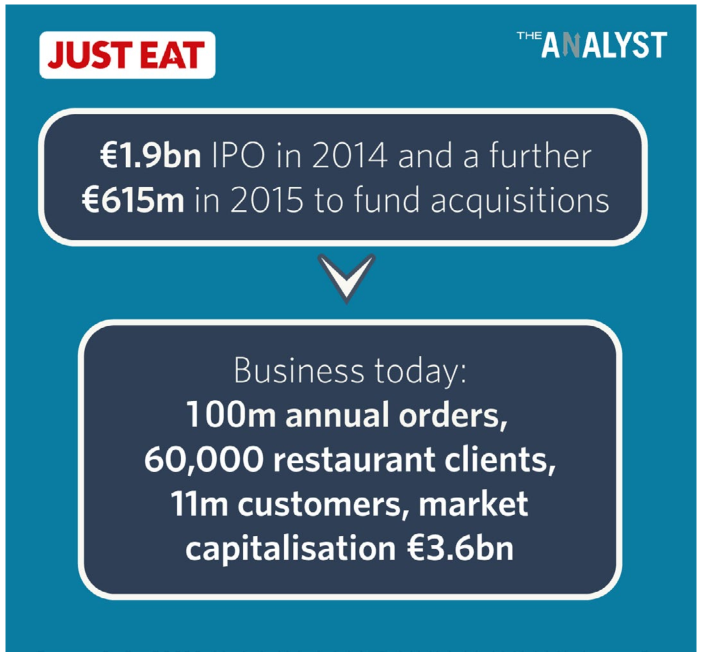
Just Eat

- Listed on the London Stock Exchange in early 2014, and has a market capitalisation of £2.6bn (€3.6bn). Raised £1.4bn in 2014/15 on the public equity markets. Recently raised £450m (€615m) to acquire Menulog, the leading Australian online takeaway company.

- Will generate more than £200m (€277m) revenue in 2015, growing at 54%, on a highly-profitable network/portal model. The UK is Just Eat's most profitable business with 44% margins, whilst other geographies (e.g. Canada, Mexico, Brazil, Spain, France and Italy) are investment markets currently operating with losses.

- Just Eat has 11 million active users, and handles 100 million orders per year to 60,000 restaurants who use their online portal as an 'outsourced' channel.

- Like Rightmove, Just Eat is an online portal and a winning business model with low levels of capital employed. 38% of orders come from their own app, whilst 70% of UK orders are placed on mobile devices.



Just Eat

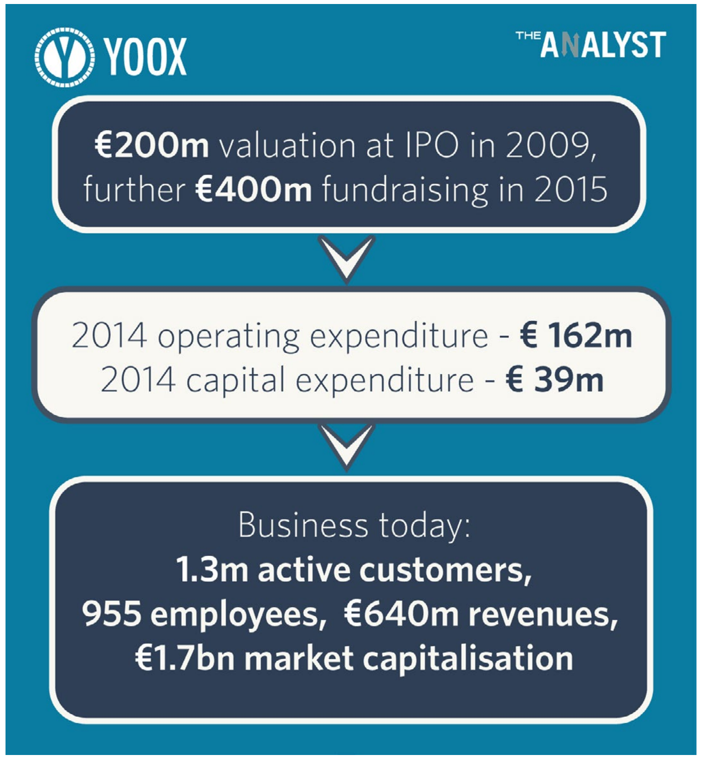
SIGNIFICANT POTENTIAL AT SCALE

	DK	UK	ANZ	CH/IE/NO/CA/FR/ES	IT/MX/BR	Group*
Overall takeaway delivery market size[8] (£bn)	0.2	5.5	1.6	8.0	5.9	£22.9bn
Potential JUST EAT % share at scale	60%	45%	50%	45%	c.25%	
Commission rate (2014)	12%	12%	10%	10-12%	c.10%	
Implied JUST EAT commission revenues at scale (£m)	14	297	80	400	148	£960m
Implied other revenues (£m)	6	75	11	80	30	£234m
Total implied potential revenues (£m)	20	372	91	480	178	**£1,194m**

