Adolfo Domínguez

LIGHTHOUSE WINNER 2020 Special Mention — European Commission — European Small & Mid-Cap Awards

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EQUITY - SPAIN
Sector: Textiles, Apparel & Luxury Goods

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Adolfo Domínguez (ADZ) 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 (c.35% o/revenues), it is managed by the founding family (31% of the capital), which prevails in the Board.

Ana Isabel González García, CIIA – ana.gonzalez@lighthouse-ieaf.com
+34 915 904 226

ADZ is gaining momentum: recovery (2021), break-even (+1y) and a return to 2019 EBITDA (+2y)

THE FASHION INDUSTRY HAS BEEN ONE OF THE BUSINESSES MOST IMPACTED BY THE COVID-19 CRISIS. 2020 saw an unprecedented contraction of turnover (c. -40% LFL in the local market). The industry has been impacted by the crisis for the last 3 seasons, making it even weaker (many companies' balance sheets were already stressed before Covid).

ALTHOUGH UNCERTAINTY REMAINS HIGH, SOME INDICATORS INVITE OPTIMISM: 1) the improvement in confidence indicators, anticipating a gradual recovery of normality as vaccination proceeds apace, 2) the recovery of the local market's turnover in May, and 3) the household savings rate in Spain at highs (c. 2x vs. -10y average), after the decline in consumption in 2020, and that will underpin the recovery of consumption.

WE HAVE UPGRADED OUR ESTIMATES The revision is less pronounced at the revenue level (impact of the restructuring and the smaller contribution from tourism). While 2021 will be crucial for testing the resilience of the business (and the efficacy of the business strategy), turnover won't recover pre-crisis levels until 2023e (EUR 116.3Mn; +10.9% CAGR +2y, in line with the sector). The impact of the restructuring will be more evident on EBIT, that will see a turning point in 2022e (EUR 3.4Mn).

BRINGING (NP) BREAK EVEN FORWARD (+1Y) AND MAINTAINING THE STRENGTH OF THE BALANCE SHEET (0.2x 2023e ND/Equity). Despite the larger financial burden, NP should reach break-even in 2022e (EUR 1.1Mn).

AND WITH THE SPOTLIGHT ON THE PENETRATION OF THE ONLINE CHANNEL AND THE RECOVERY OF PROFITABILITY. The online channel will generate c. 28% of revenue in 2023e (+7.7p.p. vs. -3y; underpinned by the new DNA service), with penetration of this being one of the company's main challenges (providing access to a younger target public). The operating improvements implemented (RFID) will also support the improvement in profitability (4.5% EBIT/Revenues 2023e), although this is still a long way off the sector's c. 15%, justifying the gap in multiples (0.7x EV/Revenues 2021e vs. c. 2x for the sector).

Even so, the combination of: 1) the business model (niche, young target public, online channel, sustainability), 2) small size, 3) solid balance sheet, 3) low multiples and 4) prospects for a return to growth, opens up a theoretical option of M&A movement (a growing trend in the fashion sector) on ADZ.

Market Data

Market Cap (Mn EUR and USD)	39.7	48.1
EV (Mn EUR and USD) (1)	63.5	76.8
Shares Outstanding (Mn)	9.3	
-12m (Max/Med/Mín EUR)	5.38 / 4.32 / 3.41	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation(2)	12.0	
Refinitiv / Bloomberg	ADZ.MC / ADZ SM	
Close fiscal year	28-Feb	

Shareholders Structure (%)(7)

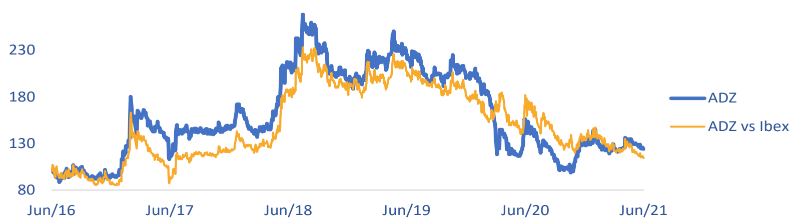
Adolfo Domínguez	31.5
Puig, S.A.	14.8
Libertas 7	10.3
Indumenta Pueri	9.0
Free Float	23.0

Financials (Mn EUR)	2020	2021e	2022e	2023e
Adj. nº shares (Mn)	9.2	9.3	9.3	9.3
Total Revenues	67.5	94.5	108.3	116.3
Rec. EBITDA (3)	-9.3	8.9	10.9	12.1
% growth	*-182.1*	*195.4*	*22.3*	*11.4*
% Rec. EBITDA/Rev.	*n.a.*	*9.4*	*10.0*	*10.4*
% Inc. EBITDA sector (4)	*-1.2*	*26.4*	*18.8*	*21.1*
Net Profit	-19.3	-4.2	1.1	2.0
EPS (EUR)	-2.10	-0.46	0.12	0.22
% growth	*-132.5*	*78.2*	*125.2*	*87.3*
Ord. EPS (EUR)	-2.37	0.00	0.12	0.22
% growth	*n.a.*	*99.8*	*n.a.*	*79.2*
Rec. Free Cash Flow(5)	-12.7	1.4	-1.8	-1.6
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	-0.8	1.9	3.7	5.3
ND/Rec. EBITDA (x)	n.a.	0.2	0.3	0.4
ROE (%)	*n.a.*	*n.a.*	*5.3*	*9.2*
ROCE (%)(5)	*n.a.*	*n.a.*	*5.0*	*7.2*

Ratios & Multiples (x)(6)				
P/E	n.a.	n.a.	37.2	19.9
Ord. P/E	n.a.	n.a.	35.6	19.8
P/BV	1.7	2.0	1.9	1.7
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	0.94	0.67	0.59	0.55
EV/Rec. EBITDA	n.a.	7.1	5.8	5.2
EV/EBIT	n.a.	n.a.	18.4	12.1
FCF Yield (%)(5)	*n.a.*	*3.5*	*n.a.*	*n.a.*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 9.1Mn higher due to IFRS 16..
(4) Sector: TR Europe Apparel & Accessories Retailers.
(5) Please see Appendix 2 for the theoretical tax rate (ROCE) and rec. FCF calculation.
(6) Multiples and ratios calculated over prices at the date of this report.
(7) Others: La Previsión Mallorquina de Seguros 7.6%, Ibercapital Magnum, SICAV S.A 3.2%, Treasury shares 0.6%

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-4.5	0.0	-20.4	-5.7	-42.8	24.1
vs Ibex 35	-6.7	-6.6	-37.1	-17.3	-38.5	14.4
vs Ibex Small Cap Index	-9.4	-1.4	-47.2	-15.0	-49.7	-38.3
vs Eurostoxx 50	-8.6	-6.8	-39.4	-18.8	-51.7	-12.5
vs Sector benchmark(4)	-9.4	-11.0	-44.9	-21.7	-56.8	-23.6

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

Upgrade to estimates

A priori, the worst of the crisis is over. In 2021 the speed at which turnover recovers will be critical

The fashion sector has been one of those businesses most impacted by the Covid crisis (immediate impact of closures and lockdowns). 2020 saw a -39.8% y/y fall in LFL turnover (comparable surface area) in the local industry, a result of the decline in consumption (-12% y/y). The crisis hit ADZ's P/L head-on: -42.5% y/y in revenues (c. -40% ex-forex), with -39.2% LFL (the company's financial year runs from March 1 to February 28).

