RugVista AB (RUG)

About RugVista

RugVista is a Swedish company that operates in the retail industry. The Company offers direct-to-consumer online platforms of both design and traditional rugs. RugVista offers home delivery to consumers in large parts of Europe and mainly operates in three segments: B2B, B2C and Marketplaces & Other. RugVista was founded in 2005 and their headquarter is stationed in Limhamn.

Overweight

Target Price	SEK 211.9
Current Price	SEK 111.6
Upside	90.9%

Market Data, SEK

Exchange	Nordic Growth Market
Shares (mn)	20.7
MCAP (mn)	2 307
EV (mn)	2 226

Forecast, SEKmn	21E	22E	23E
Total revenue	740.3	854.4	982.6
Rev. growth	31.3%	15.4%	15.0%
Gross Profit	476.3	532.5	612.4
Gross Margin	64.5%	62.7%	62.7%
EBITDA	141.3	160.2	184.2
EBITDA Margin	19.1%	18.9%	18.9%
EBIT	132.1	150.9	173.5
EBIT Margin	17.9%	17.8%	17.8%

Key Metrics	21E	22E	23E
EV/EBITDA	15.7x	13.9x	12.0x
EV/EBIT	16.8x	14.8x	12.8x
ND/EBITDA	Neg.	Neg.	Neg.
P/E	22.2x	18.7x	16.3x
P/S	3.1x	2.7x	2.3x
EPS	5.0x	5.9x	6.8x

ANALYSTS CONTACT INFORMATION

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RugVista – A pioneer in the rug market

RugVista Group ("RugVista" or "the Company") is the leading European "direct-to-consumer" online platform for carpet sales. The Company is driving the digitization of the fast-growing European online rug market. The European online rug market is expected to grow at a CAGR of 11.1% between 2020A-2024E. Estimates suggest RugVista will grow faster than the online rug market at a CAGR of 15.6% 2021A-2024E, due to a first-mover advantage and competitive margins. The online rug market is currently fragmented, and RugVista executes with the intention to become the power brand within the market. Looking at the unprecedented customer satisfaction and operational optimization, RugVista's intention is both doable and reasonable, which is to become the "Zalando" of the rug market. Based on a peer valuation with a target multiple of EV/EBIT 29.2x, a target price of SEK 211.9, and a potential upside of 90.9% is justified.

Key takeaways

- **First-mover advantage on a fast-growing market:** By being the sole "pure" online carpet sales platform, RugVista is considered as having a first-mover advantage. The online rug market constitutes 16.0% of the total rug market, which RugVista operates in, and projections show that the market will grow by 11.1% annually during 2020A-2024E. RugVista has a 1.5% market share, and the Company will take further steps of becoming a power brand of the rug industry.

- **Incredible track record of growth and high margins:** With a revenue CAGR exceeding 20.0% over the last decade RugVista shows that it is a company to be reckoned with. The exceptional revenue growth is estimated to continue, corresponding to an increase of 27.0% in 2021E, implying that RugVista continues to be a serious contender within the rug market. The Company's integrated technology platform and pricing optimization enable high margins, and estimates show an EBITDA-margin of 18.9% in 2022E. Furthermore, the gross margins has increased from 56.2% in 2018A to 64.5% in 2021E, which shows RugVista's strength in pricing power, which attributable to being the sole online carpet sales platform.

- **Customer satisfaction paves the way for a future power brand:** RugVista hopes to obtain a market position similar to Zalando, which is a fair statement due to their excellent customer relationships. The Company's website is available in 20 different languages, has several million visitors each month and exhibits high rates of customer satisfaction. The Company's Trustpilot rating is at 4.81 and NPS-score of 67 as well as a 39.2% increase in website visits 2019-2020A which proves their excellence in maintaining loyal customers. Additionally, the Company exhibit an 85.0% retention rate, which is considered high compared to the benchmark in Ecommerce being 30.0%. There is currently no power brand in the online rug market, and RugVista is eager to obtain this position. In combination with their customer satisfaction and other factors such as pricing power, the Company should thus be able to take on this role.

