

Italy – Fashion

Retail grows, Wholesale drops, EBITDA turns in red

9th March 2020

PRELIMINARY FY-19

RIC: MONNA.MI
BBG: MNL IM

Monnalisa announced weak preliminary FY-19 results, impacted by the drop in Wholesales which is not yet counterbalanced by the increase in the Retail business, the latter still impacted by relevant start-up/new opening costs. EBITDA is projected negative

Rating:

NEUTRAL

Price Target:

U.R. (€ 7.80)

Upside/(Downside): -

Last Price: € 4.00

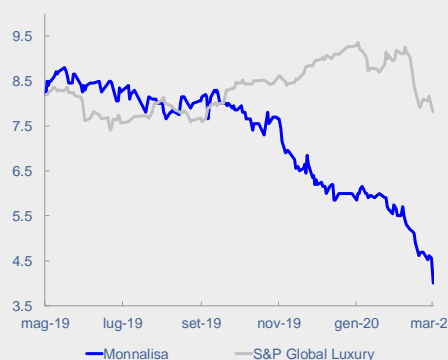
Market Cap.: € 20.9

1Y High/Low: € 8.90 / €4.00

Free Float: 25.2%

Major shareholders:

Jafin Due 74.5%



Stock price performance

	1M	3M	12M
Absolute	-27.3%	-35.5%	-53.5%
Rel.to AIM Italia	-16.1%	-22.3%	-34.2%
Rel.to Sector	-14.6%	-26.8%	-53.2%

Analysts:

Luca Arena
+39 02 30343 395
luca.arena@cfosim.com

Gianluca Mozzali
+39 02 30343 396
gianluca.mozzali@cfosim.com

FY-19 sales down by some 3% YoY

Monnalisa announced 2019 preliminary revenues at some € 48m, down 3% YoY. The figure is lower than the € 49.3m CFO SIM estimate. The Retail revenues (1/3 of total sales) soared by 26%, driven by new DOS openings. Monnalisa is continuing its strategy to boost corporate retail sales, opening new DOS/DOO in Italy and abroad. 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 Wholesale turnover dropped by 12% YoY and represented 2/3 of consolidated revenues. The division was impacted by the downturn of childrenswear market in multibrand stores, mainly in Europe and Russia in addition to political instability in a few Middle Eastern markets, relevant for the group. Furthermore, the temporary stuck situation in Japan seems to persist: Monnalisa interrupted the partnership with the local importer with the aim to directly enter the market with a retail sales network. In addition, as highlighted in H1-19 results, division revenues were negatively impacted by: 1) Harrods became a retail store, consequently the revenues coming from this store are accounted in the Retail division, but with a different time impact; 2) the anticipation of high share summer collection deliveries to shops happened in Dec-18 instead of the first months of 2019 and 3) a one-off extraordinary sale of some € 0.8m occurred in H1-18.

2019 EBITDA anticipated in red

The management expects EBITDA to turn into negative in 2019, materially lower than our € 4.1m positive projection, because of 1) the higher than anticipated decrease of Wholesale revenues, 2) the increase in COGS HoH and vs. estimates and 3) the profitability drain of the recently opened shops. Last but not least, the social-political situation in Hong Kong, where Monnalisa runs 3 DOS, negatively affected the retail channel profitability. Returns were impacted by the massive development plan. However, we estimate only 14 out of 48 have been operating for more than three years and only 21 for at least 2 years. The youth of the Monnalisa DOS structure explains the still cash-draining contribution to group profitability.

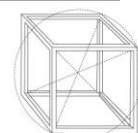
Estimates and PT under review: surfing on sight in the short term

On the back of FY-19 weaker than anticipated operating performance and the plummeting visibility on the current business scenario, we put under revision estimates and price target. We believe Coronavirus plague is and will certainly be affecting the operating structure and childrenswear consumption outlook in the short term.

Monnalisa is set to unveil FY-19 results next 30-March

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	-	-34.8%	-11.8%	6.0%	18.6%
PER x	-	7.5	19.2	14.1	7.0
EV/Sales x	-	1.23	0.43	0.38	0.27
EV/EBITDA x	-	11.3	5.2	3.7	2.0
EV/EBIT x	-	28.3	55.6	12.4	3.9