Source: Just Eat FY15 Half Year Results Presentation, 4 August 2015

Yoox

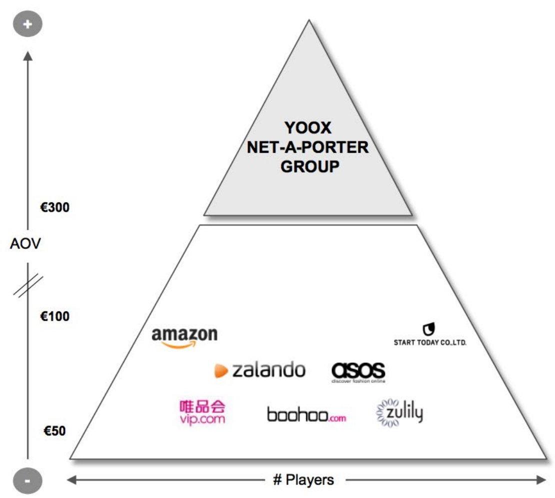
- Listed on the Milan Stock Exchange in 2009, when it was valued at €200m, it now has a market capitalisation of €1.7bn. Yoox recently announced a merger with Net-a-Porter (controlled and owned by the Swiss luxury goods company Richemont). The company will have a market capitalisation of €4bn after the merger and will raise a further €400m of equity during the process.
- The leading online, luxury apparel portal in Europe, with revenue of €640m, of which more than 60% is generated in Europe. Profitable, with 4% operating margins.
- Yoox operates a central fulfilment centre in Bologna, and employs 955 people (at June 2015, a growth of 20% in a year).
- Yoox operates its own website yoox.com, selling end-of-season luxury clothes, whilst it also operates the online webstores of 42 luxury brand partners. It is growing revenue at 25% per annum.
- Invested €162m in operating expenditure, and €39m in capital expenditure in 2014, primarily in Europe. Expenditure likely to increase by 20% in 2015.



Yoox

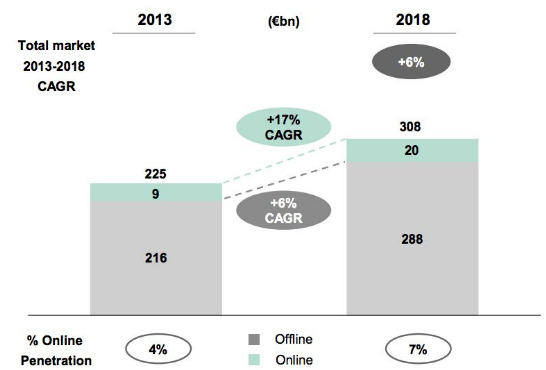
CY2014 Highlights	YOOX GROUP	THE NET-A-PORTER GROUP
Online stores	▪ yoox.com - online lifestyle store mainly for off-season fashion ▪ thecorner.com - multi-brand luxury in-season boutique ▪ shoescribe.com - multi-brand in-season destination for women's shoes ▪ Several online flagship stores, including JV with Kering	▪ net-a-porter.com - multi-brand in-season destination for luxury women's fashion ▪ mrporter.com - multi-brand in-season online destination for men ▪ theoutnet.com - multi-brand fashion outlet for women ▪ Online flagship store for Jimmy Choo
Net Revenues	€524.3m	€753.8m
Adjusted EBITDA[1]	€50.1m	€58.3m
Monthly Unique Visitors	15.2m	9.0m
Average Order Value (AOV)	€202	€481
Active Customers[2]	1.3m	0.8m
Employees	885	2,455[3]
Distinctive Assets	▪ **Long-standing strategic partner** to the world's leading luxury and fashion brands ▪ **World-class online retailing skills in fashion** ▪ **Unrivalled B2B competences** in developing mono-brand online stores for luxury and fashion brands ▪ **Global state-of-the-art techno-logistics platform** tailored for fashion	▪ **Leading destination for fashion content and commerce** and an authoritative industry voice ▪ **Multi-brand** in-season online luxury **fashion retailer of choice** ▪ **Award-winning editorial content** and integrated marketing platform ▪ Innovative luxury **customer service** and **experience**

