

Italy – Fashion

High-end, fast growing Italian masterpiece

31st October 2018

INITIATION OF COVERAGE

RIC: MONNA.MI
BBG: MNL IM

Monnalisa is the third Italian childrenswear player operating worldwide specialised in the high-end segment through its own proprietary brands. The strategy focus is to boost corporate retail sales (from 21% in 2017 to around 42% in 2020) with massive benefit in terms of returns.

Rating:

Buy

Price Target:

€ 15.50

Upside/(Downside): 49.0%

Last Price: € 10.40

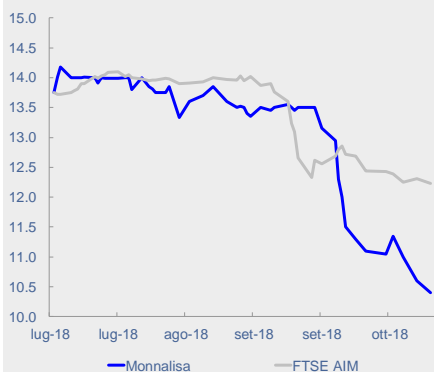
Market Cap.: € 54.6

1Y High/Low: € 14.49/€ 10.00

Free Float: 25.5%

Major shareholders:

Jafin Due 74.5%



Stock price performance

	1M	3M	12M
Absolute	-7.5%	-8.2%	-
Rel.to AIM Italia	-15.6%	-18.2%	-
Rel.to Sector	-8.0%	-12.7%	-

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Buy, PT of € 15.50/s, 49.0% upside

CFO Sim initiates coverage of Monnalisa with a Buy recommendation and a PT of € 15.50/s, 49.0% upside. Applying a 20% discount to peer multiples (mainly due the smaller size and the lack of decent stock liquidity on the back of the listing on the AIM Italia) on peer average multiples for EV/EBITDA to Monnalisa metrics we attain an equity value of Monnalisa of € 81.3m (€ 15.50/s), using 2018-20 estimates and multiples (40-35-25% weighted respectively), in order to consider in the valuation part of the upside stemming from the retail development plan. We also used the DCF model with standard setting for a small-cap, including a perpetual growth rate of 1.0%. According to this methodology, we asses a valuation of € 16.00/s, corroborating the value obtained via peer multiple.

The third Italian childrenswear player operating worldwide in the high-end segment

Founded in 1968, Monnalisa is the third Italian childrenswear (0-16 years) player operating worldwide specialised in the high-end segment through its own proprietary brands. Monnalisa has completely insourced every strategic activity, from design to prototype creation and has outsourced every low-value added non-strategic phase of production process. The company sells via four distribution channels: wholesale (57% of top line 2017), corporate retail (21%), wholesale retail (15%) and e-commerce (7%). In the last two years, the company invested € 7m in new buildings, including an automated warehouse, and opened 24 Direct Stores, generating a strong increase in the EBITDA margin.

Consistent strategy: focus on international growth and e-commerce

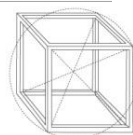
Monnalisa is planning to increase its global presence through entrance into new strategic markets such as India, Mexico, Chile and continue penetration in already covered markets such as Japan, Russia and China. The strategy focus is to boost corporate retail sales (from 21% in 2017 to around 42% in 2020) with a massive boost on profitability. In addition, Monnalisa will push investments in e-commerce development, with a focus on specific boutiques for strategic countries (Japan, China and South Korea), and integrate the online and offline selling process through investment in social platforms ("showrooming concept").

Buoyant growth rates

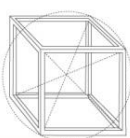
In our opinion, Monnalisa is less exposed to fashion collection risk and it enjoys more recurring sales than a man/woman luxury brand. In the meanwhile, the capex and the opex related to DOS openings are less expensive. The operating leverage deploys its full effect and operating margins will benefit from the changing channel mix, as the gross profit margin in retail business is significantly higher. As a result, EBITDA and EBIT are expected to grow more than proportionately compared to top line: +19.8% and 18.0% CAGR₁₇₋₂₀, vs. 12.5% of revenues. Net Profit is anticipated to show a +29.2% CAGR₁₇₋₂₀.

Monnalisa, key financials and ratios

€ m	2016	2017	2018e	2019e	2020e
Revenues	40.5	47.7	52.3	57.6	67.9
EBITDA	4.2	6.6	7.3	8.9	11.3
EBIT	2.7	4.3	4.1	4.7	7.1
Net profit	1.9	2.3	2.7	3.2	4.9
EBITDA adj.	4.2	7.6	8.2	9.5	12.0
EBIT adj.	2.7	5.3	5.0	5.3	7.8
Net profit adj.	1.9	2.8	3.3	3.6	5.3
NFP (cash)/debt	2.1	8.2	(5.0)	(4.3)	(7.6)
EPS adjusted €	0.37	0.54	0.64	0.69	1.02
EPS adj. growth	-	45.5%	18.1%	8.5%	47.1%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Free Cash Flow Yield	-	-	-4.3%	-1.3%	6.1%
PER adj. x	-	-	16.3	15.1	10.2
PCF x	-	-	9.2	7.4	6.0
EV/Sales x	-	-	0.95	0.87	0.69
EV/EBITDA adj. x	-	-	6.0	5.3	3.9
EV/EBIT x	-	-	12.0	10.6	6.6



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1. Investment summary

Founded in 1968, **Monnalisa is the third Italian childrenswear (0-16 years) player operating worldwide specialised in the high-end segment through its own proprietary brands.** Monnalisa has completely insourced every strategic activity, from the design to the prototypes creation and outsourced every low-value added non-strategic phase of the production process.

The company sells via three distribution channels: wholesale (76% of top line 2017), corporate retail (21%) and direct e-commerce (3%).

Monnalisa is planning to increase its international presence through entrance into new strategic markets such as India, Mexico, Chile and continue penetration in already covered markets such as Japan, Russia and China which are characterised by high growth potential.

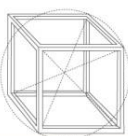
The strategy focus is to boost corporate retail sales (from 21% in 2017 to around 42% in 2020e): in the last two years the company invested € 7m in new buildings, including an automated warehouse, and opened 24 Direct Stores, generating a strong increase in EBITDA margin. Thanks to the IPO proceeds, Monnalisa will consolidate its strategy and during **the 3-year plan from 2018 to 2020** the company plans **to open around 47 DOS** (Directly operated stores) and to convert some TPOS (Third Part Operated Stores) into DOS. In addition, Monnalisa will **push investments in e-commerce development**, expanding the online retail e-commerce with a focus on specific boutiques for strategic countries (Japan, China and South Korea). 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**").

In our opinion, **Monnalisa is less exposed to fashion collection risk** and it enjoys more recurring sales than man/woman luxury brands. The **capex and the opex related to the DOS openings are less expensive** and so less risky compared to man/woman luxury brands.

The operating leverage deploys its full effect and the operating margins will benefit from the changing channel mix, as **the gross profit margin in retail business is significantly higher.** As a result, **EBITDA and Net Profit are expected to grow more than proportionately** compared to top line: +19.8% and 18.0% CAGR₁₇₋₂₀, vs. 12.5% of revenues.

We initiates coverage of Monnalisa with a Buy recommendation and a PT of € 15.50/s, 49.0% upside. Applying a 20% discount to peer multiples (mainly due the smaller size and the lack of decent stock liquidity on the back of the listing on the AIM Italia) on peer average multiples for EV/EBITDA to Monnalisa metrics we attain an equity value of Monnalisa of € 81.3m (€ 15.50/s), **using 2018-20 estimates and multiples (40-35-25% weighted respectively), in order to consider in the valuation part of the upside stemming from the retail development plan.** We also used the DCF model with standard setting for a small-cap, including g of 1%. According to this methodology, we asses a valuation of € 16.00/s, **corroborating the value obtained via peer multiple.**

The principal investment **risks** in Monnalisa include: 1) delays in the internationalisation process (DOS openings); 2) wholesale value of production development; 3) net working capital management, in particular for inventories; 4) competition in mature markets, which might put margins or top line developments under pressure; 5) impact on economics and balance sheet profile triggered by a deep decline in global economic growth; 6) change in client preferences and fashion trends and 7) the departure of one of few key relevant people.



2. Monnalisa in a nutshell

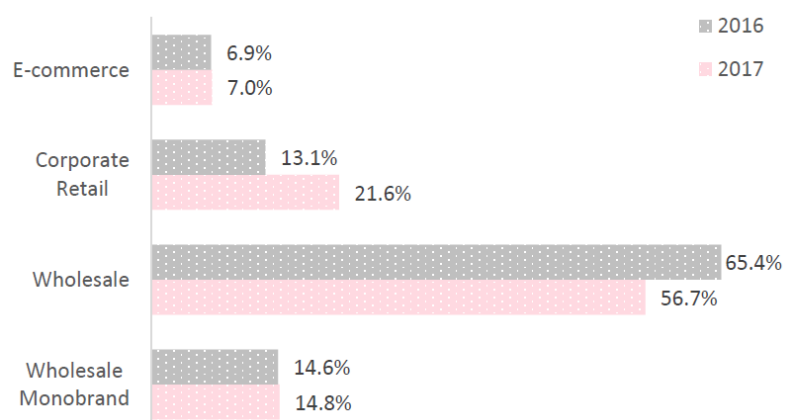
Founded in 1968 by **Piero Iacomoni** and **Barbara Bertocci** in the fashion and creative centre of Italy, **Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands.** The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete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

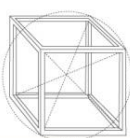
Monnalisa operates worldwide in 64 countries through 98 monobrand stores (of which 32 direct stores) and 767 multibrand stores (figures at end-2017). With revenues at a company record level of € 47.7m in 2017 (+17.8% YoY, thanks to the opening of new direct stores), **Monnalisa is the third Italian childrenswear player operating worldwide in the high-end segment of the market.** The company sells via four distribution channels:

- **Wholesale, 57% of top line.** Monnalisa sells to 767 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.
- **Wholesale retail, 15% of top line.** Monnalisa sells through 36 monobrand stores in partnership (Third Party Operated Stores – TPOS) and in 28 top department stores (Third Party Shop In Shop – TPSIS). Although a third party manages the stores, Monnalisa keeps control of the merchandising and set-up phase.
- **Directly operated stores, 21% of top line.** Monnalisa sells directly to final customers through its directly owned stores: Directly Operated Stores (DOS) and Directly Operated Outlets (DOO), currently totalling 32 stores.
- **E-commerce, 7% of top line.** Monnalisa sells its products online through its own monobrand online boutique (The direct e-commerce accounts for 3% of total sales) and thanks to 6 multibrand online marketplaces.

