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CREDIT OPINION
11 May 2017

Update

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RATINGS

TWIN SET - Simona Barbieri S.p.A.

Domicile	Carpi, Italy
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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TWIN SET - Simona Barbieri S.p.A.

Annual Update

Summary Rating Rationale

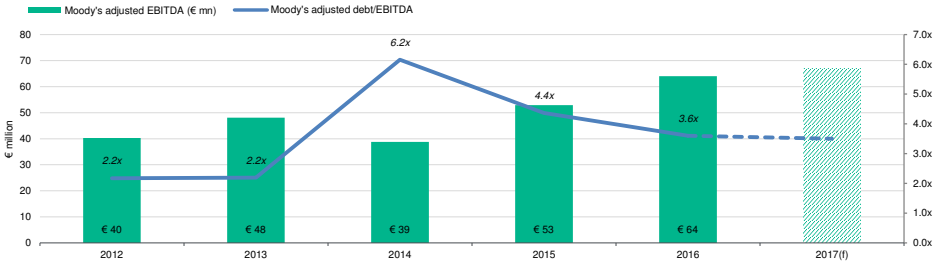
TWIN SET - Simona Barbieri S.p.A.'s (TWIN SET) B2 corporate family rating (CFR) reflects (1) the small size of the group; (2) its exposure to fashion risk and to the competitive apparel market; (3) its modest, albeit improving, geographic diversification; and (4) its concentration in the women's apparel end-market segment.

Moreover, the announced purchase of the remaining 10% equity stake from minority shareholder Simona Barbieri, to be completed by mid-2017, will affect TWIN SET's liquidity position. However, we believe liquidity will remain adequate for the current rating, given the €62 million in available cash on balance sheet as of the end of 2016 (compared with the €35 million average in 2014-15).

The rating is supported by TWIN SET's solid market position in the affordable luxury segment in Italy and growing brand awareness across Europe, which we believe will be largely unaffected by the recent resignation of the founder and former creative director Simona Barbieri. The rating also takes into account TWIN SET's adequate liquidity and our expectation of continued top-line growth, driven mainly by retail network expansion.

We expect retail network expansion to remain the key growth driver, although the network expansion strategy carries some execution risks, especially abroad, as the strategy might impair the group's profitability. In addition, the associated capital expenditure plan puts pressure on the group's free cash flow generation capacity. The closer control on retail expansion costs and the efforts put in place to improve the profitability of stores abroad support our expectations that TWIN SET will be able to maintain adequate credit metrics commensurate with the current B2 rating, while continuing to expand the business.

Exhibit 1
EBITDA and Leverage Improved in 2016 and Will Remain Stable in 2017



All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated otherwise. (f) = Moody's forecast.
Source: Moody's Financial Metrics™

Credit Strengths

» Decline in leverage, supported by recovery in EBITDA

» Distinctive business model, with balanced distribution channels mix

» Good position in the affordable luxury segment

Credit Challenges

» International retail expansion carries execution risks

» Buyback of own shares will affect liquidity, which however will remain adequate

» Small scale and high geographic concentration

Rating Outlook

The stable outlook reflects our expectation that TWIN SET's EBITDA growth will be moderate, with leverage (measured as Moody's-adjusted debt-to-EBITDA ratio) flat at around 3.3x-3.5x over the next 12-18 months.

The stable outlook is also underpinned by our expectation that the group will maintain an adequate liquidity profile while pursuing its retail network expansion, despite the anticipated purchase of 10% own shares from its minority shareholder. Our stable outlook also factors in the resignation of the founder and former creative director Simona Barbieri, which we expect not to weigh on the group's top-line growth.

Factors that Could Lead to an Upgrade

» Expansion plan leading to much higher EBITDA generation than currently forecast

» Debt-to-EBITDA ratio maintained below 4.0x, provided that the group retains an adequate liquidity and pursues a conservative financial policy

Factors that Could Lead to a Downgrade

» Persisting challenging market conditions leading to an erosion of sales and profitability

» Debt-to-EBITDA ratio above 5.0x on a sustained basis

» Difficult expansion plan causing a deterioration in liquidity and impairing the group's ability to generate positive and consistent free cash flow

Key Indicators

Exhibit 2

TWIN SET - Simona Barbieri S.p.A.

