

# ASOS Plc (LSE: ASC): Long

November 29, 2012

Strong brand, astronomical international growth

Katie Zettler

Share Price (11/29/2012)	\$39.18	52 Week Range (\$USD)	\$17.90 - \$40.94
Diluted Shares Outstanding (mm)	82	% of 52-Week High	96%
Market Capitalization (\$USD mm)	\$3,193		
Total Cash	44	Avg Daily Value (3 months)	18
Enterprise Value (\$USD mm)	\$3,148	as a % of Market Cap	1%

	2010	2011	2012	2013E	2014E	2015E	2016E
<b>FYE: Aug-31</b>							
Revenue	\$412	\$642	\$880	\$1,038	\$1,692	\$2,769	\$3,683
y/y growth		56%	37%	18%	63%	64%	33%
EBITDA	\$39	\$61	\$89	\$119	\$196	\$278	\$356
Margin		9%	10%	11%	12%	10%	10%
y/y growth		57%	47%	34%	64%	42%	28%
<b>EPS</b>	<b>\$0.35</b>	<b>\$0.17</b>	<b>\$0.57</b>	<b>\$0.90</b>	<b>\$1.45</b>	<b>\$1.98</b>	<b>\$2.74</b>
y/y growth		-51%	227%	58%	61%	37%	38%
<b>Consensus EPS</b>				<b>\$0.79</b>	<b>\$1.03</b>	<b>\$1.25</b>	<b>\$1.52</b>
FCF / Share	(\$0.26)	\$0.91	\$0.52	\$1.06	\$2.77	\$3.23	
y/y growth		NM	-42%	103%	160%	17%	
EV / EBITDA				26.4x	16.1x	11.3x	8.9x
P / E				43.7x	27.1x	19.8x	14.3x
P / E Consensus				49.8x	38.1x	31.4x	25.8x
FCF Yield				1.3%	2.7%	7.1%	8.3%



## Investment Thesis:

ASOS is a compelling long because it will repeat its phenomenal domestic UK success in the massive international market:

- **ASOS has created a strong moat with its wildly popular private label, engaging site and online fashion community**
- International expansion will increase the TAM by 2.4x
- Rapidly increasing brand awareness will drive fast international penetration
- **Accelerated international growth will expand margins** while cost saving initiatives further boost profitability

With 29x 2015 projected EPS of \$1.98, **ASOS offers an upside of over 47%** with a huge runway for future growth.

## Misperception:

Bears believe that ASOS is nearing market saturation in its domestic UK market and will soon face a slowdown in international expansion. However, I believe that **ASOS still has potential to grow its market share in the UK and will accelerate its international growth** through increased market penetration in the US and Asia.

## Most Compelling VAR Points:

1. **"The ASOS label itself is very on-trend. You see the influence of what's happening in the designer market trickle down into their collection. But they do it with a twist. It's young. It's cool. It always feels modern and fresh. It's clothing you want to wear,"** –Katie Connor, Fashion Features Editor, Marie Claire
2. **"ASOS makes the website a real magazine – it's not just a regular brand website. They have their own spin which keeps customers coming back. They use models, actresses, and celebrities in their editorials. They have interactive features from outfits to looks and shopping based on trends. Most importantly, it's very easy to navigate,"** –Daria Fain, Digital Editor, ELLE
3. **"So my view on ASOS is really simple – of course it will be internationally successful as an online fashion retailer. Increasingly fashion is cross-border and region and shoppers in a particular cohort tend to share similar tastes and interests. The internet has, naturally, speeded up this harmonization,"** –John Ryan, Editor, Drapers Magazine

## Key Thesis Points:

### 1. ASOS has created a strong moat with its private label and social shopping experience

#### a. Customers love ASOS' private label

- i. ASOS is the **No. 1 retail apparel site for 15-34 year olds in the world** (in terms of avg. daily visits)
  1. ASOS moved up from its March 2011 rank of 3<sup>rd</sup>
- ii. "The ASOS private label is great – they look toward street styles and tie in fashion styles, what's on the runway, and what's trending. They make the clothing affordable for people worldwide, and yet the quality is not cheap," –Daria Fain, Digital Editor, ELLE
- iii. Competitively priced (ASOS ~15% less expensive than Topshop) without a perceived loss of quality
- iv. Popularity among celebrities spikes interest in the brand
  1. Michelle Obama wore an ASOS dress in a photo with Barack – the dress instantly sold out
  2. Other celebrity fans: Taylor Swift, Kate Middleton, Rihanna, Beyoncé & Elizabeth Olsen
- v. Exclusive collaborations with designers "build buzz" via articles in *Vogue*, *ELLE*, *Marie Claire*, etc.

- b. **ASOS has become a “Fashion Destination” that combines content and commerce**
  - i. The editorial ASOS Magazine has had the 2<sup>nd</sup> highest circulation of UK fashion magazines since 2009
    1. Free digital versions let users “click-to-buy” all featured merchandise
    2. “Today ASOS has one of the most comprehensive and successful owned media operations around, which is helping them not only to stay relevant to their millions of customers, but also acting as a foundation for the global expansion,” –*Robin Bonn, Contributor, The Guardian*
  - ii. ASOS Fashion Finder creates a social community where members create and share “looks”
    1. Aggregates apparel from 80+ stores, making ASOS an access point for online shopping
    2. Increases user time spent on ASOS.com by 2-3 minutes per visit
  - iii. ASOS Marketplace brings together users who buy and sell new, pre-owned or vintage fashions
    1. With 370k units sold a week, Marketplace generates more UK traffic than NET-A-PORTER
    2. “It might seem a little eBay-ish, but in reality, they’re worlds apart...It’s a great way to gain a real glimpse into true British street styles and tastes,” –*Samantha Robinson, Contributor, Fashion Spot*
    3. Increases user time spent on ASOS.com by 5-10 minutes per visit
- c. **User-friendly interface generates strong customer satisfaction**
  - i. ASOS.com achieves a 6% conversion rate of its site traffic, a premium over the competitors’ 2% average rate
  - ii. *Cosmo* ranked the ASOS’ “Daily Edit” app (launched Oct. 2012) as the #2 “best download ever”
  - iii. “It’s easy to see why people like ASOS. They invest heavily in making sure the products look good and that the latest fashions are available on the site very quickly,” –*Carol Ratcliffe, Senior Retail Analyst, Verdict*
- d. **Social media creates a community of committed fans**
  - i. ASOS is the UK’s “most social” retailer (Source: Econsultancy)
  - ii. With 2.1 million Facebook “likes” (up from 900k in 2011), ASOS is 2<sup>nd</sup> only to Topshop in the UK
    1. Facebook fans are 3.6x more likely to visit ASOS while “friends” of fans are 2.7x more likely
  - iii. “I have heard that groups of girlfriends have ‘ASOS parties’ where they place huge orders and have stay-at-home parties on Friday nights trying everything on...[ASOS] is an affordable, fun and newly social way to shop,” –*Sophie Cooper, UK Senior Fashion Editor, GLAMOUR*
- e. **Customers keep coming back**
  - i. ASOS achieved the all-time highest overall satisfaction score of 92% for online fashion retailers
  - ii. On average, its 5 million active users visit the site 9x per month and spend approximately \$235 annually
- f. **ASOS also sells over 900 third-party brands & offers free global shipping**