Chart 1 – Monnalisa, 2016-17 channel contribution

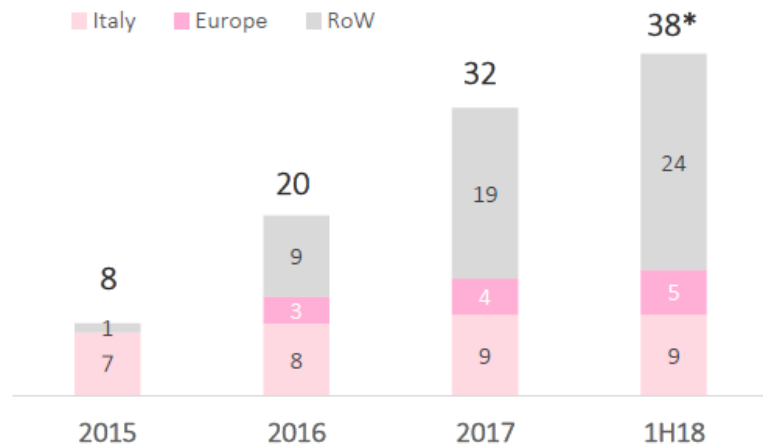


Source: Company data



The significantly higher returns of Directly Operated Stores prompt 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



* New York and Miami DOS are part of Monnalisa Retail since January 1, 2018

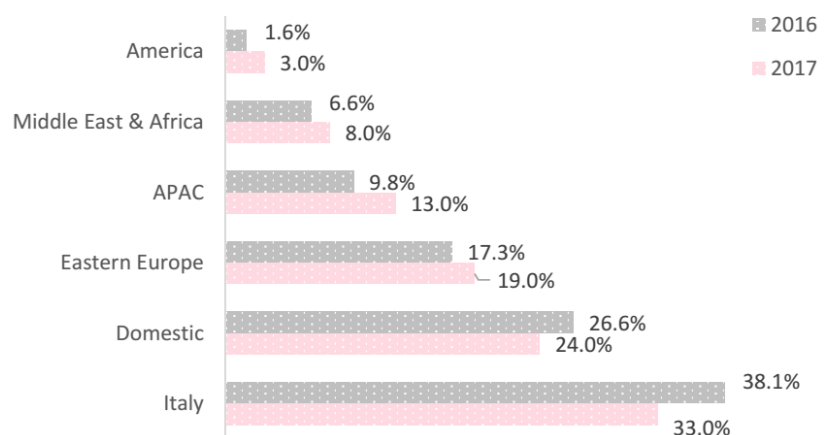
Source: Company data

By product, value of production has definitely shifted to apparel, accounting for roughly 88% of the total last year, 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**, **Emerging markets are above 40%** (Eastern Europe 19%, APAC 13%, Middle East and Africa 8%) and Domestic **Europe** almost **24%** of total revenues. Monnalisa definitely takes advantage of one of the most profitable and growing markets worldwide.

Chart 3 – Monnalisa, 2017 revenue breakdown by geography



Source: Company data

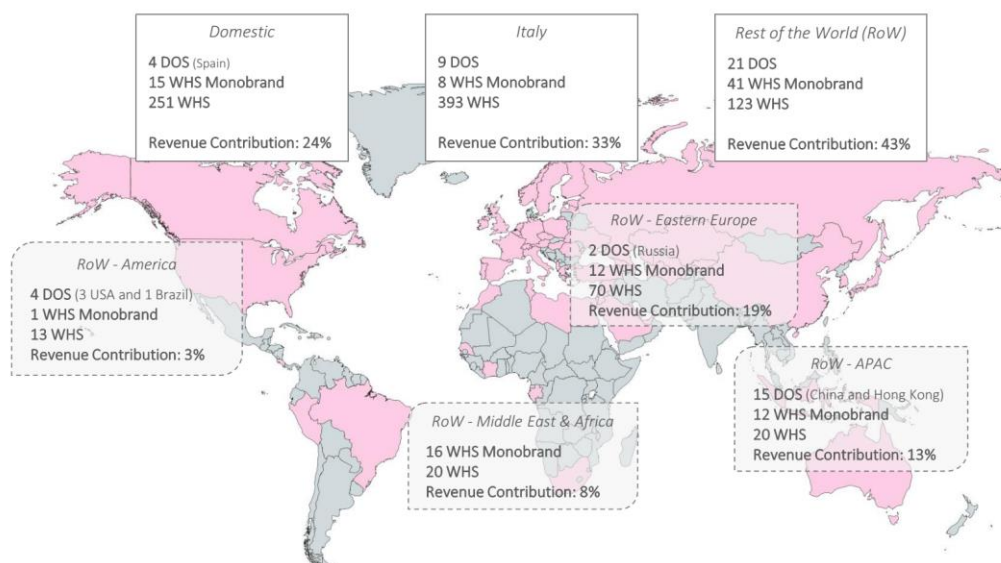
Monnalisa operates in 64 countries generating 67% of its revenues outside Italy. In particular, in order to boost its internationalisation, **Monnalisa controls 6 foreign subsidiaries in key strategic countries** such as Hong Kong, Russia, USA, China, Brazil and Korea. The Company sells mainly in **three 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 14 '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.

Chart 4 – Monnalisa, 2017 value of production by reference markets



Source: Monnalisa. The number of DOS includes 2 stores entered into the network as of 1-Jan-2018

In 2017, adjusted EBITDA reached € 7.6m (+62% YoY), 15.9% margin (from 11.5% adj. in FY16), EBIT adj. stood at € 5.3m (+66% YoY), net profit adj. totalled € 2.9m (+29% YoY) and Net Financial Position increased to € 8.2m (debt) due to development capex for new buildings, the warehouse and directly operated stores. The NFP/EBITDA adj. ratio is healthy at 1.1x.

The company has been growing significantly since its establishment: Monnalisa has shown **stable significant growth over the last 20 years**, with a **CAGR₉₈₋₁₇ of 9.5%**. Since 2012, wholesale revenues have maintained their level, while the wholesale market overall experienced a general decline.

Chart 5 – Monnalisa, 1998-2017 top line, Revenue evolution



Source: Company data

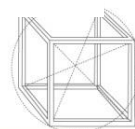
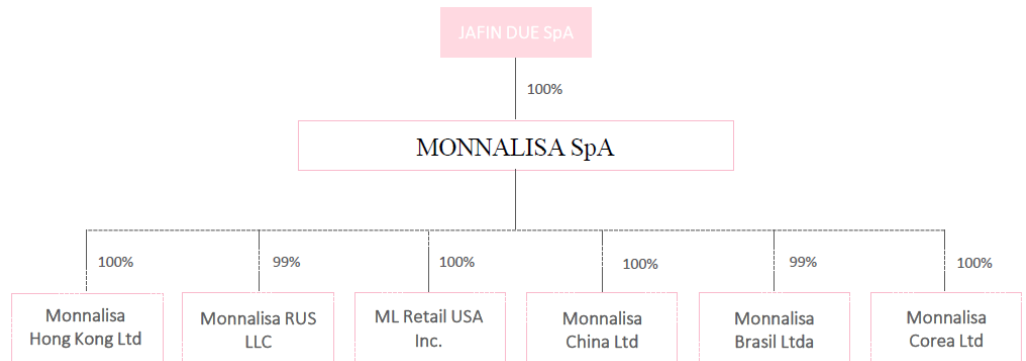


Chart 6 – Monnalisa, group structure



Source: Company data

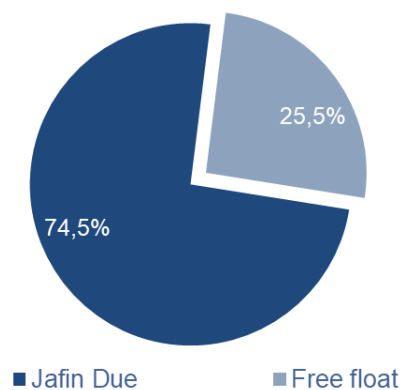
3. Shareholding structure

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 was willing to sell stocks.**

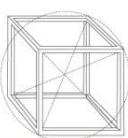
Jafin Due, a holding company fully owned by the founding family, currently owns 74.5% of Monnalisa. Pre-IPO shareholders have at least a 12 month lock-up.

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

Chart 7 – Monnalisa, shareholder structure



Source: Company data



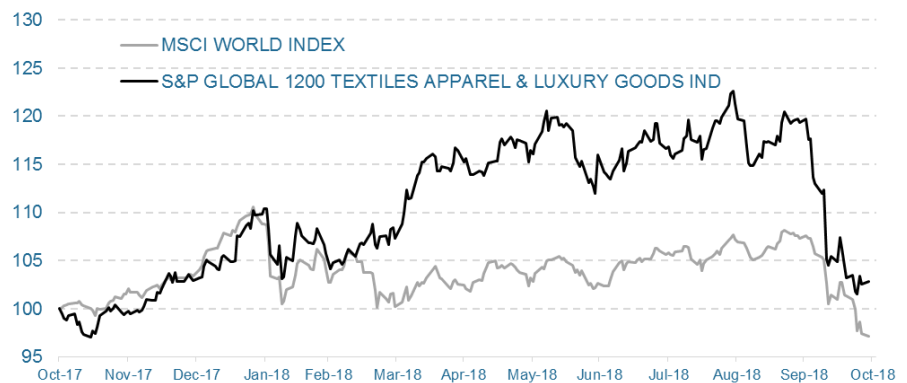
4. The reference market & competitive environment

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 the overall market is different considering the type of segment: 2015 and 2016 were characterised by a strong performance of high-end and low cost and by a slowdown of premium and medium.

The fashion positive trend is confirmed also by the over-performance of the **luxury market index (+2.8%)** against the **global market (-2.9%)** in the last year, thanks to the orientation of consumer purchases towards luxury goods, despite the sharp drop of the market.

