

NELLY

Profitability from Q2e

Nelly reported Q4 sales 1% above our forecast but EBIT SEK2m below. However, we are more optimistic about the sales growth and EBIT margin trend following upbeat management comments on the near-term outlook. As a result, we have raised our fair value to SEK35–45/share (SEK30–40).

Q4 results. Sales of SEK407m (1.2% above our forecast of SEK402m) were driven by 9% growth in the core Nordic operations, in part due to more customers. Gross profit of SEK177m (1% below our forecast of SEK179m) was affected by cost inflation and supply-chain disruptions. Nelly reported a gross margin of 43.4% (versus our forecast of 44.4%), a 70bp improvement versus 42.7% in Q4 2020. EBIT was SEK-3m (below our forecast of SEK-1m), with an EBIT margin of -0.8% (versus our -0.3%), versus 0.1% in Q4 2020. The miss was driven by more meaningful cost savings from investments in the automated warehouse coming through slightly later than we expected (guidance of SEK35m annually, with a full run rate in 2022), a lower gross margin due to higher return rates and lower sales of own brands, and higher personnel and IT costs.

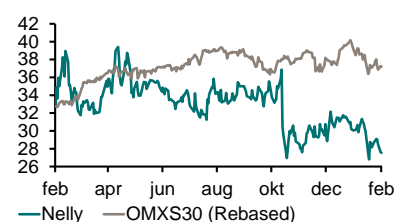
Key takeaways. We find it encouraging that management believes the warehouse cost savings (SEK35m targeted) and efficiency improvements should take full effect in the next few quarters – successful execution will be key to regaining profitability in combination with topline recovery, especially within the party-fashion segment. The strong growth in the core Nordic operations in Q4 was driven by robust demand for everyday fashion and sales of party fashion, which grew YOY but were still significantly lower than before the pandemic. Given the easing of restrictions in Sweden from 9 February, management expects a continued recovery in partywear and continued growth in everyday-wear, which should be key for sales growth, in our view. Q4 was the second consecutive quarter with increasing customer numbers, driven by new channel initiatives, while the upcoming initiatives, such as the new website, should boost customer growth near-term, in our view.

Fair value raised to SEK35–45/share based on a c38–50% discount to 2022–2024e peer multiples, and a DCF. Nelly is currently trading at a 2022e EV/sales 0.5x–0.6x.

Year-end Dec	2018	2019	2020	2021	2022e	2023e	2024e
Revenue (SEKm)	1,385	1,452	1,394	1,428	1,521	1,617	1,703
EBIT adj (SEKm)	-6	-62	-46	-39	24	50	68
PTP (SEKm)	-20	-73	-48	-47	16	43	61
EPS rep (SEK)	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
EPS adj (SEK)	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	14.0	4.9	-4.0	2.5	6.5	6.3	5.3
EBIT growth adj (%)	nm	nm	nm	nm	nm	106.0	35.9
EPS growth adj (%)	nm	nm	nm	nm	nm	160.9	35.8
EBIT margin adj (%)	-0.5	-4.2	-3.3	-2.7	1.6	3.1	4.0
EV/Sales adj (x)	0.83	1.48	0.31	0.36	0.27	0.21	0.16
EV/EBIT adj (x)	nm	nm	nm	nm	16.7	6.9	4.1
P/E adj (x)	nm	nm	nm	nm	30.3	11.6	8.6
Net debt/EBITDA (x)	77.5	-76.0	8.0	16.4	-1.4	-1.6	-2.2
ROE (%)	nm	nm	nm	nm	7.7	17.8	23.4
ROCE (%)	nm	nm	nm	nm	5.1	9.9	12.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	7.8	4.2	3.3	6.6	13.3	39.9

Source: Company (historical figures), DNB Markets (estimates)

NELLY versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK)	27.5
Tickers	NELLY SS

CAPITAL STRUCTURE

No. of shares (m)	18.0
No. of shares fully dil. (m)	18.0
Market cap. (SEKm)	496
NIBD adj end-2022e (SEKm)	-89
Enterprise value adj (SEKm)	407
Net debt/EBITDA adj (x)	-1.38
Free float (%)	63

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q1 2022 Results	28/04/2022
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ESTIMATE CHANGES (SEK)

Year-end Dec	2022e	2023e	2024e
Sales (old)	1,487	1,547	
Sales (new)	1,521	1,617	1,703
Change (%)	2.3	4.5	nm
Consensus	1,520	1,609	1,610
EPS (old)	0.60	2.31	
EPS (new)	0.91	2.37	3.22
Change (%)	50.1	2.7	nm
Consensus	1.78	2.64	3.64

Source: DNB Markets, Infront

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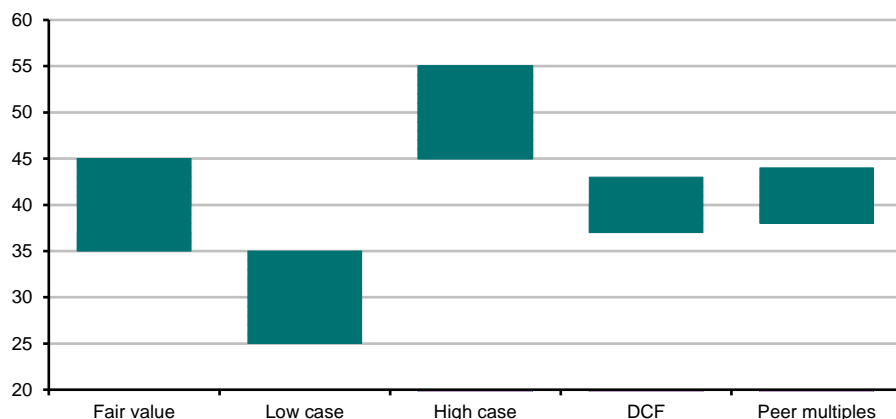
ANALYSTS

Ebba Bjorklid

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Overview

Valuation (SEK/share)



Source: DNB Markets

Valuation methodology

- Our fair value of SEK35–45/share is based on peer multiples and a DCF. On our estimates, the stock is trading at a 2022e EV/Sales of 0.5x–0.6x.
- Our high-case fair value of SEK45–55/share assumes a 2022–2024 sales CAGR of 6%+ and an EBIT margin of 4.0%+.
- Our low-case fair value of SEK25–35/share assumes <5.5% sales growth over 2022–2024, and an EBIT margin below 4.0%.

