

Italy – Fashion

An investment waiting game

10th October 2019

H1-19 RESULTS RELEASE

RIC: MONNA.MI
BBG: MNL IM

Monnalisa reported flat top line and margin down YoY. The drop in wholesale was not counterbalanced by the increase in retail sales. Profitability is still impacted by the massive investment plan aimed at developing the retail channel, which still erodes margin in the short term.

Rating:

Neutral (Buy)

Price Target:

€ 7.80 (12.00)

Upside/(Downside): 0.0%

Last Price: € 7.80

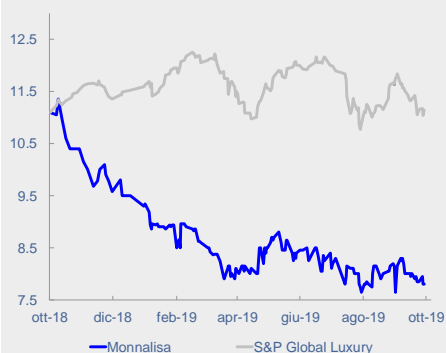
Market Cap.: € 40.8

1Y High/Low: € 11.35 / € 7.65

Free Float: 25.5%

Major shareholders:

Jafin Due 74.5%



Stock price performance

	1M	3M	12M
Absolute	2.0%	-6.0%	-2.8%
Rel.to AIM Italia	7.5%	9.3%	-14.2%
Rel.to Sector	7.1%	0.5%	-28.3%

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Estimates cut, new PT € 7.80/s (€ 12.00), rating downgraded to Neutral (Buy)

Interim numbers showed 1) soaring retail revenues, supported by the massive opening plan, 2) decreasing wholesale, 3) profitability drop stemming from the huge amount of DOS in a start-up phase and 4) higher than anticipated closings. We have revised our model factoring in: 1) a top line downgrade, 2) a fine tuning of the costs structure related to the new openings/closings, 3) an increase in expected closings in 2019 from 3 to 9 and 4) a move forward of 4 openings now expected in 2019 rather than 2020. The result is a 7.5%, 21.1% and 43.0% average downgrade in Revenues, EBITDA adj. and Net Profit adj. in 2019-21. We have updated our PT to € 7.80 (€ 12.00) based on a market multiple comparison, corresponding to an implied 10.1x EV/EBITDA_{19e} vs. 12.0x of peers. The new PT is broadly in line with current price: rating downgraded to Neutral (Buy).

Revenues at € 24.6m: Retail up 27%, Wholesale down 10%

Revenues were € 24.6m, down 1.5% YoY. Retail accounted for 29% of net revenues (22% in H1-18), mainly thanks to the new openings abroad (US, UK and Europe). Wholesale accounted for 68% of net revenues (75% in H1-18). Wholesale decline was mainly due to: 1) a temporary stuck situation in Japan: Monnalisa interrupted the partnership with the local importer with the aim to directly enter the market with a retail sales network; 2) Harrods became a retail store, consequently the revenues coming from this store are accounted in the Retail, but with a different time impact ; 3) the anticipation of high share summer collection deliveries to shops happened in Dec-18 instead of the first months of 2019 and 4) a one-off extraordinary sale of € 0.8m occurred in H1-18.

EBITDA at € 1.9m, down 16.4%, 7.1% margin

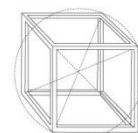
EBITDA dropped by 16.4% to € 1.9m, 7.1% margin. Profitability is still impacted by the huge amount of shops in a start-up phase: 3/4 of retail revenues still comes from shops that have been opened for less than 3 years. According to Monnalisa, EBITDA adjusted by one-off costs, mainly related to the openings/closings of DOS, was € 2.8m, 10.4% margin vs. € 3.3m, 13.0% margin in H1-18. Net profit was recorded negative at € 0.1m vs. € 0.6m positive last year. NFP was € 0.1m debt vs. € 2.3m cash at end-18, after capex of € 2.5m.

Continuation of the retail expansion strategy

Monnalisa is continuing its strategy to boost corporate retail sales, opening new DOS/DOO in Italy and abroad. At 30-Jun direct stores were 47, +23% vs. H1-18. Furthermore, Monnalisa opened a flagship store on Tmall, the B2C platform of Alibaba. The partnership with Alibaba, leading mobile and online marketplace, allows Monnalisa to strength its presence in the Chinese market thanks to an excess of 650 million active users on Tmall.

