Euroxx Research – Retail

Company Update Report

June 16, 2015

Folli Follie Group

Overweight

Previous Rating: Equalweight

Share Price: €22.30 (close of June 15)

12M Price Target: €34.50

Previous Target: €34.00

Expected Total Return: 57%

Estimates

	2014	2015e	2016e	2017e
Sales (€m)	998	1,135	1,210	1,291
EBITDA (€m)	223	255	277	300
margin (%)	22.3%	22.5%	22.9%	23.2%
Net profit (€m)	141	152	174	191
Net profit adj. (€m)	141	160	174	191
EPS (€)	2.11	2.27	2.60	2.85
EPS adj. (€)	2.11	2.39	2.60	2.85
Adj. EPS chng (%)	*65.3%*	*13.1%*	*8.9%*	*9.7%*

Source: FFG, Euroxx Research

Ratios

	2014	2015e	2016e	2017e
P/E adj. (x)	10.6x	9.3x	8.6x	7.8x
EV/EBITDA (x)	5.9x	5.4x	4.9x	4.3x
EV/EBIT (x)	6.5x	6.0x	5.4x	4.8x
EV/Sales (x)	1.3x	1.2x	1.1x	1.0x
Net debt/EBITDA (x)	0.24x	0.41x	0.24x	0.05x
FCF Yield (%)	0.4%	4.0%	5.7%	7.3%
Div Yield (%)	1.8%	2.2%	2.7%	3.1%
P/BV (x)	1.1x	1.0x	0.9x	0.9x

Source: FFG, Euroxx Research

Stock Performance

	3M	6M	12M	YTD
Absolute	-17.4%	-16.6%	-29.9%	-15.5%
Difference (ATG)	-13.3%	-4.8%	12.0%	-4.9%

Stock Data:

Market Cap (€ m)	1,493
Outstanding shares (#)	66,948,210
Daily volume (#)	105,470
Low / High 52 w (€)	21.80 – 33.56
Free float	48%
Bloomberg / Reuters	HDFr.AT / FFGRP GA

Company Description:

Folli Follie Group (FFG) is one of the top Greek retail companies and one of the leading luxury players in China's low-to-mid end J-W-A segment. It designs, manufactures and distributes jewellery, watches & fashion accessories. FFG has an international presence with a large PoS network spanning in 3 continents, distributing its products in Europe, Asia and America under the brand names of Folli-Follie and Links of London.

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Upgrade to O/W on Valuation Grounds

Positive Earnings Momentum to Persist (Confirmed by Good Q1'15) – FFG Q1'15 interims were overall strong, with improving operating profitability (EBITDA up 13% y-o-y) and positive FCF, mostly explained by FX differences. In our view, FFG's solid Q1'15 confirms that it is on track for a good 2015e, despite the Greek uncertainties.

We have fine-tuned our 2015-17e forecasts resulting in minor changes. We still expect 2015e recurring EPS growth of 13% y-o-y to €2.39, driven by the Jewellery-Watches-Accessories (J-W-A) division. All in all, we forecast group revenues, EBITDA and adj. EPS to grow by 2014-17e CAGRs of 9%, 10% and 11% respectively, underpinned by aggressive international expansion, organic growth on improving brand awareness, resilient margins owing to the franchise-led development in China, as well as the positive operating leverage and FX tailwinds.

Turning Positive on FFG – Our positive view on FFG is based on (1) its defensive qualities, as Greece accounts for 24% of total sales and 10% of total EBITDA in 2015e, (2) our belief that FFG's currently weak FCF will improve in the future, courtesy of the increased operating profitability, the lower financial expenses as well as the higher management focus, better WC management and the franchise-led expansion in China, (3) its successful transformation which has strengthened the BS (net debt/EBITDA at 0.2x in 2014) and shareholders base with valuable partners, (4) its strong growth outlook driven by China (and J-W-A), and (5) its attractive valuation, with the shares now trading at large discount to peers and even a 1% discount over historic P/E, not fully justified by FFG's smaller size, Greek-related risk and poor cash conversion. We still believe that becoming a global brand will be the catalyst taking FFG to the next level, amending cash flow generation and driving a stock re-rating. This by no means easy task should also challenge current management resources.

TP Slightly Raised to €34.5 (from €34.0) / Upgrade to O/W – as the increase from target multiples more than offsets the lower DCF-based valuation (on higher WACC of 10.7% from 10%). Following a c16% share price decline y-t-d, our new TP implies 57% upside from current levels; hence we upgrade our rating to Overweight from Equalweight.

Overall, we believe that FFG is a defensive play in light of the elevated political/macro uncertainties in Greece. Moreover, the company has managed to restructure to a leaner operation, cleanse its balance sheet (albeit to the expense of large inventory/receivables write-downs back in 2013) and substantially reduce net debt, hence successfully tackling many critical issues. The last action point is the poor FCF, which is the price to pay for going global and building the brand. In our view, current price levels (which are very close to 52-week lows) do not capture FFG's strong outlook and defensive qualities and offer an attractive entry point.

Summary of Financials

(in €m, unless otherwise stated)

PROFIT & LOSS (€m)	2013*	2014	2015e	2016e	2017e
Sales	**887**	**998**	**1,135**	**1,210**	**1,291**
% change	*9.6%*	*12.5%*	*13.7%*	*6.7%*	*6.6%*
Gross Profit	**447**	**502**	**568**	**613**	**659**
% change	*10.3%*	*12.3%*	*13.2%*	*8.0%*	*7.5%*
EBITDA	**187**	**223**	**255**	**277**	**300**
% change	*44.6%*	*19.5%*	*14.3%*	*8.6%*	*8.3%*
Depreciation & amortization	21	-21	-25	-28	-31
EBIT	**167**	**202**	**230**	**249**	**269**
% change	*53.9%*	*21.5%*	*13.6%*	*8.3%*	*8.2%*
Net financials	227	-9	-22	-12	-11
Profit before tax (reported)	**394**	**193**	**208**	**237**	**258**
% change	*542%*	*-50.9%*	*7.6%*	*13.9%*	*9.0%*
Taxation	-51	-47	-52	-58	-62
% effective tax rate	*12.9%*	*24.5%*	*25.0%*	*24.5%*	*24.0%*
Minority stake in profits	-3	-4	-5	-5	-6
Profit after tax (reported)	**340**	**141**	**152**	**174**	**191**
% change	*1313%*	*-58.4%*	*7.2%*	*14.7%*	*9.7%*
Profit after tax (adjusted)	**85**	**141**	**160**	**174**	**191**
% change	*255%*	*65.3%*	*13.1%*	*8.9%*	*9.7%*
EPS (in €)	**5.08**	**2.11**	**2.27**	**2.60**	**2.85**
% change	*254%*	*-58.5%*	*7.5%*	*14.7%*	*9.7%*
Adjusted EPS (in €)	**1.28**	**2.11**	**2.39**	**2.60**	**2.85**
% change	*255%*	*65.3%*	*13.1%*	*8.9%*	*9.7%*
Dividends /Capital Returns	**50**	**27**	**33**	**40**	**47**
DPS (in €) **	0.75	0.40	0.50	0.60	0.70
% change	*n/m*	*-46.7%*	*25.0%*	*20.0%*	*16.7%*

BALANCE SHEET (€m)	2013	2014	2015e	2016e	2017e
Intangible Assets	*104*	*106*	*115*	*115*	*115*
Tangible Fixed Assets	*175*	*186*	*200*	*204*	*206*
Other non-current assets	*268*	*314*	*345*	*347*	*350*
Total non-current assets	**547**	**606**	**660**	**667**	**671**
Accounts receivable	*390*	*534*	*554*	*640*	*686*
Inventories	*255*	*367*	*394*	*424*	*467*
Cash & cash equivalent	*252*	*297*	*240*	*267*	*309*
Other current assets	*128*	*166*	*182*	*182*	*194*
Total current assets	**1,025**	**1,364**	**1,370**	**1,513**	**1,656**
TOTAL ASSETS	**1,572**	**1,970**	**2,031**	**2,179**	**2,327**
Gross debt	**223**	**351**	**344**	**334**	**324**
Net debt / (Cash)	**-29**	**54**	**104**	**67**	**15**
Working Capital	553	760	840	943	1,032
Cash Conversion Cycle (days)	331	312	340	360	375
Shareholders' funds	**1,160**	**1,334**	**1,453**	**1,587**	**1,732**
Long-term Debt	*36*	*304*	*301*	*301*	*301*
Provisions & other LT liab's	*29*	*44*	*34*	*36*	*39*
Minorities	*23*	*27*	*31*	*36*	*41*
Non-Current liabilities	**88**	**375**	**366**	**373**	**381**
Accounts payable	*92*	*140*	*109*	*121*	*122*
Short-term bank debt	*187*	*47*	*43*	*33*	*23*
Taxes payable	*17*	*32*	*26*	*29*	*31*
Other Liabilities	*28*	*42*	*34*	*36*	*39*
Current liabilities	**324**	**260**	**212**	**219**	**214**
TOTAL EQUITY & LIABILITIES	**1,572**	**1,970**	**2,031**	**2,179**	**2,327**

CASH FLOW (€m)	2013	2014	2015e	2016e	2017e
EBITDA	**195**	**223**	**255**	**277**	**300**
Change in WC	116	-217	-112	-99	-96
Net interest	224	-9	-22	-12	-11
Tax paid	-50	-47	-42	-48	-52
Other one-offs (devaluation etc)	-478	107	0	0	0
Cash from operations	**6**	**56**	**79**	**118**	**141**
Less: CapEx	-15	-36	-40	-32	-32
Less: Other Investments	167	-43	-40	-2	-2
Free cash flow	**158**	**-23**	**-1**	**84**	**107**
FCFE (Exx definition)	**-65**	**6**	**59**	**85**	**109**
Less: Dividends	0	0	-27	-33	-40
Plus: Change in Debt	-519	129	-7	-10	-10
Other	486	-60	-22	-13	-14
Change in Net Debt / (Cash)	*125*	*45*	*-57*	*27*	*42*
Cash at end	**252**	**297**	**240**	**267**	**309**

RATIO ANALYSIS	2013	2014	2015e	2016e	2017e
P/E (x)	**16.9x**	**10.6x**	**9.3x**	**8.6x**	**7.8x**
EV/Sales (x)	1.5x	1.3x	1.2x	1.1x	1.0x
EV/EBITDA (x)	**6.7x**	**5.9x**	**5.4x**	**4.9x**	**4.3x**
EV/EBIT (x)	7.5x	6.5x	6.0x	5.4x	4.8x
P/CF (x)	4.0x	9.0x	8.2x	7.2x	6.6x
P/BV (x)	1.3x	1.1x	1.0x	0.9x	0.9x
FCF Yield (%)	**13.1%**	**0.4%**	**4.0%**	**5.7%**	**7.3%**
FCF/EBITDA conversion (%)	**-33.3%**	**2.5%**	**23.2%**	**30.9%**	**36.2%**
Dividend Yield (%)	**3.4%**	**1.8%**	**2.2%**	**2.7%**	**3.1%**
Net debt (cash)/EBITDA (x)	**-0.1x**	**0.2x**	**0.4x**	**0.2x**	**0.0x**
ROE (%)	35.1%	11.3%	10.9%	11.4%	11.5%
Gross margin (%)	50.3%	50.3%	50.1%	50.7%	51.1%
EBITDA margin (%)	21.0%	22.3%	22.5%	22.9%	23.2%
EBIT margin (%)	18.8%	20.3%	20.3%	20.6%	20.9%
Net profit margin (%, adj.)	9.6%	14.1%	14.1%	14.4%	14.8%

Note: (*) P&L figures in 2013 are from continuing operations (excl. travel retail business).
(**) In 2013 and 2014, the figures refer to capital return
Source: FFG, Euroxx Research

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Valuation & Rating Update

We value FFG through target multiples and DCF

We continue to value FFG through a combination of peer group valuation, namely target 2015e P/E and EV/EBITDA (25% weight each) and 2-stage DCF (50% weight).

