

Personal Goods: being challenged by social media, but a growing sector

With this note we initiate on five German-based groups operating in the Personal Goods sector: Adidas, Adler Modemaerkte, Gerry Weber, Hugo Boss and Puma.

Sporting Goods

Data compiled by Euromonitor put the global sport footwear & apparel market at EUR 253bn in 2017 and is forecast to grow at 4% pa through 2021. Although just 39% of this is footwear (61% apparel) the sporting goods market is dominated by the leading footwear brands, with Nike alone controlling a quarter of the market. A long way behind but clear Number-2 is Adidas with a share in the high-teens and then is a similar-sized group including Puma each with 3-5% share. The sector is likely to grow at 4% pa through 2020, with a bias to the major event years like the World Cup or Olympic Games which should be to the benefit of most of these groups. Recent history has shown that size does matter in that expensive sport sponsorship and athlete endorsements can promote brand heat and thus perpetuating the major brands, although we believe that social media will level the playing field a little.

Fashion Brands

Data compiled by Euromonitor put the European (excluding Russia) fashion & accessories market at EUR 420bn in 2017, but it has been relatively static in recent years and is forecast to grow at little more than 1% pa through 2021. With global sales of EUR 25bn last year Spanish-based Inditex is the European leader, followed by Swedish Hennes & Mauritz (EUR 21bn), which means that no retailer controls more than 5% of the total market. Again size has been supportive of above average growth in the past since market share was largely correlated to new store openings, but the internet has undermined that with the mega move to buying online not requiring a physical store presence. The challenge for fashion brands is to better service customers wherever they are (instore, using the group's own online sites, or viewing products via social media platforms), requiring significant IT investment and, in some cases, new business models.

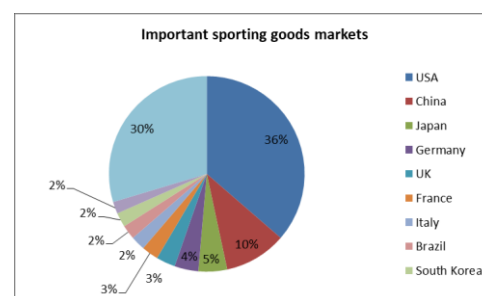
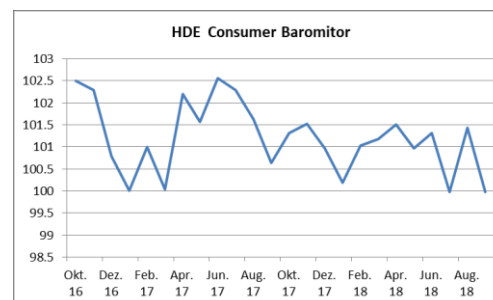
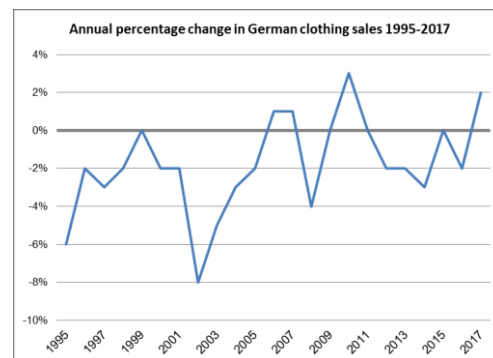
Preferred names

Of the Sporting Goods brands, we have a clear preference for Puma (22% upside) compared to Adidas (16%), since we believe that is currently the fastest-growing within the sector and will likely again be in 2019. This will allow it to continue to make-up ground with margins and we can envisage consensus upgrades in the months ahead.

Hugo Boss is the preferred Fashion name (31% upside) having made significant investment in digital operations (supply chain and retail) which should allow it to out-grow the premium fashion market. The latter continues to grow, whilst the mid-priced (Gerry Weber) and value-for-money segment (Adler Modemaerkte) are under increasing pressure from online competition.

Sector

Personal Goods



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Exhibit: Overview Personal Goods coverage

Name	Recommendation	Target Price	Last Price	Up/Downside	Market Cap (EURm)	Analyst
Sporting goods						
Adidas	Buy	230.0	198.2	16%	40,405	Mark Josefson
Puma	Buy	565.0	462.5	22%	6,911	Mark Josefson
Fashion						
Adler Modemaerkte	Buy	4.1	3.1	34%	56	Mark Josefson
Gerry Weber	Hold	2.9	3.0	-4%	139	Mark Josefson
Hugo Boss	Buy	80.0	60.8	32%	4,195	Mark Josefson

Name	PE (adj) 2018e	PE (adj) 2019e	Div. Yield 2018e	Div. Yield 2019e	EV/EBIT 2018e	EV/EBIT 2019e
Sporting goods						
Adidas	24.2	21.4	1.5%	1.7%	16.60	14.55
Puma	38.0	28.0	0.8%	1.1%	19.48	15.14
Fashion						
Adler Modemaerkte	-	10.1	3.3%	6.6%	14.92	2.87
Gerry Weber	-	-	0.0%	0.0%	-	-
Hugo Boss	17.0	15.5	4.6%	5.0%	12.61	11.43

Source: Pareto Securities, FactSet

Sales growth from sporting good companies

Currency-neutral yoy	Q1-17	Q2-17	Q3-17	Q4-17	2017	Q1-18	Q2-18	Q3-18	Q4-18e	2018e
adidas group c-n %	17	19	12	19	16	10	10	8	6	9
Western Europe c-n %	10	19	7	17	13	5	0	-1	-4	0
North America c-n %	31	26	23	31	27	21	16	17	11	17
Asia-Pacific c-n %	23	20	20	22	21	15	19	15	14	16
Latin America c-n %	9	14	8	19	12	11	15	0	1	6
Emerging Markets c-n %	n.a	n.a	n.a	n.a	n.a	-5	2	-2	-2	-3
Russia / CIS c-n %	-10	-11	-17	-14	-13	-16	14	7	5	3
Nike inc. c-n %	7	7	0	3	4	3	3	8	9	6
EMEA (Nike) c-n %	9	11	5	14	10	9	10	9	9	9
North Am. (Nike) c-n %	3	0	-3	-5	-1	-6	3	6	6	2
Greater China (Nike) c-n %	15	16	12	15	15	19	25	20	16	20
AP / LA (nike) c-n %	11	15	6	8	10	11	13	14	10	12
Converse c-n %	3	10	-16	-4	-2	-8	-14	7	5	-3
Puma group c-n %	15	16	17	15	16	22	15	14	13	16
EMEA c-n %	16	20	23	19	20	19	11	8	6	11
Americas c-n %	17	11	16	14	14	16	19	17	15	17
Asia-Pacific c-n %	12	20	10	10	13	35	17	23	17	24
Under Armour inc. c-n %	7	8	-5	4	3	4	7	3	2	4
EMEA c-n %	55	53	20	37	43	13	25	16	28	23
North America c-n %	-1	0	-12	-5	-5	-1	1	-1	-7	-2
Asia-Pacific c-n %	60	87	53	55	63	28	28	16	24	21
Latin America c-n %	30	9	27	34	26	14	12	23	3	8
Connected Fitness c-n %	2	-2	16	31	11	34	12	20	5	29

* Nike May fiscal year adjusted to comparable calendar year end

Source: Factset, Pareto

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Strong profit development, with future momentum, wins the day

Despite a slowing in sales development, a stronger gross profit margin has allowed adidas to typically beat EBIT expectations through 2018 and raise FY profit guidance. The latter dynamics could continue to play-out in 2019 and, although partially reflected in the share price already, continuous momentum with earnings forecast should support the shares. Buy, Target Price EUR 230.

Investment Case

The sporting goods market is benefiting from the mega trend toward healthy living standards, including more active leisure time. On top, there is the current fashion trend towards athleisure clothing, much of which is influenced by sports, resulting in growing sector within the fashion market. adidas has the double benefit of providing both sneakers and apparel that feed into these trends.

adidas is half-way through a mid-term plan, "Creating the New" targeting 10-12% CAGR organic sales growth with 11.5% EBIT margin by 2020 (from 8.6% restated for continuing operations). 2017 was a fantastic start both in terms of sales development (+16%) and margin development (+120bp) and for the current year we anticipate HSD sales growth with a further 120bp margin enhancement, putting the group ahead of target and the margin target may already be reached by 2019.

Digital transformation (faster time to market / stronger connection to customers) plus winning back 15% share of the important North American market are two area of strategic focus that brand adidas is making fantastic progress with, but guidance also assumes faster growth in Asia in reaching its goals through 2020.

EURm	2016	2017	2018e	2019e	2020e
Revenues	18,483	21,218	21,883	23,450	25,468
EBITDA	1,958	2,554	2,904	3,257	3,645
EBIT	1,582	2,070	2,396	2,701	3,038
EPS	5.08	5.42	8.37	9.52	10.68
EPS adj	5.32	6.90	8.18	9.27	10.47
DPS	2.00	2.60	3.00	3.40	3.90
EV/EBITDA	15.7	13.3	13.6	12.0	10.5
EV/EBIT	19.4	16.4	16.5	14.4	12.6
P/E adj	28.2	24.2	24.0	21.2	18.8
P/B	4.67	5.28	5.30	4.51	3.87
ROE (%)	16.8	17.0	24.0	23.2	22.2
Div yield (%)	1.3	1.6	1.5	1.7	2.0
Net debt	463	(180)	(623)	(1,093)	(1,610)

Source: Pareto



Target price (EUR)	230
Share price (EUR)	196

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	ADSGN.DE, ADS GR
Sector	Personal Goods
Shares fully diluted (m)	203.9
Market cap (EURm)	40,049
Net debt (EURm)	-623
Minority interests (EURm)	-15
Enterprise value 18e (EURm)	39,411
Free float (%)	97

Performance



Source: Factset

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Leading sporting goods and sport-inspired lifestyle company

Slowing sales momentum compensated by rising margins

Losing share in the sport & lifestyle mega trend would undermine goals

Target price of EUR 230 derived from equal blend of DCF and EV/EBIT multiples

Company profile

adidas engages in design, distribution and marketing of athletic and sporting lifestyle products. The Wholesale segment offers all business activities relating to the distribution of adidas and Reebok products to retail customers. The fast-growing Retail segment comprises all business activities relating to the sale of adidas and Reebok products directly to end consumers through own retail with increasing importance given to its own e-commerce platforms.