Monnalisa, key financials and ratios

€ m	2017	2018	2019e	2020e	2021e
Sales	47.0	49.1	49.3	52.8	59.0
EBITDA adj.	7.6	7.3	5.5	6.1	8.3
EBITDA	6.8	5.3	4.1	5.4	7.9
EBIT	4.1	2.1	0.4	1.6	4.0
Net profit adj.	2.9	2.8	1.1	1.5	3.0
Net profit	2.2	1.3	(0.0)	0.9	2.7
NFP (cash)/debt	8.2	(2.3)	0.3	(1.1)	(5.3)
EBITDA margin	13.3%	10.1%	8.1%	10.1%	13.1%
EPS adj. FD	0.55	0.53	0.21	0.28	0.57
EPS adj. FD growth	-	-3.4%	-61.0%	36.2%	101.5%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
ROCE	9.2%	3.4%	0.6%	2.5%	5.7%
NWC/Sales	35.7%	40.4%	45.4%	44.7%	41.6%
Free Cash Flow Yield	-	-17.8%	-6.1%	3.1%	9.6%
PER x	-	14.6	37.4	27.5	13.6
EV/Sales x	-	0.78	0.83	0.75	0.60
EV/EBITDA x	-	7.2	10.1	7.3	4.5
EV/EBIT x	-	18.0	107.4	24.7	8.9



Mixed H1-19 results: Retail up, Wholesale down

Monnalisa reported flat top line and margin down YoY. The retail sales were up 27%, driven by new DOS openings. The wholesale business dropped by 10%. Profitability is still impacted by the massive investment plan aimed at developing the retail channel, which still erodes margin in the short term but will bring higher returns in the long-term.

Table 1 – Monnalisa, H1-18 results summary

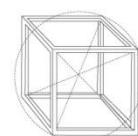
€ m	H1-19	H1-18	% YoY
Net Revenues	24.6	24.9	(1.5)
Increase in finished products	1.8	(0.4)	
Other revenues	0.8	1.0	
Total Revenues	27.2	25.5	6.7
Raw material and processing	(6.9)	(7.2)	
Services	(9.3)	(8.1)	
Personnel expenses	(5.8)	(5.0)	
Other opex	(3.3)	(2.9)	
EBITDA	1.9	2.3	(16.4)
% margin	7.1	9.1	
D&A	(1.7)	(1.3)	
EBIT	0.3	1.0	n.m.
% margin	1.0	4.1	
Financials	(0.1)	(0.2)	
Extraordinary	(0.0)	0.0	
Pre-Tax profit	0.1	0.9	n.m.
% margin	0.4	3.5	
Income taxes	(0.2)	(0.2)	
Tax rate	207.3%	27.7%	
Minorities	0.0	0.0	
Net Profit	(0.1)	0.6	n.m.
% margin	(0.4)	2.5	
EBITDA adj.	2.8	3.3	(14.5)
% margin	10.4	13.0	
NFP (cash)/debt	0.1	12.7	n.m.

Source: Company data

Net revenues were € 24.6m, down 1.5% YoY. At constant FX, Retail contributed for € 7.0m, +27% YoY and Wholesale declined by 10% to € 16.7m (€ 18.6m in H1-18). 68% of revenues comes from abroad (65% in H1-18).

- **Retail** accounted for 29% of net revenues, vs. 22% in H1-18, thanks to new openings abroad (US, UK and Europe). As of last 30-Jun direct shops were 47, +23% vs. H1-18, with 8 new openings in the first six months of 2019 (4 DOS, 4 DOO).
- **Wholesale** accounted for 68% of net revenues, 75% in H1-18. The decline was mainly attributable to 1) a temporary stuck situation in Japan: Monnalisa interrupted the partnership with the local importer with the aim to directly enter the market with a retail sales network; 2) Harrods became a retail store, consequently the revenues coming from this store are accounted in the Retail division, but with a different time impact; 3) the anticipation of high share summer collection deliveries to shops happened in Dec-18 instead of the first months of 2019 and 4) a one-off extraordinary sale of some € 0.8m occurred in H1-18.

EBITDA dropped by 16.4% to € 1.9m, 7.1% margin. Profitability is still impacted by the huge amount of shops in a start-up phase: 3/4 of retail revenues still comes from shops that have only been opened for less than 3 years. According to Monnalisa, EBITDA adjusted by one-off costs, mainly related to the openings/closings of DOS, was € 2.8m, 10.4% margin (€ 3.3m, 13.0% margin in H1-18). **EBIT was € 0.3m**, vs. € 1.0m in H1-18, after D&A for € 1.7m. **Net Profit was recorded negative at € 0.1m** vs. € 0.6m positive last year.



Net Financial Position was € 0.1m debt (€ 2.3m cash at the end of 2018), after capex of € 2.5m, o/w € 0.9m for the openings of new shops and the remainder for the completion of the new headquarter/show-room.