ONLINE RETAIL INDUSTRY BY MARKET POSITIONING[1]



PERSONAL LUXURY GOODS MARKET SIZE[2]

- Favourable structural trends in both developed and emerging markets benefitting luxury growth
- Online channel gaining share over offline
  - Generational shift, with millennials moving into top spending years
  - Double-digit growth in rents for prime locations[3]
- Brands increasingly recognise the transformative impact of digital



Source: Yoox September 2015 Roadshow Presentation

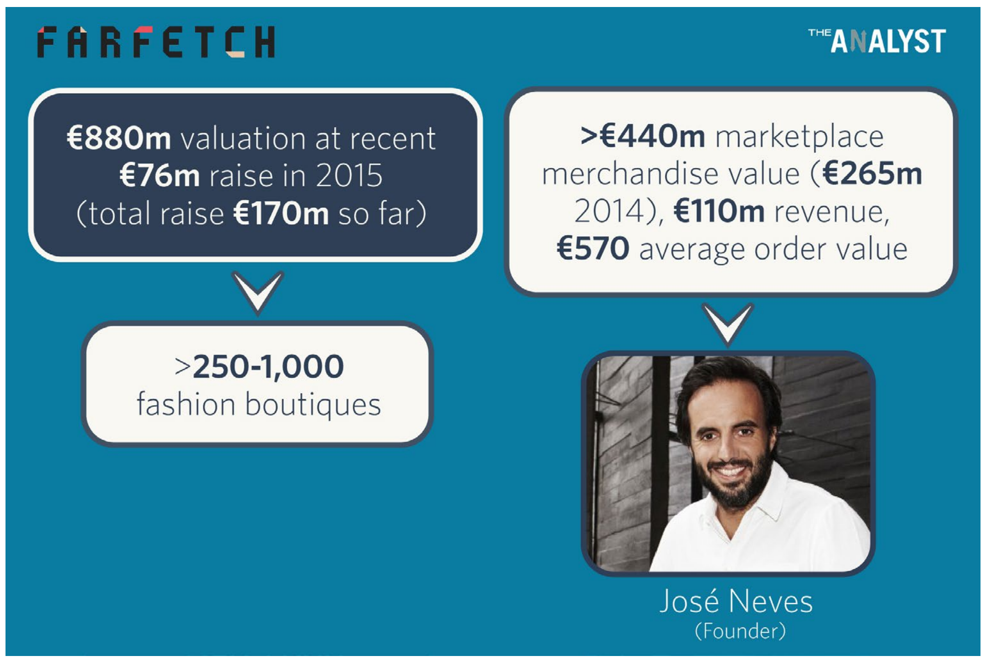
Farfetch

- Founded by Portuguese-born Jose Neves, and based in London, Farfetch raised €76m in March 2015 (their fifth round of venture-capital financing), at a €880m valuation, making it a 'fashion unicorn' in the world of venture capital. Farfetch now has ten local offices worldwide, and has now raised a total of €170m.

- The company has disclosed that they are on track to reach 'gross merchandise volume' of €440m this year, providing revenues of €110m (the company takes a 25% commission rate from partners). At the Series D round in 2014, they reported marketplace volume of €242m, with an offer of over 100,00 items in the marketplace, with 270,000 customers at an average order value of €570.

- The company works carefully with selected boutique designers (we have seen various sources quoting between 250 to 1,000 individual boutiques in its directory) to reach a global audience, providing a global platform which is very difficult for the smaller brands to manage themselves, due to customer service, language and logistics requirements.

- Farfetch has launched an e-commerce platform (similar to Yoox's monobrand offering), which will support brands with their platform and online strategy. The platform is not yet launched, whereas Yoox is already supporting 40 brands on their 'powered by Yoox' platform. This will be an 'ominchannel' solution, linking into retail store inventory, offering click-and-collect, and in-store returns.