Upcoming Triggers and Drivers

Reporting of Q4-18 results will show a slowing sales momentum, (PAR +6%e organic) given the high Q4-17 base significantly inflated by the build into the 2018 World Cup for which adidas was the major sporting goods sponsor. However, stable gross margin and a further improvement in the Opex-to-sales ratio could support 20% rise in EBIT. Confirmation that adidas has again taken market share (in the US and in China especially) in 2018, together with upbeat guidance calling for something similar for FY 2019e, should in our view provide further support a gentle rerating of the stock.

Next scheduled reporting: FY 2018 results will be published 13 March 2019, together with guidance for FY 2019e covering sales, costs & margins and EBIT development. There will also be an update on the share buy-back programme. First guidance for 2019 is likely to call for mid-HSD sales growth, with EBIT rising “low-teens” for a margin clearly above 11% (we believe that management will already be targeting the 11.5% goal outlined in the “Creating the New” plan).

Risk to the investment case

In the short term, the main downside risk would be news of a significant slowing in Europe (where weak sales have already been flagged) but an escalation of the trade tensions (US vs. China) would not be helpful in our view. In the longer term, a large part of the growth case is based on above average development of the brand in the key US market: accounting for <20% of group sales today. Any sign that Nike is able to stop the erosion of its massive (>40% market share) could undermine these mid-term growth targets.

Valuation and recommendation

Although sales growth is slowing from a high level, the news flow is expected to remain positive with strong earnings momentum (CAGR 20% 2016-2020e) with increasingly positive response to the group’s e-commerce channel, for which a doubling in revenue to EUR 4bn is targeted by 2020.

Following strong outperformance over the past two years, adidas’ valuation has almost closed the discount to the sector median on 2019 PE and EV/EBIT multiples. Given its strong market position and expected earnings momentum, a modest premium is warranted in our view. Despite this we do partly base our TP by applying the sector median 2019 EV/EBIT multiple which yields EUR 219.

Attempting to reflect superior growth from adidas (it is well on the way to reaching goals set for 2020) we also refer to the DCF based target of EUR 241, for which we assume a terminal EBIT margin of 12.5% and apply 6.8% WACC (with 0.8 beta and 2% perpetual sales growth). We assume a capex-to-sales ratio peak in 2018 of 4.3%, before edging below 4% across the medium term. Our EUR 230 TP gives equal weighting to both metrics, at which adidas would be trading on a target PE of 22x for FY 2020e a 10% premium to the peer group median values. With an upside potential of 16% to our target price we view adidas as a solid play on the sporting goods segment and rate the shares as Buy.

A reasonably homogenous sporting goods peer group: the high multiples for Under Armour reflect depressed earnings, whereas global leader Nike is seen as the benchmark.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
AMER SPORTS	22.5	20.7	13.8	12.9	17.2	16.0	1.64	1.57
ASICS CORP	25.0	20.9	9.5	8.2	15.4	12.7	0.73	0.68
CALLAWAY	15.3	14.0	7.9	7.4	9.3	8.6	1.04	1.00
LULEMON	31.4	26.4	17.7	15.2	20.8	17.6	4.51	3.93
NIKE	24.2	20.8	18.0	16.1	21.0	18.5	2.91	2.71
PUMA	26.8	21.9	12.8	10.7	15.5	12.8	1.30	1.17
PVH CORP	10.5	9.5	7.2	6.5	9.7	8.7	1.00	0.92
SKECHERS	13.3	11.8	5.9	5.3	7.1	6.2	0.65	0.57
UNDER ARMOUR	65.0	46.0	24.3	19.6	42.9	32.2	1.92	1.80
VFC CORP	19.3	17.0	13.9	12.8	16.3	14.8	2.31	2.20
MEDIAN	23.4	20.8	13.3	11.7	15.9	13.8	1.47	1.37
AVERAGE	25.3	20.9	13.1	11.5	17.5	14.8	1.80	1.66
ADIDAS	21.4	19.1	12.0	10.7	14.4	12.8	1.66	1.52

Source: Factset, Pareto

For the DCF value of EUR 241, we assume a sustainable EBIT margin of 12.5% and apply 6.8% WACC (with 0.8 beta and 2% perpetual sales growth). We assume a capex-to-sales ratio peak in 2018 of 4.3%, before edging below 4% across the medium term.

DCF Valuation

EUR m	2018	2019	Phase I 2020	2021	2022	2023	2024	Phase II 2025	2026	2027	Phase III 2028
Sales	21,883	23,450	25,468	27,399	29,430	31,562	33,797	36,137	38,582	41,134	41,957
Sales growth	3.1%	7.2%	8.6%	7.6%	7.4%	7.2%	7.1%	6.9%	6.8%	6.6%	2.0%
EBIT	2,396	2,701	3,038	3,341	3,633	3,943	4,256	4,587	4,936	5,304	5,245
EBIT margin	10.9%	11.5%	11.9%	12.2%	12.3%	12.5%	12.6%	12.7%	12.8%	12.9%	12.5%
Tax	-719	-810	-911	-1,002	-1,090	-1,183	-1,277	-1,376	-1,481	-1,591	-1,573
Normative tax rate EBIT	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
NOPAT	1,677	1,891	2,126	2,339	2,543	2,760	2,979	3,211	3,455	3,713	3,671
Depreciation	433	476	523	663	712	764	818	875	934	996	1,016
in % of Sales	2.0%	2.0%	2.1%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Capex	-938	-950	-995	-1,045	-1,152	-1,235	-1,323	-1,414	-1,510	-1,610	-1,616
in % of Sales	4.3%	4.1%	3.9%	3.8%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	2.4%
Change in working capital	-250	-400	-500	-500	-498	-512	-525	-526	-538	-536	-140
in % of Sales	-1.1%	-1.7%	-2.0%	-1.8%	-1.7%	-1.6%	-1.6%	-1.5%	-1.4%	-1.3%	-0.3%
Free Cash Flow	943	1,027	1,165	1,457	1,606	1,777	1,950	2,145	2,341	2,562	3,531
FCF growth	nm	8.9%	13.4%	25.1%	10.2%	10.7%	9.7%	10.0%	9.1%	9.5%	37.8%
Present Value FCF	938	956	1,016	1,189	1,226	1,270	1,304	1,343	1,372	1,405	39,946
PV Phase I		5,325					43,188				85.0%
PV Phase II		6,694					5.0%				0.82
PV Phase III		39,946					3.5%				6.8%
Total present value		51,965									
- market value of minorities		-15									
+ cash and liquid assets		-876									
- interest bearing debt*		1,418									
Implied Mcap		49,686									
Number of shares		206									
Implied value per share		241.0									

Sensitivity Analysis	Growth rate Phase III				
	1.0%	1.5%	2.0%	2.5%	3.0%
6.5%	223.9	241.4	262.8	289.6	324.1
6.7%	215.6	231.8	251.5	275.9	307.0
6.8%	207.9	222.9	241.0	263.3	291.4
7.0%	200.6	214.5	231.3	251.7	277.2
7.2%	193.7	206.7	222.1	240.9	264.1

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	14,203	14,534	16,915	18,483	21,218	21,883	23,450	25,468
EBITDA	1,575	1,277	1,433	1,958	2,554	2,904	3,257	3,645
Depreciation & amortisation	(342)	(394)	(373)	(376)	(484)	(508)	(555)	(607)
EBIT	1,285	883	1,059	1,582	2,070	2,396	2,701	3,038
Net interest	(68)	(48)	(21)	(46)	(47)	(10)	(8)	(1)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	1,217	835	1,039	1,536	2,023	2,386	2,693	3,037
Taxes	(340)	(271)	(353)	(454)	(668)	(680)	(781)	(896)
Minority interest	(3)	(6)	(6)	(2)	(3)	(5)	(5)	(5)
Net profit	891	490	634	1,017	1,097	1,682	1,907	2,136
EPS reported	4.26	2.35	3.15	5.08	5.42	8.37	9.52	10.68
EPS adjusted	3.83	3.01	3.67	5.32	6.90	8.18	9.27	10.47
DPS	1.50	1.50	1.60	2.00	2.60	3.00	3.40	3.90
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	1,238	1,454	1,638	1,915	2,000	2,340	2,625	2,883
Other non-current assets	3,504	3,616	4,208	4,375	3,877	3,987	4,117	4,267
Other current assets	5,270	5,664	6,132	7,376	6,974	7,454	8,084	8,914
Cash & equivalents	1,587	1,683	1,365	1,510	1,598	1,981	2,391	2,848
Total assets	11,599	12,417	13,343	15,176	14,449	15,762	17,217	18,911
Total equity	5,481	5,618	5,648	6,455	6,435	7,543	8,866	10,328
Interest-bearing non-current debt	653	1,584	1,463	982	983	983	983	983
Interest-bearing current debt	681	288	366	636	137	87	37	(13)
Other Debt	4,529	4,643	5,593	6,748	6,669	6,861	7,053	7,345
Total liabilities & equity	11,599	12,417	13,343	15,176	14,522	15,762	17,217	18,911
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	1,080	930	1,088	1,374	1,949	2,164	2,436	2,709
Change in working capital	(446)	(229)	1	(26)	(271)	(250)	(400)	(500)
Cash flow from investments	(243)	(537)	(591)	(615)	(677)	(938)	(950)	(995)
Cash flow from financing	(474)	(68)	(816)	(588)	(879)	(583)	(666)	(782)
Net cash flow	(83)	96	(318)	145	122	393	420	432
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	92.6	57.6	89.9	150.2	167.2	196.5	196.5	196.5
Number of shares end period	209	204	200	201	204	204	204	204
Net interest bearing debt	2	473	737	463	(180)	(623)	(1,093)	(1,610)
Enterprise value	19,376	12,240	18,719	30,700	33,880	39,411	38,941	38,424
EV/Sales	1.4	0.8	1.1	1.7	1.6	1.8	1.7	1.5
EV/EBITDA	12.3	9.6	13.1	15.7	13.3	13.6	12.0	10.5
EV/EBIT	15.1	13.9	17.7	19.4	16.4	16.5	14.4	12.6
P/E reported	21.8	24.6	28.6	29.5	30.8	23.5	20.6	18.4
P/E adjusted	24.2	19.1	24.5	28.2	24.2	24.0	21.2	18.8
P/B	3.5	2.1	3.2	4.7	5.3	5.3	4.5	3.9
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	14.9	11.3	13.1	17.6	21.7	23.5	22.6	21.8
Dividend yield (%)	1.6	2.6	1.8	1.3	1.6	1.5	1.7	2.0
EBITDA margin (%)	11.1	8.8	8.5	10.6	12.0	13.3	13.9	14.3
EBIT margin (%)	9.0	6.1	6.3	8.6	9.8	10.9	11.5	11.9
NIBD/EBITDA	0.00	0.37	0.51	0.24	(0.07)	(0.21)	(0.34)	(0.44)
EBITDA/Net interest	24.72	26.48	67.80	44.01	54.33	-	-	-

