

eve Sleep

Retail
19 September 2017

Restless

eve Sleep's (eve) disruptive model is seeing positive traction and management is pressing the pedal to grow the brand. While carrying execution risk, indications after this short first period are at least equal to expectations at IPO and the valuation on a sales basis appears undemanding.

Disruptive sleep brand: International push

eve Sleep operates a disruptive disintermediation model, sourcing its own products and marketing direct to consumers, so offering higher quality for lower prices. It offers free delivery, a 100-day trial and return. eve focuses on product design, branding and marketing, with outsourced manufacturing and fulfilment. It has scaled up to 15 countries quickly and without significant capex. UK awareness has just passed Ikea as the seventh best-known mattress brand (source: market data).

Maiden interim results: Explosive growth

In its first results since IPO, revenue is up 126%, driven by international sales up 153% and 107% growth in the UK. Underlying gross margin is up 560 basis points to 57.0%. Underlying pre-tax loss has risen from £3.7m to £9.6m (which includes IPO costs of £2.1m) as marketing, including TV, has stepped up; but marketing as a percentage of sales is already falling. In the second half, following a store agreement with Karstadt, the brand will be represented in a total of 146 stores.

Vital signs strongly positive

Its current TV campaign, 'Sleep Rich', has had a +108% response rate, with Google direct search traffic now over twice that of nearest competitor brands. Unprompted brand awareness is up from 0.5% in H116 to 5.4% currently and has overtaken much larger brands. Social media followers are up 121.7% and UK repeat business is up from 10.1% to 13.2%.

Strategy: Four clear drivers

Management sees four growth drivers: marketing and growing brand awareness in core markets; international growth; new product roll-outs; and omnichannel expansion, including in-store representation, in Debenhams, Fenwick and NEXT.

Valuation: Sales multiples modest

Traditional earnings valuation is not possible while the company is not yet profitable. However, looking ahead to 12/18 the sales multiple of 1.7x is at a discount to successful disruptors Gear4music (2.1x) and Boohoo (3.1x).

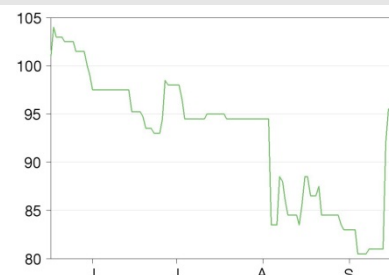
Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)
12/16	12.0	(11.3)	(11.3)	N/A	-	N/A
12/17e	27.2	(12.9)	(13.1)	(9.4)	-	N/A
12/18e	66.8	(11.0)	(11.5)	(8.3)	-	N/A
12/19e	114.0	2.7	1.7	1.0	-	95.5

- Source: Bloomberg

Price **95.5p**
Market cap **£132m**

Share price graph



Share details

Code **EVE**
 Listing **AIM**
 Shares in issue **138.3m**

Business description

eve Sleep is an e-commerce focused, direct-to-consumer European sleep brand, which designs and sells branded mattresses and other sleep products, including pillows, sheets and duvets. The company's aim is to become the leading pan-European sleep brand. It came to AIM in May 2017, raising £32.8m net.

Bull

- Disruptive business model.
- Highly scalable, including wider sleep market.
- Appropriately experienced management.

Bear

- Crowded space with well-financed competitors.
- Execution risk with heavy marketing expenditure.
- Valuation difficult while unprofitable.

Analysts

Paul Hickman +44 (0)20 3681 2501
 Neil Shah +44 (0)20 3077 5700

consumer@edisongroup.com

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