Investment thesis

Revenue CAGR of 20.0% the last decade and unprecedented margins pave the way for RugVista

With a *revenue CAGR* exceeding 20.0% over the last decade, an incredible 33.0% revenue growth during 2020A, and an estimated revenue growth of 27.0% 2021E, RugVista is entering 2022E with both strength and momentum. The growth is attributable to RugVista's business characteristics and customer satisfaction, its first-mover advantage, and its integrated technology platform. Projections show an EBITDA-margin of 18.9% in 2022E, which is an increase of 200.0% from 6.3% in 2018A driven by economics of scale and digitization. Their margins is 2.1x the average EBITDA-margin of comparable peers in the Nordic e-commerce.

First mover advantage enables RugVista's prime position

RugVista is the European market leader within online carpet sales and utilizing its first mover advantage and integrated technology platform. RugVista has a long runway of growth due to its first mover advantage on a digitalized market. The rug market has an estimated online penetration of 18.0% 2021E, and the Company is expected to continue long-term compounding. This, since Brick-and-mortar stores exhibit a competitive environment due to the broad assortment of rugs available at RugVista, and the Company's logistic solutions. Thus, confirming RugVista's own belief of being a pioneer in its field by digitizing a conservative and traditional market. Additionally, in combination with increasing market penetration, RugVista is estimated to both maintain its market leading position and increase its market share in the European online market from 1.5% to 3.0% in 2024E.

Strong financials enable future acquisitions

In 2020A, RugVista managed to pay off all of its long-term debt to creditors, which resulted in a stronger balance sheet for the Company. The balance sheet presents a *cash ratio* of 98.0%, implying that 98.0% of the current liabilities are covered solely by cash. This implies that the current absence of any long-term debt, the Company has the ability to issue a large amount of debt if necessary and thus, in conjunction with a strong cash balance, future acquisitions are both possible and reasonable from a financial standpoint.

Capitalizes on a growing underlying market and disrupting the traditional stores

The European rug market was estimated to be worth USD 23.0bn in 2019A, whereas the European online-based rug market amounted to USD 4.0bn with an online penetration of 18.0% 2021E. The global rug market has had a CAGR of 12.3% between 2015-2020A and the European online based rug market is projected to grow with a CAGR of 11.1% between 2020A-2024E, due to the disruption of Brick-and-mortar stores. RugVista's key driver for further success is simply to continue capitalizing on this growing underlying market by maintaining their high customer satisfaction. The Company's ability to maintain customer relations depends on their broad and relevant supply of qualitative rugs and return policy.

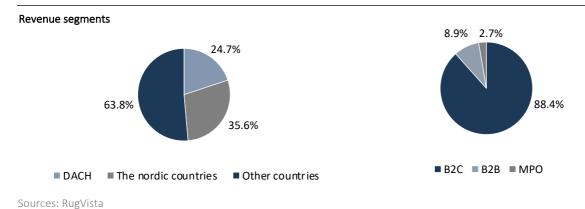### Hurdles to overcome for maintained growth

RugVista is exposed to both financial and operational risks. Regarding the financial risks, currency and financing risks are most relevant. RugVista has experienced unexpected losses from unfavourable currency fluctuations. This due to the Company's operations being based in Sweden and with SEK as currency and a predominant part of ingoing payment flows occur in EUR. The operational risks include supply constraints and supply chain bottlenecks, risks that ought not to be considered idiosyncratic but systematic. Additionally, RugVista exhibits further supply constraints due to COVID-19 and geopolitical risks, which is caused by a part of RugVista's rug manufacturer is based in Afghanistan. The Company is heavily dependent on customer satisfaction, thus a properly working supply chain, and hence supply chain bottlenecks may affect the Company negatively.

Overview of the Company

Diversified in three growing segments

Founded in 2005, RugVista is the leading European "direct-to-consumer" online platform of carpet sales. The Company offers a wide and relevant assortment of both qualitative and traditional rugs, and its operations are integrated with a technology platform that enables customer satisfaction and competitive logistics. The Company's operations are separated into three segments: B2C, B2B and Marketplaces & Other. B2C is the Company's biggest source of income last quarter, constituting 88.0% of the net revenue. The B2C segment is divided into three different regions, DACH, Nordics, and Other Countries, where the latter is the biggest market. Yet, all regions exhibit strong growth, and the DACH regions presented a 41.5% growth in Q3 2021A.

