# FY 2014 FINANCIAL RESULTS

**OVS**

**April, 2015**

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# Group Shareholding Structure Post IPO



GruppoCoin
52.1%

Free Float
47.9%

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**Key Brands**

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upim

# 2014 Highlights


**Strong LfL growth in a declining market driven by improved merchandising and operations**

**Acceleration in new openings after a year of limited investments in network development to cope with market downturn. During the year 36 DOS FF new openings, 43 DOS FF converted and 133 new franchising (mainly small formats). Significant expansion and success of “Kids only" formats .**

**Market share increase from 5.8% to 6.4%**

**Roll out of a number of key innovations in operations is partially completed**

**Cost control initiatives as a base for future improvement in profitability**

**Successfully launch New store concept**

**Strong cash generation**

**+8.0%**

**Y-o-Y Increase in Net Sales**

**+4.6%**

**Increase in LfL Sales**

**+19.5%**

**Y-o-Y EBITDA Growth**

*Source: Sita Ricerca for market share*

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# Key Income Statement Items
## Strong improvement in Operating Performance

| Key Metrics | 31 January '15 € mln | 31 January '15 % of Net Sales | 31 January '14 € mln | 31 January '14 % of Net Sales | *Y-o-Y Growth* |
|---|---|---|---|---|---|
| **Net Sales** | 1,227.4 | | 1,136.2 | | *8.0%* |
| **EBITDA** | 157.1 | *12.8%* | 131.5 | *11.6%* | *19.5%* |
| **EBIT** | 98.2 | *8.0%* | 74.7 | *6.6%* | *31.5%* |
| **EBT** | 37.2 | *3.0%* | 19.7 | *1.7%* | *88.5%* |
| **Adjusted Net Income** | 16.7 | *1.4%* | (5.0) | *(0.4)%* | *NM* |

- Net sales increased 8.0% driven by improvement in comparable sales and increase in selling area
- EBITDA increased 19.5% driven by successful implementation of cost control initiatives
- EBITDA margin increased 122bps to 12.8%
- Adjusted Net Income margin increased 180bps to 1.4%

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# Consolidated Net Sales



## Key Drivers

**1 LFL Sales Growth**

LfL sales increased by 4.6%

1 LfL sales for OVS increased 5.4% driven by

- Improved merchandising particularly in Womenswear: + 2ppt LfL growth compared to other categories, with c.40% increase in the weight of fast fashion and trend commercial fashion in the assortment
- Roll out of new initiatives in operations

2 LfL sales for UPIM declined -3.9%

- LfL sales pertain to only 23 stores (accounting for c.30% of total UPIM revenues)
- Mass market perfumery, which accounts for 12% of the turnover and has significant space dedicated to it, declined 20.3%
- Management successfully focused on increasing sell through by +4ppt also through a reduction in intake of goods

