

Investing in the **New Reality** of Apparel

Impact Investment Analysis of Shein and Alternatives

Washington Investment Institution

Objective

Investigating **impact investment opportunities** in the growing but controversial fast fashion industry and other apparel companies based on financial and ESG analysis

Investment Decision

The Washington Investment Institution is **against** investing in Shein or any other fast fashion or apparel company.

An alternative investment in **Etsy** would yield positive financial returns and ESG impact.

Agenda



**Investment
Principles**



**Company
Evaluation**



**Industry
Evaluation**



**Investment
Decision**



Conclusion

Agenda 1

Investment Principles



Our Investment Beliefs

We invest in equities with...				
Investment Principles	Company	Industry	Alternative	Conclusion
<div><div><h3>Financial Merit</h3><p>We seek opportunities for steady capital appreciation and/or dividend income while minimizing risk.</p><p>Our fiduciary duty for Washington state employees to deliver retirement security requires a long investment horizon and prudent risk-taking.</p></div><div><h3>ESG Performance</h3><p>As a public financial institution, our investment decisions must reflect our obligation to create positive stakeholder impact.</p><p>Assets with major ESG risks also damage long term investment returns.</p></div></div>				

Investment options were analyzed based on financial opportunities/risks and stakeholder impact

Financial Opportunities/Risks



Economic



Socio-Cultural



Political



Legal

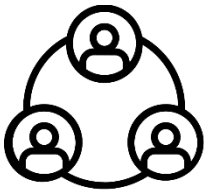


Technological

Stakeholder Impact



Suppliers



Community



Environment



Customers



Shareholders

Investment Principles

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Conclusion

Our Transparency Requirements

Financial Information based on GAAP

Operational and financial information is paramount for investment decision-making. Disclosure following **standardized accounting methods** is the first step to transparent governance.

Key ESG Performance Indicators for Fast Fashion Companies

Growth	Net Sales	New and Repeat User Count	
Profitability	Gross Margin	Operating Margin	Conversion Rate
Efficiency	Inventory	Inventory Turnover	Customer Acquisition Cost

Our Transparency Requirements

Non-Financial (ESG) Information

An ESG Report following either **SASB** or **GRI standards**:
Standardized disclosure makes way for fair evaluation of ESG performance across companies.

Long-term sustainability plan:
Information on a long-term plan to mitigate ESG risks, including current efforts, results and prospects.

Key ESG Performance Indicators for Fast Fashion Companies

Suppliers	Audit for labor code of conduct	Local procurement operations	
Environment	Raw material sourcing	Packaging volume	Wastewater discharge

Agenda 2

Company Evaluation



Ultra-fast and ultra-cheap, Shein is the newest fast-fashion brand on steroids

SHEIN

Real Time Fashion

A Chinese online fast fashion retailer, Shein's mission is to **make fashion accessible** to all.

Consumer driven manufacturing by artificial intuition assists Shein in creating product ideas that reflect search and social media behaviors of its target market.

Vertical integration of the total supply chain allows the production schedule for Shein to deliver products from design to store to be as short as **three days**¹, compared to ZARA's average of 3 weeks.

Shein in Numbers : 2021 Statistics

**#1
App**

Shein is the #1 shopping app in 56 countries, surpassing Amazon in iOS app download counts².

**600,000
items on sale**

On a daily basis Shein releases 500 fashion products³, while Boohoo releases the same over a week.

**28%
market share**

Shein surpasses H&M(20%) and Zara(11%) and grew by nearly 160% in the first half of 2021⁴.

Shein is part of the growing ultra-fast fashion industry

Increasing Apparel Consumption	Growing Fast Fashion Market	Transition to Online
<p>60% More clothes bought by the average consumer compared to 2000¹</p> <p>20% Less times an item is worn compared to 2000²</p> <p>41% Women feel pressured to wear a different outfit for every event³</p>	<p>\$39.8B Expected value of fast fashion market in 2025, growing at a CAGR 7%⁴</p>	<p>Location-based retailers, such as Forever 21 and Neiman Marcus filed for bankruptcy and closed stores,</p> <p>While ultra-fast fashion online retailer ASOS posted revenue growth of 20% each for 2020 and 2021⁵.</p> <p>29.5% Fashion retail sales from the ecommerce fashion industry⁶</p>
Shein's total addressable market of online fast fashion will likely become larger in the near future.		

Shein has attracted major investments as a dominant force in ultra-fast fashion.

Exponential International Growth

Shein is the world's **largest online-only** fashion firm¹.

\$10B Estimated sales in 2020, exceeding 2019 by 300%²
Shein holds the largest market share in US fast fashion.

Popularity with Venture Capitals

Shein was valued at **\$15 billion** in the Series E funding in August 2020, and this number has ballooned to **\$50 billion** by 2021².

Previous investors include Sequoia Capital and IDG capital.

Recent IPO rumors

While Shein has denied IPO rumors, 2022 reports discussed the Chinese firm's plans with the possibility of CEO acquiring Singaporean citizenship for an offshore IPO.

However, Shein may face unwelcome market conditions and political turmoil

Lukewarm IPO Results

More than **half** of 481 U.S. IPOs from 2021 are trading **below their offer prices**¹.

Ex. Affirm Holdings and Coupang, both ecommerce companies, now trades at half their initial prices.

Inherent Regulatory Risk

Overseas investors are forbidden from participating in management in Chinese firms, and their total ownership is capped at 30%².

Unique Political Risks

Exposure to trade wars and government crackdowns

- **Blacklisted** in India after the China-India skirmishes(2020)³
- Chinese company Didi's 70% drop in share values & forced off mobile stores after government regulation⁴.

Exploiting a Legal Loophole

Policy changes banning duty-free shipping under \$800 would directly impact its operations and costs

Investing in Shein's IPO will probably incur short-term losses, while long-term growth faces many risk factors

Shein's technological power is one of the main drivers of its growth, but it also has its shortcomings

Supply Chain Integration Innovation

Connecting **6,000+** clothing factories¹ with proprietary internal management software, Shein collects near-instant feedback about demand and order new inventory virtually on demand.

Algorithm-based Demand Research and Design

With massive amounts of data collected from its customers, Shein uses powerful algorithms to analyze online trends in order to quickly pump out new and trendy designs.

Lack of Oversight & Insensitive Marketing

Shein was called out for selling Muslim prayer mats as decorative rugs and renaming them 'fringe trim carpets', as well as facing public outrage after SHEIN's listing of swastika necklaces².

Clever marketing converts young customers into walking ad campaigns

Demographic Focus on Gen Z

Shein's target audience is women around the world aged between 16 and 35 who mostly buy their clothes online¹.

Massive User-Generated Content

Millions of review videos or 'clothing hauls' across TikTok and YouTube, as well as a community of fans #Sheingirls on Instagram (1.12M hashtags)²

Mass Awareness Through Social Media³

Paid partnership with macro-influencers, such as Katy Perry and Addison Rae to reach new customers and build the brand image.

Affiliate programs with 10~20% commission rates for micro-influencers and content creators to grow and retain its customer base as well as provide free publicity.

Country-specific local influencer strategy to create relevant connections with consumers

Shein's mysteriously cheap and wide offerings come at the price of its consumers

Democratizing Fashion by Affordability and Inclusion

\$11
tops

Affordable clothes, with prices even lower than other fast fashion brands¹

8K+
Plus Size options

The most size-inclusive fast fashion retailer in the UK, with sizing from size 6 to size 26²

Toxic Materials & Data Insecurity

20X

Lead in a children's jacket to allowable lead limit, leading to Health Canada's recall³

6.4M

Users affected by breach of personal identifiable information by lack of cybersecurity⁴

Low Transparency

1
Out of 100

Shein's 2021 Fashion Transparency Score due to lacking public disclosure⁵

Official financial results of Shein's sales, revenue or profits are **not revealed**

Shein's ESG-related misconducts reflect deep-rooted issues within the fast fashion industry

Poor Labor Conditions and Contractor Relations

To lower prices, SHEIN subcontracts to smaller workshops and factories

75
Hours

per week for workers at Shein's contractors in Guangzhou factories¹

False disclosure of factories' certification by ISO and labor standards SA8000²

Harmful to the Environment



Shein hauls promote **overconsumption**

Wasteful individual plastic packaging

Large amounts of GHG emissions from global shipping to 220 countries

Rip-offs & Plagiarism

SHEIN abuses its market power by **stealing designs** from brands, independent designers and small businesses.

Plagiarism hurts its competitors as well as diminishing the range of products for consumers.

Investment Decision in Shein

NO investment in Shein as it does not fit our investment principle on stakeholder impact. However, further investigation into the apparel industry is needed.

Opportunities

Shein's **dominant market share** and **innovative operations** are valued features, which is proven by **major early investors** backing the firm

With an **ardent online following** in a focused demographic, Shein has a **strong customer base** backed by **algorithm driven marketing**

Risks

Little to no disclosure of its financial performance and the team behind Shein makes it difficult to gauge its investment value.

Inherent **political risks** and unwelcome **market conditions** facing the IPO raise concerns over Shein's stability as an investment.

Shein's business model and operating practices has repeatedly hurt the **environment** and its **suppliers** and **consumers**.

Shein Scores



	Positive Status	Negative Status
Positive Outlook	A	B
Negative Outlook	B	C

Criteria	Score	Criteria	Score
Economic	A	Suppliers	C
Socio-Cultural	B	Community	C
Political	B	Environment	C
Legal	B	Customers	B
Technological	B	Shareholders	B
Financial Merit		ESG Performance	C

Agenda 3

Industry Evaluation



Other fast fashion and apparel companies were evaluated according to value segments

Apparel company: Company that deals in the **manufacturing and retail** trade of **finished garments**

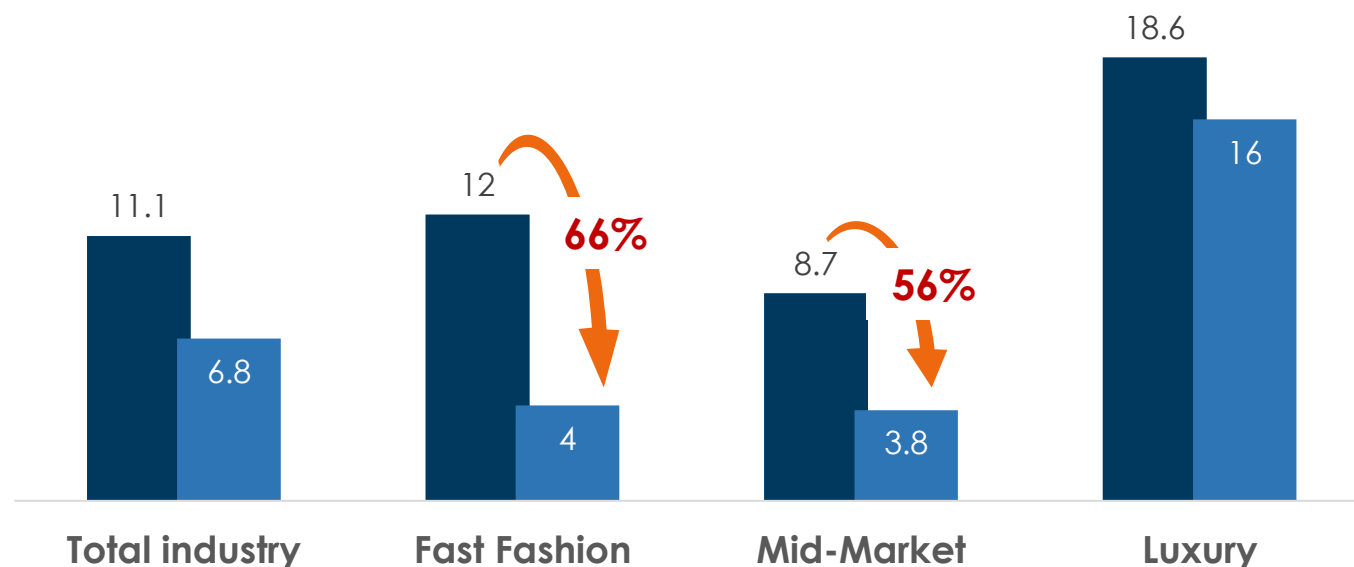


Pandemic has widened profitability gap among price value segments; luxury outperformed other segments