In our multiple approach, we use a combination of European and US players in the luxury goods sector, some Hong Kong-based jewelers and a couple of key retailers as our peer group. We still apply a 20% discount to peer group averages to account for FFG's smaller size/scope and the fact that it is not yet a global brand. In more detail, we now account for a (peer group average) target 2015e P/E multiple of 19.5x (vs 16.7x previously), which returns an appraised equity value of €44.2/share, while by applying a target 2015e EV/EBITDA multiple of 11.3x (vs 10.0x previously) returns a fair value of €45.4 per share.

Our DCF model, in which we apply a terminal value growth of 2.0% and a WACC of 10.7% (from 10.0%) returns a TP of €24.2 per share

In our 2-stage DFC model we form an explicit set of forecasts up to 2018e, after which we assign a terminal value growth rate of 2.0% (unchanged), largely to account for FFG's exposure in growing and enormous affordable luxury market in China. We have raised our WACC assumption to 10.7% from 10.0% to reflect the higher risk premium in Greece. Our WACC is based on sector beta of 1.0, a risk-free rate of 0.9% (German 10-year Bund yield) and an equity risk premium of 11.3% (from 10.6% -weighted blended mix reflecting country risk exposure) that in our view reflects country-specific risks adequately. After deducting net debt and minorities, and adding FFG's c4.4% participation in Dufry, valued at €235m, i.e. at Q1'15 book value, our DCF model returns a fair value of €24.2 per share (vs €28.1 previously), implying upside potential of 8% from current price levels. Our sensitivity analysis suggests that for every 50bps delta in our 10.7% WACC assumption there is a €1.0-1.1/share sensitivity (c4%) in our DCF-based appraised value, and for every 50bps delta in our 2.0% long-term growth assumption the sensitivity in our TP stands at €1.0-1.3/share (c5%).

Our base-case scenario does not include the assumption of FFG turning into a global brand; indicatively, the latter could increase DCF fair value by 30% to €31.5/share (41% upside potential)

Note that our current assumptions still do not include the scenario of FFG turning into a global brand, in the likes of global luxury companies like Michael Kors, Pandora or Coach. In our base case scenario, we assume a continuation of FFG's expansion in the greater China region with the same capex and WC deployment strategy. Just for indicative purposes, applying a long-term growth rate of 2.5%, combined with a terminal EBIT margin of 23% (from 21.0% in our model, which is the 2014-18e average) and a terminal WC delta of €60m (instead of €87m in our current model) to reflect a more successful global brand strategy, returns a fair value of €31.5 per share. This is 30% above our base case DCF fair value and implies 41% potential upside.

New TP at €34.50 (from €34.0); Rating Upgraded to Overweight from Equalweight

After applying a 25/25/50 weight to the aforementioned appraised equity values, we end up with a **final TP** of **€34.50** per FFG's share from €34.0 previously, as the increase from target multiples more than offsets the lower DCF-based valuation. Since this implies a total upside potential of **57%** from current price levels, including our forecast for a €0.40/share 2014 capital return, we upgrade our rating on the stock to **Overweight** from Equalweight. If we take only the multiples from those companies that we consider as FFG's closest peers (i.e. Pandora, Michael Kors and Coach Group), ceteris paribus our target price would be 17% lower to €28.5/share.

Defensive play in light of the increased political /macro uncertainties in Greece with positive earnings momentum and low leverage

Overall, we believe that FFG is a defensive play in light of the increased political/macro uncertainties in Greece, from where it derives 24% of its revenues but only 10% of EBITDA (2015e). Moreover, the company has managed to restructure to a leaner operation, cleanse its balance sheet (albeit to the expense of large inventory/receivables write-downs back in 2013) and substantially reduce net debt, hence successfully tackling many critical issues. The last action point is the poor FCF, which is the price to pay for going global and building the brand.

Overall, our positive view on FFG derives from a) its solid growth profile; having expanded operations in 28 countries in 3 continents, FFG seems well placed to reap the benefits of its strategic option to expand in the greater China region, which now accounts for c61% of total PoS and 60.4% of total sales; moreover, the anticipated recovery (albeit slow) in Greek economy post H2'15e should further assist FFG's department stores and retail/wholesale financial performance, and b) our belief that its currently weak FCF will improve in the future, gaining support from the increased operating profitability, the lower financial expenses as well as the higher management focus, better WC management and the franchise-led expansion in China. Finally, following the c16% share price decline y-t-d, in our view, current price levels (which are very close to 52-week lows) do not capture FFG's abovementioned qualities.

Table 1. FFG Valuation

DCF Valuation (€m)	2014	2015e	2016e	2017e	2018e	Terminal
Sales	**998**	**1,135**	**1,210**	**1,291**	**1,397**	**1,425**
EBIT	202.4	229.8	248.8	269.3	295.9	299.1
Less: Adjusted Tax	49.7	57.5	61.0	64.6	69.5	70.3
NOPAT	**152.7**	**172.4**	**187.8**	**204.6**	**226.4**	**228.8**
Non-cash adjustments	20.6	25.1	28.0	30.5	33.1	33.8
Working capital delta	207.5	79.2	103.5	88.6	86.7	86.7
CapEx	31.1	39.6	32.0	32.0	32.0	34.2
Cash Flow to the Firm (FCFF)	**(65.3)**	**78.7**	**80.4**	**114.6**	**140.8**	**141.7**
Present Value of Cash Flows	-	74	69	88	98	1,135

Terminal Value % of EV	77%
Enterprise Value	**1,465**
Less: Net Debt / (Cash) (2014a)	54
Minorities	27
Plus: 4.4% stake in Dufry (Q1'15a book value)	235
Value of Equity	**1,619**
Number of Shares (in m)	66.9
Value of share (€)	**24.18**
Upside / (downside) potential (%)	***8.4%***

DCF TP sensitivity to WACC and long-term growth

WACC	Long-term Growth				
	1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
9.7%	24.02	25.18	26.50	28.00	**29.72**
10.2%	23.06	24.10	25.27	26.59	28.10
10.7%	22.19	23.13	**24.18**	25.36	26.68
11.2%	21.42	22.27	23.21	24.26	25.44
11.7%	20.71	21.48	22.34	23.29	24.34

Multiples Valuation	
Peer group average 2015e P/E	24.4 x
Discount due to size, scope, etc	*20%*
Target P/E 2015e	19.5 x
Implied Value of Equity (€m)	**2,962.8**
Value of share (€)	**44.25**
Upside / (downside) potential (%)	***98.5%***
Peer group average 2015e EV/EBITDA	14.2 x
Discount due to size, scope, etc	*20%*
Target EV/EBITDA 2015e	11.3 x
Implied Value of Equity (€m)	**3,038.2**
Value of share (€)	**45.38**
Upside / (downside) potential (%)	***103.5%***

Sum-of-the-Parts Valuation

Method	Assumptions	Multiple	Implied Value/share (€)	Weight	New Value /share (€)	Old Value /share (€)	Revision
DCF	WACC: 10.7%, Terminal Growth: 2.0%		24.18	50%	**12.09**	**14.04**	-14%
P/E	Target 2015e P/E, 20% discount	19.5 x	44.25	25%	**11.06**	**9.97**	11%
EV/EBITDA	Target 2015e EV/EBITDA, 20% discount	11.3 x	45.38	25%	**11.35**	**10.00**	13%
Value of share (€)				**100%**	**34.50**	**34.00**	**1%**
Total Upside / (downside) potential (%)					***57%***		

Source: Bloomberg, Euroxx Research

Investment Risks & Future Potential Catalysts

Medium risk company with int'l exposure mitigating domestic macro risks

We believe FFG is a medium risk company. Its global reach and geographic diversification has helped it cope well with the domestic economic crisis. Moreover, the anticipated slow recovery in the Greek economy post H2'15e should further assist FFG's department stores and retail/wholesale financial performance.

Key investment risks

In detail, FFG's **key downside investment risks** include the following:

Execution Risks Related with the Expansion in Greater China – where we expect FFG to operate 567 stores by end-2016e (F-F plus LoL), driving most of the group's sales and earnings growth. FFG's target calls for c580 stores. Any setback in FFG's (aggressive) expansion rates in Asia or even Europe or the US should have a negative impact on our forecasts and valuation.

Inventory Management Risk - This risk is created by the retaining of old slow moving stock and concerns the inability to either dispose it and/or sell it at prices below book value. Sudden or unforeseen changes in fashion trends could have an adverse impact on inventory and working capital levels. In a negative surprise, FFG devalued the fair value of its inventories by €250.7m in H1'13, with the large write-off amount being rather uncommon in the luxury sector. We would overall welcome a more prudent inventory management policy, i.e. the creation of an inventory shrink reserve to take into account the required inventory markdowns and the treatment of this reserve as part of the cost of doing normal business.

Higher Working Capital Risk - FFG's aggressive network rollout in recent years has created heavy working capital needs, mainly deriving from high inventory requirements and an elevated receivables ratio. FFG's cash conversion cycle fell 6% y-o-y in 2014 to 312 days (from 331), however, this remains at high levels for a retailer. Although FFG's plans for further expansion imply additional WC requirements, the management's focus on a franchise-led expansion should partly mitigate this effect, as receivables days for franchisees tend to be lower than department stores.

The Fragile Economic and Political Conditions in Greece - In Q1'15, 26.1% of group revenue came from Greece, which we expect to decline to 24% in 2016e due to the rising China penetration. In our view, a protracted political/macro uncertainty weighs on the timing and magnitude of the expected Grecovery, also negatively affecting the Greek consumers' willingness/ability to spend, hence denting FFG's local business growth potential (more evident in high luxury goods purchases, but affordable luxury could be also hit). A worsening macro environment could also have a negative impact on the country's risk premium and the performance of the shares. Moreover, according to press reports, among Greece's reform package submitted recently to the Institutions, there is a proposal for a) a 12% special tax on 2014 corporate profits above €1m payable in two annual installments, and b) an increase in corporate tax rate to 29% from 26% at present. Note that FFG recorded pre-tax profit of €193m in 2014, which suggests a €23m tax levy, i.e. €11.6m in 2015e (7% of our net profit estimate for the year) and €11.6m in 2016e (5% of net profits). That said, a potential increase in the corporate tax rate should have a minimal impact on FFG's earnings, the large proportion of which is generated outside Greece.

Foreign Exchange Exposure – Currency Translation Risk - The risk is mostly derived in extreme FX volatile situations, where FFG does not have the flexibility to pass pricing adjustments to customers. Note that FFG manufactures the greatest part of its products in China (almost 100% for F-F brand and c50% for LoL) in US$, while a significant part of revenues is generated in China, where the RMB is pegged to the US$, and in Europe. Hence the main impact on FFG's profits from FX volatility is mostly translational rather than transactional. Moreover, FFG is active in hedging the FX impact on its cash-flow.

