
Financial Analysis Summary

28 June 2019

Issuer

Hudson Malta p.l.c.

(C 83425)

Guarantors

Time International (Sport) Limited (C 32438)

Hudson International Company Limited (C 48705)

Hudson Malta p.l.c.
Hudson House
Burmarrad Road, Burmarrad
St Paul's Bay SPB 9060
Malta

28 June 2019

Dear Sirs

Hudson Malta p.l.c. Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary ("**Analysis**") set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to Hudson Holdings Limited (the "**Hudson Group**" or "**HHL**"), Hudson Malta p.l.c. (the "**Company**", "**Issuer**" or "**Malta Group**"), and Time International (Sport) Limited and Hudson International Company Limited (the "**Guarantors**"). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the year ended 31 December 2016 to 31 December 2018 has been extracted from the audited consolidated financial statements of HHL, the combined financial statements of the Guarantors and the audited financial statements of Hudson Malta p.l.c. for the three years in question.
- (b) The forecast data of the Group for the year ending 31 December 2019 has been provided by management of the Company.
- (c) Our commentary on the results of the Hudson Group, Malta Group and on their respective financial position is based on the explanations provided by the Company.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.

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- (e) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Hudson Group and Malta Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

A handwritten signature in black ink, appearing to read "E. Mohnani".

Evan Mohnani

Head – Corporate Finance

CHARTS - a division of MeDirect Bank (Malta) plc
The Centre, Tigné Point, Sliema TPO 0001 - Tel: 2557 4400

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PART 1 – INFORMATION ABOUT THE HUDSON GROUP AND THE MALTA GROUP

1. THE HUDSON GROUP

1.1 AN OVERVIEW

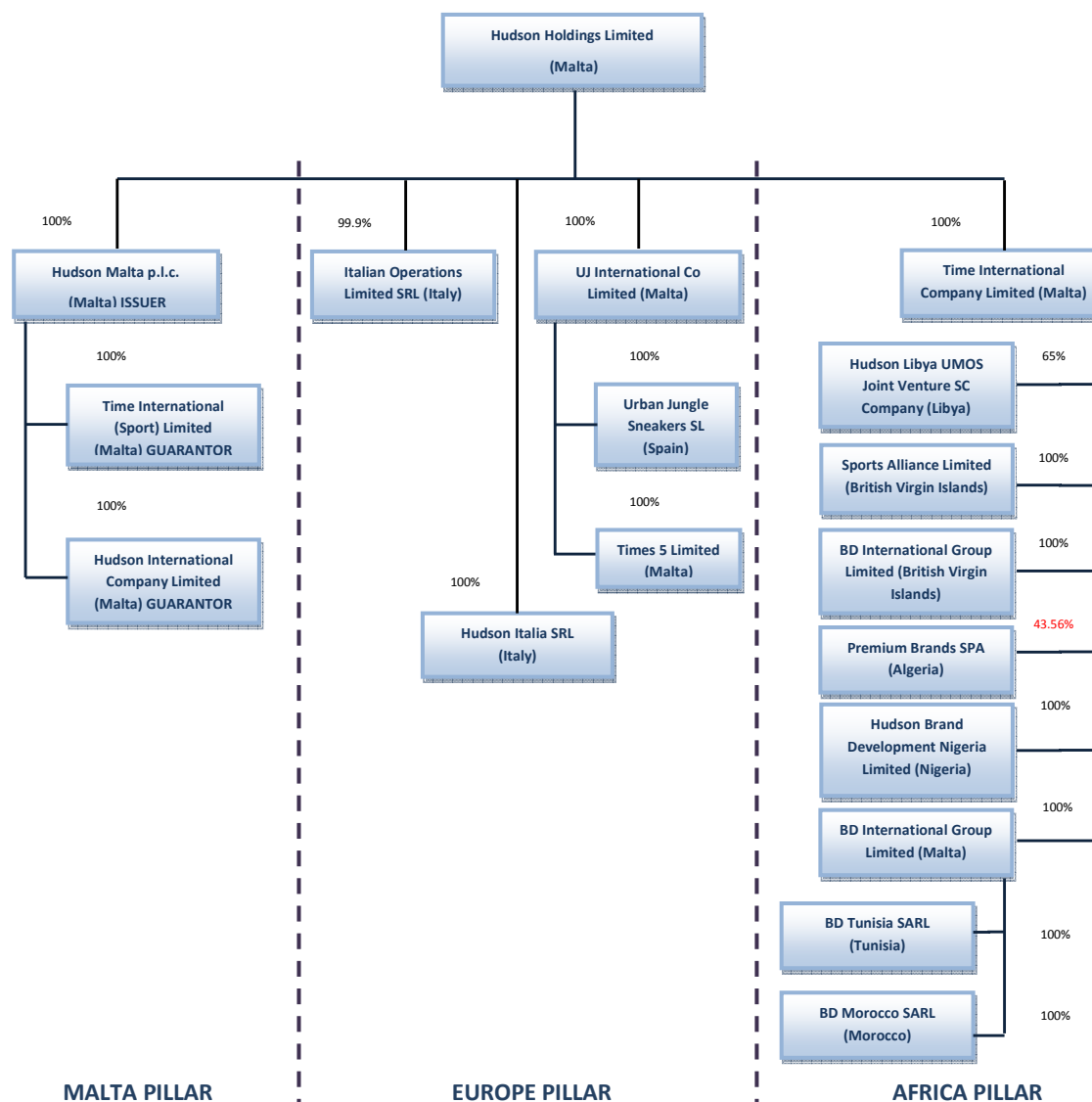
The Hudson Group is involved in the retail and distribution of branded fashion and sportswear in Malta, Europe and Africa. Central operations are based in Malta and include logistics and supply chain, human resources, financial reporting, business support and leadership team. Some of the key brands presently managed by the Hudson Group are Nike, New Look, Tommy Hilfiger and KIABI, most of which are subject to franchise or distribution agreements which have been in effect for a significant number of years and which, to date, have been automatically renewed by the respective franchisors – the indication is that such pattern will carry on in the foreseeable future. In terms of an agreement dated 5 March 2018 between HHL and the Issuer, all business activity carried out in Malta relating to sports and fashion business where HHL acts as franchisee, shall be performed exclusively through the Issuer or any of the Guarantors.

The timeline below illustrates the accumulation of international brands represented by the Hudson Group since incorporation in 2006.

