

Italy – Fashion

The perfect storm inevitably shifts the focus on the future

30<sup>th</sup> October 2020

H1-20 RESULTS RELEASE

RIC: MONNA.MI  
BBG: MNL IM

Monnalisa unveiled weak interim results, deeply plagued by COVID-19. The temporary closure of stores worldwide came in a period of expansion of the firm's retail network, where development and fixed costs had not been covered by top line growth. In addition, upon reopening, the situation only partially recovered.

Rating:  
**Neutral**

Price Target:  
**€ 2.50 (€ 4.00)**

Upside/(Downside): 9.6%

Last Price: € 2.28

Market Cap.: € 12.0

1Y High/Low: € 7.80 / € 2.28

Free Float: 25.2%

Major shareholders:  
Jafin Due 74.5%



Stock price performance

	1M	3M	12M
<b>Absolute</b>	-19.1%	-13.6%	-69.8%
<b>Rel.to AIM Italia</b>	-12.6%	-4.9%	-49.6%
<b>Rel.to Sector</b>	-16.3%	-20.6%	-82.8%

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**Strong brand and global network, but harsh scenario erodes profitability**

Results were severely impacted by COVID-19, which caused temporary closure of stores and showrooms worldwide. However, upon reopening, the situation only partially recovered. The company boasts an historically strong brand recognition in its profitable and growing niche and a worldwide network of 48 DOS and DOO in addition to a significant wholesale presence. The current business in this changed scenario should be supported by a massive sales boost, otherwise, the inability to generate profits will unavoidably continue to erode equity in the medium term. We revised our model resulting in an estimate downgrade. We stick to our cautious stance on the share: in the next three years, top line is anticipated to not to cover the hefty base of fixed costs. Our updated DCF based PT stands at € 2.50/s (€ 4.00/s), broadly in line with the current market value.

**Turnover dropped by 38.4%, exports represent 66% of total**

Sales were down by 38.4% to € 15.1m, 66% was outside Italy. The sharp drop in sales was entirely ascribable to the COVID-19 pandemic, which caused various commercial activities to stop as well as heavy limitations to international trades and consequently the closure of the distribution network for a prolonged period. The Retail revenues (28% of total sales) declined by 41.3% to € 4.2m. As of mid-March, Monnalisa closed Italian as well as foreign DOS and showrooms. The Wholesale turnover dropped by 38.1% YoY to € 10.3m (68% of total revenues). The E-commerce turnover totalled € 0.6m, down 16.7% YoY.

**Adjusted EBITDA was negative for € 2.4m**

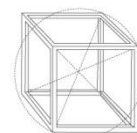
Reported EBITDA turned negative for € 6.2m (positive for € 1.9m in H1-19). Adjusted EBITDA was negative for € 2.4m (positive for € 2.8m in H1-19). The adjustments are related to 1) DOS openings and closings, 2) some one-off costs incurred during the period, 3) an inventory write-down for € 2.1m, 4) an accrual to the provision for impairment losses on receivables for € 464k and 5) some capital losses related to a few subsidiaries for a total amount of € 391k. In Q3-20 the group completed the delivery of the winter collection to its wholesale clients, making up for part of the margin lost in H1.

**NFP worsened to € 9.5m debt. € 5m new financing for running the business properly**

NFP reached € 9.5m debt vs. € 3.4m debt at end-19. Capex was € 0.7m, € 0.5m of which for the new openings and for the strengthening of the e-commerce channel. Equity was € 31.8m. After June 30<sup>th</sup> Monnalisa obtained € 5.0m in new medium-long term financing, o/w € 3.3m are fresh resources.

**Monnalisa, key financials and ratios**

€ m	2018	2019	2020e	2021e	2022e
Sales	49.1	47.9	34.5	40.7	46.7
EBITDA adj.	7.3	0.3	(3.3)	(1.8)	2.0
EBITDA	5.1	(2.9)	(8.5)	(2.1)	2.0
EBIT	2.1	(7.5)	(11.7)	(5.2)	(1.2)
Net profit adj.	2.8	(2.5)	(5.6)	(4.3)	(1.3)
Net profit	1.3	(8.4)	(9.8)	(4.6)	(1.3)
NFP (cash)/debt	(2.3)	3.4	10.9	13.0	11.9
EBITDA margin	9.8%	-5.9%	-25.3%	-5.1%	4.2%
EPS adj.	0.53	(0.48)	(1.07)	(0.83)	(0.25)
EPS adj. growth	-3.4%	-189.3%	n.m.	n.m.	n.m.
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
ROCE	3.2%	n.m.	n.m.	n.m.	n.m.
NWC/Sales	40.4%	40.3%	57.3%	47.2%	42.8%
Free Cash Flow Yield	Neg.	Neg.	Neg.	Neg.	6.0%
PER x	4.3	Neg.	Neg.	Neg.	Neg.
EV/Sales x	1.23	0.95	0.66	0.61	0.51
EV/EBITDA x	11.8	Neg.	Neg.	Neg.	Neg.
EV/EBIT x	29.3	Neg.	Neg.	Neg.	Neg.

