# FNG

BELGIUM
Bloomberg: FNG:NA
Factset: FNG-AMS

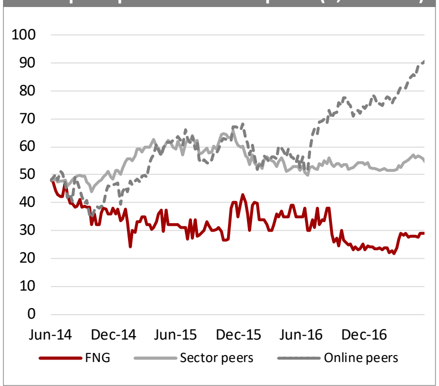
# Equity Research Report

4 September 2017

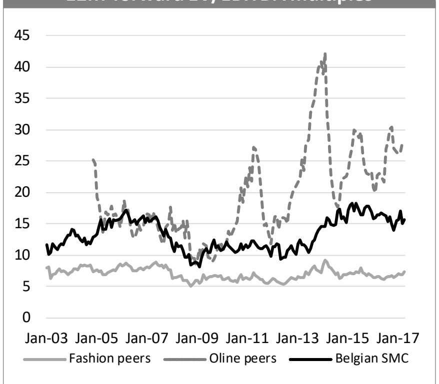
Closing price (31 August 2017): €27
Market capitalisation: €217m
EV: €331m
Free float: 6%

# Finger on the trigger

Share price performance vs. peers (€, rebased)




12M-forward EV/EBITDA multiples




***Important Note***

*Merodis BVBA (Merodis) has been mandated by FNG N.V. (FNG or the company) to produce a neutral, fair and elaborate equity research report on the company with the aim to increase the visibility and awareness of FNG's shares in the financial markets. The authors hereby declare that any views expressed in this report represent their personal opinion and that FNG has neither limited nor in any other way influenced the content of this report.*

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Merodis
Equity Research

## Home-grown, leading Benelux fashion retailer

FNG is a leading Benelux fashion retailer listed on the Amsterdam stock exchange. Like most successful fashion retailers, such as giant Inditex, FNG is vertically integrated throughout most of the fashion value chain: from design (owning 10 brands) and sourcing to selling to consumers through an omni-channel strategy (500+ own stores as well as webshops). Production, on the other hand, is outsourced. The company's historical focus was on children and women apparel, although it recently expanded into footwear (acquisition of Brantano) and men's fashion (announced acquisitions of Suitcase and Concept Fashion).

## Market consolidator applying a tested and successful recipe

Vertical integration differentiates FNG from much of the domestic peers in fashion retail, particularly independent resellers that are hit hard by competition from the online retail channel. The result is a wave of consolidation, which provides opportunities for winning concepts such as FNG, which has seen its sales grow from €4m in 2008 to €260m in 2016. FNG made two large acquisitions in 2016 which are significant in terms of strengthening the geographic footprint outside of Belgium (with Miss Etam in the Netherlands), product diversification (with Brantano in footwear), synergy and process optimisation (Benelux-wide logistics operations) and financial impact (margin upside potential for both acquisitions).

## 36% EPS CAGR 2017-20 driven mainly by efficiency gains, with more icing on the cake

Our forecast of 36% EPS CAGR 2017-20e is well-above the level expected by the more mature listed peers (13.5% CAGR), and driven by (1) 6.8% sales CAGR (efficiency gains, growth in online and enhanced product-mix impact through the multi-brand, omni-channel approach), (2) 26% EBITDA CAGR with group EBITDA margins expected to rise from 8.2% in 2016 to 14.6% expected in 2022e, (3) Control over other costs (depreciation and financing). Icing on the cake, which has yet to be reflected in our forecasts, are the synergy effects of up to €30m, above the margin enhancement that we expect

## Around 15% valuation discount reflects undiscovered nature of the story

Based on our peer group analysis, FNG is trading on P/E, EV/EBITDA and EV/EBIT discounts of respectively 18%, 11% and 9% on average over 2017-19e. The discounts, which may be linked to limited liquidity, leverage but also lack of market visibility, do not reflect, in our view, FNG's strong historical profitability vs. peers and its superior growth potential. To better reflect FNG's long-term restructuring potential, we use a DCF model which suggests fair value at €38.3/share at a WACC of 11.2%. Although FNG trades in line with peers on 0.6x EV/Sales 2018e, a correlation analysis with our 2020e EBITDA forecast of 11.8%, suggests a target EV/Sales of 0.94x, or €49/share (before any size or liquidity discount).


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**Key financials**

| €m | 2013 | 2014 | 2015 | 2016pro | 2017e | 2018e | 2019e | 2020e |
|---|---|---|---|---|---|---|---|---|
| Sales | 147.1 | 242.5 | 255.7 | 459.8 | 508.6 | 543.8 | 587.0 | 619.7 |
| EBIT | 14.7 | 15.4 | 15.5 | 3.7 | 29.2 | 35.9 | 49.1 | 57.7 |
| Net profit | 7.8 | 5.9 | 4.4 | -2.8 | 13.6 | 18.2 | 27.5 | 34.0 |
| EPS (€) | 2.00 | 1.32 | 0.89 | -0.41 | 1.69 | 2.26 | 3.42 | 4.23 |
| DPS (€) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| P/E (x) | 9.0 | 14.3 | 19.7 | na | 16.0 | 11.9 | 7.9 | 6.4 |
| Adj. EV/EBITDA (x) | 5.6 | 6.0 | 6.6 | 7.8 | 7.9 | 6.7 | 4.8 | 3.8 |
| Adj .EV/EBIT (x) | 8.3 | 10.6 | 11.9 | 79.6 | 11.3 | 9.2 | 6.2 | 4.8 |

*Source: Company data, Merodis, FactSet*

# Financial summary

**Enterprise Value (€m): 331**
**Market Cap. (€m): 217**
**Free-float MCap (€m): 13**

| **Consolidated P&L (€m)** | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2013 | 2014 | 2015 | 2016 prof. | 2017e | 2018e | 2019e | 2020e | CAGR 08-16 | CAGR 17-20e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year-end | | 31/12/06 | 31/12/07 | 31/12/08 | 31/7/10 | 31/7/11 | 31/3/13 | 31/3/14 | 31/3/15 | 31/3/16 | 31/12/16 | 31/12/17 | 31/12/18 | 31/12/19 | 31/12/20 | | |
| # of months | | 12 | 12 | 12 | 19 | 12 | 19 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | | |
| Sales | | 0.8 | 1.3 | 4.2 | 43.2 | 46.0 | 127.4 | 150.4 | 254.6 | 256.9 | 459.8 | 508.6 | 543.8 | 587.0 | 619.7 | 80.0 | 6.8 |
| EBITDA | | 0.1 | 0.0 | 0.1 | 6.6 | 8.0 | 20.8 | 21.9 | 27.5 | 27.9 | 37.6 | 41.9 | 49.5 | 63.8 | 73.2 | 110.4 | 20.4 |
| EBIT | | -0.1 | -0.2 | -0.4 | 4.2 | 3.0 | 14.0 | 14.7 | 15.4 | 15.5 | 3.7 | 29.2 | 35.9 | 49.1 | 57.7 | na | 25.5 |
| Pretax profit | | -0.1 | -0.4 | -0.7 | 2.7 | 0.2 | 9.3 | 10.6 | 10.4 | 9.0 | -5.7 | 20.9 | 28.0 | 42.3 | 52.3 | 30.3 | 35.8 |
| Net profit | | -0.1 | -0.4 | -0.7 | 2.7 | 0.2 | 7.8 | 7.8 | 5.9 | 4.4 | -2.8 | 13.6 | 18.2 | 27.5 | 34.0 | 19.1 | 35.8 |
| **Cash Flow (€m)** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | **08-16** | **17-20e** |
| Adj. EBITDA | | 0.1 | 0.0 | 0.1 | 6.6 | 8.0 | 20.8 | 21.9 | 27.5 | 27.9 | 7.0 | 41.9 | 49.5 | 63.8 | 73.2 | 70.4 | 20.4 |
| WCR | | -0.2 | -0.6 | 0.8 | -6.4 | -1.9 | -5.4 | -10.2 | -4.4 | -24.6 | 0.3 | -4.3 | -3.3 | -3.9 | -3.1 | -12.8 | -10.9 |
| Gros Op CF | | -0.1 | -0.6 | 0.9 | 0.2 | 6.1 | 15.4 | 11.7 | 23.0 | 3.2 | 7.2 | 37.6 | 46.2 | 59.9 | 70.1 | 29.0 | 23.1 |
| Capex | | 0.0 | 0.0 | -0.1 | -0.9 | -0.9 | -2.5 | -3.0 | -5.1 | -5.1 | -21.2 | -30.0 | -27.0 | -15.0 | -15.0 | 99.8 | -20.6 |
| FCF | | -0.2 | -0.8 | 0.6 | -2.2 | 3.6 | 7.8 | 2.8 | 9.0 | -12.5 | -18.7 | -8.0 | 1.5 | 23.3 | 31.4 | na | na |
| Net disp./(acq.) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 | -9.0 | 0.0 | 0.0 | 0.0 | na | na |
| Dividends paid | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | na | na |
| Equity issue | | 0.2 | 0.0 | 1.1 | 0.5 | 0.3 | 0.3 | 2.5 | 1.8 | 2.1 | 68.2 | 0.0 | 0.0 | 0.0 | 0.0 | 67.2 | na |
| Others | | -1.0 | -0.7 | -4.2 | -7.4 | -10.1 | -27.4 | -11.4 | -41.7 | -7.1 | -75.7 | 0.0 | 0.0 | 0.0 | 0.0 | 43.4 | na |
| Net Debt (incr.)/decr. | | -1.0 | -1.5 | -2.5 | -9.1 | -6.2 | -19.3 | -6.1 | -30.9 | -17.6 | -16.7 | -17.0 | 1.5 | 23.3 | 31.4 | 26.7 | na |
| **Balance Sheet (€m)** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | **08-16** | **17-20e** |
| WC | | 0.2 | 0.8 | 0.0 | 6.4 | 8.3 | 13.6 | 23.8 | 28.3 | 52.9 | 33.6 | 38.0 | 41.3 | 45.2 | 48.2 | na | 8.3 |
| Capital Employed | | 0.9 | 2.0 | 2.8 | 40.2 | 47.0 | 73.6 | 108.3 | 160.5 | 186.5 | 396.1 | 427.8 | 444.5 | 448.7 | 451.3 | 85.9 | 1.8 |
| Cash & Equivalent | | 0.0 | 0.0 | 0.0 | 8.6 | 6.4 | 11.7 | 23.1 | 42.7 | 24.4 | 66.9 | 49.9 | 31.3 | 24.6 | 26.1 | 159.8 | -19.5 |
| Gross Debt | | 1.0 | 2.5 | 5.0 | 22.6 | 26.6 | 51.3 | 68.8 | 119.4 | 118.6 | 177.8 | 177.8 | 157.8 | 127.8 | 97.8 | 56.1 | -18.1 |
| Equity | | 2.4 | 2.0 | 2.9 | 26.2 | 26.7 | 34.5 | 60.8 | 79.7 | 84.6 | 233.6 | 247.2 | 265.4 | 292.9 | 326.9 | 73.2 | 9.8 |
| **Growth (%)** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | | |
| Sales | | na | 57.1 | 238.5 | na | na | na | na | 64.8 | 5.4 | 79.8 | 10.6 | 6.9 | 7.9 | 5.6 | | |
| EBITDA | | na | na | na | na | na | na | na | 25.6 | 1.5 | 35.0 | 11.4 | 18.2 | 28.8 | 14.7 | | |
| EBIT | | na | na | na | na | na | na | na | 5.0 | 0.6 | -76.1 | 687.0 | 23.1 | 36.7 | 17.4 | | |
| Net profit | | na | na | na | na | na | na | na | -24.2 | -26.0 | na | na | 33.9 | 51.2 | 23.7 | | |
| FCF | | na | na | na | na | na | 114.5 | -63.8 | 217.1 | na | na | na | na | na | 35.1 | | |
| NWC | | | 328.3 | na | na | 29.2 | 64.8 | 74.7 | 18.5 | 87.2 | -36.4 | 12.9 | 8.7 | 9.4 | 6.8 | | |
| Capital Employed | | | 123.1 | 39.9 | na | 16.7 | 56.7 | 47.2 | 48.2 | 16.2 | 112.4 | 8.0 | 3.9 | 0.9 | 0.6 | | |
| Shareholder Equity | | | -16.0 | 42.9 | 810.9 | 2.0 | 29.2 | 75.9 | 31.1 | 6.2 | 176.3 | 5.8 | 7.4 | 10.4 | 11.6 | | |
| **Financial Ratios** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | | |
| Gross margin (%) | | 69.0 | 56.3 | 52.8 | 53.7 | 55.8 | 59.1 | 55.9 | 49.0 | 50.8 | 53.6 | 53.8 | 54.0 | 54.3 | 54.5 | | |
| EBITDA margin (%) | | 9.3 | -0.7 | 2.3 | 15.3 | 17.3 | 16.3 | 14.5 | 10.8 | 10.8 | 8.2 | 8.2 | 9.1 | 10.9 | 11.8 | | |
| EBIT margin (%) | | -7.8 | -18.5 | -10.5 | 9.6 | 6.6 | 11.0 | 9.8 | 6.1 | 6.0 | 1.9 | 5.7 | 6.6 | 8.4 | 9.3 | | |
| Net margin (%) | | -14.2 | -29.5 | -16.4 | 6.2 | 0.3 | 6.1 | 5.2 | 2.3 | 1.7 | -0.6 | 2.7 | 3.3 | 4.7 | 5.5 | | |
| Opex/Sales (%) | | 90.6 | 100.4 | 97.3 | 84.0 | 81.9 | 83.2 | 85.2 | 89.0 | 89.0 | 91.8 | 91.8 | 90.9 | 89.1 | 88.2 | | |
| Depreciation/Sales (%) | | 13.9 | 17.9 | 12.8 | 5.5 | 10.6 | 5.1 | 4.8 | 4.6 | 4.8 | 6.2 | 2.5 | 2.5 | 2.5 | 2.5 | | |
| Depreciation/EBITDA (%) | | 150.1 | na | 546.5 | 35.9 | 61.4 | 31.5 | 32.9 | 43.1 | 44.0 | 76.3 | 30.3 | 27.4 | 23.0 | 21.2 | | |
| Tax rate (%) | | 0.0 | 0.0 | 0.0 | 0.6 | 7.3 | 16.3 | 26.1 | 42.9 | 51.3 | 51.3 | 35.0 | 35.0 | 35.0 | 35.0 | | |
| Capex/Sales (%) | | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 4.6 | 5.9 | 5.0 | 2.6 | 2.4 | | |
| FCF/Sales (%) | | -23.4 | -61.3 | 14.7 | -5.0 | 7.9 | 6.1 | 1.9 | 3.5 | -4.9 | -4.1 | -1.6 | 0.3 | 4.0 | 5.1 | | |
| WCR/Sales (%) | | -24.3 | -49.0 | 20.4 | -14.9 | -4.1 | -4.2 | -6.8 | -1.7 | -9.6 | 0.1 | -0.9 | -0.6 | -0.7 | -0.5 | | |
| WC/Sales (%) | | 24.3 | 63.9 | -0.4 | 14.8 | 18.0 | 10.7 | 15.8 | 11.1 | 20.6 | 7.3 | 7.5 | 7.6 | 7.7 | 7.8 | | |
| Capital Employed/Sales (%) | | 111.5 | 153.0 | 66.7 | 93.1 | 102.0 | 57.8 | 72.0 | 63.1 | 72.6 | 86.1 | 84.1 | 81.7 | 76.4 | 72.8 | | |
| Gearing (%) | | 41.4 | 124.0 | 173.9 | 53.7 | 75.7 | 114.5 | 75.2 | 96.2 | 111.4 | 47.5 | 51.7 | 47.6 | 35.2 | 21.9 | | |
| Net Debt/EBITDA (x) | | 0.0 | 0.0 | 51.1 | 2.1 | 2.5 | 1.9 | 2.1 | 2.8 | 3.4 | 2.9 | 3.1 | 2.6 | 1.6 | 1.0 | | |
| ROCE post-tax (%) | | -7.0 | -16.7 | -18.3 | 19.3 | 6.5 | 19.4 | 11.9 | 6.6 | 4.3 | 0.6 | 4.6 | 5.4 | 7.2 | 8.3 | | |
| ROE (%) | | -4.7 | -17.4 | -27.9 | 18.3 | 0.6 | 25.5 | 16.4 | 8.4 | 5.3 | -1.7 | 5.6 | 7.1 | 9.8 | 11.0 | | |
| Dividend Payout (%) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Valuation** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | **08-16** | **17-20e** |
| Market Capitalisation (€m) | | | | 5.1 | 5.9 | 32.8 | 31.0 | 77.2 | 89.1 | 90.8 | 199.4 | 217.1 | 217.1 | 217.1 | 217.1 | 58.3 | 0.0 |
| + Net Financial Debt (€) | | | | 5.0 | 14.1 | 20.3 | 39.6 | 45.7 | 76.6 | 94.2 | 110.9 | 127.9 | 126.4 | 103.2 | 71.7 | 47.3 | -17.5 |
| + Restated Min. + others (€m) | | | | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 2.6 | 3.6 | 3.6 | 3.6 | 3.6 | na | 0.0 |
| - Associates & Inv. (€m) | | | | 5.1 | 0.1 | 0.1 | 1.7 | 1.3 | 2.1 | 0.6 | 17.6 | 17.6 | 17.6 | 17.6 | 17.6 | 16.8 | 0.0 |
| **= Enterprise Value (€m)** | | | | **5.0** | **19.9** | **53.0** | **68.9** | **121.8** | **163.8** | **184.6** | **295.2** | **331.0** | **329.5** | **306.3** | **274.8** | 66.6 | -6.0 |
| Assoc. NFD (gr. share) (€m) | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| EV/Sales (x) | | | | 1.2 | 0.5 | 1.2 | 0.5 | 0.8 | 0.6 | 0.7 | 0.6 | 0.7 | 0.6 | 0.5 | 0.4 | | |
| EV/EBITDA (x) | | | | 50.8 | 3.0 | 6.7 | 3.3 | 5.6 | 6.0 | 6.6 | 7.8 | 7.9 | 6.7 | 4.8 | 3.8 | | |
| EV/EBIT (x) | | | | -11.4 | 4.8 | 17.4 | 4.9 | 8.3 | 10.6 | 11.9 | 79.6 | 11.3 | 9.2 | 6.2 | 4.8 | | |
| EV/FCF (x) | | | | 8.1 | -9.2 | 14.5 | 8.8 | 43.1 | 18.3 | -14.7 | -15.8 | -41.2 | 223.7 | 13.2 | 8.7 | | |
| EV/Capital Employed (x) | | | | 1.8 | 0.5 | 1.1 | 0.9 | 1.1 | 1.0 | 1.0 | 0.7 | 0.8 | 0.7 | 0.7 | 0.6 | | |
| P/E (x) | | | | na | 2.1 | 129.5 | 3.9 | 9.0 | 14.3 | 19.7 | na | 16.0 | 11.9 | 7.9 | 6.4 | | |
| P/BVPS (x) | | | | 1.8 | 0.2 | 1.2 | 0.9 | 1.3 | 1.1 | 1.1 | 0.9 | 0.9 | 0.8 | 0.7 | 0.7 | | |
| FCF yield (%) | | | | 12.1 | -36.7 | 11.1 | 25.3 | 3.7 | 10.1 | -13.8 | -9.4 | -3.7 | 0.7 | 10.7 | 14.5 | | |
| **Per share data** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | **08-16** | **17-20e** |
| # of shares | | | | 0.67 | 0.76 | 3.49 | 3.55 | 4.28 | 4.71 | 5.20 | 8.04 | 8.04 | 8.04 | 8.04 | 8.04 | 36.4 | 0.0 |
| # of avg sh. (FD, ex-treas.) | | | | 0.34 | 0.72 | 2.12 | 3.52 | 3.91 | 4.49 | 4.95 | 6.79 | 8.04 | 8.04 | 8.04 | 8.04 | 45.3 | 0.0 |
| Share price | | | | 7.53 | 7.74 | 9.42 | 8.72 | 18.06 | 18.92 | 17.46 | 24.79 | **27.00** | 27.00 | 27.00 | 27.00 | 16.1 | 0.0 |
| EPS | | | | -2.00 | 3.71 | 0.07 | 2.22 | 2.00 | 1.32 | 0.89 | -0.41 | 1.69 | 2.26 | 3.42 | 4.23 | -18.0 | 35.8 |
| EPS FD | | | | -2.00 | 3.71 | 0.07 | 2.22 | 2.00 | 1.32 | 0.89 | -0.41 | 1.69 | 2.26 | 3.42 | 4.23 | -18.0 | 35.8 |
| BVPS | | | | 4.28 | 34.53 | 7.67 | 9.73 | 14.21 | 16.92 | 16.26 | 29.05 | 30.74 | 33.00 | 36.42 | 40.65 | 27.1 | 9.8 |
| DPS | | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | na | na |

Source: Company data, Merodis

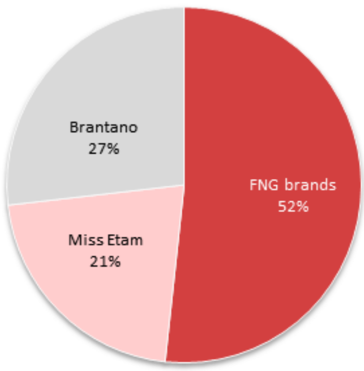
# Financial summary

## FNG

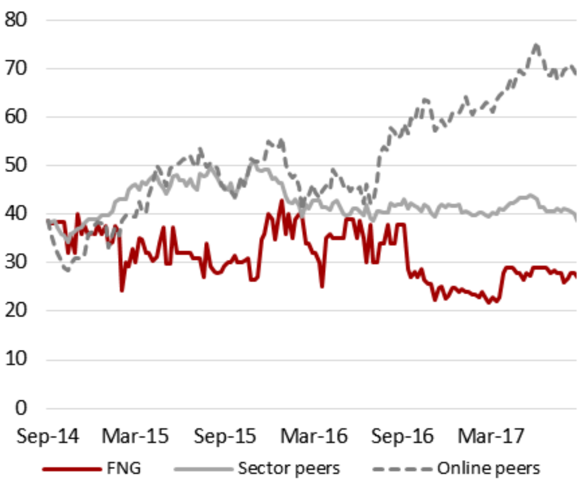
### Company profile

FNG Group is a Belgium-based fashion retailer operating 10 brands with 525 stores in the Benelux, more than 1,500 multi-brand stores and online platforms. FNG is a market consolidator, operating a buy-and-build strategy. The group has created brands and rebuilds most of the acquired brands, generating above-market margins thanks to economies of scale and its vertically integrated business model using its own buying platform as well as a fully integrated logistics system. Launched in 2003, the historical focus was on children and women apparel (mid- to premium range). It recently expanded into footwear (Brantano) and men's fashion through acquisitions. The group is an integrated fashion retailer operating its own brands, local design teams, local sourcing teams and retail network (offline and online). The company operates a omni-channel distribution strategy relying not only on its own stores, but also on online sales and on third-party resellers. Going forward, top-line growth should be driven by store optimisation (increased sales/m²), online sales and international development of certain brands. Profit growth will be driven mainly by margin enhancement through efficiency gains and synergies.