Profit Margins by Value Segment

EBITA Margin¹, 2019-2020
% of Revenue

■ 2019 ■ 2020



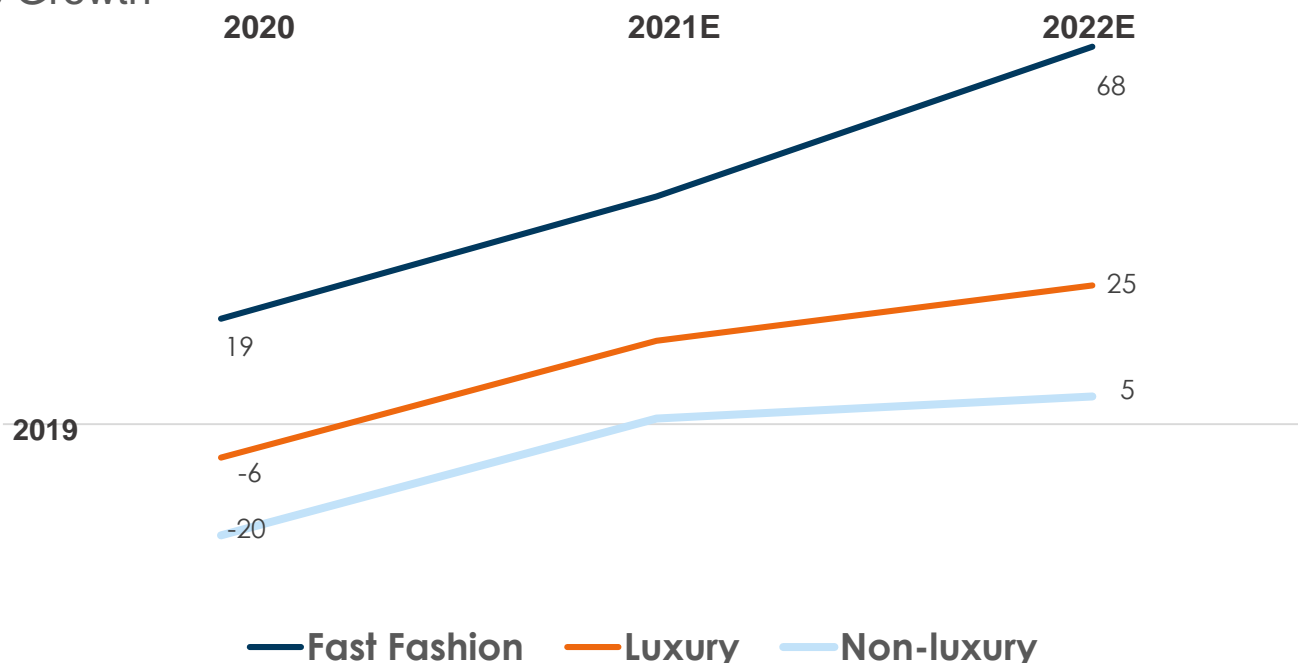
Findings

- **Luxury** was the only segment that **maintained margins** in 2020
- In 2020, **mid-market** giant VF Corporation **lost its spot** from McKinsey's "Super Winners" list, and **12% of revenue**
- Most **fast fashion** Super Winners maintained their spots but saw **20%-30% decrease in profit**

Fast fashion and luxury segments have positive outlook consensus on post-pandemic growth, while the mid-market is predicted to suffer

Sales Forecast by Value Segment

Sales Growth¹, Compared to 2019
% Growth



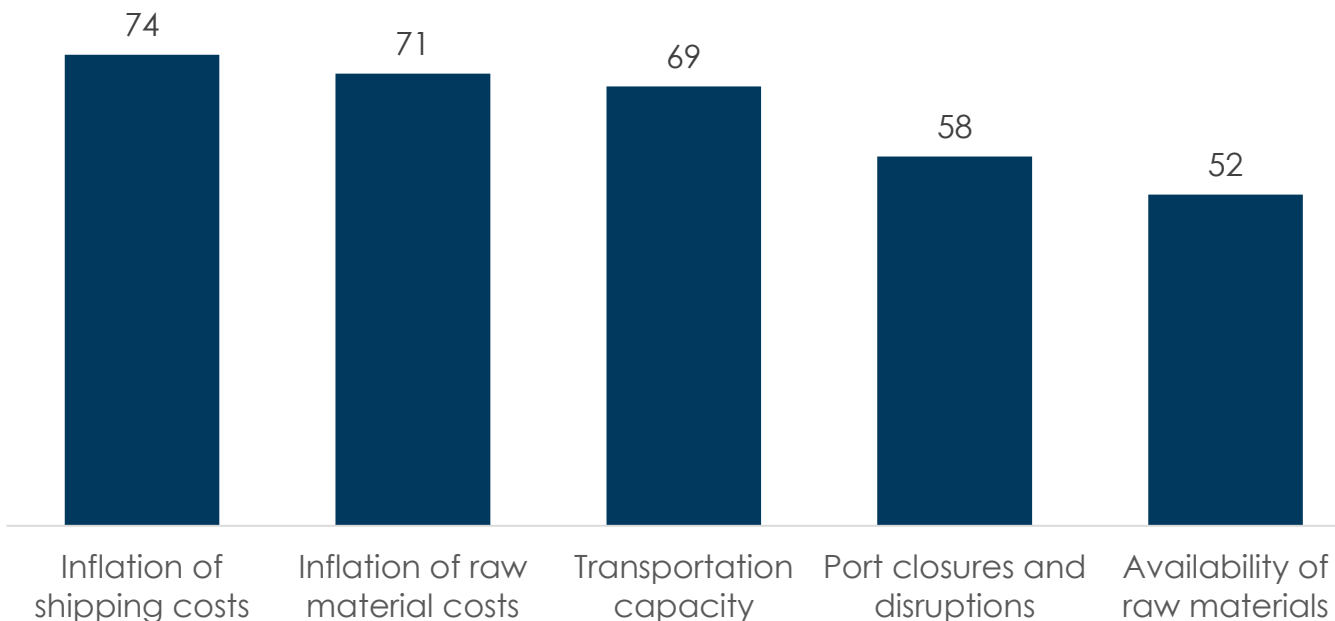
Findings

- **Luxury and fast fashion** sales will drive the **resurrection** of apparel industry
- **Mid-market** will **hinder non-luxury growth**, likely due to lack of online channels and lower value/price
- Despite inflation, mid-market executives see **price decrease** coming in the segment due to its continued underperformance throughout the pandemic

Ongoing supply chain issues and inflation will incur direct and indirect costs for the whole industry

Factors Impacting Supply Chain in 2022

Trends Expected to Impact² Supply Chains % of Respondents



Findings

Unpredictable demand due to reversal in consumer behavior

Return to pre-pandemic life has spiked interest in occasion dresses, workwear and luggage

Dwindling consumer confidence amid inflation

20% YoY drop in both consumer confidence and expectations. Wall-street sees consumers spending more on staples rather than discretionary items.

Rising supply chain and labor costs

Asos could lose **40% of profits** in 2022⁴. COVID-19 related complications and Brexit are two of the factors pushing freight delivery costs and wage.

Technological innovations in machine learning and blockchain offer exciting opportunities for the industry

Artificial Intelligence	VR Technology	Blockchain
Trend Prediction Google partnered with Zalando and created neural network which was trained to understand style preferences, colors and textures . After that, the algorithm was used to create designs based on users' styles preferences.	Rising Supply Chain and Labor Costs ASOS.com, Levi's, Macy's, North Face have turned to sizing technology that use algorithms to solve sizing issues and give accurate size recommendations on their website to reduce environmental impact on returns.	Product Passports LVMH has joined forces with two other major luxury names –Prada and Cartier, part of Richemont – to develop Aura Blockchain Consortium, the world's first global luxury blockchain. The objective is to provide consumers with a high level of transparency and traceability throughout the lifecycle of a product.

Impact

Cost reduction, Sustainability, Fighting counterfeits, Implementation costs, Cleaning up supply chain

Demographic and economic conditions are conducive to the growth of fast fashion and luxury market

Gen Z

With **convenience, affordability and speed**, fast fashion brands such as Shein, H&M and Forever 21 take the top spots as Gen Z's favorite place to shop. ¹

933K Followers of Boohoo on Tik Tok, 10.3M likes

Income Polarization

Pandemic-driven income polarization increased demand for cheap clothes.

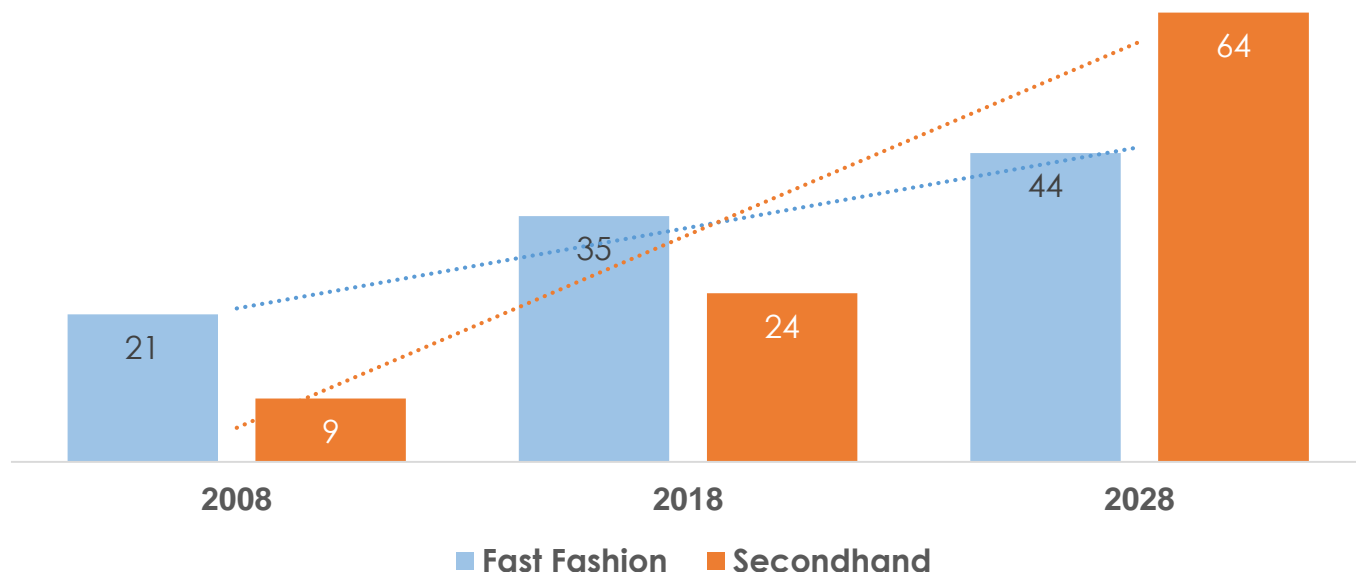
\$30K Wage ceiling for bottom 90% in 2020, in contrast with top 0.1% taking more than \$1M on average³

\$7 People looked for clothes under \$7 ¹, while Internet searches for “cheap clothes” shot up by 46 percent²

... while demand for sustainability poses risk of losing core consumers as the secondhand market grows

Secondhand Market Growth

Estimated Revenue¹
billion USD



Findings

62% of Gen Z³ and **73%** of Millennials⁴ prefer to buy from sustainable brands

Secondhand market projected to grow to nearly **1.5x size** of fast fashion by 2028¹

Gen Z are growing consumers in the secondhand market

42% shopped secondhand apparel in the past year¹

53% plan to spend more on secondhand in the next 5 years¹

83% "strongly agree" with only temporarily owning clothes and reselling them²

The apparel industry has stayed relatively clear of government regulations, but things may change as environmental concerns rise.