Strong Dependence on Koutsolioutsos Family – which is the company's founder, key shareholder (38.2%) and chairman/CEO.

Rising Real Estate and Chinese Staff Cost Risk - FFG has directly run operations of meaningful scale in Europe and China, exposing it to the risk of rising real estate prices. That said, in Greece, FFG has taken advantage of the economic downturn to renegotiate better rental contact terms; moreover, FFG's CEO said during the Q1'15 results conference call that rental costs have been decreasing recently in Asia (mainly in Hong Kong and China). Further, pressure arises from rising staff costs in China but this concern could be mitigated by more flexible compensation structures.

Other risks are more general wide risks such as changes in consumers' preferences, potential manufacturing or capacity setbacks, changes in travel patterns, and/or competitors' products imitating F-F and LoL brands.

Key future potential catalysts

On the contrary, **key future potential catalysts** to FFG's performance and valuation are the following:

Synergies with Dufry and Fosun – The global network of the Chinese giant Fosun and the Swiss Dufry offer FFG the opportunity to exploit various synergies. FFG owns a c4.4% stake in Dufry, which is present in airports worldwide. Through Dufry's travel retail business, FFG could achieve further geographical expansion, as its brands could enter in geographical regions (i.e. Latin America), where they had not an easy access before. Additionally, Fosun, which holds a 13.8% stake in FFG, can offer access to significant marketing and advertising channels, especially in China.

Enhance Franchise Policy – The management aims to turn more to the franchise policy regarding its store roll-out plan in China, something that could improve the group's working capital as the receivables days are much lower than department stores. According to the management, this policy refers to franchisees that have the ability to open multiple stores in a broad area.

E-Commerce Website – Which could provide a potential positive surprise on our estimates in the greater China region. The shopping for luxury goods online is gaining popularity in China, particularly among the younger shoppers. The growth of e-commerce in China also offers additional opportunities for FFG. According to KPMG's survey, by 2015e e-commerce transactions in China are projected to reach $540bn, or 7.5% of total retail transactions. By 2020e, China's e-commerce market is forecasted to be larger than those of the US, UK, Japan, Germany and France combined. KPMG's data show that c70% of potential consumers use their desktop every day in order to purchase items or search for information on luxury products.

Developing the 'Collective' Network Concept – FFG plans to develop a network of mini-department stores (the so-called 'collective') mainly in resorts, which include owned and third-party brands. The positive long-term trends for the tourism sector offer an opportunity for this new concept.

Launch of New Product Line – In our view, the potential stretch of FFG's product line with own fragrance and cosmetics products could prove into a valuable source of future cash flow. However, FFG needs first to become a global brand to enjoy such synergies.

Higher-than-Expected Tourism Flows - According to SETE, the Association of Greek Tourism Enterprises, international tourist arrivals in Greece in 2014 including cruises grew by 22% y-o-y to a record high 24.5m (up 23% y-o-y excl. cruises to 22m), with direct tourism-related revenues of c€17bn or c9.5%-of-GDP. Despite the slowdown in recent months from traditional markets like Germany, SETE expects tourists to advance to 27m by 2021e, with direct revenues of c€19bn. The tourist arrivals growth has positive implications for FFG, especially for its department store division.

A Potential Lift of the Political/Macro Uncertainty in H2'15e - could lead to a further de-escalation of GGB yields that will further boost the appetite on Greek assets and reduce the risk premium for Greek stocks.

Turning Positive on FFG

In our view, FFG's sound investment case is underpinned by the following factors:

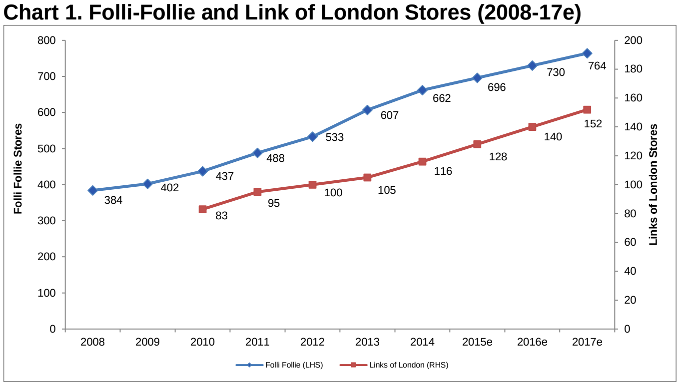
Over the last decade, FFG has followed an acquisition and geographical expansion strategy

Currently, FFG has an extensive store network of 668 self-operated and franchised F-F PoS worldwide; its network has grown fast, achieving a store count CAGR of 14% since 2009

Accelerating International Expansion Highlights FFG's Defensive Qualities but Weak FCF is a Concern

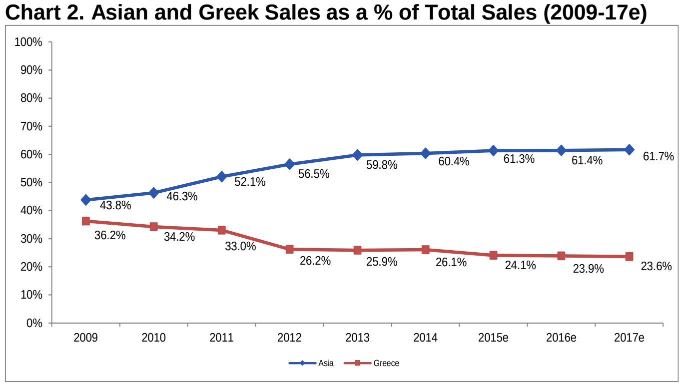
FFG enjoys the largest international exposure among Greek retailers, having set its footprint on 28 countries across 3 continents. In Q1'15, F-F PoS reached a total of 668 from 609 a year ago. Asia, primarily the greater China region, is the group's key market, representing 60.9% of its total PoS (incl. Japan) and generating 60.4% of group sales. In our view, FFG has correctly focused its expansion strategy on the enormous Chinese market, which has recently grown into the world's second largest market for luxury goods, with a 7% of global market share. According to Bain & Company, Chinese consumers account for c29% of worldwide luxury consumption. Despite the short-term slowdown partly attributed to the ban on public funds spending on luxury items, we believe that the long-term outlook for China's luxury industry is prosperous, given the anticipated rapid increase in household disposable income and the number of wealthy individuals, especially in the urban population and the upper middle class segment.

Chart 1. Folli-Follie and Link of London Stores (2008-17e)



Source: FFG, Euroxx Research

Chart 2. Asian and Greek Sales as a % of Total Sales (2009-17e)



Source: FFG, Euroxx Research

FFG a defensive play in light of the elevated Greek political/macro uncertainties

Interestingly, Greece is a small market for FFG, accounting for c21% of its European PoS (from c57% back in 2008), and just c5% of its global PoS network. As of Q1'15, Greece generated 26% of total revenue, with a c10% EBITDA contribution (Exx estimate). We expect FFG's Greek exposure to gradually decline to c24% of revenues in 2016e (still at c10% of EBITDA), which renders the company a defensive play in light of the elevated Greek political/macro uncertainties. Having said that, FFG took advantage of the domestic recession in order to reduce costs, increase efficiency and gain market share. As a result, FFG appears well placed, in our view, to be a major beneficiary of the anticipated return of the Greek economy to a recovery mode post H2'15e.

Poor FCF is the last investor concern that FFG's management needs to fix

FFG is mainly a wholesale-oriented business, which results in high WC intensity due to large inventory and receivables investments

Weak Cash Flow is the Price to Pay for Growth & Global Expansion; We Expect Modest Improvements Going Forward: FFG's accelerating international expansion, which partly shielded group profitability from the European economic downturn, was not a free lunch. According to the management, weak FCF stemming mostly from increased working capital requirements (vs the alternative of heavy advertising expenses), was the price to pay for going global and building the brand. In 2014, FFG's cash conversion cycle fell 6% y-o-y to 312 days (from 331), which remains at high levels for a retailer, the reason being both the high receivables ratio (53% of 2014 sales) and high inventories (37% of 2014 sales), driven by the retail network rollout, which creates high inventory requirements leading to WC pressures. Moreover, FFG's free cash flow turned slightly positive (€6m, Exx definition; OpCF minus capex was €21m), despite the €144m WC outflow, also adversely affected by the US$ appreciation. According to the management, the currency effect in WC in 2014 was c€100m.

Higher operating profitability to drive free cash flow improvements, although working capital requirements should remain high

Going forward, we expect FFG's growing operating profitability together with the lower financial expenses (post 2015e due to the successful BS deleveraging) and the franchise-led expansion in China (as franchisees have better credit terms compared to department stores, i.e. 60 receivables days vs c120 for department stores) to produce a 2015-17e FCF yield of 4-7%, implying an average EBITDA to FCF conversion of 30%.

In more detail, we expect FCF to settle at €59m this year (FCF yield 4%), with the cash conversion cycle deteriorating y-o-y to 340 days, largely due to the currency impact. Post 2015e, we expect FCF generation to grow further (FCF yield of 6.5% on average in 2016-17e), despite the fact that WC changes should remain around the €100m level; obviously, this leaves much room for improvement once FFG manages to become a global brand.

Table 2. Free Cash Flow Forecasts (2013-17e)

in €m	2013	2014	2015e	2016e	2017e
EBITDA	195	223	255	277	300
-Tax paid	-28	-27	-42	-48	-52
-Capex	-15	-31	-40	-32	-32
-WC changes	67	-144	-102	-101	-98
Free Cash Flow to the Firm (FCFF)	**219**	**21**	**71**	**96**	**118**
-Interest paid	-23	-16	-12	-10	-9
Free Cash Flow to Equity (FCFE)	**196**	**6**	**59**	**85**	**109**
FCF yield (%)	***13.1%***	***0.4%***	***4.0%***	***5.7%***	***7.3%***

Note: 2013 FCF includes the positive impact from the €251m inventory write-down. Adj. FCFE is -€65m
Source: FFG, Euroxx Research

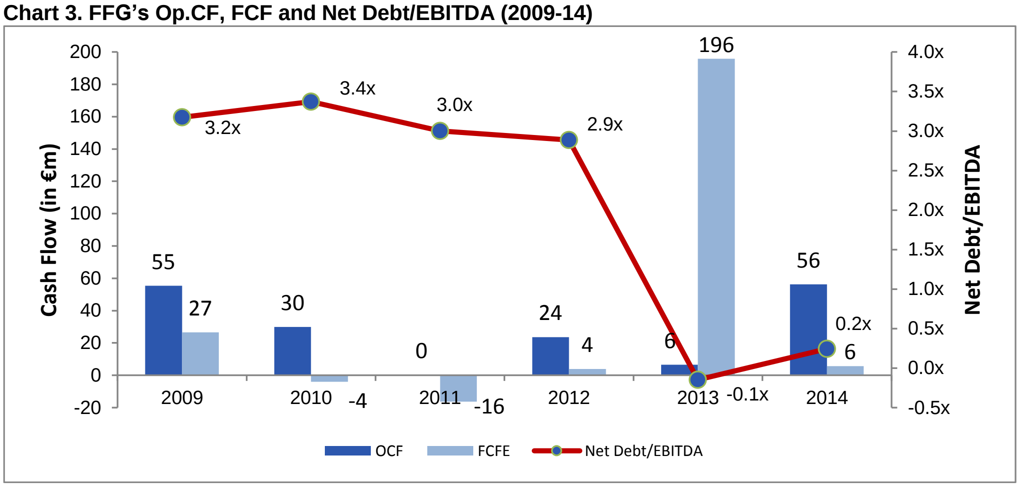
Successful Transformation Strengthens Balance Sheet and Shareholders Base with Valuable Partners

FFG's int'l expansion strategy and acquisition spree had led to a highly geared BS, with Net Debt/EBITDA at 2.9x in 2012…

…However, FFG's BS was significantly enhanced by its Travel Retail spin-off, turning net cash as of end-2013

Since 2006, FFG's debt had been steadily increasing due to working capital pressures and acquisitions funding (Hellenic Duty Free, Links of London, and Elmec). As a result, group net debt reached 2.9x in 2012 (€741m total debt), with refinancing concerns weighing on investor sentiment during the financial crisis. That said, we believe that FFG's management deserves credit for successfully tackling this critical issue through asset disposals. In specific, FFG completed during 2013 (in two phases) the spin-off of its travel retail business to the Swiss group Dufry for a total consideration of €375m in cash and €153m in shares (3.98% stake in Dufry). The total EV of the transaction amounted to €868m. As a result, FFG entirely wiped out the debt burden on its BS, turning marginally in a net cash position as of end-2013. In 2014, FFG's net debt was €54m, implying a 0.2x Net debt / EBITDA ratio.