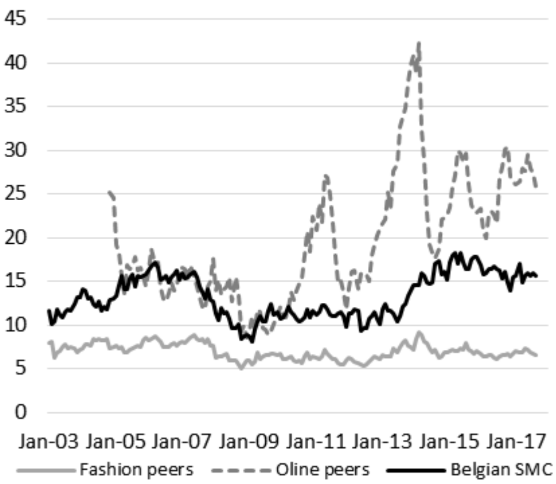
### Divisional sales breakdown




### FNG share price (Eur)




### Peer EV/EBITDA (x)




### Discounted cash flow model

| Eur m | 2016 | 2017e | 2018e | 2019e | 2020e | 2021e |
|---|---|---|---|---|---|---|
| Sales | 459.8 | 508.6 | 543.8 | 587.0 | 619.7 | 654.1 |
| % growth | *79.0%* | *10.6%* | *6.9%* | *7.9%* | *5.6%* | *5.5%* |
| **EBITDA** | **37.6** | **41.9** | **49.5** | **63.8** | **73.2** | **87.6** |
| % sales | 8.2% | 8.2% | 9.1% | 10.9% | 11.8% | 13.4% |
| Tax | 2.9 | -7.3 | -9.8 | -14.8 | -18.3 | -23.7 |
| Tax rate | -29.9% | 78.6% | -25.0% | -27.2% | -30.1% | -31.7% |
| EBITDA after tax | 40.5 | 34.6 | 39.7 | 49.0 | 54.9 | 63.9 |
| - Capex | -21.2 | -30.0 | -27.0 | -15.0 | -15.0 | -15.0 |
| % sales | -4.6 | -5.9 | -5.0 | -2.6 | -2.4 | -2.3 |
| - Investments in working capital | 0.3 | -4.3 | -3.3 | -3.9 | -3.1 | -3.2 |
| % sales | 0.1 | -0.9 | -0.6 | -0.7 | -0.5 | -0.5 |
| **Operating cash flow** | **19.6** | **0.3** | **9.4** | **30.1** | **36.8** | **45.8** |
| % growth | 0% | -99% | 3536% | 219% | 22% | 24% |
| WACC | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 |
| Discount factor | | 1.00 | 0.90 | 0.81 | 0.73 | 0.65 |
| Present value of free cash flow | | 0.3 | 8.5 | 24.4 | 26.8 | 29.9 |
| Cumulative present value of free cash flow | | 120.2 | | | | |
| + Present value of terminal value | | 300.4 | | | | |
| **= Enterprise value** | | **420.6** | | | | |
| - Net Financial Debt/(cash) (2016) | | 127.9 | | | | |
| - Other liabilities (book) | | 2.6 | | | | |
| - Equity stakes & investments (book) | | 17.6 | | | | |
| **= Estimated market value of equity** | | **307.7** | | | | |
| **Fair value per share (EUR)** | | **38.3** | | | | |

Source: Company data, Merodis, Factset

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# INVESTMENT CASE

*Fast growing, and now a leading, Benelux fashion retailer*

FNG, a leading Benelux fashion retailer, has experienced strong growth in the past (80% sales CAGR 2008-16), driven largely by external and organic growth driven by a successful business model which combines strong fashion designs and an effective omni-channel retail strategy. Going forward, we expect profit growth to remain buoyant, with 36% EPS CAGR 2017-20e, driven by 26% EBITDA CAGR (margin ramp-up potential) and 6.8% sales CAGR (efficiency gains and online sales growth). The stock is trading at a discount to peers, while a premium is justified, in our opinion, given the strong growth and margin turnaround potential as well upside with respect to visibility among investors (FNG is a "hidden jewel" among Benelux listed companies).

## Home-grown Benelux fashion retailer

*Integrated player operating an omni-channel strategy*

FNG is a leading Benelux fashion retailer listed on the Amsterdam stock exchange. Like most successful fashion retailers these days, such as giant Inditex, FNG is vertically integrated throughout most of the fashion value chain: from design (owning 10 brands) and sourcing to selling to consumers through an omni-channel strategy (525 own stores and webshops). Production, on the other hand, is outsourced. The company's historical focus was on children and women apparel (mid- to high-end price range), although it recently expanded into footwear (acquisition of *Brantano*) and men's fashion (announced acquisitions of *Suitcase* and *Concept Fashion*).

## Market consolidator applying a tested and successful recipe

*Growing sales from €4m in 2008 to €460m in 2016*

FNG's vertical integration differentiates the company from much of the domestic competition in fashion retail, particularly the independent resellers, which are suffering dearly from lack of control over the brands that they sell and, hence, competition from the online retail channel. The result is a wave of consolidation, which provides opportunities for winning concepts such as FNG. The company has taken advantage of this consolidation wave, growing its sales from €4m in 2008 to €460m by 2016. Although FNG is a leading player in the Benelux, the market remains fragmented, as witnessed by its estimated market share of 2%, which leaves ample room for growing in its domestic market.

*Buy-and-build model*

Through its buy-and-build strategy, FNG seeks for (1) critical size (economies of scale in the production and logistics processes, sharing of know-how in back-office processes, optimising cross-channel strategies and spreading the digital investments over several brands) and (2) complementarity of its product portfolio. FNG will also exploit the opportunity to expand internationally with brands such as *CKS*, *Expresso* and *Claudia Sträter* (demand driven).

*Two transformational deals in 2016*

In 2016, the company made two large acquisitions, *Miss Etam* and *Brantano*, which are significant in terms of (1) strengthening its geographic footprint outside of Belgium (with *Miss Etam* in the Netherlands, adding 95 stores in the country, doubling its store count), (2) product diversification (with *Brantano* in footwear), (3) synergy and process optimisation, mainly driven by its worldwide buying platform and its Benelux-wide logistics operations and (4) financial impact with upside potential in terms of margins as both *Miss Etam* and *Brantano* were, at the time of acquisition, in a certain state of distress.

## Growth driven by efficiency gains with icing on the cake

*Beating peers at growth*

Our forecast of 36% EPS CAGR 2017-20e is well-above the level expected by more mature listed peers (13.5% CAGR). The growth is driven by the following impacts:

- **6.8% sales CAGR** from (1) efficiency gains (improved management of underperforming stores, particularly at *Brantano* and *Miss Etam*), (2) growth in online sales at FNG from an estimated 11% of sales in 2016 to 15% by 2020e (17% CAGR) and (3) enhanced product-mix impact through the multi-brand, omni-channel approach. Further top-line growth opportunities that we have not factored into our estimates include store openings and further acquisitions.
- **26% EBITDA CAGR** with group EBITDA margins expected to rise from 8.2% in 2016 to 14.6% expected in 2022e. The main drivers for this jump include: (1) margin ramp-up potential among two recent acquisitions (*Miss Etam* with 2.9% in 2016 and *Brantano* with 3.6%), (2) overall gross margin improvement potential (from 53.6% in 2016 to 55% by 2022e) fuelled by favourable purchasing terms (size effect), active brand portfolio management, mark down management and improved stock allocation, (3) opex optimisation through shared services (HR, IT, etc.) over a bigger platform.
- **Control over other costs** such as (1) depreciation which is at a historically high level due to increased capex from store refurbishment programmes (particularly at *Brantano*), but is expected grow in line with sales (7% CAGR 2017-20e) and (2) financial costs which we expect to drop by 13% CAGR from the impact of strong growing FCF which we expect to turn positive as from 2018e, and the subsequent deleveraging of FNG's balance sheet (from ND/EBITA of 3.1x in 2017e to a net cash position in 2022e).
- **Icing on the cake** which has yet to be reflected in our forecasts are the synergy effects, above the margin enhancement that we expect at *Miss Etam* and *Brantano*, from these recent acquisitions. We believe synergies could reach €30m by 2022e, with two-thirds generated by lower COGS, using its buying platform, and one-third by lower opex, using its logistics platform. They should happen at the level of the buying platform, of *Miss Etam*'s central stock allocation system which can be used across more brands.

## Key value drivers

*Enhanced visibility and balance sheet de-gearing should allow for a rerating*

Besides earnings growth, the key value drivers include (1) visibility and further evidence of the margin ramp-up potential which should allow for a further rerating potential as explained below and (2) balance sheet deleveraging through strong FCF generation, which will not only cut financing costs, but also significantly reduce the risk perception of the stock (for example, we use a restrictive WACC of 11.2% in our DCF model which is driven by a high beta of 1.8x owing to the company's risk profile, including its geared balance sheet) As the balance sheet de-gears, we would expect the market to apply a lower measure of risk through a lower beta and, hence, WACC.

## Valuation discount

*Trading at a c15% valuation discount*

Our peer group analysis highlights FNG's valuation discount compared to peers, based on P/E as well as EV/EBITDA and EV/EBIT multiples of respectively 18%, 11% and 9% on average over 2017-19e. The discount, which probably reflects liquidity issues as well as balance sheet risks, is not justified in our view given the following factors:

- **Strong historical profitability compared to peers**. FNG has achieved higher-than-average EBITDA margins compared to peers, particularly in the years 2009-13, with an average 340bp premium. In 2016, the EBITDA margin reported by FNG brands (ex-*Miss Etam* and *Brantano*) did even better with an EBITDA margin of 12.7% vs. the sector average of 9.2%. Although the 2016 proforma EBITDA margin (8.2%) fell short of the sector average (temporary negative impact of *Miss Etam* and *Brantano*) we expect FNG to beat the sector by 2020e.
- **Superior growth prospects at FNG**. FNG score well, both historically and prospectively in terms of growth. Historically, the company has achieved 80% sales CAGR since 2008 (from €4m to €260m in 2016). We expect prospective growth to remain strong at 7.4% sales CAGR 17-19e, which compares to an expected sector median of 2.5%. The "excess" profit growth should be even stronger with 23% EBITDA CAGR and 42% EPS CAGR expected for FNG compared to consensus peer median of 11% and 14% respectively.

*DCF model with 11.2% WACC points to €38.3/share*

To better reflect the long term margin enhancement and profit growth potential, we value the stock based on a discounted cash flow model using our explicit earnings estimates to determine the future cash flows, which we discount using a WACC of 11.2%. Our DCF model points to fair value of €38.3/share. The implied valuation multiples reflect, however, a premium relative to peers, which we believe is justified given (1) the sub-optimal profitability expected over the next 2 years, which does not reflect the company's true potential, with (2) nevertheless a strong margin ramp-up expected in the future and (3) superior earnings growth at FNG compared to the peer group.

*Validation through a correlation analysis*

Our valuation conclusion is confirmed by a sector correlation analysis between profitability and valuation multiples. Although FNG is currently trading at 0.6x EV/Sales 2018e, our 2020e EBITDA margin forecast of 11.8%, suggest a target EV/Sales of 0.94x, which equates to a target value of €49/share (before any size or liquidity discount).

*Figure 1. Target valuation multiples at a value of €38.3share*

| | 12M Fwd | 2017e | 2018e | 2019e |
|---|---|---|---|---|
| **Target multiples (x)** | | | | |
| PER | 20.7 | 22.7 | 16.9 | 11.2 |
| EV/EBITDA | 10.3 | 10.9 | 9.2 | 6.8 |
| EV/EBIT | 14.7 | 15.6 | 12.7 | 8.8 |
| **Premium/(discount) to peer at target** | | | | |
| PER | 32% | 39% | 18% | -8% |
| EV/EBITDA | 31% | 33% | 27% | 10% |
| EV/EBIT | 35% | 35% | 36% | 7% |

Source: Merodis Equity Research

# VALUATION ANALYSIS

*Turnaround play with strong upside potential…*

FNG is a turnaround play, having acquired two sizeable companies, *Miss Etam* and *Brantano*, in 2016 out of bankruptcy situations, paying a low multiple whilst accessing substantial upside potential. Together, both companies now represent 48% of group sales, but their current profitability is lagging (2016 EBITDA margins of respectively 2.9% and 3.6% compared to FNG brands' EBITDA of 12.7%). Given FNG's buy-and-build strategy the objective now is to turn both companies around and exploit all synergies. We believe the upside potential in profitability is significant as we expect 13% EBITDA margins for each brand by 2022e. Given the protracted nature of such a scenario, we believe that a discounted cash flow is best suited to value the long-term margin potential of the company. We have also compared FNG to a set of listed peers, for benchmarking purposes as the group's short term profit and cash flow potential is of course impeded by the efforts and investments required to ramp up the profitability at *Miss Etam* and *Brantano*.

*… trading at a discount*

The stock is, nevertheless, trading at discounts to peers based on P/E as well as EV/EBITDA and EV/EBIT multiples of respectively 18%, 11% and 9% on average over 2017-19e, which we view as an opportunity for investors as, we believe, a premium is deserved.

*Our fair value indication suggests a premium rating*

Our DCF model points to fair value of €38.3 per share, suggesting 42% upside potential, using a WACC of 11.2% (including a Beta of 1.8x), which we believe should more than correctly reflect the perceived risk profile of the company including its –at this moment- restricted share liquidity. Although we do expect a rapid margin ramp-up and superior earnings growth at FNG compared to the peer group, the current implied valuation multiples reflect a premium relative to peers, reflecting the superior growth profile of the company (but also given the lower relative profitability expected in 2017e and 2018e).

## Peer analysis

Our peer group analysis includes a variety of European fashion retailers (also including Hong Kong-listed Esprit). The list of peers are available in Figure 4 (valuation table) and Figure 5 (benchmarking table).

### Peer benchmarking

*No analyst coverage with limited liquidity… for the time being*

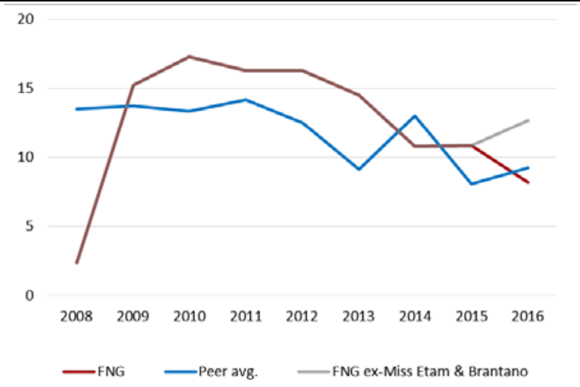
Although FNG is listed, its share liquidity is very low and no analyst coverage is offered on the stock so far, which means that there are no consensus forecasts. Based on our conversations with management, we strongly believe FNG will address this issue in the near future. We, nevertheless, benchmark FNG against its peers based on the available historical information and our forecasts.

<u>Profitability</u>

*Superior margin profile in the past is expected again in the future*

FNG compares well to its peers (restricted group, comprising of Inditex, H&M, Esprit, Tom Tailor and KappAhl) on historical EBITDA margins, achieving superior profitability from 2009 to 2013. We notice, in the graph below, that the decline in profitability is visible, on average, across the entire peer group sample. Even with the impact of *Miss Etam* and *Brantano* in 2016, FNG performs close to the average. When excluding these impacts in 2016, FNG outperforms, once again, the peer group on EBITDA profitability.

*Figure 2. EBITDA margin comparison* (%)*




Source: Company data, Factset
* Restricted peer group including: Inditex, H&M, Esprit, Tom Tailor and KappAhl

*Some temporary margin pressure expected in the near future*

Going forward, and due to the integration of *Miss Etam* and *Brantano*, we expect FNG to generate an EBIDTA margin slightly below that of its peers at least until 2019e as shown in the table below. As we expect FNG to deliver 14.6% EBITDA margins by 2022e, we expect this difference with peers to reverse again as from 2020-21e onwards. This also implies a more elevated EBIDTA CAGR than its peers.

*Figure 3. Forecast EBITDA margins (%)*

| | 2017e | 2018e | 2019e |
|---|---|---|---|
| Peer median | 9.7 | 10.5 | 11.0 |
| FNG | 8.2 | 9.1 | 10.9 |
| **% prem./(disc.) vs median** | **-14.7** | **-13.6** | **-1.5** |

Source: Factset, Merodis Equity Research

<u>Financial structure</u>

*A geared-up balance sheet which should de-leverage as FCF grows*

Another point of interest for investors is the financial structure of FNG, having a relatively geared balance sheet, whereby debt was used to finance the numerous acquisitions of the past. FNG's ND/EBITDA ratio peaked in 2015 at 3.4x and reached 2.9x in 2016 based on the latest pro-forma accounts. We expect the ratio to fall back to a net cash position in 2022e as FCF turns positive from 2018e.

The trend is clearly positive, but compared to peers, FNG's balance sheet does appear more aggressive. Indeed, peers currently have balance sheets supporting much lower levels of debt with an average ND/EBITDA of 0.2x for 2017e (see Figure 5 for more details).

<u>Growth prospects</u>

Here, FNG scores very strongly, both historically and prospectively. The company has grown sales by 80% CAGR since 2008 (from €4m to €460m in 2016). We expect prospective growth to remain strong with an "organic" 6.8% sales CAGR 17-19e which compares to an expected sector median of 2.3%. The "excess" profit growth should even be stronger with a forecast 20% EBITDA CAGR and a 36% EPS CAGR expected for FNG compared to consensus peer median of 11% and 13% respectively.

