# 9M18 FINANCIAL RESULTS

**December 12, 2018**

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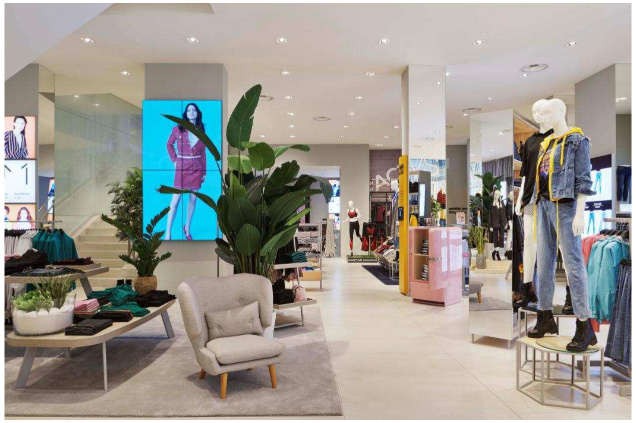
# 9M18 Highlights





Market share was at 8% (+16bps vs. Jan 2018 and +33 bps vs. Oct 2017), still growing in the period.

Total Net Sales excluding the sell-in to Sempione Fashion AG reached €1,010.5m. The decrease of -1.4% vs. 9M17 was driven by difficult weather conditions that impacted the first semester and that even worsened during the months of September and October (warm temperatures), which have affected traffic in stores of all the players of the market.

The difficult context has severely penalized sales of the child segment, typically very reactive in the change of season and in particular in the "back to school period", this year almost absent due to the persistence of summer temperatures.

9M18 EBITDA adjusted amounted to €104.1m (-€33.9m), reflecting a lower EBITDA generation in the third quarter of 2018, caused by higher markdowns during the month of August and a weak top line during the months of September and October.

PBT adjusted amounted to €51.2m, mainly impacted by a lower third quarter EBITDA generation.

Already starting from the beginning of the year, openings started to be more selective: as a result, during the first nine months, FF DOS network expanded at a lower rate compared to the previous year (+13 stores vs. +29 of last year).

**-1.4%**

9M18 Net Sales (excluding the sell-in to Sempione Fashion AG)

**8.0%**

Italian market share

**+13**

Full format DOS

*Source: Sita Ricerca for market share and market trends*

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# Key Income Statement Items
# 9M18 Results

| € mln | 31.10.2018 Reported | 31.10.2018 Adjusted | 31.10.2017 Reported | 31.10.2017 Adjusted | Chg. (Adjusted) | Chg. % (Adjusted) |
|---|---|---|---|---|---|---|
| Net Sales | 1,073.2 | 1,073.2 | 1,117.7 | 1,117.7 | (44.5) | (4.0%) |
| ***Net Sales**** | **1,010.5** | **1,010.5** | **1,024.8** | **1,024.8** | **(14.2)** | **(1.4%)** |
| **EBITDA** | 41.7 | **104.1** | 135.8 | **138.0** | (33.9) | (24.5%) |
| *EBITDA%* | 4.1% | 10.3% | 13.3% | 13.5% | | (316ppt) |
| **EBIT** | (5.6) | **63.2** | 90.4 | **99.0** | (35.7) | (36.1%) |
| *EBIT%* | (0.5%) | 6.3% | 8.8% | 9.7% | | (340ppt) |
| **PBT** | 36.8 | **51.2** | 34.5 | **91.5** | (40.3) | (44.0%) |
| **Net Financial Position** | 424.3 | **440.4** | 365.7 | **334.8** | 105.6 | 31.5% |
| **Market Share** | 8.0% | | 7.7% | | | +33ppt |

