Fashion Company d.o.o.

Republic of Serbia, Retail

Issuer

BB-

Outlook

Stable

Senior unsecured RSD 8.4bn bond rating

(P) BB-

Rating composition

Business risk profile		
Industry risk profile	BB	B+
Competitive position	B+	
Financial risk profile		
Credit metrics	BB	BB
Liquidity	+/-0 notches	
Standalone credit assessment		**BB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	18.5x	12.3x	15.7x	8.7x
Scope-adjusted debt/EBITDA	2.9x	2.9x	2.7x	3.6x
Scope-adjusted funds from operations/debt	32%	30%	32%	23%
Scope-adjusted free operating cash flow/debt	11%	8%	2%	4%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenario for the ratings and Outlook:

- Improved business risk profile through increased size and geographical diversification, while maintaining an EBITDA margin consistent with historical performance.

The downside scenarios for the ratings and Outlook (individually):

- Debt/EBITDA above 3.5x on a sustained basis
- Negative free operating cash flow/debt

*All credit metrics refer to Scope-adjusted figures.

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Retail and Wholesale Methodology, Jun 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Medium to strong positioning as an apparel retailer in home and neighbouring markets (one of the top three companies in Serbia and Montenegro, and one of the top six in Croatia, these countries being the three major markets), supporting revenue stability and pricing power • Presence across two apparel sub-segments with a variety of store concepts (multi-brand, mono-brand, beauty, etc.), which mitigates profit volatility and reflects close attention to consumer trends, supporting revenue stability • High profitability compared to peers • Solid credit metrics underpinned by strong cash generation	• Relatively small size compared to the broader retail universe, which poses risk of quick market share loss if new players enter the market and makes entry into larger markets difficult • Geographical diversification limited to similar economies, creating higher exposure to cyclicality • Dependence on cyclical products • Expansion plan entails execution risk, a decline in profitability, and a temporary increase in leverage

2. Rating Outlook

The Stable Outlook reflects our expectation that leverage (debt/EBITDA) will remain between 3.0x to 3.5x over the forecast horizon. This is despite the anticipated expansion strategy, which is expected to entail a material increase in debt, as favourable market conditions and inorganic growth are projected to support EBITDA growth and partially offset higher borrowings.

3. Corporate profile

Fashion Company d.o.o. (Fashion Company) is a Serbian fashion retail and wholesale company established on 10 May 1993 and headquartered in Belgrade, Serbia. It operates as one of the largest fashion retailers in Southeast Europe, specialising in the sale and distribution of apparel, footwear, and accessories from prominent international brands such as Diesel, Calvin Klein, Levi's, Tommy Hilfiger, Scotch & Soda, Replay, Timberland, Camper, Guess, UGG, and others. The company runs an extensive network of retail outlets across Serbia and neighbouring countries in the region, featuring both mono-brand and multi-brand stores.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
11 Feb 2026	New	BB-/Stable

5. Financial overview (financial data in RSD m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	16.0x	18.5x	12.3x	15.7x	8.7x	7.8x
Debt/EBITDA	3.6x	2.9x	2.9x	2.7x	3.6x	3.2x
Funds from operations/debt	26%	32%	30%	32%	23%	25%
Free operating cash flow/debt	-5%	11%	8%	2%	4%	6%
Liquidity	>100%	>200%	>200%	>200%	>200%	>200%
EBITDA						
Reported EBITDA	3,028	3,515	3,957	4,640	5,227	5,855
EBITDA	**3,028**	**3,515**	**3,957**	**4,640**	**5,227**	**5,855**
Funds from operations (FFO)						
EBITDA	3,028	3,515	3,957	4,640	5,227	5,855
less: interest	(189)	(190)	(322)	(296)	(599)	(746)
less: cash tax paid	(244)	(164)	(233)	(364)	(370)	(414)
Other non-operating charges before FFO	160	53	23	-	-	-
Funds from operations	**2,755**	**3,214**	**3,425**	**3,980**	**4,258**	**4,695**
Free operating cash flow (FOCF)						
Funds from operations	2,755	3,214	3,425	3,980	4,258	4,695
Change in working capital	(1,235)	(321)	(154)	(714)	(562)	(486)
less: capital expenditures (net)	(924)	(589)	(1,163)	(1,581)	(1,349)	(1,232)
less: lease amortisation	(1,120)	(1,231)	(1,164)	(1,421)	(1,651)	(1,852)
Free operating cash flow	**(524)**	**1,073**	**944**	**264**	**696**	**1,125**
Interest						
Net cash interest per cash flow statement	189	190	322	296	599	746
Interest	**189**	**190**	**322**	**296**	**599**	**746**
Debt						
Reported financial (senior) debt	7,499	7,284	9,254	9,467	15,387	14,929
add: subordinated (hybrid) debt (net of equity credit)	117	23	-	-	-	-
add: shareholder loans (net of equity credit)	(58)	(12)	-	-	-	-
less: cash and cash equivalents	(526)	(799)	(1,308)	(1,308)	(1,308)	(1,308)
add: other debt-like items[1]	3,723	3,573	3,548	4,155	4,631	5,018
Debt	**10,755**	**10,068**	**11,494**	**12,313**	**18,709**	**18,637**

