A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the

Nova School of Business and Economics.

# PRIVATE EQUITY CHALLENGE – MAISONS DU MONDE

# ROADMAP FOR AN EQUITY GROWTH STORY IN THE FURNITURE AND DECORATION INDUSTRY

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## Abstract

The following Work Project was developed by a Finance student and represents an academic simulation of an Investment Committee Paper on Maisons du Monde (MdM), a French-based furniture and decoration retailer, manufacturer and designer in the affordable / inspirational segment. The work proposes a leveraged buyout of Maisons du Monde that is supported by several value creation strategies and MdM's business model. All value creation strategies are based on a comprehensive analysis of the company and the national / global market it operates in. Concluding, potential exit options and target buyers were identified for a successful exit in year 6 of the investment.



## Keywords

Maisons du Monde, MdM, Furniture, Decoration, Brick & Mortar, e-Commerce


## Disclaimer


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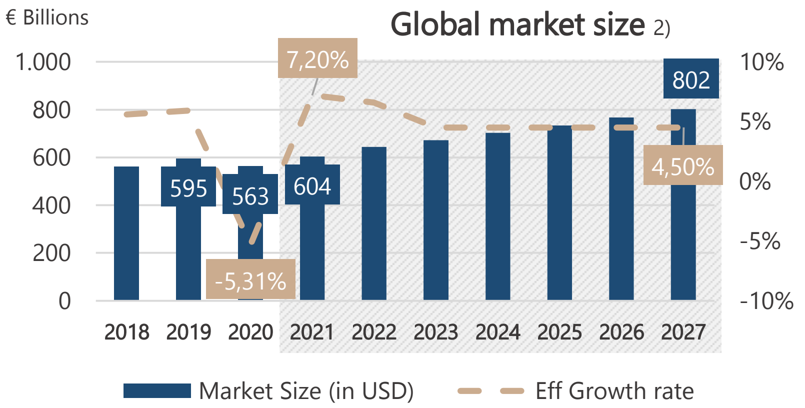
# INDUSTRY OVERVIEW – MARKET SIZE & SEGMENTATION

## Industry revenue took a hit in 2020 due to Covid-19 pandemic but is expected to recover fast in the upcoming years

### Total furniture and decoration market size




The total **furniture and decoration industry's** global revenue was estimated at around **$595 Bn in 2019.** Considering the impact of Covid-19, the same market was estimated at approximately **$563 Bn in 2020**. By 2027, the market is expected to have revenues around **$802 Bn**.

The estimations reflect a decrease of **-5,3% in 2020**, followed by a 7,2% increase after Covid-19. The growth rates are expected to stabilize at ~**4,5%.**

### Reaction to recessions

The furniture & decoration industry **is tied to some macroeconomic drivers**, e. g. residential construction and refurbishment. However, in 2008, furniture retail stores' revenue in Europe dropped by ~ 8,70% while the building permits index fell by ~ 27,10% 4), indicating the former to be connected but more resistant.

The industry has an estimated **unlevered beta of 0,75** 1), which compared to other industries is lower than e. g. retail (general) 0.95 or engineering/construction 1.33.

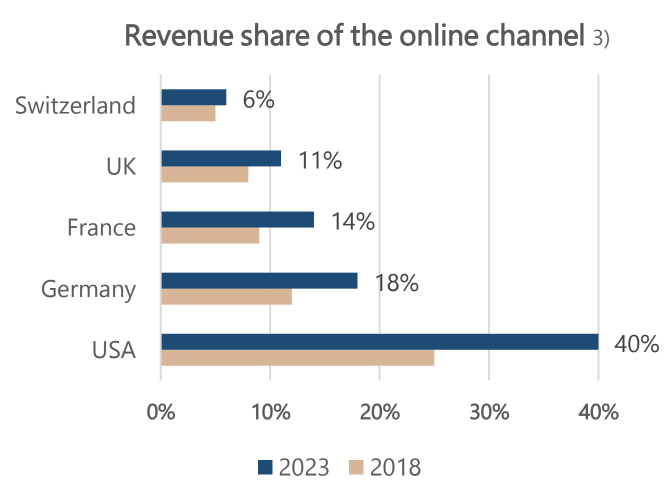
### Market segmentation:

#### 1) By geography in Bn USD

| *€ Billions* | 2018 | Share in 2018 | 2025 | Share in 2025 | Revenue CAGR | Share Δ in % |
|---|---|---|---|---|---|---|
| North America | 150,0 | 26,7% | 177,1 | 24,1% | 2,40% | -9,7% |
| Europe | 132,0 | 23,5% | 150,6 | 20,5% | 1,90% | -12,8% |
| Rest of the World | 279,7 | 49,8% | 406,9 | 55,4% | 5,11% | 11,2% |
| **Total Size** | **561,7** | | **734,6** | | | |

- The most relevant geographic segments for Maisons du Monde are:
  - **Europe and North America:** jointly accounting for **$282 Bn** in 2018 (**50,2%**), these regions are characterized by slower paced revenue growth in comparison to the rest of the world, namely Asia. Hence, the share on global revenue is expected to decrease to 44,6%.

#### 2) By channel



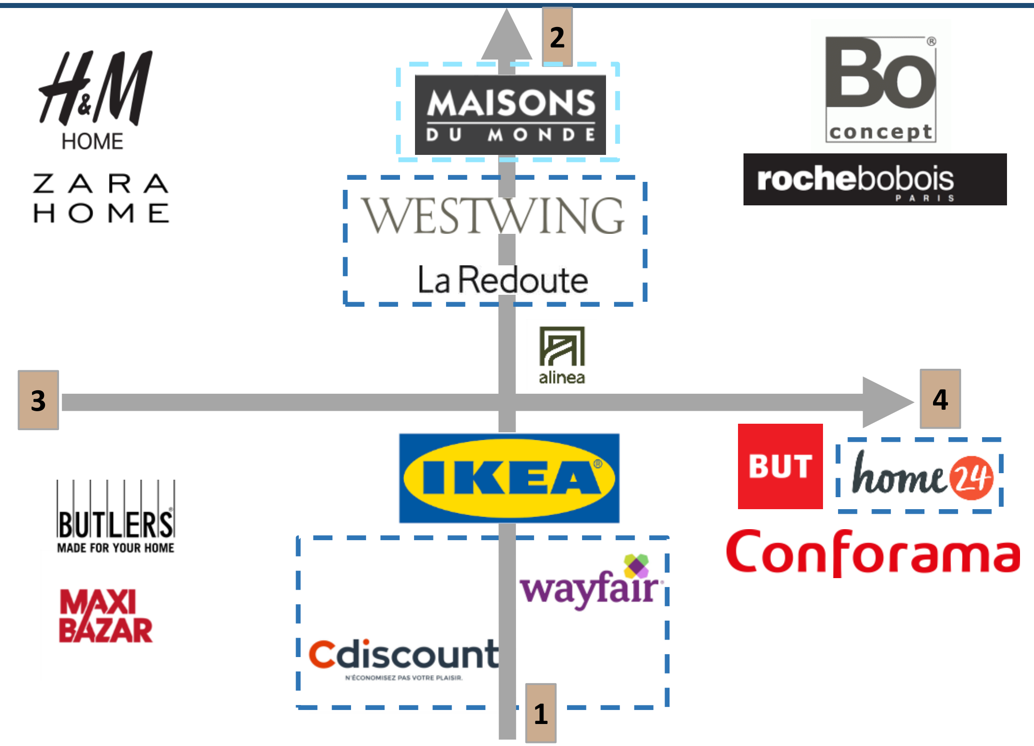

The online channel for the furniture and decoration industry is in different development stages in Europe and the USA:

- **In Europe**, the online revenue shares are low with **Germany** and **France** being expected at **~18%** and **~14%** in 2023.
- **In the USA**, the e-Commerce market in 2023 is expected to deliver **~40%** of revenue, coming from ~25% in 2018.

Notes: 1) Source: (Damodaran Database 2020); 2) Source: Statista. 4) Source: Statista

# INDUSTRY OVERVIEW – KEY PLAYERS AND CUSTOMERS

## Maisons du Monde is the European leader in the affordable inspirational segment of the Furniture and Decoration industry




1) **Functional** - mass production, small customization.
2) **Inspirational** - original unique pieces.
3) **Decoration** - small complementary pieces to furniture.
4) **Furniture** - sofas, beds, tables, chairs, desks, etc.

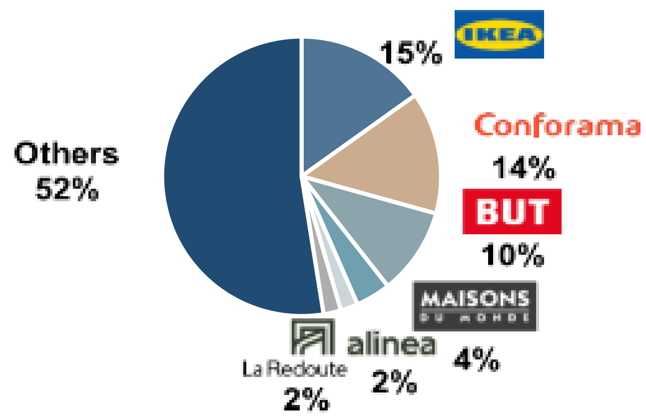
**Pure online Player** – customer facing activities fully based online

- The rising cost of production along with an **intense overseas competition** is causing consolidation and a shift to the retail side.
- Companies are attempting to **produce more with less** plant space and staff, improving materials supply, and enhancing distribution.

### Segmentation

- **MdM's value proposition** sits on its ability to "inspire" customers through industrial-scale structure that delivers quality decoration & furniture items.
- Best way to understand MdM´s positioning in the market is **segmenting the industry** by **design typology** (inspirational vs functional) and by **product range** (decoration vs furniture).
- The **price factor** is already indirectly incorportated in the inspirational vs. functional trade-off relation where those pieces that require lower customization are usually priced cheaper.

### French Furniture & Decoration Market [1)]




### Customer Analysis

#### B2C

- **Baby Boomers** continue to represent **largest percentage** of **dollars spent** in the industry; however, **Millennials** make up the **largest percentage of buyers** in the market with a share of around 45%.
- **Generation Z**, who's purchase power is developing, values trends such as **innovation, creativity,** and is willing to pay a premium for **sustainable products**. Additionally, this segment's presence across social networks is impactful with potential to influence other generations' tastes and preferences.

#### B2B

- Commercial sales make up for around **30% of the furniture market** sales. These transactions are usually in **bulk**, the **price is negotiated.**
- B2B e-Commerce is essential for furniture manufacturers who typically sell to wholesale distributors and large organizations.
- A **flexible value chain** that can address specific B2B customer needs is a **strong competitive advantage** for entering this booming e-Commerce segment and targeting big buyers right away.

Notes: 1) Source: (Maisons du Monde – Capital markets day presentation 2019); 2) Source: OroCommerce Blog, 2019.

# COMPANY OVERVIEW – BUSINESS MODEL

Maisons du Monde's business model's main characteristic is the complementarity of its digital platform with an efficient store network.

## Business model

- MdM creates **original universes for every house division**, using a multi-styling offer with a diverse range of furniture and decoration through a sustainable business model that is generating strong financial growth in both revenues and cash flows.