The Covid-19 crisis has accelerated the industry's digitisation. Spain (c. 80% of ADZ's 2020 revenue) has led growth in e-commerce (c.+35% y/y in 2020, according to e-marketer, vs. c. +25% for Europe). According to the annual e-commerce report, 70% of the population made online purchases in 2020 (60% on fashion items). Even so, the rebound in e-commerce during the pandemic has not offset the slump in turnover.

What can be expected post Covid?

The gradual lifting of restrictions as vaccination programmes progress will lead to a return to normality. This is being reflected in the recovery of confidence (Spanish retail trade confidence turned positive in May for the first time since the beginning of the crisis).

In addition, the decline in consumption in 2020 has a positive side. Household savings are at their highest levels since 2009: 14.8% of disposable income (vs. an average of 7.8% -10y), strengthening a scenario for the recovery of consumption that will begin in 2H21.

However, the prolongation of the pandemic will have ramifications for the economy. The Bank of Spain has reduced its forecast for GDP growth in 2021e (+6.0%, -0.8p.p. vs. its previous forecast) that will impact consumption. In this situation, the question is how quickly can what was lost in 2020 be recovered.

Industry uncertainty remains high

After the Spanish sector's poor performance since the beginning of the year, the improvement seen in May (-15.1% LFL vs. 2019, stores were closed in 2020) has reduced the contraction to -35.7% LFL in cumulative terms (+4.7p.p. vs. the cumulative figure at April), generating a certain optimism in the industry. Although not comparable, Inditex registered +49.6% y/y in revenues in 1Q21 (with c. +60% y/y in the online channel), having recovered pre-crisis turnover levels in May.

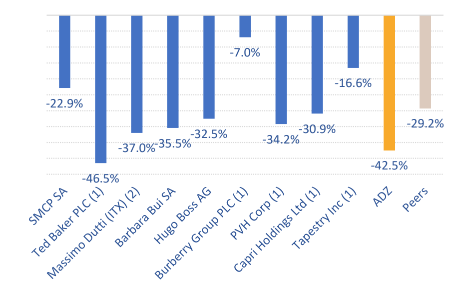
However, the degree of dependence of the different brands on tourism (to which high-end products are most exposed; presence in tourist capitals) will affect the speed of the recovery. Although Spain hopes to recover c. 50% of pre-Covid tourism in 2021 (high dependence on UK tourists), a total recovery could be delayed until 2023.

In addition, the recovery will vary from country to country (rates of vaccination, fresh outbreaks of disease and new variants). The consultancy firm McKinsey & Co expects sector turnover in Europe to be between 12% and 24% lower than in 2019.

So ADZ will not recover pre-Covid turnover levels until 2023

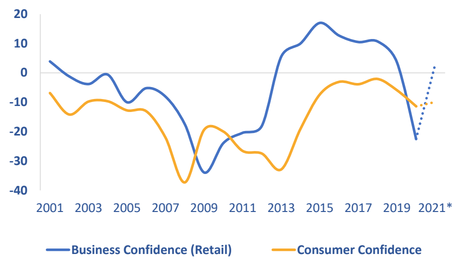
Our estimates for ADZ point to a significant recovery of revenue in 2H21. Whilst the misalignment of the company's financial year with respect to the calendar year will be favourable, less tourism and fresh outbreaks of Covid-19 in core markets (Japan) will hold back growth. Turnover will reach EUR 94.5Mn in 2021e (80.6% vs. 2019), approaching pre-Covid levels +2y (EUR 116.3Mn 2023e, CAGR +10.9% +2y, in line with the sector). Growth will be underpinned by a greater penetration of the online channel (28% of revenues in 2023e; +7.3p.p. vs. -3y). Growth in this channel is essential for ADZ as it can expand the company's target audience and attract younger clients (a key aspect for the industry). In addition, several studies show a higher conversion rate for online traffic compared to physical stores.

Chart 1. Peers' Revenues Var. 2020 vs. 2019



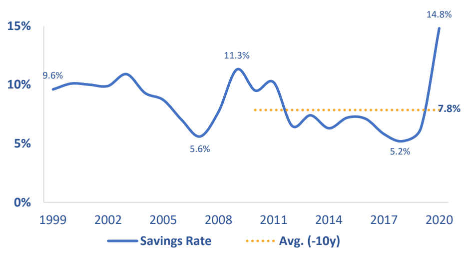
Sources: Companies

Chart 2. Business Confidence (Retail) vs. Consumer confidence (ES)



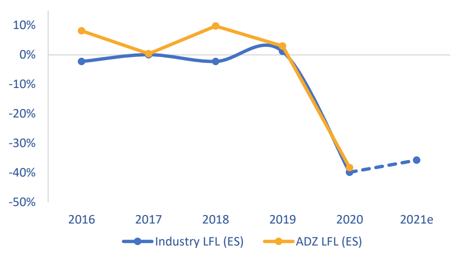
Sources: Refinitiv and Spanish Statistical Office (INE)

Chart 3. Households saving rate as a percentage of disposable income (ES)



Source: Spanish Statistical Office (INE)

Chart 4. LFL Revenues Var. ADZ vs. sector (ES)



Sources: ACOTEX and ADZ

Chart 5. Revenues vs. gross margin (ADZ)

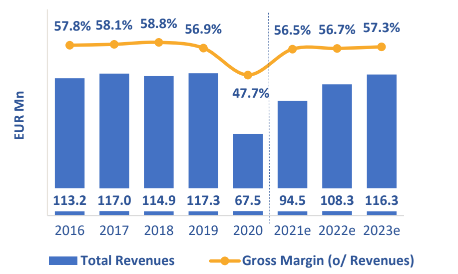


Chart 6. Revenues vs. EBIT (ADZ)