[1] Bank guarantees that the company has obtained to secure its payables to suppliers.

6. Environmental, social and governance (ESG) profile[2]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

ESG neutral

The ultimate holding company, Fashion Company d.o.o., exercises control over its country-level subsidiaries, which operate with a degree of autonomy in line with local legal and regional requirements. However, strategic decision-making remains centralised at the group level.

Overall, we assess the quality of the audited reports and the information provided as clear, comprehensive, and transparent.

Fashion Company does not currently have a formalised ESG strategy. For a fashion retailer – particularly one focused on expanding its footprint and enhancing digitalisation and delivery services – environmental and social considerations are increasingly critical. Key ESG priorities for the sector include reducing energy consumption and material waste across retail operations and logistics, improving supply chain transparency and labour standards, and managing the environmental impact of packaging and last-mile delivery.

From a regional perspective, Serbia is still at a developing stage in terms of ESG regulation and market practices compared with Western European standards. While awareness and regulatory alignment with EU frameworks are gradually improving, ESG implementation remains largely voluntary and uneven.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: B+

Fashion Company's business risk profile is supported by its long-standing and established presence in the Balkan region as an apparel retailer, as well as by high profitability. However, it is constrained by the company's small scale and the cyclicality of the product offering.

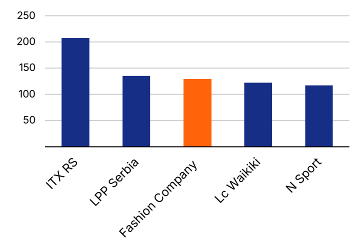
BB industry risk profile

Fashion Company is a discretionary retailer, as most of its sales are generated by the retail and wholesale of apparel. This is a segment with medium to high cyclicality, low entry barriers and low substitution risk.

Solid market positioning in three Balkan countries…

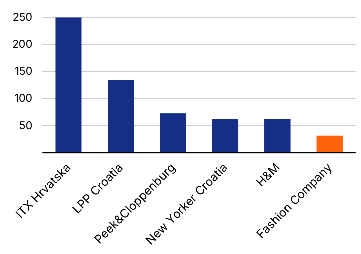
The issuer is an established apparel retailer in its core Balkan markets, ranking among the top players in Serbia, Croatia, and Montenegro, which together generate most revenues (86% in 2024). Fashion Company operates in the affordable luxury and premium lifestyle sub-segments of the market. These segments are still developing in the Balkans, with have historically been dominated by lower to middle range brands. Fashion Company's position is supported by high local brand awareness, a diversified mono- and multi-brand store network, and efficient sourcing.

Figure 1: Top player by revenue in Serbia (EUR m, 2024)



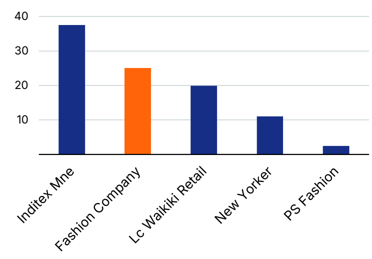
Source: Fashion Company, Deloitte, Scope

Figure 2: Top player by revenue in Croatia (EUR m, 2024)



Source: Fashion Company, Deloitte, Scope

Figure 3: Top player by revenue in Montenegro (EUR m, 2024)