Revenue segments

Sources: RugVista

Integrated technology platform enables customer success

The Company's website is available in 20 different languages, has 2.7 million visits a month, and exhibits high customer satisfaction rates. This is confirmed with a NPS-score of 67, a Trustpilot rating of 4.81, and an 30.0% increase the number of visitors y/y. The customer satisfaction rates are partly explained by the integrated technology platform, which is a tool that enables RugVista to develop and improve the customer experience and internal processes. It is done by collecting and analyzing data, which give projections about future demand, supply, and customer behaviour. RugVista are always well prepared for the quarters with higher demand and can optimize the inventory based on projections about the total amount and what choices that are usually attractive for the given period. RugVista has their operational base in Malmö, where its two facilities for shipping and logistics are located as well. Despite the historical growth, RugVista's facilities allow for at least a doubling in inventory before reaching max limit, which can be accredited to the data driven platform that optimizes the inventory.

High customer satisfaction generates 27.0% growth

RugVista has historically exhibited a high growth rate with a CAGR exceeding 20.0% during the last decade. The Company's organic growth is estimated to continue, and resulting in a revenue growth of 27.0% in 2021E. The organic growth can be explained by the customer satisfaction, RugVista's market position, and its pricing power. Pricing power and category mix effect allow increasing margins. By improved pricing optimization and category mix effect, the *gross margin* has increased from 56.2% in 2018A to 64.5% in 2021E. Estimates show that the Company's growth is expected to continue, reaching a gross margin of 67.1% in 2025E. Furthermore, the operational leverage effect and cost controls has resulted in an improvement of *EBIT* from SEKmn 21.5 in 2018A to SEKmn 127.0 in 2021E. This corresponds to a tripling in the EBIT-margin from 5.8% in 2018A to 17.9% in 2021E.
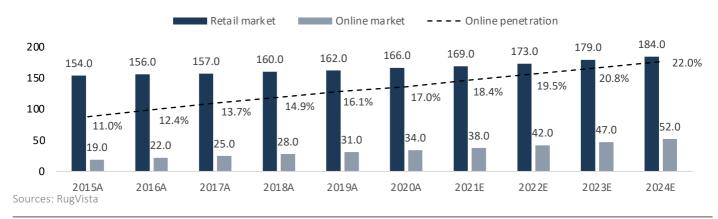
Overview of the market

Online transition engender future growth

As a subsegment to the home decor market, the rug market is driven by similar factors. Since the European home decor market undergoes a transition towards a more online-based format, the rug market follows suit. According to the Company, the digitizing trend across markets is particularly well suited for the rug market, mainly since it is characterized by long life cycles, low inventory risks, and low return rates. Additionally, the current online penetration in the rug market is at 18.4% 2021E and exhibits high growth, which is in favor of RugVista.

Strong growth in online market with continuously increased market penetration

Sources: RugVista

Personalization of private spaces

The home decor market itself is supposed to be driven by, inter alia, the growing interest in home decoration and personalization of private spaces. In later years, expressing personality and identity at home has become increasingly important, and the Company believes that home decoration is more subject to design than functionality. The online market is driven by similar factors as the home decor market, particularly to the specific factors connected to growth in online sales such as availability to the internet and willingness to purchase rugs online. The online market of home decoration is expected to grow with a CAGR of 13.6% during 2020A-2024E.

An attractive niche within the home decoration market

The European rug market was estimated to be worth USD 23bn in 2019A, whereas the online market, which has grown with a CAGR of 12.3% since 2015A, was estimated to value USD 4bn in 2019A. Furthermore the European online rug market is estimated to grow with a CAGR of 11.1% between 2020A and 2024E. Hence, the rug market is considered to be an attractive niche within the home decor market, since well-known brands, such as IKEA, have limited presence in the product category.

