

Italy – Fashion

Results and current conditions suggest a change in strategy

22th May 2020

FY-19 RESULTS RELEASE

RIC: MONNA.MI
BBG: MNL IM

FY-19 results and the current difficult context prompts to a plan revision, focusing on fewer but more profitable shops. Interim results will be unquestionably heavily impacted by the current harsh environment and the beginning of the remodelling phase of the retail structure development plan. Neutral, too-early-to-buy.

Rating:
Neutral

Price Target:
€ 4.00 (€ 7.80)

Upside/(Downside): 43.9%

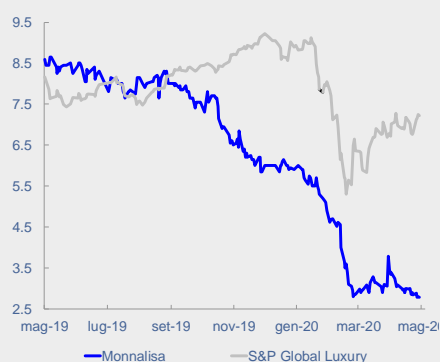
Last Price: € 2.78

Market Cap.: € 14.6

1Y High/Low: € 8.80 / € 2.78

Free Float: 25.2%

Major shareholders:
Jafin Due 74.5%



Stock price performance

	1M	3M	12M
Absolute	-16.8%	-45.5%	-68.0%
Rel.to AIM Italia	-17.6%	-30.5%	-44.4%
Rel.to Sector	-23.2%	-25.6%	-61.1%

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Strategy deep adjustment and harsh business conditions: too-early-to-buy

We revised our model factoring in a possible reasonable action plan considering the current situation and FY-19 numbers. CFO believes the massive new DOS opening plan needs to be reappraised in size. We now expect Monnalisa to reach 55 total DOS at end-22 vs 73 in our previous estimates and to close a few nonperforming locations. The result is an average downgrade in Sales and EBITDA of 24% and 80% in 2020-21. We introduced also 2022 estimates. Our new PT € 4.00 (€ 7.80) is based on a DCF rather than a multiple comparison. The execution risk linked to the massive opening plan is reduced but the visibility on 2020 remains rather low. In addition, the reorganisation of the retail structure could result in becoming more expensive and complex than anticipated. However, the strategy seems to go in the right direction, focusing on fewer but more profitable shops. Even if the new PT offers a 43.9% upside, we maintain our neutral stance on Monnalisa. H1-20 results will be unquestionably heavily impacted by the current harsh environment and the beginning of the remodelling phase of the retail structure development plan.

FY-19 net revenues down 2.4%, penalised by the Wholesale drop

2019 revenues were € 47.9m, down 2.4% YoY, 67% is outside Italy. The figure is lower than the € 49.3m CFO SIM estimate. The Retail revenues (1/3 of total sales) soared by 26%, driven by new DOS openings. The Wholesale turnover dropped by 12% YoY and represented 2/3 of consolidated revenues. The division was impacted by the downturn of childrenswear market in multibrand stores in addition to political instability in a few Middle Eastern markets. The E-commerce turnover totalled € 1.5m, unchanged YoY.

Adj. EBITDA at breakeven

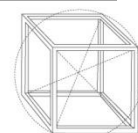
Reported EBITDA was negative for € 2.9m, compared to € 5.2m in 2018 and our € 4.1m expectation. Adjusted EBITDA stands at € 0.3m vs. € 7.3m in 2018 and € 5.5m CFO SIM projection. The sharp YoY decline and difference vs. our estimate are mainly linked to I) the higher than anticipated decrease of Wholesale revenues, II) the increase in COGS HoH vs. estimates and III) the profitability drain of the recently opened shops.

Bottom line in red for € 8.4m, NFP negative for € 3.4m

Monnalisa actioned a few write-downs related to I) the goodwill of the American subsidiary and II) the elimination of prepaid tax credits of the Chinese and Brazilian subsidiaries. These actions had a negative impact of some € 2m. EBIT was negative for € 7.6m, vs. € 2.1m positive in 2018 and € 0.4m our forecast. EBIT adj. was negative for € 2.9m, including the US subsidiary goodwill devaluation. Bottom line was in red for € 8.4m, net profit adj. was € 2.5m negative. NFP reached € 3.4m (debt) vs € 2.5m (cash) in 2018: capex was € 3.7m OCF was neg. for € 2.5m vs. € 1.5m positive in 2018.

Monnalisa, key financials and ratios

€ m	2018	2019	2020e	2021e	2022e
Sales	49.1	47.9	38.9	46.6	52.6
EBITDA adj.	7.3	0.3	0.0	3.3	6.4
EBITDA	5.3	(2.9)	(2.1)	2.9	6.1
EBIT	2.1	(7.6)	(5.6)	(0.7)	2.4
Net profit adj.	2.8	(2.5)	(4.7)	(1.2)	1.9
Net profit	1.3	(8.4)	(6.4)	(1.5)	1.6
NFP (cash)/debt	(2.3)	3.4	8.3	7.0	4.3
EBITDA margin	10.1%	-5.7%	-5.1%	6.1%	11.2%
EPS adj.	0.53	(0.48)	(0.90)	(0.24)	0.36
EPS adj. growth	-3.4%	-189.3%	88.8%	-73.7%	-249.7%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
ROCE	3.4%	n.m.	n.m.	n.m.	4.7%
NWC/Sales	40.4%	40.3%	51.9%	43.1%	40.8%
Free Cash Flow Yield	-49.9%	-42.7%	-29.6%	5.4%	16.6%
PER x	5.2	(5.8)	(3.1)	(11.7)	7.8
EV/Sales x	1.23	0.95	0.59	0.46	0.36
EV/EBITDA x	11.3	(15.8)	(11.1)	7.3	3.1
EV/EBIT x	28.3	(6.0)	(4.1)	(29.3)	7.8



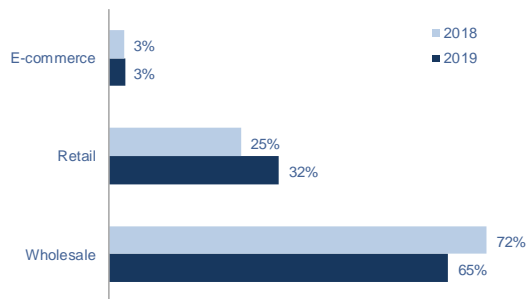


The company at a glance

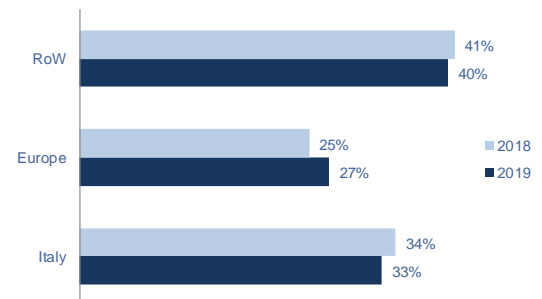
Founded in 1968 by Piero Iacomoni and Barbara Bertocci in the fashion and creative centre of Italy, Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands. The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete range of products from apparel to footwear, from accessories to cosmetics and furniture. At the end of 2019, Monnalisa acted worldwide in more than 60 countries through 48 direct stores and almost 700 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 coherence of the store 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.

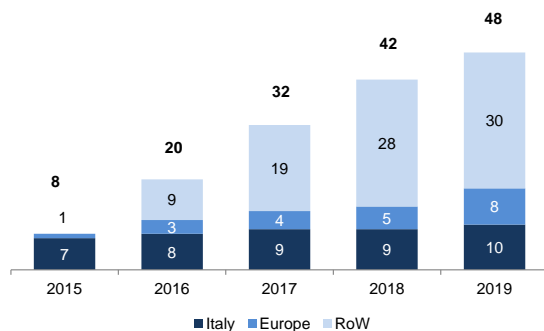
FY-19 vs FY-18 channel contribution...