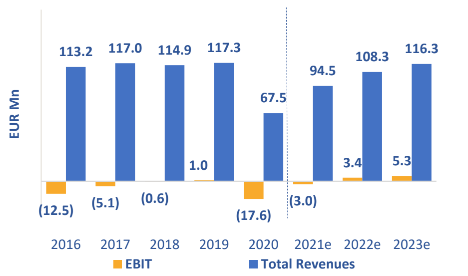
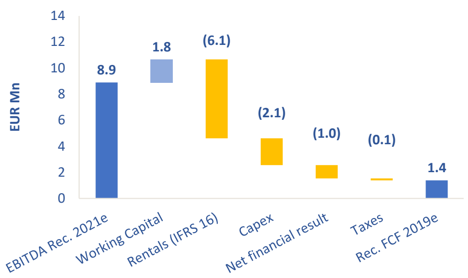


Chart 7. FCF impacts (2021e)



Although exceeding break-even (NP) +1y is feasible thanks to the restructuring …

The current crisis has again stressed the fashion industry. This has been impacted by the pandemic for the last 3 seasons, increasing inventory surpluses and weakening those brands that have smaller returns and high debt. After the decline in turnover in 2020, the local sector had accumulated -35.7% LFL at May, making it difficult to pay salaries (these represent c. 28%-40% of turnover).

Salaries represented 33.7% of ADZ's 2020 revenues (vs. an average of c. 31% pre-Covid). The company was forced to cut its headcount by 259 workers in 2021 (c. 25% of the total; 110 in head office services, most of them early retirements). This will reduce costs by c. EUR 5.0Mn +1y, although it will be incompatible with the extension of the furlough scheme (2H21; which explains the increase in expenses for this item in 2021e). The restructuring will cost EUR 4.1Mn with the full impact being felt in 2021e.

…And the consolidation of certain trends seen during the pandemic

We won't know whether the changes seen in consumer habits during the pandemic are here to stay until full normality resumes (2023?). However, the increase in e-commerce (the main trend) looks set to continue over the long term. The Retail Observatory (Spain) points to +65% y/y 1Q21 in on-line traffic (vs. +58% globally), confirming the trend begun in 2020.

Besides this, the current situation is enabling the sector to renegotiate contract terms and conditions with its suppliers. This should result in an improvement in the gross margin, that we expect to approach pre-Covid levels (56.5% 2021e for ADZ, -0.3p.p. vs. 2019), and the further lengthening of payment periods (s/t). In addition, the growing contribution of the online business to the sector could make companies reconsider the need for physical points of sale, favouring a potential cheapening of leases (l/t).

As a result, 2022e will be a turning point in operating terms (EUR 3.4Mn in EBIT), that should allow the company to achieve break-even in NP (EUR 1.1Mn 2022e). Profitability will continue to improve, reaching 4.5% EBIT/Revenue 2023e, although still a long way off the sector's c. 15%.

Table 1. Main consolidated figures

EUR Mn	2018	2019	2020	2021e	2022e	2023e
Total Revenues	**114.9**	**117.3**	**67.5**	**94.5**	**108.3**	**116.3**
Var. (%)	*-1.7%*	*2.0%*	*-42.5%*	*40.1%*	*14.5%*	*7.4%*
Other income	3.0	2.4	1.5	1.5	1.5	1.5
Var. (%)	*-7.7%*	*-19.7%*	*-39.1%*	*2.5%*	*0.0%*	*0.0%*
Total Sales	111.9	114.9	66.0	93.0	106.8	114.8
Var. (%)	*-1.6%*	*2.6%*	*-42.6%*	*41.0%*	*14.8%*	*7.5%*
On-line o/Sales	*7.8%*	*9.5%*	*20.7%*	*22.7%*	*25.9%*	*28.0%*
Gross Margin	**67.6**	**66.7**	**32.2**	**53.4**	**61.4**	**66.6**
Gross Margin (o/ Revenues)	*58.8%*	*56.9%*	*47.7%*	*56.5%*	*56.7%*	*57.3%*
Rec. EBITDA	**2.5**	**11.3**	**(9.3)**	**8.9**	**10.9**	**12.1**
EBITDA Rec. mg	*2.2%*	*9.7%*	*n.a.*	*9.4%*	*10.0%*	*10.4%*
EBITDA	**1.3**	**11.3**	**(6.8)**	**4.8**	**10.9**	**12.1**
EBITDA Mg.	*1.1%*	*9.7%*	*n.a.*	*5.1%*	*10.0%*	*10.4%*
EBIT	**(0.6)**	**1.0**	**(17.6)**	**(3.0)**	**3.4**	**5.3**
EBIT Mg.	*n.a.*	*0.8%*	*n.a.*	*n.a.*	*3.2%*	*4.5%*
Total points of sale	**391**	**390**	**342**	**352**	**364**	**366**
o/w Under direct management (%)	*66.2%*	*67.7%*	*74.9%*	*72.7%*	*70.9%*	*71.0%*

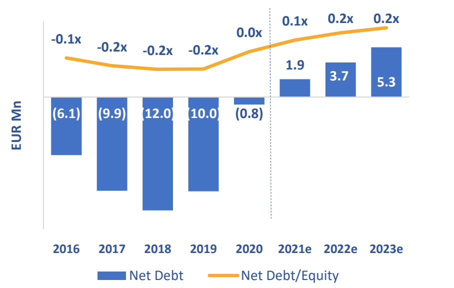
Nota: la ampliación de puntos de venta está relacionada con la expansión del negocio en México de la mano de Palacio del Hierro.

Aumentará el endeudamiento, aunque se mantendrá en niveles razonables

La crisis Covid ha consumido prácticamente el excedente de caja de ADZ (EUR 0,8Mn caja neta 2020 vs. EUR 10,0Mn -1y). Ésta ha aprovechado las facilidades financieras desplegadas por el Covid-19 para aumentar la liquidez (EUR 15,7 Mn deuda bruta 2020), siendo previsible que se acoja a la renegociación de los vencimientos (ampliación del plazo de carencia hasta 2022, +1y).

Por otro lado, la gestión del circulante será clave. La ratio inventarios/ingresos se elevó al 33% 2020 (+10p.p. a/a), siendo previsible la recuperación de los niveles pre-Covid (c/p). La industria,

Chart 8. ND vs ND/Equity



inmersa en una crisis de excedente de inventarios (2020), está girando hacia un modelo de producción más "corta" y local, que minore dicho riesgo. Esperamos la normalización del periodo de cobro a clientes (ampliado en 2020 por los cambios realizados en México), y que se prolongue (+1y) la dilatación del pago a proveedores (favorecido por el actual contexto).