*Figure 4. Peer group valuation analysis*

| | | Price | MCap | P/E | | | EV/Sales | | | EV/EBITDA | | | EV/EBIT | | | P/B | | | DYield | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Country | (local) | (local m) | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e |
| **Fashion retailers** | | | | | | | | | | | | | | | | | | | | | |
| Ahlers | GERMANY | 6.14 | 84 | 26.1 | 21.2 | 18.1 | 0.5 | 0.5 | 0.4 | 10.9 | 9.9 | 8.7 | 22.6 | 18.6 | 15.2 | 0.8 | 0.8 | 0.8 | 3.3 | 4.5 | 4.9 |
| Adler | GERMANY | 5.50 | 102 | 16.3 | 14.3 | 12.0 | 0.2 | 0.2 | 0.2 | 3.6 | 3.3 | 2.7 | 7.6 | 7.1 | 5.6 | 1.0 | 1.0 | 0.9 | 2.6 | 3.8 | 5.1 |
| Bonmarche | UNITED KINGDOM | 0.88 | 43 | 6.9 | 5.7 | 5.0 | 0.2 | 0.2 | 0.2 | 2.9 | 2.3 | 1.9 | 4.7 | 3.7 | 2.9 | 114.0 | 102.1 | 91.4 | 8.2 | 8.4 | 8.7 |
| Calida | SWITZERLAND | 37.55 | 308 | 18.9 | 17.2 | 14.5 | 0.7 | 0.7 | 0.6 | 8.5 | 7.2 | 6.0 | 12.8 | 10.4 | 8.3 | 1.9 | 1.8 | 1.7 | 2.1 | 2.1 | 2.1 |
| Debenhams | UNITED KINGDOM | 0.40 | 518 | 6.4 | 7.1 | 7.0 | 0.3 | 0.3 | 0.3 | 3.4 | 3.6 | 3.6 | 6.9 | 7.7 | 7.7 | 0.5 | 0.5 | 0.5 | 8.4 | 7.7 | 7.7 |
| Esprit | HONG KONG | 4.53 | 8,768 | 197.0 | 29.8 | 17.4 | 0.2 | 0.2 | 0.1 | 5.7 | 3.0 | 1.8 | | 7.7 | 3.5 | 0.8 | 0.8 | 0.7 | 0.0 | 1.5 | 2.5 |
| Gerry Weber | GERMANY | 10.70 | 490 | 46.2 | 19.6 | 15.6 | 0.8 | 0.7 | 0.7 | 9.8 | 7.2 | 6.3 | 33.5 | 15.5 | 12.5 | 1.1 | 1.1 | 1.0 | 1.9 | 2.8 | 3.4 |
| H&M | SWEDEN | 201.00 | 332,669 | 17.4 | 15.8 | 14.5 | 1.6 | 1.5 | 1.3 | 9.9 | 9.0 | 8.1 | 13.4 | 12.1 | 11.0 | 5.2 | 4.8 | 4.4 | 4.9 | 5.0 | 5.1 |
| IC Group | DENMARK | 137.00 | 2,281 | 23.6 | 17.6 | 14.0 | 0.9 | 0.8 | 0.8 | 11.7 | 9.1 | 7.5 | 18.4 | 12.7 | 9.9 | 3.2 | 2.7 | 2.5 | 3.6 | 4.8 | 4.5 |
| Inditex | SPAIN | 31.92 | 99,353 | 27.7 | 24.5 | 21.9 | 3.6 | 3.2 | 2.8 | 16.1 | 14.2 | 12.6 | 20.1 | 17.6 | 15.5 | 7.0 | 6.3 | 5.9 | 2.4 | 2.7 | 3.1 |
| JD Sports | UNITED KINGDOM | 3.24 | 3,154 | 14.8 | 13.4 | 12.1 | 1.0 | 0.8 | 0.7 | 8.2 | 7.1 | 6.2 | 10.1 | 8.7 | 7.5 | 4.1 | 3.2 | 2.6 | 0.9 | 1.0 | 1.2 |
| KappAhl | SWEDEN | 45.00 | 3,457 | 11.2 | 10.3 | 9.5 | 0.7 | 0.6 | 0.6 | 6.2 | 5.5 | 4.8 | 8.2 | 7.3 | 6.5 | 1.7 | 1.6 | 1.4 | 4.3 | 4.9 | 5.8 |
| Marks & Spencer | UNITED KINGDOM | 3.20 | 5,193 | 11.6 | 11.3 | 11.0 | 0.7 | 0.6 | 0.6 | 5.6 | 5.5 | 5.3 | 10.5 | 10.0 | 9.4 | 1.6 | 1.6 | 1.6 | 5.8 | 5.8 | 5.8 |
| MQ | SWEDEN | 32.00 | 1,125 | 11.1 | 9.8 | 8.9 | 0.7 | 0.7 | 0.6 | 8.1 | 6.8 | 6.1 | 9.7 | 8.2 | 7.3 | 1.0 | 1.0 | 0.9 | 5.5 | 6.0 | 6.7 |
| N Brown | UNITED KINGDOM | 3.27 | 925 | 14.9 | 14.3 | 13.6 | 1.3 | 1.3 | 1.3 | 10.7 | 10.3 | 9.8 | 14.4 | 14.1 | 13.0 | 1.9 | 1.8 | 1.7 | 4.3 | 4.4 | 4.6 |
| New Wave Group | SWEDEN | 55.75 | 3,699 | 10.7 | 8.8 | 7.1 | 1.0 | 0.9 | 0.8 | 10.0 | 8.4 | 6.7 | 11.3 | 9.3 | 7.3 | 1.2 | 1.1 | 1.0 | 3.1 | 3.9 | 4.3 |
| Next | UNITED KINGDOM | 41.29 | 5,890 | 10.4 | 10.5 | 10.5 | 1.7 | 1.7 | 1.6 | 8.0 | 8.0 | 8.0 | 9.2 | 9.3 | 9.3 | 10.3 | 8.3 | 6.9 | 3.8 | 3.8 | 5.3 |
| OVS | ITALY | 6.27 | 1,423 | 13.5 | 11.8 | 10.5 | 1.1 | 1.0 | 0.9 | 7.8 | 6.8 | 6.0 | 10.5 | 9.1 | 7.8 | 1.4 | 1.3 | 1.2 | 2.9 | 3.2 | 3.7 |
| SuperGroup | UNITED KINGDOM | 15.90 | 1,294 | 16.7 | 14.6 | 12.9 | 1.4 | 1.2 | 1.1 | 8.4 | 7.2 | 6.2 | 11.9 | 10.2 | 8.8 | 3.1 | 2.7 | 2.4 | 2.0 | 2.3 | 2.7 |
| Ted Baker | UNITED KINGDOM | 24.95 | 1,102 | 19.7 | 17.4 | 15.4 | 2.0 | 1.8 | 1.6 | 12.1 | 10.7 | 9.4 | 15.7 | 13.8 | 12.1 | 5.2 | 4.5 | 3.9 | 2.4 | 2.8 | 3.1 |
| Tom Tailor | GERMANY | 8.40 | 323 | 36.3 | 11.9 | 9.2 | 0.5 | 0.5 | 0.4 | 6.5 | 4.8 | 3.9 | 14.0 | 8.0 | 6.4 | 1.0 | 1.1 | 1.0 | 0.1 | 0.5 | 1.4 |
| **PEER AVERAGE** | | | | **26.6** | **14.6** | **12.4** | **1.0** | **0.9** | **0.8** | **8.3** | **7.1** | **6.3** | **13.3** | **10.5** | **8.9** | **8.0** | **7.1** | **6.4** | **3.5** | **3.9** | **4.4** |
| **PEER MEDIAN** | | | | **16.3** | **14.3** | **12.1** | **0.8** | **0.7** | **0.7** | **8.2** | **7.2** | **6.2** | **11.6** | **9.3** | **8.3** | **1.7** | **1.6** | **1.6** | **3.1** | **3.8** | **4.5** |
| **FNG** | **NETHERLANDS** | **27.00** | **217** | **16.0** | **11.9** | **7.9** | **0.7** | **0.6** | **0.5** | **7.9** | **6.7** | **4.8** | **11.3** | **9.2** | **6.2** | **0.9** | **0.8** | **0.7** | **0.0** | **0.0** | **0.0** |
| **% prem./(disc.) vs median** | | | | **-2.1** | **-16.7** | **-35.0** | **-15.2** | **-16.2** | **-24.6** | **-3.5** | **-7.8** | **-22.0** | **-2.0** | **-1.6** | **-24.5** | **-48.9** | **-48.8** | **-53.2** | **-100.0** | **-100.0** | **-100.0** |
| **Online peers** | | | | | | | | | | | | | | | | | | | | | |
| Zalando | GERMANY | 39.79 | 9,842 | 64.8 | 49.3 | 37.3 | 2.0 | 1.6 | 1.3 | 29.6 | 22.3 | 17.0 | 39.6 | 29.7 | 22.0 | 6.4 | 5.7 | 5.0 | 0.0 | 0.0 | 0.0 |
| Asos | GERMANY | 56.67 | 4,728 | 74.5 | 57.7 | 45.0 | 2.4 | 1.9 | 1.5 | 36.2 | 27.1 | 21.0 | 57.8 | 44.7 | 34.6 | 18.0 | 13.5 | 10.2 | 0.0 | 0.0 | 0.0 |
| Boohoo | UNITED KINGDOM | 2.27 | 2,475 | 76.4 | 61.8 | 49.9 | 5.0 | 3.8 | 2.9 | 49.1 | 36.8 | 28.3 | 57.2 | 45.1 | 35.3 | 15.2 | 12.3 | 10.0 | 0.0 | 0.0 | 0.0 |
| Yoox | ITALY | 27.62 | 3,698 | 95.5 | 58.5 | 34.6 | 1.7 | 1.4 | 1.2 | 21.3 | 15.7 | 11.9 | 62.7 | 39.4 | 25.4 | 2.0 | 1.9 | 1.7 | 0.0 | 0.0 | 0.0 |
| **PEER AVERAGE** | | | | **77.8** | **56.8** | **41.7** | **2.8** | **2.2** | **1.7** | **34.0** | **25.5** | **19.5** | **54.3** | **39.7** | **29.3** | **10.4** | **8.3** | **6.7** | **0.0** | **0.0** | **0.0** |
| **PEER MEDIAN** | | | | **75.4** | **58.1** | **41.2** | **2.2** | **1.7** | **1.4** | **32.9** | **24.7** | **19.0** | **57.5** | **42.0** | **30.0** | **10.8** | **9.0** | **7.5** | **0.0** | **0.0** | **0.0** |
| **FNG** | **NETHERLANDS** | **27.00** | **217** | **16.0** | **11.9** | **7.9** | **0.7** | **0.6** | **0.5** | **7.9** | **6.7** | **4.8** | **11.3** | **9.2** | **6.2** | **0.9** | **0.8** | **0.7** | **0.0** | **0.0** | **0.0** |
| **% prem./(disc.) vs median** | | | | **-78.8** | **-79.5** | **-80.8** | **-70.0** | **-65.3** | **-63.3** | **-76.0** | **-73.1** | **-74.7** | **-80.3** | **-78.2** | **-79.2** | **-91.9** | **-90.9** | **-90.1** | **na** | **na** | **na** |

Source: Merodis, Factset

*Figure 5. Peer group benchmarking analysis*

| | Company | Freefloat (%) | Depr/ | Capex/ | ND/EBITDA | | | EBITDA margin (%) | | | EBIT margin (%) | | | Net margin (%) | | | ROE (%) | | | 2017-19e CAGR (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2017e | EBITDA | Sales | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | EPS | EBITDA | Sales |
| Fashion retailers | Ahlers | 57 | 63% | 3% | 2.7 | 2.5 | 2.1 | 4.3 | 4.7 | 5.1 | 2.1 | 2.5 | 2.9 | 1.2 | 1.6 | 1.9 | 3.1 | 3.8 | 4.4 | 20.3 | 11.7 | 2.0 |
| | Adler | 42 | 49% | 2% | 0.3 | 0.1 | -0.2 | 5.8 | 5.8 | 6.2 | 2.7 | 2.7 | 3.1 | 1.5 | 1.3 | 1.5 | 6.3 | 6.9 | 8.0 | 16.8 | 5.2 | 1.5 |
| | Bonmarche | 44 | 27% | 3% | -0.4 | -0.5 | -0.6 | 6.7 | 7.5 | 8.1 | 4.1 | 4.7 | 5.2 | 3.2 | 3.6 | 4.0 | | | | | | |
| | Calida | 64 | 31% | 3% | -0.8 | -1.0 | -1.3 | 8.7 | 9.6 | 10.6 | 5.8 | 6.7 | 7.8 | 4.3 | 4.6 | 5.3 | 10.4 | 10.7 | 11.9 | 14.1 | 13.1 | 2.4 |
| | Debenhams | 81 | 44% | 6% | 1.2 | 1.3 | 1.3 | 7.5 | 7.2 | 7.2 | 3.7 | 3.3 | 3.3 | 2.6 | 2.2 | 2.2 | 8.0 | 6.6 | 6.8 | -4.6 | -1.0 | 1.3 |
| | Esprit | 86 | -27% | 2% | -10.9 | -7.2 | -5.8 | 3.2 | 5.3 | 6.9 | -0.1 | 2.0 | 3.5 | 0.3 | 1.8 | 3.0 | 0.4 | 2.6 | 4.3 | 236.2 | 48.2 | 1.3 |
| | Gerry Weber | 49 | 30% | 12% | 2.6 | 1.7 | 1.3 | 7.9 | 10.0 | 10.9 | 2.3 | 4.7 | 5.5 | 0.9 | 2.8 | 3.4 | 2.4 | 5.5 | 6.7 | 71.9 | 19.7 | 1.5 |
| | H&M | 66 | 19% | 7% | -0.1 | -0.1 | -0.2 | 15.9 | 16.3 | 16.5 | 11.8 | 12.1 | 12.2 | 9.2 | 9.4 | 9.5 | 30.5 | 31.5 | 31.5 | 9.5 | 10.0 | 7.9 |
| | IC Group | 41 | 22% | 3% | 0.1 | -0.3 | -0.4 | 7.4 | 9.1 | 10.5 | 4.7 | 6.5 | 7.9 | 3.2 | 4.7 | 5.8 | 13.3 | 16.7 | 18.7 | 29.9 | 20.8 | 1.2 |
| | Inditex | 35 | 21% | 7% | -1.2 | -1.3 | -1.4 | 22.1 | 22.4 | 22.6 | 17.7 | 18.0 | 18.4 | 13.8 | 14.1 | 14.4 | 26.9 | 27.2 | 27.8 | 12.3 | 11.3 | 10.1 |
| | JD Sports | 41 | 27% | 4% | -0.9 | -1.2 | -1.5 | 12.1 | 12.0 | 12.0 | 9.8 | 9.8 | 9.8 | 7.5 | 7.5 | 7.5 | 32.0 | 27.0 | 23.6 | 10.5 | 8.7 | 9.3 |
| | KappAhl | 77 | 41% | 4% | -0.1 | -0.3 | -0.5 | 11.1 | 11.7 | 12.4 | 8.4 | 8.9 | 9.3 | 6.2 | 6.6 | 7.0 | 16.1 | 16.0 | 15.7 | 8.8 | 7.8 | 2.2 |
| | Marks & Spencer | 97 | 49% | 5% | 1.5 | 1.3 | 1.1 | 11.6 | 11.4 | 11.0 | 6.2 | 6.2 | 6.2 | 4.2 | 4.2 | 4.2 | 14.2 | 14.3 | 14.4 | 2.6 | -0.1 | 2.5 |
| | MQ | 63 | 14% | 1% | 1.0 | 0.6 | 0.3 | 8.5 | 9.5 | 10.0 | 7.1 | 8.0 | 8.4 | 5.3 | 6.1 | 6.5 | 9.2 | 10.1 | 10.5 | 11.5 | 10.4 | 2.0 |
| | N Brown | 55 | 24% | 7% | 2.6 | 2.6 | 2.4 | 12.5 | 12.6 | 12.8 | 9.3 | 9.3 | 9.6 | 6.3 | 6.6 | 6.8 | 12.9 | 13.0 | 13.1 | 4.8 | 4.7 | 3.5 |
| | New Wave Group | 96 | 18% | 2% | 3.2 | 2.5 | 1.8 | 9.7 | 10.5 | 11.8 | 8.6 | 9.5 | 10.7 | 6.2 | 7.0 | 8.1 | 11.9 | 13.2 | 14.7 | 22.3 | 18.1 | 7.0 |
| | Next | 95 | 12% | 4% | 1.0 | 0.9 | 0.8 | 21.2 | 20.7 | 20.4 | 18.4 | 17.9 | 17.5 | 14.2 | 13.8 | 13.6 | 108.8 | 87.6 | 71.7 | -0.8 | -1.2 | 0.9 |
| | OVS | 58 | 32% | 5% | 1.0 | 0.7 | 0.3 | 14.3 | 14.7 | 15.1 | 10.5 | 11.0 | 11.5 | 6.8 | 7.3 | 7.8 | 10.8 | 11.6 | 11.9 | 13.3 | 9.5 | 6.4 |
| | SuperGroup | 62 | 36% | 8% | -0.7 | -0.8 | -0.9 | 16.5 | 16.8 | 16.9 | 11.7 | 11.9 | 12.1 | 9.0 | 9.2 | 9.3 | 19.5 | 19.9 | 19.9 | 13.7 | 13.3 | 12.0 |
| | Ted Baker | 64 | 20% | 20% | 0.8 | 0.6 | 0.5 | 16.7 | 17.0 | 17.2 | 12.8 | 13.1 | 13.4 | 9.5 | 9.8 | 10.1 | 28.5 | 27.7 | 26.9 | 13.0 | 12.1 | 10.4 |
| | Tom Tailor | 99 | -74% | 2% | 1.9 | 1.2 | 0.8 | 7.5 | 9.8 | 10.5 | 3.5 | 5.8 | 6.4 | 0.3 | 1.8 | 3.2 | 3.2 | 8.8 | 11.4 | 99.1 | 20.3 | 2.0 |
| | **PEER AVERAGE** | **65** | **23%** | **5%** | **0.2** | **0.2** | **0.0** | **11.0** | **11.6** | **12.1** | **7.7** | **8.3** | **8.8** | **5.5** | **6.0** | **6.4** | **18.4** | **18.0** | **17.7** | **30.3** | **12.1** | **4.4** |
| | **PEER MEDIAN** | **63** | **27%** | **4%** | **0.8** | **0.6** | **0.3** | **9.7** | **10.5** | **11.0** | **7.1** | **8.0** | **8.4** | **5.3** | **6.1** | **6.5** | **12.4** | **13.1** | **13.8** | **13.2** | **10.8** | **2.3** |
| | **FNG** | **6** | **44%** | **5%** | **3.1** | **2.6** | **1.6** | **8.2** | **9.1** | **10.9** | **5.7** | **6.6** | **8.4** | **2.7** | **3.3** | **4.7** | **5.6** | **7.1** | **9.8** | **42.3** | **23.4** | **7.4** |
| | **% prem./(disc.) vs median** | **-90.4** | **65.5** | **6.8** | **259.9** | **330.1** | **459.6** | **-14.7** | **-13.6** | **-1.5** | **-19.0** | **-17.2** | **-0.7** | **-49.5** | **-45.1** | **-28.1** | **-54.4** | **-45.8** | **-28.5** | **220.3** | **115.7** | **221.8** |
| Online peers | Zalando | 41 | 27% | 2% | -3.3 | -2.7 | -2.3 | 6.7 | 7.2 | 7.8 | 5.0 | 5.4 | 6.0 | 3.4 | 3.8 | 4.1 | 10.3 | 12.2 | 14.2 | 31.7 | 30.4 | 20.8 |
| | Asos | 63 | 33% | 4% | -1.1 | -0.9 | -1.0 | 6.5 | 6.9 | 7.2 | 4.1 | 4.2 | 4.4 | 3.3 | 3.4 | 3.5 | 27.4 | 26.7 | 25.9 | 28.6 | 30.3 | 23.9 |
| | Boohoo | 60 | 16% | 7% | -1.4 | -0.9 | -0.6 | 10.2 | 10.2 | 10.1 | 8.7 | 8.4 | 8.1 | 6.1 | 5.7 | 5.4 | 25.0 | 22.0 | 22.1 | 23.8 | 32.3 | 32.7 |
| | Yoox | 73 | 61% | 7% | -0.2 | -0.3 | -0.5 | 8.0 | 9.2 | 10.0 | 2.7 | 3.7 | 4.7 | 1.7 | 2.4 | 3.4 | 2.1 | 3.3 | 5.2 | 66.1 | 32.0 | 18.0 |
| | **PEER AVERAGE** | **59** | **34%** | **5%** | **-1.5** | **-1.2** | **-1.1** | **7.8** | **8.4** | **8.8** | **5.1** | **5.4** | **5.8** | **3.6** | **3.8** | **4.1** | **16.2** | **16.0** | **16.9** | **37.6** | **31.3** | **23.9** |
| | **PEER MEDIAN** | **62** | **30%** | **5%** | **-1.3** | **-0.9** | **-0.8** | **7.3** | **8.2** | **8.9** | **4.5** | **4.8** | **5.4** | **3.4** | **3.6** | **3.8** | **17.7** | **17.1** | **18.2** | **30.2** | **31.2** | **22.4** |
| | **FNG** | **1** | **44%** | **5%** | **3.1** | **2.6** | **1.6** | **8.2** | **9.1** | **10.9** | **5.7** | **6.6** | **8.4** | **2.7** | **3.3** | **4.7** | **5.6** | **7.1** | **9.8** | **42.3** | **23.4** | **7.4** |
| | **FNG** | **-98.2** | **48.0** | **-15.8** | **na** | **na** | **na** | **12.3** | **11.0** | **22.4** | **26.4** | **37.3** | **56.4** | **-20.5** | **-6.5** | **22.1** | **-68.0** | **-58.5** | **-45.8** | **40.1** | **-25.0** | **-66.8** |

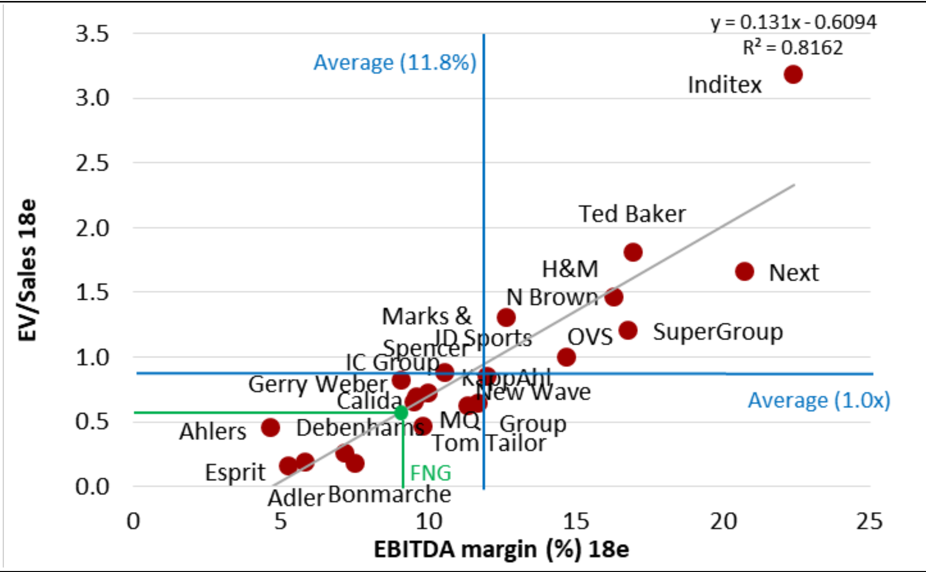
Source: Merodis, Factset

## Multiple comparison vs sector peers

*Trading at a discount to peers of around 15%*

As reflected in Figure 4, FNG trades at a discount to peers based on P/E as well as on EV/EBITDA and EV/EBIT multiples of respectively 18%, 11% and 9% on average over 2017-19e. This level of discount may also reflect the company's limited level of transparency (so far) and restricted liquidity (so far) compared to peers.

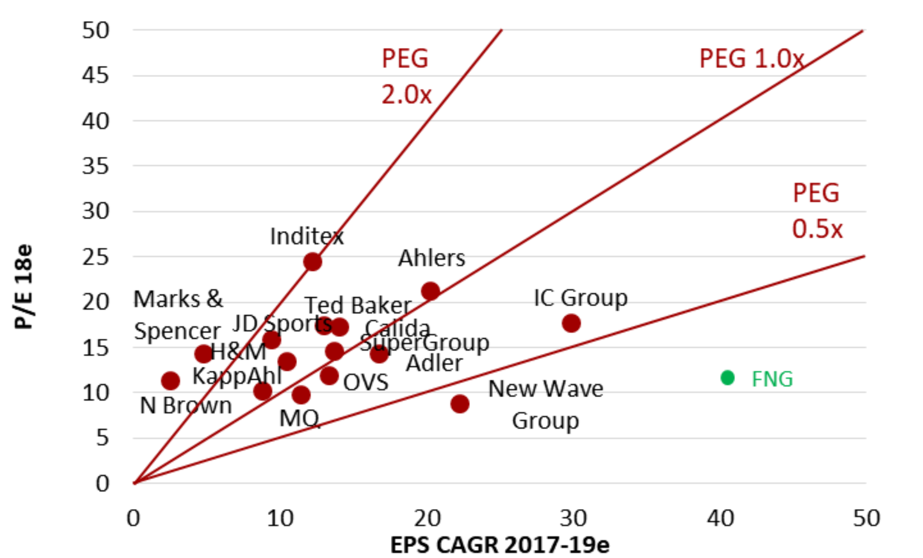
*Figure 6. Peer correlation analysis of valuation vs. profitability*




Source: Merodis Equity Research, Factset

Based on the sector correlation between profitability (2018e EBITDA margin) and valuation multiples (2018e EV/Sales), we notice that FNG is trading more or less in line with its peers (ie. on the correlation line), at 0.6x EV/Sales, as suggested by the correlation equation. Based on this equation and our 2020e EBITDA forecast of 11.8%, the target EV/Sales of the group would reach 0.94x, equating to a target value of €49 before applying any size or liquidity discount.

*Figure 7. Peer valuation vs. expected EPS growth*




Source: Merodis Equity Research, Factset

*The superior growth profile of FNG is not reflected in valuations*

The growth prospects of FNG are superior to those of the peer group, driven mainly by the turnaround expected at recently acquired *Miss Etam* and *Brantano*, which together now weigh 48% of group sales. As we expect 42% EPS CAGR 2017-19e and given the stock's 2018 P/E multiple of 12.8x, FNG is trading at PEG of 0.3x, significantly below the sector median PEG ratio of 1.0x. This also suggests value upside should the market reflect FNG's full turnaround potential.

