Adolfo Domínguez

EQUITY - SPAIN
Sector: Cyclical goods - Apparel retail

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Adolfo Domínguez S.A. is a small designer fashion textile group, based in Ourense (Spain), specialising (c. 40 years) in the design and sale (both retail and wholesale) of fashion items. With international presence (35% o/revenues), it is managed by the founding family (31% of the capital), which prevails in the Board.

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Market Data

Market Cap (Mn EUR and USD)	68.3	75.6
EV (Mn EUR and USD) [1]	52.9	58.6
Shares Outstanding (Mn)	9.3	
-12m (Max/Med/Mín EUR)	8.64 / 7.33 / 6.50	
Daily Avg volume (-12m Mn EUR)	0.03	
Rotation[2]	10.3	
Thomson Reuters / Bloomberg	ADZ.MC / ADZ SM	
Close fiscal year	28-Feb	

Shareholders Structure (%)

Founders and Board	31.5
Other Relevant Shareholders	20.4
Board Members	14.8
Libertas 7	10.3
Free Float	23.0

Financials (Mn EUR)	2018	2019e	2020e	2021e
Adj. nº shares (Mn)	9.2	9.2	9.2	9.2
Total Revenues	114.9	115.7	118.3	121.5
Rec. EBITDA[3]	2.5	10.1	11.5	12.6
% growth	*212.4*	*306.2*	*14.3*	*9.1*
% Rec. EBITDA/Rev.	*2.2*	*8.7*	*9.7*	*10.3*
% Inc. EBITDA sector[4]	*6.3*	*16.5*	*6.9*	*13.8*
Net Profit	-0.5	-0.1	1.0	1.5
EPS (EUR)	n.a.	n.a.	0.11	0.17
% growth	*n.a.*	*n.a.*	*n.a.*	*50.8*
Ord. EPS (EUR)	0.07	0.02	0.11	0.17
% growth	*n.a.*	*-70.1*	*442.7*	*50.8*
Rec. Free Cash Flow[5]	0.2	-1.6	0.3	0.6
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	-12.0	-10.4	-10.7	-11.3
ND/Rec. EBITDA (x)	-4.8	-1.0	-0.9	-0.9
ROE (%)	*n.a.*	*n.a.*	*1.9*	*2.8*
ROCE (%)[6]	*n.a.*	*1.7*	*2.4*	*3.1*

Ratios & Multiples (x)[7]				
P/E	n.a.	n.a.	67.0	44.5
Ord. P/E	n.a.	n.a.	67.0	44.5
P/BV	1.3	1.3	1.3	1.2
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	0.46	0.46	0.45	0.44
EV/Rec. EBITDA	21.3	5.2	4.6	4.2
FCF Yield (%)[5]	*0.3*	*n.a.*	*0.5*	*0.9*

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

(1) Please refer to Appendix 3.
(2) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 8.1Mn higher due to IFRS 16..
(4) Sector: Eurostoxx 600 Retail.
(5) Based on recurrent FCF. Please refer to Appendix 2.
(6) Calculated with a theoretical tax rate. Please refer to Appendix 2.
(7) Multiples and ratios calculated over prices at the date of this report.

2019: "its" inflection point

AFTER 5 YEARS OF SIGNIFICANT RESTRUCTURING Against a backdrop of weak consumption and tougher competition, resulting in a dramatic downsizing (retail network c. -45% in 2012-2018), with revenues decreasing to EUR 115Mn in 2018 (c. -25% vs 2012).

…WHICH HAS ENABLED THE COMPANY TO REVERSE THE FALL IN LFL REVENUES… achieving highs in growth in 2018 (+9.6% LFL, driven by the good performance of the online business and the closure of points of sale).

…AND REACH BREAK EVEN IN RECURRENT EBITDA … (EUR 2.5Mn 2018, after almost a decade of operating losses).

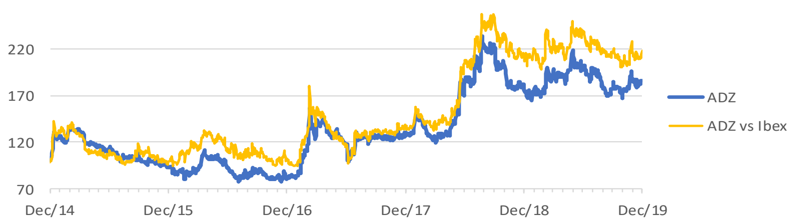
ADZ FACES TWO CHALLENGES, which we believe can be overcome:

- **To prove the sustainability of growth:** Our central scenario (a stable retail network) envisages a CAGR of 1.9% for revenues in 2020-2021e (still below that expected for the sector) which implies a deceleration of LFL growth (2.4% 2021e, -7.2p.p. -3y), but a stable gross margin at levels of 57%.

- **And to improve mid-term profitability, reducing the dependence on Puig,** achieving operating break even in 2019 (EUR 1.3Mn EBIT), with growing EBIT (EUR 3.3Mn 2021, c. 50% of pre-crisis levels), and an EBIT/revenues margin of 2.7% 2021e (vs. 3.5% pre-crisis).

“STABILISATION” ABOVE BREAK EVEN TWO YEARS DOWN THE LINE (without aggressive assumptions and consistent with the macro scenario), with positive FCF 2020-2021e resulting in a FCF yield of c. 1% (still well below the sector’s c.7.5%). The potential of the online business, plus the flexibility provided by a net cash position (EUR 12.0Mn 2018, vs. an indebted sector) to accelerate growth (both organic and non-organic) underpin the option of confirming a (slow) recovery. In an industry with a trend towards consolidation, ADZ has reached its “point of inflection”.

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-1.6	5.1	2.5	6.7	130.7	86.3
vs Ibex 35	0.2	1.2	1.6	-0.5	116.9	118.7
vs Ibex Small Cap Index	-1.0	0.2	0.0	-1.8	62.5	24.6
vs Eurostoxx 50	-1.7	-0.5	-10.3	-11.7	91.8	66.4
vs Sector benchmark[4]	-2.4	-2.7	-12.2	-15.9	94.6	52.5

After the restructuring, logic dictates exceeding break even

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 8.1Mn higher due to the application of IFRS 16.

The weakness of consumption since the economic crisis began, together with a narrowing of margins throughout the industry (made worse by tougher online competition) has shaped Adolfo Domínguez's (ADZ) financial figures in the last 5 years. The decline in revenues (c. -20% in 2008-2012) and cumulative operating losses at the end of the period (c. EUR -30Mn 2012), forced the Group to undertake (2013) far-reaching restructuring, including the renewal of the management team (2017), with the reins of management returning to the hands of the founding family (Chairman of the Board and Managing Director). This process was concluded in 2018 with the reunification of brands.

The Group's new identity was sealed with the creation of a new corporate logo and image, but after this renewal two key questions arise: what is ADZ today? What can be expected from ADZ in the immediate future (2019-2021)?

A) 2013-2018: re-sizing with a focus on cost containment and productivity

2013-2018: resizing with a clear commitment to the online channel

In the last five years ADZ has implemented a strategic change of direction which has resulted in: 1) a dramatic downsizing with a focus on productivity; 2) the trimming of the costs structure; 3) the concentration of management in the hands of the founders; 4) changes in business strategy, with a clear commitment to the online channel as a way to lever growth; and 5) the renewal of the corporate image. This process has led to:

-3.2% in revenues and EUR -22.7Mn cumulative Rec. EBITDA

1) **A radical downsizing** c. -45% of the retail network (2012-2018) which reduced 2018 revenues to EUR 114.9Mn (c. -25% since the restructuring began), with a CAGR of -3.2% -5y (to which store closures contributed c.-5%).

2) **A reversal of the trend for LFL growth,** explained, mainly, by the domestic market (c. 65% of revenues), from high single digit falls in the midst of the economic crisis to medium-high single digit growth, peaking in 2018 (+9.6% LFL, driven by the good performance of the online business and the closure of points of sale).

closing 2018 in break even (EUR 2.5Mn Rec. EBITDA)

3) **…In an industry susceptible to discounts continually "squeezing" margins,** and in which the mix of channels is key. Stores directly managed by the Group in 2018 represented 24.3% of the total (vs. > 40% pre-crisis). In LFL terms, ADZ's gross margin narrowed by -0.5p.p. in 2013 -2018.

4) **…which hindered the sustainability of the operating structure** that, in itself was clearly oversized (EBIT/revenues c. 3.5% pre-crisis vs. c. 10% for the industry) made worse by weak revenues, which resulted in almost a decade of operating losses (EBIT). The restructuring carried out has enabled the Group to reach break even (recurrent EBITDA EUR 2.5Mn in 2018).

and with a strong financial position (EUR 12.0Mn Net Cash 2018)

5) **Leaving the Group with a net cash position: EUR 12.0Mn 2018** (vs. c. 2x ND/EBITDA in the sector), after the "compulsory" sale of emblematic assets in 2015 which generated c. EUR 40Mn of extraordinary profit that year.

B) 2019-2021e: After the renewal of the business its effectiveness remains to be tested

2018-2021e CAGR +1.9% in revenues and stabilisation of gross margin (c. 57%)

The renewal of the business can be considered concluded, so there is only one question: And now what? Answering this question requires an analysis of the main challenges facing the business going forward:

1) **The main challenge lies in testing the sustainability of organic growth…** in a context characterised by a lack of the "noise" caused by the restructuring of the retail network. ADZ will have to demonstrate the success of its omnichannel retail strategy, with the online business having to provide c.50% of LFL growth going forward (we forecast +4.5% LFL 2019, slowing to 2.4% in 2021e). Our central scenario (a stable retail network) envisages a CAGR of 2.5% for revenues in 2020-2021e (in line with that predicted by the market for the sector and c. 5% for its peers).

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…Against a macro backdrop that advises caution after multiple downgrades to estimates for global growth (which the IMF puts at 3% in 2019, one of the lowest since the last crisis, and at 1.2% for the Eurozone), due to the effects of the trade war between the US and China, together with macro factors such as an ageing population and low productivity in developed economies.

3) **An improvement in the gross margin in a context of tougher competition** that will squeeze sales and margins (we forecast a stabilisation of margins at around 57% 2019-2021e). The mix of channels (favouring growth via openings of directly managed stores) and improved efficiency in inventory management (limiting the impact of higher discounts and/or impairments) are critical factors.

Reaching break even at EBIT in 2019 (EUR 1.3Mn).

4) **Improve mid-term profitability, reducing the dependence on Puig.** ADZ should achieve operating break even in 2019 (EBIT EUR 1.3Mn) exceeding EUR 3Mn in 2021 (c. 50% of the pre-crisis level), with an EBIT/revenues ratio of 2.7% 2021e (vs. 3.5% pre-crisis), that would include a +0.8p.p impact of IFRS-16. Royalties from Puig, exposed over the longer term to the expiry of the agreement, represent c. 65% of EBIT 2019-2021e.

Table 1. Operating Result (recurrent EBITDA): main consolidated figures

			Reestructuration						
	Pre-crisis	*Pre-Reestr.*	*1st. Phase*	*2nd. Phase*	*3rd. Phase*				**CAGR**
EUR Mn	**2008**	**2012**	**2013**	**2015**	**2018**	**2019e**	**2020e**	**2021e**	**18-'21e**
Total Revenues	**191.6**	**152.1**	**134.9**	**108.4**	**114.9**	**115.7**	**118.3**	**121.5**	***1.9%***
Var. (%)	*n.a.*	*-2.6%*	*-11.3%*	*-12.6%*	*-1.7%*	*0.6%*	*2.2%*	*2.7%*	
Gross Margin	**132.1**	**83.0**	**78.4**	**57.8**	**67.6**	**64.9**	**66.9**	**68.9**	***0.7%***
Gross Margin (o/ Revenues)	*68.9%*	*54.6%*	*58.1%*	*53.3%*	*58.8%*	*56.1%*	*56.6%*	*56.8%*	
Operating recurrent expenses	*111.7*	*88.3*	*78.7*	*72.8*	*65.1*	*54.8*	*55.4*	*56.4*	
Rec. EBITDA	**20.5**	**(5.3)**	**(0.3)**	**(15.1)**	**2.5**	**10.1**	**11.5**	**12.6**	*71.7%*
EBITDA Rec. mg	*10.7%*	*n.a.*	*n.a.*	*n.a.*	*2.2%*	*8.7%*	*9.7%*	*10.3%*	
Rec. Adj. EBITDA (pre-IFRS 16)	**20.5**	**(5.3)**	**(0.3)**	**(15.1)**	**2.5**	**2.0**	**3.2**	**4.0**	***17.2%***
Rec. Adj. EBITDA Mg.	*10.7%*	*n.a.*	*n.a.*	*n.a.*	*2.2%*	*1.7%*	*2.7%*	*3.3%*	
EBIT	**6.8**	**(31.0)**	**(11.5)**	**(27.9)**	**(0.6)**	**1.3**	**2.5**	**3.3**	*n.a.*
EBIT Mg.	*3.5%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.1%*	*2.1%*	*2.7%*	
Ordinary NP	**3.8**	**(33.1)**	**(12.1)**	**(26.9)**	**0.6**	**0.2**	**1.0**	**1.5**	*34.8%*
NP	**4.1**	**(23.9)**	**(10.3)**	**8.0**	**(0.5)**	**(0.1)**	**1.0**	**1.5**	**n.a.**
Total points of sale	**603**	**695**	**649**	**544**	**391**	**387**	**391**	**395**	**0.3%**
o/w Under direct management (%)	*73.1%*	*67.2%*	*66.9%*	*70.0%*	*66.2%*	*66.7%*	*66.5%*	*66.3%*	

C) Conclusion: Moderate organic growth in revenues and margin improvement are feasible (central scenario) but highly dependent on the success of the retail strategy

while generating positive FCF in the m/t (FCF yield c. 1% 2020-2021e)

The restructuring of operations and the commitment to the online channel make for a structurally light business and put ADZ in a position to return to positive FCF in 2020

In our opinion, ADZ has the capacity to overcome these challenges: 1) the online channel still has upside (<10% of 2018 consolidated revenues vs. > 25% in the global fashion industry); 2) growth via greater international penetration of the brand is feasible; 3) a change towards the “management of scarcity” (with “micro-collections”; improving inventory management and reducing the effect of discounts); 4) together with a comfortable financial position (net cash/equity of 23% in 2018) which grants a certain flexibility to accelerate both organic and non-organic growth.

