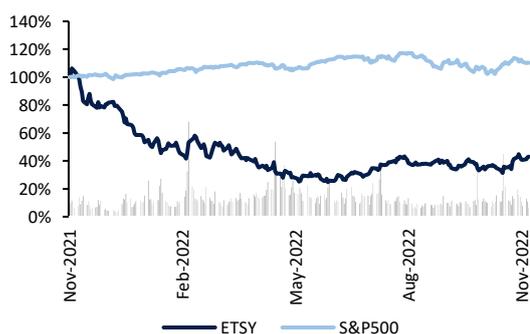


Recommendation**Buy Etsy – A Monopoly in the C2C Market****Analysts**

Ezekiel Woo	Lead Analyst, Equity Research
Azel Ang	Analyst, Equity Research
Soh De Wei	Analyst, Equity Research
Tan Ki Siong	Analyst, Equity Research

Basic Information

Current Price	USD 120.31
Target Price	USD 138.85
+/- Potential	+15.41%
Exchange	NASDAQ
Ticker	ETSY
Market Capitalisation	USD 15.12B
Shares Outstanding	125.69M
52-Week Trading	USD 67.01 - 307.75
Average Volume	3.234M
Fiscal Year End	31 December 2022
Short Interest	9.71%

1Y Price vs S&P500 (Rebased)**Company Description**

Etsy, Inc. operates two-sided online marketplaces that connect buyers and sellers primarily in the United States, the United Kingdom, Germany, Canada, Australia, France, and India. Its primary marketplace is Etsy.com that connects artisans and entrepreneurs with various consumers. The company also offers Reverb, a musical instrument marketplace; Depop, a fashion resale marketplace; and Elo7, a marketplace for handmade items.

Key Executives

Joshua G. Silverman	President/CEO
Rachel C. Glaser	CFO
Raina Moskowitz	COO

Major Shareholders

Vanguard Group Inc.	10.86%
BlackRock Inc.	9.19%
Wellington Management Group LLP	7.34%
AllianceBernstein LP	4.94%

We initiate coverage of **ETSY, INC (NASDAQ: ETSY)** with a **BUY** rating and a **USD 138.85** target price, representing an upside potential of **15.41%**. Our target price was derived using Discounted Cash Flows (Exit Multiple) with Perpetual Growth as our second methodology for a sanity check.

Investment Thesis

Etsy's All-In-One Platform Offering: Etsy sellers can leverage on the ever-growing ecosystem of buyers and sellers. Supporting this is their unique C2C interface, which is favoured by majority of Gen Z's, which is 40% of the world's population. Lastly, Etsy has also integrated third-party applications which have Buy Now Pay Later services – proven to increase sales conversion rates by 20-30%.

The Winning Marketing Approach: Etsy will post sellers' products on various platforms. Sellers are charged a commission fee between 12% to 15%. Etsy's Offsite Ad is efficient in helping small businesses grow compared to their competitors. Hence, we forecast that GMV and service revenue will expand beyond the industry growth of 14.7% due to Etsy's decision to use offsite ads.

Uniquely Yours: 87% of buyers asserted that they could not find items sold on Etsy on any other platform. Etsy also provides personalized services for sellers within its Etsy Plus Subscription plans. Beyond unique product offerings, 2-way communication between Etsy buyers and sellers is emphasized. This propels it towards a higher market share of its Total Addressable Market of USD 2 trillion.

Financial Takeaways

Increasing Top Line Growth: We expect Etsy's top line to continue growing in the next few years as their GMS and spending per buyer increases. The combination of these factors and an increasing takeback rate will result in a robust top line growth and with economies of scale, we also expect Etsy's bottom line to increase as well from a current EBITDA and Net Income margin of 20.5% and 21.1% respectively to 35.2% and 23.5% respectively in FY2026.

Robust Liquidity Driving Shareholder Value: Having solidified its strong business fundamentals through acquisitions of Reverb, Depop and Elo7, Etsy stands to benefit from geographical exposure, growing its revenues at a 5Y-CAGR of 10.1%. In turn, this will boost its operating cash flows, thus expanding its cash reserves to fuel its share repurchase plans.

Decreasing Leverage Boosting Expansion Potential: Although Etsy's total D/E ratio spiked as it took on higher debt, we expect it to be able to reduce leverage over the next 5 years. Coupled with its excellent financial health relative to its competitors, Etsy should not have issues in shouldering debt for potential future expansions, thus enhancing its potential for value-added top-line growth.

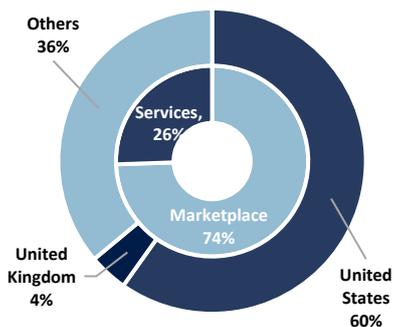
Investment Risks

Unsuccessful Strategic Partnerships or Investments: Etsy might continue to adopt new technologies or enter more strategic partnerships in the future. These actions may disrupt the management's time and attention. It could also require Etsy to spend a large portion of their resources to meet the requirements.

Reliance on Google for all Operations: Etsy's primary data centers have been migrated to Google Cloud which means they heavily rely on the service. If Etsy were to transition from Google Cloud to another platform, they could incur significant time and expenses, which makes it challenging to change platforms.

Lack of Synergy from Depop & Elo7: Acquisitions of Depop and Elo7 – for USD 1.6 billion and USD 217 million respectively – were under management's assumptions of shared expertise and potential growth synergies. However, substantial uncertainties have surfaced over seamless integration between Etsy and these subsidiaries.

Fig 1.1: Etsy's Revenue by Segment



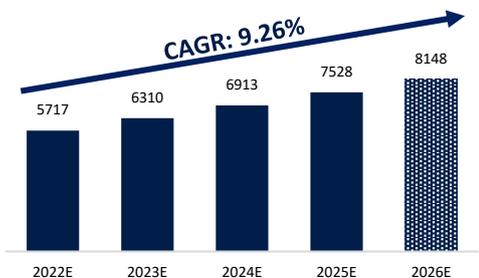
Source: Company Filings

Fig 1.2: Etsy's Competitors



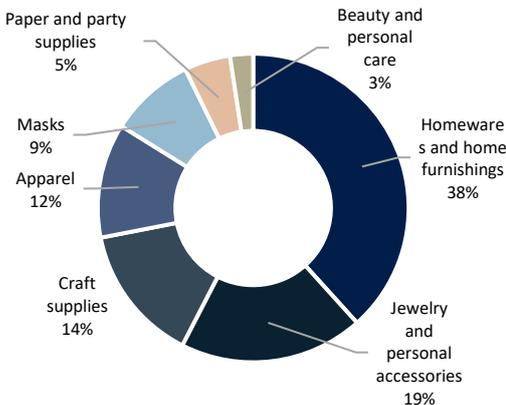
Source: Capital IQ

Fig 2.1: Projected E-commerce Growth in USA (US\$ bn)



Source: Statista

Fig 2.2: Etsy's Most Popular Items



Source: Statista

Business Description

Founded in 2005, Etsy, Inc. (the 'company') is a consumer-to-consumer (C2C) e-commerce company providing artisans and handicraft sellers a platform to market their products to consumers. It operates two main segments: (1) Online Marketing and Advertising Support Services, (2) Internet Department Stores. Etsy sees its business model as a two-sided online marketplace that connects buyers to sellers and sellers to buyers. The fees they receive go towards reinventing the consumer experience to further grow and enhance Etsy's revenue streams. Headquartered in the United States, it operates in parts of Western Europe, the Americas and Australia. Etsy's mission is to 'Keep Commerce Human' - enable consumers to find unique, handmade goods by connecting them with relevant sellers. Its vision is to reimagine commerce in ways that build a more fulfilling and lasting world.

Revenue Breakdown

As of FY2021, Online Marketing and Advertising Support Services accounted for 25% of total revenue, with the remaining 75% derived from Internet Department Stores. The United States and United Kingdom accounted for the highest geographical revenue – at 59.8% and 14.1% respectively.

Acquisitions

Etsy acquired three companies, Elo7 (Jun 2021), Depop (Jun 2021), Reverb (Jul 2019) as of FY2021. These companies have expanded the margins and reduced costs for Etsy through synergies and the integration of sellers into these different platforms. The sector distribution for each acquisition is aligned with Etsy's product offerings by their sellers, namely Horizontal E-Commerce, Fashion Tech.

Industry Overview

The Global E-commerce industry is expected to grow at a 14.7% CAGR, reaching a size from USD 9 trillion in 2020 to USD 20 trillion in 2027, driven by:

From Factory-Made to Handmade Products: Overall, 72% of consumers think that handmade items are more special than factory made items due to factors such as: (1) Better Quality, (2) Unique Designs and (3) A personalised customer experience. Furthermore, 30% of respondents bought a handmade item online in the past month in a survey by BI Intelligence. Hence, the global e-commerce industry will be propelled forward from the rise of small e-commerce businesses selling handicrafts to meet the rising demand. Hence, the Handicraft Market will be a significant contributor to the overall E-commerce market and is expected to grow at a CAGR of 10.4%, doubling its market size from USD 680 billion to USD 1205 billion by 2027.

Advancement of Multiple Payment Modes: The introduction of new payment methods by behemoth companies such as Apple, Paypal, Tencent and Alibaba has shifted the E-commerce industry into a new paradigm of convenience, efficiency, and versatility all in one smartphone. In 2020, digital and mobile wallets accounted for 44% of all e-commerce payments and is expected to grow to 52% by 2024, supporting the rampant growth of the Global E-commerce Industry. With the introduction of new payment methods such as "BNPL", the advancement of E-commerce payments will further push forward the growth of the E-commerce industry as the payment industry grows at a 29.1% CAGR, achieving a market size of USD 11.83 trillion by 2028 from 1.97 trillion in 2021.

The Rise of Social Media Commerce: According to Accenture, global social commerce sales – which hit US\$492 billion in 2021 – are expected to triple further to USD 1.2 trillion in 2025. In 2020, retail social commerce sales totalled USD 46.39 million – and may reach USD 79.64 billion in 2025. Today, 95.8% of Internet users use social networks frequently. 72% of Internet users use social networks to research on brands, with 43.2% utilizing social media in the process. Given significant changes in consumer preferences and attitudes, where technological innovations have intensified consumers' digital engagement with brands, social media may become a substantial catalyst for the social commerce industry.

Fig 2.3: SWOT Analysis

<p>Strengths:</p> <ol style="list-style-type: none"> 1. High customer satisfaction 2. Strong cash flow 3. Buyer/Seller Community is strong 4. Suppliers are reliable 5. Evolved Market Place 	<p>Threats:</p> <ol style="list-style-type: none"> 1. Competitive environment with new and emerging platforms 2. Unique products are not always available 3. Inconsistent exchange rates
<p>Opportunities:</p> <ol style="list-style-type: none"> 1. Strong performance in e-commerce market 2. New markets due to globalization 3. Recognised as a niche for certain products 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Stiff organisational structure 2. High cost to operate 3. Etsy spends above its average competitors on R&D

Source: Team Analysis

Fig 2.4: Porter’s 5 Forces

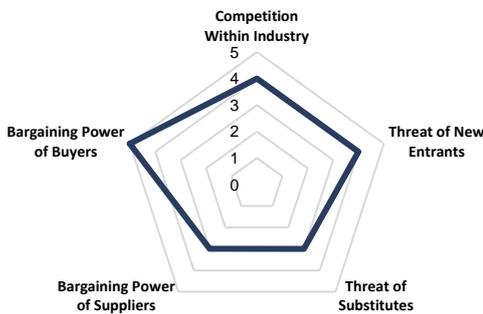


Fig 2.5: Trends in Payment Methods

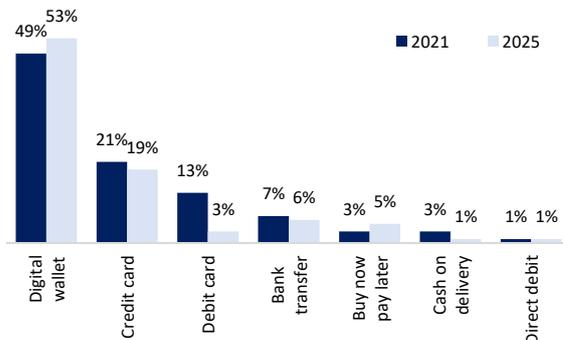
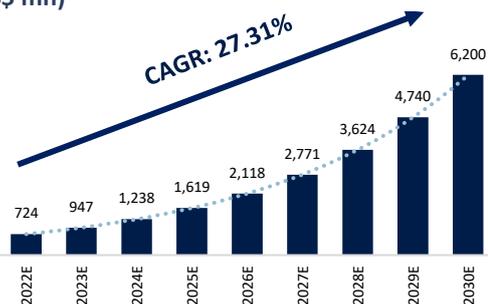


Fig 2.6: Social Commerce Revenue – Worldwide (US\$ mn)



Investment Thesis

Thesis 1: All in One Platform for C2C Commerce

One Stop Platform for all Business Stages

Etsy offers an ideal platform for businesses from various stages, from start-ups to companies that have been active in the market for a few years. Etsy sellers can leverage on the ever-growing ecosystem of buyers and sellers which has seen growth of over 75% from 2020 to 2021 in its seller base and 17.7% from 2020 to 2021 in its user base. especially for more niche markets that Etsy caters to that the conventional e-commerce sites do not offer. Etsy offers a lower upfront cost compared to Shopify. Shopify plans start at prices from USD 19 – 299 per month whilst Etsy charges based on listing fees, transaction fees and payments corresponding to sales.

