

# MARCOLIN

EYEWEAR

Zona Industriale Villanova, 4  
32013 Longarone (Belluno)  
Italy

Phone: +39 0437 777 111  
Website: www.marcolin.com

SECTOR	Health Care	LICENSED BRANDS: LUXURY / DIFFUSION (non-exhaustive list)	* Tom Ford, Tods, Roberto Cavalli, Ermenegildo Zegna, Pucci, Moncler, Barton Perreira, Omega, Longines * Diesel, DSquared2, Guess, Gant, Harley Davidson, Just Cavalli, Swarovski, Timberland, Kenneth Cole New York, Victorias Secret
INDUSTRY	Medical Equipment and Devices		
SUB-INDUSTRY	Health Care Supplies		
SHAREHOLDERS	3 Cime SpA (90%) Vicuna Holding SpA (10%)	HOUSE BRANDS	Marcolin, Viva, WEB
KEY PEOPLE	Fabrizio Curci (CEO) Vittorio Levi (Chairman)	NUMBER OF EMPLOYEES (FY19)	1,878 (74 managers, 1,065 staff, 739 manual workers) vs. 1,950 (FY18)
FINANCIAL CALENDAR	N/A		

For more information:  
[www.promoscore.it](http://www.promoscore.it)

Analyst: *Alessandro Sica*  
[alessandro.sica@bancapromos.it](mailto:alessandro.sica@bancapromos.it)  
+39 081 0170 622

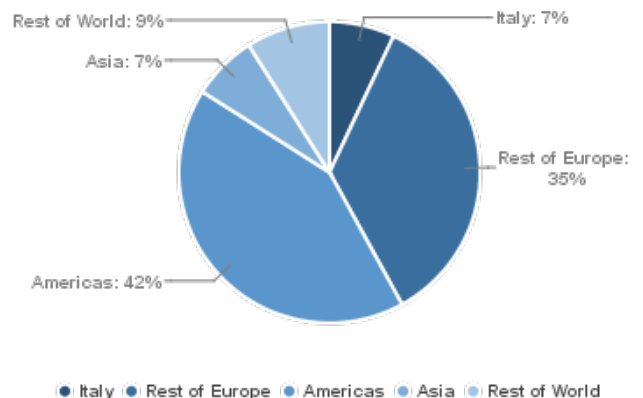
## QUICK LOOK

Founded in 1961, **Marcolin SpA** is an Italian company specialized in the design, manufacturing and distribution of **eyewear** products. With activities in more than **125 countries** through a network of over **150 distributors** (but no proprietary stores), the Group has sold about **14m glasses** in 2019. According to Standard & Poor's estimates, Marcolin's sunglasses division has generated 47% of last year's revenues (the remaining 53% has been from the prescription business). According to Moody's, despite a **solid market position** and a well-balanced product and geographic diversification, the Group suffers from a lack of significant house brands and a **high concentration of sales** in a few brands.

