

## fashionette

**Retail**
**11 May 2021**

### Growth accelerated through FY20

fashionette delivered strong growth in revenue, profitability and cash flow, and a good improvement in KPIs in FY20, with improving trends through the year. The acquisition of Brandfield will accelerate fashionette's geographic expansion plans, present revenue synergies from range extensions, and potential upsell to customers. Near-term investment will lead to lower profitability in FY21 before management expectations of improving profitability thereafter. The FY22e P/E of 30.1x (using consensus estimates) is at a discount to the average of other online peers and the average of luxury goods companies.

### FY20: Exceeded management expectations

In FY20, fashionette's range extension and geographic expansion delivered growth in revenue, EBITDA and most KPIs. Revenue growth of 29.6% y-o-y was driven by significant increases in new customers, active customers and orders, while average order value (AOV) declined as expected due to mix and the increase in new customers. A relatively stable adjusted EBITDA margin of 9.4% (FY19: 9.8%) was helped by leverage of staff and marketing costs. The year-end net cash position of €23.3m reflects the improvement in free cash flow generation and proceeds from the October 2020 IPO.

### FY21: Revenue boosted by M&A but lower margin

The acquisition of Brandfield will accelerate fashionette's geographic expansion. Management expects it to provide opportunities for revenue synergies from range extensions and upselling. In addition, there will be operating cost leverage in the medium term following initial margin dilution due to investment in infrastructure and marketing. For FY21, management guides to y-o-y revenue growth of 49–58% to €141–150m including organic growth for fashionette of 24–30% (€118–123m) and a decline in EBITDA of 22–44% to €5.0–6.9m. The consensus estimates for revenue in FY21 (€151.1m) is higher than guidance, and EBITDA (€6.7m) is towards the top of guidance.

### Valuation: FY21 elevated due to lower margin

fashionette's P/E of 91.9x in FY21e is at a premium to the adjusted average for online/offline peers (45.0x), albeit the range of multiples is very wide (see Exhibit 4), and a premium to the average P/E multiple for the luxury goods companies (43.1x). Its P/E multiple for FY22 of 30.1x is at a discount of 18% to the adjusted average online/offline peer multiple and a discount of 6% to the average multiple of the luxury goods companies.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	73.2	3.1**	N/A	0.0	N/A	N/A
12/20	94.8	5.0**	N/A	0.0	N/A	N/A
12/21e	151.1	2.8	0.37	0.0	91.9	N/A
12/22e	227.2	8.4	1.13	0.0	30.1	N/A

Source: Refinitiv, \*\*Edison Investment Research

**Price** €34.0  
**Market cap** €211m

#### Share price graph



#### Share details

Code FSNT  
 Listing Deutsche Börse Scale  
 Shares in issue 6.2m  
 Last reported net cash at 31 December 2020 €23.3m

#### Business description

fashionette is an online platform for premium and luxury fashion accessories in Europe. Geographically, the DACH region is its core, representing c 85% of revenue in FY20. It is seeking to diversify by geography and product offering.

#### Bull

- Broad product and luxury brand offer.
- Fragmented markets with strong growth outlook.
- Data-driven processes expected to optimise the cost of acquisition and lifetime value of customers.

#### Bear

- Premium and luxury demand is sensitive to economic growth.
- fashionette brand name is less well known across new geographies that are targeted for growth.
- Profit growth may lag revenue as it invests to acquire market share in new geographies.

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## A strong debut

Following the IPO in October 2020, fashionette has reported a very strong set of results for FY20, with growth in new and total customers, orders, revenue, EBITDA and cash flow. In addition, fashionette announced its first significant acquisition, Brandfield, a Netherlands-based online retailer of premium fashion accessories with a presence in 11 European countries, which will help to accelerate fashionette's expansion plans outside the DACH region.