Source: DNB Markets

Downside risks to our fair value

- Rapid structural decline in end-market demand from a lower customer retention rate than expected in the online channel post-pandemic.
- Slower Nordic GDP growth than expected due to the pandemic.
- Slower customer uptake following the brand relaunch weighing on Nelly's financial performance.

Source: DNB Markets

DNB Markets estimates

■ The market widely expects Nelly to be loss-making in 2021, and near-term we expect the valuation to be driven by: 1) a return to profitability in 2022e; 2) accelerating top-line momentum; and 3) the success of the ongoing relaunch. We forecast a 2022–2024 sales CAGR of 5.8% and a 240bp EBIT margin gain. We also expect a meaningful improvement in Nelly's financial performance based on the relaunch and easing of pandemic-related headwinds.

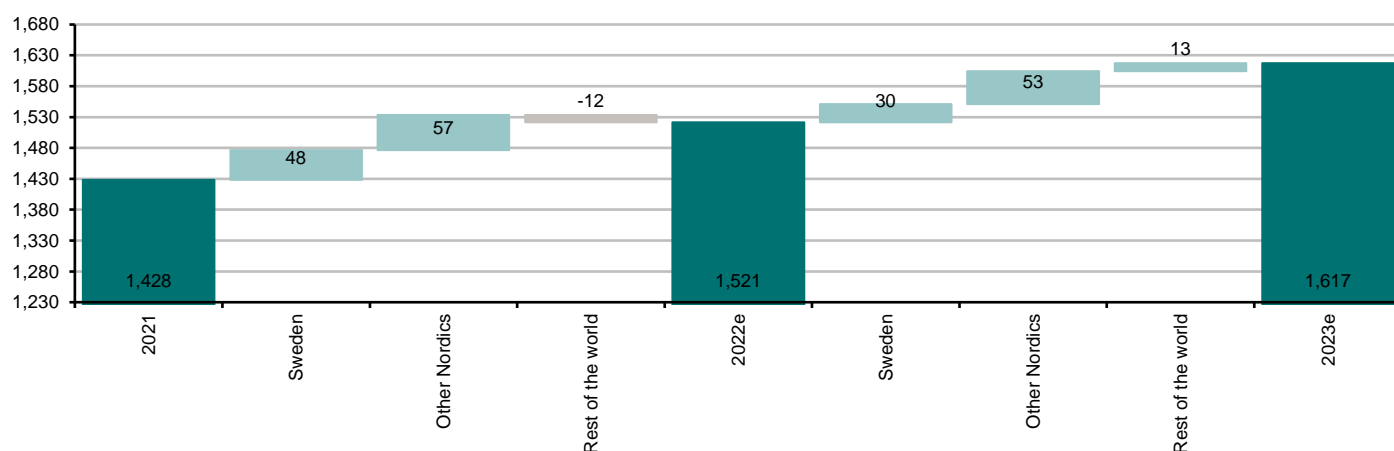
Source: DNB Markets

Upside risks to our fair value

- Faster top-line growth than we expect, driven by stronger demand and/or a more meaningful relaunch.
- Faster increase in profitability than we forecast, supported by the mix shift, strong end-market demand, and better profitability enhancements than expected from the new automated warehouse.
- Bigger step-up in large-scale investments than expected.

Source: DNB Markets

Revenues bridge 2021–2023e (SEKm)



Source: DNB Markets (forecasts), company (historical data)

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> ■ Nelly has a comprehensive sustainability strategy to improve its carbon footprint and encourage suppliers in the supply chain to follow suit. ■ Nelly implemented a new sustainability strategy in 2020 that has three focus areas: the planet; products; and people. 	<ul style="list-style-type: none"> ■ Nelly currently has limited insight into the full supply chain of external brands, which represent over 50% of sales. ■ The clothing industry has a multi-faceted carbon footprint. ■ Clothing represents 2–10% of carbon emissions in the EU. Per capita, clothing purchases in the EU have increased by 40% in just a few decades (European Parliamentary Research Service).
Actions being taken by company	<ul style="list-style-type: none"> ■ The company has aligned its business with six of the UN's SDGs: 3 (good health and wellbeing), 5 (gender equality), 8 (decent work and economic growth) 12 (responsible consumption and production), 13 (climate action), and 17 (partnership for the goals). ■ Nelly's work to broaden its product mix, cutting the share of women's occasionwear, has reduced return rates, in turn reducing the company's carbon emissions. 	<ul style="list-style-type: none"> ■ The fashion industry faces major challenges with working conditions in garment production; for many textile workers in Asia, the EU has qualified their working conditions as slave labour. Nelly has limited insight into the entire supply chain. ■ Textile manufacturing requires significant amounts of water – up to 200 tons for one ton of dyed fabric, and up to 20,000 litres to produce 1kg of cotton.

Key ESG drivers

Short-term

- By end-2021, Nelly increased the proportion of sustainable materials in its range to 20% (18% in Q2 2021).
- Nelly is aiming for 100% of packaging materials in customer orders to be recycled, reusable or compostable by 2022, (roughly 61% of e-commerce boxes and bags sent to customers were made of recycled material in 2020).
- Nelly is continuously working to enhance its knowledge of diversity, gender equality, ensuring there is no discrimination, as well as focusing on safety at work and psychological issues. 60% of its board and 50% of its management team are women, and 62% of employees.
- Risk of reputational damage from partners failing to deliver on ESG factors, potentially limiting its product offering.
- Potential serious incidents (e.g. in the supply chain or directly related to Nelly's production) that could harm the company's reputation, workers or its sustainability profile.
- Risk of missing its own sustainability goal deadlines (e.g. become climate-neutral by 2023).

Long-term

- Nelly is targeting to be climate-neutral (Scope 1 & 2 emissions) by 2023 (it cut Scope 1 & 2 emissions by 47% YOY in 2020), and to halve 3 emissions by 2023.
- It is targeting 50% of textile products in its assortment being made of more sustainable materials by 2025 (18% in Q2 2021).
- We see a risk of increased costs from new sustainability regulations or taxes in its markets given Nelly's lack of sustainability measures along the value chain.
- Risk of Nelly failing to keep up with growing consumer ESG demands.