## 2. The FY2014 launch of its Global Platform will accelerate international growth

- a. **Ability to reach new markets will grow ASOS’ TAM by 2.4x**
- b. **Global Platform improves IT infrastructure**
  - i. ASOS can create scalable, country-specific websites in any foreign language
    1. Localized websites that already launched have improved site traffic in each target market
    2. After launching a local site, share of traffic jumped 42 ranks in the US, 35 in Germany & 21 in France
  - ii. New zonal pricing capabilities will improve conversion: transactions will be in local currency, ASOS can follow 3<sup>rd</sup> party brands’ international pricing strategies and visitors can pay with local methods
  - iii. Zonal merchandising opportunities creates foreign brand loyalty: ASOS will feature local designers, size its apparel by local standards, promote local holidays and sell on-season styles for each region
- c. **ASOS’ popularity will take off internationally**
  - i. “There is the matter of marketing a brand or retail proposition, but this has less to do with consumer taste and a lot more to do with the skill of those whose job it is to do so. ASOS, as it happens, is pretty slick when it comes to marketing as well as having the right product,” –*John Ryan, Editor, Drapers Magazine*
- d. **Increased international sales mix will expand gross margins**
  - i. International retail gross margins (49%, 49%, 53% over the last 3 years) dwarf UK margins (44%, 44%, 45%)
  - ii. International customers buy a larger mix of the higher-margin ASOS private label
    1. Approx. 65% of US sales are of the higher-margin private label (only 50% domestically)
    2. Fashion editors predict ASOS private label to be as popular in Asia as US (evidenced by VAR)
- e. **China & Russia represent the two greatest growth opportunities**
  - i. CEO Nick Robertson has targeted expanding into these two countries as a top priority
  - ii. ASOS has potential to reach 180 million new 15-34 year olds, which alone would double its existing TAM

### 3. ASOS still has incredible growth opportunities in current target markets

#### a. Brand awareness has a long runway in the US

- i. **ASOS currently reaches only 0.9% of its American TAM**
- ii. In the US, “[ASOS] only reaches people who are ‘connected.’ Unless you keep up with fashion trends and blogs, you probably haven’t heard of it,” –*Daria Fain, Digital Editor, ELLE*
- iii. In a proprietary survey, 59% of surveyed 18-24 year old Americans had never heard of ASOS
  1. After looking at the site for the first time, over 60% said they would consider shopping at ASOS
- iv. Launch of a NYC office will improve local marketing (launch of Sydney office has been very successful)
- v. “ASOS gets a lot of editorial coverage – that’s a big perk for them. ASOS has become a household name in the fashion industry and will become more well-known throughout the US,” –*Katie Connor, Fashion Features Editor, Marie Claire*

#### b. UK is years away from a mature ex-growth market

- i. ASOS grew its UK market share by 0.9% in 2012, making it the top mover among all UK fashion brands
- ii. Opportunity to expand its menswear line will improve ASOS’ UK penetration
  1. Menswear currently accounts for only 25% of mix (comps are approx. 35% of total revenue)
  2. UK menswear market has grown at 14% per year (women’s apparel market has grown at 8%)
- iii. ASOS’ share for online organic searches regarding apparel has grown 2% since April 2012

### 4. Cost saving initiatives will further boost profitability

#### a. Increased scale will expand operating margins

- i. Greater supplier consolidation (from 350 to 150) will improve ASOS’ buyer power for its private label
- ii. Scale increases ASOS’s leverage with third-party brands that want to use ASOS’s global shipping

#### b. Better markdown management with new targeted promotions

#### c. New warehouse cuts down on SG&A costs

- i. Potential to reduce its warehousing from 50p/order from 35p/order (comps are as low as 25p/order)

**Headline:** *A Global Phenomenon: ASOS Clothes Are Bought in All Corners of the World*

#### Path to Profitability:

- Increased brand awareness will drive revenue growth in the US
- Launch of the Global Platform (FY2014) will accelerate market penetration through direct expansion efforts in China, Russia and other Asian countries; the greater sales of own-label apparel will expand gross retail margins
- ASOS fast-fashion model will encourage high-consumption and thus frequent return visits

#### Tailwinds:

- European online retailing predicted to grow 7x faster than traditional retailers over the next 5 years
- Overall structural shift in spending toward online retailing
- Improvements in IT creates better POS promotions
- Margin growth through decreasing wholesale prices

#### Headwinds:

- General online retailers (i.e. Amazon) face minimal barriers to entry in selling the third-party brands
- Poor macroeconomic conditions in targeted markets greatly restricts discretionary consumer spending
- Sales growth in UK apparel market will likely flat line
- Strong competition in saturated retail market space

#### Pre-mortem:

- UK growth plateaus as ASOS has already reached full market saturation
- International growth slows in targeted markets while direct expansion into Asian markets fails to improve penetration
- Popularity of ASOS’s own-label falters, shrinking gross retail margins
- ASOS’s growth stagnates, profitability drops and intense competition eats up ASOS’s market share

#### What Signs Would Indicate We Are Wrong?

- Slowed growth in the number of active users and total site visits
- Launch of Global Platform fails to increase number of active users or improve the conversion rates in foreign markets
- Sales mix of ASOS private label drops, especially in international markets

**Signposts / Follow-Up:**

- **International growth:** Are there actually more foreign customers buying from ASOS?
- **Mix of own-label merchandise:** Has ASOS's private label apparel continued to grow in popularity?
- **Conversion rate:** Are customers who visit the ASOS website buying merchandise?