## Income statement: Improved momentum through the year

<b>Exhibit 1: Summary income statement and KPIs</b>						
€m	H119	H219	FY19	H120	H220	FY20
Total revenue	60.9	67.8	128.7	70.7	91.9	162.6
Growth y-o-y			11.0%	16.1%	35.5%	26.3%
Less credits	(28.0)	(27.5)	(55.5)	(31.6)	(36.2)	(67.8)
As % of total revenue	46.0%	40.6%	43.2%	44.6%	39.4%	41.7%
Revenue	32.8	40.3	73.2	39.1	55.7	94.8
Growth y-o-y			12.1%	19.2%	38.1%	29.6%
Cost of sales	(19.4)	(23.9)	(43.3)	(23.9)	(33.4)	(57.3)
Other operating income	0.3	0.8	1.1	0.4	1.3	1.7
Gross profit	13.7	17.2	31.0	15.7	23.6	39.2
Gross margin	41.8%	42.7%	42.3%	40.0%	42.3%	41.4%
Personnel expenses	(3.3)	(3.3)	(6.7)	(3.4)	(4.1)	(7.5)
Other operating expenses	(7.9)	(9.6)	(17.5)	(9.4)	(16.4)	(25.8)
Adjusted EBITDA	N/A	N/A	7.1	N/A	N/A	8.9
Margin			9.8%			9.4%
EBITDA	2.5	4.3	6.8	2.8	3.0	5.9
Margin	7.5%	10.7%	9.3%	7.3%	5.5%	6.2%
Operating profit	1.2	3.0	4.3	1.6	1.8	3.4
Margin	3.8%	7.5%	5.8%	4.1%	3.3%	3.6%
Net interest	(0.7)	(0.8)	(1.5)	(0.8)	(0.7)	(1.5)
Adjusted PBT **	0.5	2.3	3.1	0.8	1.2	5.0
PBT	0.5	2.3	2.8	0.8	1.1	2.0
Income tax	(0.4)	(1.0)	(1.4)	(0.5)	(0.6)	(1.1)
Net income	0.1	1.3	1.4	0.3	0.5	0.9
KPIs:						
New customers ('000)	62.8	84.3	147.1	85.3	154.8	240.1
Growth y-o-y			5.8%	35.8%	83.6%	63.2%
Active customers ('000) (last twelve months)	219.8		238.5	270.3		357.1
Growth y-o-y			11.4%	23.0%		49.7%
Average order value (AOV) (€)	317.0		306.3	284.2		261.0
Growth y-o-y			(0.9%)	(10.3%)		(14.8%)
Number of orders ('000)	187.0	230.5	417.5	243.3	364.4	607.7
Growth y-o-y			10.1%	30.1%	58.1%	45.6%
Customer acquisition cost (CAC) (€)			49.3			36.7
Growth y-o-y			(12.6%)			(25.6%)
Marketing cost ratio (% of AOV)			5.7			5.6

Source: fashionette. Note: \*\*Edison figures.

## Revenue: Growth in customers and orders

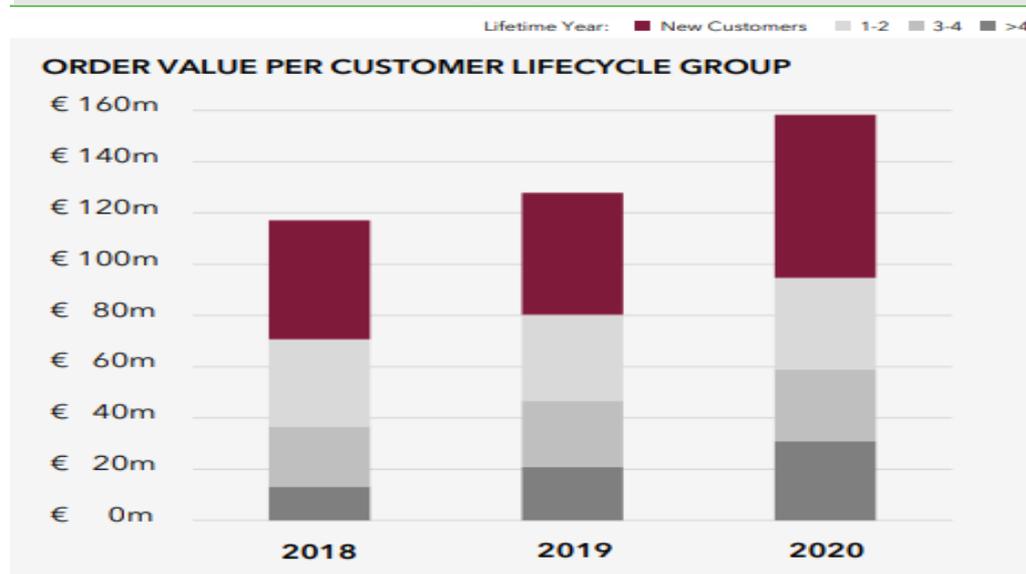
fashionette's y-o-y revenue growth of c 29.6% in FY20 was due to a combination of active customer growth of +49.7% to c 357k, offset by a decline in AOV of 14.8% to €261.