Summary of positives

Expecting relaunch to improve financial performance and positioning

In 2020 the group embarked on a relaunch of Nelly, focusing on: 1) a new operating platform to support future growth; 2) a new, cost-efficient, data-driven and customer-centric organisation based in Borås (Sweden); and 3) streamlined, more targeted brand positioning. Along with expanded product categories we believe these are prerequisites to helping the company to the next step in its journey to creating more value for the customer. The relaunch is ongoing, but ultimately we expect it to improve Nelly's financial performance and market positioning.

Three core pillars to relaunch

Strong profitability momentum; we expect a return to profitability in 2022

We expect Nelly to be profitable in 2022, and the adj. EBIT margin to go from -2.6% in 2021 to 3.2% in 2023, improving further thereafter, underpinned by the new automated warehouse (itself driving SEK35m savings with the full effect in 2022, according to management), an improving top line, a higher share of own-brand sales and more full-price sales.

Management's key financial focus is returning to profitability

Improving growth trajectory

Near-term we expect strong underlying market growth, driven by the steady migration to online – c25–30% of the total market for Nelly's product categories is online today, but longer-term, we believe the online contribution looks set to approach 50%+. We expect sales growth to be supported by its broader offering post-pandemic, new customer intake and increased penetration of the target customer group.

We expect the steady migration to online to continue – tying in with Nelly's ongoing refocusing efforts

However, we see the strongest driver of growth from increased frequency of shopping online generally and at Nelly in particular (according to Nelly its most profitable and key target customers shop online an average of ~18 times a year – but only 2–3 times a year with Nelly). We expect Nelly to increase the frequency of purchases over time based on: the underlying market channel shift to online; an increased number of orders; its expanded offering and wider assortment; more full price sales; and improved relative relevance to customers through brand enhancements.

Increased frequency of online shopping set to underpin growth

Improving sustainability profile

In light of the growing importance of sustainability and ESG alignment to consumers and other stakeholders, Nelly is stepping up sustainability efforts to improve its environmental credentials and competitiveness. We believe the pandemic has served as a platform to strengthen sustainability commitments and accelerate industry-wide changes, such as reduced seasonality of offerings and scaling of circular business models. We also believe a strong sustainability profile will be key for relative outperformance.

We believe 'green' credentials will become of even greater relevance to shoppers and investors alike

Summary of negatives

Discrete and outdated websites reduce scale benefits and hamper improvements in sales and profitability

Nelly's business and online platform comprises two totally separate brands/websites – Nelly.com (we estimate c91% of 2021 sales) and NLYman.com (we estimate c9% of 2021 sales). While in terms of branding this might be beneficial, financially we see several negatives, namely reducing cross-selling and growth opportunities, particularly at NLYman.com, limiting potential scale benefits, capping AOV growth potential versus a combined platform, and could leave Nelly trailing peers.

More cons than pros in having totally separate brands/platforms

Narrowly focused portfolio and customer base leaves Nelly increases financial risks

We believe focusing solely on getting back to profitability is the right path for Nelly at this stage, even at the expense of peers pulling farther ahead in terms of geographical exposure, customer base and product category expansion and diversification. However, we see increased financial risk from its narrow customer group, product categories and geographical focus versus peers, demonstrated during the pandemic when Nelly materially underperformed the online fashion retail market (2.5% sales growth in 2021, while the market grew by 14%), and we expect it to continue to underperform the market, even with a return to profitability in 2022e.

On the right course...

Relative growth and profitability underperformance expected versus key peers (but largely priced in)

Even though we expect a return to sales growth in 2021, and an acceleration from 2022, given Nelly is prioritising a return to profitability over growth (unlike peers Boozt and Lyko) and its target customer market (girls/women aged 15 to 25) already shop online more than other age groups, we believe its peer group is on a higher growth trajectory. In addition, we expect European markets outside the Nordics to outperform the Nordics. Finally, we believe peers will remain ahead on EBIT margins.

...but even with a return to profitability in its sights, Nelly is unlikely to keep up with peers

However, we believe these fundamentals are already priced in, with Nelly trading at a 48% discount on 12-month forward P/E to its peer group.

Relaunch and reliance on influencers increase financial risk

We believe Nelly is exposed to higher financial risk (both on the upside and downside) than peers both from its ongoing rebranding and its marketing strategy. Given its target audience of fashion-conscious 15–25 year-old girls and women, the company actively uses high-profile influencers to help drive customer traffic and sales in its marketing campaigns, all of which are entirely online. It works closely with those influencers to build the brand and engage with its customer base, but we see a risk here with Nelly being so closely associated with specific influencer brands, particularly as social media is so fluid and the group has no control over the popularity of influencers, as well as the possibility of influencers withdrawing from a collaboration.

Business decision to use high-profile influencers brings risks – on both sides of the coin

Some investors we have spoken to see heightened integration and organisational risks short-term post the move to Borås given the many moving organisational parts, with a large number of new employees, new teams, functions and organisational structures. Fundamentally, they see these increasing Nelly's financial risk near-term, as they wait to see how the relaunch pans out.

Company overview

Company history

Since its launch in 2004, Nelly has expanded its offering from purely underwear and swimwear to focusing on partywear, and now also accessories (including beauty products) and everyday wear (including sportswear).

Establishment of Nelly.com

In 2007, Qliro Group acquired Nelly, which was followed by rapid expansion and a broadening of the product offering to clothing and accessories. In 2008, the first in-house brands, 'NLY Trend' and 'NLY Shoes' were launched (and are still offered today).

Expansion to new markets

Nelly expanded outside the Nordics in 2010 with pilot launches in the Netherlands and Germany, followed by a roll-out to other countries in Europe in the following years, including Austria, the UK, France, Belgium and Poland. However, in 2012 the decision was made to shift focus back to the Nordics, and it wound down all its other operations, before entering a partnership with Zalando in 2018 to sell its products elsewhere in Europe in a more cost-efficient way.

Expansion outside the Nordics on its own platform proved short-lived

Launch of NLY Man as a separate store

In 2014, menswear was separated from Nelly and relaunched on its own platform, NLYman.com.