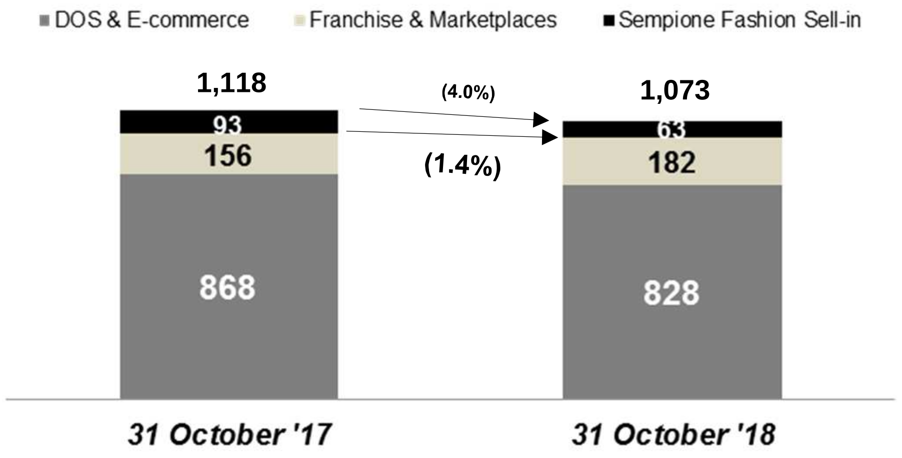
- Net Sales decreased by 1.4% in 9M18 compared with the same period of last year: the third quarter was affected by a decrease in traffic determined by exceptionally mild temperatures in the months of September and October that penalized the whole apparel market (which decreased by 13% and 4% in the two months respectively). Only during the first week of October, when temperatures matched the seasonal averages, sales were in line with expectations.
- EBITDA was €104.1m (10.3% on net sales), down by €33.9m compared to the first nine months of 2017. The decrease was caused by increased promotional activities during the month of August in order to facilitate the reduction of the S/S stock leftovers, a very weak top line in September, characterized by a difficult comparison with the performance of September 2017, and a missed expected rebound during the month of October driven by persisting warm temperatures. The loss of EBITDA is due almost entirely to the OVS brand, which is more sensitive to the climatic aspects as kids' sales penetration is higher; Upim performances have been mitigated by the perfumery and homeware sector typically less influenced by the weather.
- Adjusted PBT decrease mainly reflects the lower EBITDA generation compared to the one of one year ago, higher D&A and some exchange rate costs slightly positive last year and just below zero this year.
- We underline that the above figures have been adjusted for one-offs and non-cash items. In this regard, PBT adjusted (€14.4m of adjustments) was impacted by positive and negative elements: (i) +€56.4m of one-off costs related to the last relations with Sempione Fashion AG already fully posted in the first half of 2018; (ii) about +€3.9m of personnel costs in relation to the stock option plan and some lay-off costs; (iii) about +€1.2m of lossfor the sale of the Headquarter; (iv) +€6.4m of D&A related to the purchase price allocation; (v) a non-cash accounting entry arising from the Mark-to-Market of the EUR/USD hedges in place (about -€55m).

*(*) Excluding the sell-in to Sempione Fashion AG. Kpi's % are calculated on sales excluding the ones to Sempione Fashion.*

