

EuroRating affirmed 'BBB-' credit rating with a stable outlook assigned to the company LPP S.A.

| | |
|----------------------------|--------------------------------|
| Public / Private rating | public |
| Continued / One off rating | continued (monitored rating) |
| Category | rating for the issuer |
| Name of the rated entity | LPP S.A. |
| Type of the rated entity | corporation |
| Type of the credit rating | long-term, international scale |
| Date of rating affirmation | 23 April 2024 |
| Rating level | BBB- |
| Rating outlook | stable |

Warsaw, 23 April 2024 – EuroRating credit rating agency has revised the credit rating for the company LPP S.A. The rating has been affirmed at 'BBB-' with a stable outlook.

KEY RATING DRIVERS

Relatively good diversification of operations: LPP Group offers clothing under five brands: Reserved, Cropp, House, Mohito and Sinsay, each targeting a distinct customer segment. The company operates in approximately 40 markets, including Poland, Central and Eastern Europe, Western Europe, the Balkans and the Middle East.

Good long-term sales profitability: LPP Group has maintained relatively stable and high margins at the level of gross profit and EBITDA for many years. While operating and net margins has experienced somewhat greater fluctuations, the net margin has remained consistently positive (excluding the pandemic-stricken year of 2020).

Strong positive operating cash flows: LPP consistently generates positive and, in most periods, high operating cash flows. In the fiscal year ended 31 January 2024, operating cash flows reached the highest value in the company's history at PLN 4.3 billion.

Usually positive free cash flows: In the vast majority of recent years, capital expenditures have been lower than operating cash flows, resulting in the company generating positive (and occasionally high) free cash flows.

Relatively low proportion of equity in the balance sheet total: In 2019-2021 there has been a significant decrease in the equity share in the balance sheet total, dropping from around 55% to approximately 25-35% (excluding leases, this range is about 25-45%). Since then, this level has been consistently low.

Low net debt to EBITDA ratio: The company maintains a consistently low and secure net financial debt (adjusted for cash) to EBITDA ratio, thanks to its strong EBITDA performance and typically high cash reserves. At the end of the fiscal year 2023/2024, the ratio even reached a slightly negative value, due to simultaneous decrease in debt and increase in cash.

Satisfactory liquidity position: EuroRating assesses the company's liquidity ratios across all levels (considering the specific characteristics of its business) as satisfactory. The cash to short term debt ratio was high and safe in most periods.

Short cash conversion cycle: LPP's large scale of operations and strong bargaining power allow it to extensively finance its operations through supplier payables. As a result, despite relatively high inventory levels and an average inventory turnover of 2-3 months, the company has maintained a very short cash conversion cycle (even negative at times) for the past five years. This significantly reduces LPP's working capital requirements and mitigates liquidity risk.

Long history of operation and listing on the public market: LPP has been operating in the apparel industry for nearly 30 years and during this time the company has established strong brand recognition and achieved significant international expansion. Since 2001, LPP has been listed on the stock and bond market of the Warsaw Stock Exchange (included in the WIG 20 index).

Reputational issues: In mid-March 2024, a report published by Hindenburg Research accused LPP of faking its withdrawal from Russia, casting doubt on the company's ethical values. This triggered a temporary collapse of the company's share price. LPP has denied the allegations, but the recent image crisis could have a negative long-term impact on the company's reputation.

Market cyclicity and economic downturn risk: The apparel market experiences significant fluctuations and is highly influenced by unpredictable factors like shifts in fashion trends and weather patterns. This raises the risk of mismatches between product offerings and customer preferences, necessitating collection sales at discounted prices, potentially negatively impacting profit margins.

STABLE RATING OUTLOOK

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the company should most likely remain unchanged in the horizon of the next 12 months.

MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to positive and/or rating upgrade), EuroRating includes: generating consistently high positive financial results; improving net margins; generating strong free cash flows from operating activities and high positive free cash flows, with moderate payouts to shareholders; significant increase in equity share in the balance sheet total; as well as strengthening the company's liquidity position.

The most significant potential factors that could (individually or collectively) lead to a downgrade of current credit rating (and/or to a change of the rating outlook to negative): potential failure of expansion into new markets; significant decline in achieved margins (particularly generating net losses); substantial decrease in generated cash flows from operating activities and/or negative free cash flows; possible high dividend payouts and/or share buybacks; excessive investment expenditures leading to a weakened financing structure and increased debt; as well as potential deterioration of liquidity position.

BEST/WORST RATING SCENARIO

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

REGULATORY DISCLOSURES

Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions. EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

EuroRating holds the ECAI (External Credit Assessment Institution) status in the European Union, pursuant to the Regulation of the European Parliament and of the Council No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR Directive). The credit ratings (including unsolicited ratings) assigned by EuroRating are valid throughout the European Union and can be used for regulatory purposes under EU legislation by all financial institutions or any other entities and are entirely equal to credit ratings issued by other credit rating agencies registered by ESMA.

Methodology

The presented credit rating for the company LPP S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for non-financial corporations" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

Public status of the credit rating / terms of use

The presented credit rating for the company LPP S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

The terms of use for credit ratings issued by EuroRating are published on the agency's website at: <https://www.eurorating.com/en/ratings/about-credit-ratings/terms-of-use>

Solicitation status

The rating assigned to the company LPP S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process, the agency had no access to internal documents or the management of the rated entity, and the analytical process was based on publicly available information. The main sources of information used in the rating process were: interim financial statements, presentations and reports of the rated entity, as well as publications in the media about the economy, the industries in which the company operates and about the rated entity itself. The information on the assigned credit rating was presented to the rated entity in advance. The rating was issued without any changes resulting from this disclosure.

Lead rating analyst:

Adam Dobosz

Senior Rating Analyst

email: adam.dobosz@eurorating.com

phone: +48 22 349 24 33

Chairman of the Rating Committee:

Robert Pienkos

Head of the Credit Ratings Department

email: robert.pienkos@eurorating.com

phone: +48 22 349 21 46

Disclaimer

EuroRating considers the scope and quality of available information on the rated entity as sufficient to issue a reliable credit rating. EuroRating takes all necessary measures to ensure that obtained information used in the rating process is of proper quality and is derived from sources deemed by the agency as reliable. Nevertheless, EuroRating does not have a possibility to audit, verify or to confirm in each case the correctness and authenticity of obtained information used in the rating process and/or presented in this report.

Credit ratings assigned by the EuroRating credit rating agency constitute only the agency's own opinion on the financial and economic condition and the credit risk of the entities subject to the rating and cannot be treated in any other way. EuroRating does not provide investment advice, and the credit ratings assigned by EuroRating do not constitute a recommendation to buy, sell or hold any securities and other financial instruments, and do not constitute a recommendation to establish, maintain or discontinue other forms of business cooperation with the rated entities. Ratings and rating reports cannot replace prospectuses or other formal documents required for any securities issues by rated entities or other third parties.

Persons and/or legal entities making decisions based on credit ratings assigned by EuroRating do so solely at their own risk. The EuroRating credit rating agency does not participate in the profits and is not liable for any losses of users or third parties that may result from the use of the credit ratings assigned by the agency.

EuroRating issues credit ratings and related reports and rating opinions with the understanding and expectation that their users also make their own independent assessment of the quality and adequacy of each financial instrument and/or security for their own investment, business or transaction purposes.

EuroRating's credit ratings refer only to credit risk; they do not concern any other risk, such as market risk, legal risk or trade liquidity risk.

© All copyrights and other rights related to the assigned credit ratings and the rating reports published by the EuroRating credit rating agency belong to EuroRating Sp. z o.o.