**Product creation & Pricing**

- MdM's team of stylists and designers focus in **identifying new trends** and **adapting them to decoration and furniture items**, using appropriate fabrics, materials and finishing's to optimize product design and the materials cost.
- For every product category, it offers items with a **wide range of price points** to reach several customers' budgets.

**Suppliers & Supply chain**

- The Group usually works with **third party suppliers** in which purchases are made on an **order-by-order basis**, instead of fixed term contracts. It also relies on **trusted partners to manufacture products** in accordance with MdM designs.
- MdM contains a broad range of local and international raw materials manufacturers, distributers and resellers.

**Stores & Locations**

- MdM stores are typically located in **high-traffic areas**, divided in **shopping- and city centers** and **rental park areas**.
- **All the stores are leased** through a commercial agreements that typically last for 3 years, with chance of renewal.

- New furniture collection once a year
- New decoration collections twice a year
- 19,1M registered customers; 5M active
- Core segment: B2C
- B2B is secondary

## Key competitive advantages

- **Replicated business model internationally:** MdM has been successfully scaling its operational structures, using a **standardised store rollout process to all new locations**, always through leasing contracts. Due to the convergence of consumer preferences', MdM is able to use the **same collection in every country.**
- **Omnichannel approach:** Strategy that revolves essentially around the combination of stores and e-commerce. It benefits from the **single business format** across **all stores**, the detailed catalogues in physical and online versions and the investment in **e-Commerce platform** (which is a distribution channel, a showroom for the collections/ universes, a preparation for the store visit). MdM is leader in **e-Commerce** for home decoration and furniture **in France**.
- **Affordable price range:** MdM provides a wide range of original items presented in inspirational universes that are **design oriented and eye-catching for customers**, at an **accessible price**. This culminates in a **solid customer conversion rates** and revenue growth/resiliency.

## Product mix[1]

**Decoration**

Decoration was the initial business focus of MdM containing home textiles, table ware, kitchen ware, mirrors, picture frames, etc. with an average selling price (ASP) of 12€.

**Furniture**

The Furniture business evolved fast within MdM. It includes furniture for the bedroom, living room, kitchen, junior furniture and outdoor furniture. (ASP = 226€)

Note: 1) For a more detailed product mix and SWOT analysis refer to slide 64 and 66.

# HISTORICAL FINANCIALS – INCOME STATEMENT

## Strong increase in revenue from international stores and e-Commerce activity makes MdM less dependent on its domestic market, France

MAISONS DU MONDE

| *€ Millions* | A2015 | A2016 | A2017 | A2018 | A2019 | A2020 | CAGR 2015-2020 |
|---|---|---|---|---|---|---|---|
| France - B&M | 399,4 | 470,8 | 516,0 | 522,0 | 529,8 | 443,5 | 2,1% |
| International - B&M | 181,0 | 244,6 | 288,5 | 342,4 | 397,2 | 332,5 | 12,9% |
| France – Online | 72,6 | 95,1 | 112,0 | 129,5 | 145,9 | 208,6 | 23,5% |
| International – Online | 48,4 | 74,7 | 99,3 | 124,4 | 158,1 | 185,0 | 30,8% |
| **Revenue (B2C)** | **701,4** | **885,1** | **1 015,7** | **1 118,2** | **1 231,0** | **1 169,5** | **10,8%** |
| Revenue (B2B) | 22,0 | 24,6 | 21,0 | 24,9 | 29,7 | 45,3 | 15,5% |
| **Revenue Total** | **723,4** | **909,7** | **1 036,8** | **1 143,1** | **1 260,8** | **1 214,8** | **10,9%** |
| Brick & Mortar (B&M) plus attributable B2B | | | | | | | |
| **Total B&M revenue** | **598,7** | **735,2** | **821,1** | **883,6** | **949,3** | **806,0** | **6,1%** |
| Cost of sales | -186,5 | -234,4 | -267,0 | -291,2 | -320,1 | -277,3 | 8,3% |
| **Gross Profit** | **412,2** | **500,8** | **554,2** | **592,4** | **629,3** | **528,7** | **5,1%** |
| *in %* | *68,9%* | *68,1%* | *67,5%* | *67,0%* | *66,3%* | *65,6%* | *-1,0%* |
| Variable external costs | -48,1 | -67,6 | -80,0 | -89,3 | -105,0 | -100,4 | 15,8% |
| Lease expenses | -85,5 | -97,8 | -111,4 | -117,9 | -126,8 | -118,8 | 6,8% |
| **Direct Profit** | 278,7 | 335,3 | 362,8 | 385,2 | 397,5 | 309,4 | **2,1%** |
| *in %* | *46,5%* | *45,6%* | *44,2%* | *43,6%* | *41,9%* | *38,4%* | *-3,8%* |
| e-Commerce plus attributable B2B | | | | | | | |
| **Total Online revenue** | **124,7** | **174,5** | **215,7** | **259,5** | **311,4** | **408,8** | **26,8%** |
| Cost of sales | -38,8 | -55,6 | -70,1 | -85,5 | -105,0 | -140,7 | 29,4% |
| **Gross Profit** | **85,9** | **118,8** | **145,5** | **174,0** | **206,4** | **268,1** | **25,6%** |
| *in %* | *68,9%* | *68,1%* | *67,5%* | *67,0%* | *66,3%* | *65,6%* | *-1,0%* |
| Variable external costs | -28,0 | -38,5 | -46,5 | -53,1 | -63,6 | -64,4 | 18,1% |
| **Direct Profit** | **57,9** | **80,3** | **99,1** | **120,9** | **142,8** | **203,7** | **28,6%** |
| *in %* | *46,4%* | *46,0%* | *45,9%* | *46,6%* | *45,8%* | *49,8%* | *1,4%* |
| General EBITDA | | | | | | | |
| **Total Direct Profit** | **336,5** | **415,7** | **461,9** | **506,1** | **540,3** | **513,2** | **8,8%** |
| Fixed costs (w/o leases) | -248,4 | -296,9 | -326,1 | -360,4 | -389,5 | -374,1 | 8,5% |
| Adjstments to EBITDA | 7,6 | 8,1 | 6,2 | 3,5 | 0,1 | -7,1 | N/A |
| **Total EBITDA** | **95,7** | **126,9** | **142,0** | **149,2** | **150,9** | **132,0** | **6,6%** |
| *EBITDA Margin* | *13,2%* | *13,9%* | *13,7%* | *13,1%* | *12,0%* | *10,9%* | *-3,9%* |

### 1 Revenues

- Following the implementation of the omnichannel strategy and expansion of operations, MdM's total revenue **jumped by 26%, in 2016**, its largest increase.
- MdM's growth results essentially from the continued investments, through new stores, product range expansion, IT systems, improved distribution channels, geographic presence and brand awareness development.
- **54% of MdM's revenues in 2019 were generated in France** (66% in 2015). However, international revenues grew substantially, reducing the group's dependence on its home country activity while tapping new opportunities in Europe.

### 2 Direct Profit and EBITDA

- Even decreasing, MdM's Gross margin was 40,7% higher than the average peer 3). Moreover, due to equal pricing there is no difference in gross margin between segments.
- The **Direct Profit margin for B&M** decrease essentially relates to fast growing Variable external costs e. g., Transportation costs.
- The e-Commerce growth is clearly favorable as its Direct Profit margin (49,8%) was about 30% higher than the B&M one.
- Finally, the total EBITDA margin decrease reflects an industry trend and the impact on Covid-19, especially on B&M.

Note: 1) For the cost analysis, the B2B segment was allocated to Brick and Mortar (B&M Revenue line) and e-Commerce (Online Revenue line)

# HISTORICAL FINANCIALS – BALANCE SHEET

## Healthy financial profile allows MdM to take on further initiatives to develop their business rather actively than passively

MAISONS DU MONDE

| *€ Millions* | | A2015 | A2016 | A2017 | A2018 | A2019 | A2020 | CAGR 2015-2020 |
|---|---|---|---|---|---|---|---|---|
| Cash & cash equivalents | | 76,4 | 60,3 | 100,1 | 57,2 | 94,5 | 437,4 | 41,8% |
| Inventories | 1 | 102,3 | 171,1 | 159,7 | 241,2 | 210,8 | 173,6 | 11,2% |
| Receivables | 2 | 45,9 | 50,1 | 80,5 | 83,5 | 63,4 | 121,0 | 21,4% |
| Other current assets | | 34,1 | 38,9 | 12,0 | 4,3 | 21,3 | 30,9 | -1,9% |
| Non-current assets | 3 | 721,5 | 750,4 | 745,7 | 825,1 | 1 488,3 | 1 477,1 | 15,4% |
| **Total Assets** | | **980,3** | **1 070,8** | **1 098,1** | **1 211,4** | **1 242,8** | **2 240,1** | **18,0%** |
| Share capital | 4 | 5,5 | 146,6 | 146,6 | 146,6 | 146,6 | 146,6 | 92,8% |
| Retained earnings | | -24,2 | 227,4 | 181,2 | 248,9 | 292,8 | 347,4 | |
| **Total Equity** | | **17,4** | **497,0** | **525,0** | **590,6** | **632,5** | **609,6** | **103,7%** |
| Trade payables | 5 | 151,8 | 192,9 | 238,1 | 250,9 | 232,8 | 319,3 | 16,0% |
| Other current liabilities | 6 | 27,4 | 37,6 | 20,2 | 22,5 | 117,4 | 331,3 | 64,6% |
| Non-current liabilities | 6 | 783,7 | 343,3 | 314,7 | 347,4 | 895,7 | 982,2 | 4,6% |
| **Total Liabilities** | | **962,9** | **573,8** | **573,0** | **620,8** | **1 245,9** | **1 632,8** | **11,1%** |

| 7 *€ Millions* | A2015 | A2016 | A2017 | A2018 | A2019 |
|---|---|---|---|---|---|
| Convertible bond | 394,8 (PEC)[2] | - | 173,6 | 177 791 | 182,1 |
| Term loan | 321,7 (HY-Bond) | 247,3 | 49,4 | 49 633 | 49,8 |
| Revolving Credit Facilities | -2,5 | 34,2 | -1,0 | 9 275 | -0,4 |
| Other borrowings | - | - | - | 373 | 0,9 |
| Finance leases | 2,0 | 3,4 | 3,2 | 4 559 | - |
| Deposits and guarantees | 0,4 | 0,4 | 0,4 | 471 | 0,8 |
| Bank overdrafts | 1,6 | 0,6 | 0,5 | 615 | 0,1 |
| Cash and cash equivalents | -76,4 | -60,3 | -100,1 | -57,2 | -94,5 |
| **Net debt** | 642,7 | 225,7 | 125,5 | 185,5 | 138,7 |

Notes: 1) Preffered Equity Certificate

### Major Highlights

1 **Inventories** are mostly responsible for development of current assets from 2015 to 2019. Strong increase in inventories can be observed **along the opening of new stores and acquisitions (Modani 2018)**. Cash is subject to operating, investing and financing activities that were relatively volatile within the last 5 years.