A structurally lighter business, with leverage potential on the back of its online channel, accelerating margin improvement

Our central scenario implies positive FCF in 2020-2021e, with a FCF yield of c. 1%, still some way from the c.7.5% of the sector.

What would be the best case for ADZ? A more positive scenario with LFL growth of c. 2x that forecast in our central scenario, together with a 2.5p.p. improvement in the gross margin, would take the Group's FCF to c. EUR4.5Mn, offering a FCF yield of c. 7% (in line with that of the sector), significantly increasing ADZ's potential.

There are many strategic implications of sustained organic growth (above that of the sector). If backed by a larger contribution from the online business, it would justify expansion via the opening of directly managed stores, accelerating margin improvement (via the channel mix) which, in turn, would take ADZ's FCF yield closer to that of the sector.

Table 2. EBITDA, EBITDA margin and recurrent FCF 2021e vs. gross margin and LFL sales variations

…improvement in gross margin (via the channel mix) key to bring profitability closer to the industry average

EBITDA 2021e

	Gross Margin		
	54.3%	56.8%	59.3%
4.3%	10.4	13.5	16.7
2.4%	9.5	**12.6**	15.7
0.5%	8.7	11.7	14.7

EBITDA Margin 2021e

	Gross Margin		
	54.3%	56.8%	59.3%
4.3%	8.4%	10.9%	13.5%
2.4%	7.8%	**10.3%**	12.9%
0.5%	7.3%	9.8%	12.4%

FCF Rec. 2021e

	Gross Margin		
	54.3%	56.8%	59.3%
4.3%	(2.3)	0.7	4.5
2.4%	(2.6)	**0.6**	4.1
0.5%	(3.0)	0.5	3.8

Profitability

FCF yield 2021e

LFL growth	Gross Margin		
	54.3%	56.8%	59.3%
4.3%	n.a.	1.0%	6.6%
2.4%	n.a.	**0.9%**	6.0%
0.5%	n.a.	0.7%	5.6%

Financial Risk

Net Debt 2021e

LFL growth	Gross Margin		
	54.3%	56.8%	59.3%
4.3%	(8.4)	(11.4)	(15.2)
2.4%	(8.0)	**(11.3)**	(14.8)
0.5%	(7.7)	(11.2)	(14.5)

Note: the sensitivity is higher to changes in the gross margin than to LFL growth because the impact of LFL growth is partially absorbed by the investment in working capital

Conversely, a more negative scenario of almost moribund LFL growth (c. 0.5%) accompanied by a less successful retail strategy (further inventory impairments and higher discounts due to tougher competition) would prolong the Group's cash consumption although without this implying significant risk, as even in very negative gross margin and growth scenarios, ADZ would maintain a net cash position (2021).

In conclusion: after 5 years of drastic restructuring, ADZ should reach a turning point in 2019.
The period 2019-2021 should reflect the results of the strategic change of direction and downsizing implemented since 2013:

- A return to positive growth in turnover: CAGR +2% (2018-2021) vs -2% (-4y)
- Stabilisation of the gross margin at levels of 56-57%
- Positive and growing EBIT: EUR 3.3 Mn (2021) vs EUR -0.6 Mn (2018), taking operating profitability closer to pre-crisis levels (EBIT/revenues 2.7% 2021e).
- And consolidation of a (slightly) positive FCF which will strengthen the financial position.

Two years ahead, our estimates show the "stabilisation" of the company above break even (without aggressive assumptions, consistent with the macro scenario). In addition, the mix: an internationally renowned brand, good LFL sales and a net cash position (in an indebted sector) could be attractive in an industry seeking to diversify brand portfolios to optimise growth.

In terms of "speed", it could be said that our central scenario (2019-2021) is one of slow recovery. Current micro and macro conditions do not allow for hopes of a quick or explosive recovery. Perhaps the most interesting aspect is that a sensitivity analysis of 2021 estimates, in more optimistic and more pessimistic contexts, shows the two big benefits of the restructuring carried out: a certain floor if nothing goes right and the option (which is not our central scenario) of a recovery to levels of profitability (FCF Yield c.7%) in line with those of the sector.

A renewed business model yet to be tested

Chart 1. Revenues mix

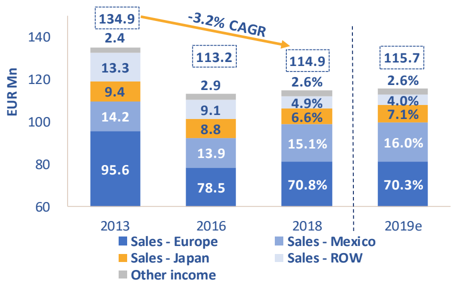


Chart 2. Points of sale mix

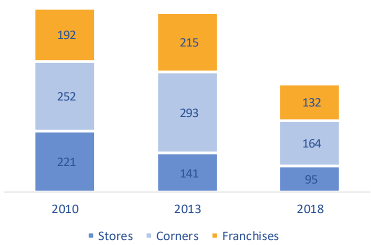
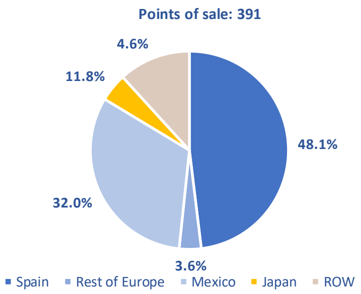
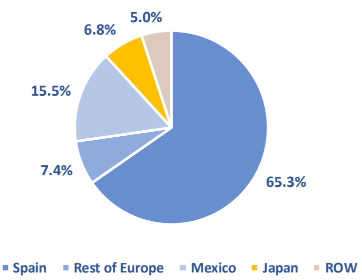


Chart 3. Points of sale - geographic mix



Note: 2018 Data

Chart 4. Sales geographic mix (2018)



Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 8.1Mn higher due to the application of IFRS 16.

Adolfo Domínguez S.A. (ADZ) is a small (EUR 68.3Mn Market Cap) international designer fashion textile group, based in Ourense (Spain), specialising in the design and sale (both retail and wholesale) of fashion items (tailored clothing, footwear, bags and accessories). ADZ has c. 40 years' experience in the industry, and is a European benchmark in the world of haute couture fashion, despite its low penetration (c.1.5% of the industry). The company's founder, Adolfo Domínguez[1], is one of the most internationally renowned Spanish fashion designers. ADZ was listed in March 1997 and was the first Spanish fashion company to be traded on the stock market.

ADZ operates in the "accessible luxury" segment, alongside unlisted companies such as Purificación García (which is owned by Sociedad Textil Lonia) and the Italian company Valentino (Mayhonda for Investments), listed ones such as the French company SMCP (owner of Sandro and Maje), the UK's Burberry Group and the German company Hugo Boss, and fashion holdings such as Kering (France, owner, among others, of Saint Laurent and Balenciaga), Capri (UK) and Tapestry (US, owner of Coach).

A mixed business model that includes off line (points of sale) and online…

ADZ has a mix of own stores, corners (in department stores) and franchises, which add up to a total of 391 points of sale in 2018 (-40% -5y), in addition to a growing online business (c. 10% of 2018e sales, c.+5p.p. y/y). In addition, the Group obtains other revenue from the rendering of services to its franchisees and from contractual royalties on the manufacture of perfumes and cosmetics[2] (Puig), which accounted for 4.4% of the 2018 consolidated gross margin.

The bulk of Group sales are made in the local market (65% in 2018 vs. 78% 2010), which includes 48% of the points of sale. Some 33.5% of these are own stores, including two flagship stores in high-end shopping streets in Madrid (Calle Serrano, opened in 2010) and Barcelona (Paseo de Gracia, reopened in 2018). Some 47.9% of national points of sale are corners (located in El Corte Inglés department stores), with the other 18.6% being franchises. Its domestic market share is tiny (c. 1.5% of 2018 industry turnover).[3]

…and which enjoys international prestige

Since the 1990s the Group has internationalised the brand, and currently has subsidiaries in the US, France, Japan, Mexico, Portugal, the UK and Luxembourg (the last two are not trading). Mexico and Japan are the Group's main ventures (accounting for 32.0% and 11.8% of points of sale in 2018, respectively), generating 15.5% and 6.8% of 2018 sales, respectively. Other European countries accounted for 7.4% of 2018 sales. Given the strategic character of the Asian market in the world of fashion (especially for luxury brands), the Group mainly trades via stores managed directly in Japan. It also has a flagship store in Paris (El Marais), and one store in the US (Miami), with the bulk of the remaining international sales being generated via franchises (wholesale).

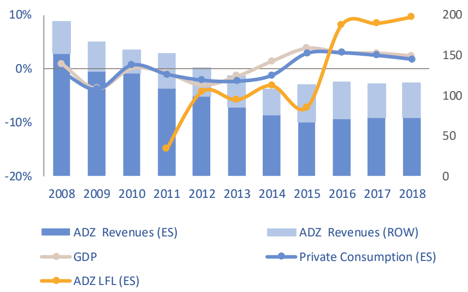
Mexico has traditionally been the most dynamic market (AAGR of +12.8% -5y, which includes an average forex impact of approximately -5%), with growth having accelerated in recent years (AAGR +14.2% -2y, with a forex impact of -3.3%). Conversely, in Japan growth is stagnant and is affected on consolidation by forex fluctuations (AAGR of +3.7% -5y and -6.9% -2y, with average forex impacts of c. +1% and -3.5% respectively). These figures are in contrast to those

[1] Born in Ourense (1950), he has just won the *Premio Nacional de Diseño de Moda 2019* (Spanish fashion design award).

[2] The initial licence agreement was signed in 1989, and was renewed in March 2009 expiring on 31/12/2023.

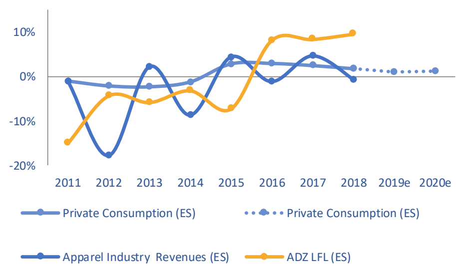
[3] Acotex (Spanish fashion retail association): *El comercio textil en cifras 2018* (the textile trade in figures 2018).

Chart 5. GDP & Private Consumption (Spain) vs. Revenues (ADZ)



Source: EC DG for Economic and Financial Affairs and ADZ.

Chart 6. LFL Sales vs. private consumption and Textile industry revenues-Apparel (ES)



Source: Asociación Empresarial del Comercio Textil y Complementos (Acotex), Bank of Spain, ADZ and LH

Chart 7. Points of sale variation

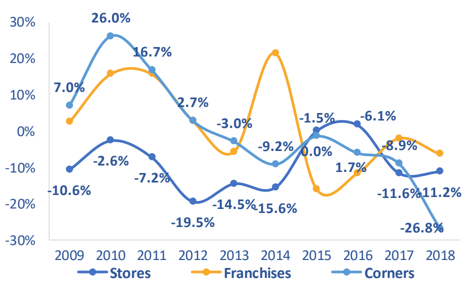
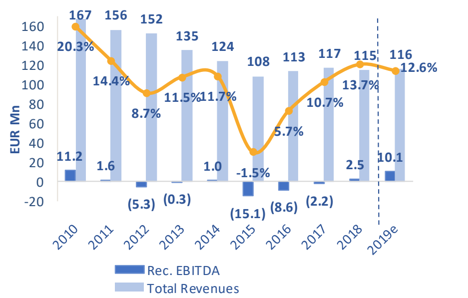


Chart 8. Rec. EBITDA vs. Revenues and Rec. EBITDA/Revenues (adjusted by rental expenses)



Note: please note that adjusted recurrent EBITDA excludes total rental expenses for comparison purposes (IFRS-16).

recorded in the rest of Europe (AAGR -3.2% -5y, and -6.9% in 2018), impacted by the closure of points of sale (-22% -5y).

Despite everything, the company touched bottom in 2012 due to weak consumption and tougher competition

The highly cyclical nature of the retail industry has been reflected in the Group's P/L. The weakness of domestic private consumption (-1.7% AAGR 2011-2014) plus the narrowing of industry margins due to tougher competition (growth of online global retailing), were key factors in the deterioration of the business.

Group revenues have shrunk c. 40% from pre-crisis highs (EUR 197.5Mn 2007) due mainly to the poor performance of LFL sales, the reduction in retail space (-40% in points of sale -5y), the change in the mix of formats (24% being own stores in 2018, vs. c. 40% at the beginning of the decade) and the toughening of competition (in an industry in which discounts are very relevant). In fact, the company saw a mid single-digit average annual decline in its local market during the economic crisis (c. -6% LFL estimated in 2013). The result: a 5.2p.p. decline in the consolidated gross margin -8y (vs. c. -2p.p. for the industry) made worse by higher costs (c. 65% of procurements are tied to the USD), which resulted in operating losses from 2010 and lows in 2012 (EUR -31Mn EBIT 2012, negatively impacted by c. EUR 10Mn of impairments).

2013 -2018: A furling of sails

In addition, the operating structure was oversized (ADZ had an average historical spread of c.+20 p.p. vs. peers in respect of its overheads/revenue ratio). In order to halt the decline in productivity (CAGR 2010-2013: -8.8% sales/point of sale) and return to break-even, in 2013 the Group began extensive restructuring, focusing on costs and improved productivity, which has led to a drastic reduction in size (-43.7% in its retail network 2012-2018).