Adler 2020 Strategy: a fashion platform for people in their prime

The key point of the Adler 2020 Strategy will be to focus efforts on better servicing its traditional over 55 customer base i.e. in returning to its roots, by providing value for money fashion for people in their prime. This is a sizeable segment of the market and is expected to grow 10% by 2027: Buy, Target Price EUR 4.1.

Investment Case

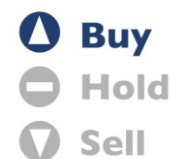
Like most other high street based retailers; Adler Modemaerkte has been suffering a lack of store footfall, partly reflecting mediocre demand which has been exacerbated by the trend from offline to online sales. Adler had also alienated its traditional 50 to 70 year old customer base whilst attempting to appeal to a younger clientele.

The irony is that the over 55 age group is growing in importance. Data supplied by the FSO show that this segment should increase by 10% through 2027, at which stage there could be 33 million people above 55 in Germany alone. This segment spends EUR 3.2bn annually in Adler's core product area and the Adler 2020 Strategy will thus focus efforts on better servicing this customer base.

Given the experience of both new CEO Freude and COO Carmine Petraglia, it is no surprise that digitalisation will play a more significant role within Adler going forward. This will apply to its communication with customers as well as the distribution channels through which Adler Modemaerkte sells to customers. The 3.4m Adler customer cards (accounting for 90% of sales) can provide a major competitive advantage in this respect.

EURm	2016	2017	2018e	2019e	2020e
Revenues	545	526	515	528	539
EBITDA	23	32	22	29	34
EBIT	6	22	3	12	17
EPS	(0.00)	0.56	(0.10)	0.30	0.49
EPS adj	0.06	0.39	0.04	0.30	0.49
DPS	-	0.05	0.10	0.20	0.30
EV/EBITDA	4.6	3.5	1.9	1.1	0.7
EV/EBIT	17.4	5.0	14.2	2.7	1.4
P/E adj	76.1	15.1	73.7	9.7	6.0
P/B	0.91	1.08	0.52	0.47	0.43
ROE (%)	-	10.6	-	5.1	7.5
Div yield (%)	-	0.9	3.4	6.8	10.2
Net debt	20	3	(12)	(21)	(30)

Source: Pareto



Target price (EUR)	4.1
Share price (EUR)	2.9

Forecast changes			
%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	ADDG.DE, ADD GY
Sector	Personal Goods
Shares fully diluted (m)	18.5
Market cap (EURm)	54
Net debt (EURm)	-12
Minority interests (EURm)	0
Enterprise value 18e (EURm)	43
Free float (%)	42

Performance



Source: Factset

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Value-for-money textile chain targeting the "Best Ager" customer base

Confirmation that the group is on track to meet Adler2020 could be helpful, but share overhang remains

Be wary of what the major shareholder does

Target price of EUR 4.1 reflects DCF which stays shy of adopting all 2020 targets

Company profile

The current base of 179 stores provides c. 375,000m² of selling space across four countries and Adler is one of the few retailers specifically targeting men/women over 55 with a value for money proposition. This is a sizeable segment of the market and is expected to grow 10% by 2027. However, guidance continues to call for 1-2 new stores p.a. given the inherent focus on profitable growth.

Upcoming Triggers and Drivers

Reporting of Q4-18 results could surprise on the positive since guidance (lowered with the 9M results) looks on the conservative side. It calls for flat sales (PAR +2.2%e) and lower gross margin (PAR -50bp) with underlying EBITDA flat to +20% (PAR +14%e). Confirmation that Adler has met these goals, together with modestly upbeat guidance calling profit growth for FY 2019e, should in our view provide support for a gentle rerating of the stock, but the overhang needs to be addressed before strong performance is seen.

Next scheduled reporting: Most likely preliminary FY 2018 results will be published in early February 2019 (date not yet disclosed), with final reporting, guidance for FY 2019e and analyst conference on 14 March 2019.

Risk to the investment case

In the short term, the main downside risk would be news S&E wants to exit the stock at any costs, although there is some discount for this already in the shares. In the longer term, a large part of the growth case is based on above average development of the brand in the DACH region, winning back customer loyalty and failure to do so could undermine these mid-term growth targets.

Valuation and recommendation

S&E Kapital GmbH (owner of 52.8% of Adler) is considering the sale of this stake given rise to fears of share overhang given the market environment. Such a placement could trigger the mandatory bid for all shares if one investor takes >30% stake and we see more upside if the transaction is completed smoothly.

Following several years of sub-normal profitability and some time needed to recover, the trick is to identify the value in Adler Modemaerkte. It has a great platform to target a growing segment – one that it has served well in the past – and management has laid down a roadmap through 2020 for margin recovery. We base our valuation on a discounted cash flow model which stays shy of incorporating the full Adler 2020 Strategy guidance (EUR 550m sales; 8% EBITDA margin) and calculate a target price of EUR 4.1. Given a strong financial base that should allow Adler to trade its way through OK, but we believe that the macro background in 2018 has set the group back a year with 2020 targets – meeting guidance could add EUR 2 to our TP, but it will be time to demonstrate this, whilst meanwhile the share overhang risk may prevail.

In terms of peer multiples, many valuations are currently distorted in our view given that many peers are currently struggling and several (like Adler) are in the midst of restructuring. Nonetheless we note that at our TP Adler Modemaerkte would trade at 35% discount to average sector (excluding Esprit) 2019 PE and at 65% discount to the sector 2019 EV/EBIT multiple.

The 32% upside potential to our target price reflects only some of the potential reward if the above issues are sorted and rate the shares as Buy.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
N.BROWN	5.6	5.4	6.3	6.2	8.6	8.2	0.83	0.78
DEBENHAMS	4.3	3.7	2.4	2.3	13.2	10.3	0.13	0.11
ESPRIT	-3.0	-5.4	-2.7	5.9	-1.1	-2.1	0.11	0.12
GERRY WEBER	50.5	31.1	6.0	5.8	30.0	25.2	0.39	0.37
HENNES&MAURITZ	19.1	17.9	9.9	9.3	15.4	14.3	1.27	1.22
TOM TAILOR	5.0	3.6	2.5	2.2	4.4	2.9	0.22	0.19
<i>MEDIAN</i>	<i>5.3</i>	<i>4.5</i>	<i>4.3</i>	<i>5.9</i>	<i>10.9</i>	<i>9.2</i>	<i>0.31</i>	<i>0.28</i>
<i>AVERAGE (ex Esprit)</i>	<i>16.9</i>	<i>12.3</i>	<i>5.4</i>	<i>5.1</i>	<i>14.3</i>	<i>12.2</i>	<i>0.57</i>	<i>0.54</i>
ADLER	10.1	6.2	1.7	1.3	4.0	2.6	0.09	0.08

Source: Factset, Pareto

DCF Valuation

EUR m	Phase I					Phase II					Phase III 2028
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Sales	515	528	539	550	561	571	582	592	602	611	617
Sales growth	-2.0%	2.5%	2.0%	2.0%	2.0%	1.9%	1.8%	1.7%	1.7%	1.6%	1.6%
EBIT	3.0	12.3	17.0	19.3	22.3	22.7	23.1	23.8	24.2	24.9	18.5
EBIT margin	0.6%	2.3%	3.2%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.1%	3.0%
Tax	(1.0)	(4.1)	(5.6)	(6.4)	(7.4)	(7.5)	(7.6)	(7.9)	(8.0)	(8.2)	(6.1)
Normative tax rate EBIT	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
NOPAT	2.0	8.3	11.4	12.9	14.9	15.2	15.5	16.0	16.2	16.7	12.4
Depreciation	16.6	17.0	17.4	17.9	18.6	19.0	19.3	19.6	20.0	20.3	20.5
in % of Sales	3.2%	3.2%	3.2%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Capex	(11.0)	(14.0)	(16.5)	(20.0)	(22.0)	(22.4)	(22.8)	(23.2)	(23.6)	(24.0)	(20.5)
in % of Sales	2.1%	2.7%	3.1%	3.6%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.3%
Change in working capital	2.5	(5.2)	(6.1)	(6.7)	(6.7)	(7.0)	(6.8)	(6.6)	(6.4)	(6.2)	(3.5)
in % of Sales	0.5%	-1.0%	-1.1%	-1.2%	-1.2%	-1.2%	-1.2%	-1.1%	-1.1%	-1.0%	-0.8%
Free Cash Flow	10.1	6.0	6.1	4.1	4.8	4.8	5.2	5.8	6.2	6.8	8.9
FCF growth	nm	-40.9%	2.3%	-32.9%	16.6%	0.2%	8.3%	11.4%	6.8%	9.5%	30.7%
Present Value FCF	10.1	5.4	5.0	3.1	3.3	3.0	3.0	3.0	2.9	2.9	43.4
PV Phase I		26.9	32%		MCap		56.8		Target equity ratio		75.0%
PV Phase II		14.8	17%		Risk premium		5.0%		Beta		1.61
PV Phase III		43.4	51%		Risk free rate		3.5%		WACC		9.8%
Total present value		85.1									
- market value of minorities		0.0									
+ cash and liquid assets		63.3									
- interest bearing debt*		72.1									
Implied Mcap		76.3									
Number of shares		18.5									
Implied value per share		4.1									