Low Regulatory Environment

By manufacturing and producing overseas, fashion companies have been **exempt from domestic labor and environmental laws**

Little to no legal repercussions from memberships and certificates after failing to meet industry guidelines

Paradigm Shift with More Regulations

Rising voices of an **environmentally aware generation** reflected in new regulations and certificates

France and Germany's requirements of fashion companies to disclose carbon information & meet ESG standards

California Garment Worker's Act (SB62) to ban piece-rate wage system

Each value segment was analyzed based on the apparel supply chain and life cycle and their impact on industry stakeholders



Design plagiarism is prevalent within the apparel industry, but the fast fashion industry has reacted with noticeable impudence

Community

Plagiarism in Fast Fashion

\$3 million Lawsuit



“functional, generic, ornamental, and/or not distinctive”

-Zara on Amiri’s jeans

Plagiarism in Luxury

Apology & Accreditation



Chanel will credit Mati Ventrillon by including the words ‘Mati Ventrillon design’

-Chanel’s public apology

Impact

On-going problem in fast fashion poses legal risk

Indie designers without financial resources left unprotected

Fast fashion exacerbates labor and resource intensity issues of apparel production

Suppliers		Environment	
		Working Conditions	Resource Intensity
Apparel Industry		<div>60% Global textile exported from regions where labor trafficking is prevalent¹</div> <div>Even with Utthan pact (2016), facilities remain unregulated and do not meet safety laws⁴</div>	<div>1.2B GHG in tons</div> <div>1.5T Liters of annual water consumption</div> <div>Polluting, water-consuming industry⁵<ul style="list-style-type: none">Facilities powered by coal which has largest footprint, burdening developing countriesOver 90% of water consumption comes from fiber production</div>
Fast Fashion		<div>14-16 hours</div> <div>7day-shifts, lasting until 2-3am to meet deadlines</div> <div>0-1% Garment workers earning living wage in Bangladesh & Vietnam²</div>	<div>300x</div> <div>Damage from N₂O emissions from cheap synth. fiber³</div> <div>52 “micro” seasons per year</div>

Investment Principles

Company

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¹The Atlantic, 2015, "All your clothes are made with exploited labor" ²Oxfam, 2019 "Forbes, 2015, "Making climate change fashionable - the garment industry takes on global warming"

³The New York Times, 2020, "Luxury's Hidden Indian Supply Chain" ⁴Ellen MacArthur Foundation, 2017

Distribution pollution and greenwashing is an industry-wide issue, and fast fashion’s “ultra-fast” air journey isn’t helping

Environment

Distribution Pollution		Greenwashing	
Packaging	Transportation		
<div>2% CO₂ emissions from transportation in supply chain³</div> <div>Fast Fashion 16x g of CO₂ Air freight emissions compared to cargo ships²</div>	<div>40% Proportion of packaging in annual 380mil t plastic production</div> <div>14% Proportion of recycled packaging</div>	<div>60% Environmental claims in fashion brands "unsubstantiated" and "misleading"¹</div> <div>0 Companies that have clear commitments to phase out synthetic fibers</div> <div>1/3 Companies able to prove that they have followed through gender-based violence and harassment commitments</div> <div>“Conscious” Collections More synthetic materials used Recycled material proportions unknown</div>	

Investment Principles

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¹Changing Markets Foundation, 2020, “Synthetics Anonymous”, ²IEA, 2019 ³Quantis, 2018, Measuring Fashion: Insights from the Environmental Impact of the Global Apparel and Footwear Industries

Fast fashion’s “ultra-fast” journey to consumers and “sustainable” measures aren’t helpful to the environment

Environment

Overconsumption	Microfiber
<div><div>5.5 days</div><div>The time it takes for an average consumer to purchase a new item of clothing</div></div> <div><div>40%</div><div>Increase in clothing purchase in Europe between 1996 and 2012</div></div> <div><div>36%</div><div>Decrease in average garment-use time since 2005</div></div> <div><div>\$400B</div><div>annual value of clothing discarded prematurely due to overconsumption</div></div>	<div><div>35%</div><div>Proportion of Plastic particles washed off from synthetic clothes in primary plastic ocean pollution</div></div> <div><div>9M</div><div>Average amount of microfibers released into wastewater plants after a single laundry wash</div></div> <div><div>85%</div><div>Proportion of human-made debris on shorelines around the world</div></div>

Massive amounts of disposed and recycled textile waste harm the environment

Environment

Incineration and Landfills

While incineration recovers some **energy**, it generates further **emissions and air pollutants**. Incineration of synthetic fibers may also releases plastic **microfibers**, while taking up to **200 years** to decompose in landfills.

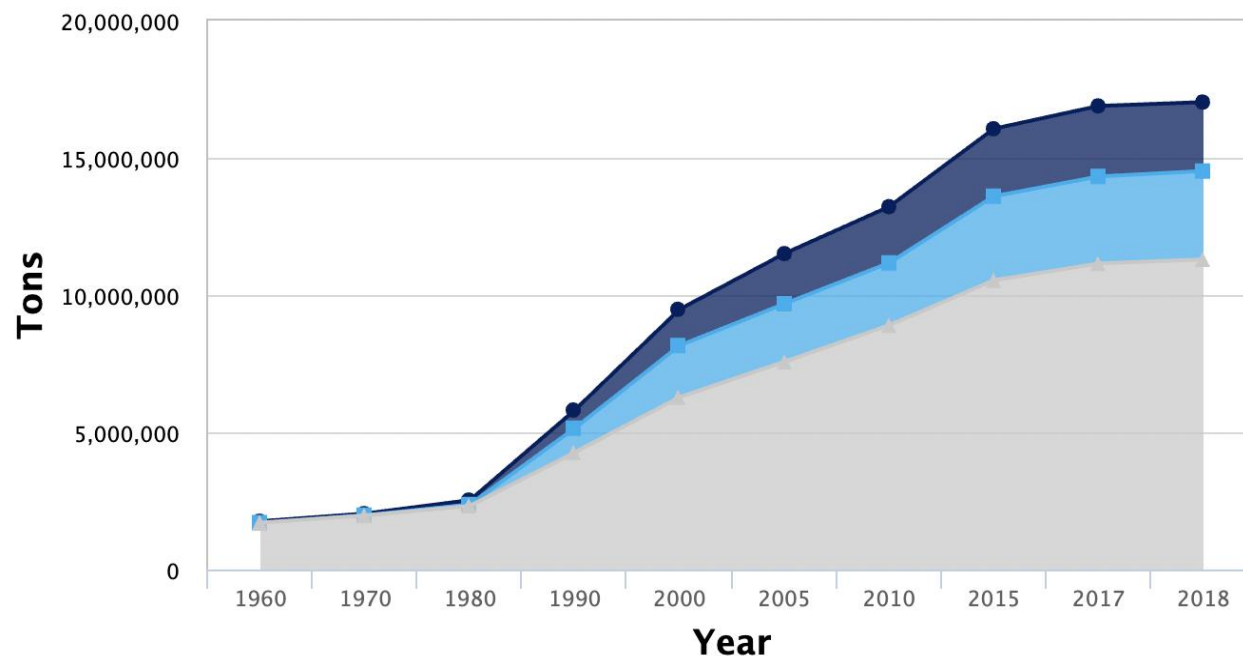
£28.6 M

Worth of clothing burned by Burberry in 2017¹. Brands regard **incineration** as the most cost-effective way of maintaining exclusivity.

3 of 5

For every 5 garments produced, the equivalent of 3 end up in a landfill or incinerated each year².

Textiles Waste Management: 1960–2018³



Click on legend items below to customize items displayed in the chart

Recycled Composted Combustion with Energy Recovery Landfilled



Massive amounts of disposed and recycled textile waste harm the environment

Environment

Recycling

rPET requires **59%** less energy and creates **32%** less **CO₂ emissions** compared to virgin polyester, while preventing used plastic from entering landfills.

< 1% Proportion of material used to produce recycled clothing

Still more **energy intensive** to recycle PET into fiber than to use organically produced natural fibers.

Both virgin and recycled polyester contribute to **microplastics** pollution by shedding microfibers and bioaccumulates in the ecosystem.