We distinguish two stages in this process: the first (2013-2015) which concluded with the sale of its emblematic building in Barcelona, in which its flagship store was located, and a second, which ended in 2018 with the reunification of its brands (Adolfo Dominguez + (AD+), specialising in plus-sized clothing, and U, aimed at young people) in a single one. This restructuring has meant:

1) A dramatic reduction in size:
   - Both in the retail network: -21.7% during the first stage (to 544 points of sale in 2015), and a further -28.1% during the second (ending with 391 points of sale in 2018). The bulk of the closures have taken place in Spain (73% of the total -5y).
   - And in the corporate structure: in 2015 the spread (overheads/revenues) vs. peers had increased (c. +5p.p.), warranting a new corporate restructuring. As a result, recurrent overheads have declined by c. -26% since restructuring began, leading to a c. 40% reduction in the corporate headcount.

     By 2018, the spread of this ratio had decreased by 7p.p. (56.6% overheads/revenues, vs. an average of c. 43% recorded by peers).
2) The company achieved break-even in EBITDA in 2018 pre-IFRS 16 (EUR 1.3Mn in 2018, EUR 2.5Mn in recurrent terms), after 5 consecutive years in the red, thanks to royalties and other revenues (EUR 3Mn). Cumulative non-recurrent costs (2013-2018) associated with this process drained c. EUR 10Mn.

A catharsis that has transformed the Group

Via the renovation of the Group's management team (2017), headed since 2018 by the founder's daughter, with a clear commitment to the online channel as a way to lever the business (online sales +70% y/y in 2018, contributing c. 35% of implied LFL growth) and a repositioning of the brand in social media via the launch of disruptive campaigns such as "*esto no es un selfie*" ("this is not a selfie", 2017) or "*sé más viejo*" ("be older", 2018), while underlining the company's commitment to sustainability as a selling point [4] (a growing trend in the world of fashion, with Groups such as Inditex and Kering also adopting this approach).

[4] The slogan "*somos los hijos de la tierra no sus dueños*" ("we are the children of the Earth not its owners") underlines the brand image, reiterating the commitment to sustainability. ADZ also has an ecological manifesto (2010).

The Group's new identity was sealed with the creation of a new corporate logo and image (2018), coinciding with the re-opening of its flagship store in Barcelona (international tourist consumption) and its return to fashion shows in 2019 (8 years on).

KPIs are progressing satisfactorily although boosted by the restructuring of the retail network

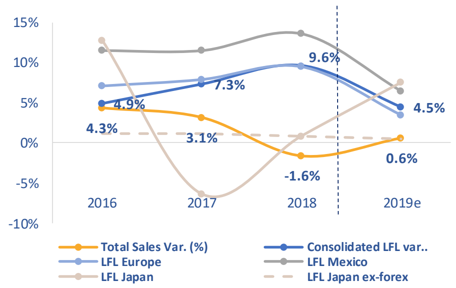
The change of strategy has resulted in a return to growth in domestic LFL revenues (underpinned by the closures of points of sale), with international ones also accelerating. Although this improvement was already perceptible in 2014, with a deceleration of the decline in revenues in the local market (-3.1% LFL, c. +2.5p.p. y/y), this was interrupted in 2015 (-7.2% y/y) by product supply problems. That year saw an impairment of inventories (EUR 4.2Mn), which accounted for c. 55% of the decline in consolidated gross margin (-7.3p.p. y/y in 2015).

The subsequent recovery of domestic consumption (AAGR 2.8% y/y 2015-2017) and the change in Group strategy have enabled progress to be resumed. LFL growth reached highs in 2018 in Spain (+9.6%, +1.6p.p. y/y) despite a deceleration of consumption (+1.8% in 2018, -0.7p.p. y/y). However, signs of economic slowdown began to be seen in 1H19 with growth decelerating (c. 5% LFL, c. -4p.p. y/y still underpinned by the retail restructuring and the good performance of the online business).

Internationally, the performance of Mexico stands out, with 3 years of double-digit growth (+13.6% LFL in 2018, with an AAGR of 12.2% -3y). Conversely, the mature nature of the Japanese market led to low single-digit LFL growth in the region (AAGR c. 1% -3y). However, the Mexican market is also showing signs of deceleration (c. +10% LFL excl. forex in 1H19, c. -50% y/y).

This combination has resulted in an acceleration of growth in consolidated LFL revenue (+9.6% 2018, +2.3p.p. y/y and c. 2x that recorded -2y). This mix has greatly mitigated the impact of the reduction in the retail space at a consolidated level (-8.6% y/y), -1.7% in 2018 revenue. However, the picture at 1H19 shows a significant deceleration of growth (+3.9% LFL excluding the forex effect, -4,3p.p. y/y), resulting in modest revenue growth (+0.9% y/y).

Chart 9. Sales LFL contribution mix

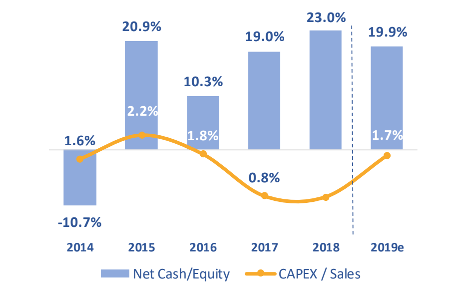


In addition to a solid financial position

Despite increased investment in 2008-2011 (c. EUR 50Mn on property acquisitions) and the worsening of the business, historical gearing ratios have been reasonable (ND/equity <15% 2010-2014), with a net cash position being maintained since 2015. That year ADZ was forced to sell properties (EUR 45.8Mn) to offset heavy operating losses (EUR -15.1Mn in recurrent EBITDA in 2015). These transactions generated EUR 41.7Mn in capital gains, enabling the Group to end the year in the black (EUR 8.0Mn in 2015 NP), after 5 consecutive years of losses.

The cash position has gradually improved since 2016 (23% of equity 2018), backed by asset sales (with a cumulative impact of EUR 5.8Mn -2y). This net cash pile gives the Group scope to take measures to strengthen organic growth (mainly via investment on the online channel).

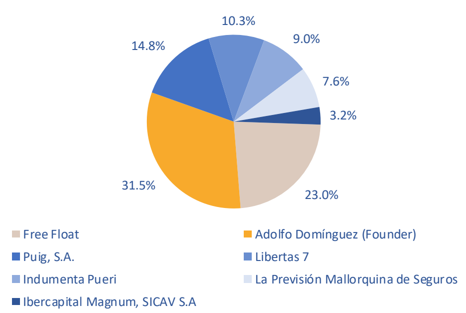
Chart 10. Net Cash/Equity vs. CAPEX/Sales



And a stable shareholder structure with the entry of a new shareholder

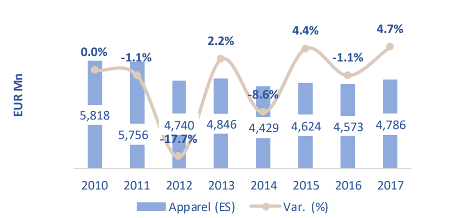
ADZ's shareholder structure which had remained unchanged for the previous five years gained a new shareholder in May 2019 (the SICAV Ibercapital Magnum), also with a long-term horizon. The main shareholder is the fashion designer Adolfo Domínguez, the founder and Chairman of the company (31.5% of capital), who, together with his daughters, controls 37.5% of the board of which he is Chairman. The company Puig, with which the Group has a licensing contract for the manufacture of perfumes and cosmetics, has a 14.8% stake (but no seat on the board). Given the extension of this licensing agreement until December 2023, we assume Puig will keep its shareholding for the mid term. Other shareholders include Luxury Liberty (Libertas 7, with a 10.3% interest), Indumenta Pueri (which increased its shareholding to 9.0% in 2018, +3.5% vs. -2y) and Previsión Mallorquina de Seguros (7.6%). The company's free-float is c. 23%.

Chart 11. Shareholder structure



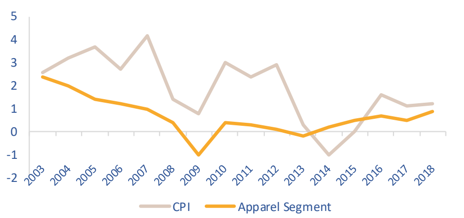
The cycle trend is for increased competition and M&A activity

Chart 12. Apparel industry (Spain)



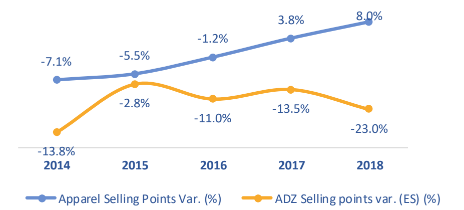
Source: Acotex

Chart 13. CPI vs. Apparel CPI (Spain)



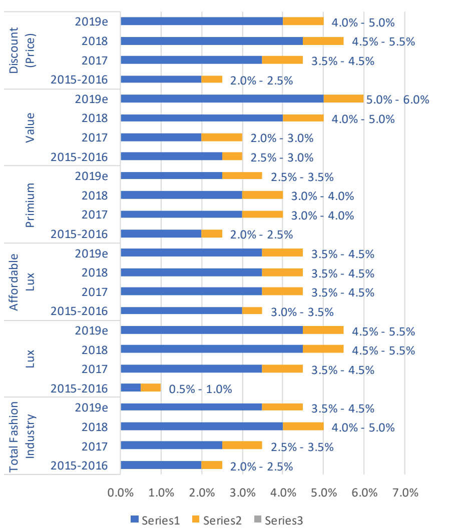
Source: Instituto Nacional de Estadística (INE) – Statistics National Institute

Chart 14. Points of sale variation – Industry vs. ADZ (Spain)



Source: Acotex & ADZ

Chart 15. Industry Segments growth



Source: McKinsey "The State of Fashion" (2017-2019) elaborated LH

The fashion industry is cyclical and deflationary. The global clothing market was worth c. USD 1.8Tn in 2019, after having recorded CAGRs of c. 4.5% -5y, with the women's wear segment contributing c. 35%. There is likely to be a deceleration of growth in the industry (c. -1.5p.p. in the short term, due to the economic slowdown), which could exceed USD 2Tn +3y.

In Spain, the turnover of the textile manufacturing industry was EUR 10,800Mn in 2017 (+1.5% in 2018, with a deceleration of 3.5p.p. y/y) crowning four years of growth. The clothing industry contributed c. 45% of the total (EUR 4,800Mn, -0.6% y/y), with the women's wear segment (a core market for ADZ) accounting for 37%. The sector has accelerated the opening of points of sale (AAGR -2y: +5.9%, vs. -0.4% -5y), as opposed to ADZ's strategy of reducing points of sale which has been accelerated after the reunification of brands (AAGR -18.2% -2y vs. -12.8% -5y).

A diverse industry in terms of growth and value propositions...

Performance in the industry has been diverse, with an acceleration of growth in the clothing segment (c. +4.5% y/y in 2018, c. +2p.p. y/y). Price-focused companies have led growth (AAGR +3.8% -3y, c. +0.5p.p. vs. the industry) [5], followed by those belonging to the accessible luxury segment (AAGR c. +3.6% -3y), and luxury firms and those with a "quality" approach (c. +3.3% AAGR -3y, respectively). These last two segments, together with the opposing sector, more price-focused, recorded an acceleration of growth in 2018 of 1-1.5p.p. y/y (with respective growth rates of approximately 5%).

...in which the "accessible luxury" segment will figure among the most dynamic

Growth will vary geographically. Emerging countries will lead growth (c. +7% 2019) [6], driven by the growing penetration of the online business, with other countries seeing growth moderate by between -0.5p.p. and -1p.p. y/y. The luxury and accessible luxury segments (ADZ belonging to the latter) will show a certain resistance to the cycle (c. 3.5% - 4.5% y/y), while those segments with a "value" and "price" focus, will be favoured by the economic deceleration (c. 5% y/y).

However, caution is required

Various indicators show clear signs of deceleration. The IMF has again cut its forecast for global growth, to 3% in 2019 (one of the lowest since the last crisis) and to 3.4% in 2020 (-0.1p.p. vs its July forecast), also reducing its forecast for the Eurozone by the same amount (1.2% in 2019 and 1.4% in 2020). These downgrades are mainly due to the side-effects of the trade war between the US and China, together with the negative impact of macroeconomic factors such as an ageing population and low productivity in developed economies.

The same body has also significantly downgraded its growth forecasts for Latin America (a key region for ADZ), to 0.2% in 2019 and 1.8% in 2020 (-0.4p.p. and -0.5p.p. respectively vs. its July estimate), putting these below the average for the global economy. Although it forecasts a subsequent acceleration of growth for this region, this will be below 3% in the mid term. The deceleration has been especially dramatic in Mexico (+0.1% in 3Q2019, vs. an AAGR of 2.6% -5y).

The many downgrades to economic forecasts have alarmed the industry, with Moody's warning recently of the low growth in European and Spain retail in the short/mid terms. The ratings agency has classified the European retail sector as having a "negative outlook" (an ageing population and poverty amongst young people being especially significant in Europe).

[5] McKinsey: The State of Fashion 2017-2019
[6] McKinsey: The State of Fashion 2019

Continuing pressure on margins puts the industry focus on productivity

The industry has seen a continuous narrowing of margins (c. -1.5p.p. -5y in the gross margin), which has negatively impacted the bottom of the P/L (c. -2p.p. EBITDA/revenues in the same period). In the case of ADZ, this narrowing of margins was aggravated in 2015 by inventory impairments.

Weaker consumption will intensify competition (especially from the online channel) and the use of discounts (traditional sales seasons are continuously alternating with mid-season sales) putting pressure on sales growth and margins. Given this scenario, the search for ways of containing costs (at the structural level) remains on the industry's to-do list.