**Company Description:**

ASOS [ASC] is a UK-based online fashion & beauty retailer offering over 50,000 own label and branded product lines across womenswear and menswear. Aimed at fashion-forward target market of 16- to 34-year olds, ASOS has attracted 17.5 million unique monthly visits and has 4.38 million active customers from over 190 countries.

**Appendix 1: Additional Visuals**

**Exhibit 1: ASOS Offers A Differentiated Shopping Experience**

**Popular Private Label**

**On-Trend Merchandise**

Featured in fashion spreads for editorial magazines like *Marie Claire*

ASOS:  
"On-trend everything, from head to toe,"  
-ELLE Magazine



**#CelebritiesLoveASOS**

Michelle Obama wore an ASOS dress in the world's most re-tweeted photo...

Barack Obama @BarackObama  
Four more years.  
pic.twitter.com/bAJE6Vom

...the dress sold out instantly.

**Exclusive Collaborations**

VOGUE NEWS  
FRIDAY 9<sup>th</sup> NOV

READING NOW  
Markus Lupfer Unveils Collaboration With ASOS Black

- NICOLA de MAIN
- Susan Caplan Vintage Collection
- Piers Atkinson
- FIFTYFIVEBSL
- LOVISE GRAY
- POLTOCK & WALSH
- markus Lupfer
- SOPHIE HULME

**ASOS Creates An Online "Fashion Destination"**

**ASOS Magazine**

Editorial magazine with option to "click-to-buy" all featured merchandise

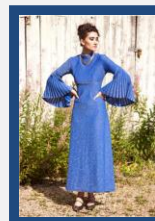
**Fashion Finder**

Social platform to create and share "looks," find inspiration & shop at 80+ stores

**ASOS Marketplace**

Complimentary site to buy / sell new, pre-owned & vintage fashion

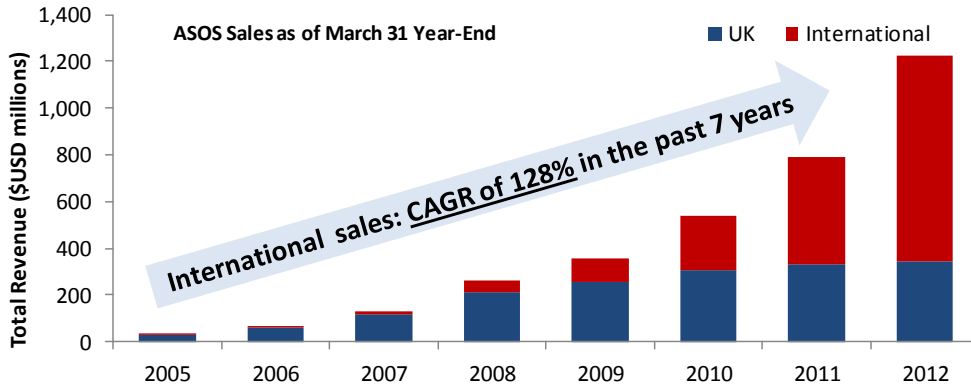
All pieces are vetted by ASOS



ABOUT US WHAT IS MARKETPLACE? SHOP WOMEN | MEN | LIVE FEED SELL PRICING & SIGNUP

530 boutique sellers (up 200% yoy)  
37,500 individual sellers (up 520% yoy)