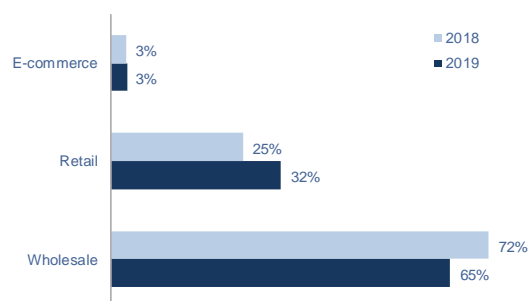


## The company at a glance

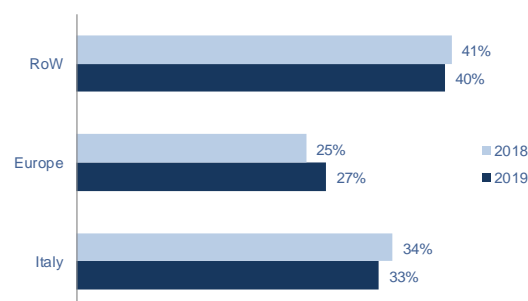
Founded in 1968 by Piero Iacomoni and Barbara Bertocci in the fashion and creative centre of Italy, Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands. The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete range of products from apparel to footwear, from accessories to cosmetics and furniture. At the end of 2019, Monnalisa operated worldwide in more than 60 countries through 47 direct stores and almost 500 multibrand stores. The company sells via three distribution channels:

- Wholesale, 65% of top line in FY-19. Monnalisa conducts a strict selection of stores considering location, visibility and their consistency with the Monnalisa brand identity. This includes Wholesale retail, namely monobrand stores in partnership (Third Party Operated Stores – TPOS) and located in top department stores (Third Party Shop In Shop – TPSIS).
- Retail, 32% of top line. Monnalisa sells directly to the final customer through its directly owned stores: Directly Operated Stores (DOS) and Directly Operated Outlets (DOO), totalling 48 stores at end-19.
- E-commerce, 3% of top line. Monnalisa sells its products online through its own monobrand online boutique. Direct e-commerce accounts for 3% of total sales.

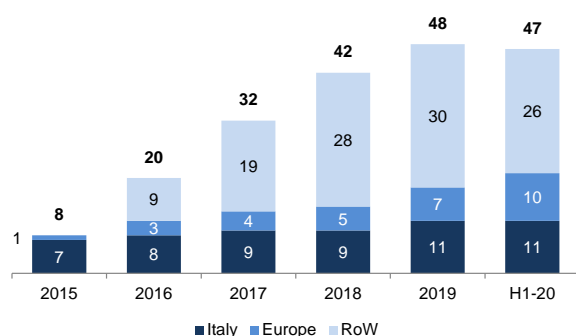
### FY-19 vs FY-18 channel contribution...



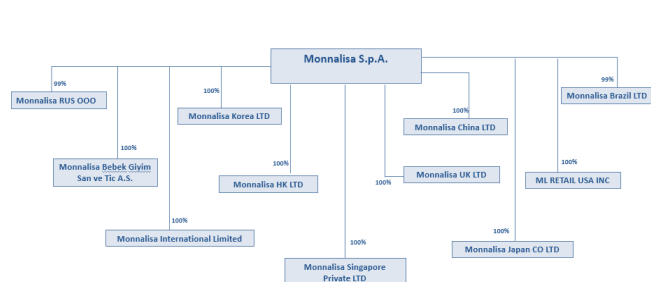
### ... and revenues by geography



### 2015/H1-20 retail evolution



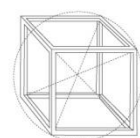
### Group structure



### Peers group multiples table

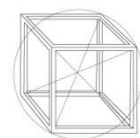
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Brunello Cucinelli SpA	3.77	3.26	2.95	25.5	13.7	11.5	(219.8)	35.6	25.1
Burberry Group PLC	2.08	1.84	1.70	9.9	7.6	6.8	17.0	12.4	10.7
Capri Holdings Ltd	1.38	0.99	0.86	12.8	6.0	5.1	31.1	8.4	6.9
Hugo Boss AG	1.07	0.94	0.78	7.9	4.8	3.6	(16.7)	12.8	8.2
Kering SA	5.30	4.39	3.93	16.9	12.6	10.9	23.1	15.9	13.7
Moncler SpA	6.02	4.93	4.30	17.2	12.7	10.6	26.5	17.6	14.5
Prada SpA	3.53	2.97	2.71	14.7	10.1	8.6	1,016.7	30.1	21.8
Ralph Lauren Corp	0.88	0.77	0.73	9.6	5.1	4.8	24.0	7.5	6.7
Salvatore Ferragamo SpA	1.94	1.47	1.36	15.9	7.8	6.1	(35.7)	28.1	16.5
Tod's SpA	1.46	1.36	1.24	20.3	10.0	7.5	n.m.	n.m.	n.m.
<b>Median</b>	<b>2.01</b>	<b>1.65</b>	<b>1.53</b>	<b>15.3</b>	<b>8.9</b>	<b>7.1</b>	<b>23.1</b>	<b>15.9</b>	<b>13.7</b>
<b>Monnalisa SpA</b>	<b>0.66</b>	<b>0.61</b>	<b>0.51</b>	<b>(2.7)</b>	<b>(12.0)</b>	<b>12.1</b>	<b>(2.0)</b>	<b>(4.8)</b>	<b>(20.0)</b>