Chart 16. Gross margin ADZ vs. Industry

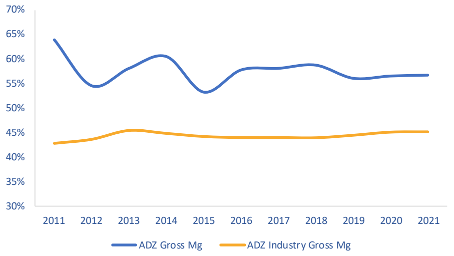


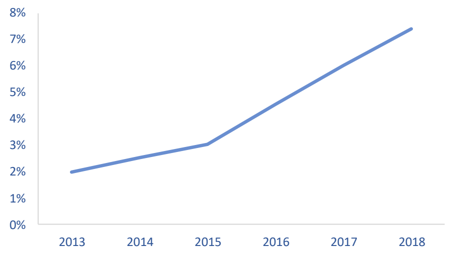
Table 3. Industry EBITDA/Revenues margin

Company	Country	2014	2015	2016	2017	2018
Affordable Luxury players						
SMCP SA	France	15.4%	17.4%	18.9%	12.5%	15.2%
Ted Baker PLC	UK	16.4%	16.3%	16.6%	16.7%	14.8%
Hugo Boss AG	Germany	22.9%	21.1%	18.3%	18.0%	17.7%
Burberry Group PLC	UK	23.8%	23.6%	23.0%	22.4%	20.8%
Holdings Specialised Retail						
PVH Corp	USA	11.6%	12.9%	13.0%	12.2%	13.3%
Tapestry	USA	30.0%	23.4%	19.2%	22.8%	16.2%
Capri Holdings Ltd	UK	31.9%	29.1%	24.7%	23.2%	21.1%
Kering	France	19.9%	18.3%	19.0%	29.8%	32.5%
Smaller Players						
Devernois SA	France	6.8%	3.8%	1.1%	0.7%	5.4%
Stefanel SpA(2)	Italy	n.a.	n.a.	2.4%	n.a.	n.a.
Barbara Bui SA	France	3.4%	n.a.	n.a.	n.a.	n.a.
Ahlers AG	Germany	6.7%	4.0%	4.1%	3.6%	2.1%
ADZ	Spain	0.8%	n.a.	n.a.	n.a.	2.2%
Industry EBITDA Mg(1)	**n.a.**	**13.1%**	**12.3%**	**11.7%**	**11.2%**	**11.8%**
Industry Gross Mg(1)	**n.a.**	**44.8%**	**44.2%**	**43.9%**	**44.0%**	**43.9%**

(1) Sector Category: Specialty Retailers - Apparel & Accessories - Thomson Reuters (aggregated data)

(2) Note: Stephanel is currently under bankruptcy procedure

Chart 17. E-Commerce o/ Total fashion sales (Spain)



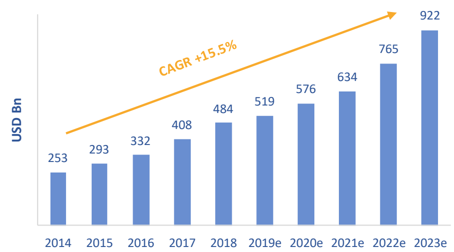
Source: Moda.es (Kantar data).

In a changing environment that implies a host of challenges

The supremacy of the consumer, especially in a context of a deceleration of consumption, together with increased competition exacerbated by the emerging channels, requires constant renovation in the industry. Technology and social media have encouraged the proliferation of new disruptive players (given the smaller advertising investment needs of this business model).

By way of reference, various sources value the global online business at c. USD 3.5Tn in 2019 (CAGR 21.5% -5y), with a likely doubling in size +5y. The fashion segment contributed c. USD 519Bn (CAGR +15.4% -5y), with the clothing subsegment accounting for c.75%. Online sales accounted for c. 27% of global sales of fashion items, well above the figure of 7.4% for Spain (and c.14% for Inditex).

Chart 18. Global fashion e-commerce sales



Source: Statista.

Against this backdrop, innovation, value for money and consumer loyalty are critical. Investment in omni-channel positioning and companies' capacity for renovation are essential to this process (Burberry's recent change of logo is an example). In addition, those companies who make a commitment to sustainability could benefit more.

On the other hand, the impact of trade tensions (increase in tariffs associated with products at source), together with the need to reduce lead times[7] and manage inventories in response to short marketing cycles (with higher quality and added value products) could mean changes to the industry's procurement strategies.

[7] The time (of cycle, delivery or supply) that elapses from the placement of an order with a supplier until the goods are delivered to the client.

And with increased M&A activity, seeking to optimise growth

Tougher competition has encouraged sector concentration. According to McKinsey[8], the 20 main retail companies (including Inditex, Nike, H&M and some from the luxury segment, such as, among others, LVMH, Hermès and Kering) accounted for > 100% of the cumulative profit generated by the industry -5y (c.128% in 2017, c. -15p.p. y/y), illustrating the difficulties experienced by smaller players.

However, smaller firms have made special contributions to product innovation, creating a certain exclusivity/differentiation vs mass consumption companies, something that is valued by the end client. These companies are better placed to reach small market niches, which together with fewer promotions of their items (as these are premium products) could be attractive to larger industry players (fashion company holdings) as a way of achieving higher growth in an increasingly competitive market.

Among the most notable transactions, the luxury segment has been the most active recently, especially the acquisitions made by Michael Kors (Versace in 2019 for USD 2.1Bn at 2.5x sales and c. 22x EBITDA, after having acquired Jimmy Choo in 2017 for USD1.2Bn) prior to its conversion in holding (Capri), the acquisition of Boucheron by Kering (2018) and the recent offer made for LVMH by Dior (USD 13.2Bn). Industry consolidation is likely to continue (especially in the luxury segment), with holdings such as PVH Corp and Tapestry (US) and Kering, seeking to further enlarge their brand portfolios.

Table 4. Industry multiples

Company	Mkt. Cap	EV	Country	Rev. Growth 13-18	EBITDA/Rev 2018	ND/EBITDA 2018	EV/EBITDA 2018	P/E 2018
Affordable Luxury players								
SMCP SA	795.7	764.1	France	n.a.	15.2%	1.8	4.9	15.9
Ted Baker PLC	190.4	563.9	UK	13.0%	14.8%	1.4	5.3	4.0
Hugo Boss AG	2,907.4	4,124.7	Germany	2.8%	17.7%	0.0	8.4	12.3
Burberry Group PLC	9,563.4	10,056.8	UK	2.3%	20.8%	-1.5	15.3	24.3
Specialised Retail Holdings								
PVH Corp	6,474.6	8,831.8	USA	6.8%	13.3%	1.8	7.8	10.3
Tapestry	6,449.4	7,184.9	USA	5.2%	16.2%	0.4	8.8	13.3
Capri Holdings Ltd	4,989.7	7,000.2	UK	14.2%	21.1%	2.2	7.1	10.3
Kering	67,859.5	74,363.3	France	7.2%	32.5%	0.4	16.7	25.6
Smaller Players								
Devernois SA	17.7	19.7	France	-7.3%	5.4%	1.3	14.1	n.a.
Stefanel SpA	9.4	9.4	Italy	-7.7%	n.a.	n.a.	n.a.	0.7
Barbara Bui SA	4.7	1.5	France	-15.9%	n.a.	n.a.	n.a.	1.8
Ahlers AG	35.0	50.2	Germany	-2.0%	2.1%	6.0	10.8	n.a.
ADZ	68.3	52.9	Spain	-3.0%	2.2%	-4.8	21.3	n.a.
Industry(1)		**n.a.**	**n.a.**	**5.6%**	**11.8%**	**9.5**	**9.8**	**24.6**

(1) Sector Category Specialty Retailers - Apparel & Accessories - Thomson Reuters (aggregated data)

8 McKinsey: The State of Fashion 2019

A return to positive EBIT

Chart 19. Revenues vs recurrent EBIT

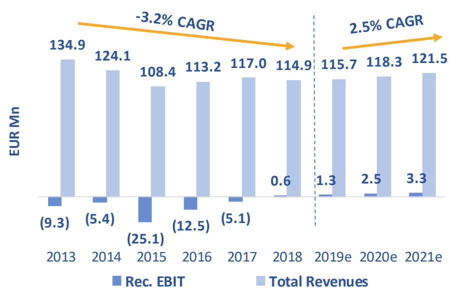
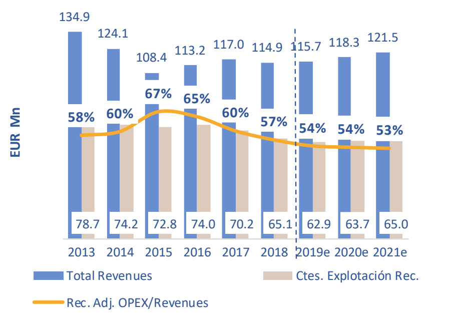
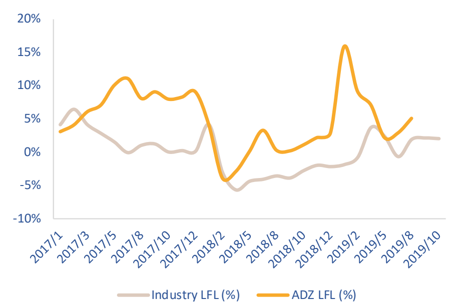


Chart 20. Revenues vs adjusted recurrent operating expenses



Note: The adjusted recurrent operating expenses include the rentals expense impact for the period 2019-2021e.

Chart 21. ADZ LFL Sales vs Sector (Spain)



Source: Asociación Empresarial del Comercio Textil y Complementos (Acotex) and ADZ

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 8.1Mn higher due to the application of IFRS 16.

Weak consumption and the re-sizing of the business have shaped ADZ's "numbers" since 2013. After the failed attempt to re-launch the business in 2015, strategy has focused on containing costs, which has meant:

- The accelerated closure of the less profitable points of sale (CAGR -10.4% -3y, with a reduction of -28.1% in points of sale, mainly corners - some 64% of the total- as a result of the reunification of brands in 2018). However, the impact of the closures has been fully absorbed (CAGR +2.0% in revenues 2015-2018), with mid single digit growth in LFL revenue (AAGR +7.3% -3y). The growing contribution from the online business (AAGR >15% -5y) and the absorption of sales from the points of sale closed underpinned this growth.
- A significant reduction in recurrent operating expenses (excluding leases: -9.7p.p. as a ratio of revenues -3y, with a focus on personnel costs, -7.2p.p.), which has meant a further reduction in the corporate headcount (c. -20% in the same period). These cost reductions resulted in break-even at the recurrent EBITDA level in 2018 (EUR 2.5Mn).

The acceleration of closures of points of sale in 2018 (53% of the closures in the retail network in the last 3 years), represented a turning point in the recovery of revenues begun in 2016 (the points of sale closed had generated c. 6.5% of 2017 revenue). However, the improved performance of the existing points of sale reduced the decline in revenue to -1.7% y/y in 2018.

Revenues (2019-2021e): organic growth thanks to online sales and the international market

After a difficult start to the year (-2.2% y/y in 1Q19 revenues), the recovery of sales in 2Q (+2.9% y/y) led to cumulative revenue growth of +0.9% y/y in 1H19 (+7.3% LFL) [9].

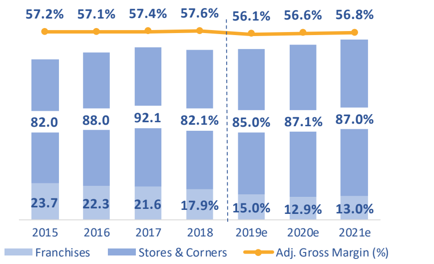
ADZ had been recording higher LFL growth than the sector in Spain -2y: +5% LFL in August 2019 (excluding the online business), maintaining a spread of c. +3p.p. vs the industry, favoured by the impact of the closure of points of sale. The figures released by ACOTEX to October point to a fall in sector sales of 2.1%, reducing cumulative growth to 2% in 2019 (-0.1p.p. vs. the figure published in September)[10].

Given the current economic context, together with the conclusion of the optimisation of stores, and consequently, of the impact of this on the Group's LFL, a deceleration of revenue growth is likely. We forecast +2.1% LFL 2019e (-5.2p.p. y/y), plus a +1.1% contribution from the online business and an estimated forex impact of +1.3%, offset by a -2.6% contribution from the total variation in the retail network. Online sales accounted for close to 10% of consolidated sales in 2018 (vs. an average of 4.6% in the local fashion industry), contributing c. 35% of LFL growth in the year (+3.3%). To give some indication, Acotex estimated (June 2019) growth in domestic turnover in the industry of 3.5%-5% in 2019.

[9] The 1H was affected by the reduction of retail space associated with the reunification of brands carried out in 2H18.

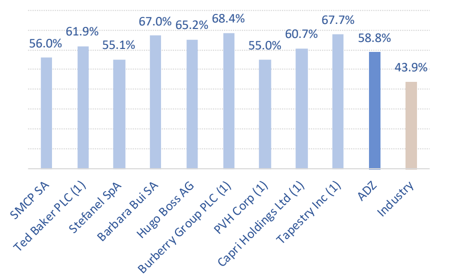
[10] Asociación Empresarial del Comercio Textil y Complementos (Acotex, Spanish fashion retail association).

