SPACTIV-
ELISABETTA FRANCHI

Analyst: Paola Carboni - p.carboni@equita.eu

December 2, 2019

Dear client,

RE: Research Report

Attached please find a copy of a research report in relation to Spactiv S.p.A. and its possible business combination with Betty Blue S.p.A.

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Very truly yours,

Domenico Ghilotti
Co-Head of Research Team

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Not rated

Risk: not rated

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EQUITY RESEARCH

Italy| Fashion & Luxury

STOCK DATA	
Price €	9.8
Bloomberg code	SPTV IM
Market Cap. (€ mn)	199
Free Float	42%
Shares Out. (mn)*	20.3
52-week range	9.14 - 9.8
Daily Volumes (mn)	2.85

PERFORMANCE	1M	3M	12M
Absolute	0.5%	1.0%	3.2%
Rel. to FTSE all shares	-2.7%	-8.4%	-17.9%

MAIN METRICS	2018	2019E	2020E
Revenues	115.6	123.0	132.6
Adjusted EBITDA	22.3	23.3	25.2
Net income	15.0	12.1	14.1
Adj. EPS	74.0	72.1	82.3
DPS ord - € cents	73.9	50.0	55.0

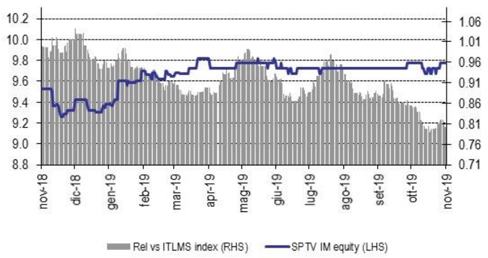
MULTIPLES	2018	2019E	2020E
P/E adj	13.2 x	13.6 x	11.9 x
EV/EBITDA Adj.	8.4 x	8.2 x	7.6 x

REMUNERATION	2018	2019E	2020E
Div. Yield ord	7.5%	5.1%	5.6%
Adj. FCF yield	8.8%	5.4%	7.6%

INDEBTEDNESS	2018	2019E	2020E
NFP	9.3	5.0	6.4
D/EBITDA	n.m.	n.m.	n.m.
Interests cov	n.m.	n.m.	n.m.

** Number of shares at the Business Combination.*

PRICE ORD LAST 365 DAYS



A SUCCESSFUL FAST-FASHION MODEL IN ACCESSIBLE LUXURY

Elisabetta Franchi is an Italian women fashion brand active in the accessible luxury segment. The Company boasts solid financials and a healthy track record of growth (+6.5% 3Y CAGR of revenues and +10% in earnings) thanks to its fast-fashion operating model and an effective marketing strategy. The business combination with Spactiv will help to catch further untapped growth opportunities (+8% 3Y CAGR in revenues and net profits in 2020-22E).

Solid financials and a healthy track record

Elisabetta Franchi is an Italian women fashion brand active in the accessible luxury segment. Its name comes from the eponymous designer, Elisabetta Franchi, who is also founder, Chairman and sole owner of the Company managing the brand.

With € 123 mn revenues in 2019E (of which 40% outside of Italy)**, Elisabetta Franchi boasts solid financials (EBITDA margin close to 19%, positive NFP) and a healthy track record (2017-19E),** with +6.5% 3Y CAGR in revenues and +10% in earnings, and cumulated FCF of € 40 mn in the three years.

Competitive advantages in accessible luxury

The Company owes its last few years' success to:

- **Smart positioning in accessible luxury,** combining attractive pricing with the allure and perception of a real luxury brand (a visible creative director, fashion catwalks, celebrities, strong offering of red-carpet dresses etc).
- **Effective marketing strategy,** hinged on new digital media and on the personal involvement of the creative entrepreneur to share a full and authentic set of values while engaging in a constant dialogue with its consumers/followers.
- **A lean supply chain,** leveraging on internal prototyping and consolidated relationships with local third party producers to achieve **fast time to market**, **which in turn allows in-season replenishments of best-selling items** for both monobrand stores and multibrand accounts, thus maximizing sell-through.
- **A multichannel distribution, with 82 monobrand stores** (of which 18 full-price DOS, mostly located in Italy) **and about 1,100 multibrand doors.**

Business combination set to open a new phase of development

The business combination with Spactiv and the consequent listing on the AIM segment of Borsa Italiana (with the aim of listing on the STAR or MTA segment within 18 months) will mark the start of a new phase of development for the Company aiming at catching further untapped growth opportunities:

- **Widening the product range** (almost 90% of revenues still in apparel)
- **Strengthening its presence abroad** (namely in Europe ex-Italy, which we estimate to account for just 23% of revenues still in FY19E)
- **Consolidating the Italian market**
- **Strengthening of ecommerce** (at 8% of revenues in 2019E).

For 2020-22E we expect 3Y CAGR of +8% in both sales and earnings.

Spactiv's promoters have a successful track-record of investments in retail and consumer goods (exit at more than 5x the initial capital with *La Rinascente* and *Printemps*) and will contribute their competences, experience and networking.

The business combination, will be submitted for approval to Spactiv shareholders mostly likely in February, and should be effective within 1Q20.

The transaction envisages an equity value for 100% of the Company at € 195 mn, or € 190 mn EV, implying 8.2x 2019 adj. EV/EBITDA and 8.9x adj. EV/EBIT.

MAIN FIGURES € mn	2017	2018	2019E	2020E	2021E	2022E
Revenues	**109.2**	**115.6**	**123.0**	**132.6**	**143.5**	**155.0**
Growth	7%	6%	6%	8%	8%	8%
Gross profit	**57.8**	**57.8**	**65.2**	**71.0**	**77.3**	**84.1**
Growth	10%	0%	13%	9%	9%	9%
Adjusted EBITDA	**20.4**	**22.3**	**23.3**	**25.2**	**26.8**	**28.5**
Growth	6%	9%	4%	8%	6%	6%
Adj. EBIT	**17.9**	**19.8**	**21.4**	**23.2**	**24.5**	**26.0**
Growth	7%	10%	-9%	10%	24%	6%
Profit before tax	**17.2**	**19.6**	**17.4**	**19.8**	**24.5**	**25.9**
Growth	1%	14%	-11%	14%	24%	6%
Net income	**12.0**	**15.0**	**12.1**	**14.1**	**17.4**	**18.4**
Growth	8%	25%	-20%	17%	24%	6%
Adj. net inc.	**12.0**	**15.0**	**14.6**	**16.7**	**17.4**	**18.4**
Growth	8%	25%	-3%	14%	4%	6%
MARGIN	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Gross margin	52.9%	50.0%	53.0%	53.5%	53.9%	54.2%
Ebitda adj. margin	18.7%	19.3%	18.9%	19.0%	18.7%	18.4%
Ebit margin	16.4%	17.2%	17.4%	17.5%	17.1%	16.7%
Pbt margin	15.7%	17.0%	14.1%	14.9%	17.1%	16.7%
Ni rep margin	11.0%	13.0%	9.8%	10.6%	12.1%	11.9%
Ni adj margin	11.0%	13.0%	11.9%	12.6%	12.1%	11.9%
SHARE DATA	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
EPS - € cents	59.1	74.0	59.4	69.2	85.6	90.6
Growth	8%	25.2%	-20%	17%	24%	6%
Adj. EPS	59.1	74.0	72.1	82.3	85.6	90.6
Growth	8%	25.2%	-3%	14%	4%	6%
DPS ord - € cents	49.3	73.9	50.0	55.0	65.0	70.0
BVPS - € cents	228.3	253.1	275.2	302.5	323.1	343.7
VARIOUS - € mn	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Capital employed	44.5	42.1	50.9	55.0	58.8	63.7
FCF Adj.	9.5	17.4	10.7	15.1	11.5	12.5
Capex	3.1	1.5	0.6	1.5	3.5	3.5
Working capital	36.6	35.3	37.9	40.9	44.8	48.8
INDEBTNESS - €mn	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
NFP	1.8	9.3	5.0	6.4	6.8	6.1
D/E	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
D/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Interests cov	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
MARKET RATIOS	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
P/E ord	16.6 x	13.2 x	16.5 x	14.2 x	11.4 x	10.8 x
P/E adj	16.6 x	13.2 x	13.6 x	11.9 x	11.4 x	10.8 x
PBV	4.3 x	3.9 x	3.6 x	3.2 x	3.0 x	2.9 x
P/CF	15.8 x	10.5 x	17.5 x	12.0 x	13.2 x	12.4 x
EV FIGURES	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
EV/Sales	1.8 x	1.6 x	1.6 x	1.4 x	1.3 x	1.2 x
EV/EBITDA Adj.	9.6 x	8.4 x	8.2 x	7.6 x	7.1 x	6.7 x
EV/EBIT Adj.	10.9 x	9.5 x	9.0 x	8.2 x	7.8 x	7.4 x
EV/CE	4.4 x	4.5 x	3.8 x	3.5 x	3.2 x	3.0 x
REMUNERATION	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Div. Yield ord	5.0%	7.5%	5.1%	5.6%	6.6%	7.1%
Adj. FCF yield	4.8%	8.8%	5.4%	7.6%	5.8%	6.3%
ROE	26.3%	30.8%	27.3%	28.5%	27.4%	27.2%
ROCE	29.4%	33.2%	32.5%	31.5%	30.2%	29.7%

Source: Company data and EQUITA SIM estimates - # of shares at the Business Combination

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INVESTMENT SUMMARY

A SUCCESSFUL FAST-FASHION MODEL IN ACCESSIBLE LUXURY

ELISABETTA FRANCHI

Elisabetta Franchi is an Italian women fashion brand active in the accessible luxury segment. Its name comes from the eponymous designer, Elisabetta Franchi, who is also founder, Chairman and sole owner of the Company managing the brand, Betty Blue SpA, based in Bologna.

Elisabetta Franchi has outperformed its reference market in the last few years, with a revenue growth of +6.5% 3Y CAGR in 2017-19E vs. +3.3% of the reference market worldwide, thanks to its smart and distinctive positioning, effective marketing strategy, lean supply chain, and a multichannel distribution approach.

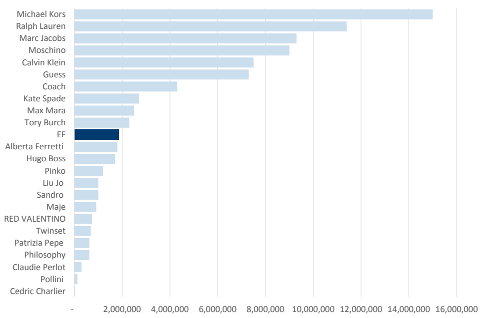
Smart positioning in accessible luxury

Compared to its affordable luxury competitors, Elisabetta Franchi boasts some features that are usually typical of the real luxury players:

- **Strong brand identity**, with a well-defined style, made of highly feminine and sensual garments, a strong creativity content, and a easily recognizable **logo**
- **A famous creative director, Elisabetta Franchi herself,** with her direct exposure and engagement**.** This is quite an unusual feature in the accessible luxury segment.
- **Fashion shows** (two catwalks a year, in Milan), active Instagram communication, and celebrities' endorsement.
- **A distinctive offering of "red-carpet dresses",** accounting for about half of the catwalk collection, which in turn represents about 20% of every season's items and about 10% of total revenues.

Effective marketing strategy, hinged on Elisabetta Franchi

ELISABETTA FRANCHI INSTAGRAM FOLLOWERS VS. MAIN COMPETITORS



Source: Instagram

Even though the Company can rely on a well-structured design team of 14 people, the role of Elisabetta Franchi remains highly important for the brand.

She's the soul of the brand, whose strength and identity lie in her personal engagement and in her ability to convey an authentic set of values: inclusivity, femininity, family, love for animals, respect, discipline, passion for work, self-made women. T**hese become the base of the brand's philosophy and she shares them with consumers/followers through social media by exposing her own personal and working life.**

Her personal Instagram account is in fact used as the official account of the brand itself, and has reached 1.86 mn followers as of October 2019 (+557k since October 2018).

We believe her personal engagement is also one of the reasons why the marketing budget of the Company is relatively low (2.7% of revenues on average in 2016-19) compared to main competitors (we estimate at about 6%).

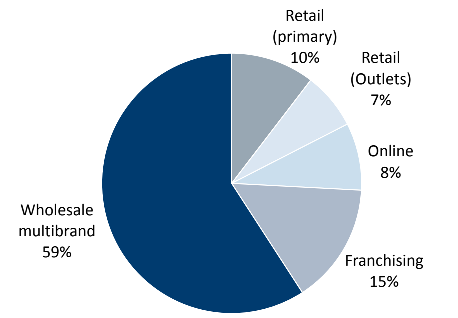
Lean supply-chain to match fast-fashion with accessible luxury

Betty Blue is able to leverage on best-selling items by launching in-season productions with 2-3 weeks lead-time, which are then made available to both monobrand and multibrand stores through the company B2B online platform granting 24/48 hours delivery for replenishments: this allows both the Company and its wholesale customers to maximise sales opportunities and full-price sell-through.

Replenishments account for about 15% of revenues, with 220k fast-fashion items delivered from the Company's B2B platform in 2018.

This is possible thanks to a lean supply chain, with internal prototyping, flexible raw material sourcing, proximity production, internal quality control and logistics, monitoring of sell-out data from all DOS stores and some of the main franchised stores, together with an outlet channel (7% of revenues) to manage any excess inventory.

SALES BREAK-DOWN BY CHANNEL (2019E)

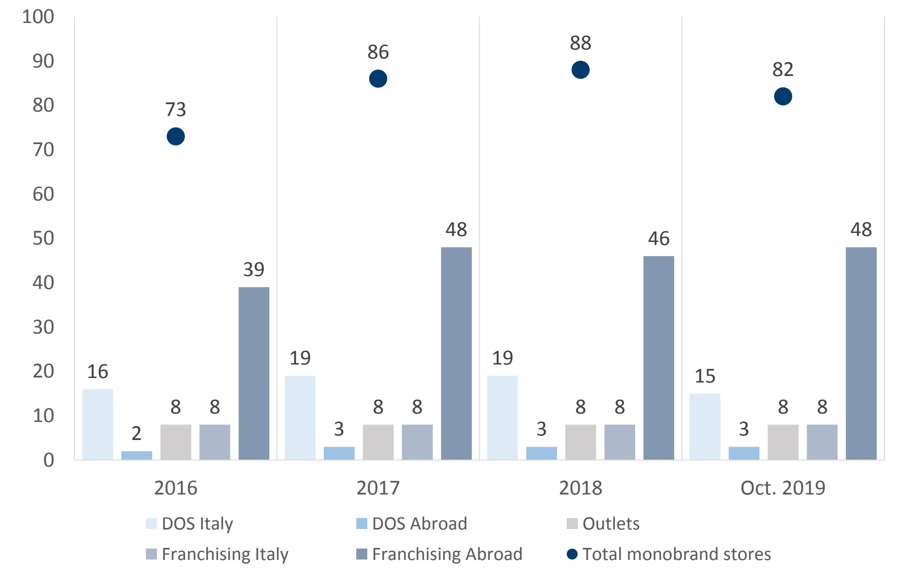


Source: Equita SIM estimates

Multichannel distribution set-up

The multibrand is clearly still the most important channel (about 60% of revenues), as it is easy to expect from a still relatively young brand, but the Company has progressively build up a monobrand network, now counting 82 stores, of which 26 directly operated (including 8 outlets), to have a direct contact with the final consumer.

MONOBRAND STORE NETWORK EVOLUTION



Source: Company data

MONOBRAND STORE OPENINGS PER YEAR

Opening Year	Franchising	DOS	Franchising + Dos
2016	5	2	7
2017	9	6	15
2018	11	0	11
2019	4	0	4

Source: Company data – Openings gross of closures

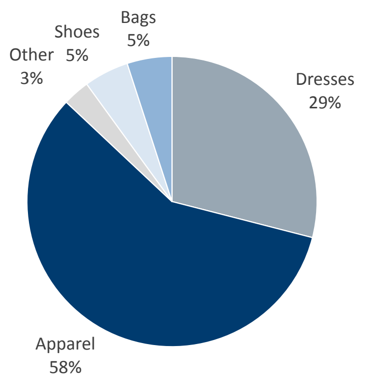
A dedicated team within the company is responsible for the monobrand network expansion strategy (including selection of franchisee), and has already proven of being able to develop about 10 stores per annum in the last few years (although the number of stores has remained pretty stable since 2017 due to some opportunistic closures aimed at improving the quality of the network).

Stores on average are 80-100 sqm large, mostly located in secondary cities, with average sales density at around 8k €/sqm and break-even time of 15-18 months from opening (we estimate 18-24 months abroad).

The recent track record in retail is encouraging with a robust SSSg of +11% CAGR in the last 3Y (2017-19E), including about +7% we expect for this year**, of which we estimate about half driven by volume** and the remaining half by a gradual price repositioning.

The Company also has an online store, launched in Italy in 2010 and **now active in more than 30 countries, mostly Europe and former Soviet Union;** ecommerce revenues account for 8% of 2019E sales, with strong growth in the last few years (+67% 3Y CAGR) underpinned by growing CRM features and by the Company's active digital communication.

SALES BREAKDOWN BY CATEGORY (2019E)



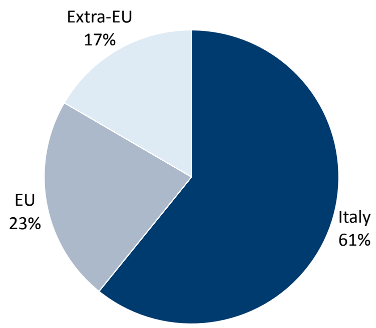
Source: Equita SIM estimates

GETTING READY FOR NEW GROWTH OPPORTUNITIES

The business combination with Spactiv and the consequent listing on the AIM segment of Borsa Italiana (with the aim of listing on the STAR or MTA segment within 18 months) will mark the start of a new phase of development for the Company, targeting further untapped growth opportunities:

- **Widening the product range** by strengthening the offering in accessories (handbags and shoes accounting for 5% each of total sales, but with already higher incidence in DOS and online) and also by developing some new occasions of use within apparel (namely casualwear and activewear) .The execution will require additional resources in the style and merchandising department; we therefore expect first results of these efforts to become visible after 2021.

SALES BREAKDOWN BY GEOGRAPHY (2019E)



Source: Equita SIM estimates

- **Raising penetration abroad,** namely in Europe ex-Italy (still accounting for just 23% of revenues in FY19E), through new multibrand doors and new monobrand openings (both DOS and franchising). Focus will be mainly on France, Germany and Spain, which have been already providing encouraging results through the Company's existing monobrand stores there and through the ecommerce webisite. **The growth strategy in these countries will leverage also on opening of Shop-in-shops in concessions** within main department stores, where Elisabetta Franchi currently has no exposure, as opposed instead to the wide presence of some of its main competitors.
- **Consolidating the Italian market,** leveraging on the rationalization and consolidation of the multibrand network, **opening of selected DOS** (moving the focus more towards big cities rather than province towns), **potential conversion to DOS of some high potential franchising location, opening of Shop-In-Shops**.
- **Strengthening the ecommerce business**, leveraging on some new omnichannel features and on increasing presence at main e-tailers.

SOLID FINANCIAL TRACK RECORD AND HEALTHY GROWTH PROSPECTS

We consider the 2016-19E period based on the 2019 financial metrics which have formed the base for the valuation of Betty Blue ahead of the business combination, i.e.:
- € 123 mn revenues
- € 23.3 mn Adj. EBITDA
- € 21.4 mn Adj. EBIT
- € 5 mn cash at year end after distribution of € 15 mn dividends, and gross of the costs envisaged for the business combination (€ 2.5 mn).

BETTY BLUE SPA P&L (Italian Gaap) - € mn

	2016		2017		2018		2019E		3Y CAGR
Sales	**101.9**		**109.2**		**115.6**		**123.0**		
Increase	n.a.		*7%*		*6%*		*6%*		*6.5%*
Gross Margin	**52.5**	**51.5%**	**57.8**	**52.9%**	**57.8**	**50.0%**	**65.2**	**53.0%**	
Marketing	(2.9)	-2.8%	(3.1)	-2.8%	(3.1)	-2.6%	(3.2)	-2.6%	
Sales & Distribution	(6.9)	-6.8%	(8.2)	-7.5%	(8.1)	-7.0%	(8.7)	-7.0%	
Other services	(6.6)	-6.5%	(7.3)	-6.7%	(7.6)	-6.5%	(10.9)	-8.9%	
Rents	(4.0)	-3.9%	(4.5)	-4.1%	(5.0)	-4.3%	(5.3)	-4.3%	
Personnel	(11.8)	-11.6%	(13.3)	-12.2%	(15.0)	-13.0%	(16.4)	-13.3%	
Provisions and write-downs	(1.1)	-1.0%	(1.7)	-1.5%	(1.7)	-1.5%	(2.6)	-2.1%	
Other income/costs		0.1%	.6	0.6%	4.9	4.2%	1.8	1.5%	
EBITDA Adj.	**19.3**	**18.9%**	**20.4**	**18.7%**	**22.3**	**19.3%**	**23.3**	**18.9%**	
Increase	n.a.		*6%*		*9%*		*4%*		*6.5%*
EBITDA	**19.3**	**18.9%**	**20.4**	**18.7%**	**22.3**	**19.3%**	**19.9**	**16.2%**	
Increase	n.a.		*6%*		*9%*		*-11%*		
D&A	(2.5)	-2.4%	(2.5)	-2.3%	(2.5)	-2.2%	(1.9)	-1.5%	
EBIT Adj.	**16.8**	**16.5%**	**17.9**	**16.4%**	**19.8**	**17.2%**	**21.4**	**17.4%**	
Increase	n.a.		*7%*		*10%*		*8%*		*8.3%*
EBIT	**16.8**	**16.5%**	**17.9**	**16.4%**	**19.8**	**17.2%**	**18.0**	**14.6%**	
Increase	n.a.		*7%*		*10%*		*-9%*		
Total financial charges	.2		(.8)		(.2)		(.6)		
Pre-tax profit	**17.0**		**17.2**		**19.6**		**17.4**		
Increase	n.a.		*1%*		*14%*		*-11%*		
Taxes	(5.9)		(5.2)		(4.6)		(5.3)		
Net income	**11.1**		**12.0**		**15.0**		**12.1**		
Increase	n.a.		*8%*		*25%*		*-20%*		
Adjusted Net Profit	**11.1**		**12.0**		**15.0**		**14.6**		
Increase	n.a.		*8%*		*25%*		*-3%*		*9.7%*

Source: Company data and EQUITA SIM estimates

As shown in the table above, the Company boasts a solid track record (+6.5% 3Y CAGR in 2016-18 of both revenues and Adj. EBITDA), **a high profitability** (18.9% adj. EBITDA margin, or 17.9% when excluding the fiscal benefit of the "patent box"), **and a strong FCF generation (€ 40 mn cumulated in the three years),** which in turns stems from high margins, good control of working capital and limited capex in recent years.

