

EQUITY - SPAIN

Sector: Textiles, Apparel & Luxury Goods

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Important news
Closing price: EUR 4.20 (26 Mar 2021)

Important news

Opinion ⁽¹⁾: Positive

Impact ⁽¹⁾: We will have to raise our estimates

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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 (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) | 39.0 | 46.0 |
| EV (Mn EUR and USD) ⁽²⁾ | 37.5 | 44.3 |
| Shares Outstanding (Mn) | 9.3 | |
| -12m (Max/Med/Mín EUR) | 5.40 / 4.31 / 3.41 | |
| Daily Avg volume (-12m Mn EUR) | 0.02 | |
| Rotation ⁽³⁾ | 14.4 | |
| 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 | -1.2 | -8.1 | -16.0 | -0.7 |
| vs Ibex 35 | -4.4 | -12.3 | -30.5 | 2.7 |
| vs Ibex Small Cap Index | -3.8 | -15.8 | -51.6 | -47.8 |
| vs Eurostoxx 50 | -7.1 | -15.8 | -38.1 | -23.3 |
| vs Sector benchmark ⁽⁴⁾ | -5.3 | -13.5 | -37.1 | -24.4 |

(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

Very positive: significant workforce downsizing to concentrate on the digital business

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).

ADZ ANNOUNCES A REDUNDANCY SCHEME aimed at c.30% of the headcount in Spain (c. 300 jobs; c. 25% of the consolidated total), affecting both sales staff and head office services.

WARRANTED BY THE WORSENING OF THE BUSINESS, with 9M 2020 revenues -46.8% y/y (-49.5% in Europe, concentrated mainly in Spain) and cumulative EBIT of EUR -13.6Mn. Local business data show an acceleration of the fall in lfl sales (-47.2% in cumulative terms in January-February 2021, also impacted by the bad weather), which will be reflected in ADZ's 4Q20 results.

AND WITH THE GOAL OF ADAPTING THE BUSINESS TO THE NEW TRENDS in productive models and digital consumption. The plan involves maintaining the points of sale (348 in the Group), while strengthening online sales, which continue to record double-digit growth (+28.2% y/y 9M20). Various reports put Spain among the European countries leading growth in online sales (+58% y/y during the last Christmas campaign). In-store collection is the most frequently used option, backing ADZ's multi-channel approach.

ALLOWING THE RECOVERY OF PROFITABILITY. *Ceteris paribus*, with revenue, gross margin and other operating costs underpinned by online sales, a (theoretical) scenario in which: 1) all employees accept the redundancy package, 2) with severance indemnity of 20 days' salary per year of service with a maximum of 12 monthly payments and 3) an average seniority of c. 10 years (the rate of rotation in the sector is 13%), would generate non-recurring costs of c. EUR -5Mn (see table 1), and savings (in 12 months) of c. EUR 8Mn, increasing ADZ's Rec. EBITDA to c. EUR 7Mn in 2021e (+4x vs. our current estimate), exceeding pre-Covid-19 levels in 2022e (2019 Rec. EBITDA of EUR 11.3Mn).

IN CONCLUSION, A NECESSARY RESIZING THAT WILL ALLOW THE COMPANY TO RETURN TO PRE-CRISIS PROFITABILITY LEVELS. 2021e Rec. EBITDA/revenue of 7.8% in the scenario described above (-1.8p.p. vs. 2019), resulting in EUR 2.5Mn of EBITDA (vs. EUR 11.3Mn in 2019). This is a significant measure with an immediate impact on numbers that underlines ADZ's digital commitment. E-commerce has been strengthened as the main driving force of growth in a sector with a clear megatrend -sustainability-, where ADZ is well positioned.

Table 1. Scenarios with the theoretical impact on EBITDA⁽¹⁾

| Cost Savings | | | | Rec. EBITDA | | | |
|--------------|------------------|-----|-----|-------------|-------------|------------|-------|
| Since | Nr. of Employees | | | 2020e | Post-Reest. | Pre-Reest. | 2021e |
| | 250 | 275 | 300 | | 2021e | 2021e | |
| 2021e | 4.6 | 5.0 | 5.5 | (6.5) | 7.3 | 1.8 | |
| 2022e | 2.3 | 2.5 | 2.7 | (6.5) | 6.9 | 1.8 | |

| Reest. Expense 2021 (EUR Mn) | | | | EBITDA 2021e (Post-Reestr.) | | | |
|------------------------------|-------------------|-------|-------|-----------------------------|-----|-------|------------------|
| Nr. of Employees | Seniority (years) | | | 5 | 10 | 20 | Pre-Reest. 2021e |
| | 5 | 10 | 20 | | 2.5 | (1.3) | |
| 300 | (2.6) | (4.9) | (8.6) | 4.7 | 2.5 | (1.3) | 1.8 |
| 275 | (2.4) | (4.4) | (7.9) | 4.5 | 2.4 | (1.0) | 1.8 |
| 250 | (2.2) | (4.0) | (7.1) | 4.2 | 2.4 | (0.7) | 1.8 |

1. This exercise consists of isolating the theoretical impact of the workforce reduction plan, depending on the number of employees who accept this and their seniority. The upper left-hand table shows the theoretical cost savings on conclusion of the plan (30 days after its announcement; EUR c. 8Mn in 12m impacting as from 2021 and 2022). The lower left-hand table reflects the potential impact of (non-recurrent) restructuring costs that could impact in 2021 (c. EUR -9Mn if the average seniority of those employees who accept the redundancy package were 20 years). By way of example, the upper right-hand table shows the potential impact on 2021e Rec. EBITDA vs. our current estimate for the same year, whilst the lower right-hand table shows various theoretical EBITDA scenarios in 2021 (reflecting the theoretical mix of costs savings together with restructuring costs). This is a theoretical exercise that will have to be adjusted once ADZ reports 2020 results (at the end of April).

Appendix 1. EV breakdown at the date of this report

| | EUR Mn | Source |
|--------------------------------------|-------------|-----------------|
| Market Cap | 39.0 | |
| + Minority Interests | 1.0 | 9m Results 2020 |
| + Provisions & Other L/T Liabilities | 0.6 | 9m Results 2020 |
| + Net financial debt | 1.6 | 9m Results 2020 |
| - Financial Investments | 4.6 | 9m Results 2020 |
| +/- Others | | |
| Enterprise Value (EV) | 37.5 | |

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Notes and Reports History

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