## Discounted Cash flow

*Figure 8. Discounted cash flow model*

| **Eur m** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** | **2021e** | **2022e** |
|---|---|---|---|---|---|---|---|---|
| Sales | 256.9 | 459.8 | 508.6 | 543.8 | 587.0 | 619.7 | 654.1 | 689.4 |
| % growth | *0.0%* | *79.0%* | *10.6%* | *6.9%* | *7.9%* | *5.6%* | *5.5%* | *5.4%* |
| **EBITDA** | **27.9** | **37.6** | **41.9** | **49.5** | **63.8** | **73.2** | **87.6** | **100.3** |
| % sales | 10.8% | 8.2% | 8.2% | 9.1% | 10.9% | 11.8% | 13.4% | 14.6% |
| Tax | -4.6 | 2.9 | -7.3 | -9.8 | -14.8 | -18.3 | -23.7 | -28.5 |
| Tax rate | -29.9% | 78.6% | -25.0% | -27.2% | -30.1% | -31.7% | -33.2% | -34.3% |
| EBITDA after tax | 23.2 | 40.5 | 34.6 | 39.7 | 49.0 | 54.9 | 63.9 | 71.8 |
| - Capex | -5.1 | -21.2 | -30.0 | -27.0 | -15.0 | -15.0 | -15.0 | -15.0 |
| % sales | -2.0 | -4.6 | -5.9 | -5.0 | -2.6 | -2.4 | -2.3 | -2.2 |
| - Investments in working capital | -24.6 | 0.3 | -4.3 | -3.3 | -3.9 | -3.1 | -3.2 | -5.3 |
| % sales | -9.6 | 0.1 | -0.9 | -0.6 | -0.7 | -0.5 | -0.5 | -0.8 |
| **Operating cash flow** | **-6.5** | **19.6** | **0.3** | **9.4** | **30.1** | **36.8** | **45.8** | **51.5** |
| % growth | | | -99% | 3536% | 219% | 22% | 24% | 13% |
| WACC | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 |
| Discount factor | | | 1.00 | 0.90 | 0.81 | 0.73 | 0.65 | 0.59 |
| Present value of free cash flow | | | 0.3 | 8.5 | 24.4 | 26.8 | 29.9 | 30.3 |
| Cumulative present value of free cash flow | | | 120.2 | | | | | |
| + Present value of terminal value | | | 300.4 | | | | | |
| **= Enterprise value** | | | **420.6** | | | | | |
| - Net Financial Debt/(cash) (2017) | | | 127.9 | | | | | |
| - Other liabilities (book) | | | 2.6 | | | | | |
| - Equity stakes & investments (book) | | | 17.6 | | | | | |
| **= Estimated market value of equity** | | | **307.7** | | | | | |
| **Fair value per share (EUR)** | | | **38.3** | | | | | |

Source: Merodis Equity Research

*Figure 9. WACC assumptions (%)*

| | |
|---|---|
| Target gearing (%) | 30.0 |
| Tax rate (%) | 35.0 |
| Cost of debt before tax (%) | 5.0 |
| Cost of Debt after tax (%) | 3.3 |
| Long term growth rate (%) | 1.0 |
| Risk free - 10Y Belgian OLO (%) | 2.00 |
| Equity risk premium (%) | 7.00 |
| Beta | 1.80 |
| Cost of equity (%) | 14.6 |
| **WACC (%)** | **11.2** |

Source: Merodis Equity Research

# COMPANY DESCRIPTION

*Belgium fashion retailer, with a leading position in the Benelux*

FNG Group is a Belgium-based fashion retailer operating 10 brands with 525 stores in the Benelux with its own webshops, selling to more than 1,500 multi-brand stores and online platforms. The company's historical focus was on children and women apparel (mid- to high-end price range), although it recently expanded into footwear (acquisition of *Brantano*) and men's fashion (announced acquisitions of *Suitcase* and *Concept Fashion*).

*Integrated player, from design to consumers*

The company was launched in 2003 by its current management team with the *Fred & Ginger* brand of clothes for children. The group is an integrated fashion retailer operating its own (1) brands, (2) local design teams, (3) local sourcing teams and (4) retail network (offline and online). The company operates a multi-channel distribution strategy relying with not only on its own stores (rented), but also on online sales and on third-party resellers.

FNG Group is a Benelux market consolidator, having acquired most of its brands since inception, allowing the company to expand geographically towards the Netherlands from 2012 with the acquisition of *Claudia Sträter*.

## Company history and past acquisitions

*An acquisitive past*

FNG Group was founded in 2003 by Emmanuel Bracke, Anja Maes and Dieter Penninckx. The Fred & Ginger brand of children clothes was launched in 2005 following the acquisition and integration of *Kleertjes* in 2003 and *Kiekeboe* in 2004.

The company grew its store base through acquisitions and greenfield openings. The key transactions are described below:

- **2006**: acquisition of *Hilde & Co* (store count rises to 10)
- **2007**: First shop-in-shop at Galeria Inno, a Belgian department store
- **2008**: IPO on Euronext Brussels' Free Market segment
- **2009**: Acquisition of *CKS* (group store count increases to 45 and 1,000 multi-brand boutiques)
- **2011**: Store count reaches 60 in Belgium (27 *Fred & Ginger*, 22 *CKS* and 12 *Van Hassels*). New Dutch in-house design team develops first *Baker Bridge* collection
- **2012**: Acquisition of Dutch ladies fashion brand *Claudia Sträter* adding 27 stores and 12 shop-in-shops in Bijenkorf
- **2013**: Acquisition of Dutch ladies fashion brand *Expresso* with 24 stores in the Netherlands (group store count reaches 129 and 30 shop-in-shops)
- **2014**: Acquisition of *Steps* and *Superstar* in the Netherlands, adding a ladies fashion brands *Steps* and *Superstar* and allowing the integration of its sourcing platform located in Hong Kong, Delhi and Istanbul
- **2015**: Launch of a new collection for women called Ginger based on the Fred & Ginger philosophy and F.R.E.D., a new retail concept
- **2016**: Major transformational deal through the acquisition of Dutch ladies fashion retailer *Miss Etam* (via the reverse take-over of R&R, the Amsterdam-listed owner of *Miss Etam*) and Belgium-based shoe retailer *Brantano*

- **2017**: Acquisition of Belgium-based *Suitcase* and *Concept Fashion*. The group store count reaches 525 own stores and its products are sold in 1,500 multi-brand stores

## Major transformational deals of 2016

*A major step in the transformation of the group*

The group has undertaken major strategic steps in 2016 that has radically transformed it from a Benelux fashion retailer with 325 stores (including 233 in the Netherlands) and sales of €256m to a leading Benelux Fashion player with 525 stores (including 328 in the Netherlands) and sales of €460m, expanding into footwear as well as men's fashion.

These transformational deals were executed in several separate steps, which we have summarised as follows:

- **FIPH/R&S Finance acquires Miss Etam** (May 2015): FIPH BV (owned by Rens van der Schoor, a business partner of FNG through the *Coltex Retail Group* which was acquired in 2014) took over *Miss Etam* and *Promiss* brands by acquiring them from the bankrupt estate of Etam Groep Retail and Etam Groep Holding. FIPH, which owns 100% of R&S Finance, transfers the ownership of the brands to the latter.
- **Dico/R&S Retail Group acquires R&S Finance** (November and December 2015): An Amsterdam-listed shell company called Dico, 90% owned by Value8, announces the acquisition of R&S Finance through a reverse-takeover transaction (ie. financed by issuing 10m new Dico shares to FIPH, the owner of R&S Finance, in exchange for the company), valuing it at €16m (10m shares valued at €1.6/share) (the transaction was finalised on 6 January 2016). Simultaneously, Dico changes its name to R&S Retail Group (approved by the December 2015 EGM, finalised in 19 January 2016) with FIPH owning 75% of the new group, Value8 23% and other investors 2%. The press releases issued by Dico highlights a budgeted 12-months sales target for the group of €110m, targeting €120m in 2017 with 5% EBITDA margins. In total, there are 13,367,128 R&S Retail Group shares outstanding, including 10m "A" shares (those issued to FIPH) which are untradeable on the stock exchange.
- **First official indication of a FNG-R&S Retail Group partnership** (January 2016): FNG Group and R&S Retail Group announce a "partnership", without providing details of the contemplated structure of such a partnership. They are clearly looking to exploit synergies such as FNG's purchasing strength with platforms in Turkey, India and China and *Miss Etam*'s online channel strategy with online sales reaching at around 20% of total sales.
- **Separately, BrantNew acquires Brantano** (January 2016): *Brantano* is a leading Belgian shoe retailer. BrantNew is owned by Rens van der Schoor, CEO of R&S Retail Group at the time and shareholder of FIPH, which itself owns a 3% stake in R&S Retail Group), Dieter Penninckx (CEO of FNG Group and shareholder of R&S Retail Group) and the Torfs family (owner of Torfs, the Belgian shoe retailer, of which Dieter Penninckx is a board member). *Brantano* was previously owned by Macintosh, a Dutch retailer that had acquired the company in 2008, but which was declared bankrupt in 2015.
- **Reverse takeover of R&S Retail Group by FNG announced** (March 2016): Reverse takeover of R&S Retail Group by FNG Group, in a transaction whereby R&S Retail Group issues 17.2 new shares for each FNG Group shares (5,873,151 in total excluding 400,000 warrants, which are exchanged against 8.6 new R&S Retail Group shares).

- **R&S Retail Group negotiates call option to acquire BrantNew** (April 2016). This would allow R&S Retail Group to take control of *Brantano* Group, which, at that time, operated 140 stores in Belgium and Luxembourg. In June 2016, the group closed and sold a number of stores to reach its current size of 105 stores. The call option was exercised in September 2016 by the issue of 10m new shares (total outstanding shares post-transaction at 140,847,819) at €1.6/share (pre-split).
- **Launch of reverse takeover** (July 2016). The offer was launched on 26 July following approval of all regulatory authorities (financial and competition) and approval by FNG's Board on 21 June, backed by the 77.66% stake owned by FNG's founders (Dieter Penninckx, Manu Bracke and Anja Maes), Emiel Lathouwers and treasury shares. 99.91% of the shares were exchanged as of 26 August. Transaction finalised on 23 September 2016 and end of FNG's listing on Euronext Brussels as from 19 September.
- **Reverse share split announced** (October 2016): The company announces a 1-for-20 reverse split (1 new share for 20 existing) effective as of 13 October.
- **Financing transactions announced** (July and November 2016): In July, R&S Benelux Holdings (subsidiary of R&S Retail Group) issued €20m worth of 7-year bonds yielding 5.5%. In November R&S Retail Group raises €32m in a private placing through the issue of 1m new "A" shares (untradeable) at €32/share (post-split).
- **New CEO, name change back to FNG and launch of new website** (January 2017): R&S Retail Group announced Dieter Penninckx (CEO of the former FNG Group) as new CEO in December 2016 and a change in its name back to FNG NV. The new website is launched (http://www.fng.eu/).

## Strategy

*Integrated from design to retail, excluding (outsourced) production*

Above all, FNG is an integrated fashion retailer, involved in each step of the value chain except for production, which is outsourced. To begin with, FNG focusses on designing, producing (through outsourcing contracts) and delivering, initially at least, children and women apparel that its target clients want to buy. On the retail side, FNG is involved in optimising the assortment of brands, inventory and demand generation that maximizes the market opportunity for each of its stores based on their location.

Omni-channel strategy for optimal access to consumers

FNG aims to be the leading Benelux fashion retailer by developing strong and complementary brands for clearly-defined target groups. The products are offered (1) at a price ranging from the mid to high segment and (2) with an omni-channel sales strategy providing a seamless shopping experience, whatever the sales channel (own store, online, shop-in-shop, etc.).

Client intimacy is key to the group's strategy. FNG has registered 95% of its customers, which allows for a better understanding of its customers' needs as well as dedicated and targeted marketing communication. In the digital world we are living in, a database like that should serve FNG's future commercial purposes if and when fully exploited.

### Omni-channel approach

*An omni-channel strategy to optimise access to consumers*

The increasing penetration of online retail, combined with the effects of the 2008 crisis, have negatively impacted the performance of physical stores. FNG is developing its online penetration, which currently weighs and estimated 11% of group sales. In this respect, *Miss Etam*, which achieves online sales of 20-25%, is a best-practice platform for the group. Although market experts do not expect "bricks-and-mortar" stores to disappear, their role as being the sole distribution channel has and will be changed in the future. Experts believe that stores will increasingly act as a "sounding board" for retailers and brand owners in order to connect with consumers, measure demand trends, provide advice and increase brand visibility. This is the approach that FNG embraces, while benefitting from the crisis to play the role of Benelux market consolidator, acquiring interesting and exploitable brands and retailers and market share positioning.

## Critical size and brand positioning

*Building scale and spreading best-practice*

Key to the company's growth strategy has been its buy-and-build approach, whereby FNG has acquired strong brands in the Benelux, its home market, seeking for (1) critical size and (2) complementarity of its product portfolio. FNG will also exploit the opportunity to expand internationally with some of its brands (demand driven).

Critical size is an important factor in the apparel sector given the need for:

- **Economies of scale** in the production process to optimise gross margins as well in the logistics process to cover high fixed costs. The company operates buying platforms in Turkey, India and China which purchases goods directly from the production sites. FNG can use the existing purchasing capacity for the entire group and future acquisition in order to leverage its expertise and fixed costs.
- **Sharing know-how** and back-office processes such as inventory management, logistics, IT and HR (remaining lean, spreading fixed costs and improving efficiency). The group operates a highly automated central stock allocation system, which can be used for all its Dutch brands (sold through the 96 *Miss Etam* and 233 FNG stores in the Netherlands), allowing for significant cost-savings.
- **Optimising a cross-channel sales strategy** in B2B and B2C, whether offline (stores, shop-in-shops, etc.) or online, to optimise sales and
- **Spreading digital investments** over many brands, leading to accelerated payback periods.

*Transformation deals should also generate synergies*

As highlighted before, the company made two large acquisitions in 2016 (*Miss Etam* in the Netherlands and *Brantano* in Belgium), which are significant in terms of (1) strengthening its geographic footprint outside of Belgium (with *Miss Etam* in the Netherlands, adding 95 stores in the country to a total of 328), (2) product diversification (with *Brantano* in footwear), (3) synergy and process optimisation (mainly with regards to its Benelux-wide logistics operations) and (4) financial impact as both *Miss Etam* and *Brantano* were, at the time of acquisition, in a state of distress.

Both acquired brands already yielded a positive (circa 3-4%) EBITDA margin as bad performing shops were simply closed (or sold or not taken over at time of acquisition) and the first 'low-hanging-fruit' synergies were collected.

*Figure 10. Market positioning of FNG brands in the Dutch market*


Source: Company data

The synergies sought with this large-scale integration include (1) cost savings through economies of scale (sourcing, logistics, stock allocation, distribution and shared services such as HQ, IT, HR, legal, etc.) and (2) improve sales and margins through store refurbishment and operational improvement (particularly the case for *Brantano*).

Two smaller companies have been acquired in 2017, *Suitcase* and *Concept Fashion*, which also mark an entry into (1) multi-brand men's fashion retail with both companies as well as (2) curated shopping business model with *Suitcase*, which should also help FNG to further strengthen its 'digital'/on-line strategy.

*Figure 11. FNG's brand portfolio*

| Brand | Concept | Stores |
|---|---|---|
| Fred & Ginger | High-end children fashion brand | 30 |
| CKS | High-end children fashion brand. Women sub-brands: WMN and FRIDAY | 72 |
| BAKER BRIDGE. | High-end children fashion brand | Na |
| claudia sträter | High-end women fashion brand | 49 |
| Miss Etam ~ mooi jezelf zijn ~ | High-end women fashion brand | 95 |
| PROMISS | High-end women fashion brand | Na |
| STEPS | High-end women fashion brand | 93 |
| XPRESSO | High-end women fashion brand | 46 |
| brantano | Multi-brand shoe retailer, of-of-town stores | 105 |
| SUITCASE | Online fashion curator for men | Na |
| CONCEPT FASHION STORE | Multi-brand fashion retailer, out-of-town stores | 10 |

Source: Company data, Merodis Equity Research

## Store concept

In terms of stores, FNG currently operates 525, mainly in the Netherlands (62%) and in Belgium (38%). The store concept, size and location (city center, out-of-town, shopping mall, etc.) differ from brand to brand. A key strength of FNG is that it can optimise and "asset manage" its brand portfolio in order to improve each store that it operates by selling the appropriate brand, collection and item, based on the shoppers changing trends and demands. Here are some guidelines of the store concepts:

*Figure 12. Store size and efficiency*

| | No. of stores | Avg. area/store (m²) | Sales/store pa (€m) | Sales/m² pa (€) |
|---|---|---|---|---|
| **FNG** | 325 | 150 | 0.7 | 5,000 |
| **Miss Etam** | 95 | 275 | 1.0 | 3,700 |
| **Brantano** | 105 | 750 | 1.2 | 1,600 |

Source: Merodis Equity Research

- **FNG's initial brands**. The 325 stores operated by FNG (pre-transformational deal) are generally in city center locations or shopping malls, whether in Belgium or in the Netherlands. The average store size is 150m² with 1-2 staff. Rental costs range from €90/m² pa (out-of-town) to €1,200/m² pa (shopping malls). Sales per store reached an estimated €700k pa in 2016 (€5,000/m² pa).
- **Miss Etam**. *Miss Etam* operates 95 stores exclusively in the Netherlands. Store size is bigger, on average, compared to other FNG brands, at 275m². Rental costs in 2015 reached €13m, 21% of revenues (excluding online sales, around 20% of revenues, that do not require rental costs). The stores are in city center A and B locations. Sales per store reached €1m pa (€6900/m² pa).
- **Brantano**. *Brantano* operates 105 stores that are all located out-of-town, which differs from FNG's typical location. The stores are also much bigger, typically 750m². The location allows for a cheaper rent, which average €90/m² pa. In terms of revenues efficiency, the average sales per store is €1.2m pa with €1,600/m² pa, the lowest in the group, which suggest upside potential.

## Miss Etam

*A strong brand in the Netherlands*

*Miss Etam*, the assets of which were acquired by R&S in May 2015 for €20m, is a Dutch fashion retailer for women. *Miss Etam* is a top-3 brand in the Netherlands, with strong client intimacy and a loyal client base of more than 2m in the country. It operates 95 stores, all located in the Netherlands, with staff of 800. The company offers fashionable clothing at a fair price, aiming an audience of Dutch women of above 35 years of age with regular to above-size profiles. A younger audience is reached through the online platform.

*Restructuring already well-underway*

R&S Finance took over the operations of *Miss Etam* from the bankrupt estate of Etam Groep Retail B.V and Etam Groep Holding B.V. in May 2015. At the time, the group operated 197 stores under the *Miss Etam* (145 stores) and *Promiss* brands (52 stores). In June 2015, the group decided to take the *Promiss* brand off the market and to close 48 underperforming *Miss Etam* stores.

The acquisition rationale includes:

- **Efficiency gains**. Mainly through integration synergies (logistics, central stock allocation using *Miss Etam*'s distribution center, central purchasing of services such as HR, IT, legal etc.) with FNG's existing activities of 233 stores in the Netherlands offering the *Claudia Sträter*, *Expresso* and *Steps* brands.
- **Cost savings**. Including in the renegotiation of the rental contracts with an impact of cutting rental costs by 10-15% and reduced staff costs by joining the Mitex-CAO (the Dutch fashion sector collective labour agreement).

*Online star, with more than 20% of sales through the internet*

The company currently operates 95 stores throughout the Netherlands with an online platform that is fully aligned to its store strategy in terms of marketing promotions and overall shopping experience. More than 20% of the brand's sales are generated through the internet (the target is 25%). *Miss Etam* also has an affiliate contract with Wehkamp, an online fashion retailer. Other competing platforms include Zalando and Otto.

*Miss Etam* achieved €98.7m in sales in 2016 which is difficult to compare as we only have 8-months sales in 2015 of €73m (from May 2015, the date of the acquisition by R&S). EBITDA margins improved to 2.9% in 2016 from 2.6% in the last 8 months of 2015.

*State of the art distribution center*

Production is outsourced to European and Turkish suppliers. *Miss Etam* operates a state-of-the art, full automated 36,000m² distribution center in Zoetermeer equipped with receipt/division units as well as an inventory management system.

*Figure 13. FNG's Integrated logistics platform in Zoetermeer*

Source: Company data

The intellectual property of the *Miss Etam* Group includes, in fact, its registered words as well as the image trademarks. The group may look to expand the marketing of the collection to Belgium, but this will be done under another brand as Etam, a French company and the original owner of the brand, is already present in the Belgian market.

## Brantano

*Belgium's leading shoe retailer*

*Brantano* is a well-known, leading foot-wear retailer in Belgium, currently operating 105 stores (with 77,250m² of retail space) in out-of-town locations. *Brantano* offers a broad range of shoes for the entire family (children, men and women) targeting the mid-segment.

*Brantano* was previously owned by Macintosh, a Dutch retailer that had acquired the company in 2008 for €160m (with €295m in sales at the time and 288 stores in Belgium, Luxembourg and the UK). Macintosh was declared bankrupt in 2015.

In January 2016, *Brantano* was acquired by BrantNew BVBA, a company owned by Rens van der Schoor (Director of R&S Retail Group and shareholder of FIPH, which itself owns a 3% stake in R&S Retail Group), Dieter Penninckx (CEO of FNG Group and shareholder of R&S Retail Group) and the Torfs family (owner of Torfs, another well-known mid-segment Belgian shoe retailer, and of which Dieter Penninckx is a board member).

In April 2016, R&S Retail Group (now FNG) agreed on a 3-year call option to acquire BrantNew, allowing it to take control of *Brantano* Group, which, at that time, operated 140 stores in Belgium and Luxembourg with staff of 1,300. In June 2016, the group closed and sold a number of stores to reach its current size of 105 stores.

*Acquired by FNG in September 2016*

The call option was exercised in September 2016, paid in R&S Retail Group shares (issue of 20m new shares at €1.6/share pre-split) and valuing *Brantano* at €32m, a price which was based on the initial acquisition price by BrantNew in addition to the transfer costs and the cash flow generated by the entity until the date of exercise of the option.

The acquisition rationale lies on many fronts including:

- **Rationalisation and productivity improvement potential**. *Brantano* operates a portfolio of 100,000m² of shoe retail space with a – currently - low level of sales/m² (€1,600/m²). FNG's management is strongly convinced there is ample room to improve the sales performance through further store closures and refurbishments, as well as improving and extending the product range (see cross-selling potential below). Refurbishments require investments, which are estimated at €50m in total (€0.5m/store on average) spread largely over 3 years to 2018e. Given the initial results generated by the first set of refurbished stores (+20% sales performance on average), FNG's management may accelerate the refurbishment roll-out.

*Figure 14. Exterior and interior view of a rebranded Brantano out-of-town store*


Source: Company data

- **Inventory optimisation**. FNG believes that there is room for efficiency gains in terms of shoe retail inventory management through the clearance of overstock as well as reducing future purchases.
- **Cross-selling potential**. Extending the product range sold in stores to apparel based on FNG's existing brands for children, women and, since recently, men (through the *Concept Fashion* acquisition). In a further stage it would be logical to start selling shoes also through FNG's apparel stores in Belgium and in the Netherlands, optimising even further the purchasing of foot-wear with a potentially positive impact on gross margins.
- **Complementary store location**. *Brantano* operates 105 stores in Belgium which are mainly located out-of-town. This compares to FNG's circa 102 stores (excluding *Concept Fashion*'s 10 stores) in Belgium located mainly in city centers and shopping malls. Diversification, towards out-of-town stores should lead to a better reach of FNG's target audience.
- **Online strategy enhancement**. *Brantano*'s online performance has been almost non-existant, historically at around 1% of sales through this channel. However, through its omni-channel strategy, FNG expects to boost sales through the online channel to closer to 10% by 2020, and which should lead to growth opportunities and considerable margin gains.

## Management team

*Experienced management and Board*

The management team consists of the three founders of FNG, Dieter Penninckx, Manu Bracke and Anja Maes. The Board of Directors also hosts two highly experienced Belgian retail experts, Emiel Lathouwers and Gino Van Ossel as well as Eric Verbaere, a Belgian corporate financier.