Our estimates for the next three years envisage the continuation of a growth path similar to the past, underpinned by the strategy already discussed.
We expect most of growth to come from ecommerce, whilst we understand management will maintain a prudent and disciplined approach to retail expansion (no flagship stores envisaged, only few new openings per annum), in order to preserve the Company's healthy profitability and cash generation profile.

BETTY BLUE SPA P&L AFTER BUSINESS COMBINATION (IFRS) - € mn

	2019E		2020E		2021E		2022E		3Y CAGR
Sales	**123.0**		**132.6**		**143.5**		**155.0**		
Increase	*6%*		*8%*		*8%*		*8%*		*8.0%*
Gross Margin	**65.2**	**53.0%**	**71.0**	**53.5%**	**77.3**	**53.9%**	**84.1**	**54.2%**	
Marketing	(3.2)	-2.6%	(4.4)	-3.3%	(5.8)	-4.0%	(7.0)	-4.5%	
Sales & Distribution	(8.7)	-7.0%	(9.5)	-7.1%	(10.4)	-7.2%	(11.4)	-7.3%	
Other services	(10.9)	-8.9%	(12.5)	-9.4%	(9.5)	-6.6%	(10.1)	-6.5%	
Rents	(5.3)	-4.3%	(5.5)	-4.1%	(6.0)	-4.2%	(7.0)	-4.5%	
Personnel	(16.4)	-13.3%	(17.4)	-13.1%	(18.8)	-13.1%	(20.2)	-13.0%	
Provisions and write-downs	(2.6)	-2.1%	(2.0)	-1.5%	(1.3)	-0.9%	(1.2)	-0.8%	
Other income/costs	1.8	1.5%	2.1	1.5%	1.2	0.8%	1.3	0.9%	
EBITDA Adj.	**23.3**	**18.9%**	**25.2**	**19.0%**	**26.8**	**18.7%**	**28.5**	**18.4%**	
Increase	*4%*		*8%*		*6%*		*6%*		*6.9%*
EBITDA	**19.9**	**16.2%**	**21.8**	**16.5%**	**26.8**	**18.7%**	**28.5**	**18.4%**	
Increase	*-11%*		*10%*		*23%*		*6%*		
D&A	(1.9)	-1.5%	(2.0)	-1.5%	(2.3)	-1.6%	(2.5)	-1.6%	
EBIT Adj.	**21.4**	**17.4%**	**23.2**	**17.5%**	**24.5**	**17.1%**	**26.0**	**16.7%**	
Increase	*8%*		*9%*		*6%*		*6%*		*6.6%*
EBIT	**18.0**	**14.6%**	**19.8**	**15.0%**	**24.5**	**17.1%**	**26.0**	**16.7%**	
Increase	*-9%*		*10%*		*24%*		*6%*		
Total financial charges	(.6)		(.0)		(.0)		(.0)		
Pre-tax profit	**17.4**		**19.8**		**24.5**		**25.9**		
Increase	*-11%*		*14%*		*24%*		*6%*		
Taxes	(5.3)		(5.7)		(7.1)		(7.5)		
Net income	**12.1**		**14.1**		**17.4**		**18.4**		
Increase	*-20%*		*17%*		*24%*		*6%*		
Adjusted Net Profit	**14.6**		**16.7**		**17.4**		**18.4**		
Increase	*-3%*		*14%*		*4%*		*6%*		*7.9%*

Source: Company data and EQUITA SIM estimates

More in detail, we expect **+8% sales CAGR in 2020-22E, driven by:**
- **Ecommerce,** with about +33% 3Y CAGR expected
- **Retail** (+11% CAGR expected), **with +4.7% SSSg CAGR (vs. +11% of the last three years,** allowing for much lower contribution from pricing), 3 new DOS per annum in 2021 and 2022 and one shop in shop (no new openings envisaged in 2020), plus possibly one further outlet at the end of the period (on top of the one planned to open in San Marino next year).
- **+3.5% CAGR in wholesale, above +2% of the last three years,** driven by growth of the franchising channel (we assume +5 net new openings per annum) and of e-tailers, but also underpinned by growth of multibrand accounts abroad. **In particular the positive trend of the S/S20 order backlog (up by +5% vs. the corresponding season in 2019) supports our +4% estimate for this channel in FY20E.**

Overall our model is consistent with management's ambition of opening 10/12 new monobrand stores per annum as from 2021 (including both DOS and franchised stores), although including also some store closures, as it has been the case already in the last few years due to the underlying strategy of raising the quality of the network.

Looking to profitability, our estimates allow for some gross margin expansion in the period (+130 bps) driven by the evolution of the sales mix, with faster growth in retail/ecommerce vs. wholesale. **This is set to be offset by growing opex** (we estimate +130 bps as a percentage of revenues over the three year period), as **we believe the growth strategy targeted by management will entail higher costs for marketing** (particularly to underpin growth abroad), **personnel** (creative department, merchandising, commercial area, stores), **rents** (new openings) and **IT** (forecasting & control, CRM, etc.).

On top of this, Adj. Ebitda will be impacted by a decreasing contribution from the patent box benefit (from € 1.3 mn in 2020 to about € 0.7 mn per annum from 2021 onwards). **As a result, we thus expect a small dilution of profitability during the next three years, with Adj. EBITDA CAGR of +7% and margin down -50 bps overall.**
With nil financial charges (vs. € -0.7 mn in 2019E of write-down in financial receivables) and a constant normalized tax rate of around 30%, **our assumptions lead to +8% 3Y CAGR in adj. net income.**

We expect the company to maintain a solid cash generation profile (close to € 40 mn cumulated in the next three years), with adj. FCF conversion estimated at about 50% of adj. EBITDA on average, although less strong than in the last three years factoring in:
- **slightly higher working capital** (possibly higher inventory as a consequence of the retail/ecommerce development)
- g**rowing capex,** particularly in the later years, as we are allowing for investments in new openings to restart in 2021-22E and **for growing investments in IT.** As per management indications, we are including cumulated capex for the 4Y period 2019-22E of € 9 mn.

This should still allow the Company to confirm an interesting dividend flow: we are assuming a pay-out close to 80%.

PEERS COMPARISON

We have identified six players active in the premium or accessible luxury space, although in many cases with highly different product/geographic/channel exposure compared to Elisabetta Franchi. Compared to the selected panel, Elisabetta Franchi has:
- **higher profitability, better growth prospects in terms of revenues, healthier balance sheet** (net cash vs. 0.6x D/EBITDA average for the panel)
- **As much strong FCF conversion and similar earnings growth.** If we had to exclude the decreasing contribution of the patent box, adj. net profit 3Y CAGR in the 2019-21 period would be consistent with the +10% average of the panel
- **Few weaker features, namely, higher reliance on the domestic market and on the wholesale channel**, as well as a higher exposure to the outlet channel, at 40% of retail revenues, as opposed to 30% at most for peers.

ACCESSIBLE LUXURY PEERS'- MARKET MULTIPLES

	Price	Perf.	EV/EBIT excl. IFRS16			P/E adj.			FCF Yield		
	p.s.	3M	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
RALPH LAUREN COR	108.7	24%	9.2	9.1	8.4	14.4	13.1	11.8	10.2%	9.0%	9.2%
TAPESTRY INC	27	33%	8.1	8.3	7.8	10.6	10.3	9.7	10.5%	11.2%	11.8%
CAPRI HOLDINGS L	37.5	41%	9.1	8.1	6.8	7.6	7.2	6.7	11.0%	14.1%	14.4%
HUGO BOSS -ORD	43	-16%	9.0	8.4	7.8	13.3	11.9	11.0	8.3%	8.7%	9.2%
SMCP SA	11.2	-10%	8.4	6.9	5.7	12.3	9.9	8.5	2.9%	6.7%	9.1%
AEFFE SPA	2.0	29%	11.9	9.0	7.0	18.0	12.7	10.5	4.4%	13.4%	13.4%
Average		**17%**	**9.3**	**8.3**	**7.3**	**12.7**	**10.8**	**9.7**	**7.9%**	**10.5%**	**11.2%**

Source: Bloomberg, Equita Sim elaborations

However, we see the still relatively less diversified geographic mix and channel mix of Elisabetta Franchi as an opportunity for future growth, and in fact the management strategy for the next few years will move also in this direction.
We would thus focus on the few rewarding features we have identified, which can justify some premium for Elisabetta Franchi compared to peers.
The business combination with Spactiv envisages:
- **An Equity value for 100% of Betty Blue of € 195 mn;**
- **EV of € 190 mn, assuming a € 5 mn positive NFP of Betty Blue, implying 2019 Adj. EV/EBITDA of 8.2x and Adj. EBIT of 8.9x**.

Further to the business combination, the entrepreneur Elisabetta Franchi (through her holding company Gingi) **will remain major shareholder,** with a stake ranging from 58.3% (in case of no withdrawal) to 65.1% (in case of 30%-1 ordinary share withdrawals).

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A SUCCESFUL FAST-FASHION MODEL IN ACCESSIBLE LUXURY

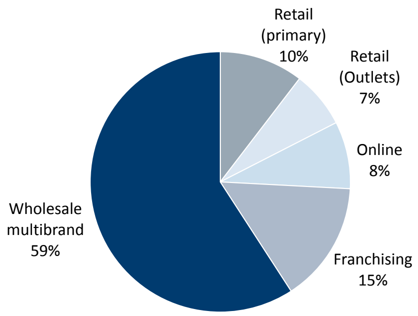
Elisabetta Franchi is an Italian women fashion brand active in the accessible luxury segment. Its name comes from the eponymous designer, Elisabetta Franchi, who is also founder, Chairman and sole owner of the Company managing the brand, Betty Blue SpA, based in Bologna.

Based on the Company's projections for the current year, the **Elisabetta Franchi brand generates a turnover of € 123 mn** (**of which 40% outside of Italy**), through **more than 80 monobrand stores** (of which 18 full-price DOS, mostly located in Italy) **and about 1,100 multibrand doors.**

Elisabetta Franchi owes its last few years' success to a blend of competitive advantages:

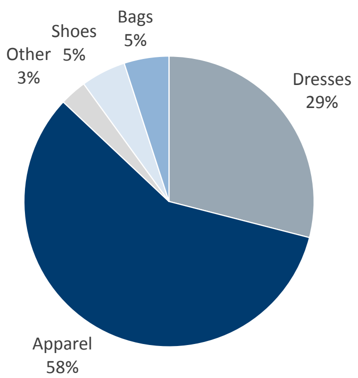
- **Smart positioning in accessible luxury,** combining attractive pricing with the allure and perception of a real luxury brand (a visible creative director, fashion catwalks, celebrities, strong offering of red-carpet dresses etc).
- **Effective marketing strategy,** hinged on new digital media and on the personal involvement of the creative entrepreneur to share a full and authentic set of values while engaging in a constant dialogue with its consumers/followers.
- **A lean supply chain,** leveraging on internal prototyping and consolidated relationships with local third party producers to achieve **fast time to market, which in turn allows in-season replenishments of best-selling items** for both monobrand stores and multibrand accounts, thus maximizing sell-through.

SALES BREAK-DOWN BY CHANNEL (2019E)



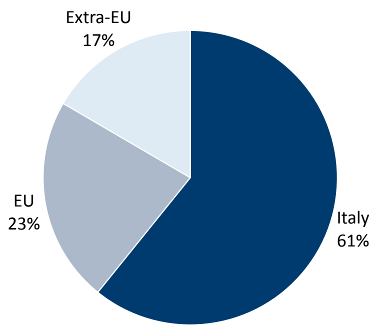
Source: Equita SIM estimates

SALES BREAKDOWN BY CATEGORY (2019E)



Source: Equita SIM estimates

SALES BREAKDOWN BY GEOGRAPHY (2019E)



Source: Equita SIM estimates

These features have driven a healthy growth in the last three years (2017-19E), with +6.5% CAGR in revenues (ahead of +3.3% estimated growth of the reference competitive segment), +6.5% growth in Adj. EBITDA and cumulated FCF of € 40 mn in the three years. **The Company is in fact set to close FY19 with € 5 mn net cash** (gross of transaction costs and other extraordinary items)**, after paying € 15 mn dividends.**

The business combination of Betty Blue with Spactiv and the consequent listing on the AIM segment of Borsa Italiana of Betty Blue (whose name will change in Elisabetta Franchi at the business combination) will mark the start of a new phase of development for the Company aiming at catching further untapped growth opportunities:

- **Widening the product range** (almost 90% of revenues still in apparel)
- **Strengthening its presence abroad** (namely in Europe ex-Italy, which we estimate to account for just 23% of revenues still in FY19E) **while consolidating the Italian market**
- **Strengthening of ecommerce** (at 8% of revenues in 2019E).

Spactiv's promoters have a successful track-record of investments in the retail and consumer goods segment (exit at more than five time the originally invested capital with *La Rinascente* and *Printemps*) and will support Elisabetta Franchi with their competences, experience and networking in fashion and retail.

The business combination, already approved by the Spactiv and Betty Blue Board of Directors, will be submitted for approval to Spactiv shareholders mostly likely in February, and should be effective within 1Q20.
The transaction envisages an equity value for 100% of the Company at € 195 mn, or € 190 mn EV, implying 8.2x 2019 adj. EV/EBITDA and 8.9x adj. EV/EBIT.

A LITTLE STEP BACK

After few years of activity with her own small atelier, Elisabetta Franchi established Betty Blue in 1998; the Company originally used to operate under another brand, which was then changed to Elisabetta Franchi in 2012, with the idea of leveraging more and more on the designer’s direct engagement and exposure to accelerate the Company’s development.

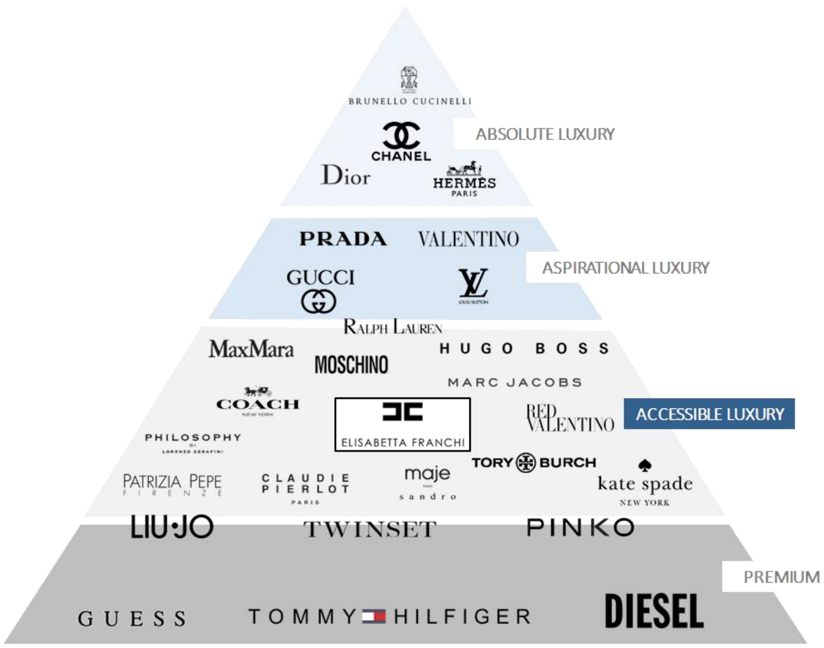
To support this second phase of the Company’s growth, in 2013 Elisabetta Franchi opened the capital of Betty Blue to an investment fund, Trilantic Capital Partners, which accompanied the Company during the following four years in a process of international expansion and strengthening of the organization.

In 2017, at the end of its investment period, Trilantic exited the Company and the creative entrepreneur decided to regain 100% control; she is still today the sole owner of Betty Blue Spa (10% directly owned, 90% through Gingi Srl, whose share capital in turn is fully controlled by Elisabetta Franchi).

SMART POSITIONING IN ACCESSIBLE LUXURY

Elisabetta Franchi is active in affordable luxury, a sector of about € 114 bn revenues in 2018, straddling between true luxury and the premium range.
Affordable luxury therefore lies at the base of the luxury pyramid, with lower price points than aspirational luxury (Gucci, Louis Vuitton, Armani, Prada, Moncler, Burberry etc.) and absolute luxury (Hermès, Chanel, Christian Dior, Brunello Cucinelli etc).
The following chart identifies some of the brands in the different segments.

BRANDS’ POSITIONING IN LUXURY

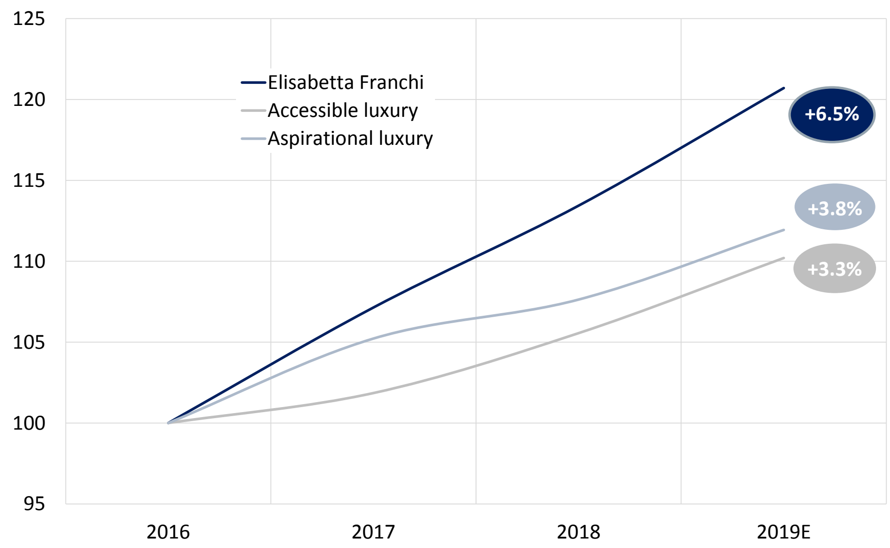


Source: Information Document and Equita Sim elaborations

Accessible luxury has seen solid growth in recent years (+5% 5Y CAGR 2014-18), even slightly higher than luxury as a whole (+4% 5Y CAGR). The main driver – common to both segments – was a widening consumer base, mainly due to emerging markets. but affordable luxury also benefitted from a trade-down from the true luxury, induced by the material price list hikes of major players and by the cancellation of some second lines.
Market estimates mentioned by the company in the Information Document predict further growth of 4-5% per annum in the coming years.

In this context, Elisabetta Franchi has outperformed its reference market in the last few years, with a revenue growth of +6.5% 3Y CAGR in 2017-19E vs. +3.3% of the sector worldwide.

EVOLUTION OF THE ACCESSIBLE LUXURY SEGMENT



Source: Information Document and Equita SIM elaborations

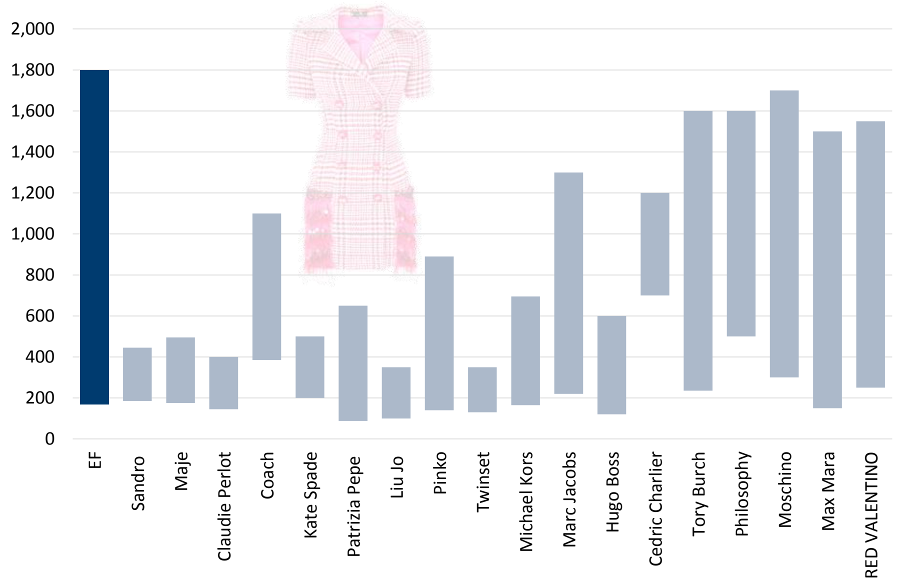
In our opinion, one of the strengths of Elisabetta Franchi compared to its affordable luxury competitors lies in the particular positioning, able to leverage on some features that are usually typical of real luxury:

- **Strong brand identity**, with a well-defined style, made of highly feminine and sensual garments, a strong creativity content, and a easily recognizable **logo**
- **A famous creative director, Elisabetta Franchi herself,** with her direct exposure and engagement**.** This is quite an unusual feature in the accessible luxury segment.
- **Fashion shows** (two catwalks a year, in Milan), active Instagram communication, and celebrities' endorsement. VIP clients are also welcomed in a dedicated area of the brand's showroom in Milan, a refined and elegant location at the heart of the city's fashion district.
- **A distinctive offering of "red-carpet dresses",** accounting for about half of the catwalk collection, which in turn represents about 20% of every season's items and about 10% of total revenues.