This means that Etsy is a more cost-efficient platform where your costs correlate to your sales, which is platform of choice for businesses which have yet to scale. Instagram has a flat selling fee of 5% regardless of the product type and they charge a flat fee of USD 0.40 – for shipping products under the cost of USD8. It also does not offer scalability options. Etsy sellers need not turn to other platforms for marketing or selling as Etsy offers an all-in-one platform for C2C commerce. This differentiation helps Etsy stand out from competitor platforms such as Shopify, which commands 25.5% of the C2C platform market share. Ultimately, this translates to higher top-line growth, beating the industry average.

Unique Interface for C2C Commerce

Buying patterns and behaviour have changed significantly in the post-pandemic era. E-commerce platforms need to constantly progress with consumer trends and Etsy is rapidly implementing change. Its platform is easy to use and its unique product user interface mimics that of a social media platform, aligned with Gen Z shoppers by allowing consumers to 'like' the products that they see. Through intensive investments in the product, Etsy has increased app downloads by 47% in 2021, helping to increase conversion rates of which the mobile channel has the highest amongst other devices. Return on Invested Capital jumped significantly in 2020 from 8.4% in 2019 to 21.8% in 2020, keeping steady at 17.1% in 2021. We expect that this trajectory will grow exponentially beyond the tailwinds of industry growth of C2C commerce at 14.7% and demand for handicraft products by consumers as compared to factory-made products, expanding their top-line.

End-to-End Consumer Journey

Etsy collects transactional data, collecting information about products, listings and even the way people interact with posts and listings. Etsy's analytical capabilities has grown as it follows through each consumer's experience on the platform, giving insights to sellers on how their products are performing, by providing them with information such as visits, orders, views and revenue (per item or for all products). Sellers are also able to see how customers found their products, whether it is by search or Etsy App, Etsy Pages or even Etsy marketing and search engine optimization. Being able to access these statistics means that sellers will be able to tweak and market as required to their customers to acquire more sales and increase conversion rates.

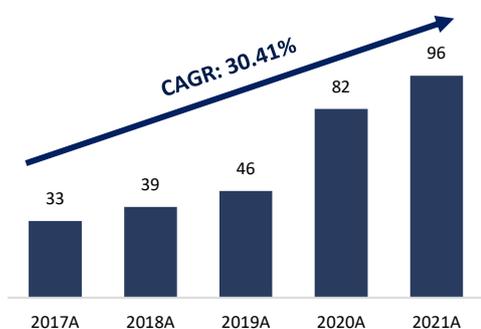
Etsy has also integrated third-party applications such as 'Marmalead' which helps sellers to identify keywords to help sellers choose the right keywords in their listings. Integrations on the purchase journey with Klarna, for Buy Now Pay Later services, have shown to increase sales conversion rates by 20-30% on average and boosted average ticket prices by 30-50%, helping to enhance sellers' revenue. Hence, from our bottom-up approach, we forecast that GMV will increase exponentially by 14.7% CAGR, translating into strong top-line growth for Etsy

Thesis 2: A Holistic Marketing Approach

Offsite Ads

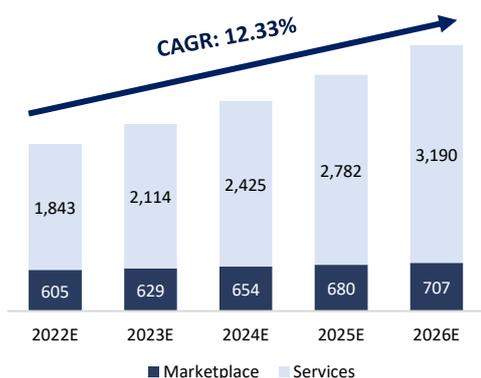
Etsy has a service feature unique to its business models known as Offsite-Ads. It will post sellers' products on various platforms such as YouTube, Google Ads, Facebook etc. Sellers are charged a commission fee ranging from 12% - 15%, should a buyer purchase their product within 30 days of clicking the Offsite Ad, This depends on the category they belong to. If they have made over USD 10,000

Fig 3.1: Historical Active Buyers (Millions)



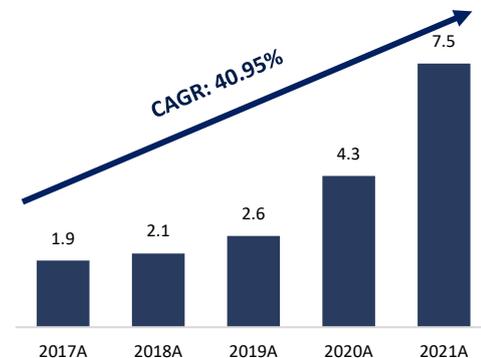
Source: Company Filings

Fig 3.2: Projected Revenue (US\$ mn)



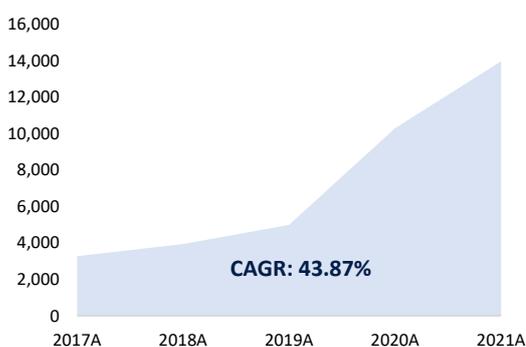
Source: Team Analysis

Fig 3.3: Historical Etsy Sellers (Millions)



Source: Company Filings

Fig 3.4: Etsy's Historical GMV (US\$ mn)



Source: Company Filings

in the past year, they will fall under category (1). If they are below the USD 10,000 threshold, they will be in category (2). Once a shop has crossed into category (1), the change is irreversible. Category (1) sellers have a 12% commission fee, whereas category (2) sellers have a 15% commission fee. These fees will never exceed USD 100 per transaction. We believe that this approach of marketplace advertising is a winning marketing approach, as opposed to traditional On-site Ads that most social media platforms offer, as they are risk-free for sellers. Differing from On-site Ads, sellers only pay when a sale is made, implying that Etsy will settle the charges first, eliminating the risk that a user pays for ineffective advertisements.

On average, the cost per click on a social media platform range from USD 1 – 5 per click depending on the platform. As it takes 7 - 8 interactions to make a customer purchase your product, this would mean that the cost per sale could range from USD 7 – 40, excluding the cost to create the ad. Compared to Etsy's Offsite Ads, a business that is selling a USD 30 product (average order value on Etsy) will only need to pay USD 3.60 – 4.50, which is at least 35.7% cheaper than the traditional cost. This optimizes the cost efficiency of advertising for the business. Although the 12 – 15% commission fee seems like a steep price, Etsy has taken that into account and estimated that around 10% of all sales will come from Off-site Ads. Hence, we forecast that GMV and service revenue may expand beyond the industry growth of 14.7% due to Etsy's decision to use offsite ads.

Commission vs Up-Front Fee

Etsy's Offsite Ad is more efficient in helping small businesses grow as compared to their competitors such as Shopify. If you were to create your own website or domain, you will need to purchase and create your own advertisement and post them at a cost of about USD 500 – 1000. On Shopify, your traffic is your responsibility. However, on Etsy, as a marketplace, there is a built-in audience, and you can optimize your listings based on Etsy's search engine. A small business that sells 100 products at a price of USD 30 per month on Etsy will have to pay USD 260. However, if the same business owner were to create their own Shopify account and invest USD 500 into marketing, the cost per month would be USD 530 – double that of Etsy.

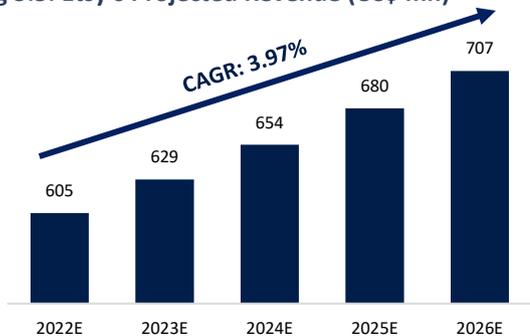
Another point to note is that Etsy helps to market the products for sellers, meaning that the amount spent in marketing goes straight to Etsy as compared to Shopify which translates to a margin. For Etsy, the percentage of revenue to GMS was 15.35%, 16.45%, 16.78% and 17.26% for 2018 to 2021, showing an increasing trend. For Shopify, the percentage was 2.61%, 2.58%, 2.45% and 2.64% for 2018 to 2021, this shows a fluctuation and is clearly lower than Etsy. Ultimately, Etsy's Offsite Ads is a unique form of advertising that benefits both Etsy and its sellers. It allows smaller start-ups to increase their traffic through both the Etsy marketplace and alternative social media platforms.

Thesis 3: Uniquely Yours – For All

Unique Propositions

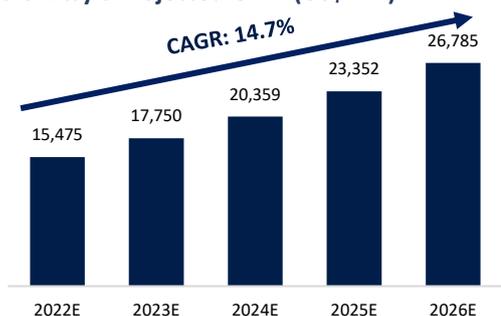
Etsy prides itself as a brand for 'intentional shopping'. Based on a survey conducted in 2021, 87% of buyers asserted that they could not find items sold on Etsy on any other platform, and 72% agreed that Etsy's website was unique. In their reasons for using Etsy's platform, over half of all buyers wanted to explore 'unique items' for personal purchases. Reflecting the uniqueness of its platform, 15 Etsy categories each had over a million unique buyers in 2021. Of which, 7 categories had exceeded 15 million unique buyers. These figures emphasize Etsy's unique standing in E-commerce – providing irreplicable products that are well-received. In recent years, Etsy acquired 3 other online marketplaces: Reverb, Depop and Elo7 – each catering to unique consumer segments. Through these acquisitions, Etsy has reinforced its reputation as a niche platform for 'special' goods and widened its geographical range. Benefitting from the above acquisitions, Etsy's FY2021 revenue rose by 34% from FY2020, of which revenue from overseas markets rose by nearly 7% - to 40% of total revenue. Given its geographical and segment advantage, upon the backdrop of the growing handicraft industry, we predict that Etsy will grow its sales further, thus extending top-line growth and amassing substantial market share.

Fig 3.5: Etsy's Projected Revenue (US\$ mn)



Source: Team Analysis

Fig 3.6: Etsy's Projected GMV (US\$ mn)



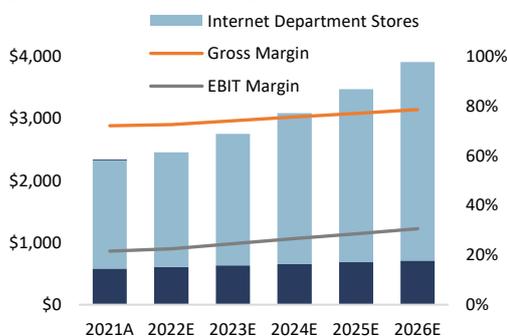
Source: Team Analysis

Fig 3.7: Etsy Projected User Base



Source: Team Analysis

Fig 3.8: Revenue & Margins Forecast (US\$ mn)



Source: Team Analysis

Personalized Seller Support

Etsy provides personalized services for sellers within its Etsy Plus Subscription. This is a significant contrast to that of equivalent premium plans from Shopify and eBay, which exclude such features. Of these services, Etsy provides sellers with 50% discounts on custom web addresses. In addition, they can send restock notifications to buyers – to remind buyers who have missed out on items previously. Coupled with customizations for sellers' web pages and monthly listing and advertising credits, Etsy provides ease of brand distinction at an affordable scale, allowing sellers to attract and consolidate buyer bases, therefore attracting other sellers of similar scale to set up shop. Other than these personalized services, Etsy provides in-house seller analytics based on consumer visits, conversion rates, average order values, best-selling items, and search appearances by month. This allows sellers to gain acute insights on sales trends and helps them make informed decisions.

Reflecting the impact of its personalized services, around 95% of Etsy sellers find it easy to operate from their homes, and almost 13% of sellers have used the platform for over 4 years. 56% are multi-channel sellers and generate majority of their sales on Etsy, indicating their preference for the platform. In hindsight, these initiatives have contributed to a 74% increase in active sellers, to a total of 7.5 million sellers in 2021. Correspondingly, Etsy's net income increased by over 40%, to USD 493 million. In a display of future potential, 90% of Etsy sellers aim to expand their sales on the platform. As Etsy is the only E-commerce firm that provides personalized services to sellers, we foresee that it will continue to enjoy stable revenue growth and margins to maintain its competitive edge.

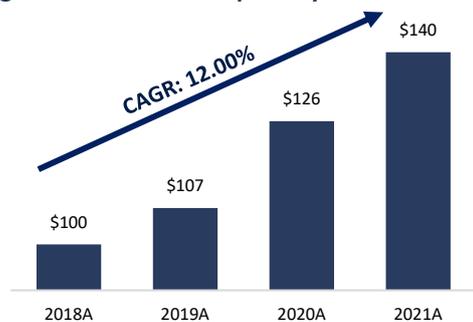
Keeping Commerce Human

Beyond unique product offerings, 2-way communication between Etsy buyers and sellers is emphasized. Not only can buyers enquire on sellers' products, but they can also request for personalized services. This differs greatly from its competitor eBay, which excludes the customization segment. Given that 70% of consumers favour personalization in E-commerce, this has become an important factor in enhancing consumer traffic and revenues.

As a platform for unique goods, it is crucial for Etsy to categorize products for buyers' convenience. To allow buyers to enjoy near personal 'touches' when scrolling for products they are interested in, Etsy leverages on machine learning. In 2019, it set up a department dedicated to machine learning and built a model based on text-based analysis and image recognition to connect buyers' search terms e.g. 'tropical' to relevant images. To enable seamless webpage experiences while maintaining quality analytics, Etsy partnered with Google Cloud to migrate its database towards cloud computing. As proof of its models' effectiveness, over 90% of searches on Etsy have at least 100 relevant searches. As such, purchase patterns align with Etsy's projections. For instance, searches for 'romantic'-styled items resulted in higher sales during Valentine's Day. Not only that, approximately 95% of search purchases were derived from first pages of searches – pointing to buyers' satisfaction with Etsy's accuracy in catering to their needs.