**2 Increase in Sales Area**

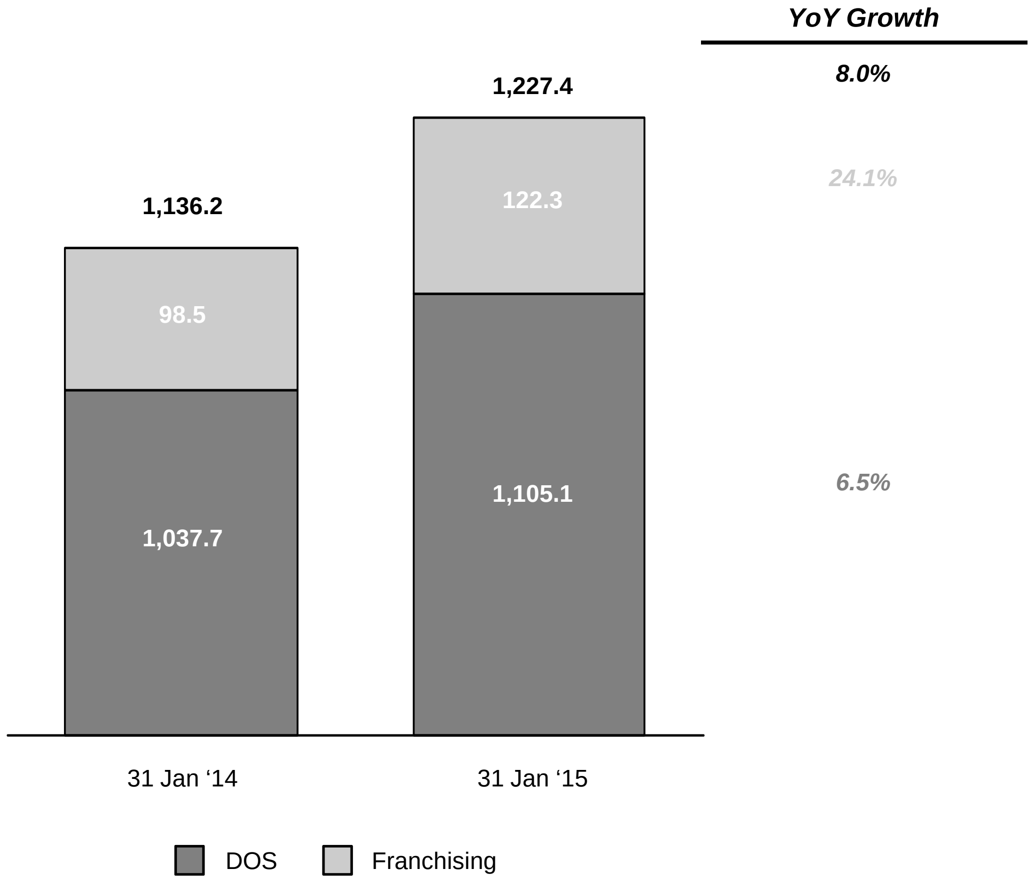
Development contributed 3.4% to total sales growth:

- DOS selling area increased by 3%
- Franchising network increased by 25% in terms of number of stores, mainly through kids formats, with run rate sales in line with expectations

**3 New Kids Stores**

- 70 net new Kids stores
- BluKids now opening in Italy and abroad also under supply agreements