These peculiar features have allowed the Company to successfully pursue a repositioning strategy in the last few years, through higher product content and price hikes, namely on the Italian market (about +20% cumulated from Spring/Summer 2017 season to Spring/Summer 2020), thus widening distances from its once most similar domestic competitors (Liu Jo, Pinko, Twinset).
This is particularly true in the category of dresses, where Elisabetta Franchi can in fact often command a higher pricing vs. most of the other accessible luxury peers (pricing between € 200-1,800).

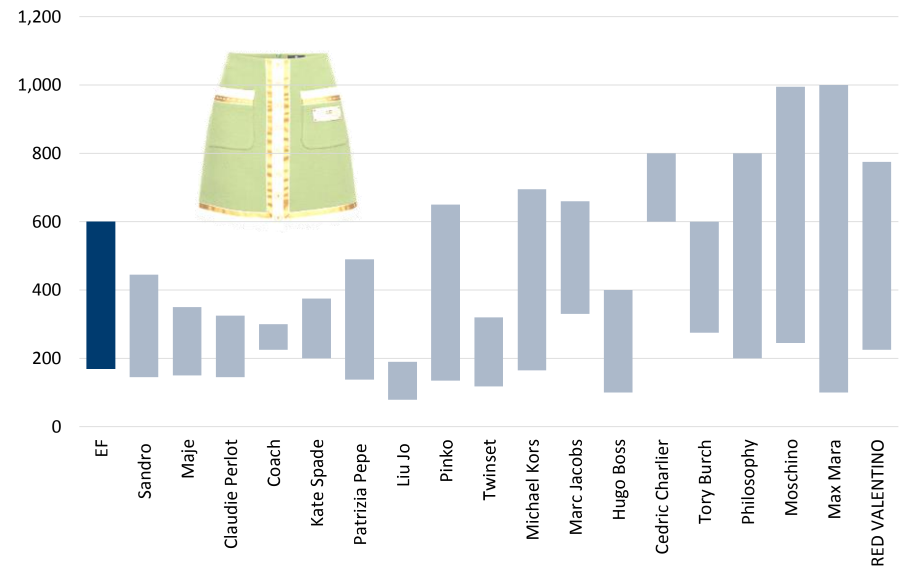
Milan Showroom

ELISABETTA FRANCHI PRICE POSITIONING IN ACCESSIBLE LUXURY- DRESSES



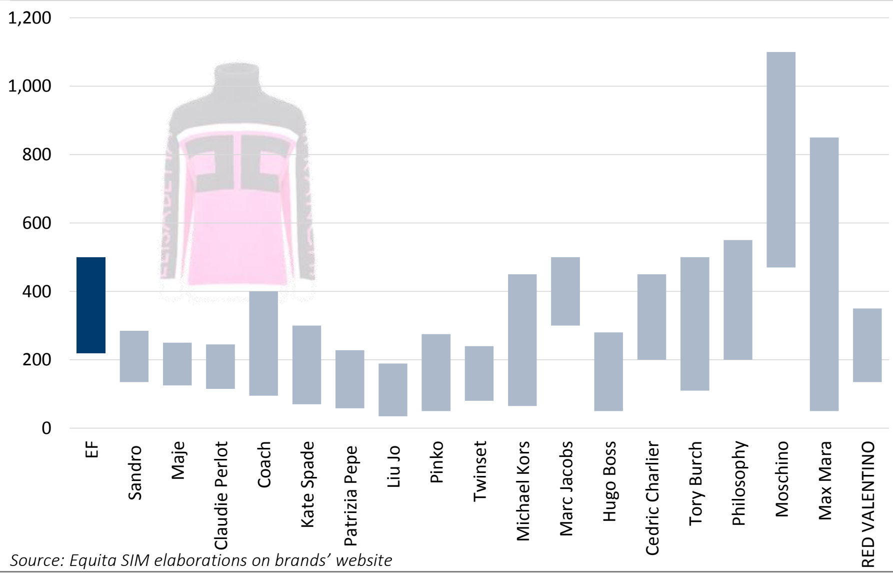
Source: Equita SIM elaborations on brands' website

ELISABETTA FRANCHI PRICE POSITIONING IN ACCESSIBLE LUXURY - SKIRTS



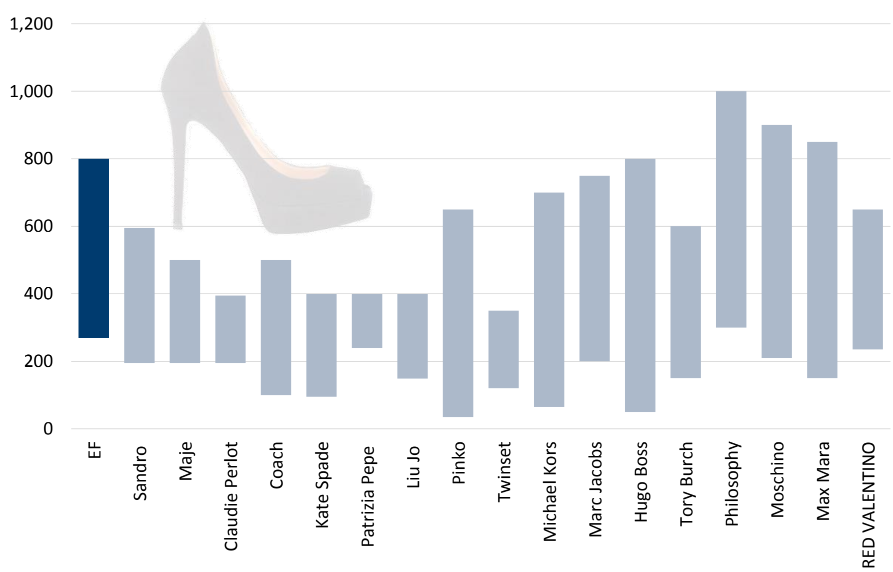
Source: Equita SIM elaborations on brands' website

ELISABETTA FRANCHI PRICE POSITIONING IN ACCESSIBLE LUXURY - TOPS



Source: Equita SIM elaborations on brands' website

ELISABETTA FRANCHI PRICE POSITIONING IN ACCESSIBLE LUXURY - SHOES



Source: Equita SIM elaborations on brands' website

Elisabetta Franchi has a wide offering, with 800 items per season across three collections:

- **The *Pre* collection**, which usually includes about 45% of every season's items (55% of revenues) and features items for everyday life, easy to wear in daily occasions such as at work, with essential lines but always highly feminine.
- **The *Main* collection**, which usually includes about 35% of every season's items (35% of revenues), focusing on more sophisticated looks and fabrics.
- **The *Catwalk* collection**, which we have already mentioned, including 20% of every season's items (10% of revenues), made of unique pieces with a special fit.

ELISABETTA FRANCHI COLLECTIONS

***Pre* collection** | ***Main* collection** | ***Catwalk* collection**

Source: Company website

ELISABETTA FRANCHI OFFERING: TOTAL LOOK EXAMPLE

Source: Company website

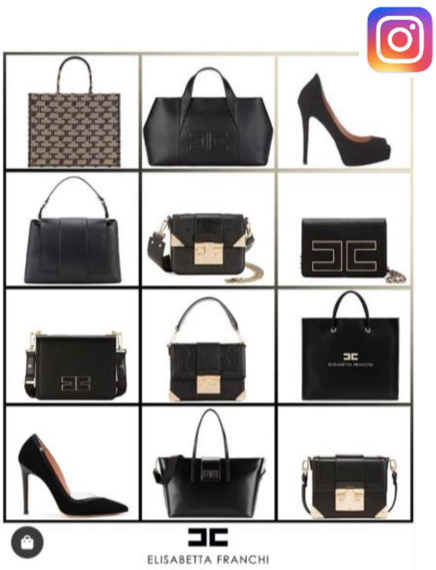
EFFECTIVE MARKETING STRATEGY, HINGED ON ELISABETTA FRANCHI

Even though the company can rely on a well-structured design team of 14 people with long tenure within the company, the role of the entrepreneur Elisabetta Franchi remains highly important for the brand.
As the creative director, she is responsible for the mood of every collection as well as for its development; she personally follows the creation of a collection from the design to prototyping to fitting of every single garment.
She also personally looks and reviews on a weekly basis all feedbacks coming from direct stores as well as from the brand's ecommerce website and Instagram account.

She's the soul of the brand, whose strength and identity lie in her personal engagement and in her ability to convey an authentic set of values; these become the base of the brand's philosophy and she shares them with consumers/followers through social media by exposing her own personal and working life. Her personal Instagram account is in fact used as the official account of the brand itself.

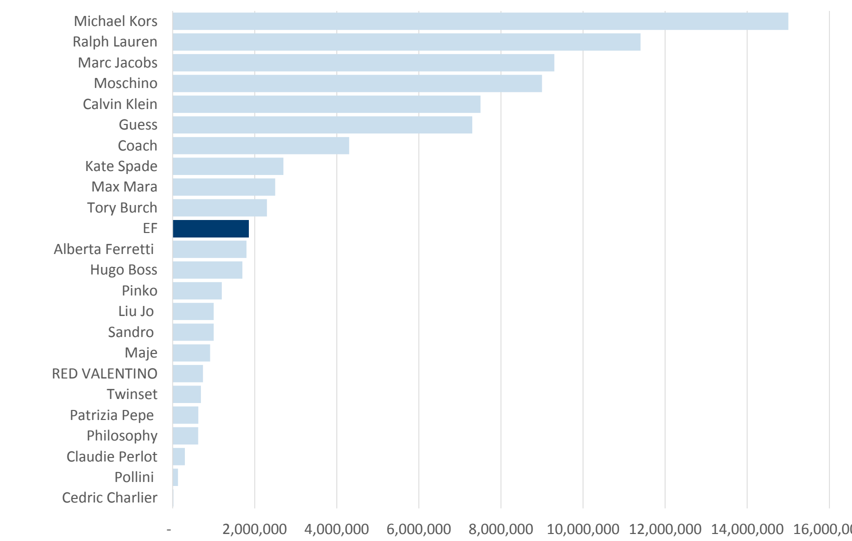
On one side, Elisabetta Franchi is a creative designer loved by women of all ages (from 20 to 60 years old) thanks to her ability to exalt **a sensual and forceful type of femininity** while caring also about pricing and fit, for an **inclusive and accessible fashion.**
On the other side, she is a self-made and feisty women, a successful entrepreneur, **passionate for her work**, but also **devoted to her family** and particularly to her children.
Last but not least, she **loves animals:** Elisabetta Franchi has been in fact the second fashion brand – after Stella Mc Cartney – to ban fur from her collection in 2012, followed by ban of goose feather and angora wool as from 2014; her firm is dog friendly (employees are allowed to bring their pets with them in the office); she has eight dogs; in 2018 she has personally financed the Island of Dog Village E.F. in China (to treat dogs saved from the Yulin Dog Meat Festival); in 2019 she founded the Fondazione Elisabetta Franchi ONLUS aimed at defending animals' rights and support the activity of volunteers engaged in saving endangered animals.

Elisabetta Franchi firmly believes in the new media as the most effective tool not just to raise the brand awareness but also to break down barriers with her consumers and to vehicle all these values in an authentic way.
Therefore, the brand's Instagram account is a particularly important media in the Company's communication strategy: the chart below, comparing the number of followers at main competing brands, shows **how effective the Company is in this respect** (1.86 mn followers as of October 2019, +557k since October 2018), **being the only one able to leverage on the designer's personal engagement.**



Source: Instagram

ELISABETTA FRANCHI INSTAGRAM FOLLOWERS VS. MAIN COMPETITORS

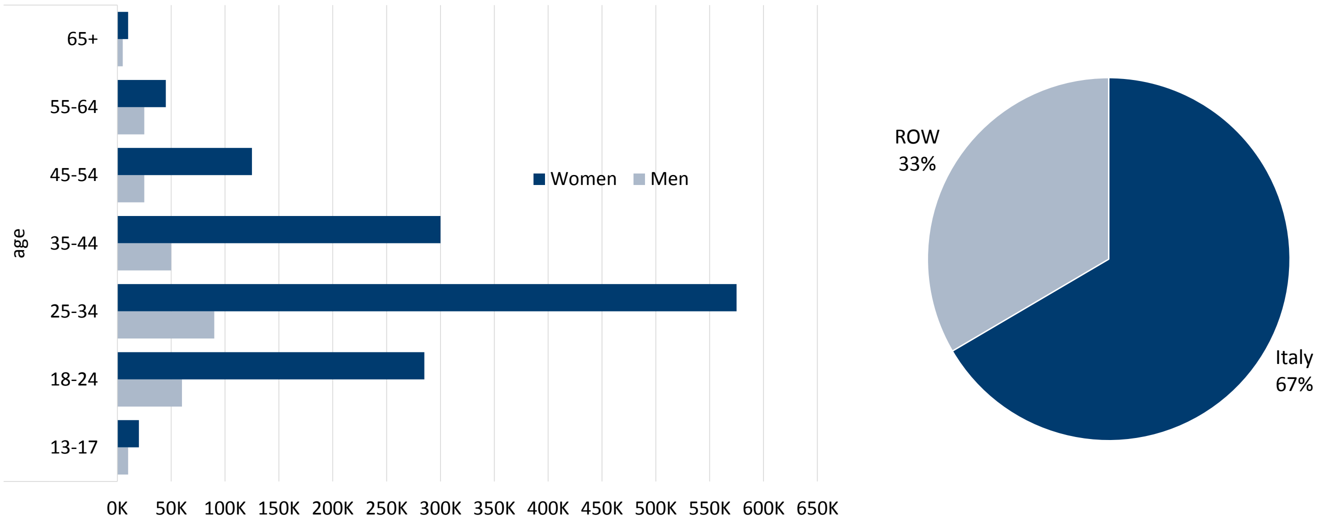


Source: Company data, Instagram accounts

We believe this is also one of the reasons why the marketing budget of the Company is relatively low (2.7% of revenues on average in 2016-19) compared to main competitors (we estimate at about 6%).

Worthwhile to highlight also that already a significant portion of the brand's followers is outside of Italy, as much as 33%, i.e. about 600k consumers.

ELISABETTA FRANCHI INSTAGRAM FOLLOWERS BY AGE AND GEOGRAPHY – as of October 2019



Source: Company data

On top of this, the Instagram account's contents are managed in a scientific way in order to maximize their impact on revenues: feedbacks from consumers become one of the drivers for replenishments, pictures of celebrities are posted once being sure that the specific look they are wearing is available in store or online (see now buy now), swipe up from Instagram pictures directly drive consumers to the website for buying etc.

Most recently, the communication of the designer's and of the brand's positive values has been relying also on story telling:

- A docu-reality, *Essere Elisabetta* (*https://it.dplay.com/realtime/essere-elisabetta/documentario/*), was passed on Real Time (Discovery platform) in September and is now available on demand on Sky, going through her intense private and working life to convey her values of discipline and hard work together with her love for her family and for animals;
- An episode on Elisabetta Franchi of the TV program "*Pensa in grande*" (Think big), dedicated to some entrepreneurial Italian excellences, passed in Autumn;
- A biography of the designer will be published next January by Rizzoli.

The Company marketing strategy then clearly also uses other more conventional communication tools i.e.:

- **Press coverage and editorials**
- **Fashion shows**, with their respective streaming
- **In store events**
- **Celebrities placements** (no fees are paid by the Company).

As already commented, fashion shows and use of celebrities are less widespread in the luxury accessible segment, and represent a further ingredient of Elisabetta Franchi distinctive positioning.

A LEAN SUPPLY CHAIN TO MATCH FAST FASHION WITH LUXURY

As it is usually the case in the fashion business, sourcing and production are mostly based on orders gathered from wholesale customers during the sales campaign as well as on internal sales forecast for direct stores, **with about six-eight months advance on the actual sales season.**

Since the beginning, however, the Company has made of fast time to market one of its main competitive advantages.
As a matter of fact, Betty Blue is able to leverage on best-selling items by launching in-season productions with 2-3 weeks lead-time, which are then made available to both monobrand and multibrand stores through the company B2B online platform granting 24/48 hours delivery for replenishments: this allows both the Company and its wholesale customers to maximise sales opportunities and full-price sell-through.
Replenishments account for about 15% of revenues, with 220k fast-fashion items delivered from the Company's B2B platform in 2018.

How is this possible, while preserving product quality together with inventory control (at about 26% of revenues in the last three years)?
We analyse below the pillars of the Company's fast fashion model.

Internal design and prototyping

The whole collection across all categories is conceived internally by a well-structured design team led by Elisabetta Franchi.
Most items (65% of revenues) are also developed internally by a prototyping department which is able to turn a drawing into a finished model in just 8 hours.
Only for some specific categories (shoes, bags, denim, outerwear, embroideries and knitwear, accounting for the remaining 35% of revenues), prototyping is instead outsourced to the respective manufacturing partners.

Flexible sourcing allows a lean raw material inventory

For products which are internally developed, the Company buys the necessary raw materials which are then entrusted to external laboratories for cutting and assembling.
When it comes to replenishments, most of the raw material is usually already internally available but the company also purchases additional raw material from its suppliers, whose flexibility towards Elisabetta Franchi stems from its consolidated and long term relationships.
Replenishments are usually made available on most continuative fabrics and patterns.

Outsourced proximity production, with no minimum quantities

Production of in-house developed items is 100% made in Italy and managed by third-party laboratories mostly located at short distance from the Company's headquarter. All external "cutters" take and bring back raw materials from the Company's warehouse, as well as all external manufacturers (24 suppliers in total as of 2018) take all fabrics already cut and bring back the finished products.
The short distance from the Company's warehouses is clearly crucial to shorten production lead times. These are also small artisanal firms, whose speed and flexibility is key to grant replenishments: in fact, **agreements with these external partners do not envisage minimum quantities for the Company.**

All production agreements clearly require suppliers fully respect all existing laws on health and safety at work as well as on immigration.

Internal quality control and logistics

While the production set-up is aimed at maximizing speed and flexibility, quality standards are ensured by a careful quality control, managed internally at the Company's warehouse through spot checks on both raw materials and finished products, including fitting tests.
Every item has a radio frequency chip in the bar code, allowing full traceability (RFID technology).

Logistics is also managed internally, through 4 warehouses of which 3 located in Bologna (one for raw materials, one for finished products for the Italian market, one for replenishments plus the ecommerce website) and 1 in Ancona (for the outlet channel). Deliveries to foreign wholesale customers are instead managed by third parties from a separate warehouse.

Monitoring of sell-out data.

The Company uses a management software to receive daily data from its direct stores about revenues, traffic, conversion rate, average ticket, windows' impact, best-selling items, slow movers etc.
These are used to identify top sellers or winning styles, together with data from the ecommerce website, comments on the Instagram account, feedbacks and requests from wholesale customers (gathered through the customer service department).
Based on these inputs, the Company can launch additional in-season production of best-selling items, which are made available with priority to the Company's direct channels (DOS + ecommerce, accounting for about 75% of total replenishments) and then to wholesale customers (both franchising and multibrand).

Replenishments are delivered from a dedicated warehouse close to the Company's headquarter and sold through a B2B digital platform which allows 24/48 hours delivery from the order.
These productions are not based on pre-orders but, given the support coming from sell-out data (directly from Company's stores and indirectly from wholesale customers), **the hit ratio is particularly high, with low fashion risk and little unsold quantities.**
The management software currently operating on the Company's 18 DOS is being progressively implemented also for the 56 franchised stores, allowing a more widespread collections of inputs from the market and thus greater and ever more effective leverage on replenishments.

Outlet network

The Company has a network of outlets (8 at present), all located in Italy in the most prestigious outlet malls, plus an outlet section on the Elisabettafranchi.com website. **Outlets accounted for about 7% of total revenues as of 2018, and as much as 40% of total retail revenues. Their sourcing stems from retail left-overs, some occasional wholesale returns, as well as from a limited dedicated production** (aimed at absorbing the possible left-over inventory of raw materials still outstanding after production of replenishments).
Outlets are therefore a key element of the Company's fast-fashion strategy, which allows to enhance inventory control. **We believe their contribution to total retail revenues has remained stable in the last few years at about 40%, thus reassuring about the quality of the business' growth.**

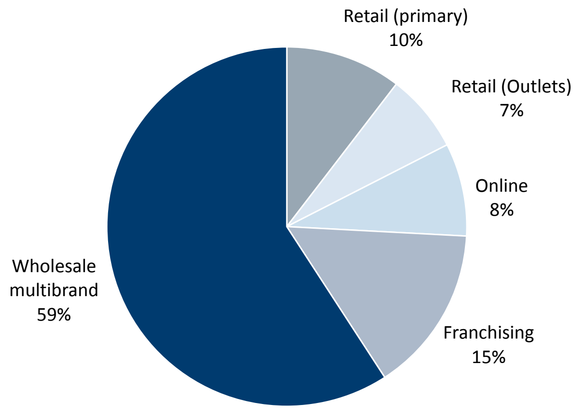
A MULTICHANNEL DISTRIBUTION APPROACH

The Company's distribution set-up is multichannel, with a combination of wholesale - both multibrand and monobrand (in franchising) - and retail - including DOS and the Company's ecommerce website.

The multibrand is clearly still the most important channel (about 60% of revenues), as it is easy to expect from a still relatively young brand, but the Company has progressively build up a monobrand network, now counting 82 stores, of which 26 directly operated (including 8 outlets), to have a direct contact with the final consumer.