**Exhibit 2: ASOS Will Continue To Experience Rapid International Growth**



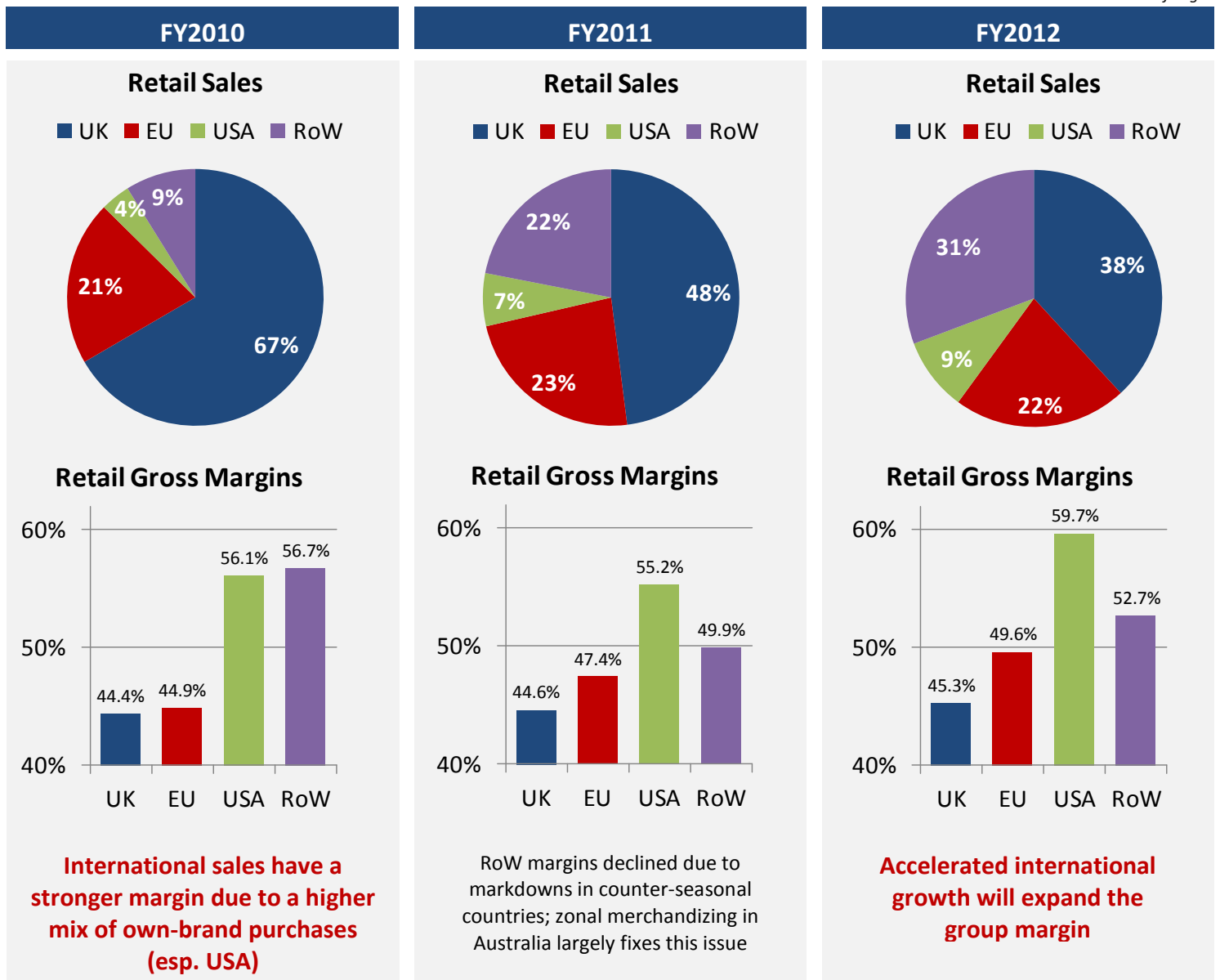
Source: ASOS filings

Over the last six years, ASOS has experienced **astronomical international growth** that will only **accelerate** over the next five years.

As of March 2012, ASOS made 58% of its total revenue from international sales. I predict that **will grow to ~90% by FY2017**.

**Exhibit 3: Stronger Mix Of International Sales Improves Retail Gross Margin**

Source: ASOS filings



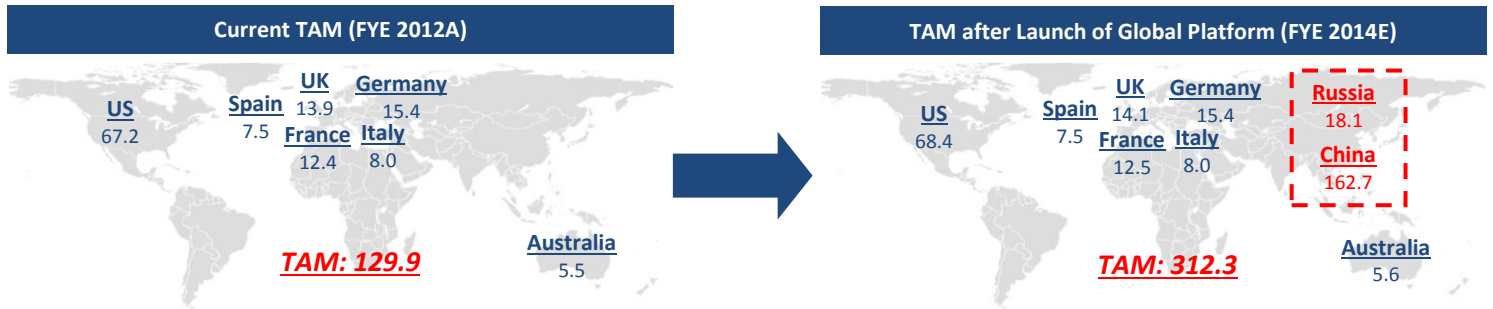
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## Exhibit 4: ASOS Can Extend Its TAM By 2.4x In Only Two Years (population in millions)



A successful launch of the Global Platform will extend ASOS's TAM to 312.3 million potential customers by opening country-specific sites in China and Russia. **Expansion into China is ASOS' single greatest growth opportunity.**

## Exhibit 5: Country-Specific Websites Boost ASOS' Share Of Online Traffic In That Market

	Share of Online Traffic for 15-34 Year Olds in Target Markets				
	Feb. 2010	Mar. 2011	Aug. 2011	Mar. 2012	Aug. 2012
United States	79 <sup>th</sup>	37 <sup>th</sup> (↑ 42)	35 <sup>th</sup>	29 <sup>th</sup>	21 <sup>st</sup>
France	41 <sup>st</sup>	20 <sup>th</sup> (↑ 21)	9 <sup>th</sup>	21 <sup>st</sup>	6 <sup>th</sup>
Germany	61 <sup>st</sup>	26 <sup>th</sup> (↑ 35)	7 <sup>th</sup>	17 <sup>th</sup>	5 <sup>th</sup>
Spain	-	17 <sup>th</sup>	12 <sup>th</sup>	9 <sup>th</sup> (↑ 3)	12 <sup>th</sup>
Italy	-	11 <sup>th</sup>	10 <sup>th</sup>	9 <sup>th</sup> (↑ 1)	5 <sup>th</sup>
Australia	-	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>

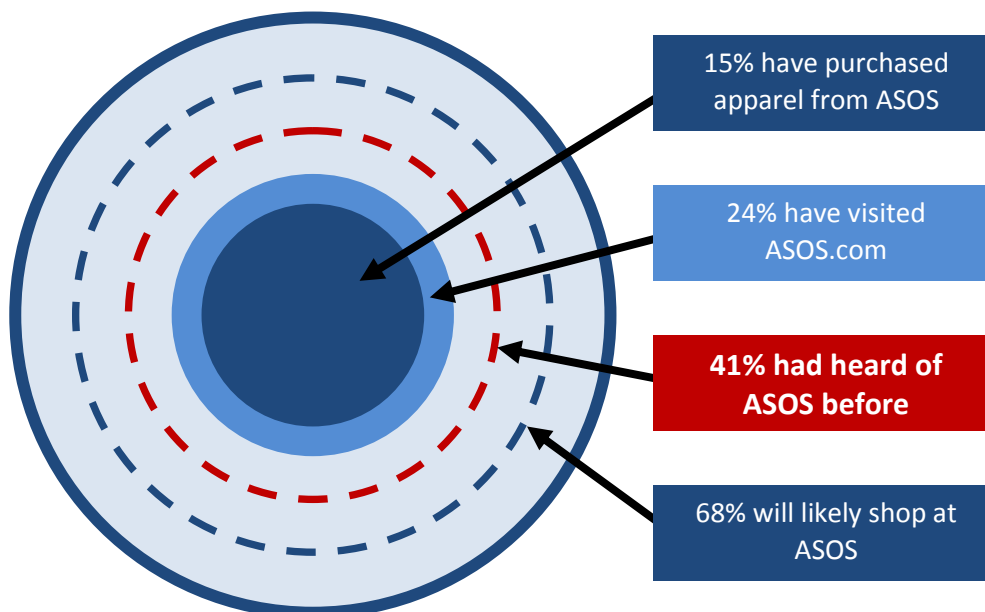
Share of online traffic has grown in each targeted market after launching the country-specific website.