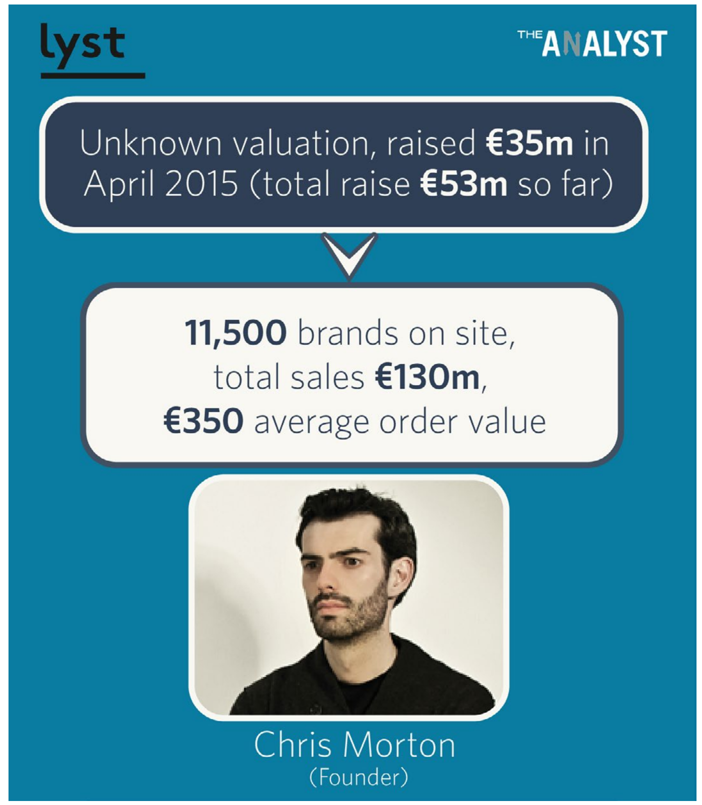
Lyst

- Lyst is another fashion ecommerce business, based in London. They raised €12m in 2014, followed by a further funding round of €35m in April 2015 (Series C). Like Farfetch, the company partners with designers and stores to bring fashion to one location. Each user can create a personal shopping experience, and follow favourite brands and people.

- The latest fund raising round brings the total raised to €53m, but according to CEO Chris Morton the company has not disclosed the valuations. Interestingly, Group Arnault (the controlling shareholder of LVMH) participated in the latest round.

- Total sales have reached €130m (compared to €35m a year ago), with an average order size of €350. Lyst aggregates 11,500 brands on the site, pooling other online stores and designers on their network.

- We note that luxury fashion is still relatively underdeveloped in Europe. Although there are numerous ecommerce companies addressing the space (three of which we have profiled in this report in Yoox, Lyst and Farfetch), penetration of the category is estimated at 2-3%.



WorldStores

- WorldStores, based in Twickenham in the UK, was founded by Joe Murray and Richard Tucker, and claims to be the 'UK's leading online home and garden retailer'. They raised £25m (€34m) in a Goldman Sachs-led funding round in March 2015. WorldStores acquired Kiddicare (previously owned by supermarket Morrisons) in 2014, own the Casafina brands (homeware products, with curated collections of designer, and luxury products), and modern.co.uk (designer furniture directed from the manufacturers at a discount to the high street). WorldStores claims to sell more than 750,000 product lines.

- Essentially, WorldStores is an 'umbrella brand' - they operate 76 niche sites, primarily selling items for home and garden. Niche sites include: cagesworld, mattressesworld, barstoolworld, for example, with heavy emphasis on data and use of paid search to market sites, and close relationships with suppliers. WorldStores is therefore a great enabler for smaller suppliers, who can leverage a large online channel to reach customers effectively, whilst their traditional customer base of high street stores are struggling.

- The company will launch next-day delivery, investing in delivery vehicles after this latest fund raise, has sales above £100m (€135m), but is not yet profitable.