Chart 22. Revenues contribution by format vs. adjusted gross margin (%)



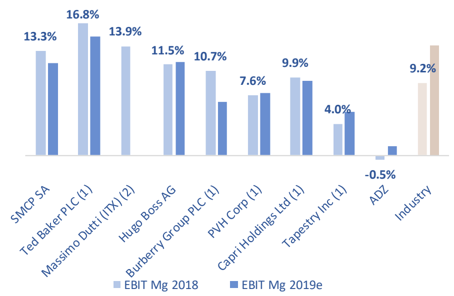
Note: Gross Margin adjusted by inventory impairments / impairment reversals

Chart 23. Peers gross margin 2018 vs. industry



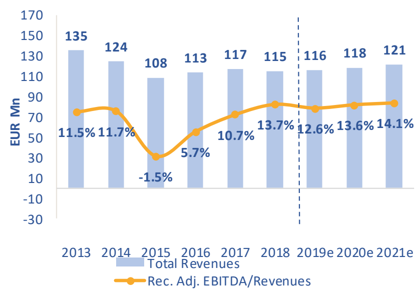
Note: Specialised Retail Industry (Thomson Reuters)

Chart 24. 2018 & 2019e EBIT margin (ADZ vs. peers)



Note: Specialty Retail Industry - Apparel & Accessories (Thomson Reuters)

Chart 25. Revenues vs. adjusted recurrent EBITDA/Revenues



Note: please note that adjusted recurrent EBITDA excludes total rental expenses for comparison purposes (IFRS-16).

Table 5. Revenues split

EUR Mn	2016	2017	2018	2019e	2020e	2021e
Total Revenues	**113.2**	**117.0**	**114.9**	**115.7**	**118.3**	**121.5**
Var. (%)	*4.4%*	*3.3%*	*-1.7%*	*0.6%*	*2.2%*	*2.7%*
Other income	**2.9**	**3.2**	**3.0**	**3.0**	**3.0**	**3.0**
Var. (%)	*8.0%*	*10.8%*	*-7.7%*	*1.5%*	*0.0%*	*0.0%*
Total Sales	**110.3**	**113.7**	**111.9**	**112.6**	**115.2**	**118.4**
Var. (%)	*4.3%*	*3.1%*	*-1.6%*	*0.6%*	*2.3%*	*2.8%*
LFL Var. (%)	*5.4%*	*8.2%*	*7.3%*	*2.1%*	*1.2%*	*1.4%*
LFL Online contribution (%)	*0.3%*	*0.3%*	*3.3%*	*1.1%*	*1.0%*	*1.0%*
Forex impact (%)	*-0.8%*	*-1.2%*	*-1.0%*	*1.3%*	*-*	*-*
Total Commercial Network (%)	*-0.3%*	*-3.9%*	*-7.9%*	*-2.8%*	*1.1%*	*1.4%*
Europe	78.5	81.8	81.4	81.3	83.4	85.7
Mexico	13.9	15.5	17.3	18.5	19.1	20.0
Japan	8.8	7.9	7.6	8.2	8.2	8.3
ROW	9.1	8.5	5.6	4.6	4.5	4.5
Gross Margin (%)	**57.8%**	**58.1%**	**58.8%**	**56.1%**	**56.6%**	**56.8%**
Adj. Gross Margin (%)	**57.1%**	**57.4%**	**57.6%**	**56.1%**	**56.6%**	**56.8%**

Note: estimated contribution (Lighthouse) of the online business (2016-2018) and forex impact (2016-2017). Gross margin adjusted for impairments and reversals of impairments of inventories.

Our scenario for 2020-2021e envisages the maintaining of the current retail network and, in contrast to the trend of recent years, a modest resumption of the opening of own stores in Latin America (2 stores and 2 franchises a year), given the gradual recovery of growth (mid term) estimated for the region by the IMF. At the consolidated level we expect a deceleration of LFL growth in 2020 to 1.2% (the effect of point of sale closures will no longer count) and +1.4% in 2021, underpinned by the penetration of the company internationally. In addition, we estimate an annual contribution to growth from the online business of 1% (2019-2021). We also maintain revenues from royalties at 3 Mn EUR/year (contract with Puig until 2023). As a result, we forecast a CAGR of 2.5% for consolidated revenue in 2019-2021e (below the c. 5% of its peers).

In our view, the online channel still has upside (<10% of 2018 consolidated revenues vs. > 25% in the global fashion industry) and mid-term growth via greater penetration of the brand in international markets is feasible.

Initial narrowing of margins and gradual improvement (mid-term) due to the mix of channels

The deceleration of consumption (partly explained by the reduction of consumer credit) will encourage greater competition in an industry which is itself deflationary (at the domestic level clothing prices have grown recurrently by less than the CPI). ADZ's adjusted gross margin was 57.6% in 2018 (-2.9p.p. -5y), being below that of its peers (c.61.5% 2018, c.-1.8p.p. -5y). The gross margin of companies in the accessible luxury segment is higher than the average for the retail industry specialised in fashion (approx. 46%, c. -1.5p.p. -5y).

The industry trend for discounts (ADZ sells c. 70% of it products in sales, in line with the industry) will partly offset the positive effect that the improved channel mix could have on the gross margin (+2% p.p. +2y in the contribution to sales of directly managed businesses: stores and corners).

In 2Q19 the gross margin narrowed by -1.9p.p. (-1.6p.p. vs. 1Q19), partly due to the appreciation of the USD (c. +6% y/y), as c. 65% of the products sold by ADZ are purchased in USD. For the year as whole we estimate a -1.5p.p. decline in the gross margin (56.1% 2019e, -2.7p.p. y/y) in line with the cumulative figure for 2H19, and a cumulative improvement of +0.7p.p. in the following two years (gross margin 56.8% 2021e). Our estimates are below the market's for ADZ's peers (+1.8p.p. 2019-2021e).

In EBITDA terms, the regulatory change in the accounting of leases (IFRS 16) has changed the Group's "picture" (leases had represented an average of c. 20% of recurrent operating costs -5y), with break-even already being achieved in 1Q19 (EUR 1.1Mn). We estimate recurrent EBITDA of EUR 10.1Mn 2019e (vs. EUR 2.5Mn 2018), resulting in an EBITDA/revenue margin of 8.7% (+7.6p.p. y/y). The transfer of costs associated with leases (EUR -8.1Mn 2019e) to below

EBITDA has been essential to this improvement, the decline in the comparable margin (without the IFRS 16 effect) having been c.-0.5p.p. y/y. The estimated gross margin improvement in the following years will translate practically in the same amount to the EBITDA/revenue margin (10.3% 2021e, +0.6p.p. +2y, vs. c. +1p.p. in 2019-2021 expected by the market for peers).

In addition, the degree of success of the Group's recent sales strategy (introduction of micro-collections and 4 seasons with mid-season sales) that aims to "manage scarcity" (the products offered are marketed as scarce and so likely to run out) as also implemented by competitors such as Massimo Dutti (Inditex), will be key to optimising margins and, so, for the profitability of the business.

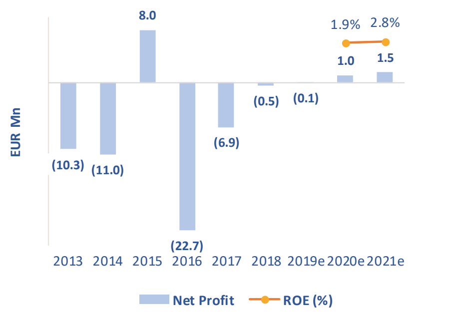
Exceed break-even in ordinary NP (2019e) after a decade of losses

Average financial expenses have been c. EUR 0.3Mn -3y, affected by the impact of the carrying amounts of financial positions, mainly due to hedges (EUR -1.1Mn and EUR +0.7Mn respectively in 2017 and 2018), and by FOREX (EUR -0.3 Mn/year in the same period). Together with the effects of these two factors going forward, financial expenses will become important again due to the impact of IFRS 16 from 2019 (EUR -0.9Mn 2019e).

The large sale of assets in 2015 (EUR 45 Mn) left the group with a cash pile (EUR 17.3Mn 2015) and sales of assets in 2018 meant the Group again recorded positive PBT (EUR 1.2Mn 2018). In the short and mid term we do not expect further significant divestments.

In addition, the geographical mix of PBT also plays a decisive role in results. The group has off balance sheet tax loss carryforwards (EUR 45.3Mn in 2018, generated mainly by the parent), but which cannot be used yet.

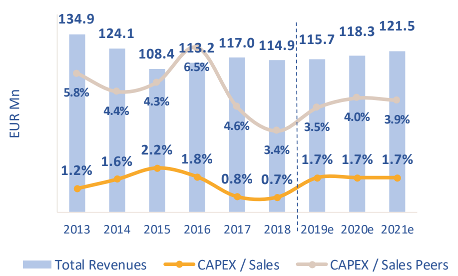
Chart 26. Net Profit vs ROE



Changes to tax law in 2016 resulted in changes in the recovery of tax loss carryforwards pending offsetting and the reversal of impairments to shareholdings prior to 2013, which raised the tax charge to EUR 9.7Mn (with an impact of < EUR 2Mn on CF). Since then, the company's policy has been not to use tax loss carryforwards. We estimate a tax rate of 30% in coming years, due to the geographical tax mix with the parent continuing to record losses in the mid term.

After virtually a decade of consolidated net losses, we expect the Group to flirt with break-even this year (EUR -0.1Mn in NP 2019e), reaching EUR 1.5Mn 2021e: ROE of 2.8% vs. c.15% for peers.

Chart 27. Revenues vs CAPEX/Sales

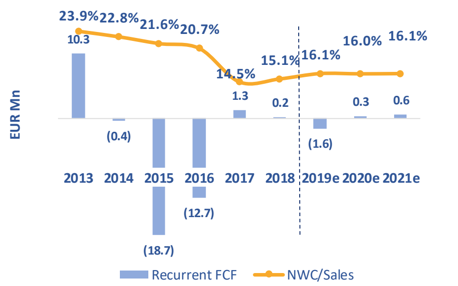


After the downsizing, there is scope to increase CAPEX

The Group went from a period of heavy investment (c. EUR 50Mn 2008-2011 between the purchase of properties and openings) to the opposite (divesting EUR 51.7Mn of assets in 2015-2018). This was a period of containment of CAPEX (annual average <EUR 2Mn -5y and <EUR 1Mn -2y), in which the focus of attention was on the optimisation of points of sale.

Given the potential turning point the Group is experiencing, we estimate investment of EUR2Mn 2019e, 1.7% CAPEX/sales for the year (vs. c. 5% for the industry), with this ratio remaining stable until 2021. If the organic growth of the business is sustained, ADZ has scope to accelerate investment (openings of own stores in strategic retail locations), strengthening the weighting of brick-and-mortar stores in the mix vs the online business.

Chart 28. Recurrent FCF vs. NWC/Sales

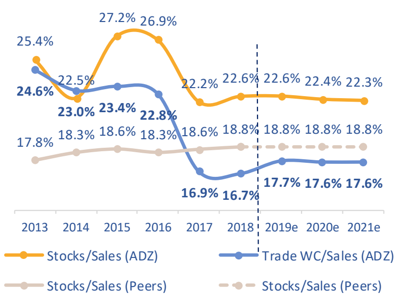


Working capital: inventories in the spotlight

Since the economic crisis raised the working capital investment ratio to highs (39.4% WC/revenues 2011), the management implemented has gradually reduced this ratio (15.1% of 2018 revenues).

The nature of the business means that inventory management is critical. The impairments made in 2015 (EUR 4.2Mn) sank the Group's margins (53.3% in terms of gross margin, -7.3p.p.), which, together with falling revenues (-12.6% y/y), raised the inventories/revenues ratio to 27.2% (2015). This ratio was 22.6% in 2018 (c. >2x. vs. peers). Optimal inventory management reduces the impact on margins in two ways: by preventing larger sales discounts and potential impairments of inventories. We estimate a 1p.p. rebound in the WC/sales ratio (17.7% 2019e), with a relatively stable inventories/revenues ratio. Improvements in the portfolio of suppliers

Chart 29. ADZ's Trade WC & Stocks o/Sales vs. Peers' Stocks/Sales



Note: 2019-2021e peers' data flat vs. 2018 informed data.

Chart 30. Free Cash Flow impacts 2018

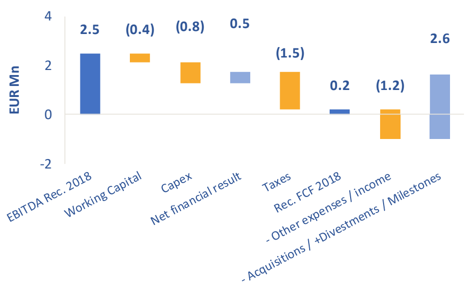


Chart 31. Free Cash Flow impacts 2019e

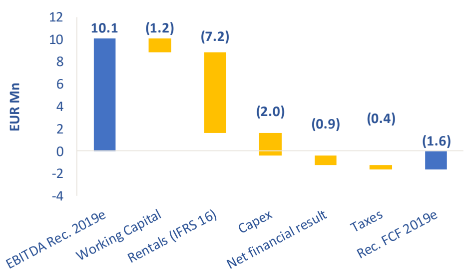
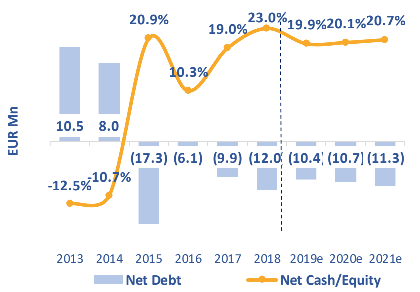


Chart 32. Net Debt vs. Net Cash o/Equity



(reducing delivery periods), greater efficiency from the use of innovative technologies (RFID[11]) and the continuation of the guaranteed sale policy with certain franchises, will bring the inventories/sales ratio into line with the sector, reducing the Group's WC investment.

In conditions to return to positive FCF in 2020

Improvements in working capital which added a total of EUR 14.8Mn in 2014-2018 to cash generation were absorbed by CAPEX, the tax charge and restructuring costs (EUR 6.5Mn in the period).