ENERGY REQUIREMENTS

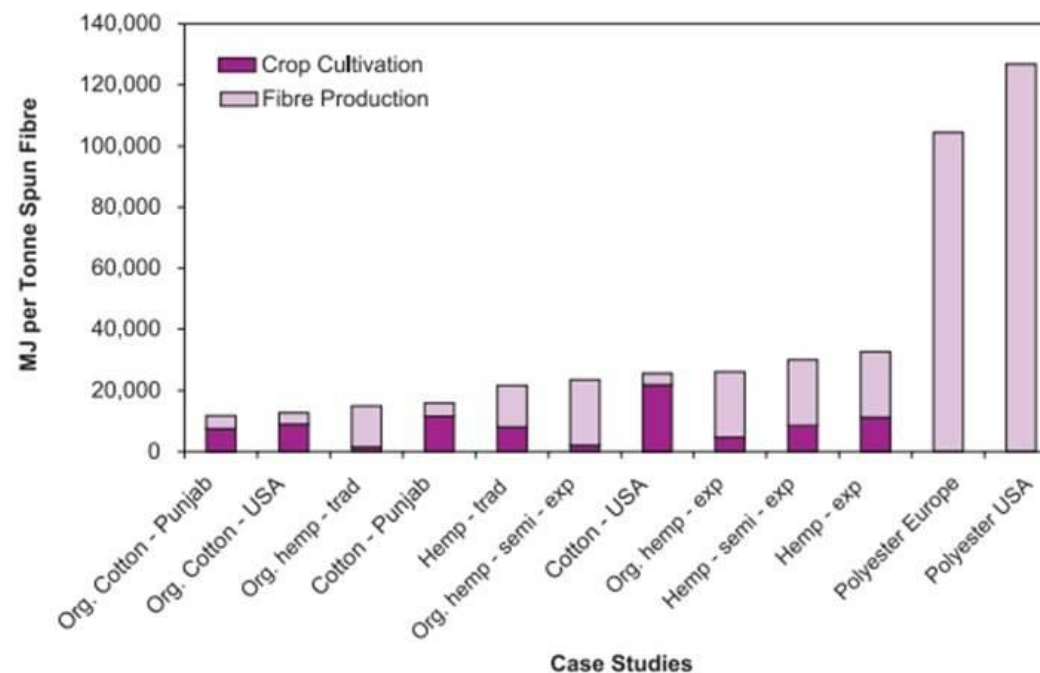
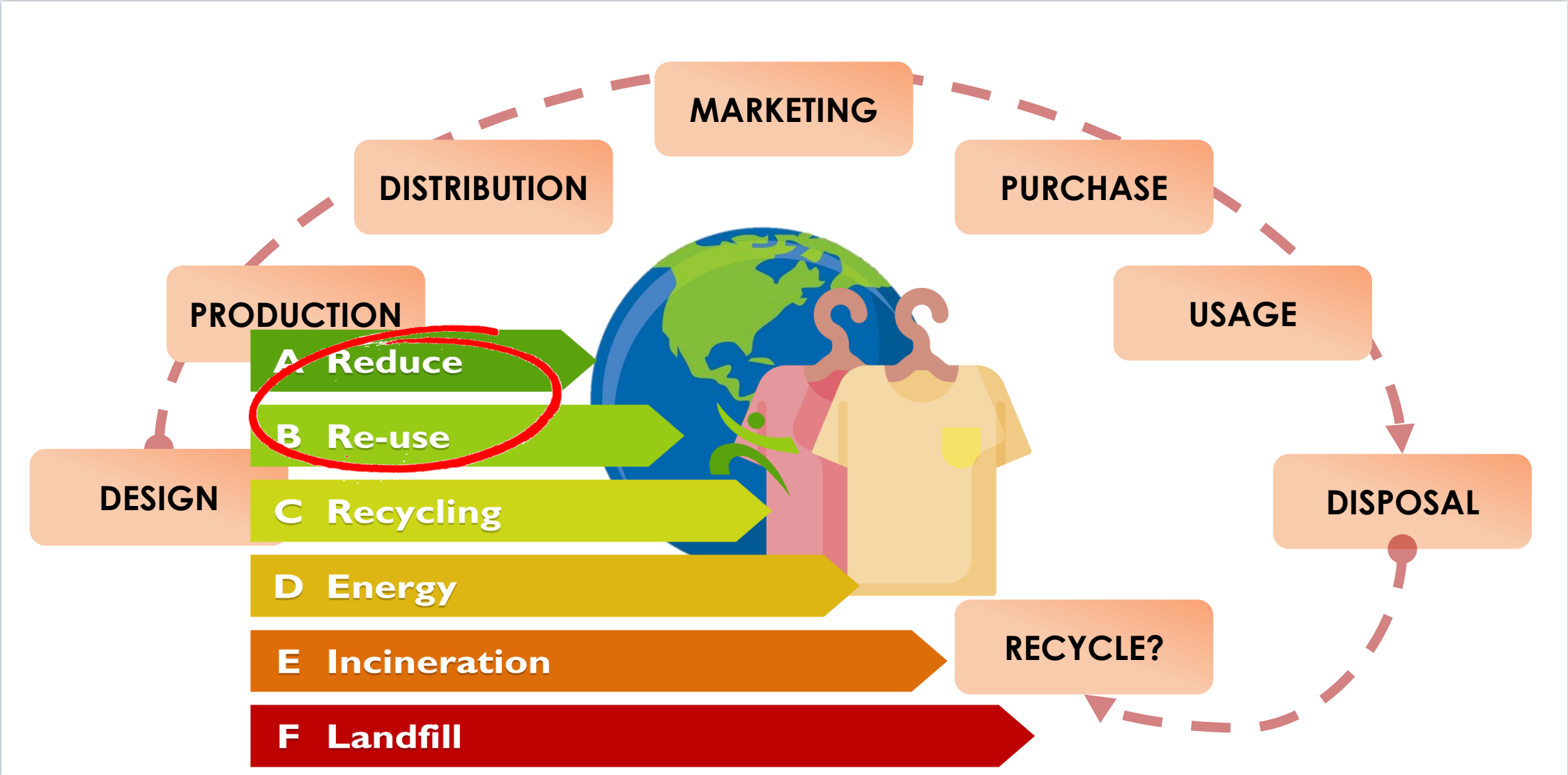


Figure 3. Total energy (in megajoules) required to produce one tonne of spun fibre



Investment Decision

No investment in other fast fashion and apparel companies as they do not meet investment criteria.

Opportunities

The pandemic favored **fast fashion and luxury segments** of the apparel industry, while **mid-market** brands further lost their profitability.

The **widening gap in consumer income**, and **consumer habits** of target demographics also contributes to this divide.

The entire industry will reap the benefits of rapid technology innovation.

Risks

Distruptions in the **global economy and supply chain** threaten the viability of investing in **any apparel company**.

Consumer conscience regarding **sustainability** can overturn their love for any brand, but especially those in **fast fashion**.

The industry has enjoyed a **relatively easy regulatory environment**, but heightened concerns regarding **endemic labor and environmental issues** are changing this.

Most importantly, there is **no need to produce more when there is already more than enough**, especially if there is **growing demand for what has already been produced**.

Industry Scores

Criteria	Luxury	Mid	Fast	Criteria	Luxury	Mid	Fast
Economic	A	C	A	Suppliers	C	B	C
Socio-Cultural	A	C	A	Community	B	A	C
Political	N/A	N/A	N/A	Environment	C	C	C
Legal	B	B	B	Customers	N/A	N/A	N/A
Technological	A	B	A	Shareholders	A	B	A
Financial Merit	A	C	A	ESG Performance	B	B	C

Agenda 4

Alternative Investment



Why we are investing in Etsy

Since the current model of circular fashion is insufficient, we looked for companies that fulfilled Lansink's ladder by

- **Preventing excessive mass production** of garments
- **Enabling the reuse** of second-hand clothing.

We searched for assets that **enable alternative modes of consumption** with less impact on suppliers and the environment.



As a technical enabler of connecting sellers of **handmade** and **secondhand products** to consumers, Etsy fits our description.

Etsy is a major player in the handmade and resale market

Etsy's mission & House of Brands

An online marketplace for handmade goods, Etsy's vision is to *keep commerce human* by connecting creative sellers and passionate buyers around the world

A Global Handmade Marketplace

Acquisition of Elo7, also known as 'Etsy of Brazil', with plans to enter the Latin America handmade market.

Entry into the Resale Market

Acquisition of Reverb and Depop, respectively online marketplaces for used musical instruments and fashion.

\$1252B

The expected value of the global handicrafts market in 2027, growing at CAGR 10.41% from \$680B in 2021¹

The **secondhand fashion retail market** is expected to double in size over the next five years, as consumers seek sustainable, more affordable items.

\$84B

Expected Market size of secondhand fashion retail market in 2030²

**11
times**

Secondhand clothing market is growing at 11 times faster than traditional retail²

With the growth of those two markets, Etsy's Total Addressable Market(TAM) is **1.7 trillion** in 6 core geographies³.

COVID-19 launched Etsy's agile business through the roof

Strong Growth through the Pandemic

Gross Merchandise Sales jumped 18% during 2020 and was more than **2.5** times greater compared to 2019¹. Since 2015, Etsy's annual **revenue** has increased **6.29x** and **doubled** in 2020².

81.9M
Active Users³

Increased mask consumption, lockdown of commercial stores and interest in shopping small all helped Etsy acquire a large number of new and active buyers.

Cash Generation Ability & Capital-light Structure

\$0.26
Per dollar

Boasting strong cash flow, Etsy generated **\$584 million** of free cash flow (on \$2.2 billion in sales) in 2020⁴.

23.3%
Operating margin⁵

As an ecommerce platform, Etsy operates a capital light business model without large inventories or assets.

Favorable social trends and technological investments boost Etsy's appeal as a viable investment

Shopping Local and Supporting Small Business

56%

Consumers buy from neighborhood stores or locally sourced products to 'reinvest in local economies(45%)' and 'keep money in the community(44%)'¹

72%

Of millennials are committed to supporting small businesses more than they did pre-pandemic²

Commitment to Technological Investment

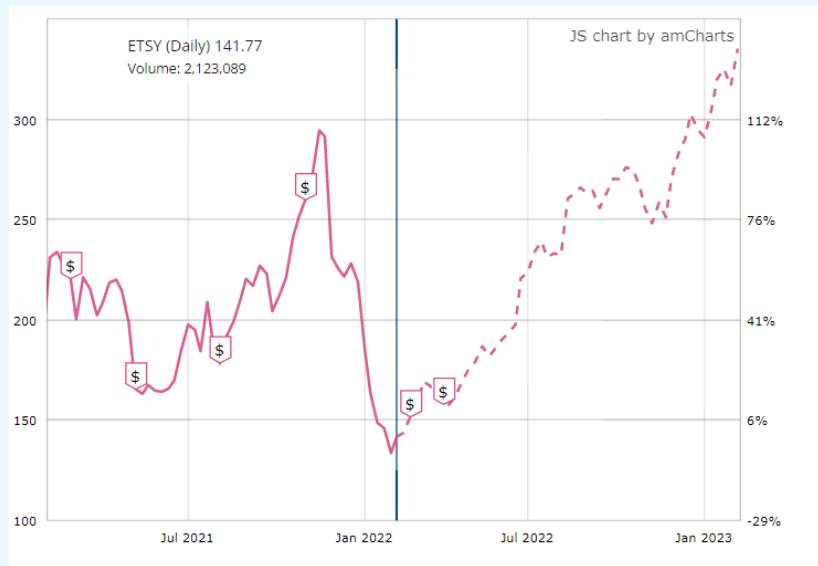
\$32.5M

Acquisition of Blackbird Technologies in 2016 for early investment into machine learning technology improved the platform's search quality and shopping experience ³.

115%

Increase in experiment velocity in 2019 from using Google Cloud, leading to better buyer and seller insights⁴

Etsy is currently undervalued for market reasons, but will provide high return over the long run



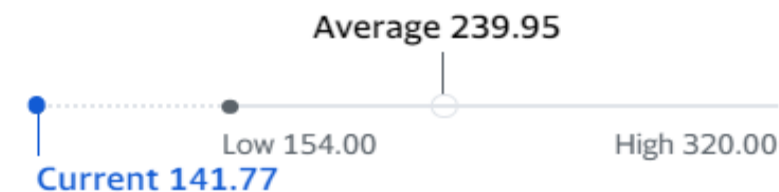
Etsy's All Time High

With legendary growth in revenues and net income, Etsy's stock price increased by almost **700%**, from \$44 in December 2019 to **\$307.75** ²

52% Drop and Undervaluation by 50%

The sudden drop in stock price arises from sector rotation away from previous tech stocks and pandemic stocks and is not limited to Etsy alone.

Analyst Price Targets (20) >



Positive Outlook on Etsy Stock

Taking a conservative view on revenue and margin growth, our investment is still expected to return **30%**. Wall Street estimates point at **70%** returns³.

Positive ESG impact is inherently written into ETSY’s business model

Suppliers	Community	Environment
<div><div>\$4B</div><div>Income created by sellers¹</div></div> <div><div>2.6M</div><div>Jobs created in the independent worker economy²</div></div> <div><div>11.4%</div><div>Contribution to household income as a supplementary source³</div></div>	<div><div></div><div>While Etsy is a global company, most consumption happens locally, producing a larger economic impact on the local economy.</div></div> <div><div>95%</div><div>US sellers source their vendors and suppliers domestically, with 48% from their own state⁴</div></div>	<div><div>10%</div><div>Reduction in handmade item’s carbon, water and waste footprints compared to factory-made goods.⁵</div></div> <div><div>Slow production by small sellers</div><div>make sure that power consumption and waste production is minimal</div></div>

¹Etsy, 2021, "2020 Integrated annual report" ²EtsyImpact, 2021, "Etsy's 2021 Economic Impact Goals" ³Census, 2021, "Income, Poverty and Health Insurance Coverage in the United States: 2020" ⁴CNBC, 2021, "Etsy sellers and other small businesses are betting on local sourcing to win the holiday" ⁵Scientific American, 2019, "Can Secondhand Shopping Dent Fast Fashion's Environmental Damage?"

