



ASX ANNOUNCEMENT

21 May 2021

Kogan.com Business Update

Kogan.com Limited (the Company; Kogan.com; ASX: KGN) provides the following business update as the Company continues to scale its operations given the rapid growth experienced over the past 12 months.

The Company is focused on executing its long term strategy of investing in technology, marketing, logistics, platform enhancements and Kogan First membership benefits, to provide ongoing improvements in customer experience while laying the foundations for sustainable long term growth.

Over the first half of FY21, Kogan.com effectively doubled in size following a significant increase in consumer demand. However, as with any company that experiences such rapid growth, Kogan.com has had to progressively resolve the operational challenges that come with this growth.

Having doubled in size, and in order to continue to provide the products and delivery experience that Kogan.com customers expect, the Company significantly expanded its inventory holding, and also expanded its logistics footprint to 31 facilities, many of which were established over the last five months. This rapid expansion has resulted in a number of near-term supply chain inefficiencies and inventory planning challenges, all of which are being addressed to optimise operations going forward.

During the month of April, the demurrage issue that the Company was experiencing was resolved. As previously announced, this issue imposed significant abnormal costs on the business over the past five months. With it now resolved, Kogan.com does not expect any material demurrage issue to arise in future.

A key challenge caused by market dislocations as a result of COVID-19 has been managing inventory levels to support rapid growth. In order to provide the delivery experience customers desire, Kogan.com built up its inventory levels from late 2020, which has caused high warehousing costs that are continuing. Customer demand in April 2021 remained consistent with the levels seen in the three months to March 2021, and below the levels seen in the nine months to December 2020. The Company has been progressively working towards optimising the inventory position to reflect current market conditions by increasing promotional activity, which has led to lower near-term gross margin and higher near-term marketing costs. Kogan.com is expected to return

to normal inventory levels (relative to the size of the business) and marketing spend as the current inventory is progressively reduced over the coming few months.

At the same time, cost price inflation of many consumer products is being observed in respect of products that are currently being planned for reorder in advance of the peak Christmas trading period. This price inflation is being driven by COVID-19 market dislocations, together with inflation in international shipping costs.

Outlook

As a result of the above factors, Kogan.com expects underlying operating performance to continue to be challenged in the near-term, and Adjusted EBITDA for FY21 is likely to differ from the current range of analyst forecasts. The Company's best projection for FY21 Adjusted EBITDA¹ is in the range of \$58 million to \$63 million (based on unaudited management accounts to April 2021). The Company operates in a highly dynamic trading environment with trading conditions subject to continual change.

The longer term fundamentals for Kogan.com remain very attractive given the Company's position in the Australian and New Zealand online retail markets, and with online retail sales currently only accounting for a small percentage of total retail sales in Australia and New Zealand.

The Board looks to the future with confidence as the business has invested in key strategic initiatives and has a strong level of in-demand inventory heading into the first half of FY22 while observing price inflation through global supply chains. The initiatives that the Company has put in place to address the rapid scaling of a large eCommerce company are expected to drive continuous customer experience improvements in FY22. The Company has learnt valuable lessons over the last few months, including many key strategies on how to better scale operations of a large fast-growing eCommerce company.

Authorised for release by the Board of Kogan.com Limited.

ENDS

¹ Adjusted EBITDA is a measure of the underlying performance of the business, it removes non-cash items including the unrealised FX gain/(loss), equity-based compensation and one-off non-recurring items. In respect of FY21, among other items: there are significant equity-based compensation expenses driven by the recent awards of options after the Company's AGM in November 2020; there are material logistics demurrage charges driven by one-off warehousing and supply chain interruptions from late 2020 through April 2021; and there is a provision for payment of the Mighty Ape Acquisition tranches.

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About Kogan.com

Kogan.com is a portfolio of retail and services businesses that includes Kogan Retail, Kogan Marketplace, Kogan Mobile, Kogan Internet, Kogan Insurance, Kogan Travel, Kogan Money, Kogan Cars, Kogan Energy, Dick Smith, Matt Blatt and Mighty Ape. Kogan is a leading consumer brand renowned for price leadership through digital efficiency. The company is focused on making in-demand products and services more affordable and accessible.