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TOD'S Group

Confirming Buy Rating on Strong 2000 Sales
BUY
Reason for Report: FY-2000 Sales of EUR252mn, 3pp
Above Our Estimates

**Long Term
BUY**
Price: EUR42.8
12 Month Price Objective: EUR51
Estimates (Dec) 1999A 2000E 2001E 2002E 2003E

Estimates (Dec)	1999A	2000E	2001E	2002E	2003E
Turnover	219.7	251.6	295.8	384.9	500.3
EBIT	38.7	40.0	57.5	87.4	124.3
Net Income After Extraord.	21.1	22.4	33.3	52.4	73.5
Net Income Restated*	29.8	31.1	42.0	61.1	82.2
EPS	0.70	0.74	1.10	1.73	2.43
EPS Restated*	0.99	1.03	1.39	2.02	2.72
P/E	61.3	57.8	38.9	24.7	17.6
P/E Restated*	43.4	41.7	30.8	21.2	15.7
Price/Cash Flow	33.0	30.6	23.5	17.0	13.0
EV/EBITDA	25.1	20.2	15.2	10.8	8.0
EV/Sales	6.5	4.8	4.1	3.1	2.4

Opinion & Financial Data

Investment Opinion – Local:	C-1-1-9
Mkt. Value / Shares Outstanding (mn):	1295 / 30.25
Book Value/Share (Dec-99):	3.503
Price/Book Ratio:	12.22
ROE 2000E Average:	10.2%
Net Debt/Net Equity:	ns
Est. 5 Year EPS Growth:	35%
2000E P/E Rel. to Mkt:	194%

Stock Data

Symbol / Exchange – Local:	TODGF / Milan
Bloomberg / Reuters:	TOD IM / TOD.MI
Exchange Rate:	EUR1.09/USD
Free Float:	27%

For full investment opinion definitions, see footnotes.
All figures are in Euro except where otherwise noted.

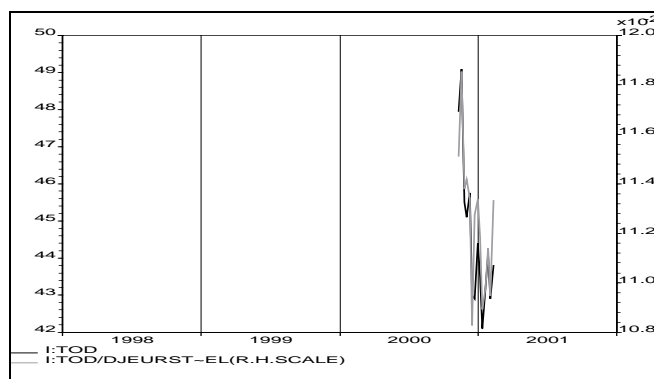
* Restated for goodwill amortisation

Investment Highlights:

- We confirm our Buy rating and price objective of EUR51.
- TOD's is trading at a 25% discount to the sector, on both a static (EV/EBITDA) and a dynamic (EV/EBITDAG) valuation.
- We believe the group represents a resilient investment in the luxury sector. TOD's is still largely exposed to the European markets (79% of 2000 sales) and has strong organic growth potential (+38% clean EPS CAGR).
- Full-year results will be released at end March. For the time being we leave our estimates unchanged.

Fundamental Highlights:

- TOD's has reported higher than expected 2000 preliminary sales. Main growth drivers were retail sales (+70%) and the leather goods sector (+50%).
- International markets showed strong double-digit growth. Italian sales rose by a mere 4% as TOD's ended its relations with several independent retailers to enhance selective distribution.

Stock Performance


Source: Datastream

	1mth	3mths	12mths
Absolute %	0.0	n/a	n/a
Relative to DJ Euro Stoxx %	+2.2	n/a	n/a

What Has Changed?

TOD's has reported 2000 preliminary sales ahead of our estimates and of the company budget. In our view, these results confirm that the group is on the right track to (a) pursue its strong development strategy and (b) create a long-term relationship with investors. We confirm our Buy recommendation and our price objective of EUR51.

Strong Sales, But Not in Italy

TOD's has reported strong double-digit sales (+40%) in all regions outside Italy in 2000. Group sales accelerated sharply in 2H in particular, with a sound 44% growth rate.

Table 1: International Sales Accelerate in 2H 00

Y/E to Dec (EURmn)	1H 2000	2H 2000	FY 2000
Italy	55.7	68.2	123.9
% Change	8.4%	1.1%	4%
% on Total Sales	48%	50%	49%
Europe	37.8	38.9	76.6
% Change	20%	25%	22%
% on Total Sales	33%	29%	30%
North America	16.2	23.1	39.3
% Change	14%	38%	27%
% on Total Sales	14%	17%	16%
Rest of World	5.8	5.9	11.8
% Change	49%	69%	58%
% on Total Sales	5%	4%	5%
Total Sales	115.5	136.1	251.6
% Change	14%	15%	14%

Source: Company data

Italian sales were up just 4% on 1999. This is mainly because the group ended its relations with several independent retailers, in order to maintain a highly selective distribution. At the same time, however, we estimate that Italian DOS continued to perform strongly. Total retail sales grew by an outstanding 70%, well above our estimate of 50%, while wholesale sales rose by a mere 1%. We estimate that independent retailers sales posted negative growth, to the tune of -1%.

TOD's brand sales rose by 18%, representing 61% of total 2000 sales versus 58% at end 1999, whilst Hogan sales reached 25% of consolidated sales (+15% y-o-y).

Hogan sales accelerated in particular in 2H 2000 (+21% versus +10% in 1H 2000), driven by the opening of the Milan and NY stores and by the launch of the first Hogan

handbag collections.

Fay sales rose by just 2% in 2000 as the group has reduced the number of independent retailers that sell the brand and has cut a few SKUs (stock-keeping units) in the winter collection that were considered not in keeping with the brand image.

FY-2000 Estimates Unchanged

We leave our year-end estimates unchanged. We are forecasting EBITDA of EUR60mn with a margin just below 24%. We expect EBIT to rise by 4% to EUR40mn or 16% of sales, while net profit should increase by 6% to EUR22.4mn (9% of sales).

We remain confident on our 2001-03 estimates. Starting from this year, and with an acceleration in 2002, the group is expected to benefit from the costs already borne in 1999 and 2000 to implement what we have called its 'platform to grow'. We expect clean net profit (restated for goodwill amortisation) to rise by an average 38% per annum in the period 2000-03.

TOD's is Trading at a 25% Discount to the Sector

TOD's is currently trading at an average 25% discount to the sector, on both a static (2001/02E EV/EBITDA) and a dynamic (EV/EBITDAG, ie 2001E EV/EBITDA divided by 2000-03E EBITDA CAGR) valuation. In particular, looking exclusively at current EV/EBITDAG (0.44x), TOD's is trading at a 52% discount. In our view, the market is still not accounting for the group's strong organic growth potential in future years. At our price objective of EUR51, TOD's would trade at an EV/EBITDAG of 0.52x, versus a sector average ex-TOD's of 0.93x.

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Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

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