Group split

In 2018, Qliro group announced its plans to split the group consisting of Qliro, CDON and Nelly into three separate companies, which was completed in H2 2020; CDON and Qliro were listed on First North and Nasdaq Stockholm, respectively. Still part of the Qliro group, the business was renamed Nelly Group and got a new CEO (Kristina Lukes) and CFO (John Afzelius). Nelly Group AB is the same listed company as Qliro Group AB, previously the parent of Nelly. After a share dividend (shares in CDON and Qliro) was given to Qliro shareholders in Q3 and Q4 2020 the name was changed from Qliro Group AB to Nelly Group AB.

Relaunch of Nelly

In 2020, Nelly relaunched its brand to strengthen its core business in the Nordics and to lay the foundations for its next growth phase, including initiatives to improve profitability and efficiency.

In 2021, major organisational changes were implemented. For example, the automated warehouse was established.

Figure 1: Nelly – key events

Date	Event
2004	Nelly established
2007	Acquired by Qliro Group
2008	Nelly launches its first own brands: 'Nelly Trend' and 'Nelly Shoes'
2010	Expands outside the Nordics
2014	Menswear separated from Nelly and relaunched as NLYman.com
2018	Enters partnership with Zalando
2019	Takes the decision to focus solely on the Nordics and exit its other markets
2020	Qliro group split and renamed Nelly Group
	Nelly relaunch
2021	Major organisational changes (e.g., automated warehouse established)

Source: Company

Business overview

Operating in the Nordic online fashion sector, Nelly's offering comprises clothing, accessories, (including beauty products and sportswear). With operations and marketing entirely online, it connects with customers through social media, using high-profile influencers to promote the brand. However, while it will continue to focus on developing its own brand, third-party products remain a key revenue stream (42% of 2020 sales came from its own brands).

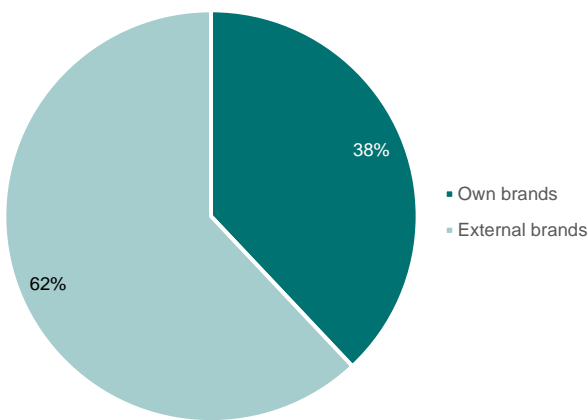
Portfolio overview

Partywear remains Nelly’s core offering, but the pandemic forced it to diversify as shopping habits changed drastically with lockdowns, and Nelly saw sales of partywear halve in 2020. By contrast, sales of everyday wear grew, and according to management will be a strong future focus, as will accessories, leveraging on its knowledge of the partywear segment. In 2021, we estimate that sales of party fashion grew YOY, but were still significantly lower than before the pandemic.

Management is looking to leverage on its knowledge in partywear in its expansion

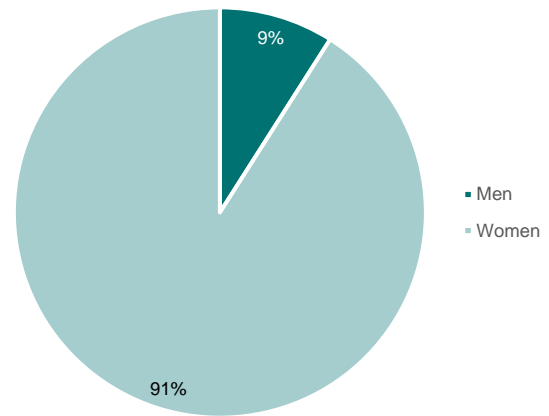
The core pillar of Nelly’s business is selling its own brand to Nordic customers through its own channel. Out of Nelly’s total sales, 38% were own-brand in 2021, and overall less than 10% from NLYman.com. Under its partnership with Zalando, Nelly offers own-brand products, which made up less than 10% of group sales in 2020.

Figure 2: Nelly – own brand and third-party brand split of net sales (2021)



Source: Company (underlying data), DNB Markets (graph structuring)

Figure 3: Nelly – estimated womenswear and menswear sales split (2021)



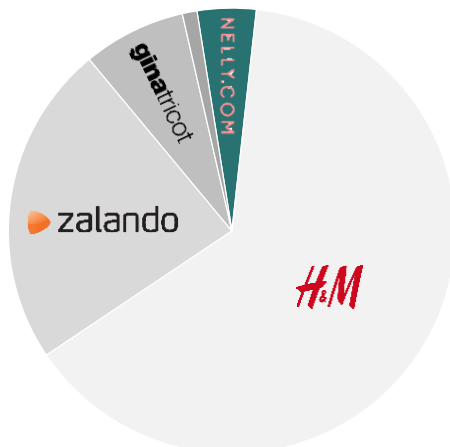
Source: DNB Markets (estimates)

Customer overview

Nelly’s brand is targeted at fashion-conscious girls/women aged 15–25, and aims to be on-trend, marketing solely through social media. Central to its marketing strategy is collaborating with social media influencers to connect with its customers. According to Nelly, its most profitable and key target customers are typically very fashion-conscious and shop online an average of ~18 times a year – but only 2–3 times a year with Nelly. According to data from Meniga NEPA, Nelly ranks higher on brand awareness than its actual market share.