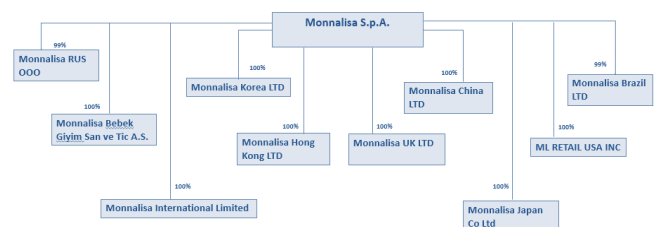
... and revenues by geography



2015/19 retail evolution



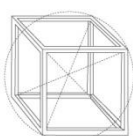
Group structure



Peers group multiples table

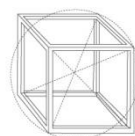
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Brunello Cucinelli SpA	3.74	3.17	2.94	19.7	14.3	12.6	57.1	30.3	22.6
Burberry Group PLC	1.95	1.78	1.64	11.4	8.8	7.6	15.7	11.8	9.3
Capri Holdings Ltd	0.80	0.92	0.70	4.7	6.4	4.4	6.3	10.7	5.8
Hugo Boss AG	1.09	0.98	0.91	6.5	4.9	4.2	26.3	10.5	8.9
Kering SA	4.12	3.51	3.07	12.9	10.0	8.7	16.6	12.3	10.5
Moncler SpA	5.15	4.33	3.82	14.4	11.3	9.8	20.0	14.9	12.6
Prada SpA	2.96	2.54	2.35	12.3	9.3	8.5	50.1	24.0	19.4
Ralph Lauren Corp	0.73	0.79	0.77	4.9	6.3	5.1	7.0	10.7	7.2
Salvatore Ferragamo SpA	1.46	1.27	1.29	8.6	6.5	5.7	55.1	16.3	13.4
Tod's SpA	1.53	1.30	1.28	16.1	9.9	7.6	n.m.	n.m.	n.m.
Median	1.74	1.54	1.47	11.9	9.1	7.6	20.0	12.3	10.5
Monnalisa SpA	0.59	0.46	0.36	(11.1)	7.3	3.1	(4.1)	(29.3)	7.8

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2018	2019	2020e	2021e	2022e
Sales	49.1	47.9	38.9	46.6	52.6
Value of Production	52.7	50.1	40.3	48.3	54.4
Raw material and processing	(14.4)	(14.6)	(11.5)	(13.5)	(15.2)
Services	(16.2)	(17.7)	(13.3)	(14.2)	(14.6)
Personnel expenses	(10.6)	(12.4)	(10.6)	(10.7)	(11.5)
Other opex	(6.2)	(8.2)	(7.0)	(7.0)	(7.0)
EBITDA	5.3	(2.9)	(2.1)	2.9	6.1
D&A	(3.2)	(4.7)	(3.6)	(3.7)	(3.7)
EBIT	2.1	(7.6)	(5.6)	(0.7)	2.4
Financials	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
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)	(5.9)	(1.0)	2.1
Income taxes	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
Minorities	(0.0)	0.0	0.0	0.0	0.0
Net Profit	1.3	(8.4)	(6.4)	(1.5)	1.6
EBITDA adj.	7.3	0.3	0.0	3.3	6.4
Net Profit adj.	2.8	(2.5)	(4.7)	(1.2)	1.9
Balance sheet (€ m)	2018	2019	2020e	2021e	2022e
Net Working Capital	21.3	20.2	20.9	20.8	22.2
Net Fixed Assets	23.6	22.5	20.3	18.2	16.2
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	0.2	(0.4)	(0.5)	(1.1)	(1.6)
Net Invested Capital	45.1	42.3	40.8	38.0	36.8
Net Financial Debt	(2.3)	3.4	8.3	7.0	4.3
Minorities	0.0	0.0	0.0	(0.0)	(0.0)
Group's Shareholders Equity	47.4	38.9	32.5	31.0	32.6
Financial Liabilities & Equity	45.1	42.3	40.8	38.0	36.8
Cash Flow statement (€ m)	2018	2019	2020e	2021e	2022e
Total net income	1.3	(8.4)	(6.4)	(1.5)	1.6
Depreciation	3.2	4.7	3.6	3.7	3.7
Other non-cash charges	(0.0)	0.0	0.7	0.1	0.2
Cash Flow from Oper. (CFO)	4.5	(3.7)	(2.2)	2.3	5.4
Change in NWC	(3.0)	1.1	(0.7)	0.1	(1.4)
FCF from Operations (FCFO)	1.5	(2.5)	(2.9)	2.4	4.0
Net Investments (CFI)	(8.8)	(3.7)	(1.4)	(1.6)	(1.6)
Free CF to the Firm (FCFF)	(7.3)	(6.2)	(4.3)	0.8	2.4
CF from financials (CFF)	18.0	1.0	0.1	(0.1)	0.0
Free Cash Flow to Equity (FCFE)	10.8	(5.2)	(4.2)	0.7	2.4
Financial ratios	2018	2019	2020e	2021e	2022e
EBITDA margin	10.1%	-5.7%	-5.1%	6.1%	11.2%
EBITDA adj. margin	13.8%	0.5%	0.1%	6.8%	11.8%
EBIT margin	4.1%	-15.1%	-13.9%	-1.5%	4.4%
Net profit margin	2.4%	-16.8%	-15.9%	-3.2%	2.9%
Net profit adj. margin	5.3%	-5.0%	-11.7%	-2.6%	3.4%
Tax rate	24.5%	-6.7%	-8.5%	-48.4%	26.0%
Op NWC/Sales	40.4%	40.3%	51.9%	43.1%	40.8%
Interest coverage x	0.21	(0.04)	(0.05)	(0.40)	0.12
Net Debt/EBITDA x	(0.43)	(1.19)	(4.04)	2.39	0.70
Debt-to-Equity x	(0.05)	0.09	0.26	0.23	0.13
ROIC	2.9%	-19.9%	-15.7%	-4.0%	4.3%
ROCE	3.4%	n.m.	n.m.	n.m.	4.7%
ROACE	4.0%	-12.6%	-10.5%	-1.5%	4.8%
ROE	2.7%	-21.6%	-19.7%	-4.9%	4.8%
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)	(1.22)	(0.29)	0.30
EPS adjusted FD €	0.53	(0.48)	(0.90)	(0.24)	0.36
EBITDA €	1.02	(0.55)	(0.39)	0.56	1.16
EBIT €	0.41	(1.45)	(1.07)	(0.14)	0.46
BV €	9.05	7.43	6.21	5.92	6.22
FCFO €	0.28	(0.48)	(0.56)	0.45	0.76
FCFF €	(1.39)	(1.19)	(0.82)	0.15	0.46
FCFE €	2.06	(1.00)	(0.80)	0.14	0.46
Dividend €	0.00	0.00	0.00	0.00	0.00



Monnalisa in a nutshell

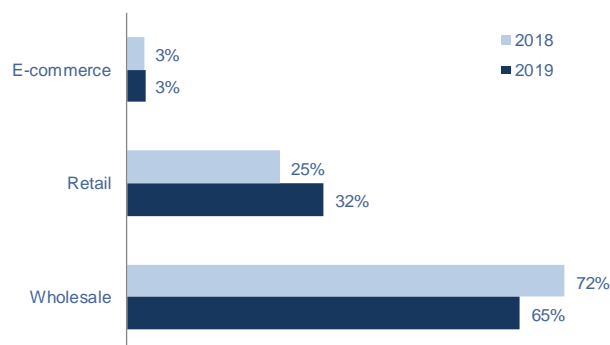
Founded in 1968 by **Piero Iacomoni** and **Barbara Bertocci** in the fashion and creative centre of Italy, **Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands.** The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete range of products from apparel to footwear, from accessories to cosmetics and furniture.

The core competence of Monnalisa is the proven ability to provide quality, fashionable and highly identifiable products for consumers looking for luxury clothes. Monnalisa presents rich and innovative collections every season which are the result of continuous product innovation, excelling in terms of creativity and style content. **Monnalisa has completely insourced every strategic activity**, from the design to prototype creation and **outsourced every low value added non-strategic phase of the production process.** Moreover, in order to guarantee a high-quality level to finished products, Monnalisa pays particular attention to quality control of raw materials and fabric cutting.

Monnalisa operates worldwide in more than 60 countries through 48 direct stores and almost 700 multibrand stores (figures at end-2019). With net revenues at € 48m in 2019 (down 2.4% YoY), **Monnalisa is the fourth Italian childrenswear player operating worldwide in the high-end segment of the market.** The company sells via three distribution channels:

- **Wholesale, 65% of top line.** Monnalisa sells to almost 700 independent multibrand stores worldwide in the most important shopping streets. Monnalisa conducts a strict selection of the stores considering location, visibility and coherence of the store with Monnalisa brand identity. Although a third party manages the stores, Monnalisa keeps control of the merchandising.
- **Retail, 32% of top line.** Monnalisa sells directly to final customers 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.