Sensitivity		Growth rate Phase III				
Analysis		0.0%	0.5%	1.0%	1.5%	2.0%
	9.3%	4.1	4.3	4.4	4.6	4.8
	9.5%	4.0	4.1	4.3	4.4	4.6
	9.8%	3.9	4.0	4.1	4.3	4.4
	10.0%	3.8	3.9	4.0	4.1	4.3
	10.3%	3.7	3.8	3.9	4.0	4.1

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	529	535	566	545	526	515	528	539
EBITDA	43	42	33	23	32	22	29	34
Depreciation & amortisation	(14)	(15)	(16)	(17)	(16)	(17)	(17)	(17)
EBIT	33	26	13	6	22	3	12	17
Net interest	(4)	(5)	(5)	(5)	(5)	(5)	(4)	(4)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	28	21	9	1	17	(2)	8	13
Taxes	0	0	0	1	0	(0)	0	0
Minority interest	-	-	-	-	-	-	-	-
Net profit	22	14	4	(0)	10	(2)	6	9
EPS reported	1.27	0.77	0.24	(0.00)	0.56	(0.10)	0.30	0.49
EPS adjusted	0.94	0.77	0.44	0.06	0.39	0.04	0.30	0.49
DPS	0.45	0.50	0.50	-	0.05	0.10	0.20	0.30
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	72	72	82	78	75	69	65	63
Other non-current assets	17	21	18	17	14	14	14	14
Other current assets	85	82	92	84	89	89	95	102
Cash & equivalents	55	70	52	43	63	73	76	78
Total assets	228	244	243	223	241	244	250	257
Total equity	92	106	105	96	100	105	115	127
Interest-bearing non-current debt	52	51	52	46	50	45	39	32
Interest-bearing current debt	10	10	11	11	10	10	10	10
Other Debt	68	70	69	64	75	78	80	82
Total liabilities & equity	228	244	243	223	241	244	250	257
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	35	31	33	25	14	23	28	31
Change in working capital	6	5	(13)	(3)	7	3	(5)	(6)
Cash flow from investments	(9)	(11)	(17)	(11)	21	(11)	(13)	(16)
Cash flow from financing	(19)	(10)	(20)	(21)	(15)	(6)	(8)	(11)
Net cash flow	12	15	(18)	(9)	27	9	2	(1)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	9.9	13.5	10.1	4.71	5.8	2.93	2.93	2.93
Number of shares end period	18	18	19	19	19	19	19	19
Net interest bearing debt	14	(1)	17	20	3	(12)	(21)	(30)
Enterprise value	189	247	204	107	111	43	33	24
EV/Sales	0.4	0.5	0.4	0.2	0.2	0.1	0.1	0.0
EV/EBITDA	4.4	5.9	6.1	4.6	3.5	1.9	1.1	0.7
EV/EBIT	5.8	9.4	15.1	17.4	5.0	14.2	2.7	1.4
P/E reported	7.8	17.6	42.3	-	10.4	-	9.7	6.0
P/E adjusted	10.6	17.5	23.0	76.1	15.1	73.7	9.7	6.0
P/B	1.9	2.4	1.8	0.9	1.1	0.5	0.5	0.4
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	19.1	14.4	7.7	1.1	7.3	0.7	5.1	7.5
Dividend yield (%)	4.5	3.7	5.0	-	0.9	3.4	6.8	10.2
EBITDA margin (%)	8.1	7.8	5.9	4.3	6.1	4.3	5.5	6.4
EBIT margin (%)	6.2	4.9	2.4	1.1	4.2	0.6	2.3	3.2
NIBD/EBITDA	0.32	(0.03)	0.51	0.87	0.09	(0.53)	(0.72)	(0.88)
EBITDA/Net interest	9.11	8.36	7.58	4.82	5.25	5.51	7.32	9.82

Relief Ahead? Promissory Note loan providers grant deferment

Management has again lowered guidance with consensus sales forecast reduced by 8% and EBITDA estimates cut 37% and 10% for the current year and 2019/20 respectively. More importantly, a deferment to end January 2019 of loan notes may yield flexibility for management to establish a more sensible financing structure, providing the headroom necessary to see through restructuring of the group. With EUR 2.9 TP, we prefer to watch from the side..

Investment Case

In the light of preliminary development in Q4 (to 31 Oct 2018) and with a view to the newly initiated transformation process, the Managing Board has revised the outlook for the year just ended. It now expects sales up to EUR 790m (previous guidance called for EUR 830m-840m) and expects a significant operational loss (previously EBIT in the range nil to EUR 10m loss) influenced by provisions for job losses and store closures.

The more significant news was the deferment until end Jan 2019 of loan payables totalling EUR 31m which had been due 5 Nov 2018. In parallel, the financing banks keep existing credit lines open for Gerry Weber, ensuring financial stability across the important Christmas trading period. Together with the recent disposal of investment property Halle 29, this should help facilitate the repayment of the above debt as well as additional EUR 40m loan notes repayable March 2020 and EUR 24m Nov 2020.

We do not view Gerry Weber as a busted brand, but there is a growing group with that view. However, profit recovery will take a long time to feed through. Given the probable absence of a meaningful earnings base for the next few years, we rely on 2020 multiple comparison plus a DCF in setting our EUR 2.9 TP: Hold

EURm	2016	2017	2018e	2019e	2020e
Revenues	901	881	793	757	776
EBITDA	77	58	18	40	67
EBIT	29	14	(33)	(5)	21
EPS	0.34	0.06	(0.60)	(0.17)	0.23
EPS adj	0.55	0.34	(0.12)	(0.07)	0.33
DPS	0.25	-	-	-	-
EV/EBITDA	9.2	10.8	17.6	7.7	4.3
EV/EBIT	24.6	46.0	-	-	13.9
P/E adj	20.0	28.1	-	-	9.2
P/B	1.13	1.06	0.36	0.36	0.34
ROE (%)	3.3	0.6	-	-	2.7
Div yield (%)	2.3	-	-	-	-
Net debt	204	193	174	170	153

Source: Pareto



Target price (EUR)	2.9
Share price (EUR)	3.0

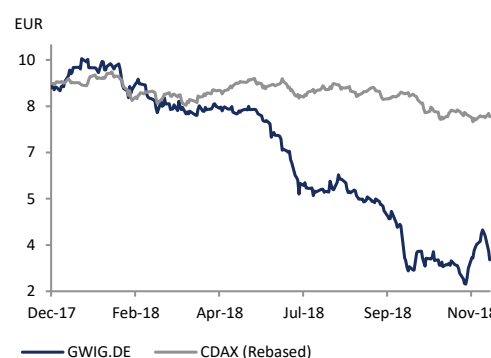
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	GWIG.DE, GWI1 GR
Sector	Personal Goods
Shares fully diluted (m)	45.9
Market cap (EURm)	139
Net debt (EURm)	174
Minority interests (EURm)	0
Enterprise value 18e (EURm)	313
Free float (%)	88

Performance



Source: Factset

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Leading fashion & lifestyle company for quality-conscious women

Awaiting news regarding Gerry Weber's new financing plans with creditors

Sort-out refinancing, then address the collections

Target price of EUR 2.90 derived from equal blend of DCF and EV/EBIT multiple

Company profile

Established in 1973, Gerry Weber is a manufacturer and distributor of womenswear with its three Core brands of GERRY WEBER, TAIFUN and SAMOON, plus vertical retailer HALLHUBER. In the Core segment, the group manages 440 Houses of GERRY WEBER, 70 mono-label and 34 outlet stores, plus 278 concession units. In Hallhuber, there are 144 freestanding and 16 outlet stores plus 243 concessions. The wholesale division distributed product via 283 House of Gerry Weber and 2500 shop-in-shop units.

Upcoming Triggers and Drivers

Given discussions with creditors to postpone repayment of loan receivables due in November, well as the first analysis of the developments in Q4 2017/18 (31 October), the Managing Board reviewed and adjusted the current earnings and profit forecast: it now expects cEUR 790m sales (previously: EUR 830-840m) and significant operational losses on EBIT basis (previously: EUR -10m and nil). The EBIT deficit will be largely shaped by accruals for personnel related measures and store closures, as well as extraordinary depreciation and impairments. Investors are now awaiting details of an expected financial restructuring.

Next scheduled reporting: FY 2017-18 results will be published early 2019 (date not yet disclosed), together with guidance for FY 2018-19e covering sales, costs & margins and EBIT development. First guidance for 2019 is likely to call for MSD sales decline, with possibly another EBIT loss.

Risk to the investment case

In the short term, the main downside risk would clearly be a failure to broker a refinancing pact with creditors, meaning that GWI has to stumble from one year to the next worrying about breaking financial covenants.