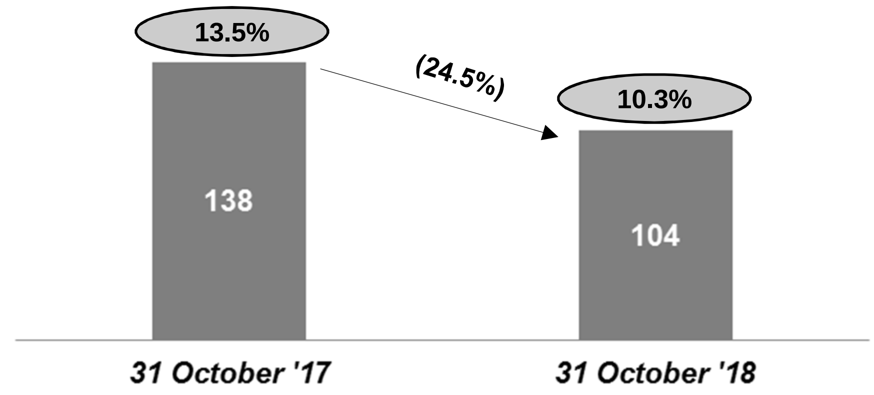
# Sales and EBITDA Performance in 9M18

## Net Sales (€mln)

Aggregate Performance




## EBITDA (€mln)




Performance By Brand

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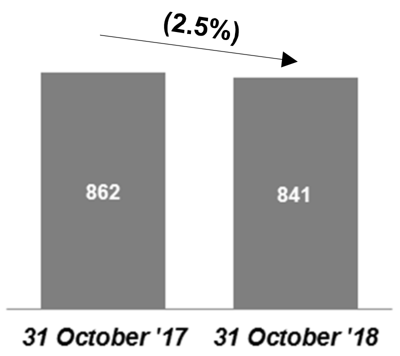
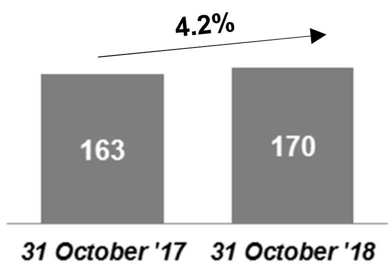



upim

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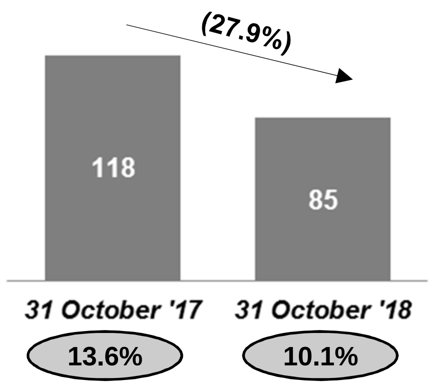
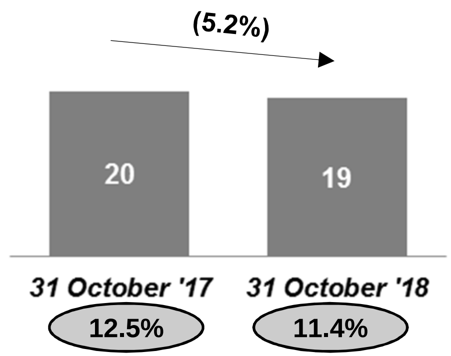



upim




(*) EBITDA margin calculated excluding the sell-in to Sempione Fashion AG

Margin % (*)

# Consolidated Trade Working Capital



| €mln | 31 October '18 | 31 October '17 | Change Oct18-Oct17 |
|---|---|---|---|
| Trade Receivables | 165.5 | 148.5 | 17.0 |
| Inventory | 442.4 | 374.0 | 68.4 |
| Trade Payables | (413.1) | (400.6) | (12.5) |
| **Trade Working Capital** | **194.8** | **121.9** | **72.9** |

- Trade working capital is €73m higher compared to 31Oct17. During the third quarter of 2018, an increase of about €20m compared to the same period of last year is mainly explained by the tail of the payments to suppliers for the merchandising originally dedicated to Sempione, the typical seasonality of the business and the weather impact that impacted negatively the top line.

- Fluctuations of the three items at 31October 2018 compared with one year ago are explained below:
  - Higher trade receivables as a normal consequence of the growth of the physical franchise network both in Italy and abroad and the impact of agreements with marketplaces.
  - Inventory growth is the consequence of the extraordinary merchandising bought for Sempione, amounting to about €45m, and the top line contraction arising from the weak September-October sales period.
  - The increase in accounts payables is in line with the expansion and the vendor financing.