### Founding team and other members of management

Fred & Ginger was founded by a trio of civil engineers, Dieter Penninckx, Manu Bracke and Anja Maes, that decided to launch themselves into a fashion retail career in 2003. Together, the three founders, together with Emiel Lathouwers, own 58% of FNG

**Dieter Penninckx**, CEO. Civil Engineer with a major in Mechanical and electrotechnical engineering (KUL, 1997). Founder of the KUL spin-off in High Tech (until 2002). Co-founded FNG in 2003.

**Manu Bracke**, COO. Civil Engineer with a major in Mechanical and electrotechnical engineering (KUL, 1997). 6 years of experience in the Telecom and IT sector before co-founding FNG in 2003.

**Anja Maes**, Creative Director. Civil Engineer with a major in Architecture. Independent architect since 2002, after apprenticeship of 2 years. Co-founded FNG in 2003.

### Other Board members

**Emiel Lathouwers**. Founder of AS Adventure, a European retailer focused on outdoor equipment and clothing trekking, climbing, skiing and camping. PE group Lion Capital acquired a 50%-stake in AS Adventure in 2007, valuing the company at €263m. In 2015, PAI Partners acquired the stake in AS Adventure, which operated 151 stores at the time under various brands including AS Adventure in Belgium, France, Germany and Luxembourg, Bever in the Netherlands and Cotswold Outdoor in Britain. The deal valued the company at c. €400m according to a press article by Reuters.

**Gino Van Ossel**. Adjunct Professor in Retail & Trade Marketing at the Vlerick Business School and Independent Director of Formen (fashion), Pirana Concepts (advertising) and the Dutch Trade Marketing Association. He is also Chairman of the Expert Group Retail of the Belgian Marketing Foundation. Gino Van Ossel started his career in the advertising department of Procter & Gamble.

**Eric Verbaere**. Founding partner of VD&P Corporate Finance, a Belgian corporate finance boutique firm and an expert in corporate finance.

### Shareholdership

The three co-founders of FNG as well as Emiel Lathouwers own 58.3% of the shares, with other LT shareholders accounting for just below 36%. Free float is, therefore, at 6%.

*Figure 15. FNG shareholders as of June 2017*

| Shareholder | Stake (%) |
|---|---|
| 3 co-founders (Penninckx, Maes, Bracke) | 58.3 |
| L.H. Van de Schoor | 4.97 |
| FNG Stak | 7.14 |
| Torfs Import Services | 3.73 |
| Biloba Holding BVBA | 4.45 |
| VMF Luxembourg | 4.27 |
| Safelberg Investments | 6.66 |
| Belfius Insurance | 4.47 |
| Others | 6.01 |

Source: Company data

## SWOT analysis

### Strengths

- **Strong track record of managing and retailing successful brands**. FNG has built a solid track record of growth with, in addition, best-in-class margins through strong brand management as well as by building an integrated business model with control over the full value chain, from design (over buying) to retail, including purchasing and inventory management. The recent acquisitions of *Miss Etam* and *Brantano* allow for further optimisation and exploitation of synergies (*Miss Etam* integrated logistics platform which can accommodate more volume and *Brantano*'s out-of-town stores which can be optimised to sell other products from FNG's portfolio leading to higher sales/m²). *Brantano* (a previously listed company until 2008) also brings with it a finance team, which will be valuable for FNG's corporate activity.

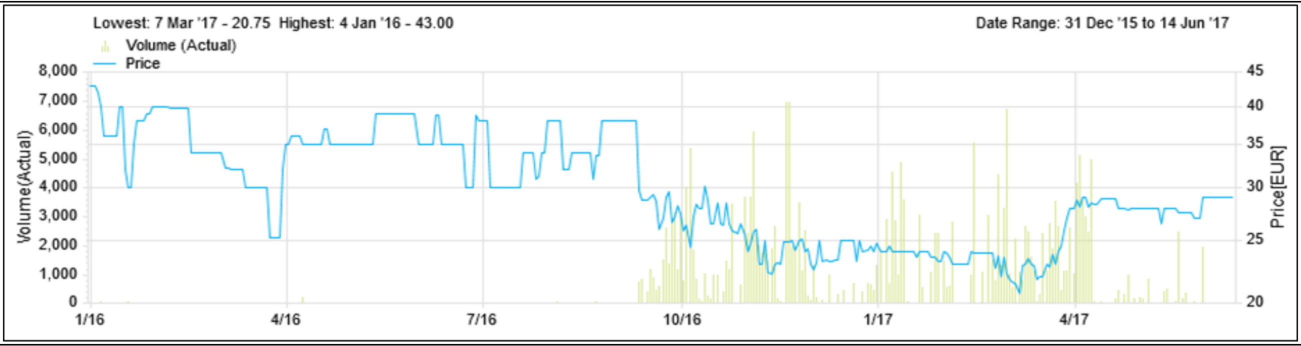
- **Critical size**. With sales having reached €460m in 2016 on a proforma basis, FNG now has the critical size to become truly competitive in a Benelux and even European context. This should allow for further economies of scale (and, hence, margin improvement), further sharing of know-how and back-office processes, optimisation of cross-channels sales as well as spreading investments, particularly digital investments, across the various brands.
- **Well-oiled fashion management**. The three founders of FNG are Civil Engineers and have brought with them a more scientific approach to brand management, which has been very successful so far. Through its experience and integrated approach, FNG has been able to put in place the appropriate procedures across the entire value chain to generate growth at above-average margins while always being focused on the creative side of design and on client satisfaction.
- **Experience in buy-and-build strategy**. The strategy of FNG has relied on acquisitions of brands following a buy-and-build approach whilst adding their proven recipe of buying low and turning around distressed situations. Their expansive strategy has  allowed for increased flexibility in terms of adapting to fashion and consumer trends (adjusting collections and brands and using the off- and on-line distribution channels accordingly) as well as being able to exploit the aforementioned critical size benefits. FNG has, to date, acquired more than 10 companies including the largest acquisitions in 2016 (*Miss Etam* with 95 stores and *Brantano* with 105 stores). In 2017, FNG has already announced 2 new acquisitions (*Suitcase* ad *Concept Fashion*) which will position the company, for the first time, in the market of men's fashion.

## Weaknesses

- **Limited market size**. The Benelux market is made up of 28m consumers, which makes it a rather small market in a global context. Spreading exposure (brand marketing, design costs, logistics, online platform, etc.) to a larger market would make sense for a company like FNG, although competition is fierce from other much bigger players like Inditex, H&M and Primark. Hence, the need to remain creative and to develop brand recognition to allow for international expansion should be a feasible challenge.
- **Cyclical and seasonal exposure**. Fashion retail is a cyclical activity very much exposed to consumer confidence and spending, which tends fluctuate heavily with the economic cycle. Besides that, there are sales, working capital and cash flow risks attached to the industry as the costs of purchasing material (mainly textile) and the outsourcing of production are made ahead of booking the sales without any hedging opportunities (pre-order by final client, etc.). If any collection is not to the taste of demand for whatever reason, the financial impact for FNG could be quite negative (loss of sales while costs have been incurred). FNG mitigates these risks through its multi-brand and multi-target approach as well as with its 15 collections pa, which allows to spread such risks. Weather is also an important variable beyond the control of management which influences the customers' decisions of whether and where they will shop. Open-air city center shops may be impacted by rainy conditions, particularly during weekends, although shopping malls may benefit from such conditions. Warm autumn and cold spring months could also delay shoppers decision to buy winter and summer collections respectively.

- **Lack of experience in footwear and men's fashion**. FNG has built its experience and track record on the design and retail of children's and women's fashion. In 2016, however, the group acquired *Brantano*, a Belgian market leader in footwear and, in 2017, it further diversified by acquiring *Suitcase* and Concept Fashion, two companies with exposure to men's fashion. These are quite different markets compared to children and women's fashion. We believe, however, that there are synergies to operate including cross-selling, offline and online, opportunities between footwear and fashion clothing. Store location is also complementary as both *Brantano* and *Concept Fashion* operate out-of-town stores. Complementarities also exist at widening the target audience to families (ie. combining children, women and men's fashion and footwear).
- **Leveraged balance sheet**. FNG has financed much of its acquisition by debt, pushing ND/EBITDA at high levels (peaking at 3.4x in 2015). The business is, nevertheless, cash generative and we expect the company to deleverage rapidly, assuming no new sizeable acquisitions are announced in the coming years or these will be mainly financed with shares if they were to occur. As such, we expect the company to revert to a net cash position by 2022e.
- **Share liquidity and financial transparency**. With only 6% free float and a sub-optimal Amsterdam-based listing on Euronext, FNG shares are particularly illiquid. Liquidity is clearly an issue. We would expect the company to take advantage of a stock market listing and deal with this situation with a commitment to widen the free float and attract institutional and private investors.

*Figure 16. FNG share price and trading volumes*




Source: Factset

## Opportunities

- **Profitability upside from restructuring potential**. As we will analyse further, we expect FNG to report 36% EPS CAGR 2017-20e driven by 6.8% sales CAGR, 20% EBITDA CAGR, and 25% EBIT CAGR. The upside in profitability is mainly driven by lifting margins at recently-acquired *Brantano* and *Miss Etam*, which reported EBITDA margins in 2016 of 3.6% and 2.9% respectively. This compares to FNG brands' own margin of 12.7%. Upside will come from efficiency gains at *Brantano* and *Miss Etam*, active brand portfolio management, improved stock management and scale effects (optimised purchasing terms, sharing fixed costs from shared services such as HR, HQ, IT, logistics, over much higher sales volumes).

- **Consolidation wave in the fashion industry**. The digital disruption is impacting the retail sector, including fashion retailers. This has led to sector consolidation, with brand owners winning over pure retailers. Integrated players, such as FNG, that owns its brands and control the entire value chain including their retail channels, are expected to gain market share as they adopt an omni-channel strategy to grow sales through their own (or through third-party) online platforms. FNG has participated actively in this consolidation wave within the Benelux with sales growing from €4m in 2008 to €460m in 2016 (80% sales CAGR 2008-16). Although we do not forecast acquisitions in our earnings estimates, we do expect FNG to continue to be a market consolidator.
- **Cross-selling potential of existing brands in the Benelux**. There is room, as highlighted above, for FNG to grow by cross-selling its various brands and optimising its sales channels, whether among offline channels, online channels or across both channels. Refurbished *Brantano* stores are currently offering clothes from FNG's brands. Store performance is constantly monitored and demand is assessed, which leads to optimising the product offering for each store location, with a positive impact on sales and costs. There are also cross-selling opportunities within the Benelux among the brands. The only pitfall is *Miss Etam*, which would be prevented to cross the border under that brand name (Etam, the original owner of the brand, a French company, already operates the Etam brand in Belgium). Therefore FNG would market the brand under the name Miss E in Belgium.
- **International expansion potential of own brands**. FNG's designers have been able to build strong designs that appeal to a wider audience than just the Benelux. Growing outside of the Benelux has begun, with some stores in Germany. FNG also sells its products through wholesales channels to European market including countries such as Germany and Spain. As the company builds up scale and experience, we expect international expansion could become a strong growth driver, which we have not yet factored into our business plan.
- **Online sales also an opportunity**. We expect FNG to gain from the successful experience from *Miss Etam*, that generates 20% of sales through online channel compared to 10% for FNG brands. This is a great opportunity to roll-out best practice for the group's other brands and to take advantage of the online opportunity as consumers flock to that sales channel. We expect online sales to rise from 11% of group sales to 18% by 2022e, with 17% sales CAGR 2017-20e

## Threats

- **Online competition**. As analysed further, online competition from third-party sales channels or from competing brands is  a threat, although FNG is mitigating this, as explained above, by building demand for its brands and offering them online through own webshops or third-party players such as Zalando and Wehkamp.
- **Adverse fashion trends**. FNG designs, finances and distributes its own brands, which leads to a potential inventory risk. Collections are designed and purchased well in advance of their release in stores, leading to a significant financing and inventory risk in case of lack of success of a collection. Stock allocation management allows to minimise unsold stock and eliminate them through outlet stores, but the impact on gross margins remains negative. The fact that FNG designs up to 15 different collections within one year, far more than most peers, should help mitigate its "adverse fashion trend"-risk.

- **Integration risks**. Acquisitions always come with integration risks due to difficulties of achieving synergies due to various factors including misjudgements in terms of demand and costs, cultural fit, talent retention, etc. FNG is not immune to this risk, particularly as it has engaged in large-scale and relatively risky acquisitions in 2016. On the positive side we note that, so far, FNG has been able to buy at acceptable – cheap - prices. Two smaller acquisitions have already been announced in 2017, which suggests management confidence in turning *Brantano* and *Miss Etam* around successfully.
- **Stretched management**. FNG's management team has expanded by only one member, Rens van de Schoor, since 2008, although the company has morphed from a quasi "start-up" (€4m in sales in 2008) to a leading Benelux market player, with several brands, targeting four different markets (children, women, men's fashion as well as footwear), involved in the entire value chain and selling through own channels (including online) as well as through wholesale (B2B) channels. *Brantano* and *Miss Etam*, two recent and large acquisitions, are still in "intensive care", having both emerged from a state of distress. Such situations require the full attention of management, with which FNG appears to be coping well given the performance of FNG brands in 2016 and confirmation that the turnaround of *Brantano* and *Miss Etam* is well on track. We would expect, however, more frequent financial communication towards investors, which will require extra investments in terms of management time.

# INDUSTRY OVERVIEW

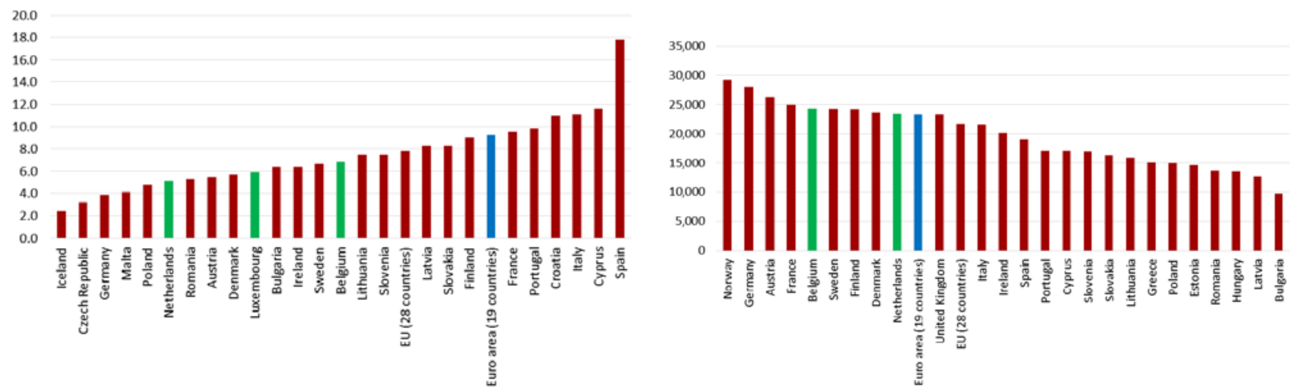
FNG is a multi-brand Benelux fashion and shoe retailer offering products for women, children and, since recently, men. The company operates 525 stores which are mainly located in the Benelux, hence our focus on analysing the main trends of that geographic market.

## Benelux fashion retail market in a global context

*An attractive market*

The Benelux is retail fashion market is worth €219bn in yearly turnover[1] (47% the Netherlands, 41% Belgium, 12% Luxembourg), with a large and prosperous customer base. Altogether, the region count a population of 28.8m with attractive consumer traits: below-average unemployment (Figure 17), high disposable income and high population density (Figure 18).

*Figure 17. European unemployment rate (April 2017) and disposable income per capita (2015)*



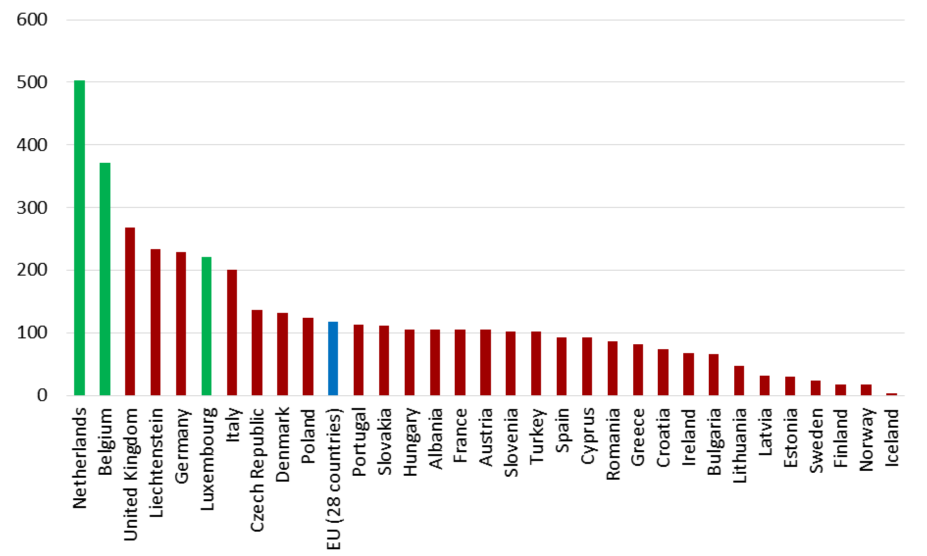

Source: Eurostat, Merodis Equity Research

As fashion retail, as opposed to basic clothing needs, is in part, a discretionary expenditure for consumers, the unemployment rate is key to measure the share of the population which is likely to allocate financial resources to such spending. Unemployment rate also impacts consumer confidence and, hence, consumer spending. In this respect, the positioning of the Benelux is quite strong and the cyclical trends are currently playing in the favour of consumption as economic growth is accelerating, unemployment is falling and consumer spending is picking up after years of weakness following the 2008 recession.

The higher the disposable income, the more likely consumers are to purchase discretionary goods and services, such as fashion. The Benelux is, again, well-positioned in this respect. However, consumers have several options to spend their disposable income, including saving, which has been particularly high in the Benelux at around 12%. In Belgium, the average saving rate since 2000 is 16% of disposable income, peaking at 18% in 2009 and currently down to 12%.

[1] Benelux Retail 2025, General Secretariat of the Benelux Union, January 2017

*Figure 18. European population density (population/m²) (2015)*

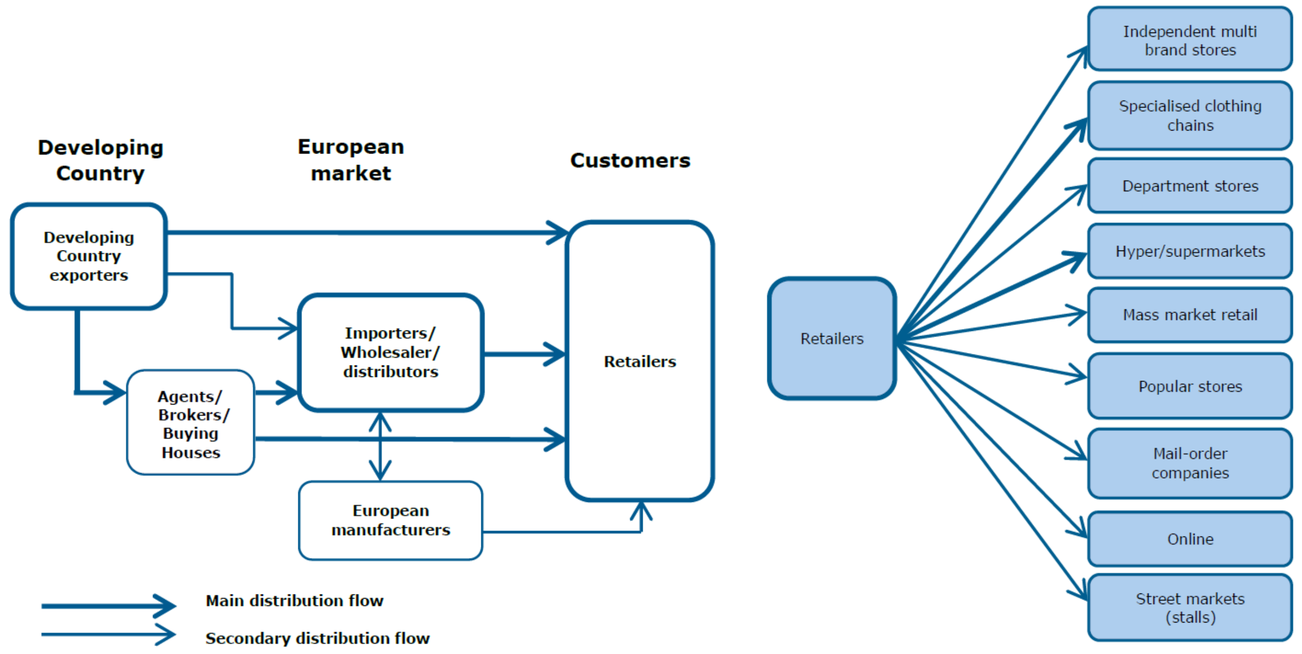



Source: Eurostat, Merodis Equity Research

## European retail structure

The retail market is broken down into food and non-food retail, which is, FNG's focus. As shown in Figure 19, the retail market consists of various, but also complementary, distribution channels. In the case of FNG, the company uses several channels including: specialised clothing chains (the nature of its main activity regarding most of its brands), independent multi-brand stores (*Brantano* and *Concept Fashion*), Department stores (shop-in-shop concept) and Online.

*Figure 19. European fashion retail value chain*




Source: CBI

### Benelux apparel market

*Fragmented market, potentially providing further opportunities for FNG*

We estimate the size of the Benelux apparel retail market at €23bn, which would mean that FNG, with sales of €460m, has an estimated market share of 2%, highlighting the fragmented nature of the market. This is also true for the major European brands such as for example Zara and H&M, who rarely have market shares above the 5% threshold within the markets they are active in. To make our point, we hereby refer to a recent article from De Tijd (31 March 2017) regarding the Belgian apparel retail market, citing 2016 sales figures for both Zara and H&M in Belgium being respectively €296m and circa €466m.

*Fashion retail in Belgium is an estimated €9bn market*

We estimate the size of the Belgian apparel retail industry at €9bn, which represents 10% of the entire retail market. The apparel market is broken down between women fashion (56% of the market), men's (29%) and children (15%).

The Belgian retail property market can be divided into 3 segments: (1) high streets in cities such as Brussels, Antwerp, Bruges, Ghent, Liège and Hasselt, (2) shopping mall (5 in Brussels, 3 in Liège, 2 in Kortrijk, 1 in Antwerp, Genk, Maasmechelen, Sint Niklaas, Charleroi, Mons, Louvain-La-Neuve and Nivelles) and retail warehousing. E-commerce is a growing retail sales channel with online retailers such as Bol.com and Zalando offering fashion items.

*€14bn in the Netherlands*

The size of the Dutch fashion retail market is estimated at €14bn, 14% of the total retail market. The market structure is quite similar to Belgium, although shopping mall penetration is even lower with just eight shopping centers of 50,000m² in size. The market is made up of three large metropolitan areas (Amsterdam, Rotterdam and Utrecht), with a number of small and mid-sized cities.