Customer growth was helped by range extensions (stock keeping units or SKUs) increased by 59% y-o-y to more than 140k from a 37% increase in the number of brands to 180), which increases the potential addressable market and customer base, as well as geographic expansion. Customer growth outside the core DACH region of 72% was ahead of the group average, and the non-DACH region represented 15% of revenue in FY20 versus 11.4% in FY19.

The decline in AOV reflects a change in product mix, ie increased share of lower-priced items such as sunglasses and leather goods, as well as expected dilution from the addition of more new customers (+63.2% y-o-y is ahead of active customer growth) whose level of spend naturally takes

time to mature. Exhibit 2 illustrates how fashionette's order value progresses as the customer's maturity profile increases.

**Exhibit 2: fashionette's order value lifecycle**



Source: fashionette FY20 presentation

Growth in the number of orders (+46% y-o-y to 608k) was comparable to growth in the number of visits to fashionette websites (+46% to 39.8m), suggesting a similar conversion rate in both FY19 and FY20.

The acceleration in growth from H120 through H220 and versus FY19 for customer numbers, orders and revenue highlights the increasing success of the data-driven processes, which management believed would start to deliver higher rates of growth following a period of investment ahead of the IPO.

Management is encouraged by the y-o-y reduction in credits (reduction from total revenue) to 41.7% from 43.2% in FY19 despite the strong growth in new customers and the extension of categories and SKUs.

### Costs and profitability: Trends as expected

Gross margin of 41.4% in FY20 declined by 40bp from 42.3% in FY19 due to mix, with a lower year-on-year delta for the H220 margin versus the prior year than for H120. The gross margin is not an important KPI for management given the significant variation in gross margin for products (low 30s for entry-level items and sunglasses to low 60s for own-brand products and fragrances), so can be affected by sales mix. The reported gross margin of 41.4% includes €1.7m of other operating income versus €1.1m in FY19. If we eliminate other operating income, underlying product gross margin was 39.6% versus 40.9% in the prior year.

fashionette's adjusted EBITDA (ie before non-recurring costs) grew by 24.5% y-o-y to €8.9m. The adjusted EBITDA margin of 9.4% for FY20 declined slightly versus 9.8% in FY19. Management anticipated a reduction given the outlook for a lower gross margin due to changes in mix, and the ongoing investment in growing the business. The EBITDA margin was helped by leveraging staff costs, which grew by just 12.3% y-o-y, offset by growth in other operating expenses which includes non-recurring costs of c 47.6%. For the key line items in other operating costs, the multi-year trend of improved marketing efficiency (see below) continued as advertising declined from 10.5% of revenue in FY19 to 9.6% in FY20, and distribution expenses increased from 6.3% of revenue in FY19 to 7.1% in FY20 due to strong volume growth. The less significant expense of loss on receivables increased by 50bp to 0.8% of revenue, but appears not to be a concern to management.

The marketing cost ratio relative to AOV declined by 10bp y-o-y to 5.6%, following a reduction of 94bp in FY19 from 6.6%. Note that historical figures for marketing cost ratio and customer acquisition cost (CAC) have been restated from those included in the IPO presentation due to the movement of IT costs from marketing to IT.

Operating profit of €3.4m in FY20 represented a y-o-y decline of 19.3% due to the inclusion of incremental non-recurring costs. On a normalised basis, operating profit of €6.5m represented a higher margin of 6.8% than FY19's 6.3% due to marginally lower depreciation and amortisation.

Net interest expenses of €1.5m were in line with the prior year and the effective tax rate of 33.0% was similar to FY19's 32.7%, leading to lower reported net income of €872k (net margin of 0.9%) versus €1.4m in FY19 (net margin of 1.9%).

## Cash flow and balance sheet

fashionette's operating cash flow almost trebled to €5.2m in FY20 as lower net income and higher cash payments were offset by lower working capital investment, primarily due to an inflow on trade payables. Debtor days reduced from 42 at the end of FY19 to 29 at the end of FY20.