Chart 1 – Monnalisa, 2018-19 channel contribution



Source: Company data

The significantly higher returns of Directly Operated Stores prompted Monnalisa to continue progressively increasing the number of DOS and DOO as in recent years.

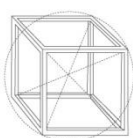
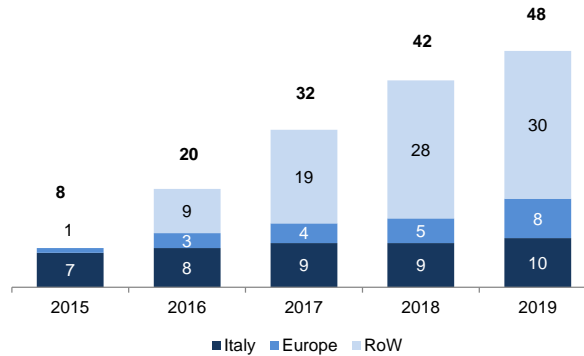


Chart 2 – Monnalisa, recent evolution in retail number of DOS and DOO



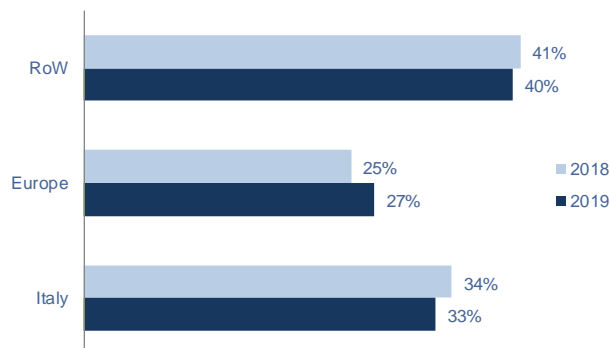
Source: Company data

By product, revenues have definitely shifted to apparel, accounting for roughly 88% of last year's total, with footwear and accessories at 6% each.

Almost 67% of revenues are generated outside Italy, the aim being to increase international presence by entering new markets (in particular Asia) and increasing direct retail presence abroad.

The company has a wide **global presence**: **Italy** accounts for **33%** of **top line**, **Domestic Europe** almost **27%** and **Rest of the World 40%** of total revenues.

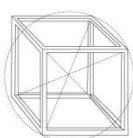
Chart 3 – Monnalisa, 2018-19 revenue breakdown by geography



Source: Company data

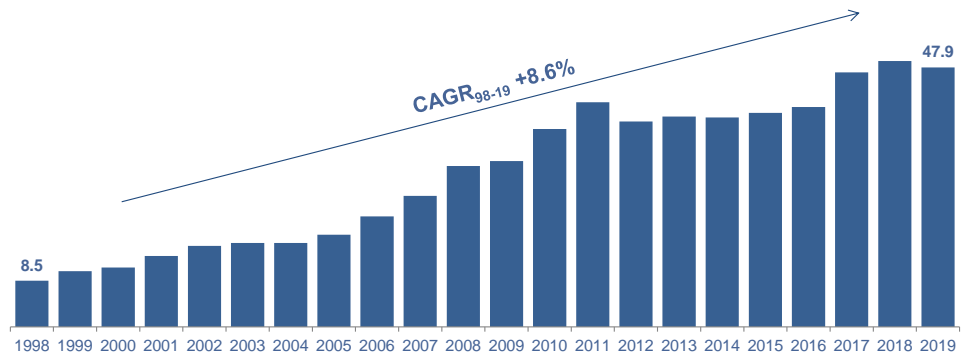
Monnalisa operates in over 60 countries generating 67% of its revenues outside Italy. In particular, in order to boost its internationalisation, **Monnalisa controls 10 foreign subsidiaries in key strategic countries** such as Hong Kong, Russia, USA, Turkey, China, Brazil, Korea, United Kingdom and Taiwan. The company sells mainly in **three reference markets**:

- **Italy**: Monnalisa products are available throughout Italy, in particular thanks to a large number of DOS and Wholesales stores.
- **Domestic**: Monnalisa has a strong presence in the European area. The company sells its clothing in some 'domestic' countries such as: Austria, Belgium, Cyprus, Finland, France, Germany, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK.
- **Rest of the World**: The rest of the world is divided into 4 strategic areas: Eastern Europe, Asia Pacific, Middle East & Africa and America.



The company has been growing significantly since its establishment: Monnalisa has shown **significant stable growth over the last 20 years**, with a **CAGR₉₈₋₁₉ of 8.6%**.

Chart 4 – Monnalisa, 1998-2019 top line evolution



Source: Company data

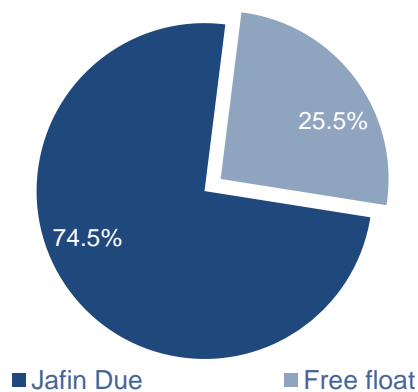
Shareholding structure

The successful IPO was completed in July 2018, consisted mainly of a primary **offering** to professional investors, for some 95% of the total. **At the IPO price of € 13.75, almost none of the existing controlling shareholders were willing to sell stocks.**

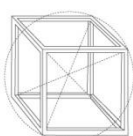
Jafin Due, a holding company fully owned by the founding family, currently owns 74.5% of Monnalisa. Pre-IPO shareholders had at least a 12 month lock-up.

The company already has one independent BoD member, selected by Jafin Due, pending the decision to nominate another by investors.

Chart 5 – Monnalisa, shareholder structure



Source: Company data



The reference market & competitive environment

Monnalisa operates in the children's clothing sector and is positioned in the high-end segment of the market. In this context, the company has the best entry price, thus being considered as affordable luxury. Target clients are 'aspirational consumers'.

The childrenswear market can be divided into four segments: high-end, premium, medium and low cost. The contribution to growth of these segments on the overall market is different considering the type of segment: 2019 was characterised by a strong performance of high-end and by a slowdown of premium, medium and low cost.

In this difficult scenario, the fashion trend supposedly has followed the performance of the **luxury market index (-7.6%)** only marginal lower than the **global market (-1.2%)** in the last year: despite of the orientation of consumer purchases towards luxury goods, Covid19 is heavily impacting the sector via a short term drop in consumption fears.

Chart 6 – Monnalisa, luxury market index versus MSCI World 2 and 1 year



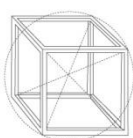
Source: Eikon

The COVID-19 dramatic rapid expansion worldwide since the beginning of 2020 produced a material impact on the fashion industry outlook: according to a McKinsey analysis the **global fashion industry is anticipated to contract by 27-30% YoY in 2020, although the industry could regain positive growth of 2-4% in 2021.**

Furthermore, the **personal luxury goods industry** (namely luxury fashion, luxury accessories, luxury watches, fine jewellery and high-end beauty), **is estimated to plummet by 35-39% YoY in 2020 worldwide. However, in 2021 McKinsey foresees a timid 1-4% growth.** Noteworthy, if stores remain closed for two months, McKinsey analysis approximates that 80% of publicly listed fashion companies in Europe and North America will be in financial distress.

While the duration of the pandemic remains uncertain, recovery will most likely be gradual. Historically, consumer sentiment took up to two years to return to normal after previous global crises: recovery from the 2003 SARS pandemic, 9/11 and the 2008 financial crisis took 6 months, 1.5 years and 2 years respectively (source: McKinsey).

Nevertheless, the forced lockdown has highlighted worldwide the importance of digital channels: **the digitalisation of the entire value chain has become an urgent priority in the global fashion industry.** Several new innovative technologies, not chiefly used before the spread of novel coronavirus, are now adopted to set up virtual fashion shows and digital show rooms, sample sign-offs in sourcing offices, livestream commerce and design activities using the latest 3D design tools.