- 2006** Nike (Malta), Converse (Malta), Urban Jungle (Malta), Nike (Libya), Nike (Algeria - Manager), Urban Jungle (Italy)
- 2007** Timberland (Malta), Crocs (Malta)
- 2008** Converse (North Africa excluding Egypt)
- 2010** New Look (Malta)
- 2011** Nike (Tunisia)
- 2012** New Look (Libya), Umbro (Malta, North Africa excluding Egypt)
- 2013** Tommy Hilfiger (Morocco)
- 2014** KIABI (Malta), River Island (Malta), Urban Jungle (Spain)
- 2015** Urban Jungle (France, Morocco), Nike (Distribution & Logistics Hub for Africa)
- 2016** 3INA (Malta), Go Sport (Malta), Benetton (Malta)
- 2017** Extension of Nike Distribution Agreement to cover an additional 26 territories in Africa
- 2018** MaryPaz (Malta), Sub-franchising of New Look (Tunisia)
- 2019** Ted Baker (Malta), Alcott (Malta)

1.2 ORGANISATIONAL STRUCTURE

The diagram hereunder illustrates the organisational structure of the Hudson Group.



In 2017, the Hudson Group undertook a re-organisation exercise whereby three principal pillars were formed, comprising the Malta pillar, the Urban Jungle International pillar and the Africa pillar. The Urban Jungle International pillar was subsequently re-named to Europe pillar so as to comprise the operation of other brands outside Malta in addition to the Urban Jungle brand.

On 20 December 2017, the Issuer acquired from Hudson Holdings Limited (“HHL”) the entire issued share capital of each of the Guarantors, in exchange for an issue of new ordinary shares by the Issuer to HHL, to form the Malta pillar of the Hudson Group (also referred to as the Malta Group).

Since the last published financial analysis report dated 23 March 2018, Premium Brands SPA (Algeria) and Hudson Brand Development Nigeria Limited (Nigeria) were incorporated, whereby the Group has

a 43.56% and 100% shareholding respectively. In addition, Italian Operations Limited Retail SRL (Italy) was merged with Italian Operations Limited SRL (Italy) and Everchase Overseas Limited (Dubai) was liquidated.

The Issuer is a wholly owned subsidiary of HHL, which in turn is owned by Alfred Borg with 50.2%; George Amato, Christopher Muscat and Kevin Grech holding 37.2% between them apportioned equally; 8.8% shareholding is held by Etienne Camenzuli, and Felice Ilacqua and Gianluca Salute hold 1.9% each.

On 7 March 2019, BD International Group Limited (C 61540) (a wholly owned subsidiary of HHL) signed a 65-year emphyteutical concession with Malta Industrial Parks Limited, pursuant to which BD International Group Limited has been granted by title of temporary emphyteusis a portion of land situated in the Hal Far Industrial Estate measuring approximately 5,000m², together with all buildings erected thereon. In accordance with a prospectus dated 23 March 2018, an amount of €2,500,000 out of the net proceeds of the bond issue are being utilised to develop the said distribution centre. Construction and fit-out works are expected to be concluded in 2020.

1.3 EXECUTIVE MANAGEMENT TEAM

Hudson Group has formally appointed and empowered an executive committee (EXCO) to manage the Hudson Group's operations. The EXCO is a decision-making entity set up to implement the Board's strategic business plans and policies consistent with the organisation's vision, values and behaviours in order to meet the Hudson Group's business objectives and targets. The EXCO advises the Board on decision and business matters such as strategy, policy and investment risk and is composed of the following individuals: Alfred Borg, Christopher Muscat, Kevin Grech, George Amato and Martin Gregory.

2. THE MALTA GROUP

2.1 KEY ACTIVITIES OF THE ISSUER

The Issuer was established on 10 November 2017 and is a wholly-owned subsidiary of HHL (the ultimate parent of the Hudson Group), and is the parent company of the Malta operations of the Hudson Group. The principal object of the Issuer is to purchase or otherwise acquire, under any title whatsoever, to hold and manage, by any title, movable and immovable property or other assets, including but not limited to securities and other financial interests. The issue of bonds falls within the objects of the Issuer.

The Issuer's intended purpose is to further expand the Malta Group's retail and wholesale distribution operations in Malta of branded fashion and sportswear. Business operations are performed by the Issuer's Subsidiaries (also referred to as the Guarantors), and therefore the Issuer is mainly dependent on the business prospects of the Guarantors.

2.2 KEY ACTIVITIES OF THE GUARANTORS

2.2.1 Time International (Sport) Limited

Time International (Sport) Limited (“TISL”) was established in 2003 and is principally engaged in the distribution and retailing of sportswear. The company currently operates 12 retail stores operating under various names in Malta and Gozo and franchises an additional 3 stores locally. The flagship brand operated by the company is Nike, the largest brand of athletic footwear and apparel globally. TISL also operates and franchises two multi-brand franchise concepts that are owned by Hudson Group, namely House of Sport and Urban Jungle. In 2016, TISL introduced the Go Sport brand in Malta with the opening of a store in Qormi. Go Sport is a sports multi-specialist that offers a vast range of branded sports apparel and accessories. TISL also sells NIKE product to the Urban Jungle stores operating in Europe. TISL is empowered in terms of its Memorandum of Association to secure and guarantee any debt, liability or obligation of any third party.

2.2.2 Hudson International Company Limited

Hudson International Company Limited (“HICL”) was established in 2010 and is primarily involved in the importation and retailing of branded fashion wear in Malta. The company currently operates 15 stores in Malta and Gozo and franchises 3 stores, 2 locally and 1 in Tunisia. The most significant brands operated by HICL are Kiabi, New Look, Ted Baker and River Island. Hudson International Company Limited is empowered in terms of its Memorandum of Association to secure and guarantee any debt, liability or obligation of any third party.

2.3 DIRECTORS

2.3.1 Directors of the Issuer

The Issuer is managed by a Board consisting of seven directors entrusted with the overall direction and management of the Company.