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2018	2019	2020e	2021e	2022e
Sales	49.1	47.9	34.5	40.7	46.7
Value of Production	52.7	50.1	33.5	41.0	47.0
Raw materials	(14.4)	(14.6)	(11.0)	(11.7)	(12.6)
Services	(16.2)	(17.7)	(13.0)	(13.3)	(14.1)
Use of third-party assets	(5.6)	(7.2)	(6.4)	(6.9)	(6.9)
Personnel expenses	(10.6)	(12.4)	(9.8)	(10.3)	(10.5)
Other opex	(0.8)	(1.0)	(1.7)	(0.8)	(0.9)
EBITDA	5.1	(2.9)	(8.5)	(2.1)	2.0
D&A	(3.1)	(4.5)	(3.2)	(3.2)	(3.2)
EBIT	2.1	(7.5)	(11.7)	(5.2)	(1.2)
Financials	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Re/(Deval.) of fin. assets	0.0	(0.0)	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	1.7	(7.9)	(12.1)	(5.6)	(1.6)
Income taxes	(0.4)	(0.5)	2.3	1.0	0.2
Minorities	(0.0)	0.0	0.0	0.0	0.0
Net Profit	1.3	(8.4)	(9.8)	(4.6)	(1.3)
EBITDA adj.	7.3	0.3	(3.3)	(1.8)	2.0
Net Profit adj.	2.8	(2.5)	(5.6)	(4.3)	(1.3)
Balance sheet (€ m)	2018	2019	2020e	2021e	2022e
Net Working Capital	21.3	20.2	19.2	19.3	20.1
Net Fixed Assets	23.6	22.5	21.1	19.1	16.4
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	0.2	(0.4)	(0.3)	(0.8)	(1.3)
Net Invested Capital	45.1	42.3	40.0	37.6	35.2
Net Financial Debt	(2.3)	3.4	10.9	13.0	11.9
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	47.4	38.9	29.1	24.6	23.3
Financial Liabilities & Equity	45.1	42.3	40.0	37.6	35.2
Cash Flow statement (€ m)	2018	2019	2020e	2021e	2022e
Total net income	1.3	(8.4)	(9.8)	(4.6)	(1.3)
Depreciation	3.1	4.5	3.2	3.2	3.2
Other non-cash charges	(0.0)	0.0	0.9	0.1	0.2
Cash Flow from Oper. (CFO)	4.3	(3.8)	(5.7)	(1.3)	2.0
Change in NWC	(3.0)	1.1	1.0	(0.2)	(0.8)
FCF from Operations (FCFO)	1.4	(2.7)	(4.7)	(1.4)	1.2
Net Investments (CFI)	(8.8)	(3.7)	(1.8)	(1.1)	(0.5)
Free CF to the Firm (FCFF)	(7.4)	(6.4)	(6.5)	(2.5)	0.7
CF from financials (CFF)	18.0	1.0	0.3	0.0	0.0
Free Cash Flow to Equity (FCFE)	10.6	(5.4)	(6.2)	(2.5)	0.7
Financial ratios	2018	2019	2020e	2021e	2022e
EBITDA margin	9.8%	-5.9%	-25.3%	-5.1%	4.2%
EBITDA adj. margin	13.8%	0.5%	-9.7%	-4.4%	4.2%
EBIT margin	3.9%	-14.9%	-34.9%	-12.8%	-2.5%
Net profit margin	2.4%	-16.8%	-29.2%	-11.1%	-2.8%
Net profit adj. margin	5.3%	-5.0%	-16.7%	-10.6%	-2.8%
Tax rate	24.5%	-6.7%	19.1%	18.7%	15.3%
Op NWC/Sales	40.4%	40.3%	57.3%	47.2%	42.8%
Interest coverage x	0.18	(0.05)	(0.03)	(0.07)	(0.31)
Net Debt/EBITDA x	(0.44)	(1.16)	(1.29)	(6.25)	6.03
Debt-to-Equity x	(0.05)	0.09	0.37	0.53	0.51
ROIC	2.9%	-19.9%	-24.4%	-12.1%	-3.8%
ROCE	3.2%	n.m.	n.m.	n.m.	n.m.
ROACE	3.8%	-12.4%	-22.6%	-11.8%	-2.9%
ROE	2.7%	-21.6%	-33.5%	-18.5%	-5.7%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2018	2019	2020e	2021e	2022e
Number of shares # m	5.24	5.24	5.24	5.24	5.24
Number of shares Fully Diluted # m	5.24	5.24	5.24	5.24	5.24
Average Number of shares Fully Diluted # m	5.24	5.24	5.24	5.24	5.24
EPS stated FD €	0.25	(1.61)	(1.86)	(0.87)	(0.25)
EPS adjusted FD €	0.53	(0.48)	(1.07)	(0.83)	(0.25)
EBITDA €	0.98	(0.56)	(1.62)	(0.40)	0.38
EBIT €	0.39	(1.43)	(2.23)	(1.00)	(0.23)
BV €	9.05	7.43	5.57	4.70	4.44
FCFO €	0.26	(0.51)	(0.89)	(0.27)	0.23
FCFF €	(1.41)	(1.22)	(1.24)	(0.48)	0.14
FCFE €	2.03	(1.03)	(1.19)	(0.48)	0.14
Dividend €	0.00	0.00	0.00	0.00	0.00



## H1-20 results were severely affected by COVID-19

Monnalisa unveiled weak H1-20 results deeply plagued by COVID-19, which caused the temporary closure of stores and showrooms worldwide. The group has undertaken several activities to save costs, namely the definitive closing of five non-performing stores, the reduction of marketing expenses, the renegotiation of rents, the request for Government subsidies and the voluntary cut of top management remunerations.

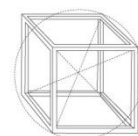
**Table 1 – Monnalisa, H1-20 results**

€ m	H1-20	H1-19	% YoY
Retail	4.2	7.1	(41.3)
Wholesale	10.3	16.7	(38.1)
E-commerce	0.6	0.8	(16.7)
Italy	5.1	7.7	(34.5)
Europe	4.0	6.7	(40.5)
RoW	6.1	10.1	(39.9)
<b>Net Revenues</b>	<b>15.1</b>	<b>24.6</b>	<b>(38.4)</b>
Increase in finished products	(2.0)	1.8	
Other revenues	0.4	0.8	
<b>Value of Production</b>	<b>13.6</b>	<b>27.2</b>	<b>(50.0)</b>
Raw material and processing	(5.0)	(6.9)	
Services	(6.0)	(9.3)	
Personnel expenses	(4.8)	(5.8)	
Other opex	(4.0)	(3.3)	
<b>EBITDA</b>	<b>(6.2)</b>	<b>1.9</b>	<b>n.m.</b>
% margin	(45.4)	7.1	
D&A	(1.7)	(1.6)	
<b>EBIT</b>	<b>(7.9)</b>	<b>0.3</b>	<b>n.m.</b>
% margin	(57.8)	1.2	
Financials	(0.2)	(0.2)	
Re/(Deval.) of fin. assets	(0.0)	(0.0)	
Extraordinary	0.0	0.0	
<b>Pre-Tax profit</b>	<b>(8.0)</b>	<b>0.1</b>	<b>n.m.</b>
% margin	(59.0)	0.4	
Income taxes	1.2	(0.2)	
Tax rate	-	-	
Minorities	0.1	0.0	
<b>Net Profit</b>	<b>(6.8)</b>	<b>(0.1)</b>	<b>n.m.</b>
% margin	(49.9)	(0.5)	
Total adjustments	(3.8)	(0.9)	
<b>EBITDA adj.</b>	<b>(2.4)</b>	<b>2.8</b>	<b>n.m.</b>
% margin	(17.6)	10.5	
<b>NFP (cash)/debt *</b>	<b>9.5</b>	<b>3.4</b>	<b>n.m.</b>