Chart 3. FFG's Op.CF, FCF and Net Debt/EBITDA (2009-14)



Source: FFG, Euroxx Research   Note: 2013 FCF includes the positive impact from the €251m inventory write-down

Except for the direct involvement in Dufry's global Duty Free Business, the agreement reinforces the strategic partnership between the 2 groups and enables them to exploit new markets

FFG Becomes a Strategic Investor in Dufry (c4.4% stake): the successful restructuring worked our positively in two ways: first, it strengthened the BS in a critical period, and secondly, offered FFG a valuable business partner, with which it can pursue various synergies. For example, Dufry international network (over 1,650 shops) is located at international airports, cruise liners, seaports, and other touristic locations in 58 countries. Hence, FFG can achieve further geographical expansion, as its brands could enter in geographical regions and airports where they did not have an easy access before. Emerging markets (i.e. Latin America) and Russia are good examples of this potential, while FFG's own experience in markets where Dufry's presence is limited should also assist future expansion plans. Note that post the capital increase for the acquisition of Nuance Group in 2014 (which confirmed Dufry as global leader in the airport retail industry), FFG's participation in Dufry was shaped at c4.4%. FFG's CEO Mr. George Koutsolioutsos holds one seat in Dufry's BoD.

We believe that Fosun's involvement has evidently resulted in significant positive implications for FFG's operations and business development in China

Strategic Partnership with the Chinese Giant Fosun: Prior to the Dufry deal, FFG's management was prompt to strengthen the company's shareholders' base with the Chinese giant Fosun, one of the largest conglomerates in China and among the top 500 enterprises in the country, with a great reputation and competence in investing in a wide range of activities in Asia. In May 2011 Fosun acquired a 9.5% stake in FFG (6.36m shares for €84.5m in cash through a share capital increase), gradually raising it to 13.85%, and appointed 1 member to FFG's BoD. We see significant value-added synergies between FFG and Fosun in many different ways such as: a) Expanding FFG's distribution channels, b) Expanding rapidly LoL and F-F brand stores in China, c) Offering professional advice on retail operations, human resources and cost management, d) Negotiating and placing easier real estate access for lucrative locations in department stores, malls and street locations, e) Accelerating expansion of profitable corporate gift segment in China, and f) Enhancing brand awareness in China through cross-promotional, strong media presence and events organization, such as Miss World and Forbes CEO Forum.

FFG's 5-year 1.75% €249.5m convertible bond extends the group debt's maturity profile and reduces financial expenses

2014 Convertible Bond Extends Maturity Profile and Lowers Cost of Debt: In late June 2014, FFG issued a €249.5m 5-year (due 2019) convertible bond with an interest rate of 1.75% p.a. (payable in semi-annually installments). The conversion price was set at €40.763 per share i.e. at a 30% premium over the prior day's volume weighted average price. The number of shares initially underlying the exchangeable notes amounted to a maximum of 6.1m, representing c9.1% of FFG's share capital (note that conversion is not mandatory and FFG has the right to deliver an equivalent amount in cash for all or part of the shares). The majority of the proceeds were already used to payback FFG's existing debt, mostly to Greek banks with an average cost of debt of >5%. Hence, except for the vote of confidence from international investors, this exchangeable bond offering extended the group debt's maturity profile and significantly reduced FFG's cost of funding, implying annual cost savings to the tune of c€9m.

Strong Growth Outlook Driven by China (and J-W-A)

Unlike many of its Greek peers, 2014 was a record year for FFG

Unlike many Greek companies which suffered during the economic crisis, FFG's expansion strategy in China paid-off and managed to mitigate the negative impact. As a result, 2014 was a record year for the group, with sales and EBITDA from continuing operations (i.e. excl. travel retail) up by 7% and 14% y-o-y, and net income at an all-time high (on a recurring basis) of €141m, up by c60% y-o-y excluding 2013 one-offs.

J-W-A division is FFG's growth driver; we expect divisional sales and EBITDA growth of 15% and 17% y-o-y in 2015e to drive overall group profitability

This year, following a robust Q1'15 (sales and EBITDA up 17.8% and 12.8% y-o-y), we forecast group sales, EBITDA and adj. net profits to expand by 14%, 14% and 13% y-o-y, driven by the J-W-A division. We expect the latter's EBITDA to grow by 17% y-o-y with margin gain of 50bps, positively affected by the higher franchise business in China, a more favourable product mix but also the appreciation of the US$ vs the euro. Note that the main impact on FFG's profits from FX volatility is mostly translational rather than transactional, as the company manufactures and sells the greatest part of its products in China (RMB is US$-pegged). Moreover, FFG is active in hedging the FX impact on its cash-flow.

Looking further ahead, we project that FFG will continue to see high single-digit growth rates due to an accelerated expansion in China, integration of Juicy Couture, and improving Greek operations.

Strong growth potential driven by international expansion and domestic economic recovery (post H2'15e)

All in all, we expect FFG's revenues and EBITDA to grow by 2014-17e CAGRs of 9% and 10%, reflecting aggressive international expansion with focus on the promising greater China region. We expect FFG's profitability growth to be powered by a combination of aggressive new store openings mainly in China, organic growth in existing stores reflecting an improving brand awareness, resilient margins on the back of a franchise-led expansion and pricing gains in China, as well as positive operating leverage, FX tailwinds and the macro turnaround in Greece (post H2'15e, also supported by the tourism industry) and the Balkans.

Table 3: FFG's Key Financials (2012-17e)

in €m	2012	2013	2014	2015e	2016e	2017e	*CAGR 2014-17e*
Total Group Revenues	**810**	**887**	**998**	**1,135**	**1,210**	**1,291**	***9%***
y-o-y		*10%*	*12%*	*14%*	*7%*	*7%*	
of which J-W-A revenues	584	642	705	813	866	926	*10%*
y-o-y	*14%*	*10%*	*10%*	*15%*	*7%*	*7%*	
% of total	*72%*	*72%*	*71%*	*72%*	*72%*	*72%*	
Total Group EBITDA	**129**	**187**	**223**	**255**	**277**	**300**	***10%***
y-o-y		*45%*	*20%*	*14%*	*9%*	*8%*	
of which J-W-A EBITDA	132	171	196	230	248	268	*11%*
y-o-y	*16%*	*29%*	*14%*	*17%*	*8%*	*8%*	
% of total	*103%*	*92%*	*88%*	*90%*	*90%*	*90%*	
Total Group Net Profits (adj.)	**24**	**85**	**141**	**160**	**174**	**191**	***11%***
y-o-y		*255%*	*65%*	*13%*	*9%*	*10%*	

Source: FFG, Euroxx Research. Note: 2012& 2013 figures are from continuing operations

Valuation: At Discount to Peers and Now Even at a Marginal Discount over Historic P/E

We believe the recent share price weakness does not reflect FFG's sound fundamentals and creates an attractive entry point

Following an excellent 2014 performance (up 16%, significantly outperforming the Greek market by 45%, which was the second best performance in our Greek universe), FFG has lost c16% y-t-d, underperforming the market by 5%, with the shares now trading very close to 52-week lows. In our view, this was mostly driven by country-related risks and does not reflect FFG's defensive qualities and growth potential. Hence, we believe that this price weakness creates an attractive entry point for the stock.

FFG trades at large discount to peers on most multiples in 2015-17e, not fully justified by its smaller size, Greek domicile (although the majority of earnings is generated from abroad) and poor cash conversion

As a result, FFG now trades at a 2015e P/E and EV/EBITDA of 9.3x and 5.4x, respectively, which implies 62% discount to peers. The chosen peer group reflects our selection of global players in the luxury goods sector as well as a couple of key retailers, with admittedly many differences in structure and scale. Moreover, FFG offers a higher DY and an improving FCF yield (4-7% in 2015-17e). We believe such discounts are not justified by FFG's smaller size, Greek domicile and related country risk (although the majority of earnings is derived outside of Greece) and poor cash conversion, while FFG's higher earnings growth potential is not fully captured at current price levels.