Monnalisa is continuing its strategy to boost corporate retail sales, opening new DOS/DOO both in Italy and abroad. In particular, YTD, the new openings took place in London (UK – at Harrods), Barcelona (Spain – at El Cort Inglés), Fidenza (Italy – at Fidenza Outlet Village), Guam (USA), Istanbul (Turkey), Maasmechelen (Belgium), Bicester (UK), Taipei (Taiwan) and Recife (Brazil).

Furthermore, Monnalisa opened a **flagship store on Tmall, the B2C platform of Alibaba group.** The partnership with Alibaba, leading mobile and online marketplace, allows Monnalisa to strength its presence in the Chinese market thanks to the excess of 650 million active users on Tmall.

Table 2 – Monnalisa, revenues breakdown by channel at constant FX and current FX

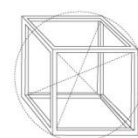
€ m	H1-19	H1-18	% YoY	€ m	H1-19	H1-18	% YoY
Retail	7.0	5.6	26.6	Retail	7.1	5.6	28.2
Wholesale	16.7	18.6	(10.3)	Wholesale	16.7	18.6	(10.5)
B2C	0.8	0.8	0.4	B2C	0.8	0.8	0.4
Total at constant FX	24.5	24.9	(1.7)	Total reported	24.6	24.9	(1.5)
% on total				% on total			
Retail	28.7	22.3		Retail	29.0	22.3	
Wholesale	68.2	74.7		Wholesale	67.9	74.7	
B2C	3.1	3.1		B2C	3.1	3.1	
Total at constant FX	100.0	100.0		Total reported	100.0	100.0	

Source: Company data

Table 3 – Monnalisa, revenues breakdown by geography at constant FX and current FX

€ m	H1-19	H1-18	% YoY	€ m	H1-19	H1-18	% YoY
Italy	7.7	8.8	(11.6)	Italy	7.7	8.8	(11.6)
Europe	6.7	6.1	9.1	Europe	6.7	6.1	9.1
RoW	10.1	10.0	0.2	RoW	10.1	10.0	0.7
Total at constant FX	24.5	24.9	(1.7)	Total reported	24.6	24.9	(1.5)
% on total				% on total			
Italy	31.6	35.1		Italy	31.6	35.1	
Europe	27.3	24.6		Europe	27.3	24.6	
RoW	41.0	40.2		RoW	41.1	40.2	
Total at constant FX	100.0	100.0		Total reported	100.0	100.0	

Source: Company data



Valuation & risks

H1-19 results showed 1) a strong increase in retail revenues, supported by the massive DOS/DOO openings plan, 2) a significant decrease of the wholesale channel, 3) a drop of the profitability stemming from the huge amount of DOS in a start-up phase, which still erodes margin in the short term and 4) higher than anticipated closings (4 in H1-19 vs. our estimate of 3 for FY-19). On the back of 2019 interim results, we have revised our model factoring in: 1) a **top line downgrade** mainly due to the weaker than anticipated performance of the wholesale channel, 2) a **fine tuning of the costs structure** related to the new openings/closings, 3) an **increase in expected closings in 2019** from 3 to 9 and 4) an **move of 4 new openings** previously expected in 2020 to 2019. **The result is a 7.5%, 21.1% and 43.0% average cut in Revenues, EBITDA adj. and Net Profit in 2019-21.**

We have updated our PT to € 7.80/s (€ 12.00) based on a market multiple comparison, applying a 25% size-discount mainly due to the smaller size, the low level stock liquidity on the back of the listing on the AIM Italia and to a certain extent, an increase in execution risk considering the H1-19 drop of the profitability, corresponding to an implied 10.1x EV/EBITDA_{19e} vs. 12.0x of peers. Monnalisa adopts Italian GAAP, whilst all of its peers report according to IFRS. In addition, following the effect of the application of the IFRS 16 principle, the comparison might not prove entirely successful.

We also used the DCF model with standard setting for a small-cap, including a cautious $g=1\%$. According to this methodology, we assess a valuation of € 50.5m (€ 9.60/s).

Following the sharp estimates slash, **the new PT does not offer upside at current prices: rating downgraded to Neutral (Buy)**. We think Monnalisa is an interesting long term story. However on short-medium term figures it is fairly priced. 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: +13.7% and 23.0% CAGR₁₈₋₂₁, vs. 6.3% of revenues. Net Profit is anticipated to show a 27.3% CAGR₁₈₋₂₁.

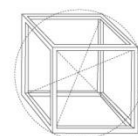
Market multiples

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 (43% of top line), North America (36% of top line), China (10% of top line) and RoW (11% of top line). Retail and Wholesale represent respectively 54% and 46% 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% of top line) and Americas region (23% of top line). Retail and Wholesale represent respectively 82% and 17% 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 (64% of top line), Europe (23% of top line) and Asia (13%). 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 (62% of top line), the Americas (20% of top line), and the Asia Pacific area (15%). Retail and Wholesale represent respectively 63% and 34% 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 (33% of top line), the Asia Pacific area (41% of top line), North America (20%), RoW (6%). Retail and Wholesale represent respectively 77% and 23% of the revenues.