While in 2018 cash flow generation was impacted by restructuring costs (EUR -1.1Mn), funding from asset sales (EUR 2.6Mn) and the increase in the tax charge (EUR -1.5Mn, affected by the aforementioned divestments), the lack of these factors in 2019e will move the spotlight on to management of WC (EUR -1.2Mn) and CAPEX (EUR -2.0Mn). Revenue growth together with the improvement in the margin arising from the revenue mix (larger contribution to revenues from the directly managed business) will turn the "picture" around in the mid term.

In our envisaged scenario, we estimate positive FCF in 2020-2021e, with a FCF yield of c. 1% (vs. a FCF yield of c. 7.5% for the industry in 2019). The performance of FCF will be highly sensitive to three factors: i) the degree of success of the management of sales, ii) working capital and iii) the tax charge (at the international level).

We rule out a resumption of dividend payments before 2021.

Comfortable financial situation vs an indebted industry

ADZ has had a net cash pile since 2015, with a net cash/equity ratio of 23% in 2018. Increased investment (EUR +1.2Mn in CAPEX) and investment in working capital (EUR 1.2Mn) in 2019e, will initially reduce net cash/equity (19.9% 2019e), gradually improving in the following years (c. 21% 2021e).

The net cash position (EUR 10.6Mn 2019e) could accelerate organic growth (the estimated investment required to open a store is c. EUR 0.4Mn) vs. an indebted industry (an average of c. 2x ND/EBITDA).

On the other hand, tougher competition will favour M&A activity so the Group's mix (an internationally renowned brand, good LFL sales and a net cash position) could be attractive in an industry seeking to diversify brand portfolios to optimise growth. Tendam (owner of Cortefiel and Pedro del Hierro), has just acquired Hoss Intropía (involved in a liquidation process since February), a competitor of Uterqüe (Inditex).

In conclusion: after 5 years of drastic restructuring, ADZ will reach a turning point in 2019.

The period 2019-2020 should see the Group begin to reap the benefits of the strategic change of direction and downsizing implemented since 2013:

- A return to positive growth in turnover: CAGR +2% (2018-2021) vs -2% (-4y)
- Stabilisation of the gross margin at levels of 56-57%
- Positive and growing EBIT: EUR 3.3 Mn (2021) vs EUR -0.6 Mn (2018). After the coming into force of IFRS 16, EBIT has become the logical means of measuring the company's operating performance vs the pre-IFRS 16 period.
- And, as a result, the consolidation of (slightly) positive FCF.

On a two-year horizon, our estimates show the stabilisation of the company above break even in a model without aggressive assumptions and consistent with a macro scenario without high growth in consumption. A return to stable and credible FCF generation, however small, would increase the value of ADZ's net cash position against a backdrop of a potential resurgence of M&A activity (active or passive) as a means of growth in the sector as the most logical way to weather the (macro) storm.

[11] Radio frequency technology used in product management, enabling full traceability from the factory to the end client with a global vision of the entire supply chain virtually in real time.

Valuation inputs

Inputs for the DCF Valuation Approach

	2019e	2020e	2021e	Terminal Value (1)
Free Cash Flow "To the Firm"	**(0.8)**	**1.0**	**1.3**	**26**

			Best Case	Worst Case
Market Cap	**68.3**	At the date of this report		
Net financial debt	**-12.0**	Debt net of Cash (12m Results)		
Cost of Debt	3.0%	Net debt cost	1.0%	4.5%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**2.4%**	**Kd = Cost of Net Debt * (1-T)**	**0.8%**	**3.6%**
Risk free rate (rf)	0.5%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	7.0%	R (own estimate)	6.5%	7.5%
Beta (B)	1.1	B (Thomson Reuters)	0.9	1.3
Cost of Equity	**8.2%**	**Ke = Rf + (R * B)**	**6.3%**	**10.2%**
Equity / (Equity + Net Debt)	100.0%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	0.0%	D	=	=
WACC	**8.2%**	**WACC = Kd * D + Ke * E**	**6.3%**	**10.2%**
G "Fair"	**2.0%**		**2.5%**	**1.5%**

(1) Terminal value calculated on the recurrent Free Cash Flow "to the Firm" of the last estimated year using the normalised tax rate (T) indicated in the upper table.

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 19e	EPS 19e-21e	EV/EBITDA 19e	EBITDA 19e-21e	EV/Sales 19e	Revenues 19e-21e	EBITDA/Sales 19e	FCF Yield 19e	FCF 19e-21e
SMCP SA	SMCP.PA	795.7	12.1	21.2%	3.9	12.8%	0.7	10.4%	17.2%	n.a.	n.a.
Ted Baker PLC	TED.L	190.4	5.8	-3.0%	6.2	2.5%	0.8	1.5%	12.4%	13.0%	5.8%
Hugo Boss AG	BOSSn.DE	2,907.4	12.9	9.8%	7.4	5.3%	1.4	3.7%	19.4%	7.5%	8.3%
Burberry Group PLC	BRBY.L	9,563.4	22.9	11.8%	14.6	10.3%	3.0	5.4%	20.7%	4.1%	21.3%
Affordable Luxury players			13.4	9.9%	8.0	7.7%	1.5	5.2%	17.4%	8.2%	11.8%
Capri Holdings Ltd	CPRI.K	4,989.7	7.5	8.4%	7.0	7.0%	1.3	3.4%	19.0%	10.5%	14.6%
G-III Apparel Group Ltd	GIII.OQ	1,247.4	9.2	1.6%	6.3	1.3%	0.6	2.6%	9.1%	3.8%	97.9%
PVH Corp	PVH.N	6,474.6	10.2	8.3%	7.9	4.6%	1.0	3.9%	12.7%	6.1%	7.4%
Tapestry	TPR.N	6,449.4	12.3	14.0%	7.4	8.0%	1.4	4.0%	18.4%	7.2%	93.8%
Specialised Retail Holdings			9.8	8.1%	7.1	5.2%	1.1	3.5%	14.8%	6.9%	53.4%
ADZ	ADZ.MC	68.3	n.a.	n.a.	5.25	11.7%	0.46	2.5%	8.7%	n.a.	n.a.

Free Cash Flow sensitivity analysis (2020e)

A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 20e	EBITDA 20e	EV/EBITDA 20e
Max	**10.7%**	**12.7**	**4.2x**
Central	**9.7%**	**11.5**	**4.6x**
Min	**8.7%**	**10.3**	**5.1x**

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

Rec. FCF EUR Mn	CAPEX/Sales 20e		
EBITDA 20e	0.7%	1.7%	2.7%
12.7	**2.7**	**1.5**	**0.3**
11.5	**1.5**	**0.3**	**(0.9)**
10.3	**0.3**	**(0.9)**	**(2.0)**

Scenario	Rec. FCF/Yield 20e		
Max	**3.9%**	**2.2%**	**0.5%**
Central	**2.2%**	**0.5%**	**n.a.**
Min	**0.5%**	**n.a.**	**n.a.**

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **A cyclical industry, affected by trade conflicts and Brexit** against an economic backdrop showing clear signs of deceleration. The IMF has cut its forecast for global growth in 2019 by -0.3p.p. (to 3%, one of the lowest since the last crisis) and by -0.1p.p. for 2020 (3.4%), adjusting its forecast for the Eurozone by -0.1p.p. (1.2% in 2019 and 1.4% in 2020). This downgrade is partly due to the impact of the continuation of the trade war between the US and China. The downgrade has been even bigger for Latin America (a key region for ADZ), with growth forecasts now of 0.2% in 2019 and 1.8% in 2020 (-0.4p.p. and -0.5p.p. respectively vs. the previous estimate), affected by the worsening political situation. In addition, the sector is also impacted by Brexit.

   By way of reference, a fall of 0.5% in LFL sales growth (2019), would mean an additional impact of -0.7% in 2019 revenue, with a -0.2p.p. impact on the EBITDA/revenue margin, which would result in a decline of 26.2% in EBIT (EUR 1.0Mn).

2. **Weak consumption in the developed European economies,** due to structural factors such as an ageing population, low productivity and a lack of purchasing power among young people. Moody's has recently warned of low retail growth in the region (in the mid and long terms), classifying the European retail sector as having a “negative outlook” (ADZ obtained c. 70% of its 1H19 revenue in Europe). We forecast a deceleration of consolidated LFL growth (-5.1p.p. to 4.5% 2019), with +2.5% 2020-2021e in Europe, underpinned by the online business (c.50%). This deceleration could be sharper if the macro context weakens more than expected.

3. **Customer concentration.** Some 41.9% of 1H19 points of sale are corners, with c. 60% located in El Corte Inglés stores (Spain) and the rest in Palacio del Hierro (Mexico). The problems being encountered by the former could negatively impact ADZ’s business.

4. **Further margin deterioration,** in a sector which is itself deflationary, and in which tougher competition will continue to favour discounts. Weak consumption together with the increased cost of goods from Asia (ADZ's supplier) have impacted the sector as a whole. ADZ’s gross margin has fallen -7.5p.p. since the beginning of the decade (vs. c. -1.5p.p. for the sector). An additional 0.5p.p. fall (2019) in the gross margin, would reduce EBIT by 39% (EUR 0.8Mn). Moreover, the implementation of protectionist trade policies (the trade war between the US and China) could cause collateral damage to the Group’s margins. This factor could imply long term changes in the Group’s portfolio of suppliers.

5. **Contractual dependence on a core shareholder: Puig.** In March 2009 ADZ renewed the licensing agreement for the manufacture of perfumes and cosmetics (until 31/12/2023). Revenues from royalties have made an average contribution of 1.6Mn -5y (in 2018 they accounted for 4.4% of the gross margin). Our estimates point to revenue of EUR 4.5Mn in 2019-2021e associated with this contract, generating 64.3% of estimated EBIT for the period. If this agreement were not to be renewed (Puig left the board in 2016) it would considerably reduce the Group's very long term profitability.

6. **Forex risk,** both in respect of revenues, where it is mainly exposed to the Mexican peso and the yen (14.9% and 6.7% of 1H19 consolidated revenues were generated in these countries, respectively), and to a lesser extent to the USD (c. 4.5% of revenues), and costs (c. 65% of the products sold are acquired in USD). While the forex effect drained 1p.p. from 2019 LFL growth, the impact was the opposite in 1H19, adding 3.4p.p. to growth.

7. **WC management.** Inventory management is critical in the sector. The improvements implemented have reduced the inventories/revenues ratio by 2.8p.p. -5y (22.6% 2018, vs c. 30% at the beginning of the decade). Optimal management reduces the impact on margins of higher discounts and potential inventory impairments. The impairments made in 2015 (EUR 4.2Mn) sank the Group’s margins (53.3% in terms of gross margin), which, together with falling revenues (-12.6% y/y), raised the ratio to 27.2%.

A board in which the founding family prevails

ADZ's restructuring has also affected the board, which continues to be chaired by the Group's founder and majority shareholder (Adolfo Domínguez), with 50% of board members being independent (including the vice-president). Important changes have included the appointment (July 2018) of Adriana Domínguez, the eldest child of the Group's founder, as Managing Director (after having held the position of Group CEO for almost a year), and that of her sister, Valeria Domínguez, as proprietary director.

1. **A renewed board of directors with a mixed profile,** with 75% of its 8 members having taken their seats in the last three years, and Luxury Liberty having maintained its position as proprietary director (since 2005). According to the company's bylaws, the position of director is held for a maximum term of four years renewable for periods of equal duration (in accordance with prevailing legislation), without the bylaws stipulating a limit to the number of terms an independent director can serve. In addition, the bylaws establish a limit of two years for outgoing board members before they can take a position on the board or on the management team of potential competitors.

2. **This renovation of the board further increases the influence of the founding family,** representing 37.5% of its members, who have controlled the Group's direct management since the dismissal of the former Managing Director (2016). This renovation also implies the exit from the board of Puig S.A (former proprietary director) which maintains a contractual relationship with the Group for the retailing of its perfumes and cosmetics (an agreement that was renewed in 2009 and that expires in 2023).

   The board still holds a significant proportion of capital (41.8%), guaranteeing its interests are aligned with those of minority shareholders. There are no restrictions on the number of boards to which board members may belong nor are there any shareholder agreements. Non-executive directors can only vote in representation of other non-executive directors.

3. **The bylaws contain clauses which strengthen the control of the founding family,** requiring qualified majorities for the adoption of agreements, such as the election of the Chairman (in the event of non-compliance with the requirements established in the regulations of the board of directors).

4. **With performance incentives for the board proportional to the size of the company and linked to "company performance criteria",** which envisage the remuneration in shares of its non-executive directors, but which do not yet include malus/claw-back clauses. The remuneration of the board has on average represented 1.7% -5y of personnel costs (with a downward trend, 1.3% in 2018).

5. **A renewed management team with incentives in the form of bonuses and with golden parachute contract clauses.** In 2017 the company renewed part of its steering committee, opting for internal promotion. In addition, the new Managing Director will benefit from a 3-year period of obligatory compliance by the company, at the end of which she will receive higher severance compensation (in the event of non-disciplinary dismissal) than that legally required. Similarly, maximum severance compensation for contract termination of up to 60 monthly salary payments has been agreed for one of the board's directors. The remuneration scheme does not include long-term savings plans.

6. **We rule out a dividend payment in the mid term:** the company has no commitment to pay a dividend, its main focus of attention being a resumption of organic growth and achieving business profitability in a sustained way.

7. **Absence of agreements that would come into force or be modified in the event of a takeover bid,** although modification or termination clauses do exist, in the event of a change of control, for certain contractual agreements (corners, rentals) with third parties, that could affect business development. These clauses particularly affect the corners that ADZ has in El Corte Inglés stores, the brand's outlets in other stores (in las Rozas and la Roca) and the agreement with Puig SA for the creation of perfume and cosmetics product lines.