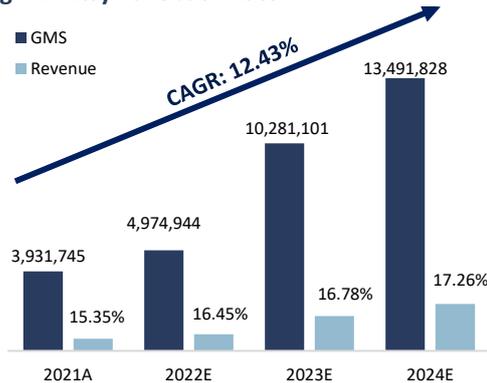
For Etsy's efforts in improving buyer experience, 42% of accounts from 2017 remain active, with a 20% increase in new buyers for FY2021. GMS from existing buyers formed 87% - the majority of overall FY2021 GMS. In the near future, Etsy could potentially bundle promotions of relevant products for families - based on special occasions e.g. Halloween - capitalizing on gifting trends and utilizing its platform to attract buyers who do not have a clear concept on their gifting choices. This will help to expand Etsy's top and bottom-line growth from potential business segments, hence propelling it towards a higher market share of its Total Addressable Market of USD 2 trillion.

Fig 3.9: Historical GMS per Buyer



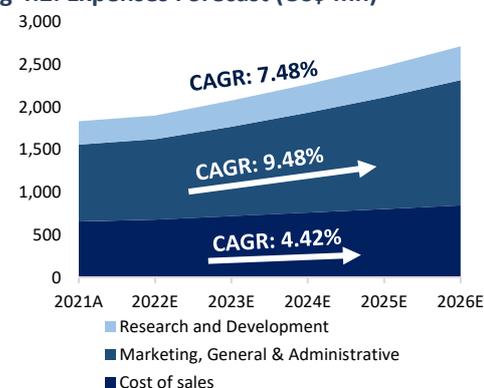
Source: Company Filings

Fig 4.1: Etsy Takeback Rate



Source: Company Filings

Fig 4.2: Expenses Forecast (US\$ mn)



Source: Team Analysis

Fig 4.3: Liquidity Positioning (US\$ mn)



Source: Team Analysis

Financial Analysis

Increasing Top Line Growth

In recent years, Etsy has benefitted from rapid growth. Although most companies were negatively impacted by the pandemic in 2020, Etsy's revenue growth exceeded 2 times. This growth stems from a surge in the number of sellers and the amount spent per seller, which resulted in GMS growth.

Etsy's takeback rate has also been growing in recent years, rising from 15.35% in FY2018 to 17.26% in FY2021. Moving forward, we expect Etsy's top line to continue growing as the handmade goods industry is expected to grow at a 14.7% CAGR, reaching a revenue of USD 3.76 billion by 2026.

In addition, we foresee Etsy's margins to improve over the next 5 years. As it currently stands, the EBITDA and Net Income margin are 20.5% and 21.1% respectively. With continuous growth, it will be able to capitalize on economies of scale and achieve cost efficiency, leading to optimal margins and ratios. By FY2026, these ratios are expected to reach 35.2% and 23.5% respectively.

Robust Liquidity Driving Shareholder Value

Etsy has constantly operated upon strong fundamentals. Since its acquisition of Reverb in FY2019, it has maintained sizeable cash reserves. As of FY2021, its current and quick ratios stand at 2.18 and 1.64 respectively – a testament to its fundamental financial strength. We expect such robustness to continue, as Etsy's current and quick ratios are projected to grow to 5.16 and 4.43 by FY2026.

From its acquisitions of Depop and Elo7, Etsy will benefit from geographical advantages, contributing to a projected 10.1% CAGR in revenue growth up to FY2026. Expanding revenues will help to generate strong cash flows, thus enhancing Etsy's cash reserves.

Substantial cash reserves will prepare Etsy sufficiently for future share repurchases to enhance shareholder value, thus providing considerable returns for shareholders. As Etsy continues to repurchase shares, we expect it to deliver a robust EPS growth of 16% over the next 5 years, reaching US\$7.03 per share by FY2026.

Decreasing Leverage Boosting Expansion Potential

Etsy added almost USD 1.3 billion in total debt – from USD 1.137 billion in FY2020 to USD 2.435 billion in FY2021. This was due to: (1) issuance of senior notes that amounted to USD 987 million, and (2) derecognition of unamortized debt discounts. Moving forward, we foresee that Etsy will continue repaying its debts to de-leverage further and achieve a 2% book D/E in FY2026 (Fig 4.2).

In the near future, we expect Etsy to be considerably lighter in debt, with merely USD114 remaining in lease payments. Down the line, as it reduces leverage, Etsy will be able to shoulder more debt – should it wish to expand further.

Currently, Etsy is ranked relatively higher in credit health as compared to its peers, which will greatly assure lenders of its ability to repay contingent debts (Appendix E). As such, this will aid Etsy significantly in raising debt at a lower cost to pursue growth, further enhancing its valuation.

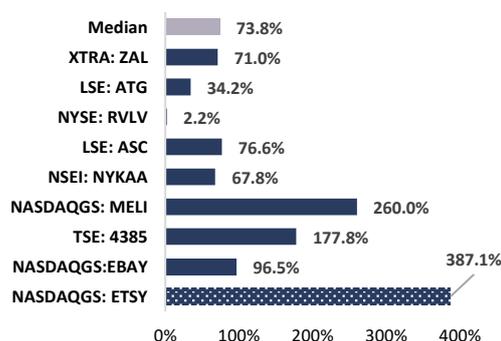
DuPont Analysis	2021A	2022E	2023E	2024E	2025E	2026E
ROE%	78%	37%	28%	24%	21%	19%
Net Income Margin	21%	18%	19%	21%	22%	24%
Asset Turnover Ratio	0.61	0.60	0.57	0.60	0.62	0.67
Equity Multiplier	6.09	3.50	2.62	1.91	1.51	1.20

Fig 4.4: Leverage Positioning



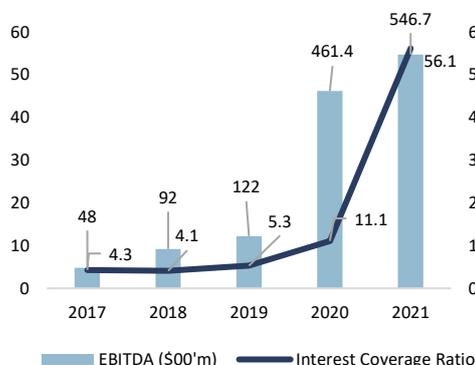
Source: Team Analysis

Fig 4.5: Comparable Comps Book D/E



Source: CapIQ, Team Analysis

Fig 4.6: Interest Coverage Ratio



Source: CapIQ, Team Analysis

Fig 5.1: WACC Computation

Cost of Equity	
Risk-free Rate	3.68%
Equity Risk Premium	4.36%
Unlevered Beta	1.47
Re-levered Beta	1.64
Size Premium	-0.22%
Cost of Equity	10.59%
Cost of Debt	
Pre-tax Cost of Debt	0.34%
Country Risk Premium	0.12%
Corporate Tax Rate	24.12%
After-tax Cost of Debt	0.35%
WACC	9.25%

Source: Team Analysis

Valuation

We reiterate our **BUY** recommendation for Etsy with a target price of **USD 138.85**, presenting a **15.41%** upside potential based on the closing price of **USD 120.31** on 25 November 2022.

DCF Valuation (Exit Multiple & Perpetual Growth)

We recognize that Discounted Cash Flows (Free Cash Flow to Firm) effectively reflect Etsy's upside potential due to its geographical advantages and cutting-edge analytics to serve the growing needs of the E-Commerce market, which further enhances its future earnings and growth. We derived our target price primarily through the Exit Multiple method, with Perpetual Growth as a secondary metric.

Revenue Forecast: A bottom-up approach using average GMV per buyer, Etsy's number of buyers and sellers in respective markets was used to compute its revenue. Etsy's GMV growth was broken down into Service and Market Revenue, with a 5Y CAGR of 14.7% driven by the e-commerce industry. We forecast Etsy's total GMV to grow at a 17% CAGR by FY2026, outperforming the industry due to their winning marketing approach, all-in-one platform, and robust human connections from their platform.

Relative Valuation (Comparable Companies Analysis)

Screening Process: Firstly, we screened for public comparables using S&P Capital IQ based on the screening criteria: (1) Company Type: Public Companies, (2) Company Status: Operating and Operating Subs, (3) Industry Classification: Internet & Direct Marketing Retail (Primary) (4) Market Capitalisation: greater than USD 500 million. Based on these criteria, 15 companies were generated. Following which, we filtered the public comparables based on business model, geographical operations and products that were most similar to Etsy. Overall, 8 companies were selected as comparable companies (Appendix P).

Multiple Selection: We selected EV/EBITDA as the most appropriate multiple due to most peers' top-line margins hitting below the median multiple, which would understate Etsy's growth potential. EBITDA multiples can provide a more detailed view into Etsy's operating performance, as they factor in future cost efficiencies Etsy stands to gain through its synergy with Depop and Elo7, and its position as compared to significantly larger peers such as eBay and MercadoLibre. Using a FY+2 EV/EBITDA median multiple of 18.1, we derived a target price of USD 138.85, reflecting Etsy's multiples eventually lining up with most peers.

Discount Rate (WACC)

CoE was computed using the CAPM ($R_f + \beta(ERP) + \text{Size Premium}$). Referencing the 10-Year US Treasury Yield as of 25/11/2022, a risk-free rate of 3.68% was used. Damodaran's ERP data was used for our ERP of 4.36% from a list of countries Etsy operates in, with a re-levered bottom-up beta of 1.64. Given Etsy's market capitalization, we also incorporated a size premium of -0.22% based on Kroll's CRSP Deciles Size Study, giving us a Cost of Equity of 10.59%.

Pre-tax Cost of Debt of 0.34% was computed using the weighted-average coupon rate of Etsy's existing debt. The low interest rate was due to the nature of the bonds being convertible into ordinary shares. With a blended tax rate of 24.12% and blended country risk premium of 0.12%, an After-tax Cost of Debt of 0.35% was computed. We then arrived at a WACC of 9.25% using Etsy's target D/E ratio of 13.08% (Fig. 4.6).

Perpetual Growth: With reference to the US long-term GDP growth rate, we derived a terminal growth rate of 3.1%, which provided us with a target price of USD 105.80. The latter method is more conservative, given that Etsy is expected to generate and subsequently maintain significant operating cash flows for the coming 5 years (Fig 4.3) – a sizeable contrast to its currently negative balance.

Scenario Analysis

We performed a sensitivity analysis for our perpetual growth, WACC, and exit multiple inputs to assess the impact on Etsy's share price. We emphasise that a **BUY** recommendation is maintained as we observe a lower perpetual growth, and a higher discount rate still represents an upside higher than current share price.

Fig 5.2: Sensitivity Analysis

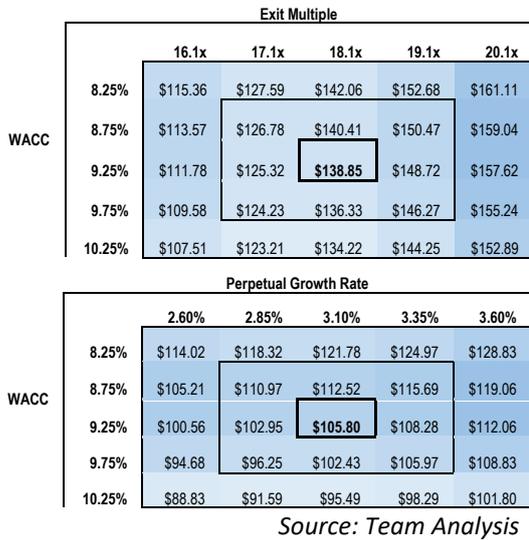


Fig 5.3: Football Field Analysis

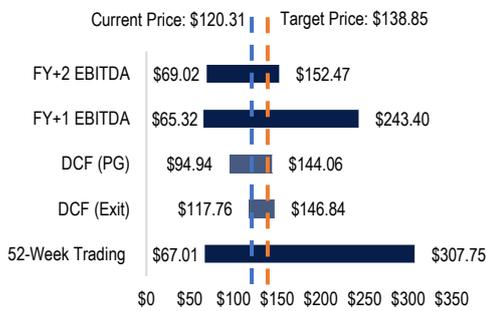


Fig 6.1: Etsy's Risk Matrix

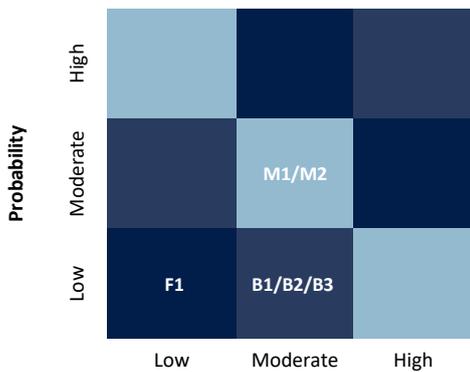
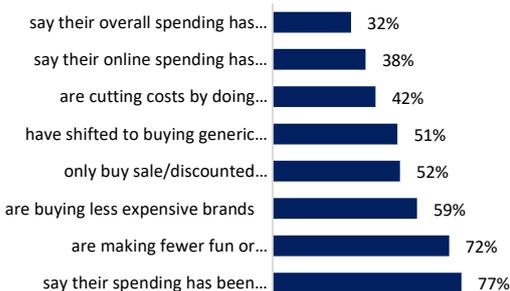


Fig 6.2: Effect of Inflation on Consumer Spending



Investment Risks

Market Risk

M1 | Inflation Fluctuations Affecting Operations

Price fluctuations – due to higher inflation – could considerably impact Etsy’s operations. It derives 75% of revenues from the Internet Department Stores segment, which relies heavily on seller activities. Due to inflation, should countries Etsy operates in face economic downturns, operating costs and product prices may increase substantially, hence effecting lower consumer discretionary spending. Buyers are more likely to cancel their purchases, hence dampening revenues and driving sellers away from Etsy to competitors that provide competitive pricing.