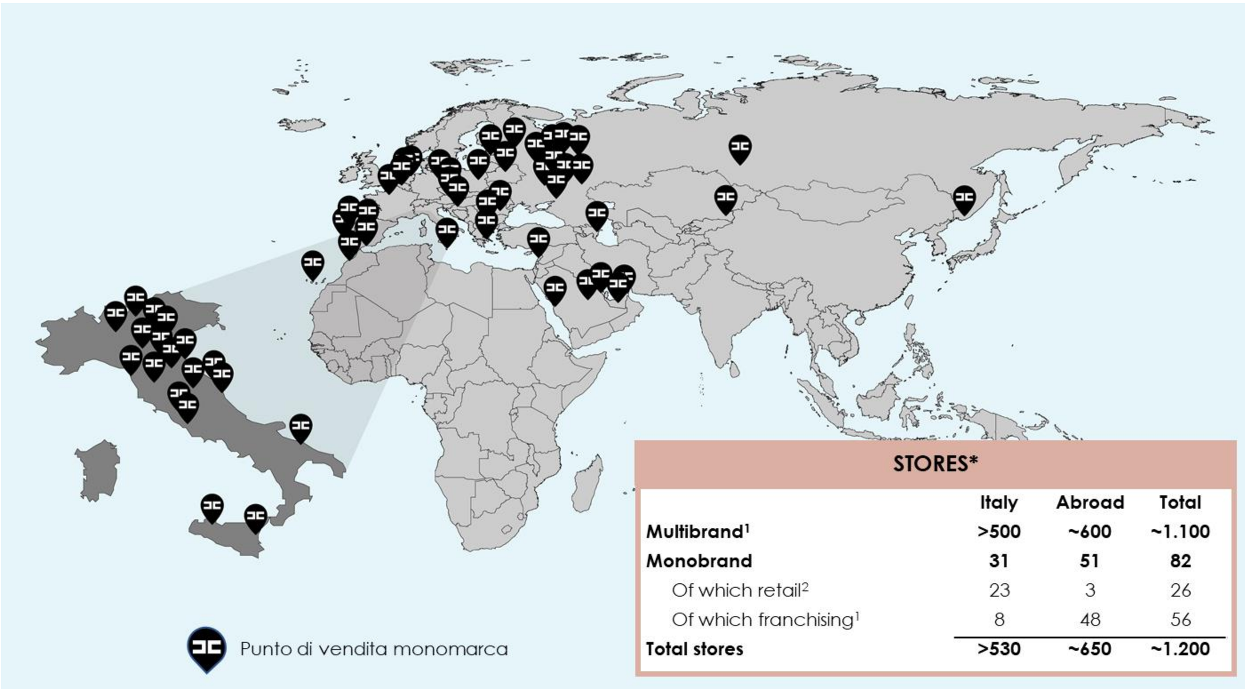
The DOS stores are still mostly located in Italy (15 out of 18 full-price stores and all outlets), whilst franchising (56 stores, of which only 8 in Italy) has been the preferred tool to approach foreign markets, leveraging on expertise and market knowledge of local partners, namely in Europe (20, mainly across Eastern countries), Russia and former Soviet Union (12), and Middle East (16).

SALES BREAK-DOWN BY CHANNEL (2019E)



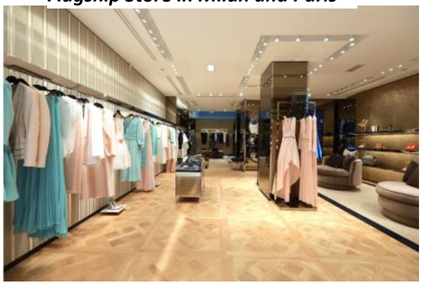
Source: Equita Sim estimates

ELISABETTA FRANCHI STORE NETWORK – as of Oct. 2019



The chart has the mere aim of illustrating the geographic localisation of the Company's points of sale. It is not fully representative of the total network.
**Source Information Document. 1. Wholesale Channel 2. Retail Channel including full-price tores and outlets*

Flagship Store in Milan and Paris



A lean and profitable store format for a luxury shopping experience

A dedicated team within the company is responsible for the monobrand network expansion strategy (including selection of franchisee), and has already proven of being able to develop about 10 stores per annum in the last few years (although the number of stores has remained in reality pretty stable since 2017 due to some opportunistic closures aimed at improving the quality of the network).
Opening of a new store might take even just few months including the identification of the location, the elaboration of the respective business plan, the signing of the contract and the refitting of the space.

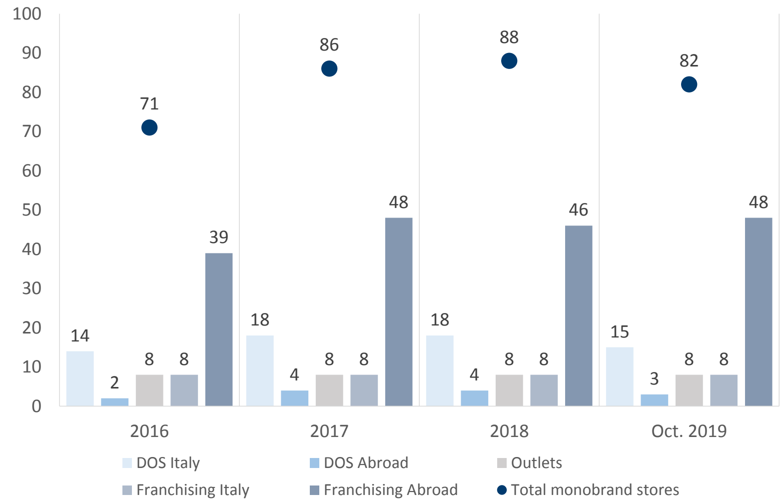
The Company has in fact recently developed a lean store format, used for new openings, both DOS and franchised: 100-200 sqm selling space, located in main streets downtown or in commercial malls, quite flexible in terms of costs (capex ranging between 700-2,000 €/mq) and of opening time (4-6 weeks of refurbishment works) but able to welcome customers in a refined and sophisticated shopping environment, comparable to the one of luxury brands.

MONOBRAND STORE NETWORK EVOLUTION

MONOBRAND STORE OPENINGS PER YEAR

Opening Year	Franchising	DOS	Franchising + Dos
2016	5	2	7
2017	9	6	15
2018	11	0	11
2019	4	0	4

Source: Company data – Openings gross of closures



Source: Company data

At present, stores on average are still a bit smaller (we estimate 80-100 sqm) and mostly located in secondary cities, with average sales density at around 8k €/sqm, which is about 15-20% higher than other Italian players in the premium/accessible luxury space.
Break-even is usually achieved in 15-18 months from opening (we estimate 18-24 months abroad, where brand awareness is still relatively lower), **whilst the ramp-up phase of revenues continues for about further 12 months, until SSSg normalizes.**

Encouraging retail track-record, although still mostly domestic

The recent track record in retail is also encouraging with a robust SSSg +11% CAGR in the last 3Y (2017-19E), including about +7% we estimate for this year**.**
We assume about half was driven by volume and the remaining half by prices. The Company has in fact raised prices in the last few years (about +15% cumulated since the Spring/Summer 2017 season), in parallel with the already mentioned repositioning strategy of the brand. This was true particularly in the domestic market (+20%), also with the aim of reducing the price gap between Italy and abroad, which was feeding some parallel market.
Still, having confirmed a mid-single digit volume growth per annum in spite of the underlying price lift is a further signal of the strong positioning and credibility of the brand in the accessible luxury space.

We also believe SSSg CAGR of outlets and mainline stores were similar over the 2017-2019E period, at 11% for both, which is reassuring about the quality of the aggregated figure, given the importance of the outlets' revenues within the total retail channel (about 40%).

Their annual pace however was sometime different (see the table below):

- **Both have accelerated in 2018, with full-price DOS up by +17% SSSg** (of which about +12% from prices) and an extraordinary +27% SSSg for outlets, benefiting also from easy comps after a weak 2017 (when the secondary channel suffered from poor stock availability as the company had exceptionally turned to wholesale for disposal of its past seasons' inventory);
- **As per management's comments, 2019 9M SSSg trends have shown instead an outperformance of full-price DOS** (up by about +10%) vs. outlets (flattish due to the tough comparison base).

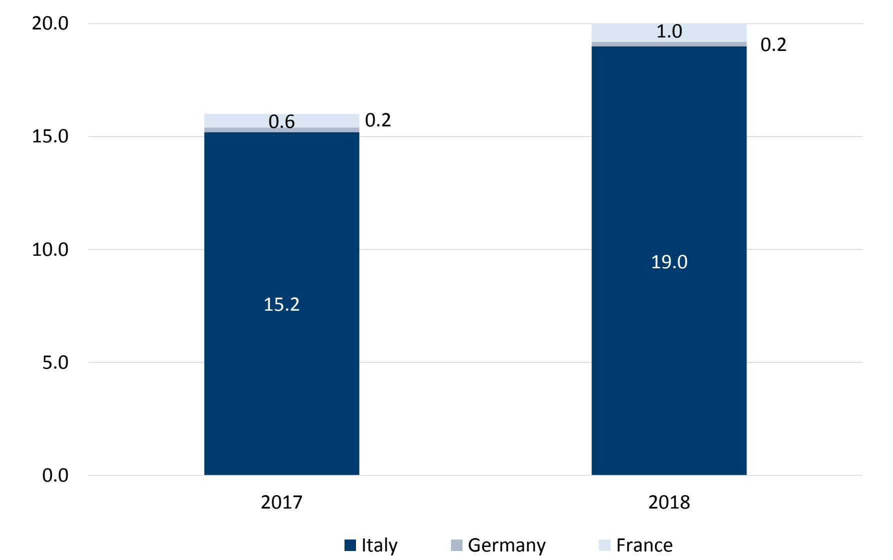
REVENUES BY CHANNEL (€ mn)

	2016		2017		2018		2019E	
Retail	**13.6**	**13%**	**16.0**	**15%**	**20.2**	**17%**	**21.5**	**17%**
Increase	*3%*		*18%*		*26%*		*7%*	
Full-price	n.a.	n.a.	9.2	8%	11.6	10%	12.8	10%
Increase			n.a.		*25%*		*11%*	
Outlets	n.a.	n.a.	6.8	6%	8.6	7%	8.7	7%
Increase			n.a.		*26%*		*1%*	
SSSg								
Full-price	n.a.		7%		17%		11%	
Outlets	n.a.		3%		27%		1%	
Ecommerce	**2.2**	**2%**	**2.6**	**2%**	**6.0**	**5%**	**10.3**	**8%**
Increase	*90%*		*18%*		*132%*		*70%*	
Wholesale	**86.1**	**84%**	**90.5**	**83%**	**89.4**	**77%**	**91.2**	**74%**
Increase	*0%*		*5%*		*-1%*		*2%*	
Total	**101.9**	**100%**	**109.2**	**100%**	**115.6**	**100%**	**123.0**	**100%**
Increase	*0%*		*7%*		*6%*		*6%*	

Source: EQUITA SIM estimates and Company data

We point out also that almost all recent store closures were driven by a repositioning strategy, consistently with the brand elevation pursued in the last few years: two small corners were closed within *La Rinascente* in Florence and Rome because of the low profile of adjacencies, whilst two stores were relocated in 2017, the flagship store in Bologna and one outlet in Mantova (due to the lower than expected profile of the mall, the Company has closed this store to open a new one in the Settimo Torinese mall). There is only one exception, **the store** in Parma, an unprofitable location in a no-longer strategic province town, which the company closed at the end of 2018.

RETAIL SALES BY GEOGRAPHY - € mn



Source: Information Document and Equita SIM elaborations

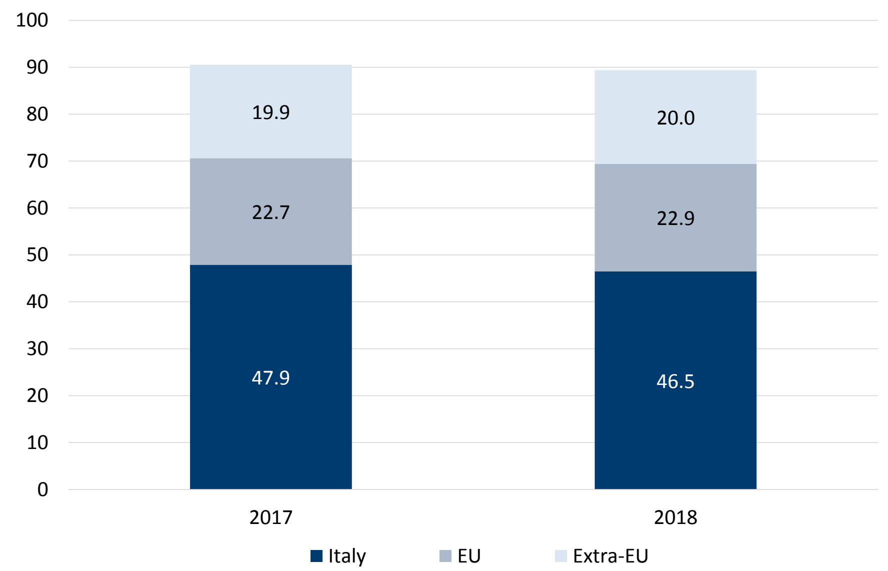
We highlight however that only three full-price DOS stores out of 18 are located abroad at present, Paris, Berlin and Moscow (with Paris only just opened in 2017); **the overall encouraging retail track-record of the company is thus in our view mostly representative of the brand's strong positioning on the domestic market.**

Raising quality of wholesale distribution

The wholesale channel, both multibrand and monobrand (franchising) is managed either by direct Company's showrooms (one in Milan and one recently opened in Moscow) or through agents/distributors. In particular the Italian market and most European markets are managed through agents.
As for the multibrand channel, at present the Company counts about 1,100 doors, of which above 500 in Italy, 380 in Europe, and more than 100 in Russia/former Soviet Union (FSU).

During the last few years the Company has started a repositioning of its wholesale distribution, improving the quality of partners (changing some of agents/distributors) **and the standing of some franchised location** (such as in Madrid, Prague, Bucarest).
The recent opening of the showroom in Moscow (2018), in particular, aims at consolidating the brand's presence in the highly important Russian and FSU markets, including a rationalization of its client base (Russia and FSU account for about 7% of revenues as of June 2019, with 1 DOS, >100 multibrand stores and 12 franchised stores).

WHOLESALE SALES EVOLUTION BY GEOGRAPHY- € mn



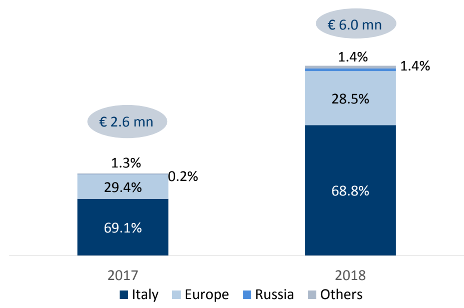
Source: Information Document and Equita Sim elaborations

The rationalization of the wholesale customer base was for example one of the reasons behind the temporary decline of the Italian market in 2018, which nonetheless remains a healthy market (wholesale channel was back to +6% YoY growth in Italy already in 1H19).
Similarly, in 1H19 revenues in this channel have suffered from rationalization of accounts in Russia/former Soviet Union as well as from closure of the Hong Kong store (a loss-making location originally bought back by the Company's Asian subsidiary from the bankruptcy of the local distributor in 2017).

Ecommerce: impressive growth

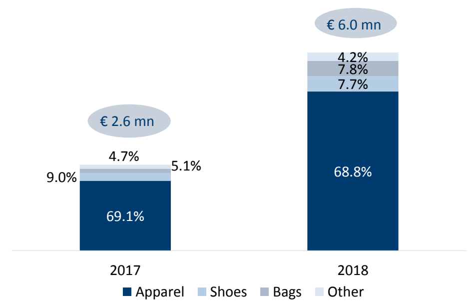
The Company's online store was launched in Italy in 2010 and opened to the other European markets in 2016. **It is now active in more than 30 countries, mostly Europe and former Soviet Union. Delivery to the US market has recently been added.**
Online revenues accounted for € 6 mn in 2018 (5% of revenues) and, after another year of strong growth, are expected to close 2019 at about € 10 mn (8% of revenues).

ECOMMERCE SALES EVOLUTION BY GEOGRAPHY



Source: Information Document

ECOMMERCE SALES EVOLUTION BY CHANNEL



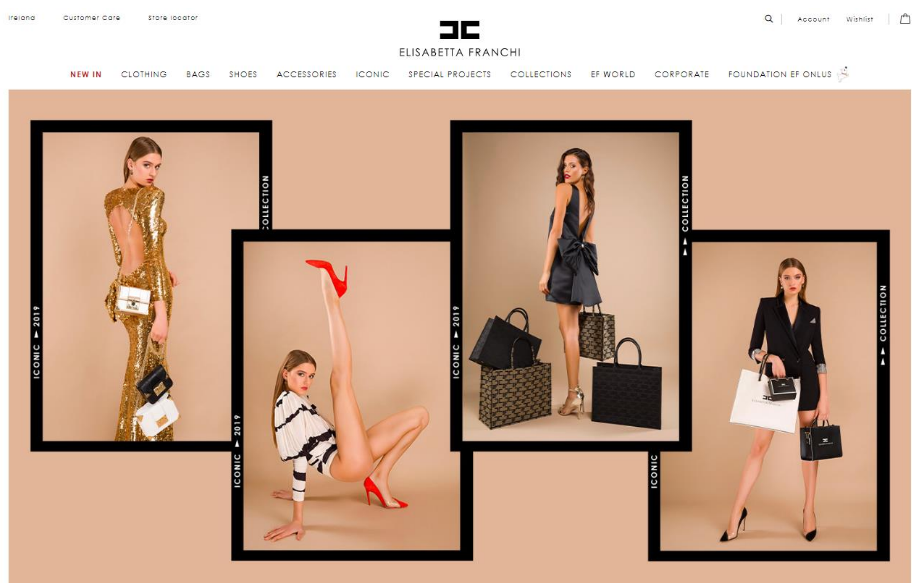
Source: Information Document

Invoicing and customer care is managed in outsourcing by Filoblu, one of main ecommerce service providers in Italy (partner also of other renowned brands not just of the fashion segment, such as Lamborghini, Antony Morato, L'autre chause, Caffarel René Caovilla, Peuterey). Their customer care department answers in five languages (Italian, English, French, Spanish, Russian).
On the other side, the Company directly manages internally the site layout, the assortment, marketing and logistics. In fact all orders both from Italy and from abroad are dispatched from a Company's dedicated warehouse in Bologna, with delivery in 24/48 hours.
This latter feature is an important competitive advantage not just in terms of fast delivery timing but also ahead of a more comprehensive integration of the online store with physical stores. In fact, as the inventory stands at the Company's warehouse, it will become easier one day to move to a unique view of the inventory, which in turns will allow to maximise choice/assortment for the customers and selling opportunities/inventory turnover for the Company.

In the meantime several optimization projects have recently been accomplished, including:

- Graphic restyling of the platform
- Management of newsletters, consistently with the commercial plan
- CRM activity, with profiling of online customers based on their spending level (from "*Diamond*" to "*Bronze*"), to drive a more targeted marketing activity.

ELISABETTAFRANCHI.COM



Source: Company website

The ecommerce website also includes an outlet section, introduced in 2017 and accounting for about 12% of this channel's revenues.

GETTING READY FOR NEW GROWTH OPPORTUNITIES

The business combination of the Company with Spactiv and the consequent listing on the AIM segment of Borsa Italiana will mark the start of a new phase of development for the Company aiming at catching further untapped growth opportunities:

- **Widening the product range** (almost 90% of revenues still in apparel)
- **Strengthening its presence abroad** (namely in Europe ex-Italy, still accounting for just 23% of revenues in FY19E) **while consolidating the Italian market**
- **Strengthening the ecommerce business** (now accounting for 8% of revenues in FY19E).

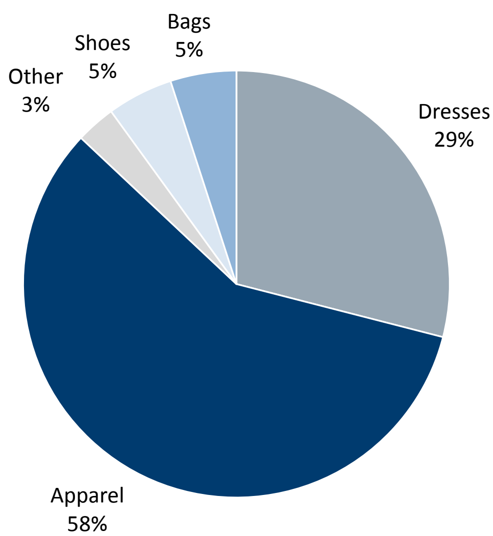
Widening the product range

Most of the Company's revenues are still generated in the apparel segment, the historical business of Betty Blue, accounting for 87% of revenues; of these, about 30% is made of dresses, which represent a distinctive element of Elisabetta Franchi's offering.

However **the Company has already started developing new categories, with the aim of offering a total look: shoes and bags account for 5% each, followed by other accessories at 3%.**

There is thus a clear opportunity of raising the brand's offering and revenues in these complementary categories. **Their already higher incidence within the direct channel anticipates a good potential in this respect**: in fact, non-apparel revenues account for 15% of revenues within DOS and up to 20% within elisabettafranchi.com, benefiting also from dedicated collections.

SALES BREAKDOWN BY CATEGORY



Source: Equita SIM estimates

The strategy in this direction includes adding offering of small leather goods and sneakers to complement the current assortment mostly made of bags and high heels shoes (sandals, pumps, wedges, boots)**.**

The execution will require a strengthening of the design team with dedicated chief designers (one for shoes and one for bags) as well as a new merchandising manager (for a more efficient planning of pricing and assortment). We therefore expect first results of these efforts to become visible after 2021.