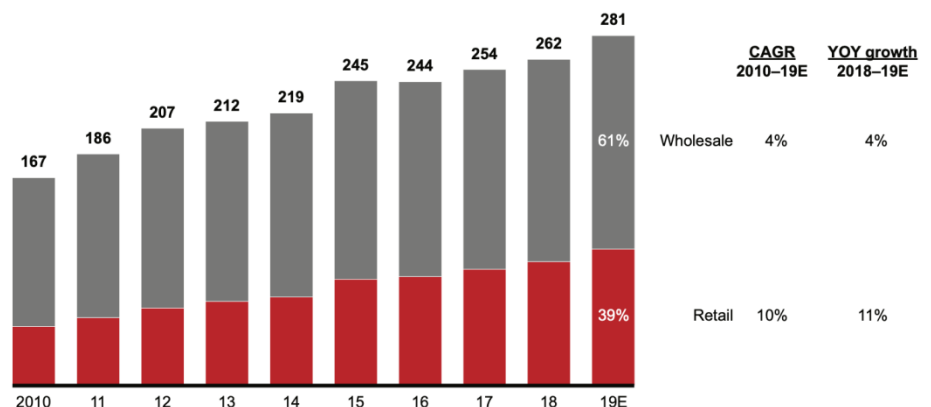


Considering the market in **2019**, even if it is not particularly significant in the current macroeconomic scenario, the fashion industry faced a **worrying year** due to challenging macroeconomic context. The McKinsey Global Fashion Index expects the **fashion industry to grow at 3.5-4.5% in 2019**. In particular, luxury consumption in **Hong Kong** has been adversely affected by ongoing protests. The market **fell by 20% in 2019** to € 6bn (source: Bain & Company).

Concerning the distribution trends of the global luxury goods market, **wholesale** remained in 2019 the largest channel, accounting for **61% of all sales**. **Retail channel continued growing steadily, rising 7% YoY**, of which 1% came from new-store openings and the remaining 6% came from same-store sales growth.

Furthermore, **online** remained the fastest growing retail channel, increasing by 22% YoY (**CAGR_{14-19e} 23%**) and reaching **€ 33.3bn**, 12% penetration of luxury sales worldwide. Accessories were the largest and fastest-growing category sold online (43% of total sales), ahead of apparel (23%), while beauty (19%) and hard luxury (11%) were both on the rise.

Chart 7 – Monnalisa, global personal luxury goods by channel (€ bn)



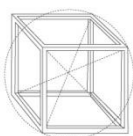
Source: Bain & Company

It is possible to distinguish three macro trends of the global high-end childrenswear market:

- **Demographics** are a key driver of growth and represent a market opportunity especially in developing countries which are characterised by a high birth rate.
- In Europe and America, where birth rate is very low, **consumers are moving towards the high-end market**. In particular, fashion trends play an ever-greater role in influencing what and how often they purchase.
- Fashion luxury brands have started developing their own **e-commerce strategies**. This decision is due to the relevant growth perspectives of the global e-commerce retail market which is anticipated to increase by 22% in 2019.

Monnalisa operates as a leading player within the high-end childrenswear arena. Via its four channels (wholesale, corporate retail, wholesale retail and e-commerce), the company has a solid position in the Italian market as well as globally:

- **Italian Market**, Monnalisa products are available throughout Italy thanks to its DOS and wholesales channels.
- **Global Market**, Monnalisa operates worldwide in over 60 countries and 67% of its revenues are generated outside Italy.



Italian Childrenswear Market

The Italian childrenswear market is highly concentrated with the first eight players accounting for 50% of the total. The remainder is represented by a very fragmented plethora of 800 small actors. The Italian market was worth € 2.18bn in 2019, after a decrease of 1.1% YoY. The CAGR of the last four years (2015-2019) was -0.8% and the market is expected to further decline by 3.7% in 2020, reaching € 2.10bn. Overall, the Italian childrenswear market is anticipated to grow with a 1.2% CAGR₁₉₋₂₂.

The market in Italy is characterized by the presence of well-known luxury brands (Giorgio Armani, Dolce and Gabbana, Moncler, Guess) operating via the kids business line, and specialised players such as Monnalisa.

The value of the Italian apparel retail market was worth € 2.18bn in 2019 (-1.1% YoY) with a CAGR of -0.8% over the period 2015-2019 and it is expected to further decline by 3.7% in 2020 reaching € 2.10bn. The market is anticipated to grow with a CAGR₁₉₋₂₂ of 1.2%, totalling € 2.26bn in 2022. The high-end Italian childrenswear market was worth € 285m in 2019 (+3.6% YoY).

Table 1 – Monnalisa, 2016-19 high-end childrenswear ranking by market share in Italy

	#	2016	2017	2018	2019	Var. bps 16-19
Brave Kid	1	6.5%	5.1%	6.0%	7.0%	48
Gimel	2	6.1%	5.4%	7.0%	6.7%	60
Dolce e Gabbana	3	5.8%	7.6%	6.2%	6.1%	34
Armani	4	5.0%	6.1%	5.8%	5.8%	79
CWF Italia	5	3.8%	5.8%	5.9%	5.7%	192
Monnalisa	6	3.2%	5.9%	6.2%	5.5%	234
Moncler	7	3.3%	4.2%	4.4%	5.3%	196
Il Gufo	8	3.3%	5.1%	4.5%	4.0%	74
Liu Jo	9	5.3%	3.6%	3.6%	3.5%	(179)

Source: Childrenswear Databank 2020

Table 2 – Monnalisa, 2018-22e Italian childrenswear sector by market segments

€ m	2018	2019	2020e	2021e	2022e	CAGR ₁₉₋₂₂
Domestic market	2,205	2,180	2,100	2,175	2,260	1.2%
yoy		-1.1%	-3.7%	3.6%	3.9%	
High-End	275	285	283	295	310	2.8%
% Domestic market	12.5%	13.1%	13.5%	13.6%	13.7%	
Premium	145	139	135	138	142	0.7%
% Domestic market	6.6%	6.4%	6.4%	6.3%	6.3%	
Medium	618	581	542	560	580	-0.1%
% Domestic market	28.0%	26.7%	25.8%	25.7%	25.7%	
Low cost	1,167	1,175	1,140	1,182	1,228	1.5%
% Domestic market	52.9%	53.9%	54.3%	54.3%	54.3%	

Source: Childrenswear Databank 2020

Monnalisa is focusing on the luxury part of the market as the group operates as a leading player within the high-end childrenswear segment in Italy. With the strong growth it has experienced, **Monnalisa increased its market share from 3.2% to 5.5% in 2016-19** and is now **the sixth player in the Italian market**.

In particular, Monnalisa reported € 15.7m revenue in 2019 experiencing an outperformance with a **+1.0% CAGR in 2017-19** versus a market decrease of 1.3% in the same period.

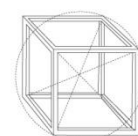
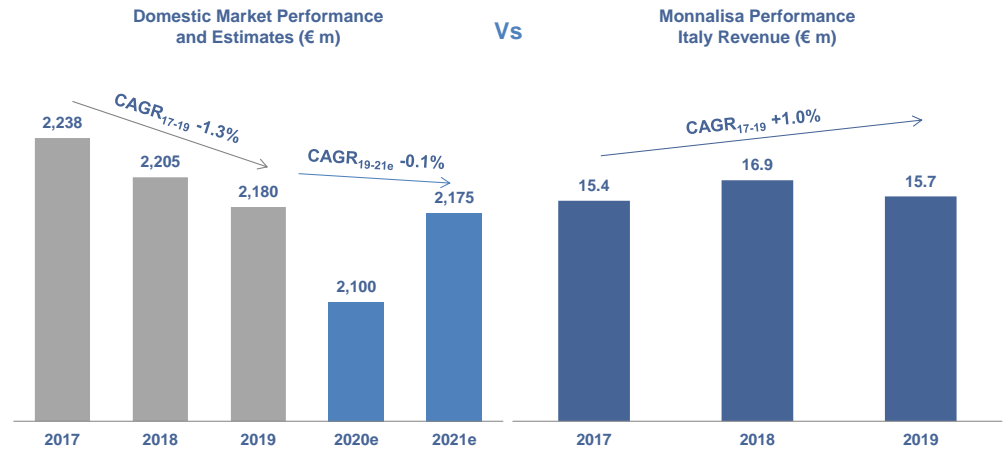


Chart 8 – Monnalisa, Italian market and company performance



Source: Childrenswear Databank 2020

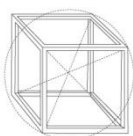
Since the beginning, Monnalisa has operated exclusively in the high-end childrenswear market. In particular, having the best entry price in the high-end market, Monnalisa can be considered as “affordable Luxury”. The average price of Monnalisa’s clothes is just over € 100. The target clients for Monnalisa are “aspirational consumers” who are always looking for innovative luxury products with high creativity and style.