Table 4. FFG's relative valuation

Company	Price €	MCap (€m)	---------PE (x)--------- 2015e	2016e	2017e	------EV/EBITDA (x)-------- 2015e	2016e	2017e	-------Div. Yield (%)------- 2015e	2016e	2017e	-------EBITDA Margin (%)------- 2015e	2016e	2017e	----------2014-17e CAGRs--------- Sales	EBITDA	EPS
Pandora	94.18	11,518	21.4x	16.0x	13.6x	14.5x	12.5x	11.0x	1.6%	2.2%	2.5%	37.2%	37.8%	37.9%	19.7%	21.8%	27.4%
Michael Kors	42.96	8,624	11.2x	10.6x	9.9x	6.3x	6.0x	6.1x	0.0%	0.0%	0.0%	29.3%	28.5%	26.4%	26.1%	17.3%	22.0%
Coach Group	31.47	8,695	18.6x	17.7x	15.3x	8.9x	8.7x	7.5x	3.8%	3.8%	3.9%	23.3%	23.5%	25.7%	4.2%	2.2%	0.0%
Burberry Group	23.21	10,323	21.1x	18.9x	17.0x	11.5x	10.4x	9.5x	2.3%	2.6%	2.9%	22.4%	22.7%	23.0%	16.2%	11.6%	15.7%
LVMH	165.80	84,216	20.9x	18.8x	17.3x	10.9x	10.2x	9.5x	2.2%	2.4%	2.7%	23.6%	23.9%	23.8%	9.7%	6.9%	-5.2%
Hugo Boss	106.45	7,494	19.7x	17.7x	16.0x	12.0x	10.9x	9.9x	3.7%	4.2%	4.6%	22.3%	22.8%	23.4%	7.9%	9.8%	11.3%
Hermes	360.45	38,052	36.7x	32.4x	29.6x	21.5x	19.0x	17.5x	1.0%	1.1%	1.2%	35.3%	36.1%	36.4%	12.3%	13.0%	13.9%
Swatch Group	356.08	19,611	15.1x	13.8x	12.6x	9.3x	8.6x	7.9x	2.1%	2.2%	2.4%	23.6%	24.1%	24.6%	9.6%	10.2%	10.5%
Bijou Brigitte	56.61	459	24.2x	22.9x	22.1x	7.3x	7.3x	7.1x	4.4%	4.9%	5.3%	13.0%	13.1%	13.4%	-1.0%	-7.1%	-8.5%
Prada	4.51	11,547	22.7x	20.5x	18.6x	10.9x	10.0x	9.2x	2.3%	2.6%	2.7%	27.3%	28.2%	28.7%	6.1%	2.6%	-0.4%
Tod's	83.75	2,564	24.2x	21.8x	19.7x	12.1x	11.1x	10.2x	2.6%	2.8%	3.1%	19.6%	20.2%	20.7%	6.1%	8.0%	10.3%
Luxxotica	75.03	43,083	18.9x	17.7x	16.1x	11.9x	10.9x	10.0x	2.2%	2.5%	2.8%	27.0%	27.6%	27.9%	10.3%	9.4%	7.8%
Fossil Group	63.32	3,091	12.3x	11.4x	10.2x	7.4x	7.0x	6.5x	0.0%	0.0%	0.0%	15.5%	15.8%	16.2%	9.0%	3.5%	5.8%
Signet Jewelers	117.15	9,387	19.7x	16.5x	14.8x	12.3x	10.7x	9.8x	0.7%	0.8%	1.0%	14.7%	16.1%	17.1%	26.7%	29.1%	33.0%
Tiffany & Co	83.33	10,763	22.1x	19.7x	17.4x	11.5x	10.3x	9.3x	1.7%	1.8%	2.0%	25.6%	26.6%	27.0%	13.3%	48.2%	64.5%
Chow Tai Fook	0.95	9,519	14.1x	12.6x	11.1x	10.4x	9.2x	8.3x	3.6%	4.1%	4.5%	12.8%	13.4%	13.5%	7.4%	8.0%	6.7%
Luk Fook Holdings	2.41	1,421	7.9x	7.6x	7.0x	5.7x	5.6x	5.1x	5.1%	5.2%	5.6%	12.2%	12.0%	12.0%	4.7%	4.0%	3.9%
Chow Sang Sang	1.75	1,183	9.3x	8.3x	7.5x	7.2x	6.5x	5.9x	4.1%	4.6%	5.1%	7.9%	8.0%	7.9%	15.3%	16.6%	14.8%
Hennes & Mauritz	36.09	59,723	24.8x	22.7x	20.6x	15.3x	13.8x	12.5x	3.1%	3.4%	3.6%	19.4%	19.2%	19.2%	12.2%	10.3%	9.0%
Inditex	30.43	94,824	32.4x	29.7x	25.8x	19.0x	17.0x	15.3x	2.0%	2.2%	2.6%	23.1%	23.5%	23.7%	14.5%	14.8%	15.6%
Peer Group Weighted average			***24.4x***	***22.1x***	***19.8x***	***14.2x***	***12.8x***	***11.7x***	***2.2%***	***2.4%***	***2.6%***	***24.2%***	***24.6%***	***24.8%***	***12.2%***	***12.1%***	***10.4%***
Folli-Follie Group	**22.30**	**1,493**	**9.3x**	**8.6x**	**7.8x**	**5.4x**	**4.9x**	**4.3x**	***2.2%***	***2.7%***	***3.1%***	***22.5%***	***22.9%***	***23.2%***	**9.0%**	**10.4%**	**10.6%**
Premium/(discount)			*-62%*	*-61%*	*-60%*	*-62%*	*-62%*	*-63%*	*3%*	*12%*	*19%*	*-7%*	*-7%*	*-6%*	*-27%*	*-14%*	*2%*

Source: Bloomberg, Euroxx Research. Data as of 12 June 2015 for peers and as of 15 June for FFG

FFG now on 9.3x 2015e adj. EPS, implying a 1% discount over historic P/E; we believe FFG's growth potential not captured at current depressed price levels

FFG Historic Valuation Multiples: Following the c16% decline y-t-d, FFG's 2015e P/E of 9.3x now implies a 1% discount over its historic (since 2006) average P/E of 9.5x (vs 41% premium in our initiation report last December). In our view, current price levels do not fully capture FFG's earnings growth potential, leaner corporate structure, balance sheet deleveraging and the strong market positioning in China. In terms of 2015e EV/EBITDA, FFG now trades at 23% discount over its historic multiple of 7.0x (vs premium of 11% in our initiation report).

Table 5. FFG Historic Multiples

Historic Multiples	2006	2007	2008	2009	2010	2011	2012	2013	2014			
Sales (€m)	484	706	937	993	990	1,021	1,110	934	998			
EBITDA (€m)	121	158	191	199	193	199	213	195	223			
EBITDA margin (%)	*25.0%*	*22.4%*	*20.4%*	*20.1%*	*19.5%*	*19.5%*	*19.2%*	*20.8%*	*22.3%*			
EPS adj. (€)	1.98	2.21	2.35	1.90	1.40	1.36	1.42	1.32	2.11			
Average Market Cap (€m)	746	961	512	722	748	672	497	1,128	1,850			
Average Share Price (€)	22.64	29.17	15.55	11.91	12.34	10.04	7.42	16.85	27.64			
Average Enterprise Value (€m)	1,052	1,536	1,169	1,354	1,423	1,296	1,142	941	1,675	**Historic Average**	**Current (2015e)**	**Current vs. Historic**
P/E (x)	11.4x	13.2x	6.7x	6.4x	9.0x	7.5x	5.2x	12.8x	13.1x	**9.5x**	**9.3x**	**-1%**
EV/EBITDA (x)	8.7x	9.7x	6.1x	6.8x	7.4x	6.5x	5.4x	4.8x	7.5x	**7.0x**	**5.4x**	**-23%**

Source: FFG, Bloomberg, Euroxx Research

Becoming a Global Brand Still the Game Changer, in Our View

FFG's expansion strategy is centered on the Asian market for J-W-A and particularly on China, where penetration is still substantially low given the enormous size of its population. In China, FFG pursues a three-pillar strategy, namely:

In the Chinese J-W-A market, FFG pursues a three-pillar strategy, namely focus on mass luxury combined with store expansion in smaller cities (rather than flagship stores in key Tier 1 cities) and focus on franchise-heavy expansion as opposed to department stores

- **Focus on Mass Luxury –** F-F brand is among the most recognized J-W-A brands in China, emphasising on the affordable luxury segment (€50-1,000). In our view, FFG's strong brand recognition, solid relationships with key strategic partners, brand strategy and diverse customer base are sustainable competitive advantages, which should assist FFG to successfully compete against its peers.
- **Store Expansion in Smaller Tier 2-4 Cities -** FFG aims to add c50 new F-F PoS p.a. between 2015-16e and 50 new LoL stores over the next 5 years. We are slightly more conservative, assuming 34 new F-F and 12 new LoL stores p.a. in 2015-17e. In terms of store location, FFG will target Tier 2-4 cities, namely smaller and fast growing cities, which according to McKinsey will be the major force driving China's economic growth in the next two decades.

- **Focus on Franchise -** FFG intends to shift its distribution channel to franchise, which should account for c50% of new store openings in China vs department stores. According to the management, franchise stores currently amount to c80. This policy should also improve the group's WC requirements as receivables days are less compared to store roll-out through department stores. We view FFG's growing franchising as positive and we believe that FFG's long-term success will depend on how well it could sustain its high operational efficiency and brand awareness internationally.

In the retail/wholesale business, the exclusivity of top international brands is FFG's key strategic priorities

In the retail/wholesale business, the exclusivity of top international brands ranks high in FFG's strategic priorities, and the company can boast a very successful track record in this field. For example, in Q1'14 FFG agreed with the Authentic Brands Group to assume exclusive wholesale and retail distribution rights for the Juicy Couture brand in all Continental Europe, UK, Ireland and Cyprus, which we expect to assist the division's profitability from 2015e onwards.

Right growth strategy so far but becoming a global brand will be the game changer, in our view, driving FFG to the next level (and also leading to a stock re-rating)

In our view, FFG's growth strategy has paid-off so far and assisted the company to reach the €1bn revenue mark, while putting the ground for further development in the next 2-3 years. However, looking further ahead, we believe that becoming a global brand should be the game changer for FFG, driving the company to the next level, in the likes of key multi-billion revenue global players in the luxury sector. Admittedly not an easy task, but in case of success FFG could reap the benefits of scale, awareness and better credit terms. In our view, this could also lead to a significant re-rating of the stock, i.e. taking the average 2015e P/E of 21.6x for the global luxury players would imply a >100% upside to the current share price. According to the management, becoming a global brand would also be the key prerequisite to improve working capital management and hence FCF, which cannot be easily fixed under the company's current growth model and market positioning.

We believe that the accelerated expansion to become a global brand should significantly challenge management resources

That said, we believe that the aggressive expansion strategy to become a global brand should bring management resources to its limit. The Koutsolioutsos family has over thirty years of presence in the retail luxury sector and we believe that FFG has greatly benefited from its expertise, agility and experience. However, FFG's accelerated expansion across the world in the likes of global luxury retailers should definitely be an interesting challenge for the current family-oriented management team.

Earnings Update: Strong Earnings Outlook

Below we set out our forecast revisions per FFG's key division:

J-W-A: Remains the Group's Key Growth Engine

Further PoS expansion mainly in China

We forecast 46 new stores p.a. (34 F-F and 12 LoL) until end-2017e

Following a marked acceleration in H2'14 openings, FFG added 55 new stores in 2014 (42 F-F and 13 LoL),hence bringing the total to 778, i.e. 662 F-F and 116 LoL stores, slightly above management guidance of 650 F-F shops by end-2014. Going forward, we still forecast 46 new stores p.a. (34 F-F and 12 LoL) until end-2017e. This implies a 2014-17e store rollout CAGR of 5.6%, driven mainly by Asia/China. We believe a positive surprise could come from the international airports, since the deal with Dufry could unlock synergies through the Swiss group's global travel retail network.

J-W-A revenue growth of 15% in 2015e; 3-year CAGR at 9.5%

We now expect J-W-A revenues to increase by 15% in 2015e (from 10% in 2014) to €813m, also aided by a weakening euro vis-à-vis the US$. This implies a minor revision as the positive impact from the weaker euro (we now forecast a €/$ parity of 1.14 this year vs 1.27 previously) should be offset from lower sales per store, esp. in Asia/China, in order to account for the recent slowdown. We anticipate the 5.6% store rollout CAGR, the improving brand awareness and FX tailwinds to drive the divisional sales CAGR of 9.5% in 2014-2017e.

We anticipate a 2014-17e EBITDA CAGR of 11.1% for the J-W-A division with 17% EBITDA growth this year

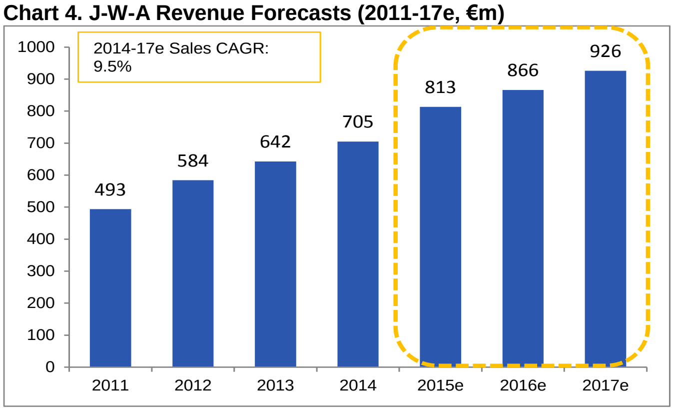
On the profitability front, we have left our previous estimates broadly unchanged and we still anticipate a 17% y-o-y EBITDA increase this year to €230m, accounting for 90% of total group EBITDA and delivering a CAGR of 11% over the next 3 years. We also assume a steady increase in the EBITDA margin from 27.8% in 2014 to 28.3% in 2015e and 28.6% in 2016e – management guidance calls for 30% margin in the next 3 years. This should be a function of a) margin improvements in China/Asia driven by the increased rollout of franchised stores vs department stores, and the increased penetration of higher-margin jewellery products in China/Asia compared to lower-margin watches and accessories which currently dominate the market.