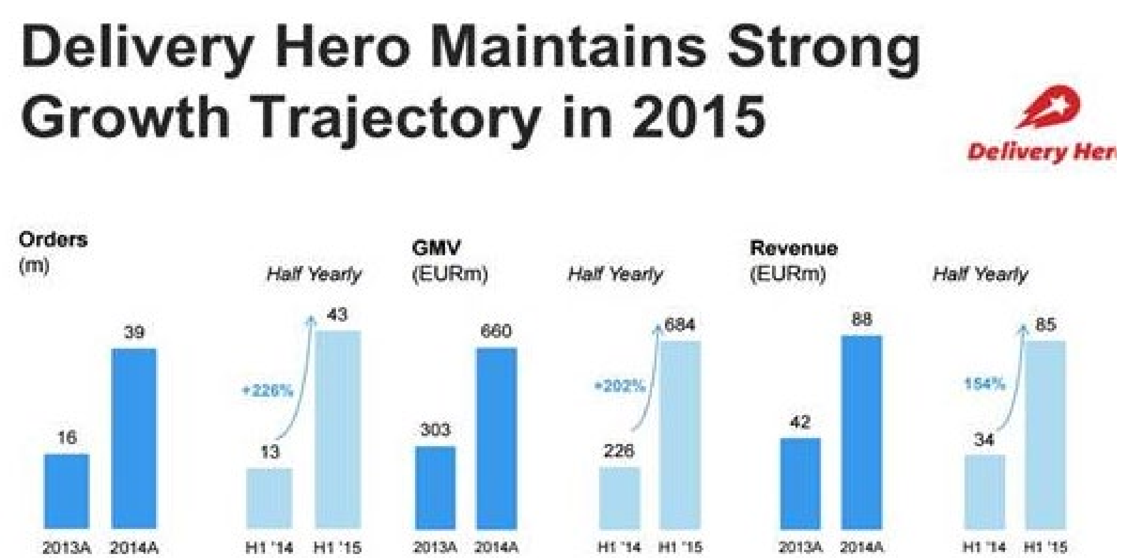
Delivery Hero

- Delivery Hero operates online food ordering platforms globally and was founded by Swedish entrepreneur, Niklas Ostberg in 2011. It operates in 34 markets across five continents, including nine EU countries (Austria, Germany, Sweden, Finland, Denmark, Poland, the Czech Republic, Slovakia and the UK). Delivery Hero currently employs over 2,000 employees globally.

- Delivery Hero processes over 7m orders monthly, at a total transaction value of €114m, from over 200,000 restaurants listed on its platforms. It is currently on a run-rate revenue of €170m for 2015. The company has invested heavily in customer and merchant acquisition as well as IT systems, in particular in markets that are at early stage of adoption of online food takeaway.

- In 2014, the group made an operating loss of €81m. However, its top two markets already made around 57% EBITDA margins by early 2015.

- Delivery Hero is backed by prominent investors including Rocket Internet (holding a 38.4% stake), General Atlantic and Tengelmann Ventures. The aggregate amount raised during funding rounds since 2012 is €1.1bn. The new funding allows the company to continue to invest organically and also to consolidate its markets through M&A, e.g. acquisitions of Pizza.de in Germany and Baedaltong in Korea.



Source: Rocket Internet company presentation

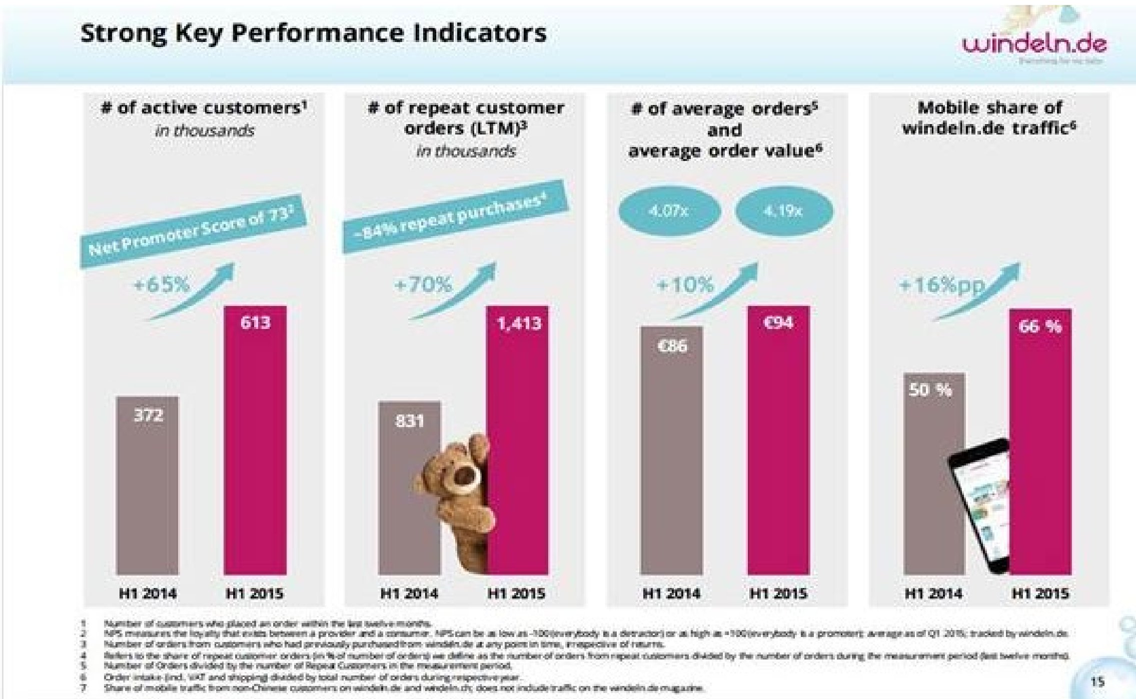
Windeln

- Founded in 2010, Windeln.de is a leading online retailer of baby and toddler products. It initially operated in its home country of Germany together with Switzerland, but later expanded its footprint to other European countries including Poland, the Czech Republic, Slovakia and Italy. Windeln now also has a substantial presence in China.

