

First Impression

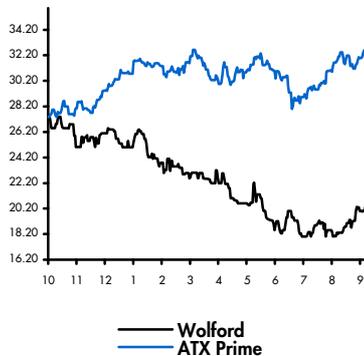
Wolford

September 13, 2013

Consumer, Cyclical/Austria

Hold

Price 12.09.13*	20.30
Price target	U.R. (EUR 24.30)
Volatility risk	medium
Year high/low	27.50/18.00
Currency	EUR
EUR/EUR	1.00
GDR rate	n.a.
Shares outstanding eoy in mn	4.90
Market capitalisation (total shares) in EUR mn	99.4
Free float	29.0%
Free float in EUR mn	28.8
Avg. daily turnover (12 m) in EUR mn	0.04
Index	ATX Prime
ISIN code	AT0000834007
Bloomberg	WOL AV
Reuters	WLFD.VI
www.wolford.com	



Source: Raiffeisen Centrobank

Weak results again

- Revenue decline due to weak wholesale business and despite floor expansion
- EUR 2 mn lower EBIT on higher cost base yoy
- Severe estimate cut necessary

P&L: Due to an improved economic environment and increases in the company's floor space we expected the top-line to come-in at least unchanged yoy. However, although the own distribution channels and partner boutiques were not bad, the wholesale results were very weak (decline of 12% yoy), so that the overall top-line declined by 2.4% yoy (-1.1% currency neutral). The management seems to remain dedicated to further inventory and cash optimization (changes in inventories of of EUR -1.4 mn yoy instead of an increase in previous years), however, due to a higher cost base (especially other expenses) and unfavourable FX effects in USD and GBP the overall cost burdens increased substantially and EBT was EUR 2 mn worse than we expected.

Regions & product mix: USA remained the most resilient market among the regions, however the unfavourable FX effects in 1Q 13/14 burdened the growth. Looking at the European markets only Italy and Spain (which showed a weak performance in FY 12/13) seem to turn around while the remaining markets (especially the company's anchors such as Germany and Austria) were weak. Asia/Oceania and "Rest of World", where the recent floor additions were made, performed well; however, given their small share in Wolford's revenues it did not change the big picture. Looking into the product mix, Wolford's flagship segment "legwear" declined yoy (which, given its high wholesale share, is not surprising); "ready-to-wear" declined slightly and only the revenues in lingerie segment (thanks to the Shape&Control product line) increased yoy.

Balance sheet & cash flow: We have already mentioned that the company managed to improve its inventory position yoy, therefore, despite higher loss recorded, the operating cash flow was less affected by the poor performance (EUR -11.2 mn vs. EUR -10.0 mn compared to EBT decline of EUR -5.5 mn vs EUR -3.3 mn). Despite the improvements in working capital the continuing losses led to a decline in the equity ratio yoy (53.1% vs. 49.8%) and although the absolute level remains quite comfortable the pace of the deterioration is alarming.

Outlook and recommendation: The management had not changed the outlook and is "targeting an increase in revenues and only a positive operating results for FY 2013/14", which – given the performance in 1Q – in not a surprise anymore. We believe that the current situation calls for harsh restructuring measures. However, even the most successful outcomes should not save FY 13/14e performance. We are going to cut our estimates for FY 13/14e and FY 14/15e substantially and expect the market to react negatively on today's announcement.

Wolford 1Q 2013/14 results

in EUR mn	1Q 13/14	1Q 12/13	+/-	RCB est.	+/- 4Q 12/13	+/-
Sales	32.3	33.1	-2.4%	33.3	-3.1%	32.3
EBITDA	-3.2	-1.3	-147.3%	-1.8	77.2%	-1.9
EBIT	-5.2	-3.3	-56.0%	-4.0	29.5%	-4.6
EBT	-5.5	-3.6	-51.7%	-4.4	-19.9%	-5.0
Net profit	-4.4	-3.2	-34.3%	-4.1	-5.7%	-5.2
EPS	-0.89	-0.66		-0.84		-1.07
EBITDA margin	-9.9%	-3.9%		-5.4%		-5.8%
EBIT margin	-16.0%	-10.0%		-12.0%		-14.1%
Net margin	-13.5%	-9.8%		-12.3%		-16.2%

Source: Wolford, Raiffeisen Centrobank

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* The indicated price is the last price as available at 6.30 AM on 13.09.13, Source: Reuters/Bloomberg

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