Source: Company data, \* H1-20 figure compared to NFP at end-19

**Monnalisa reported H1-20 revenues at € 15.1m, down 38.4% YoY**, 66% was outside Italy. The sharp drop in sales was almost entirely ascribable to the COVID-19 pandemic, which caused various commercial activities to stop as well as heavy limitations to international trades and consequently the closure of the distribution network for a prolonged period. In addition, as a result of the lockdown, commercial traffic was significantly low.

- The Retail revenues (28% of total sales) declined by 41.3% to € 4.2m.** As of mid-March, Monnalisa closed Italian as well as foreign DOS and showrooms. As of Jun-20 direct stores were 47 (48 at end-19): 3 new direct stores were opened as concessions in Galeries Lafayette in Paris, Nizza Cap and Nizza Massena. In the first half of 2020 a total of 5 non-performing stores were closed: MIXC Shenzhen and Florentia Village Shanghai in China, European Center in Russia, Recife in Brazil and Istanbul Airport in Turkey. Pre-lockdown revenues were up double digit in the whole comparable stores, as evidence of the successful launch of the Spring Summer collection and of the retail network development plan.



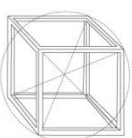
2. **The Wholesale turnover dropped by 38.1% YoY to € 10.3m and represented 68% of consolidated revenues.** The Spring Summer collection, delivered before the pandemic, was impacted by a collapse in restocking and delays in the deliveries in Russia. The Fall Winter collection dispatches shifted after June even if in July, August and September the shipments were fully recovered.
3. **The E-commerce turnover totalled € 0.6m, down 16.7% YoY.** During H2-19, a major project was launched for the implementation of a new e-commerce platform, a CRM system and a marketing automation system. The new site for direct online sales was released only in December. In Q2-20 online turnover recorded an increase of 20% YoY mainly as a result of the improved performance of the e-commerce site driven by rising conversion rates. It is worth noting that online sales in China through the TMall platform increased by 100% YoY.

**Reported EBITDA turned negative for € 6.2m** (positive for € 1.9m in H1-19). **Adjusted EBITDA was also negative for € 2.4m** (positive for € 2.8m in H1-19). The adjustments are related to 1) DOS openings and closings, 2) some one-off costs incurred during the period, 3) an inventory write-down for € 2.1m, 4) an accrual to the provision for impairment losses on receivables for € 464k and 5) some capital losses related to a few subsidiaries for a total amount of € 391k. **In Q3-20 the group completed the delivery of the winter collection to its wholesale clients, making up for part of the margin lost in H1.**

EBIT remained negative for € 7.9m, after amortisation of € 1.7m (up by € 0.1m compared to H1-19). **Net profit was in the red for € 6.8m.**

**Net Financial Position reached € 9.5m debt** (€ 3.4m debt at end-19), including a temporary liquidity investment made in January and disinvested in July for € 1.0m. **Capex was € 0.7m**, € 0.5m of which will be used for the opening of new DOS and the strengthening of the e-commerce channel. Furthermore, a postponement to July of payments due in April was granted to customers. **Equity was € 31.8m.**

**After June 30<sup>th</sup> Monnalisa obtained € 5.0m in new medium-long term financing**, € 3.3m of which are fresh resources while the remainder aiming at refinancing some existing loans. **In addition, the group gained a € 0.8m loan from SIMEST** aimed at supporting international expansion (€ 0.4m already provided while the remainder will be disbursed within 29 months).



## Valuation & risks

Monnalisa reported **H1-20 results severely impacted by COVID-19**, although the first few weeks of 2020 showed a good progression in sales, driven by rising sell-out in direct stores and through wholesale channel. However, the COVID-19 outbreak has literally blocked this trend, causing **the temporary closure of stores and showrooms worldwide**. However, **upon reopening, the situation only partially recovered**: travel retail was significantly reduced and overall activities continued to be negatively impacted by the fall in consumption. This trend is impacting the sector as a whole.

On the back of weak H1-20 results, we revised our model factoring in 1) a slower recovery in volumes, 2) higher impact of costs on top line and 3) fine tuning of the capex stemming from a further resizing of the openings plan. We now expect **Monnalisa to reach 50 DOS at end-22 vs 55 according to our previous estimates**. The result is a **massive slash in Sales and, to a greater extent, in EBITDA estimates**, coupled with an increase in NFP.

**Table 2 – Monnalisa, 2020e new/old estimates**

€ m	New	Old	% Diff.	€ m Diff.
<b>Sales</b>	<b>34.5</b>	<b>38.9</b>	(11.4)	<b>(4.4)</b>
<b>EBITDA</b>	<b>(8.5)</b>	<b>(2.1)</b>	n.m.	<b>(6.4)</b>
% margin	(24.5)	(5.3)		
<b>EBIT</b>	<b>(11.7)</b>	<b>(5.6)</b>	n.m.	<b>(6.1)</b>
% margin	(33.9)	(14.4)		
<b>Net Profit</b>	<b>(9.8)</b>	<b>(6.4)</b>	(52.5)	<b>(3.4)</b>
% margin	(28.3)	(16.4)		
<b>Y/E net debt (net cash)</b>	<b>10.9</b>	<b>8.3</b>	31.1	<b>2.6</b>