EUR Millions	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Revenue	144.5	177.7	212.4	243.5	245.6
EBITA Margin	24.5%	22.8%	13.4%	15.3%	19.0%
EBITDA Margin	27.8%	27.1%	18.3%	21.7%	26.3%
FFO / Net Debt	35.6%	33.3%	11.1%	18.0%	20.1%
EBITA / Interest Expense	9.5x	5.4x	2.2x	2.5x	3.1x
Debt / EBITDA	2.2x	2.2x	6.2x	4.4x	3.6x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated otherwise.
Source: Moody's Financial Metrics™

Detailed Rating Considerations

Leverage has declined, supported by recovery in EBITDA

We expect TWIN SET's EBITDA to grow moderately in 2017 to around €67 million from €64 million in 2016 (on a Moody's-adjusted basis), while EBITDA margin will remain flat overall at 26%. In 2016, profitability recovered significantly both in absolute terms and as a percentage of revenue, up from €53 million and 22%, respectively, in the prior year. This improvement was driven by (1) the volume effect associated with 11 new store openings, which was partially offset by the negative like-for-like sales growth recorded in the retail channel; and (2) the efficiency gains in the supply chain and lower distribution costs.

Our forecast of moderate EBITDA growth in 2017 is based on the expectation that retail network expansion will regain momentum, but it will be pursued with a cost-conscious approach to preserve profit margins. In the wholesale channel, franchising stores will continue to support sales growth, especially in Russia and Eastern Europe, while the weight of traditional wholesalers in the mature Italian market will shrink progressively, in line with the group's strategy to enhance brand perception by limiting its exposure to the wholesale market to a select customer group. In addition, according to our forecasts, the expected benefits associated with the ongoing product line rationalization will only fully materialize starting in 2018, with a more pronounced increase in profitability.

Recovery in EBITDA resulted in leverage (measured as Moody's-adjusted debt-to-EBITDA ratio) improving to 3.6x in 2016, down from 4.4x in 2015. EBITDA growth will indeed remain the only driver for deleveraging as TWIN SET's financial debt is entirely made up of the €150 million notes due 2019. Under the current assumptions of moderate operating performance improvement in the next 12-18 months, we expect leverage to stand at around 3.5x and 3.3x by the end of 2017 and 2018, respectively.

Retail network expansion will continue to drive capital expenditure and add pressure on free cash flow

TWIN SET's cash flow generation capacity increased significantly in 2016. The group's Moody's-adjusted free cash flow reached €24 million in 2016 (€9 million in 2015), supported by higher EBITDA and positive contribution from working capital, on the back of a strong improvement in inventory management (inventory levels decreased to 22% of sales from 24% in 2016). Cash generation was higher, although TWIN SET increased its capital expenditure by €5 million in 2016 compared with 2015, which – besides maintenance capital expenditure (8% of total capital expenditure) and key money to support the retail network development (42% of total capital expenditure) – also included investments in IT projects and the group's new headquarters (50% of total capex).