Source: Fashion Company, Deloitte, Scope

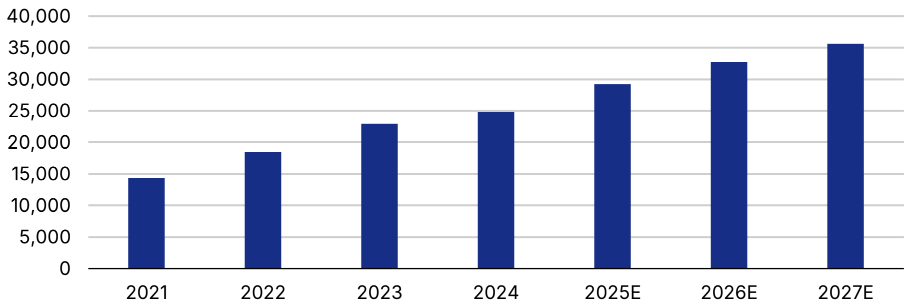
…but small size compared to European peers

Despite significant volume growth (+71% in 2021-2024), with revenues of RSD 24.6bn (around EUR 0.2bn) in 2024, Fashion Company's small size relative to European retail peers is a key credit weakness. Limited scale may reduce the company's ability to defend its market position against larger or new competitors. Nonetheless, we expect the company to maintain its solid market position at least in the medium term, supported by its strong cultural, geographical, and economic expertise in the region – capabilities that international competitors may lack – as well as its planned expansion initiatives.

Expansion plan could improve positioning in core markets

Fashion Company plans to expand significantly over the next few years by opening approximately 120 stores (currently 145) over eight years. The aim is to open 73% of these between 2025 and 2028, with a focus on multi-brand and KIKO Milano store concepts, which have the highest profitability per sqm. This plan should create strong growth, which could lead to a better positioning in the market and economies of scale.

Figure 4: Revenue evolution (RSD m)

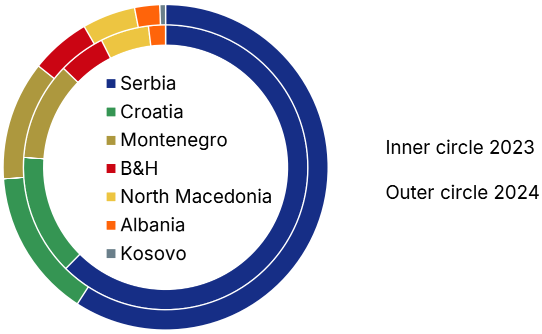


Source: Fashion Company, Scope estimates

While most revenue continues to be generated in Serbia, accounting for 59% of total revenue in 2024, Fashion Company has expanded its presence into six additional countries in the Balkan region. However, despite this regional footprint, geographical diversification is limited. This is primarily because the economies of these countries are broadly similar in terms of consumer behaviour, and market dynamics. Consequently, the issuer remains exposed to regional economic cycles, currency fluctuations, and market-specific risks that could simultaneously impact multiple markets.

International footprint limited to the Balkan region

Figure 5: Revenue by country



Source: Fashion Company, Scope

Fashion Company's product offer is focused on the distribution of fashion apparel, a segment which is subject to relatively high cyclicality and fast changes in consumer preferences. Its positioning in the affordable luxury and premium lifestyle segments, and to a minor extent to the mass market, does not provide a mitigating factor, as customers in these segments tend to reduce their expenditure during economic downturns. In contrast, the luxury segment is supported by a higher-income customer base and lower price sensitivity compared to mass market apparel[3].

Products sold subject to cyclicality…

Two factors mitigate product cyclicality: i) the Balkan region market is still in a growth phase for affordable luxury and premium lifestyle brands, supported by a structural shift in consumer behaviour towards higher-priced and higher-quality apparel compared to historical purchasing patterns; and ii) Fashion Company's presence, through KIKO, in the cosmetics segment, which has more defensive demand characteristics. A portion of cosmetics consumption – particularly skincare, personal care, and everyday beauty products – has habitual or quasi-non-discretionary features, resulting in lower demand volatility across the economic cycle. In addition, KIKO's positioning as a relatively affordable brand reduces its exposure to demand contraction, as the cosmetics segment tends to exhibit greater sensitivity to economic downturns at the premium and luxury end of the price spectrum.

…but partially mitigated by favourable trend in covered markets…

KIKO is one of the brands with the highest turnover per sqm and highest EBITDA per store. We therefore expect the expansion plan to strongly focus on new KIKO stores. In 2024, KIKO generated 5% of revenue and 13% of total EBITDA.

Fashion Company trades over 80 brands throughout the market covered, with the top 10 brands generating 70% of revenue and the top brand, Guess, generating 12% of revenue. We believe the large brand offer provides some revenue stability.

…and diversified supplier base…

According to management, relationships with suppliers are solid and have been maintained with main suppliers such as Guess, Tommy Hilfiger, Calvin Klein and Replay for over 20 years.