Source: CFO Sim

**Table 3 – Monnalisa, 2021e new/old estimates**

€ m	New	Old	% Diff.	€ m Diff.
<b>Sales</b>	<b>40.7</b>	<b>46.6</b>	(12.8)	<b>(6.0)</b>
<b>EBITDA</b>	<b>(2.1)</b>	<b>2.9</b>	n.m.	<b>(5.0)</b>
% margin	(5.1)	6.3		
<b>EBIT</b>	<b>(5.2)</b>	<b>(0.7)</b>	n.m.	<b>(4.5)</b>
% margin	(12.9)	(1.6)		
<b>Net Profit</b>	<b>(4.6)</b>	<b>(1.5)</b>	n.m.	<b>(3.0)</b>
% margin	(11.2)	(3.3)		
<b>Y/E net debt (net cash)</b>	<b>13.0</b>	<b>7.0</b>	84.0	<b>5.9</b>

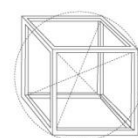
Source: CFO Sim

**Table 4 – Monnalisa, 2022e new/old estimates**

€ m	New	Old	% Diff.	€ m Diff.
<b>Sales</b>	<b>46.7</b>	<b>52.6</b>	(11.2)	<b>(5.9)</b>
<b>EBITDA</b>	<b>2.0</b>	<b>6.1</b>	(67.5)	<b>(4.1)</b>
% margin	4.2	11.6		
<b>EBIT</b>	<b>(1.2)</b>	<b>2.4</b>	n.m.	<b>(3.6)</b>
% margin	(2.6)	4.6		
<b>Net Profit</b>	<b>(1.3)</b>	<b>1.6</b>	n.m.	<b>(2.9)</b>
% margin	(2.8)	3.0		
<b>Y/E net debt (net cash)</b>	<b>11.9</b>	<b>4.3</b>	n.m.	<b>7.6</b>

Source: CFO Sim

We believe that in the current harsh environment **Monnalisa's retail network** as of today is not able to generate enough turnover to counterbalance the huge amount of fixed costs to run the stores, namely personnel and rents. **A meticulous cost discipline is being put in place by the group** to properly manage the P&L of every single DOS in order to focus on fewer but more profitable shops.



The business in this changed scenario should be supported by a massive sales boost, otherwise, **the inability to generate profits will unavoidably continue to erode equity**: at the time of the IPO it was almost € 50m, it is projected at € 30m at the end of 2020 and at € 23m at end-22. **The closure plan of a few less profitable shops started in H1-20 seems to be going in the right direction.**

Having said that, our updated **DCF based PT stands at € 2.50/s** (€ 4.00/s), broadly in line with the current market value. However, it has to be noted that **terminal value represents 120% of the total enterprise value** of the group: that is to say that current valuation is biased on arguable long term cash flow generation capabilities.

**We stick to our cautious stance on the shares.**

## DCF

In the valuation via the DCF method, we assess explicit estimates until 2024 and long-term growth of 1.0%. Cash flows are discounted back at a weighted average cost of capital calculated according to the following parameters:

**Table 5 – WACC derived from:**

Interest costs, pre-tax	1.0%
Tax rate	26.0%
<b>Int. costs, after taxes</b>	<b>0.7%</b>
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg mov. av.)	1.34%
Beta levered (x)	1.13
<b>Required ROE</b>	<b>11.5%</b>

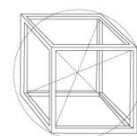
Source: CFO Sim, Thomson Reuters Eikon

**Risk premium at 9.0%** factors in the minute size of the company and basically all the AIM Italia market segment related concerns and disquiet that an investor might have. **Beta at 1.13** has been calculated by taking the peer group's specific unlevered beta for each competitor, then **leveraging it for Monnalisa's 20/80 debt/equity long-term structure**. The WACC is accordingly computed using 20/80 debt/equity long-term sustainable balance sheet structure.

**Table 6 – Monnalisa, DCF model**

€ k	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	(11.7)	(5.2)	(1.2)	1.6	3.6	
Tax rate	26.0%	26.0%	26.0%	26.0%	26.0%	
<b>Operating profit (NOPAT)</b>	<b>(8.7)</b>	<b>(3.9)</b>	<b>(0.9)</b>	<b>1.2</b>	<b>2.7</b>	
Change working capital	1.0	(0.2)	(0.8)	(0.2)	(0.1)	
Depreciation	3.2	3.2	3.2	2.0	0.5	
Investments	(1.8)	(1.1)	(0.5)	(0.5)	(0.5)	
<b>Free Cash Flows</b>	<b>(6.3)</b>	<b>(2.0)</b>	<b>1.0</b>	<b>2.5</b>	<b>2.6</b>	<b>31.6</b>
Present value	(6.2)	(1.8)	0.8	1.9	1.8	<b>21.8</b>
WACC	9.4%	9.4%	9.4%	9.4%	9.4%	
<b>Long-term growth rate</b>	<b>1.0%</b>					

Source: CFO Sim



**Table 7 – Monnalisa, DCF derived from:**

€ m	
Total EV present value € m	18.3
<i>thereof terminal value</i>	118.9%
NFP last reported	(3.4)
Pension provision last reported	(1.8)
<b>Equity value € m</b>	<b>13.1</b>
#m shares	5.24
<b>Equity value €/s</b>	<b>2.50</b>
% upside/(downside)	9.6%

Source: CFO Sim

The application of the model produces an **equity value of € 13.1m for Monnalisa, corresponding to € 2.50/share (€ 4.00/s)**, broadly in line with the current price. However, it has to be noted that **terminal value represents 120% of the total EV**: that is to say that **current valuation is biased on long term cash flow generation capabilities**. The following tables illustrate sensitivity compared to changes in 1) the terminal growth rate, the free-risk rate and 3) the risk premium, including small size premium.