Appendix 1. Financial Projections[1]

Balance Sheet (EUR Mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Intangible assets	2.5	2.3	1.6	0.9	0.8	33.6	33.2	32.8
Fixed assets	30.4	17.9	16.6	12.3	10.6	11.4	12.3	13.2
Other Non Current Assets	19.5	18.0	8.2	8.5	8.1	8.1	8.1	8.1
Financial Investments	3.0	5.0	5.1	5.0	5.2	5.2	5.2	5.2
Goodwill & Other Intangilbles	-	-	-	-	-	-	-	-
Current assets	45.7	46.3	44.4	36.2	36.2	36.4	37.0	37.8
Total assets	**101.1**	**89.5**	**75.9**	**62.9**	**60.8**	**94.8**	**95.7**	**97.1**
Equity	74.6	82.7	59.4	52.3	52.2	52.1	53.1	54.6
Minority Interests	0.5	0.7	1.1	0.7	0.8	0.9	1.1	1.2
Provisions & Other L/T Liabilities	0.6	0.5	0.6	0.6	1.0	1.0	1.0	1.0
Other Non Current Liabilities	-	-	-	-	-	33.2	33.2	33.2
Net financial debt	8.0	(17.3)	(6.1)	(9.9)	(12.0)	(10.4)	(10.7)	(11.3)
Current Liabilities	17.4	22.9	20.9	19.2	18.9	17.9	18.0	18.3
Equity & Total Liabilities	**101.1**	**89.5**	**75.9**	**62.9**	**60.8**	**94.8**	**95.7**	**97.1**

									CAGR	
P&L (EUR Mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**14-18**	**18-21e**
Total Revenues	**124.1**	**108.4**	**113.2**	**117.0**	**114.9**	**115.7**	**118.3**	**121.5**	***-1.9%***	***1.9%***
Total Revenues growth	*-8.0%*	*-12.6%*	*4.4%*	*3.3%*	*-1.7%*	*0.6%*	*2.2%*	*2.7%*		
COGS	(48.9)	(50.6)	(47.7)	(49.0)	(47.3)	(50.8)	(51.3)	(52.5)		
Gross Margin	**75.1**	**57.8**	**65.5**	**68.0**	**67.6**	**64.9**	**66.9**	**68.9**	***-2.6%***	***0.7%***
Gross Margin/Revenues	*60.6%*	*53.3%*	*57.8%*	*58.1%*	*58.8%*	*56.1%*	*56.6%*	*56.8%*		
Personnel Expenses	(43.8)	(43.7)	(42.5)	(39.8)	(38.1)	(35.8)	(35.9)	(36.3)		
Other Operating Expenses	(30.4)	(29.1)	(31.5)	(30.4)	(27.1)	(19.0)	(19.5)	(20.1)		
Recurrent EBITDA	**1.0**	**(15.1)**	**(8.6)**	**(2.2)**	**2.5**	**10.1**	**11.5**	**12.6**	***25.8%***	***71.7%***
Recurrent EBITDA growth	*453.6%*	*n.a.*	*43.2%*	*74.2%*	*212.4%*	*306.2%*	*14.3%*	*9.1%*		
Rec. EBITDA/Revenues	*0.8%*	*n.a.*	*n.a.*	*n.a.*	*2.2%*	*8.7%*	*9.7%*	*10.3%*		
Restructuring Expenses	(2.5)	(2.8)	-	-	(1.2)	-	-	-		
EBITDA	**(1.5)**	**(17.9)**	**(8.6)**	**(2.2)**	**1.3**	**10.1**	**11.5**	**12.6**	***n.a.***	***n.a.***
Depreciation & Provisions	(6.6)	(10.0)	(4.0)	(2.9)	(1.9)	(1.6)	(1.6)	(1.6)		
Capitalized Expense	0.2	-	-	-	-	-	-	-		
Rentals (IFRS 16 impact)	-	-	-	-	-	(7.2)	(7.4)	(7.7)		
EBIT	**(7.8)**	**(27.9)**	**(12.5)**	**(5.1)**	**(0.6)**	**1.3**	**2.5**	**3.3**	***-47.4%***	***n.a.***
EBIT growth	*32.0%*	*-255.7%*	*55.1%*	*59.5%*	*88.2%*	*318.9%*	*91.9%*	*30.4%*		
EBIT/Revenues	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.1%*	*2.1%*	*2.7%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	1.5	(2.2)	(0.2)	(1.6)	0.5	(0.9)	(0.9)	(0.9)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**(6.4)**	**(30.0)**	**(12.8)**	**(6.7)**	**(0.1)**	**0.4**	**1.6**	**2.4**	***-62.0%***	***n.a.***
Ordinary Profit Growth	*55.5%*	*-372.4%*	*57.5%*	*47.4%*	*98.0%*	*437.1%*	*265.2%*	*45.2%*		
Extraordinary Results	0.0	41.7	(0.5)	0.4	1.3	-	-	-		
Profit Before Tax	**(6.3)**	**11.7**	**(13.2)**	**(6.3)**	**1.2**	**0.4**	**1.6**	**2.4**	***n.a.***	***26.9%***
Tax Expense	(4.7)	(4.0)	(9.7)	(0.4)	(1.5)	(0.4)	(0.5)	(0.7)		
Effective Tax Rate	*n.a.*	*34.2%*	*n.a.*	*n.a.*	*n.a.*	*88.8%*	*30.0%*	*30.0%*		
Minority Interests	(0.0)	0.3	0.2	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(11.0)**	**8.0**	**(22.7)**	**(6.9)**	**(0.5)**	**(0.1)**	**1.0**	**1.5**	***-53.9%***	***n.a.***
Net Profit growth	*-7.5%*	*172.2%*	*-384.8%*	*69.8%*	*92.7%*	*85.0%*	*n.a.*	*50.8%*		
Ordinary Net Profit	**(3.9)**	**(26.9)**	**(12.6)**	**(6.8)**	**0.6**	**0.2**	**1.0**	**1.5**	***n.a.***	***34.8%***
Ordinary Net Profit growth	*67.5%*	*-587.7%*	*53.3%*	*45.6%*	*109.1%*	*-70.1%*	*442.7%*	*50.8%*		

									CAGR	
Cash Flow (EUR Mn)	**1.0**	**(15.1)**	**(8.6)**	**(2.2)**	**2.5**	**10.1**	**11.5**	**12.6**	**25.8%**	**71.7%**
Recurrent EBITDA						**10.1**	**11.5**	**12.6**	***25.8%***	***71.7%***
Rentals (IFRS 16 impact)						(7.2)	(7.4)	(7.7)		
Working Capital Increase						(1.2)	(0.4)	(0.6)		
Recurrent Operating Cash Flow						**1.6**	**3.8**	**4.3**	***-18.7%***	***27.1%***
CAPEX						(2.0)	(2.0)	(2.1)		
Net Financial Result affecting the Cash Flow						(0.9)	(0.9)	(0.9)		
Tax Expense						(0.4)	(0.5)	(0.7)		
Recurrent Free Cash Flow						**(1.6)**	**0.3**	**0.6**	***n.a.***	***42.5%***
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(1.6)**	**0.3**	**0.6**	***n.a.***	***-27.7%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**1.6**	**(0.3)**	**(0.6)**		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 8.1Mn higher due to IFRS 16.

Appendix 2. Free Cash Flow(1)

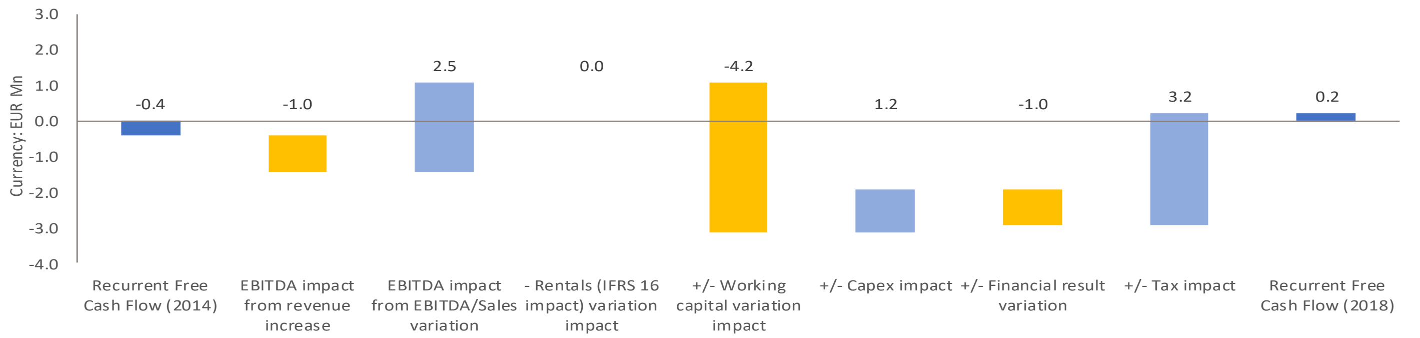
A) Cash Flow Analysis (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 15-18	CAGR 18-21e
Recurrent EBITDA	**(15.1)**	**(8.6)**	**(2.2)**	**2.5**	**10.1**	**11.5**	**12.6**	*n.a.*	*71.7%*
Recurrent EBITDA growth	*n.a.*	*43.2%*	*74.2%*	*212.4%*	*306.2%*	*14.3%*	*9.1%*		
Rec. EBITDA/Revenues	*n.a.*	*n.a.*	*n.a.*	*2.2%*	*8.7%*	*9.7%*	*10.3%*		
- Rentals (IFRS 16 impact)	-	-	-	-	(7.2)	(7.4)	(7.7)		
+/- Working Capital increase	4.9	(0.0)	6.5	(0.4)	(1.2)	(0.4)	(0.6)		
= Recurrent Operating Cash Flow	**(10.1)**	**(8.6)**	**4.3**	**2.1**	**1.6**	**3.8**	**4.3**	*n.a.*	*27.1%*
Rec. Operating Cash Flow growth	*n.a.*	*-15.4%*	*n.a.*	*-50.4%*	*-23.0%*	*130.5%*	*15.6%*		
Rec. Operating Cash Flow / Sales	*n.a.*	*n.a.*	*3.6%*	*1.8%*	*1.4%*	*3.2%*	*3.6%*		
- CAPEX	(2.4)	(2.0)	(0.9)	(0.8)	(2.0)	(2.0)	(2.1)		
- Net Financial Result affecting Cash Flow	(2.2)	(0.2)	(1.6)	0.5	(0.9)	(0.9)	(0.9)		
- Taxes	(4.0)	(1.9)	(0.4)	(1.5)	(0.4)	(0.5)	(0.7)		
= Recurrent Free Cash Flow	**(18.7)**	**(12.7)**	**1.3**	**0.2**	**(1.6)**	**0.3**	**0.6**	*n.a.*	*42.5%*
Rec. Free Cash Flow growth	*n.a.*	*-31.9%*	*n.a.*	*-83.7%*	*n.a.*	*n.a.*	*85.3%*		
Rec. Free Cash Flow / Revenues	*n.a.*	*n.a.*	*1.1%*	*0.2%*	*n.a.*	*0.3%*	*0.5%*		
- Restructuring expenses & others	(2.8)	-	-	(1.2)	-	-	-		
- Acquisitions / + Divestments	45.8	0.1	3.2	2.6	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**24.3**	**(12.6)**	**4.5**	**1.6**	**(1.6)**	**0.3**	**0.6**	*-59.5%*	*-27.7%*
Free Cash Flow growth	*n.a.*	*n.a.*	*n.a.*	*-64.3%*	*n.a.*	*n.a.*	*85.3%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*1.9%*	*0.3%*	*n.a.*	*0.5%*	*0.9%*		
Free Cash Flow Yield (s/Mkt Cap)	*35.6%*	*n.a.*	*6.6%*	*2.4%*	*n.a.*	*0.5%*	*0.9%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2015	2016	2017	2018	2019e	2020e	2021e
Recurrent FCF(FY - 1)	**(0.4)**	**(18.7)**	**(12.7)**	**1.3**	**0.2**	**(1.6)**	**0.3**
EBITDA impact from revenue increase	(0.1)	(0.7)	(0.3)	0.0	0.0	0.2	0.3
EBITDA impact from EBITDA/Sales variation	(15.9)	7.2	6.6	4.6	7.6	1.2	0.7
= Recurrent EBITDA variation	**(16.1)**	**6.5**	**6.3**	**4.7**	**7.6**	**1.4**	**1.1**
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	(7.2)	(0.2)	(0.3)
+/- Working capital variation impact	1.1	(5.0)	6.5	(6.8)	(0.9)	0.9	(0.2)
= Recurrent Operating Cash Flow variation	**(15.0)**	**1.6**	**12.8**	**(2.1)**	**(0.5)**	**2.1**	**0.6**
+/- CAPEX impact	(0.4)	0.4	1.1	0.0	(1.2)	(0.0)	(0.1)
+/- Financial result variation	(3.6)	1.9	(1.4)	2.1	(1.3)	(0.0)	(0.0)
+/- Tax impact	0.7	2.1	1.5	(1.1)	1.1	(0.1)	(0.2)
= Recurrent Free Cash Flow variation	**(18.3)**	**6.0**	**14.0**	**(1.1)**	**(1.8)**	**2.0**	**0.3**
Recurrent Free Cash Flow	**(18.7)**	**(12.7)**	**1.3**	**0.2**	**(1.6)**	**0.3**	**0.6**