Adicionalmente, la expansión del comercio digital a nivel global pone de manifiesto la necesidad de inversión en dicho canal (entorno más competitivo), a fin de atraer a un consumidor menos "fiel". Elevamos el CAPEX a EUR c.2Mn/año (+2x vs. estimación anterior), alineándolo con el nivel registrado en 2020.

Como resultado, la DN alcanzará EUR 5,3Mn 2023e (vs. caja neta 2020), elevando la carga financiera del Grupo (nuestras proyecciones no incorporan impactos por divisa; en 2020 fue de EUR -0,9Mn). Aun así, el endeudamiento se mantendrá en niveles razonables (0,2x DN/FFPP y 0,8x DN/EBITDA Rec. ajustado por el impacto de la NIIF-16 en 2023e).

Y con un aumento del M&A (sector moda) que perdurará (l/p)

La crisis del Covid-19 ha propiciado numerosas quiebras (JC Penney, Neiman Marcus,…entre las más sonadas) y movimientos de concentración (finales 2020), aprovechando la caída de los múltiplos del sector (c. -50% vs. principios de año). Según la consultora Price Waterhouse, el 4T20 habría registrado un aumento de c. 20% en el valor de la actividad de M&A (Permira/Golden Goose, Moncler/Stone Island,…entre otros), habiéndose constatado una expansión en múltiplos en las operaciones más recientes.

La adquisición de Supreme por VF Corporation (propietario de Timberland, Vans y The North Face) por USD 2,1Bn (ventas Supreme 2020 < USD 0,5Bn), podría considerarse una referencia. La transacción se habría realizado a c. 2x los múltiplos pagados -3y (en 2017 Supreme vendió una participación del 50% Grupo Carlyle por USD 0,5Bn).

El resurgir del M&A en 2020 (c. USD 20Bn; 15,8Bn en la adquisición de Tiffany por LVMH) tiene visos de continuar (2021): dificultades financieras que atraviesa buena parte de la industria, bajo coste de la deuda y concentración del consumo en un menor número de marcas "ganadoras", que podría favorecer la venta de activos. Lo que no pasa desapercibido para un private equity ávido para invertir, y que tendría en la mira al sector del lujo y de moda de alta gama.

Además, la intensificación de la competencia (inherente al comercio digital), favorecería a las compañías de mayor tamaño, con mayor capacidad de inversión. No obstante, el interés de la industria se ha reorientado hacia el consumidor más "joven" (una estrategia a la que se ha unido ADZ).

And with increased M&A activity in the fashion sector that will persist over the long term

The Covid-19 crisis has resulted in many bankruptcies (JC Penney and Neiman Marcus being among the most notable) and concentration movements (end of 2020), taking advantage of the fall in sector multiples (c. -50% vs. the beginning of the year). According to Price Waterhouse, in 4Q20 there was an increase of c. 20% in the value of M&A activity (Permira/Golden Goose, Moncler/Stone Island, among others), with an increase in multiples being seen in the most recent deals.

The acquisition of Supreme by VF Corporation (owner of Timberland, Vans and The North Face) for USD 2.1Bn (Supreme 2020 sales < USD 0.5Bn) being a reference. The operation was made at c. 2x the multiples paid -3y (in 2017 Supreme sold a 50% stake to the Carlyle group for USD 0.5Bn).

The resurgence of M&A activity in 2020 (c. USD 20Bn; 15.8Bn on the acquisition of Tiffany by LVMH) looks set to continue (2021): the financial problems faced by a large part of the sector, the low cost of debt and the concentration of consumption in a smaller number of "winning" brands could all favour asset sales. This has not gone unnoticed by a private equity sector eager to invest and that will have the luxury and high-end fashion sector in its sights.

Moreover, tougher competition (inherent to digital commerce), favours larger companies with bigger investment capacity. However, the industry's interest has been re-directed towards the younger consumer (a strategy also adopted by ADZ).

In conclusion: we estimate a quicker than expected recovery with the resumption of growth (2021), break-even (2022) and the recovery of 2019 EBITDA (2023)

Although uncertainty remains high for the industry (speed and efficacy of the vaccines against the new Covid-19 variants), the latest data could be indicating a quicker than anticipated recovery, although not free of volatility. In addition, the gradual recovery of tourism (from 2H21) will support the recovery of the business. However, tourism will not return to pre-Covid levels (2019) until 2023.

We have slightly upgraded our estimates for revenues, by c. +2% on average (see table 2), including a CAGR of +10.9% +2y, in line with the average for ADZ's competitors, with the speed of the recovery of turnover in 2021 being critical. The improvement will be most evident in EBIT (smaller salaries charge and operating improvements) that will turn positive in 2022e (EUR 3.4Mn), although it will translate to a lesser extent to the bottom line (bigger financial burden).

The group's biggest challenge is to regain the market share (by betting on the online channel) and the returns left behind prior to the financial crisis (2007). ADZ should achieve 4.5% EBIT/Revenues 2023e, c. 1/3 vs. the sector, which explains its large discount (it is trading at 0.7x EV/Revenues 2021e vs. c. 2x for the sector), a gap that should narrow over the long term as the expected improvements materialise.

But it is clear that if the recovery is confirmed (2H21) ADZ will gain momentum:

- The idea of a turning point in 2021, with the resumption of growth and reasonable expectations for the recovery of 2019 EBITDA levels in two years is gaining traction.
- The company's business model (niche, young public, online channel, sustainability), small size and solid balance sheet open up the theoretical option of a M&A movement on ADZ.
- The company remains well below the sector in terms of multiples that suggests all the above has yet to be priced in.

Table 2. Review of estimates

EUR Mn	2021e (New)	2021e (Old)	Review	2022e (New)	2022e (Old)	Review	2023e (New)
Total Revenues	**94.5**	**93.2**	**1.4%**	**108.3**	**105.2**	**2.9%**	**116.3**
Recurrent EBITDA	**8.9**	**1.6**	**464.3%**	**10.9**	**9.2**	**17.9%**	**12.1**
Recurrent EBITDA growth	*195.4%*	*223.9%*	*-28.5 p.p.*	*22.3%*	*407.1%*	*n.a.*	*11.4%*
Rec. EBITDA/Revenues	*9.4%*	*1.7%*	*7.7 p.p.*	*10.0%*	*8.8%*	*1.3 p.p.*	*10.4%*
EBIT	**-3.0**	**-7.6**	**60.4%**	**3.4**	**0.0**	**n.s.**	**5.3**
Net Profit	**-4.2**	**-9.2**	**53.9%**	**1.1**	**-2.8**	**137.9%**	**2.0**
Rec. Free Cash Flow	**1.4**	**-8.1**	**117.1%**	**-1.8**	**-2.3**	**22.5%**	**-1.6**
ND / Equity	**0.1 x**	**0.2 x**	**-0.1 x**	**0.2 x**	**0.8 x**	**-0.6 x**	**0.2 x**