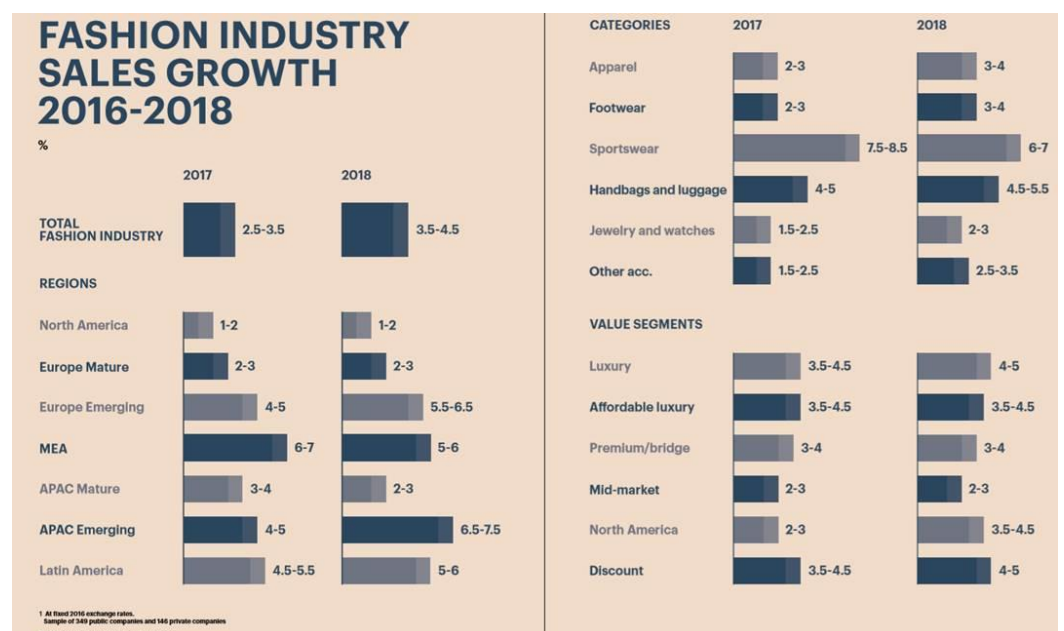
Chart 8 – Monnalisa, luxury market index versus MSCI World



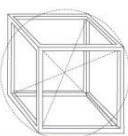
Source: Bloomberg

Looking at the fashion industry perspective, in 2017/2018 versus 2016, according to a McKinsey study, the growth rate by region, by categories and by segments will be the following:

Chart 9 – Monnalisa, fashion industry sales growth forecast

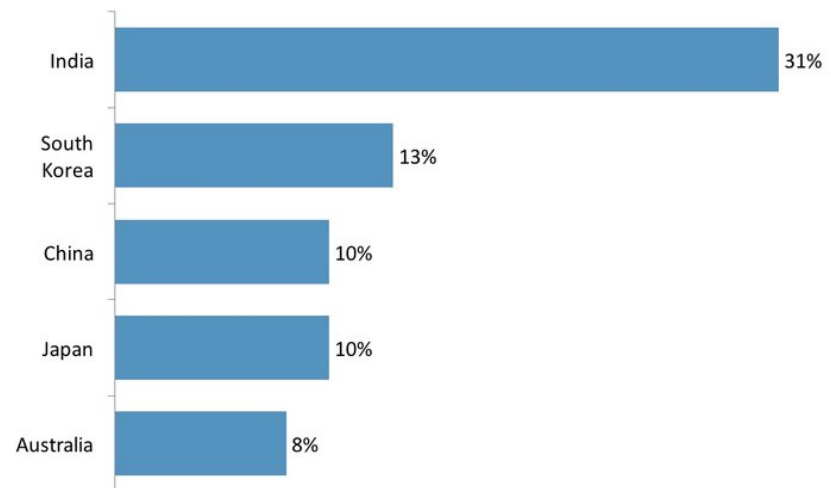


Source: McKinsey Global Fashion Index 2017



Concerning potential e-commerce growth rates, the following graph focusing on APAC economies shows Monnalisa targets for future investments. In 2017, **Emerging markets** accounted for roughly **40%** of total sales (Eastern Europe 19%, APAC 13%, Middle East and Africa 8%).

Chart 10 – Monnalisa, fashion industry sales growth forecast



Source: Forrester, 2017

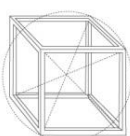
It is possible to distinguish three macro trends of the global high-end childrenswear market:

- **Demographics** is a key driver of growth and represents 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 experienced an increase of 6% in 2015-16.

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 64 countries and 67 % of its revenues are generated outside Italy.



4.1. Italian Childrenswear Market

The Italian childrenswear market is highly concentrated with the first eight players accounting for some 56% of the total. The remainder is represented by a very fragmented plethora of 800 small actors. The Italian market is projected at € 2.4bn in 2018 from € 2.2bn in 2016, with a 1.8% CAGR in the last two years (improving versus a CAGR of 0.4% in 2014-2016).

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 € 2,2bn in 2016 (+0.5% YoY) with a CAGR of +0.9% over the period 2014-2016 and it is expected to accelerate over the next two years reaching € 2,4bn in 2018 (1.8% CAGR 2016-2018E). The high-end Italian childrenswear market was worth € 290m in 2016 (+2.5% YoY).

Table 1 – Monnalisa, 2014-16 Italian childrenswear ranking by market share

	#	2014	2015	2016	var. 2014-16
Guess Italia	1	7.4	8.1	8.0	0.6
CWF Italia	2	7.6	8.1	7.8	0.2
Giorgio Armani (consolidated)	3	5.2	6.2	6.0	0.8
Brave Kid	4	3.2	4.4	5.6	2.4
Monnalisa	5	3.9	4.3	4.5	0.6
D&G (consolidated)	6	2.5	4.2	4.5	2.0
F.lli Totaro (Maftrat)	7	2.3	2.5	4.2	1.9
Il Gufo	8	4.0	4.1	4.0	0.0
Altana	9	4.8	4.6	4.0	(0.8)
Spazio Sei	10	3.9	3.6	3.4	(0.5)
Grant	11	3.2	3.5	3.3	0.1
Moncler (consolidated)	12	3.0	3.4	3.1	0.1
Simonetta	13	3.0	2.4	2.4	(0.6)

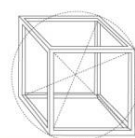
Source: Childrenswear Databank 2017

Table 2 – Monnalisa, 2015-16 Italian childrenswear sector by market segments

€/M	2015	2016	Δ%
Domestic Market	2,250.0	2,262.0	0.5%
Market Segments			
High-End	282.5	289.5	2.5%
% Domestic Market	12.6%	12.8%	
Premium	171.1	165.1	-3.5%
% Domestic Market	7.6%	7.3%	
Medium	705.1	685.4	-2.8%
% Domestic Market	31.3%	30.3%	
Low cost	1,091.4	1,122.0	2.8%
% Domestic Market	48.5%	49.6%	

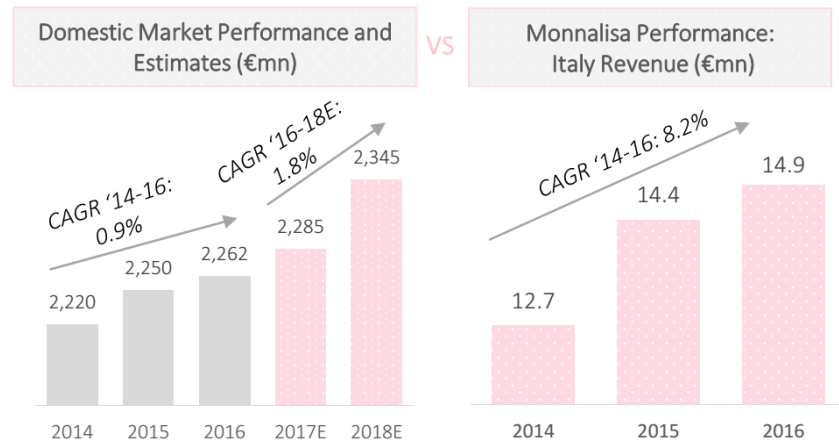
Source: Childrenswear Databank 2017

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 3.9% to 4.5% in 2014-16** and is now the fifth player in the Italian market.



In particular, Monnalisa reported € 14.9m revenue in 2016 experiencing a significant outperformance with a **+8.2% CAGR in 2014-16** versus a market growth of 0.9% in the same period. In 2017, the company increased Italian revenues by 6.7% to € 17.5m, strongly outperforming the domestic market.

Chart 11 – Monnalisa, Italian market and company performance



Source: *Childrenswear Databank 2017*

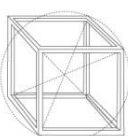
Since the beginning, Monnalisa has operated exclusively in the high-end childrenswear market. In particular, having the best entry price in the high-end market, Monnalisa can be considered as **“affordable Luxury”**. The average price of Monnalisa's clothes is just over € 100. The target clients for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

Chart 12 – Monnalisa, pricing and brand positioning



Source: *Company data*

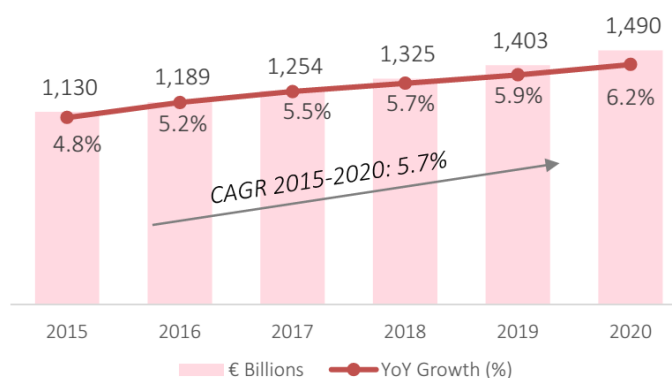
Monnalisa policy is to optimally **align the pricing** between retail and wholesale channel in each geographical area. In the retail business (namely DOS), the company is progressively **reducing fire sales**, improving both operating margins and brand image. Inventories are managed through Direct Operated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



4.2. Global Childrenswear Market

The **childrenswear global market** was worth € 180bn in 2015. It represents 15.9% of the total value of the global apparel retail market which totaled € 1.130bn in 2015. The **CAGR** of the market was **4.5% between 2011-15**. For the future, the global apparel retail market is **forecasted** to reach € 1,490bn in value in 2020 (+31.8% vs 2015 with a **CAGR 2015-2020 of 5.7%**).

Chart 13 – Monnalisa, global apparel retail industry forecast



Source: *luxury factbook 2017, Ernst& Young*

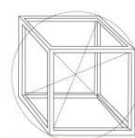
In 2016, the European High-End Market represented the major luxury market with a value of € 35bn. Behind the European Market, there is the Chinese Market with a value of € 23bn. In particular, the **China High-End luxury segment** experienced a sharp growth from **2010-2016** characterised by a **CAGR of 13%** and it is expected to grow at a CAGR of 3% from 2016 to 2020.

In 1988, Monnalisa started the internalisation process selling its products in Paris, New York and London. Monnalisa operates worldwide thanks to 767 Wholesale multibrand stores and 98 monobrand stores of which 32 DOS, 36 TPOS and 28 TPSIS (data at end-2017). With a consolidated turnover of € 47.7m in 2017, Monnalisa represents the **third Italian player operating worldwide**, in the high-end childrenswear market. Monnalisa generates 67% of its revenues outside Italy.