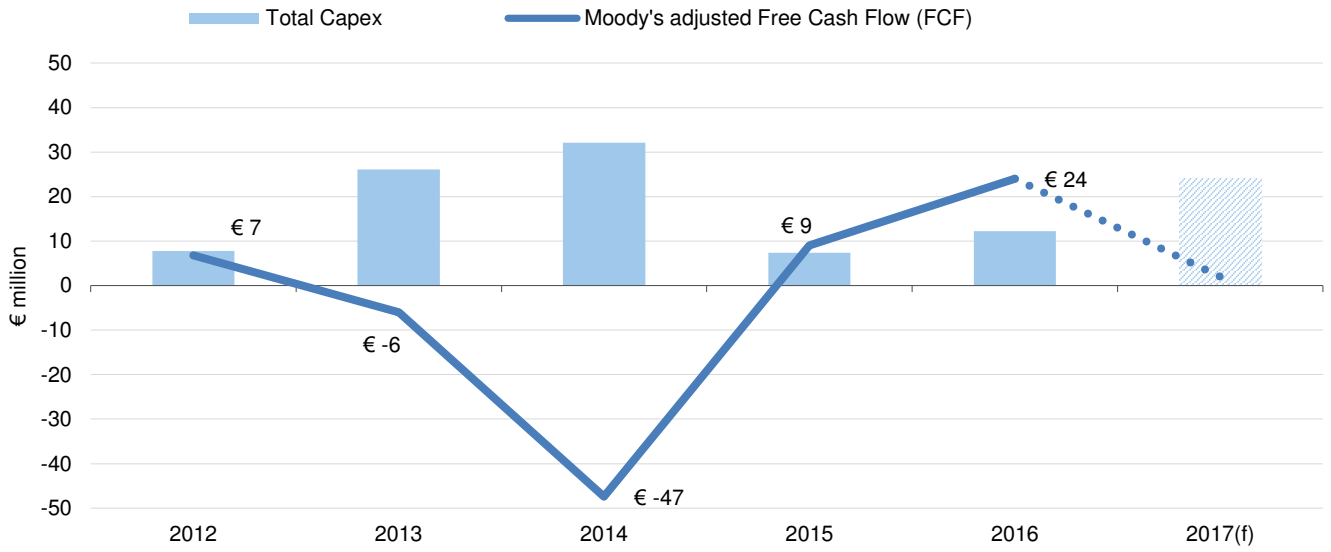
We expect growth in the retail network, mainly abroad, to continue to be the major driver for capital expenditure in the coming years, and we estimate that retail capital expenditure will increase to around €18 million-€20 million, or 75%-80% of total capital expenditure in 2017. We acknowledge the management now has a more cautious approach toward retail network development. Nonetheless, we believe that the international strategy carries some execution risks and will test TWIN SET's capacity to combine fast expansion with solid financials. Higher capital expenditure and less favorable working capital movements will keep free cash flow in low single digits in 2017, well below the level in 2016, as Exhibit 3 shows.

In addition, TWIN SET will face the anticipated cash outflow by June 2017 to complete the share buyback of the 10% minority stake previously held by Simona Barbieri. This transaction is credit negative because it will consume resources at a time when TWIN SET is in

expansion mode. However, we believe the group's liquidity position will remain adequate, supported by the strong cash balance reported as of the end of 2016 (€62 million compared with €35 million on average as of the end of 2014 and as of the end of 2015).

Exhibit 3

Return to High Capital Expenditure Levels Will Push Free Cash Flow to Low Single Digits in 2017



(f) = Moody's forecasts.
Sources: Company's annual reports, Moody's estimates

Small scale and high geographic concentration

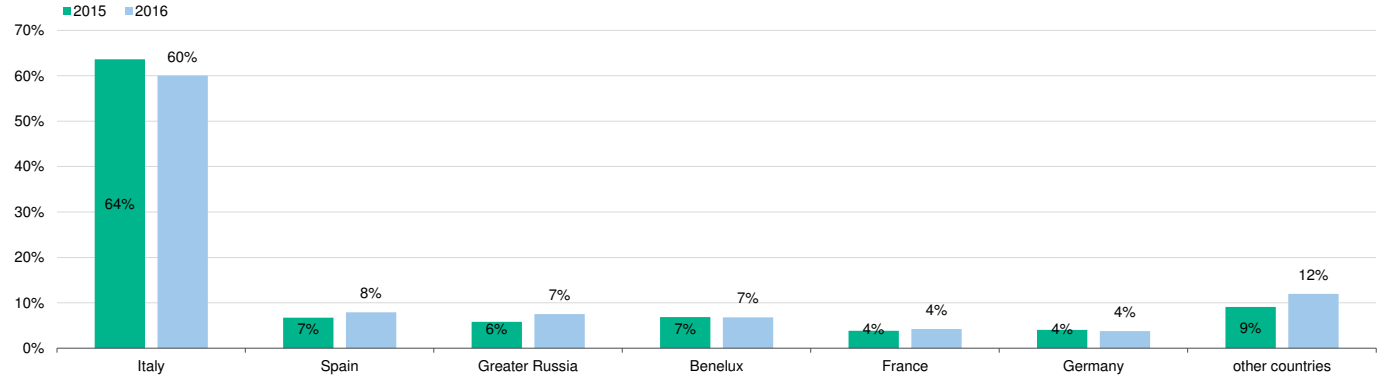
With €246 million in revenue in 2016, TWIN SET is one of the smallest retailers in our rating universe. In addition, 2016 sales remained broadly flat compared with the previous year, slowing down the track record of solid top-line growth recorded by the group over the 2011-15 period. The group's international presence has steadily increased during these years, but TWIN SET's sales remain largely concentrated in Italy, which represented 60% of total revenue in 2016 (down from 64% in 2015), with the remaining 40% split mainly between three European markets (Spain, Benelux and France) and Russia and ex CIS countries. Given the sluggish growth prospects in Western Europe, and especially in the group's key market, Italy, we see this concentration as a credit negative. The group's strategy aims at further developing sales abroad, with a focus on Eastern Europe, the Middle East, and possibly the US and the UK, which should help improve geographic diversification.