Etsy is conducting ESG initiatives to create a virtuous cycle leading back to its business model

Suppliers	Community	Environment
<p>Promote Local Consumption</p> <p>Implemented ‘local seller’ signal to notify buyers when the shop is in the same region as the item</p> <p>Foster Equal Opportunities</p> <p>Support nonprofits through Uplift Fund at Brooklyn Community Foundation</p> <p>Provide Financial Support</p> <p>Joined BlackRock’s Emergency Savings Initiative to resolve financial difficulties Etsy sellers face.</p>	<p>\$2.6M Donation in charitable gifts¹</p> <p>\$1M Donation to support Black-led organizations²</p> <p>\$750 Per year Amount for employee matching program, expanded from \$500.³</p> <p>2000 hours Volunteer hours put in by Etsy employees in 2020</p>	<p>Green Investments</p> <p>400K Investments in verified emission reductions⁴</p> <p>Wider Accountability</p> <p>Added new areas such as packaging and mobile devices to their impact of business</p> <p>Zero Waste Operations</p> <p>90% Diversion of waste from landfill from past three years⁵</p>

¹EtsyImpact, 2021, "Etsy Makes Progress on 2020 Impact Strategy and Shares 2021 Impact Goals" ²EtsyNews, 2020, "Etsy to Donate \$1 Million Toward Justice Reform and Black-Led Institutions"
³Etsy, 2021, "2020 Integrated annual report" ⁴Etsy, 2021, "2020 SASB TCFD disclosures"
⁵EtsyImpact, 2021, "Etsy's 2021 Ecological Impact Goals"

Etsy has already overachieved its impact targets and has set ambitious targets for the future

Achievements Ahead on Time

\$13B

Contribution to US economy in 2020
Etsy has already met its 2023 goal to double US seller's economic output¹

100%

Sourcing of its electricity from renewable energy,
Meeting its 2020 goals and becoming carbon neutral¹

New Targets for Stakeholders

50%

Absolute reduction in Scope 1 and 2, and 13.5% absolute reduction in Scope 3 greenhouse gas emissions by 2030¹.

2X

The percentage of US employees who identify as Black, Latinx or Native American by 2023 ².

Impact of Investing in Etsy



Our state employees could expect **30%** of returns for their pensions



Create additional jobs in the United States



Stimulate local economy growth



Reduce GHG emissions through green operations and investment

Etsy Scoring



	Positive Status	Negative Status
Positive Outlook	A	B
Negative Outlook	B	C

Criteria	Score	Criteria	Score
Economic	A	Suppliers	A
Socio-Cultural	A	Community	A
Political	B	Environment	A
Legal	N/A	Customers	A
Technological	A	Shareholders	B
Financial Merit		ESG Performance	A

Agenda 5

Conclusion



Conclusion

Recap

Shein	Industry Analysis	Investment Decision
Epitome of immorality of fast fashion and fashion industry	Challenging macro conditions with diminishing margins and increasing costs	No investment in apparel companies, but in Etsy
Profitability at the price of marginalized stakeholders along the value chain	Rise of sustainability and increasingly conscious consumers	
Unsustainable growth fueled by consumerist obsession	Demanding regulators on labor and environment issues	Aim for considerable financial returns and positive stakeholder impact

Investment Principles

Company

Industry

Alternative

Conclusion

Thank you

Appendix

Analysis Criteria Explained

Financial Opportunity / Risks		Stakeholder Impact		
Economic	Socio-Cultural	Customers	Community	Shareholders
Revenue / profit growth / decline	Change in trends, Higher awareness of relevant values	Customer privacy, transparent communication, beneficial products	Local job creation, Community contribution	Returns for investors
Political	Technological	Suppliers	Environment	
Trade war, currency valuation	Efficiency boost from tech development, Supply chain failure	Fair wage, worker health and safety, diverse workplace	Sustainable practices, combat climate change, minimize pollution	
Legal				
Regulation, labor laws				

Transparency Requirements – SASB and GRI

What is SASB?

“SASB Standards guide the disclosure of financially material sustainability information by companies to their investors. Available for 77 industries, the Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry.

SASB Standards are maintained under the auspices of the Value Reporting Foundation, a global nonprofit organization that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, preserved, or eroded.” - sasb.org, “About Us”

What is GRI?

“GRI (Global Reporting Initiative) is the independent, international organization that helps businesses and other organizations take responsibility for their impacts, by providing them with the global common language to communicate those impacts. We provide the world’s most widely used standards for sustainability reporting – the GRI Standards.


The GRI secretariat is headquartered in Amsterdam, the Netherlands, and we have a network of seven regional hubs ensuring we can support organizations and stakeholders worldwide.” - globalreporting.org, “About GRI”

Sustainability Accounting Standards Board (SASB) Index			
Topic	Code	Accounting Metric	VF Response
Environmental Impacts in the Supply Chain	CS-AA-430a.1	Percentage of Tier 1 supplier facilities and supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or continuous agreements	In FY2020, 100% of in-scope Tier 1 and nominated Tier 2 supplier facilities were determined to be in compliance with the VF Global Wastewater Discharge Standards.
	CS-AA-430a.2	Percentage of Tier 1 supplier facilities and supplier facilities beyond Tier 1 that have completed the Higg FEM assessment or an equivalent assessment	In FY2020, 224 Tier 1 and 278 Tier 2 supplier facilities completed the Higg FEM assessment. Of the more than 500 FEM assessments completed, over 70% were verified by an independent third party.
	CS-AA-430b.1	Percentage of Tier 1 supplier facilities and supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, percentage of total audits conducted by a third-party auditor	In FY2020, VF conducted a total of 1,415 supplier audits, of which 139% were conducted by third-party auditors. In accordance with the VF Factory Audit Procedures, 100% of VF's Tier 1 and approximately 70% (by procurement) Tier 2 supplier facilities are audited at least once per year.
Labor Conditions in the Supply Chain	CS-AA-430b.2	Priority non-conformance rate and associated corrective action rate for supplier labor code of conduct audits	In FY2020, 17% of VF's audited supplier facilities were rated "pending re-audit" due to non-conformance with one of our requirements as detailed in the VF Terms of Engagement. Failure to remediate issues can result in a factory designation downgrade and potential contract termination.
	CS-AA-430b.3	Description of the greatest labor and environmental, health and safety risks in the supply chain	VF 2020 Human Rights Report (p. 9 – 10)
	CS-AA-440a.1	Description of environmental and social risks associated with sourcing priority raw materials	VF FY2020 Sustainability & Responsibility Report (p. 49 – 53)
Raw Material Sourcing	CS-AA-440a.2	Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard	In FY2020, VF sourced: <ul style="list-style-type: none"> • Organic Cotton: 4% • Better Cotton Initiative: 33% • Recycled Cotton: <1% • Responsible Down Standard: 100% • 22 & Responsible Wood Standard: 84% • Recycled Nylon: 14% • Recycled Polyester: 24% • Leather from LWG-audited Tanneries: 100%
	CS-AA-250a.1	Discussion of processes to maintain compliance with restricted substances regulations	VF's Product Stewardship Team closely monitors the chemical makeup of product components, the manage chemical usage in our supply chain by maintaining a robust Restricted Substances List (RSL).
Management of Chemicals in Products	CS-AA-250a.2	Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products	VF FY2020 Sustainability & Responsibility Report (p. 56 – 58)
	CS-AA-200a.1	Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1	In FY2020, VF sourced from 842 Tier 1 and subcontractor supplier facilities, 128 Tier 2 supplier facilities and 272 licensees ¹ facilities.

¹ Figure includes supplier factories that are shared with direct owners.

► a VF Corporation sustainability report following SASB standards

◄ the index of a VF Corporation sustainability report following GRI standards



Purpose. Action. Progress.

WELCOME

ABOUT

PEOPLE

PLANET

PRODUCT

BRANDS

APPENDIX

Global Reporting Initiative (GRI) Content Index

Organizational Profile		
102-01	Name of the organization	VF FY2020 Annual Report (p. 12)
102-02	Activities, brands and products	VF FY2020 Annual Report (p. 16 – 18)
102-03	Location of headquarters	VF FY2020 Annual Report (p. 12)
102-04	Location of operations	VF FY2020 Annual Report (p. 16, 33)
102-05	Ownership and legal form	VF FY2020 Annual Report (p. 34)
102-06	Markets served	VF FY2020 Annual Report (p. 16 – 18)
102-07	Scale of the organization	VF FY2020 Annual Report (p. 22, 33, 36)
102-08	Employees and other workers	VF FY2020 Sustainability & Responsibility Report (p. 24)
102-09	Supply chain	VF FY2020 Sustainability & Responsibility Report (p. 9)
102-10	Significant changes to the organization	VF FY2020 Annual Report (p. 19 – 20)
102-11	Precautionary principle or approach	VF 2021 CDP Climate Change Disclosure (p. 5)
102-12	External charters, principles, or other initiatives	VF Corporation's Human Rights Commitment
102-13	Memberships and associations	VF Stakeholder Engagement
Strategy		
102-14	CEO Letter	VF FY2020 Sustainability & Responsibility Report (p. 3 – 4)
102-15	Key impacts, risks and opportunities	VF 2021 CDP Climate Change Disclosure (p. 5 – 11)
Ethics & Integrity		
102-16	Values, purpose & principles	VF FY2020 Sustainability & Responsibility Report (p. 7)

Continued next page

Continued next page

Transparency Requirements – Spotlight Metrics

Stakeholder	ESG Performance Indicator	Disclosure or Metric (Reporting Standard, Code)
Suppliers	Audit for labor code of conduct	<ul style="list-style-type: none"> Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 that have been audited to a labor code of conduct, percentage conducted by a third-party auditor (SASB, CN0501-05) Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (such as percentage of products and services purchased locally). (GRI, Disclosure 204-1 a.)
	Local procurement operations	
Environment	Raw material sourcing	<ul style="list-style-type: none"> Top five raw materials used in products, by weight (SASB, CN0501-03) Total weight or volume of materials that are used to produce and package the organization's primary products and services during the reporting period (GRI, Disclosure 301-1 a.)
Environment	Packaging volume	<ul style="list-style-type: none"> Percentage of (1) tier 1 supplier facilities and (2) supplier facilities beyond tier 1 with wastewater discharge meeting or exceeding legal requirements (SASB, CN0501-08) Percentage of suppliers with significant water-related impacts from water discharge that have set minimum standards for the quality of their effluent discharge. (GRI, Disclosure 303-4 2.4.3)
	Wastewater discharge	

Value Segments

Definition

The company segmentation based on a **Sales Price Index**, which provides a range of prices for a standard basket of products within each segment and company's home market.

The companies in the McKinsey Global Fashion Index and the BoF McKinsey State of Fashion Survey are categorized into six segments, which are **based on a price index across a wide basket of goods and geographies**.

The segments range from lowest to highest price segment: **discount, value, mid-market, premium/bridge, affordable luxury, luxury**.

How is Outdoor Fast Fashion?

Sportswear makers traditionally operate on a seasonal business model, designing two main collections a year to 18 months before they hit the shelves.

But Adidas ... wants to shift towards fast fashion as pioneered by Inditex's Zara, which delivers new styles to its stores twice a week.