ASOS launched country-specific sites for US, France & Germany in Fall 2010 and for Spain, Italy & Australia in Fall 2011.

Source: ComScore

## Exhibit 6: Increased Brand Awareness Will Drive U.S. Expansion

Results from a survey of 100 American 18-24 year olds:



### Sample Quotes:

"ASOS has cute clothes that you won't necessarily find everyone else wearing"

"I like the product filters that allow you to shop by style, price, trends, etc."

"I wish I had known about this site before...the clothes look very cute!"

"The clothes seem like they would appeal to a wide variety of people"

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## Appendix 2: Valuation / Model

### Exhibit 7: Projected Income Statement and Valuation

Projected Income Statement							
FYE August 31 (in \$ millions)	2011A	2012A	2013E	2014E	2015E	2016E	2017E
Retail Sales	\$620	\$857	\$1,010	\$1,653	\$2,714	\$3,614	\$4,239
Delivery Receipts	19	18	21	30	44	56	65
Third Party Revenues	3	5	7	9	11	13	16
<b>Total Revenue</b>	<b>642</b>	<b>880</b>	<b>1,038</b>	<b>1,692</b>	<b>2,769</b>	<b>3,683</b>	<b>4,320</b>
y/y growth	56%	37%	18%	63%	64%	33%	17%
Cost of Sales	(327)	(430)	(482)	(773)	(1,272)	(1,665)	(1,916)
<b>Gross Profit</b>	<b>315</b>	<b>450</b>	<b>556</b>	<b>919</b>	<b>1,497</b>	<b>2,018</b>	<b>2,404</b>
Gross Margin	49%	51%	54%	54%	54%	55%	56%
Distribution Costs	(77)	(126)	(167)	(296)	(525)	(718)	(864)
Administrative Expenses	(187)	(252)	(288)	(460)	(749)	(992)	(1,158)
<b>Operating Income (EBIT)</b>	<b>51</b>	<b>73</b>	<b>101</b>	<b>163</b>	<b>223</b>	<b>308</b>	<b>382</b>
Operating Margin	8%	8%	10%	10%	8%	8%	9%
Other Expenses	(31)	(9)	0	0	0	0	0
<b>Profit before Taxes</b>	<b>20</b>	<b>64</b>	<b>101</b>	<b>163</b>	<b>223</b>	<b>308</b>	<b>382</b>
Income Tax Expense	(6)	(17)	(26)	(43)	(58)	(81)	(100)
<b>IFRS Net Income</b>	<b>14</b>	<b>47</b>	<b>74</b>	<b>120</b>	<b>165</b>	<b>227</b>	<b>282</b>
<b>Adjusted Net Income</b>	<b>36</b>	<b>52</b>	<b>74</b>	<b>120</b>	<b>165</b>	<b>227</b>	<b>282</b>
Diluted Shares Outstanding	81	83	83	83	83	83	83
<b>Diluted EPS</b>	<b>\$0.17</b>	<b>\$0.57</b>	<b>\$0.90</b>	<b>\$1.45</b>	<b>\$1.98</b>	<b>\$2.74</b>	<b>\$3.40</b>

### Income Statement Commentary

Spike in revenue following launch of Global Platform – ASOS will enter China, Russia and other new markets

Greater mix of international sales plus growing number of orders will sharply drive up distribution costs

Used effective tax rate of 26% per company guidance as of March 2012

### Competitors

Company name	2015E P/E
Industria de Diseno Textil SA [ITX]	18.5x
H & M Hennes & Mauritz AB [HM]	14.3x
Next Plc [NXT]	10.1x
Limited Brands, Inc. [LTD]	11.8x
Urban Outfitters, Inc. [URBN]	17.4x
Amazon, Inc. [AMZN]	62.3x
<b>Mean</b>	<b>22.4x</b>
<b>Median</b>	<b>15.9x</b>

### Valuation

FYE August 31 (in \$ millions)	
<b>ASOS</b>	
Projected 2015 EPS	\$1.98
<b>Multiple</b>	<b>29.0x</b>
<b>Implied Share Price</b>	<b>\$57.46</b>
Current Share Price	\$39.18
% Difference	46.7%

With a valuation of 29.0x 2015 projected EPS, ASOS is worth \$57.46.

**Investing in ASOS offers a potential upside of 46.7% with a huge runway for future growth beyond 2015.**

### Exhibit 8: Unit Economics for Each Geographic Segment

Unit Economics by Target Market						
	2012A	2013E	2014E	2015E	2016E	2017E
<b>United Kingdom</b>						
Cost of sales per order	(\$28.67)	(\$26.66)	(\$25.86)	(\$25.73)	(\$25.61)	(\$25.48)
Distribution cost per order	(\$4.95)	(\$4.98)	(\$5.00)	(\$5.03)	(\$5.05)	(\$5.08)
<b>United States</b>						
Cost of sales per order	(\$26.14)	(\$24.05)	(\$23.09)	(\$22.63)	(\$22.54)	(\$22.45)
Distribution cost per order	(\$19.29)	(\$20.06)	(\$20.86)	(\$21.28)	(\$21.49)	(\$21.60)
<b>European Union</b>						
Cost of sales per order	(\$31.98)	(\$30.38)	(\$28.56)	(\$27.42)	(\$27.36)	(\$27.09)
Distribution cost per order	(\$9.96)	(\$10.16)	(\$10.36)	(\$10.57)	(\$10.78)	(\$11.00)
<b>Rest of World</b>						
Cost of sales per order	(\$39.97)	(\$38.37)	(\$39.52)	(\$40.31)	(\$39.10)	(\$37.93)
Distribution cost per order	(\$13.56)	(\$13.70)	(\$13.83)	(\$15.22)	(\$15.06)	(\$14.91)

### Unit Economics Commentary

Cost savings initiatives will have an immediate impact on UK margins

Cost of sales will stay below the UK level due to a greater mix of private label sales

EU does not have free returns; implementation of free returns will increase distribution costs