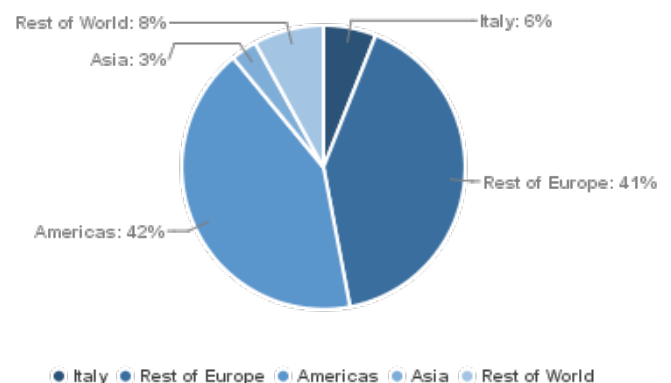
## HIGHLIGHTS

- **SHAREHOLDERS** - Marcolin (whose shares have been listed on Borsa Italiana until 2013) is 90%-owned by French private equity firm **PAI Partners SAS** (its controlling shareholder since 2012, through 3 Cime SpA) and 10%-owned by the **LVMH Group** (through Vicuna Holding SpA). The entrance of LVMH into Marcolin's share capital is part of a joint venture signed in 2017 and aimed at producing glasses with some brands of the LVMH Group. The JV, called **Thelios SpA**, is 51%-owned by LVMH and 49%-owned by Marcolin.
- **GOVERNANCE** - On June 18, 2020, Marcolin's BoD has appointed **Fabrizio Curci** as new CEO and General Manager. Curci was Chief Executive of Fiera Milano SpA (since September 2017) and previously has held roles in FCA, FIAMM and Olivetti Tecnost. Marcolin had announced the departure of its previous CEO **Massimo Renon** on March 9, 2020 (after 3 years at the helm of the Group). Renon had been concurrently appointed as Benetton Group's Chief Executive.
- **COVID-19** - Marcolin has been only modestly impacted by the **shutdown of its Chinese suppliers** in January and February (then returned fully operational in the following months) but its business has suffered a **severe deterioration in March** (with the imposition of lockdowns in Europe and the United States). The Group has experienced a **28% YoY decrease in revenues in 1Q20** and has announced that it expects an even more marked worsening in 2Q20. S&P forecasts a 25% YoY contraction in sales in 2020. Moody's expects the operating performance to recover in 2021, with EBITDA returning to levels around EUR50m.
- **INDUSTRY** - Italy's **Safilo**, **Marcolin** and **De Rigo**, French-Italian **EssilorLuxottica**, Germany's **Fielmann** and US-based **Bausch + Lomb** and **Marchon** are among the main players in the global eyewear manufacturing industry, according to analytics company Dun & Bradstreet. About 23.7% of all eyewear firms monitored by D&B are based in **China**; the Asian country is followed by **South Korea** (17.5%) and **Italy** (11.3%). Demand for glasses and contact lenses is influenced by **demographics**, **fashion trends** and the level of consumers' **discretionary income**, D&B says. The ability to build and maintain a **portfolio of licences** with renowned brands is among the main drivers of profitability for the players of the sector.

Consolidated Net Revenues (FY19)



Consolidated Net Revenues (1Q20)



## FIGURES

## INCOME STATEMENT

(in EUR m)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Revenue</b>	<b>486,67</b>	<b>482,22</b>	<b>469,14</b>	<b>441,86</b>	<b>434,84</b>
Cost of Revenue	207,46	207,23	196,69	186,11	178,98
<b>Gross Profit</b>	<b>279,21</b>	<b>274,99</b>	<b>272,45</b>	<b>255,74</b>	<b>255,86</b>
<i>Gross Margin</i>	<i>57,37%</i>	<i>57,03%</i>	<i>58,07%</i>	<i>57,88%</i>	<i>58,84%</i>
Personnel Expenses	78,33	71,68	63,81	58,40	77,30
<b>EBITDA</b>	<b>44,63</b>	<b>47,94</b>	<b>49,83</b>	<b>44,45</b>	<b>38,82</b>
<i>EBITDA Margin</i>	<i>9,17%</i>	<i>9,94%</i>	<i>10,62%</i>	<i>10,06%</i>	<i>8,93%</i>
Depreciation and Amortization	25,11	19,06	15,81	13,15	10,95
<b>EBIT</b>	<b>19,53</b>	<b>28,88</b>	<b>34,03</b>	<b>31,30</b>	<b>27,87</b>
<i>EBIT Margin</i>	<i>4,01%</i>	<i>5,99%</i>	<i>7,25%</i>	<i>7,08%</i>	<i>6,41%</i>
<b>Pre-Tax Income</b>	<b>-15,15</b>	<b>-4,20</b>	<b>-6,37</b>	<b>15,39</b>	<b>7,57</b>
<i>Pre-Tax Margin</i>	<i>-3,11%</i>	<i>-0,87%</i>	<i>-1,36%</i>	<i>3,48%</i>	<i>1,74%</i>
<b>Net Income</b>	<b>-16,23</b>	<b>-2,25</b>	<b>-15,51</b>	<b>12,17</b>	<b>-2,54</b>
<i>Net Income Margin</i>	<i>-3,34%</i>	<i>-0,47%</i>	<i>-3,31%</i>	<i>2,75%</i>	<i>-0,58%</i>