## Sales Break up By Store Format



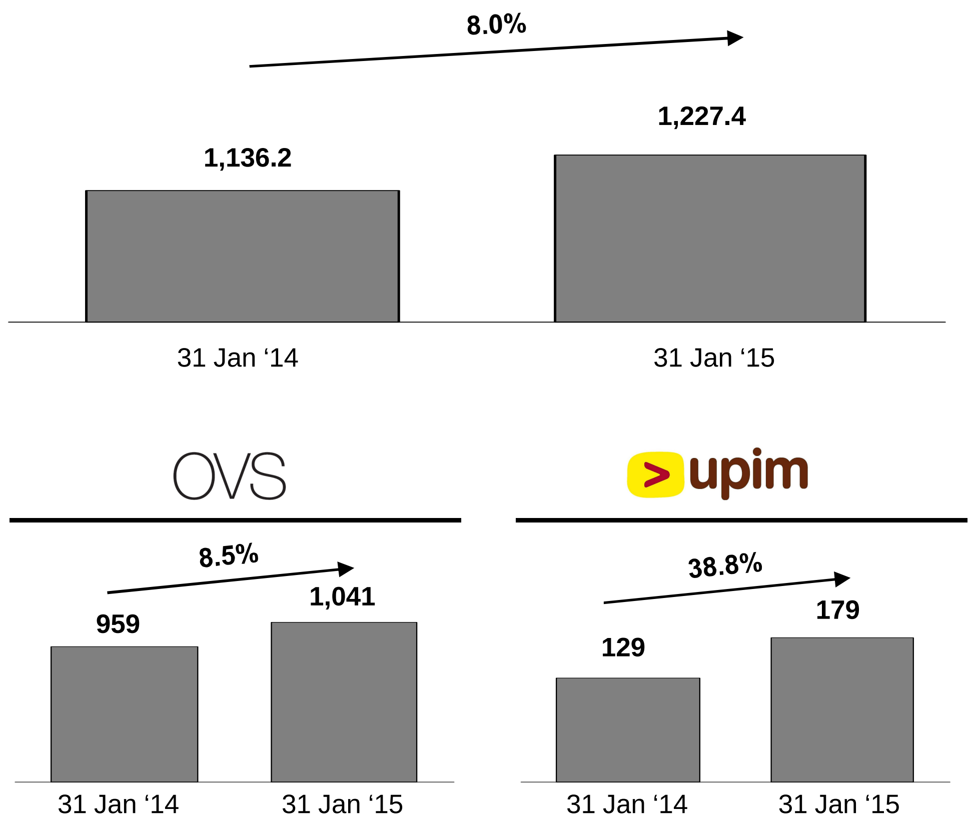
# Y-o-Y Sales and EBITDA Performance



Aggregate Performance

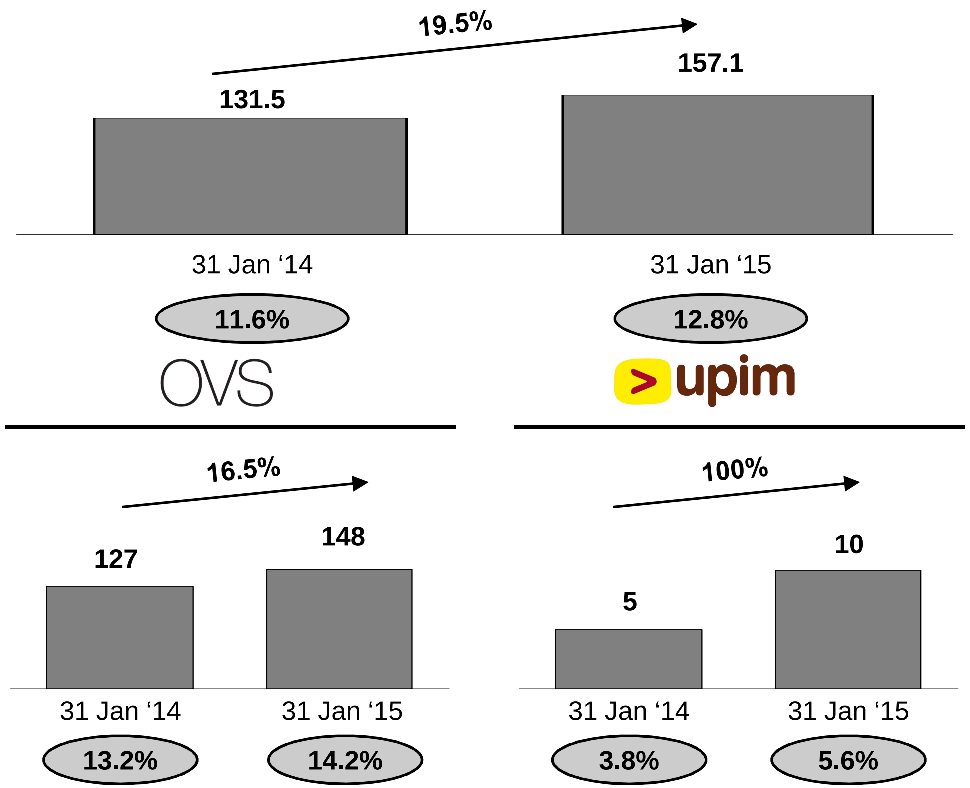
Performance By Brand

## Net Sales (€mln)




## EBITDA (€mln)

- High conversion of growing turnover into EBITDA
- Improved operating leverage
- Increase in EBITDA and margin for both brands




Margin %

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# Consolidated Net Working Capital



| € mln | 31 January '15 | 31 January '14 | Change |
|---|---|---|---|
| Accounts Receivable | 73.0 | 75.1 | (2.1) |
| Inventory | 287.6 | 259.3 | 28.3 |
| Accounts Payable | (374.4) | (289.9) | (84.5) |
| Net Working Capital | (13.8) | 44.6 | (58.4) |

- Decline in level of receivables, despite the rapid expansion of the franchise network, driven by careful receivables management
- Increase of inventory supporting network development planned for 2015. Improved ageing.
- Increase in level of payables driven by (i) an increase in goods purchased due to expansion of the network and unchanged commercial management of purchases (ii) capex payables related to new store openings and the LED project in line with payment terms of these investments, and (iii) non-recurrent payables relating to the listing process