In the longer term, a large part of the growth case is based on regaining trust with the core customer base (women over 40 years) in presenting collections that are deemed desirable. Failure to do so undermines the whole group.

Valuation and recommendation

In pushing-out by another year a return to profitability (now 2020e) and lowering the mid-term margins, we remain cautious with estimates and also assume 5% as terminal margin in the DCF, which includes a high 1.5 beta to reflect greater uncertainty in future forecasts, resulting in 9.7% WACC. This yields a fair value of EUR 3.0, which might prove conservative on a turnaround.

In terms of peer group multiples, P/E valuations are currently distorted given that Gerry Weber continues to record losses. Although we believe that management will be targeting a return to profitability by 2020, it will still be sub-normal. In setting our TP we still prefer to have some connection to sector valuations and apply the mean 2020 EV/EBIT multiple in deriving EUR 2.8.

Our target price of EUR 2.9 gives equal weighting to these two valuations and implies a target PE of 9x for FY 2020e, a 35% discount to the peer group median value, but an EV/EBIT multiple of 10.5 which is line with the sector. The share price is likely to remain volatile until investors are provided with more details on financing and given greater insights to mid-term goals. We would prefer to watch Gerry Weber from the side-lines in presenting a Hold rating.

A widely disparate peer valuation group reflects the fact that numerous retailers are attempting to push through restructuring measures in the face of a move away from these traditional high street operators to online sales.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
ABERCROMBIE	17.8	17.7	2.5	2.8	6.1	6.3	0.20	0.20
ADIDAS	20.5	18.0	12.2	10.8	14.4	12.8	1.66	1.52
ADLER MODE.	10.0	6.2	1.7	1.3	4.0	2.9	0.09	0.08
HUGO BOSS	15.5	13.9	8.0	7.3	11.4	10.3	1.46	1.37
DEBENHAMS	4.3	3.7	2.4	2.1	13.2	11.5	0.13	0.11
GAP	10.2	10.1	4.9	5.0	6.8	7.0	0.56	0.56
H & M	19.1	17.9	9.9	9.2	15.4	14.4	1.27	1.22
INDITEX	22.1	20.2	12.6	11.4	15.7	14.4	2.66	2.43
L. BECK	23.6	19.2	11.5	10.3	17.8	15.2	0.90	0.93
M & S	12.0	11.9	5.5	5.4	10.5	10.4	0.59	0.58
NEXT	10.7	10.3	8.6	8.5	10.0	10.0	1.79	1.74
PUMA	26.8	21.9	12.8	10.7	15.5	13.0	1.30	1.17
PVH CORP	10.5	9.5	7.2	6.5	9.7	9.2	1.00	0.92
TOM TAILOR	5.0	3.6	2.5	1.9	4.4	3.5	0.22	0.19
V.F. CORP	19.3	17.0	13.9	12.8	16.3	14.6	2.31	2.20
MEDIAN	15.5	13.9	8.0	7.3	11.4	10.4	1.00	0.93
AVERAGE	15.2	13.4	7.8	7.1	11.4	10.4	1.08	1.02
GERRY WEBER	-17.4	13.1	7.7	4.4	-61.9	14.2	0.41	0.38

Source: Factset, Pareto

For the DCF value of EUR 3, we assume a sustainable EBIT margin of 5% and apply 9.7% WACC (with 1.5 beta, 1% perpetual sales growth, 4.5%, capex).

DCF Valuation

EUR m	Phase I					Phase II					Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sales	793	757	776	796	819	842	865	888	912	937	946
Sales growth	-10.0%	-4.4%	2.5%	2.6%	2.8%	2.8%	2.8%	2.7%	2.7%	2.7%	10%
EBIT	-37	-5	21	30	36	39	41	43	44	46	47
EBIT margin	-4.6%	-0.7%	2.7%	3.8%	4.5%	4.6%	4.7%	4.8%	4.9%	4.9%	5.6%
Tax	11	2	(6)	(9)	(11)	(12)	(12)	(13)	(13)	(14)	(14)
Normative tax rate EBIT	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
NOPAT	(26)	(4)	15	21	26	27	28	30	31	32	33
Depreciation	54	45	46	48	50	52	53	55	56	58	58
in % of Sales	6.9%	5.9%	5.9%	6.1%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Capex	(32)	(32)	(34)	(35)	(37)	(38)	(39)	(40)	(41)	(42)	(58)
in % of Sales	4.0%	4.2%	4.3%	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	6.2%
Ch. in working capital	6	(5)	(6)	(6)	(7)	(6)	(6)	(6)	(6)	(6)	(2)
in % of Sales	0.8%	-0.7%	-0.7%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.2%
Free Cash Flow	3	5	22	28	33	35	37	39	40	42	31
FCF growth	nm	80%	332%	30%	16%	8%	5%	5%	4%	4%	-25%
Present Value FCF	3	5	18	22	23	22	21	20	19	18	157
PV Phase I	69.9					159.3					80%
PV Phase II	101.9					5.0%					1.50
PV Phase III	157.2					3.5%					9.7%
Total present value	329.0										
- market value of minorities	0.0										
+ cash and liquid assets	36.6										
- interest bearing debt*	229.4										
Implied Mcap	136.2										
Number of shares	45.5										
Implied value per share	3.0										

Sensitivity Analysis	Growth rate Phase III				
	0.0%	0.5%	1.0%	1.5%	2.0%
9.2%	3.0	3.2	3.4	3.7	4.0
9.5%	2.8	3.0	3.2	3.4	3.7
9.7%	2.6	2.8	3.0	3.2	3.4
10.0%	2.5	2.6	2.8	3.0	3.2
10.2%	2.3	2.4	2.6	2.8	3.0

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	852	852	921	901	881	793	757	776
EBITDA	127	134	116	77	58	18	40	67
Depreciation & amortisation	(22)	(25)	(36)	(48)	(44)	(50)	(45)	(46)
EBIT	106	109	79	29	14	(33)	(5)	21
Net interest	(2)	(3)	(6)	(9)	(8)	(7)	(6)	(6)
Other financial items	(1)	(1)	(0)	-	-	-	-	-
Profit before taxes	103	105	73	20	6	(39)	(11)	15
Taxes	(32)	(33)	(21)	(5)	(3)	12	3	(5)
Minority interest	-	-	-	-	-	-	-	-
Net profit	71	71	52	16	3	(28)	(8)	11
EPS reported	1.55	1.56	1.14	0.34	0.06	(0.60)	(0.17)	0.23
EPS adjusted	1.55	1.56	1.00	0.55	0.34	(0.12)	(0.07)	0.33
DPS	0.75	0.75	0.40	0.25	-	-	-	-
BALANCE SHEET (EURm)								
Tangible non current assets	166	195	288	288	273	250	236	222
Other non-current assets	109	132	265	236	240	235	235	235
Other current assets	191	254	309	326	240	230	244	255
Cash & equivalents	66	104	76	51	37	30	34	52
Total assets	532	685	939	901	790	745	748	765
Total equity	396	455	483	446	413	389	388	402
Interest-bearing non-current debt	6	77	215	221	218	170	170	170
Interest-bearing current debt	6	7	36	34	11	34	34	34
Other Debt	124	146	204	199	148	152	156	158
Total liabilities & equity	532	685	939	901	790	745	748	765
CASH FLOW (EURm)								
Cash earnings	101	97	65	60	22	20	39	57
Change in working capital	(10)	(31)	13	(12)	19	6	(5)	(6)
Cash flow from investments	(36)	(64)	(211)	(59)	(38)	(27)	(31)	(33)
Cash flow from financing	(38)	37	102	(14)	(42)	-	-	-
Net cash flow	16	39	(31)	(26)	(39)	(1)	3	18
CAPITALIZATION & VALUATION (EURm)								
Share price (EUR end)	30.9	34.2	12.8	11.0	9.5	3.02	3.02	3.02
Number of shares end period	46	46	46	46	46	46	46	46
Net interest bearing debt	(54)	(20)	175	204	193	174	170	153
Enterprise value	1,363	1,548	761	709	631	313	309	291
EV/Sales	1.6	1.8	0.8	0.8	0.7	0.4	0.4	0.4
EV/EBITDA	10.7	11.5	6.6	9.2	10.8	17.6	7.7	4.3
EV/EBIT	12.9	14.2	9.6	24.6	46.0	-	-	13.9
P/E reported	19.9	21.9	11.2	32.5	-	-	-	13.1
P/E adjusted	19.9	21.9	12.8	20.0	28.1	-	-	9.2
P/B	3.6	3.4	1.2	1.1	1.1	0.4	0.4	0.3
FINANCIAL ANALYSIS & CREDIT METRICS								
ROE adjusted (%)	18.7	16.8	9.7	5.4	3.6	-	-	3.8
Dividend yield (%)	2.4	2.2	3.1	2.3	-	-	-	-
EBITDA margin (%)	15.0	15.7	12.6	8.6	6.6	2.2	5.3	8.6
EBIT margin (%)	12.4	12.8	8.6	3.2	1.6	-	-	2.7
NIBD/EBITDA	(0.42)	(0.15)	1.51	2.64	3.32	9.77	4.26	2.27
EBITDA/Net interest	62.33	41.60	16.94	8.28	8.32	6.21	6.25	11.37

Ambitious, but achievable targets set above average growth through 2022

Management has outlined guidance for the period through 2022, including 5-7% CAGR sales growth, an EBIT margin of 15% and FCF between EUR 250m-350m. During the CMD, management presented supporting assumptions for each of these, which could underpin a modest increase in consensus estimates in the weeks ahead. We have a Buy rating with EUR 80 TP: Hugo Boss is seen as our preferred play in the premium fashion segment.

Investment Case

The 2022 sales growth target of 5-7% (PAR 5.2%e pa) is set against an expected segment development of 3-4% over the period and management flagged four key pillars behind the group's planned outperformance. Instore like-for-like sales growth of 4% pa is a key assumption in setting store productivity of EUR 12.5k psm.