Table 6: J-W-A Revenue Forecast Revisions (2015-17e)

				2015e				2016e				2017e				2014-17e
	2013	2014	*y-o-y*	*Old*	New	%ch.	*y-o-y*	*Old*	New	%ch.	*y-o-y*	*Old*	New	%ch.	*y-o-y*	*CAGR*
Europe																
Revenues (in €m)	88	92	4.2%	92	94	1.9%	2.0%	94	99	5.0%	5.5%	97	104	8.0%	5.3%	4.2%
PoS	213	215	0.9%	217	230	6.0%	7.0%	220	240	9.1%	4.3%	223	250	12.1%	4.2%	5.2%
Asia																
Revenues (in $m)	743	838	12.8%	940	844	-10.3%	0.6%	1,022	926	-9.4%	9.8%	1,107	1,018	-8.0%	9.9%	6.7%
PoS	438	499	13.9%	512	533	4.1%	6.8%	552	567	2.7%	6.4%	592	601	1.5%	6.0%	6.4%
North America / Pacific																
Revenues (in $m)	23	19	-19.0%	26	18	-31.7%	-6.0%	27	18	-32.8%	4.4%	29	19	-33.8%	4.3%	0.8%
PoS	61	59	-3.3%	61	61	0.0%	3.4%	64	63	-1.6%	3.3%	67	65	-3.0%	3.2%	3.3%
€/$ rate	**1.33**	**1.33**	**0.0%**	**1.27**	**1.14**	**-10.2%**	**-14.3%**	**1.27**	**1.17**	**-7.7%**	**2.8%**	**1.27**	**1.20**	**-5.3%**	**2.6%**	**-3.3%**
Total Revenues (net, in €m)	**642**	**705**	**9.7%**	**811**	**813**	**0.2%**	**15.4%**	**876**	**866**	**-1.1%**	**6.5%**	**943**	**926**	**-1.8%**	**6.9%**	**9.5%**
Total PoS	**712**	**778**	**9.3%**	**791**	**824**	**4.2%**	**5.9%**	**837**	**870**	**3.9%**	**5.6%**	**883**	**916**	**3.7%**	**5.3%**	**5.6%**
...Folli-Follie PoS	*607*	*662*	*9.1%*	*682*	*696*	*2.1%*	*5.1%*	*722*	*730*	*1.1%*	*4.9%*	*762*	*764*	*0.3%*	*4.7%*	*4.9%*
...Links of London PoS	*105*	*116*	*10.5%*	*109*	*128*	*17.4%*	*10.3%*	*115*	*140*	*21.7%*	*9.4%*	*121*	*152*	*25.6%*	*8.6%*	*9.4%*

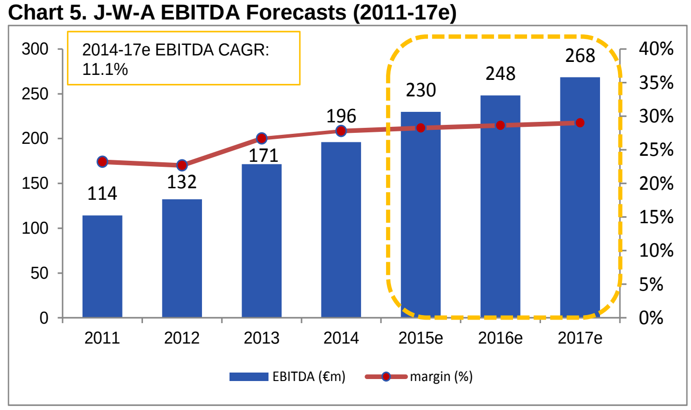
Source: FFG, Euroxx Research

Chart 4. J-W-A Revenue Forecasts (2011-17e, €m)



Source: FFG, Euroxx Research

Chart 5. J-W-A EBITDA Forecasts (2011-17e)



Source: FFG, Euroxx Research

Department Stores: Hold Up Well Despite Greek Exposure

Strong start to the year in revenue terms

Department Stores had a strong start to the year, recording revenue growth of 18% y-o-y in Q1'15, driven by the new Thessaloniki store and 7% l-f-l sales growth. We believe this strong performance reflects 'Attica' stores' brand strength in the domestic market and the significant market share gains during the crisis, despite the increased political/macro uncertainties in recent months, which have dented consumer sentiment.

New Attica Store in Thessaloniki drives 8.5% revenue growth in 2015e; 3-year CAGR at 7.1%

We have fine-tuned our estimates and we still see 8.5% y-o-y revenue growth this year to €167m, largely powered by the new Thessaloniki Attica store, which should contribute c90% of the incremental sales. That said, we still expect Attica and Golden Attica to record positive sales growth, albeit marginal, as a result of the protracted delays in the final agreement between the Greek government and its creditors. Going forward, we expect the macro improvement to positively affect consumer's disposable income and consumer sentiment, hence providing support to divisional sales, which are seen posting a 2014-17e CAGR of 7.1%. Note that under our base case scenario Greece will successfully conclude the current review and reach an agreement over a follow-up arrangement by end-June, which should partly restore economic recovery post H2'15e. We also expect increased tourism flows, esp. in Athens, to assist top-line.

Domestic macro improvement and operating leverage to support margins; we expect 2014-17e EBITDA CAGR of 7.8%

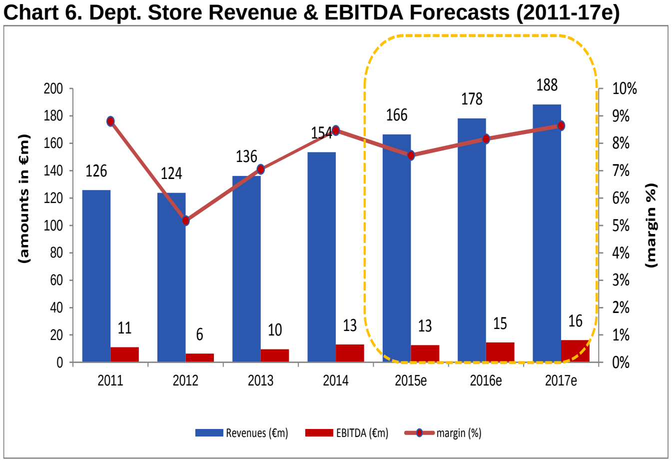
In profitability terms, following a 10% drop in divisional EBITDA in Q1'15 due to the higher opex related to the new Thessaloniki store, we still forecast EBITDA to settle at €12.6m this year, implying a 3% y-o-y decline. That said, we expect EBITDA growth to accelerate to 16% y-o-y in 2016e, courtesy of a more benign economic backdrop and operating leverage. All-in-all, we forecast a 2014-17e EBITDA CAGR of 7.8%.

Table 7. Department Stores Forecast Revisions (2015-17e)

				--------------2015e---------------				--------------2016e---------------				--------------2017e---------------				2014-17e
	2013	2014	y-o-y	Old	New	%ch.	y-o-y	Old	New	%ch.	y-o-y	Old	New	%ch.	y-o-y	CAGR
Total weighted sq.m	70,000	71,750	2.5%	77,000	77,000	0.0%	7.3%	77,000	77,000	0.0%	0.0%	77,000	77,000	0.0%	0.0%	2.4%
Sales/weighted sq.m. (€)	1,958	2,144	9.5%	2,171	2,167	-0.2%	1.1%	2,324	2,320	-0.2%	7.1%	2,456	2,452	-0.2%	5.7%	4.6%
Sales (€m)	**136**	**154**	**12.7%**	**167**	**166**	**-0.3%**	**8.5%**	**179**	**178**	**-0.3%**	**7.1%**	**189**	**188**	**-0.3%**	**5.7%**	**7.1%**
EBITDA (€m)	**9.6**	**13.0**	**35.4%**	**12.5**	**12.6**	**0.3%**	**-3.2%**	**14.4**	**14.5**	**1.3%**	**15.6%**	**15.6**	**16.3**	**4.2%**	**12.0%**	**7.8%**
EBITDA Margin	*7.0%*	*8.5%*		*7.5%*	*7.6%*			*8.0%*	*8.2%*			*8.3%*	*8.6%*			

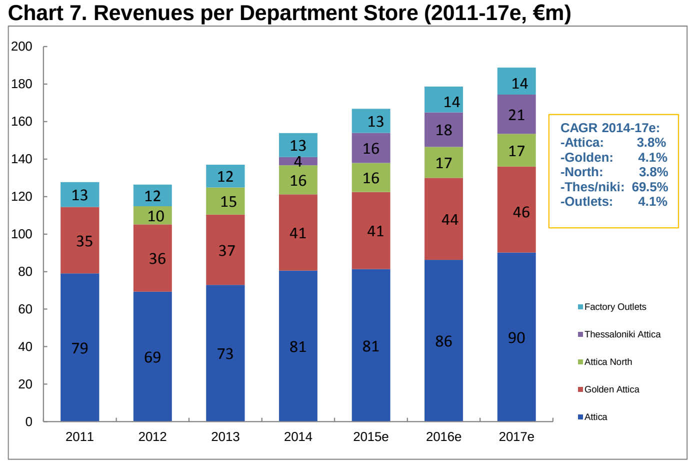
Source: FFG, Euroxx Research

Chart 6. Dept. Store Revenue & EBITDA Forecasts (2011-17e)



Source: FFG, Euroxx Research

Chart 7. Revenues per Department Store (2011-17e, €m)



Source: FFG, Euroxx Research

Retail/Wholesale: Juicy Deal to Support Growth post 2015e

Retail/Wholesale 2014-17e revenue CAGR of 8.3%, fuelled by the new Juicy deal and the strong Balkan operations

We have raised our previous sales and EBITDA forecasts by 3-6% to account mainly for a stronger Balkan performance (sales up 37% in Q1'15), resulting in slightly higher operating margins. All in all, we now expect divisional sales growth of 11% y-o-y this year to €152m, driven by 15-20% growth in Balkan operations, with Greek sales up by low single digit. We also expect FFG's exclusive distribution for the Juicy Couture brand in all Continental Europe, UK, Ireland and Cyprus to drive divisional sales CAGR of 8.3% in 2014-17e.

Retail/Wholesale 2014-17e EBITDA CAGR of 15.8%, driven by improving Greek profitability post 2015e

Profitability wise, lower rental costs in Romania and cost discipline in the Balkans should offset the margin weakness in the domestic operations, esp. this year. As a result, we now anticipate 14% y-o-y EBITDA growth this year to €17.0m, followed by a stronger 21% growth in 2016e, also on the back of improving consumer sentiment in Greece and the maturing of the Juicy business.