Table 3 – Monnalisa, Italian company global rankings

Ranking	Company Name	Revenue		Δ %
		2015	2016	
1)	Armani Junior	87.0	86.0	-1.1%
2)	Dolce & Gabbana	57.5	65.0	13.0%
3)	Monnalisa	39.5	40.6	2.7%
4)	Brave Kid	33.4	39.4	18.0%
5)	Simonetta	36.6	32.7	-10.7%
6)	Il Gufo**	26.0	29.0	11.5%
7)	Altana	25.5	22.1	-13.3%
8)	Spazio sei	16.2	15.5	-4.3%
9)	Grant	15.5	14.2	-8.4%

Source: *Childrenswear Databank 2017*

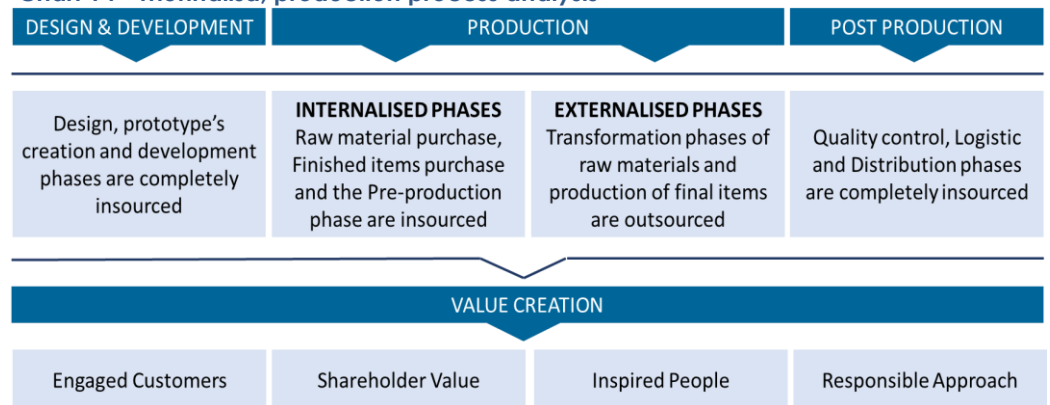


5. Business model

The core competence of Monnalisa is the proven ability to provide quality, fashionable and highly identifiable products. Every year, Monnalisa creates and launches **two main collections** (fall-winter and spring-summer) and two pre-collections which are the result of a continuous process of innovation and excellence in terms of creativity and style. On average each season collection consists of 900 items. For each collection, projections based on the outcome of the sales campaign permit the company to **plan purchasing and production in advance**.

Monnalisa has an extremely flexible production structure. Monnalisa has completely insourced every strategic activity from design and prototype creation to raw material purchasing and fabric cutting in order to guarantee a high-quality level of finished product. **All other transformation phases are outsourced** to small specialised laboratories maintaining **effective control on every critical point of the cycle**.

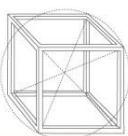
Chart 14 – Monnalisa, production process analysis



Source: company data, CFO SIM

The value chain of Monnalisa can be described as follow:

- **Design & Development:** the design and development phase represents one of the **strategic areas**, with the aim to continuously create and propose new high quality and innovative products. This phase is **completely internalised** and entrusted to an expert style and product development team of 30 people oriented towards highly creative content and continuous innovation.
- **Production:** Monnalisa researches and selects high quality fabrics that are carefully tested internally in order to guarantee the highest quality possible. The raw materials are then subject to an internal pre-production phase that involves raw material quality control, production planning and fabric cutting. The raw materials are then distributed to small highly specialised laboratories that carry on the production phases such as stitching, embroidery, printing, ironing and packaging. In addition to this, Monnalisa purchases finished items from selected Italian and foreign suppliers, regularly inspected to monitor the quality of manufacturing process.
- **Post Production:** manufactured products and finished items are sent to Monnalisa where they are subjected to strict quality control in order to ensure high standard quality. Monnalisa has decided to keep the logistics process internal, because of its strategic relevance. The final products are then distributed through the direct and indirect channels.



6. 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 is planning to increase its international presence through the entrance in new strategic markets such as India, Mexico, Chile, and continue the penetration in already covered markets such as Japan, Russia and China which are characterised by high growth potential. In addition to this, the company wants to expand the travel channel through new openings in main international airports (Istanbul, Rome, Singapore, etc).
- **Boost Corporate Retail sales (from 21% in 2017 to around 42% in 2020e):** in the last two years the company invested € 7m on new buildings, including an automated warehouse, and opened 24 Direct Stores (for a total of 32 at the end of 2017), generating a strong increase in EBITDA margin. Monnalisa is going to continue with this policy and during the 3-year plan from 2018 to 2020 the company plans to open around 47 DOS (Directly operated stores), of which 4 already opened in H1-18, and to convert some TPOS (Third Part Operated Stores) into DOS. The main strategic area will be Asia, with a particular focus on China and Japan. In particular, China market opportunities will be exploited thanks to the widespread direct presence in the market through around 20 DOS.
- **E-commerce development:** Monnalisa is going to expand online retail e-commerce with a focus on specific boutiques for strategic countries (Japan, China and South Korea). 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 **Corporate Retail business is the channel with the highest profitability** (gross profit margin roughly of 75%), confirming the potential of the strategy pursued by Monnalisa, which is shifting its business towards directly operated stores (DOS and DOO).

Direct E-commerce (roughly 3% of total sales) shows a gross profit margin of 71%, just slightly lower than Corporate Retail. Wholesale and Wholesale Monobrand have the same gross profit margin of circa 54%. In the following chart, Wholesale E-commerce is included in the Wholesale channel.

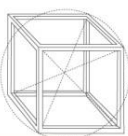
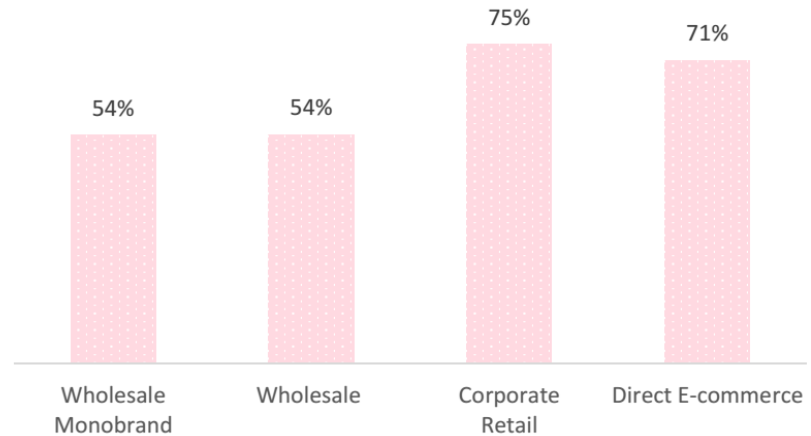


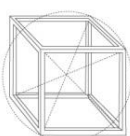
Chart 15 – Monnalisa, 2017 gross profit margin by channel



Source: Company data

Overall, **the group foresees the inauguration, in Q1-19, of 11 new shops (vs FY-17) in Europe, Turkey, India, the USA and the Asia Pacific area.** Concerning the retail channel, along with a relocation of 130 sq.m. at the Sicilia Outlet Village in **Enna** and the renovation of the **New York** shop in Madison Avenue, the program of new openings entails 9 monobrand direct stores. The first openings are a store of more than 130 sq.m in **Marcianise** (CE) and a store of 30 sq.m at the **Istanbul** airport. Very recently, Monnalisa landed on the East Coast, in **Philadelphia**, with 70 sq.m at the King of Prussia Mall, the largest shopping mall on the coast, while by the end of the year, the company will inaugurate a 70 sq.m shop at the shopping center outlet of Sawgrass Mills in Sunrise, **Florida**, which is equivalent in size to the new opening in **Belo Horizonte**. In the pipeline, between the end of 2018 and Q1-19 there will also be 4 openings in the Asia-Pacific area.

Among the new openings of monobrand wholesale, there is an 85 sq.m. shop in shop at the Sady Pobedy Shopping Mall in **Odessa** (Ukraine), 70 sq.m at the Palladium Mall in **Mumbai** (India), a new shop in shop at la Rinascente in **Torino** and one in KaDeWe, one of the most famous and popular department stores in **Berlin**.



7. 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 favorable and unfavorable 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 **specialized on childrenswear** high-end 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

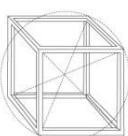
- ❑ **Limited size** in the international competitive arena
- ❑ **Decisions are concentrated** among few key figures
- ❑ Growth strategy is based on **increasing the retail distribution**, an area where Monnalisa has not developed lot of experience in the past years

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**



8. H1-18 results

In the last few years Monnalisa has started a strategy to increase the relevance of the retail distribution network compared to the wholesale channel. As result, the company invested € 7m in new buildings, including an automated warehouse, and opened new Directly Operated Stores. In the first part of the year, **9 DOS were opened, 3 closed and 1 relocated, for a total of 38 DOS at the end of H1-18**. The semester was affected, unexpectedly, by an extraordinary sale of inventories following the relocation into the new warehouse. Other minor one-offs were related to the restructuring of New York DOS (already included in our estimates) and some marketing costs following the 50th anniversary of Monnalisa. **Net of the one-offs, the EBITDA adjusted was basically flat.**

Table 4 – Monnalisa, H1-18 results vs H1-17

P&L € m	H1-18	H1-17	% YoY
Revenues	25,4	23,8	6,8
Raw material	(7,4)	(6,1)	
Services	(7,0)	(7,3)	
Leases and rentals	(2,2)	(1,6)	
Marketing	(1,2)	(1,0)	
Value Added	7,6	7,7	(1,2)
% margin	30,1	32,5	
Personnel costs	(5,0)	(4,0)	
Other costs	(0,3)	(0,7)	
EBITDA	2,3	3,0	(21,7)
% margin	9,2	12,5	
D&A	(1,2)	(1,1)	
EBIT	1,1	1,9	(40,9)
% margin	4,4	7,9	
Financial costs	(0,2)	(0,2)	
Other costs	0,0	0,0	
Pre-Tax profit	1,6	1,9	(12,9)
% margin	6,5	7,9	
Income taxes	(0,2)	(0,6)	
Tax rate	14,9%	30,1%	
Minorities	0,0	0,0	
Net Profit	1,4	1,3	6,1
% margin	5,5	5,6	
Extraordinary costs	0,8	0,2	
EBITDA adjusted	3,1	3,2	(2,8)

Source: Company data

In H1-2018, **top line increased by 6.8%** to € 25.4m (or **+9% at constant exchange rates**) **mainly driven by the Retail business**, up 34% on a reported basis and **+39% at constant exchange rates**. The change in the **wholesale division** (-4% or -2% at constant exchange rates) was negatively affected by the interrupted relationship with a Russian client which had 4 TPOS (Third Party Operated Stores) in Moscow, two of which were only recently reopened as DOS (Directly Operated Stores), and the purchase of a business unit of a large US client in two Monnalisa single-brand points of sale. The **e-commerce division** experienced a buoyant growth in revenues of 53%, in line with the expectations.