- Before its IPO in May 2015 in which it raised around €210m, an aggregate amount of €75m was raised from private investors since 2012.

- By 2015 Windeln had reached a revenue run-rate of €150m, of which 45% comes from Europe and the other 55% from China. The company is still loss-making and makes an adjusted EBIT loss margin of 5%. About 10% and 6% of revenue is reinvested into fulfilment and marketing respectively.

- As a result of the ramp-up of its new warehouse in Munich and introducing automated systems, it average daily orders sent out from Munich increased from 1,400 to over 2,400 orders per day. Its investment in marketing and product offerings have served to improve customer loyalty, with about 84% of its orders being from repeat customers.



Source: Windeln.de company presentation

Section 7: Zalando Case Study

Europe's leading online fashion destination

Backdrop

As one of Europe's most interesting, successful and well-developed ecommerce companies, we look at Zalando in further detail in this section.

In the last eight years, Zalando has grown to be one of Europe's most successful companies, measured by growth rates, scale, and impact on their industry. In 2015, we estimate that the company will generate close to €3bn of revenue, from an active customer base of around 18 million. They are profitable, and capitalised on the German stock market at a total value of €7bn. Zalando is therefore a relevant case study to examine for this report.

History and Capital Raising

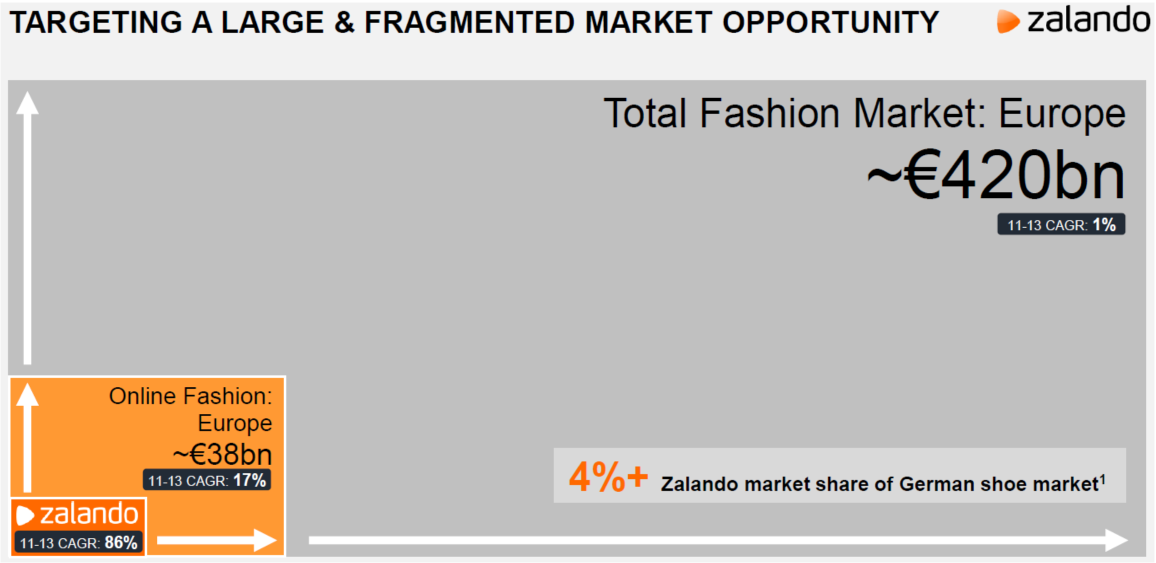
Zalando was incubated within Rocket Internet's platform, and seeded by investors including Rocket and Kinnevik (the Swedish holding company). In 2009, the company had €6m revenue, and will reach an estimated €3bn in the coming year.