## BALANCE SHEET

(in EUR m)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>ASSETS</b>					
Cash and Near Cash Items	45,87	34,18	40,81	42,23	40,38
Short-Term Investments	16,34	21,17	13,20	0,70	1,02
Accounts and Notes Receivable	90,67	91,99	82,09	72,64	75,23
Inventories	122,78	126,06	122,58	126,91	120,21
Other Current Assets	27,40	32,26	14,81	13,07	15,39
<b>TOTAL CURRENT ASSETS</b>	<b>303,06</b>	<b>305,66</b>	<b>273,49</b>	<b>255,55</b>	<b>252,24</b>
Long-Term Investments	1,81	2,51	3,17	3,80	4,46
Net Fixed Assets	48,55	29,94	29,07	25,51	27,26
Other Long-Term Assets	383,25	380,68	370,04	378,05	373,40
<b>TOTAL LONG-TERM ASSETS</b>	<b>433,61</b>	<b>413,13</b>	<b>402,28</b>	<b>407,36</b>	<b>405,12</b>
<b>TOTAL ASSETS</b>	<b>736,67</b>	<b>718,79</b>	<b>675,77</b>	<b>662,91</b>	<b>657,36</b>
<b>LIABILITIES + EQUITY</b>					
Accounts Payable	143,87	150,13	126,80	128,53	120,79
Short-Term Borrowings	55,52	40,21	39,37	51,70	58,23
Other Short-Term Liabilities	55,47	51,43	34,37	28,62	22,95
<b>TOTAL CURRENT LIABILITIES</b>	<b>254,85</b>	<b>241,78</b>	<b>200,54</b>	<b>208,85</b>	<b>201,97</b>
Long-Term Borrowings	269,62	252,23	255,36	199,87	200,63
Other Long-Term Liabilities	15,45	17,62	17,57	15,17	24,84
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>285,07</b>	<b>269,84</b>	<b>272,93</b>	<b>215,04</b>	<b>225,46</b>
<b>TOTAL EQUITY</b>	<b>196,74</b>	<b>207,18</b>	<b>202,31</b>	<b>239,03</b>	<b>229,92</b>
<b>TOTAL LIABILITIES + EQUITY</b>	<b>736,67</b>	<b>718,79</b>	<b>675,77</b>	<b>662,91</b>	<b>657,36</b>

## CASH FLOW STATEMENT

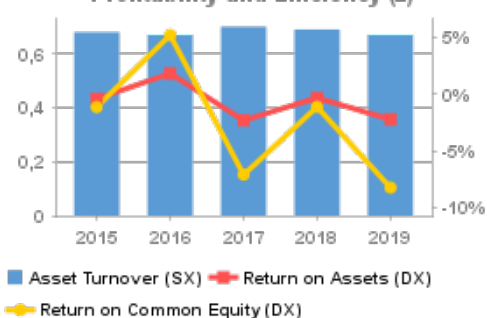
(in EUR m)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Cash from Operating Activities	25,98	37,75	-0,17	28,51	5,57
Interest Expense	19,10	17,91	30,15	22,54	21,49
Cash from Investing Activities	-20,23	-28,23	-26,29	-21,74	-21,91
Capital Expenditure	-9,67	-8,65	-10,23	-3,82	-7,15
Cash from Financing Activities	5,48	-16,82	26,40	-4,92	19,79
<b>Free Cash Flow</b>	<b>16,31</b>	<b>29,11</b>	<b>-10,40</b>	<b>24,69</b>	<b>-1,58</b>
Corporate Tax Rate	24,00	24,00	24,00	31,40	31,40
<b>FREE CASH FLOW TO FIRM</b>	<b>30,83</b>	<b>42,72</b>	<b>12,52</b>	<b>40,16</b>	<b>13,16</b>

Source: Bloomberg, KPMG, B. Promos - Note: Financials audited by PwC; Decimal separator ","