Appendix 1. Financial Projections(1)

Balance Sheet (EUR Mn)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Intangible assets	1.6	0.9	0.8	34.9	28.3	28.1	27.8	27.5
Fixed assets	16.6	12.3	10.6	10.6	10.1	10.6	11.4	12.3
Other Non Current Assets	8.2	8.5	8.1	0.8	1.2	1.2	1.2	1.2
Financial Investments	5.1	5.0	5.2	5.9	4.7	4.7	4.7	4.7
Goodwill & Other Intangilbles	-	-	-	-	-	-	-	-
Current assets	44.4	36.2	36.2	38.0	30.5	30.9	35.0	37.2
Total assets	**75.9**	**62.9**	**60.8**	**90.2**	**74.8**	**75.4**	**80.0**	**82.9**
Equity	59.4	52.3	52.2	44.2	24.0	19.8	20.8	22.8
Minority Interests	1.1	0.7	0.8	0.9	1.0	1.1	1.2	1.2
Provisions & Other L/T Liabilities	-	-	-	34.2	28.2	28.2	28.2	28.2
Other Non Current Liabilities	0.6	0.6	1.0	1.5	1.4	1.4	1.4	1.4
Net financial debt	(6.1)	(9.9)	(12.0)	(10.0)	(0.8)	1.9	3.7	5.3
Current Liabilities	20.9	19.2	18.9	19.3	20.9	23.0	24.7	23.9
Equity & Total Liabilities	**75.9**	**62.9**	**60.8**	**90.2**	**74.8**	**75.4**	**80.0**	**82.9**

									CAGR	
P&L (EUR Mn)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**16-20**	**20-23e**
Total Revenues	**113.2**	**117.0**	**114.9**	**117.3**	**67.5**	**94.5**	**108.3**	**116.3**	***-12.1%***	***19.9%***
Total Revenues growth	*4.4%*	*3.3%*	*-1.7%*	*2.0%*	*-42.5%*	*40.1%*	*14.5%*	*7.4%*		
COGS	(47.7)	(49.0)	(47.3)	(50.6)	(35.3)	(41.1)	(46.8)	(49.7)		
Gross Margin	**65.5**	**68.0**	**67.6**	**66.7**	**32.2**	**53.4**	**61.4**	**66.6**	***-16.3%***	***27.4%***
Gross Margin/Revenues	*57.8%*	*58.1%*	*58.8%*	*56.9%*	*47.7%*	*56.5%*	*56.7%*	*57.3%*		
Personnel Expenses	(42.5)	(39.8)	(38.1)	(36.7)	(22.7)	(25.5)	(31.3)	(34.9)		
Other Operating Expenses	(31.5)	(30.4)	(27.1)	(18.7)	(18.8)	(19.0)	(19.3)	(19.6)		
Recurrent EBITDA	**(8.6)**	**(2.2)**	**2.5**	**11.3**	**(9.3)**	**8.9**	**10.9**	**12.1**	***-2.2%***	***48.9%***
Recurrent EBITDA growth	*43.2%*	*74.2%*	*212.4%*	*357.2%*	*-182.1%*	*195.4%*	*22.3%*	*11.4%*		
Rec. EBITDA/Revenues	*n.a.*	*n.a.*	*2.2%*	*9.7%*	*n.a.*	*9.4%*	*10.0%*	*10.4%*		
Restructuring Expense & Other non-rec.	-	-	(1.2)	-	2.5	(4.1)	-	-		
EBITDA	**(8.6)**	**(2.2)**	**1.3**	**11.3**	**(6.8)**	**4.8**	**10.9**	**12.1**	***5.5%***	***55.7%***
Depreciation & Provisions	(4.0)	(2.9)	(1.9)	(2.1)	(2.1)	(1.8)	(1.8)	(1.9)		
Capitalized Expense	-	-	-	-	-	-	-	-		
Rentals (IFRS 16 impact)	-	-	-	(8.3)	(8.7)	(6.1)	(5.6)	(5.0)		
EBIT	**(12.5)**	**(5.1)**	**(0.6)**	**1.0**	**(17.6)**	**(3.0)**	**3.4**	**5.3**	***-8.9%***	***32.0%***
EBIT growth	*55.1%*	*59.5%*	*88.2%*	*259.0%*	*n.a.*	*82.9%*	*214.6%*	*52.8%*		
EBIT/Revenues	*n.a.*	*n.a.*	*n.a.*	*0.8%*	*n.a.*	*n.a.*	*3.2%*	*4.5%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.2)	(1.6)	0.5	(0.9)	(1.7)	(1.0)	(1.7)	(2.3)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**(12.8)**	**(6.7)**	**(0.1)**	**0.0**	**(19.3)**	**(4.0)**	**1.7**	**3.0**	***-10.9%***	***29.2%***
Ordinary Profit Growth	*57.5%*	*47.4%*	*98.0%*	*105.3%*	*n.a.*	*79.1%*	*142.6%*	*73.8%*		
Extraordinary Results	(0.5)	0.4	1.3	-	-	-	-	-		
Profit Before Tax	**(13.2)**	**(6.3)**	**1.2**	**0.0**	**(19.3)**	**(4.0)**	**1.7**	**3.0**	***-9.8%***	***29.2%***
Tax Expense	(9.7)	(0.4)	(1.5)	(8.2)	(0.0)	(0.1)	(0.6)	(0.9)		
Effective Tax Rate	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*32.9%*	*30.1%*		
Minority Interests	0.2	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(22.7)**	**(6.9)**	**(0.5)**	**(8.3)**	**(19.3)**	**(4.2)**	**1.1**	**2.0**	***3.9%***	***28.1%***
Net Profit growth	*-384.8%*	*69.8%*	*92.7%*	*n.a.*	*-132.5%*	*78.1%*	*125.2%*	*87.3%*		
Ordinary Net Profit	**(12.6)**	**(6.8)**	**0.6**	**(0.1)**	**(21.8)**	**(0.0)**	**1.1**	**2.0**	***-14.8%***	***27.9%***
Ordinary Net Profit growth	*53.3%*	*45.6%*	*109.1%*	*-117.7%*	*n.a.*	*99.8%*	*n.a.*	*79.2%*		

									CAGR	
Cash Flow (EUR Mn)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**16-20**	**20-23e**
Recurrent EBITDA						**8.9**	**10.9**	**12.1**	***-2.2%***	***48.9%***
Rentals (IFRS 16 impact)						(6.1)	(5.6)	(5.0)		
Working Capital Increase						1.8	(2.4)	(3.0)		
Recurrent Operating Cash Flow						**4.6**	**2.9**	**4.1**	***-1.1%***	***35.0%***
CAPEX						(2.1)	(2.4)	(2.5)		
Net Financial Result affecting the Cash Flow						(1.0)	(1.7)	(2.3)		
Tax Expense						(0.1)	(0.6)	(0.9)		
Recurrent Free Cash Flow						**1.4**	**(1.8)**	**(1.6)**	***0.0%***	***49.9%***
Restructuring Expense & Other non-rec.						(4.1)	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(2.7)**	**(1.8)**	**(1.6)**	***5.2%***	***46.1%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**2.7**	**1.8**	**1.6**		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 9.1Mn higher due to IFRS 16.