While the TWIN SET brand is well known in Italy, its name recognition in other countries is lower, which could cause foreign retail stores to underperform domestic stores or could require additional advertising and promotional costs, putting additional pressure on profit margins.

Exhibit 4

International Retail Expansion Supports Geographic Diversification over Time, but TWIN SET Still Remains Heavily Concentrated in the Italian Market

Revenue breakdown by geography



Source: Company's annual reports

Good position in the affordable luxury segment and distinctive business model

TWIN SET has emerged as a very successful brand in the affordable luxury segment, gaining high levels of awareness in the Italian domestic market, despite the highly competitive and fragmented apparel market. TWIN SET is competing with more than 1,000 brands globally, including the second lines from luxury brands and an increasing number of specialized local and international players and retailers. However, the sustained top-line growth outside of Italy provides comfort on the progressively increasing brand recognition and a strengthening positioning in foreign markets across Western and Eastern Europe.

The exposure to fashion risk is further increased by the lack of significant diversification from the women's apparel segment, as TWIN SET has a focus on a narrow segment targeting mainly women in the 35-45 year age group. In the past five years, the group diversified from its main product line by introducing new product categories (beachwear and lingerie, shoes, newborn/girl, jeans, bags and accessories), which is a major driver of sales growth, reaching approximately 50% of total group's sales in 2016, but still mostly targeting the same customer base as the main line.

We expect TWIN SET's distinctive business model to remain a key success factor in the group's expansion strategy, notwithstanding the recent resignation of the founder and former creative director Simona Barbieri. The group has been successful so far in creating its own style and brand identity, with a business model that combines some features typical of luxury brands with those of fast-fashion retailers. The group carries out the design and development of all its products internally, an approach typical of luxury brands, while production is outsourced and run based on orders received, minimizing inventory risk.

According to the group's strategy, the direct retail network (accounting for 35% of 2016 sales, up from 21% in 2013) will further increase its share of group sales to around 50% by 2020, although the group aims to maintain a solid footprint in the wholesale channel, with a balanced mix between the two. Wholesale distribution implies lower gross margins than retail but offers higher visibility on revenue (new collections are ordered six months in advance) and allows for better inventory management, while exposing the group to some credit risk on receivables. The retail channel allows potentially higher gross margins, better control of the brand and products, but also implies higher inventory levels and requires significantly higher capital expenditure for the roll-out of new stores.

Liquidity Analysis

TWIN SET's liquidity position is underpinned by available cash of €62 million as of the end of 2016 and by an undrawn committed €10 million revolving credit facility (RCF), maturing in 2019 and expected to remain unused. The group has a degree of seasonality in working capital, mainly related to the increase in receivables in the first and third quarters, which is usually covered by available cash and uncommitted short-term lines.