2 **Receivables** from **advances paid to suppliers** and **receivables from suppliers** play the major role in this caption followed by receivables from customers. Although the total amount increased along business expansion, MdM **collects its money promptly.**

3 **Non-current assets grew along expansion** strategy of MdM through Capex into store and omnichannel development. Further, acquisitions add up to this position through **increases in Goodwill and PP&E.**

4 Through **merger** of MdM and its earlier parent entity of MdM, Luxco 3, plus **the IPO of MdM**, the shareholder's equity **increased significantly in 2016**. Afterwards, MdM S.A. was the parent entity.[1)]

5 **Trade payables** and social / tax payables are major positions. Position grew along MdM's business development. However, **MdM uses the strong position towards its suppliers to its advantage.**

6 In 2016, MdM did a **refinancing.** From then on, MdM financed itself through long- and short-term bank debt as well as with capital from a convertible bond. From 2017 onwards, **debt levels remained stable.**

7 Evolution of **net debt mirrors dependence on development** of in **6.** described **steady debt levels** after 2017 and **fluctuations in NWC** (seen through cash).

# HISTORICAL FINANCIALS – COVID-19 IMPACT

MdM has huge exposure to the consequences of COVID-19 which highly affected their performance throughout 2020

MAISONS DU MONDE

## Group's performance in H1 2020

| Operating Activities | 06/2019 | 06/2020 | % |
|---|---|---|---|
| Revenues (1) | 564,0 | 488,9 | -13,3% |
| France | 307,5 | 252,1 | -18,0% |
| International | 256,5 | 236,8 | -7,7% |
| EBITDA (2) | 97,1 | 68,8 | -29,1% |
| EBIT | 30,2 | -7,4 | |
| Net Income | -20,4 | 5,4 | |

1 H1 2020 **store sales declined 54,0%** with entire store **network gradually closed** for approx. 8-wees. Overall sales in H1 2020 were **only down by 13,3%** due to **strong online activity** (+51,0% in Q2/2020), better than expected performance of stores and continuously strong e-Commerce **demand post-lockdown.**

2 Operational expenses were primarily down through less staffing costs, but **overall costs did not decrease as much as revenues** due to higher logistic costs (French docker strike in Q1 2020) and higher D&A because of store openings in 2019.

3 Due to the **freeze of most supply orders**, inventory draw down had a clearly **positive effect on Operating CF** next to deferred rent payments and renegotiations of payments terms with suppliers.

| Add. Figures | 06/2019 | 06/2020 |
|---|---|---|
| Operating CF (3) | 71,5 | 119,3 |
| Investing CF | -35,2 | -24,7 |
| Financing CF (4) | -63,0 | 248,7 |
| FCFF | -11,4 | 42,7 |
| Cash | 29,9 | 437,4 |
| Net debt | 204,2 | 105,8 |

## How MdM dealed and deals with Covid-19

### PRESERVING LIQUIDITY

4 Undertaken measures to **reinforce liquidity:**

- Drew down immediately post-lockdown entirety of its **two revolving credit facilities of each €150 Mn.**
- Arranged French-state guaranteed term loan in the **amount of €150 Mn** at the beginning of June (1-year revolving maturity for 5 years).
- Negotiated **suspension of net debt leverage covenant** for Senior Credit Facility.
- In sum, the Group generated net cash **inflow of €248,7 Mn in H1 2020.**

### OTHER MEASURMENTS

- Group **froze most supply orders** from mid-March to early May to preserve cash and selectively restarted thereafter.
- **Canceled/postponed** significant number of **CAPEX projects** (store openings and IT projects).
- Approx. 85% of staff in Europe placed on temporary unemployment, benefited from governments' support.
- Implementing a substantial OPEX-reduction program focusing on external fee reduction, marketing expenses, cuts and decrease of maintenance costs.
- **Postponement of commercial lease payments** with to the 3rd and 4th quarters for €13,7 Mn.
- **Dividend payment for 2019 was cancelled**

Note:. All information taken out of MdM annual report 2019.

### COSTS OF MEASURMENTS

- In 2020 **approx. €2 Mn spent** on implementing social distancing measures.
- **Costs** for **preserving liquidity**, e. g. interest costs for draw down of credit lines, estimated to be **€1,4 Mn in A2020.**
- Large demand from online channels and the surprisingly strong post-lockdown activity with **less people that spent more money**, inventories were drawn down to sub-optimal levels (especially in furniture).
- Amount of cash not efficient but prepared for further lockdowns.

# INVESTMENT THESIS – DEAL RATIONAL

Screening through all assessed requirements, MdM offers several starting points for remarkable value creation opportunities

## Deal rationale for MdM

| | Rational for the deal | Implications |
|---|---|---|
| 1. Robust financial | ➢ Profitable business model with **strong cash flow generation** and **above average** EBITDA-margin.<br>➢ Lease model allows for **relatively small CAPEX** while international expansion plans are pursued. | ➢ Strong cash flow generation allows MdM to **fund its expansion plans by itself, through leases.** Good profitablitiy margins will let the **value** of MdM **increase through every new store** opening.<br>➢ Strong starting position. |
| 2. New growth opportunities | ➢ **Successful internationalization and acquisition** strategy in Europe and North America.<br>➢ **Expanding customer focus** and customer outreach through B2B and Franchise model. | ➢ **Past growth opportunities** were identified and **neatly executed.**<br>➢ The market of furniture and decoration is not on peak and MdM has **huge untapped potential** in different geographies and customer segment. |
| 3. Experienced people | ➢ **Experienced C-management** in retail business, web business, finance, controlling.<br>➢ Successful **replacement of CFO** in 2019. | ➢ Further growth opportunities will **support the management** to continue their already started path.<br>➢ Strong management that will take **lead during the investment.** |
| 4. Omnichannel approach | ➢ Offer in-store, online, catalogue experience.<br>➢ **3 channels connected**, easy delivery and fast purchase experience for their customers.<br>➢ Served as a **buffer in Covid-19 lockdowns.** | ➢ **Online activity** is expected to **increase significantly.**<br>➢ Thus, a strong **omnichannel offering** where **different channels are combined** is essential, to add important value to customer experience so that sales are generated. |
| 5. ESG / B2B | ➢ Focus on ESG and CSR brought MdM **a reference position in the industry.**<br>➢ Leverage the B2B segment, increase the number of transactions and value per project. | ➢ **Customer movement** is strong towards more sustainability and enironmentally conscious companies.<br>➢ Having a strong base on which MdM can further build on is **key regarding its competitors.** |

# INVESTMENT THESIS – VALUE CREATION STRATEGIES

Strategies that focus on international expansion through all sales channels, enable MdM to accelerate on its previous growth

## Brick & Mortar

➢ Main goal:

**Expand MdM's presence in existing and new countries through store openings and an integrated omnichannel**

- **International expansion** of store network is **proven strategy** of MdM to strengthen **and increase market share, exploit growth opportunities** and improve its competitive positioning.
- **Diversify operations geographically** and raise brand awareness for omnichannel offer.
- Store expansion in countries in which MdM is already present and **new store openings in Canada** (Ontario and Quebec), to enter attractive Canadian furniture market with cultural similarities to France.

## E-Commerce

➢ Main goal:

**Become an e-Commerce leader in existing and new countries and improve a strong competitive positioning**

- Enhance omnichannel approach through online services and thus, **increase overall profitability through cost-effective e-Commerce strategy.**
- E-Commerce success is **connected to brand awareness** generated **through wide store network.**
- Further **increase of traffic on our website** and engagement rates through integration of services.
- Simultaneously, **launch e-Commerce** platform in **Canada** and in promising **Polish market** by using existing logistic infrastructure (Germany and USA).

## Diversification through Menina Design Group

➢ Main goal:

**Diversify MdM's customer base, product offering and international presence through strategic acquisitions**

- Offer broader variety of **high quality, unique and high margin products** in furniture segment in new locations, **widening MdM's customer base.**
- Acquisition of Menina Design would help MdM manifest and **rise its market position as a sophisticated furniture and decoration retailer.**
- **Synergies** through use of store network, logistic infrastructure and geographical locations.
- Increasing overall profitability through high margin products of Menina Design.

## Supplementary value creation strategies

### B2B - Business

➢ Main goal:

**Establish MdM as a B2B brand and expand further growth opportunities**

- **Increase addressable market** through B2B customers that represent market with high growth opportunities and relatively less competition.
- **Boost operational efficiency** using existing infrastructure and online possibilities.

### Environmental, Social and Governance

➢ Main goal:

**Improve competitive positioning through rising ESG awareness of stakeholders**

- **ESG will affect success** and profitability of business **in the long-term.**
- Through inclusion of all stakeholders, MdM should work on every step in their value creation process to comply with ESG standards to be an ESG leader.

International | Market share | Growth | Stores | Online | Addressable market | Businesses | ESG | Stakeholder | Leader

# INVESTMENT THESIS – FUTURE COVID-19 PLAN

Covid-19 is harmful for all physical retail businesses, however, MdM has chance to come out of this with a stronger competitive position

## Impact of COVID-19 on furniture industry [1]

| Dimension | Disruption through a pandemic |
|---|---|
| Scope | Impacts everyone – workforce, suppliers, manufacturers, logistic providers, customers, competitors. |
| Acceleration | Spreads fast across geographies with severe cascading effects for companies with physical stores. |
| Period | Duration is unknown and brings uncertainty. Can last up to several months or even several years. |
| Workforce shortage | May result in quick increase of shortage (workforce) e. g. impact on supply, logistics, store operations. |
| Coordination with external parties | High degree of coordination necessary with public, government, law enforcement, healthauthorities. |
| Logistics and Infrastructure | Constrains availability of public and business infrastructure if severity of event increases (esp. across borders) |

Notes: 1) Ernst & Young, 2020.

## Strategy looking forward

- **Continue international expansion** through a structured store rollout.
- Replicate business model in **countries with similar trends**
- **Online sales** will become more **important** in the furniture industry
- Continue creating omnichannel experience is key to stay ahead.
- **Diversify** and strengthen **the product portfolio and customer base** through the acquisition of Menina Design for a stronger business model.
- **Expand addressable market** through **B2B** customers working in a high potential market. **Leveraging existing structure** for operational efficiency.
- **Defend position** as a leader in environmental / social responsibility and **focus on product/supply chain** + safety for customers and employees

## COVID-19 adjustments

- Through a well thought internationalization strategy, MdM can still **diversify the regional risk and expand to new markets.**
- As seen, during the lockdowns, the online segments is a protection against COVID risk.
- An easy/intuitive online store with technology to help customers choose the right product, will help putting more weight on online sales.
- Covid-19 has shown that companies **with very specific service and product offering** can have added **risk in such situations.**
- Diversified product offerings also in the high-price range could prevent such a development and widens the customer base.
- Through an intensified **focus on B2B business**, MdM **increases its chances to recover faster** and be less dependent on individual customers.
- Professional **investors expect** that Covid-19 could be a **turning point in ESG investing.**
- Views on **risks like climate change or biodiversity loss can be shifted** further increasing awareness.