Opportunities from the 'collective' plan

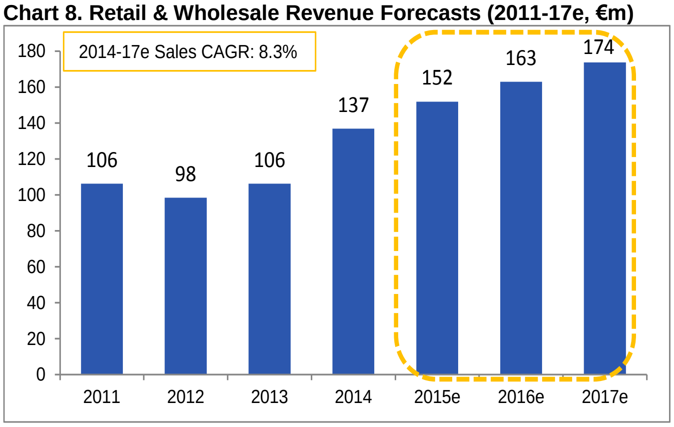
Finally, in our view, the management's plan to develop a network of mini department stores (the so-called 'collective' concept) in resorts, which also include third party brands, provide upside risks to our divisional forecasts. The positive long-term trends for the tourism sector and the anticipated macro improvement offer upside opportunities.

Table 8. Retail/Wholesale Forecast Revisions (2015-17e)

				---------------2015e---------------				---------------2016e---------------				---------------2017e---------------				2014-17e
in €m	2013	2014	*y-o-y*	*Old*	New	%ch.	*y-o-y*	*Old*	New	%ch.	*y-o-y*	*Old*	New	%ch.	*y-o-y*	*CAGR*
Sales	106	137	28.8%	148	152	2.9%	11.0%	159	163	2.8%	7.2%	169	174	3.0%	6.6%	8.3%
EBITDA	10.4	15.0	44.2%	16.4	17.0	3.7%	13.6%	19.6	20.6	5.0%	20.9%	22.0	23.3	5.6%	12.9%	15.8%
EBITDA Margin	*9.8%*	*11.0%*		*11.1%*	*11.2%*			*12.4%*	*12.6%*			*13.0%*	*13.4%*			

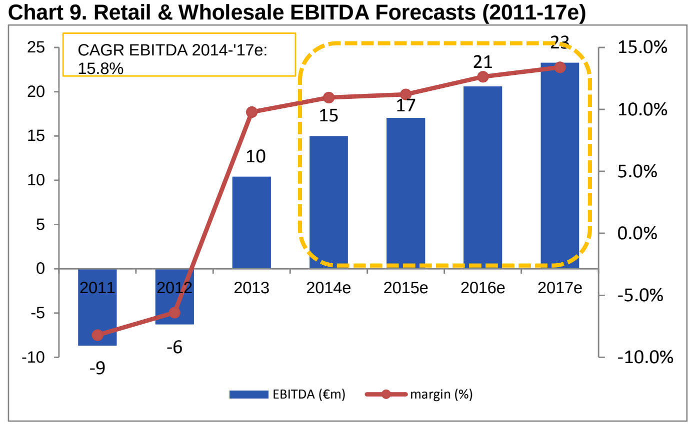
Source: FFG, Euroxx Research

Chart 8. Retail & Wholesale Revenue Forecasts (2011-17e, €m)



Source: FFG, Euroxx Research

Chart 9. Retail & Wholesale EBITDA Forecasts (2011-17e)



Source: FFG, Euroxx Research

FF Group: Strong Earnings Momentum to Continue

We expect a good set of results in 2015e…

Bringing it altogether, we now expect FFG's 2015e group sales to grow by 14% y-o-y to €1,135m on the back of the continuous store expansion in China. We also project an increase of 14% y-o-y in EBITDA to €255m, with the margin up 20bps y-o-y to 22.5%, again driven by the J-W-A division, where we expect a 50bps margin improvement. During the Q1'15 results conference call, FFG's CEO guided for low double-digit growth in revenue/EBITDA in 2015e, including the FX impact. Further down the P&L, we forecast slightly higher financial expenses and a one-off, non-cash item of €8m from the valuation of the convertible bond issued by the group to burden the bottom line, leading to reported net profit growth of 7% y-o-y to 152m. On a recurring basis, we now expect group EPS to shape at €2.39 (broadly unchanged), implying a healthy increase of 13% y-o-y.

…with adj. EPS up 13% y-o-y

…followed by a further 9% EPS ascent y-o-y in 2016e

Further ahead, we expect the improving Greek macro, the continuous expansion in China (we expect FFG to open 46 new F-F and LoL PoS p.a.) and a favourable *on the back of the expansion in China, the Greek recovery and favourable FX*

exchange rate movement, to positively affect group financials, leading to 7% y-o-y revenue growth in 2016e to €1,210m. We also expect EBITDA to rise by 9% y-o-y to €277m, with the margin improving by 40bps y-o-y to 22.9%, underpinned by the Retail/Wholesale division. We also project 2016e group EPS to grow by 9% y-o-y to €2.60, also on the back of lower total recurring net financial expenses (of €12m).

Table 9: FFG Forecast Revisions (2015-17e)

				--------------2015e---------------				--------------2016e---------------				--------------2017e---------------				2014-17e
in €m	**2013**	**2014**	***y-o-y***	***Old***	**New**	**%ch.**	***y-o-y***	***Old***	**New**	**%ch.**	***y-o-y***	***Old***	**New**	**%ch.**	***y-o-y***	***CAGR***
Group Sales	**887.4**	**998.1**	***12.5%***	**1,129.1**	**1,134.5**	***0.5%***	***13.7%***	**1,216.2**	**1,210.5**	***-0.5%***	***6.7%***	**1,303.9**	**1,290.8**	***-1.0%***	***6.6%***	***9.0%***
- JWA Sales	*642.3*	*704.9*	*9.7%*	*811.4*	*813.2*	*0.2%*	*15.4%*	*875.8*	*866.3*	*-1.1%*	*6.5%*	*943.1*	*925.8*	*-1.8%*	*6.9%*	*9.5%*
- Travel Retail Sales	*46.9*	*0.0*		*0.0*	*0.0*			*0.0*	*0.0*			*0.0*	*0.0*			
- Department Stores Sales	*136.2*	*153.5*	*12.7%*	*167.0*	*166.5*	*-0.3%*	*8.5%*	*178.8*	*178.3*	*-0.3%*	*7.1%*	*189.0*	*188.4*	*-0.3%*	*5.7%*	*7.1%*
- Retail/Wholesale Sales	*106.3*	*136.9*	*28.8%*	*147.6*	*152.0*	*2.9%*	*11.0%*	*158.5*	*163.0*	*2.8%*	*7.2%*	*168.8*	*173.8*	*3.0%*	*6.6%*	*8.3%*
- Other Sales	*2.5*	*2.8*	*12.0%*	*3.0*	*3.0*	*0.0%*	*7.1%*	*3.0*	*3.0*	*0.0%*	*0.0%*	*3.0*	*3.0*	*0.0%*	*0.0%*	*2.3%*
Gross Profit	**446.8**	**501.8**	***12.3%***	**561.4**	**567.9**	***1.2%***	***13.2%***	**611.2**	**613.3**	***0.3%***	***8.0%***	**658.8**	**659.4**	***0.1%***	***7.5%***	***9.5%***
Gross Margin	*50.3%*	*50.3%*		*49.7%*	*50.1%*			*50.3%*	*50.7%*			*50.5%*	*51.1%*			
Group EBITDA	**186.6**	**223.0**	***19.5%***	**256.3**	**254.9**	***-0.5%***	***14.3%***	**280.2**	**276.8**	***-1.2%***	***8.6%***	**303.4**	**299.8**	***-1.2%***	***8.3%***	***10.4%***
EBITDA Margin	*21.0%*	*22.3%*		*22.7%*	*22.5%*			*23.0%*	*22.9%*			*23.3%*	*23.2%*			
- J-W-A EBITDA	*171.4*	*196.0*	*14.4%*	*229.6*	*229.8*	*0.1%*	*17.2%*	*249.2*	*248.2*	*-0.4%*	*8.0%*	*269.2*	*268.4*	*-0.3%*	*8.2%*	*11.1%*
EBITDA %	*26.7%*	*27.8%*		*28.3%*	*28.3%*			*28.5%*	*28.6%*			*28.5%*	*29.0%*			
- Travel Retail EBITDA	*8.7*	*0.0*		*0.0*	*0.0*			*0.0*	*0.0*			*0.0*	*0.0*			
EBITDA %	*18.4%*	-		-	-			-	-			-	-			-
- Department Stores EBITDA	*9.6*	*13.0*	*35.4%*	*12.5*	*12.6*	*0.3%*	*-3.2%*	*14.4*	*14.5*	*1.3%*	*15.6%*	*15.6*	*16.3*	*4.2%*	*12.0%*	*7.8%*
EBITDA %	*7.0%*	*8.5%*		*7.5%*	*7.6%*			*8.0%*	*8.2%*			*8.3%*	*8.6%*			
- Retail/Wholesale EBITDA	*10.4*	*15.0*	*44.2%*	*16.4*	*17.0*	*3.7%*	*13.6%*	*19.6*	*20.6*	*5.0%*	*20.9%*	*22.0*	*23.3*	*5.6%*	*12.9%*	*15.8%*
EBITDA %	*9.8%*	*11.0%*		*11.1%*	*11.2%*			*12.4%*	*12.6%*			*13.0%*	*13.4%*			
- Other EBITDA	*-4.8*	*-1.1*	*-77.1%*	*-1.2*	*-1.2*	*3.8%*	*12.2%*	*-1.2*	*-1.2*	*3.2%*	*-3.0%*	*-1.1*	*-1.2*	*3.1%*	*-2.7%*	*1.9%*
Depreciation	21.3	20.6	*-3.0%*	22.7	25.1	*10.7%*	*21.7%*	24.5	28.0	*14.1%*	*11.4%*	26.4	30.5	*15.7%*	*9.1%*	*14.0%*
EBIT	**166.6**	**202.4**	***21.5%***	**233.6**	**229.8**	***-1.6%***	***13.6%***	**255.7**	**248.8**	***-2.7%***	***8.3%***	**277.0**	**269.3**	***-2.8%***	***8.2%***	***10.0%***
EBIT Margin	*18.8%*	*20.3%*		*20.7%*	*20.3%*			*21.0%*	*20.6%*			*21.2%*	*20.9%*			
Net Financials	-19.6	-10.7	*-45.5%*	-5.1	-12.0	*134.7%*	*12.4%*	-4.0	-10.0	*152.0%*	*-16.4%*	-2.9	-9.1	*216.9%*	*-9.4%*	
Net FX/Derivatives	-22.6	9.4	*n/m*	-6.0	-8.0	*33.3%*	*n/m*	0.0	0.0			0.0	0.0			
Other one-off gains/losses	269.3	-8.0	*n/m*	-5.0	-2.0	*-60.0%*	*-75.0%*	-4.0	-2.0	*-50.0%*	*0.0%*	-3.0	-2.0	*-33.3%*	*0.0%*	
PBT (reported)	**393.7**	**193.1**	***-50.9%***	**217.5**	**207.8**	***-4.5%***	***7.6%***	**247.7**	**236.8**	***-4.4%***	***13.9%***	**271.1**	**258.2**	***-4.8%***	***9.0%***	***10.2%***
PBT Margin	*44.4%*	*19.3%*		*19.3%*	*18.3%*			*20.4%*	*19.6%*			*20.8%*	*20.0%*			
Tax	-50.7	-47.4	*-6.5%*	-54.4	-52.0	*-4.5%*	*9.7%*	-60.7	-58.0	*-4.4%*	*11.7%*	-65.1	-62.0	*-4.8%*	*6.8%*	*9.4%*
Effective Tax Rate	*12.9%*	*24.5%*		*25.0%*	*25.0%*			*24.5%*	*24.5%*			*24.0%*	*24.0%*			
Minorities	-2.9	-4.2	*47.6%*	-3.6	-4.1	*13.2%*	*-3.2%*	-4.1	-4.7	*14.3%*	*15.6%*	-4.5	-5.3	*17.6%*		
Net Income	**340.1**	**141.5**	***-58.4%***	**159.5**	**151.8**	***-4.9%***	***7.2%***	**182.9**	**174.0**	***-4.8%***	***14.7%***	**201.5**	**190.9**	***-5.3%***	***9.7%***	***10.5%***
Net Margin	*38.3%*	*14.2%*		*14.1%*	*13.4%*			*15.0%*	*14.4%*			*15.5%*	*14.8%*			
EPS (€)	**5.08**	**2.11**	***-58.5%***	**2.38**	**2.27**	***-4.9%***	***7.5%***	**2.73**	**2.60**	***-4.8%***	***14.7%***	**3.01**	**2.85**	***-5.3%***	***9.7%***	***10.6%***
Adjusted Net Income*	85.4	141.2	*65.3%*	159.5	159.8	*0.1%*	*13.1%*	182.9	174.0	*-4.8%*	*8.9%*	201.5	190.9	*-5.3%*	*9.7%*	*10.6%*
Adjusted EPS* (€)	**1.28**	**2.11**	***65.3%***	**2.38**	**2.39**	***0.1%***	***13.1%***	**2.73**	**2.60**	***-4.8%***	***8.9%***	**3.01**	**2.85**	***-5.3%***	***9.7%***	***10.6%***