The market is considered mature and even saturated to a certain extent, hence the wave of consolidation which FNG is taking advantage of.

## Positioning of FNG and competition overview

As explained earlier, FNG is positioned as an integrated fashion retailer in the mid to premium segment. Based on the table below, we would position FNG in the Upper to middle price segments.

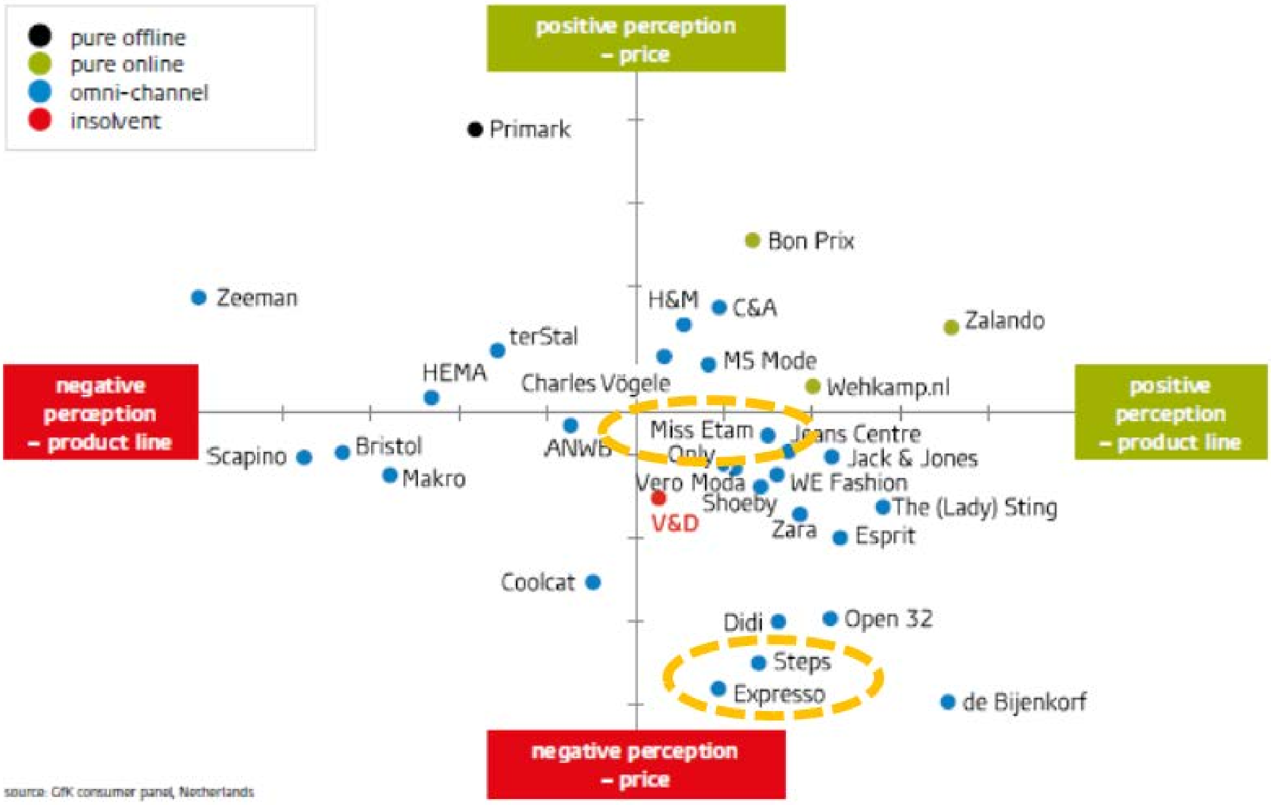
*Figure 20. Price segments in Europe*

| | Product criteria | Brand names | Fashion criteria |
|---|---|---|---|
| High price luxury segment Market share 5% | Limited collections, made with special care; sometimes hand-made; high quality materials; designers/brand name stand for exclusivity and fashionable | Dolce&Gabbana, Prada, Giorgio Armani, Donna Karan | High fashionable collections; Excusively designed materials and artworks Trend setting |
| Upper middle price segment Market share 15% | Collections are produced after pre-sale; extra attention to fitting and accessories Brand-name goods, good quality materials, good range of design | Max Mara, Hugo Boss, Blumarine, Marni, Strenesse, Marc Cain | Large variety of styles and materials Styles and fitting are vitally important Product in line with the latest fashion trends |
| Middle price segment Market share 30% | Collections are produced after pre-sale; good to medium quality materials; trend-following or classical assortment; brand-name goods | French Connection, Inwear, Benetton, St. Oliver, Esprit, Mexx, Jackpot | Good fitting is important Recognizable by brand-name Visible on the outside |
| Middle to Low price segment Market share 40% | Produced in large quantities to lower the price; basic styles; few changes to patterns; basic fitting; Medium quality material, less fashionable | Private labels: C&A, Promod, WE, Marks & Spencer, HEMA, Etam, Vögele, Hennes & Mauritz, Zara, Mango, Topshop, Tesco, Auchan, Carrefour | Collections with a view to the current fashion high fashionable, close to trends |

Source: CBI

Competition and their positioning in the Dutch market is summarised in the table below. We highlighted the main brands owned by FNG, with one which is missing: *Claudia Sträter*. In terms of positioning, *Steps* and *Expresso* were perceived as relatively expensive, combined with a positive quality perception. This was the case before the acquisition of the brands; now they offer more value for the same price. *Miss Etam* also enjoys a strong reputation in terms of quality, but at a lower price segment. Besides competition from Zara (Inditex) and Esprit, other brands in FNG's segments are WE Fashion, Shoeby, Vero Moda, The Sting (Lady), Didi and Open 32. As highlighted below, V&D was declared bankrupt in 2015.

*Figure 21. Positioning of Dutch fashion retail brands*




Source: GfK (2015), Merodis Equity Research

In Belgium, we would expect the positioning of FNG's brands (mainly Fred & Ginger, *CKS*, *Concept Fashion* as well as *Brantano*) to be broadly similar as in the Netherlands.

*Ongoing consolidation in Belgium*

Belgian competition among the mid to premium segment in Belgium includes JBC, Vero Moda, Bershka, E5, Esprit, Only, H&M, Pimkie, Primark, Bellerose, River Island, Forever21, Zara, Mango, Kookai, Benetton, Mexx, Jack & Jones and W E Fashion. A number of retailers have declared bankruptcy in the recent months incuding McGregor and Gaastra (23 stores) as well as MS Mode, while Charles Vögele exited the Belgain market in 2016.

*Highlight on H&M and …*

Regarding the larger fashion retailers, H&M operates a total of 91 stores in Belgium generating €466m in sales (estimated 5% market share) with the groups brands (H&M, COS, & Other Stories, Weekday). The group has announced that it will open a new store in 2017 under its Arket brand.

*… and Inditex*

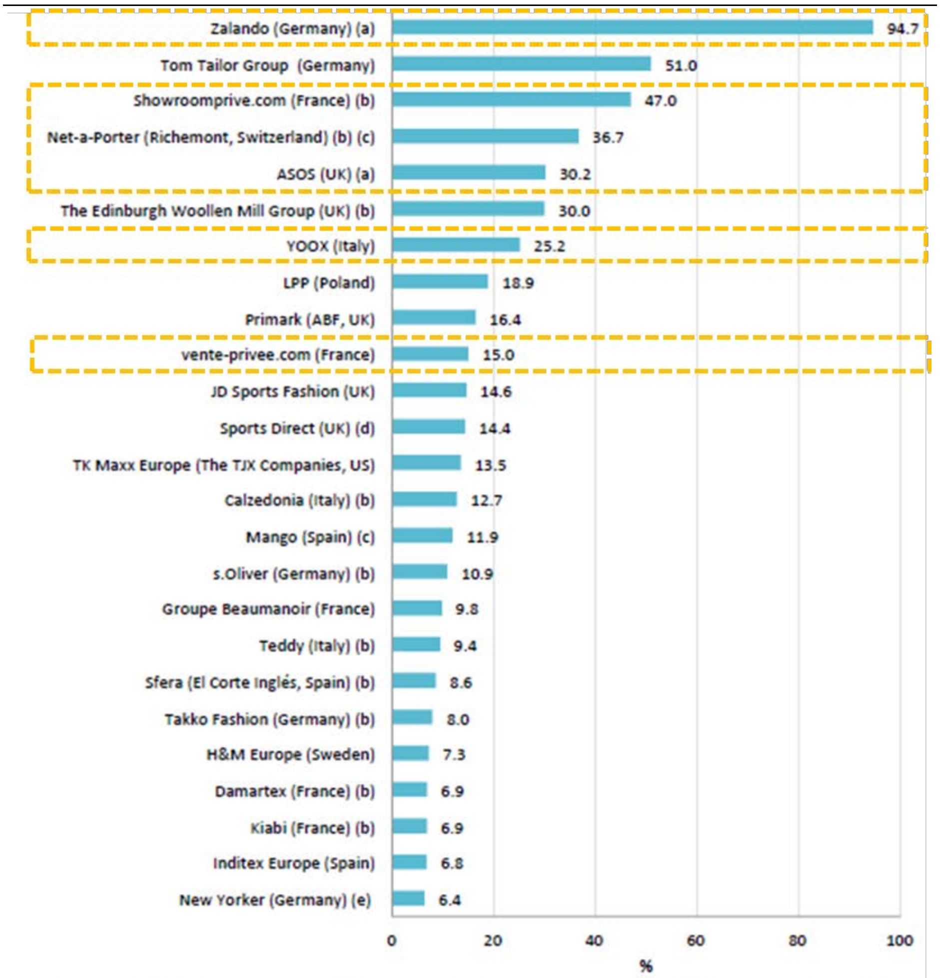
Inditex generates close to €300m in sales (estimated 3% market share) with 82 stores under its various brands: Zara, Massimo Dutti, Bershka, Pull & Bear and Oysho as far as clothing is concerned.

## The online risks and opportunities

*Online fashion retail is booming*

The advent of internet and the development of e-commerce has had a profound impact on the overall retail industry, including the fashion retail. As shown below, online platforms such as Zalando, Showroomprivé, Net-à-porter, ASOS, Yoox as well as others in the Benelux including Bol.com, Bon prix and Wehkamp.nl, are growing rapidly and gaining market share from the traditional "bricks-and-mortar" retailers.

*Figure 22. Europe's 25 fastest-growing major apparel retailers (revenue CAGR 2009-14)*




For calculation of CAGR, we have converted H&M revenues from Swedish krone into euros and TK Maxx revenues from US dollars into euros. Otherwise, CAGR is in euros, British pounds or Polish złoty depending on the reporting currency of the company.

(a) 4 years: 2010–2014

(b) 4 years: 2009–2013

(c) Group sales, not just Europe

(d) Based on estimated 2014 sales

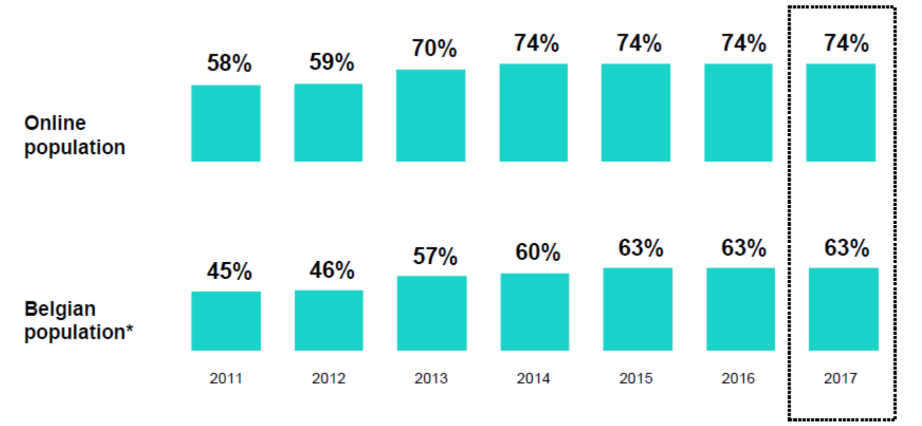
(e) Revenue is 2012; CAGR is for 4 years: 2008–2012.

Source: Fung Business Intelligence Center

*E-commerce penetration is high*

Overall penetration of e-commerce is high, having reached 74% of the Belgian online population and 63% of the entire population. The most active age group in e-commerce are the 15-34 years-old (81% penetration), but even a majority of the elderly population (64% of the 55-70 age group) have bought over the internet over the past 12 months. 7% of the population have at least monthly transaction (7% weekly) and the average monthly spend is €191.

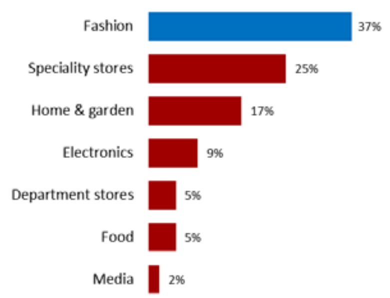
*Figure 23. E-commerce penetration in Belgium (2017)*




Comeos

According to the Ecommerce Foundation, the fashion industry is by far the sector which has already absorbed the largest - thus far- impact from e-commerce since from all online European retail sales there is 37% linked to fashion.

*Figure 24. E-commerce share within the European retail sector (2016)*




Source: Ecommerce Foundation

*Fashion works well online*

Fashion is often quoted by consumers as being the items for which they most frequently buy online. In Belgium, for instance, fashion (64%, +8% points y-o-y) was the most popular product that consumers have bought online, ahead of travel (62%) and electronic devices (50%), according to a recent survey by Comeos. In terms of frequency (# of purchases over the past 12 months), however, fashion dropped to a fifth position behind food, entertainment, telecom, books and pets, with an average of 2x per year (food, for example, is between 11 and 20x on average). In terms of future potential (buying intention over the next 12-months), only 15% of the population surveyed declared their intention to buy more fashion products online, down from 26% in 2016. As far as the average online basket size is concerned, it has dropped to €74 for fashion products down from €78 in 2016.

*We view online as an opportunity for FNG given its strategy and positioning*

For an integrated group like FNG with, in addition, an omni-channel retail strategy, combining both stores and online sales, we see the growing e-commerce penetration in the Benelux as a clear opportunity.

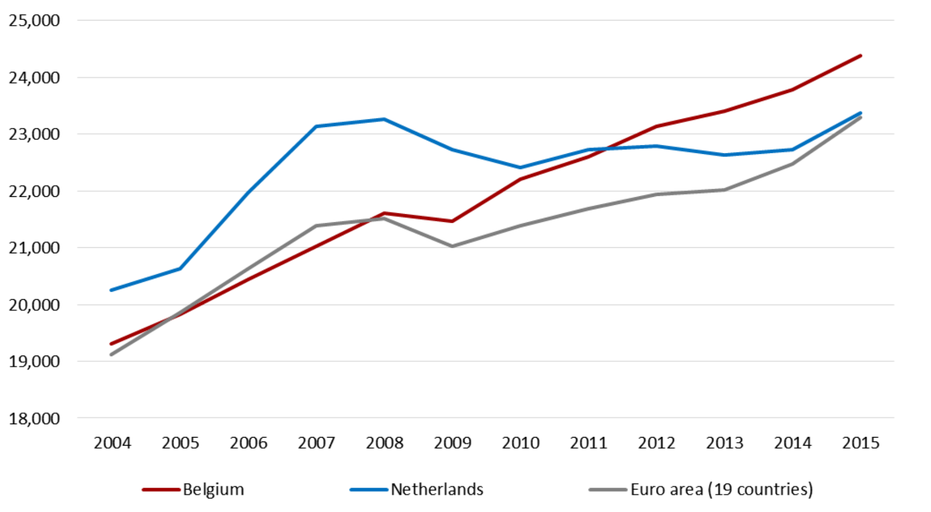
# Key sector drivers

## Disposable income

*A cyclical, albeit, currently strong driver*

The cyclical driver in fashion retail is consumer spending which depends largely on disposal income trends. Disposable income increases as economies expand driven by a higher employment rate and wage growth. During a recession, consumers tend to pull back on spending and increase their savings rate, which negatively impacts most discretionary spending, including large parts of fashion spending (except basic clothing needs).

*Figure 25. Disposable income growth*




Source: Eurostat, Merodis Equity Research

The trend is quite favourable since 2009 in Belgium and since 2014 in the Netherlands as shown in the graph above.

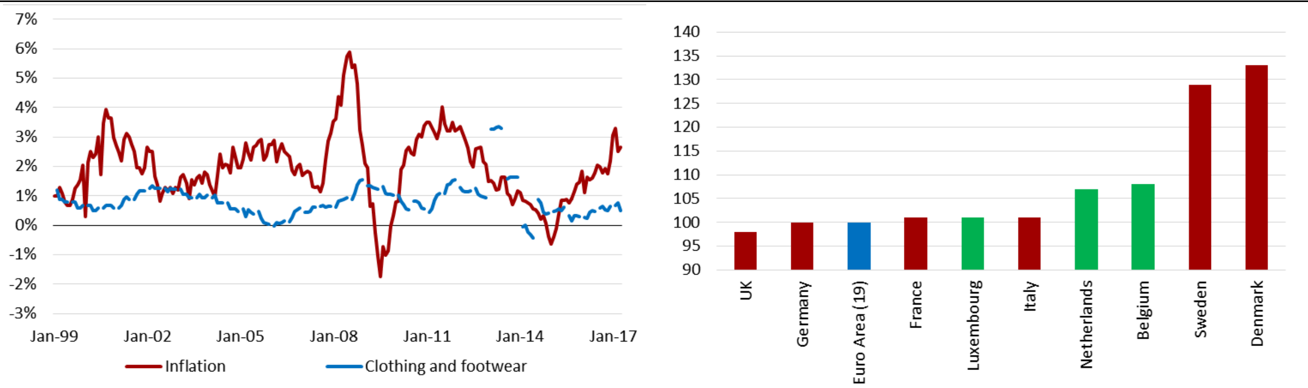
## Pricing trends

*Clothing price inflation is generally low, but there is limited room for upside in the Benelux*

Besides volume growth driven by demand (see above), pricing trends also have an impact on fashion retail growth. The pricing trend can be broken down between inflationary pressure in clothing and the up- or down-side potential in the price of clothing in a specific market.

As far as inflation trends are concerned, we notice that, while overall inflation (CPI) is on the rise in Belgium (see below), the inflation trends for clothing and footwear remains subdued, probably due to competitive pressure as well as high clothing prices in the Belgian market compared to neighbouring countries.

*Figure 26. Evolution of Belgium's inflation (+clothing sub-index) and Clothing price levels*




Source: be.Stat, Eurostat, Merodis Equity Research

The advent of e-commerce, pushing competition on a European or even global basis, is likely to keep price rises subdued in countries such as Belgium and Netherlands where clothing prices are above-average, particularly compared to neighbouring.

## Spending habits

*A key driver*

Fashion is clearly one destination for discretionary spending among many others. Consumers have the choice between several items including leisure and holidays, meals, big ticket items, etc. In this respect, the trend is not currently in fashion's advantage as witnessed by falling clothing sales in, for example, the UK in 2016 despite growing overall consumer spending. In addition to increasing online spending for fashion items, other explanations to this trend include:

- **Weather trends and lower predictability** of weather leads to deferred spending for winter and summer collections, which could even lead to more limited spending as winters are warmer.
- **Limited changes to fashion trends** in recent years that prevent big changes to consumer wardrobes and defers spending. Some fashion experts indicate that there have not been any big fashion revolution in the last ten years which would boost the renewal of consumers' wardrobes.
- **Change in (millennial) spending habits**. Under-25s seem to have pulled out of the clothes retail market, spending their money on other items such as food and dining out. In general, the share of retail in private consumption has also dropped from more than 31% in 2013 to 30.4% in 2015, driven, according to GfK, to the economic cycle (the higher the purchasing power, the more discretionary spending on, for example, recreational activities).
- **Impact of discount buying**. Since the recession and the advent of online platforms, consumers are growing increasingly addicted to discounts which also lead to a deferral of consumption to the sales season and negative gross margin impact for retailers.

## Competition

*A mature market, ripe for consolidation*

As we mentioned, the fashion retailing market in the Benelux market is considered mature and even saturated to a certain extent, hence the wave of consolidation that is taking place and which is a growth opportunity for FNG.

Although we do not expect the launch of many new local entrants, competition from international retailers is significant. Such retailers are launching new brands in the Benelux market as part of their international expansion strategy.

## Online threat/opportunity

*A strong growth driver for FNG*

As we have seen, online penetration of the fashion retail sector is expected to grow in the Benelux and, in particular, in Belgium. Whilst this can be viewed as a threat, it is clearly also an opportunity. The threat for FNG comes from the increased online presence of competing brands as well as from third-party websites, such as Zalando, that sell competing brands. However, FNG's omni-channel strategy (and not to forget its in-house experience with *Miss Etam*'s 20% online sales generation) as well as the presence of its brands on third-party websites should offer an opportunity for the group to compensate for eventual, future decline of its store sales due to competing online sales.

# FINANCIAL ANALYSIS

FNG has been a listed company since 2008 on the Free Market of Euronext Brussels, which means that consolidated financial statements are accessible although the transparency standards are below those of a full Euronext listing. Hence, we rely on the company's reporting to the NBB/BNB (National Bank of Belgium). These are available until March 2015. For the following periods, we relied on FNG's internal accounts (for FY 2015) and the recently-published FY 2016, which, for the first time, are based on IFRS versus Belgian GAAP for the prior-years' accounts.

*A history of growth and changes in scope of consolidation*

The financial analysis is made slightly more complicated given that (1) FNG has changed the consolidation period twice (in 2009 and in 2011 with 19-months of consolidation), which reduces the y-o-y comparability for a number of years and "masks" an entire year in the historical accounts (2012) as well as leads to an overlap (Q1 2016 is reflected in 2015 with 12 months to March 2016 as well as in 2016 proforma with 12 months to December 2016) and (2) the major transformational transactions in 2016 with the reverse take-over of R&S Retail Group and its acquisitions of *Miss Etam* and *Brantano* complicates the analysis further. For 2016 we have used the "LTM pro forma" 2016 accounts (assuming that the aforementioned acquisitions were consolidated as from 1 January 2016).