Chart 9 – Monnalisa, pricing and brand positioning



Source: Company data

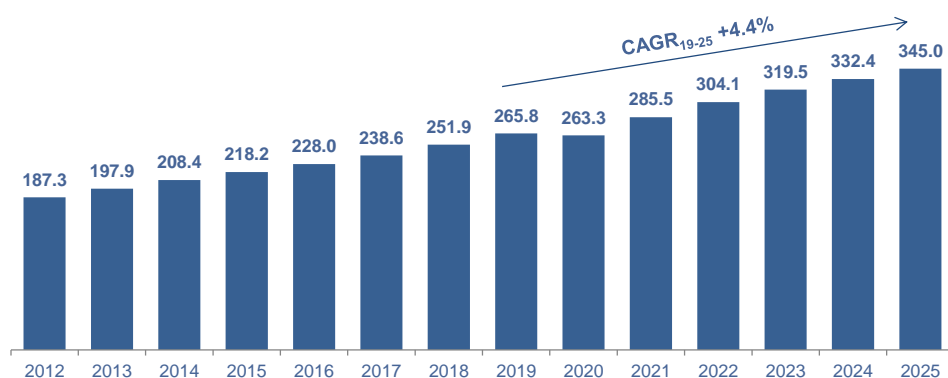
Monnalisa policy is to optimally align the pricing between retail and wholesale channel in each geographical area. In the retail business (namely DOS), the company is progressively reducing fire sales, improving both operating margins and brand image. Inventories are managed through Direct Operated Outlets strategically located in high traffic places.



Global Childrenswear Market

The **global childrenswear market** was worth € 265.8bn in 2019, up 5.5% YoY. In 2020 the market is anticipated to decline by 0.9% YoY to € 263.3bn, because of the impact of COVID-19 pandemic. For the future, the global children's apparel market is **forecasted** to reach € 345.0bn in value in 2025 (+29.8% vs 2019 with a **CAGR 2019-2025 of 4.4%**).

Chart 10 – Monnalisa, global children's apparel market forecast (€ bn)



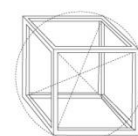
Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

In 1988, Monnalisa started the internalisation process selling its products in Paris, New York and London. Monnalisa operates worldwide thanks to almost 700 multibrand stores and 48 direct stores (data at end-2019). With consolidated net revenues of € 47.9m in 2019, Monnalisa is the **4th Italian player operating worldwide**, in the high-end childrenswear market. Monnalisa generates 67% of its revenues outside Italy (€ 32.2m in 2019, broadly in line with the previous year).

Table 3 – Monnalisa, Italian company global rankings

Ranking	Company Name	Revenues		Delta %
		2018	2019	
1	Moncler (Cons.)	100.0	110.0	10.0%
2	Giorgio Armani (Cons.)	80.0	82.0	2.5%
3	D&G (Cons.)	74.5	77.0	3.4%
4	Monnalisa (Cons.)	49.1	47.9	-2.4%
5	Brave Kid	39.3	42.3	7.6%
6	Altana	23.6	25.0	5.9%
7	Simonetta	19.5	23.5	20.5%
8	Gi.Mel	21.2	21.0	-0.9%
9	Il Gufo	22.1	20.0	-9.5%
10	Follie's Group	18.6	20.0	7.5%

Source: Childrenswear Databank 2020

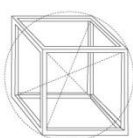


Strategy

In recent years, Monnalisa has started an expansion of its international presence and consolidation of its core business. This strategy has been the foundation for a continuous growth phase of the company that operates in a market characterised by high competition and continuous style innovation.

Coherently to its growth path, Monnalisa's strategy is focused principally on:

- **Increasing international positioning:** Monnalisa has been increasing its international presence through the entrance in new strategic markets such as Taiwan and Singapore, whilst continuing the penetration in already covered markets such as Russia and China which are characterised by high growth potential.
- **Boost Corporate Retail sales (from 32% in 2019 to around 47% in 2022e):** in the last three years the company invested € 8m on new buildings, including an automated warehouse, and reached 48 Direct Stores at the end of 2019 (14 new openings in 2019, 9 DOS and 5 DOO, in addition to 8 closures); in the medium term the Retail channel will generate an improvement in the group's EBITDA margin. Monnalisa is going to continue with this policy, although during 2020 the company plans to slow down the openings strategy, on the back of COVID-19 pandemic: the group anticipates to open 5 new direct stores but to close 10. The main strategic area will be Asia.
- **E-commerce development:** Monnalisa is going to expand online retail e-commerce with a focus on specific boutiques for strategic countries (China and Far East). Furthermore, the company is implementing an Enterprise solution-based platform to better manage merchandising, new collections and semantic research tools. Monnalisa will also invest in technology for data integration and strengthen commercial relationships, especially with 'e-tailers', enhancing inventory management. The company is planning to integrate the online and offline selling process through investment in social platforms and dedicated Shop Assistant Apps in order to increase client entrenchment and up-selling potential ("showrooming concept").
- **Product portfolio and brand awareness:** through optimised investment in communication, Monnalisa aims to boost brand recognition worldwide and strengthen Monnalisa's brand awareness. In particular the company aims to increase cross-selling opportunities thanks to investments directed at strengthening the product portfolio (*Monnalisa total look* expanding existing lines such as layette, furniture, accessories, cosmetics and footwear). The company is increasing communication effectiveness thanks to the brand portfolio rationalisation, already effective with the merger of all the product lines into 'Monnalisa' exploiting its visibility and awareness.



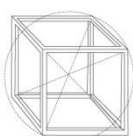
As highlighted before, the **Retail business is the channel with the highest profitability** (gross margin roughly 73%), confirming the potential of the strategy pursued by Monnalisa, which is shifting its business towards directly operated stores (DOS and DOO).

Online B2C shows a gross margin of 70%, just slightly lower than Retail. Wholesale has a gross margin of circa 53%.

Chart 11 – Monnalisa, 2019 gross margin by channel



Source: Company data



SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective.

- **Strengths:** characteristics of the business or project that give it an advantage over others.
- **Weaknesses:** characteristics that place the business or project at a disadvantage relative to others.
- **Opportunities:** elements that the project could exploit to its advantage.
- **Threats:** elements in the environment that could cause trouble or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60's/70's using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ Among the few companies which is **specialised on the high-end childrenswear** niche
- ❑ **Complete strategic autonomy** thanks to the use of proprietary brands only
- ❑ Monnalisa operates in the high-end segment being the one with the **best entry price among competitors**

WEAKNESSES

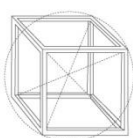
- ❑ **Limited size** in the international competitive arena
- ❑ **Decisions are concentrated** among few key figures
- ❑ Growth strategy is based on **increasing the retail distribution**, an area where Monnalisa is only gradually gaining experience

OPPORTUNITIES

- ❑ **Consolidation opportunities** in the domestic market and abroad
- ❑ **Foreign market** expansion
- ❑ **E-commerce** development and online-offline integration

THREATS

- ❑ **Aggressive expansion in the DOS** number may be difficult/delayed
- ❑ **Change** in client preferences and **fashion trends**
- ❑ **COVID-19 pandemic** generated a significant slowdown in fashion & luxury consumption



FY-19 results

A weaker than anticipated set of results, impacted by the drop in Wholesales which is not yet counterbalanced by the increase in the Retail business, the latter still impacted by relevant start-up/new opening costs. Prudentially, Monnalisa actioned a few write-downs related to the goodwill of US subsidiary and the elimination of prepaid tax credits of the Chinese and Brazilian subsidiaries for a total consideration of € 2m.