According to Nelly, its most profitable and key target customers typically shop online an average of ~18 times a year – but only order 2–3 times a year from its website

Figure 4: Sweden – market shares (April 2021, rolling-12-month)



Source: Meniga card data Sweden (April 2021, rolling 12-month)

Figure 5: Nelly – brand awareness (Sweden, April 2021)

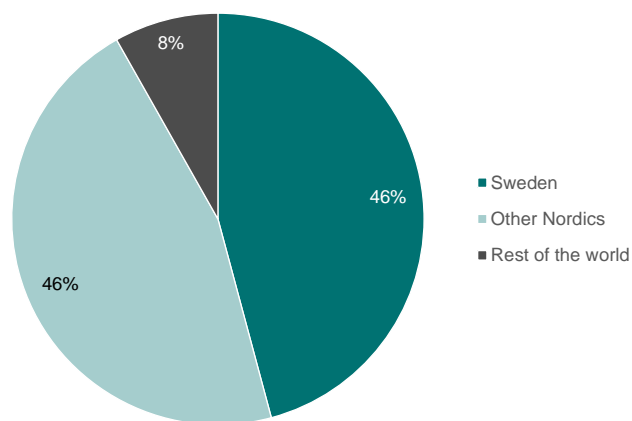


Source: Meniga NEPA consumer tracking (April 2021, Sweden)

Operations

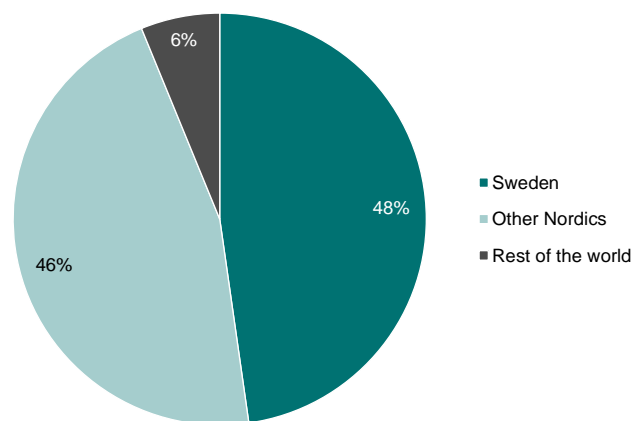
After launching in countries outside the Nordics in 2010, but subsequently signing the deal with Zalando in 2018, Nelly took the decision in late-2019 to focus solely on its Nordic markets. The website is however still available for other European countries such as Germany, the Netherlands, Austria, Belgium, France, the UK and Poland, as well as countries outside Europe. As part of that, its website now has five language options (English, Swedish, Norwegian, Danish and Finnish). In 2021, Sweden represented 48% of total net sales, other Nordic countries 46% and the rest of the world 6%.

Figure 6: Nelly – net sales geographical breakdown (2020)



Source: Company (underlying data), DNB Markets (graph structuring)

Figure 7: Nelly – net sales geographical breakdown (2021)



Source: Company (underlying data), DNB Markets (graph structuring)

Strategy

Among management's key focus areas are the relaunch of Nelly, customer commitment, the core geographical market, and logistics/efficiency improvements from the new automated warehouse.

Relaunch of the Nelly brand

In 2020, management embarked on a relaunch of Nelly, specifically in terms of the product mix. While management has said partywear will remain Nelly's core offering, it will also increase focus on everyday-wear (including sportswear). According to Nelly, its most profitable and key target customers shop online an average of ~18 times a year – but only 2–3 times a year with Nelly. By expanding into more product categories, it is aiming to increase its share of the customer wallet.

Looking to capture a larger share of the customer wallet

Customer commitment

Nelly has 1.3m followers and a 96% completion rate on Instagram, with 19% of its target group visiting its website on a weekly basis. Management believes strong engagement with its customers allows Nelly to influence their fashion decisions and trends, and to push new purchases and thereby increase sales.

Social media is a key strategic pillar

Focus on core geographical market

Having signed the deal with Zalando in 2018, Nelly took the decision in late-2019 to focus solely on its Nordic markets, the rationale being relationship-building, narrowing its target group and strengthening its customer relevance/loyalty.

Improve logistics

To increase logistical and operational efficiency, Nelly also took the decision to build an automated warehouse in Borås (Sweden), which was fully operational in Q3 2021. The location was chosen to streamline distribution, with access to more transport options and therefore scope to offer faster deliveries. The old warehouse was decommissioned on 30 September 2021. Management estimates the new warehouse will generate annual cost savings of SEK35m, with full effect from 2022 (some savings materialised in Q4 2021), broadly reflecting personnel reductions (down from 150 to ~70) in the warehouse, improved logistics and operating efficiency gains. Extrapolating the 2022 targeted savings would equate to a c250bp improvement in the 2020 EBIT margin.

9 February 2022

Forecast changes – P&L

(SEKm)	New			Old			Change		
	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Revenues	1,521	1,617	1,703	1,487	1,547		34	70	
Cost of sales	-799	-838	-875	-814	-840		15	2	
Gross profit	723	779	828	674	707		49	72	
Operating expenses	-698	-729	-759	-655	-657		-43	-72	
EBITDA	65	93	113	64	96		1	-3	
EBITDA adj	65	93	113	64	96		1	-3	
EBITDA margin (%)	4.3	5.8	6.7	4.3	6.2	nm	0.0	-0.5	nm
Depreciation	-40	-43	-45	-45	-46		4	4	
Impairment of PPE	0	0	0	0	0		0	0	
EBITA	24	50	68	19	50		5	1	
Amortisation	0	0	0	0	0		0	0	
Impairment of intangibles	0	0	0	0	0		0	0	
EBIT	24	50	68	19	50		5	1	
EBIT adj	24	50	68	19	50		5	1	
Net interest	-8	-8	-7	-8	-8		0	1	
Net financial items	-8	-8	-7	-8	-8		0	1	
PBT	16	43	61	11	42		5	1	
Taxes	0	0	0	0	0		0	0	
Minorities	0	0	0	0	0		0	0	
Discontinued operations	0	0	0	0	0		0	0	
Net profit	16	43	61	11	42		5	1	
Adjustments to net profit	0	0	0	0	0		0	0	
Net profit adj	16	43	61	11	42		5	1	
<i>Per share data (SEK)</i>									
EPS	0.91	2.37	3.22	0.60	2.31		0.30	0.06	
EPS adj	0.91	2.37	3.22	0.60	2.31		0.30	0.06	
DPS	0.00	0.00	0.00	0.00	0.00		0.00	0.00	
<i>Other key metrics (%)</i>									
Revenue growth	6.5	6.3	5.3	4.5	4.0	nm	2.0	2.3	nm
EBIT adj growth	nm	106.0	35.9	-151.7	162.1	nm	nm	-56.1	nm
EPS adj growth	nm	160.9	35.8	-125.6	281.2	nm	nm	-120.3	nm
Avg. number of shares (m)	18	18	19	18	18		0	0	
Capex	-10	-10	-9	-10	-10		0	0	
OpFCF	55	83	104	54	86		1	-3	
Working capital	47	57	-153	94	97		-47	-40	
NIBD adj	-89	-150	-246	-64	-108		-25	-42	

