

Business description

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.

Market Data

Market Cap (Mn EUR and USD)	41.7	50.6
EV (Mn EUR and USD) ⁽²⁾	38.9	47.2
Shares Outstanding (Mn)	9.3	
-12m (Max/Med/Mín EUR)	5.40 / 4.30 / 3.41	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation ⁽³⁾	12.9	
Refinitiv / Bloomberg	ADZ.MC / ADZ SM	
Close fiscal year	28-Feb	

Shareholders Structure (%)⁽⁵⁾

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

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	7.1	3.7	8.4	9.8
vs Ibex 35	3.5	-6.5	-15.8	15.6
vs Ibex Small Cap Index	7.1	-6.1	-29.3	-41.4
vs Eurostoxx 50	3.2	-8.1	-20.8	-14.6
vs Sector benchmark ⁽⁴⁾	-1.0	-8.5	-25.5	-25.8

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs TR Europe Apparel & Accessories Retailers.

(5) Others: La Previsión Mallorquina de Seguros 7.6%, Ibercapital Magnum, SICAV S.A 3.2%, Treasury shares 0.6%

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

Mixed results (better LFL; worse margin)

ADZ closes its financial statements on 28-Feb, so any reference to the results of a certain year refers to the period between 28-Feb and 28-Feb (of the following year)

SLOWDOWN IN THE DECLINE IN REVENUE (4Q), UNDERPINNED BY THE ONLINE CHANNEL (+25.1% Y/Y 2020). EUR 67.5Mn in revenues in 2020 (-42.8% y/y; vs. -46.8% 9M20), in a year in which c. 60% of the points of sale were again impacted by the restrictions (capacity limits/opening hours) of the third wave of the Covid-19 pandemic (vs. c. 90% at the beginning of the pandemic; impacting ADZ's 1Q head on). Consolidated LFL 2020 -39.2% (vs. -45% 9M20), with a c. -2 p.p. Forex impact. The online channel contributed 20.7% of the consolidated sales for the year.

BETTER LFL PERFORMANCE (GROUP). Europe (EUR 47.9Mn in revenues in 2020; 71.0% of the Group total, the bulk being obtained in Spain) continued to improve (-38.2% LFL 2020, vs. -45.5% LFL 9M20). ADZ recorded c. -35% LFL in Spain, maintaining a spread of c. +5p.p. vs. the sector. Japan and other countries recorded the best LFL performance (-34.6% and -19.1% respectively, vs. >-40% for both in 9M20). On the other hand, Mexico has continued to be affected by the worsening of the Covid crisis (-48.8% LFL 2020, vs. -49.6% 9M20), that is now subsiding. At the 2020 close, ADZ had reduced its points of sale by 12.3% (the bulk in Mexico after the ending of the alliance with Gin Group).

WORSENING OF MARGINS DUE TO THE CALENDAR EFFECT OF COVID. The irruption of Covid-19 (March 2020) hit 1Q20 head on and so impacted the Group's "full-price" sales. This proved impossible to make up over the rest of the year. As a result, ADZ recorded a gross margin/revenues of 47.7% (-9.1p.p. y/y; vs. 50.4% 9M20), due to the commercial effort made to recover sales.

SHRINKING EBIT (EUR -17.6MN 2020; VS. EUR 1MN-1Y) AND NP (EUR -19.3MN 2020, C.-2.3X Y/Y) despite control of costs (-38.0% y/y in personnel costs, that include a EUR 1.3Mn reduction corresponding to the government's furlough scheme). In addition, ADZ recorded an operating impact of EUR +2.0Mn from the renegotiation of leases. The increase in financial expenses (EUR -1.7Mn 2020, c. +80% y/y) due to forex (c. 50% of the total) impacted NP.

BUT RETURNING TO A NET CASH POSITION (EUR 0.6MN 2020) VS. EUR 1.6MN ND 9M20 (and EUR +10Mn net cash -1y), thanks to the optimisation of working capital (c. EUR +9Mn in CF, to which the reduction of inventories contributed c.60%; the implementation of RFID; the increase in the average supplier payment period to 65 days vs. 45 -1y) and the containment of Capex (EUR 2.0Mn 2020, -20.9% y/y).

IN CONCLUSION, MIXED RESULTS, WITH THE IMPACT THAT RESTRUCTURING IS GOING TO HAVE BEING CRITICAL. The redundancy programme announced at the end of March (affecting c. 30% of the headcount) will be concluded in the coming days. This restructuring will generate c. EUR -5Mn in non-recurrent costs and savings (in 12 months) of c. EUR 8Mn (300 employees, average length of service of 10y), resulting in Rec. EBITDA of c. EUR 7Mn in 2021e (+4x vs. our current estimate, EUR 1.8Mn), exceeding pre-Covid-19 levels in 2022 (EUR 11.3Mn Rec. EBITDA 2019). We will adjust our numbers to include this impact.