Mitigation: Etsy provides sales and promotional tools to sellers to ensure that rising costs do not impact sellers severely. Through its Offsite Ads programme, Etsy has covered over 40% of advertising expenses for sellers to market their products to shoppers outside of Etsy. Sellers pay commission fees only for advertisements that result in buyer purchases. Through FY2021, offsite advertising fees totalled below USD 25 for 93% of participating sellers, which highlights Etsy’s effectiveness in absorbing seller costs. Due to cost efficiencies Etsy provides as compared to its competitors, we believe that significant seller retention will continue into the foreseeable future.

M2 | Obstacles to Order Fulfilment

Issues related to order fulfilment – delays in shipments and shipping costs – could deter potential buyers from ordering on Etsy. Survey results have shown that over 40% of shoppers prioritize fast and reliable delivery when buying online. Alarmingly, almost 50% of shoppers abandon their shopping carts due to unexpected shipping costs. When faced with additional shipping fees and uncertain delivery times, shoppers may be inclined to turn towards other competitors who can manage such issues more efficiently.

Mitigation: Etsy provides listing incentives for sellers. Items that are delivered free, and sellers that guarantee free delivery to buyers in the US – with total orders starting from USD 35 – enjoy priority listings in Etsy’s search results. Taking shipping a step further, Etsy partnered with Chit Chats – a Canadian shipping company – to provide sellers with low-cost, fully tracked shipping options. This has helped them save up to 74% of shipping costs in the process. In return for sellers’ shipping commitments, Etsy utilizes its cutting-edge search algorithms to drive higher buyer traffic to these sellers’ shops, which will improve seller retention rates and attract more sellers to operate on Etsy. In retrospect, such initiatives provide Etsy with a competitive edge and significant foothold over its competitors.

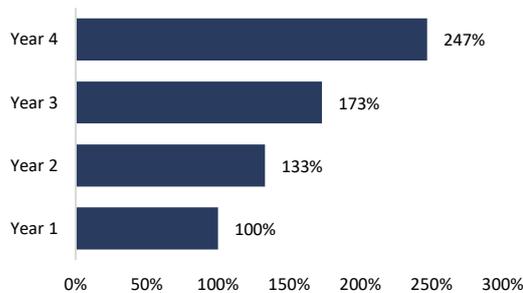
Business Risk

B1 | Unsuccessful Strategic Partnerships and Investments

Etsy may continue to adopt new technologies or enter more strategic partnerships in the future. These actions may cause disruptions in management’s time and attention. Etsy may also have to spend a large portion of its resources to meet the requirements. Additionally, there could be unforeseen operational difficulties and expenses such as: costs of integrating new technology into Etsy’s business model, hiring and retaining of key employees, retention of customers, merchants, vendors and other business partners, clearing regulations that could be complex, time consuming, costly and place additional stress onto the business and many more. Lastly, partnerships or investments and adoptions of new technologies could be viewed negatively by analysts, investors, or members of the Etsy Community.

Mitigation: Etsy has an estimated 119 partners which include large companies such as eBay, Wix, Shopify, PayPal and more. Many of these partnerships have been proven to be beneficial to both parties. For example, PayPal is one of the many payment methods available on Etsy, which allows for smoother transactions. Another example is shopUpz, a Shopify app that allows sellers to

Fig 6.3: Seller Retention Rates (2017 New Sellers)



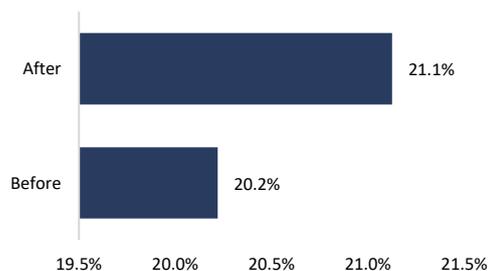
Source: Company Filings

Fig 6.4: Etsy's Partnerships

Total Number of Partners	119
Partnerships	
PayPal	Allows for smoother payments
shopUpz	Enables seamless integration of orders between Etsy and Shopify platforms

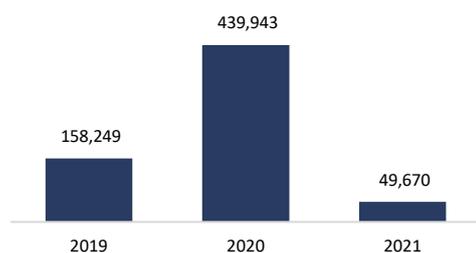
Source: Partnerbase, Shopify

Fig 6.5: Net Income Margins Before (FY2020) and After (FY2021) Acquisitions



Source: Team Analysis

Fig 7.1: Etsy's Greenhouse Gas (GHG) Emissions (Tonnes)



Source: Company Filings

Fig 7.2: Competitor Risk Ranking

Company	ESG Risk Rating	Industry Rank (Out of 100)
Akamai Technologies	17	103
Paylocity Holding Corp.	22	353
Twilio, Inc	24	561
Pinterest, Inc	24	578
Etsy, Inc	22	421
Competitor Average	22	399
Competitor Median	23	457

Source: Refinitiv

integrate their Etsy and Shopify stores and sync their inventory to prevent overorders, which promotes the use of both platforms. With this track record, we envision that Etsy has the foresight required to make future partnerships and investments successful.

B2 | Reliance on Google Cloud for Trustworthiness

Etsy's primary production and data centers have been migrated to Google Cloud Platform which means that it is heavily reliant on the service. If Etsy were to transition from Google Cloud to another platform, they could incur significant time and expenses, which makes it challenging to change platforms. Any disruptions or interference with the Google Cloud would negatively impact Etsy's operations. For example, the disruption and interference of the Google Cloud could generate complaints and negatively publicity which would undermine Etsy's image of being a reliable and trustworthy marketplace, which Etsy says are cornerstones and key elements of their success. Additionally, as Etsy continues to grow, costs will increase over time as Etsy requires more computing and storage, the costs could increase much faster than the revenue's growth and thus impact the financial condition.

Mitigation: Google Cloud aims to provide users with a seamless experience and achieve a minimum uptime of 99.99%. They have taken several procedures to achieve this target. In August 2021, Google had announced that it would commit USD 10 billion to advance cyber security. Following which, in March 2022, Google announced a deal of USD 5.4 billion to acquire cyber security company Mandiant. Secondly, Google has high levels of automation and capabilities that allows for machine learning, thus reducing the need for human input which is one of the biggest weaknesses when it comes to cloud computing. Google Cloud Services is also one of the market leaders in the cloud services industry and is labelled as "an extremely safe bet" when it comes to reliability.

B3 | Lack of Synergy from Depop & Elo7 Acquisitions

In FY2021, management had justified the acquisitions of Depop and Elo7 – for USD 162 billion and USD 217 million – based on shared expertise and growth synergies. However, substantial uncertainties have risen over seamless integration among Etsy and the above subsidiaries for certain factors: (1) loss of key employees, (2) challenges in execution of subsidiaries' business plans, and (3) potential implications in subsidiary integration into – and management of – Etsy's 'House of Brands' strategy.

Mitigation: Primarily, the management of Reverb, Depop and Elo7 operate independently from Etsy, except for key functions such as finance, legal and human resources. Except for Kruti Patel Goyal – Etsy's former Chief Product Officer, who replaced Maria Raga – Depop's former Chief Executive Officer, existing employees from these subsidiaries have been retained, with marketplace best practices applied pertaining to each subsidiary's specialty or demographic. To facilitate quality in-house search analytics, all subsidiaries employ Etsy's in-house technology in their operations. Under these circumstances, subsidiaries can continue to differentiate their operations distinctly – retaining their unique edge – while being incorporated thoroughly into Etsy's 'House of Brands'.

Environmental, Social, and Governance

Environmental

Carbon Net Zero Emissions by 2030

Etsy demonstrates its commitment to the environment as a member of the RE100, a global initiative with businesses committed to 100% renewable energy. Etsy aims to achieve net zero emissions by 2030 by partnering with organisations such as EcoEnclose to make packaging with 100% recycled materials easily accessible to Etsy sellers, enabling sellers to run more sustainable businesses.

Zero Waste Operations

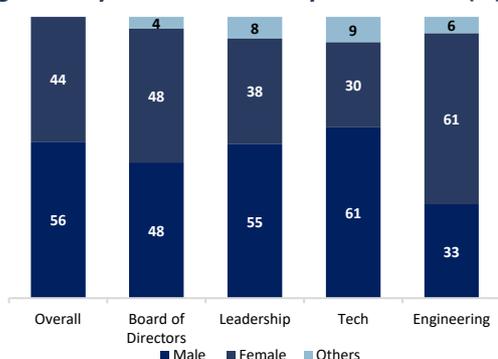
Etsy and Reverb's global offices and its computing load in collocated data centres and google cloud use 100% renewable energy in its everyday operations.

Fig 7.3: ESG’s Correlation to Valuation

Top Line Growth	Attract B2B & C2C customers with more sustainable products. Better access to resources as a result of stronger community & government relations.
Cost Reductions	Lower energy consumption translates to some lowered energy costs
Regulatory and Legal Interventions	Greater strategic freedom that comes with deregulation Increased government support, with the benefit of additional subsidies
Productivity Uplift	Boost employee motivation & attracts better talent through enhanced social credibility
Investment and Asset Optimization	Enhanced investment returns

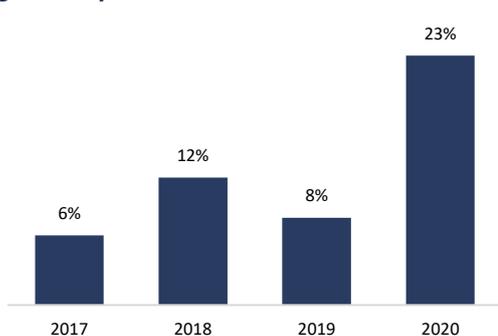
Source: McKinsey

Fig 7.4: Etsy’s Gender Diversity Matrix 2021 (%)



Source: Company Filings

Fig 7.5: Etsy’s Historical ROIC



Source: Finbox

Fig 7.6: Etsy’s Focus on Sellers



4.1M
active Etsy sellers
as of Dec 31, 2020



42.5%
of 2017 active sellers
are still active
as of Dec 31, 2020

Source: Company Filings

Furthermore, Etsy aims to divert at least 90% of their waste (generated in 10 offices around the world) from landfill as well as attempt to reduce their total consumption and waste creation overall. By committing to zero waste and deeply integrating these principles into their operational framework, they reduce environmental impact, save money, and make a positive impact on the communities where they operate.

Stimulating Sustainable Shopping

Etsy encourages sustainable shopping through the introduction of product features such as “Shop Local” to indicate to buyers when they reside in the same ship-from region as sellers. This function has helped to reduce Etsy’s carbon footprint from shipping processes. Etsy has also engaged buyers in the positive impact they create by showcasing how much they have contributed to Etsy’s Uplift Fund.

Social

Creating Jobs, Championing Economic Independence

Etsy’s business model enables people to start their small businesses. This has allowed small businesses on the platform to generate 4 billion in income in 2021. Etsy advocates the pursuit of passion and enables creative entrepreneurs to pursue their dreams, whilst making a living.

Diversified and Inclusive Corporate Structure

In a thoughtfully structured corporate pillar, Etsy has an independent board of directors (which excludes the CEO) but includes independent committee members, directors with extensive experiences in their respective areas of expertise. This committee is diverse, with a balance in the distribution in director tenure. Etsy is also inclusive in its hiring practices and initiatives with 56% of its employee base constituting of females and 50% of its board and majority of its execution team female. The company also backs traditionally male dominated roles with more females such as engineers.

Governance

Ethical Business Model & Investments

Etsy takes precaution by ensuring that the structures and working procedures in place are aligned with their company culture which upholds ethics and accountability. They inculcate these values in the core of the business, which are the sellers and users through their mission statement: “Keeping Commerce Human”. It re-establishes its commitment and identify in ESG with an extensive sustainability report in its annual statement. Etsy also incorporates Impact/ESG messaging into investor messaging and conversations.

Sustainable Long-Term Growth with Proper Risk Oversight & Management

Etsy management has had the foresight to grow the business via the generation of organic revenue growth supported by long-term tailwinds in the ecommerce industry. Aside from its increasing profit margins, Etsy has also increased its revenue streams through its recent acquisitions. Through their recent acquisitions, Etsy has increased its exposure to more revenue streams whilst safeguarding itself through excessive debt by against its asset light business model. Etsy has had an ROIC of 17.3% in 2021 and this has been consistent over the last few years.

ESG Scoring

Etsy carries a medium risk rating on the ESG Rating scale. Based on Sustainalytics’ ESG ratings, Etsy has been assessed to have a medium rating, compared to its industry competitors. Etsy’s ESG score out of 114 is 54, giving it a ranking of 46/119 in the Diversified Retail Companies classification by Refinitiv.

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Appendix A – Porter's 5 Forces

While many e-commerce sites are emerging, Etsy still holds the lead for the niche markets for handmade and vintage goods. Since these digital sites require high costs in the management of sites. As an existing Industry leader, Etsy can leverage on its existing presence, and reinforce its unique selling point in the of handmade and vintage pieces. The acquisition of Elo7 and Depop will ensure Etsy's stronghold within some of the niche markets which it hopes to retain and can also potentially be an avenue to expand into.

With the emergence of many sites that now boast low pricing strategies that include new value propositions to both buyers and sellers, Etsy must continue to upgrade the infrastructure of the site as well as introduce new features that will aid both buyers and sellers to continue to buy and sell on the platform. In the logistics aspect, building economies of scale can also be an avenue for Esty to lower shipping costs for its buyers and sellers.