**Table 8 – Monnalisa, equity value sensitivity to changes in terminal growth rate**

€ m	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
Present value of CF	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
PV of terminal value	19.8	20.4	21.1	21.8	22.5	23.3	24.1
<b>Total value</b>	<b>16.4</b>	<b>17.0</b>	<b>17.6</b>	<b>18.3</b>	<b>19.0</b>	<b>19.8</b>	<b>20.6</b>
NFP last reported	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Pension provision last reported	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
<b>Equity value</b>	<b>11.1</b>	<b>11.7</b>	<b>12.4</b>	<b>13.1</b>	<b>13.8</b>	<b>14.6</b>	<b>15.4</b>
<b>Equity value/share €</b>	<b>2.13</b>	<b>2.24</b>	<b>2.37</b>	<b>2.50</b>	<b>2.64</b>	<b>2.78</b>	<b>2.94</b>

Source: CFO Sim

**Table 9 – Monnalisa, equity value sensitivity to changes in free-risk rate**

€ m	0.59%	0.84%	1.09%	1.34%	1.59%	1.84%	2.09%
Present value of CF	(3.4)	(3.4)	(3.4)	(3.4)	(3.5)	(3.5)	(3.5)
PV of terminal value	24.0	23.2	22.5	21.8	21.1	20.4	19.8
<b>Total value</b>	<b>20.6</b>	<b>19.8</b>	<b>19.0</b>	<b>18.3</b>	<b>17.6</b>	<b>17.0</b>	<b>16.3</b>
NFP last reported	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Pension provision last reported	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
<b>Equity value</b>	<b>15.4</b>	<b>14.6</b>	<b>13.8</b>	<b>13.1</b>	<b>12.4</b>	<b>11.7</b>	<b>11.1</b>
<b>Equity value/share €</b>	<b>2.94</b>	<b>2.78</b>	<b>2.64</b>	<b>2.50</b>	<b>2.37</b>	<b>2.24</b>	<b>2.12</b>

Source: CFO Sim

**Table 10 – Monnalisa, equity value sensitivity to changes in risk premium**

€ m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	(3.3)	(3.3)	(3.4)	(3.4)	(3.5)	(3.5)	(3.6)
PV of terminal value	27.3	25.2	23.4	21.8	20.3	19.0	17.8
<b>Total value</b>	<b>24.1</b>	<b>21.9</b>	<b>20.0</b>	<b>18.3</b>	<b>16.8</b>	<b>15.4</b>	<b>14.2</b>
NFP last reported	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Pension provision last reported	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
<b>Equity value</b>	<b>18.8</b>	<b>16.7</b>	<b>14.8</b>	<b>13.1</b>	<b>11.6</b>	<b>10.2</b>	<b>9.0</b>
<b>Equity value/share €</b>	<b>3.60</b>	<b>3.18</b>	<b>2.82</b>	<b>2.50</b>	<b>2.21</b>	<b>1.95</b>	<b>1.71</b>

Source: CFO Sim

## Market multiples

We conducted an analysis on ten companies operating in the luxury and fashion arena.

**Brunello Cucinelli SpA:** Brunello Cucinelli SpA is a luxury fashion company, known for its cashmere products as well as exclusive brands. The company designs, manufactures, and distributes clothing and accessories globally for men and women. Brunello Cucinelli sells its products in Europe (45% of top line), North America (34%), China (10%) and RoW (11%). Retail and Wholesale represent respectively 56% and 44% of sales.





**Burberry Group PLC:** Burberry Group PLC is a global luxury brand with British heritage, core outerwear, and large leather goods base. The company designs and sources apparel and accessories. Burberry sells its products worldwide in particular in the Asia Pacific region (41% of top line), EMEA region (36%) and Americas region (23%). Retail and Wholesale represent respectively 80% and 18% of its revenues. Children's products account for 4% of top line.

**Capri Holdings Ltd:** Capri Holdings Limited operates as a holding company. The company, through its brands (such as Versace, Jimmy Choo and Michael Kors), covers the full spectrum of fashion luxury categories including women's and men's accessories, footwear and ready-to-wear as well as wearable technology, watches, jewellery, eyewear and a full line of fragrance products. Capri Holdings serves customers worldwide in particular in America (61% of top line), Europe (24%) and Asia (15%). Retail and Wholesale represent respectively about 60% and 40% of its revenues.

**Hugo Boss AG:** Hugo Boss AG designs, produces, and markets brand name clothing. Hugo Boss licenses its name for eyeglass frames, fragrances, watches, shoes, and leather goods. Hugo Boss sells its products worldwide in particular in Europe (63% of top line), the Americas (19%) and the Asia Pacific area (15%). Retail and Wholesale represent respectively 65% and 32% of its revenues.

**Kering SA:** Kering SA is a global Luxury Group. It develops an ensemble of luxury houses in fashion, leather goods, jewellery and watches: Gucci, Saint Laurent, Bottega Veneta, Alexander McQueen, Balenciaga, Ulysse Nardin, etc. The company specialises in ready-to-wear products, sports goods, shoes, jewellery, and watches. Kering serves customers worldwide in particular in Europe (32% of top line), the Asia Pacific area (42%), North America (19%) and RoW (7%). Retail and Wholesale represent respectively 78% and 22% of its revenues.

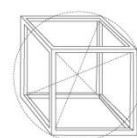
**Moncler SpA:** Moncler SpA manufactures apparel products and serves customers internationally, in particular in Asia and RoW (44% of top line), EMEA (29%), the Americas (16%) and Italy (11%). Retail and Wholesale represent respectively 77% and 23% of its revenues. Moncler Enfant weighs for roughly mid-single digit on total sales.

**Prada SpA:** PRADA SpA is an Italian fashion company that designs, manufactures and sells high-end leather goods, ready-to-wear and footwear through various brands. Brand names include Prada, Miu Miu, Church's, Car Shoe and Pasticceria Marchesi. Prada SpA serves customers worldwide in particular in APAC (36% of top line), Europe (33%), the Americas (14%), Japan (14%) and the Middle East (3%). Retail and Wholesale represent respectively 83% and 15% of its revenues.