Revenues by geographic area are growing in Italy (+13%), above all as a result of the performance of the retail channel, and in Europe (+17%). There was a slight drop in the Rest of the World geographic area, which nevertheless grew by 1% at constant exchange rates, exclusively linked to the performance of the channel in Russia and in the United States of America already mentioned above, and the exchange rate effect.

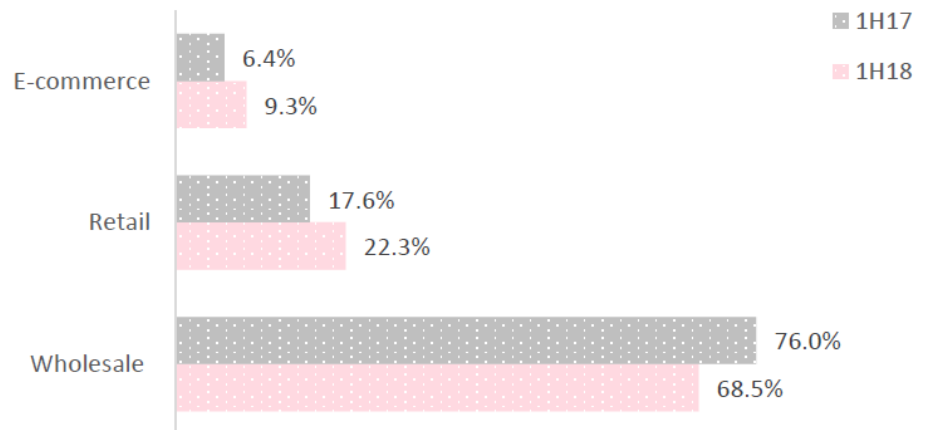
Furthermore, in 2017, for the first time, part of Spring/Summer 18 collection sales have been brought forward to the last quarter of the year 2017, instead of the first quarter of 2018. **Normalizing for this effect, H1 2018 EBITDA reached € 3.9m**. The latter element is going to fuel the EBITDA margin recovery in H2-18. The H1-18 **Net Financial Position**



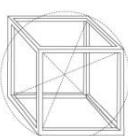
reached € 12.7m (vs. € 8.2m in FY2017) mainly due to investments related to the development of the retail channel and the completion of the work for the new warehouse. The main significant event after the end of the first half of 2018 was the AIM market listing on 10th July.

In the second half of 2018, management will set up two companies, one in Turkey and one in Taiwan, with the aim of opening direct points of sale in those markets. These initiatives will be accompanied by the new openings at the **La Reggia outlet** in Marcianise, in Philadelphia, at the new airport in **Istanbul** in November, and in Sawgrass, in **Miami**, in December. A resolution is currently being passed to increase the share capital of the Chinese subsidiary, with the aim of supporting further growth in the country and the opening of two new points of sale, one in **Shenzhen** and one in **Tianjin**. Lastly, further cash has been injected into the US subsidiary. The project for the expansion in the United States has accelerated significantly in 2018, with the opening of two stores in **New York and Beverly Hills** and the completion of negotiations for entry into the King of Prussia mall in **Philadelphia**, and the Sawgrass Mill mall, in Miami.

Chart 16 – Monnalisa, H1-18 channel distribution



Source: Company data



9. Financial forecasts

We factored into our estimates an **increase in DOS and DOO openings, from 34 in 2017 to 73 in 2020**, with **basically stable wholesale revenues** and direct e-commerce sales showing a 31% CAGR in the period.

In our opinion, **Monnalisa is less exposed to fashion collection risk** and it enjoys more recurring sales compared to man/woman luxury brands. **Capex and opex related to DOS openings are less expensive** (roughly € 150-200k per DOS plus the same amount in WC absorption) and so less risky than man/woman luxury brands (apart from the limited room required for a single store, there is usually no key-money to take into consideration).

Table 5 –Monnalisa, 2016-20 top line growth evolution breakdown

€ m	2016	2017	2018e	2019e	2020e	CAGR ₁₇₋₂₀
Value of Production	40.9	48.4	50.8	57.3	67.6	11.7%
Retail	6.4	10.3	12.8	18.7	28.0	39.5%
Wholesale	33.1	36.8	36.4	36.3	36.6	-0.2%
E-commerce (direct)	1.4	1.3	1.6	2.3	2.9	30.6%
% YoY						
Value of Production	-	18.4	4.9	12.8	17.9	
Retail	-	62.3	24.3	46.0	49.8	
Wholesale	-	11.2	(1.2)	(0.3)	1.0	
E-commerce (direct)	-	(10.0)	22.8	43.8	26.1	
% on total						
Value of Production	100.0	100.0	100.0	100.0	100.0	
Retail	15.5	21.3	25.3	32.7	41.5	
Wholesale	80.9	76.0	71.6	63.3	54.2	
E-commerce (direct)	3.5	2.7	3.2	4.0	4.3	

Source: Company data, CFO SIM estimates

The overall top line CAGR is expected to be 11.7% in 2017-20, with strong support from the retail business (CAGR 39.5%) and direct e-commerce (CAGR 30.6%), which are only a part of the total online sales, as highlighted previously.

The wholesale channel should be weak in 2018 compared to 2017 due to a difficult YoY comparison, ongoing rationalisation portfolio and some one-off temporary issues related to Russian distributors, that have now been resolved. In the coming years, we opt for a prudent stance in the sales evolution of this channel, as we assume basically zero growth in relation to price mix/inflation and volumes increase.

The weight of the retail business is projected to grow from 21% in 2017 to roughly 42% in 2020, thanks to new openings and the increase in revenues per store. Consequently, the basically zero growth for the wholesale turnover and the still small numbers for direct e-commerce, the contribution of the other two channels is anticipated to diminish on total business breakdown.

Operating leverage deploys its full effect and operating margins will benefit from the changing channel mix, as **the gross profit margin in the retail business is significantly higher**. In our estimates, the gross margin evolution by channel is substantially stable, only marginally increasing, as we assess the following in 2020: 75% for retail business, 55% for wholesale (including monobrand and wholesale e-commerce) and 73% for direct e-commerce.

In 2020, we estimate that roughly half of group gross profit will be generated by the retail business, versus 27% in 2017. The portion of gross profit margin generated by wholesale business will decline from 70% of the total to 46%.

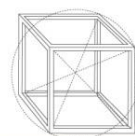
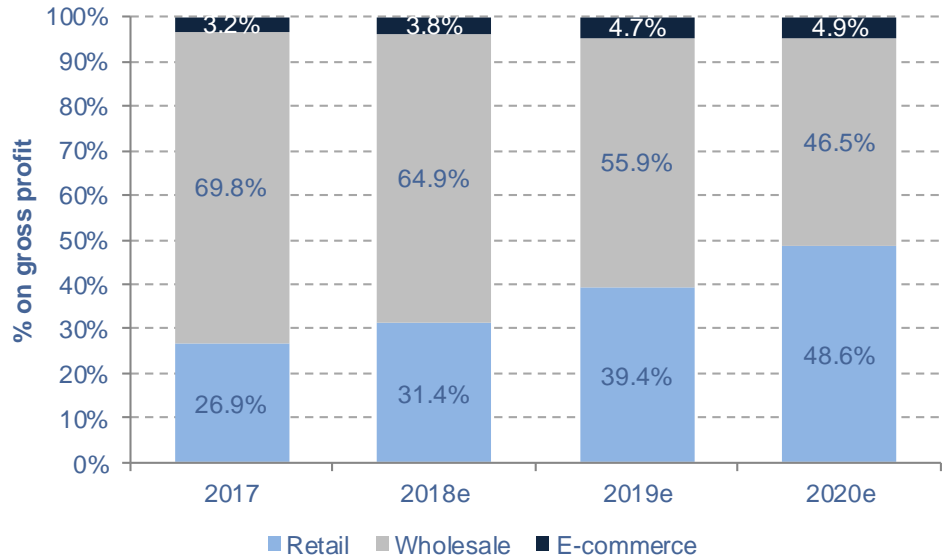


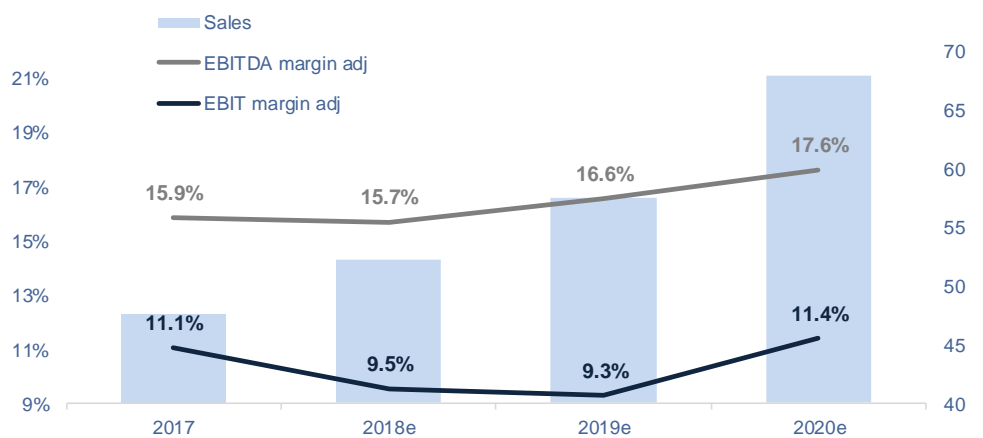
Chart 17 – Monnalisa, 2017-20 gross profit margin breakdown



Source: Company data, CFO SIM estimates

In depth, the production model in outsourcing and the limited increase in personnel costs will **increase the EBITDA margin in coming years, progressively towards the luxury sector average**. The company could increase sales by roughly 50% without substantial increase in direct full time equivalent personnel. The decline in EBIT margin is entirely due to the strong development plan, entailing an increase in fixed assets, and as a consequence in D&A.