Most likely, the lay-out of the stores will have to be adapted to a larger presence of non-apparel products.

Prototyping and production will remain outsourced.

Further opportunities to widen the offering are in the apparel segment itself in terms of new occasions of use, by strengthening casual and dailywear or adding activewear (recent launch of small sportswear collection called "*Moves*")**.**

Last but not least, the Company is evaluating the start of new licenses (such as perfumes or eyewear); this could become a further development but we believe the implementation would require a longer time period (we assume not earlier than 2022). At the moment the company has only two active licenses, for the kids segment (apparel and shoes), with royalties accounting for 0.5% of revenues.

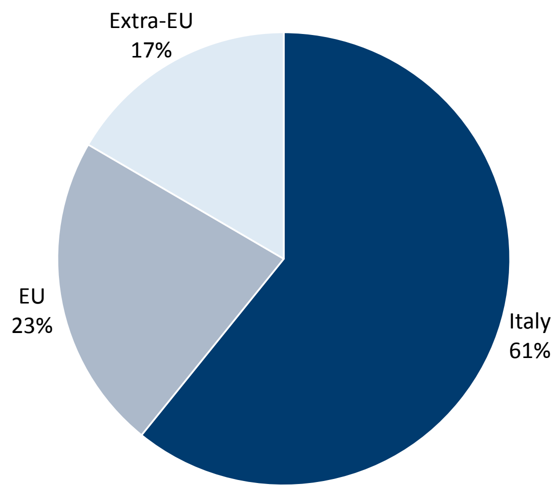
EXAMPLES OF RANGE EXPANSION

Source: Company website

Geographic expansion with ongoing multichannel approach

The Company's domestic market still accounts for about 60% of revenues, with clear opportunities to raise penetration abroad, as confirmed by the already relevant share of foreign followers on the Instagram account of the brand.

SALES BREAKDOWN BY GEOGRAPHY (2019E)- € mn



Source: Equita SIM estimates

The main priority will be expanding presence in Europe ex-Italy (still accounting for just 23% of revenues in FY19E) through new multi brand doors and selective openings in franchising and DOS.

Focus will be namely on France, Spain and Germany, which have been already providing encouraging results through the group's existing monobrand stores there and through the ecommerce website.
The Company has in fact opened a DOS in Paris in 2017, which posted impressive growth in its second year of activity and is expected to achieve € 1.2 mn revenues this year (we estimate implied SSSg close to +20%). In Berlin, Elisabetta Franchi is present with a direct shop in shop within Galeries Lafayette, which has shown very good performances and will double its surface next year. In Spain, a local partner is operating two franchised stores, one in Madrid and one in Puerto Banus, with similarly positive results.

The growth strategy in these countries will leverage also on opening of Shop-in-shops in concessions (retail concept) within main department stores, where Elisabetta Franchi currently has no exposure, as opposed instead to the wide presence of some of its main competitors (see the table below).

ELISABETTA FRANCHI PRESENCE WITHIN MAIN DEPARTMENT STORES IN EUROPE

	ELISABETTA FRANCHI	TWINSET	PINKO	sandro	maje PARIS	ISABEL MARANT
la Rinascente	⊗	⊗	✓	✓	✓	✓
EXCELSIOR	✓	⊗	⊗	⊗	⊗	✓
Galeries Lafayette (1)	✓	✓	✓	✓	✓	✓
LE BON MARCHÉ RIVE GAUCHE	⊗	⊗	⊗	⊗	✓	✓
PRINTEMPS	⊗	⊗	✓	✓	✓	✓
KaDeWe	⊗	✓	✓	✓	✓	✓
breuninger	⊗	⊗	✓	✓	✓	✓
Peek&Cloppenburg	⊗	⊗	✓	⊗	⊗	⊗
Harrods	⊗	⊗	✓	✓	✓	✓
SELFRIDGES&Co	⊗	⊗	✓	✓	✓	✓
HARVEY NICHOLS	⊗	⊗	✓	✓	✓	✓
El Corte Inglés	⊗	⊗	✓	✓	✓	⊗

Source: Information Document and Equita Sim elaborations – (1) Only in Berlin

In particular, we believe gaining a presence within main European department stores is a relatively low hanging fruit for the brand, thanks to the synergies expected with Spactiv's promoters following their track-record and experience in the retail business in Europe (see pages 45-46).
Still, raising penetration in foreign markets will clearly require growing marketing investments and new resources within the commercial and marketing team (including merchandising, CRM etc.).

No major distribution effort is instead envisaged for the already important Russian market, where the Company will be rather focused on enhancing the quality of its local franchised partners.

In the longer term, the Company could also turn its attention to the Chinese market (where it has just a marginal presence today, through a local distributor) and the US market (which could be addressed through department stores). We understand none of these markets is a priority in the short term.

Consolidating presence in Italy

Although being the brand's domestic market, Italy still offers untapped growth opportunities for the Company, namely in terms of direct distribution and quality of the network.

The approach to the Italian market will in fact leverage on:
- **Rationalization and consolidation of the multibrand network**, including possible conversion of best multibrand partners to the franchising monobrand format (in some cases Elisabetta Franchi already accounts for 70-80% of their revenues).
- **Opening of selected DOS, moving the focus more towards big cities rather than province towns** (nothing planned for 2020 also in this case, with the exception of an outlet in the San Marino outlet mall, whilst we assume a couple of new openings per annum in 2021-22).
- **Potential conversion to DOS of some high potential franchising location**
- **Opening of Shop-In-Shop within department stores** (namely La Rinascente, where again Elisabetta Franchi is not present yet, contrarily to several of its peers).

As a result, the incidence of the Italian market on total revenues is expected to decline only marginally (1-2% points) over the next three year period.

Strengthening of the ecommerce business

The ecommerce website is expected to remain the fastest growing channel, benefiting from recent initiatives (Graphic restyling, newsletters, CRM activity) and from an ever more integrated omnichannel approach.
In particular, two more projects have recently been launched and are still underway:
- **In-store Ipad:** all DOS will be provided of an Ipad allowing customers to order online from the store, thus benefiting from a wider availability compared to the store inventory, with positive implications in terms of customer experience but also in terms of inventory management and sales opportunities.
- **Development of a mobile App** offering new features such as the geolocalisation (to raise traffic by attracting customers in the neighbourhoods of a store), QR code reading (retrieving the product description of any garment), full ecommerce catalogue, etc.

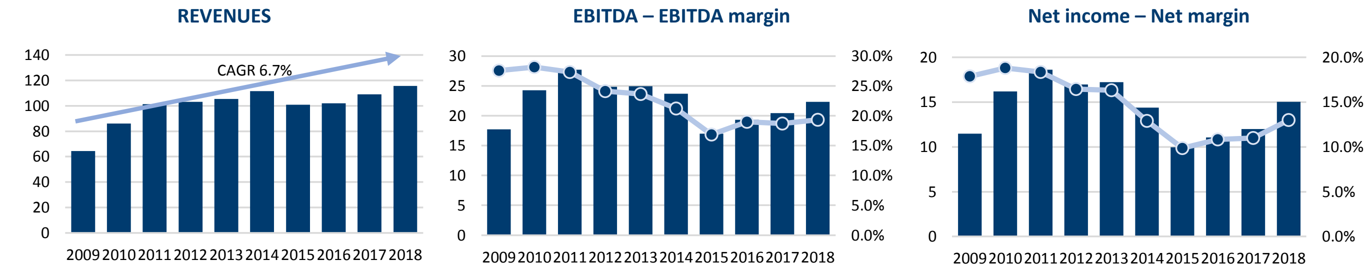
As a result, revenues from the Company's online store are expected to raise their weight on total revenues up to 15-16% in 2022.
At the same time, Elisabetta Franchi will better leverage on the multibrand online business, enhancing and widening its still limited presence at main e-tailers, which will also be of help in underpinning penetration and brand awareness on foreign markets.

SOLID FINANCIAL TRACK RECORD, WITH STRONG CASH GENERATION

Betty Blue has a solid and profitable track record, as shown in the chart below, showing:

- A +6.7% sales CAGR in revenues
- EBITDA margin ranging between 17% and 28%
- Net income CAGR of +3%

BETTY BLUE SPA LAST 10Y TRACK RECORD



Source: Company's Annual Reports and Equita Sim elaborations

Our comments below focus in particular on the last few years and consider the 2016-19E period based on the 2019 financial metrics which have formed the base for the valuation of Betty Blue ahead of the business combination, i.e.:

- € 123 mn revenues
- € 23.3 mn Adj. EBITDA
- € 21.4 mn Adj. EBIT
- € 5 mn cash at year end after distribution of € 15 mn dividends, and gross of the costs envisaged for the business combination (€ 2.5 mn).

BETTY BLUE SPA P&L (Italian Gaap) - € mn

	2016		2017		2018		2019E		3Y CAGR
Sales	**101.9**		**109.2**		**115.6**		**123.0**		
Increase	n.a.		*7%*		*6%*		*6%*		*6.5%*
Gross Margin	**52.5**	**51.5%**	**57.8**	**52.9%**	**57.8**	**50.0%**	**65.2**	**53.0%**	
Marketing	(2.9)	-2.8%	(3.1)	-2.8%	(3.1)	-2.6%	(3.2)	-2.6%	
Sales & Distribution	(6.9)	-6.8%	(8.2)	-7.5%	(8.1)	-7.0%	(8.7)	-7.0%	
Other services	(6.6)	-6.5%	(7.3)	-6.7%	(7.6)	-6.5%	(10.9)	-8.9%	
Rents	(4.0)	-3.9%	(4.5)	-4.1%	(5.0)	-4.3%	(5.3)	-4.3%	
Personnel	(11.8)	-11.6%	(13.3)	-12.2%	(15.0)	-13.0%	(16.4)	-13.3%	
Provisions and write-downs	(1.1)	-1.0%	(1.7)	-1.5%	(1.7)	-1.5%	(2.6)	-2.1%	
Other income/costs		0.1%	.6	0.6%	4.9	4.2%	1.8	1.5%	
EBITDA Adj.	**19.3**	**18.9%**	**20.4**	**18.7%**	**22.3**	**19.3%**	**23.3**	**18.9%**	
Increase	n.a.		*6%*		*9%*		*4%*		*6.5%*
EBITDA	**19.3**	**18.9%**	**20.4**	**18.7%**	**22.3**	**19.3%**	**19.9**	**16.2%**	
Increase	n.a.		*6%*		*9%*		*-11%*		
D&A	(2.5)	-2.4%	(2.5)	-2.3%	(2.5)	-2.2%	(1.9)	-1.5%	
EBIT Adj.	**16.8**	**16.5%**	**17.9**	**16.4%**	**19.8**	**17.2%**	**21.4**	**17.4%**	
Increase	n.a.		*7%*		*10%*		*8%*		*8.3%*
EBIT	**16.8**	**16.5%**	**17.9**	**16.4%**	**19.8**	**17.2%**	**18.0**	**14.6%**	
Increase	n.a.		*7%*		*10%*		*-9%*		
Total financial charges	.2		(.8)		(.2)		(.6)		
Pre-tax profit	**17.0**		**17.2**		**19.6**		**17.4**		
Increase	n.a.		*1%*		*14%*		*-11%*		
Taxes	(5.9)		(5.2)		(4.6)		(5.3)		
Net income	**11.1**		**12.0**		**15.0**		**12.1**		
Increase	n.a.		*8%*		*25%*		*-20%*		
Adjusted Net Profit	**11.1**		**12.0**		**15.0**		**14.6**		
Increase	n.a.		*8%*		*25%*		*-3%*		*9.7%*

Source: EQUITA SIM estimates & Company data

Sound revenue growth

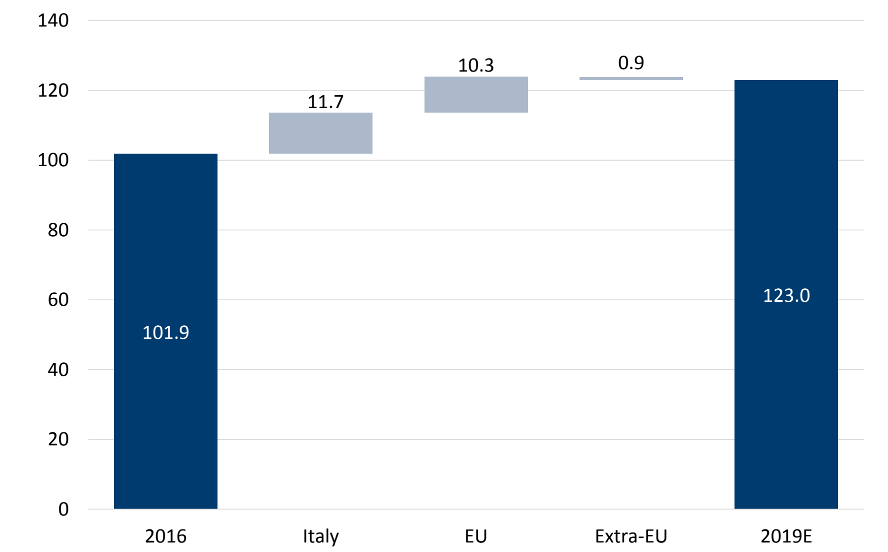
Revenues have been growing at a sound and consistent +6.5% 3Y CAGR in 2017-19E, mainly driven by:

- **Retail** (+17% CAGR expected), with about 2/3rd of growth explained by a robust SSSg (+11% CAGR) and 1/3rd by space, thanks to new stores opened in 2017 (namely Naples and Paris, plus a new point of sale within the Bergamo airport);
- **Ecommerce,** with about +70% 3Y CAGR expected, underpinned by ongoing upgrade of the site features and effective digital marketing strategy.

Wholesale growth was more subdued (+2% CAGR) following:

- **a small decline in the Italian market in 2018 (-3%),** to be seen in the context of the selection of multibrand accounts pursued by the company to raise the quality of its network;
- **a more recent drop this year of the extra-EU markets** (namely Russia and Former Soviet Union, impacted by rationalization of the client base, and Hong Kong, due to the already mentioned closure of the existing store), as already visible in 1H19 sales numbers (see the following page).

BETTY BLUE SPA SALES BRIDGE BY GEOGRAPHY 2016-2019E (€ mn)



Source: Information Document and Equita SIM elaborations

REVENUES BY CHANNEL (€ mn)

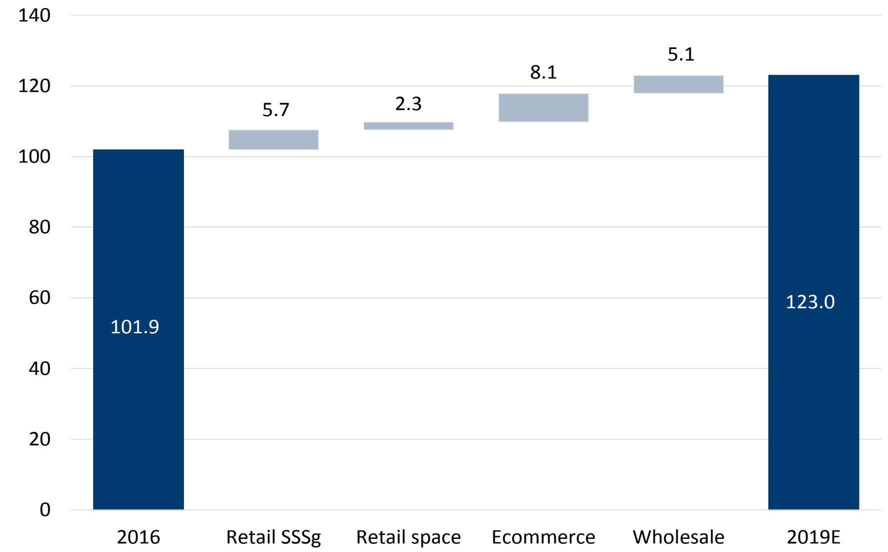
	2016	%	2017	%	2018	%	2019E	%
Retail	**13.6**	**13%**	**16.0**	**15%**	**20.2**	**17%**	**21.5**	**17%**
Increase	*3%*		*18%*		*26%*		*7%*	
Full-price	n.a.	n.a.	9.2	8%	11.6	10%	12.8	10%
Increase			n.a.		*25%*		*11%*	
Outlets	n.a.	n.a.	6.8	6%	8.6	7%	8.7	7%
Increase			n.a.		*26%*		*1%*	
SSSg								
Full-price	n.a.		7%		17%		11%	
Outlets	n.a.		3%		27%		1%	
Ecommerce	**2.2**	**2%**	**2.6**	**2%**	**6.0**	**5%**	**10.3**	**8%**
Increase	*90%*		*18%*		*132%*		*70%*	
Wholesale	**86.1**	**84%**	**90.5**	**83%**	**89.4**	**77%**	**91.2**	**74%**
Increase	*0%*		*5%*		*-1%*		*2%*	
Total	**101.9**	**100%**	**109.2**	**100%**	**115.6**	**100%**	**123.0**	**100%**
Increase	*0%*		*7%*		*6%*		*6%*	

Source: EQUITA SIM estimates and Company data

Overall revenue growth (+21% cumulated in the three year period) was mostly boosted by prices, in parallel with the already mentioned repositioning strategy implemented since 2017, whilst we assume volumes were up low/mid single digit, as growth of ecommerce and retail was offset by a decline in the wholesale channel.

Focusing on SSSg in full-price DOS stores, more indicative of the real underlying brand's performance, we believe volume contribution remained healthy in the period, explaining about half of the total SSSg (about mid-single-digit growth).

BETTY BLUE SPA SALES BRIDGE BY CHANNEL 2016-2019E (€ mn)



Source: Information Document and Equita SIM elaborations

1H19 revenue trends were a bit softer than those implied in the Company's FY19 projections, but management sounded confident on an acceleration in the 2H19, for both wholesale (which we assume supported by the order backlog) and retail. **In retail, in particular, YtD SSSg trends (flattish for outlets due to the tough comparison base but up by about 10% for mainline DOS) support our +7% SSSg estimate for the current year.**

REVENUE DRIVERS BY SEMESTER (€ mn)

	1H18	1H19	2H18	2H19E
Retail	10.0	10.5	10.2	11.0
Increase	n.a.	5%	n.a.	8%
Ecommerce	2.1	3.6	3.9	6.7
Increase	n.a.	71%	n.a.	69%
Wholesale	42.9	43	46.5	48
Increase	n.a.	1%	n.a.	3%
Total	**55.0**	**57.4**	**60.6**	**65.6**
Increase	**n.a.**	**4%**	**n.a.**	**8%**

Source: EQUITA SIM estimates and Company data

High and resilient profitability

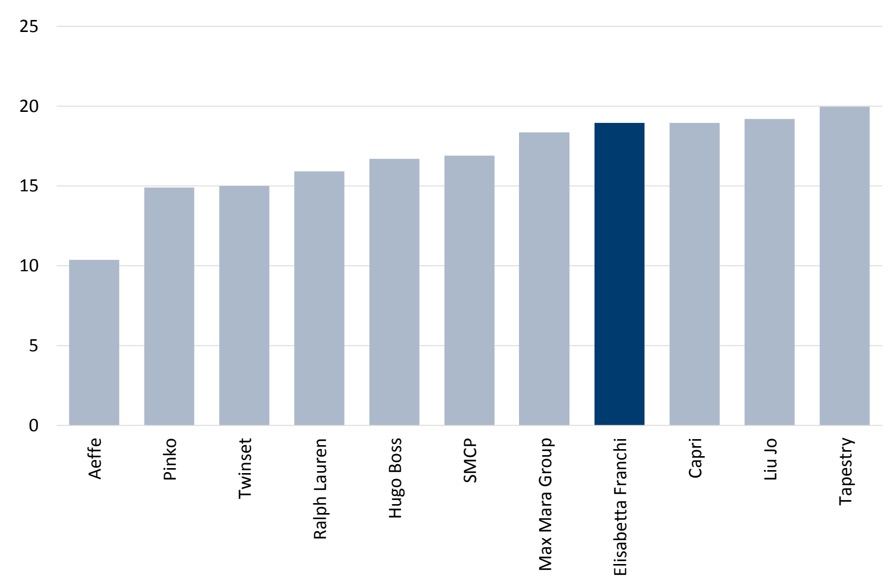
Betty Blue profitability is high and ranks well among peers active in the same market segment (see a benchmarking of EBITDA margin in the following page).

The adjusted EBITDA figure of € 23.3 mn, used as a base for the valuation in the Business Combination, excludes:

- **The costs linked to the business combination** (€ 2.5 mn in FY19E), which are reported among "other services".
- **the non-recurring write-downs** for financial receivables from the closure of the Hong Kong store (€ 0.9 mn).

It instead includes **the fiscal benefit stemming from the "Patent-box"** (agreement with the Italian tax authority for tax exemption of income from intangible assets); the Company in fact reports this benefit among other incomes, thus above EBITDA.
This accounted for € 3.6 mn in 2018 (on 2015-17 incomes) and € 1.3 mn in 2019E (on 2018 income). We usually adjust for this item but we have preferred to be consistent with company's reporting, also in the light of a progressively lower incidence of these fiscal benefits expected for the next few years.

BETTY BLUE PROFITABILITY BENCHMARKING (Adj. EBITDA margin, %) - 2019E



Source: Equita SIM elaborations, Bloomberg estimates
Excludes IFRS 16 impact for European listed players. 2018 Annual Report for Private Italian companies

Gross margin has historically ranged between 50% and 53%. During the period it has shown some volatility, with a swing in 2018 which management partly explains with the temporary acceleration of outlets in the year (+27% SSSg); as a matter of fact, gross margin rebounded again by almost 400 bps in 1H19, and we expect most of that to be confirmed also on a FY19 basis.