Moncler SpA: Moncler S.p.A. manufactures apparel products. Moncler serves customers internationally, in particular in Asia and RoW (43%), EMEA (29%), the Americas (16%) and Italy (12%). Retail and Wholesale represent respectively 77% and 24% 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 (38% of top line), FarEast (33% of top line), the Americas (14%), Japan (11%) and RoW (3%). Retail and Wholesale represent respectively 82% and 18% 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 (52%), Europe (26%), Asia (15%) and Row (7%). 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 (38% of top line), Europe (25%), North America (23%), Japan (9%) and RoW (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 (30% of top line), Europe (26% of top line), China (22%), the Americas (8%) and RoW (14%). Retail and Wholesale represent respectively 65% and 35% of the revenues.

Among the not-listed companies, **Armani Junior** has revenues in the region of € 66m, 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**, 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 and possibly different accounting principles. In the peer group sample, the average of retail sales on the total business is close to 70%. **Monnalisa is set to close the gap in terms of EBITDA margin by increasing retail business weight** (which will grow from 25.1% in FY-18 to 42.9% in 2021). **Monnalisa shows 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.

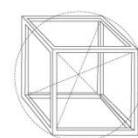




Table 5 - Monnalisa, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR ₁₇₋₂₀	EBITDA CAGR ₁₇₋₂₀	EBIT CAGR ₁₇₋₂₀	EPS CAGR ₁₈₋₂₀	NFP /EBITDA
Brunello Cucinelli SpA	ITALY	1,824	600	117	19.6%	8.3%	12.3%	8.9%	6.6%	0.2
Burberry Group PLC	UK	9,301	3,179	667	21.0%	4.1%	6.8%	6.4%	11.0%	(1.4)
Capri Holdings Ltd	USA	3,846	5,358	1,033	19.3%	7.7%	6.9%	6.6%	8.1%	1.5
Hugo Boss AG	GERMANY	3,117	2,899	586	20.2%	4.3%	10.0%	5.3%	10.0%	(0.0)
Kering SA	FRANCE	55,985	15,722	5,493	34.9%	10.2%	13.0%	12.2%	15.8%	0.4
Moncler SpA	ITALY	8,550	1,635	583	35.6%	13.1%	13.8%	12.5%	9.8%	(1.0)
Prada SpA	ITALY	6,914	3,214	691	21.5%	3.9%	13.2%	9.5%	5.4%	0.2
Ralph Lauren Corp	USA	6,356	5,884	948	16.1%	3.8%	6.1%	7.0%	7.5%	(0.9)
Salvatore Ferragamo SpA	ITALY	2,712	1,397	219	15.7%	4.4%	7.4%	9.3%	16.0%	(0.9)
Tod's SpA	ITALY	1,409	914	95	10.4%	1.0%	0.6%	-11.7%	89.2%	(0.2)
Median		5,101	3,039	626	19.9%	4.3%	8.7%	8.0%	9.9%	(0.1)
Monnalisa SpA	ITALY	41	49	4	8.3%	6.3%	13.7%	23.0%	65.6%	0.1

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	3.07	2.83	2.62	15.7	14.4	13.5
Burberry Group PLC	2.64	2.48	2.29	12.6	11.4	10.2
Capri Holdings Ltd	1.01	0.87	0.75	5.3	4.3	3.6
Hugo Boss AG	1.07	1.01	0.96	5.3	5.0	4.6
Kering SA	3.71	3.33	2.96	10.6	9.5	8.5
Moncler SpA	4.88	4.19	3.65	13.7	11.7	10.2
Prada SpA	2.20	2.21	2.07	10.2	9.7	9.1
Ralph Lauren Corp	0.94	0.92	0.89	5.8	5.5	5.3
Salvatore Ferragamo SpA	1.81	1.69	1.58	11.5	10.1	9.1
Tod's SpA	1.52	1.48	1.40	14.6	12.8	11.6
Median	2.00	1.95	1.83	11.1	9.9	9.1
Monnalisa SpA	0.83	0.75	0.60	10.1	7.3	4.5
% premium/(discount) to median	(58.4)	(61.4)	(67.1)	(9.2)	(26.1)	(50.3)

