QuickView

Tom Tailor

Consumer

23 November 2017

Cutting it

Tom Tailor is a mid-market fashion retailer undergoing a radical restructuring. A new management team is attempting to turn around a loss-making company that expanded too aggressively and lost sight of its brand values. The newfound focus on profitability is welcome and recent Q3 results show an acceleration in cash generation as well as better than expected EBIT growth.

A year of transition

The company's new management team has embarked on a new strategy, known as the "Reset" initiative, with renewed focus on sustainable profitability. As well as closing a significant number of stores (over 150 across the company's two brands), management has exited from several overseas markets (eg South Africa and China), closed underperforming sub brands (eg Tom Tailor Polo and Bonita Men), reduced SKUs across the business and acted to improve operational efficiency.

Strategically sound

This period of retraction clearly means a decline in sales, but the strategy makes sense and investors should see beyond a shrinking top line – a task that is made more palatable when the company can show improved profitability as it has done in its Q3 results, with EBIT up more than expected at €14.4m representing an EBIT margin of 6%. A recent capital increase (well supported and raising €61m) should support badly need investment in e-commerce (just 5% of sales currently) as well as other IT related projects and new store format development. It has also helped to improve the equity ratio from 23% to 30%. Management will need to demonstrate continued progress beyond the "easy win" stage (closing loss-making stores has an immediate positive impact on group EBIT) and that its brands can outperform in a challenging segment of the market. A capsule collection designed by Naomi Campbell is a positive step in generating Tom Tailor brand momentum.

Valuation

As this is a restructuring story, investors must have a degree of confidence in future forecasts to buy into the stock (especially given that the shares have performed well since the capital increase). Positive Q3 results will have helped sentiment and have pushed consensus forecasts up slightly. Nevertheless, consensus forecasts still look reasonable and on that basis the shares do not look particularly expensive on a 2018 P/E basis and suggest only limited turnaround potential is priced in. The company has confirmed that it is unlikely to resume dividend payments before 2022, a sensible policy in our view given the extent of the restructuring.

Consensus estimates

Year end	Revenue (€m)	Net income (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	969	(2.5)	(0.1)	0.0	N/A	N/A
12/17e	938	11.3	0.34	0.0	27.4	N/A
12/18e	913	24.6	0.71	0.0	13.1	N/A
12/19e	977	33.7	1.06	0.0	8.8	N/A

Source: Company reports, Bloomberg consensus estimates

Price	**€9.31**
Market cap	**€354m**

Share price graph

Share details

Code	TTI
Shares in issue	38m
Net debt (€m) at 30 September 2017	125

Business description

Tom Tailor is a mid-market fashion and lifestyle company founded in 1962 and based in Germany. It operates two principal brands – Tom Tailor and Bonita – and derives around two-thirds of its revenue from retail. Germany is the most important market (c 65% of sales).

Bull

- Redefined brand strategy for Tom Tailor and Bonita should lead to clearer brand positioning and customer loyalty/engagement.
- Balanced approach to future expansion with capital-light wholesale and franchise playing an important role.
- Successful capital increase gives the company headroom to invest in central functions (IT and digital) as well as store renewal.

Bear

- Execution of management's new strategy may be more difficult than anticipated.
- Increasing competition and disruption of the wholesale channel by digital players.
- Lack of previous investment in digital, although the company is now addressing this.

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