**Ralph Lauren Corp:** Ralph Lauren Corporation designs, markets, and distributes men's, women's and children's apparel, accessories, fragrances, and home furnishings. The company's products are sold under a wide range of brands. Ralph Lauren's operations include wholesale, retail, and licensing. Ralph Lauren serves customers internationally, in particular in North America (51% of top line), Europe (26%), Asia (16%) and Row (6%). Retail and Wholesale represent respectively 60% and 38% of its revenues.

**Salvatore Ferragamo SpA:** Salvatore Ferragamo SpA is a clothing and accessories company offering shoes, handbags, belts, luggage, ties, scarves, and watches. Salvatore Ferragamo serves customers worldwide in particular in the Asia Pacific area (37% of top line), Europe (25%), North America (23%), Japan (9%) and Latin America (6%). Retail and Wholesale represent respectively 65% and 33% of its revenues.

**Tod's SpA:** Tod's SpA manufactures and retails men's and women's shoes. The company's signature shoe is a loafer with rubber spikes on the sole and heel. Brand names include Tod's, Hogan, and Fay. Tod's SpA serves customers worldwide in particular in Italy (28% of top line), Europe (26%), China (23%), the Americas (8%) and RoW (14%). Retail and Wholesale represent respectively 70% and 30% of its revenues.



Among the not-listed companies, **Armani Junior** has revenues accounting for approximately € 82m, about 4% of the group's total turnover. Two French companies focus on childrenswear, like Monnalisa: **CWF** (roughly € 160m sales, mainly producing on licensing as an outsourcer, with 10% of its sales in Italy, 55% in the rest of Europe, 35% worldwide and only 29 DOS) and **Bonpoint**, in which Rothschild PE Fund has an investment.

**The size of the listed luxury companies is huge, and the operating profitability slightly higher because of the different channel mix.** In the peer group sample, the average of retail sales on the total business is close to 70%.

**Table 11 – Monnalisa, peer group summary table**

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR <sub>19-22</sub>	EBITDA CAGR <sub>19-22</sub>	EBIT CAGR <sub>19-22</sub>	EPS CAGR <sub>20-22</sub>	NFP /EBITDA
Brunello Cucinelli SpA	ITALY	1,740	537	79	14.8%	3.7%	0.8%	-1.5%	n.m.	3.6
Burberry Group PLC	UK	6,159	2,578	541	21.0%	1.1%	-4.0%	-0.8%	25.4%	(1.5)
Capri Holdings Ltd	USA	2,858	3,223	346	10.7%	-4.1%	0.8%	2.9%	149.8%	4.6
Hugo Boss AG	GERMANY	1,416	2,154	291	13.5%	-3.6%	-7.6%	-11.6%	n.m.	3.1
Kering SA	FRANCE	66,084	13,323	4,177	31.3%	2.5%	0.7%	0.9%	30.5%	1.1
Moncler SpA	ITALY	8,870	1,396	488	34.9%	4.4%	4.2%	3.6%	33.9%	(1.0)
Prada SpA	ITALY	8,610	2,542	611	24.1%	0.4%	0.9%	8.5%	n.m.	0.6
Ralph Lauren Corp	USA	4,416	3,938	364	9.2%	-2.9%	8.6%	15.0%	101.7%	(2.6)
Salvatore Ferragamo SpA	ITALY	1,851	958	116	12.1%	-3.4%	-6.5%	-12.7%	n.m.	0.0
Tod's SpA	ITALY	619	656	47	7.2%	-3.7%	-4.1%	11.2%	n.m.	7.2
<b>Median</b>		<b>3,637</b>	<b>2,348</b>	<b>355</b>	<b>14.2%</b>	<b>-1.3%</b>	<b>0.7%</b>	<b>1.9%</b>	<b>33.9%</b>	<b>0.8</b>
<b>Monnalisa SpA</b>	<b>ITALY</b>	<b>12</b>	<b>34</b>	<b>(8)</b>	<b>-24.5%</b>	<b>-0.9%</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>

Source: CFO Sim, Thomson Reuters Eikon

**Table 12 – Monnalisa, peer group EV multiple table**

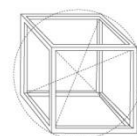
	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Brunello Cucinelli SpA	3.77	3.26	2.95	25.5	13.7	11.5
Burberry Group PLC	2.08	1.84	1.70	9.9	7.6	6.8
Capri Holdings Ltd	1.38	0.99	0.86	12.8	6.0	5.1
Hugo Boss AG	1.07	0.94	0.78	7.9	4.8	3.6
Kering SA	5.30	4.39	3.93	16.9	12.6	10.9
Moncler SpA	6.02	4.93	4.30	17.2	12.7	10.6
Prada SpA	3.53	2.97	2.71	14.7	10.1	8.6
Ralph Lauren Corp	0.88	0.77	0.73	9.6	5.1	4.8
Salvatore Ferragamo SpA	1.94	1.47	1.36	15.9	7.8	6.1
Tod's SpA	1.46	1.36	1.24	20.3	10.0	7.5
<b>Median</b>	<b>2.01</b>	<b>1.65</b>	<b>1.53</b>	<b>15.3</b>	<b>8.9</b>	<b>7.1</b>
<b>Monnalisa SpA</b>	<b>0.66</b>	<b>0.61</b>	<b>0.51</b>	<b>(2.7)</b>	<b>(12.0)</b>	<b>12.1</b>
% premium/(discount) to median	(66.9)	(62.9)	(66.5)	n.m.	n.m.	70.1