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	24.2	22.1	20.1	34.2	33.1	30.1
Burberry Group PLC	16.3	14.6	12.9	23.0	20.9	18.7
Capri Holdings Ltd	6.6	5.5	4.6	5.6	5.2	4.8
Hugo Boss AG	8.5	7.7	7.0	12.4	11.1	10.2
Kering SA	12.5	11.1	9.7	18.9	15.5	14.1
Moncler SpA	16.2	13.8	11.8	23.6	21.9	19.6
Prada SpA	22.4	19.9	16.8	27.1	28.6	24.3
Ralph Lauren Corp	7.9	7.4	7.1	11.5	10.8	9.9
Salvatore Ferragamo SpA	16.4	13.9	12.2	27.1	23.1	20.1
Tod's SpA	64.1	39.4	27.4	144.0	64.9	40.2
Median	16.3	13.9	12.0	23.3	21.4	19.1
Monnalisa SpA	107.4	24.7	8.9	37.3	27.4	13.6
% premium/(discount) to median	560.3	78.5	(26.0)	59.9	28.2	(29.0)

Source: CFO Sim, Thomson Reuters Eikon

Applying a 25% discount to peer multiples (mainly due the smaller size, the low level stock liquidity on the back of the listing on the AIM Italia and to a certain extent an increase in execution risk considering the FY-18 result miscue vs. our estimates) on peer average multiples for EV/EBITDA to Monnalisa metrics we attain an **equity value of Monnalisa of € 41.0m, or € 7.80/s**, in line with current prices, using 2019-21 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.**

As from 2020 we estimate a certain increase in margin expansion and free cash flow generation on the back of the aforementioned development of the retail channel.

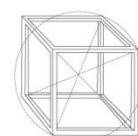


Table 8 - Monnalisa, equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Monnalisa metrics	49.3	52.8	59.0	4.1	5.4	7.9
Multiple, median	2.00	1.95	1.83	11.1	9.9	9.1
Enterprise Value	74.0	77.2	80.9	33.9	40.3	53.6
Net Financial Position	(0.3)	1.1	5.3	(0.3)	1.1	5.3
Pension Provisions	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Equity Value	72.1	76.7	84.5	32.0	39.8	57.2
Equity Value/share €	13.80	14.60	16.10	6.10	7.60	10.90

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	0.4	1.6	4.0	(0.0)	0.9	2.7
Multiple, median	16.3	13.9	12.0	23.3	21.4	19.1
Enterprise Value	4.7	16.7	36.0	(0.0)	15.0	38.3
Net Financial Position	(0.3)	1.1	5.3			
Pension Provisions	(1.6)	(1.6)	(1.6)			
Equity Value	2.8	16.2	39.6	(0.0)	15.0	38.3
Equity Value/share €	0.50	3.10	7.60	0.00	2.90	7.30

Source: CFO Sim, Thomson Reuters Eikon

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

€ m	FY1	FY2	FY3
Equity Value based on EV/EBITDA	32.0	39.8	57.2
Weighting	40.0%	35.0%	25.0%
EV/EBITDA	41.0		
Per share €	7.80		
% upside/(downside)	0.0%		

Source: CFO Sim, Thomson Reuters Eikon

DCF

In the valuation via the DCF method, we assess explicit estimates until 2023 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 11 - WACC derived from:

Interest costs, pre-tax	1.0%
Tax rate	26.0%
Int. costs, after taxes	0.7%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	1.20%
Beta levered (x)	1.02
Required ROE	10.4%

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.

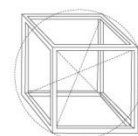


Table 12 - Monnalisa, DCF model

€ k	2019e	2020e	2021e	2022e	2023e	Term. Val.
EBIT	0.4	1.6	4.0	5.3	5.8	
Tax rate	26.0%	26.0%	26.0%	26.0%	26.0%	
Operating profit (NOPAT)	0.3	1.2	2.9	3.9	4.3	
Change working capital	(1.4)	(1.2)	(1.0)	(0.9)	(0.1)	
Depreciation	3.7	3.8	3.9	3.9	1.6	
Investments	(5.2)	(2.5)	(1.8)	(1.6)	(1.6)	
Free Cash Flows	(2.6)	1.3	4.0	5.3	4.3	57.5
Present value	(2.6)	1.2	3.4	4.1	3.0	40.7
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 13 – Monnalisa, DCF derived from:

€ m	
Total EV present value € m	49.8
thereof terminal value	81.8%
NFP last reported	2.3
Pension provision last reported	(1.6)
Equity value € m	50.5
#m shares	5.24
Equity value €/s	9.60
% upside/(downside)	23.1%

Source: CFO Sim

The outcome of our DCF model set up an equity value of € 50.5m for Monnalisa, 9.60/s.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value/s of between **€ 8.65-10.93/s (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 **€ 8.63-10.90/s (free risk range of between 2.30% and 0.20%)** and 3) compared to changes in the risk premium, including small size premium results into an equity value/s of **€ 7.75-12.59/s (risk premium range of between 11.00% and 7.00%)**.