George Amato	Executive Director
Alfred Borg	Executive Director
Kevin Grech	Executive Director
Christopher Muscat	Executive Director
Victor Spiteri	Independent Non-Executive Director
Kevin Valenzia	Independent Non-Executive Director
Brian Zarb Adami	Independent Non-Executive Director

2.3.2 Directors of the Guarantors

Each Guarantor is managed by a Board of Directors entrusted with its overall direction and management, and is composed as follows:

Time International (Sport) Limited

Alfred Borg	Executive Director
Kevin Grech	Executive Director
Felice Ilacqua	Executive Director

Hudson International Company Limited

Alfred Borg	Executive Director
Kevin Grech	Executive Director
Ritianne Grech	Executive Director

2.4 OVERVIEW OF LEASED STORES AND THIRD PARTY OPERATED STORES

The Malta Group presently operates 27 retail stores (FY2018: 26 stores; FY2017: 25 stores) and held franchise agreements (operated under third party management) with an additional 4 stores (FY2018: 5 stores; FY2017: 6 stores). A description of stores in operation as at the date of this report is provided in the following table:

	Company	Name of Store	Location	Rentable Area (m ²)	Opening Date	Comments
1	TISL	Shoeshack	The Point, Sliema	13	Prior to 2014	This shop is open in spring and summer only.
2	TISL	House of Sport	Fgura	120	Prior to 2014	
3	TISL	House of Sport	Sliema	188	Prior to 2014	
4	TISL	Urban Jungle	The Point, Sliema	200	Prior to 2014	
5	TISL	Outta Kontrol	Mriehel	191	Prior to 2014	
6	TISL	Nike	The Point, Sliema	350	Prior to 2014	Shop size has increased from 164sqm.
7	HICL	New Look	Gozo	510	Prior to 2014	
8	HICL	New Look	Fgura	579	Prior to 2014	
9	HICL	New Look	The Point, Sliema	1,050	Prior to 2014	
10	HICL	KIABI	Qormi	1,234	Mar-14	Shop size reduced from 1300sqm to include Marypaz Qormi (#22 below).
11	HICL	River Island	The Point, Sliema	250	May-14	Shop size reduced from 600sqm.
12	TISL	Shoeshack	Sliema	84	Dec-14	
13	TISL	UJ & Timberland	Valletta	100	Jun-15	Change in concept to UJ & Timberland (August 2018).
14	HICL	New Look	Valletta	676	Oct-15	
15	HICL	KIABI	Burmarrad	1,000	Apr-16	
16	TISL	Go Sport	Qormi	1,100	Sep-16	Shop size reduced from 1600sqm to include Alcott (#26 below).
17	TISL	Urban Jungle	PAMA, Mosta	123	Oct-16	
18	HICL	3INA	PAMA, Mosta	32	Oct-16	
19	HICL	Benetton	PAMA, Mosta	320	Oct-16	
20	TISL	Go Sport Expert	Burmarrad	300	Jun-17	
21	HICL	Benetton	The Point, Sliema	275	Mar-18	
22	HICL	MaryPaz	Qormi	100	Nov-18	New outlet (see #10 above and replaced 3INA).
23	HICL	Benetton	Gozo	200	Mar-17	Previously a franchised store and taken over as at January 2018.
24	HICL	Ted Baker	The Point, Sliema	180	Feb-19	New outlet.
25	HICL	River Island	Baystreet, St Julians	180	Feb-19	New outlet.
26	HICL	Alcott	Qormi	500	Mar-19	New as from March 2019.
27	TISL	House of Sport/UJ	St. Julians	195	Mar-19	Previously House of Sport and UJ franchised stores and taken over from May 2019.

FRANCHISED STORES

1	TISL	House of Sport	Valletta	150	Prior to 2014
2	TISL	House of Sport	Gozo	100	Prior to 2014
3	TISL	Timberland	Sliema	100	Prior to 2014
4	HICL	New Look	Tunisia	400	Jun-18

TISL - Time International (Sport) Limited; HICL - Hudson International Company Limited.

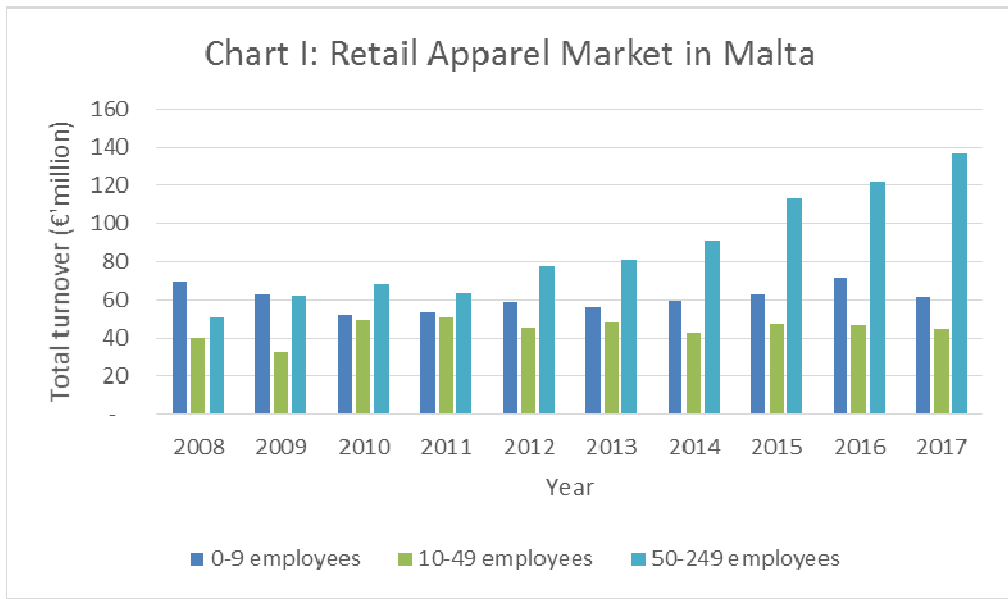
2.5 MARKET OVERVIEW

Data in relation to the size of the apparel market in Malta is not published. Notwithstanding, an estimate of the retail store market has been derived from data obtained from the National Statistics Office of Malta (the latest available information relates to calendar year 2017). Data with respect to online sales generated in Malta is not available and therefore is excluded from the analysis below.

The table below sets out statistics in relation to sales of apparel (excluding textiles, footwear and leather goods) by retail outlets in Malta. The information has been analysed by size of outlet on the basis of the number of staff employed by a retail store.