Buyers can easily deviate to other platforms to purchase goods and products in general. Etsy must remain its competitiveness within the market to remain the platform of choice by increasing features and services that it offers. In recent years, Etsy has ramped up the research and development on the user interface of the platform, exploring specifically how they can enhance the connections created between the buyers and sellers of the platform. By placing importance on the customer journey and the key interaction points that consumers have with the platform, Etsy can retain its stronghold in the industry, preventing the ease of entrant into the industry.

The acquisition of Depop, Elo7 and Reverb will help to grow the market size that Etsy has, allowing it to further scale the business, again through economies of scale, and help to build increased differentiation in the 'handcrafting' market allowing Etsy to maintain its unique selling point of the site.

Appendix B – Etsy's House of Brands

Elo7

Elo7 is a marketplace that operates primarily in Brazil, fostering trade in handicraft products on its platform, acting as the bridge between buyers and sellers. It is commonly known as the 'Etsy of Brazil' and it is a part of Etsy's expansion into Europe. This acquisition will expand Etsy's reach to the region, particularly to younger users. With Etsy's existing stronghold in Brazil combined with the Elo7, Etsy was able to gain a bigger presence in the market. Elo7 currently operates as a standalone brand by its existing management team out of the Headquarters in Sao Paulo, Brazil. This acquisition re-enforces Etsy's foothold in Latin America where they have yet to grow a meaningful customer base.

Depop

Depop is a peer-to-peer marketplace based in London that facilitates transactions of fashion articles. It aims to make fashion more inclusive, diverse, and less wasteful. Depop also operates as a standalone marketplace by the existing management. Depop will also allow Etsy to gain access to the younger generation of sellers and shoppers within the platform as well as benefit from Depop's influence-based approach to selling clothing online. In 2021, Depop was the 10th most visited shopping site among Gen Z-ers in the US. Through the integration of the social component to buying and selling, Depop maintains its distinct selling strategy, operating like a social network that empowers a community-powered fashion eco system.

Appendix C – Investment Risks

Risks	Mitigations
Market Risks	
Inflation Fluctuations Affecting Operations (M1) Obstacles to Order Fulfilment (M2)	Covered sellers' expenses through Offsite Ads programme Priority listing incentives for sellers who provide free delivery, partnership with Chit Chats to enable efficient shipping
Business Risks	
Unsuccessful Strategic Partnerships and Investments (B1) Reliance on Google Cloud for Trustworthiness (B2) Lack of Synergy from Depop & Elo7 Acquisitions (B1)	Strategic partnerships with other companies to enhance business value for Etsy Google has invested heavily in improving the efficiency of Google Cloud for enhanced analytical capabilities Kept every employee – except for replacement of Depop CEO Respective marketplace operations to remain, under standardized platform
Financial Risks	
Interest Rates & FX Risks (F1)	74% GMS denominated in USD Interest coverage ratio >5x

Financial Risk (F1) – Interest Rate, Foreign Exchange & Country Risks

As of FY2021 – including subsidiaries – Etsy operates across 8 countries. As such, its assets, liabilities, revenues and expenses are denominated in different currencies, which exposes it to foreign exchange risks. Any appreciation in foreign currencies could significantly increase currency conversion expenses as a revenue component, hence dampening profits and cash flows. Moreover, further hikes in inflation, interest rates or country default spreads may pose significant risks for Etsy. Such economic uncertainties may present difficulties to Etsy in raising capital through loan facilities and sales of equity securities.

Mitigation: Currently, 74% of Etsy's GMS are denominated in USD, reducing foreign exchange risks. To date, it has yet to execute any derivatives or hedging transactions. Despite that, Etsy's high interest coverage ratio of 56.1x (Fig 4.6) suggests that it will be capable of servicing its interest obligations without significant issues.

Appendix D – Credit Health Rating

Overall Score	Financial Panel	Score
Top	Operational	Above Average
	Solvency	Above Average
	Liquidity	Top

Financial Panels and Metrics (USD mm)			Financial Metrics Definitions i	
1 Top 2 Above Average 3 Below Average 4 Bottom				
LTM Period Ending:			Jun-30-2022	
Weight (%)	Metric	Score	Company Group Mean*	
Operational (USD mm)				
2.78	Total Revenue	↓ 4	2,413.97	4,785.90
2.78	Total Equity	↓ 3	581.30	4,185.43
2.78	Return on Capital (%)	↓ 1	13.53	(4.67)
2.78	Recurring Earnings/Total Assets (%)	↓ 1	11.40	6.24
2.78	Net Working Capital/Revenue (x)	↓ 2	(0.05)	(0.10)
2.78	Asset Turnover (x)	↓ 4	0.67	1.52
2.78	Intangible Assets/Revenue (x)	↓ 4	0.75	0.32
2.78	Net Working Capital/Total Assets (x)	↓ 2	(0.04)	(0.06)
2.78	Payables/Receivables (x)	↓ 4	0.89	3.99
2.78	Management Rate of Return (%)	↓ 1	318.70	54.95
2.78	Gross Margin (%)	↓ 1	70.71	30.00
2.78	EBITDA Margin (%)	↓ 1	19.85	(0.22)
Solvency				
4.76	FFO Interest Coverage (x)	↓ 2	57.33	18.17
4.76	EBITDA/Interest Exp. (x)	↓ 1	49.24	23.95
4.76	FFO to Total Debt (x)	↓ 3	0.24	0.75
4.76	Net Debt/EBITDA (x)	↓ 2	2.84	5.17
4.76	Total Debt to Capital (%)	↓ 4	78.61	49.63
4.76	Total Debt/Total Liabilities (%)	↓ 1	78.94	42.77
4.76	Total Debt/Revenue (x)	↓ 4	0.99	0.40
Liquidity				
6.67	(FFO + Cash) to Short Term Debt (x)	↓ N/A	NM	21.35
6.67	FFO to Gross Profit (x)	↓ 1	0.33	(0.01)
6.67	Basic Defense Interval (days)	↓ 2	188.41	167.90
6.67	Current Ratio (x)	↓ 1	2.93	1.68
6.67	Quick Ratio (x)	↓ 1	2.28	1.24

Source: Capital IQ

Appendix E – Financial Analysis

For Year Ended 31 December	Historical					Forecasted				
<i>All figures expressed in (USDm) unless stated otherwise</i>	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
YoY Revenue Growth by Segments										
Internet Department Stores	-	35.0%	33.5%	119.5%	34.0%	11.8%	11.8%	11.8%	11.8%	11.8%
Online Marketing and Advertising Support	-	42.1%	41.4%	88.0%	38.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Total Revenue	-	36.96%	35.43%	111.00%	34.94%	9.87%	9.97%	10.07%	10.16%	10.25%
Profitability										
Gross Margin %	65.9%	68.4%	66.9%	73.1%	71.9%	72.4%	73.9%	75.4%	76.9%	78.4%
EBITDA Margin %	10.1%	14.6%	13.7%	25.9%	22.2%	25.0%	27.1%	29.3%	31.4%	33.5%
EBIT Margin %	6.5%	12.5%	11.2%	24.7%	21.5%	22.5%	24.5%	26.5%	28.5%	30.5%
Net Income Margin %	18.5%	13.0%	11.6%	20.2%	21.1%	17.7%	19.2%	20.6%	22.1%	23.5%
Return on Assets	13.5%	8.7%	6.2%	14.5%	12.8%	10.6%	10.8%	12.4%	13.7%	15.7%
Return on Equity	20.6%	19.5%	23.3%	47.0%	78.2%	37.2%	28.3%	23.7%	20.8%	18.8%
Return on Invested Capital	19.3%	14.2%	8.4%	21.8%	17.1%	11.7%	11.8%	13.6%	15.3%	17.7%
Liquidity										
Current Ratio	4.30	6.07	4.88	4.17	2.18	3.85	5.02	5.03	5.24	5.11
Quick Ratio	3.67	5.68	4.41	3.72	1.64	3.15	4.32	4.32	4.51	4.37
Cash Ratio	3.33	5.57	4.33	3.67	1.60	2.87	4.03	4.03	4.22	4.07
Operating Cash Flow	\$44	\$297	\$261	\$1,170	-\$220	\$1,396	\$1,654	\$1,300	\$1,640	\$1,692
Leverage										
Debt to Equity Ratio	0.03	0.70	2.14	1.53	3.87	1.99	1.27	0.65	0.31	0.02
Debt to EBITDA Ratio	0.23	3.20	7.82	2.55	4.71	3.80	3.16	1.94	1.04	0.09
Efficiency										
Asset Turnover Ratio	0.73	0.67	0.53	0.72	0.61	0.60	0.57	0.60	0.62	0.67
Receivables Turnover Ratio	12.97	50.33	54.53	75.04	86.26	19.23	19.23	19.28	19.23	19.23
Payables Turnover Ratio	10.73	7.07	10.42	11.23	23.06	27.00	27.00	27.07	27.00	27.00
DuPont Analysis										
ROE	20.6%	19.5%	23.3%	47.0%	78.2%	37.2%	28.3%	23.7%	20.8%	18.8%
Net Income Margin %	18.5%	13.0%	11.6%	20.2%	21.1%	17.7%	19.2%	20.6%	22.1%	23.5%
Asset Turnover Ratio	0.73	0.67	0.53	0.72	0.61	0.60	0.57	0.60	0.62	0.67
Equity Multiplier	1.52	2.25	3.79	3.24	6.09	3.50	2.62	1.91	1.51	1.20

Source: Team Analysis

Appendix F – Peers Comparison

Net Income Margin %	2017	2018	2019	2020	2021
Etsy, Inc.	18.5%	13.0%	11.6%	20.2%	21.1%
eBay Inc.	-10.3%	29.3%	24.0%	63.7%	130.6%
Mercari, Inc.	-19.1%	-19.7%	-26.6%	-29.9%	5.4%
MercadoLibre, Inc. FSN E-Commerce Ventures Limited	1.1%	-2.5%	-7.5%	0.0%	1.2%
ASOS Plc	3.3%	3.4%	0.9%	3.5%	3.3%
Revolve Group, Inc. Auction Technology Group plc	1.3%	6.2%	5.9%	9.8%	11.2%
Zalando SE	-34.1%	-15.7%	-35.4%	-35.2%	-42.3%
Mean	2.3%	1.0%	1.5%	2.8%	2.3%
Median	-4.6%	1.8%	-3.1%	3.8%	15.0%
Median	1.2%	2.2%	0.9%	2.8%	3.3%

Return on Equity %	2017	2018	2019	2020	2021
Etsy, Inc.	20.6%	19.5%	23.3%	47.0%	78.2%
eBay Inc.	-10.9%	29.7%	31.3%	77.3%	3.8%
Mercari, Inc.	-65.7%	-23.9%	-26.1%	-53.2%	14.7%
MercadoLibre, Inc. FSN E-Commerce Ventures Limited	3.7%	-11.1%	-14.2%	0.0%	5.2%
ASOS Plc	-	-	-	-5.9%	15.2%
Revolve Group, Inc. Auction Technology Group plc	26.3%	22.7%	5.5%	17.9%	13.9%
Zalando SE	11.1%	48.0%	33.9%	34.3%	38.6%
Mean	32.1%	12.6%	25.6%	59.0%	-14.0%
Median	6.9%	3.3%	6.2%	11.8%	10.7%
Mean	3.0%	12.6%	10.7%	20.9%	18.5%
Median	9.0%	16.1%	14.8%	17.9%	13.9%

Quick Ratio	2017	2018	2019	2020	2021
Etsy, Inc.	3.7x	5.7x	4.4x	3.7x	1.6x
eBay Inc.	2.0x	1.4x	1.0x	1.0x	1.8x
Mercari, Inc.	1.4x	2.5x	2.5x	1.5x	1.1x
MercadoLibre, Inc. FSN E-Commerce Ventures Limited	1.2x	0.9x	1.7x	1.0x	0.9x
ASOS Plc	-	-	0.5x	0.5x	0.5x
Revolve Group, Inc. Auction Technology Group plc	0.3x	0.1x	0.1x	0.6x	0.7x
Zalando SE	0.3x	0.3x	0.7x	1.5x	1.4x
Mean	1.0x	0.9x	1.5x	2.1x	20.9x
Median	1.1x	1.0x	0.8x	1.2x	1.1x
Mean	1.4x	1.6x	1.5x	1.4x	3.3x
Median	1.2x	0.9x	1.0x	1.2x	1.1x

Book Debt-to-Equity %	2017	2018	2019	2020	2021
Etsy, Inc.	2.5%	70.3%	214.5%	153.1%	387.1%
eBay Inc.	124.4%	147.2%	291.7%	230.8%	96.5%
Mercari, Inc.	507.0%	53.3%	103.5%	148.3%	177.8%
MercadoLibre, Inc. FSN E-Commerce Ventures Limited	113.1%	218.4%	48.9%	103.4%	260.0%
ASOS Plc	-	-	134.4%	127.8%	67.8%
Revolve Group, Inc. Auction Technology Group plc	-	-	20.0%	38.6%	76.6%
Zalando SE	31.5%	-	-	-	2.2%
Mean	230.8%	223.6%	208.2%	1408.4%	34.2%
Median	0.7%	0.5%	33.0%	82.2%	71.0%
Mean	78.3%	44.4%	79.7%	-65.5%	130.4%
Median	31.5%	61.8%	76.2%	115.6%	76.6%



eBay Inc. operates marketplace platforms that connects buyers and sellers worldwide. Its platforms allow users to list, transact and pay for products through various online and offline channels.



Mercari, Inc. operates the Mercari marketplace application, which allows users in Japan and the United States to transact instantly through their smartphones. To facilitate flexibility and ease of delivery, it partners with local logistics couriers such as Yamato Transport and FedEx.



MercadoLibre, Inc. operates online commerce platforms in Latin America. Among its various segments, Mercado Libre Marketplace facilitates both B2C and C2C sales, and Mercado Envios – a logistics solution – provides fulfilment and warehousing solutions for sellers, enabling value-added 'one-stop' experiences.