# Capex

**9M 2018 Capex breakdown (*€ mln)***

**Refurbishment, maintenance and other commercial projects** of the existing network

*(c. 59.8% of total)*

**New openings**

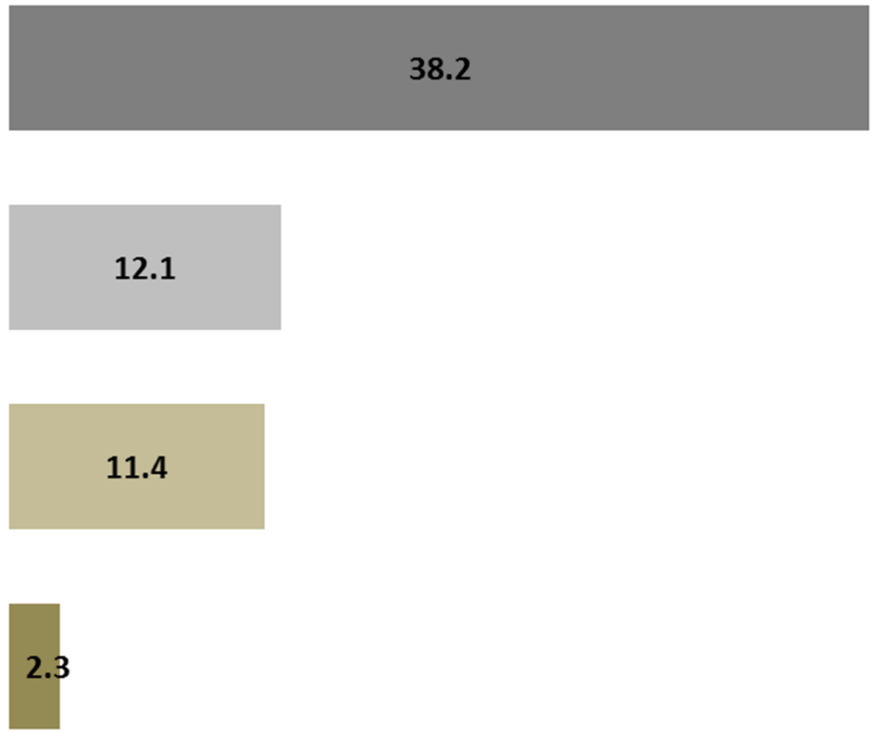
*(c. 18.9% of total)*

**IT and special projects**

*(c. 17.8% of total)*

Capex for the maintenance of the **headquarter building, logistics** and others

*(c. 3.5% of total)*




**Total €63.9m**

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# Net Debt and Leverage



| € mln | 31st October 2018 | 31st October 2017 |
|---|---|---|
| **Net Debt** | 424.3 | 365.7 |
| **Net Debt** **MtM of *Derivatives Excluded*** | 440.4 | 334.8 |
| **Adjusted EBITDA LTM** | 162.6 | 198.7 |

- As of 31st October 2018 Net Debt was equal to €440.4m excluding MtM derivatives, and to €424.3m reported, considering the MtM positive impact of +€16m.
- In the last 12 months, the ratio of the average net financial position (adjusted for the MtM) to Adjusted EBITDA is 2.5x.
- The current interest rate on debt is 2.50% + Euribor 3m.

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# Consolidated Cash Flow Statement



9M18 operating cash flow worsened by €107.5m vs. the same period of last year, mainly as a consequence of (i) a lower EBITDA contribution (for about €34m), (ii) the depreciation of assets related to Sempione Fashion AG (€50.4m), (iii) a higher working capital absorption (for about €24m).

| | 31 October '18 | 31 October '17 |
|---|---|---|
| **EBITDA Adjusted** | **104.1** | **138.0** |
| Adjustments[1] | (62.4) | (2.2) |
| **EBITDA** | **41.7** | **135.8** |
| Change in Net Operating Working Capital | (97.3) | (73.7) |
| Other changes in Working Capital | 11.3 | 3.8 |
| Capex, net of proceeds from HQ disposal | (44.2) | (46.8) |
| **Operating Cash Flow** | **(88.4)** | **19.1** |
| Financial charges | (11.8) | (10.3) |
| Dividends | 0.0 | (34.1) |
| Taxes and Others | (22.1) | (26.1) |
| **Net Cash Flow excl derivatives MtM and amortised costs** | **(122.3)** | **(51.4)** |
| MtM derivatives, amortized cost and exchange differences | 75.9 | (48.4) |
| **Net cash flow** | **(46.4)** | **(99.9)** |

(1) It refers to adjustments posted at EBITDA level. Tha amount mainly refers to the €56.4m of extraordinary costs related to Sempione Fashion AG, already booked in the 1H18 results.