Chart 18 – Monnalisa, 2017-20 sales and margins evolution



Source: Company data, CFO SIM estimates

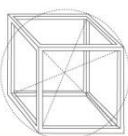


Table 6 - Monnalisa, 2016-20 profitability evolution

€ m	2016	2017	2018e	2019e	2020e	CAGR ₁₇₋₂₀
Revenues	40.5	47.7	52.3	57.6	67.9	12.5%
COGS	(18.6)	(19.8)	(22.0)	(22.4)	(24.6)	
Gross Profit	21.9	27.9	30.3	35.1	43.3	15.7%
% margin	54.2%	58.6%	57.9%	61.0%	63.7%	
Selling & distr exp.	(2.0)	(1.8)	(2.0)	(2.9)	(3.7)	
as %	-4.9%	-3.7%	-4.0%	-5.0%	-5.5%	
Adv & promotions	(1.5)	(1.1)	(1.2)	(1.6)	(1.9)	
as %	-3.6%	-2.2%	-2.2%	-2.8%	-2.8%	
General & Adm ex.	(12.4)	(15.9)	(17.7)	(20.2)	(23.8)	
as %	-30.7%	-33.4%	-33.9%	-35.0%	-35.0%	
Others	(3.3)	(4.9)	(5.2)	(5.8)	(6.8)	
as %	-8.2%	-10.2%	-10.0%	-10.0%	-10.0%	
EBIT adj.	2.7	5.3	5.0	5.3	7.8	13.7%
% margin	6.7%	11.1%	9.5%	9.3%	11.4%	
D&A	(1.5)	(2.3)	(3.2)	(4.2)	(4.2)	
EBITDA adj.	4.2	7.6	8.2	9.5	12.0	16.5%
% margin	10.3%	15.9%	15.7%	16.6%	17.6%	
Financial costs	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)	
Pre-Tax profit	2.5	3.1	3.7	4.4	6.7	28.4%
Income taxes	(0.6)	(0.9)	(1.0)	(1.2)	(1.8)	
Tax rate	22.8%	28.3%	27.0%	27.0%	27.0%	
Minorities	0.0	0.0	0.0	0.0	0.0	
Net Profit adj.	2.3	3.4	3.3	3.6	5.3	16.2%
% margin	5.8%	7.1%	6.4%	6.3%	7.9%	

Source: Company data, CFO SIM estimates

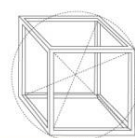
D&A are seen to increase compared to 2017, on the back of the strong new opening development plan (cumulated capex 2018-20 are € 18.4m, despite the majority of costs being expensed directly in the P&L. As a result, **EBITDA and EBIT adjusted are expected to grow more than proportionately** compared to top line: +16.5% and 13.7% CAGR₁₇₋₂₀, vs. 12.5% of revenues.

It has to be noted that **the strong retail development plan**, in its commencement phases, **is expected to have an effect on profitability partially afflicted by the relevant number of stores in their initial launch phases**, where fixed costs are not yet entirely counterbalanced by an adequate level of turnover.

Below EBIT, CFO SIM expects almost stable financial costs in coming years, as DOS expansion is almost entirely self-financed by free cash flow generation. Tax burden is predicted stable at 27% rate. As a result, **Net Profit adjusted is anticipated to show a +16.2% CAGR in 2017-20.**

The company strategy focuses on the increase in retail network DOS which is less costly than a traditional luxury shop for men/women; also the breakeven point is quicker due to a wider range of products inside the store (roughly three collections aka less than two years on average).

Concerning **currency risk**, Monnalisa has a fairly limited exposure. Within the retail channel, estimated to account for 25% of sales in 2018, 60% of 2018 projected revenues are denominated in foreign currencies. The bulk of it is represented by the Chinese CNY (21% of total sales for retail in 2018), the HK\$ (12%), the US\$ (10%) and the Russian Ruble (9%). These exposures are hedged according to booking orders. However, the translation effect could have relevant impacts on P&L.



If the DOS opening is less risky and expensive in the childrenswear segment, the other side of the coin is that compared to a pure man/woman luxury manufacturer, the childrenswear segment is more complex in term of inventories management, as the sizes required to cover the huge age range (0-16 years old) is quite wide. In this regards, the company has recently invested € 7m in new buildings and a warehouse, in order to double the capacity (ca 370,000 pieces). The future capital expenditures are destined to retail expansion, as shown in the cash flow statement.

Table 7 - Monnalisa, 2016-20e Retail channel development

#	2016	2017	2018e	2019e	2020e
Stores year-beginning	8	20	32	44	57
New openings	12	12	16	15	16
Closures	0	0	4	2	0
Stores year-end	20	32	44	57	73
DOS increase YoY	12	12	12	13	16

Source: Company data, CFO SIM estimates

Thanks to **the overall revision of the packaging process**, there will be a significant reduction in both number of operators (from 11 to 3) and hours required for daily order execution (from 94 to 15) for the average 10,000 selections per day. **These potential cost savings are not entirely included in our estimates.**

Notwithstanding the development capex (€ 18.4m cumulated in 2018-20), the **operating cash flow translates reasonably well into free cash flow**: EBITDA/FCF conversion is estimated at roughly 30% in 2020, and even much higher once the projected shop openings are up to speed.

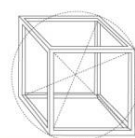
Despite the development plan, cash generation is consequently projected to preserve the Net Financial Position cash positive for € 7.6m in 2020.

Table 8 - Monnalisa, 2016-20e Net Financial Position and financial solidity

€ m	2016	2017	2018e	2019e	2020e
Year-end NFP (Cash)/Debt	2.1	8.2	(5.0)	(4.3)	(7.6)
Average (Cash)/debt	-	5.1	1.6	(4.6)	(5.9)
EBITDA adj	4.2	7.6	8.2	9.5	12.0
Shareholders' equity	27.4	29.2	47.4	50.6	55.5
Minorities	0.0	0.0	0.0	0.0	0.0
Interest charges	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
NFP/Equity	0.1	0.3	(0.1)	(0.1)	(0.1)
NFP/EBITDA adj	0.5	1.1	(0.6)	(0.4)	(0.6)
EBITDA/fin. charges	23.0	20.2	20.0	25.3	26.9

Source: Company data, CFO SIM estimates

Monnalisa has a **rock solid balance sheet**, with a huge equity portion, as the main shareholder in the past invested all the net profits in the company, **without relevant intangible assets or goodwill.**



10. Valuation & risks

CFO Sim initiates coverage of Monnalisa with a Buy recommendation and a PT based on a multiple comparison of € 15.50/s, 49.0% upside.

We also used the DCF model with standard setting for a small-cap, including a very prudent $g=1\%$. According to the DCF model, we assess a valuation of € 83.7m (€ 16.00/s), corroborating the value obtained via the peer multiple methodology.

10.1. Market multiples

We conducted an analysis on a cluster of 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 (46.8% of top line), North America (35.5% of top line), China (8.5% of top line) and RoW (9.2% of top line). Retail and Wholesale represent respectively 53.7% and 46.3% of the revenues.

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 (39% of top line), EMEA region (36% of top line) and Americas region (11% of top line). Retail and Wholesale represent respectively 77% and 23% of the revenues. Children's products account for 4% of top line.

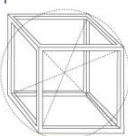
Hugo Boss AG: Hugo Boss AG designs, produces, and markets brand name clothing. Hugo Boss licenses its name for eyeglass frames, fragrances, watches, shoes, and leather goods. Hugo Boss sells its products worldwide in particular in Europe (30.9% of top line), the Americas (20.6% of top line), the Asia Pacific area (23%) and RoW (25.5%). Retail and Wholesale represent respectively 63% and 37% 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, ecc. The Company specialises in ready-to-wear products, sports goods, shoes, jewelry, and watches. Kering serves customers worldwide in particular in Europe (34% of top line), the Asia Pacific area (40% of top line), North America (19%), RoW (7%). Retail and Wholesale represent respectively 75% and 25% of the revenues.

Michael Kors Holding Ltd: Michael Kors Holdings Limited operates as a holding company. The Company, through its subsidiaries, designs apparel and accessories. The Company distributes and retails handbags, shoes, watches, sweaters, hoodies, pants, sunglasses, and boots. Michael Kors Holdings serves customers worldwide in particular in America (66% of top line), Europe (23% of top line) and Asia (11%). Retail and Wholesale represent respectively 57% and 43% of the revenues.

Moncler SpA: Moncler S.p.A. manufactures apparel products. Moncler serves customers internationally, in particular in Asia and RoW (42%), EMEA (30%), the Americas (16%) and Italy (13%). Retail and Wholesale represent respectively 75% and 25% of the revenues. Moncler Infant 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 Europe (39% of top line), FarEast (32% of top line), the Americas (15%), Japan (11%) and RoW (3%). Retail and Wholesale represent respectively 81% and 19% 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 (57.1%), Europe (23.2%), Asia (13.2%) and Row (6.5%). Retail and Wholesale represent respectively 55% and 45% 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 (36.6% of top line), Europe (25.2%), North America (24%), Japan (8.6%) and RoW (5.6%). Retail and Wholesale represent respectively 65% and 30% 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 (31% of top line), Europe (25.4% of top line), China (22%), the Americas (8.1%) and RoW (13.5%). Retail and Wholesale represent respectively 60% and 40% of the revenues.

Among the not-listed companies, **Armani Junior** has revenues in the region of € 90m, slightly above 3% of the total group. Two French companies are focused on childrenswear like Monnalisa: **CWF** (roughly € 150m sales, mainly producing on licensing as outsourcer, with 10% sales in Italy, 55% in rest of Europe, 35% worldwide and only 20 DOS) and **Bonpoint**, participated by Rothschild PE fund.

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 will close the gap in term of EBITDA margin by increasing retail business weight** (which will grow from 21.0% in FY-17 to 42.0% in 2020).

Monnalisa shows a notably higher sales CAGR than the luxury sector, with a buoyant CAGR for EBITDA, EBIT and net profit level, thanks to the operating leverage, evidence of the growing weight of the retail channel.