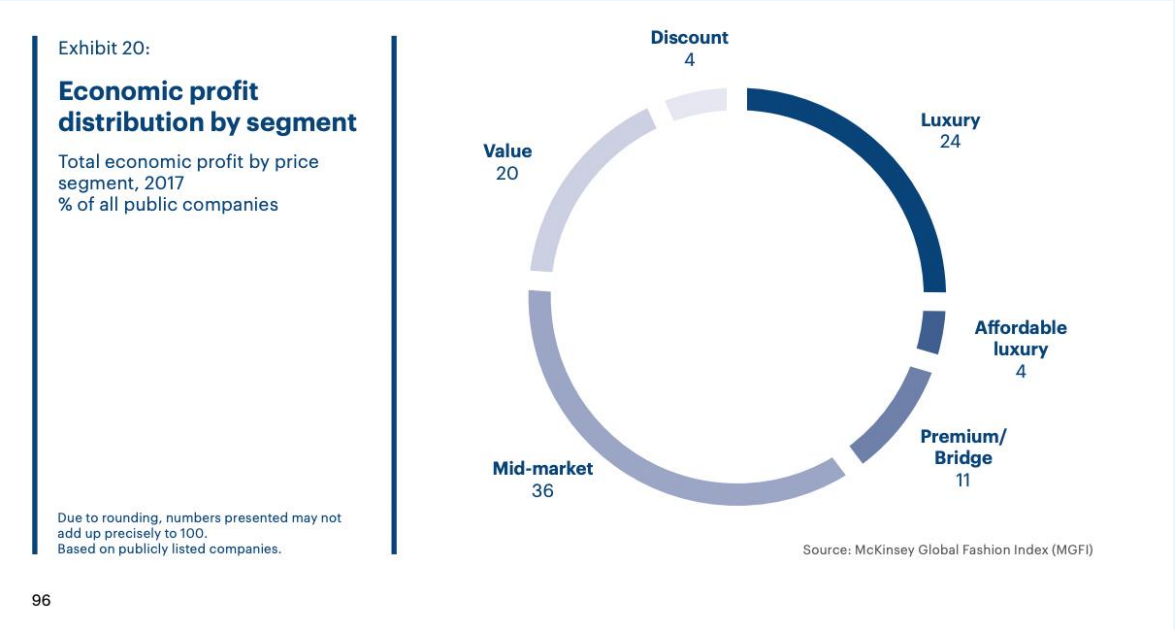
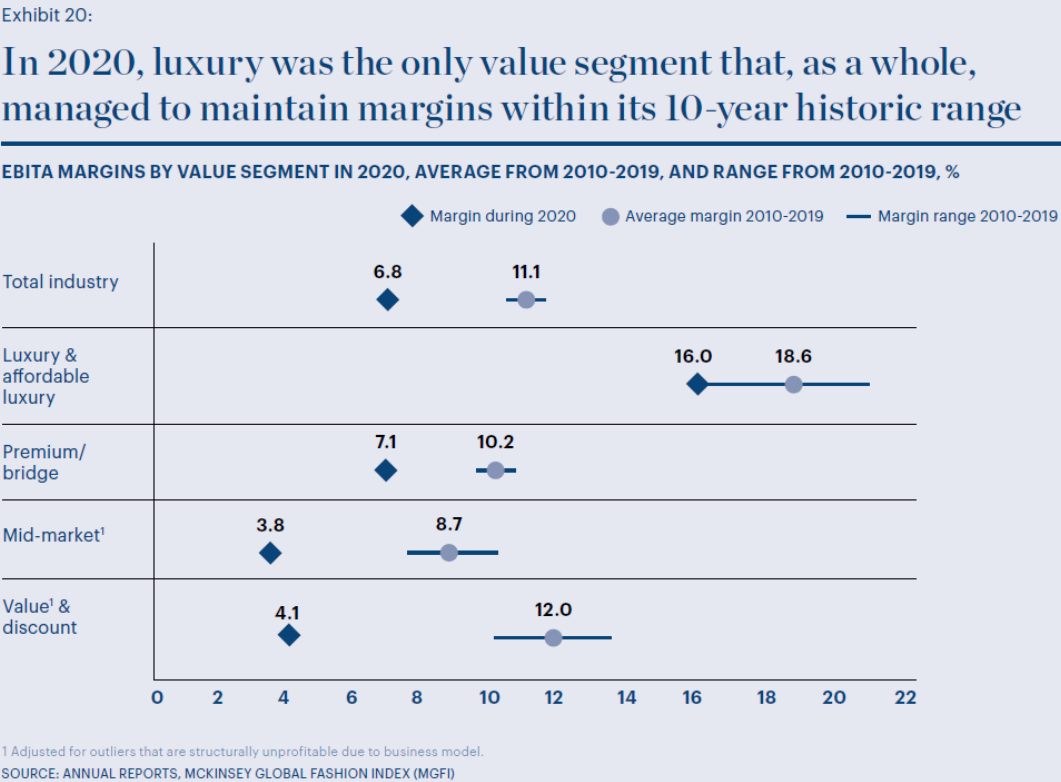
"In the athletic industry, no-one is fast at what they are doing, so there is an opportunity to gain a competitive advantage by being faster at what we do," Glenn Bennett, head of global operations for Adidas, told Reuters in an interview.

"We're not out there to compete with the likes of H&M and Zara in the pure sense, but if they are going to dig into our territory ... we are going to dig into that territory with what we have to offer." – Reuters (2015)

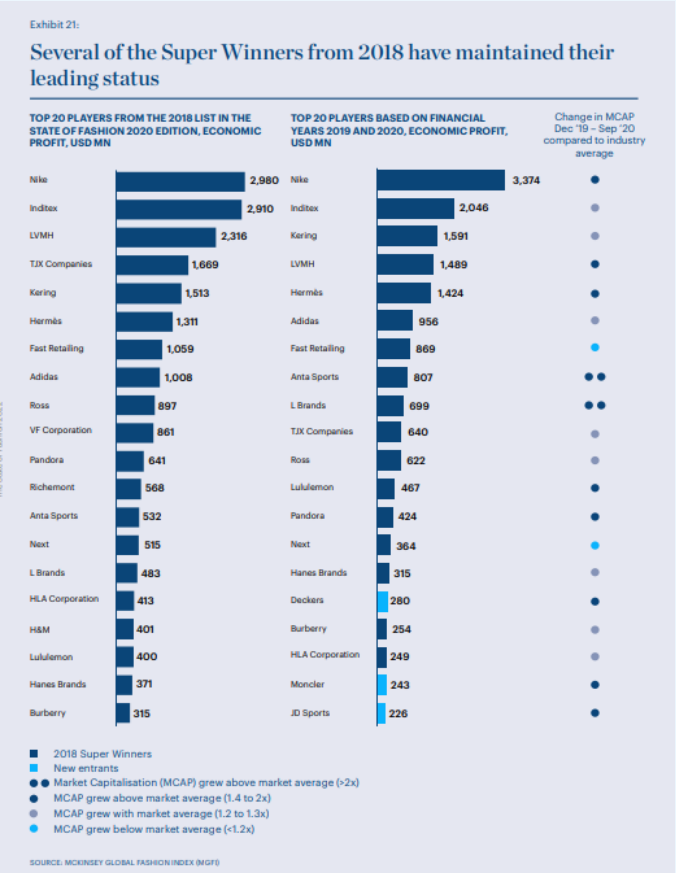
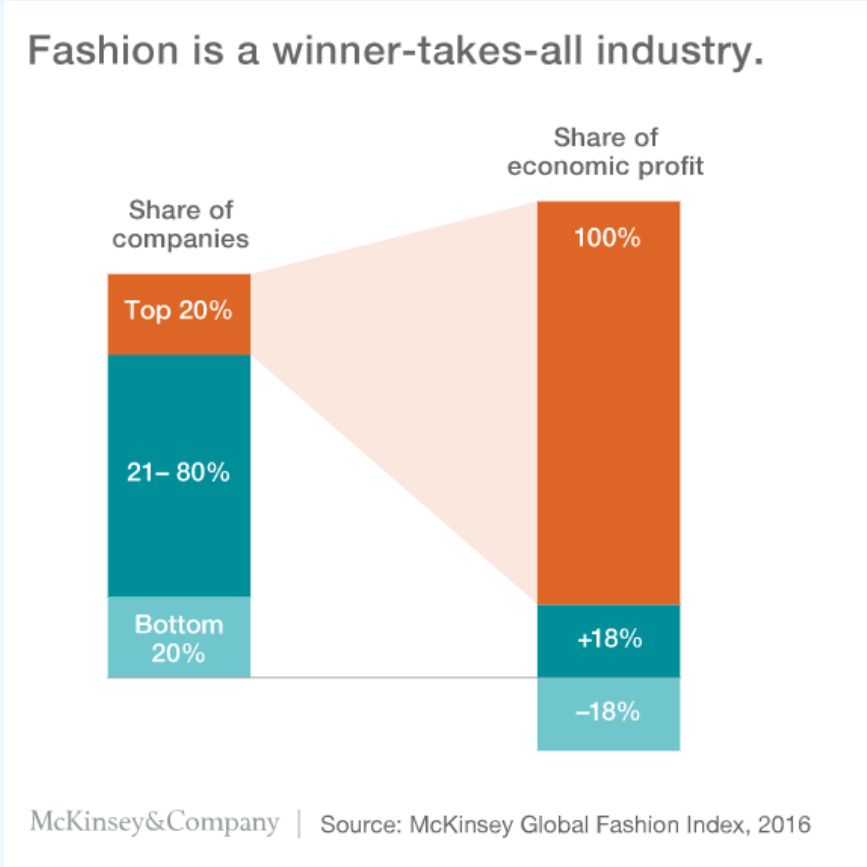
Mid-market Struggles

"Mid-market retail is a somewhat lackluster term that would best describe **retailers struggling to find their purpose or niche in a market** that seeks focus, entertainment and attitude," says Alison Cardy, MD of HMKM, which works with Selfridges, Debenhams and Primark among others. In other words, differentiation is key.

Profit Margins and Distribution by Value Segment



Profit Dominance of Top 20 Apparel Companies



Why apparel companies lost profitability during the pandemic, and why luxury remained resilient

Falling revenue but steady costs

Margins in segments other than luxury were under pressure in 2020, trending below historic ranges. Companies in the value and discount segment lost around 17 percent from 2019¹. While weak consumption due to the pandemic hammered revenues, **their reliance on physical store networks prevented operating costs from reducing in line with the revenues**. In other words, stores were costing the same amount to keep open even while people bought a fraction of what they used to.

Steady revenue and controlled costs

Luxury revenue fared relatively well, with the smallest revenue declines in 2020 compared with other segments. The two key factors behind resilient revenues were a **strong Chinese market and wealth consumers** spending more on luxury goods. Their wealthy customers, whose earnings were less impacted by the pandemic, reallocated money saved from expensive vacations towards clothing and accessories. Successfully transitioning to a business with more focus on digital distribution channels also factored in.

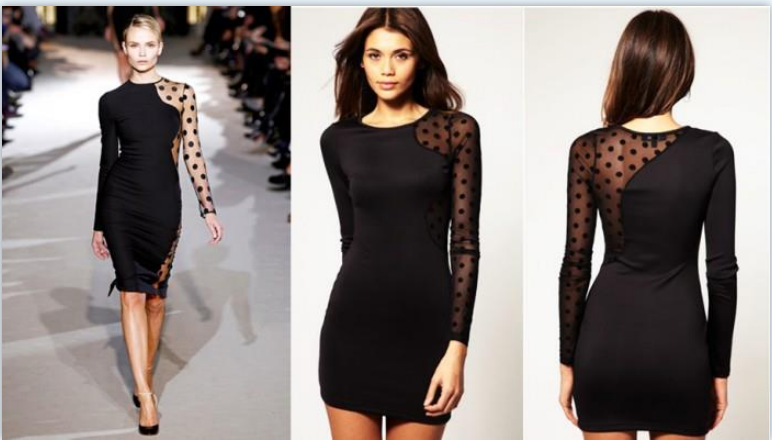
Another factor was **cost control**, where the luxury segment successfully maintained costs roughly in line with revenues. Their portion of SG&A costs compared to revenue did not rise as much as other segments, with only 1.4 percentage points increasing compared to the value and discount segment's 4². However, this was a direct result of not losing as much operating efficiency due to relatively strong demand.