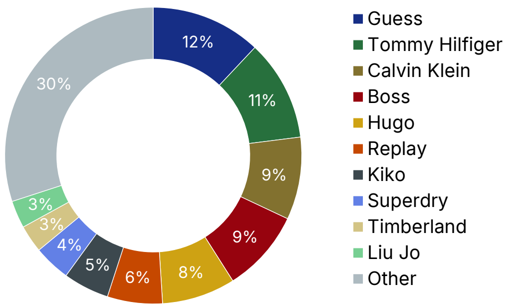
Fashion Company benefits from a diversified and well-established distribution network across retail, online, and wholesale channels. Retail is the core channel and the main revenue contributor, supported by a broad geographic footprint and multiple store formats that address different

…as well as distribution channels

[3] The apparel market is divided into mass, premium lifestyle, affordable luxury and luxury, with Fashion Company positioned in the middle categories.

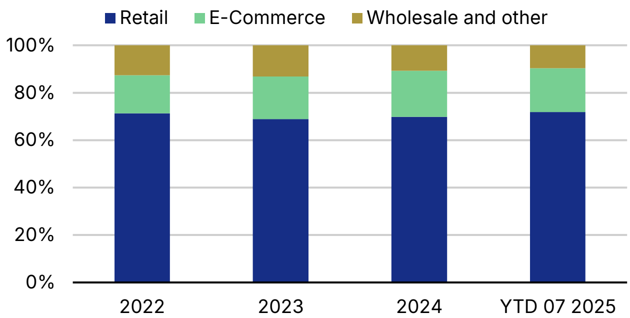
consumer segments. The multi-brand retail strategy enhances resilience by capturing a wide range of price points and lifestyle trends, while the mono-brand portfolio – led by KIKO – supports profitability and growth, albeit with some concentration risk. The online channel has grown rapidly and is supported by a large loyalty base, strengthening customer engagement. Wholesale provides additional reach but remains a secondary channel. Overall, distribution quality is solid, underpinned by diversification and growth.

Figure 6: Revenue by brand



Source: Fashion Company, Scope

Figure 7: Revenue by distribution channel



Source: Fashion Company, Scope

High profitability

Fashion Company's profitability is significantly higher than that of the Scope retail universe. Although there are no direct segment peers within the portfolio, we assess the issuer's profitability as high relative to the fashion retail sector overall and in line with the average profitability of its major competitors in the Balkans region.

Only a limited number of pure retailers disclose comparable profitability data, but available evidence indicates that their average EBITDA margins are materially below those of the issuer. For example, Zalando, which operates predominantly online, reports an EBITDA margin of approximately 7% in 2024, reflecting the structurally lower margins of the e-commerce business model. El Corte Inglés, Spain's leading department store operator, reports an EBITDA margin of around 8.2% in FY 2024, while Foot Locker's EBITDA margin is approximately 4.5% in 2024. By contrast, non-pure retailers such as H&M (approximately 17% EBITDA margin in 2024) and Inditex (approximately 28% EBITDA margin in 2024), which also represent Fashion Company's main competitors, achieve materially higher EBITDA margins. This reflects their vertical integration, stronger pricing power and greater scale.

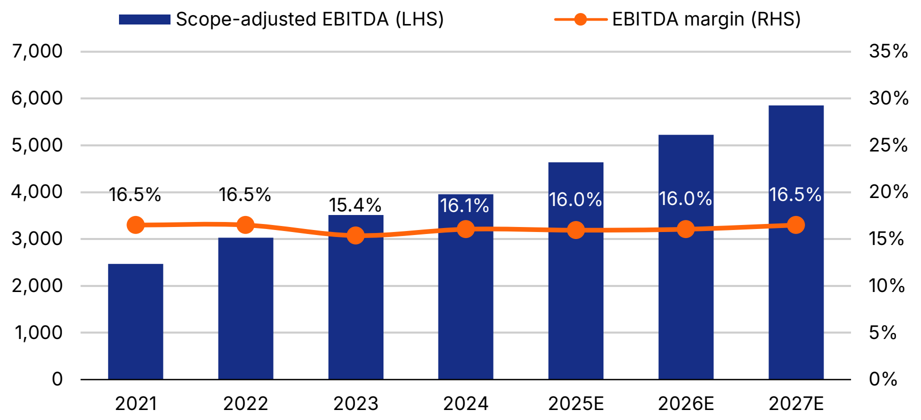
Overall, profitability is strong. While it is lower than that of major brands and competitors Inditex and H&M (which operate with strong economies of scale and produce their own clothing, allowing higher profitability) Fashion Company's EBITDA margin is significantly higher than that of other multi-brand distributors.

