

## Consumer, Brands &amp; Retail

27th June 2019

## TOD'S GROUP

- | Consumer, Brands & Retail
- | Luxury Goods

## SELL

Fair Value	EUR35 vs. EUR38 (-19%)
Share price	EUR43.22
EPS 3Y Cagr	-9.4%

## Another poor quarter likely

## No recovery in Q2

After a sluggish Q1 with sales down 3.3% at same FX, Q2 is unlikely to be much better as we expect Tod's Group sales to fall 4.5% on a far more demanding comparison basis (Q2 2018 was up 6.2% after a 1.8% decline in Q1 2018). **Retail sales** (67% of the group's sales) are expected to see another quarter of same-store sales decline with even a deterioration as we expect retail sales to drop 5% same-store in Q2, implying a 4% decrease in H1 and implying a clear disappointment for management, which was expecting a better trend in Q2. While April was poor, May was even worse with June nevertheless slightly better. The Alber Elbaz capsule collection is only set to arrive in stores (only 20 stores) in July. We expect a positive space contribution thanks to the openings of four stores (net of two closures), but these stores are not flagships. However, space contribution should be close to 5% (we still anticipate a 3% positive space contribution over the FY). **Wholesale sales** are set to slow sharply (in line with the 22% decline in Q1) due to the very challenging environment for this channel, both in Italy and in other European countries, and the deconsolidation of Italian Touch (Tod's Group digital business), which explained 25% of the wholesale sales decline and this trend should continue in H2 as orders for the Fall/Winter collection are down.

## Some deterioration expected in North America

The trend will remain more than challenging in **Italy** (30% of sales) and in Europe despite a mixed performance in the region. We even expect the **US** (8% of sales) to deteriorate after the 6% decline reported in Q1 as the environment is increasingly challenging with local clientele (wait and see attitude). Tod's Group is not the only group to highlight that the situation in the US is less positive than last year. **Greater China** (22% of sales) is expected to remain almost unchanged with more pressure in HK even if the trend in Mainland China still looks positive.

## A new clear margin erosion in H1

In H1, we expect another significant deterioration in profitability as we anticipate a 9.4% EBITDA margin (-500bp) given the deterioration in sales momentum and higher investments (communication, retail, design, PR or events...) like that for the Alber Elbaz collection launch. Management is convinced that this is the only way to return to positive territory. Even though we agree with this, the timing of the recovery is uncertain! Following more negative than expected H1 profitability, we lower our FY estimates by 9% and expect a 5.7% EBIT margin over the full year vs 6.6% previously.

## Sell recommendation maintained, FV at EUR35 vs EUR38

We remain at Sell on the stock given still poor prospects and very limited visibility on the short and medium terms. Following our new FY estimates, our new Fair Value stands at EUR35 vs EUR38.

## Market Data

Bloomberg / Reuters	TOD IM/TOD.MI
Market Cap.	EUR1,430m
E.V.	EUR1,507m
Free Float	38,5%
Avg. Daily volume (6m)	80.10
12m high / low	EUR63.5 / EUR37.3
Ytd Perf.	4.7%

EURM	12/18	12/19e	12/20e	12/21e
Sales	940.4	935.0	955.0	995.0
% Change		-0.6%	2.1%	4.2%
EBITDA	118.2	101.0	108.0	117.0
% Change		-14.6%	6.9%	8.3%
EBIT	71.6	53.0	60.0	66.0
% Change		-26.0%	13.2%	10.0%
Net Income	47.0	29.7	31.0	35.0
% Change		-36.8%	4.4%	12.9%
ROE	0.05	0.03	0.03	0.04

	12/18	12/19e	12/20e	12/21e
EV/Sales	1.6x	1.6x	1.6x	1.5x
EV/EBITDA	12.7x	14.8x	13.9x	12.5x
EV/EBIT	21.0x	28.3x	25.0x	22.2x
EPS	1.42	0.90	0.94	1.06
% change		-36.8%	4.4%	12.9%
P/E	30.3x	48.0x	46.0x	40.8x
Div Yield	2.3%	2.4%	2.7%	2.9%

**Next Catalyst : H1 results to be released on 7th August**

**Last rating Change:**

2019-5-10, Worse than expected!

**Last FV Change:**

2019-5-10, Worse than expected!

**Last Reports:**

2019-5-10, Worse than expected!

**Loïc Morvan**

33(0) 1 70 36 57 24

lmorvan@bryangarnier.com

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# BRYAN, GARNIER & CO

## London

Bryan, Garnier & Co Ltd  
Beaufort House  
15 St. Botolph Street  
London EC3A 7BB  
United Kingdom  
+44 207 332 2500

## Paris

Bryan, Garnier & Co Ltd  
26 Avenue des Champs-  
Elysées  
75008 Paris  
France  
+33 1 56 68 75 20

## Munich

Bryan, Garnier & Co. GmbH  
Widenmayerstrasse 29  
80538 Munich  
Germany  
+49 89 2422 62 11

## Zurich

Bryan, Garnier & Co  
Theaterstrasse 4  
8001 Zurich  
Switzerland  
+41 44 991 3300

## New York

Bryan Garnier Securities  
750 Lexington Avenue  
16th floor  
New York, NY 10022  
United States  
+1 212 337 7000

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