Source: DNB Markets

9 February 2022

Quarterly numbers

(SEKm)	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022e	Q2 2022e	Q3 2022e	Q4 2022e
Revenues	306	394	312	397	313	407	309	436	331	445
Cost of sales	-162	-226	-176	-214	-169	-231	-170	-221	-165	-243
Gross profit	144	168	136	182	143	177	139	216	166	202
Operating expenses	-145	-168	-151	-175	-171	-180	-156	-191	-164	-188
EBITDA	6	8	-8	14	-17	7	0	0	0	25
Depreciation	-7	-8	-8	-7	-10	-11	0	0	0	-10
EBITA	-1	0	-15	7	-27	-3	0	0	0	15
EBIT	-1	0	-15	7	-27	-3	0	0	0	15
Net interest	1	0	-2	1	-2	-5	0	0	0	-2
Net financial items	1	0	-2	1	-2	-5	0	0	0	-2
PBT	0	0	-17	8	-30	-8	0	0	0	13
Taxes	-3	-10	0	0	0	-1	-2	-2	-2	0
Net profit	126	504	-18	8	-29	-8	-19	22	1	13
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0
Net profit adj	126	504	-18	8	-29	-8	-19	22	1	13
<i>Per share data (SEK)</i>										
<i>Growth and margins (%)</i>										
Revenues, QOQ growth	-21.8	28.6	-20.8	27.2	-21.2	30.3	-24.2	41.4	-24.1	34.2
Revenues, YOY growth	-7.2	-1.4	3.0	1.4	2.1	3.4	-1.0	10.0	6.0	9.2
EPS adj, YOY growth	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Gross margin	47.1	42.7	43.7	46.0	45.9	43.4	44.9	49.4	50.2	45.4
EBITDA adj margin	2.1	2.0	nm	3.5	nm	1.8	0.0	0.0	0.0	5.5
Depreciation/revenues	-2.3	-1.9	-2.4	-1.8	-3.2	-2.6	0.0	0.0	0.0	-2.2
EBIT adj margin	-0.2	0.1	-4.8	1.8	-8.7	-0.8	0.0	0.0	0.0	3.3
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to quarterly numbers

(SEKm)	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022e	Q2 2022e	Q3 2022e	Q4 2022e
EBITDA	6	8	-8	14	-17	7	0	0	0	25
EBITDA adj	6	8	-8	14	-17	7	0	0	0	25
EBITA	-1	0	-15	7	-27	-3	0	0	0	15
EBITA adj	-1	0	-15	7	-27	-3	0	0	0	15
EBIT	-1	0	-15	7	-27	-3	0	0	0	15
EBIT adj	-1	0	-15	7	-27	-3	0	0	0	15
Net profit	126	504	-18	8	-29	-8	-19	22	1	13
Net profit adj	126	504	-18	8	-29	-8	-19	22	1	13

Source: Company (historical figures), DNB Markets (estimates)

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Annual P&L

(SEKm)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Revenues	1,083	1,215	1,385	1,452	1,394	1,428	1,521	1,617	1,703
Cost of sales	-820	-822	-1,015	-768	-782	-790	-799	-838	-875
Gross profit	263	393	369	685	612	639	723	779	828
Operating expenses	-270	-315	-354	-746	-658	-677	-698	-729	-759
EBITDA	-7	78	15	-25	-18	-4	65	93	113
Depreciation	-20	-15	-21	-37	-28	-35	-40	-43	-45
Impairment of PPE	0	0	0	0	0	0	0	0	0
EBITA	-27	63	-6	-62	-46	-39	24	50	68
Amortisation	0	0	0	0	0	0	0	0	0
Impairment of intangibles	0	0	0	0	0	0	0	0	0
EBIT	-27	63	-6	-62	-46	-39	24	50	68
Net interest	-69	33	-20	-11	-2	-9	-8	-8	-7
Net financial items	-69	33	-20	-11	-2	-9	-8	-8	-7
PBT	-69	33	-20	-73	-48	-47	16	43	61
Taxes	12	-12	3	-14	-24	-1	0	0	0
Effective tax rate (%)	18	35	13	-19	-50	-1	0	0	0
Minorities	0	0	0	0	0	0	0	0	0
Discontinued operations	0	0	0	0	0	0	0	0	0
Net profit	-57	22	-17	-110	-71	-48	16	43	61
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	-57	22	-17	-110	-71	-48	16	43	61
Dividend paid	0	0	0	0	0	0	0	0	0
Avg. number of shares				15	16	18	18	18	19
<i>Per share data (SEK)</i>									
EPS	0.00	0.00	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
EPS adj	0.00	0.00	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Growth and margins (%)</i>									
Revenue growth	nm	12.1	14.0	4.9	-4.0	2.5	6.5	6.3	5.3
EPS adj growth	nm	nm	nm	nm	nm	nm	nm	160.9	35.8
Gross margin	24.3	32.3	26.7	47.1	43.9	44.7	47.5	48.2	48.6
EBITDA margin	nm	6.4	1.1	nm	nm	nm	4.3	5.8	6.7
EBITDA adj margin	nm	6.4	1.1	nm	nm	nm	4.3	5.8	6.7
Depreciation/revenues	-1.8	-1.3	-1.5	-2.5	-2.0	-2.5	-2.7	-2.7	-2.7
EBIT margin	nm	5.2	nm	nm	nm	nm	1.6	3.1	4.0
EBIT adj margin	-2.4	5.2	-0.5	-4.2	-3.3	-2.7	1.6	3.1	4.0
PBT margin	nm	2.7	nm	nm	nm	nm	1.1	2.6	3.6
Net profit margin	nm	1.8	nm	nm	nm	nm	1.1	2.6	3.6

Source: Company (historical figures), DNB Markets (estimates)