# BUSINESS PLAN – GENERAL OVERVIEW - FINANCIALS

## Despite the decrease in Gross margin EBITDA is expected to increase as Fixed Costs will be better diluted due to Online revenue growth

| *€ Millions* | A2015 | A2016 | A2017 | A2018 | A2019 | A2020 | CAGR 2015-2020 | E2021 | E2022 | E2023 | E2024 | E2025 | E2026 | CAGR 2020-2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | 723,4 | 909,7 | 1 036,8 | 1 143,1 | 1 260,8 | 1 214,8 | 10,9% | 1 376,3 | 1 531,4 | 1 716,2 | 1 957,7 | 2 126,5 | 2 261,7 | 10,9% |
| Brick & Mortar (B&M) plus attributable B2B | | | | | | | | | | | | | | |
| **Total B&M revenue** | **598,7** | **735,2** | **821,1** | **883,6** | **949,3** | **806,0** | **6,1%** | **946,6** | **1 038,9** | **1 154,3** | **1 320,1** | **1 403,4** | **1 435,0** | **10,1%** |
| Cost of sales | -186,5 | -234,4 | -267,0 | -291,2 | -320,1 | -277,3 | 8,3% | -332,8 | -373,2 | -423,7 | -495,1 | -537,8 | -561,9 | 12,5% |
| **Gross Profit** | **412,2** | **500,8** | **554,2** | **592,4** | **629,3** | **528,7** | **5,1%** | **613,8** | **665,7** | **730,6** | **825,0** | **865,5** | **873,0** | **8,7%** |
| *In %* | *68,9%* | *68,1%* | *67,5%* | *67,0%* | *66,3%* | *65,6%* | *-1,0%* | *64,8%* | *64,1%* | *63,3%* | *62,5%* | *61,7%* | *60,8%* | **-1,2%** |
| Variable external cost | -48,1 | -67,6 | -80,0 | -89,3 | -105,0 | -100,4 | 15,8% | -108,5 | -116,3 | -124,7 | -134,0 | -143,5 | -160,6 | 8,1% |
| Lease expenses | -85,5 | -97,8 | -111,4 | -117,9 | -126,8 | -118,8 | 6,8% | -121,7 | -134,5 | -149,0 | -162,8 | -172,5 | -176,9 | 6,9% |
| **Direct Profit** | **278,7** | **335,3** | **362,8** | **385,2** | **397,5** | **309,4** | **2,1%** | **383,6** | **414,9** | **456,8** | **528,2** | **549,6** | **535,5** | **9,6%** |
| *In %* | *46,5%* | *45,6%* | *44,2%* | *43,6%* | *41,9%* | *38,4%* | *-3,8%* | *40,5%* | *39,9%* | *39,6%* | *40,0%* | *39,2%* | *37,3%* | **-0,5%** |
| e-Commerce plus attributable B2B | | | | | | | | | | | | | | |
| **Total Online revenue** | **124,7** | **174,5** | **215,7** | **259,5** | **311,4** | **408,8** | **26,8%** | **429,6** | **492,6** | **561,9** | **637,6** | **723,1** | **826,7** | **12,5%** |
| Cost of sales | -38,8 | -55,6 | -70,1 | -85,5 | -105,0 | -140,7 | 29,4% | -151,1 | -177,0 | -206,3 | -239,2 | -277,1 | -323,7 | 14,9% |
| **Gross Profit** | **85,9** | **118,8** | **145,5** | **174,0** | **206,4** | **268,1** | **25,6%** | **278,6** | **315,6** | **355,6** | **398,5** | **446,0** | **503,0** | **11,1%** |
| *in %* | *68,9%* | *68,1%* | *67,5%* | *67,0%* | *66,3%* | *65,6%* | *-1,0%* | *64,8%* | *64,1%* | *63,3%* | *62,5%* | *61,7%* | *60,8%* | -1,2% |
| Variable external cost | -28,0 | -38,5 | -46,5 | -53,1 | -63,6 | -64,4 | 18,1% | -68,5 | -73,9 | -79,5 | -85,4 | -92,2 | -92,6 | 6,2% |
| **Direct Profit** | **57,9** | **80,3** | **99,1** | **120,9** | **142,8** | **203,7** | **28,6%** | **210,1** | **241,7** | **276,1** | **313,1** | **353,8** | **410,4** | **12,4%** |
| *in %* | *46,4%* | *46,0%* | *45,9%* | *46,6%* | *45,8%* | *49,8%* | *1,4%* | *48,9%* | *49,1%* | *49,1%* | *49,1%* | *48,9%* | *49,6%* | -0,1% |
| Total EBITDA | | | | | | | | | | | | | | |
| Fixed cost (w/o lease) | -248,4 | -296,9 | -326,1 | -360,4 | -389,5 | -374,1 | 8,5% | -401,0 | -421,8 | -452,8 | -492,5 | -519,5 | -551,7 | 6,7% |
| Adjustments | 7,6 | 8,1 | 6,2 | 3,5 | 0,1 | -7,1 | | | | | | | | |
| **Total adjusted EBITDA** | **95,7** | **126,9** | **142,0** | **149,2** | **150,9** | **132,0** | **6,6%** | **192,7** | **234,8** | **280,1** | **348,7** | **383,9** | **394,2** | **20,0%** |
| *EBITDA Margin* | *13,2%* | *13,9%* | *13,7%* | *13,1%* | *12,0%* | *10,9%* | *-3,9%* | *14,0%* | *15,3%* | *16,3%* | *17,8%* | *18,1%* | *17,4%* | *8,2%* |

- **Revenues**: are expected to be mostly influenced by the Online segment
- **B2B**: The smallest but fastest growing segment. Its expected to account for **7,1% of revenue** by 2026 (3,7% in 2020) by tapping the hospitality industry in France, namely hotels.

- **Brick & Mortar**: by 2026, it will be **63,4% of revenues** (66,4% in 2020); essentially growing through the increased number of stores.
- **e-Commerce**: with **36,6% of revenue** by 2026 (33,7% by 2020) it will double in size due to the larger user base.

- **Cost of sales:** are expected to grow faster than revenue due to increased pressure from suppliers and sustainability concerns.
- **Gross profit:** Will continue to increase as the increase in revenues overcomes the effect of decrease in cost of sales.

- **Fixed Costs:** will be better diluted through increases in online revenue.
- **Lease expenses:** its slower growth will result in its ratio to B&M revenue be 12,6% in 2026 (13,4% in 2019).

**Legend:** 2026 - Exit year

# BUSINESS PLAN – GENERAL OVERVIEW - FINANCIALS

## Through operational improvements and NWC stabilization MdM will be able to improve its FCFF generation yearly until exit

MAISONS DU MONDE

### Free Cash Flow to Firm plan

| *€ Millions* | A2015 | A2016 | A2017 | A2018 | A2019 | A2020 | CAGR 2015-2020 | E2021 | E2022 | E2023 | E2024 | E2025 | E2026 | CAGR 2020-2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA Brick & Mortar | 78,9 | 100,8 | 107,6 | 106,3 | 99,7 | 48,1 | -9,4% | 101,8 | 122,1 | 145,0 | 188,3 | 198,1 | 171,3 | 23,6% |
| EBITDA e-Commerce | 16,8 | 26,0 | 34,4 | 43,0 | 51,2 | 83,9 | 37,9% | 90,9 | 112,7 | 135,1 | 160,4 | 185,8 | 222,9 | 17,7% |
| EBITDA - Menina Design | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | | 2,5 | 2,9 | 3,4 | 4,0 | 4,7 | 5,5 | N/A |
| **Total Adjusted EBITDA** | **95,7** | **126,9** | **142,0** | **149,2** | **150,9** | **132,0** | **6,6%** | **195,2** | **237,8** | **283,6** | **352,8** | **388,6** | **399,8** | **20,3%** |
| *EBITDA Margin* | *13,2%* | *13,9%* | *13,7%* | *13,1%* | *12,0%* | *10,9%* | *-3,9%* | *14,2%* | *15,5%* | *16,5%* | *18,0%* | *18,3%* | *17,7%* | *8,4%* |
| D&A | -25,4 | -29,7 | -32,0 | -36,4 | -38,9 | -20,6 | -4,1% | -33,6 | -34,9 | -40,4 | -43,6 | -47,9 | -52,2 | 16,7% |
| **Gross CF** | **71,5** | **93,4** | **104,1** | **110,4** | **112,3** | **93,7** | **5,5%** | **139,6** | **167,9** | **199,8** | **246,3** | **271,3** | **280,1** | **20,0%** |
| - Δ NWC | 3,6 | -31,9 | 26,2 | -71,7 | 32,3 | 66,2 | 78,7% | -15,7 | -2,5 | -3,2 | -4,2 | -5,2 | -6,0 | N/A |
| - Capex | -43,9 | -52,0 | -49,4 | -45,8 | -60,9 | -26,2 | -9,8% | -35,1 | -64,4 | -74,6 | -80,1 | -70,6 | -53,8 | 12,8% |
| - Δ Goodwill | 0,0 | 0,0 | 0,0 | -47,3 | -6,8 | -0,2 | N/A | -27,5 | | | | | | |
| - Δ Intangibles | -5,0 | -1,8 | -6,2 | -17,2 | 20,7 | -3,0 | -10,2% | | | | | | | |
| **Free Cash Flow to Firm** | **26,2** | **7,7** | **74,7** | **-71,6** | **97,7** | **130,5** | **37,9%** | **61,2** | **101,0** | **122,1** | **162,1** | **195,6** | **220,4** | **9,1%** |
| *As % of EBITDA* | *27,4%* | *6,1%* | *52,6%* | *-48,0%* | *64,8%* | *98,9%* | *29,3%* | *31,8%* | *43,0%* | *43,6%* | *46,5%* | *50,9%* | *55,9%* | *-9,1%* |

### EBITDA

- **Adjusted EBITDA:** is forecasted to grow at a faster pace due to the recovery after Covid-19 and the margin increase on the e-Commerce segment. The total EBITDA margin will increase from 10,9% to 17,7% reflects the higher weight of e-Commerce on the total MdM revenue.

- **Brick & Mortar EBITDA:** the sector's revenue will yield a relatively constant **EBITDA margin averaging 12,6%.**
- **e-Commerce EBITDA:** the margin is expected to increase from **20,5%** in 2020 **to 27,0% in 2026**. This is mainly due to the economies of scale achieved on the fixed costs and investments made, namely through the increase in the conversion rate.

### FCFF

- **NWC:** stabilization is resulting in cash outflows. However, it will provide certainty to efficiently leverage MdM.
- **CAPEX:** During this period capex will **average 3,7% of revenue** with a **maximum of 4,6%** in 2023. It includes investments in new stores, IT systems (basis for online growth) and both expansion projects, i.e. Canada and Poland.
- **Goodwill:** has a relevant value in 2021 which relates to the **acquisition of Menina Design.**
- **FCFF:** is expected to grow at a slower pace than before. It will reflect **55,9% of EBITDA** in 2026, compared to 64,8% in 2019.

Note: The FCFF in this table does not include some effects, namely the tax shield resulting from the interest payments in the new capital structure.