**Exhibit 9: Revenue Build-Up For Each Geographic Segment**

Revenue Build by Target Market						
United Kingdom						
	2012A	2013E	2014E	2015E	2016E	2017E
Total Addressable Market ('000)	13,927	14,004	14,081	14,159	14,237	14,316
Market penetration	16%	17%	18%	19%	19%	20%
Active users	2,254	2,448	2,584	2,703	2,772	2,843
Site visits per user	68	69	69	70	70	70
<b>Total visits ('000)</b>	<b>154,368</b>	<b>168,478</b>	<b>178,769</b>	<b>187,883</b>	<b>193,664</b>	<b>199,622</b>
Conversion rate	4.1%	4.1%	4.1%	4.1%	4.1%	4.2%
<b>Number of orders ('000)</b>	<b>6,279</b>	<b>6,887</b>	<b>7,344</b>	<b>7,757</b>	<b>8,036</b>	<b>8,325</b>
Average basket value	\$52.06	\$51.02	\$50.76	\$50.51	\$50.26	\$50.01
Delivery receipts per order	\$1.81	\$1.73	\$1.72	\$1.71	\$1.70	\$1.69
Third-party revenue per visit	\$0.03	\$0.04	\$0.05	\$0.05	\$0.06	\$0.06
<b>Total Revenue (in thousands)</b>	<b>\$343,459</b>	<b>\$370,173</b>	<b>\$394,167</b>	<b>\$415,169</b>	<b>\$428,453</b>	<b>\$441,738</b>
% Growth	10%	8%	6%	5%	3%	3%
United States						
	2012A	2013E	2014E	2015E	2016E	2017E
Total Addressable Market ('000)	67,184	67,788	68,398	69,013	69,633	70,259
Market penetration	1%	2%	2%	4%	5%	7%
Active users	573	1,041	1,680	2,543	3,592	4,711
Site visits per user	125	126	126	126	126	126
<b>Total visits ('000)</b>	<b>71,364</b>	<b>130,906</b>	<b>211,544</b>	<b>320,489</b>	<b>453,171</b>	<b>595,013</b>
Conversion rate	1.7%	2.0%	2.1%	2.2%	2.2%	2.2%
<b>Number of orders ('000)</b>	<b>1,216</b>	<b>2,677</b>	<b>4,542</b>	<b>6,950</b>	<b>9,925</b>	<b>13,162</b>
Average basket value	\$64.94	\$64.29	\$64.03	\$63.78	\$63.52	\$63.27
Delivery receipts per order	\$1.37	\$1.34	\$1.33	\$1.32	\$1.32	\$1.31
<b>Total Revenue (in thousands)</b>	<b>\$80,655</b>	<b>\$175,754</b>	<b>\$297,090</b>	<b>\$453,064</b>	<b>\$645,242</b>	<b>\$854,246</b>
% Growth	91%	118%	69%	53%	42%	32%
European Union (France, Italy, Germany & Spain)						
	2012A	2013E	2014E	2015E	2016E	2017E
Total Addressable Market ('000)	43,140	43,249	43,359	43,470	43,582	43,694
Market penetration	3%	3%	4%	5%	6%	6%
Active users	1,217	1,342	1,884	2,266	2,499	2,631
Site visits per user	127	127	127	127	127	128
<b>Total visits ('000)</b>	<b>154,404</b>	<b>170,445</b>	<b>239,470</b>	<b>288,387</b>	<b>318,359</b>	<b>335,476</b>
Conversion rate	1.9%	2.0%	2.4%	2.6%	2.6%	2.6%
<b>Number of orders ('000)</b>	<b>2,984</b>	<b>3,360</b>	<b>5,665</b>	<b>7,504</b>	<b>8,292</b>	<b>8,747</b>
Average basket value	\$62.84	\$61.59	\$60.35	\$59.75	\$59.45	\$59.15
Delivery receipts per order	\$0.86	\$0.84	\$0.83	\$0.83	\$0.83	\$0.82
<b>Total Revenue (in thousands)</b>	<b>\$190,131</b>	<b>\$209,800</b>	<b>\$346,675</b>	<b>\$454,672</b>	<b>\$499,916</b>	<b>\$524,685</b>
% Growth	28%	10%	65%	31%	10%	5%
Rest of the World (Australia, China & Russia)						
	2012A	2013E	2014E	2015E	2016E	2017E
Total Addressable Market ('000)	5,472	5,533	186,408	187,167	187,930	188,699
Market penetration	17%	18%	1%	2%	3%	4%
Active users	952	982	2,237	4,492	5,863	6,771
Site visits per user	171	176	178	151	154	157
<b>Total visits ('000)</b>	<b>162,816</b>	<b>172,981</b>	<b>397,982</b>	<b>679,324</b>	<b>904,459</b>	<b>1,065,270</b>
Conversion rate	1.9%	1.9%	1.9%	2.5%	2.8%	2.8%
<b>Number of orders ('000)</b>	<b>3,071</b>	<b>3,295</b>	<b>7,658</b>	<b>16,992</b>	<b>24,886</b>	<b>29,603</b>
Average basket value	\$85.72	\$84.86	\$84.52	\$84.18	\$83.85	\$83.51
Delivery receipts per order	\$0.95	\$0.93	\$0.92	\$0.92	\$0.91	\$0.91
<b>Total Revenue (in thousands)</b>	<b>\$266,208</b>	<b>\$282,767</b>	<b>\$654,406</b>	<b>\$1,446,244</b>	<b>\$2,109,580</b>	<b>\$2,499,438</b>
% Growth	92%	6%	131%	121%	46%	18%

**Revenue Build-Up  
Commentary**

ASOS can realistically reach 20% of its TAM in the UK

Investments in same day delivery and other delivery propositions increases the frequency of purchases but drives down average basket value

Increased brand awareness will grow market penetration in the US in the next 5 years

Opening of NYC local office allows for ASOS to better address American preferences, thus helping to improve sales conversion

Future policy of free returns will boost the conversion rate but drive down the average basket size and value

Launch of country-specific websites in China and Russia will cause a huge jump in TAM in FY2014

Zonal merchandizing/pricing will boost market penetration and conversion rate



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### Appendix 3: VAR Contact Journal