Appendix 2. Free Cash Flow(1)

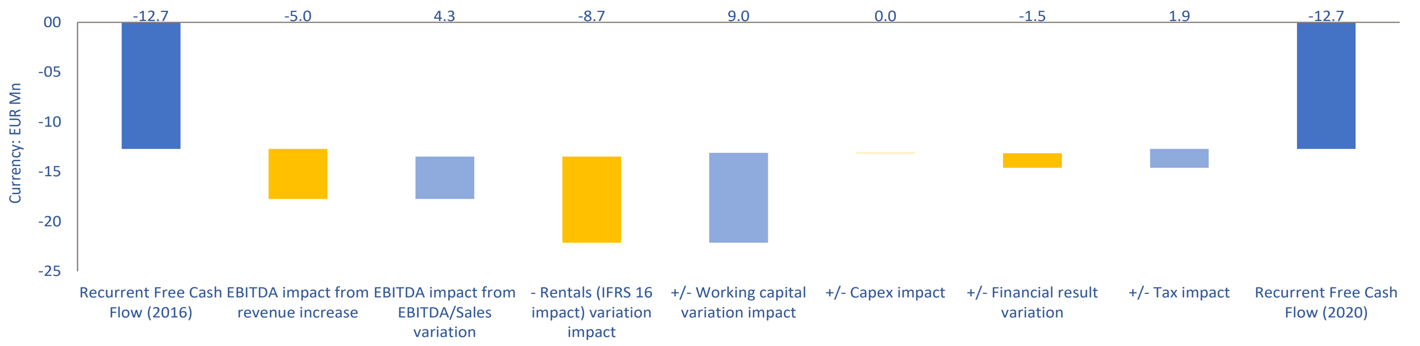
A) Cash Flow Analysis (EUR Mn)	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 17-20	CAGR 20-23e
Recurrent EBITDA	**(2.2)**	**2.5**	**11.3**	**(9.3)**	**8.9**	**10.9**	**12.1**	***-61.6%***	***48.9%***
Recurrent EBITDA growth	*74.2%*	*212.4%*	*357.2%*	*-182.1%*	*195.4%*	*22.3%*	*11.4%*		
Rec. EBITDA/Revenues	*n.a.*	*2.2%*	*9.7%*	*n.a.*	*9.4%*	*10.0%*	*10.4%*		
- Rentals (IFRS 16 impact)	-	-	(8.3)	(8.7)	(6.1)	(5.6)	(5.0)		
+/- Working Capital increase	6.5	(0.4)	(1.3)	9.0	1.8	(2.4)	(3.0)		
= Recurrent Operating Cash Flow	**4.3**	**2.1**	**1.8**	**(9.0)**	**4.6**	**2.9**	**4.1**	***-60.1%***	***35.0%***
Rec. Operating Cash Flow growth	*149.7%*	*-50.4%*	*-16.8%*	*-610.0%*	*151.4%*	*-38.0%*	*43.9%*		
Rec. Operating Cash Flow / Sales	*3.6%*	*1.8%*	*1.5%*	*n.a.*	*4.9%*	*2.6%*	*3.5%*		
- CAPEX	(0.9)	(0.8)	(2.6)	(2.0)	(2.1)	(2.4)	(2.5)		
- Net Financial Result affecting Cash Flow	(1.6)	0.5	(0.9)	(1.7)	(1.0)	(1.7)	(2.3)		
- Taxes	(0.4)	(1.5)	(0.6)	(0.0)	(0.1)	(0.6)	(0.9)		
= Recurrent Free Cash Flow	**1.3**	**0.2**	**(2.3)**	**(12.7)**	**1.4**	**(1.8)**	**(1.6)**	***n.a.***	***49.9%***
Rec. Free Cash Flow growth	*110.2%*	*-83.7%*	*n.a.*	*-452.6%*	*110.9%*	*-228.8%*	*10.9%*		
Rec. Free Cash Flow / Revenues	*1.1%*	*0.2%*	*n.a.*	*n.a.*	*1.5%*	*n.a.*	*n.a.*		
- Restructuring expenses & others	-	(1.2)	-	2.5	(4.1)	-	-		
- Acquisitions / + Divestments	3.2	2.6	-	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**4.5**	**1.6**	**(2.3)**	**(10.2)**	**(2.7)**	**(1.8)**	**(1.6)**	***-62.0%***	***46.1%***
Free Cash Flow growth	*135.9%*	*-64.3%*	*-242.3%*	*-343.9%*	*73.8%*	*33.1%*	*10.9%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*3.3%*	*0.5%*	*n.a.*	*n.a.*	*3.5%*	*n.a.*	*n.a.*		
Free Cash Flow Yield (s/Mkt Cap)	*11.4%*	*4.1%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2017	2018	2019	2020	2021e	2022e	2023e
Recurrent FCF(FY - 1)	**(12.7)**	**1.3**	**0.2**	**(2.3)**	**(12.7)**	**1.4**	**(1.8)**
EBITDA impact from revenue increase	(0.3)	0.0	0.1	(4.8)	(3.7)	1.3	0.8
EBITDA impact from EBITDA/Sales variation	6.6	4.6	8.8	(15.8)	21.9	0.7	0.4
= Recurrent EBITDA variation	**6.3**	**4.7**	**8.9**	**(20.7)**	**18.2**	**2.0**	**1.2**
- Rentals (IFRS 16 impact) variation impact	-	-	(8.3)	(0.4)	2.6	0.4	0.6
+/- Working capital variation impact	6.5	(6.8)	(1.0)	10.3	(7.2)	(4.2)	(0.6)
= Recurrent Operating Cash Flow variation	**12.8**	**(2.1)**	**(0.4)**	**(10.7)**	**13.6**	**(1.8)**	**1.3**
+/- CAPEX impact	1.1	0.0	(1.7)	0.5	(0.0)	(0.3)	(0.2)
+/- Financial result variation	(1.4)	2.1	(1.4)	(0.8)	0.7	(0.7)	(0.6)
+/- Tax impact	1.5	(1.1)	1.0	0.5	(0.1)	(0.4)	(0.3)
= Recurrent Free Cash Flow variation	**14.0**	**(1.1)**	**(2.5)**	**(10.4)**	**14.1**	**(3.2)**	**0.2**
Recurrent Free Cash Flow	**1.3**	**0.2**	**(2.3)**	**(12.7)**	**1.4**	**(1.8)**	**(1.6)**