## Profitability and Efficiency (1)



## Profitability and Efficiency (2)



## Credit Fundamentals



## Investments vs Debt



Revenue (2015=100)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>111,92</b>	<b>110,90</b>	<b>107,89</b>	<b>101,61</b>	<b>100,00</b>
Safilo Group SpA	73,42	71,21	81,86	97,96	100,00
EssilorLuxottica SA	258,93	161,30	136,75	105,94	100,00
Fielmann AG	116,99	109,85	106,62	102,86	100,00

EBITDA Margin (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>9,17</b>	<b>9,94</b>	<b>10,62</b>	<b>10,06</b>	<b>8,93</b>
Safilo Group SpA	-20,76	6,06	-15,87	-5,51	3,28
EssilorLuxottica SA	21,85	24,17	20,56	22,35	23,27
Fielmann AG	25,19	20,66	21,40	20,94	21,47

Net Debt to EBITDA					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>5,89</b>	<b>4,95</b>	<b>4,83</b>	<b>4,69</b>	<b>5,60</b>
Safilo Group SpA	n/a	0,60	n/a	n/a	2,15
EssilorLuxottica SA	1,07	1,48	0,39	1,31	1,34
Fielmann AG	0,21	-1,02	-1,14	-1,16	-1,22

FCF to Total Debt					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>0,05</b>	<b>0,10</b>	<b>-0,04</b>	<b>0,10</b>	<b>-0,01</b>
Safilo Group SpA	-0,12	-0,10	-0,28	0,31	0,46
EssilorLuxottica SA	0,25	0,29	0,49	0,35	0,34
Fielmann AG	0,75	98,02	115,84	102,38	68,36

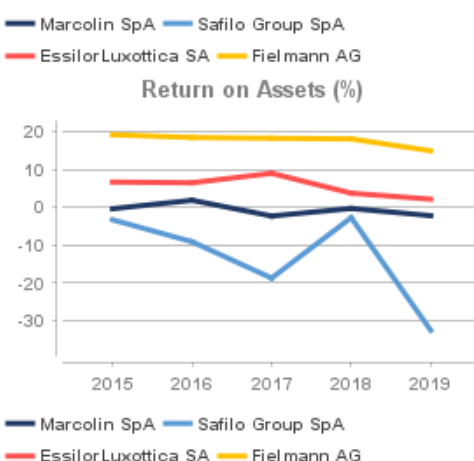
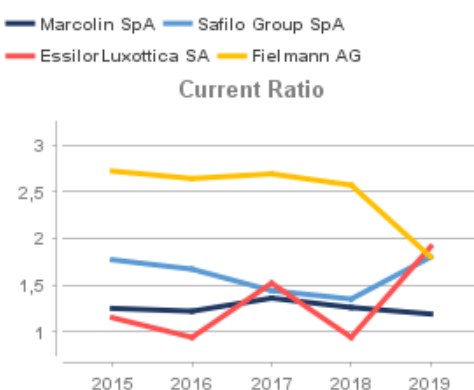
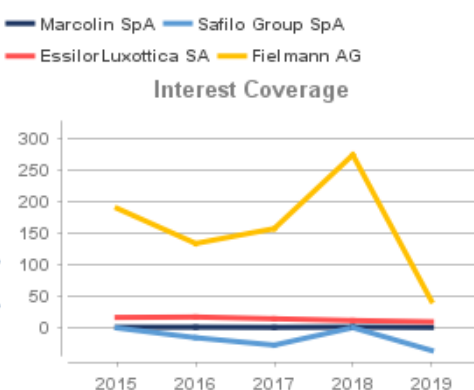
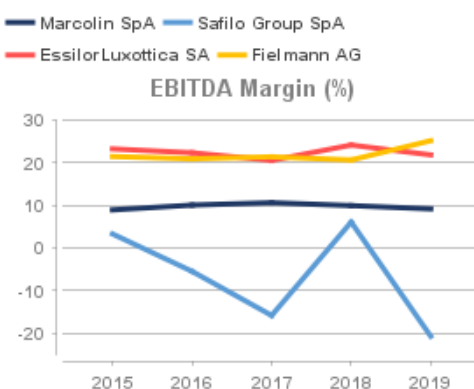
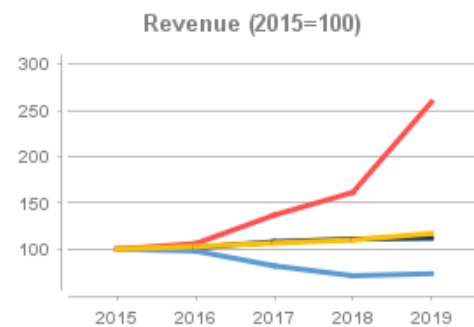
Interest Coverage					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>1,02</b>	<b>1,61</b>	<b>1,13</b>	<b>1,39</b>	<b>1,30</b>
Safilo Group SpA	-35,47	0,64	-27,04	-15,36	0,10
EssilorLuxottica SA	9,81	11,86	14,64	17,32	16,66
Fielmann AG	42,92	273,74	157,18	133,67	189,22