**Legend:** 2026 - Exit year

# BUSINESS PLAN – CAPITAL STRUCTURE | SOURCES & USES

## Chosen capital structure represents highest debt level possible withouth breaching the Cash Cover covenant in investment period year

## Capital Structure Sensitivities

| | Structure 1 | Structure 2 | Structure 3 | Structure 4 | Structure 5 |
|---|---|---|---|---|---|
| Term Loan A | 0,8x | 1,2x | 1,0x | 0,5x | 0,92x |
| Term Loan B | 0,65x | 0,75x | 1,2x | 0,5x | 0,5x |
| Subordinate Note | 1,5x | 1,5x | 1,5x | 1,0x | 0,6x |
| Mezzanine | 1,0x | 1,0x | 1,3x | 1,0x | 1,5x |
| Equity Contribution | 5,4x | 4,9x | 4,3x | 6,3x | 5,8x |
| Total Sources of funds | 9,3x | 9,3x | 9,3x | 9,3x | 9,3x |

- Out of 5 possible capital structures, **Structure 5 is selected.**
- All 5 would deliver IRR >18,0% and Money Multiples >2,5x. However, **only 4 and 5 are compliant with the cash cover** covenant, showing that structure 5 effectively maximizes debt for the proposed business plan.
- The breaches mostly relate to the ambitious expansion plan in all business segments, which limits the ability to take on debt.

- **Structure 5** predicts a leverage multiple of 3,5x. It allows the combination of competitive returns without covenant breaches.
- **Lease liabilities** are not refunded at entry. Hence, when considered the multiple of debt rises to **6,6x**. For comparison, in 2019, about 60% of US PE deals used less than 7x leverage [1].

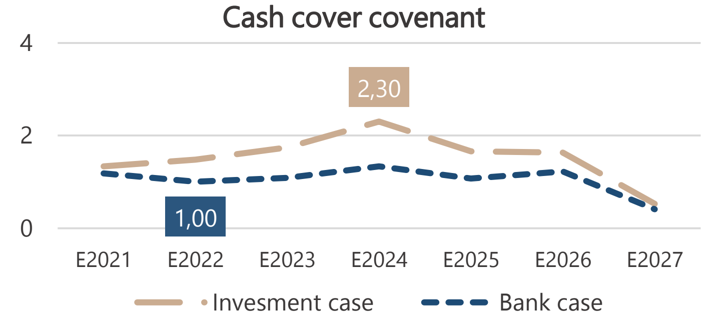
| Structure | Leverage (w/o leases) | Leverage (w\ leases) | MM | IRR |
|---|---|---|---|---|
| 1 | 4,0x | 7,0x | 2,9x | 19,4% |
| 2 | 4,5x | 7,5x | 3,2x | 21,2% |
| 3 | 5,0x | 8,0x | 3,4x | 22,6% |
| 4 | 3,0x | 6,0x | 2,7x | 18,2% |
| 5 | 3,5x | 6,6x | 2,8x | 18,6% |

Note: 1) Source: (Bain & Company 2020)

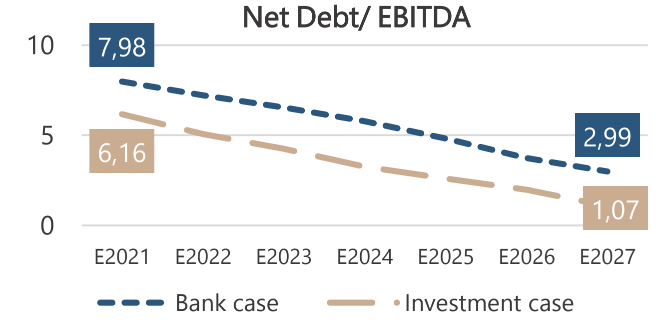
## Leases

- As MdM leases all its stores the present value of the outstanding lease expenses are a large liability.
- If leases weren't considered, MdM's Net Debt/EBITDA would be close to zero and Net Debt would be negative in 2025 and 2026, due to the high amount of cash.
- However, not only are leases debt, but they are also a senior tranch, thus also limiting the amount of further senior debt.

## Debt Covenants – Bank and Investment case




- **Bank case:** on average it is 22% lower than the Investment scenario (28,4% on lowest point).
- Structure 5, at its lowest point with the bank case has a cash cover of 1,001x.
- **Lowest headroom on investment case is 33% in 2022.**

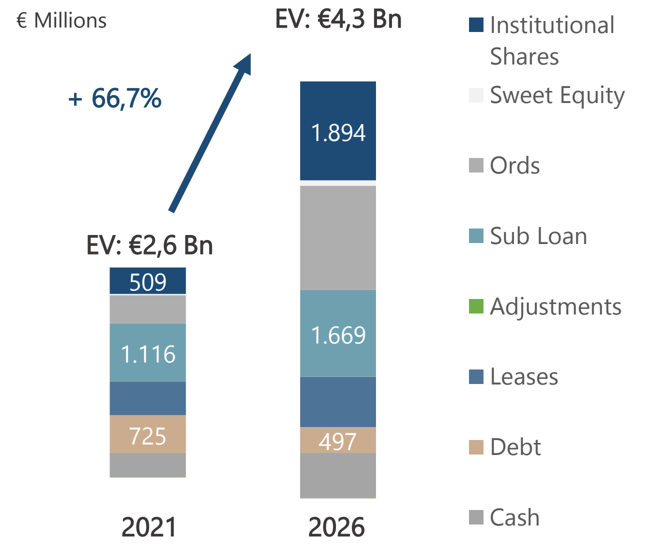



- Even considering the leases, Net Debt/ EBITDA covenant will most likely not be a significant issue as MdM has a **solid cash position** (30,9% of total debt in 2020).
- Nonetheless, the lowest headroom between cases is 29,5%.

# EXIT AND RETURNS – LBO MODEL

## MdM's EV is forecasted to grow by 66,7%. This will provide IRRs of 19,5% and 46,1% for fund and management, respectively

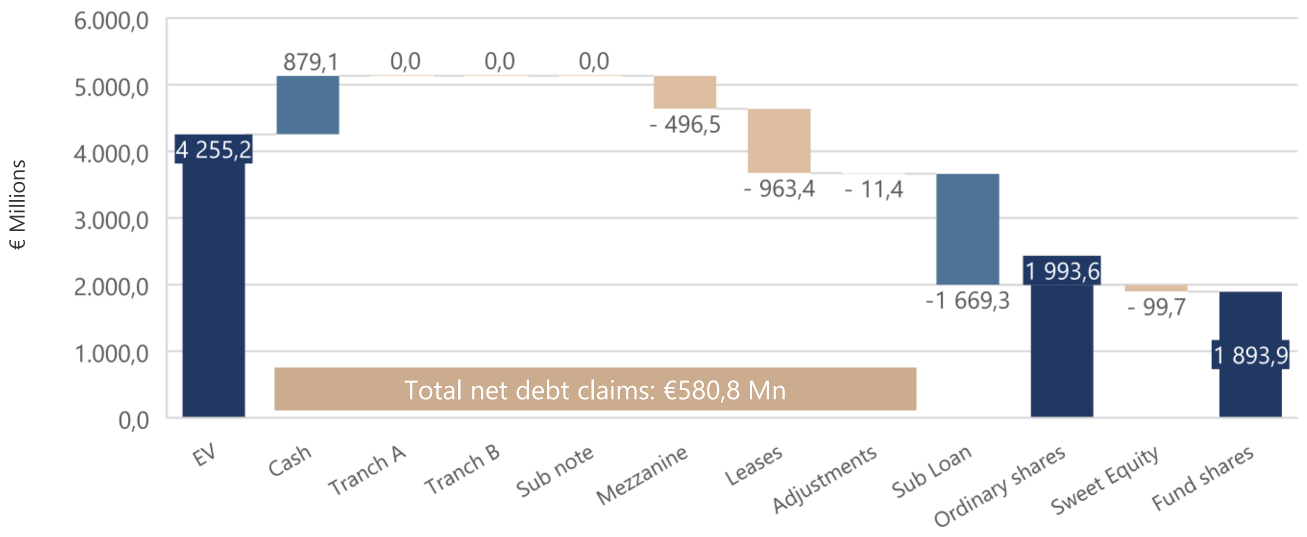
### Evolution of EV




- **Enterprise value:** MdM's valuation increase is essentially due to **operational improvements**, namely in EBITDA. Multiple arbitrage was not considered.
- **Equity (in %):** is forecasted to change from **64,7%** to **86,1%** by exit. This result depends on MdM's ability to withstand the injected leverage, as demonstrated in the capital structure.

Note: Both EVs are estimations at the given year, in the event of selling as run-rate EBITDA is used.

### Exit waterfall




| In % of EV at exit | Net Debt: 13,7% | Sub Loan: 39,2% | Sweet Equity: 2,4% | Fund shares: 44,8% |
|---|---|---|---|---|

### Institutional and Management Return

| Exit year | E2026 |
|---|---|
| Entry Equity | 10,3 |
| Exit Equity | 99,8 |
| **Management Returns (IRR)** | **46,1%** |
| **Management Returns (MM)** | **9,7x** |
| Entry Equity | 1 224,9 |
| Exit Equity | 3 563,2 |
| **Institutional Returns (IRR)** | **19,5%** |
| **Institutional Returns (MM)** | **2,9x** |

- **Management:** will receive an MM of 9,7x as a reward for the large investment required.
- **Fund returns:** the 2,9x total MM is strong as PE deals in consumer related sectors averaged 2,0x between 2010-18 1).

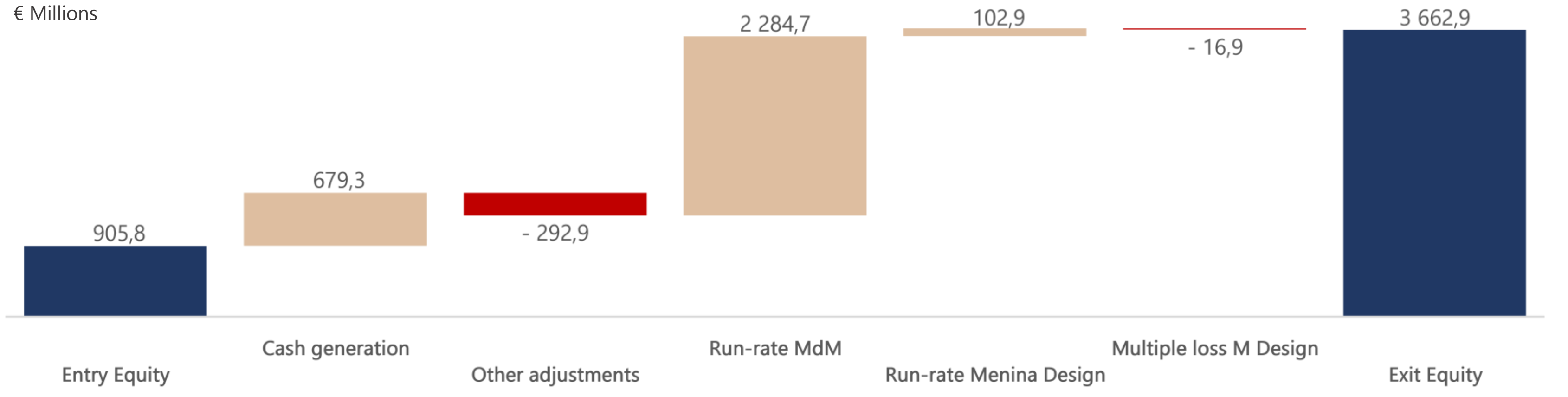
1) Source: Global Private Equity Report 2020, Bain & Company

- **Leases:** are a very particular aspect of a PE deal in a retail industry. In MdM's case these are forecasted to grow by 49,4% to a value of €963,4 Mn by 2026. However, their weight on EV is expected to decrease from 25,3% in 2021 to 22,8% in 2026.
- **Debt structure and repayment:** by 2026, since both senior debt lines and the subordinated note will have been repaid in 2024 and 2025, only the Mezzanine tranche will be outstanding representing 11,7% of EV, respectively.
- **Exit:** planned exit year is 2026 after a holding period of 6 years, with an exit run-rate EBITDA of about €481,1 Mn and an EBITDA multiple of 8,8x leading to an EV of €4.255 Mn.