Investing cash flow of -€0.7m was similar to FY19's -€0.8m, leading to free cash flow (after interest payments) of €3.2m, which compares very favourably with the outflow of €433k in FY19.

At the end of FY20, fashionette had a cash position of €38.1m and a net cash position of €23.3m, due to the improvement in operating cash flow and net proceeds of c €35m from the IPO.

## Acquisition of Brandfield

With the results, management announced the acquisition of Brandfield, a Netherlands-based online retailer of premium fashion accessories, with 75% of revenue from the Netherlands and Belgium and a presence in nine other European countries.

The acquisition will accelerate fashionette's geographic expansion plans and provide the opportunity for revenue synergies through range extension to Brandfield's customers and the use of fashionette's data-driven processes. Brandfield offers more than 8,000 SKUs versus fashionette's more than 140k. Brandfield's product focus is currently more on jewellery (48% of total), watches and leather goods (10% of total), compared with fashionette's greater focus on handbags, shoes and sunglasses. In addition, Brandfield has a much higher representation of own-branded products (40%) than fashionette. All of the above contribute to Brandfield's AOV of more than €80 (from more than 450k orders) being significantly lower than fashionette's AOV of €261, implying strong potential to upsell if the customer base has a similar disposal income profile.

In FY20 (ending June), Brandfield's revenue was €26.7m and in FY21 is expected to generate revenue of c €40m (y-o-y growth of c 50%) and adjusted EBITDA of €2.8m (margin of 7%).

The acquisition price of 'lower double-digit million euros' would represent prospective multiples, if we assume an acquisition price of €11–14m, EV/Sales of 0.28–0.35x and EV/EBITDA of 3.9–5x, which are very low multiples versus other online peers.

## New guidance for FY21

Management has provided its first guidance for FY21 which incorporates the acquisition of Brandfield from the start of July 2021, ie for six months. Guidance for revenue of €141–150m represents y-o-y growth of 49–58% and adjusted EBITDA of €5.0–6.9m a y-o-y decline of 22–44%, which equates to an adjusted EBITDA margin of 3.5–4.6%, below the historical adjusted margins for fashionette (9.4%) and Brandfield (7.0%). The lower initial margin is a function of investing in the platform, customer experience and customer acquisition. A breakdown of the new guidance is shown in Exhibit 3 below.

**Exhibit 3: fashionette's FY21 guidance**

€m	FY21 pro forma	FY21 guidance
Net revenue:		
fashionette	118–123	118–123
Brandfield	42–47	23–27
Combined	160–170	141–150
Adjusted EBITDA:		
fashionette	4.1–5.5	4.1–5.5
Brandfield	1.9–2.6	0.9–1.4
Combined	6.0–8.1	5.0–6.9
Adjusted EBITDA margin:		
fashionette	3.5–4.5%	3.5–4.5%
Brandfield	4.5–5.5%	3.9–5.2%
Combined	3.8–4.8%	3.5–4.6%

Source: fashionette FY20 presentation

For fashionette alone, FY21 revenue guidance of €118–123m represents y-o-y growth of 24–30%. Management has provided no guidance for growth or margins beyond FY21, but is confident that revenue and cost synergies should lead to a higher group margin after FY21, and ultimately the adjusted EBITDA margin should be double-digit in the medium to long term.

## Valuation

We include a peer valuation table for two groups of peers: companies that operate online platforms/marketplaces with exposure to the consumer or are offline retailers of luxury brands, and luxury goods companies that own the brands that are sold by fashionette. The online/offline companies include companies with quite different exposure to fashionette from the perspective of geographic coverage and products offered. The recently floated, mytheresa (MYT) is the closest comparator.

fashionette's P/E of 91.9x in FY21e is at a premium to the adjusted average for online/offline peers, albeit the range of multiples is very wide, and at a premium to the average of luxury goods companies (41.9x). Its P/E multiple of 30.1x in FY22e is at a 18% discount to the average online/offline peer multiple and a 6% discount to the average of the luxury goods companies.

