

Hyperion Asset Management

Company Profile Kogan.com Ltd.

Main Business Activities

Ruslan Kogan started Kogan.com Ltd. (Kogan) in 2006 from his parent's garage with the intention of offering consumers price leading consumer electronics by sourcing products from international manufacturers and selling goods online.

Kogan launched its online store with two LCD televisions and has since expanded its consumer electronics range and added general merchandise categories to its product offering. Kogan's product divisions include:

- Private Label, with over 20 private label brands across electronics and general merchandise categories, including baby and toddler products, fitness and sport, homeware, hardware, and more (Source: Macquarie and Credit Suisse, 2020); and
- Third-Party Brands which are third-party products from top brands such as Microsoft, Breville, Lego, Fisher-Price, Paw Patrol, Gillette, etc. that are either sourced domestically or internationally.

Kogan also recently launched its Marketplace platform and through this, has seen over 100,000 branded-product stock keeping units (SKU) added to Kogan.com. Furthermore, Kogan has entered into a number of strategic partnerships to launch its vertical services offerings to leverage its growing active customer base. These verticals include Mobile, Internet, Insurance, Travel, Money, Home Loans, Super and Energy.

Kogan also acquired Dick Smith and Matt Blatt when these businesses were struggling and transformed them into online-only platforms. This expanded Kogan active customers to those that were familiar with these brands and also enabled them to enter a new category in Furniture and Homewares.

Key Value Proposition to Customers

Kogan provides customers with a wide range of options with over 10 million products, usually priced lower than competitors, including well known brands and private labelled brands. This is combined with Kogan Essentials such as mobile phone plans, internet, insurance, credit cards, and more.

Kogan has also launched its 'First' product for \$99 per year (currently discounted to \$49 until 08/07/21), or \$11.99 per 30 days (currently discounted to \$5.99 until 08/07/21) which provides customers with free delivery on thousands of eligible products, upgrades to express shipping at no extra cost on free shipping items, priority customer service, and access to exclusive member-only deals (eg. earn up to \$120 Kogan.com credit by signing up to Kogan Essentials Services, which include verticals such as internet, mobile etc) and discounts (eg. further 5% off Pantry and Beverage products).

Kogan aims to be the price leader in Australian Retail, whether it be its own private label products which are generally the cheapest on the market, or providing well know brands at low prices.

Sustainable Competitive Advantages and Outlook

Kogan has a growing network effect as more customers are attracted to a larger product range and more suppliers are attracted to more customers. This has significantly increased throughout the COVID-19 pandemic which has been a positive catalyst for Kogan, contributing to the growth of its active customer base to over 2 million, further strengthening Kogan's competitive advantage.

Furthermore, Kogan has the best and largest range of Private Label products relative to its competitors. These are generally always the lowest cost products in their categories and have solid consumer ratings. As Private Label categories continue to grow and become more recognised, they will attract even more customers to strengthen the network effect and in turn increase the sustainability of Kogan's competitive advantage.

Overall Company Growth Options

Hyperion believe the growth for Kogan will be driven by:

- The continued structural shift to online shopping, which has been sped up from the pull-forward of new customers being forcefully exposed to online shopping due to COVID-19 lockdowns;
- Expanding the number of products it sells on its Marketplace as it reaches equivalent levels of competitors. While Marketplace will likely cannibalise some Third-Party sales, well-known brand names will transition to the Marketplace platform as other Australian marketplaces currently have strong brand representation in their range. Additionally, Marketplace provides Kogan with the opportunity to expand their range without taking on significant inventory risk;
- Growing its Private Label offering and continuing to be price leaders in these categories;
- Expanding into new categories as it has done in Furniture and Homewares with the acquisition of Matt Blatt. Furthermore, expanding its Fashion and Footwear business which are currently underpenetrated; and
- Further leveraging its large customer base by increasing verticals penetration.

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