Should that be the case, gross margin would have been up by +150 bps overall in the 3Y period, driven by price-hikes (although the repositioning went also hand in hand with higher product content) **but especially by the channel mix**, thanks to faster growth in the direct channels (we estimate full-price retail + ecommerce up from 10% of total revenues in 2016 to 18% in 2019E).

In fact, profitability is higher in the direct mainline channels (we estimate close to 70% in full-price retail and ecommerce) vs. wholesale (we estimate close to 50%, with clearly no difference between multibrand and franchising) and outlets (featuring the lowest gross margin, which we estimate close to 40%).

On the other side, volume growth can not be a driver for gross margin as production is fully outsourced and thus entailing mostly variable costs.

Notwithstanding the improvement in gross margin, we should see a stable EBITDA margin at the end of the 2016-19E period at 18.9%, as a result of:

- **an increase in opex** (namely sales&distribution, rents, personnel) both in absolute terms and as a percentage of revenues (we estimate +250 bps overall in the 3Y period), **driven by the Company's growing organization to support business expansion and by the new store openings of 2016-17.**

  The marketing budget should have remained instead stable as a percentage of revenues, further proving the effectiveness of the Company's communication strategy, and the high returns (in terms of both visibility and conversion) stemming from the use of digital media and from the personal engagement of the creative designer.

- **partly mitigated by the fiscal benefit stemming from the "Patent-box"**, as already commented.

Following slightly declining D&A and virtually nil financial charges (as the Company has always been cash positive), **these dynamics have translated into a +10% CAGR in adjusted earnings.**

Robust cash generation

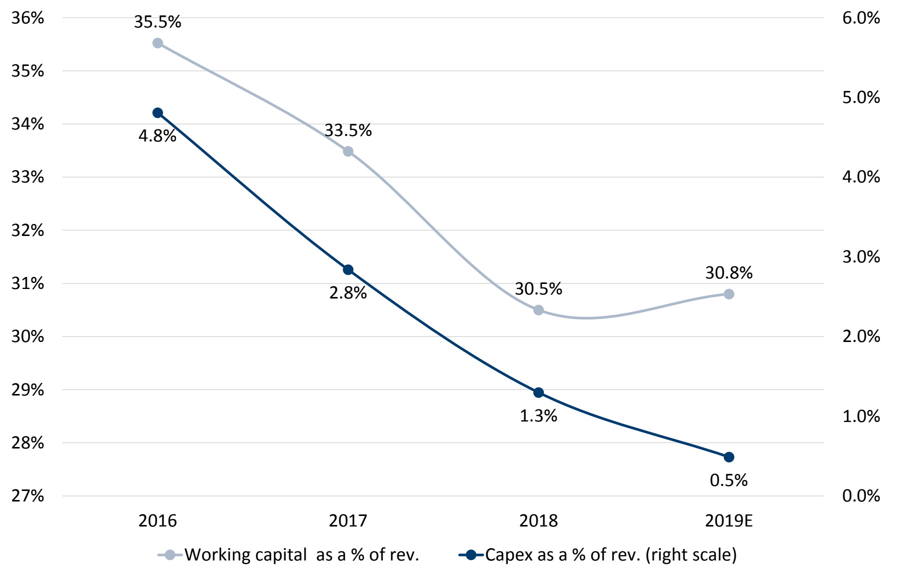
The Company has a strong track record of high cash generation, with € 40 mn cumulated adj. FCF in the 2017-19E period, cash conversion (adj. FCF/adj. EBITDA) at about 60% on average in the period **and always positive NFP, expected to close at € 5 mn cash this year,** gross of the € 2.5 mn costs of the business combination**.**

We believe this feature stems from:
- **the high profitability of the Company**
- **a good control of working capital,** namely inventories (thanks to the fast fashion model)
- **limited capex,** particularly in the last few years, due to no new openings in the 2018-19 period. We estimate maintenance capex account for about € 1.5 mn.

The chart below shows the recent evolution of Net Trade Working Capital and Capex

The robust FCF generation has allowed the Company to pay interesting dividends during the last three years (€ 20 mn overall in 2017-18 and further € 15 mn already approved for the current year).

EVOLUTION OF WKC AND CAPEX (% of revenues)



Source: Equita SIM estimates and Company data

CASH FLOW STATEMENT (€ mn)

	2017	2018	2019E
Net profit	12.0	15.0	12.1
Depreciations	2.5	2.5	1.9
Other non-cash items	1.7	1.7	2.6
Change in Trade Wkc	-0.4	1.3	-2.6
Others	-3.2	-1.6	-2.6
Cash flow provided by	**12.6**	**18.9**	**11.3**
Capex	-3.1	-1.5	-0.6
Other investments			
Disposals			
(Distribution of Dividends)	**-10.5**	**-10.0**	**-15.0**
Capital Increase			
Change in cash	**-1.0**	**7.4**	**-4.3**
NFP Start of the year	2.8	1.8	9.3
NFP End of the year	1.8	9.3	5.0
Adj. FCF	**9.5**	**17.4**	**10.7**
As a % of adj. EBITDA	47%	78%	46%

Source: EQUITA SIM estimates and Company data

2020-22E: +7% ADJ. EBITDA 3Y CAGR, CLOSE TO € 40 MN CASH FLOW

Our estimates for the next three years envisage the continuation of a growth path similar to the past, underpinned by the strategy already discussed of widening the product range, raising penetration abroad, consolidating the Italian market and strengthening the ecommerce business.

BETTY BLUE SPA P&L AFTER BUSINESS COMBINATION (IFRS) - € mn

	2019E		2020E		2021E		2022E		3Y CAGR
Sales	**123.0**		**132.6**		**143.5**		**155.0**		
Increase	*6%*		*8%*		*8%*		*8%*		*8.0%*
Gross Margin	**65.2**	**53.0%**	**71.0**	**53.5%**	**77.3**	**53.9%**	**84.1**	**54.2%**	
Marketing	(3.2)	-2.6%	(4.4)	-3.3%	(5.8)	-4.0%	(7.0)	-4.5%	
Sales & Distribution	(8.7)	-7.0%	(9.5)	-7.1%	(10.4)	-7.2%	(11.4)	-7.3%	
Other services	(10.9)	-8.9%	(12.5)	-9.4%	(9.5)	-6.6%	(10.1)	-6.5%	
Rents	(5.3)	-4.3%	(5.5)	-4.1%	(6.0)	-4.2%	(7.0)	-4.5%	
Personnel	(16.4)	-13.3%	(17.4)	-13.1%	(18.8)	-13.1%	(20.2)	-13.0%	
Provisions and write-downs	(2.6)	-2.1%	(2.0)	-1.5%	(1.3)	-0.9%	(1.2)	-0.8%	
Other income/costs	1.8	1.5%	2.1	1.5%	1.2	0.8%	1.3	0.9%	
EBITDA Adj.	**23.3**	**18.9%**	**25.2**	**19.0%**	**26.8**	**18.7%**	**28.5**	**18.4%**	
Increase	*4%*		*8%*		*6%*		*6%*		*6.9%*
EBITDA	**19.9**	**16.2%**	**21.8**	**16.5%**	**26.8**	**18.7%**	**28.5**	**18.4%**	
Increase	*-11%*		*10%*		*23%*		*6%*		
D&A	(1.9)	-1.5%	(2.0)	-1.5%	(2.3)	-1.6%	(2.5)	-1.6%	
EBIT Adj.	**21.4**	**17.4%**	**23.2**	**17.5%**	**24.5**	**17.1%**	**26.0**	**16.7%**	
Increase	*8%*		*9%*		*6%*		*6%*		*6.6%*
EBIT	**18.0**	**14.6%**	**19.8**	**15.0%**	**24.5**	**17.1%**	**26.0**	**16.7%**	
Increase	*-9%*		*10%*		*24%*		*6%*		
Total financial charges	(.6)		(.0)		(.0)		(.0)		
Pre-tax profit	**17.4**		**19.8**		**24.5**		**25.9**		
Increase	*-11%*		*14%*		*24%*		*6%*		
Taxes	(5.3)		(5.7)		(7.1)		(7.5)		
Net income	**12.1**		**14.1**		**17.4**		**18.4**		
Increase	*-20%*		*17%*		*24%*		*6%*		
Adjusted Net Profit	**14.6**		**16.7**		**17.4**		**18.4**		
Increase	*-3%*		*14%*		*4%*		*6%*		*7.9%*

Source: EQUITA SIM estimates

The geographic strategy targeted by management will entail a gradually higher exposure to the direct channel, following some DOS openings both in Italy and Europe (including potential conversions of franchised stores to DOS) and opening of Shop-in-Shops within main department stores (particularly in continental Europe).
Nevertheless, we expect most of growth to come from ecommerce, whilst we understand management will maintain a prudent and disciplined approach to retail expansion (no flagship stores envisaged, only few new openings per annum), in order to preserve the Company's healthy profitability and cash generation profile.

More in detail, we expect **+8% sales CAGR in 2020-22E, mainly driven by:**

- **Ecommerce,** with about +33% 3Y CAGR expected, supported also by the new omnichannel features but gradually normalizing from recent +70% CAGR.
- **Retail** (+11% CAGR expected), **with a bit less than half of the expected growth explained by SSSg. We have prudently assumed +4.7% SSSg CAGR (similar for both full-price stores and outlets) vs. +11% of the last three years,** allowing for much lower contribution from pricing compared to the past, as the repositioning is expected to be completed with the 2020 collections. **Sales productivity and thus SSSg should benefit from widening of the product range, but at the same time we must be aware of some potential dilution for possible new openings outside of Italy**, where the brand awareness is still relatively lower, and slightly wider store surfaces targeted for new openings.

On the other side we estimate space to play a more important role compared to the past (more than half of total retail growth), although concentrated in later years (no new openings envisaged for 2020).
The Company has not disclosed its plans in this respect yet, but we are assuming 3 new DOS per annum in 2021 and 2022 (of which 1-2 possibly from conversions of franchisee, especially in Italy) and one shop in shop, plus possibly one further outlet at the end of the period (on top of the one planned to open in San Marino next year).
Overall we thus expect to see a slightly declining incidence of outlet sales on total retail revenues, just below 40%, due to a lower contribution from new space compared to the full-price stores.

REVENUES BY CHANNEL (€ mn)

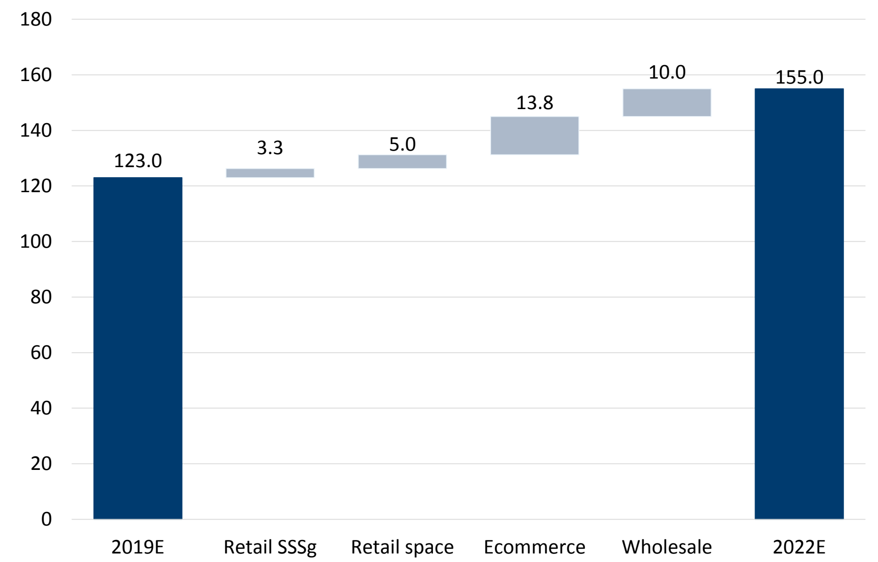
	2019E	%	2020E	%	2021E	%	2022E	%
Retail	**21.5**	**17%**	**22.9**	**17%**	**25.5**	**18%**	**29.7**	**19%**
Increase	*7%*		*7%*		*11%*		*17%*	
Full-price	12.8	10%	13.5	10%	15.3	11%	18.4	12%
Increase	*11%*		*5%*		*14%*		*20%*	
Outlets	8.7	7%	9.5	7%	10.2	7%	11.3	7%
Increase	*1%*		*9%*		*8%*		*11%*	
SSSg								
Full-price	11%		5%		5%		5%	
Outlets	1%		5%		5%		5%	
Ecommerce	**10.3**	**8%**	**15.4**	**12%**	**20.1**	**14%**	**24.1**	**16%**
Increase	*70%*		*50%*		*30%*		*20%*	
Wholesale	**91.2**	**74%**	**94.3**	**71%**	**97.9**	**68%**	**101.2**	**65%**
Increase	*2%*		*3%*		*4%*		*3%*	
Total	**123.0**	**100%**	**132.6**	**100%**	**143.5**	**100%**	**155.0**	**100%**
Increase	*6%*		*8%*		*8%*		*8%*	

Source: EQUITA SIM estimates

At the same time, we are forecasting +3.5% CAGR in wholesale, above +2% of the last three years, driven by growth of the franchising channel (we assume +5 net new openings per annum) and of e-tailers, but also underpinned by growth of multibrand accounts abroad.
In particular the positive trend of the S/S20 order backlog (up by +5% vs. the corresponding season in 2019) supports our +4% estimate for this channel in FY20E.

Overall our model is consistent with management's ambition of opening 10/12 new monobrand stores per annum as from 2021 (including both DOS and franchised stores), although including also some store closures, as it has been the case already in the last few years due to the underlying strategy of raising the quality of the network.

BETTY BLUE SPA SALES BRIDGE BY CHANNEL 2019E-2022E (€ mn)



Source: Equita SIM estimates

We have built our model starting from revenues by channel as this is by far the most important driver for profitability, both in terms of gross margin (as already commented) and in terms of growth in opex.

Looking to profitability, in fact, our estimates allow for some gross margin expansion in the period (+130 bps) driven exactly by the evolution of the sales mix, with faster growth in retail/ecommerce vs. wholesale.
Gross margin by category could also play a role in theory, as leather goods in particular tend to have higher profitability than apparel, but we are not envisaging any contribution to margin expansion in this respect considering that accessories are fully outsourced, with very limited scale yet, and that we expect a only gradual increase of non-apparel revenues' incidence on the total business (just 3-4 percentage points in the medium term).

The gross margin improvement however is set to be offset by growing opex (we estimate +130 bps as a percentage of revenues over the three year period), as **we believe the growth strategy targeted by management will entail:**

- **Higher marketing costs**, particularly to underpin growth abroad. We have assumed a rising incidence of marketing costs from about 2.6% of revenues in FY19E to at least 4.5% in 2022. This would still remain below main peers (we estimate at around 6%) as management is confident Elisabetta Franchi will keep benefitting from the strong resonance of the creative designer and her constant direct involvement in communication activities;
- **Higher personnel costs,** in the creative department (to strengthen the design team with dedicated designers for shoes and bags), in merchandising (particularly ahead of growth in these complementary categories and in foreign markets), in the commercial area (to drive growth abroad), in the stores (in terms of additional headcounts but also greater investments in training and incentive);
- **Higher rent costs**, also linked to new openings;
- **Higher IT costs,** to enhance the control and planning of the business, develop more widespread CRM activities, etc.

On top of this, Adj. Ebitda will be impacted by a decreasing contribution from the patent box benefit (from € 1.3 mn in 2020 to about € 0.7 mn per annum from 2021 onwards). **As a result, we thus expect a small dilution of profitability during the next three years, with Adj. EBITDA CAGR of +7% and margin down -50 bps overall.**

We have referred until now to Adjusted EBITDA as the 2020 reported figure will be still distorted by non-recurring costs of the business combination (further € 3.5 mn envisaged).

In the current reporting under Italian GAAP, **the business combination will generate an Excess Purchase Price allocated to goodwill of about € 153 mn, which will be amortized over ten years,** thus with an annual amortization of € 15.3 mn, with no impact on taxable income.
However the Company will switch to IFRS standards already in early 2020, thus the goodwill amortization will never be reported.
Therefore our model thus not consider this item, which has neither cash nor fiscal implications.

With nil financial charges (vs. € -0.7 mn in 2019E of write-down in financial receivables from the Russian subsidiary) and a constant normalized tax rate of around 30%, **our assumptions lead to +8% 3Y CAGR in adj. net income.**

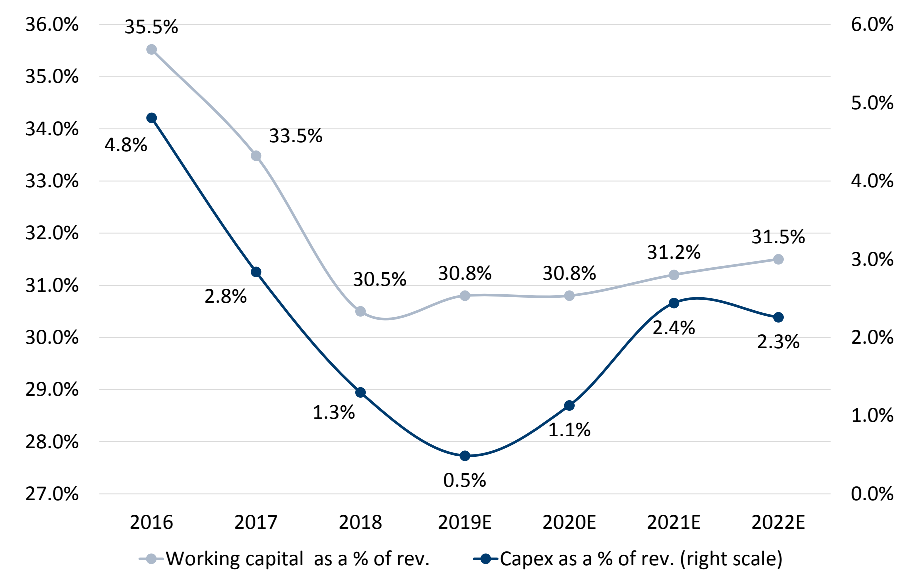
Further € 39 mn cumulated cash flow and generous dividends expected

We expect the company to maintain a solid cash generation profile, with adj. FCF conversion estimated at about 50% of adj. EBITDA on average in the next 3Y period, although less strong than in the last three years factoring in:

- **Slightly higher working capital needs:** we have assumed Trade Working Capital as a percentage of revenues up from 30.8% in FY18 to 31.5% in FY22E, based on stable cash collection and payment days but on possibly increasing days of inventory as a consequence of the retail/ecommerce development.
- **Growing capex,** particularly in the later years, as we are allowing for investments in new openings to restart in 2021-22E (both k-money for locations and refurbishment/furniture) and **for growing investments in IT in order to strengthen the digital backbone of the Company** (CRM, management software). As per management indications, we are including cumulated capex for the 4Y period 2019-22E of € 9 mn.

This should allow the Company to confirm an interesting dividend flow: we are assuming a pay-out close to 80%.

EVOLUTION OF WKC AND CAPEX (% of revenues)



Source: Equita SIM estimates and Company data

CASH FLOW STATEMENT (€ mn)

	2019E	2020E	2021E	2022E
Net profit	12.1	14.1	17.4	18.4
Depreciations	1.9	2.0	2.3	2.5
Other non-cash items	2.6	2.0	1.3	1.2
Change in Trade Wkc	-2.6	-3.0	-3.9	-4.1
Others	-2.6	-2.0	-2.0	-2.0
Cash flow provided by	**11.3**	**13.1**	**15.0**	**16.0**
Capex	-0.6	-1.5	-3.5	-3.5
Other investments				
Disposals				
(Distribution of Dividends)	**-15.0**	**-10.2**	**-11.2**	**-13.2**
Capital Increase				
Change in cash	**-4.3**	**1.4**	**0.4**	**-0.7**
NFP Start of the year	9.3	5.0	6.4	6.8
NFP End of the year	5.0	6.4	6.8	6.1
Adj. FCF	**10.7**	**15.1**	**11.5**	**12.5**
As a % of adj. EBITDA	46%	60%	43%	44%

Source: EQUITA SIM estimates

SWOT

Strengths

- **Personal engagement and fame of the creative designer**
- Strong positioning in accessible luxury
- Effective and **multichannel marketing strategy, with high reliance on digital media.**
- **Advanced visibility on wholesale revenues** (production on orders) which account for more than 70% of the business. The Spring/Summer 2020 order backlog is up by +5% on the corresponding S/S19 season.
- Lean supply chain, for fast production lead-times
- **Replenishments allowing to maximise selling opportunities**
- Multichannel distribution strategy
- Encouraging track record in retail
- **Disciplined approach to retail expansion (few openings, no flagship stores)**
- Healthy track-record (+6.5% 3Y CAGR in revenues and Adj. EBITDA in 2017-19E).
- **Solid financials** (Adj. EBITDA margin close to 19% in FY19E, positive NFP, strong FCF generation at about 55% of EBITDA).

Weaknesses

- Short track record, namely in retail management abroad (only 3 full-price DOS out of 18, all recently opened)
- Little consistency of margin trends in the last few years
- Relatively lower brand awareness outside of Italy
- High exposure to the multibrand wholesale channel (>60% of revenues), implying less control on brand image/discounting policy
- Limited IT infrastructure, implying only partial control of the business

Opportunities

- **Growth of the reference market** (+4/5% CAGR expected in 2019-2025)
- **Expansion of the product offering**, expected to drive sales productivity
- **Raising penetration abroad** through both multibrand and monobrand openings
- **Consolidating presence in Italy**, by enhancing the quality of the network
- **Synergies with Spactiv** to enter main department stores in Europe.
- **Strengthening of ecommerce**, with additional features and more omnichanneling capabilities

Threats

- **High reliance on Elisabetta Franchi**
- Potential short-term negative impact on profitability and cash generation from the **higher resources needed to develop non-apparel categories and the foreign business** (style, marketing, merchandising, CRM)
- **Possibly longer break-even time for new store openings abroad**, with consequent negative impact on profitability
- **IT investments and costs needed to strengthen the digital backbone of the Company** (CRM, management software)
- Structural difficulties of the multibrand wholesale market in Italy (which accounts for about 45% of the Company's wholesale business, or about 35% of total revenues)
- **Poor liquidity expected, as the Company will initially be listed on the AIM segment of Borsa Italiana.**

PEERS COMPARISON

Considering the good FCF generation of the Company, a DCF model can be a valuable approach to value Elisabetta Franchi.
However we believe that, as it usually happens, in this preliminary phase ahead of the business combination investors will mostly rely on a shorter term and more immediate approach such as the comparison with peers' multiples.