Ultimate product for the online retail industry

The increased magnitude of online sales is mainly driven by the current transition from physical stores to online platforms. Rugs are a particularly good fit for the online retail industry since rugs are characterized by long life cycles. This means that they can be kept in inventory without losing any value and hence face smaller risk for impairment. Additionally, rugs exhibit low return rates, confirmed by RugVista's 15.8% return rate, compared to other products in the retail industry and are also well suited for distribution because of their robust and antifragile attributes.
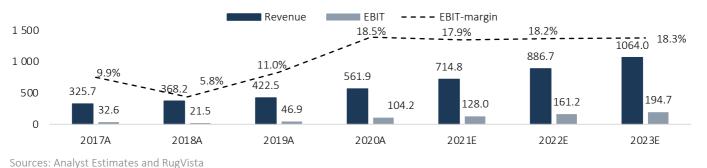
Financial forecast breakdown

Forecasting the underlying drivers

The financial forecast of RugVista follows a bottom-up approach. This means that, sales are divided into their underlying drivers, which then are individually forecasted. In the case of RugVista, the sales components were divided into *the number of orders* ("NOO") and *average order value* ("AOV"). The initial hurdle is the cyclical nature of sales in the Company. The strongest quarters for RugVista are Q1 and Q4. With limited access to quarterly data from the Company, due to it being listed in March 2021, the assumptions about the future are solely based on one full year of quarterly reported data. Therefore, to strengthen the validity of the quarterly projections, the quarterly forecasts were compared to a sales CAGR approach. Despite the limited availability to quarterly data, the difference between the approaches never exceeded 6.0%. Thus, the sales CAGR approach supports the projections of the trailing four quarters estimated.

Operational leverage implies 18.0% margins following 226.0% sales growth 2017A-2023E

Sources: Analyst Estimates and RugVista

The AOV declined for each quarter due to an overall increase in sales

Regarding the estimates, Q4 2021E was the last quarter needed to receive two complete fiscal years of quarterly data. Given the estimated 27.0% sales CAGR 2021E, sales Q4 2021E was simply calculated backward, and the same procedure was undertaken with both AOV and NOO in Q4. Firstly, the AOV decreases as sales increase. Secondly, the AOV for each corresponding quarter has declined y/y, which is expected due to overall increase in sales over all quarters. This results in an estimation of a 1.0% decline quarterly in AOV, compared to the 1.4% decrease during 2021E. The minor difference between the historical decline and the projected, is the estimated effect of inflation, which may lead to smaller price increases.

The metric AOV/NOO was created and enabled projecting revenue CAGR

Moving forward, a metric was created, AOV/NOO, which enabled a way of projecting the NOO as AOV was estimated. The ratio was estimated to maintain its level over each trailing quarter, but with a decrease of 20.0% y/y, based on historical patterns. As the metric forecast was done, NOO per quarter 2022E was estimated. The NOO per quarter exhibited results with an increase of roughly 20.0% per quarter y/y. Sales were then computed as the product of the two projected components and implied a growth of 27.0% in 2021E, and a growth of 24.0% 2022E. Together all the projected years result in a revenue CAGR of 15.6%, and is lower than the Company's own target of 20.0%. Hence, the projections are slightly more conservative than RugVista's own target, yet it corresponds to a substantial upside.

Financial forecast breakdown

Estimates show decreasing COGS due to scalability of the business model

Moving forward to *cost of goods sold* (*"COGS")*, 2021E was estimated on a quarterly basis, whilst the subsequent years was projected on an annual basis. COGS are estimated as a percentage of revenue and follow the same pattern as the historical figures. COGS as a percentage of sales are projected to decrease due to the scalability of the business. This, since RugVista's revenue can be increased without proportional investments in production, and is also typical for an online business. The Company's ability to achieve pricing power also motivates a decrease in COGS. Thus, *gross margins* are expected to increase from 61.7% in 2020A to 66.5% in 2024E.

OPEX is expected to increase, caused by administrative and advertising expenses

Similar to above, *operational expenses* ("OPEX") are expected to increase over the years but OPEX as a percentage of revenue are also expected to increase. In the short term, it's explained by the increased advertising expenses communicated by the Company, which is an action taken to increase brand visibility. An additional expense that is expected to increase over the years is the administrative expenses, caused by an increase in sales and marketing costs. Although, RugVista's marketing efficiency is at 3.0, which indicates that the Company allocates it´s marketing costs equitable. Thus, the projections suggest an increase in OPEX as a percentage of sales for the trailing four years.