Table 9 - Monnalisa, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₇₋₂₀	EBITDA CAGR ₁₇₋₂₀	EBIT CAGR ₁₇₋₂₀	EPS CAGR ₁₈₋₂₀	NFP/ EBITDA FY1
Brunello Cucinelli SpA	ITALY	2,069	555	97	17.5%	9.9%	9.9%	9.3%	9.0%	0.1
Burberry Group PLC	UK	8,020	3,055	661	21.6%	2.3%	3.5%	2.6%	9.4%	(1.4)
Hugo Boss AG	GERMANY	4,379	2,784	493	17.7%	3.6%	4.8%	3.8%	10.8%	0.0
Kering SA	FRANCE	47,607	13,527	4,366	32.3%	14.9%	20.7%	22.2%	13.2%	0.4
Michael Kors Holdings Ltd	USA	7,194	4,507	1,007	22.3%	7.8%	7.0%	7.4%	5.4%	0.3
Moncler SpA	ITALY	7,737	1,406	481	34.2%	14.6%	15.0%	14.8%	12.1%	(1.0)
Tod's SpA	ITALY	7,966	3,239	652	20.1%	11.1%	18.4%	23.8%	18.1%	(0.3)
Prada SpA	USA	9,375	5,426	865	15.9%	4.7%	7.9%	10.0%	7.4%	(1.2)
Ralph Lauren Corp	ITALY	3,526	1,364	220	16.1%	2.4%	4.2%	4.0%	17.6%	(0.7)
Salvatore Ferragamo SpA	ITALY	1,778	964	157	16.3%	2.0%	5.8%	5.7%	11.7%	(0.2)
Median		7,465	2,919	573	18.9%	6.3%	7.5%	8.3%	11.3%	(0.2)
Monnalisa SpA	ITALY	55	52	8	15.7%	12.5%	16.5%	13.7%	26.3%	(0.6)

Source: CFO Sim, Thomson Reuters Eikon

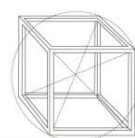


Table 10 - Monnalisa, peer group EV multiple table

X	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Brunello Cucinelli SpA	3.74	3.38	3.05	21.4	19.2	17.0
Burberry Group PLC	2.32	2.23	2.06	10.7	10.0	8.9
Hugo Boss AG	1.58	1.49	1.41	8.9	8.1	7.5
Kering SA	3.66	3.21	2.79	11.4	9.8	8.3
Michael Kors Holdings Ltd	1.67	1.43	1.31	7.5	6.3	5.8
Moncler SpA	5.17	4.40	3.81	15.1	12.7	10.9
Prada SpA	2.41	2.21	2.06	12.0	10.1	8.9
Ralph Lauren Corp	1.54	1.51	1.48	9.7	9.2	8.7
Salvatore Ferragamo SpA	2.48	2.34	2.19	15.4	13.2	11.6
Tod's SpA	1.81	1.72	1.61	11.1	10.0	9.0
Median	2.36	2.22	2.06	11.2	10.0	8.9
Monnalisa SpA	0.95	0.87	0.69	6.0	5.3	3.9

Table 11 - Monnalisa, peer group EV & price multiple table

X	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Brunello Cucinelli SpA	29.2	26.0	23.2	40.8	36.3	34.3
Burberry Group PLC	14.1	13.2	11.6	20.9	19.9	17.5
Hugo Boss AG	13.0	11.5	10.5	17.8	16.0	14.5
Kering SA	12.8	11.0	9.3	17.3	15.1	13.5
Michael Kors Holdings Ltd	9.2	7.7	7.1	10.7	10.1	9.6
Moncler SpA	17.3	14.6	12.4	25.7	22.3	20.4
Prada SpA	18.4	14.7	12.5	25.4	21.3	18.2
Ralph Lauren Corp	13.7	12.8	11.9	19.5	18.3	16.9
Salvatore Ferragamo SpA	21.7	18.0	15.5	32.2	26.5	23.3
Tod's SpA	16.0	13.9	12.5	23.8	20.7	19.1
Median	15.0	13.6	12.1	22.4	20.3	17.8
Monnalisa SpA	9.9	9.4	6.1	16.3	15.1	10.2

Source: CFO Sim, Thomson Reuters Eikon

Applying a 20% discount to peer multiples (mainly due the smaller size and the lack of decent stock liquidity on the back of the listing on the AIM Italia) on peer average multiples for EV/EBITDA to Monnalisa metrics we attain an **equity value of Monnalisa of € 81.3m, or € 15.50ps**, 49.0% upside, using 2018-20 estimates and multiples (40-35-25% weighted respectively), **in order to consider in the valuation part of the upside stemming from the retail development plan.**

Although FY-18 figures show interesting growth, as from 2019 we estimate an acceleration in margin expansion and free cash flow generation on the back of the aforementioned development of the retail channel.

Table 12 - Monnalisa, equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Monnalisa metrics	52.3	57.6	67.9	8.2	9.5	12.0
Multiple, median	2.36	2.22	2.06	11.2	10.0	8.9
Enterprise Value	98.8	102.2	111.8	73.7	76.3	84.9
Net Financial Position	5.0	4.3	7.6	5.0	4.3	7.6
Pension Provisions	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Equity Value	102.3	104.9	117.9	77.2	79.1	90.9
Equity Value/share €	19.50	20.00	22.50	14.70	15.10	17.40

Source: CFO Sim, Thomson Reuters Eikon

Table 13 - Monnalisa, equity assessment, 2#3

€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Monnalisa metrics	5.0	5.3	7.8	3.3	3.6	5.3
Multiple, median	15.0	13.6	12.1	22.4	20.3	17.8
Enterprise Value	59.9	58.1	75.3	59.8	59.0	76.1
Net Financial Position	5.0	4.3	7.6			
Pension Provisions	(1.5)	(1.5)	(1.5)			
Equity Value	63.4	60.8	81.3	59.8	59.0	76.1
Equity Value/share €	12.10	11.60	15.50	11.40	11.30	14.50

Source: CFO Sim, Thomson Reuters Eikon

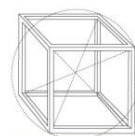


Table 14 - Monnalisa, equity value assessment, 3#3

€ m	FY1	FY2	FY3
Equity Value based on EV/EBITDA	77.2	79.1	90.9
Weighting	40.0%	35.0%	25.0%
EV/EBITDA	81.3		
Per share €	15.50		
% upside/(downside)	49.0%		

Source: CFO Sim, Thomson Reuters Eikon

10.2. DCF

In the valuation via the DCF method, we assess explicit estimates until 2020 and cautious long term growth of 1.0%. Cash flows are discounted back at an weighted average cost of capital calculated according to the following parameters:

Table 15 - WACC derived from:

Interest costs, pre-tax	1.8%
Tax rate	27.0%
Int. costs, after taxes	1.3%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	3.50%
Beta levered (x)	0.91
Required ROE	11.7%

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 0.91** has been calculated taking peer group specific unlevered beta for each competitor, then **leveraging it for Monnalisa 30/70 debt/equity long-term structure**. The WACC is accordingly computed using 30/70% debt/equity long term sustainable balance sheet structure.

Table 16 - Monnalisa, DCF model

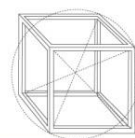
€ k	2018e	2019e	2020e	2021e	2022e	Term. Val.
EBIT	5.0	5.3	7.8	8.6	9.9	
Tax rate	27.0%	27.0%	27.0%	27.0%	27.0%	
Operating profit (NOPAT)	3.6	3.9	5.7	6.3	7.2	
Change working capital	(0.3)	(1.3)	(0.5)	(0.3)	(0.1)	
Depreciation	3.2	4.2	4.2	3.1	2.0	
Investments	(7.7)	(6.4)	(4.4)	(3.1)	(2.0)	
Free Cash Flows	(1.1)	0.4	5.0	6.0	7.1	94.6
Present value	(1.1)	0.4	4.2	4.6	5.0	67.2
WACC	8.6%	8.6%	8.6%	8.6%	8.6%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 17 - Monnalisa, DCF derived from:

€ m	
Total EV present value	80.3
<i>thereof terminal value</i>	83.7%
NFP FY-18	5.0
Pension provision H1-18	(1.5)
Equity value	83.7

Source: CFO Sim



The outcome of our DCF model set up an equity value of € 83.7m for Monnalisa, 16.0/s.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value/s of between € 14.75-17.51m (perpetuity range of between 0.25% and 1.75%), while 2) compared to changes in the free risk rate produces an equity value/s of € 14.88-17.27m (free risk range of between 4.25% and 2.75%) and 3) compared to changes in the risk premium, including small size premium results into an equity value/s of € 14.07-17.27m (risk premium range of between 10.50% and 7.50%).

Table 18 – 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	13.1	13.1	13.1	13.1	13.1	13.1	13.1
PV of terminal value	60.7	62.7	64.9	67.2	69.6	72.3	75.1
Total value	73.8	75.8	78.0	80.3	82.7	85.4	88.2
NFP FY-18	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Pension provision H1-18	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Equity value	77.2	79.3	81.4	83.7	86.2	88.8	91.7
Equity value/share €	14.75	15.14	15.55	16.00	16.46	16.97	17.51

Source: CFO Sim

Table 19 – Monnalisa, equity value sensitivity to changes in free risk rate

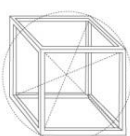
€ m	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	4.25%
Present value of CF	13.3	13.3	13.2	13.1	13.0	13.0	12.9
PV of terminal value	73.6	71.4	69.2	67.2	65.2	63.3	61.6
Total value	87.0	84.6	82.4	80.3	78.3	76.3	74.5
NFP FY-18	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Pension provision H1-18	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Equity value	90.4	88.1	85.9	83.7	81.7	79.8	77.9
Equity value/share €	17.27	16.82	16.40	16.00	15.61	15.24	14.88

Source: CFO Sim

Table 20 – 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	13.5	13.4	13.3	13.1	13.0	12.9	12.7
PV of terminal value	79.7	75.1	71.0	67.2	63.7	60.5	57.5
Total value	93.3	88.5	84.2	80.3	76.7	73.3	70.2
NFP FY-18	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Pension provision H1-18	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Equity value	96.7	92.0	87.7	83.7	80.1	76.8	73.7
Equity value/share €	18.47	17.57	16.75	16.00	15.30	14.66	14.07

Source: CFO Sim



10.3. 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 companies operating in the luxury and fashion arena.

Table 21 - Monnalisa, peer group absolute performance

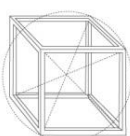
	1D	1W	1M	3M	6M	YTD	1Y
Brunello Cucinelli SpA	2.4	6.5	(8.7)	(14.5)	10.0	12.4	7.1
Burberry Group PLC	0.2	4.2	(14.5)	(17.4)	(5.5)	(2.8)	(9.4)
Hugo Boss AG	1.1	4.5	(9.9)	(19.5)	(20.2)	(12.5)	(19.2)
Kering SA	(1.4)	6.5	(18.2)	(17.5)	(15.6)	3.0	2.0
Michael Kors Holdings Ltd	(0.7)	(5.6)	(17.3)	(18.1)	(17.7)	(13.2)	12.0
Moncler SpA	1.3	3.3	(21.8)	(19.9)	(19.3)	15.8	24.5
Prada SpA	1.1	1.1	(21.1)	(27.1)	(32.3)	(2.1)	2.6
Ralph Lauren Corp	0.2	2.6	0.9	(2.9)	22.6	26.4	42.8
Salvatore Ferragamo SpA	(0.9)	1.5	3.1	5.3	(15.0)	(5.9)	(6.4)
Tod's SpA	1.3	2.9	(5.4)	(1.7)	(16.3)	(12.0)	(5.6)
Median	0.6	3.1	(12.2)	(17.4)	(15.9)	(2.5)	2.3
Monnalisa SpA	(1.9)	(5.5)	(19.7)	(25.7)	n.a.	n.a.	n.a.