Although the interesting growth prospects and high profitability/cash generation of Elisabetta Franchi are features common also to some aspirational luxury players, we believe the different competitive arena and positioning implies significant differences in terms of barriers to entry and long term sustainability of the business, which suggest not to use the following panel of peers.

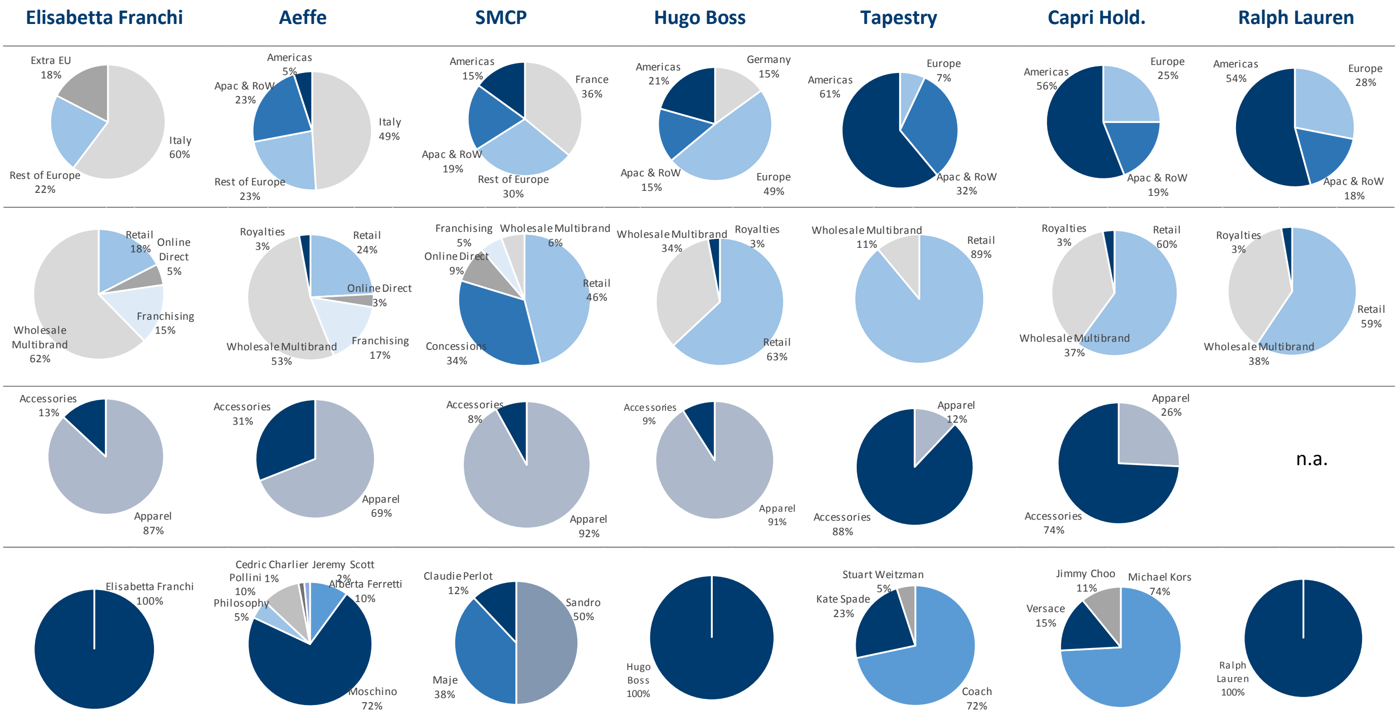
ASPIRATIONAL LUXURY PLAYERS – MARKET MULTIPLES

	Price	Mkt	EV/EBIT**			Ebit margin**			Sales growth			P/E Adj			Adj. EPS growth	
	€	cap	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2020E	2021E
Hermes	681	71,893	29.4	26.4	23.8	34%	34%	34%	14%	9%	8%	46.9	42.1	38.2	12%	10%
Brunello Cucinelli	33.6	2,286	32.3	29.6	27.2	13%	13%	13%	9%	9%	9%	46.5	41.6	37.7	12%	10%
Burberry	2,104	10,102	17.0	15.3	13.5	16%	17%	18%	4%	6%	6%	23.9	21.6	19.1	12%	13%
Kering	547	69,037	15.3	13.7	12.2	29%	30%	30%	16%	9%	8%	21.7	19.6	18.0	10%	8%
LVMH	407	205,862	18.4	16.4	14.9	21%	22%	22%	15%	8%	7%	27.8	24.8	22.8	12%	9%
Tod's	39.9	1,322	158.2	71.4	48.9	1%	2%	3%	-4%	3%	4%	265.9	91.3	64.5	191%	41%
Prada	28.5	8,448	28.9	25.3	21.6	9%	10%	11%	3%	5%	5%	42.4	36.3	30.9	17%	17%
Ferragamo	18.1	3,054	20.3	16.6	14.3	10%	12%	13%	3%	6%	4%	34.4	26.8	22.9	29%	17%
Moncler	39.8	10,259	19.7	16.9	14.7	30%	30%	31%	14%	13%	12%	29.6	26.1	23.2	13%	12%
Avg Soft Luxury*			**19.9**	**17.4**	**15.2**	**19%**	**20%**	**21%**	**9%**	**8%**	**7%**	**30.0**	**25.8**	**22.8**	**16%**	**13%**

*Source: Bloomberg consensus and EQUITA SIM estimates. *RMS, BC, TOD excluded from EV/EBIT and P/E* ***Excluding IFRS16*

We have instead identified six players active in the premium or accessible luxury space, although in many cases with highly different product/geographic/channel exposure compared to Elisabetta Franchi, as summarized in the table below (see later in this paragraph for a short qualitative description of every single player).

ELISABETTA FRANCHI MAIN LISTED PEERS



Source: Companies data and Equita SIM elaborations

The table below summarizes the main features of the selected players in terms of profitability, growth and cash generation.

ACCESSIBLE LUXURY PEERS' - FINANCIAL METRICS

	mkt cap € mn	Revenues € mn	Ebit margin 2019E	Sales Growth 2019E	Sales Growth 2020E	Sales Growth 2021E	Adj. Net Income Growth 2019E	Adj. Net Income Growth 2020E	Adj. Net Income Growth 2021E	FCF/EBITDA 3Y avg	D/EBITDA 2019E
RALPH LAUREN COR	7,368	5,708	12%	2%	2%	4%	14%	10%	10%	65%	-1.3
TAPESTRY INC	6,772	5,493	16%	2%	2%	3%	6%	3%	5%	61%	0.2
CAPRI HOLDINGS L	5,165	4,744	15%	11%	5%	4%	6%	5%	8%	59%	1.9
HUGO BOSS -ORD	3,022	2,858	12%	2%	3%	4%	-5%	11%	8%	46%	0.0
SMCP SA	834	1,133	12%	12%	12%	9%	32%	25%	16%	23%	1.6
AEFFE SPA	218	345	7%	0%	4%	5%	-32%	42%	21%	49%	1.4
Average			**12%**	**5%**	**5%**	**5%**	**4%**	**16%**	**12%**	**51%**	**0.6**
ELISABETTA FRANCHI			17%	6%	8%	8%	-3%	14%	4%	50%	-0.2

Source: Bloomberg, Equita Sim elaborations

At first sight, Aeffe is the closest peer to Elisabetta Franchi in terms of size as well as of geographic and channel exposure (similarly skewed towards the Italian domestic market and the wholesale channel), but Elisabetta Franchi has much better financial metrics (higher profitability, stronger cash generation, healthier balance sheet).

With a wider look we can say that, compared to the selected panel, Elisabetta Franchi has:

- **Some rewarding features:**
    1. **Higher profitability**
    2. **Better growth prospects in terms of revenues**
    3. **Healthier balance sheet** (with net cash vs. 0.6x D/EBITDA average for the panel)

- **As much strong FCF conversion and similar earnings growth.** Apparently, net income growth is in fact softer than peers (CAGR of +5% vs. +10% for peers), but this is the consequence of the decreasing contribution from the "patent box" benefits in 2019 vs. 2018, and then further in 2021 vs. 2020. **Excluding this volatile item, adj. net profit 3Y CAGR in the 2019-21 period would be more consistent with the +10% average of the panel**, as in fact visible in 2020.

- **Few weaker features, namely:**
    1. Business still highly concentrated on the domestic market, as opposed to more diversified peers.
    2. Still high reliance on the wholesale channel as opposed to retail. Wholesale ensures greater costs flexibility but can add volatility to the business and reduce control on the positioning of the brand.
    3. Higher exposure to the outlet channel, at 40% of retail revenues, as opposed to 30% at most for peers. This is a highly important channel to reduce excess inventory but can cannibalize full-price sales and ultimately affect brand image.

ACCESSIBLE LUXURY PEERS'- MARKET MULTIPLES

	Price p.s.	Perf. 3M	EV/EBIT excl. IFRS16 2019E	EV/EBIT excl. IFRS16 2020E	EV/EBIT excl. IFRS16 2021E	P/E adj. 2019E	P/E adj. 2020E	P/E adj. 2021E	FCF Yield 2019E	FCF Yield 2020E	FCF Yield 2021E
RALPH LAUREN COR	108.7	24%	9.2	9.1	8.4	14.4	13.1	11.8	10.2%	9.0%	9.2%
TAPESTRY INC	27	33%	8.1	8.3	7.8	10.6	10.3	9.7	10.5%	11.2%	11.8%
CAPRI HOLDINGS L	37.5	41%	9.1	8.1	6.8	7.6	7.2	6.7	11.0%	14.1%	14.4%
HUGO BOSS -ORD	43	-16%	9.0	8.4	7.8	13.3	11.9	11.0	8.3%	8.7%	9.2%
SMCP SA	11.2	-10%	8.4	6.9	5.7	12.3	9.9	8.5	2.9%	6.7%	9.1%
AEFFE SPA	2.0	29%	11.9	9.0	7.0	18.0	12.7	10.5	4.4%	13.4%	13.4%
Average		**17%**	**9.3**	**8.3**	**7.3**	**12.7**	**10.8**	**9.7**	**7.9%**	**10.5%**	**11.2%**

Source: Bloomberg, Equita Sim elaborations

However, we see the still relatively less diversified geographic mix and channel mix of Elisabetta Franchi as an opportunity for future growth, and in fact the management strategy for the next few years will move also in this direction.

We would thus focus on the few rewarding features we have identified, which can justify some premium for Elisabetta Franchi compared to peers.

Quick description of selected peers

AEFFE

Aeffe Group operates worldwide in the fashion and luxury goods sector under its own brands, including “Alberta Ferretti”, “Philosophy”, “Moschino” and “Pollini”, and under licensed brands, which include “Cedric Charlier” and “Jeremy Scott”. Aeffe price positioning, with its multibrand portfolio, spans from the "premium" to the "aspirational" luxury segments.

SMCP

Created in 2010, SMCP is a French fashion group designing and marketing apparel and accessories worldwide under three brands: Sandro, Maje and Claudie Pierlot. SMCP has managed to impose itself as a leader of affordable luxury in the European market over the years. Apparel is by far the main category (92% of revenues).
Its products are distributed through 1,466 points of sales across 40 countries, mostly directly managed (retail channel accounting for 80% of revenues). The group has already a sizable international presence, with 64% of revenues generated outside the domestic French market.

Hugo Boss

HUGO BOSS is active in the premium and luxury segment of the global apparel market. It focuses on developing and marketing premium fashion and accessories for men and women. Although the group’s presence in the women segment is still limited (10% of revenues), we have included this player among peers by virtue of a similar price positioning and end-market. The group counts more than 400 stores worldwide, with most of revenues managed directly (retail accounting for 63% of revenues).

Tapestry

Based in New York, Tapestry is a group of “modern luxury lifestyle brands” including Coach, Kate Spade (acquired in 2017) and Stuart Weitzman (acquired in 2015).
The offering is mainly concentrated in handbags and accessories (>80% of revenues), complemented by shoes and apparel. The group counts more than 1500 stores across the world; its products are mainly distributed through the retail channel (89% of revenues), with the domestic US market being the main geography.

Capri Holdings

Capris Holdings is a fashion luxury group controlling the Michael Kors, Versace and Jimmy Choo brands. Versace was acquired in 2018 whilst Jimmy Choo in 2017.
Michael Kors is not only the main source of revenues (74% of the total), but also the group’s brand most similar to Elisabetta Franchi in terms of price positioning, although being more skewed towards accessories (handbags 65%, shoes 12%) and retail (60% of group’s revenues).

Ralph Lauren

Ralph Lauren is an American leading brand active in the design, marketing and distribution of premium lifestyle products, namely apparel and accessories. Its products are distributed through more than 1,400 stores, with retail accounting for 59% of revenues.

SPACTIV: THE ACTIVE SPAC

A SPAC (Special Purpose Acquisition Company) is a shell company with no operations, incorporated by an experienced management team (the Promoters) to raise capital through an IPO and to be listed on the Stock Exchange. Proceeds raised are then used to acquire a target company or business in any form, including a reverse merger (so-called Business Combination). As a result of the Business Combination, the shares of the Target company are listed on the Stock Exchange.
The Business Combination must be approved by the shareholder meeting of the SPAC. In case the shareholder meeting does not approve the Business Combination, the Promoters can seek another target. SPACs however have a predetermined time horizon in which to complete the Business Combination: if no transaction is completed within that time-frame, the SPAC is liquidated.
On the other side, in case the shareholder meeting approves the Business Combination, shareholders who have not approved it may ask to withdraw their investment.

The investment policy

Spactiv was listed on the AIM Italia in September 2017, raising € 90 mn proceeds, with the aim of investing in Italian (PIR-compliant) mid cap companies, with the following criteria:
- high growth potential of the target
- equity value of the target between € 100 and € 400 mn
- acquisition of a qualified minority stake or a majority stake, for a total consideration of € 60-80 mn
- focus on the Lifestyle sector (Food, Fashion, Design, Consumer Goods, Healthcare, Wellness, Tourism).

Elisabetta Franchi (Betty Blue) perfectly fits within this framework, in terms of:
- solid financial metrics and distinctive positioning in accessible luxury, with interesting growth opportunities
- size of the deal (equity value recognized to Betty Blue for the business combination of € 195 mn)
- the required financial resources: Spactiv will buy Betty Blue shares between a minimum of € 63 mn and a maximum of € 77.5 mn and will have a share of the combined company after the business combination between 34.9% and 41.7%.

On top of this, Elisabetta Franchi offers clear opportunities to leverage on the Promoters' experience and background in Retail and Consumer Goods, in line with Spactiv's positioning as the "active Spac", ready to actively support the entrepreneur and managers of the target company in their path towards value creation.

The Promoters

The Promoters of Spactiv are:
- **Maurizio Borletti and Paolo de Spirt, founding partners of Borletti Group**
- **Gabriele Bavagnoli, founder and managing director of Milano Capital.**

The Borletti Group is a privately-owned investment group with a track record of € 7 bn investments in the last 12 years, including:
- **La Rinascente** (2005-2011): repositioning through an upgrade of the brand strategy, leading to strong operational improvement;
- **Printemps** (2006-2013): also in this case, successful repositioning of the store network driving significant increase in sales/sqm and profitability;
- **The Market - San Marino** (2014 – current): development of a contemporary and innovative Outlet Village in San Marino (where Elisabetta Franchi is also going to open a store next year).
- **Grandi Stazioni Retail** (2016 – current): progressive upgrade and repositioning of the commercial area located within the 14 largest train stations in Italy.

In particular the two investments the fund has already sold, La Rinascente and Printemps, were both extremely successful, allowing to multiply the initial money by more than 5x.

The Borletti Group thus contributes a significant expertise in three core sectors for the development of Elisabetta Franchi, i.e. retail, luxury and branded consumer goods, as well as real estate with a retail component.

On the other side Gabriele Bavagnoli, after an almost 20-year career in strategy consulting (including several projects in Retail and Consumer Goods), has worked in Private Equity in 2014-2016, and in 2016 he founded Milano Capital, which in fact combines private equity investments and strategic advisory. His expertise and know-how will thus also serve to support Elisabetta Franchi and her management team along the implementation of the targeted growth strategy.

The share capital structure

With the listing, Spactiv raised € 90 mn through the issue of 9 mn ordinary shares at € 10 each.
At the same time Promoters subscribed 300k special shares at € 10 each. Special Shares are not listed, non-transferrable, not voting for the Business Combination and subordinated in case of liquidation.

On top of this, at the IPO ordinary shareholders received 2 free warrants every 10 ordinary shares (there are therefore 1.8 mn outstanding warrants); **ordinary shareholders are also entitled to receive further 3 free warrants every 10 ordinary shares at the business combination** in case they do not exercise the withdrawal right.

Warrants envisage:
- A subscription price equal to € 0.1 per share;
- Strike Price of € 9.50;
- Mandatory conversion when Ordinary Share price equals or exceeds €13.3;
- Exercise period: within 5 years from the business combination.

Each warrant entitles investors to receive new Ordinary Shares in the combined entity according to the following formula:

$$\textit{Number of new shares per warrant} = \frac{\textit{avg. monthly share price} - \textit{strike price (9.5€)}}{\textit{avg. monthly share price} - \textit{share subscription price (0.1€)}}$$

The maximum number of new shares stemming from conversion of warrants is thus 1.295 mn.

It's also worth highlighting how Spactiv will change its by law compared to the original version, in order to envisage a more investor-friendly scheme for conversion of Special Shares into Ordinary Shares, and make Promoters' interests more aligned with investors' ones: as detailed in the table below, Promoters will in fact propose to the shareholders - called for the approval of the business combination - to envisage **a sole price threshold (€ 13.3) instead of three previously (€ 11, € 12, € 13.3)** for the conversion of Special Shares into Ordinary Shares with a 1:6 ratio.
However they will also propose:
- to lengthen **the time frame for 1:6 conversion to 5 years instead of 3 years previously**
- **to give Special Shares the right to vote and to perceive dividends.**

SPACTIV - CHANGES IN THE STRUCTURE	
Promoters' remuneration	
Pre	Automatic conversion of n.1 Special Share into n. 6 Ordinary Shares (1:6 ratio) according to the following thresholds: -35% at Business Combination -25% if Ordinary Shares market price hits steadily €11* -20% if Ordinary Shares market price hits steadily €12* -20% if Ordinary Shares market price hits steadily €13.3* In case the share price reaches €13.3 within a period of 36 months from the BC, the last 20% of Special Shares will be converted in Ordinary Shares after further 12 months from the Business Combination but will start to perceive dividends already at the expiry of 36 months from the Business Combination. In case price conditions for conversion are not met within 36 months from the Business Combination, any remaining Special Share will be converted into Ordinary Shares at 1 to 1 ratio.
Post	**Conversion at 1:6 ratio of Special Shares after the Business Combination** (65% of total Special Shares) **now envisages a sole price threshold** (€ 13.3) **instead of three.** Time frame of 5 years instead of 3 years previously. Special Shares are entitled to vote in the ordinary and extraordinary shareholder meetings Special Shares are immediately entitled to dividends.

** Within 36 months from the completion of the BC and if the official price of the Ordinary Shares is greater than or equal to the price thresholds per Ordinary Share for at least 15 out of 30 consecutive trading days.*
Source: SPACTIV and Equita elaborations

THE BUSINESS COMBINATION

On September 12th 2019, Spactiv announced the business combination with Betty Blue S.p.A. which envisages:

- **An Equity value for 100% of Betty Blue of € 195 mn;**
- **EV of € 190 mn, assuming a € 5 mn positive NFP of Betty Blue, implying 2019 Adj. EV/EBITDA of 8.2x and Adj. EBIT of 8.9x**.

The business combination will be submitted for approval to Spactiv shareholders in January, and should be effective within 1Q20.

The business combination is conditioned to a number of requests for withdrawal not exceeding 30% of share capital.

The withdrawal value has been set at € 9.93 ps.

Following the business combination, Betty Blue will be listed on AIM Italia and will change its name to "Elisabetta Franchi S.p.A.". **The Company is also targeting the listing on the STAR or MTA segment of Borsa Italiana** in 18 months from the business combination.

The business combination will entail the following steps

- **Acquisition:** Spactiv will acquire a minority stake in the Betty Blue share capital for a total cash consideration between a minimum of € 63 mn (in case of withdrawals equal to 30%-1 shares, which would imply a cash out for withdrawals of € 27 mn) and a maximum of € 77.5 mn.
- **Reverse Merger:** Spactiv will incorporate Betty Blue. **Elisabetta Franchi,** current sole shareholder of Betty Blue (through her holding company Gingi), **will remain the controlling shareholder of the company following the business combination, with a stake between 58.3% and 65.1%** (including the effect from conversion of the first tranche of Special Shares) depending on the actual consideration for the Acquisition (which in turn depends on the amount to be paid for withdrawal).
- **Distribution by Spactiv to its shareholders** (excluding those withdrawing) **of any excess cash** (which can be up to a maximum of € 14 mn in case of no withdrawals) followed by a reverse stock split, in order to maintain a per share value of € 9.93 (the same used also for the swap ratio of the reverse merger with the Company).
- **Issue of additional Special Shares to be subscribed by Promoters at € 10 each** up to a maximum of 45.4k shares, in order to restore a total of 300k Special Shares before conversion of the first tranche – (only in case of the aforementioned distribution of reserves).