Current Ratio					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>1,19</b>	<b>1,26</b>	<b>1,36</b>	<b>1,22</b>	<b>1,25</b>
Safilo Group SpA	1,80	1,35	1,44	1,67	1,77
EssilorLuxottica SA	1,91	0,94	1,52	0,94	1,15
Fielmann AG	1,80	2,57	2,69	2,64	2,72

Common Equity to Total Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>25,90</b>	<b>28,15</b>	<b>29,40</b>	<b>35,75</b>	<b>34,68</b>
Safilo Group SpA	41,24	54,33	45,95	57,16	62,70
EssilorLuxottica SA	66,18	67,98	57,71	50,81	47,67
Fielmann AG	52,88	75,04	75,06	75,10	74,91

Asset Turnover					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>0,67</b>	<b>0,69</b>	<b>0,70</b>	<b>0,67</b>	<b>0,68</b>
Safilo Group SpA	0,93	0,78	0,78	0,80	0,80
EssilorLuxottica SA	0,34	0,37	0,79	0,57	0,59
Fielmann AG	1,32	1,53	1,51	1,48	1,50

Return on Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Marcolin SpA</b>	<b>-2,23</b>	<b>-0,32</b>	<b>-2,32</b>	<b>1,84</b>	<b>-0,40</b>
Safilo Group SpA	-32,52	-2,76	-18,72	-9,12	-3,31
EssilorLuxottica SA	2,13	3,71	8,96	6,47	6,65
Fielmann AG	14,90	18,06	18,23	18,43	19,15



Source: Bloomberg - Note: Decimal separator ","

## INVESTMENT CASE

**Marcolin SpA (MCLIM) - Sr Secured (1st Lien) - Float EUR003M (0% Floor) + 4.125% - Feb. 15, 2023 - XS1562036704 (RegS)**

YIELD TO WORST	11.37%	COUNTRY RATING (Italy)	Moody's: Baa3 / Stable (10/19/2018) S&P: BBB / Negative (10/27/2017) Fitch: BBB- / Stable (04/28/2020)
MODIFIED DURATION	0.104 (to 08/17/2020)	ISSUER / BOND RATING	Moody's: B3 / Negative (06/09/2020) S&P: B- / Negative (04/23/2020)
COUPON FREQUENCY	Quarterly (15 Feb/May/Aug/Nov)	S&P RECOVERY RATING	4(30%) (01/31/2017)
DAY COUNT	ACT/360	1Y DEFAULT PROB	3.22%
AMOUNT	EUR250m (of whom EUR415k under Rule 144A)	5Y IMPLIED CDS SPREAD	284bps
MIN PIECE / INCREMENT	100k / 1k	ALTMAN'S Z-SCORE	1.51
EXCHANGES	Euro MTF (LuxSE), ExtraMOT Pro3 (Borsa Italiana)	GRACE PERIOD	30 days
LQA LIQUIDITY SCORE	3/100	GOVERNING LAW	New York
ECB ELIGIBLE	No		
USE OF PROCEEDS	Refinance		
CALL (in full or part)	With min 10 days notice @ 100		
CHANGE OF CONTROL	CoC Put @ 101		