We expect the available liquidity, together with the estimated operating cash generation (approximately €36 million in 2017, according to our forecasts), to cover cash needs in the next 18 months. The cash needs include annual working capital absorption of €10 million, an estimated capital expenditure of €24 million for 2017, mainly used for the development of the retail network, and the cash outflow

(the amount is still undisclosed) for the share repurchase of the 10% residual equity capital. The group has no long-term debt maturities before July 2019, when the €150 million bond is due.

Structural Considerations

The B2 (LGD4, 57%) rating assigned to the €150 million 2019 senior secured notes, in line with the CFR, reflects the fact that the notes represent almost the entirety of the group's capital structure and that the notes are issued by the parent company TWIN SET - Simona Barbieri S.p.A. This is also the main operating company, representing more than 90% of the group's revenue and EBITDA. The notes are not guaranteed by any other subsidiary and are secured against the parent company's shares, the shareholder loan and some intangible assets, including the main group's brand, TWIN SET. A committed €10 million super-senior RCF ranks first in priority to the bond, though this does not result in any notching down of the notes.

The RCF contains a leverage financial covenant to be tested only if the facility is drawn. In light of the absence of any maintenance financial covenants, we have considered the transaction as a whole bond structure and adjusted accordingly our family recovery rate expectation to 35%. This has resulted in a probability of default rating of B1-PD.

The private equity fund Carlyle Group is also financing TWIN SET via a €81 million shareholder loan, treated as equity for our rating considerations.

Corporate Profile

Headquartered in Carpi, Italy, TWIN SET - Simona Barbieri S.p.A. (TWIN SET) is an apparel producer focused on the women's affordable luxury segment. In 2016, TWIN SET generated €246 million of sales and €64 million (Moody's-adjusted) EBITDA. In addition to its main women's apparel line, the group sells other product lines, including jeans, accessories, bags, shoes, beachwear and women's apparel, which currently represents roughly half of its total sales.

TWIN SET distributes its products through both the wholesale channel (accounting for approximately 66% of sales in 2016) and its own network of stores (78 stores and 21 outlets as of the end of December 2016). The Italian domestic market represented 60% of TWIN SET's 2016 sales, but the group's presence in other European markets (mainly Spain, Russia, Benelux and France) is increasing over time.

The private equity fund Carlyle Group currently has a 90% stake in TWIN SET's capital, but it will indirectly increase its controlling rights in the group by mid-2017 when TWIN SET buys back the remaining 10% share capital held by the founder and former creative director Simona Barbieri.

Rating Methodology and Scorecard Factors

Based on our Global Apparel Companies methodology dated May 2013, the grid-indicated rating reflects based on our expectations for the next 12 to 18 months is B1, one notch above the currently assigned B2 CFR. The notch differential reflects the execution risks associated with the retail development plan and the pressure it may exert on cash generation and future profitability.

Exhibit 5
Rating Factors

TWIN SET - Simona Barbieri S.p.A. -Private				
Apparel Industry Grid [1][2]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of 5/4/2017 [3]	
Factor 1 : SCALE (17.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$0.3	Caa	$0.3	Caa
Factor 2 : Market Position (20%)				
a) EBITA Margin %	19.0%	A	19.0%	A
b) Brand Position	B	B	B	B
Factor 3 : Diversification (15%)				
a) Diversity of Distribution Channels	B	B	B	B
b) Diversity of Product Categories	B	B	B	B
Factor 4 : Financial Policy (15%)				
a) Financial Policy	B	B	B	B
Factor 5 : Leverage and Coverage (32.5%)				
a) FFO / Net Debt	20.1%	B	24% - 25%	Ba
b) EBITA / Interest Expense	3.1x	Ba	3.2x - 3.4x	Ba
c) Debt / EBITDA	3.6x	Ba	3.5x	Ba
Rating:				
a) Indicated Rating from Grid		B1		B1
b) Actual Rating Assigned		B2		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2016. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 6

Category	Moody's Rating
TWIN SET - SIMONA BARBIERI S.P.A.	
Outlook	Stable
Corporate Family Rating	B2
Senior Secured -Dom Curr	B2/LGD4

Source: Moody's Investors Service

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