Turnover of Apparel Retail Stores in Malta											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-17
0-9 employees											
Total turnover (€'million)	69	63	52	54	59	56	60	63	71	62	-1.2%
No. of outlets (units)	703	704	666	673	674	655	670	628	674	655	
Average turnover (€'million)	0.10	0.09	0.08	0.08	0.09	0.09	0.09	0.10	0.11	0.09	
Year-on-year growth		-9%	-13%	2%	10%	-2%	3%	13%	5%	-10%	
10-49 employees											
Total turnover (€'million)	40	33	50	51	45	48	42	47	47	44	1.1%
No. of outlets (units)	19	17	28	29	29	28	26	33	33	32	
Average turnover (€'million)	2.11	1.92	1.77	1.76	1.56	1.71	1.63	1.43	1.42	1.39	
Year-on-year growth		-9%	-8%	-1%	-11%	9%	-4%	-12%	-1%	-2%	
50-249 employees											
Total turnover (€'million)	51	63	68	64	78	81	91	113	121	137	11.6%
No. of outlets (units)	8	11	12	13	14	14	14	15	15	16	
Average turnover (€'million)	6.38	5.69	5.64	4.92	5.55	5.78	6.52	7.54	8.09	8.54	
Year-on-year growth		-11%	-1%	-13%	13%	4%	13%	16%	7%	6%	
Total Turnover (€'million)											
Total turnover (€'million)	160	159	169	169	182	185	193	224	239	243	4.7%
Year-on-year growth		-1%	7%	0%	8%	2%	5%	16%	7%	2%	

Source: National Statistics Office Malta (NACE 47.71 data)



During 2008 to 2017, the average total number of outlets remained relatively unchanged at circa 711 units. During 2017, the total number of outlets decreased to 703 units compared to 722 units in 2016. This drop has been recorded in the small stores category (0-9 employees), whereas the other categories remained unchanged.

Furthermore, consumer spending has also changed and shows a preference towards the larger stores. In fact, in the period 2008 to 2017, smaller outlets registered a compounded annual decrease in turnover of 1.2%, while the larger outlets recorded a compounded annual growth rate in turnover of 11.6%.

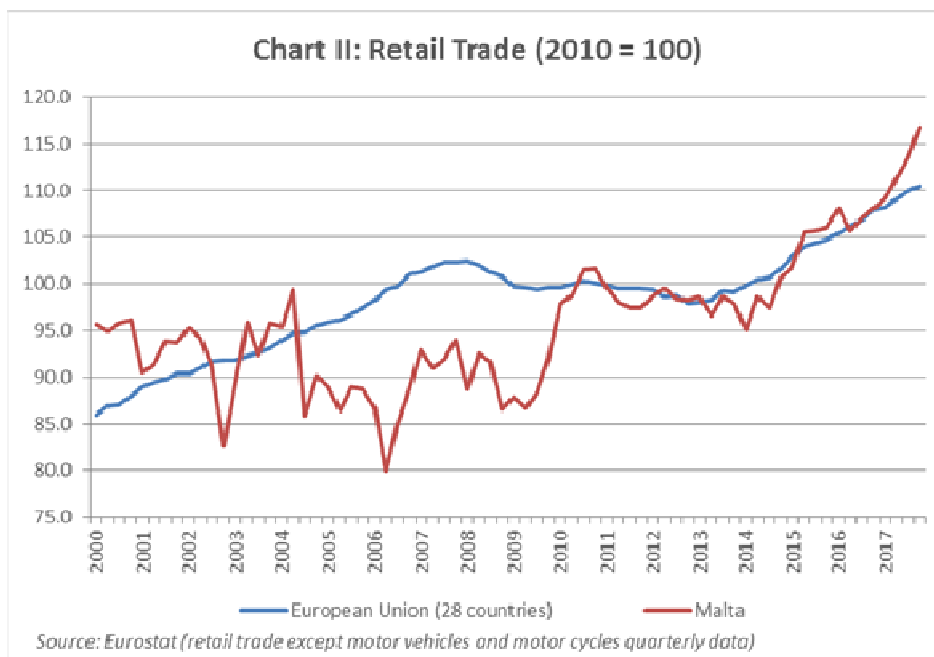


Chart II above provides an indication of the trend in performance of the overall retail sector in Malta as compared to the European Union (2010 being the base year = 100). According to the EU trend line above, retail trade increased at a steady pace till early 2008, which was followed by a decline that lasted until mid-2013. Thereafter, the EU retail sector experienced a constant rate of growth and has now reached a level of 8 percentage points above the pre-financial crisis high (Q1 2008).

During the 17 years under review, retail activity in Malta increased by almost 22 percentage points and since Q4 2016 has performed better than the EU average. Further analysis shows that between the years 2004 and 2009, the Maltese retail sector lagged behind the EU average. Post 2009, retail sales generated in Malta recovered to some extent while the EU average reflected lower activity levels. From 2010 to 2016, the Maltese retail sector maintained a similar trajectory when compared to the EU average.

2.6 TREND ANALYSIS AND BUSINESS STRATEGY

The retail market in Malta is subject to stiff competition, both from local retailers as well as from online sales (through the internet). In addition, retailers face competition for consumers' disposable income from gastronomy outlets, the property market and consumers' propensity to save. Furthermore, the retail industry continues to evolve due to shifts in consumer preferences, product trends and shopping habits. Malta's economy has continued to perform well, resulting in an expansion of the labour market and higher income levels, to the benefit of retailers. In this regard, the Malta Group remains focused on adapting to the afore-mentioned trends and the Directors feel that the business strategy of the Malta Group is aligned to capitalise on these opportunities in the future.

The Malta Group's strong focus is to provide a high level of customer service and use information systems to maintain tight controls over inventory and operating costs. The Directors believe that having strong logistics support is a critical element of the Malta Group's growth strategy and is central to the business to maintain a low cost operating structure and optimal inventory levels.

A key objective of the Malta Group is to continue to strengthen recognition of each of its brands within their respective target markets through advertising campaigns, sponsorships and customer loyalty schemes. At the same time, the Directors will continue to explore opportunities to invest in other retail concepts that offer features that are attractive to the Malta Group in terms of benefits from possible synergies and revenue expansion.

Additionally, the Malta Group plans to launch an e-commerce platform in the near future, thus enabling the Malta Group to engage with customers specifically in the digital commerce channel. Although revenue generation through retail stores will continue to be a cornerstone of the Malta Group's strategy, the e-commerce initiative will provide a platform to ensure an outstanding customer experience regardless of channel.

PART 2 – PERFORMANCE REVIEW

3. FINANCIAL INFORMATION – HUDSON GROUP

On 13 March 2018, the Issuer entered into a loan agreement with HHL, where the Issuer advanced to HHL the amount of €4,500,000 from the net proceeds of the bond issue. In terms of this loan agreement, interest shall be payable annually in arrears on 6 March of each year at the rate of 5.5% per annum. In addition, HHL has bound itself to repay the loan in accordance with a pre-agreed repayment schedule, which includes a 3-year moratorium period, and shall effect the final repayment by not later than 6 March 2026.