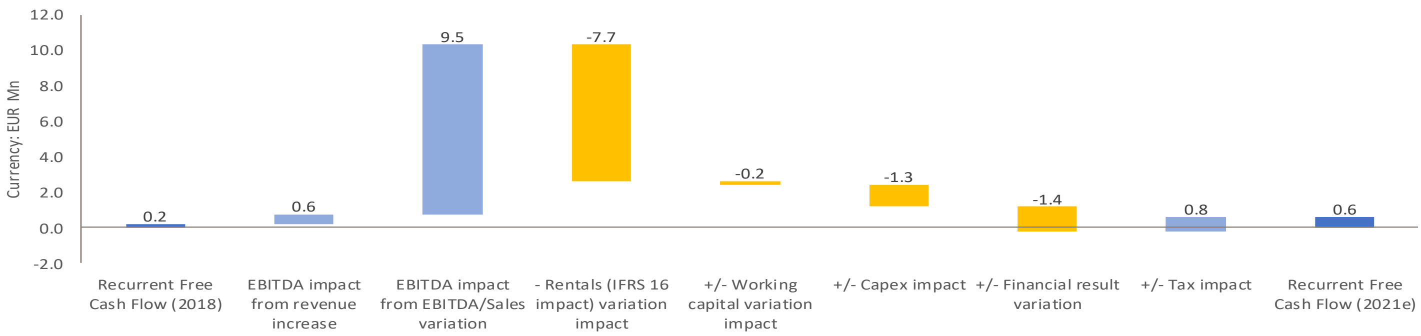
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 15-18	CAGR 18-21e
EBIT	**(27.9)**	**(12.5)**	**(5.1)**	**(0.6)**	**1.3**	**2.5**	**3.3**	*-72.2%*	*n.a.*
** Theoretical Tax rate*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*30.0%*	*30.0%*	*30.0%*		
= Taxes (pre- Net Financial Result)	-	-	-	-	(0.4)	(0.8)	(1.0)		
Recurrent EBITDA	**(15.1)**	**(8.6)**	**(2.2)**	**2.5**	**10.1**	**11.5**	**12.6**	*n.a.*	*71.7%*
- Rentals (IFRS 16 impact)	-	-	-	-	(7.2)	(7.4)	(7.7)		
+/- Working Capital increase	4.9	(0.0)	6.5	(0.4)	(1.2)	(0.4)	(0.6)		
= Recurrent Operating Cash Flow	**(10.1)**	**(8.6)**	**4.3**	**2.1**	**1.6**	**3.8**	**4.3**	*n.a.*	*27.1%*
- CAPEX	(2.4)	(2.0)	(0.9)	(0.8)	(2.0)	(2.0)	(2.1)		
- Taxes (pre- Financial Result)	-	-	-	-	(0.4)	(0.8)	(1.0)		
= Recurrent Free Cash Flow (To the Firm)	**(12.5)**	**(10.6)**	**3.4**	**1.3**	**(0.8)**	**1.0**	**1.3**	*n.a.*	*-0.5%*
Rec. Free Cash Flow (To the Firm) growth	*n.a.*	*-15.6%*	*n.a.*	*-62.3%*	*n.a.*	*n.a.*	*31.7%*		
Rec. Free Cash Flow (To the Firm) / Revenues	n.a.	n.a.	2.9%	1.1%	n.a.	0.8%	1.0%		
- Acquisitions / + Divestments	45.8	0.1	3.2	2.6	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**33.3**	**(10.5)**	**6.6**	**3.9**	**(0.8)**	**1.0**	**1.3**	*-51.2%*	*-31.4%*
Free Cash Flow (To the Firm) growth	*997.5%*	*n.a.*	*n.a.*	*-41.3%*	*n.a.*	*n.a.*	*31.7%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*n.a.*	*n.a.*	*6.4%*	*2.4%*	*n.a.*	*1.8%*	*2.4%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*62.9%*	*n.a.*	*12.5%*	*7.3%*	*n.a.*	*1.8%*	*2.4%*		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 8.1Mn higher due to IFRS 16.

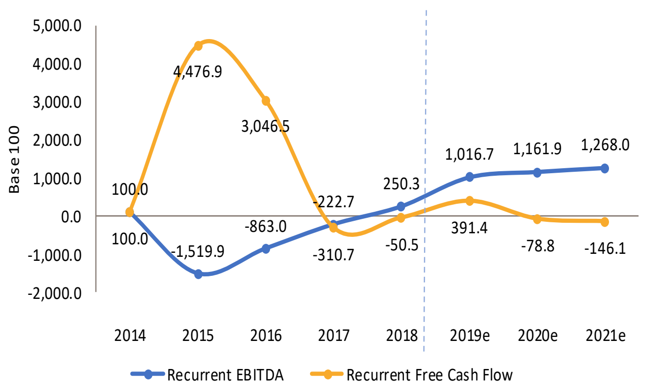
Recurrent Free Cash Flow accumulated variation analysis (2014 - 2018)



Recurrent Free Cash Flow accumulated variation analysis (2018 - 2021e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward

Appendix 3. EV breakdown at the date of this report

	EUR Mn	Fuente
Market Cap	68.3	
+ Minority Interests	0.8	12m Results
+ Provisions & Other L/T Liabilities	1.0	12m Results
+ Net financial debt	(12.0)	12m Results
- Financial Investments	5.2	12m Results
+/- Others		
Enterprise Value (EV)	**52.9**	

Appendix 4. Historical performance(1)(2)

Historical performance (EUR Mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 08-18	CAGR 18-21e
Total Revenues	191.6	179.2	166.9	156.1	152.1	134.9	124.1	108.4	113.2	117.0	114.9	115.7	118.3	121.5	-5.0%	1.9%
Total Revenues growth	n.a.	-6.5%	-6.8%	-6.5%	-2.6%	-11.3%	-8.0%	-12.6%	4.4%	3.3%	-1.7%	0.6%	2.2%	2.7%		
EBITDA	20.5	19.2	10.3	1.6	(5.3)	(2.5)	(1.5)	(17.9)	(8.6)	(2.2)	1.3	10.1	11.5	12.6	-24.2%	n.a.
EBITDA growth	n.a.	-6.2%	-46.5%	-84.7%	-437.4%	53.1%	40.0%	n.a.	52.1%	74.2%	158.0%	686.7%	14.3%	9.1%		
EBITDA/Sales	10.7%	10.7%	6.1%	1.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1%	8.7%	9.7%	10.3%		
Net Profit	4.1	1.0	(4.5)	(9.3)	(23.9)	(10.3)	(11.0)	8.0	(22.7)	(6.9)	(0.5)	(0.1)	1.0	1.5	n.a.	n.a.
Net Profit growth	n.a.	-76.4%	-563.1%	-106.1%	-158.4%	57.1%	-7.5%	172.2%	-384.8%	69.8%	92.7%	85.0%	n.a.	50.8%		
Adjusted number shares (Mn)	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.0	9.2	9.2	9.2	9.2		
EPS (EUR)	0.45	0.11	n.a.	n.a.	n.a.	n.a.	n.a.	0.87	n.a.	n.a.	n.a.	n.a.	0.11	0.17		
EPS growth	n.a.	-76.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	50.8%		
Ord. EPS (EUR)	0.83	0.41	0.29	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.07	0.02	0.11	0.17		
Ord. EPS growth	n.a.	-50.4%	-29.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-70.1%	n.a.	50.8%		
CAPEX	(6.2)	(6.2)	(6.2)	(6.2)	(5.3)	(0.3)	(2.0)	(2.4)	(2.0)	(0.9)	(0.8)	(2.0)	(2.0)	(2.1)		
CAPEX/Sales %	3.3%	3.5%	3.7%	4.0%	3.5%	0.2%	1.6%	2.2%	1.8%	0.8%	0.7%	1.7%	1.7%	1.7%		
Free Cash Flow	(4.2)	10.1	(4.2)	(13.2)	21.7	10.3	(2.7)	24.3	(12.6)	4.5	1.6	(1.6)	0.3	0.6	n.a.	-27.7%
ND/EBITDA (x)[3]	0.5x	0.3x	0.5x	14.0x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-9.4x	-1.0x	-0.9x	-0.9x		
P/E (x)	15.1x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.0x	n.a.	n.a.	n.a.	n.a.	67.0x	44.5x		
EV/Sales (x)	0.3x	0.5x	0.5x	0.3x	0.4x	0.5x	0.5x	0.4x	0.2x	0.3x	0.5x	0.5x	0.4x	0.4x		
EV/EBITDA (x)[3]	2.6x	4.8x	8.7x	27.8x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42.5x	5.2x	4.6x	4.2x		
Absolute performance	-72.0%	58.7%	-22.4%	-38.5%	-24.1%	44.8%	-12.4%	-30.4%	-4.9%	62.2%	29.7%	6.7%				
Relative performance vs Ibex 35	-53.8%	22.2%	-6.1%	-29.2%	-20.4%	19.2%	-15.5%	-25.1%	-3.0%	51.0%	52.5%	-0.5%				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.
Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 8.1Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Main Competitors 2019e

		Affordable Luxury players					Specialised Retail Holdings					
	EUR Mn	**SMCP SA**	**Ted Baker PLC**	**Hugo Boss AG**	**Burberry Group PLC**	**Average**	**PVH Corp**	**Tapestry**	**Capri Holdings Ltd**	**Kering**	**Average**	**ADZ**
Market data	Ticker (Reuters)	SMCP.PA	TED.L	BOSSn.DE	BRBY.L		PVH.N	TPR.N	CPRI.K	PRTP.PA		ADZ.MC
	Country	France	UK	Germany	UK		USA	USA	UK	France		Spain
	Market cap	795.7	190.4	2,907.4	9,563.4		6,474.6	6,449.4	4,989.7	67,859.5		68.3
	Enterprise value (EV)	764.1	563.9	4,124.7	10,056.8		8,831.8	7,184.9	7,000.2	74,363.3		52.9
Basic financial information	Total Revenues	1,133.1	728.0	2,858.5	3,329.3		8,848.2	5,301.8	5,248.4	15,764.6		115.7
	Total Revenues growth	11.4%	1.9%	2.2%	5.4%	5.2%	4.9%	5.3%	12.4%	15.4%	9.5%	0.6%
	2y CAGR (2019e - 2021e)	10.4%	1.5%	3.7%	5.4%	5.2%	3.9%	4.0%	3.4%	8.1%	4.9%	2.5%
	EBITDA	194.9	90.4	555.1	688.8		1,124.4	976.5	994.8	5,521.7		10.1
	EBITDA growth	26.0%	-14.5%	12.4%	4.7%	7.1%	-0.1%	20.0%	1.0%	24.2%	11.3%	686.7%
	2y CAGR (2019e - 2021e)	12.8%	2.5%	5.3%	10.3%	7.7%	4.6%	8.0%	7.0%	8.3%	7.0%	11.7%
	EBITDA/Revenues	17.2%	12.4%	19.4%	20.7%	17.4%	12.7%	18.4%	19.0%	35.0%	21.3%	8.7%
	EBIT	133.7	48.9	333.1	543.2		841.0	740.6	787.2	4,714.4		1.3
	EBIT growth	11.6%	-36.1%	-10.1%	3.8%	-7.7%	1.0%	25.3%	0.3%	19.5%	11.5%	318.9%
	2y CAGR (2019e - 2021e)	14.4%	5.4%	7.5%	10.7%	9.5%	4.0%	9.4%	6.7%	9.3%	7.4%	58.2%
	EBIT/Revenues	11.8%	6.7%	11.7%	16.3%	11.6%	9.5%	14.0%	15.0%	29.9%	17.1%	1.1%
	Net Profit	71.1	26.8	223.2	421.7		625.5	537.9	677.8	2,998.0		(0.1)
	Net Profit growth	41.5%	-43.1%	-5.5%	7.1%	0.0%	-0.5%	11.3%	40.3%	13.3%	16.1%	85.0%
	2y CAGR (2019e - 2021e)	23.5%	3.4%	9.9%	11.5%	12.0%	5.9%	13.1%	5.9%	14.2%	9.8%	n.a.
	CAPEX/Sales %	-7.2%	-5.0%	-6.2%	-6.7%	-6.3%	-3.8%	-4.5%	-5.0%	-6.1%	-4.9%	-1.7%
	Free Cash Flow	(57.9)	24.7	217.4	390.5		396.2	189.0	525.1	2,025.7		(1.6)
	Net financial debt	341.3	179.8	45.3	(982.2)		2,368.0	324.5	1,607.4	2,352.7		(10.4)
	ND/EBITDA (x)	1.8	2.0	0.1	(1.4)	0.6	2.1	0.3	1.6	0.4	1.1	(1.0)
	Pay-out	0.0%	55.7%	80.4%	51.6%	46.9%	1.7%	64.2%	0.0%	48.3%	28.6%	0.0%
Multiples and Ratios	P/E (x)	12.1	5.8	12.9	22.9	13.4	10.2	12.3	7.5	22.2	13.1	n.a.
	P/BV (x)	0.7	0.7	2.8	5.4	2.4	1.2	2.3	1.8	6.4	2.9	1.3
	EV/Revenues (x)	0.7	0.8	1.4	3.0	1.5	1.0	1.4	1.3	4.7	2.1	0.5
	EV/EBITDA (x)	3.9	6.2	7.4	14.6	8.0	7.9	7.4	7.0	13.5	8.9	5.2
	EV/EBIT (x)	5.7	11.5	12.4	18.5	12.0	10.5	9.7	8.9	15.8	11.2	40.4
	ROE	5.8	9.0	22.0	24.2	15.2	11.4	18.1	27.3	29.9	21.7	n.a.
	FCF Yield (%)	n.a.	13.0	7.5	4.1	8.2	6.1	7.2	10.5	3.0	6.7	n.a.
	DPS	0.00	0.33	2.60	0.52	0.86	0.14	1.19	0.00	11.50	3.21	0.00
	Dvd Yield	0.0%	7.8%	6.3%	2.2%	4.1%	0.2%	5.1%	0.0%	2.1%	1.8%	0.0%

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
03-Dec-2019	n.a.	7.36	n.a.	n.a.	Initial Coverage	Ana Isabel González García