We assume the issuer's high profitability is driven by several factors: i) its positioning in the mid-market and accessible luxury segments supports higher-than-average margins compared with mass-market brands, particularly for pure distributors; ii) a moderate share of revenue comes from mono-brand stores, such as KIKO, which benefit from focused branding and higher per-store profitability (although mono-brand store profitability can decline quickly in line with consumer preferences); iii) competition remains limited in key regions, particularly those which major online players like Zalando and About You have not yet entered, such as Serbia and Montenegro, allowing the company to maintain a strong market share; and iv) longstanding relationships with suppliers provide favourable purchasing terms and close collaboration on inventory planning, enabling efficient stock management, reduced markdowns, and strong pricing power, all of which contribute to robust and sustainable profitability.

For the 2026–2027 period, we expect Fashion Company's profitability to remain relatively stable. This outlook is supported by: i) a demonstrated ability to pass inflationary pressures on to customers; ii) strong pricing power with suppliers; and iii) our expectation that competition will remain limited in the medium term.

At the same time, our assessment takes into account potential risks. These include the expansion strategy, which may introduce profit volatility, the uncertainty of the markets in which Fashion Company operates, and the possibility that new entrants could erode market share and compress margins.

Figure 8: EBITDA (RSD m) and EBITDA margin over years



Source: Fashion Company, Scope

8. Financial risk profile: BB

Solid credit metrics over the years

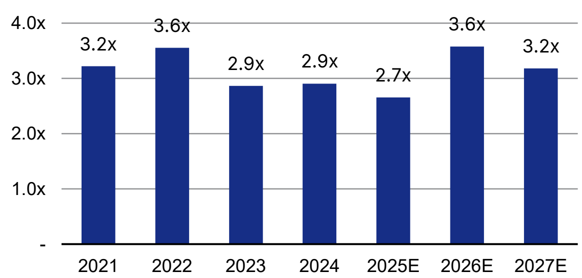
Good credit metrics, underpinned by continuous positive cash flow generation, support our rating assessment.

Leverage to remain below 4x despite the announced expansion plan

Leverage remained moderate over the 2021–2024 period, ranging between 2.9x and 3.6x. This was supported by continuous cash flow generation and solid EBITDA growth, which allowed Fashion Company to take on additional debt without compromising its leverage profile.

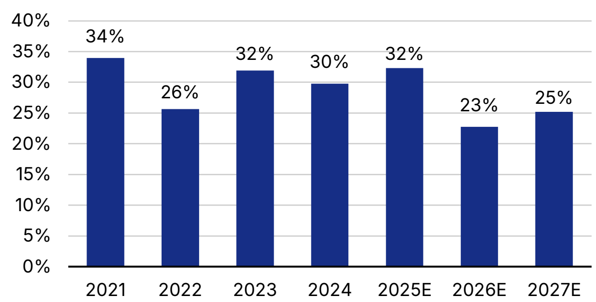
The expansion plan expected from 2026, supported by the issuance of an RSD 8,438m bond, is not anticipated to materially affect leverage. Although debt will increase significantly (to RSD 15.3bn from RSD 9.4bn in our base case), expected EBITDA growth should partially offset the higher indebtedness and keep leverage between 3x and 3.5x with a temporary peak to 3.6x in 2026. We also assume, in line with the company's plans, that EUR 30m of the bond proceeds will be used to refinance existing long- and short-term bank loans. As a result, net debt is expected to increase by approximately EUR 50m (around RSD 5.9bn). Our assumptions incorporate conservative EBITDA growth and no additional debt beyond the bond issuance.

Figure 9: Debt/EBITDA



Source: Fashion Company, Scope estimates

Figure 10: Funds from operations/debt



Source: Fashion Company, Scope estimates

Interest cover to decline but remain solid

The interest cover ratio has declined due to Fashion Company's expansion, which led to higher debt levels and increased interest expense from leases. At the same time, the ratio has remained very solid, consistently above 10x in 2021–2024. We expect it to stay relatively high, at around 15x in 2025, but anticipate a decline to 9x–8x in 2026–2027. This is because the planned new bond will carry a higher interest rate (indicative interest rate of 7%) than the current average cost of debt of around 3.9%, which will bring average interest to 5.4%.