FSN E-Commerce Ventures Limited provides a range of beauty, personal care, and fashion products for consumers of different genders and ages in India. It sells products via E-Commerce and brick-and-mortar channels.



ASOS Plc operates as an online fashion retailer worldwide. The company partners with both popular brands and lesser known third-party sellers to offer womenswear and menswear.



Revolve Group, Inc. operates as a global online fashion retailer. Through its platform, it connects buyers not only with globally renowned fashion brands, but also fresh and up-and-coming brands.



Auction Technology Group plc operates marketplaces and a proprietary auction platform primarily in the United Kingdom, North America and Germany. Through its various service offerings, it connects bidders and auctioneers for various products, and provides auctioneers with quality E-Commerce solutions to enable successful auctions.



Zalando SE operates as an online fashion and lifestyle retailer across Europe. Of which, it also sells its products in physical outlets located within Germany.

Total Asset Turnover	2017	2018	2019	2020	2021
Etsy, Inc.	0.7x	0.7x	0.5x	0.7x	0.6x
eBay Inc.	0.4x	0.4x	0.4x	0.5x	0.5x
Mercari, Inc.	0.6x	0.4x	0.4x	0.4x	0.5x
MercadoLibre, Inc. FSN E-Commerce Ventures Limited	0.8x	0.7x	0.7x	0.7x	0.9x
ASOS Plc	-	-	-	1.9x	2.0x
Revolve Group, Inc. Auction Technology Group plc	2.6x	2.6x	2.4x	2.0x	1.6x
Zalando SE	3.3x	3.5x	3.1x	2.2x	2.3x
Mean	0.5x	0.5x	0.5x	0.3x	0.2x
Median	1.6x	1.7x	1.7x	1.5x	1.6x
Mean	1.3x	1.3x	1.2x	1.1x	1.1x
Median	0.8x	0.7x	0.6x	0.7x	0.9x

Appendix G – Weighted Average Cost of Capital

Capital Asset Pricing Model (CAPM)		
Risk-free Rate	3.68%	10-Year US Treasury Yield as at 25/11/2022
Equity Risk Premium	4.36%	Blended by Region (Damodaran)
Unlevered Beta	1.47	Hamada Equation
Re-levered Beta	1.64	Bottom-up Beta
Size Premium	-0.22%	Duff and Phelps Size Premium
Company Specific Risk Premium	0.00%	Kroll CRSP Deciles Size Study
Cost of Equity	10.59%	
Cost of Debt		
Pre-tax Cost of Debt	0.34%	Weighted Avg. Interest Rate of Existing Debt
Country Risk Premium	0.12%	Blended by Region (Damodaran)
Corporate Tax Rate	24.12%	Blended by Region (Damodaran)
After-tax Cost of Debt	0.35%	
Capital Structure		
Market D/E	0.150	Target Ratio
Proportion of Equity	86.92%	
Proportion of Debt	13.08%	
WACC	9.25%	

Blended				
Countries	Default Spread	Country Risk Premium	Equity Risk Premium	Corporate Tax Rate
United States	0.00%	0.00%	2.54%	16.15%
United Kingdom	0.07%	0.08%	0.68%	2.68%
Germany	0.00%	0.00%	0.45%	1.66%
France	0.03%	0.03%	0.34%	1.78%
Canada	0.00%	0.00%	0.20%	0.69%
Australia	0.00%	0.00%	0.17%	1.17%
Total	0.10%	0.12%	4.36%	24.12%

Debt	Interest Rate	Value	% of Total Debt
2018 Senior Notes	0.30%	0.06	0.00%
2019 Senior Notes	0.30%	644	28.32%
2020 Senior Notes	0.30%	643	28.27%
2021 Senior Notes	0.40%	988	43.41%
Total		2275	100.00%
Pre-tax Cost of Debt	0.34%		

Bottom Up Beta Computation				
Company Name	Country	Debt/Equity	Tax Rate	Levered Beta 5 Year
eBay Inc.	United States	1.71%	27.00%	1.25
Mercari, Inc.	Japan	3.50%	23.20%	1.33
MercadoLibre, Inc.	Uruguay	3.24%	25.00%	1.55
FSN E-Commerce Ventures Limited	India	0.66%	25.00%	NA
ASOS Plc	United Kingdom	0.84%	19.00%	2.77
Revolve Group, Inc.	United States	0.07%	27.00%	2.08
Auction Technology Group plc	United Kingdom	0.33%	19.00%	NA
Zalando SE	Germany	0.83%	15.83%	1.40
Median		0.84%	24.10%	1.48

Source: Capital IQ, Damodaran, Team Analysis, Company Filings

Appendix H – Discounted Cash Flow Valuation

Unlevered Free Cash Flow										
Revenue	\$441	\$604	\$818	\$1,726	\$2,329	\$2,559	\$2,814	\$3,097	\$3,412	\$3,761
Operating Profit (EBIT)	\$29	\$75	\$92	\$426	\$501	\$576	\$690	\$821	\$973	\$1,148
Less: Unlevered Taxes	\$50	\$22	\$15	(\$16)	\$22	(\$151)	(\$180)	(\$213)	(\$251)	(\$295)
Net Operating Profit After Tax (NOPAT)	\$79	\$97	\$107	\$410	\$523	\$425	\$510	\$608	\$722	\$853
Add: Depreciation & Amortization	\$16	\$13	\$20	\$20	\$16	\$63	\$73	\$85	\$98	\$111
Add: Stock-based Compensation	\$27	\$38	\$44	\$65	\$140	\$135	\$147	\$156	\$171	\$197
Add: Other non-cash expenses	--	\$1	\$2	\$3	\$4	\$5	\$6	\$7	\$8	\$9
Less: Capital Expenditure	(\$4)	(\$37)	(\$9)	(\$2)	(\$13)	(\$45)	(\$50)	(\$55)	(\$60)	(\$66)
Add/(Less): Changes in Net Working Capital	\$0	\$59	\$10	\$124	\$24	(\$676)	(\$69)	(\$76)	(\$86)	(\$96)
Free Cash Flow to Firm	\$117	\$172	\$174	\$620	\$693	(\$93)	\$619	\$725	\$852	\$1,008

DCF Valuation							Terminal Value
	Year	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2026
	Frac						
Free Cash Flow to Firm		(\$9)	\$619	\$725	\$852	\$1,008	\$22,815
Rolling Enterprise Value		\$18,536	\$20,261	\$21,465	\$22,658	\$23,824	\$22,815
Plus: Cash and Marketable Securities		\$1,341	\$2,046	\$2,220	\$2,530	\$2,658	
Less: Debt and Leases		(\$2,425)	(\$2,415)	(\$1,762)	(\$1,110)	(\$114)	
Less: Minority Interest		--	--	--	--	--	
Equity Value		\$17,452	\$19,892	\$21,924	\$24,078	\$26,368	
<i>Number of Shares Outstanding (millions)</i>		125.7	125.7	125.7	125.7	125.7	
Rolling value per share		\$138.85	\$158.26	\$174.43	\$191.57	\$209.78	

	Model	Exit Multiple	Perp. Growth
Terminal Value Toggle	Exit Multiple	18.1x	3.10%
Terminal Value in Model	\$22,815	\$22,815	\$16,897
Discount Rate (WACC)	9.25%		
Valuation Date	25/11/2022		
No. of Shares Outstanding (millions)	125.69		

Source: Team Analysis, Company Filings

Appendix I – Relative Valuation

Ticker	Company Name	Share Price	Multiples											
			EV/Revenue			EV/EBITDA			EV/EBIT			P/E		
			LTM	FY+1	FY+2	LTM	FY+1	FY+2	LTM	FY+1	FY+2	LTM	FY+1	FY+2
Target Company														
NASDAQGS:ETSY	Etsy, Inc.	\$120.31	6.7x	6.6x	6.0x	35.6x	23.8x	21.8x	41.9x	46.3x	39.2x	N.M.	N.M.	40.5x
Comparable Companies														
NASDAQGS:EBAY	eBay Inc.	\$45.04	3.0x	3.0x	3.0x	10.0x	8.7x	8.7x	11.8x	10.0x	10.2x	872.9x	N.M.	14.4x
TSE: 4385	Mercari, Inc.	\$21.01	2.7x	2.6x	2.2x	N.M.	70.8x	23.8x	N.M.	82.4x	27.5x	N.M.	N.M.	76.3x
NASDAQGS: MELI	MercadoLibre, Inc.	\$951.57	5.3x	4.8x	3.9x	47.5x	42.5x	30.8x	70.5x	61.8x	43.9x	176.4x	115.5x	69.5x
NSEI: NYKAA	FSN E-Commerce Ventures Limited	\$2.15	11.3x	9.6x	7.1x	342.6x	174.6x	97.7x	562.9x	351.6x	147.5x	1105.6x	613.1x	219.6x
LSE: ASC	ASOS Plc	\$7.76	0.3x	0.3x	0.3x	38.6x	5.7x	4.5x	N.M.	20.4x	12.9x	N.M.	N.M.	12.4x
NYSE: RVLV	Revolve Group, Inc.	\$25.33	1.5x	1.5x	1.4x	15.7x	18.9x	17.3x	16.4x	22.7x	19.3x	23.2x	31.8x	28.8x
LSE: ATG	Auction Technology Group plc	\$10.82	11.8x	11.3x	8.8x	62.1x	25.3x	19.0x	380.6x	27.7x	21.1x	N.M.	178.7x	53.0x
XTRA: ZAL	Zalando SE	\$30.27	0.8x	0.7x	0.7x	29.1x	16.5x	12.9x	58.8x	41.6x	27.4x	1475.4x	172.4x	67.2x
Low			0.3x	0.3x	0.3x	10.0x	5.7x	4.5x	11.8x	10.0x	10.2x	23.2x	31.8x	12.4x
25th Percentile			1.3x	1.3x	1.2x	22.4x	14.5x	11.9x	27.0x	22.1x	17.7x	176.4x	115.5x	25.2x
Mean			4.6x	4.2x	3.4x	77.9x	45.4x	26.8x	183.5x	77.3x	38.7x	730.7x	222.3x	67.7x
Median			2.8x	2.8x	2.6x	38.6x	22.1x	18.1x	64.6x	34.7x	24.2x	872.9x	172.4x	60.1x
75th Percentile			6.8x	6.0x	4.7x	54.8x	49.6x	25.6x	303.1x	67.0x	31.6x	1105.6x	178.7x	71.2x
90th Percentile			11.5x	10.1x	7.6x	174.3x	102.0x	50.9x	471.8x	163.1x	75.0x	1327.5x	439.4x	119.3x
High			11.8x	11.3x	8.8x	342.6x	174.6x	97.7x	562.9x	351.6x	147.5x	1475.4x	613.1x	219.6x

Note: N.M.: Not Meaningful

FY+1

FY+1 EV/Revenue	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	0.3x	1.3x	4.2x	2.8x	6.0x	11.3x
Implied EV	\$736	\$3,374	\$10,817	\$7,198	\$15,375	\$28,801
Plus: Cash and Marketable Securities	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341
Less: Debt and Leases	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)
Less: Minority Interest	--	--	--	--	--	--
Implied Equity Value	-\$348	\$2,290	\$9,733	\$6,114	\$14,291	\$27,717
Diluted Shares Outstanding	125.69	125.69	125.69	125.69	125.69	125.69
Implied Equity Value per share	-\$2.77	\$18.22	\$77.44	\$48.64	\$113.70	\$220.52

FY+1 EV/EBITDA	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	5.7x	14.5x	45.4x	22.1x	49.6x	174.6x
Implied EV	\$3,633	\$9,294	\$28,984	\$14,091	\$31,677	\$111,548
Plus: Cash and Marketable Securities	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341
Less: Debt and Leases	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)
Less: Minority Interest	--	--	--	--	--	--
Implied Equity Value	\$2,548	\$8,210	\$27,900	\$13,007	\$30,593	\$110,464
Diluted Shares Outstanding	125.69	125.69	125.69	125.69	125.69	125.69
Implied Equity Value per share	\$20.28	\$65.32	\$221.97	\$103.48	\$243.40	\$878.86

FY+1 EV/EBIT	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	10.0x	22.1x	77.3x	34.7x	67.0x	351.6x
Implied EV	\$5,762	\$12,746	\$44,524	\$19,975	\$38,581	\$202,550
Plus: Cash and Marketable Securities	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341
Less: Debt and Leases	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)	(\$2,425)
Less: Minority Interest	--	--	--	--	--	--
Implied Equity Value	\$4,678	\$11,662	\$43,440	\$18,891	\$37,496	\$201,466
Diluted Shares Outstanding	125.69	125.69	125.69	125.69	125.69	125.69
Implied Equity Value per share	\$37.22	\$92.78	\$345.61	\$150.30	\$298.32	\$1,602.88

FY+1 P/E	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	31.8x	115.5x	222.3x	172.4x	178.7x	613.1x
Implied Equity Value per share	\$114.72	\$416.25	\$800.92	\$621.13	\$643.84	\$2,208.65

FY+2

FY+2 EV/Revenue	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	0.3x	1.2x	3.4x	2.6x	4.7x	8.8x
Implied EV	\$734	\$3,466	\$9,636	\$7,382	\$13,230	\$24,748
Plus: Cash and Marketable Securities	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046
Less: Debt and Leases	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)
Less: Minority Interest	--	--	--	--	--	--
Implied Equity Value	\$365	\$3,097	\$9,267	\$7,012	\$12,860	\$24,378
Diluted Shares Outstanding	125.69	125.69	125.69	125.69	125.69	125.69
Implied Equity Value per share	\$2.90	\$24.64	\$73.73	\$55.79	\$102.32	\$193.96