It also targets a quadrupling of online sales to EUR 400m by 2022, of which maybe half should be generated over the hugoboss.com site (expanding the site presence from 12 countries to c.30) and half could come from the roll-out of the online concession model, similar to the recently cooperation with Zalando, or Tmall in China.

A greater focus on Asia-Pacific (esp., but not exclusively China) should see sales grow at a double-digit pace. In meeting this, the regional importance would increase from 15% of sales to represent 20% by 2022. Above average growth of the HUGO brand is planned.

Our conviction is that Hugo Boss is far better positioned than most fashion retailers and given its good growth prospects should rather be valued more in line with higher-rated premium brands. With our target of EUR 80 (31% upside) we have a Buy rating on Hugo Boss.

EURm	2016	2017	2018e	2019e	2020e
Revenues	2,693	2,733	2,770	2,902	3,056
EBITDA	433	499	481	525	563
EBIT	264	341	337	373	407
EPS	2.80	3.35	3.52	3.94	4.31
EPS adj	3.44	3.47	3.57	3.93	4.30
DPS	2.60	2.65	2.78	3.06	3.37
EV/EBITDA	9.7	9.9	8.8	8.1	7.6
EV/EBIT	15.9	14.5	12.6	11.4	10.5
P/E adj	16.9	20.5	17.0	15.4	14.1
P/B	4.52	5.35	4.21	3.87	3.57
ROE (%)	21.0	25.7	25.5	26.3	26.5
Div yield (%)	4.5	3.7	4.6	5.1	5.6
Net debt	174	56	56	68	97

Source: Pareto



Target price (EUR)	80
Share price (EUR)	61

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	BOSSN.DE, BOSS GY
Sector	Personal Goods
Shares fully diluted (m)	69.0
Market cap (EURm)	4,179
Net debt (EURm)	56
Minority interests (EURm)	0
Enterprise value 18e (EURm)	4,234
Free float (%)	88

Performance



Source: Factset

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Manufacturer of premium cars and motorcycles

Confirmation that Boss has met 2018 guidance despite many obstacles will give plausibility to 2022 targets

Exposure to European high street can cause problems

Target price of EUR80 derived from equal blend of DCF and EV/EBIT multiple

Company profile

HUGO BOSS AG engages in the design, manufacture, and sale of premium clothing and accessories. Its products include casual and business wear, sportswear, shoes, leather accessories, fragrances, watches, and eyewear. It markets and distributes under the BOSS and HUGO brands.

Upcoming Triggers and Drivers

The investment case assumes steady flow of upbeat comments in order to hit ambitious 2020 targets. This began with the return to growth in the group's own stores in China; the process of distribution migration away from the US discount channel; and major price realignment across markets. We still envisage challenges ahead (price entry point of suits in the German market / expansion of athleisure range), but the basis work has been pushed through. There is execution risk with the broadening of the BOSS range into casualwear and the development of the HUGO range into a much more competitive price range, but these separate brands will provide two complimentary growth channels.

Reporting of Q4-18 results is expected to show improved sales momentum, (PAR +3.7%e) helped a little by timing phases in WHS, plus continued LFL growth within Retail. Gross margin has probably improved, which together with an improved Opex ratio should allow for 8% rise in EBITDA. Confirmation that Hugo Boss has met guidance (in the face of additional challenges that 2018 brought), together with upbeat guidance calling for accelerating growth for FY 2019e, should in our view provide a trigger for a further rerating of the stock.

Next scheduled reporting: FY 2018 results will be published 7 March 2019, together with guidance for FY 2019e (shifting the profit focus to EBIT). First guidance for 2019 is likely to call for MSD sales growth, with EBIT margin improving by c50bp leading to HSD / LDD rise in EBIT.

Risk to the investment case

In the short term, the main downside risk is in our view would be an escalation falling footfall on European high streets, where 62% of sales are generated.

In the longer term, Hugo Boss needs to avoid a collapse in sales of formal wear before it has established a strong position in casualwear and athleisure.

Valuation and recommendation

The targeted 15% EBIT margin (PAR 14.5%e from a 2018 base of 12.2%) assumes c150bp improvement in gross margin (stemming from channel mix / complexity reduction / full price sales) and 150bp efficiency leverage (given improved retail productivity and further optimisation of structures) including EUR 160m savings identified.

Given these above average growth characteristics, Hugo Boss warrants at least a sector rating, but it is currently trading at a 20% discount to sector mean PE and EV/EBIT multiples for next year: applying the sector median 2019 EV/EBIT multiple would indicate EUR 76.5 as fair value.

Attempting to reflect superior growth indicated by the 2022 guidance, we also refer to the DCF based target of EUR 83.5, for which we assume a terminal EBIT margin of 14% and apply 7.7% WACC (with 1.0 beta and 2% perpetual sales growth). We assume a capex-to-sales ratio remaining above 6%.

Our TP of EUR 80 is an equal blend of both valuations and implies a target PE of 18.5x for FY 2020e and EV/EBIT multiple of 13.5, both representing 5%-10% premium to the peer group median values. With an upside potential of 31% to our target price we rate Hugo Boss with a Buy rating and consider it the preferred play on the premium fashion segment.

Peer Group Valuation

Source: Factset, Pareto

DCF Valuation

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	2,432	2,572	2,809	2,693	2,733	2,770	2,902	3,056
EBITDA	561	572	590	433	499	481	525	563
Depreciation & amortisation	(105)	(123)	(142)	(169)	(159)	(144)	(152)	(156)
EBIT	456	449	448	264	341	337	373	407
Net interest	(14)	(5)	(6)	(2)	(3)	(3)	(3)	(3)
Other financial items	(8)	(7)	(22)	(6)	(7)	(6)	(5)	(5)
Profit before taxes	433	437	420	256	331	329	366	400
Taxes	(100)	(103)	(101)	(62)	(100)	(85)	(93)	(102)
Minority interest	(4)	(1)	(0)	(0)	(0)	(0)	(0)	(1)
Net profit	329	333	319	194	231	243	272	298
EPS reported	4.77	4.83	4.63	2.80	3.35	3.52	3.94	4.31
EPS adjusted	4.81	4.98	4.61	3.44	3.47	3.57	3.93	4.30
DPS	3.34	3.62	3.62	2.60	2.65	2.78	3.06	3.37
BALANCE SHEET (EURm)								
Tangible non current assets	369	383	440	416	366	358	351	350
Other non-current assets	243	277	325	335	297	329	375	433
Other current assets	771	873	954	963	942	995	1,054	1,124
Cash & equivalents	119	129	81	83	116	111	95	63
Total assets	1,501	1,662	1,800	1,799	1,720	1,792	1,876	1,970
Total equity	740	844	956	888	915	992	1,078	1,170
Interest-bearing non-current debt	165	154	135	134	63	63	63	63
Interest-bearing current debt	15	18	41	77	69	69	69	69
Other Debt	552	600	629	653	634	634	635	640
Total liabilities & equity	1,501	1,662	1,800	1,799	1,720	1,792	1,876	1,970
CASH FLOW (EURm)								
Cash earnings	461	446	407	365	391	368	387	405
Change in working capital	(45)	(50)	17	7	29	(24)	(30)	(35)
Cash flow from investments	(186)	(127)	(216)	(152)	(125)	(166)	(180)	(191)
Cash flow from financing	(365)	(259)	(255)	(218)	(254)	(183)	(192)	(211)
Net cash flow	(135)	9	(47)	2	41	(5)	(16)	(32)
CAPITALIZATION & VALUATION (EURm)								
Share price (EUR end)	103.5	101.7	76.6	58.1	70.9	60.6	60.6	60.6
Number of shares end period	69	69	69	69	69	69	69	69
Net interest bearing debt	90	89	134	174	56	56	68	97
Enterprise value	7,258	7,106	5,419	4,186	4,951	4,234	4,246	4,275
EV/Sales	3.0	2.8	1.9	1.6	1.8	1.5	1.5	1.4
EV/EBITDA	12.9	12.4	9.2	9.7	9.9	8.8	8.1	7.6
EV/EBIT	15.9	15.8	12.1	15.9	14.5	12.6	11.4	10.5
P/E reported	21.7	21.1	16.5	20.7	21.2	17.2	15.4	14.0
P/E adjusted	21.5	20.4	16.6	16.9	20.5	17.0	15.4	14.1
P/B	10.0	8.3	5.5	4.5	5.3	4.2	3.9	3.6
FINANCIAL ANALYSIS & CREDIT METRICS								
ROE adjusted (%)	48.2	43.4	35.4	25.7	26.5	25.8	26.2	26.4
Dividend yield (%)	3.2	3.6	4.7	4.5	3.7	4.6	5.1	5.6
EBITDA margin (%)	23.1	22.2	21.0	16.1	18.3	17.4	18.1	18.4
EBIT margin (%)	18.8	17.4	15.9	9.8	12.5	12.2	12.9	13.3
NIBD/EBITDA	0.16	0.16	0.23	0.40	0.11	0.12	0.13	0.17
EBITDA/Net interest	39.22	-	-	-	-	-	-	-

PUMA is our preferred play in the sporting goods segment

Mid-term guidance is not only impressive in terms of anticipated growth through 2022, but the parameters outlined in setting the 10% CAGR in sales and the 10% EBIT margin ambition provide investors with good confidence that those goals can be achieved. Puma has continued to perform strongly through 2018 and at rates generally above peer companies. We envisage rising forecasts which will underpin a further re-rating: Buy, Target Price EUR 565.

Investment Case

Kering SA, the previous major shareholder of Puma (with 86%) reduced its stake (to now 16%) by way of a dividend in kind to its own shareholders (including Artemis with now 28%), thus increasing the free float of Puma to currently 56%. Kering's selling-down of its investment in Puma opened-up an opportunity for new investors to participate in a liquid play on the growing sporting goods segment.