Profitability

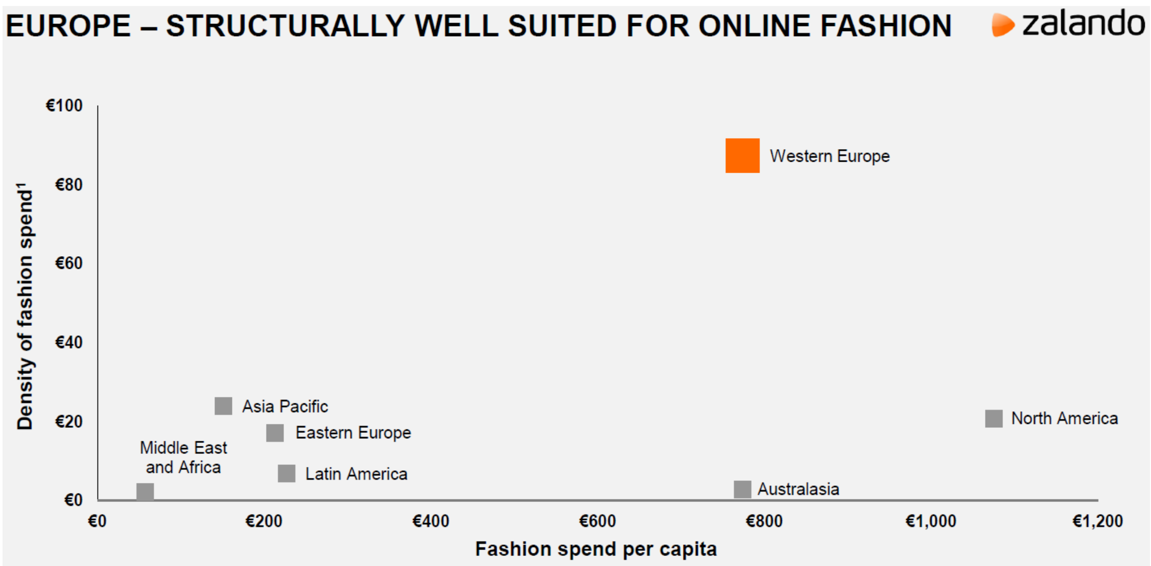
Zalando turned profitable in Q2 2014, after five years of losses. In 2015, we estimate that they will report a 5% operating margin (€130m of operating profit), and generate free cash flow of €81m. The core DACH unit (Germany, Austria and Switzerland) will have a margin close to 10%, whilst Zalando has an asset turn of around 3x per year. They make a 30% return on assets in their home market, significantly above that of the offline peers (see Section 5: Comparison of Return on Investment of Online Retail). Zalando's group return on capital is above 100% because (at Q2 2015) the company had net assets of €1.6bn and net cash of €1bn.

Growth

Zalando estimate the total European fashion market is €420bn in total value (growing at +1% p.a.), with €38bn, or 9%, online (growing +17%). Zalando has around a 6% share of the online market, and less than 1% share of the total market. This puts into perspective the growth opportunity for the company.



Source: Zalando Company Presentation, October 2014



Source: Zalando Company Presentation, October 2014

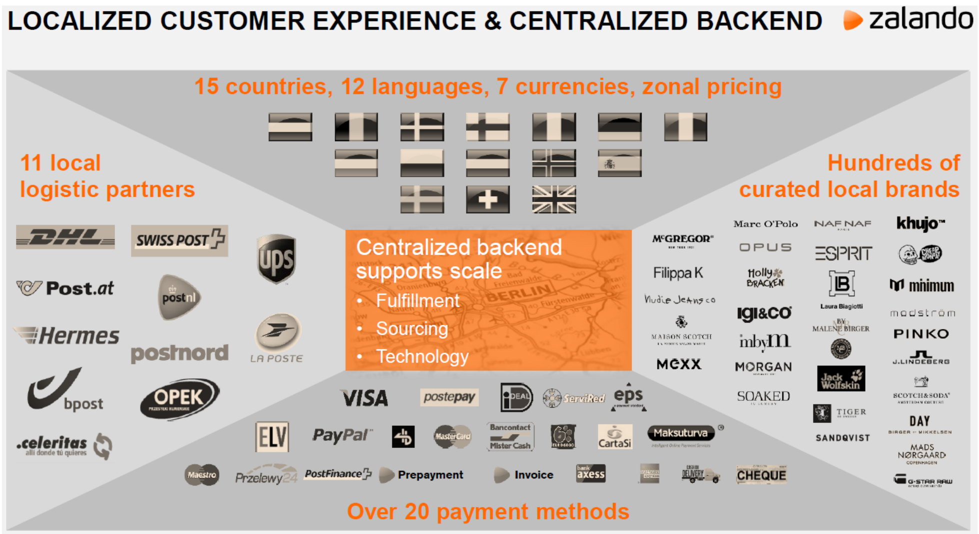
The European market is structurally suited to Zalando as fashion spend per capita is high (€800 per annum in Western Europe), and the density of the spend is high (large populations in small areas).