<b>Competitor</b>	<b>Zoe Sloma</b> <i>E-commerce Manager</i> <b>Arcadia Group</b> <b>London, England</b> zoe.sloma@arcadia group.com	<ul style="list-style-type: none"> <li>• Top Shop has seen a very hectic run up to Christmas – likely true throughout all of retail</li> <li>• ASOS is a good brand that has seen success in the UK – it should do well internationally</li> </ul>
<b>Competitor</b>	<b>Bianca Mercer</b> <i>Head of International Ecommerce</i> <b>Aurora Fashions Ltd.</b> <b>London, England</b> Tel: +44 780 550 0186	<ul style="list-style-type: none"> <li>• To think about TAM – look at all of the people in the country in your company’s demographics (age, gender, income, etc.); consider each market individually</li> <li>• Shopping habits are fairly similar throughout the world – fashion is somewhat universal</li> </ul>
<b>Clothing Retailer</b>	<b>Theresa Canosa</b> <i>Assistant Buyer</i> <b>Macy’s</b> <b>Astoria, NY</b> tmcanosa@gmail.com	<ul style="list-style-type: none"> <li>• Traditional department stores struggle to attract the junior age demographic especially when competing against new fast-fashion brands (i.e. H&amp;M)</li> <li>• <b>Social media campaigns and fashion lines with celebrity recognition are the most successful marketing strategies to bring in younger customers</b></li> </ul>
<b>Industry Expert – Fashion</b>	<b>Katie Connor</b> <i>Fashion Features Editor</i> <b>Marie Claire</b> <b>New York, NY</b> Tel: (212) 841-8399	<ul style="list-style-type: none"> <li>• “I went to their headquarters in London two years ago on a press trip to hear their whole story. I had never heard of them beforehand. All the journalists were thrilled by it.”</li> <li>• “The ASOS label itself is on-trend and affordable. It’s fashion-forward. It’s not just the basics you see everywhere. They have a lot of pieces that catch your eye.”</li> <li>• “Their accessories are playing with the trends in a way that you don’t see often.”</li> <li>• <b>“The ASOS label itself is very on-trend. You see the influence of what’s happening in the designer market trickle down into their collection. But they do it with a twist. It’s young. It’s cool. It always feels modern and fresh. It’s clothing you want to wear. ASOS has a really firm grasp on how to interpret the trends.”</b></li> <li>• “ASOS heightened their own in-house label. They have a very strong design team.”</li> <li>• “ASOS gets a lot of editorial coverage – that’s a big perk for them. ASOS has become a household name in the fashion industry and will become more well-known throughout the US”</li> <li>• ASOS is featured in <i>Marie Claire</i> at least once a month</li> </ul>
<b>Industry Expert – Fashion</b>	<b>Lucia Debieux</b> <i>Junior Fashion Editor</i> <b>Marie Claire</b> <b>London, England</b> lucia_debieux@ ipcmedia.com	<ul style="list-style-type: none"> <li>• <b>“The ASOS own brand collections are very much on trend. ASOS is a fantastic competitor in the fast fashion market, they offer so much for us to work with, with their own collections and designer collaborations.”</b></li> <li>• “I think ASOS is a firm favorite in the Brit girl’s wardrobe and will for sure still be popular in years to come. It’s a high street favorite but online.”</li> </ul>
<b>Industry Expert – Fashion</b>	<b>Daria Fain</b> <i>Digital Editor</i> <b>ELLE</b> <b>New York, NY</b> Tel: (201) 937-9860	<ul style="list-style-type: none"> <li>• “U.S. customers love the British style – which is very grungy with a lot of layering and a neutral color palette. It’s effortless. ASOS captures this.”</li> <li>• “ASOS follows trends in the way they run their website. They look at each part of the country and see what’s trending there. They don’t conform but they do a very successful job branding themselves for each region.”</li> <li>• <b>“ASOS is huge on social media, blogging, Twitter – being interactive with consumers. They keep the conversation going with the customers which allows them to see what’s trending and what styles are popular. ASOS really listens to consumers – they see what they want and see what they are buying. It markets based on what’s trending in every niche in the world”</b></li> <li>• “ASOS makes the website a real magazine – it’s not just a regular brand website. They have their own spin which keeps customers coming back. They use models, actresses, and celebrities in their editorials. They have interactive features from outfits to looks and shopping based on trends. Most importantly, it’s very easy to navigate.”</li> <li>• <b>“The ASOS private label is great – they look toward street styles and tie in fashion styles, what’s on the runway, and what’s trending. They make the clothing affordable for people worldwide, and yet the quality is not cheap.”</b></li> <li>• “The biggest problem that ASOS faces in the U.S. is that it only reaches people who are ‘connected.’ Unless you keep up with fashion trends and blogs, you probably haven’t heard of it</li> </ul>