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

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1
PV of terminal value	35.6	36.8	38.0	39.3	40.7	42.3	43.9	45.6	47.5
Total value	44.6	45.8	47.1	48.4	49.8	51.3	52.9	54.7	56.5
NFP last reported	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Pension provision last reported	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Equity value	45.3	46.5	47.7	49.1	50.5	52.0	53.6	55.3	57.2
Equity value/share €	8.65	8.88	9.12	9.37	9.60	9.93	10.24	10.57	10.93

Source: CFO Sim

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

€ m	0.20%	0.45%	0.70%	0.95%	1.20%	1.45%	1.70%	1.95%	2.20%
Present value of CF	9.3	9.2	9.2	9.1	9.1	9.0	8.9	8.9	8.8
PV of terminal value	47.1	45.3	43.7	42.2	40.7	39.4	38.1	36.9	35.7
Total value	56.4	54.6	52.9	51.3	49.8	48.4	47.0	45.7	44.5
NFP last reported	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Pension provision last reported	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Equity value	57.1	55.3	53.6	52.0	50.5	49.0	47.7	46.4	45.2
Equity value/share €	10.90	10.55	10.23	9.93	9.60	9.37	9.11	8.86	8.63

Source: CFO Sim

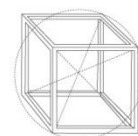


Table 16 – Monnalisa, equity value sensitivity to changes in risk premium

€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	9.6	9.4	9.3	9.2	9.1	8.9	8.8	8.7	8.6
PV of terminal value	55.6	51.2	47.2	43.8	40.7	38.0	35.6	33.4	31.4
Total value	65.2	60.6	56.6	53.0	49.8	46.9	44.4	42.0	39.9
NFP last reported	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Pension provision last reported	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Equity value	65.9	61.3	57.2	53.7	50.5	47.6	45.0	42.7	40.6
Equity value/share €	12.59	11.70	10.93	10.25	9.60	9.09	8.60	8.16	7.75

Source: CFO Sim

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 17 - Monnalisa, peer group absolute performance

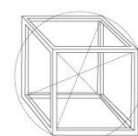
	1D	1W	1M	3M	6M	YTD	1Y
Brunello Cucinelli SpA	(1.2)	(4.5)	(6.0)	(11.4)	(13.3)	(9.2)	(15.9)
Burberry Group PLC	(1.0)	(3.9)	(7.1)	4.6	4.8	16.7	9.6
Capri Holdings Ltd	(3.2)	(11.2)	(11.1)	(18.6)	(42.5)	(26.4)	(59.0)
Hugo Boss AG	(4.3)	(9.5)	(15.9)	(22.0)	(25.9)	(17.5)	(31.3)
Kering SA	(1.5)	(3.3)	(2.6)	(16.0)	(15.3)	6.6	4.4
Moncler SpA	(0.5)	0.7	(7.7)	(14.8)	(9.4)	12.6	(6.6)
Prada SpA	3.8	2.0	(4.3)	(8.0)	0.9	(9.1)	(31.7)
Ralph Lauren Corp	(1.7)	(1.7)	(8.8)	(18.6)	(28.6)	(13.0)	(29.7)
Salvatore Ferragamo SpA	(2.0)	(5.3)	(11.5)	(23.5)	(16.9)	(9.5)	(17.9)
Tod's SpA	(1.8)	(5.2)	(8.3)	1.8	1.4	3.1	(18.2)
Median	(1.6)	(4.2)	(8.0)	(15.4)	(14.3)	(9.1)	(18.0)
Monnalisa SpA	(1.9)	(1.9)	(4.3)	(5.5)	(3.7)	(17.9)	(31.0)

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.

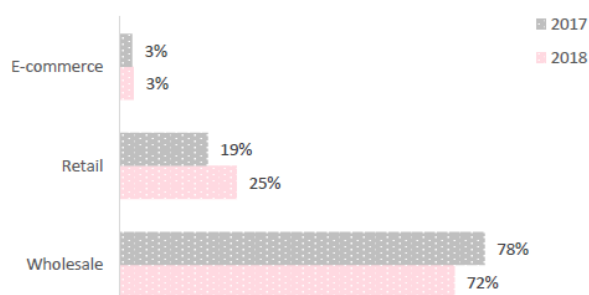


The company at a glance

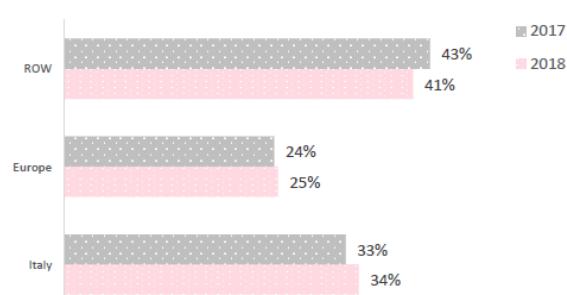
Founded in 1968 by Piero Iacomoni and Barbara Bertocci in the fashion and creative centre of Italy, Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands. The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete range of products from apparel to footwear, from accessories to cosmetics and furniture. At the end of 2018, Monnalisa acted worldwide in more than 60 countries through 42 direct stores and over 750 multibrand stores. The company sells via three distribution channels:

- Wholesale, 72% of top line in FY-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 – TSPIS).
- Retail, 25% 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 42 stores at end-18.
- 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.