# Capex

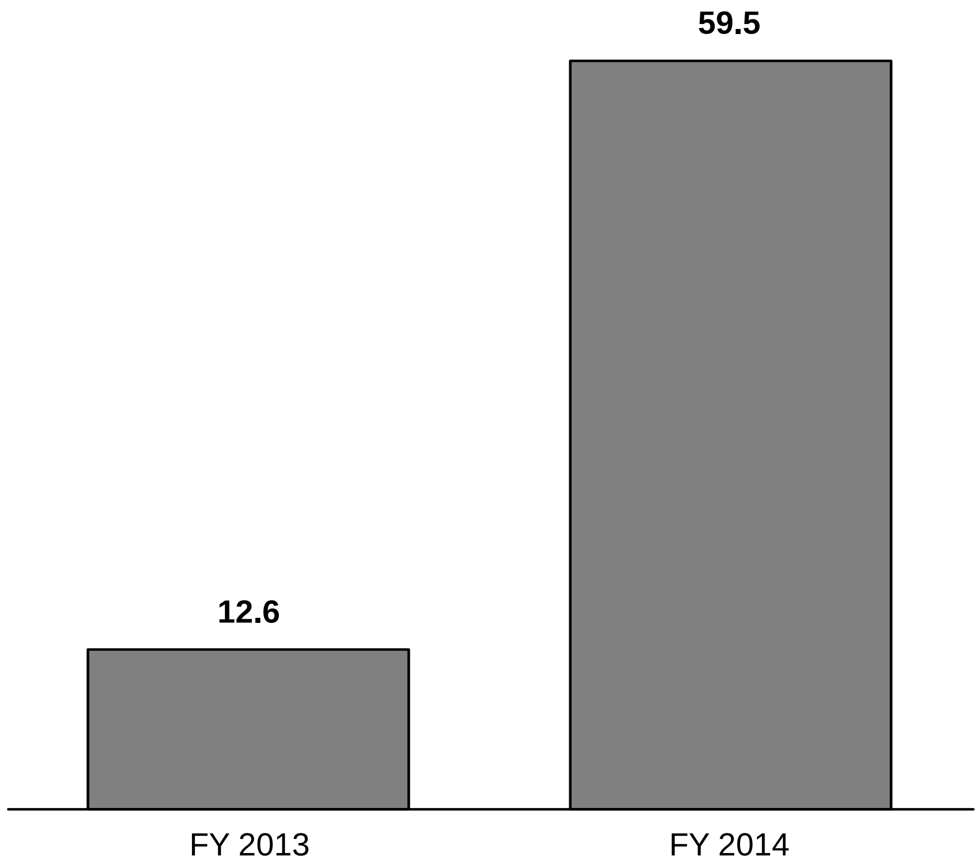


**Net Capex of €59.5 mln,
Mainly Related to Group Expansion**

| | |
|---|---|
| **New Store Openings** | • New store openings (approx  €17 mln) and conversions of stores of other brands/restructuring (approx €8 mln) |
| **Renewal of Lighting System** | • Renewal of the lighting system with LED in many stores (approx €18 mln) managed through vendor financing agreements |
| **IT System** | • Development of IT systems (approx. €5 mln) and restructuring of the logistics network related to the implementation of innovative operating processes, (€4 mln) |
| **Maintainence** | • Store maintenance (€7 million) |

Non recurring

**Consolidated Capex, net (€ mln)**



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# Consolidated Cash Flow Statement



| € mln | 31 January '15 | 31 January '14 | Delta |
|---|---|---|---|
| **EBITDA** | **157.1** | **131.5** | **25.6** |
| Change in Net Working Capital | 58.4 | (11.5) | 69.9 |
| Change in other assets (liabilities) | 5.6 | 5.0 | 0.6 |
| Capex | (59.5) | (12.6) | (47.0) |
| **Operating Cash Flow** | **161.6** | **112.4** | **49.2** |
| Financial Expenses | (53.2) | (54.0) | 0.9 |
| TFR (Employees' leaving indemnity) | (4.8) | (3.2) | (1.6) |
| Taxes | (14.6) | (18.3) | 3.8 |
| Others | (8.5) | (15.2) | 6.6 |
| **Net Cash Flow (MtM derivatives and amortized costs excluded)** | **80.6** | **21.7** | **58.8** |
| Change in MtM derivatives and amortized cost | 21.1 | 1.8 | 19.3 |
| **Net Cash Flow** | **101.7** | **23.5** | **78.1** |