As an entity external to the Issuer and the Malta Group, HHL is not bound by the continuing obligations of the Listing Rules. However, the board of directors of HHL has resolved to publish on an annual basis HHL's audited consolidated financial statements, by not later than two months after the publication of the Issuer's audited financial statements, through a company announcement. Furthermore, condensed financial information relating to HHL and the Hudson Group shall be provided in the annual publication of the Issuer's financial analysis summary. This commitment is being made so as to provide Bondholders and prospective investors with full access to financial information on the Hudson Group.

The tables and discussion included below contain certain alternative performance measures (as defined by the European Securities and Markets Authority (ESMA)), including EBIT and EBITDA, that the Hudson Group's management and other competitors in the industry use. These non-IFRS financial measures are presented as supplemental information as (i) they represent measures that the Directors believe may be relevant for certain investors, securities analysts and other parties in assessing the Hudson Group's operating and financial performance and may contribute to a fuller understanding of the Hudson Group's cash generation capacity and the growth of its business; and (ii) they may be used by the Hudson Group's management as a basis for strategic planning and forecasting.

The following financial information is extracted from the consolidated audited financial statements of Hudson Holdings Limited ("**Hudson Group**" or "**HHL**") for the three years ended 31 December 2016 to 31 December 2018.

Hudson Group			
Consolidated Statement of Comprehensive Income			
for the year ended 31 December			
	2016	2017	2018
	€'000	€'000	€'000
	Actual	Actual	Actual
Revenue	58,759	86,513	105,029
<i>Retail</i>	23,788	29,833	40,687
<i>Wholesale</i>	34,971	56,680	64,342
Cost of sales	(42,391)	(65,724)	(78,932)
Gross profit	16,368	20,789	26,097
Net operating costs	(13,685)	(16,517)	(21,293)
EBITDA¹	2,683	4,272	4,804
Depreciation & amortisation	(949)	(1,156)	(1,446)
EBIT²	1,734	3,116	3,358
Share of loss in associate	-	-	(41)
Net finance costs	(375)	(756)	(956)
Profit before tax	1,359	2,360	2,361
Taxation	(548)	(809)	(1,381)
Profit/(loss) for the year	811	1,551	980
Other comprehensive income			
Currency translation differences	183	(749)	375
Fair value movements equity investments, net of deferred tax	721	401	(244)
	904	(348)	131
Total comprehensive income	1,715	1,203	1,111

¹ EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.

² EBIT - Earnings before Interest and Tax.

Hudson Group			
Consolidated Cash Flow Statement			
for the year ended 31 December			
	2016	2017	2018
	€'000	€'000	€'000
	Actual	Actual	Actual
Net cash from operating activities	2,271	(4,333)	(537)
Net cash from investing activities	(2,429)	(1,247)	(3,802)
Net cash from financing activities	218	6,547	8,950
Net movement in cash and cash equivalents	60	967	4,611
Cash and cash equivalents at beginning of year	3,016	3,076	4,066
Exchange differences on cash balances	-	23	(69)
Cash and cash equivalents at end of year	3,076	4,066	8,608

Hudson Group			
Consolidated Statement of Financial Position			
as at 31 December	2016	2017	2018
	€'000	€'000	€'000
	Actual	Actual	Actual
ASSETS			
Non-current assets			
Intangible assets	1,278	1,258	1,263
Property, plant & equipment	4,570	4,658	6,500
Investment in associates	-	-	285
Equity investments at FVTOCI	-	-	1,500
Available for sale investments	1,200	1,800	-
Receivables	662	1,081	499
Deferred tax assets	371	449	394
	<u>8,081</u>	<u>9,246</u>	<u>10,441</u>
Current assets			
Inventories	15,822	19,043	19,387
Trade and other receivables	11,367	12,579	17,888
Other current assets	201	216	19
Cash and cash equivalents	4,952	6,166	8,907
	<u>32,342</u>	<u>38,004</u>	<u>46,201</u>
Total assets	<u>40,423</u>	<u>47,250</u>	<u>56,642</u>
EQUITY			
Capital and reserves			
Share capital	67	85	85
Reserves	2,456	3,658	3,031
Retained earnings	4,712	6,275	6,477
Non-controlling interest	1,552	388	(167)
	<u>8,787</u>	<u>10,406</u>	<u>9,426</u>
LIABILITIES			
Non-current liabilities			
Borrowings	2,752	2,009	12,166
Other non-current liabilities	1,388	1,353	1,238
	<u>4,140</u>	<u>3,362</u>	<u>13,404</u>
Current liabilities			
Bank overdrafts	1,876	2,100	299
Borrowings	2,126	9,001	8,194
Trade and other payables	23,162	21,923	24,482
Other current liabilities	332	458	837
	<u>27,496</u>	<u>33,482</u>	<u>33,812</u>
	<u>31,636</u>	<u>36,844</u>	<u>47,216</u>
Total equity and liabilities	<u>40,423</u>	<u>47,250</u>	<u>56,642</u>

Hudson Group			
Key Accounting Ratios	FY2016	FY2017	FY2018
	Actual	Actual	Actual
Gross profit margin <i>(Gross profit/revenue)</i>	28%	24%	25%
Operating profit margin <i>(EBITDA/revenue)</i>	5%	5%	5%
Interest cover (times) <i>(EBITDA/net finance cost)</i>	7.15	5.65	5.03
Net profit margin <i>(Profit after tax/revenue)</i>	1%	2%	1%
Earnings per share (€) <i>(Profit after tax/number of shares)</i>	28.21	42.45	26.82
Return on equity <i>(Profit after tax/shareholders' equity)</i>	9%	15%	10%
Return on capital employed <i>(EBITDA/total assets less current liabilities)</i>	21%	31%	21%
Return on assets <i>(Profit after tax/total assets)</i>	2%	3%	2%
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	1.18	1.14	1.37
Gearing ratio <i>(Total net debt/net debt and shareholders' equity)</i>	17%	40%	55%

Source: Charts | A Division of MeDirect Bank (Malta) plc

During FY2018, the Hudson Group operated 53 stores in 5 countries (FY2017: 37 stores) and employed 544 staff members (FY2017: 502 staff members). The 16 new store openings in FY2018 are located overseas, mainly Morocco. In addition, the Hudson Group acquired the remaining 50% shareholding in BD International Group Limited and now holds all voting and ownership rights. This company is the contract party to the NIKE Africa business having distribution rights to 30 countries in Africa.