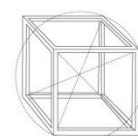
Table 4 – Monnalisa, FY-19 results

€ m	2019	2018	% YoY	2019e	% Diff.
Retail	15.5	12.3	25.9	15.9	(2.2)
Wholesale	31.0	35.3	(12.4)	31.7	(2.5)
E-commerce	1.5	1.5	(0.7)	1.7	(12.4)
Net Revenues	47.9	49.1	(2.4)	49.3	(2.7)
Increase in finished products	0.6	0.5	10.9	0.0	
Other revenues	1.6	3.1		0.9	
Value of Production	50.1	52.7		50.2	(0.1)
Raw material and processing	(14.6)	(14.4)		(13.0)	
Services	(17.7)	(16.2)		(16.1)	
Personnel expenses	(12.4)	(10.6)		(11.9)	
Other opex	(8.2)	(6.2)		(5.0)	
EBITDA	(2.9)	5.3	<i>n.m</i>	4.1	<i>n.m</i>
% margin	(5.7)	10.1		8.1	
D&A	(4.7)	(3.2)		(3.7)	
EBIT	(7.6)	2.1	<i>n.m</i>	0.4	<i>n.m</i>
% margin	(15.1)	4.1		0.8	
Financials	(0.3)	(0.4)		(0.4)	
Re/(Deval.) of fin. assets	(0.0)	0.0		0.0	
Extraordinary	0.0	0.0		0.0	
Pre-Tax profit	(7.9)	1.7	<i>n.m</i>	(0.0)	<i>n.m</i>
% margin	(15.8)	3.2		(0.0)	
Income taxes	(0.5)	(0.4)		0.0	
Tax rate	<i>n.m</i>	24.5%		26.0%	
Minorities	0.0	(0.0)		0.0	
Net Profit	(8.4)	1.3	<i>n.m</i>	(0.0)	<i>n.m</i>
% margin	(16.8)	2.4		(0.0)	
EBITDA adj.	0.3	7.3		5.5	<i>n.m</i>
% margin	0.5	14.9		11.1	
EBIT adj.	(2.9)	4.1		1.8	<i>n.m</i>
% margin	(6.1)	8.3		3.6	
Net Profit adj.	(2.5)	2.8		(0.0)	<i>n.m</i>
% margin	(5.2)	5.7		(0.0)	
NFP debt/(cash)	3.4	(2.3)		0.3	<i>n.m</i>

Source: Company data, CFO SIM estimates

Monnalisa reported 2019 revenues at € 47.9m, down 2.4% YoY, 67% is outside Italy. The figure is lower than the € 49.3m CFO SIM estimate.

- The Retail revenues (1/3 of total sales) soared by 26%, driven by new DOS openings.** Monnalisa is continuing its strategy to boost corporate retail sales, opening new DOS/DOO in Italy and abroad. As of dec-19 direct stores were 48: 14 new direct stores were opened, 10 of which between Jun-Dec, however this contributed to the increase in direct costs linked to personnel costs (+ 17%) and rents (+ 38%), as well as an increase in depreciation for the investments made, but still without a proportional increase in revenues. In 2019 a total of 8 stores were closed, 6 of which in the second half of the year, with the aim of improving the channel's profitability. Some early closures with respect to the contractual duration of the store have had a negative impact on profitability, due to way-out costs and the total amortization of the related assets.



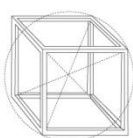
2. **The Wholesale turnover dropped by 12% YoY and represented 2/3 of consolidated revenues.** The division was impacted by the downturn of childrenswear market in multibrand stores, mainly in Europe and Russia in addition to political instability in a few Middle Eastern markets, relevant for the group. Furthermore, the temporary stuck situation in Japan seems to persist: Monnalisa interrupted the partnership with the local importer with the aim to directly enter the market with a retail sales network. In addition, as highlighted in H1-19 results, division revenues were negatively impacted by: I) Harrods became a retail store, consequently the revenues coming from this store are accounted in the Retail division, but with a different time impact; II) the anticipation of high share summer collection deliveries to shops happened in Dec-18 instead of the first months of 2019 and III) a one-off extraordinary sale of some € 0.8m occurred in H1-18.
3. **The E-commerce turnover totaled € 1.5m, unchanged 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.

Reported EBITDA was negative for € 2.9m (negative for € 2.8m at constant exchange rates), compared to € 5.2m in 2018 and **our € 4.1m expectation**. Adjusted EBITDA stands at € 0.3m vs. € 7.3m in 2018 and € 5.5m CFO SIM projection. The adjustments are related to DOS openings and closings and to some one-off costs incurred during the period, in consideration of the fact of the relevantly high number of openings and closures. The sharp YoY decline and difference vs. our estimate are mainly linked to I) the higher than anticipated decrease of Wholesale revenues, II) the increase in COGS HoH and vs. estimates and III) the profitability drain of the recently opened shops. Last but not least, the social-political situation in Hong Kong, where Monnalisa runs 3 DOS, negatively affected the retail channel profitability. Returns were impacted by the massive development plan. However, we estimate only 14 out 48 have been operating for more than three years and only 21 for at least 2 years. **The youth of the Monnalisa DOS structure explains the still cash-draining contribution to group profitability.**

D&A increased by € 1.4m to € 4.7m, as a result of investments, including the new warehouse and the new headquarters, already fully operational in 2019. On the back of the current dramatic business situation, Monnalisa decided to action few write-downs related to: I) the goodwill of the American subsidiary and II) the elimination of prepaid tax credits of the Chinese and Brazilian subsidiaries. These actions had a negative impact to the tune of some € 2m on profitability.

Reported EBIT was negative for € 7.6m, vs. € 2.1m positive in 2018 and € 0.4m our forecast. EBIT adjusted was negative for € 2.9m, including the US subsidiary goodwill devaluation. **Bottom line was in the red for € 8.4m**, adjusted net profit was € 2.5m negative.

NFP reached € 3.4m (debt) vs € 2.5m (cash) in 2018 also as a result of capex for € 3.7m o/w € 2m related to the retail channel development and the remainder destined to the completion of the new headquarters and the new showroom in Arezzo. Operating Cash Flow was negative for € 2.5m vs. € 1.5m positive in 2018. **Equity was € 38.9m.**



Valuation & risks

The firm reported a **weaker than anticipated set of results**, impacted by the **drop in Wholesales which is not yet counterbalanced by the increase in the Retail business**, the latter continues to be impacted by relevant start-up/new opening costs. The first few weeks of 2020 showed a good progression in sales, driven by rising sell-out in direct stores and in the wholesale channel. However, the COVID-19 spread has literally blocked this trend. Coronavirus plague is and will certainly be affecting the operating structure and childrenswear consumption outlook in the medium term.

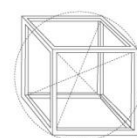
Monnalisa has a strong balance sheet that allows the **required financial flexibility** to weather the current turmoil. In this context, in addition to all the measures aimed at reducing the personnel costs, not strictly necessary investments as well as the deferrable costs at every level (corporate/shops) have been postponed.

Monnalisa has launched a series of **digital-oriented initiatives** aimed at adapting the working methods of the commercial network to maintain interaction with customers. In particular, it is a project for the creation of **virtual showrooms**, as well as the redefinition of the ways of relating with the customers in the boutiques, which will be accepted only by appointment, with a service such as a fashion atelier. The **creation of the new collections continues, the high degree of digitalisation will presumptively sustain the business at the restart**. Clearly, **the new opening development plan has been put on hold and will be reviewed in its magnitude and timing**.

We revised our model factoring in a **possible reasonable action plan** considering the current situation and FY-19 numbers. CFO believes the massive **new DOS opening plan** announced at the time of the IPO needs to be **necessarily reappraised in size**. We now expect **Monnalisa to reach 55 DOS at end-22 vs 73** in our previous estimates and the **closure of several nonperforming locations in 2020**. This has an effect on capex (lower), on one-off shut-down costs (higher) and on operating cash burning (lower), since a newly opened shop does not even reach break-even within 18 months on average; and this is assumed under normal business conditions. In addition, not included in our estimates, **Monnalisa could explore franchising opportunity** as an alternative boost to wholesales dimensional progression. The result is an average **downgrade in Sales and EBITDA of 24% and 80% in 2020-21**. We introduced also 2022 estimates too.

We have updated our PT to € 4.00 (€ 7.80) based on DCF, rather than on market multiples in order to avoid to overweight 2020, an exceptionally poor year. If with these new estimates, **the execution risk linked to the massive opening plan announced at the IPO reduces, the visibility on 2020 business evolution remains significantly low** due to the current difficult context. In addition, the reorganisation of the retail structure via the planned closure of 10 shops in 2020 might result more expensive and complex than anticipated. However, the strategy seems to go in the right direction, focusing of fewer but more profitable shops. In light of these considerations, even if **the new PT offers a 43.9% upside, we maintain our neutral stance on Monnalisa**. H1-20 results will be unquestionably heavily impacted by the current harsh environment and the beginning of the remodelling phase of the retail structure development plan.