Fast Fashion Design Plagiarism: Negligence

Tuesday Bassen vs. Zara



Stella McCartney vs. Asos



Tra My Nguyen vs. Balenciaga



Industry-Wide Labor Trafficking

Labor Brokers in SE Asia¹

Patagonia found that **labor brokers** were charging workers **astronomical sums for the service**—as much as \$7,000, well over the legal limit. In addition, many workers are charged a **monthly fee just to hold onto their jobs**, a practice which is also considered legal. Often, between the illegally high initial fees and monthly fees, many employees find themselves in so much debt that they are unable to repay brokers with the meager \$630-a-month salaries (the required minimum wage) that factories pay.

Whole Industry Problem

The audits examined not Patagonia's first-tier suppliers—the factories that cut, sew, and assemble Patagonia's products—but the **mills that take raw materials and produce the fabrics** and other parts that later become jackets, backpacks, and so on for the world's adventuring class. About one-quarter of those mills are based in Taiwan, **and the majority were found to have instances of trafficking and exploitation.**¹

Luxury Working Conditions

Utthan Pact (2016)

In 2016, a group of luxury houses introduced the **Utthan pact**, an ambitious and secretive compliance project aimed at ensuring factory safety in Mumbai and elevating Indian embroiderers. Among the signatories were **Kering** (owner of labels including Gucci and Saint Laurent); **LVMH Louis Vuitton Moët Hennessy** (owner of Fendi and Christian Dior); and two British fashion houses, **Burberry and Mulberry**. The pact had an initial three-year timeline but was not legally binding.¹

Working Conditions Reality

The New York Times found that embroiderers still completed orders at **unregulated facilities that did not meet Indian factory safety laws**. Many workers still do not have any employment benefits or protections, while seasonal demands for thousands of hours of overtime would coincide with the latest fashion weeks in Europe. Several factory owners said that membership in the pact meant investing in the costly compliance standards outlined by the Utthan pact, while brands simultaneously drove down what they would pay for orders.¹

Luxury Brand Response

“We recognize that the situation of some workers at the subcontracting level is still very far from satisfying today, and we are genuinely determined to strengthen the program with our fellow stakeholders, to speed up progress and to further improve the situation”
-Kering

*“We take the allegations raised through your questions very seriously but are **unable to comment without further details and a thorough investigation.**”*
- LVMH Moët Hennessy Louis Vuitton

¹The New York Times, 2020, “Luxury’s Hidden Indian Supply Chain”

Greenwashing examples

H&M's "Conscious" Pinatex

In April 2019, Swedish fashion giant **Hennes & Mauritz (H&M)** introduced its '**Conscious Collection**' featuring leather-like Pinatex products, made from orange peelings and pineapple leaves.

However, one can question Pinatex's legitimacy as 'sustainable' and 'eco-friendly' since it **contains plastic and petroleum-based agents** that offset any probable positive, eco-friendly impact of utilising fruit fibres and makes it non-biodegradable.¹

Lack of Transparency

One of the major failings among fashion brands is their **lack of evidence to support their sustainability claims**, said the report.

Some products, for instance, were labelled as "responsible" but did not specify the quantity of recycled content.

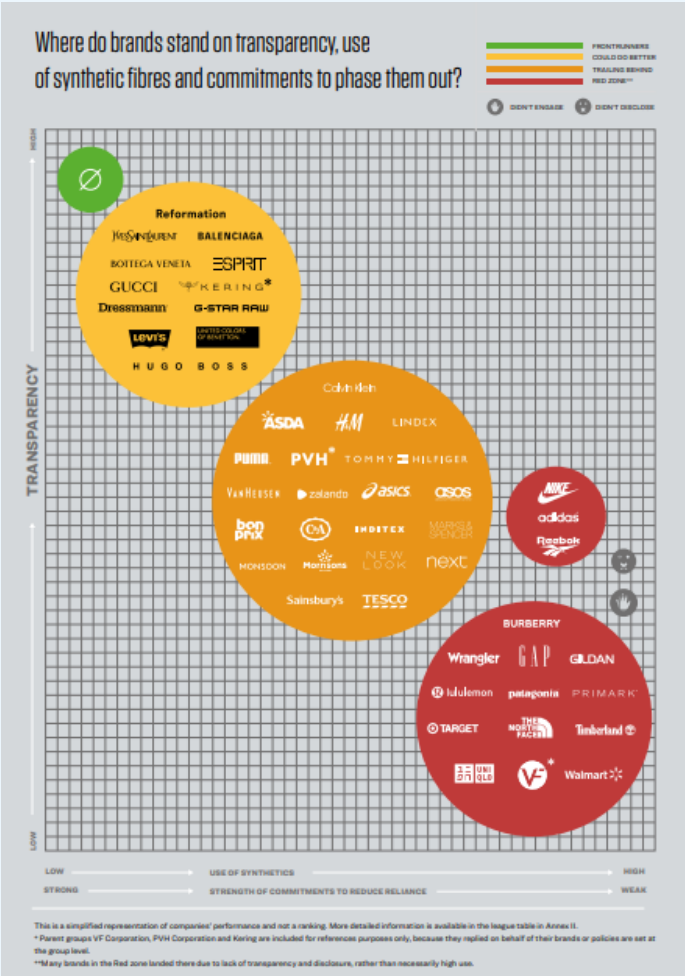
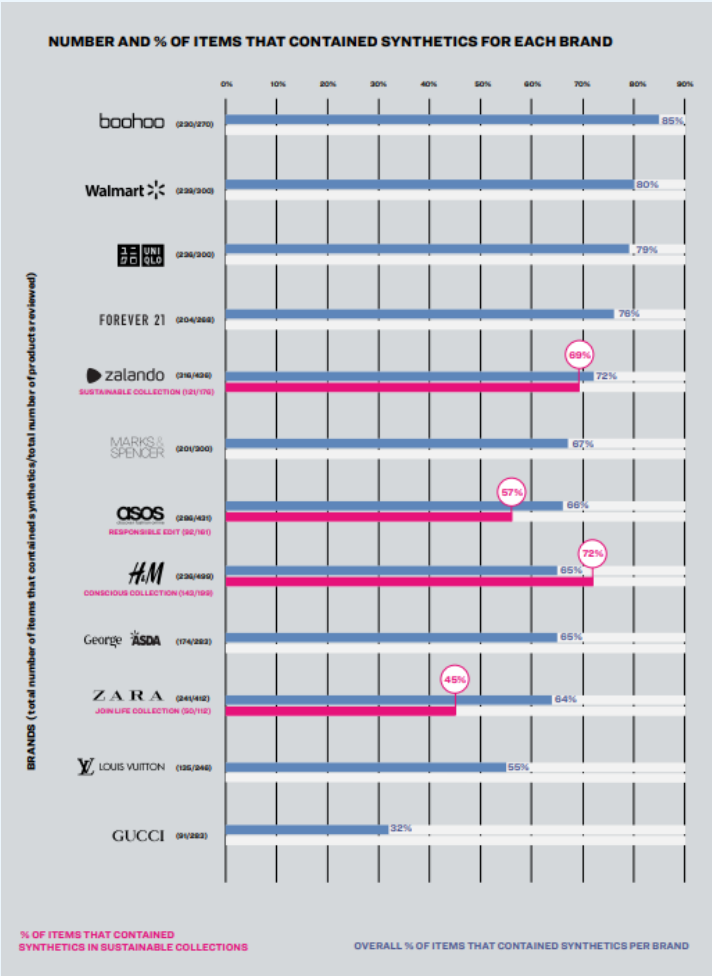
Among some of the worst-performing brands that have "minimum to no transparency" over their use of synthetic fibres include Primark, Boohoo, Nike and surprisingly, Patagonia.

Criticism on Patagonia

Patagonia had refused to respond to **Changing Markets'** survey and failed to disclose its use of synthetics.

Patagonia was also put under the spotlight for its replacement of virgin polyester with recycled ocean plastics. The report criticized the approach as one that "**does little to stop the flow of plastics** into the environment and **only deals with the aftermath** of the plastic pollution problem."

Findings from Changing Markets Report



The analysis was conducted between 29 March and 20 April 2021, and included a total of **12 different fashion brands**. The research objective was to analyse a broad spectrum of the international fashion market – from luxury houses to supermarket retailers, ultra-fast-fashion brands and high-street names. The analysis ... was based on publicly available information.

- 1. **Frontrunners:** Do not use synthetics, or have clear commitments to phase out the use of synthetic fibres from their collections. Since none of the 46 companies met these criteria, this category remains empty.
- 2. **Could do better:** Transparent about use, and either already use relatively few synthetics (under 25% of their total material use) or have clear plans to reduce their reliance on synthetics.
- 3. **Trailing behind:** Limited transparency about use, and either use a high percentage of synthetics or a relatively low - but rising - percentage.
- 4. **Red zone:** Little to no transparency at all.

Disclosures Required by Changing Markets Report

Disclosure on your synthetic fibre use and policies

We are writing to ask you to increase transparency about your use, business practices and policies around synthetic fibres in your clothes by filling in the following questionnaire.

1. How much synthetic fibre do you use?

- How many tonnes of synthetic fibre do you use per year?
- What percentage of your textile products are made of synthetic fibres, whether as part of a blend with other fibres or as the sole constituent? Please break down your answer by synthetic fibre type (e.g. polyester, acrylic, nylon).
- Have you increased your use of synthetic fibres in recent years? And do you foresee an increase/decrease in the future?
- Please specify which, if any, of this information is public on your website.

2. Who supplies your synthetic fibres?

- Please specify your suppliers of synthetic fibres, if possible broken down by fibre type. If possible, please include names and locations of factories, including tier 3 and 4 (raw material stage) suppliers.
- Please specify which, if any, of this information is public on your website.

3. How much of the synthetic fibre used in your products is recycled?

- What percentage of your textile products are made from recycled polyester/nylon or other synthetic materials?
- What is the production method behind this recycling?
- What feedstock is used for this recycled product (e.g. PET bottles, fishing nets, recycled clothing...)? Where there is more than one feedstock, please specify percentages.
- Are you investing in fibre-to-fibre recycling technologies? Please specify which.
- What percentage of your clothing is currently recycled into new clothing?

4. Do you have commitments to phase out synthetic materials based on fossil feedstocks?

- Do you have any policies or commitments to decrease or phase out reliance on synthetic fibre use in the future? If so, please specify the plan and the timeline.
- Are you exploring or adopting an alternative business model to move away from fast fashion?
- Please specify which, if any, of this information is public on your website.

5. Do you have policies addressing end-of-life management of synthetic fibres?

- This may include, for example, policies or commitments to:
 - Address microfibre release, such as by pre-washing textile products before sale, or reducing/phasing out synthetics in your products
 - Promote durability of textile products and encourage reuse, such as by offering repairs or longer warranties to customers
 - Design your textile products to be more recyclable, for example by eliminating the use of fibre blends which currently cannot be separated on a large scale
 - Make investments into the separate collection of used textiles for reuse, repair and recycling, or other creative ways to reduce fibre consumption
- Do you have ambitious climate or circularity targets that apply across all production ranges and cover your entire supply chain?