In FY2018, revenue increased by 21% from €86.5 million in FY2017 to €105.0 million driven by new store openings and the further expansion of the Nike Africa business (notwithstanding the loss of a significant client in 2017). The growth in turnover resulted in an increase in EBITDA of €0.5 million, from €4.3 million in FY2017 to €4.8 million in FY2018. The EBITDA margin remained constant at 5% in FY2018 (FY2017: 5%). In 2018, depreciation & amortisation and taxation were higher when compared to the prior year by €0.3 million and €0.6 million respectively. After factoring in positive currency translation differences of €0.4 million (FY2017: adverse amount of €0.7 million) and a loss in fair value movements on equity investments of €0.2 million (FY2017: gain of €0.4 million), total comprehensive income amounted to €1.1 million in FY2018 (FY2017: €1.2 million).

4. FINANCIAL INFORMATION – MALTA GROUP

The historical financial information included hereinafter is extracted from the audited combined financial statements of the Guarantors for the financial year ended 31 December 2016 (together, the “Combined Financial Statements”). The Guarantors were acquired by the Issuer in Q4 2017 and as such, did not operate as a separate group of entities during 2016. Combined financial statements serve a similar purpose to consolidated financial statements, to present financial data appertaining to a group of companies as if the companies concerned constitute a single enterprise as at the date of the combined financial statements.

The Malta Group in its current state has been in existence since 10 November 2017 and therefore, the financial information for FY2017 represents pro forma forecast consolidated financial statements. This pro forma information presents what the Issuer’s forecast consolidated financial statements would have looked like had the Malta Group existed in its current form, comprising all its current constituent components, for the financial year 1 January 2017 to 31 December 2017. No adjustments to the results, financial position and cash flow statements of the constituent sub-groups were necessary for the purposes of arriving at the pro forma consolidated financial statements except solely to reflect the entries necessary in any process of accounting consolidation.

The financial information relating to the Issuer for the period 10 November 2017 to 31 December 2018 is extracted from the audited consolidated financial statements of Hudson Malta p.l.c.

The projected financial information for FY2019 relates to events in the future and is based on assumptions which the Malta Group believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

The tables and discussion included below contain certain alternative performance measures (as defined by the European Securities and Markets Authority (ESMA)), including EBIT and EBITDA, that the Malta Group’s management and other competitors in the industry use. These non-IFRS financial measures are presented as supplemental information as (i) they represent measures that the Directors believe may be relevant for certain investors, securities analysts and other parties in assessing the Malta Group’s operating and financial performance and may contribute to a fuller understanding of the Malta Group’s cash generation capacity and the growth of the combined business; and (ii) they may be used by the Malta Group’s management as a basis for strategic planning and forecasting.

Hudson Malta p.l.c.				
Statement of Comprehensive Income				
for the year ended 31 December				
	2016	2017	2018	2019
	Combined	Pro forma	Actual	Forecast
	€'000	€'000	€'000	€'000
Revenue	34,409	35,549	42,414	42,438
<i>Retail</i>	<i>21,913</i>	<i>24,843</i>	<i>29,682</i>	<i>31,249</i>
<i>Wholesale and other income</i>	<i>12,496</i>	<i>10,706</i>	<i>12,732</i>	<i>11,189</i>
Cost of sales	(23,536)	(23,340)	(29,303)	(27,937)
Gross profit	10,873	12,209	13,111	14,501
Net operating costs	(8,587)	(9,823)	(10,280)	(9,745)
EBITDA¹	2,286	2,386	2,831	4,756
Depreciation & amortisation	(629)	(922)	(755)	(3,271)
EBIT²	1,657	1,464	2,076	1,485
Net finance costs	(122)	(61)	(206)	(1,118)
Profit before tax	1,535	1,403	1,870	367
Taxation	(636)	(491)	(702)	(128)
Profit for the year	899	912	1,168	239
Total comprehensive income	899	912	1,168	239

¹ EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.

² EBIT - Earnings before Interest and Tax.

Note: Adoption of IFRS 16 as from 1 January 2019

The Malta Group adopted IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach with transition date taken as the lease commencement date. Under this approach, the right-of-use asset equals the lease liability on transition date, and no equity adjustment will be recognised on initial application of IFRS 16. Comparative information is not restated. Accordingly, as of FY2019, the Malta Group will need to recognise a right-of-use asset and a lease liability in the statement of financial position for the lease of premises currently treated as operating leases. With regard to the impact in the consolidated income statement, the nature of the relevant expense will change from being an operating lease expense to depreciation and interest expense.

In terms of the above, the statement of comprehensive income for the projected financial year 2019 reflects an increase in right-of-use amortisation (accounted for in depreciation & amortisation) of €2.3 million and a decrease in rent (in net operating costs) of approximately the same amount, and an increase in right-of-use interest (in net finance costs) of €0.9 million. In the statement of financial position as at 31 December 2019, property, plant & equipment is projected to increase with the right-of-use assets amounting to €17.8 million and non-current liabilities are expected to increase by €18.7 million.

Hudson Malta p.l.c.**Statement of Financial Position**

as at 31 December

	2016	2017	2018	2019
	Combined	Pro forma	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets				
Intangible assets	-	-	1,207	1,207
Property, plant & equipment	2,890	2,306	2,470	21,429
Other non-current assets	2,472	2,296	547	547
Loan to related undertakings	-	-	6,914	6,914
	<u>5,362</u>	<u>4,602</u>	<u>11,138</u>	<u>30,097</u>
Current assets				
Inventories	3,958	4,415	4,126	5,169
Trade and other receivables	3,742	3,845	10,560	4,576
Amounts due from related undertakings	1,047	3,012	58	5,754
Other current assets	151	87	-	-
Cash and cash equivalents	2,117	1,127	2,284	2,057
	<u>11,015</u>	<u>12,486</u>	<u>17,028</u>	<u>17,556</u>
Total assets	<u>16,377</u>	<u>17,088</u>	<u>28,166</u>	<u>47,654</u>
EQUITY				
Capital and reserves				
Share capital and reserves	204	4,148	16,450	16,450
Other reserves	-	-	(15,995)	(15,995)
Retained earnings	3,815	1,686	5,680	5,919
	<u>4,019</u>	<u>5,834</u>	<u>6,135</u>	<u>6,374</u>
LIABILITIES				
Non-current liabilities				
Borrowings and bonds	1,764	188	11,793	11,793
Other non-current liabilities	-	-	-	18,751
	<u>1,764</u>	<u>188</u>	<u>11,793</u>	<u>30,544</u>
Current liabilities				
Bank overdrafts	1,465	1,687	130	130
Borrowings	581	1,828	-	-
Trade and other payables	8,216	7,177	9,958	10,456
Other current liabilities	332	374	150	150
	<u>10,594</u>	<u>11,066</u>	<u>10,238</u>	<u>10,736</u>
	<u>12,358</u>	<u>11,254</u>	<u>22,031</u>	<u>41,280</u>
Total equity and liabilities	<u>16,377</u>	<u>17,088</u>	<u>28,166</u>	<u>47,654</u>