Source: CFO Sim, Thomson Reuters Eikon

**Table 13 – Monnalisa, peer group EV & price multiple table**

	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Brunello Cucinelli SpA	(219.8)	35.6	25.1	n.m.	64.6	39.8
Burberry Group PLC	17.0	12.4	10.7	27.3	19.3	17.3
Capri Holdings Ltd	31.1	8.4	6.9	39.2	7.5	6.3
Hugo Boss AG	(16.7)	12.8	8.2	(12.0)	12.7	9.3
Kering SA	23.1	15.9	13.7	33.6	22.6	19.7
Moncler SpA	26.5	17.6	14.5	43.3	28.8	24.1
Prada SpA	1,016.7	30.1	21.8	n.m.	51.6	35.2
Ralph Lauren Corp	24.0	7.5	6.7	41.6	11.6	10.2
Salvatore Ferragamo SpA	(35.7)	28.1	16.5	n.m.	88.0	33.0
Tod's SpA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
<b>Median</b>	<b>23.1</b>	<b>15.9</b>	<b>13.7</b>	<b>36.4</b>	<b>22.6</b>	<b>19.7</b>
<b>Monnalisa SpA</b>	<b>(2.0)</b>	<b>(4.8)</b>	<b>(20.0)</b>	<b>(2.1)</b>	<b>(2.8)</b>	<b>(9.1)</b>
% premium/(discount) to median	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

Source: CFO Sim, Thomson Reuters Eikon



## Peer stock performance

**Table 14 – Monnalisa, peer group absolute performance**

	1D	1W	1M	3M	6M	YTD	1Y
Brunello Cucinelli SpA	(3.6)	(6.5)	(4.2)	4.1	(13.4)	(19.4)	(9.0)
Burberry Group PLC	0.4	(7.7)	(14.1)	6.0	(1.5)	(37.9)	(33.3)
Capri Holdings Ltd	4.4	(1.6)	22.5	45.1	45.5	(41.8)	(29.9)
Hugo Boss AG	(3.4)	(12.1)	(7.2)	(14.5)	(21.2)	(53.8)	(46.6)
Kering SA	(0.3)	(9.4)	(10.7)	5.6	13.0	(11.1)	1.8
Moncler SpA	(2.2)	(8.5)	(4.2)	2.9	(0.5)	(14.8)	(1.6)
Prada SpA	(3.8)	(6.7)	0.8	1.8	21.3	(5.4)	12.8
Ralph Lauren Corp	(5.0)	(8.5)	2.1	(0.7)	(4.3)	(39.8)	(26.9)
Salvatore Ferragamo SpA	(3.2)	(15.1)	(13.4)	(7.7)	(3.5)	(41.9)	(34.8)
Tod's SpA	(4.5)	(14.4)	(25.0)	(23.3)	(33.5)	(54.9)	(56.3)
<b>Median</b>	<b>(3.3)</b>	<b>(8.5)</b>	<b>(5.7)</b>	<b>2.4</b>	<b>(2.5)</b>	<b>(38.9)</b>	<b>(28.4)</b>
<b>Monnalisa SpA</b>	<b>(7.3)</b>	<b>(16.8)</b>	<b>(19.1)</b>	<b>(13.6)</b>	<b>(26.0)</b>	<b>(62.0)</b>	<b>(69.8)</b>

Source: Thomson Reuters Eikon

**Table 15 – Monnalisa, peer group and key indexes absolute performance**

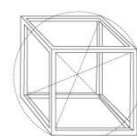
	1D	1W	1M	3M	6M	YTD	1Y
Monnalisa peer group	(3.3)	(8.5)	(5.7)	2.4	(2.5)	(38.9)	(28.4)
S&P Global Luxury	(0.0)	(5.8)	(2.8)	7.0	29.8	4.8	13.0
MSCI World Index	0.5	(4.2)	(2.6)	0.6	12.9	(1.7)	3.6
EUROSTOXX	(0.1)	(6.0)	(6.1)	(5.3)	3.4	(17.6)	(14.7)
FTSE Italia All Share	(0.2)	(6.4)	(6.7)	(7.1)	0.9	(23.9)	(20.7)
FTSE STAR Italia	0.5	(5.2)	(6.7)	1.2	11.7	(5.6)	4.1
FTSE AIM Italia	0.4	(3.6)	(6.5)	(8.8)	(7.8)	(20.7)	(20.2)
<b>Monnalisa SpA</b>	<b>(7.3)</b>	<b>(16.8)</b>	<b>(19.1)</b>	<b>(13.6)</b>	<b>(26.0)</b>	<b>(62.0)</b>	<b>(69.8)</b>

Source: Thomson Reuters Eikon

## Risks

The principal investment **risks** associated with Monnalisa include:

- delays in the internationalisation process (DOS openings);
- wholesale value of production development;
- net working capital management, in particular for inventories;
- competition in mature markets, which might put margins or top line developments under pressure;
- impact on P&L account and balance sheet profiles triggered by a sharp decline in global economic growth;
- change in client preferences and fashion trends;
- departure of one of the few key people



## ANALYST CERTIFICATION

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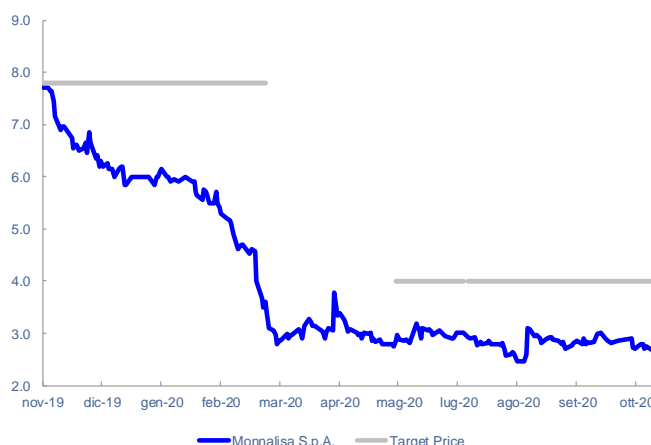
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DATE	TARGET PRICE	RATING
30/10/2020	€2.50	NEUTRAL
22/05/2020	€4.00	NEUTRAL
09/03/2020	U.R.	NEUTRAL
10/10/2019	€7.80	NEUTRAL

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