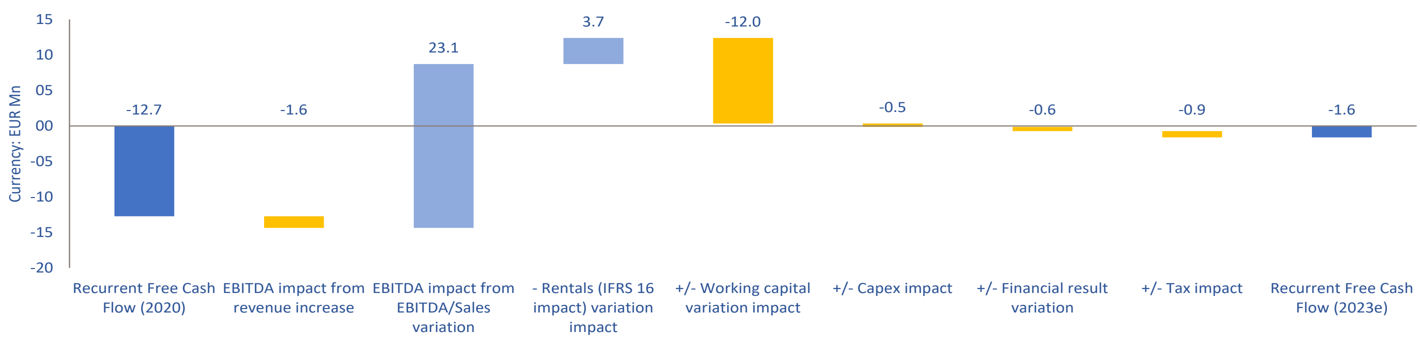
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 17-20	CAGR 20-23e
EBIT	**(5.1)**	**(0.6)**	**1.0**	**(17.6)**	**(3.0)**	**3.4**	**5.3**	***-51.3%***	***32.0%***
** Theoretical Tax rate*	*0.0%*	*0.0%*	*30.0%*	*0.0%*	*0.0%*	*30.0%*	*30.0%*		
= Taxes (pre- Net Financial Result)	-	-	(0.3)	-	-	(1.0)	(1.6)		
Recurrent EBITDA	**(2.2)**	**2.5**	**11.3**	**(9.3)**	**8.9**	**10.9**	**12.1**	***-61.6%***	***48.9%***
- Rentals (IFRS 16 impact)	-	-	(8.3)	(8.7)	(6.1)	(5.6)	(5.0)		
+/- Working Capital increase	6.5	(0.4)	(1.3)	9.0	1.8	(2.4)	(3.0)		
= Recurrent Operating Cash Flow	**4.3**	**2.1**	**1.8**	**(9.0)**	**4.6**	**2.9**	**4.1**	***-60.1%***	***35.0%***
- CAPEX	(0.9)	(0.8)	(2.6)	(2.0)	(2.1)	(2.4)	(2.5)		
- Taxes (pre- Financial Result)	-	-	(0.3)	-	-	(1.0)	(1.6)		
= Recurrent Free Cash Flow (To the Firm)	**3.4**	**1.3**	**(1.1)**	**(11.0)**	**2.6**	**(0.5)**	**0.0**	***-73.9%***	***26.0%***
Rec. Free Cash Flow (To the Firm) growth	*131.9%*	*-62.3%*	*-185.5%*	*-912.0%*	*123.2%*	*-120.8%*	*100.7%*		
Rec. Free Cash Flow (To the Firm) / Revenues	2.9%	1.1%	n.a.	n.a.	2.7%	n.a.	0.0%		
- Acquisitions / + Divestments	3.2	2.6	-	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**6.6**	**3.9**	**(1.1)**	**(11.0)**	**2.6**	**(0.5)**	**0.0**	***-54.2%***	***26.0%***
Free Cash Flow (To the Firm) growth	*163.0%*	*-41.3%*	*-128.0%*	*-912.0%*	*123.2%*	*-120.8%*	*100.7%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*5.3%*	*2.0%*	*n.a.*	*n.a.*	*4.0%*	*n.a.*	*0.0%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*10.4%*	*6.1%*	*n.a.*	*n.a.*	*4.0%*	*n.a.*	*0.0%*		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 9.1Mn higher due to IFRS 16.

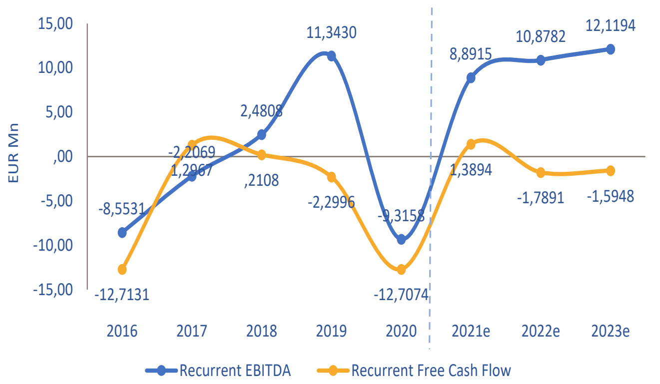
Recurrent Free Cash Flow accumulated variation analysis (2016 - 2020)



Recurrent Free Cash Flow accumulated variation analysis (2020 - 2023e)



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	Source
Market Cap	39.7	
+ Minority Interests	1.0	12m Results 2020
+ Provisions & Other L/T Liabilities	28.2	12m Results 2020
+ Net financial debt	(0.8)	12m Results 2020
- Financial Investments	4.7	12m Results 2020
+/- Others		
Enterprise Value (EV)	**63.5**	

Appendix 4. Historical performance (1)(2)