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		<ul style="list-style-type: none"> <li>– it depends on how fashion savvy you are. This may be because they don't have physical stores, it's more difficult for them to reach customers."</li> <li>• "Elle always loves to use them – ASOS is a very successful brand, appealing to consumers, well-built, and an overall good consumer site."</li> </ul>
Industry Expert – Fashion	<p><b>Tarryn Oppel</b> Associate Editor <b>ELLE</b> Capetown, South Africa tarryn@ellemag.co.za</p>	<ul style="list-style-type: none"> <li>• "ASOS is a reputable source for purchasing good quality, designer trend inspired items to suit anyone's budget."</li> <li>• "The ASOS private label offers a large variety of styles that are not necessarily "rip-offs" of runway looks, but that draw inspiration from them to make it accessible to the public, which does make the brand 'on trend', but more so in the fact that it strives to make transformed lust-have items available worldwide like many other online portals."</li> </ul>
Industry Expert – Fashion	<p><b>Cynthia Martens</b> Business News Reporter <b>Women's Wear Daily</b> Milan, Italy Cynthia_Martens@fairchildfashion.com</p>	<ul style="list-style-type: none"> <li>• "Positive side of fast-fashion is that its prices allow more people to be 'in' on trends, and people like to feel trendy. One major negative is that it fuels a pattern of high consumption."</li> <li>• "High fashion used to feel a lot more remote and impossibly exclusive than it does today"</li> <li>• "It's true that well-to-do Chinese and Korean customers have earned a reputation in Europe for their focus on high-end labels, but there are plenty of young men and women in Asia who are drawn to fast-fashion for the same reasons their Western counterpart are"</li> <li>• To adapt in new markets a brand must consider: (1) what products are already available in those markets, (2) where their brands would be positioned relative to existing brands, (3) who their target customers would be locally, and (4) how to reach those consumers through advertising and PR</li> <li>• "Business execs I have spoken to in Italy have consistently named Russia/Eastern Europe and China as huge, growing markets. Italian trade fairs, for example, have seen an increase in the number of buyers from those areas, which means there is significant demand from customers in those countries."</li> </ul>
Industry Expert – Fashion	<p><b>Sophie Cooper</b> Senior Fashion Editor <b>Glamour</b> London, England Sohpie.Cooper@condenast.co.uk</p>	<ul style="list-style-type: none"> <li>• <b>"ASOS has innovative marketing. It has not relied on huge advertising campaigns, but rather regular customer offers which it promotes using its huge database – this keeps traffic flow to the site and provides further valuable data."</b></li> <li>• "There are different parts to ASOS's own collection in order to cater to different markets."</li> <li>• <b>"Every season ASOS has a press show where it presents a trend-inspired, fashion forward collection which is generally highly regarded in the press."</b></li> <li>• "The ASOS catwalk is renowned - it was one of the first online retailers to show video."</li> <li>• "ASOS has offered a feel good shop-from-home experience for over ten years and in that sense has led the market."</li> <li>• "I have heard that groups of girlfriends have "ASOS parties" where they place huge orders and have stay-at-home parties on Friday nights trying everything on in advance of the real party on Saturday night! With cheap delivery and free returns this is an affordable, fun and newly social way to shop."</li> </ul>
Industry Expert – Fashion	<p><b>John Ryan</b> Editor <b>Drapers</b> London, England John.Ryan@emap.com</p>	<ul style="list-style-type: none"> <li>• <b>"So my view on ASOS is really simple – of course it will be internationally successful as an online fashion retailer.</b> Increasingly fashion is cross-border and region and shoppers in a particular cohort tend to share similar tastes and interests. The internet has, naturally, speeded up this harmonization"</li> <li>• "There is the matter of marketing a brand or retail proposition, but this has less to do with consumer taste and a lot more to do with the skill of those whose job it is to do so. <b>ASOS, as it happens, is pretty slick when it comes to marketing as well as having the right product."</b></li> </ul>
Industry Expert – Fashion	<p><b>Sharon Kavijan</b> Model <b>Wilhelmina Models</b> New York, NY Tel: (571) 441-4921</p>	<p><i>Sharon modeled for ASOS.com frequently when she was in London in Spring 2012</i></p> <ul style="list-style-type: none"> <li>• "Everyone in the UK knows the brand and likes the brand."</li> <li>• "ASOS will be successful internationally only if it localizes to current fashion trends"</li> <li>• The company is very specific about everything they do – even the models they book, as they track the sales by the model and change models hair/make up for each outfit.</li> <li>• <b>They have six studios set up in their headquarters with 1 or 2 models in each studio; they shoot 5 days a week with each model shooting 30-40 pieces both for the online picture and the runway</b> (In comparison, Urban Outfitters has only one studio with 2 models shooting 30 pieces each, but only shoot 4 days a week).</li> <li>• Incredibly quick turnover – sometimes does a shoot in the morning and the pictures/video will be on the website by later that afternoon</li> <li>• <b>ASOS is a younger style than Zara or H&amp;M, although Zara is more "fashion-forward"</b></li> </ul>

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<b>Academic Expert</b>	<p><b>José Nueno</b>  <i>Professor</i>  <b>IESE Business School</b>  <b>Barcelona, Spain</b>  nueno@iese.edu</p>	<ul style="list-style-type: none"> <li>• “The United States is a graveyard of European retailers. Everyone who has gone there has struggled. Laura Ashley has shut down and even Benetton is declining. The U.S. is really complex because it’s about putting stores in shopping malls in the middle of nowhere. Fashionistas live on the East and West coasts. Then everyone else dresses in the Gap and Walmart and T. J. Maxx. If you really wanted to cover the U.S., you would have to open 300 stores, and they would have to focus all their energy to make it work.”</li> </ul>
<b>Academic Expert</b>	<p><b>Sucharita Mulpuru</b>  <i>E-commerce Shopping Analyst</i>  <b>Forrester Research</b>  <b>Cambridge, MA</b>  Tel: (704) 341-4308</p>	<ul style="list-style-type: none"> <li>• “Online retail continues to steal market share from other channels. ‘The State of Retailing Online, 2011’ survey shows an average growth rate of 28% for online retailers.”</li> <li>• Ecommerce retailers “focus currently is on mobile, marketing, merchandising, IT, and analytics”</li> <li>• Online sales have generally grown at 10-15%.</li> </ul>
<b>Customers</b>	<p><b>Survey</b>  <b>100 respondents</b>  <b>18-24 years old</b></p>	<ul style="list-style-type: none"> <li>• 15% of respondents had purchased apparel from ASOS</li> <li>• 24% had visited ASOS.com</li> <li>• 41% had heard of “ASOS” brand (i.e. had friends who purchased clothing from ASOS, saw a friend “like” it on Facebook or seen an ASOS piece featured in a magazine) but had never been to the website</li> <li>• Based on customer reactions (of both those that had heard of ASOS and those that had not), 68% said they would consider shopping at ASOS</li> </ul>
<b>Customers</b>	<p><b>Zena Kamgaing</b>  <i>ASOS customer</i>  <b>London, England</b>  zkr2f@virginia.edu</p>	<ul style="list-style-type: none"> <li>• Best part of ASOS brand is the range of what you can buy, types of brands and price</li> <li>• Likes to find clothing from boutiques on the ASOS Marketplace that otherwise would not be able to purchase online</li> <li>• UK demographics: 16-25 year olds, predominantly girls, upper income, all sizes</li> <li>• <b>Typically buys 5-15 per basket, especially when ASOS runs promotions</b></li> <li>• Much stronger brand awareness in UK than the US</li> <li>• Approximately 60% of friends shop at ASOS in UK, but it is negligible in US</li> </ul>
<b>Customers</b>	<p><b>Kyra McLardie</b>  <i>ASOS customer</i>  <b>Melbourne, Australia</b>  Tel: (202) 779-1729</p>	<ul style="list-style-type: none"> <li>• “I had heard of ASOS in Melbourne a couple years ago but didn’t even know it was available in the US” – there’s much more brand awareness in Australia</li> <li>• However, would say that fashion styles are comparable (esp. among girls) so think that it could be popular in the US with increased brand awareness</li> <li>• “Australians are used to paying a premium to buy clothes online that are considered out-of-season for European and American retailers”</li> <li>• <b>Zonal merchandising that would allow for seasonal shopping would be incredibly successful among herself and her friends</b></li> <li>• ASOS is really good quality – it’s reasonably priced but not cheap clothing</li> </ul>