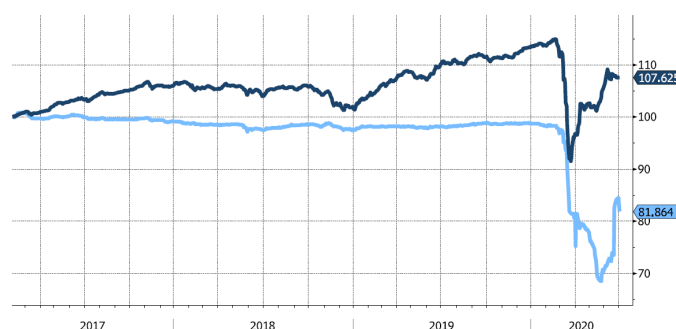
**KEY DOWNSIDE / UPSIDE RISKS**

Covid-19	↓	Net Leverage covenant	↓
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Source: Bloomberg, Marcolin, Banca Promos

- **BOND** - The EUR250m floating-rate bond due in 2023 has been issued by Marcolin in February 2017 as part of a broader **debt refinancing** operation that has involved the early repayment of a previous EUR200m senior-secured bond (with a fixed rate of 8.50% and maturity in 2019), of a revolving credit facility, and other short- and medium-term financings. The deal has also led to the signing of a new EUR40m **super senior Revolving Credit Facility** due in November 2022 (provided by Credit Suisse, Deutsche Bank and UniCredit) and the completion of a EUR21.9m **capital increase** aimed at allowing the new shareholder LVMH to enter the company's capital. The 2023 bond is secured by collateral, including a **pledge** over the shares of Marcolin SpA held by 3 Cime SpA as well as on the shares of some of the Group's foreign subsidiaries held by the issuer.
- **LEVERAGE** - The ssRCF (whose seniority is higher than the 2023 bond) includes a **financial covenant** that requires the issuer to keep its **net leverage below 7.5x** (tested when the facility is used more than 40%). At the end of March, the net leverage ratio was 6.2x (from 4.9x in December 2019) and the RCF was fully drawn (at the end of 2019 it was used at 67.5%). A breach of the covenant (already amended upwards from 5x in December 2019) could trigger a **cross-acceleration provision** that would involve the early repayment of the notes. Talks with lenders are underway to obtain a **covenant waiver**.
- **NEW TERM LOAN** - On June 30, 2020, Marcolin has closed a **EUR50m** term loan facility provided by UniCredit, Banco BPM, Deutsche Bank and Credit Suisse and benefiting from a 90% guarantee issued by State-owned **SACE SpA**. The loan has a maturity of 5 years, a 2-year grace period and quarterly instalments (3M EURIBOR with 0% floor + 3.50%). The TL is secured on a **pari-passu** basis with Marcolin's 2023 notes; if the existing bond is not **redeemed in full** within December 31, 2022, the TL shall become immediately due and payable. On the same day, majority shareholder 3 Cime SpA has provided Marcolin with a **EUR25m subordinated shareholder loan** due in December 2025 (6% interest, payable at maturity).
- **RATING** - On March 31, 2020, **Moody's** has downgraded Marcolin and its bonds to **B3** from B2. On June 9, the rating agency has changed the outlook to **negative** at the end of a review for a potential further downgrade. The decision has reflected the risk that the spread of the coronavirus and the subsequent weakening in **consumers' sentiment** and spending on discretionary items "will negatively impact Marcolin's results and financial profile in 2020, impairing its ability to reduce leverage and straining its **liquidity**." Moody's expects the company to breach the net leverage covenant in June. On April 23, 2020, **S&P** has similarly cut the rating of Marcolin and its notes to **B-** from B. The outlook is **negative**, to reflect the risk of violation of the ssRCF's covenant.

Marcolin Float 2023 vs Benchmark



Marcolin SpA (MCLIM) Float 02/15/2023

Bloomberg Barclays Pan-European HY (Euro) TR Index Value Unhedged EUR

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