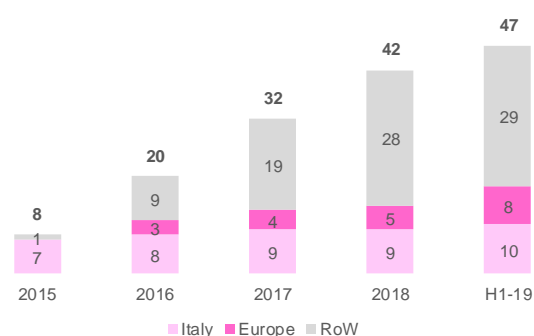
FY-18 vs FY-17 channel contribution...



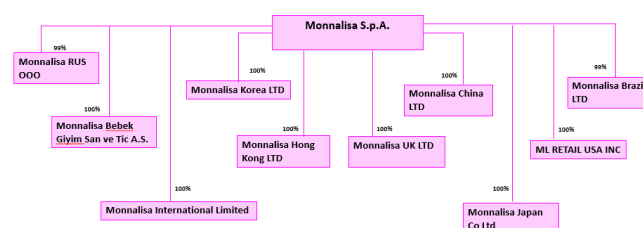
... and revenues by geography



2015/H1-19 retail evolution



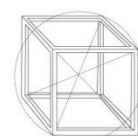
Group structure



Peers group multiples table

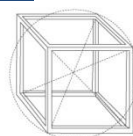
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Brunello Cucinelli SpA	3.07	2.83	2.62	15.7	14.4	13.5	24.2	22.1	20.1
Burberry Group PLC	2.64	2.48	2.29	12.6	11.4	10.2	16.3	14.6	12.9
Capri Holdings Ltd	1.01	0.87	0.75	5.3	4.3	3.6	6.6	5.5	4.6
Hugo Boss AG	1.07	1.01	0.96	5.3	5.0	4.6	8.5	7.7	7.0
Kering SA	3.71	3.33	2.96	10.6	9.5	8.5	12.5	11.1	9.7
Moncler SpA	4.88	4.19	3.65	13.7	11.7	10.2	16.2	13.8	11.8
Prada SpA	2.20	2.21	2.07	10.2	9.7	9.1	22.4	19.9	16.8
Ralph Lauren Corp	0.94	0.92	0.89	5.8	5.5	5.3	7.9	7.4	7.1
Salvatore Ferragamo SpA	1.81	1.69	1.58	11.5	10.1	9.1	16.4	13.9	12.2
Tod's SpA	1.52	1.48	1.40	14.6	12.8	11.6	64.1	39.4	27.4
Median	2.00	1.95	1.83	11.1	9.9	9.1	16.3	13.9	12.0
Monnalisa SpA	0.83	0.75	0.60	10.1	7.3	4.5	107.4	24.7	8.9