Hudson Malta p.l.c.				
Cash Flow Statement				
for the year ended 31 December				
	2016	2017	2018	2019
	Combined	Pro forma	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	1,611	195	109	197
Net cash from investing activities	(1,205)	(258)	(5,463)	(425)
Net cash from financing activities	288	(1,149)	8,068	-
Net movement in cash and cash equivalents	694	(1,212)	2,714	(228)
Cash and cash equivalents at beginning of year	(42)	652	(560)	2,154
Cash and cash equivalents at end of year	652	(560)	2,154	1,926

Hudson Malta p.l.c.				
Key Accounting Ratios				
	FY2016	FY2017	FP2018	FY2019
	Combined	Pro forma	Actual	Forecast
Gross profit margin <i>(Gross profit/revenue)</i>	32%	34%	31%	34%
Operating profit margin <i>(EBITDA/revenue)</i>	7%	7%	7%	11%
Interest cover (times) <i>(EBITDA/net finance cost)</i>	18.74	39.11	13.74	4.26
Net profit margin <i>(Profit after tax/revenue)</i>	3%	3%	3%	1%
Earnings per share (€) <i>(Profit after tax/number of shares)</i>	0.05	0.06	0.07	0.01
Return on equity <i>(Profit after tax/shareholders' equity)</i>	22%	16%	19%	4%
Return on capital employed <i>(EBITDA/total assets less current liabilities)</i>	40%	40%	16%	13%
Return on assets <i>(Profit after tax/total assets)</i>	5%	5%	4%	1%
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	1.04	1.13	1.66	1.64
Gearing ratio <i>(Total net debt/net debt and shareholders' equity)</i>	30%	31%	61%	61%

Source: Charts | A Division of MeDirect Bank (Malta) plc

The principal business activities of the Guarantors include the operation of retail stores in Malta, and distribution of Nike products to Urban Jungle Italy and a number of third party stores in Malta.

In **FY2016**, revenue generated from retail operations increased by €5.6 million (+34%) from €16.4 million in FY2015 to €21.9 million, primarily on account of new store openings, whilst wholesale income amounted to €12.5 million, an increase of €2.6 million (+27%) when compared to a year earlier. In aggregate, revenue in FY2016 was higher than in FY2015 by €8.2 million (+31%) and amounted to €34.4 million.

EBITDA improved by 21% or €0.4 million (year-on-year) to €2.3 million in FY2016 (FY2015: €1.9 million). Profit before tax also reflected a year-on-year increase of 21% to €1.5 million (similar to EBITDA) given that depreciation charge and net finance costs were relatively stable in FY2016 when compared to the prior year. In contrast, profit after tax was marginally lower in FY2016 by €0.1 million to €0.9 million as a result of an increase in taxation of €0.37 million (from €0.27 million in FY2015 to €0.64 million in FY2016).

On a pro forma basis, revenue generated in **FY2017** amounted to €35.5 million, split as to 70% from retail stores and the remaining balance from wholesale revenue (primarily relating to the sale of sports retail products to third party retailers in Malta and Urban Jungle franchisees in Italy). When compared to the prior year, retail revenue increased by €2.9 million (+13%), principally due to the impact of a full year's operating performance of 8 stores which commenced operations during 2016 and the opening of 4 new stores (two of which are franchised stores) in 2017, whilst wholesale revenue decreased from €12.3 million in 2016 to €10.7 million, entirely due to a decline in sales to Urban Jungle Italy.

EBITDA in FY2017 amounted to €2.4 million, marginally higher when compared to the prior year. After taking into account depreciation & amortisation of €0.9 million, which increased by 47% (year-on-year) due to an increase in store openings, EBIT amounted to €1.5 million (FY2016: €1.7 million). Profit for the year remained broadly unchanged at €0.9 million (FY2016: €0.9 million).

In **FP2018**, revenue generated from retail operations increased by €4.8 million (+19%) from €24.8 million in pro forma FY2017 to €29.7 million in FP2018, primarily on account of new store openings, whilst wholesale income amounted to €12.7 million, an increase of €2.0 million (+19%) when compared to pro forma FY2017. In aggregate, revenue in FP2018 was higher than in pro forma FY2017 by €6.7 million (+19%) and amounted to €42.4 million.

EBITDA improved by 19% or €0.4 million to €2.8 million in FP2018 (FY2017: €2.4 million). Profit after tax was higher in FP2018 by €0.3 million, when compared to the prior year, to €1.2 million.

The Malta Group's statement of financial position as at 31 December 2018 comprised total assets of €28.2 million, the main items being loans to related undertakings of €6.9 million, inventories amounting to €4.1 million and trade & other receivables of €10.6 million. Cash and cash equivalents in FY2018 amounted to €2.3 million.

Total liabilities amounted to €22.0 million and mainly included borrowings and bonds amounting to €11.9 million and trade & other payables of €10.0 million. The Issuer's gearing ratio (being net debt/net debt and shareholders' equity) as at 31 December 2018 was 61% (FY2017: 31%).

Net movement in cash and cash equivalents in the cash flow statement amounted to an inflow of €2.7 million in FP2018 (FY2017: -€1.2 million), principally due to the net proceeds from the bonds of €11.8 million, partly set off by repayments made to banks and related parties of €3.7 million. Net capital used in investing activities amounted to €5.5 million, mainly on account of loans and receivables granted to related undertakings of €7.0 million, which balance was offset against cash amounts of TISL and HICL following the business combination to form the Malta Group.

Revenue in **FY2019** is projected to remain constant at €42.4 million (FP2018: €42.4 million). Further analysis shows that retail sales are expected to increase by €1.6 million (y-o-y) to €31.2 million, while wholesale & other income is projected to decline by the same amount to €11.1 million. EBITDA is expected to increase by €1.9 million (y-o-y) to €4.8 million, primarily due to the impact of IFRS 16 (explained in further detail on page 16 of this report).