Bond issuance would reduce volatility risk

As of February 2026, approximately 20% of Fashion Company's bank loans are held on a variable-rate basis. Following the refinancing of approximately EUR 30m of loans with the bond, around 84% of total debt will be at fixed interest rates. This will further mitigate the risk of fluctuations in the cost of debt.

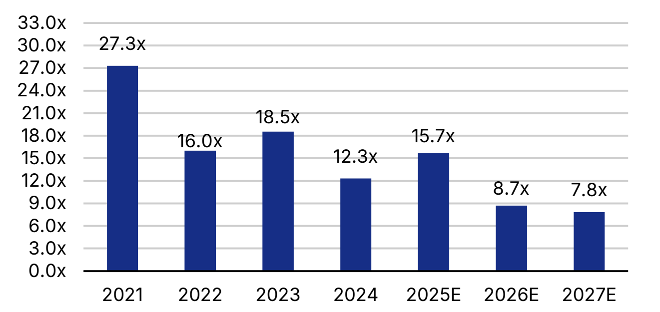
Positive free operating cash flow despite continuous expansion

Fashion Company benefits from positive operating cash flow generation, although this has been somewhat volatile and turned negative in 2022 due to a significant increase in net working capital. Free operating cash flow/debt is expected to remain positive but volatile, reflecting the planned expansion. This expansion is likely to result in higher capital expenditure, increased lease-related cash outflows, and negative net working capital movements in the 2025–2027 period. However, the company has historically maintained an adequate level of cash on a yearly basis, and capital expenditure allocation remains flexible and closely aligned with market conditions and revenue growth. As a result, we believe the company has the ability to adjust its investment pace quickly, if needed, thereby mitigating potential cash flow pressure.

Our assessment also takes into account the company's business seasonality, with cash flow typically declining ahead of the Christmas holiday season and the Spring/Summer collections, as inventory levels are built up in advance of peak sales periods.

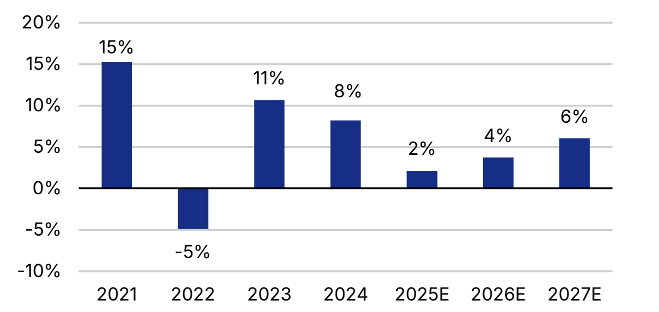
Most of the planned capex will be used for the opening of new stores, digitalisation and AI investments, which are expected to bring cost benefits in the long term. We expect that part of the capex earmarked for new store openings can be postponed if the market does not grow as expected.

Figure 11: EBITDA interest cover



Source: Fashion Company, Scope estimates

Figure 12: Free operating cash flow/debt



Source: Fashion Company, Scope estimates

Liquidity is adequate. Projected liquidity is expected to cover short term debt repayment largely above 110% in 2026 and 2027. This assumption is supported by projected positive free operating cash flow in both years and cash buffer of at least RSD 2,000m yearly.

Table 1: Liquidity sources and uses (in RSD m)

	2024	2025E	2026E
Unrestricted cash (t-1)	1,599	2,617	2,039
Restricted cash (t-1)	(6)	(6)	(6)
FOCF (t)	944	264	696
Short-term debt (t-1)	662	787	971
Liquidity	**>200%**	**>200%**	**>200%**

Source: Fashion Company, Scope

9. Debt rating

Senior unsecured RSD 8.4bn bond rating: (P) BB-

Fashion Company plans to tap the bond market with a first-time RSD 8.4bn (EUR 72m) senior unsecured bond issue in Q1 2026, to which we assign a preliminary bond rating of (P) BB-. We based our analysis on a liquidation value in a hypothetical default scenario in 2027, with bank loans and payables secured through a pledge on company assets and a bank guarantee. The result is RSD 11.9bn available to creditors, indicating an above-average recovery for senior unsecured debt. Nonetheless, we have refrained from upnotching the debt rating due to potential debt issuance on the path to default, which could reduce the recovery amount.

Related research

European retailing outlook: corporates face growing capex challenge amid slow growth, tight margins, December 2025

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