- Cash conversion rate improvement with Operating Cash Flow / EBITDA increasing from 85% to 103%
- Net Cash Flow of € 80.6 mln notwithstanding investments for growth of €59.5 mln

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# Net Debt and Leverage



| € mln | 31 January '15 | 31 January '14 | Delta |
|---|---|---|---|
| **Net Debt** | 624.4 | 726.1 | (101.7) |
| **EBITDA** | 157.1 | 131.5 | 25.6 |
| **Leverage on EBITDA** | 4.0x | 5.5x | (1.55) |

- During 2014 leverage declined by 1.55 times driven by strong cash generation and EBITDA growth
- Pro forma for the impact of the IPO Net Debt at January 31st 2015 would have been € 328 mln, with a resulting leverage ratio of **2.1x.**

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# Operations



**Significant Initiatives To Support Lfl Growth:**

1. Advanced competitor benchmarking to generate focused gap analysis on assortment through monthly data collection both in-store and on-line (≈ 166.000 product options analysed, 15 players mapped)

2. Improved item planning

3. In-season management to better follow in-store sales, maximize sell-through and reduce inventory; in 2014 € 54 mln of goods transferred with an estimated positive impact on sales of € 17 mln

4. Push-pull pilot projects on ≈ 4 K items generating a 2ppt increase in sell-through (€ 5 mln increase in sales)

# Marketing & E-commerce




**1 Social Responsibility**
- Bangladesh ACCORD
- Alessia Marcuzzi and Save the Children
- Ice Bucket Challenge
- Action aid campaign: "L'Italia per il futuro"


**2 Marketing and special projects**
- Bianca Balti campaign
- Kids Creative LAB
- Kids Active camps
- Music events (Fedez, EmisKilla)


**3 Online**
- +81% traffic on the website
- +50% online sales
- +345% fan on Facebook
- +70% followers on Twitter
- 24% of online orders collected in store (i.e. click and collect)
- 44% ROPO
- +36% mobile commerce

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# Outlook



The **macroeconomic backdrop** is stabilizing and leading to an improved consumer sentiment; however the Italian apparel markets remains challenging. Amid these mixed signals, the growth trend in **organized distribution** continues, and particularly in the **"value" price segment** presided by our brands

In the first three months of FY2015, sales are expected to continue to growth in spite of strong performcace in the same period of last year and adverse weather conditions

The **network expansion** continues in the early months of the year:

- **9 new OVS stores** and **1 Upim** store **full-format** opened
- ~40 direct or franchised store openings for smaller formats under the OVS Kids and Blukids brands

Gross **margin** is expected in line with the previous year.

**SG&A cost base in line with expection** thanks to:

- payroll increases slower than in previous years
- scheduled savings related to the renegotiation of rental payments
- substantial energy savings due to the aforementioned LED project

Substantially **lower leverage** as a result of ther IPO proceeds (€356.7 million in financial resources), coupled with more **favourable interest rates secured under the new loan agreement** will result in a significant reduction in the Group's financial expenses

# Appendix

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# Consolidated Balance Sheet Statement



| € mln | 31 January '15 | 31 January '14 | Delta |
|---|---|---|---|
| Receivables | 73.0 | 75.1 | (2.1) |
| Inventory | 287.6 | 259.3 | 28.3 |
| Payables | (374.4) | (289.9) | (84.5) |
| **Net Operating Working Capital** | **(13.8)** | **44.6** | **(58.4)** |
| Other Short-term Non-financial Receivables (Payables) | (70.3) | (59.5) | (10.8) |
| **Net Working Capital** | **(84.1)** | **(14.9)** | **(69.2)** |
| Net Assets | 1,344.0 | 1,338.4 | 5.6 |
| Net Deferred Taxes | (168.5) | (156.4) | (12.1) |
| Other Short-term Non-financial Receivables (Payables) | (5.1) | 0.8 | (6.0) |
| Severance Indemnity Provision and Other Provisions | (53.8) | (53.6) | (0.2) |
| **Net Invested Capital** | **1,032.4** | **1,114.3** | **(81.9)** |
| Equity | 408.0 | 388.2 | 19.8 |
| Net Debt | 624.4 | 726.1 | (101.7) |
| **Total Source of Funding** | **1,032.4** | **1,114.3** | **(81.9)** |