Neutral, too-early-to-buy.



DCF

In the valuation via the DCF method, we assess explicit estimates until 2024 and cautious 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 11 - WACC derived from:

Interest costs, pre-tax	1.0%
Tax rate	26.0%
Inf. costs, after taxes	0.7%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200gg mov. av.)	1.30%
Beta levered (x)	1.02
Required ROE	10.5%

Source: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets that an investor might have. **Beta at 1.02** has been calculated taking peer group specific unlevered beta for each competitor, then **leveraging it for Monnalisa 20/80 debt/equity long-term structure**. The WACC is accordingly computed using 20/80% debt/equity long term sustainable balance sheet structure.

Table 12 - Monnalisa, DCF model

€ k	2020e	2021e	2022e	2023e	2024e	Term. Val.
EBIT	(5.6)	(0.7)	2.4	2.7	3.0	
Tax rate	26.0%	26.0%	26.0%	26.0%	26.0%	
Operating profit (NOPAT)	(4.2)	(0.5)	1.8	2.0	2.2	
Change working capital	(0.7)	0.1	(1.4)	(0.6)	(0.1)	
Depreciation	3.6	3.7	3.7	2.5	1.6	
Investments	(1.4)	(1.6)	(1.6)	(1.6)	(1.6)	
Free Cash Flows	(2.7)	1.7	2.5	2.3	2.2	29.2
Present value	(2.8)	1.6	2.2	1.8	1.6	21.7
WACC	8.6%	8.6%	8.6%	8.6%	8.6%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 13 – Monnalisa, DCF derived from:

€ m	
Total EV present value € m	26.1
	<i>thereof terminal value</i>
	83.2%
NFP last reported	(3.4)
Pension provision last reported	(1.8)
Equity value € m	20.9
#m shares	5.24
Equity value €/s	4.00
<i>% upside/(downside)</i>	43.9%

Source: CFO Sim

The outcome of our DCF model set up an equity value of € 20.9m for Monnalisa, 4.00/s.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value/s of between **€ 3.58-4.47m (perpetuity range of between 0.00% and 2.00%)**, while 2) compared to changes in the free risk rate produces an equity value/s of **€ 3.59-4.45m (free risk range of between 2.05% and 0.55%)** and 3) compared to changes in the risk premium, including small size premium results into an equity value/s of **€ 3.23-5.03m (risk premium range of between 10.50% and 7.50%)**.

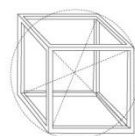


Table 14 – Monnalisa, equity value sensitivity to changes in terminal growth rate

€ m	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
Present value of CF	4.4	4.4	4.4	4.4	4.4	4.4	4.4
PV of terminal value	19.6	20.3	21.0	21.7	22.5	23.3	24.3
Total value	24.0	24.6	25.3	26.1	26.9	27.7	28.7
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)
Equity value	18.8	19.4	20.1	20.9	21.7	22.5	23.4
Equity value/share €	3.58	3.71	3.84	4.00	4.14	4.30	4.47

Source: CFO Sim

Table 15 – Monnalisa, equity value sensitivity to changes in free risk rate

€ m	0.55%	0.80%	1.05%	1.30%	1.55%	1.80%	2.05%
Present value of CF	4.5	4.4	4.4	4.4	4.4	4.3	4.3
PV of terminal value	24.0	23.2	22.4	21.7	21.0	20.3	19.7
Total value	28.5	27.7	26.9	26.1	25.4	24.7	24.0
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)
Equity value	23.3	22.4	21.6	20.9	20.1	19.4	18.8
Equity value/share €	4.45	4.29	4.13	4.00	3.85	3.71	3.59

Source: CFO Sim

Table 16 – 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	4.6	4.5	4.5	4.4	4.3	4.3	4.2
PV of terminal value	27.0	25.0	23.3	21.7	20.3	19.1	17.9
Total value	31.6	29.5	27.7	26.1	24.6	23.3	22.1
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)
Equity value	26.3	24.3	22.5	20.9	19.4	18.1	16.9
Equity value/share €	5.03	4.64	4.29	4.00	3.71	3.46	3.23

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 Asia Pacific region (41% of top line), EMEA region (36%) and Americas region (23%). Retail and Wholesale represent respectively 80% and 18% of the 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 the 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 the revenues.

Kering SA: Kering is a global Luxury Group; Kering 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 the revenues.

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

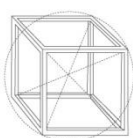
Prada SpA: PRADA S.p.A. is an Italian fashion company that designs, manufactures and sells high-end leather goods, ready-to-wear and footwear through various brands. Brand names include Prada, Miu Miu, Church's, Car Shoe and Pasticceria Marchesi. Prada SpA serves customers worldwide in particular in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

Tod's SpA: Tod's S.p.A. 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 the revenues.

Among the not-listed companies, **Armani Junior** has revenues in the region of € 82m, about 4% of the total group's turnover. Two French companies are focused on childrenswear like Monnalisa: **CWF** (roughly € 160m sales, mainly producing on licensing as outsourcer, with 10% sales in Italy, 55% in 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%. **Monnalisa is set to diminish the gap in terms of EBITDA margin by increasing retail business weight** (which will grow from 32% in FY-19 to 47% in 2022).

Table 5 - Monnalisa, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR ₁₉₋₂₂	EBITDA CAGR ₁₉₋₂₂	EBIT CAGR ₁₉₋₂₂	EPS CAGR ₂₀₋₂₂	NFP /EBITDA
Brunello Cucinelli SpA	ITALY	1,868	549	104	19.0%	4.4%	-1.9%	2.0%	106.3%	1.8
Burberry Group PLC	UK	6,220	2,750	471	17.1%	1.1%	2.5%	3.1%	25.5%	(1.8)
Capri Holdings Ltd	USA	2,054	5,048	849	16.8%	2.9%	-6.1%	-7.9%	-2.4%	2.3
Hugo Boss AG	GERMANY	1,657	2,325	392	16.9%	-2.5%	-6.5%	-8.3%	105.2%	2.3
Kering SA	FRANCE	54,850	14,207	4,538	31.9%	3.2%	0.8%	2.3%	22.7%	0.8
Moncler SpA	ITALY	8,259	1,492	535	35.9%	5.4%	3.9%	5.5%	22.5%	(1.1)
Prada SpA	ITALY	7,780	2,777	666	24.0%	1.4%	-2.1%	8.7%	83.1%	0.7
Ralph Lauren Corp	USA	5,022	5,616	825	14.7%	-0.6%	-2.6%	-3.0%	0.3%	(1.2)
Salvatore Ferragamo SpA	ITALY	1,763	1,104	187	16.9%	-1.5%	-4.6%	-6.4%	n.m.	(0.8)
Tod's SpA	ITALY	777	720	68	9.5%	-2.5%	-2.5%	35.9%	n.m.	4.7
Median		3,538	2,537	503	17.0%	1.3%	-2.3%	2.1%	24.1%	0.7
Monnalisa SpA	ITALY	15	39	(2)	-5.3%	3.1%	n.m.	n.m.	n.m.	(4.0)

Source: CFO Sim, Thomson Reuters Eikon

Table 6 - Monnalisa, peer group EV multiple table

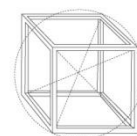
	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Brunello Cucinelli SpA	3.74	3.17	2.94	19.7	14.3	12.6
Burberry Group PLC	1.95	1.78	1.64	11.4	8.8	7.6
Capri Holdings Ltd	0.80	0.92	0.70	4.7	6.4	4.4
Hugo Boss AG	1.09	0.98	0.91	6.5	4.9	4.2
Kering SA	4.12	3.51	3.07	12.9	10.0	8.7
Moncler SpA	5.15	4.33	3.82	14.4	11.3	9.8
Prada SpA	2.96	2.54	2.35	12.3	9.3	8.5
Ralph Lauren Corp	0.73	0.79	0.77	4.9	6.3	5.1
Salvatore Ferragamo SpA	1.46	1.27	1.29	8.6	6.5	5.7
Tod's SpA	1.53	1.30	1.28	16.1	9.9	7.6
Median	1.74	1.54	1.47	11.9	9.1	7.6
Monnalisa SpA	0.59	0.46	0.36	(11.1)	7.3	3.1
% premium/(discount) to median	(66.2)	(69.9)	(75.5)	n.m.	(18.9)	(59.1)