Admittedly from a low base, Puma was the fastest growing sporting goods group last year and will likely be one of the fastest in the current year and next. Guidance for 2018 was increased on three occasions but Puma is still likely to report FY-18 figures above management expectations with our model reflecting 16% currency-adjusted sales growth and EBIT up 40% for a 7.5% margin (+140bp).

The maths behind the mid-term 10% p.a. sales guidance assumes faster growth in Asia (PAR +14%), followed by the Americas (+10%), then Europe (+8%). With an improved gross margin (PAR +280bp) and a lower Opex ratio (-160bp) underpinning 23% CAGR growth in EBIT through to 2022 (from 2017 base).

EURm	2016	2017	2018e	2019e	2020e
Revenues	3.627	4.136	4.572	5.072	5.587
EBITDA	188	315	423	525	638
EBIT	128	245	343	435	538
EPS	4,18	9,08	12,46	16,84	21,58
EPS adj	3,91	8,83	12,17	16,53	21,27
DPS	0,75	12,50	3,75	5,00	6,00
EV/EBITDA	18,5	16,2	15,8	12,5	10,1
EV/EBIT	27,2	20,9	19,5	15,1	12,0
P/E adj	63,8	41,1	38,0	28,0	21,7
P/B	2,19	3,34	4,20	3,70	3,24
ROE (%)	3,8	8,1	11,4	14,3	16,1
Div yield (%)	0,3	3,4	0,8	1,1	1,3
Net debt	(270)	(356)	(268)	(360)	(477)

Source: Pareto



Target price (EUR)	565
Share price (EUR)	463

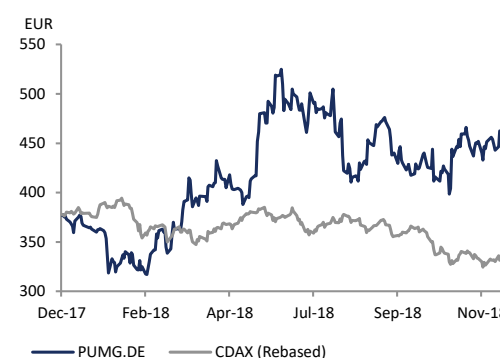
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	PUMG.DE, PUM GR
Sector	Personal Goods
Shares fully diluted (m)	14,9
Market cap (EURm)	6.911
Net debt (EURm)	-268
Minority interests (EURm)	31
Enterprise value 18e (EURm)	6.675
Free float (%)	56

Performance



Source: Factset

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Leading sporting goods and sport-inspired lifestyle company

Confirmation that Puma is the fastest-growing sports brand could underpin rising forecasts

Be wary of an escalation in tariffs / embargos

Target price of EUR 565 derived from equal blend of DCF and EV/EBIT multiple

Company profile

Puma is a leading sporting goods business, with a long heritage in designing, producing and marketing performance sports footwear. Endorsements by elite athletes help stimulate brand heat further triggering demand for technology-leading products across the performance spectrum. Its brand strength remains with footwear (47% of 2018e sales) although we expect apparel sales to also be a key driver in the coming years. Product endorsements by non-sport celebrities' helps further fuel demand for sport-inspired lifestyle merchandise.

Upcoming Triggers and Drivers

Reporting of Q4-18 results is expected to show a slowing sales momentum, (PAR +11%e) given the high Q4-17 base with the build into the 2018 World Cup, but gross margin has probably improved further allowing for >40% jump in EBIT. Confirmation that Puma has again been the fastest-growing sports brand in 2018, together with upbeat guidance calling for something similar for FY 2019e, should in our view provide a trigger for a further rerating of the stock.

Next scheduled reporting: FY 2018 results will be published mid-February 2019 (date not yet disclosed), together with guidance for FY 2019e covering sales, costs & margins and EBIT development. First guidance for 2019 is likely to call for 10% sales growth, with EBIT rising >20% for a margin above 8%.

Risk to the investment case

In the short term, the main downside risk in our view would be an escalation of the trade tensions. Puma sources 30% of its products in China and generates 18% of sales in the US – an escalation in trade war between these two countries that extended to sporting goods would clearly impact profit (and be reflected in cautious guidance). That is not our base case scenario.

In the longer term, a large part of the growth case is based on above average development of the brand in the Asia-Pacific region: accounting for 26% of group sales today, the region should grow towards 30% (PAR) by 2022. The emergence of a strong local brand, or simply disappointment with Puma itself, could undermine these mid-term growth targets.

Valuation and recommendation

Puma's valuation looks expensive on 2019 multiples, although the maths behind the mid-term guidance points to 23% CAGR growth in EBIT through to 2022, far superior to the sector. We thus base our valuation on a blend of peer multiples applying 2020 consensus, plus discounted cash flow model to better reflect future growth and calculate a TP of EUR 565.

In terms of peer group multiples, PE valuations are currently distorted in our view given that Puma is recovering strongly, but is still at a depressed base. Given its growth prospects, a premium rating might be warranted, but it trades at a 10% discount to sector mean 2020 EV/EBIT multiple and at a 25% discount in terms of 2020 EV/Sales multiple: applying the EBIT multiple yields EUR 514.

Attempting to reflect superior growth from Puma (having made a great start towards the 2022 goals) we also refer to the DCF based target of EUR 617, for which we assume a terminal EBIT margin of 10.5% and apply 7.6% WACC (with 1.0 beta and 2% perpetual sales growth) with 3.1% capex-to-sales ratio.

Our EUR 565 TP gives equal weighting to both metrics, implying a target PE of 26x for FY 2020e and EV/EBIT multiple of 15, respectively 35% and 10% premium to the peer group median values. With an upside potential of 22% to our target price we rate Puma with a Buy rating and consider it the preferred play on the sporting goods segment.

A reasonably homogenous sporting goods peer group: the high multiples for Under Armour reflect depressed earnings, whereas global leader Nike is seen as the benchmark.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
ADIDAS	20.5	18.0	12.2	10.8	14.4	12.7	1.66	1.52
AMER SPORTS	22.5	20.7	13.8	12.9	17.2	16.0	1.64	1.57
ASICS CORP	25.0	20.9	9.5	8.2	15.4	12.7	0.73	0.68
CALLAWAY	15.3	14.0	7.9	7.4	9.3	8.6	1.04	1.00
COLUMBIA	22.7	20.5	12.8	11.1	15.1	12.9	1.85	1.65
LULULEMON	31.4	26.4	17.7	15.2	20.8	17.6	4.51	3.93
NIKE	24.2	20.8	18.0	16.1	21.0	18.5	2.91	2.71
SKECHERS	13.3	11.8	5.9	5.3	7.1	6.2	0.65	0.57
UNDER ARMOUR	65.0	46.0	24.3	19.6	42.9	32.2	1.92	1.80
VF CORP	19.3	17.0	13.9	12.8	16.3	14.8	2.31	2.20
MEDIAN	22.6	20.6	13.3	11.9	15.9	13.8	1.75	1.61
AVERAGE	25.9	21.6	13.6	11.9	18.0	15.2	1.92	1.76
PUMA	27.5	21.4	12.9	10.5	15.6	12.4	1.34	1.19

Source: Factset, Pareto

For the DCF value of EUR 617, we assume a sustainable EBIT margin of 10.5%, which seem conservative in the face of recent progress. We apply 7.6% WACC (with 1.1 beta and 2% perpetual sales growth). We assume a capex-to-sales ratio remaining above 3% across the medium term.

DCF Valuation

EUR m	2018	2019	Phase I 2020	2021	2022	2023	2024	Phase II 2025	2026	2027	Phase III 2028
Sales	4,572	5,072	5,587	6,087	6,663	7,268	7,902	8,564	9,253	9,967	10,166
Sales growth	10.5%	10.9%	10.2%	8.9%	9.5%	9.1%	8.7%	8.4%	8.0%	7.7%	2.8%
EBIT	343	435	538	608	685	758	836	919	1,007	1,100	1,067
EBIT margin	7.5%	8.6%	9.6%	10.0%	10.3%	10.4%	10.6%	10.7%	10.9%	11.0%	10.5%
Tax	(96)	(122)	(151)	(170)	(192)	(212)	(234)	(257)	(282)	(308)	(299)
Normative tax rate EBIT	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
NOPAT	247	313	387	437	493	546	602	662	725	792	769
Depreciation	80	90	100	110	122	134	145	157	170	183	187
in % of Sales	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Capex	(135)	(155)	(175)	(190)	(205)	(224)	(243)	(264)	(285)	(307)	(307)
in % of Sales	3.0%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.0%
Provision delta	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	0
in % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Change in working capital	(56)	(63)	(72)	(78)	(88)	(91)	(95)	(99)	(103)	(107)	(112)
in % of Sales	-1.2%	-1.2%	-1.3%	-1.3%	-1.3%	-1.2%	-1.2%	-1.2%	-1.1%	-1.1%	-1.1%
Free Cash Flow	135	184	239	279	321	364	407	455	505	559	737
FCF growth	nm	36.7%	29.6%	16.6%	15.3%	13.1%	12.1%	11.6%	11.1%	10.7%	31.8%
Present Value FCF	134	171	205	223	238	251	261	271	280	288	6,777
PV Phase I		971	11%		MCap		6,784.1		Target equity ratio		80%
PV Phase II		1,350	15%		Risk premium		5.00%		Beta		1.06
PV Phase III		6,777	74%		Risk free rate		3.50%		WACC		7.6%
Total present value		9,099									
+ capital increase/share buy back		0									
- market value of minorities		234									
+ cash and liquid assets		415									
- interest bearing debt*		59									
Implied Mcap		9,221									
Number of shares		14.9									
Implied value per share		617.1									