FY+2 EV/EBITDA	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	4.5x	11.9x	26.8x	18.1x	25.6x	97.7x
Implied EV	\$3,468	\$9,044	\$20,487	\$13,828	\$19,533	\$74,538
Plus: Cash and Marketable Securities	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046
Less: Debt and Leases	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)
Less: Minority Interest	--	--	--	--	--	--
Implied Equity Value	\$3,098	\$8,675	\$20,118	\$13,459	\$19,164	\$74,169
Diluted Shares Outstanding	125.69	125.69	125.69	125.69	125.69	125.69
Implied Equity Value per share	\$24.65	\$69.02	\$160.06	\$107.08	\$152.47	\$590.09

FY+2 EV/EBIT	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	10.2x	17.7x	38.7x	24.2x	31.6x	147.5x
Implied EV	\$7,064	\$12,216	\$26,718	\$16,717	\$21,809	\$101,739
Plus: Cash and Marketable Securities	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046
Less: Debt and Leases	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)	(\$2,415)
Less: Minority Interest	--	--	--	--	--	--
Implied Equity Value	\$6,694	\$11,847	\$26,349	\$16,347	\$21,439	\$101,369
Diluted Shares Outstanding	125.69	125.69	125.69	125.69	125.69	125.69
Implied Equity Value per share	\$53.26	\$94.26	\$209.63	\$130.06	\$170.57	\$806.50

FY+1 P/E	Min	25th Percentile	Mean	Median	75th Percentile	Max
Multiples	12.4x	25.2x	67.7x	60.1x	71.2x	219.6x
Implied Equity Value per share	\$53.24	\$108.33	\$290.48	\$258.10	\$305.67	\$942.56

Source: Team Analysis

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Appendix J – Football Field Analysis



Source: Team Analysis

Appendix K – Scenario Analysis

Base Case	Bull Case	Bear Case
<p>Total revenues grow at 10.1% CAGR over the next 5 years, as Etsy continues to refine its cutting edge in-house analytics and personalized services for both buyers and sellers, allowing it to expand market share over its competitors.</p> <p>Etsy successfully integrates its operations with Depop and Elo7 into its 'House of Brands' model, achieving greater geographical exposure and economies of scale, which results in expansion of EBIT margins from 21.5% in FY2021 to 30.5% in FY2026.</p>	<p>Total revenues grow at 10.6% CAGR over the next 5 years, supplemented by stronger demand in the E-Commerce industry as Etsy continues to expand its market share over its competitors.</p> <p>Etsy successfully integrates its operations with Depop and Elo7 into its 'House of Brands' model, achieving greater geographical exposure and economies of scale beyond its expectations, and improving EBIT margins from 21.5% in FY2021 to 31.7% in FY2026.</p>	<p>Etsy expands its market share slower than expected over the next decade due to intense competition. Despite that, market demand is sustained for E-Commerce, allowing Etsy's total revenue to grow at a slightly lower 5Y CAGR of 9.6%.</p> <p>Integration of Etsy's acquisitions remains siloed, preventing it from achieving its desired economies of scale.</p>



Source: Team Analysis

Appendix L – Revenue Build

For Year Ended 31 December <i>All figures expressed in (USDm) unless stated otherwise</i>	Historical					Forecasted				
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenue Forecast										
Revenue										
Marketplace (Internet Department Stores)	\$329	\$445	\$594	\$1,303	\$1,746	\$1,952	\$2,182	\$2,439	\$2,727	\$3,049
Services (Online Marketing and Advertising Support)	\$112	\$159	\$225	\$423	\$583	\$607	\$632	\$658	\$685	\$713
Total Revenue	\$441	\$604	\$818	\$1,726	\$2,329	\$2,559	\$2,814	\$3,097	\$3,412	\$3,761
Gross Merchandise Sales - Etsy	\$3,254	\$3,932	\$4,975	\$10,281	\$13,492	\$15,475	\$17,750	\$20,359	\$23,352	\$26,785
<i>YoY Growth Rate %</i>										
Live Case						14.7%	14.7%	14.7%	14.7%	14.7%
Base Case		20.8%	26.5%	106.7%	31.2%	14.7%	14.7%	14.7%	14.7%	14.7%
Bull Case						15.2%	15.2%	15.2%	15.2%	15.2%
Bear Case						14.2%	14.2%	14.2%	14.2%	14.2%
Marketplace Revenue	\$329	\$445	\$594	\$1,303	\$1,746	\$1,952	\$2,182	\$2,439	\$2,727	\$3,049
<i>% of Gross Merchandise Sales</i>										
Live Case						11.8%	11.8%	11.8%	11.8%	11.8%
Base Case	10.1%	11.3%	11.9%	12.7%	12.9%	11.8%	11.8%	11.8%	11.8%	11.8%
Bull Case						12.3%	12.3%	12.3%	12.3%	12.3%
Bear Case						11.3%	11.3%	11.3%	11.3%	11.3%
Service Revenue	\$112	\$159	\$225	\$423	\$583	\$607	\$632	\$658	\$685	\$713
<i>% of Gross Merchandise Sales</i>										
Live Case						4.1%	4.1%	4.1%	4.1%	4.1%
Base Case	3.4%	4.0%	4.5%	4.1%	4.3%	4.1%	4.1%	4.1%	4.1%	4.1%
Bull Case						4.6%	4.6%	4.6%	4.6%	4.6%
Bear Case						3.6%	3.6%	3.6%	3.6%	3.6%
Total No. of Active Buyers	33	39	46	82	90	99	109	120	132	145
<i>YoY Growth Rate %</i>										
Live Case						10.0%	10.0%	10.0%	10.0%	10.0%
Base Case		18.3%	15.9%	79.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Bull Case						10.5%	10.5%	10.5%	10.5%	10.5%
Bear Case						9.5%	9.5%	9.5%	9.5%	9.5%
Gross Merchandise Sales per Active Buyer (to 2 d.p.)	\$97.53	\$100.00	\$103.00	\$117.00	\$136.00	\$145.52	\$155.71	\$166.61	\$178.27	\$190.75
<i>YoY Growth Rate %</i>										
Live Case						7.0%	7.0%	7.0%	7.0%	7.0%
Base Case		2.5%	3.0%	13.6%	16.2%	7.0%	7.0%	7.0%	7.0%	7.0%
Bull Case						7.5%	7.5%	7.5%	7.5%	7.5%
Bear Case						6.5%	6.5%	6.5%	6.5%	6.5%
Expenses Forecast										
Cost of Sales	(\$150)	(\$191)	(\$271)	(\$465)	(\$655)	(\$707)	(\$735)	(\$763)	(\$789)	(\$813)
<i>% of Total Revenue</i>										
Live Case						27.6%	26.1%	24.6%	23.1%	21.6%
Base Case	34.1%	31.6%	33.1%	26.9%	28.1%	27.6%	26.1%	24.6%	23.1%	21.6%
Bull Case						27.1%	25.6%	24.1%	22.6%	21.1%
Bear Case						28.1%	26.6%	25.1%	23.6%	22.1%

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Research and Development	(\$71)	(\$97)	(\$122)	(\$180)	(\$272)	(\$291)	(\$312)	(\$334)	(\$357)	(\$383)
<i>% of Total Revenue</i>										
Live Case						11.4%	11.1%	10.8%	10.5%	10.2%
Base Case	16.1%	16.1%	14.9%	10.4%	11.7%	11.4%	11.1%	10.8%	10.5%	10.2%
Bull Case						10.9%	10.6%	10.3%	10.0%	9.7%
Bear Case						11.9%	11.6%	11.3%	11.0%	10.7%
Marketing, General & Administrative	(\$191)	(\$241)	(\$333)	(\$655)	(\$901)	(\$985)	(\$1,077)	(\$1,180)	(\$1,293)	(\$1,417)
<i>% of Revenue</i>										
Live Case						38.5%	38.3%	38.1%	37.9%	37.7%
Base Case	43.3%	39.9%	40.7%	38.0%	38.7%	38.5%	38.3%	38.1%	37.9%	37.7%
Bull Case						38.3%	38.1%	37.9%	37.7%	37.5%
Bear Case						38.9%	38.7%	38.5%	38.3%	38.1%
Interest Income	\$2	\$9	\$13	\$7	\$2	\$10	\$11	\$13	\$14	\$15
<i>% of Total Revenue</i>	0.45%	1.49%	1.59%	0.41%	0.09%	0.41%	0.41%	0.41%	0.41%	0.41%
Currency Translation Gain (Loss)	\$29	(\$6)	\$3	(\$7)	\$14	\$9	\$10	\$11	\$13	\$14
<i>% of Total Revenue</i>	6.57%	-0.99%	0.37%	-0.41%	0.60%	0.37%	0.37%	0.37%	0.37%	0.37%

Source: Team Analysis

Appendix M – Supporting Schedules

For Year Ended 31 December All figures expressed in (USDm) unless stated otherwise	Historical					Forecasted				
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Working Capital Schedule										
Short-term Investments	\$25	\$257	\$374	\$425	\$204	\$630	\$693	\$763	\$840	\$926
<i>% of Revenue</i>	5.7%	42.5%	45.7%	24.6%	8.8%	24.6%	24.6%	24.6%	24.6%	24.6%
Accounts Receivable	\$34	\$12	\$15	\$23	\$27	\$133	\$146	\$161	\$177	\$196
<i>Day sales outstanding</i>	10.7	30.4	24.3	15.9	13.5	19.0	19.0	19.0	19.0	19.0
Prepaid Expenses	\$20	\$23	\$39	\$56	\$109	\$108	\$118	\$130	\$144	\$158
<i>% of Revenue</i>	4.5%	3.8%	4.8%	3.2%	4.7%	4.2%	4.2%	4.2%	4.2%	4.2%
Other current assets	\$45	\$21	\$50	\$147	\$220	\$218	\$240	\$264	\$291	\$320
<i>% of Revenue</i>	10.2%	3.5%	6.1%	8.5%	9.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Accounts Payable	\$14	\$27	\$26	\$41	\$28	\$26	\$27	\$28	\$29	\$30
<i>Days payable outstanding</i>	26.1	13.5	14.0	8.8	12.9	13.5	13.5	13.5	13.5	13.5
Accrued Liabilities	\$27	\$49	\$49	\$117	\$182	\$124	\$133	\$142	\$152	\$163
<i>% of Operating Expenses & Cost of Sales</i>	5.1%	6.7%	3.8%	6.4%	9.2%	6.2%	6.2%	6.2%	6.2%	6.2%
CAPEX of PP&E	\$4	\$37	\$9	\$2	\$13	\$45	\$50	\$55	\$60	\$66
<i>% of Revenue</i>	0.9%	6.0%	1.2%	0.1%	0.6%	1.8%	1.8%	1.8%	1.8%	1.8%
Unearned Revenue	\$0	\$1	\$0	\$3	\$1	\$3	\$3	\$4	\$4	\$4
<i>% of Revenue</i>	0.1%	0.2%	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other Current Liabilities	\$49	\$25	\$93	\$267	\$377	\$298	\$328	\$361	\$398	\$439
<i>% of Revenue</i>	11.11%	4.14%	11.42%	15.47%	16.19%	11.7%	11.7%	11.7%	11.7%	11.7%
Deferred Tax Liabilities	\$24	\$30	\$64	\$58	\$79	\$128	\$141	\$155	\$170	\$188
<i>% of Revenue</i>	5.44%	4.97%	7.82%	3.36%	3.39%	5.0%	5.0%	5.0%	5.0%	5.0%
Long-Term Lease Liabilities	\$4	\$2	\$76	\$62	\$154	\$106	\$117	\$128	\$141	\$156
<i>% of Revenue</i>	0.91%	0.33%	9.29%	3.59%	6.61%	4.1%	4.1%	4.1%	4.1%	4.1%
Stock-based Compensation	\$27	\$38	\$44	\$65	\$140	\$135	\$147	\$156	\$171	\$197
<i>% of Marketing, General & Administrative</i>	13.91%	15.86%	13.33%	9.94%	15.53%	13.7%	13.7%	13.2%	13.2%	13.9%
Other non-current assets	\$6	\$6	\$11	\$10	\$10	\$24	\$27	\$30	\$33	\$36
<i>% of Revenue</i>	1.4%	1.1%	1.3%	0.6%	0.4%	1.0%	1.0%	1.0%	1.0%	1.0%
Other long-term liabilities	\$78	\$80	\$22	\$24	\$79	\$197	\$217	\$238	\$263	\$290
<i>% of revenue</i>	17.8%	13.2%	2.7%	1.4%	3.4%	7.7%	7.7%	7.7%	7.7%	7.7%

Depreciation Schedule								
Property, Plant & Equipment								
PPE Opening Balance	Useful Lives		\$321	\$293	\$259	\$220	\$174	
CAPEX	5 Years		\$45	\$50	\$55	\$60	\$66	
Total PPE before Depreciation			\$366	\$342	\$314	\$280	\$240	
Depreciation of Existing PPE			\$64	\$64	\$64	\$64	\$64	
Depreciation of new CAPEX								
2022			\$9	\$9	\$9	\$9	\$9	
2023				\$10	\$10	\$10	\$10	
2024					\$11	\$11	\$11	
2025						\$12	\$12	
2026							\$13	
Total Depreciation of new CAPEX			\$9	\$19	\$30	\$42	\$55	
Total Depreciation for the Year			\$73	\$83	\$94	\$106	\$119	
PPE Closing Balance		\$321	\$293	\$259	\$220	\$174	\$121	
Debt Schedule								
2018 Senior Notes								
Opening Debt Balance	Coupon Rate	Year Due		\$0.06	\$0.06	--	--	--
Mandatory debt repayment	0.30%	2023		--	\$0.06	--	--	--
Closing Debt Balance			\$0.06	\$0.06	--	--	--	--
Interest Expense			\$0.00	\$0.00	--	--	--	--
2019 Senior Notes								
Opening Debt Balance	Coupon Rate	Year Due		\$644	\$644	\$644	--	--
Mandatory debt repayment	0.30%	2024		--	--	\$644	--	--
Closing Debt Balance			\$644	\$644	\$644	--	--	--
Interest Expense			\$2	\$2	\$1	--	--	--
2020 Senior Notes								
Opening Debt Balance	Coupon Rate	Year Due		\$643	\$643	\$643	\$643	--
Mandatory debt repayment	0.30%	2025		--	--	--	\$643	--
Closing Debt Balance			\$643	\$643	\$643	\$643	--	--
Interest Expense			\$2	\$2	\$2	\$1	--	--