## Recent changes to FNG's consolidation scope

*Major impact from transformational deals in 2016*

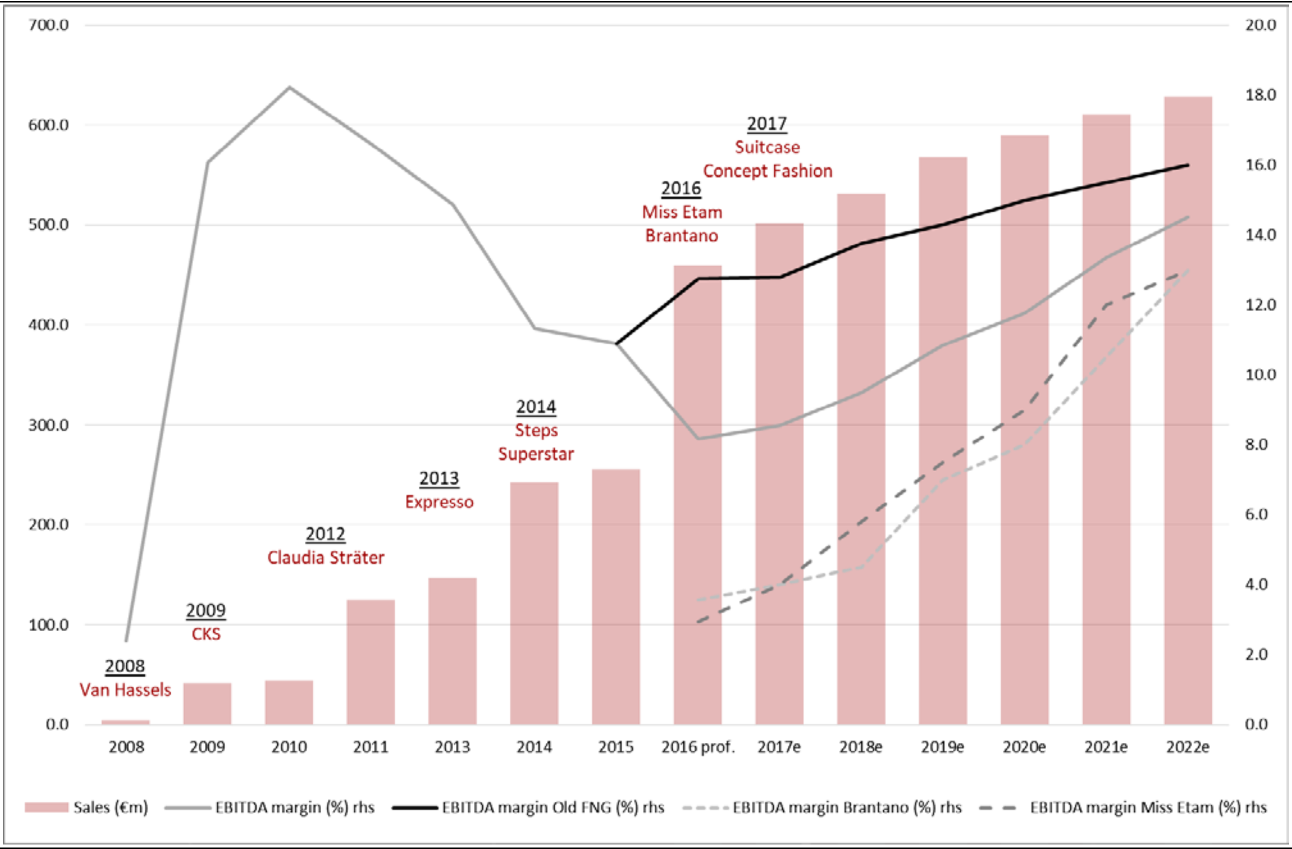
As explained earlier (see "Major transformational deals in 2016" in Company Description), FNG has undergone a radical change in the scope of consolidation in 2016. We summarise the key events as follows:

- **Until July 2016**, FNG was a Belgian company listed on Euronext Brussels' Free market segment with a scope of consolidation which included 347 stores (including 233 in the Netherlands), selling 6 brands mainly aimed at women and children. Sales reached around €260m with an EBITDA margin of close to 11%.
- **In July 2016**, the reverse-takeover of R&S Retail Group, a Dutch company with an Amsterdam listing, led to some dilution, but added: (1) *Miss Etam* business valued at €21m (EV of €37m) for 95 stores in the Netherlands, with FY sales representing close to €100m and an EBITDA margin just below 3%, as well as, in a second step, (2) *Brantano* business valued at €32m (EV €33m) for 105 stores in Belgium, FY sales of €123m and an EBITDA margin of 3.6%. The company subsequently raised new equity for €32m.
- **In 2017**, two more acquisitions were announced: *Suitcase* (April 2017) and *Concept Fashion* (May 2017), but within the current structure, which eases the impact analysis.

## Impact of acquisitions

Based on the available information, we were unable to analyse in full detail the financial impact of the acquisitions that occurred before 2015. We show below a timeline with the acquisition and FNG's evolution of its overall level of sales and EBITDA margin.

*Figure 27. FNG sales and EBITDA evolution and forecasts*




Source: Company data, Merodis Equity Research

*Strong profitability under some pressure from acquisitions, but also sector trends*

The conclusion is that FNG has enjoyed, and still enjoys, strong profitability, although it declined in recent years as a result of the various acquisitions (mainly owing to weaker profitability at time of acquisition, particularly *Expresso* and *Steps/Superstar*) as well as the macro environment (consumer spending and confidence which has impacted the entire sector).

*Strong rebound of underlying margins in 2016*

2016 results showed a strong improvement in profitability at the old-FNG scope with EBITDA margins rebounding from 10.9% in 2015 to 12.7%, hence providing proofs of their ”turning-around” recipe. As shown in the graph above, FNG had the time to integrate its latest acquisition at the time, which was *Expresso/Steps* in 2014.

The 2016 proforma accounts reflect, however, weakness due to the negative impact of recently-acquired *Miss Etam* and *Brantano*. Both companies were acquired in mid-2016, with EBITDA margins around 3% owing to their recent past in distress (*Miss Etam* emerged from bankruptcy in 2015, and *Brantano*’s owner, Macintosh, was a distressed seller and failed to invest in store refurbishment for quite a while at *Brantano*).

*Figure 28. Profile of past acquisition under the former FNG scope*

| Company acquired | Year of acquisition | No. of stores | % of total Old-FNG stores | Current profitability vs. group average |
|---|---|---|---|---|
| Hilde & Co. | 2006 | 10 | 3% | na |
| Van Hassels | 2008 | 12 | 3% | ⇧⇧ |
| CKS | 2009 | 22 | 6% | = |
| Claudia Sträter | 2012 | 27 | 7% | ⇧⇧⇧ |
| Expresso | 2013 | 25 | 7% | ⇩⇩ |
| Steps | 2014 | 80 | 22% | ⇩⇩⇩ |

Source: Company data, Merodis Equity Research

## P&L analysis and forecasts

We estimate solid earnings growth at FNG with 36% EPS CAGR 2017-20e driven by 6.8% sales CAGR, 20% EBITDA CAGR, and 25% EBIT CAGR.

*Figure 29. FNG P&L*

| **Eur m** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016 pro** | **2017e** | **2018e** | **2019e** | **2020e** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year-end | 31-12-08 | 31-07-10 | 31-07-11 | 31-03-13 | 31-03-14 | 31-03-15 | 31-03-16 | 31-12-16 | 31-12-17 | 31-12-18 | 31-12-19 | 31-12-20 |
| *Months of conso.* | *12* | *19* | *12* | *19* | *12* | *12* | *12* | *12* | *12* | *12* | *12* | *12* |
| Net sales | 4.1 | 41.0 | 43.7 | 125.2 | 147.1 | 242.5 | 255.7 | 459.8 | 508.6 | 543.8 | 587.0 | 619.7 |
| % growth | 238.5 | na | na | na | na | 64.8 | 5.4 | 79.8 | 10.6 | 6.9 | 7.9 | 5.6 |
| Other revenues | 0.056 | 2.215 | 2.296 | 2.254 | 3.312 | 12.090 | 1.239 | | | | | |
| **Total sales** | **4.2** | **43.2** | **46.0** | **127.4** | **150.4** | **254.6** | **256.9** | **459.8** | **508.6** | **543.8** | **587.0** | **619.7** |
| % growth | 221.0 | na | na | na | na | 69.3 | 0.9 | 79.0 | 10.6 | 6.9 | 7.9 | 5.6 |
| Materials | -2.0 | -20.0 | -20.3 | -52.2 | -66.4 | -129.9 | -126.4 | -213.5 | -235.0 | -249.9 | -268.4 | -281.9 |
| **Gross Profit** | **2.2** | **23.2** | **25.7** | **75.3** | **84.0** | **124.7** | **130.5** | **246.3** | **273.6** | **293.9** | **318.6** | **337.9** |
| % growth | 200.9 | na | na | na | na | 48.5 | 4.6 | 88.7 | 11.1 | 7.4 | 8.4 | 6.0 |
| % sales | 52.8 | 53.7 | 55.8 | 59.1 | 55.9 | 49.0 | 50.8 | 53.6 | 53.8 | 54.0 | 54.3 | 54.5 |
| Services | -1.4 | -9.9 | -11.0 | -30.7 | -34.2 | -67.1 | -69.8 | -126.3 | -140.5 | -146.7 | -149.4 | -153.3 |
| % growth | 347.1 | na | na | na | na | 96.4 | 4.1 | 80.8 | 11.3 | 4.4 | 1.8 | 2.6 |
| % sales | 33.0 | 23.0 | 23.9 | 24.1 | 22.7 | 26.3 | 27.2 | 27.5 | 27.6 | 27.0 | 25.4 | 24.7 |
| Staff | -0.7 | -6.4 | -6.4 | -23.2 | -27.6 | -29.7 | -32.5 | -82.4 | -91.2 | -97.6 | -105.4 | -111.4 |
| % growth | 66.3 | na | na | na | na | 7.7 | 9.1 | 153.8 | 10.7 | 7.0 | 8.0 | 5.7 |
| % sales | 17.1 | 14.8 | 13.9 | 18.2 | 18.4 | 11.7 | 12.6 | 17.9 | 17.9 | 17.9 | 18.0 | 18.0 |
| **Opex** | **-4.1** | **-36.3** | **-37.7** | **-106.0** | **-128.2** | **-226.7** | **-228.7** | **-422.2** | **-466.7** | **-494.2** | **-523.2** | **-546.5** |
| % growth | 211.3 | na | na | na | na | 76.8 | 0.9 | 84.6 | 10.5 | 5.9 | 5.9 | 4.5 |
| % sales | 97.3 | 84.0 | 81.9 | 83.2 | 85.2 | 89.0 | 89.0 | 91.8 | 91.8 | 90.9 | 89.1 | 88.2 |
| Others | 0.0 | -0.3 | -0.3 | -0.6 | -0.4 | -0.4 | -0.4 | | | | | |
| **EBITDA** | **0.1** | **6.6** | **8.0** | **20.8** | **21.9** | **27.5** | **27.9** | **37.6** | **41.9** | **49.5** | **63.8** | **73.2** |
| % growth | na | na | na | na | na | 25.6 | 1.5 | 35.0 | 11.4 | 18.2 | 28.8 | 14.7 |
| % sales | 2.3 | 15.3 | 17.3 | 16.3 | 14.5 | 10.8 | 10.8 | 8.2 | 8.2 | 9.1 | 10.9 | 11.8 |
| Depreciation | -0.5 | -2.4 | -4.9 | -6.5 | -7.2 | -11.8 | -12.3 | -28.7 | -12.7 | -13.6 | -14.7 | -15.5 |
| % sales | 12.8 | 5.5 | 10.6 | 5.1 | 4.8 | 4.6 | 4.8 | 6.2 | 2.5 | 2.5 | 2.5 | 2.5 |
| Prov. & impairments | | -0.1 | 0.0 | -0.2 | | -0.2 | -0.1 | | | | | |
| **REBIT** | **-0.4** | **4.2** | **3.0** | **14.0** | **14.7** | **15.4** | **15.5** | **8.9** | **29.2** | **35.9** | **49.1** | **57.7** |
| % growth | na | na | na | na | na | 5.0 | 0.6 | -42.5 | 227.3 | 23.1 | 36.7 | 17.4 |
| % sales | -10.5 | 9.6 | 6.6 | 11.0 | 9.8 | 6.1 | 6.0 | 1.9 | 5.7 | 6.6 | 8.4 | 9.3 |
| Non-recurring | | | | | | | | -5.2 | | | | |
| **EBIT** | **-0.4** | **4.2** | **3.0** | **14.0** | **14.7** | **15.4** | **15.5** | **3.7** | **29.2** | **35.9** | **49.1** | **57.7** |
| % growth | na | na | na | na | na | 5.0 | 0.6 | -76.1 | 687.0 | 23.1 | 36.7 | 17.4 |
| % sales | -10.5 | 9.6 | 6.6 | 11.0 | 9.8 | 6.1 | 6.0 | 0.8 | 5.7 | 6.6 | 8.4 | 9.3 |
| Financial income | 0.0 | 0.1 | 0.1 | 0.2 | 0.6 | 0.4 | 0.1 | | | | | |
| Financial expenses | -0.3 | -1.6 | -1.6 | -3.8 | -3.6 | -4.9 | -6.1 | | | | | |
| **Net financial result** | **-0.3** | **-1.4** | **-1.5** | **-3.5** | **-3.1** | **-4.5** | **-6.0** | **-9.4** | **-8.3** | **-8.0** | **-6.8** | **-5.4** |
| **Ordinary pretax profit** | **-0.7** | **2.7** | **1.5** | **10.5** | **11.6** | **10.9** | **9.5** | **-5.7** | **20.9** | **28.0** | **42.3** | **52.3** |
| Extraordinary income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 | | | | | |
| Extraordinary charges | 0.0 | -0.1 | -1.4 | -1.2 | -1.0 | -0.7 | -0.6 | | | | | |
| **Net extra. results** | **0.0** | **0.0** | **-1.4** | **-1.2** | **-1.0** | **-0.5** | **-0.5** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Pretax profit** | **-0.7** | **2.7** | **0.2** | **9.3** | **10.6** | **10.4** | **9.0** | **-5.7** | **20.9** | **28.0** | **42.3** | **52.3** |
| % growth | na | na | na | na | na | -1.9 | -13.1 | na | na | 33.9 | 51.2 | 23.7 |
| % sales | -16.4 | 6.2 | 0.4 | 7.3 | 7.0 | 4.1 | 3.5 | -1.2 | 4.1 | 5.1 | 7.2 | 8.4 |
| Tax base (estimated) | 0.0 | 2.7 | -2.3 | 8.1 | 9.4 | 9.2 | 7.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax | | 0.0 | 0.0 | -1.5 | -2.8 | -4.4 | -4.6 | 2.9 | -7.3 | -9.8 | -14.8 | -18.3 |
| % | 0% | 1% | 7% | 16% | 26% | 43% | 51% | 51% | 35% | 35% | 35% | 35% |
| **Net income** | **-0.7** | **2.7** | **0.2** | **7.8** | **7.8** | **5.9** | **4.4** | **-2.8** | **13.6** | **18.2** | **27.5** | **34.0** |
| **Group share** | **-0.7** | **2.7** | **0.2** | **7.8** | **7.8** | **5.9** | **4.4** | **-2.8** | **13.6** | **18.2** | **27.5** | **34.0** |
| % growth | na | na | na | na | na | -24.2 | -26.0 | na | na | 33.9 | 51.2 | 23.7 |
| % sales | -16.4 | 6.2 | 0.3 | 6.1 | 5.2 | 2.3 | 1.7 | -0.6 | 2.7 | 3.3 | 4.7 | 5.5 |

Source: Company data, Merodis Equity Research

*Figure 30. Key segment assumptions*

| FNG | 2016 prof. | 2017e | 2018e | 2019e | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|---|---|
| **Sales** | **237.8** | **263.3** | **278.8** | **303.0** | **319.1** | **337.2** | **357.4** |
| % growth | na | 10.7 | 5.9 | 8.7 | 5.3 | 5.7 | 6.0 |
| "Organic" store sales | 213.8 | 224.5 | 234.3 | 261.5 | 269.4 | 277.4 | 285.8 |
| % growth | -16.4 | 5.0 | 4.4 | -6.2 | -11.1 | -13.1 | -15.2 |
| # stores | 365 | 380 | 380 | 380 | 380 | 380 | 380 |
| Net additions | | 15 | | | | | |
| Sales/store | 0.586 | 0.642 | 0.668 | 0.688 | 0.709 | 0.730 | 0.752 |
| % inflation | | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| % growth | | 4.0 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Online sales | 24.0 | 28.8 | 34.6 | 41.5 | 49.8 | 59.7 | 71.7 |
| % growth | | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| % sales | 10.1 | 10.9 | 12.4 | 13.7 | 15.6 | 17.7 | 20.1 |
| Acquired sales | 0.0 | 20.0 | 20.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Suitcase + Concept Store | | 20.0 | 20.0 | | | | |
| No. stores | | 15.0 | 15.0 | | | | |
| No. months consolidated | | 6.0 | 6.0 | | | | |
| **EBITDA** | **30.3** | **32.1** | **36.1** | **43.3** | **47.9** | **52.3** | **57.2** |
| % growth | na | 5.8 | 12.6 | 19.9 | 10.5 | 9.2 | 9.4 |
| % sales | 12.7 | 12.2 | 13.0 | 14.3 | 15.0 | 15.5 | 16.0 |
| **Miss Etam** | **2016 prof.** | **2017e** | **2018e** | **2019e** | **2020e** | **2021e** | **2022e** |
| **Sales** | **98.7** | **105.9** | **113.8** | **121.4** | **128.7** | **136.6** | **144.2** |
| % growth | na | 7.3 | 7.4 | 6.7 | 6.0 | 6.2 | 5.6 |
| "Organic" sales | 76.7 | 81.3 | 86.2 | 90.5 | 94.1 | 97.9 | 100.8 |
| % growth | na | 6.0 | 6.0 | 5.0 | 4.0 | 4.0 | 3.0 |
| # stores | 95 | 95 | 95 | 95 | 95 | 95 | 95 |
| Net additions | | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales/store | 0.807 | 0.856 | 0.907 | 0.953 | 0.991 | 1.030 | 1.061 |
| % inflation | | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| % growth | | 5.0 | 5.0 | 4.0 | 3.0 | 3.0 | 2.0 |
| Online sales | 22.0 | 24.6 | 27.6 | 30.9 | 34.6 | 38.8 | 43.4 |
| % growth | | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| % sales | 22.3 | 23.3 | 24.3 | 25.5 | 26.9 | 28.4 | 30.1 |
| Acquired sales | | | | | | | |
| **EBITDA** | **2.9** | **4.2** | **6.6** | **9.1** | **11.6** | **16.4** | **18.8** |
| % growth | na | 46.1 | 55.7 | 38.0 | 27.2 | 41.5 | 14.3 |
| % sales | 2.9 | 4.0 | 5.8 | 7.5 | 9.0 | 12.0 | 13.0 |
| **Brantano** | **2016 prof.** | **2017e** | **2018e** | **2019e** | **2020e** | **2021e** | **2022e** |
| **Sales** | **123.3** | **139.4** | **151.2** | **162.6** | **171.9** | **180.3** | **187.7** |
| % growth | na | 13.0 | 8.5 | 7.6 | 5.7 | 4.9 | 4.1 |
| "Organic" sales | 120.3 | 135.6 | 146.5 | 156.7 | 164.6 | 171.2 | 176.3 |
| % growth | na | 12.7 | 8.0 | 7.0 | 5.0 | 4.0 | 3.0 |
| $m^2$ | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Sales/$m^2$ | 1,233 | 1,356 | 1,465 | 1,567 | 1,646 | 1,712 | 1,763 |
| % inflation | | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| % growth | | 9.0 | 7.0 | 6.0 | 4.0 | 3.0 | 2.0 |
| # stores | 105 | 105 | 105 | 105 | 105 | 105 | 105 |
| Sales/store | 1.174 | 1.327 | 1.440 | 1.549 | 1.637 | 1.717 | 1.788 |
| % growth | | 13.0 | 8.5 | 7.6 | 5.7 | 4.9 | 4.1 |
| Online sales | 3.0 | 3.8 | 4.7 | 5.9 | 7.3 | 9.2 | 11.4 |
| % growth | | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| % sales | 2.5 | 2.8 | 3.2 | 3.7 | 4.5 | 5.3 | 6.5 |
| Acquired sales | | | | | | | |
| **EBITDA** | **4.4** | **5.6** | **6.8** | **11.4** | **13.8** | **18.9** | **24.4** |
| % growth | na | 26.7 | 22.0 | 67.3 | 20.8 | 37.7 | 28.9 |
| % sales | 3.6 | 4.0 | 4.5 | 7.0 | 8.0 | 10.5 | 13.0 |

Source: Company data, Merodis Equity Research

## Top-line growth drivers

Taking the current consolidation scope into account, we expect FNG to generate 6.8% top-line CAGR 2017-20e, driven by *Brantano* (6.7% CAGR), *Miss Etam* (6% CAGR) and FNG brands (4.7%, including the impact of the 2017 acquisitions of *Suitcase* and *Concept Fashion*).

*Positive macro drivers adding to internal strengths*

In addition to the macro top-line drivers that we have discussed earlier (disposable income, inflation/clothes pricing trends, consumer spending habits), we expect sales growth at FNG to be driven by

- **Efficiency improvements** with the aim to boost volumes through an improvement of sales/m² in underperforming stores driven by store management and brand synergies. Measures include: major store refurbishments (mainly at *Brantano*), product repositionings (change the store offering/brands to better suit needs of local customers), product line extensions (dedicating space for selling clothes at *Brantano*), enhancing store inventory management to further optimise sales, etc.
- **Online sales**. Most of the growth in the fashion retail sector is expected to be driven by the online channel. In the case of FNG, this will happen through their own web-shops (each brand has its own online sales platform), which through the omni-channel strategy is being more and more integrated into the offline selling strategy, and through third-party websites such as Zalando, where FNG's products are also on offer. We expect online sales for *Miss Etam* to be the highest in the group, at 22%, followed by FNG brands (10%) and *Brantano* (less than 5%). Going forward, we expect group online sales to reach 18% of total sales in 2020e from 11% in 2016e.
- **Product mix** enhancement through the design of premium clothing in order to raise the average selling price.
- **Store openings** are a key driver to fuel growth, although we do not forecast store-openings in our model over the foreseeable future as we believe management will have enough on its plate to integrate the several recent acquisitions.
- **External growth**. FNG has a long history of making acquisitions and successfully integrating them so far. Although we do not forecast any unannounced acquisitions, we expect this buy-and-build strategy to remain a cornerstone of FNG's strategy. Acquisitions will definitively boost top-line growth even further (their earnings impact will depend on the price paid as well as the synergies that can be exploited).

Looking at the three segments, we have included the following sales assumptions in our financial model:-

- **FNG brands**. The FNG brands under the previous structure (*Fred & Ginger*, *Van Hassels*, *CKS*, *Baker Bridge*, *Claudia Sträter* and *Expresso*) operated 325 stores. We do not expect this number to change much, although, in practice, it is likely to evolve based on the company dynamic store-management. We have added *Concept Fashion*'s 15 multi-brand stores with an estimated top-line contribution of €20m. Our other underlying assumptions include (1) online sales growth of 20% pa, weighing 20% of divisional sales by 2022e (from , (2) a positive price impact of 1% pa to 2020e and (3) store efficiency gains (measured by sales/store) of 3.3% pa driven by an underlying improvement of 2.8% and the impact of *Concept Fashion* accounting for the remainder.