Source: CFO Sim, Thomson Reuters Eikon

Table 7 - Monnalisa, peer group EV & price multiple table

	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Brunello Cucinelli SpA	57.1	30.3	22.6	n.m.	50.2	35.0
Burberry Group PLC	15.7	11.8	9.3	24.2	18.1	15.4
Capri Holdings Ltd	6.3	10.7	5.8	3.6	5.6	3.8
Hugo Boss AG	26.3	10.5	8.9	38.5	10.9	9.1
Kering SA	16.6	12.3	10.5	23.3	17.5	15.5
Moncler SpA	20.0	14.9	12.6	31.8	24.3	21.2
Prada SpA	50.1	24.0	19.4	n.m.	39.3	32.1
Ralph Lauren Corp	7.0	10.7	7.2	10.4	16.5	10.3
Salvatore Ferragamo SpA	55.1	16.3	13.4	n.m.	35.4	24.2
Tod's SpA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Median	20.0	12.3	10.5	23.7	18.1	15.5
Monnalisa SpA	(4.1)	(29.3)	7.8	(3.1)	(11.8)	7.8
% premium/(discount) to median	n.m.	n.m.	(25.3)	n.m.	n.m.	(49.2)

Source: CFO Sim, Thomson Reuters Eikon



Applying a peer average EV/EBITDA multiple, 25% discounted (mainly due the smaller size, the lack of decent stock liquidity on the back of the listing on the AIM Italia), to Monnalisa metrics we attain an **equity value of Monnalisa of € 18.3m, or € 3.50ps**, 25.9% upside, using 2020-21-22 estimates and multiples (0-60-40% weighted respectively). If with these new estimates, **the execution risk linked to the massive opening plan announced at the IPO reduces, whilst the visibility on 2020 business evolution remains rather low** due to the current difficult context. In addition, the reorganisation of the retail structure via the planned closures of 10 shops in 2020 might prove to be more expensive and complex than anticipated.

Table 8 - Monnalisa, equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Monnalisa metrics	38.9	46.6	52.6	(2.1)	2.9	6.1
Multiple, median	1.74	1.54	1.47	11.9	9.1	7.6
Enterprise Value	50.7	53.9	57.8	(18.3)	20.0	34.6
Net Financial Position	(8.3)	(7.0)	(4.3)	(8.3)	(7.0)	(4.3)
Pension Provisions	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Equity Value	40.8	45.2	51.9	(28.2)	11.4	28.7
Equity Value/share €	7.80	8.60	9.90	(5.40)	2.20	5.50

Source: CFO Sim, Thomson Reuters Eikon

Table 9 - Monnalisa, equity assessment, 2#3

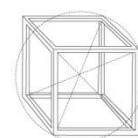
€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Monnalisa metrics	(5.6)	(0.7)	2.4	(4.7)	(1.2)	1.9
Multiple, median	20.0	12.3	10.5	23.7	18.1	15.5
Enterprise Value	(84.2)	(6.8)	18.9	(84.0)	(16.8)	21.6
Net Financial Position	(8.3)	(7.0)	(4.3)			
Pension Provisions	(1.6)	(1.6)	(1.6)			
Equity Value	(94.2)	(15.5)	13.1	(84.0)	(16.8)	21.6
Equity Value/share €	(18.00)	(3.00)	2.50	(16.00)	(3.20)	4.10

Source: CFO Sim, Thomson Reuters Eikon

Table 10 - Monnalisa, equity value assessment, 3#3

€ m	FY1	FY2	FY3
Equity Value based on EV/EBITDA	(28.2)	11.4	28.7
Weighting	0.0%	60.0%	40.0%
EV/EBITDA	18.3		
Per share €	3.50		
% upside/(downside)	25.9%		

Source: CFO Sim, Thomson Reuters Eikon



Peer stock performance

Adopting the same approach used in setting up the peer sample for assessing the value of Monnalisa, we defined a panel of ten firms operating in the luxury and fashion arena.

Table 17 - Monnalisa, peer group absolute performance

	1D	1W	1M	3M	6M	YTD	1Y
Brunello Cucinelli SpA	(1.8)	3.4	(4.7)	(19.1)	(7.5)	(13.2)	(7.7)
Burberry Group PLC	(0.5)	5.9	2.7	(28.4)	(32.3)	(37.6)	(24.8)
Capri Holdings Ltd	7.7	15.8	28.3	(47.8)	(56.4)	(60.5)	(62.1)
Hugo Boss AG	(0.8)	2.4	(3.4)	(46.1)	(42.1)	(45.7)	(57.7)
Kering SA	(0.6)	4.3	(5.2)	(23.5)	(20.0)	(26.0)	(14.8)
Moncler SpA	(1.5)	2.5	(3.8)	(16.6)	(14.8)	(20.4)	(10.4)
Prada SpA	(0.8)	5.1	(1.1)	(8.5)	(4.3)	(19.9)	16.2
Ralph Lauren Corp	4.4	13.2	8.2	(38.8)	(28.1)	(36.4)	(33.9)
Salvatore Ferragamo SpA	(0.1)	(1.3)	(5.3)	(36.3)	(39.6)	(44.4)	(49.0)
Tod's SpA	(2.1)	(7.8)	(17.4)	(34.3)	(40.6)	(43.2)	(45.9)
Median	(0.7)	3.9	(3.6)	(31.3)	(30.2)	(37.0)	(29.4)
Monnalisa SpA	(0.7)	(4.1)	(16.8)	(45.5)	(57.9)	(53.7)	(68.0)

Source: Thomson Reuters Eikon

Table 18 - Monnalisa, peer group and key indexes absolute performance

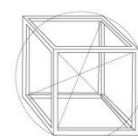
	1D	1W	1M	3M	6M	YTD	1Y
Monnalisa peer group	(0.7)	3.9	(3.6)	(31.3)	(30.2)	(37.0)	(29.4)
S&P Global Luxury	(0.2)	6.9	6.5	(19.9)	(13.1)	(18.4)	(6.9)
MSCI World Index	(0.9)	3.7	5.1	(14.3)	(8.6)	(12.1)	(1.8)
EUROSTOXX	(1.1)	4.5	2.5	(23.0)	(19.0)	(20.5)	(13.1)
FTSE Italia All Share	(0.6)	1.3	0.3	(31.4)	(26.2)	(27.0)	(16.9)
FTSE STAR Italia	0.0	2.0	0.7	(18.9)	(11.7)	(15.3)	(5.8)
FTSE AIM Italia	0.2	(0.0)	0.9	(15.0)	(14.6)	(14.8)	(23.6)
Monnalisa SpA	(0.7)	(4.1)	(16.8)	(45.5)	(57.9)	(53.7)	(68.0)

Source: Thomson Reuters Eikon

Risks

The principal investment **risks** in 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 economics and balance sheet profile triggered by a deep decline in global economic growth;
- change in client preferences and fashion trends;
- the departure of one of few key relevant people.



ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

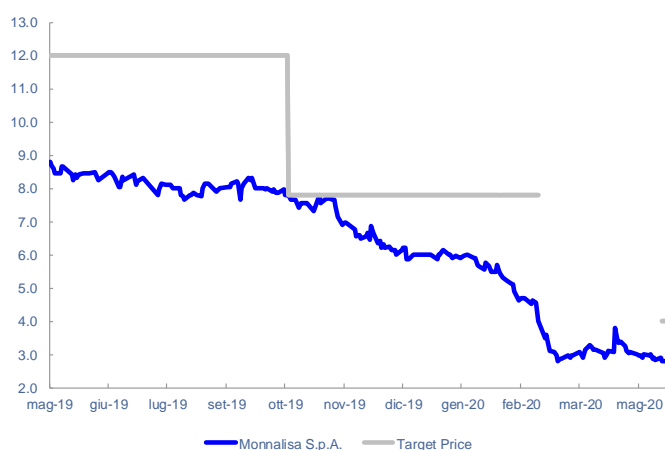
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DATE	TARGET PRICE	RATING
22/05/2020	€4.00	NEUTRAL
09/03/2020	U.R.	NEUTRAL
10/10/2019	€7.80	NEUTRAL

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- 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.