Historical performance (EUR Mn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 10-20	CAGR 20-23e
Total Revenues	166.9	156.1	152.1	134.9	124.1	108.4	113.2	117.0	114.9	117.3	67.5	94.5	108.3	116.3	-8.7%	19.9%
Total Revenues growth	-6.8%	-6.5%	-2.6%	-11.3%	-8.0%	-12.6%	4.4%	3.3%	-1.7%	2.0%	-42.5%	40.1%	14.5%	7.4%		
EBITDA	10.3	1.6	(5.3)	(2.5)	(1.5)	(17.9)	(8.6)	(2.2)	1.3	11.3	(6.8)	4.8	10.9	12.1	-10.3%	55.7%
EBITDA growth	-46.5%	-84.7%	-437.4%	53.1%	40.0%	n.a.	52.1%	74.2%	158.0%	785.6%	-160.1%	170.8%	125.3%	11.4%		
EBITDA/Sales	6.1%	1.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1%	9.7%	n.a.	5.1%	10.0%	10.4%		
Net Profit	(4.5)	(9.3)	(23.9)	(10.3)	(11.0)	8.0	(22.7)	(6.9)	(0.5)	(8.3)	(19.3)	(4.2)	1.1	2.0	-15.7%	28.1%
Net Profit growth	-563.1%	-106.1%	-158.4%	57.1%	-7.5%	172.2%	-384.8%	69.8%	92.7%	n.a.	-132.5%	78.1%	125.2%	87.3%		
Adjusted number shares (Mn)	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.0	9.2	9.2	9.2	9.3	9.3	9.3		
EPS (EUR)	-0.49	-1.01	-2.62	-1.12	-1.21	0.87	-2.48	-0.76	-0.05	-0.90	-2.10	-0.46	0.12	0.22	-15.6%	28.1%
EPS growth	n.a.	n.a.	n.a.	57.1%	-7.5%	n.a.	n.a.	69.4%	92.9%	n.a.	n.a.	78.2%	n.a.	87.3%		
Ord. EPS (EUR)	-0.60	-1.83	-3.62	-1.32	-0.42	-2.98	-1.37	-0.76	0.07	-0.01	-2.37	0.00	0.12	0.22	-14.7%	27.9%
Ord. EPS growth	n.a.	n.a.	-97.5%	63.4%	68.0%	n.a.	53.8%	44.9%	n.a.	n.a.	n.a.	99.8%	n.a.	79.2%		
CAPEX	(9.0)	(6.2)	(0.7)	(1.6)	(2.0)	(2.4)	(2.0)	(0.9)	(0.8)	(2.6)	(2.0)	(2.1)	(2.4)	(2.5)		
CAPEX/Sales %)	5.4%	4.0%	0.5%	1.2%	1.6%	2.2%	1.8%	0.8%	0.7%	2.2%	3.0%	2.2%	2.2%	2.2%		
Free Cash Flow	5.0	(11.3)	24.9	8.9	(5.3)	24.9	(12.6)	4.5	1.6	(2.3)	(10.2)	(2.7)	(1.8)	(1.6)	-15.0%	46.1%
ND/EBITDA (x) (2)	0.5x	14.0x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-9.4x	-0.9x	n.a.	0.4x	0.3x	0.4x		
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.	4.0x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	37.2x	19.9x		
EV/Sales (x)	0.53x	0.38x	0.33x	0.48x	0.45x	0.11x	0.31x	0.28x	0.46x	0.35x	0.54x	0.67x	0.59x	0.55x		
EV/EBITDA (x) (2	8.6x	38.1x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41.1x	3.6x	n.a.	13.1x	5.8x	5.2x		
Absolute performance	-22.4%	-38.5%	-24.1%	44.8%	-12.4%	-30.4%	-4.9%	62.2%	29.7%	2.6%	-35.9%	-5.7%				
Relative performance vs Ibex 35	-6.1%	-29.2%	-20.4%	19.2%	-15.5%	-25.1%	-3.0%	51.0%	52.5%	-8.2%	-24.2%	-17.3%				

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).
Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 9.1Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Valuation inputs

Inputs for the DCF Valuation Approach

	2021e	2022e	2023e	Terminal Value (1)
Free Cash Flow "To the Firm"	2.6	(0.5)	0.0	n.a.

			Best Case	Worst Case
Market Cap	39.7	At the date of this report		
Net financial debt	-0.8	Debt net of Cash (12m Results 2020)		
Cost of Debt	2.9%	Net debt cost	2.6%	3.1%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	2.3%	**Kd = Cost of Net Debt * (1-T)**	2.1%	2.5%
Risk free rate (rf)	0.4%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	9.0%	R (own estimate)	8.5%	9.5%
Beta (B)	1.1	B (own estimate)	1.0	1.2
Cost of Equity	10.3%	**Ke = Rf + (R * B)**	8.9%	11.8%
Equity / (Equity + Net Debt)	100.0%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	0.0%	D	=	=
WACC	10.3%	**WACC = Kd * D + Ke * E**	8.9%	11.8%
G "Fair"	2.0%		2.5%	1.5%

(1) The terminal value calculated beyond the last FCF estimate does not reflect the company's growth potential (positive/negative) at the date of publication of this report.

Free Cash Flow sensitivity analysis (2022e)

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

Scenario	EBITDA/Sales 22e	EBITDA 22e	EV/EBITDA 22e
Max	11.0%	12.0	5.3x
Central	10.0%	10.9	5.8x
Min	9.0%	9.8	6.5x

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

FCF Rec. EUR Mn	CAPEX/Sales 22e		
EBITDA 22e	2.0%	2.2%	2.4%
12.0	(0.5)	(0.7)	(0.9)
10.9	(1.6)	(1.8)	(2.0)
9.8	(2.7)	(2.9)	(3.1)

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
14-Jun-2021	n.a.	4.28	n.a.	n.a.	Estimates upgrade	Ana Isabel González García, CIIA
10-Jun-2021	n.a.	4.28	n.a.	n.a.	12m Results 2020	Ana Isabel González García, CIIA
29-Apr-2021	n.a.	4.50	n.a.	n.a.	12m Results 2020	Ana Isabel González García, CIIA
29-Mar-2021	n.a.	4.20	n.a.	n.a.	Important news	Ana Isabel González García, CIIA
18-Jan-2021	n.a.	4.78	n.a.	n.a.	9m Results 2020 - Estimates downgrade	Ana Isabel González García, CIIA
02-Dec-2020	n.a.	4.60	n.a.	n.a.	6m Results 2020 - Estimates downgrade	Ana Isabel González García, CIIA
17-Sep-2020	n.a.	3.90	n.a.	n.a.	3m Results 2020	Ana Isabel González García, CIIA
25-Jun-2020	n.a.	5.10	n.a.	n.a.	Estimates downgrade	Ana Isabel González García, CIIA
13-Jan-2020	n.a.	6.90	n.a.	n.a.	9m Results 2019	Ana Isabel González García, CIIA
03-Dec-2019	n.a.	7.36	n.a.	n.a.	Initiation of Coverage	Ana Isabel González García, CIIA

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