Source: Thomson Reuters Eikon

10.4. 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.

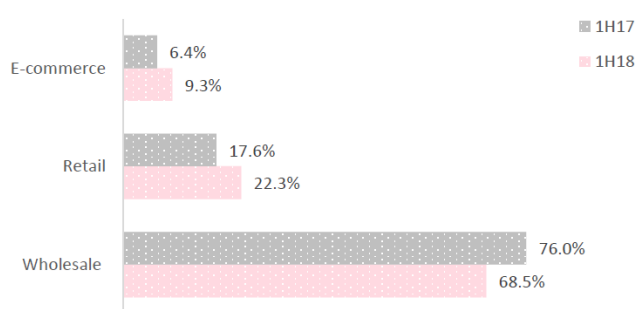


The company at a glance

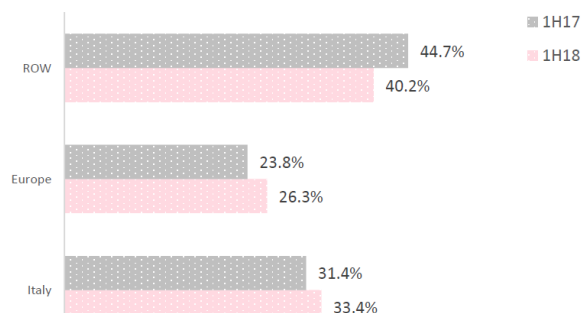
Founded in 1968 by Piero Iacomoni and Barbara Bertocci in the fashion and creative centre of Italy, Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands. The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete range of products from apparel to footwear, from accessories to cosmetics and furniture. At the end of H1-18, Monnalisa acts worldwide in 64 countries through 102 monobrand stores (of which 38 direct stores) and 750+ multibrand stores. The company sells via three distribution channels:

- Wholesale, 68.5% of top line in H1-18. 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).
- Directly operated stores, 22% of top line. Monnalisa sells directly to the final customer through its directly owned stores: Directly Operated Stores (DOS) and Directly Operated Outlets (DOO), currently totalling 38 stores.
- E-commerce, 9% of top line. Monnalisa sells its products online through its own monobrand online boutique and thanks to 6 multibrand online marketplaces.

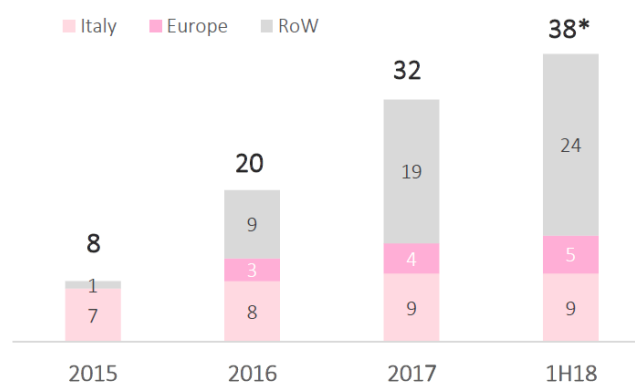
H1-18 vs H1-17 channel contribution...



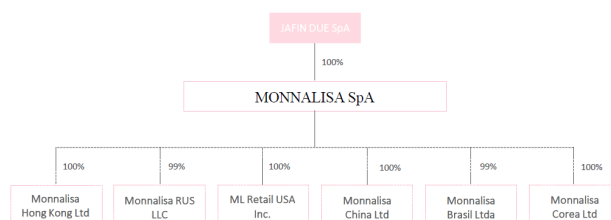
... and revenues by geography



2015-H1 18 retail evolution



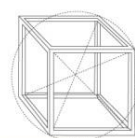
Group structure



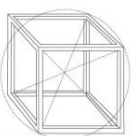
Peers group multiples table

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	3.38	3.05	21.4	19.2	17.0	29.2	26.0	23.2
Burberry Group PLC	2.32	2.23	2.06	10.7	10.0	8.9	14.1	13.2	11.6
Hugo Boss AG	1.58	1.49	1.41	8.9	8.1	7.5	13.0	11.5	10.5
Kering SA	3.66	3.21	2.79	11.4	9.8	8.3	12.8	11.0	9.3
Michael Kors Holdings Ltd	1.67	1.43	1.31	7.5	6.3	5.8	9.2	7.7	7.1
Moncler SpA	5.17	4.40	3.81	15.1	12.7	10.9	17.3	14.6	12.4
Prada SpA	2.41	2.21	2.06	12.0	10.1	8.9	18.4	14.7	12.5
Ralph Lauren Corp	1.54	1.51	1.48	9.7	9.2	8.7	13.7	12.8	11.9
Salvatore Ferragamo SpA	2.48	2.34	2.19	15.4	13.2	11.6	21.7	18.0	15.5
Tod's SpA	1.81	1.72	1.61	11.1	10.0	9.0	16.0	13.9	12.5
Median	2.36	2.22	2.06	11.2	10.0	8.9	15.0	13.6	12.1
Monnalisa SpA	0.95	0.87	0.69	6.0	5.3	3.9	9.9	9.4	6.1

Source: CFO Sim, Thomson Reuters Eikon



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Income statement (€ m)	2016	2017	2018e	2019e	2020e
Revenues	40.5	47.7	52.3	57.6	67.9
COGS	(18.6)	(19.8)	(22.0)	(22.4)	(24.6)
Gross Profit	21.9	27.9	30.3	35.1	43.3
Selling & distr exp.	(2.0)	(1.8)	(2.0)	(2.9)	(3.7)
Adv & promotions	(1.5)	(1.1)	(1.2)	(1.6)	(1.9)
General & Adm ex.	(12.4)	(15.9)	(17.7)	(20.2)	(23.8)
Others	(3.3)	(5.6)	(5.2)	(5.8)	(6.8)
EBIT	2.7	3.6	4.1	4.7	7.1
Financial costs & other	(0.2)	(1.2)	(0.4)	(0.4)	(0.4)
Pre-Tax profit	2.5	2.4	3.7	4.4	6.7
Income taxes	(0.6)	(0.9)	(1.0)	(1.2)	(1.8)
Net Profit	1.9	1.6	2.7	3.2	4.9
D&A	(1.5)	(2.3)	(3.2)	(4.2)	(4.2)
EBITDA	4.2	5.9	7.3	8.9	11.3
EBITDA adj.	4.2	7.6	8.2	9.5	12.0
EBIT adj.	2.7	5.3	5.0	5.3	7.8
Net Profit adj.	1.9	2.8	3.3	3.6	5.3
Balance sheet (€ m)	2016	2017	2018e	2019e	2020e
Net Working Capital	14.4	17.8	18.1	19.4	19.9
Net Fixed Assets	16.7	19.4	23.8	26.0	26.1
Equity Investments	1.3	1.5	1.5	1.5	1.5
Other M/L Term A/L	(2.8)	(1.2)	(0.9)	(0.5)	0.4
Net Invested Capital	29.5	37.4	42.4	46.3	47.9
Net Financial Position	2.1	8.2	(5.0)	(4.3)	(7.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	27.4	29.2	47.4	50.6	55.5
Net Financial Position & Equity	29.5	37.4	42.4	46.3	47.9
Cash Flow statement (€ m)	2016	2017	2018e	2019e	2020e
Total net income	1.9	2.3	2.7	3.2	4.9
Depreciation	1.5	2.3	3.2	4.2	4.2
Other non-cash charges	(2.5)	(2.1)	(0.3)	(0.4)	(0.9)
Cash Flow from Oper. (CFO)	1.0	2.4	5.6	7.0	8.2
Change in NWC	(0.0)	(3.4)	(0.3)	(1.3)	(0.5)
FCF from Operations (FCFO)	1.0	(0.9)	5.3	5.6	7.7
Net Investments (CFI)	(7.0)	(4.9)	(7.7)	(6.4)	(4.4)
Free CF to the Firm (FCFF)	(6.1)	(5.8)	(2.3)	(0.7)	3.3
CF from financials (CFF)	4.0	4.6	16.7	1.4	2.7
Free Cash Flow to Equity (FCFE)	(2.0)	(1.2)	14.4	0.7	6.0
Financial ratios	2016	2017	2018e	2019e	2020e
Gross Profit margin	54.2%	58.6%	57.9%	61.0%	63.7%
EBITDA margin	10.3%	12.3%	14.0%	15.5%	16.7%
EBIT margin	6.7%	7.6%	7.9%	8.2%	10.5%
Net profit margin	4.8%	3.3%	5.2%	5.5%	7.2%
Tax rate	29.5%	57.5%	37.0%	37.0%	37.0%
Op. NWC/Sales	35.6%	37.2%	36.1%	33.5%	27.4%
Interest coverage x	0.07	0.32	0.10	0.08	0.06
Net Debt/EBITDA x	0.50	1.40	(0.68)	(0.48)	(0.67)
Debt-to-Equity x	0.08	0.28	(0.11)	(0.08)	(0.14)
ROIC	9.1%	9.7%	9.7%	10.2%	14.8%
ROCE	7.2%	9.7%	5.6%	7.4%	11.9%
ROACE	8.0%	10.5%	6.6%	7.7%	12.5%
ROE	7.1%	5.3%	5.7%	6.3%	8.8%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2016	2017	2018e	2019e	2020e
Number of issued ordinary 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 reported €	0.37	0.30	0.52	0.61	0.93
EPS adjusted €	0.37	0.54	0.64	0.69	1.02
EBITDA €	0.80	1.12	1.40	1.71	2.16
EBITDA adjusted €	0.80	1.44	1.57	1.82	2.29
EBIT €	0.52	0.69	0.79	0.91	1.36
BV €	5.24	5.58	9.06	9.66	10.59
FCFO €	0.18	(0.18)	1.02	1.08	1.47
FCFF €	(1.16)	(1.11)	(0.45)	(0.14)	0.63
FCFE €	(0.39)	(0.22)	2.74	0.12	1.15
Dividend €	0.00	0.00	0.00	0.00	0.00



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DATE	TARGET PRICE	RATING
31/10/2018	€15.50	BUY

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