# EXIT AND RETURNS – VALUE CREATION BREAKDOWN

## Growth in EBITDA margin due to strong e-Commerce projections and organic growth are mainly responsible for strong value creation

### Value creation breakdown




| Return on Entry Equity | 0,7x | -0,2x | 2,5x | 0,1x | -0,02x | 3,2x |
|---|---|---|---|---|---|---|

- **Total value creation:** depends mostly on the **Business Plan's success** MdM's EBITDA growth will account for **80,0% of the generated returns**.
- **Cash Generation:** is a relatively small portion of value with 17,5% since the amount of debt at entry was low due to the amount of Leases.
- **Other adjustments:** account for **-10,3% of the value creation** of which 102,8% are **Lease liabilities**. Even if directly reducing Equity, this form of debt results in a much lighter capital intensity ratio, thus allowing an aggressive expansion strategy and creating value by reducing the required capex of opening stores.

### Segmentation of Run-rate EBITDA growth

| Maisons du Monde | Value created | Return on Entry Equity | % of Total Value created |
|---|---|---|---|
| Revenue | 1 006,3 | 1,1 | 35,2% |
| EBITDA Margin | 1 313,2 | 1,4 | 46,0% |
| Run-rate adjustment | -34,8 | 0,0 | -1,2% |
| **Menina Design** | | | |
| Revenue | 63,7 | 0,07 | 2,2% |
| EBITDA Margin | 5,2 | 0,01 | 0,2% |
| Run-rate adjustment | 34,2 | 0,04 | 1,2% |
| Multiple loss | -16,9 | -0,02 | -0,6% |

- **Maisons du Monde's value creation:**
  - **Revenue growth:** about 70% of this effect results from the **increase in e-Commerce revenue.** Moreover, Online revenue has a much higher impact on EBITDA with a margin 3x larger.
  - **EBITDA margin:** about 62% of this effect relates to the B&M margin increase from 6,0% to 11,% by exit.
  - **Run-rate adjustment:** on exit MdM's ratio of Run-rate/Actual EBITDA will be lower than entry, thus destroying value.
- **Menina Design's value creation:**
  - **Revenue growth:** The extra support MdM can give will allow Menina Design's revenues to increase by 6,3x.
  - **Run-rate adjustmet:** the **strong growth potential** is expected to allow the sell price to create value as the absolute difference between Run-rate and EBITDA will increase from entry to exit.
  - **Multiple loss:** As the acquisition will be done at a **premium** (10,6x EV/EBITDA vs 8,85x for MdM) a loss is expected.

# EXIT AND RETURNS – EXIT OPTIONS AND POTENTIAL BUYERS

Exit through secondary sale is the preferred exit strategies. However, interest across all potential exit strategies is possible

MAISONS DU MONDE

| Potential options | Upsides | Downsides | Potential buyers | Result |
|---|---|---|---|---|
| IPO | ➢ Through IPO, MdM will be available for **broader investor range**, eligible for **ESG indexes** and **less dependent on single investors**. With good market conditions and strong strategy, IPO is **likely to generate the highest returns**.<br>➢ **Technological potential** of MdM through online channels and Rhinov could be strong **driver for stock price**, as it is for Wayfair or other pure online players.<br>➢ Future capital increases easier and faster. | ➢ Would most certainly be the most **expensive and longest exit strategy** with the most involved parties.<br>➢ Process may be distracting to the management team regarding operating the business.<br>➢ Uncertainty of capital markets is a non-diversifiable risk that imposes threat of choosing wrong timing for an IPO.<br>➢ Clean exit is less likely, possibility of lock-up agreement. | EURONEXT | 3/5 |
| Secondary Sale | ➢ Usually, the **fastest, easiest and cleaner** exit option.<br>➢ MdM might be an attractive target for a fund or joint venture of funds that look for a company with strong cash flows and further growth opportunities.<br>➢ Secondary PE activity is at a high level due to the lack of good targets and the big amount of dry powder. ($1,5 Tn.[1]) | ➢ The **expected deal size** of MdM at the exit year of 2026 might be **too big for only one potential buyer.**<br>➢ Additionally, strong interest from strategic buyers might lead to higher entry multiples than the interested PE's would be willing to pay. | KKR<br>The Carlyle Group – Global Alternative Asset Management<br>BainCapital<br>3i | 4/5 |
| Strategic Sale | ➢ Industry has several big players in which MdM's business model would fit perfectly.<br>➢ Generally, **strategic sale delivers higher EBITDA multiples**.<br>➢ Potential **synergies** could attract strategic buyers.<br>➢ Potential buyer could be strong player from Asia/America trying to buy **exposure into European Furniture industry** or strong B&M player without capable e-Commerce channel. | ➢ Main challenge is to find a buyer that has the financial resources to buy MdM.<br>➢ Additionally, due to MdM's huge store network in Europe, every possible transaction will most likely be subjected to **approval by Competition and Markets authority**.<br>➢ Moreover, cooperation of management is unlikely.<br>➢ Strategic sales are often paid in stock instead of cash. | Ashley HomeStore<br>IKEA<br>XXXLutz | 2/5 |

Notes: 1) Source: Pitchbook, 2020, "What is dry powder in private equity?.

# INVESTMENT COMMITTEE PAPER

## PRIVATE EQUITY CHALLENGE

JANUARY 2021
MSc in Finance

INDIVIDUAL CONTRIBUTION

**Investment Thesis**


Michael Disch
40574

**Mentorship**
Profª. Inês Lopo de Carvalho


NOVA SCHOOL OF BUSINESS & ECONOMICS

# INVESTMENT THESIS – BRICK AND MORTAR (B&M) STRATEGY

Europe and North America offer significant growth opportunities that would help strengthen and expand MdM's competitive position

MAISONS DU MONDE

## Brick & Mortar Status quo

MdM's strategic foucs lays on Europe, especially France. Tapped into the US market in 2018.

- Store network **of 366 stores as of 2020.**
- **55% of B&M revenue** comes from operations **in France**, **45%** are **generated internationally.**
- **North America** offers high growth potential.

## Goals

- **Unlock new markets** and increase customer base for **growth in revenues, network and reputation**.
- **Diversify sales** split and **lower dependence** on the domestic market i.e. France.
- **Strengthening competitive position** and oppose competitors extending international presence (especially rising Pure-online players)

## Execution and Implementation

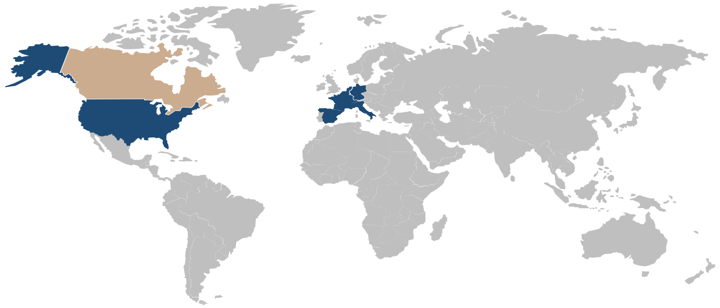
- **Continuation:** Expansion through store openings is **success proven** and shall be continued.
- **Smart choices:** Use and leverage existing MdM infrastructure to open new stores in countries where MdM is already present or that are close.
- **Resource commitment:** The right timing of opening new stores is key in uncertain times.

## Current geographies

### Europe and USA

**European and US-American furniture and decoration market offer untapped potential in MdM's segment.**

- MdM's **successful previous international expansion** shall be continued in countries with strong economies and further growth potential.
- **Diversification of sales origin** to become less dependent on domestic market, France.
- Especially, the USA, Germany, France, Italy, Spain offer further growth potential for MdM by developing the store network nation- or statewide.
- Store network **plays vital role in MdM's reputation** and their success in the e-Commerce segment.
- **Defend and increase market share** through further enlargement of their store network.



### Expected results (by 2026)

- **€24,4 Mn in revenue** and **€1,5 Mn EBITDA** in Canada by 2026.
- **€603,5 Mn in revenue and €121,7 EBITDA** from countries MdM is already present.
- Opening of 159 new stores until 2026.

## New geographies

### Canada

**Expansion to Canada is next logical step to gain market share and reputation in North America after entry to US.**

- Given MdM's domestic market, **penetration in French part of Canada** can be comparatively easy due to lower cultural barriers → Openings in Ontario and Quebec.
- **Canadians mostly "hybrid shop"**; (browse, order online, pick-up in stores) benefits MdM's omnichannel. 14% of online purchasers shop furniture and decoration.
- Trend for **more personalized and sustainable products is** exceptionally strong in Canada.
- **50%** of consumers are willing to **buy an unfamiliar brand** if the price and quality is right.[1)]
- Biggest single competitor will be Toronto-based **Leon's furniture with 156 stores** in Ontario and Quebec alone.[2)]

Notes: 1) Santandertrade, 2020. ; 2) Statista, 2020, „Furniture market in Canada"

# INVESTMENT THESIS – e-COMMERCE STRATEGY

## Lean cost structure associated with e-Commerce makes this channel less risky to expand in existing and enter in new countries

MAISONS DU MONDE

### E-Commerce Status quo

Online platform is useful to **test the performance of new locations** before committing to the capex relative to the physical presence.

- In 2019, **24,7%** of revenue came from the **website.**
- Online platform available in all geographies where it operates stores, together with Netherlands, Austria and United Kingdom.

### Goals

- 36% of total revenue from e-Commerce & slim cost structure.
- Increase **brand awareness** by having a stronger online presence and strengthen reputation as a lifestyle partner.
- Outplay the competitors and reinforce the **market leader** position.

### Execution and Implementation

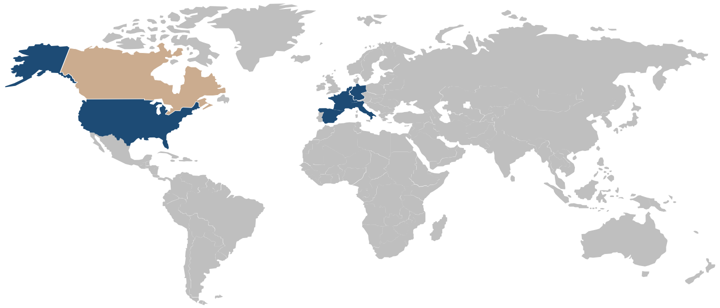
- Strong **digital strategy** to attract website visitors.
- Capitalize on **analytics and advertising** to personalize online experience of each visitor, thus increasing the yearly visitors of the website.
- Further integrate **Rhinov** business and use the augmented reality feature to **increase conversion rate.**

### Current geographies

#### Europe and USA

**MdM online presence is supported by physical segment. Countries where online platform is available are strategically thought to be easily integrated in the supply chain.**

- **Strategy forward:**
  - **Diversify the revenue stream** and decrease French dependence
  - Get **easy exposure to new markets** and test their performance.
  - Help customers decision making process, so that in-store purchases can be prepared online.
  - Allow customers to buy online and collect their order in store.
  - **Keep up with market trends** at the pure online players level in the e-Commerce field.