2021 Senior Notes									
Opening Debt Balance		Coupon Rate	Year Due		\$988	\$988	\$988	\$988	\$988
Mandatory debt repayment		0.40%	2026		--	--	--	--	\$988
Closing Debt Balance				\$988	\$988	\$988	\$988	\$988	--
Interest Expense					\$4	\$4	\$4	\$4	\$2
Operating lease schedule									
Operating lease balance		Rate	Year Due		\$ 154	\$ 144	\$ 134	\$ 125	\$ 116
Amortization of lease		4.46%	14.67		\$ 10	\$ 10	\$ 9	\$ 8	\$ 8
Closing Balance				\$154	\$ 144	\$ 134	\$ 125	\$ 116	\$ 108
Interest expense					\$1	\$1	\$1	\$0	\$0
Share repurchase program									
Share repurchase program balance	\$ 127				\$ 127	\$ 114	\$ 90	\$ 64	\$ 33
Share repurchased	\$ -				\$ (13)	\$ (24)	\$ (26)	\$ (30)	\$ (31)
Share repurchase program closing balance	\$ 127				\$ 114	\$ 90	\$ 64	\$ 33	\$ 2
Cash balance at the end of the year before repurchase					\$ 711	\$ 1,353	\$ 1,458	\$ 1,690	\$ 1,732
% of cash balance					2%	2%	2%	2%	2%
Cash balance allocated for share repurchase					\$ 13	\$ 24	\$ 26	\$ 30	\$ 31
Average price of shares					110.00	121.00	133.10	146.41	161.05
No. of shares repurchased (millions)					0.12	0.20	0.21	0.20	0.19

Source: Team Analysis

Appendix N – 3FS – Pro Forma Income Statement

For Year Ended 31 December <i>All figures expressed in (USDm) unless stated otherwise</i>	Historical					Forecasted				
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Income Statement (USDm)										
Revenue:										
Internet Department Stores	\$329	\$445	\$594	\$1,303	\$1,746	\$1,952	\$2,182	\$2,439	\$2,727	\$3,049
Online Marketing and Advertising Support	\$112	\$159	\$225	\$423	\$583	\$607	\$632	\$658	\$685	\$713
Total Revenue	\$441	\$604	\$818	\$1,726	\$2,329	\$2,559	\$2,814	\$3,097	\$3,412	\$3,761
Cost of sales	(\$150)	(\$191)	(\$271)	(\$465)	(\$655)	(\$707)	(\$735)	(\$763)	(\$789)	(\$813)
Gross Profit	\$291	\$413	\$547	\$1,261	\$1,674	\$1,852	\$2,079	\$2,335	\$2,623	\$2,948
Marketing, General & Administrative	(\$191)	(\$241)	(\$333)	(\$655)	(\$901)	(\$985)	(\$1,077)	(\$1,180)	(\$1,293)	(\$1,417)
Research and Development	(\$71)	(\$97)	(\$122)	(\$180)	(\$272)	(\$291)	(\$312)	(\$334)	(\$357)	(\$383)
Operating Income	\$29	\$75	\$92	\$426	\$501	\$576	\$690	\$821	\$973	\$1,148
Interest Expense	(\$11)	(\$22)	(\$24)	(\$42)	(\$10)	\$8	\$8	\$7	\$5	\$2
Other income (expense), net	\$2	\$9	\$13	\$7	\$2	\$10	\$11	\$13	\$14	\$15
Net Interest Expense	(\$9)	(\$13)	(\$11)	(\$35)	(\$8)	\$18	\$19	\$19	\$19	\$17
Currency Exchange Gains	\$29	(\$6)	\$3	(\$7)	\$14	\$9	\$10	\$11	\$13	\$14
Restructuring Charges	(\$14)	--	--	--	--	--	--	--	--	--
Merger & Related Restruct. Charges	--	--	(\$4)	(\$2)	(\$37)	--	--	--	--	--
Asset Writedown	(\$3)	--	--	--	--	--	--	--	--	--
Other Unusual Items	--	--	--	(\$17)	--	--	--	--	--	--
Income before taxes incl. Unusual Items	\$32	\$56	\$80	\$365	\$470	\$604	\$719	\$852	\$1,004	\$1,179
Income Tax Expense	\$50	\$22	\$15	(\$16)	\$22	(\$151)	(\$180)	(\$213)	(\$251)	(\$295)
Net Income	\$82	\$78	\$95	\$349	\$492	\$453	\$540	\$639	\$753	\$884
Earnings (loss) per share:										
<i>Basic</i>	\$0.69	\$0.65	\$0.79	\$2.88	\$3.87	\$3.60	\$4.29	\$5.08	\$5.99	\$7.03
<i>Diluted</i>	\$0.67	\$0.62	\$0.76	\$2.56	\$3.35	\$3.60	\$4.29	\$5.08	\$5.99	\$7.03
										16.0%
Shares Outstanding:										
<i>Basic</i>	118.5	120.1	119.7	121.3	127.2	125.7	125.7	125.7	125.7	125.7
<i>Diluted</i>	122.3	127.1	125.7	136.4	146.7	125.7	125.7	125.7	125.7	125.7
Tax Rate						25.00%	25.00%	25.00%	25.00%	25.00%

Source: Team Analysis

Appendix O – 3FS – Pro Forma Balance Sheet

For Year Ended 31 December <i>All figures expressed in (USDm) unless stated otherwise</i>	Historical					Forecasted				
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Balance Sheet (USDm)										
Current Assets:										
Cash and cash equivalents	\$315	\$367	\$443	\$1,244	\$780	\$711	\$1,353	\$1,458	\$1,690	\$1,732
Short-term investments	\$25	\$257	\$374	\$425	\$204	\$630	\$693	\$763	\$840	\$926
Accounts receivable, net	\$34	\$12	\$15	\$23	\$27	\$133	\$146	\$161	\$177	\$196
Other Current Assets	\$45	\$21	\$50	\$147	\$220	\$218	\$240	\$264	\$291	\$320
Prepaid Expenses	\$20	\$23	\$39	\$56	\$109	\$108	\$118	\$130	\$144	\$158
Total current assets	\$439	\$680	\$921	\$1,895	\$1,342	\$1,800	\$2,550	\$2,775	\$3,142	\$3,333
Property, plant & equipment, net	\$99	\$89	\$67	\$132	\$321	\$293	\$259	\$220	\$174	\$121
Goodwill	\$39	\$37	\$139	\$141	\$1,371	\$1,371	\$1,371	\$1,371	\$1,371	\$1,371
Other Intangibles	\$22	\$65	\$302	\$187	\$607	\$607	\$607	\$607	\$607	\$607
Deferred Tax Assets, LT	--	\$23	\$14	--	\$96	\$96	\$96	\$96	\$96	\$96
Long Term Investments	--	--	\$89	\$39	\$85	\$85	\$85	\$85	\$85	\$85
Other Long-Term Assets	\$6	\$6	\$11	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Total Assets	\$605	\$901	\$1,543	\$2,404	\$3,832	\$4,261	\$4,978	\$5,164	\$5,484	\$5,623
Current Liabilities:										
Accounts Payable	\$14	\$27	\$26	\$41	\$28	\$26	\$27	\$28	\$29	\$30
Accrued Liabilities	\$27	\$49	\$49	\$117	\$182	\$124	\$133	\$142	\$152	\$163
Current Portion of Leases	\$6	\$4	\$12	\$13	\$6	\$6	\$6	\$6	\$6	\$6
Curr. Income Taxes Payable	--	--	--	\$5	\$10	\$10	\$10	\$10	\$10	\$10
Unearned Revenue, Current	\$6	\$7	\$8	\$11	\$12	\$3	\$3	\$4	\$4	\$4
Other Current Liabilities	\$49	\$25	\$93	\$267	\$377	\$298	\$328	\$361	\$398	\$439
Total current liabilities	\$102	\$112	\$189	\$455	\$616	\$468	\$508	\$551	\$600	\$653
Long-term Liabilities:										
Long-Term Debt	--	\$276	\$785	\$1,062	\$2,275	\$2,275	\$2,275	\$1,631	\$988	--
Long-Term Leases	\$4	\$2	\$76	\$62	\$154	\$144	\$134	\$125	\$116	\$108
Def. Tax Liability, Non-Curr.	\$24	\$30	\$64	\$58	\$79	\$79	\$79	\$79	\$79	\$79
Other Non-Current Liabilities	\$78	\$80	\$22	\$24	\$79	\$79	\$79	\$79	\$79	\$79
Total non-current liabilities	\$106	\$388	\$947	\$1,206	\$2,587	\$2,577	\$2,567	\$1,914	\$1,262	\$266
Shareholders' Equity:										
Common Stock	--	--	--	--	--	--	--	--	--	--
Additional Paid In Capital	\$499	\$562	\$643	\$883	\$632	\$767	\$914	\$1,071	\$1,241	\$1,438
Retained Earnings	(\$96)	(\$153)	(\$227)	(\$147)	\$72	\$525	\$1,064	\$1,703	\$2,456	\$3,341
Comprehensive Inc. and Other	(\$6)	(\$8)	(\$9)	\$6	(\$75)	(\$75)	(\$75)	(\$75)	(\$75)	(\$75)
Total shareholders' equity	\$397	\$401	\$407	\$743	\$629	\$1,217	\$1,904	\$2,699	\$3,623	\$4,704
Total liabilities and shareholders' equity	\$605	\$901	\$1,543	\$2,404	\$3,832	\$4,261	\$4,978	\$5,164	\$5,484	\$5,623

Source: Team Analysis

Appendix P – 3FS – Pro Forma Cash Flow Statement

For Year Ended 31 December <i>All figures expressed in (USDm) unless stated otherwise</i>	Historical					Forecasted				
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Cash Flow Statement (millions)										
Cash flows from operating activities:										
Net income	\$82	\$77	\$96	\$349	\$494	\$453	\$540	\$639	\$753	\$884
Depreciation and amortization	\$16	\$13	\$20	\$20	\$16	\$63	\$73	\$85	\$98	\$111
Amort. of Goodwill and Intangibles	\$3	\$4	\$10	\$15	\$28	--	--	--	--	--
Other Amortization	\$9	\$11	\$21	\$25	\$34	--	--	--	--	--
(Gain) Loss From Sale Of Assets	\$1	\$0	\$0	\$0	\$0	--	--	--	--	--
Asset Writedown & Restructuring Costs	\$3	\$0	\$0	\$0	\$0	--	--	--	--	--
Stock-Based Compensation	\$27	\$38	\$44	\$65	\$140	\$135	\$147	\$156	\$171	\$197
Provision & Write-off of Bad debts	\$2	\$4	\$11	\$15	\$16	--	--	--	--	--
Other Operating Activities	(\$73)	(\$8)	(\$4)	\$64	(\$100)	--	--	--	--	--
Changes in operating assets and liabilities:										
Accounts receivable, net	(\$9)	\$17	(\$13)	(\$23)	(\$19)	(\$106)	(\$13)	(\$14)	(\$17)	(\$18)
Accounts payable	\$3	\$13	(\$1)	\$15	(\$14)	(\$2)	\$1	\$1	\$1	\$1
Unearned Revenue	\$0	\$1	\$0	\$3	\$1	(\$9)	\$0	\$0	\$0	\$0
Other Net Operating Assets	\$6	\$27	\$23	\$129	\$56	(\$559)	(\$57)	(\$63)	(\$71)	(\$79)
Net cash provided by operating activities	\$69	\$199	\$207	\$679	\$652	(\$25)	\$692	\$804	\$936	\$1,096
Cash flows from investing activities:										
Capital Expenditure	(\$4)	(\$37)	(\$9)	(\$2)	(\$13)	(\$45)	(\$50)	(\$55)	(\$60)	(\$66)
Cash Acquisitions	--	--	--	--	(\$1,700)	--	--	--	--	--
Sale (Purchase) of Intangible assets	(\$9)	(\$20)	(\$8)	(\$6)	(\$17)	--	--	--	--	--
Invest. in Marketable & Equity Secur.	\$75	(\$229)	(\$201)	(\$3)	\$172	--	--	--	--	--
Net cash used in investing activities	\$62	(\$285)	(\$218)	(\$11)	(\$1,558)	(\$45)	(\$50)	(\$55)	(\$60)	(\$66)
Cash flows from financing activities:										
Long-Term Debt Issued	--	\$345	\$650	\$650	\$1,000	--	--	--	--	--
Long-Term Debt Repaid	(\$14)	(\$16)	(\$11)	(\$146)	(\$53)	--	(\$0)	(\$644)	(\$643)	(\$988)
Issuance of Common Stock	\$34	\$18	\$10	\$25	\$23	--	--	--	--	--
Repurchase of Common Stock	(\$17)	(\$159)	(\$210)	(\$316)	(\$421)	--	--	--	--	--
Foreign Exchange Rate Adj.	(\$4)	(\$6)	(\$2)	\$14	(\$10)	--	--	--	--	--
Other Financing Activities	\$3	(\$44)	(\$80)	(\$93)	(\$96)	--	--	--	--	--
Net cash (used in) provided by financing activities	\$3	\$138	\$358	\$133	\$443	--	(\$0)	(\$644)	(\$643)	(\$988)
						\$1				
Net increase in cash and cash equivalents, and restricted cash	\$134	\$52	\$347	\$801	(\$464)	(\$70)	\$642	\$105	\$232	\$42
Cash, cash equivalents and restricted cash at beginning of year	\$182	\$315	\$367	\$443	\$1,244	\$780	\$711	\$1,353	\$1,458	\$1,690
Cash, cash equivalents and restricted cash at end of year	\$315	\$367	\$443	\$1,244	\$780	\$711	\$1,353	\$1,458	\$1,690	\$1,732

Source: Team Analysis

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