Sensitivity Analysis	1.0%	1.5%	2.0%	2.5%	3.0%
Growth rate Phase III					
7.2%	588.0	624.9	668.8	722.1	788.0
7.4%	567.6	601.6	642.0	690.7	750.3
7.6%	548.3	579.9	617.1	661.6	715.8
7.8%	530.2	559.5	593.9	634.7	684.1
8.0%	513.2	540.4	572.1	609.7	654.8

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	2.985	2.972	3.387	3.627	4.136	4.572	5.072	5.587
EBITDA	195	186	154	188	315	423	525	638
Depreciation & amortisation	(54)	(51)	(58)	(60)	(70)	(80)	(90)	(100)
EBIT	62	128	96	128	245	343	435	538
Net interest	(10)	(8)	(12)	(3)	(8)	(32)	(28)	(25)
Other financial items	-	-	-	(7)	(8)	-	-	-
Profit before taxes	54	122	85	119	231	313	409	515
Taxes	(33)	(37)	(23)	(31)	(63)	(86)	(114)	(145)
Minority interest	(16)	(21)	(25)	(26)	(32)	(40)	(43)	(48)
Net profit	5	64	37	62	136	186	252	322
EPS reported	0,36	4,29	2,48	4,18	9,08	12,46	16,84	21,58
EPS adjusted	11,38	4,74	2,39	3,91	8,83	12,17	16,53	21,27
DPS	0,50	0,50	0,50	0,75	12,50	3,75	5,00	6,00
BALANCE SHEET (EURm)								
Tangible non current assets	213	224	233	252	260	310	369	439
Other non-current assets	582	643	703	748	709	714	719	729
Other current assets	1.124	1.281	1.346	1.439	1.470	1.701	1.961	2.260
Cash & equivalents	390	402	339	327	415	328	422	540
Total assets	2.308	2.550	2.620	2.765	2.854	3.052	3.471	3.968
Total equity	1.497	1.618	1.619	1.722	1.657	1.678	1.898	2.167
Interest-bearing non-current debt	-	-	-	-	-	-	-	-
Interest-bearing current debt	25	20	14	25	29	29	29	29
Other Debt	758	886	963	986	1.139	1.314	1.511	1.738
Total liabilities & equity	2.308	2.550	2.620	2.765	2.854	3.052	3.471	3.968
CASH FLOW (EURm)								
Cash earnings	154	110	88	131	278	330	411	493
Change in working capital	-	-	-	-	-	-	-	-
Cash flow from investments	(80)	(87)	(62)	(83)	(123)	(140)	(160)	(185)
Cash flow from financing	(46)	(28)	36	(62)	(28)	(227)	(99)	(122)
Net cash flow	28	(5)	62	(13)	126	(37)	152	186
CAPITALIZATION & VALUATION (EURm)								
Share price (EUR end)	235,0	172,6	198,7	249,7	363,0	462,5	462,5	462,5
Number of shares end period	15	15	15	15	15	15	15	15
Net interest bearing debt	(337)	(356)	(301)	(270)	(356)	(268)	(360)	(477)
Enterprise value	3.190	2.245	2.675	3.476	5.099	6.675	6.582	6.465
EV/Sales	1,1	0,8	0,8	1,0	1,2	1,5	1,3	1,2
EV/EBITDA	16,3	12,1	17,4	18,5	16,2	15,8	12,5	10,1
EV/EBIT	51,1	17,5	27,8	27,2	20,9	19,5	15,1	12,0
P/E reported	-	40,2	80,0	59,8	40,0	37,1	27,5	21,4
P/E adjusted	20,7	36,4	83,0	63,8	41,1	38,0	28,0	21,7
P/B	2,4	1,6	1,8	2,2	3,3	4,2	3,7	3,2
FINANCIAL ANALYSIS & CREDIT METRICS								
ROE adjusted (%)	11,0	4,6	2,2	3,5	7,8	10,9	13,8	15,6
Dividend yield (%)	0,2	0,3	0,3	0,3	3,4	0,8	1,1	1,3
EBITDA margin (%)	6,5	6,3	4,5	5,2	7,6	9,3	10,4	11,4
EBIT margin (%)	2,1	4,3	2,8	3,5	5,9	7,5	8,6	9,6
NIBD/EBITDA	(1,72)	(1,91)	(1,96)	(1,44)	(1,13)	(0,63)	(0,69)	(0,75)
EBITDA/Net interest	32,27	24,77	12,55	64,66	41,99	13,39	19,03	25,94

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Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

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Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Vest	4,506,060	7.63%

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Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
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NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,179,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,549,440	2.46%	Sparebanken Vest	4,506,060	7.63%
SpareBank 1Nord-Norge	1,129,459	1.12%			

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Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Golden Ocean Group	0	1,824	Prosafe	0	5,984
Aker	0	514	Grieg Seafood	0	770	Protector Forsikring	0	14,285
Aker BP	0	860	Helgeland Sparebank	0	1,700	REC Silicon	0	159,908
Aker Solutions	0	2,085	Höegh LNG	0	8,703	SailMar	0	130
AKVA Group	0	1,500	Ice Group AS	0	55,500	Sandnes Sparebank	0	18,032
Archer	0	73,520	Jæren Sparebank	0	500	Scatec Solar	0	35,635
Atea	0	450	Komplett Bank	0	99,357	Seadrill	0	6,615
Austevoll Seafood	0	5,780	Kongsberg Gruppen	0	4,010	Selvaag Bolig	0	10,000
Avance Gas	0	34,201	Lerøy Seafood	0	33,795	SpareBank 1BV	0	10,000
Axactor	0	21,647	Marine Harvest	0	1,864	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	44,509	Monobank	0	1,355,000	SpareBank 1SMN	0	16,590
Borr Drilling	0	4,415	NEXT Biometrics	0	1,730	SpareBank 1SR-Bank	0	39,187
BWLPG	0	5,569	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	2,891
DNB	0	35,822	Norsk Hydro	0	112,501	Sparebanken Møre	0	6,550
DNO	0	24,392	Northern Drilling	0	2,099	Sparebanken Sør	0	43,280
DOF	0	138,498	Norwegian Air Shuttle	0	3,172	Sparebanken Øst	0	3,000
Entra	0	14,362	Norwegian Property	0	150,000	Storebrand	0	5,005
Equinor	0	10,266	Ocean Yield	0	31,967	Subsea 7	0	7,351
Europpris	0	14,510	Odjell Drilling	0	8,731	Telenor	0	2,272
Faroe Petroleum	9,600	9,600	Orkla	0	23,746	TGS-NOPEC	0	2,000
Flex LNG	0	13,352	Panoro Energy	0	5,670	XXL	0	7,270
Frontline	0	13,943	Pareto Bank	0	963,509	Yara International	0	19,079
Gjensidige Forsikring	0	8,547	Petroleum Geo-Services	0	57,884	Zenterio	0	78,865

This overview is updated monthly (last updated 21.11.2018).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

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Akva Group	Fortum	Pandion Energy
Arnarlix	Genel Energy	Pareto Bank
Atlantic Sapphire AS	Gfinity Plc	Petro Matad Limited
Avida Holding AB	Gulf Keystone Petroleum	Petrolat LLC
Bank Norwegian	Hertha BSC GmbH	Pioneer Public Properties Finland Oy
Borealis Finance	Hunter Group	Point Resources AS
Borr Drilling Limited	Idavang A/S	Quant AB
Brado AB	Instabank	Sakthi Global Auto Holdings
Camanchaca	Komplett Bank	Sand Hill Petroleum
DNO ASA	McDermott International	SAS
DOF ASA	MMA Offshore	Scatec Solar
Echo Energy	Monobank ASA	Scorpio Tankers
Eco Atlantic Oil and Gas	Nemaska Lithium	Shamran
Eidesvik Offshore	Northern Drilling	Siccar Point Energy
Eland Oil & Gas	Northmill Group AB	SL Bidco
Embarcadero Maritime II LLC	Norwegian Air Shuttle	SpareBank 1 Buskerud-Vestfold
Faroe Petroleum	Ocean Yield	Sparebanken Vest
FFS Bidco	Odfjell	Union Maritime Limited
Filo Mining Corp	Odfjell Drilling	Zwipe AS
Flex LNG		

This overview is updated monthly (this overview is for the period 31.10.2017 – 31.10.2018).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	76%
Hold	20%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	100%
Hold	0%
Sell	0%

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This overview is updated monthly (last updated 21.11.2018).

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BlackPearl Resources Inc	Cibus Nordic Real Estate	Saltängen Property Invest	Tethys Oil
Byggmästare Anders J Ahlström	Delarka Holding	SciBase Holding	Vostok Emerging Finance
Byggpartner i Dalarna	International Petroleum Corporation	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 14.09.2018).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Freenet	MLP *	Siemens Healthineers AG
Aixtron *	Gesco *	MOBOTIX AG	SMT Scharf AG *
Baywa	GFT Technologies *	MTU Aero Engines	Surteco Group *
Biotest *	Gigaset *	OVH Holding AG	Szyggy AG *
Brenntag	Heidelberg Pharma *	Procredit Holding *	TAKKT AG
CORESTATE Capital Holding S.A.	Hypoport AG	PSI SOFTWARE AG *	Vapiano
Daldrup & Soehne *	Intershop Communications AG	PWO *	va-Q-tec *
Demire	Logwin *	RIB Software *	Viscom *
Epigenomics AG *	Manz AG *	S&T AG *	windeln.de
Euromicron AG *	MAX Automation SE *	Schaltbau Holding AG	
Eyemaxx Real Estate	Merkur Bank	SCOUT24	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Hypoport AG	OHB SE	Vapiano
Baywa	Intershop Communications AG	OVH Holding AG	
BB Biotech	Merkur Bank	Schaltbau Holding AG	
Eyemaxx Real Estate	MOBOTIX AG	Siegfried Holding AG	

This overview is updated monthly (last updated 05.12.2018).