We would appreciate it if you could reply to this letter by **Friday 9th April 2021** by either email or this [online form](#), which allows you to input your answers directly.

If you have any additional questions, or would like to organise a meeting or a call with our team, please do not hesitate to get in touch. Please note we will also send this letter by email.

We look forward to hearing from you,

Urška Trunk
Campaign Manager
Changing Markets

Virginia López Calvo
Senior Campaigner
WeMove Europe

Anastasiia Martynenko
Head
Zero Waste Alliance Ukraine

Sarah Ditty
Policy Director
Fashion Revolution

Muriel Papin
Founder
No Plastic In My Sea

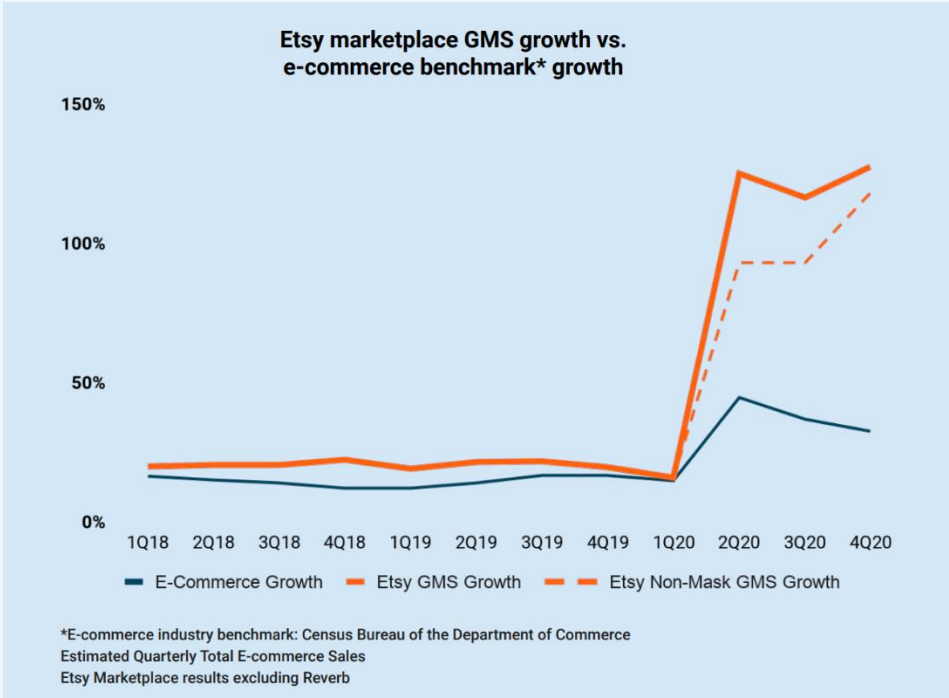
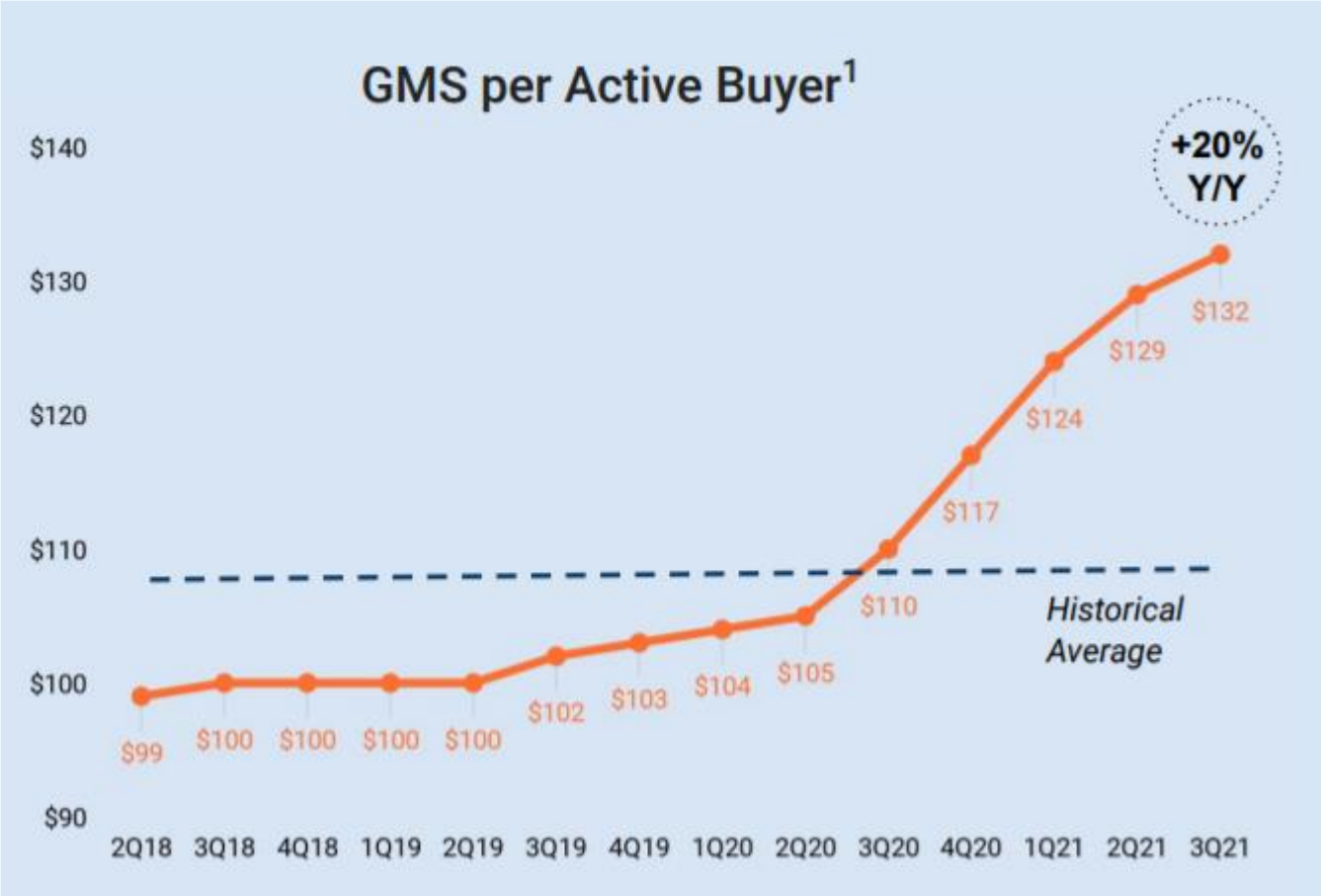
Paul Roeland
Transparency Lead
Clean Clothes Campaign

Rob Harrison
Director
Ethical Consumer

Laura Díaz Sánchez
Campaigner Microplastics
Plastic Soup Foundation

Gary Cook
Climate Campaigns Director
Stand.earth

ETSY GMS Growth



What can Etsy do with Depop? 1) Etsy helping Depop

Efficient operations

Many of the challenges that Depop faces have already been tackled by Etsy, such as **search and discover algorithms**

Etsy's acquisition will help with **policing, technology investment, training, fraud detection and seller/buyer protection**

Grow the Fashion resale market

The second-hand clothing market, currently valued at **\$30-40 billion** worldwide, will grow by **15-20 percent** a year for the next decade¹

Etsy can help **Depop widen its appeal to older buyers** who can afford to buy new but don't want to for environmental reasons

With Etsy's support, Depop can gain **international credibility** and sign up with more brands to expand its operations²

What can Etsy do with Depop? 2) Depop helping Etsy

Grow Etsy's foothold on Gen Z

90%

Depop's active users are under 26, while Etsy's average seller is 39 years old¹

10th

The most visited shopping site among gen Z consumers in the US is Depop²

Depop's collection of **thrifted and vintage** lends a new layer of trendiness to Etsy.

Young sellers could also help Etsy acquire **Gen Z entrepreneurs**.

Efficient operations

Etsy would also learn from Depop's **mobile expertise and social media savvy**

On TikTok, Etsy has about **16,000 followers**, while Depop has **more than 140,000**³

"Depop **offers the aesthetic of Instagram with the functionality of eBay, designed with younger, social media-savvy users in mind. It cements the emerging importance of social networks as a purchasing tool...in a multichannel world.**" ⁴

Appendix 4-3

Discounted Cash Flow Analysis of Etsy

Assumptions																
WACC	7.20%	source : https://finbox.com/NASDAQGS:ETSY/models/wacc														
Terminal Growth Rate	2%															
Risk Free Rate	1.92															
Beta	1.68															
cost of equity (Ke)		cost of debt (Kd)														
Equity	742	Debt	1,115.82													
				source : https://www.sec.gov/Archives/edgar/data/1370637/000137063721000012/etsy-20201231.htm#8205a65267ed4d26b43ace506968e333_76												
in millions		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
Revenue		604	818	1,726	1,957	2,290	2,840	3,521	4,225	4,986	5,883	6,825	7,780	8,714		
% growth					13.40%	17.00%	24%	24%	20%	18%	18%	16%	14%	12%		
EBIT		75	93	426	391.4568	458.004456	567.9255254	704.2276515	845.0731819	997.1863546	1176.679898	1364.948682	1556.041498	1742.766477		
% of revenue		12.42%	11.37%	24.68%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%		
(-) Taxes		-22	-15	16	18	20.61020052	25.55664864	31.69024432	38.02829318	44.87338596	52.95059543	61.4226907	70.02186739	78.42449148		
% tax rate					4.50%											
EBIAT		97	108	410	374	437.3942555	542.3688768	672.5374072	807.0448887	952.3129686	1123.729303	1303.525991	1486.01963	1664.341986		
(+) D&A		26.74	48.03	58.19	44.32	50.18	50.90	48.47	49.85	49.74	49.35	49.64	49.58	49.52		
(-) CapEx		56.05	17.24	7.99	27.09	17.44	17.51	20.68	18.54	18.91	19.38	18.94	19.08	19.13		
(-) Change in Net Working Capital		59	9.994	124.197	65	66.23444444	84.98125926	72	74.37501646	77.08854047	74	75.30706371	75.61774613	75		
Unlevered FCF		9	129	336	327	403.90	490.78	628.41	763.97	906.05	1079.24	1258.92	1440.90	1619.60	31769.1727	terminal growth g=2%
Present value of FCF						376.7711753	427.0648878	510.1062373	539.640577	686.0773905	711.1326071	773.8101319	826.1823095	866.2754549	16992.32623	

Discounted Cash Flow Analysis of Etsy

Enterprise Value	22709.387
Cash	1,244
Debt	1,662
Equity value	22,291
Shares Outstanding	121251588
Target Share Price	183.8440829
Current Share Price	141.77
Expected Returns	29.68%

Our Growth and Profitability Assumptions

Pull-forward in demand

Etsy's guidance estimates 13.40% and 17%¹ growth for the next two years, a much more muted figure compared to last year's three digits. We believe that after these two years of giving back some of the pull-forward in demand during the pandemic, Etsy will return to a midpoint of around 24%, a figure that would continue the long-term growth trend.

Conservative view on Margins

While it is difficult to compare Etsy's unique business model focused on vintage and handmade goods, a precedent in the social commerce business, Ebay, allows us to estimate margins. While EBIT margins have been in a long-term uptrend, we do not expect it to continue as Etsy will have to offer competitive prices of their service to hold a dominant position in the social commerce industry.