Personnel costs as a percentage of sales will decrease due to scalability of the business

Moving forward to the *personnel costs*, which historically have increased due to the expansion of RugVista and its corresponding need of executing on a 20.0% sales growth rate. Although, due to the Company's scalability, projections follow the historical trend but instead suggest a 2.0% decline in personnel costs as a percentage of revenue for the upcoming years.

Estimates in EBITDA exceeds RugVista's own targets and the D&A is uninterrupted

Arriving at EBITDA, the Company is expected to have an EBITDA-margin of 19.1% 2021E, which is a slight decline from 2020A EBITDA of 19.9%. The decline is mostly assignable to the increase in OPEX, which in the short term will affect the EBITDA adversely. However, in the long term, the investments in advertising are expected to yield increasing sales, offsetting the initial adverse effect. Thus, the EBITDA margin is expected to increase, reaching 19.3% in 2022E and 19.4% 2023E. Moving on to *depreciation and amortization* ("D&A") that consistently have constituted a minor post in the income statement. The projections suggest a D&A of 1.5% of sales for the upcoming years, in line with the historical trend. The EBIT-margin is hence not majorly affected by any particular change in D&A and is estimated to equal 17.9% 2021E, 18.2% 2022E and 19.4% in 2023E. This, results in a EBIT-margin exceeding the Company's own target of 15.0%.

Valuation

Aims for a "Zalando establishment" in the rug market

The peer valuation is based on a comparison between RugVista and companies that operate in Ecommerce with comparable EV. The reason why Zalando is considered a relevant peer is due to the fact that RugVista constantly compares itself with the company. Zalando's s incredible establishment in the clothing retail industry is a position RugVista strive for in the rug market and expected to obtain in the future.

Peer table	Market Data	Valuation			Financials
Company Name	EV (SEK)	2022E - EV/Sales	2022E - EV/EBITDA	2022E - EV/EBIT	EBITDA-margin
Boozt	10 660	1.5x	16.5x	25.4x	8.1%
Desenio Group	2 579	2.3x	n/a	17.4x	14.6%
Lyko Group	4 560	2.0x	22.0x	37.6x	8.7%
Pierce Group	2 020	1.2x	14.5x	20.6x	6.7%
Zalando SE	16 880	1.7x	27.2x	44.9x	6.7%
Median	3 569	1.7x	19.3x	25.4x	8.1%
Average	6 488	1.7x	20.1x	29.2x	9.0%
RugVista Group	2 226	2.8x	14.2x	15.5x	19.3%

Sources: Analyst estimates, Bloomberg

Peer valuation indicates a 90.9% discount to comparable companies

The decision to value RugVista with an EBIT multiple is two folded. Firstly, EBIT is a useful operating performance measure, since it fairly accounts for D&A. Secondly, the Company's financial targets are, inter alia, measured as EBIT, thus using the same metric simplifies any comparison between estimates and targets. RugVista is currently trading at an EV/EBIT of 16.8x looking at LTM, followed by 14.6x in 2022E, 12.8x 2023E, and 11.2x 2024E. By implementing a peer valuation, a 90.9% EV/EBIT discount to comparable peers is evident in 2022E, and a substantial upside in the upcoming years is thus justified.

Prime position and growth strategy suggests a 20.0% growth in 2023-2024E

By looking at RugVista's incredible track record, regarding their high margins and 20.0% sales CAGR, it is evident that the Company is undervalued relative to peers. Additionally, in absence of a power brand in the carpet market, RugVista's current prime position and communicated strategy to take that position bodes well for becoming the power brand, which automatically would accelerate growth. The projections further indicates that the Company's EBIT-margin can increase due to RugVista's ability to optimize its operations by cutting costs and pushing prices. This would justify a higher valuation, at least equal to peers.

RugVista should be traded at least equally to its at EV/EBIT 29.2x 2022E

In conjunction with a growing market, the online part has an expected CAGR of 11.1% 2020A-2024E1 and thus, can be seen as undetected. In concurrence with the continuously increasing online penetration and a maintained high CAGR, RugVista will take further market shares simply by maintaining their high customer satisfaction and market position. Therefore, the market will soon understand RugVista's intrinsic value and the Company should be traded at least equal to its peers at EV/EBIT 29.2x 2022E, which indicates an upside of 90.4% and a stock price of 211.9 SEK.