ADZ continues to reinforce its online business and multi-channel presence in core markets (+23 points of sale in Mexico; franchises) while progressing with its DNA project and facing less demanding comps (2020). Aside from this, ADZ will try to request financing from EU funds (sustainability, digitalisation...) with which to continue to weather the storm (l/t).

Appendix 1. Results table

	(EUR Mn)	2020 Real	2019	2020 Real vs 2019	2020e	2020 vs 2020e	4Q20	4Q20 vs 4Q19
Total Revenues		67.5	117.3	-42.5%	64.5	4.6%	25.9	-33.8%
Sales		66.0	114.9	-42.6%	63.2	4.5%	25.5	-33.4%
Europe		47.9	83.9	-42.9%	55.0	-12.9%	19.8	-30.3%
Mexico		10.5	18.5	-43.2%	4.3	142.4%	2.9	-52.5%
Japan		5.1	7.8	-34.6%	2.7	85.6%	1.7	-26.1%
ROW		2.5	4.7	-46.8%	1.1	125.3%	1.1	-21.4%
Other income		1.5	2.4	-39.1%	1.3	11.9%	0.5	-50.4%
Gross Margin		32.2	66.7	-51.7%	31.3	2.7%	11.2	-44.7%
Gross Margin (% s/Revenues)		47.7%	56.9%	-9.1 p.p.	48.6%	-0.9 p.p.	43.4%	-8.5 p.p.
Recurrent EBITDA		(8.8)	11.3	-177.7%	(6.5)	-35.4%	(3.2)	-154.8%
Rec. EBITDA/Revenues		-13.1%	9.7%	-22.7 p.p.	-10.1%	-3.0 p.p.	-12.4%	-27.4 p.p.
EBITDA		(6.8)	11.3	-160.1%	(6.5)	-4.7%	(1.2)	-120.8%
EBITDA/Revenues		-10.1%	9.7%	-19.8 p.p.	-10.1%	0.0 p.p.	-4.7%	-19.7 p.p.
EBIT		(17.6)	1.0	n.a.	(15.9)	-10.8%	(4.0)	-308%
EBIT/Revenues		n.a.	0.8%	n.a.	n.a.	n.a.	n.a.	n.a.
PBT		(19.3)	0.0	n.a.	(17.5)	-10.4%	(4.2)	-364.6%
NP		(19.3)	(8.3)	-132.5%	(17.5)	-10.3%	(4.4)	29.1%
Ordinary NP		(19.3)	(8.3)	-132.5%	(17.5)	-10.3%	(4.4)	29.1%
Total LFL Var.		-39.2%	5.9%	-45.1p.p.	-45.0%	5.8p.p.		
Points of sale		342	390	(48)	355	(13)		
Rec. FCF		(10.7)	(1.3)	-694%	(11.4)	6.5%		
Net Debt		(0.6)	(10.0)	94%	1.4	-142%		
ND / Equity		0.0 x	-0.2 x	0.2 x	-1.0 x	1.0 x		

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	41.7	
+ Minority Interests	1.0	12m Results 2020
+ Provisions & Other L/T Liabilities	1.4	12m Results 2020
+ Net financial debt	(0.6)	12m Results 2020
- Financial Investments	4.7	12m Results 2020
+/- Others		
Enterprise Value (EV)	38.9	

IMPORTANT LEGAL INFORMATION REGARDING THIS REPORT

LIGHTHOUSE

Lighthouse is a project of IEAF Servicios de Análisis S.L.U. Lighthouse is a research project funded by Bolsas y Mercados Españoles S.A. Lighthouse aims to improve the research coverage of the "orphan stocks" of the Spanish market: those which lack real and continuous research coverage. Lighthouse reports will not include valuation and target price. Lighthouse does not seek to provide investment advice to any natural or legal person. For this reason, Lighthouse will not provide a valuation, target price or investment recommendation for any of the securities analysed.

IEAF Servicios de Análisis S.L.U. is a Spanish company whose corporate purpose is:

1º) To provide information and financial analysis regarding securities issued by any class of legal person traded on official secondary markets, and specifically those securities which are not the object of the recurrent provision of information and analysis by financial analysts who participate in the markets.

2º) To publicise and update the aforementioned financial reports and analysis, in addition to the monitoring and following of the securities on which the information and analysis is provided.

3º) To prepare studies and projects aimed at proposing and implementing measures to improve the information and financial analysis of securities traded on official secondary markets.

IEAF Servicios de Análisis S.L.U. is a company whose sole shareholder is the Instituto Español de Analistas Financieros (IEAF), a professional, not for profit association.

DISCLAIMER

The Instituto Español de Analistas Financieros (IEAF) hereby certifies that the analyst of IEAF Servicios de Análisis S.L.U. whose name figures as the author of this report, expresses views that reflect their personal and independent opinion of the company analysed without these implying, either directly or indirectly, a personalised recommendation of the company analysed for purposes of providing investment advice. This report is based on the preparation of detailed financial projections from information available to the public and following traditional fundamental research methodology (i.e. it is not a technical or quantitative analysis report). For the analysis methodology used in the preparation of this report, please contact the analyst directly; contact details are included on the front page of this report.