Due to IFRS 16, FY2019 profitability is expected to be adversely impacted by *circa* €0.9 million and as such profit for the year is projected to decline from €1.2 million in FY2018 to €0.2 million (an adverse variance of €0.9 million). Accordingly, excluding the effect of IFRS 16, the expected results for FY2019 should at least match the positive results achieved in FY2018. Beyond FY2019, management expects the Malta Group to register further growth in its annual results.

VARIANCE ANALYSIS

Hudson Malta p.l.c. Income Statement for the year ended 31 December			
	2018 Actual £'000	2018 Forecast £'000	Variance £'000
Revenue	42,414	37,773	4,641
<i>Retail</i>	29,682	27,012	2,670
<i>Wholesale and other income</i>	12,732	10,761	1,971
Cost of sales	(29,303)	(24,836)	(4,467)
Gross profit	13,111	12,937	174
Net operating costs	(10,280)	(10,035)	(245)
EBITDA¹	2,831	2,902	(71)
Depreciation & amortisation	(755)	(1,130)	375
EBIT²	2,076	1,772	304
Net finance costs	(206)	23	(229)
Profit before tax	1,870	1,795	75
Taxation	(702)	(628)	(74)
Profit for the year	1,168	1,167	1

As presented in the above table, revenue generated by the Group in FP2018 was higher than expected by €4.6 million, due to better than expected performances in both the retail and wholesale & other income divisions of €2.6 million and €2.0 million respectively. EBITDA amounted to €13.1 million as compared to the forecast amount of €12.9 million, an increase of €0.2 million. Depreciation and amortisation was lower than projected by €0.4 million, whilst net finance costs and taxation were higher than expected by €0.3 million and €0.1 million respectively. Overall, the Malta Group's profit for the year was in line with the forecast and amounted to €1.2 million.

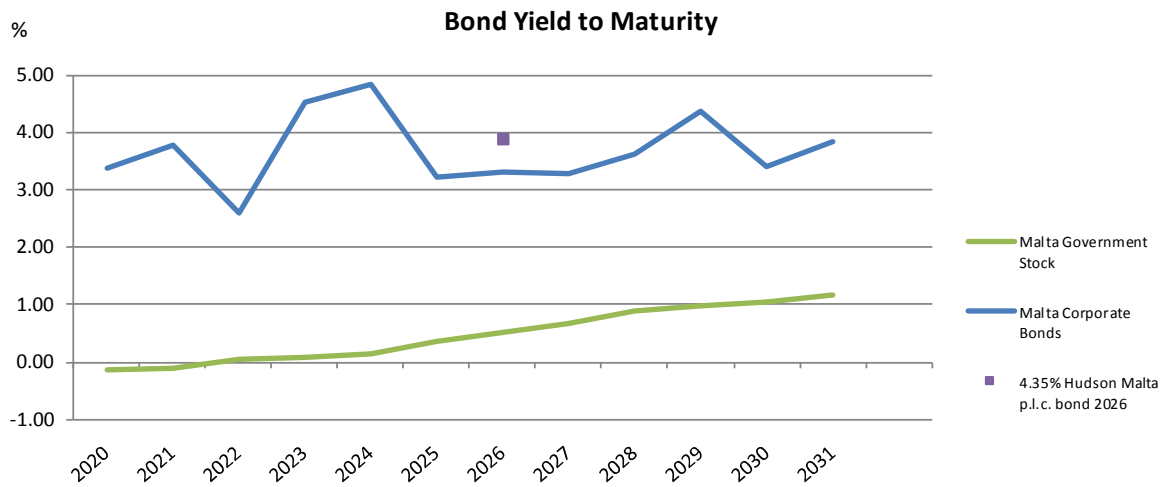
PART 3 - COMPARABLES

The table below compares the Malta Group and the Issuer's bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. Although there are significant variances between the activities of the Malta Group and other issuers (including different industries, principal markets, competition, capital requirements etc.), and material differences between the risks associated with the Malta Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Malta Group.

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.50% Pendergardens Dev. plc Secured € 2020 Series I	14,711,300	3.36	1.23	80,052	25,712	48.95
6.00% Pendergardens Dev. plc Secured € 2022 Series II	26,921,200	2.60	1.23	80,052	25,712	48.95
4.25% Gap Group plc Secured € 2023	19,931,000	3.48	4.45	55,237	9,869	71.82
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.53	1.19	21,625	6,916	62.72
6.00% AX Investments Plc Unsecured € 2024	40,000,000	1.98	6.97	325,243	214,590	18.66
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.84	5.33	83,223	44,177	43.99
5.00% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.35	2.29	112,006	43,514	51.65
4.25% Best Deal Properties Holding plc Secured 2024	16,000,000	3.50	4.02	25,986	3,432	82.64
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.41	1.41	120,794	38,318	52.41
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.02	1.55	154,742	52,242	61.72
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	4.81	2.09	5,499	19,741	-
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.91	2.59	1,765,072	901,595	40.43
4.00% International Hotel Invest. plc Secured € 2026	55,000,000	3.43	3.27	1,617,853	877,620	36.63
4.00% International Hotel Invest. plc Unsecured € 2026	40,000,000	3.63	3.27	1,617,853	877,620	36.63
4.00% MIDI plc Secured € 2026	50,000,000	3.30	9.80	220,613	97,440	31.83
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.59	12.63	179,451	48,701	54.42
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.86	10.08	28,166	6,135	60.96
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.75	5.93	229,882	63,771	50.15
4.00% Eden Finance plc Unsecured 2027	40,000,000	3.27	5.68	185,717	103,511	31.82
4.00% Stivala Group Finance plc Secured 2027	45,000,000	3.32	3.73	202,425	115,827	35.12
3.85% Hili Finance Company plc Unsecured 2028	40,000,000	3.63	3.44	455,113	86,390	73.98

10 June '19

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts | A division of MeDirect Bank (Malta) plc



Source: Malta Stock Exchange, Central Bank of Malta, Charts | A division of MeDirect Bank (Malta) plc

10 June 2019

To date, there are no corporate bonds which have a redemption date beyond 2031. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 - EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including retail and distribution of branded fashion and sportswear.
Cost of sales	Cost of sales includes inventory, labour expenses and all other direct expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
EBIT	EBIT is an abbreviation for earnings before interest and tax. EBIT is a measure of a firm's profit that includes all expenses except interest and income tax expenses. It is the difference between operating revenues and operating expenses.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.

Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.
Balance Sheet	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets; property, plant & equipment; and loans receivable.
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory, and cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt.
Net debt	Borrowings before unamortised issue costs less cash and cash equivalents.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and deferred taxation.
Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and minority interest.

Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's interest expense of the same period.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.