**Exhibit 4: Peer valuations**

	Ccy	Price	Market cap (local, m)	EV (local, m)	Sales growth (%)		EBIT margin (%)		EV/Sales (x)		EV/ EBIT (x)		P/E (x)	
					FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2
<b>Online/offline consumer</b>														
Amazon	USD	3,190.5	1,609,040	1,604,931	27.0	18.6	7.0	8.1	3.3	2.8	46.8	34.1	57.3	44.3
ASOS	GBP	5,000.0	4,940	5,229	21.6	18.2	4.8	4.4	1.3	1.1	27.6	25.3	33.6	31.2
Boohoo Group	GBP	322.9	4,030	3,772	28.9	23.2	7.3	7.6	1.7	1.4	23.0	18.0	30.0	24.0
Boozt	SEK	187.6	11,990	11,228	26.5	16.2	5.7	6.2	2.0	1.8	35.4	28.3	43.5	37.1
Calida Holding	CHF	32.8	271	282	5.1	2.6	5.1	6.0	0.8	0.8	15.8	13.0	20.8	16.9
Delticom	EUR	8.1	101	190	6.0	6.8	1.8	2.7	0.3	0.3	18.1	11.5	19.5	8.8
eBay	USD	61.4	41,857	45,540	17.2	7.7	29.0	29.9	3.8	3.5	13.0	11.7	15.6	13.5
Farfetch	USD	41.0	14,530	13,951	32.4	28.2	(21.2)	(13.5)	6.3	4.9	N/A	N/A	N/A	N/A
MYT Netherlands Parent	USD	27.6	2,371	2,195	N/A	20.4	6.6	6.3	3.8	3.1	57.7	49.8	61.4	65.1
Shop Apotheke Europe	EUR	153.6	2,755	2,670	22.5	31.3	0.6	1.7	2.3	1.7	368.2	99.1	108.2	144.7
Watches of Switzerland Group	GBP	719.0	1,704	2,053	11.4	21.0	9.2	9.3	2.2	1.9	24.4	20.0	29.4	23.5
Zalando	EUR	83.8	21,861	21,258	28.0	19.2	3.9	3.9	2.1	1.7	53.8	44.9	86.3	70.4
Zooplus	EUR	233.8	1,676	1,650	14.9	14.4	1.3	1.6	0.8	0.7	59.4	43.2	97.8	67.1
<b>Average</b>					20.1	17.5	4.7	5.7	2.4	2.0	61.9	33.2	131.5	45.5
<b>Average excl. loss-making companies</b>							6.7	7.2						
<b>Luxury goods</b>														
Burberry Group	GBP	2,190.0	8,774	9,420	(11.6)	14.3	15.9	17.2	4.0	3.5	25.5	20.6	36.5	26.7
Essilor Luxottica	EUR	139.9	61,570	64,941	22.2	8.2	15.5	15.7	3.7	3.4	23.8	21.7	31.8	27.4
Hermès International	EUR	1,059.5	112,164	109,128	27.8	11.4	34.2	35.0	13.4	12.0	39.0	34.3	58.8	51.3
Kering	EUR	704.4	88,309	94,351	22.6	10.1	27.3	28.7	5.9	5.3	21.5	18.6	30.1	25.5
LVMH	EUR	625.0	316,356	333,657	32.3	9.7	22.2	23.1	5.6	5.1	25.4	22.3	37.1	32.4
Moncler	EUR	51.7	14,200	13,985	33.5	18.6	28.4	29.7	7.3	6.1	25.6	20.7	37.3	30.2
Mulberry Group	GBP	339.0	202	284	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prada	HKD	50.2	128,453	16,101	26.8	11.8	11.1	14.7	5.2	4.7	47.2	31.8	70.6	44.1
Richemont	CHF	95.5	49,890	47,020	(8.5)	16.8	10.3	14.3	3.6	3.1	34.9	21.6	58.9	30.8
Swatch Group	CHF	295.3	15,286	13,654	26.0	8.6	11.6	13.0	1.9	1.8	16.6	13.7	26.3	20.7
<b>Average</b>					19.0	12.2	19.6	21.3	5.6	5.0	28.8	22.8	43.1	32.1
<b>Fashionette</b>	EUR	34.0	211	214	59.4	50.4	1.8	3.7	1.4	0.9	79.2	25.8	91.9	30.1
<b>Premium/(discount) to average online/offline consumer</b>					195%	187%	(62%)	(36%)	(40%)	(52%)	28%	(23%)	(30%)	(34%)
<b>Premium/(discount) to average luxury goods</b>					212%	314%	(91%)	(83%)	(75%)	(81%)	175%	13%	113%	(6%)

Source: Refinitiv 5 May 2021

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