Note: (*) In adjusted Net Income & adjusted EPS we have excluded the one-off gain from the Travel Retail Business and the one-off cost from assets devaluation in 2013
2013 figures are from continuing operations (excl. Travel Retail division)
Source: FFG, Euroxx Research

2014-17e sales, EBITDA and adj. net profits CAGRs at 9%, 10% and 11%, respectively

To summarize, we expect FFG to achieve 2014-17e revenue CAGR of 9%, mainly driven by the J-W-A division (9.5% CAGR) and its further expansion in China. In a similar pattern, we forecast group EBITDA and recurring EPS to grow on average by 10.4% and 10.6% respectively, over the same period, as we assume FFG's profitability margins (gross, EBITDA, and EBIT) to improve modestly. The margin improvements over the next 3 years should be led by the increased penetration of higher-margin China, a favourable product mix and a recovery in domestic operations, aided by the economic turnaround in Greece and the Balkans.

Finally, regarding dividends, we expect FFG to declare a capital return of €0.40 per share for 2014, yielding 1.8%. FFG also returned during 2014 €0.75/share to shareholders (ex-date was on 23 September, yielding 2.4% at the time). The exact amount of this year's capital return should be announced shortly and approved at the company's AGM on 26 June. Going forward, we forecast DPS of €0.50-0.70 in 2015-17e, implying DY of 2-3%.

Euroxx vs Consensus

We stand 3% below consensus on 2015e EPS

Our 2015e EBITDA forecasts are in-line with Bloomberg consensus, while we are slightly above at the top line and 3% below at the EPS level. That said, our 2016-17e sales and EBITDA forecasts 1-4% above consensus. In EPS terms, we stand 7-8% below consensus in 2016-17e.

Table 10. Euroxx vs Consensus

	2015e			2016e			2017e		
(in €m)	Exx	Cons	vs Cons.	Exx	Cons	vs Cons.	Exx	Cons	vs Cons.
Sales	**1,135**	**1,112**	***2%***	**1,210**	**1,214**	***0%***	**1,291**	**1,322**	***-2%***
EBITDA	**255**	**255**	***0%***	**277**	**284**	***-2%***	**300**	**313**	***-4%***
EBITDA margin	*22.5%*	*22.9%*		*22.9%*	*23.4%*		*23.2%*	*23.7%*	
EBIT	230	231	*-1%*	249	259	*-4%*	269	292	*-8%*
EBIT margin	*20.3%*	*20.8%*		*20.6%*	*21.4%*		*20.9%*	*22.1%*	
Net profit	**160**	**164**	***-2%***	**174**	**185**	***-6%***	**191**	**211**	***-10%***
EPS (€)	**2.39**	**2.46**	**-3%**	**2.60**	**2.78**	**-7%**	**2.85**	**3.10**	**-8%**
DPS (€)	0.50	0.56	-11%	0.60	0.64	-6%	0.70	0.50	41%
Net Debt	104	25	*312%*	67	2	2798%	15	8	100%
Capex	-40	-28	*41%*	-32	-29	*11%*	-32	-31	*4%*

Source: Bloomberg, Euroxx Research

Strong Set of Q1'15 Results

Strong set of Q1 interims on the back of solid top-line growth (driven partly by positive FX impact)

Following previous quarters' trends, FFG recorded a strong set of Q1'15 results on the back of a solid top-line growth despite some margin pressure. Particularly, sales came in 7.4% above our estimates, rising by 17.8% y-o-y to €268.6m, driven by growth in all group's segments and by a positive FX impact of 10.6%. In divisional terms, the J-W-A division posted sales of €182.9m, up 13% y-o-y and in line with our forecast, driven by accelerating expansion in China. Retail/Wholesale revenues increased considerably by 43.5% y-o-y (well above our call) to €46.5m, supported by the expansion of the Juicy Couture business. Department Stores sales stood 18.4% higher y-o-y at €39.2m (9% beat), positively affected by the new opening of Attica Thessaloniki in Q4'14.

On the profitability front, group EBITDA grew by a lesser 12.8% y-o-y to €66.3m (8% above Exx), with the respective margin down 110bps to 24.7%. This was due to the 470bps drop in Retail/Wholesale margin (cycling an unsustainably high 21% in Q1'14) and the 140bps reduction in Department Stores. Further down the P&L, reported net income stood at €34.5m from €38.3m in Q1'14, down 10% y-o-y and 16% below our estimates, negatively impacted by a one-off, non-cash item of €7.9m from the valuation of the convertible bond issued by the group. Excluding the aforementioned one-off item, group adjusted net profit grew by 10.7% y-o-y to €42.4m (3% beat).

Group net debt amounted to €61.2m in Q1'15 vs €54.1m in 2014, whereas CapEx rose to €16.9m (vs €5.6m in Q1'14) due to investments towards digital infrastructure and LoL and Juicy business expansion. Group FCF (Op. CF minus net CapEx) shaped at €4.7m (vs -€9.2m in Q1'14), mainly due to positive FX differences of €72.5m.

Conference Call Highlights

- The management guided for a double-digit growth in 2015e revenues and EBITDA
- The management expects CapEx to grow in 2015e, on the back of investments towards digital technology, LoL and Juicy expansion
- Regarding cash flow generation, the management anticipates 2015e to be a positive year, while they noted that the entire group's cash is located abroad

Table 11. Q1'15 Results

in €m	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	*y-o-y*	Q1'15e	*Act. Vs Exx*
Total Group Sales	**205.1**	**229.3**	**203.7**	**249.4**	**228.0**	**251.0**	**245.0**	**274.1**	**268.6**	**17.8%**	**250.0**	**7.4%**
J-W-A Sales	146.8	176.1	135.7	183.7	161.9	192.5	158.0	192.5	182.9	13.0%	181.5	0.8%
Department Stores Sales	30.8	30.2	34.8	40.4	33.1	34.2	39.2	47.0	39.2	18.4%	35.9	9.2%
Retail/Wholesale Sales	27.3	21.6	32.7	24.7	32.4	23.7	47.0	33.8	46.5	43.5%	32.2	44.2%
Total Group EBITDA	**46.0**	**43.6**	**37.6**	**59.4**	**58.8**	**57.7**	**44.9**	**61.6**	**66.3**	***12.8%***	**61.3**	***8.3%***
J-W-A EBITDA	40.3	40.8	32.1	55.5	50.4	53.8	37.3	54.5	57.1	13.3%	54.4	5.0%
Department Stores EBITDA	1.0	4.1	2.7	1.8	1.9	3.2	2.7	5.2	1.7	-10.5%	2.9	-40.9%
Retail/Wholesale EBITDA	4.8	-0.9	3.8	2.7	6.8	1.0	5.0	2.2	7.6	*11.8%*	4.2	*80.9%*
Group EBITDA margin	***22.4%***	***19.0%***	***18.5%***	***23.8%***	***25.8%***	***23.0%***	***18.3%***	***22.5%***	***24.7%***		***24.5%***	
J-W-A EBITDA margin	*27.5%*	*23.2%*	*23.7%*	*30.2%*	*31.1%*	*27.9%*	*23.6%*	*28.3%*	*31.2%*		*28.7%*	
Department Stores EBITDA margin	*3.2%*	*13.6%*	*7.8%*	*4.5%*	*5.7%*	*9.4%*	*6.9%*	*11.1%*	*4.3%*		*8.0%*	
Retail/Wholesale EBITDA margin	*17.6%*	*-4.2%*	*11.6%*	*10.9%*	*21.0%*	*4.2%*	*10.6%*	*6.5%*	*16.3%*		*10.5%*	
EBIT	**41.0**	**38.5**	**32.5**	**54.6**	**53.8**	**52.8**	**40.0**	**55.8**	**57.2**	**6.5%**	**56.0**	**2.2%**
EBIT margin	*20.0%*	*16.8%*	*16.0%*	*21.9%*	*23.6%*	*21.0%*	*16.3%*	*20.4%*	*21.3%*		*22.4%*	
Net financial income (expenses)	-9.4	173.2	10.0	53.3	-4.5	-8.9	5.0	-1.2	-10.6	136.6%	-3.0	254.0%
Pre-tax profit	**31.6**	**211.7**	**42.5**	**107.9**	**49.3**	**43.9**	**45.0**	**54.6**	**46.6**	**-5.4%**	**53.0**	**-12.0%**
Tax	5.0	-1.8	1.6	45.8	10.5	15.2	15.0	6.7	11.8	12.4%	11.7	0.9%
Effective tax rate	*15.8%*	*-0.8%*	*3.9%*	*42.5%*	*21.2%*	*34.5%*	*33.4%*	*12.3%*	*25.2%*		*22.0%*	
Reported Net profit	**26.7**	**213.0**	**40.4**	**60.2**	**38.3**	**27.7**	**29.3**	**45.9**	**34.5**	***-9.9%***	**41.3**	***-16.5%***
Adjusted Net profit	**26.7**	**17.9**	**40.4**	**0.5**	**38.3**	**27.7**	**29.3**	**45.9**	**42.4**	**10.7%**	**41.3**	**2.6%**

Source: FFG, Euroxx Research

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Valuation Method
We value FFG using a combination of DCF (50% weight) and relative valuation multiples (2015e P/E and EV/EBITDA, 50% weight combined, to which we apply a 20% discount to account for its smaller size/scope). For our peer group, we use a combination of European and US players in the luxury goods sector, some Hong Kong-based jewelers and a couple of key retailers.

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Date	Rating	Share Price	Target Price
28-03-13	Under Review	13.29	U/R
03-12-14	Equalweight	31.99	34.00
16-06-15	Overweight	22.30	34.50

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