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Adjustments to annual P&L

(SEKm)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
EBITDA	-7	78	15	-25	-18	-4	65	93	113
Other EBITDA adjustments	0	0	0	0	0	0	0	0	0
EBITDA adj	-7	78	15	-25	-18	-4	65	93	113
EBITA	-27	63	-6	-62	-46	-39	24	50	68
Other EBITA adjustments	0	0	0	0	0	0	0	0	0
Impairment of intangibles	0	0	0	0	0	0	0	0	0
EBITA adj	-27	63	-6	-62	-46	-39	24	50	68
EBIT	-27	63	-6	-62	-46	-39	24	50	68
Other EBIT adjustments	0	0	0	0	0	0	0	0	0
Impairment of intangibles	0	0	0	0	0	0	0	0	0
Amortisation, adjustments	0	0	0	0	0	0	0	0	0
EBIT adj	-27	63	-6	-62	-46	-39	24	50	68
Net profit	-57	22	-17	-110	-71	-48	16	43	61
Other EBIT adjustments	0	0	0	0	0	0	0	0	0
Impairment of intangibles	0	0	0	0	0	0	0	0	0
Amortisation, adjustments	0	0	0	0	0	0	0	0	0
Tax adjustments	0	0	0	0	0	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0	0
Net profit adj	-57	22	-17	-110	-71	-48	16	43	61
<i>Per share data (SEK)</i>									
EPS	0.00	0.00	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS adj	0.00	0.00	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22

Source: Company (historical figures), DNB Markets (estimates)

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Cash flow

(SEKm)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Net profit	-57	22	-17	-110	-71	-48	16	43	61
Depreciation and amortisation	20	15	21	37	28	35	40	43	45
Other non-cash adjustments	37	-37	-4	97	67	31	-14	-10	112
Change in net working capital	0	0	0	0	0	0	0	0	0
Cash flow from operations (CFO)	0	0	0	24	24	19	43	76	218
Capital expenditure	0	0	0	-3	0	0	-10	-10	-9
Acquisitions/Investments	0	0	0	-10	-6	-23	0	0	0
Divestments	0	0	0	0	0	0	0	0	0
Cash flow from investing (CFI)	0	0	0	-13	-6	-23	-10	-10	-9
Free cash flow (FCF)	0	0	0	11	18	-4	33	66	209
Net change in debt	0	0	0	-206	-50	-6	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0
Other	0	0	0	-155	-57	-23	0	0	0
Cash flow from financing (CFF)	0	0	0	-361	96	-29	0	0	0
Total cash flow (CFO+CFI+CFF)	0	0	0	-350	114	-33	33	66	209
<i>FCFF calculation</i>									
Free cash flow	0	0	0	11	18	-4	33	66	209
Less: net interest	69	-33	20	11	2	9	8	8	7
Less: tax shields/other	0	0	0	0	0	0	0	0	0
Less: acquisitions	0	0	0	10	6	23	0	0	0
Less: divestments	0	0	0	0	0	0	0	0	0
Free cash flow to the firm	69	-33	20	33	26	28	41	73	216
Growth (%)									
CFO	nm	nm	nm	nm	-0.4	-22.4	127.5	78.5	186.9
CFI	nm	nm	nm	nm	51.6	-269.4	56.3	0.0	10.0
FCF	nm	nm	nm	nm	57.0	-123.5	874.6	102.7	216.8
CFF	nm	nm	nm	nm	126.5	-130.5	100.0	nm	nm
FCFF	nm	-148.5	159.0	67.0	-22.2	7.4	47.4	81.2	193.9

Source: Company (historical figures), DNB Markets (estimates)

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Balance sheet

(SEKm)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Assets	2,546	3,244	3,440	4,010	655	900	915	934	815
Inventories	548	448	418	350	166	180	191	203	0
Trade receivables	91	61	55	78	47	0	0	0	0
Other receivables	27	142	82	41	15	54	57	61	64
Current financial assets	825	1,193	1,733	2,433	20	0	0	0	0
Cash and cash equivalents	435	625	692	554	230	198	230	296	296
Current assets	1,926	2,468	2,980	3,456	478	431	478	560	360
Property, plant and equipment	28	24	25	110	47	329	296	233	315
Goodwill	266	63	64	64	40	40	40	40	40
Other intangible assets	137	139	157	246	16	0	0	0	0
Other tangible assets	0	1	1	0	4	0	0	0	0
Investments in associates	0	0	25	0	0	6	6	6	6
Deferred tax assets	122	108	113	111	74	74	74	74	74
Pension assets	0	0	0	0	0	0	0	0	1
Non-current financial assets	67	76	76	24	-3	21	21	21	20
Non-current assets	620	410	460	554	177	469	437	374	455
Total assets	2,546	3,244	3,440	4,010	655	900	915	934	815
Equity and liabilities	2,546	3,244	3,440	4,010	655	900	915	934	815
Total equity to the parent	301	301	310	155	185		185	185	185
Minority interests	725	709	685	734	65		33	76	76
Total equity	1,026	1,010	995	889	250	204	218	261	261
Trade payables	549	486	360	316	144	144	144	146	153
Other payables and accruals	285	265	237	320	153	145	145	115	85
Short-term debt	668	739	1,138	2,039	90	140	141	146	50
Total current liabilities	1,502	1,489	1,736	2,675	386	429	430	406	288
Long-term debt	0	575	708	392	0	0	0	0	0
Deferred tax liabilities	12	1	0	0	0	0	0	0	0
Pension liabilities	0	0	0	0	0	0	0	0	0
Other non-current liabilities	6	169	2	54	19	266	266	266	266
Total non-current liabilities	18	745	710	447	19	266	266	266	266
Total liabilities	1,520	2,234	2,446	3,122	405	696	697	673	554
Total equity and liabilities	2,546	3,244	3,440	4,010	655	900	915	934	815
<i>Key metrics</i>									
Net interest bearing debt	232	689	1,155	1,877	-140	-57	-89	-150	-246
Invested capital	444	369	509	602	208	465	444	391	263

Source: Company (historical figures), DNB Markets (estimates)