- **Miss Etam**. Our underlying assumptions include (1) online sales growing by 12% pa, weighing 30% of divisional sales by 2022e (from 22% in 2016e), (2) a positive price impact of 1% pa to 2020e and (3) store efficiency gains (measure by sales/store) of 5% pa. *Miss Etam* has emerged from bankruptcy in 2015 and we believe there is room to enhance the product offering based on FNG's enlarged scope (design team, purchasing capacity, etc.)
- **Brantano**. Our underlying assumptions include (1) online sales growing by 25% pa, weighing 7% of divisional sales by 2022e (from 2.5% in 2016e), (2) a positive price impact of 1% pa to 2020e and (3) store efficiency gains (measure by sales/store) of 7% pa, driven mainly by store refurbishments as explained earlier. The first results of the early refurbishments show a positive sales impact of 20% per refurbished store. With a further 60-70 stores to be refurbished over the next two years, we expect organic growth to be at a high single-digit level.

## Margin drivers

*Strong margin rebound expected*

Overall, we expect EBITDA margins to strongly improve from 8.2% in 2016 to 14.6% in 2022e. As a reminder, the group's 2008-2015 average EBITDA margin was 12.5%, peaking at between 16 and 17% in 2010 and 2011. The margin weakness in 2016 is driven entirely by the *Miss Etam* and *Brantano* acquisitions, with very low levels of margins resulting from quasi-distress situations for both brands. The FNG brands (ex-*Brantano* and *Miss Etam*) reached 12.7% in 2016, up from 10.8% in 2015, which is, we believe, a genuine testimony of the upside potential for the group.

The EBITDA margin improvement that we expect is driven by the following factors:

- **Gross margin improvement**. Gross margins reached 53.6% in 2016, in line with the 2008-15 average, with little synergy impact yet being felt from the acquisitions of *Miss Etam* and *Brantano*. We expect gross margins to improve to 55%, and which is still below the peak gross margin reached in the years 2010-11 when the group posted gross margins of 56-59%. At the level of FNG brands, gross margin improvement should stem from positive effects of its active brand portfolio management, mark down management and improved central stock allocation. At *Miss Etam*, the main driver of gross margin improvement (from the current level of c53%) include more favourable purchasing terms as part of a bigger group and more professional mark down management. At *Brantano*, where we expect gross margins to be at around 50%, there is considerable room for improvement driven by more focused management and combined purchasing power (bigger buying and sourcing platform compared to previously).
- **Opex control**. Most of the opex optimisation should happen at the shared services (HR, IT, finance, etc.) and logistics levels. The organisation now has the assets and capacity to handle more volumes more efficiently, ie. allowing to spread higher sales over fixed costs, which should have a positive impact on EBITDA margins.

- **Potential synergies**. Although we do not explicitly forecast synergies, those that could be exploited from the recent acquisitions are expected to happen at the level of FNG's buying platform with a positive impact expected on the cost of goods sold (COGS) and, hence, at the gross margin level. At the opex level, *Miss Etam*'s central stock allocation system should lead to a better management of stock including lower obsolescence and improved markdown management. *Miss Etam*'s new distribution center can also accommodate 15m additional fashion items, which will allow better utilisation of the fixed costs base. The group also expects cost savings on IT, HQ costs (1 instead of 2 in the Netherlands, for example) as well as on other indirect costs that are common for all brands (bags, hangers, marketing material, etc.). These synergies could reach €30m by 2022e with two-thirds in COGS and one-third in opex.

## Other P&L items

- **Depreciation**. Although we expect depreciation to rise under the impact of higher capex driven mainly by *Brantano*'s refurbishment plan (€50m over 3 years) and FNG's plan to spend €60m on store refurbishments and Benelux expansion of successful brands, group EBIT margins are expected to rise significantly from a low of 1.9% in 2016 (vs a 2009-15 average of 8.2%) to 12% which we expect could be reached by 2022e even without the synergies effect that we highlighted above. This compares favourably to market expectations for the peer group in 2019e at 9.1%. Depreciation growth is expected at around 7% CAGR 2017-20e, which is in line with group sales growth, but above opex growth of 5%.
- **Financial costs**. Growing cash flows from improved profitability is expected to reduce the level of debt and, hence, the level of financial costs. We expect a 13% CAGR 2017-20e drop in financial costs with net debt dropping from €128m in 2017e to €72m by 2020e.
- **Tax charge**. This reduction in financial costs should be offset by a strong increase in the tax charge, which we estimate at 35% (in line with the Belgian corporate tax rate).

## Cash flow analysis and forecasts

Given the limited historical disclosure of cash flow statements (not required under Belgian GAAP), we have built a model which lacks mainly the prices paid for the past acquisitions as well as the level of dividend, which we do not expect to have been paid over that period. Please note that, here too, any historical analysis is made difficult by the changes in the length of financial years.

*Figure 31. FNG Cash flow*

| **Eur m** | **2008** | **2009** | **2010** | **2011** | **2013** | **2014** | **2015** | **2016** | **2017e** | **2018e** | **2019e** | **2020e** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year-end | 31-12-08 | 31-07-10 | 31-07-11 | 31-03-13 | 31-03-14 | 31-03-15 | 31-03-16 | 31-12-16 | 31-12-17 | 31-12-18 | 31-12-19 | 31-12-20 |
| *Months of consolidation* | *12* | *19* | *12* | *19* | *12* | *12* | *12* | *12* | *12* | *12* | *12* | *12* |
| **Corrected EBITDA** | **0.1** | **6.6** | **8.0** | **20.8** | **21.9** | **27.5** | **27.9** | **7.0** | **41.9** | **49.5** | **63.8** | **73.2** |
| **Decrease/(incr.) in WCap** | **0.8** | **-6.4** | **-1.9** | **-5.4** | **-10.2** | **-4.4** | **-24.6** | **0.3** | **-4.3** | **-3.3** | **-3.9** | **-3.1** |
| Inventories | 0.0 | -9.0 | -3.0 | -10.4 | -2.2 | -11.0 | -2.2 | 12.5 | -4.8 | -2.4 | -3.9 | -2.4 |
| Amounts receivable | -0.5 | -3.4 | 0.2 | -4.4 | -14.2 | -8.7 | -10.0 | 32.6 | -5.1 | -4.3 | -4.7 | -3.9 |
| Other payables | 1.6 | -0.6 | 0.3 | 0.1 | -0.7 | -1.1 | -1.5 | 4.4 | -0.9 | -0.7 | -0.8 | -0.7 |
| Accruals | 0.0 | -0.1 | -0.1 | -0.2 | -1.4 | 0.0 | -2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade debts and prepay. | 0.3 | 5.3 | 1.0 | 4.5 | 6.6 | 14.6 | -9.3 | -49.4 | 4.5 | 2.4 | 3.8 | 2.3 |
| Taxes, rem. & social sec. | -0.6 | 1.1 | -0.5 | 4.4 | 1.9 | 1.1 | -1.1 | 0.2 | 1.9 | 1.7 | 1.8 | 1.5 |
| 0ther amounts payable | 0.0 | 0.3 | 0.3 | 0.7 | -0.3 | 0.7 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Gross operating cash flow** | **0.9** | **0.2** | **6.1** | **15.4** | **11.7** | **23.0** | **3.2** | **7.2** | 37.6 | 46.2 | 59.9 | 70.1 |
| Net interest (paid) / received | -0.3 | -1.4 | -1.5 | -3.5 | -3.1 | -4.5 | -6.0 | -4.8 | -8.3 | -8.0 | -6.8 | -5.4 |
| Tax | 0.0 | 0.0 | 0.0 | -1.5 | -2.8 | -4.4 | -4.6 | 0.0 | -7.3 | -9.8 | -14.8 | -18.3 |
| Capex | -0.1 | -0.9 | -0.9 | -2.5 | -3.0 | -5.1 | -5.1 | -35.0 | -30.0 | -27.0 | -15.0 | -15.0 |
| **Free cash flow** | **0.6** | **-2.2** | **3.6** | **7.8** | **2.8** | **9.0** | **-12.5** | **-32.5** | **-8.0** | **1.5** | **23.3** | **31.4** |
| Net disposals/(acquisitions) | na | na | na | na | na | na | na | 9.5 | -9.0 | | | |
| Dividends paid | na | na | na | na | na | na | na | na | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital increase | 1.1 | 0.5 | 0.3 | 0.3 | 2.5 | 1.8 | 2.1 | 68.2 | | | | |
| Others | -4.2 | -7.4 | -10.1 | -27.4 | -11.4 | -41.7 | -7.1 | -61.9 | | | | |
| **Net cash flow** | **-2.5** | **-9.1** | **-6.2** | **-19.3** | **-6.1** | **-30.9** | **-17.6** | **-16.7** | **-17.0** | **1.5** | **23.3** | **31.4** |
| | | | | | | | | | | | | |
| **Net debt/(cash)** | **5.0** | **14.1** | **20.3** | **39.6** | **45.7** | **76.6** | **94.2** | **110.9** | **127.9** | **126.4** | **103.2** | **71.7** |
| ND/annualised EBITDA (x) | 51.1 | 2.1 | 2.5 | 1.9 | 2.1 | 2.8 | 3.4 | 2.9 | 3.1 | 2.6 | 1.6 | 1.0 |
| Gross financial debt | 5.0 | 22.6 | 26.6 | 51.3 | 68.8 | 119.4 | 118.6 | 177.8 | 177.8 | 157.8 | 127.8 | 97.8 |
| Debt increase/(reduction) | 2.5 | 17.6 | 4.0 | 24.7 | 17.5 | 50.6 | -0.7 | 59.2 | | -20.0 | -30.0 | -30.0 |
| Cash & Equivalent | 0.0 | 8.6 | 6.4 | 11.7 | 23.1 | 42.7 | 24.4 | 66.9 | 49.9 | 31.3 | 24.6 | 26.1 |

Source: Company data, Merodis Equity Research

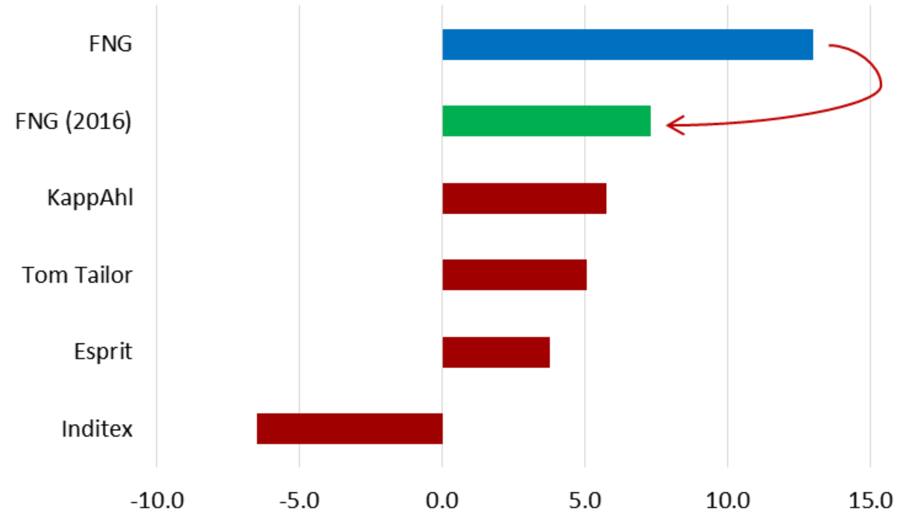
*Positive FCF from 2018e*

Based on our forecasts, we expect FNG to turn free cash flow positive by 2018e following three years of heavy investments in terms of working capital (2015), financial leverage (high financing costs) and now in terms of capex (mainly *Brantano* refurbishment).

Our main assumptions in terms of cash flow include:

- **Stable working capital needs**. We expect the working capital to only moderately increase from 7.3% of sales in 2016 to 8.2% by 2022e. This is quite low compared to the group's historical level as comparability is blurred by the changes in consolidation periods (the historical average over 12-months periods is 20%). The recent drop is due, in our view, to a shift in sales from B2B (wholesale) to B2C, with shorter DSOs as the final customer pays cash, the scale effect with longer buying terms. We believe the company could maintain such a level of working capital, but with some upside pressure driven by growth, hence the stable need of working capital going forward. The drop also positions the company closer to its international peers as shown in the graph below, which provides credibility to expectations of a sustainable lower level of working capital.

*Figure 32. Working capital as a % of sales (2014-16 average)*




Source: Factset, Merodis Equity Research

- **Decreasing financing costs** as explained above.
- **Higher tax charge** as explained above.
- **Initially higher capex costs** from the store refurbishment plan for *Brantano*. The plan includes *Brantano*'s refurbishment plan (€50m over 3 years) and FNG's plan to spend €60m on store refurbishment and Benelux expansion of successful brands. There is also slightly more than €20m earmarked for *Miss Etam*'s refurbishment and web platform.
- **No acquisitions** except already-announced *Suitcase* and *Concept Fashion*, for which we estimate that FNG paid circa €9m (ie. 6x EBITDA). Going forward, although we would expect FNG to continue its buy-and-build strategy, we do not include any external growth in our forecasts given the numerous and unpredictable variables involved in such transactions.

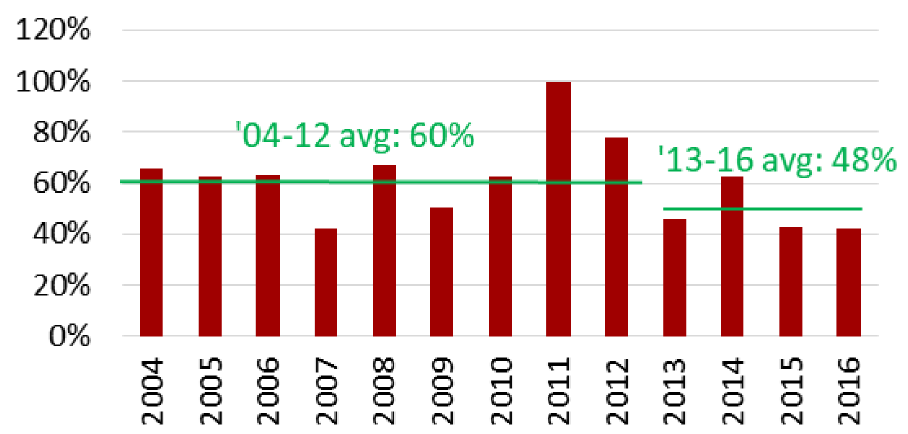
## Dividend policy

*No dividends planned in our model, although FNG could afford one from 2020e*

FNG's balance sheet, the expected negative FCF until 2017e and bond covenants (FCF for interest payments first) do not currently allow for a dividend payment. However, with the forecast deleveraging of the balance sheet, and excluding any large-scale acquisitions, we would expect the company to be in a position to pay a dividend as from 2019-20e onwards, by which time ND/EBITDA would fall below 2x based on our forecasts.

The company's pay-out policy is likely to be quite in line to that of its European sector peers, while accommodating its buy-and-build strategy which may continue to require additional financial resources. A selection of peers (Inditex, H&M, Esprit and KappAhl) have seen their pay-out decrease from an average of 60% between 2004 and 2012 (ranging from 40% to 100%), to below 50% since 2013.

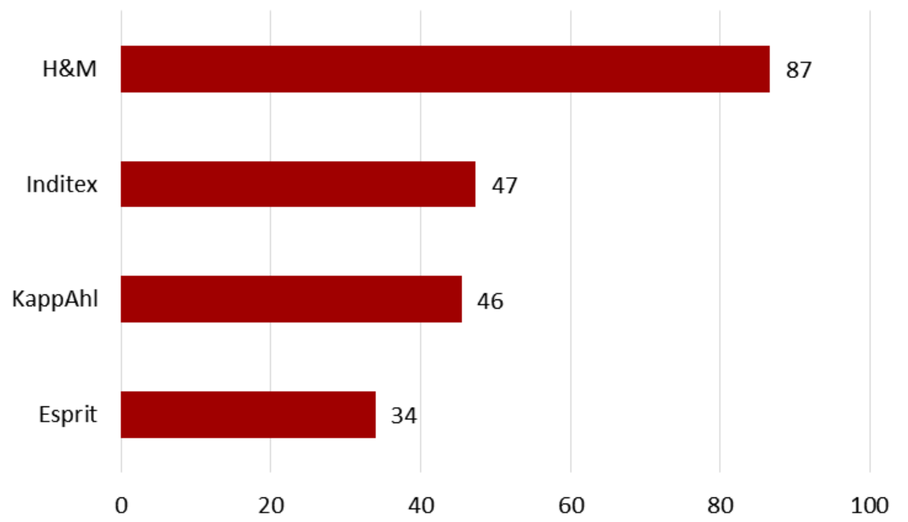
*Figure 33. Peer-average payout ratio since 2004*




Source: Factset, Merodis Equity Research

Based on this and on FNG's buy-and-build strategy, we could expect the company to adopt a dividend pay-out of between 30% and 50% as from 2020e onwards. However, we have not yet pencilled in a dividend payment in our model given the above-discussed forecast horizon.

*Figure 34. Peer-average payout ratio (2004-16)*




Source: Factset, Merodis Equity Research

# Balance sheet structure and forecasts

*Figure 35. FNG Balance sheet*

| Eur m | 2008 | 2009 | 2010 | 2011 | 2013 | 2014 | 2015 | 2016 pro | 2017e | 2018e | 2019e | 2020e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year-end | 31-12-08 | 31-07-10 | 31-07-11 | 31-03-13 | 31-03-14 | 31-03-15 | 31-03-16 | 31-12-16 | 31-12-17 | 31-12-18 | 31-12-19 | 31-12-20 |
| *Months of consolidation* | *12* | *19* | *12* | *19* | *12* | *12* | *12* | *12* | *12* | *12* | *12* | *12* |
| **Net working capital** | **0.0** | **6.4** | **8.3** | **13.6** | **23.8** | **28.3** | **52.9** | **38.0** | 38.0 | 41.3 | 45.2 | 48.2 |
| % growth | na | na | 29.2 | 64.8 | 74.7 | 18.5 | 87.2 | 12.9 | 12.9 | 8.7 | 9.4 | 6.8 |
| % sales | -0.4 | 14.8 | 18.0 | 10.7 | 15.8 | 11.1 | 20.6 | 7.5 | 7.5 | 7.6 | 7.7 | 7.8 |
| Intangible fixed assets | 2.1 | 29.7 | 33.5 | 49.6 | 69.6 | 112.5 | 106.6 | 305.4 | 310.4 | 310.4 | 310.4 | 310.4 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tangible fixed assets | 0.7 | 4.1 | 5.1 | 10.3 | 14.9 | 19.8 | 27.0 | 74.4 | 79.4 | 92.8 | 93.1 | 92.6 |
| Financial fixed assets | 5.1 | 0.1 | 0.1 | 1.7 | 1.3 | 2.1 | 0.6 | 17.6 | 17.6 | 17.6 | 17.6 | 17.6 |
| **Invested capital** | **2.8** | **40.2** | **47.0** | **73.6** | **108.3** | **160.5** | **186.5** | **417.8** | 427.8 | 444.5 | 448.7 | 451.3 |
| % growth | 39.9 | 1,345.6 | 16.7 | 56.7 | 47.2 | 48.2 | 16.2 | 5.5 | 8.0 | 3.9 | 0.9 | 0.6 |
| ROCE post-tax (%) | -18.3 | 19.3 | 6.5 | 19.4 | 11.9 | 6.6 | 4.3 | 4.7 | 4.6 | 5.4 | 7.2 | 8.3 |
| Discontinued assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net debt/(cash)** | **5.0** | **14.1** | **20.3** | **39.6** | **45.7** | **76.6** | **94.2** | **127.9** | 127.9 | 126.4 | 103.2 | 71.7 |
| Gearing (%) | 173.9 | 53.7 | 75.7 | 114.5 | 75.2 | 96.2 | 111.4 | 51.7 | 51.7 | 47.6 | 35.2 | 21.9 |
| Net debt/EBITDA (x) | 51.1 | 2.1 | 2.5 | 1.9 | 2.1 | 2.8 | 3.4 | 3.1 | 3.1 | 2.6 | 1.6 | 1.0 |
| Shareholders funds | 2.9 | 26.2 | 26.7 | 34.5 | 60.8 | 79.7 | 84.6 | 247.2 | 247.2 | 265.4 | 292.9 | 326.9 |
| **Equity capital** | **2.9** | **26.2** | **26.7** | **34.5** | **60.8** | **79.7** | **84.6** | **247.2** | 247.2 | 265.4 | 292.9 | 326.9 |
| % growth | 42.9 | 810.9 | 2.0 | 29.2 | 75.9 | 31.1 | 6.2 | 5.8 | 5.8 | 7.4 | 10.4 | 11.6 |
| ROaE | -27.9 | 18.3 | 0.6 | 25.5 | 16.4 | 8.4 | 5.3 | 5.6 | 5.6 | 7.1 | 9.8 | 11.0 |

Source: Company data, Merodis Equity Research

FNG's balance has been relatively geared up to finance the numerous past acquisitions. ND/EBITDA peaked at 3.4x in 2015 (FY-end March 2016). The recently-announced 2016 results show a slight easing of the ratio to 3.1x based on the proforma accounts (full consolidation over 12 month of *Miss Etam* and *Brantano*). We expect a further deleveraging going forward with a forecast net cash position expected by 2022e.

## Net working capital

As mentioned above, working capital has come down to below 8%, closer to the peer-group level, and we expect it to remain at roughly that level.

## Intangible fixed assets

Intangibles have increased following the acquisition and the value of the acquired brands. The jump in the 2016 accounts reflect, on the one hand, the major transactions that took place during the year as well as, on the other hand, IFRS rules which FNG report under. Although we still lack clear information on the accounting treatment of the intangibles, we believe they will be tested each year for impairment, without amortisation as required by IFRS.

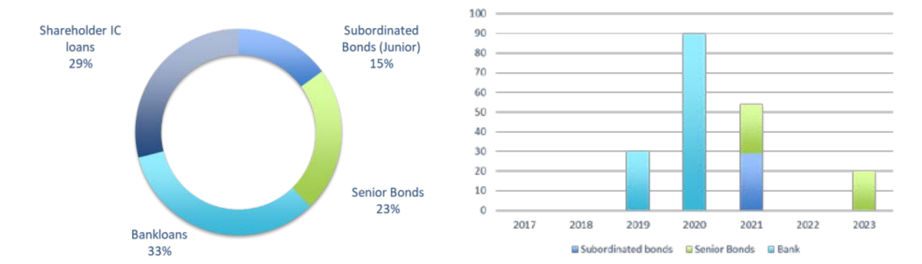
## Tangible fixed assets

These consist mainly of HQ, the logistics centre and store fitting. FNG does not own its stores; they are all rented. We expect tangible fixed assets to grow with the refurbishment programme underway at FNG brands and *Brantano*.

## Financial debt and maturities

FNG's financial debt of €178m is mainly held at the level of FNG Benelux Holding, 100% (indirectly) owned by FNG. The profile and maturities of its debt instruments are described in the graph below.

*Figure 36. Debt profile and maturities at FNG Benelux Holding*




Source: Company presentation

With average FCF of €37m pa from 2019-22e, we expect FNG's to sufficiently cover the repayment of the bank loan in 2019 and we would expect a partial repayment and extension for 2020 loan.

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