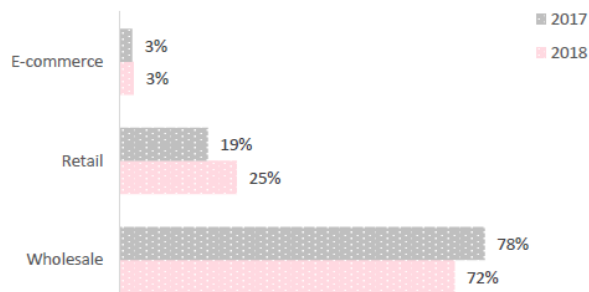


The company at a glance

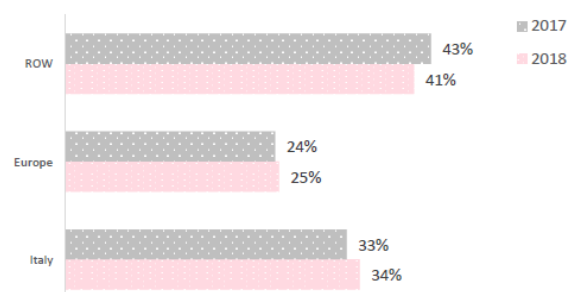
Founded in 1968 by Piero Iacomoni and Barbara Bertocci in the fashion and creative centre of Italy, Monnalisa is specialised in high-end childrenswear (0-16 years) through its own proprietary brands. The philosophy of Monnalisa is the creation of a lifestyle identity, offering a complete range of products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

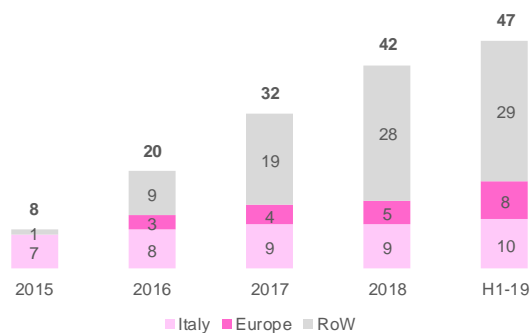
FY-18 vs FY-17 channel contribution...



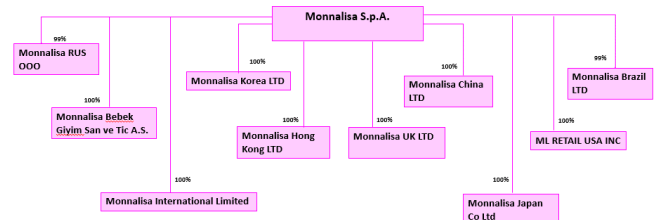
... and revenues by geography



2015/H1-19 retail evolution



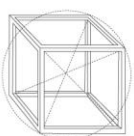
Group structure



Peers group multiples table

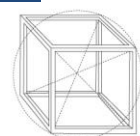
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Brunello Cucinelli SpA	3.32	3.09	2.85	14.5	13.6	12.3	25.3	23.9	21.4
Burberry Group PLC	2.11	1.97	1.86	11.2	9.3	8.8	14.1	11.8	10.5
Capri Holdings Ltd	0.93	0.81	0.69	5.2	4.2	3.6	6.8	5.5	4.6
Hugo Boss AG	1.00	0.86	0.88	4.7	3.9	3.8	8.7	7.1	7.1
Kering SA	3.82	3.29	2.99	10.9	9.2	8.3	12.9	10.9	9.8
Moncler SpA	4.51	3.90	3.60	11.9	10.2	9.0	15.3	13.0	11.6
Prada SpA	2.21	2.16	2.04	9.1	8.8	8.2	23.1	21.6	17.5
Ralph Lauren Corp	1.01	1.03	0.98	6.3	6.2	5.8	8.7	8.4	7.7
Salvatore Ferragamo SpA	1.37	1.32	1.24	7.3	7.1	6.4	13.1	12.5	10.7
Tod's SpA	1.04	1.25	0.83	10.7	11.7	8.0	62.7	58.7	21.9
Median	1.74	1.65	1.55	9.9	9.0	8.1	13.6	12.1	10.6
Monnalisa SpA	0.43	0.38	0.27	5.2	3.7	2.0	55.6	12.4	3.9

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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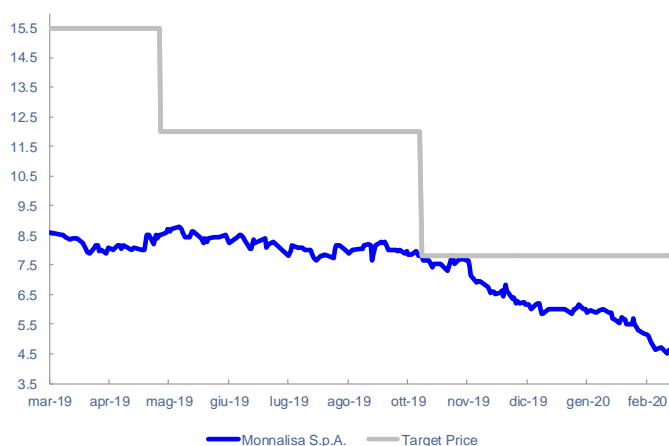
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DATE	TARGET PRICE	RATING
09/03/2020	U.R.	NEUTRAL
10/10/2019	€7.80	NEUTRAL
10/05/2019	€12.00	BUY
31/10/2018	€15.50	BUY

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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.