Source: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2017	2018	2019e	2020e	2021e
Sales	47.0	49.1	49.3	52.8	59.0
Value of Production	51.4	52.7	50.2	53.7	60.1
Raw material and processing	(15.6)	(14.4)	(13.0)	(13.4)	(14.4)
Services	(16.2)	(16.2)	(16.1)	(16.6)	(17.4)
Personnel expenses	(8.7)	(10.6)	(11.9)	(13.4)	(15.0)
Other opex	(4.1)	(6.2)	(5.0)	(4.8)	(5.4)
EBITDA	6.8	5.3	4.1	5.4	7.9
D&A	(2.8)	(3.2)	(3.7)	(3.8)	(3.9)
EBIT	4.1	2.1	0.4	1.6	4.0
Financials	(0.9)	(0.4)	(0.4)	(0.3)	(0.4)
Re/(Devaluation) of financial 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	3.1	1.7	(0.0)	1.3	3.6
Income taxes	(0.9)	(0.4)	0.0	(0.3)	(0.9)
Minorities	(0.0)	(0.0)	0.0	0.0	0.0
Net Profit	2.2	1.3	(0.0)	0.9	2.7
EBITDA adj.	7.6	7.3	5.5	6.1	8.3
Net Profit adj.	2.9	2.8	1.1	1.5	3.0
Balance sheet (€ m)	2017	2018	2019e	2020e	2021e
Net Working Capital	18.3	21.3	22.8	24.0	25.0
Net Fixed Assets	17.9	23.6	25.0	23.7	21.6
Equity Investments	0.0	0.0	0.0	0.0	0.0
Other M/L Term A/L	1.2	0.2	(0.1)	(0.5)	(0.9)
Net Invested Capital	37.4	45.1	47.7	47.2	45.7
Net Financial Debt	8.2	(2.3)	0.3	(1.1)	(5.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	29.2	47.4	47.4	48.3	51.0
Financial Liabilities & Equity	37.4	45.1	47.7	47.2	45.7
Cash Flow statement (€ m)	2017	2018	2019e	2020e	2021e
Total net income	2.2	1.3	(0.0)	0.9	2.7
Depreciation	2.8	3.2	3.7	3.8	3.9
Other non-cash charges	(2.5)	(0.0)	0.4	0.2	0.1
Cash Flow from Oper. (CFO)	2.5	4.5	4.1	5.0	6.7
Change in NWC	(3.9)	(3.0)	(1.4)	(1.2)	(1.0)
FCF from Operations (FCFO)	(1.5)	1.5	2.7	3.7	5.7
Net Investments (CFI)	(4.9)	(8.8)	(5.2)	(2.5)	(1.8)
Free CF to the Firm (FCFF)	(6.3)	(7.3)	(2.5)	1.2	3.9
CF from financials (CFF)	5.1	18.0	(0.7)	0.9	1.6
Free Cash Flow to Equity (FCFE)	(1.2)	10.8	(3.1)	2.2	5.5
Financial ratios	2017	2018	2019e	2020e	2021e
EBITDA margin	13.3%	10.1%	8.1%	10.1%	13.1%
EBITDA adj. margin	14.7%	13.8%	10.9%	11.4%	13.8%
EBIT margin	7.9%	4.1%	0.8%	3.0%	6.6%
Net profit margin	4.4%	2.4%	0.0%	1.7%	4.4%
Net profit adj. margin	5.6%	5.3%	2.2%	2.8%	5.0%
Tax rate	28.4%	24.5%	26.0%	26.0%	26.0%
Op NWC/Sales	35.7%	40.4%	45.4%	44.7%	41.6%
Interest coverage x	0.23	0.21	1.01	0.21	0.10
Net Debt/EBITDA x	1.20	(0.43)	0.07	(0.20)	(0.67)
Debt-to-Equity x	0.28	(0.05)	0.01	(0.02)	(0.10)
ROIC	6.0%	2.9%	0.0%	2.0%	5.8%
ROCE	9.2%	3.4%	0.6%	2.5%	5.7%
ROACE	10.0%	4.0%	0.6%	2.5%	5.9%
ROE	7.7%	2.7%	0.0%	1.9%	5.2%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2017	2018	2019e	2020e	2021e
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 €	0.43	0.25	(0.00)	0.18	0.51
EPS adjusted FD €	0.55	0.53	0.21	0.28	0.57
EBITDA €	1.30	1.02	0.78	1.03	1.50
EBIT €	0.78	0.41	0.07	0.31	0.76
BV €	5.58	9.05	9.05	9.23	9.74
FCFO €	(0.28)	0.28	0.51	0.71	1.08
FCFF €	(1.21)	(1.39)	(0.47)	0.24	0.74
FCFE €	(0.23)	2.06	(0.60)	0.41	1.05
Dividend €	0.00	0.00	0.00	0.00	0.00



ANALYST CERTIFICATION

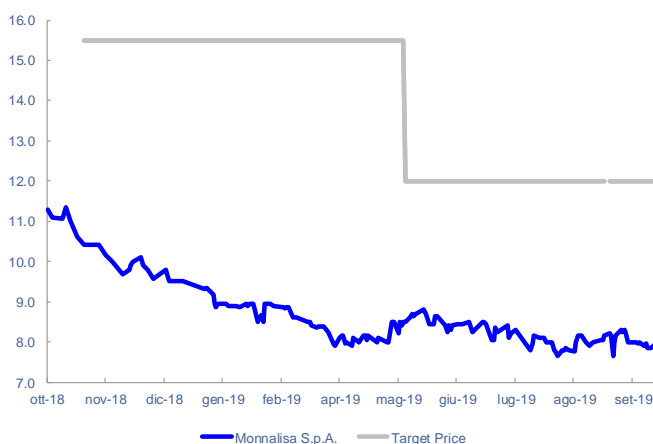
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DATE	TARGET PRICE	RATING
10/10/2019	€7.80	NEUTRAL
10/05/2019	€12.00	BUY
31/10/2018	€15.50	BUY

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

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