# Outlook

- The exceptional warm weather continued also until the third week of November, thus still penalizing sales. Looking at the first days of December, market weakness didn't change as the "Black Friday" effect resulted in lower sales in the days after, pushing customers to wait until the January sales. In this context, even if during the last days sales performances improved, we don't foresee significant changes in the next days and consequently we envisage a fourth quarter lower compared to the previous year.
- All actions taken in terms of lower purchases of goods, reduction of costs and lower investments are already showing a progressive recovery of the level of indebtedness compared to the one of October. The recovery is already visible as testified also by the portion of credit lines undrawn at the time of writing.
- Discussions are ongoing between the company and its financing banks parties in order to make some changes to the current financial agreement, aiming to increase simplification and achieve greater flexibility.
- The company is strongly focused on improving working capital through the inventory level reduction: the priority will be to buy less and closer to the season, shortening lead times, time to market, improving reactivity and minimizing risk. Post-distribution will be increased.
- The evolution of digital activities in support of multichannel will allow us to continue in the direction of improving the one-to-one relationship between customer and brand.
- After the strong footprint increase achieved during the last years which enabled the company to become the undisputed market leader, a period of much more selective growth will come. Lower openings resulting in lower capex, streamlining operations and headquarter costs, and extensive lease agreement renegotiations on the back of the declining market, will be the priority. All these factors, also in conjunction with the above mentioned working capital reduction, will sustain the cash generation of the company.
- We believe that we are well equipped to ensure that, as in the period of economic crisis that began nearly ten years ago, our Company is the bellwether of our industry, and is therefore preferred by our customers, because it anticipates new needs, transforming changes into opportunities and ensuring adequate generation of profits and value.

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# Appendix

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# Consolidated Profit and Loss and related adjustments



| € mln | 31.10.2018 Reported | Adjustments | 31.10.2018 Adjusted | 31.10.2017 Reported | Adjustments | 31.10.2017 Adjusted | Chg. (Adjusted) | Chg. % (Adjusted) |
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| *EBITDA%* | 4.1% | | 10.3% | 13.3% | | 13.5% | | (316ppt) |
| **EBIT** | (5.6) | (68.8) | **63.2** | 90.4 | (8.6) | **99.0** | (35.7) | (36.1%) |
| *EBIT%* | (0.5%) | | 6.3% | 8.8% | | 9.7% | | (340ppt) |
| **PBT** | 36.8 | (14.4) | **51.2** | 34.5 | (57.0) | **91.5** | (40.3) | (44.0%) |

**Note**: In order to provide a clearer picture of the organic business and render it comparable with the previous year, the net sales underlying the calculation of the financial KPIs (*) were net of sales under the service contract with the Swiss client Sempione Fashion AG.

*The table shows the results adjusted to represent the Group's operating performance net of non-recurring events which are unrelated to ordinary operations. In particular, in the first nine months of the year, the results have mainly been adjusted for provisions already reflected in the data for the first half of 2018.*

*Specifically, EBITDA in the first nine months of 2018 was mainly affected by: (i) +€56.4m of one-off costs related to the last relations with Sempione Fashion AG already fully posted in the first half of 2018; (ii) about €3.9m of personnel costs in relation to the stock option plan and some lay-off costs; (iii) about €1.2m of loss for the sale of the Headquarter.*

*Other adjustment items that impacted EBIT and profit before taxes concerned: (i) €6.4m of D&A related to the purchase price allocation; (ii) a non-cash accounting entry arising from the Mark-to-Market of the EUR/USD hedges in place (about -€55m).*