Investment in Marketing & Advertising
Zalando invested €850m in marketing between 2011 and 2014. In 2015, we estimate they will spend €364m (13% of sales), up 20% year-on-year. Zalando currently reaches an active customer base of more than 17m people, who typically spend €67 per visit, and shop three times per year on Zalando. Accessing and communicating with this customer base is critical to Zalando's strategy.

Zalando claim that 70% of traffic is 'organic', indicating a very high level of brand recognition obtained within an eight year period. In addition, more than 50% of traffic is now coming from mobile, which drives 40% of revenue. Although Zalando's marketing spend continues to rise in absolute terms (measured by €m), it is declining as a percentage of revenue, which leads to profitability and margin expansion for the company. In essence, Zalando is becoming its own 'platform', with a low level of reliance on others for advertising and traffic acquisition.

Investment in Infrastructure
Zalando is a 'capital-light' business model having spent around €200m on fixed assets since 2011. On an ongoing basis, the company spends just 2% of revenue in capital expenditure.

Zalando 'piggybacks' on the existing infrastructure in Europe to deliver fashion to consumers. The slide below provides a good overview of Zalando's backend.



Source: Zalando Company Presentation, October 2014

In essence, competition amongst logistics partners, fashion brands and payment providers helps Zalando to access customers in 15 different countries through exploiting the lowest cost provision of their supply-chain requirements. 66% of customers are returning customers.

Future Strategy and Vision

Zalando is growing at around 25% per annum, ahead of the online fashion market. The company cites a 5% market share of German shoes as a relevant benchmark. This suggests their market opportunity is close to €17bn (five times current revenue) based on a 4% market share of the total European fashion market. This is a huge growth opportunity, being pursued by an ambitious management team, with access to liquid pools of capital, and able to deploy that capital effectively to grow their business.

Zalando will likely begin to build their own physical infrastructure and delivery options in the coming years. They will integrate their own customer base, and inventory, with that of their brand partners. For example, Zalando could fulfill an order for Hugo Boss which is placed in Berlin online, and requires same-day delivery. They would do this by marketing a new product through their website to an existing customer, but then collecting the order from a Huge Boss store, to deliver to the customer.

Section 8: Conclusions

- **European ecommerce companies have good access to the capital markets with capital increasingly attracted to the sector, and our sample group had raised at least €12bn in the public markets, and at least €5bn in the private markets, since 2012.**

- **This capital can be deployed in building businesses in Europe. Our sample group of public ecommerce companies had spent over €12bn in operational and capital expenditure since 2012.**

- **Ecommerce businesses are still immature in Europe, but return on investment should exceed offline models, thereby attracting further capital into the sector.**

- **There are many relevant examples of large, profitable, ecommerce companies in Europe, such as Zalando, that show the roadmap for success and the investment opportunities available.**

- **Our research and data shows that the European ecommerce market is in excellent health. Companies in Europe can raise money and spend money, and there are strong levels of investment, diversification and innovation with a marked upwards trend during the period 2012-2015 (a 27x increase in our public company sample group and a 4.5x increase in our private company sample group).**

Appendix – About This Report

This report was prepared by The Analyst Research LLP ('The Analyst') and was commissioned by the Computer and Communications Industry Association ('CCIA'). The scope of the research was agreed between CCIA and The Analyst, but the research was conducted independently by The Analyst and the findings and conclusions solely represent the views of The Analyst.

About The Analyst

The Analyst is an independent equity research house, providing equity research and investment ideas on public companies to some of the world's largest institutional investors.

The Analyst's research coverage spans all sectors and geographies, with recent research within the technology sector including Yoox, Google, Baidu, Wirecard, SAP, TomTom, Rocket Internet, ams AG, Schibsted, Rightmove, STMicroelectronics, Samsung Electronics, Nokia and NetEase.

The firm meets daily with both front-line investors and listed companies, and is well-placed to understand the demands of investors and the current state of the ecommerce investment market.

To learn more about The Analyst, visit our website: www.theanalyst.co.uk

About CCIA

CCIA is an international, nonprofit association representing a broad cross section of computer, communications and internet industry firms. CCIA remains dedicated, as it has for over 40 years, to promoting innovation and preserving full, fair and open competition throughout the internet industry. CCIA members employ more than 600,000 people and generate annual revenues in excess of $200 billion.

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THE ANALYST FOR ccia

EUROPEAN ECOMMERCE

NOVEMBER 2015