The following lock-up periods will start from the approval of the business combination:

- 36 months on the ordinary shares owned by Gingi in the post-merger company
- 12 months on the 630k ordinary shares owned by Promoters upon conversion of the first tranche of Special Shares (35% of the total).

Lock-up also apply to the ordinary shares which will be owned by Promoters upon conversion of the remaining 65% Special Shares, in particular:

- On 45%, until the shorter term between 12 months from conversion date and 5 years from the business combination
- On the latest 20%, until the expiry of the fifth year from the business combination.

The board will be composed of 9 members, of which:

- 5 appointed by Gingi, including the CEO and one independent director
- 4 appointed by Spactiv's promoters, including 1 independent director.

Elisabetta Franchi will remain Chairman of the Company.

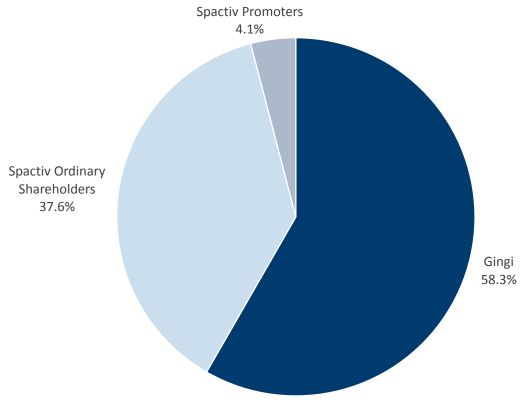
SHARE CAPITAL EVOLUTION AND MULTIPLE SENSITIVITY

Considering Spactiv's shareholding structure and the dilution expected from warrants and Special Shares, as well as of the uncertainty related to the amount to be spent for withdrawals, we have made a sensitivity of the post-merger company share capital and of its implied multiples at different price levels.

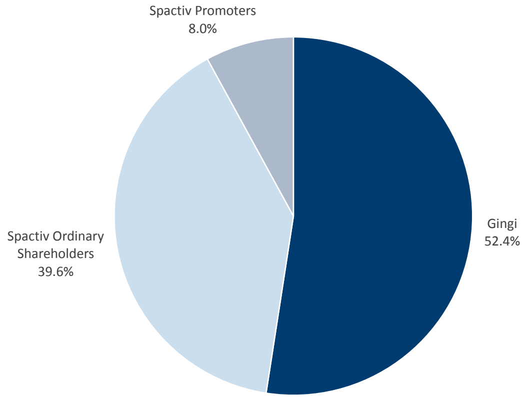
Share capital evolution

ELISABETTA FRANCHI SHARE CAPITAL IN CASE OF ZERO WITHDRAWAL

At business combination (after conversion of first tranche of Special Shares)



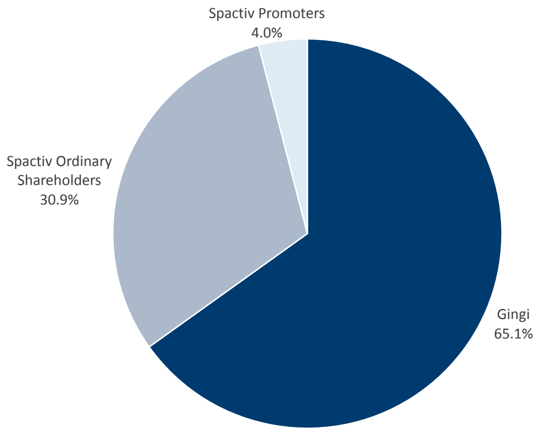
€13.3 per share post conversion of all warrants and of second tranche of Special Shares



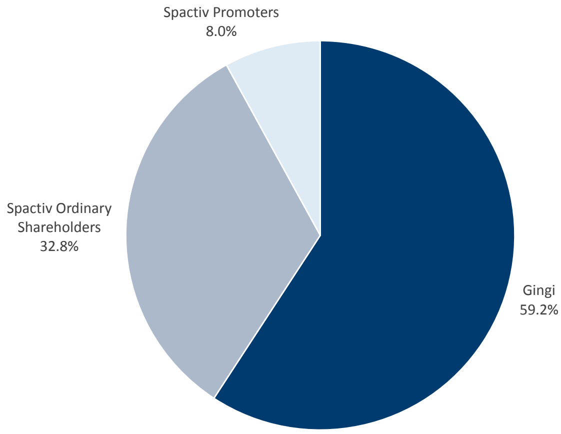
Source: Information Document

ELISABETTA FRANCHI SHARE CAPITAL IN CASE OF 30%-1 ORDINARY SHARE WITHDRAWAL

At business combination (after conversion of first tranche of Special Shares)



€13.3 per share post conversion of all warrants and of second tranche of Special Shares



Source: Information Document

Multiples sensitivity

Our multiple sensitivity assume full conversion of outstanding warrants at all the price levels considered in our table, as they are already in the money above € 9.5 ps.

We want to highlight also that the adj. EBIT and Adj. EPS used for our multiples' sensitivity include the patent box effect, to be consistent with the company's reporting, which includes these fiscal benefits in the adjusted metrics.
We instead usually tend to adjust also for such item, considering its temporary nature (although until 2024): we normally consider EBIT and earnings excluding patent box, and instead reduce the market cap for the present value of the benefits expected in the residual years.
We calculate that this further adjustment would slightly lift the Company's multiples:

- **By 4-7% in 2019-20, where the amount of the benefit is still about € 1.3 mn per annum**
- **By 2-3% in 2021, when the benefit is expected to decrease to € 0.7-0.8 mn per annum.**

ELISABETTA FRANCHI – MULTIPLE SENSITIVITY, 0% Withdrawal

	Market Price (€ ps)				
# of shares (mn)	**10.0**	**11.0**	**12.0**	**13.3**	**14.0**
Ordinary shares @ BC	20.1	20.1	20.1	20.1	20.1
from mkt warrant conversion	0.2	0.6	0.9	1.3	1.3
from Special share conversion	0.0	0.0	0.0	1.2	1.2
Total Ordinary shares	**20.3**	**20.7**	**21.1**	**22.6**	**22.6**
Special shares non-converted	0.2	0.2	0.2	0.0	0.0
Total shares	**20.5**	**20.9**	**21.2**	**22.6**	**22.6**
Mkt Cap FD (€,mn)	**205**	**230**	**255**	**300**	**316**
Adj. PE (2019)	**14.0**	**15.7**	**17.4**	**20.5**	**21.6**
Prem/(disc.) vs. peers	*11%*	*24%*	*37%*	*62%*	*70%*
Adj. PE (2020)	**12.3**	**13.8**	**15.3**	**18.0**	**18.9**
Prem/(disc.) vs. peers	*13%*	*27%*	*41%*	*66%*	*74%*
Adj. PE (2021)	**11.8**	**13.2**	**14.7**	**17.3**	**18.2**
Prem/(disc.) vs. peers	*22%*	*36%*	*51%*	*78%*	*87%*
Adj.EV/EBIT (2019)	**9.4**	**10.5**	**11.7**	**13.8**	**14.5**
Prem/(disc.) vs. peers	*1%*	*13%*	*26%*	*48%*	*56%*
Adj.EV/EBIT (2020)	**8.6**	**9.6**	**10.7**	**12.6**	**13.3**
Prem/(disc.) vs. peers	*3%*	*16%*	*29%*	*53%*	*61%*
Adj.EV/EBIT (2021)	**8.1**	**9.1**	**10.1**	**12.0**	**12.6**
Prem/(disc.) vs. peers	*12%*	*26%*	*39%*	*65%*	*74%*
FCF yield (2019)	**5.2%**	**4.7%**	**4.2%**	**3.6%**	**3.4%**
Prem/(disc.) vs. peers	*51%*	*69%*	*88%*	*121%*	*133%*
FCF Yield (2020)	**7.3%**	**6.6%**	**5.9%**	**5.0%**	**4.8%**
Prem/(disc.) vs. peers	*43%*	*61%*	*78%*	*110%*	*121%*
FCF Yield (2021)	**5.6%**	**5.0%**	**4.5%**	**3.8%**	**3.6%**
Prem/(disc.) vs. peers	*100%*	*124%*	*148%*	*192%*	*207%*

Source: Company data and Equita SIM elaborations

ELISABETTA FRANCHI – MULTIPLE SENSITIVITY, 30%-1 Withdrawal

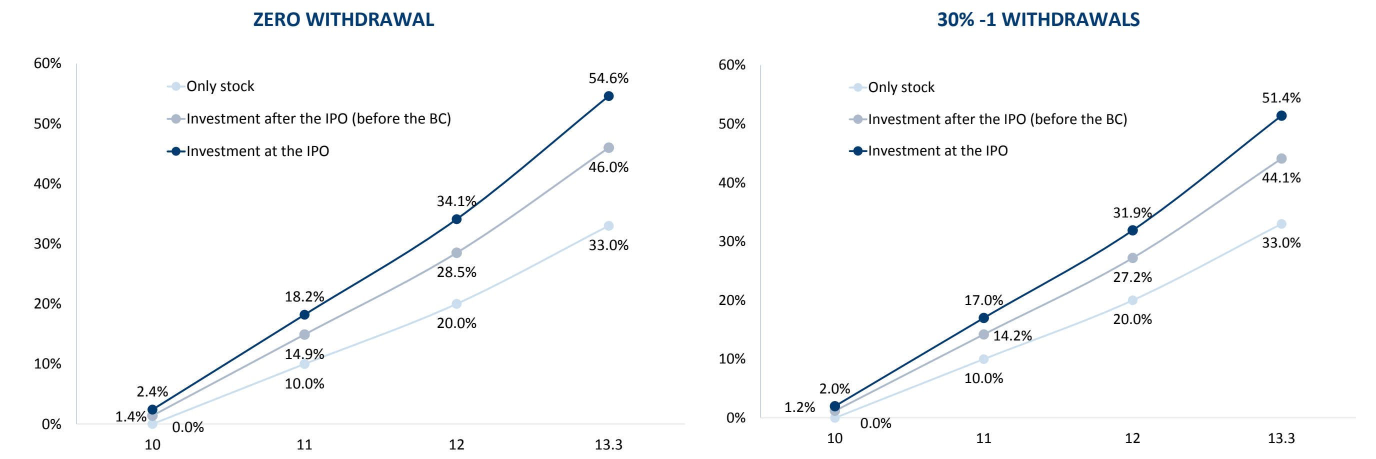
	Market Price (€ ps)				
# of shares (mn)	**10.0**	**11.0**	**12.0**	**13.3**	**14.0**
Ordinary shares @ BC	20.2	20.2	20.2	20.2	20.2
from mkt warrant conversion	0.2	0.5	0.8	1.1	1.1
from Special share conversion	0.0	0.0	0.0	1.2	1.2
Total Ordinary shares	**20.4**	**20.7**	**21.0**	**22.5**	**22.5**
Special shares non-converted	0.2	0.2	0.2	0.0	0.0
Total shares	**20.6**	**20.9**	**21.2**	**22.5**	**22.5**
Mkt Cap FD (€,mn)	**206**	**230**	**254**	**299**	**314**
Adj. PE (2019)	**14.1**	**15.7**	**17.4**	**20.4**	**21.5**
Prem/(disc.) vs. peers	*11%*	*24%*	*37%*	*61%*	*69%*
Adj. PE (2020)	**12.3**	**13.8**	**15.2**	**17.9**	**18.8**
Prem/(disc.) vs. peers	*14%*	*27%*	*40%*	*65%*	*74%*
Adj. PE (2021)	**11.9**	**13.2**	**14.6**	**17.2**	**18.1**
Prem/(disc.) vs. peers	*22%*	*36%*	*51%*	*77%*	*86%*
Adj.EV/EBIT (2019)	**9.4**	**10.5**	**11.7**	**13.7**	**14.5**
Prem/(disc.) vs. peers	*1%*	*13%*	*25%*	*48%*	*55%*
Adj.EV/EBIT (2020)	**8.6**	**9.6**	**10.7**	**12.6**	**13.3**
Prem/(disc.) vs. peers	*4%*	*16%*	*29%*	*52%*	*60%*
Adj. EBITDA (2021)	**8.1**	**9.1**	**10.1**	**11.9**	**12.5**
Prem/(disc.) vs. peers	*12%*	*26%*	*39%*	*64%*	*73%*
FCF yield (2019)	**5.2%**	**4.7%**	**4.2%**	**3.6%**	**3.4%**
Prem/(disc.) vs. peers	*52%*	*69%*	*87%*	*120%*	*131%*
FCF Yield (2020)	**7.3%**	**6.5%**	**5.9%**	**5.0%**	**4.8%**
Prem/(disc.) vs. peers	*44%*	*61%*	*78%*	*109%*	*120%*
FCF Yield (2021)	**5.6%**	**5.0%**	**4.5%**	**3.9%**	**3.7%**
Prem/(disc.) vs. peers	*100%*	*124%*	*147%*	*191%*	*206%*

Source: Company data and Equita SIM elaborations

Investors' returns accelerated by warrants

If on one side warrants imply a dilution for investors owning just the stock, on the other side they clearly offer the opportunity to accelerate returns for those who own both the stock and the warrants, as shown by the chart below.

INVESTORS' RETURNS



Source: Company data and Equita SIM elaborations – Assuming a purchase price of € 10 ps

ELISABETTA FRANCHI MANAGEMENT BACKGROUND

Enrico Mambelli, CEO

Enrico Mambelli has entered the Company few months ago but it has been already collaborating with Elisabetta Franchi and her team as external advisor during the last year. His background is detailed here below:

- 2010-2019: Senior advisors Private Equity and Venture Capital.
- 2005-2009: Managing Director of Diadora.
- 2002-2005: Managing Director of Gianfranco Ferré.
- 1997-1999: EMEA Director of GFT between 2000 and 2002, Director General of Cerruti GS.
- 1992-1996: first Director of BenettonSportsystem's Europe.
- 1986-1992: Head of Sales and Marketing at NIKE Italy.
- Graduates in Economics and Commerce from the University of Bologna

Matteo Roversi, General Manager

Matteo Roversi has entered the company in 2018.
His background is detailed here below:

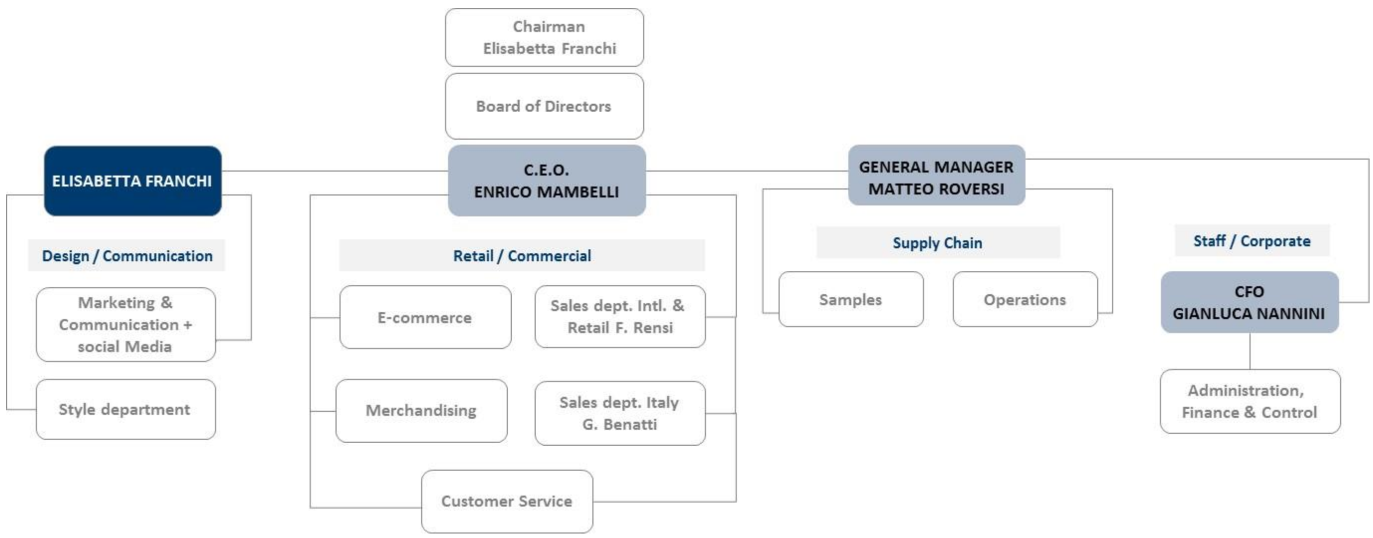
- 2014-Present: General Manager at GDTRE S.r.l.
- 2016-2018: Managing Director at ITAB South Europe.
- 2015-2018: General Manager at La Fortezza SpA.
- 2013-2014: Integration Manager GI Europe at The Valspar Corporation Ltda.
- 2003-2012: Served multiple roles in Inver SpA such as controller, CFO and finally Group General Manager over the course of 10 years.
- 1997-2003: Senior in Audit and Consulting activities from Arthur Andersen.
- 1996: Graduates in Business Administration from the University of Bologna.

Gianluca Nannini, CFO

Gianluca Nannini has entered the company in November 2019.His background is detailed here below:

- 2015-2019: Chief Financial Officer and HR Director at Arcardia S.r.l. – Dondup.
- 2008-2015: Chief Financial Officer at Bourbon S.p.A
- 2005-2008: Chief Financial Officer at SIGC S.p.A.
- 1997-2000: auditor for Arthur Andersen / Deloitte.
- 1997: obtains a degree in Economics and Commerce at the University of Bologna.

ORGANIZATION STRUCTURE



Source: Information Document and Equita Sim elaborations

STATEMENT OF RISKS

The primary elements that could **negatively** impact the stock include:

- Lower than expected appreciation of collections from consumers;
- Deteriorating brand awareness;
- Financial difficulties of commercial partners (wholesale customers, distributors)
- Lower than expected returns from investments in advertising & promotion, namely abroad;
- Higher competition for purchase of store locations, entailing higher than expected retail investments and longer than expected returns from new openings.
- Deterioration of the consumptions scenario

P&L	2017	2018	2019	2020E	2021E	2022E
Revenues	**109.2**	**115.6**	**123.0**	**132.6**	**143.5**	**155.0**
Growth	7%	6%	6%	8%	8%	8%
Gross profit	58	58	65	71	77	84
Growth	10%	0%	13%	9%	9%	9%
Margin	52.9%	50.0%	53.0%	53.5%	53.9%	54.2%
Adjusted EBITDA	**20.4**	**22.3**	**23.3**	**25.2**	**26.8**	**28.5**
Growth	6%	9%	4%	8%	6%	6%
Margin	19%	19%	19%	19%	19%	18%
EBITDA	**20.4**	**22.3**	**19.9**	**21.8**	**26.8**	**28.5**
Growth	5.8%	9.4%	-10.9%	9.7%	22.6%	6.3%
Margin	18.7%	19.3%	16.2%	16.5%	18.7%	18.4%
Depreciation& amortization	-2.5	-2.5	-1.9	-2.0	-2.3	-2.5
Adj. EBIT	**17.9**	**19.8**	**21.4**	**23.2**	**24.5**	**26.0**
Growth	7%	10%	8%	9%	6%	6%
Margin	16%	17%	17%	18%	17%	17%
EBIT	**17.9**	**19.8**	**18.0**	**19.8**	**24.5**	**26.0**
Growth	6.6%	10.5%	-9.2%	10.2%	23.6%	5.9%
Margin	16.4%	17.2%	14.6%	15.0%	17.1%	16.7%
Total financial expenses	0	-1	0	0	0	0
Profit before tax	**17.2**	**19.6**	**17.4**	**19.8**	**24.5**	**25.9**
Growth	1%	14%	-11%	14%	24%	6%
Taxes	**-5.2**	**-4.6**	**-5.3**	**-5.7**	**-7.1**	**-7.5**
Tax rate	35%	29%	27%	29%	28%	30%
Minoritiy interests	**0**	**0**	**0**	**0**	**0**	**0**
Net income	**12.0**	**15.0**	**12.1**	**14.1**	**17.4**	**18.4**
Growth	8%	25%	-20%	17%	24%	6%
Margin	11%	13%	10%	11%	12%	12%
Non recurring post tax	0.0	0.0	-2.6	-2.7	0.0	0.0
Adj. net inc.	**12.0**	**15.0**	**14.6**	**16.7**	**17.4**	**18.4**
Growth	8%	25%	-3%	14%	4%	6%
Margin	11%	13%	12%	13%	12%	12%

CF Statement	2017	2018	2019	2020E	2021E	2022E
Cash Flow from Operations	19.3	-1.3	14.0	3.0	17.0	4.1
(Increase) decrease in OWC	-0.4	1.3	-2.6	-3.0	-3.9	-4.1
(Purchase of fixed assets)	-3.1	-1.5	-0.6	-1.5	-3.5	-3.5
(Other net investments)	0.0	0.0	0.0	0.0	0.0	0.0
(Distribution of dividends)	-10.5	-10.0	-15.0	-10.2	-11.2	-13.2
Rights issue	0.0	0.0	0.0	0.0	0.0	0.0
Other/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
(Increase) Decrease in Net Debt	**-1.0**	**7.4**	**-4.3**	**1.4**	**0.4**	**-0.7**

Source: Company data and EQUITA SIM estimates

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

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In the past EQUITA SIM has not published studies on SPACTIV - ELISABETTA FRANCHI

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Date	Rec.	Target Price (€)	Risk	Comment
nil				

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	38.5%	53.2%
HOLD	56.9%	42.9%
REDUCE	4.0%	2.6%
NOT RATED	0.6%	1.3%

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