#### **Expected results** (by 2026)

- **Canada:** Revenue **€58,1 Mn,** EBITDA **€11,9 Mn.**
- **Poland:** Revenue **€41,4 Mn**, EBITDA **€8,5 Mn.**
- **€318,5 Mn** additional revenue, **€118,6 Mn** in EBITDA generated online upon 2026 from Europe and USA.
- **EBITDA margin (27%)** at exit **more as twice of that of B&M.**

### New geographies

#### Poland

- **Strategic geographic location** allows to leverage the current supply chain without significant incremental costs.
- Opportunity to test **MdM business model in east economies** characterized by a smaller purchase power.
- Around half of the population is a regular user of e-Commerce platforms. [1]

#### Canada

- Online channel is a must to complement a Brick & Mortar strategy. Stores will act as a marketing tool attracting visitors to the website.
- Capitalize on US's large distribution chain.

Notes: 1) Santandertrade, 2020, „Country Information Poland".

# INVESTMENT THESIS – e-Commerce strategy

## The main goal of the strategy is to reinforce growth of number of users by building brand awareness and increasing conversion rate

### Digital Marketing Strategy

**Reach**

**Building brand awareness**, through:
- Use **social networks** (Instagram and Pinterest), to advertise MdM's website, increasing traffic;
- Send **free catalogues** to potential customers.

**Interact**

**Encourage continued participation**, by:
- Ensure **website design and technical optimization**
- Communicate with customers by providing **tips and design best-practices** through social networks

**Convert**

**Increase conversion rate of visiting customers to sales** by:
- Using **Rhinov**, to allow for Augmented reality and enhanced visualization of products and design ideas
- Ensure **easiness of purchases**, namely by optimizing payments, click-and-collect and free shipping

**Engage**

**Encourage relationship with previous buyers**, through:
- **Loyalty programs**, namely to customers refurnishing or starting new homes e.g. prizing purchases above a threshold;
- Ensure efficient **collection and use of data** to continue designing according to trends; Allow customers to provide product ideas;
- Take advantage of the website to improve the **customer support.**

The retail industry shift towards an omnichannel approach creates an opportunity for Maisons du Monde. As a well positioned player in the online market, MdM has the opportunity to become a strong player in this channel, through a **customer centered approach to digital strategy**. The key targets of these strategy are to enhance the growth rate of the two key drivers of e-Commerce: the **number of visitors** and the **conversion rate**.

### Key strategic lever: Rhinov

In 2019, Maisons du Monde acquired a majority stake (70,4%) of a **3D augmented reality software** start-up named **Rhinov.** The deal also holds the option to buy the remaining stake in the future.

RHINOV

#### Service provided

Rhinov's service allows customers to **see a finalized design for the room they are trying to refurnish and redecorate**. The process is:

1. The customer shows, through photos and dimensional plans, the room in question;
2. The particular decoration desires are expressed to the team of designers;
3. When finished, the client receives the output in a "decoration book" in 2D and 3D;
4. The software provides the buyer with an easy buying list of products to achieve the output.

Leveraging this tool is crucial as **technological trends reshape the competitive advantages in the industry**. With a strong digital sales channel and large product collections MdM is the perfect company to **maximize synergies**.

# INVESTMENT THESIS – STRATEGIC ACQUISITION (1/2)

Acquisition of Menina Design Group enables further growth and an improved competitive position through product diversification

## Description

- Menina Design Group (MD) is the parent entity of 15 other brands, and is owned by the Covet Group.
- Known for its **fancy and luxurious items, the brand** desings and produces furniture, decoration items and lighting.
- The group **exports 90%** of its production to nearly 80 countries.
- **Boca do Lobo**, one of the most recognized brands in the sector is **Menina Design's most valuable asset**. Boca do Lobo benefits from a huge brand awareness boosted by some appearances in the US cinema industry.
- Menina Design is present in key cities for the luxury industry with showrooms in New York, Milan, London and Paris.

## Luxury Industry Outlook

- The luxury furniture market is even **more fragmented** than the regular one. With the exception of retailers in the e-Commerce segment, there is not a player that manages to capture a significant market share.
- Maisons du Monde's brand awareness will help to develop MD's market share by stealing from smaller local players which lack the ability to scale their operations and target more profitable segments.

**Luxury Furniture ~ 4% CAGR (2020-2024)[1]**

Notes: 1) Source: Deloitte Fashion & Luxury Private Equity and Investors Survey 2020.

## Value Creation & Synergies

- **Revenue Growth:**
  - Using MdM's brand awareness to **leverage MD's product portfolio** by increasing its exposure to broader markets and geographies.
  - MD's items stand out when combined with other fashionable but less expensive items such as those of MdM, creating an opportunity **for potential cross- and up-selling.**
- **Cost Synergies:**
  - MdM's resources can be used to accommodate MD's operations, improving its margins.
- **Product Diversification:**
  - MdM complements its product offering, covering a **wider range** of **potential customers** according to their respective budgets.
  - Lower dependence on customers that are sensitive to the economic environment.
- **Customer Segment Strengthen:**
  - Acquisition of MD allows MdM to satisfy **high-end B2B clients.** MdM's volume and scalability can be crucial in increasing MD's production capacity to meet B2B orders.

## How?

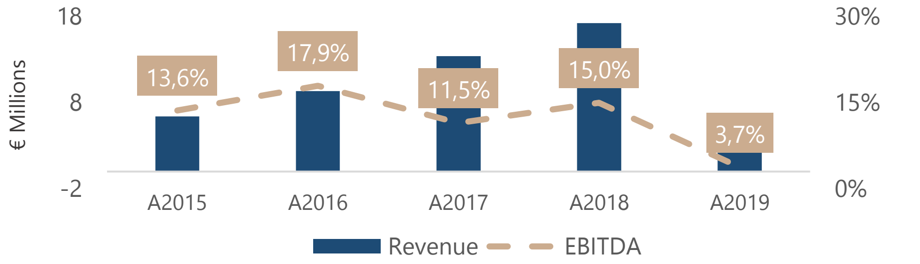
| | |
|---|---|
| **Deal Objectives** | Create a win/win situation where Menina Design grows organically while MdM complements its product offering. |
| **Operations** | Menina Design products will be available in a special section of MdM's website and displayed in some city center flagship stores. |
| **Cultural** | MdM reputation is likely to please MD's employees (500) which could make the integration process smoother. |
| **Governance** | Menina Design will keep its autonomy regarding the creative process of both design and production. |

# INVESTMENT THESIS – STRATEGIC ACQUISITION (2/2)

Menina Design offers access to new product and consumer segments and supports the other strategies through international presence

MAISONS DU MONDE

## Past Growth, Revenue and EBITDA




- Steady revenue growth until 2019 where it dropped due to assumed non-recurrent event.
- EBITDA margin fluctuations relate to unique nature of each of MD's products and company's size.

## Transaction Summary

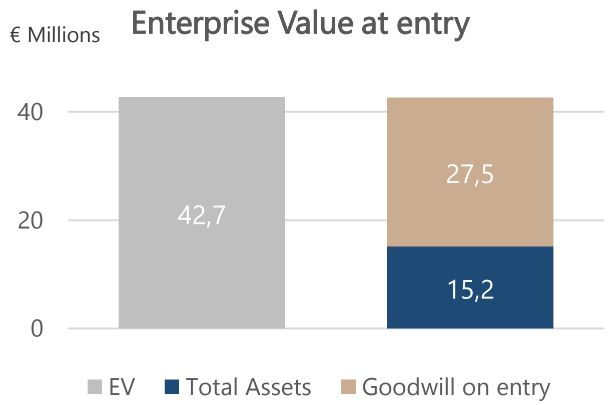
| |
|---|
| Acquisition Year<br>2021 |
| Run-Rate EBITDA (2020)<br>€ 4,035 Mn |
| Acquisition Price<br>€ 42,685 Mn |
| Acquisition EV/EBITDA<br>10,6x |
| Exit EBITDA (2026)<br>€ 9,723 Mn |

## Run-Rate EBITDA

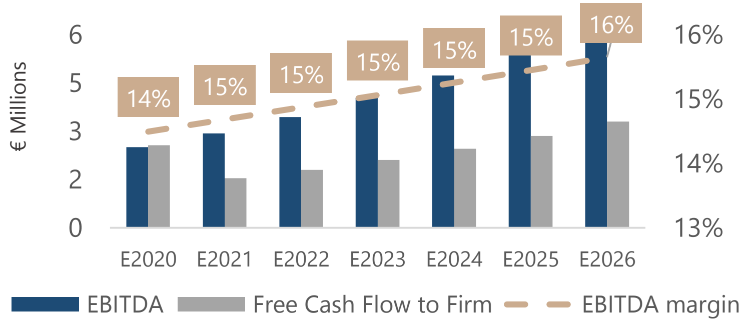
- To predict the most **accurate Run-rate EBITDA** we should account for:
  - **Pandemic:** industry revenues were down by at least 25%[1], meaning EBITDA is assumed to be understated by about €0,61 Mn.
  - **Operation Matureness:** to account for showrooms' ramp-up period, there was an adjustment of about €0,93 Mn.

## Valuation

- Menina Design is valued at **10,6x EBITDA** (on 2020 run-rate EBITDA), based on the average past recent transactions in the Luxury & Furniture segment together with a size **discount of 30%**[2] applied due to MD's small EBITDA and size.
- The goodwill paid relates to the company's quality, key international presence and growth prospects.
- Considering MdM's EV/EBITDA (8,6x) there is an **assumed premium** of € 6,99 Mn at acquisition. Moreover, it is a **high multiple** for a small company.




## Financial Performance




May be hard be to scale up operations while still maintaining the flexibility to attend customize and unique requests.

- Considering MD's early life stage, it is **expected to grow more than the industry average** but less than the abnormal values observed in the past due to its small size.
- **Revenue** are expected to reach €41,6 Mn by 2026 (up from €17,2 Mn in 2019).
- **EBITDA** is expected to grow at a yearly pace of 21,1% reaching a margin of 15,6% by 2026.
- **FCF** decreases significantly in 2021 reflecting the stabilization of NWC in which receivables and payables had huge swings, creating a burden to the operations planning.

Notes: 1) Mckinsey Report:"A prespective for the luxury goods industry during and after coronavirus". 2) Menzies Report: "The Compounding Effect of Size on Business Value".