The report includes basic information regarding the main parameters to be used by an investor when making their own valuation (whether by discounted cash flows or multiples). These parameters are the personal opinion or estimate of the analyst. The person receiving this report should use their own judgement when using these parameters and should consider them as another element in their decision-making process in respect of investment. These parameters do not represent a personalised investment recommendation.

Rules governing confidentiality and conflicts of interest

None of the following rules governing confidentiality and conflicts of interest (12) is applicable to this report:

1. This report is non-independent research as it has been commissioned by the company analysed (issuer).
2. In the last 12 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., has had Investment Banking mandates or has managed or co-managed a public offering of the securities of the issuer, or has received compensation from said issuer for Investment Banking services, that exclude brokerage services for prepaid fees.
3. In the next 6 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., expects to receive or intends to obtain compensation for Investment Banking services provided to this company that exclude brokerage services for prepaid fees.
4. The Investment Analyst or a member of the Research Department or a member of their household has a long position in the shares or derivatives of the corresponding issuer.
5. The Investment Analyst or a member of the Research Department or a member of their household has a short position in the shares or derivatives of the corresponding issuer.
6. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a long position of over 0.5% of the issuer's capital.
7. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a short position of over 0.5% of the issuer's capital.
8. At the end of the month immediately prior to the publication of this report, or of the previous month if the report is published in the ten days following the end of the month, the company analysed (the issuer) or any of its subsidiaries held 5% or more of any class of equity security of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U.
9. A senior director or officer of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., or a member of their department is a director, officer, advisor or member of the Board of Directors of the issuer and/or one of its subsidiaries.
10. The Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., acts as broker for the Issuer for the corresponding prepaid fees.
11. The contents of this report related to the financial analysis, financial projections, valuation, investment summary and opinion of the analyst have been reviewed by the issuer prior to its publication.
12. The issuer has made changes to the contents of this report prior to its distribution.

The Investment Analysts who have prepared this Investment Analysis are employees of IEAF Servicios de Análisis S.L.U. These analysts have received (or will receive) compensation according to the general earnings of IEAF Servicios de Análisis S.L.U. To obtain a copy of the Code of Conduct of IEAF Servicios de Análisis S.L.U. (in respect of the Management of Conflicts of Interest in the research department), please use the e-mail address secretaria@ieaf.es or consult the contents of this Code at www.ieaf.es.

IEAF Servicios de Análisis S.L.U. is compensated by Bolsas y Mercados Españoles, S.A. for the preparation of this report. This report should be considered as just another element in the taking of investment decisions.

A report issued by IEAF servicios de análisis S.L.U.

All rights reserved. The unauthorised use or distribution of this report is prohibited. This document has been prepared and distributed, according to the provisions of the MiFID II by IEAF Servicios de Análisis S.L.U. Its corporate activity is regulated by the CNMV (the Spanish Securities Exchange Commission). The information and opinions expressed in this document do not represent nor are they intended to represent an offer or a solicitation to buy or sell the securities (in other words, the securities mentioned in this report and related warrants, options, rights or interests). The information and opinions contained in this document are based upon information available to the public and have been obtained from sources believed to be reliable by IEAF Servicios de Análisis S.L.U., but no guarantee is given regarding their accuracy or completeness. All comments and estimates reflect solely the opinion of IEAF Servicios de Análisis S.L.U. and do not offer any implicit or explicit guarantee. All the opinions expressed are subject to change without prior warning. This document does not take into account the specific investment objectives, financial position, risk profile or other specific aspects of the person who receives this document, and accordingly they should exercise their own judgement in this respect. Neither the Instituto Español de Analistas Financieros nor its subsidiary, IEAF Servicios de Análisis S.L.U., assumes any responsibility for direct or indirect losses arising from the use of the published research, except in the event of negligent conduct by IEAF Servicios de Análisis S.L.U. The information contained in this report is approved for distribution to professional clients, eligible counterparties and professional advisers, but not for distribution to private individuals or retail clients. Its reproduction, distribution or

publication for any purpose without the written authorisation of IEAF Servicios de Análisis S.L.U. is prohibited. The Instituto Español de Analistas Financieros (IEAF) and/or its subsidiary IEAF Servicios de Análisis S.L.U., their employees and directors, may hold a position (long or short) in an investment knowing that this issuer will be the object of analysis and that this analysis will be distributed to institutional investors. Any further information regarding the contents of this report will be provided upon request. IEAF Servicios de Análisis S.L.U. intends to publish (at least) one quarterly report or note updating the information on the company analysed.

United States. IEAF Servicios de Análisis S.L.U. is not registered in the United States and, consequently, is not subject to the regulations of that country governing the preparation of research and the independence of analysts. This report is distributed solely to major US institutional investors, in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), and interpretations of this made by the US Securities Exchange Commission.

Major US Institutional Investors. This report will be distributed to "major US institutional investors", as defined by Rule 15a-6 of the US Securities Exchange Commission and of the US Securities Exchange Act of 1934.

Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
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