Management

Michael Lindskog, CEO

Michael has experience in leadership roles and strategic management consulting, mainly in Ecommerce, financial services, fashion and tech. He has previously been Nordic Head of Zalando, founder and CEO of Waizer AB and Management Consult at McKinsey & Company. Michael holds a Master of Business Administration, Stockholm School of Economics and a Bachelor of Science in marketing, Western Kentucky University, USA. *Ownership: 284 080 shares (1.37% of outstanding shares).*

Henrik Bo Jørgensen, CFO

Henrik has extensive experience within leadership roles, business development, strategic management consulting and investment banking. Most recently, Henrik came from Boston Consulting Group as a Management Consult. Earlier, he has been CFO and COO at Nofred, Head of Business Development at Tiger of Sweden and Investment Banking at Nordea. Henrik holds a Master of Science in Economics and a Bachelor of Science in Economics, University of Copenhagen. *Ownership: 60 000 of warrants.*

Carin Terins, CDPO

Carin has an academic background in product development within design and clothing, University of Borås. Before being employed as a Certified Data Protection Officer at Rugvista, Carin had several years of experience in design and purchasing by being Design and Marketing manager at Flash AB. *Ownership: 109 200 shares (0.52% of outstanding shares).*

Patricia Widgren, COSO

Patricia holds a degree in Economics, IHM Business and has previous experience as a consultant within recruitment at Prawia AB and Appointed Sverige AB. Beside this, Patricia has experience in senior roles in management from her time as CEO of Biltema Sweden AB and Century Europé AB. *Ownership: 22 640 shares (0.01% of outstanding shares).*

Erik Lindgren, Chairman of the board

Erik has experience as an entrepreneur and CEO within Ecommerce, and founder of Discshop Svenska Näthandel AB. He has also been former CEO of Babyland Online Nordic AB and co-founder of Apotea AB, Beside this, Erik has an background within finance as a Senior Advisor at EQT Partners. Ownership: 184 080 shares (0.085% of outstanding shares).

Paul Steene, Board member

Paul has an academic background within mechanical engineering from Lund University. After completing his studies, Paul started his professional career at ABB and currently is partner at Litorina Capital Advisors AB which is an advisory firm to Litorina IV L.P. Paul has experience in senior roles in finance and in sales.

Appendix

Income statement, SEKmn	2019A	2020A	2021E	2022E	2023E
Net revenue	422.4	561.8	714.8	886.6	1 063.9
Other operating income	2.8	2.1	1.5	1.5	1.5
Revenue	425.3	564.0	716.3	888.2	1 065.5
COGS	(172.1)	(217.0)	(255.4)	(310.5)	(365.1)
Gross profit	253.2	346.9	460.9	577.7	700.4
Gross margin	59.9%	61.7%	64.5%	65.2%	65.8%
Other external costs	(148.5)	(188.5)	(255.2)	(322.9)	(395.2)
Personel costs	(47.9)	(47.6)	(66.4)	(80.7)	(94.9)
Profit from sale of shares in subsidiaries	-	2.4	-	-	-
Other operating expenses	(1.8)	(1.3)	(2.4)	(3.1)	(3.8)
EBITDA	55.1	111.9	136.8	170.8	206.3
EBITDA-margin	13.0%	19.9%	19.1%	19.3%	19.4%
Depreciation & Amortization	(8.2)	(7.8)	(8.8)	(9.7)	(11.6)
EBIT	46.9	104.1	127.9	161.1	194.7
EBIT-margin	11.0%	18.5%	17.9%	18.2%	18.3%
Interest income	0.82	0.02	-	-	-
Interest expenses	(4.3)	(3.5)	(1.0)	(9.1)	(10.8)
EBT	42.7	100.5	126.9	152.0	183.8
EBT-margin	10.0%	17.8%	17.8%	17.2%	17.3%
Tax expense	(8.9)	(20.6)	(26.1)	(31.3)	(37.8)
Net income	33.7	79.9	100.8	120.7	145.9
Net income margin	7.9%	14.2%	14.1%	13.6%	13.7%

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Other

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