# INVESTMENT THESIS – STRATEGIC ACQUISITION | MARKET SEGMENT SELECTION

Each player different positioning will require a different strategy and integration plan

MAISONS DU MONDE

| | Low-End | Affordable | High-End |
|---|---|---|---|
| Strategy | ➢ Players with a expressive market-share to improve MdM competitve position in a given geography.<br>➢ Full integration of the target in MdM.<br>➢ Preference for European players due to cultural similarities (large US player might be hard to consolidate). | ➢ Increase brand awareness & streghten the position as the leader in the inspirational & affordable segment of the market through inorganic growth.<br>➢ Avoid a hostile takeover. | ➢ Look for niche markets such as the luxury items, built with exotic materials.<br>➢ Look for innovation products such as furniture tech and test them out in the online chanel. |
| Source of value | ➢ Revenue Growth from the increase of the customer base and product portfolio.<br>➢ Significant cost synergies, by leveraging/merging both companies distribtion and IT systems. | ➢ Similar position facilitates the integration process.<br>➢ Explicit synergies on other dimensions besides supply chain and IT, such as the intellectual capital and customer data. | ➢ First mover advantage for a large retailer in the tech-furniture/smart home segment.<br>➢ Smaller size facilitates the integration of the new brand in the current structure or to create a umbrella brand with low reputation risk.<br>➢ Highly impacted by Covid – lower valuations. |
| Possible targets | Conforama, IKEA, BUT, MAXI BAZAR, BUTLERS MADE FOR YOUR HOME, XXXLutz, wayfair | H&M HOME, BoConcept, WESTWING, ZARA HOME, habitat, area, roche bobois PARIS | MENINA DESIGN GROUP DESIGN OUR FUTURE, KOKET LOVE HAPPENS, baxter MADE IN ITALY, EICHHOLTZ, sobro, THOMAS BLAKEMORE 1847 |
| Drawbacks | ➢ Entreprise Value of players with an expressive customer base in this category are out of MdM's budget.<br>➢ Different positioning doesn't allow for full integration, increasing the likelyhood of cannibalization. | ➢ If not fully integrate cannibalization is likely to be present.<br>➢ Pure online players model is easy to replicate, acquisiton will just take a competitor from the market. | ➢ Hard to associate to MdM positioning.<br>➢ Usually luxury companies trade at higher multiples. |

**A high-end player is the most attractive target. It give us flexibility due to their size, the investment required is not huge and the upside of the investment is large.**

# INVESTMENT THESIS – STRATEGIC ACQUISITION | TARGET SELECTION

## Focus on luxury furniture and decoration companies, technology driven companies or companies with vintage styles

MAISONS DU MONDE

| | Description | Pros | Cons |
|---|---|---|---|
| **Koket** | | | |
| KOKET® LOVE HAPPENS | ➢Portuguese luxurious funriture and decoration company.<br>➢Generated € 1,97 Mn[1] in revenue in 2019. | ➢Networking connections with top hotel chains.<br>➢Vertical integration of the supply chain.<br>➢Differentitate MdM offer. | ➢Small turnover, yet to prove that the production can be scaled (rely heavilty on artisans and jewellers). |
| **Thomas Blakemore** | | | |
| THOMAS BLAKEMORE 1847 | ➢English company that creates home products from the ArtDeco and Versalles period, and from the Roman and Greek Civilization. | ➢Significant brand awareness in the segment, in the market since 1987.<br>➢Leader position in a niche market.<br>➢Allows MdM to diversificate into the lamp business. | ➢Mass production can hurt brand uniqueness.<br>➢Vintage products can be difficult to integrate in MdM's current positioning. |
| **Menina Design** | | | |
| MENINA DESIGN GROUP DESIGN OUR FUTURE | ➢Portuguese group that owns several luxury furniture and decoration brands, being the most known Boca do Lobo.<br>➢Generated € 6,6 Mn[2] in revenue in 2019. | ➢Vertical integration of its supply chain.<br>➢Differentiative products within MdM positioning. | ➢Hard to mass production.<br>➢Dificult to integrate in MdM's current positioning. |
| **Sobro Design** | | | |
| sobro | ➢US start-up creator of innovative tables with technological features.<br>➢ Generated $7.5Mn[3] in revenue in 2019. | ➢First mover advantage in the tech-furniture segment.<br>➢Diversification of the product portfolio. | ➢Business model yet to prove its resilience.<br>➢Start-up valuations usually bear a significant premium.<br>➢European market lacks interest on smart home features. |

Sources: 1) Sabi BV info 2) Sabi BV info 3) Pitchbook

# INVESTMENT THESIS – ESG & B2B POLICIES

Push B2B segment for more diversified customer base and revenue growth, defend position as ESG leader in the industry

MAISONS DU MONDE

## B2B

### Status quo

- Expected sales of €45,3 Mn in 2020, mostly from France, Spain, Italy, Germany.
- Modus Operandi:
  - Team of **32 sales people**, interior designers, delivery managers.
  - An individual **website** focused on **B2B** only.
  - Hotel, in Nice, fully equiped with MdM items working as a showroom.

### Goals

- **Establishing MdM as a brand** in the **B2B segment** and benefiting from a strong market opportunity in a large adressable market.
- Developing B2B Model to a **substantial pillar** within the MdM business.

### Execution and Implementation

- Usage of the same inspirational, omnichannel and international strategy that is used in the B2C segment.
- **Setting up a project management team** that will handle planning and realisation of the process. Starting with the actual order, delivering and installing the result and ending with after-sales service.
- Working together with well-known **high profile partners** in industries like, interior design, hotels, offices, Real Estate, restaurants, etc.
- Geographical focus lays on countries with an already strong brand awareness (France, Spain, Italy, Germany). However, B2B Business is planned to be offered in **important European countries** (Belgium, Switzerland) and the USA as well.
- **Strengthen the supply chain** to address potential profitable bulk orders in a short time window than competitors.

## ESG

| Stumbling Block | Priority |
|---|---|
| Deforestation and exploration of cheap labor (Asia) makes **overall industry a laggard in ESG field**. MdM alone can be perceived as having a nice ESG approach when compared with the industry, but not in comparision with the broader market. | Provide training to **increase awareness** across **worforce** and **create a specialized team** with top-level involvement to monitor the overall integration of the ESG startegy within the investment process. |

### Environmental

- Move from 60% to <95% certified and traceable wood usage.
- Goal of **supplying the full store network with renewable energy**.
- Cut ties with suppliers that have manufacturing or distribution practices that add to carbon emissions.

### Social

- Work with suppliers, build relationships and create a win/win situation where quality work is rewarded as so.
- **Cut ties with suppliers** that do not have required standards concerning workers rights and compensation.

### Governance

- Reinforcement of **gender parity** across the company.
- Work force development: store / logistic managers promoted internally; permanent employees received training.
- Transparent compensation policy.

**MdM will be better prepared to mitigate disruptive events to its operations (e. g. new governments regulations) decreasing its exposure to risk.**
**At exit, in case of an IPO, MdM stock will be more attractive to institutional investors and will meet ESG requirements to be included in some indexes.**

# INVESTMENT THESIS – STRATEGIES FEASABILITY AND RISKS

## MdM's stable situation at entry puts it in a position to follow all 5 investment strategies

## Feasibility

### Brick & Mortar

- Global expansion of B&M through opening of new stores is just a continuation of MdM's previous internationalization strategy.
- Investments in known and closely related countries bare low risk.

### e-Commerce

- Development on MdM's platform over the last 5 years underline its future potential. Rhinov and own development promise best service, however, expected evolution is on a high level.

### Strategic Acquisition

- Acquisition of MD does not need extra financing, also product offerings are similar and can complement each other.
- Infrastructure and range of MdM are advantageable for MD.

### B2B

- Initial results since 2015 are promising for further expansion.
- Experience through past projects and customer relations.
- Investment are non-substantial, leverage on B2C offerings.

### ESG

- MdM is seen as an industry leader in ESG field.
- CSR commitments are publicly stated and built the pillar for MdMs future ESG strategy.

## Risks

### Brick & Mortar

- Canada, new country without any experience through e-Commerce.
- Recovery of B&M after global pandemic is expected.
- Agressive store expansion only works with qualified employees.

### e-Commerce

- Focus on e-Commerce may be to strong or to fast and optimistic results are expected within the investment period.
- Omnichannel approach competes against pure online players.

### Strategic Acquisition

- Brand names of MD, especially Boca de Lobo may loosen value when associated with more affordable MdM products.
- Positive development through leverage of MdM infrastructure.

### B2B

- As a fresh player in this market, MdM might struggle to gain market share and brand awareness. Businesses such as hotels and restaurants first have to recover pandemic crisis. However, low risk due to manageable investments upfront.

### ESG

- Might loosen market position as a leader since this is a general industry trend.
- However, "too" much ESG will not harm customer attraction, low risk.

# IMPACT OF COVID-19 FOR THE PE-INDUSTRY

## Covid-19 brought also for the PE-industry a lot of uncertainty, however, the opportunities from the situation overweight the uncertainty

Covid-19 has brought a lot of change since the beginning of 2020. An end is in sight thanks to the start of vaccination, but nothing is certain. The economic and social consequences are already becoming apparent but future generations will have to deal with them, even in decades. But apart from the negative effects of the pandemic, there are industries that, after many successful years, now see further opportunities in the cooling and "normalization" of the markets.
How specifically has the Covid-19 pandemic affected the PE industry so far and what measures has the PE industry taken?

When the uncertainty was at its peak in the first half of 2020, PE funds and investors were also reluctant to make further investments, causing the flow of new deals to drop significantly to a five-year low. At this point, it was important for PE professionals to stabilize their existing portfolio companies and make sure that no company defaulted. This was because many portfolio companies experienced liquidity shortages due to failing customers, interrupted supply chains, etc., which prompted the PE funds to adjust their expected value growth forecasts. However, the majority of PE firms should be in a position to provide their portfolio companies with the necessary resources, either from the funds themselves or through government support. In addition to the purely financial support of the companies concerned, a closer cooperation of the PE-firms with the operational management of the portfolio companies was also observed. In this way, the PE professionals ensure that they are aware of current developments and receive at least a certain degree of planning certainty.

Private equity is expected by many to be an asset class that is capable of generating extraordinary returns, especially after strong corrective movements in the markets as the one seen because of Covid-19. This expectation is even supported by past observations. After the global financial crisis in 2008, PE funds were able to invest in very attractive companies whose performance still exceeds that of the largest equity indices today. The rebalancing and correction triggered by Covid-19 should generate a similar investment environment, consisting of high-quality potential deals. Solid PE investors can then profit above average from such new opportunities.

What is also a significant advantage for PE firms in this expected development is the exorbitant amount of cash, or dry powder, that PE firms have at their disposal. At the beginning of 2020, PE funds were richer in cash than ever before. All liquid assets available for potential deals at PE funds totaled more than two trillion US dollars in the first quarter of 2020. Despite steadily growing PE deal flow activity in recent years, many PE funds have been reluctant to invest. This was due in particular to the high general valuation level of many companies and the increasingly fierce competition among various private equity firms. Not least because of the increasing competition, the number of secondary deals, in which a company is sold by one private equity firm to another private equity firm, also increased - attractive companies as investment opportunities were fiercely contested.

What tends to be unfavorable for private equity firms, however, is the price and availability of debt. Due to the activities of the European Central Bank in the last decade, the private equity industry, in particular, was in a very advantageous position, as debt was available at a very low price for their buy-outs and they could thus, increase their own profits through the leverage effect. However, as the economic situation has now turned around and many companies are currently only able to make ends meet with state aid, it is expected that the leverage levels of buy-out deals will tend to decrease in the near future.

Notes: Source: 1) McKinsey, 2020, “A rolling disruption: COVID-19’s implications for private equity and portfolio companies”; 2) S&P Global Market Intelligence, 2020, “The Impact of the COVID-19 Pandemic on the Private Equity Market” ; 3) Bain & Company, 2020, “The Impact of Covid-19 on Private Equity”.

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