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Valuation ratios

(SEKm)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
<i>Enterprise value</i>									
Share price (SEK)	22.85	47.82	24.25	18.44	35.37	31.60	27.55	27.55	27.55
Number of shares (m)	0.00	0.00	0.00	15.00	16.00	18.00	18.00	18.00	19.00
Market capitalisation	0	0	0	277	566	569	496	496	523
Net interest bearing debt	232	689	1,155	1,877	-140	-57	-89	-150	-246
Adjustments to NIBD	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	232	689	1,155	1,877	-140	-57	-89	-150	-246
EV	232	689	1,155	2,154	426	511	407	346	278
EV adj	232	689	1,155	2,154	426	511	407	346	278
<i>Valuation</i>									
EPS	0.00	0.00	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
EPS adj	0.00	0.00	0.00	-5.80	-4.44	-2.66	0.91	2.37	3.22
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P/E				-3.2	-8.0	-11.9	30.3	11.6	8.6
P/E adj				-3.2	-8.0	-11.9	30.3	11.6	8.6
P/B				0.31	2.26	2.78	2.27	1.90	2.01
Average ROE		2.1%	-1.7%	-11.7%	-12.5%	-21.0%	7.7%	17.8%	23.4%
Earnings yield adj				-31.5%	-12.6%	-8.4%	3.3%	8.6%	11.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/SALES	0.21	0.57	0.83	1.48	0.31	0.36	0.27	0.21	0.16
EV/SALES adj	0.21	0.57	0.83	1.48	0.31	0.36	0.27	0.21	0.16
EV/EBITDA	-33.2	8.8	77.5	-87.2	-24.2	-146.1	6.3	3.7	2.5
EV/EBITDA adj	-33.2	8.8	77.5	-87.2	-24.2	-146.1	6.3	3.7	2.5
EV/EBIT	-8.8	11.0	-180.4	-34.9	-9.3	-13.2	16.7	6.9	4.1
EV/EBIT adj	-8.8	11.0	-180.4	-34.9	-9.3	-13.2	16.7	6.9	4.1
EV/capital employed	0.2	0.4	0.7	1.6	1.6	1.1	0.8	0.7	0.5
EV/NOPLAT	-8.8	11.0	-180.4	-34.9	-9.3	-13.2	16.7	6.9	4.1
EV/OpFCF (taxed)	-33.2	8.8	77.5	-78.6	-24.0	-155.0	7.4	4.2	2.7

Source: Company (historical figures), DNB Markets (estimates)

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Key accounting ratios

	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
<i>Profitability (%)</i>									
ROA		0.8	-0.5	-3.0	-3.0	-6.1	1.8	4.6	7.0
ROCE		4.5	-0.4	-4.1	-5.7	-10.4	5.1	9.9	12.9
ROCE after tax		4.5	-0.4	-4.1	-5.7	-10.4	5.1	9.9	12.9
<i>Return on invested capital (%)</i>									
Net PPE/revenues	2.6	1.9	1.8	7.5	3.3	23.0	19.5	14.4	18.5
Working capital/revenues	8.2	1.9	8.2	7.7	5.0	2.5	3.1	3.5	-9.0
Revenues/invested capital (pre-GW)	244.1	328.8	272.0	241.3	671.9	307.2	342.7	413.2	648.2
Pre-tax ROIC (pre-goodwill)		25.8	-1.7	-12.6	-13.0	-13.0	5.9	13.3	23.7
Pre-tax ROIC (incl. goodwill)		15.4	-1.5	-11.1	-11.3	-11.5	5.4	12.0	20.8
After-tax ROIC (pre-goodwill)		25.8	-1.7	-12.6	-13.0	-13.0	5.9	13.3	23.7
After-tax ROIC (incl. goodwill)		15.4	-1.5	-11.1	-11.3	-11.5	5.4	12.0	20.8
<i>Cash flow ratios (%)</i>									
FCF/revenues	0.0	0.0	0.0	0.8	1.3	-0.3	2.1	4.1	12.3
FCF yield (%)	nm	nm	nm	7.8	4.2	3.3	6.6	13.3	39.9
CFO/revenues	0.0	0.0	0.0	1.7	1.7	1.3	2.8	4.7	12.8
CFO/market capitalisation				8.7	4.3	3.3	8.6	15.3	41.6
CFO/capex				896.3	24100.0	-9350.0	425.3	759.4	2420.9
CFO/current liabilities	0.0	0.0	0.0	0.9	6.2	4.4	9.9	18.7	75.7
Cash conversion ratio	0.0	0.0	0.0	-10.3	-25.2	8.8	199.1	154.7	341.8
Capex/revenues	0.0	0.0	0.0	0.2	0.0	0.0	0.7	0.6	0.5
Capex/depreciation	0.0	0.0	0.0	7.3	0.4	-0.6	24.8	23.3	19.9
OpFCF margin	-0.6	6.4	1.1	-1.9	-1.3	-0.2	3.6	5.1	6.1
Total payout ratio				0.0	0.0	0.0	0.0	0.0	0.0
<i>Leverage and solvency (x)</i>									
Cash coverage	-0.10	-2.33	0.76	-2.17	-11.00	-0.41	8.08	12.40	16.18
Net debt/EBITDA	-33.21	8.84	77.48	-76.00	7.97	16.40	-1.38	-1.62	-2.17
Total debt/total capital (BV)	0.26	0.41	0.54	0.61	0.14	0.16	0.15	0.16	0.06
LTD / (LTD + equity (MV))		1.00	1.00	0.59	0.00	0.00	0.00	0.00	0.00
<i>Cash conversion cycle</i>									
Inventory turnover days	243.8	198.8	150.4	166.2	77.6	83.0	87.4	88.5	0.0
Receivables turnover days	39.5	61.0	36.1	30.1	16.3	13.7	13.7	13.7	13.7
Credit period	244.5	215.6	129.5	150.4	67.1	66.7	65.9	63.6	63.8
Cash conversion cycle	38.9	44.2	57.0	45.9	26.8	30.0	35.1	38.6	-50.1

Source: Company (historical figures), DNB Markets (estimates)

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Important Information

Company: Nelly
 Coverage by Analyst: Ebba Bjorklid
 Date: 09-2-2022

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	Buy	Hold	Sell	No_rec	Total
Number	180	80	12	28	300
% of total	60%	27%	4%	9%	
DNB Markets client	28%	10%	1%	5%	132

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