



QUINTESSENTIAL
CAPITAL MANAGEMENT

Intelligent Investing

IMPORTANT:

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A global value fund designed to multiply your wealth through outstanding long term returns with an emphasis on capital preservation

--- Private & Confidential ---

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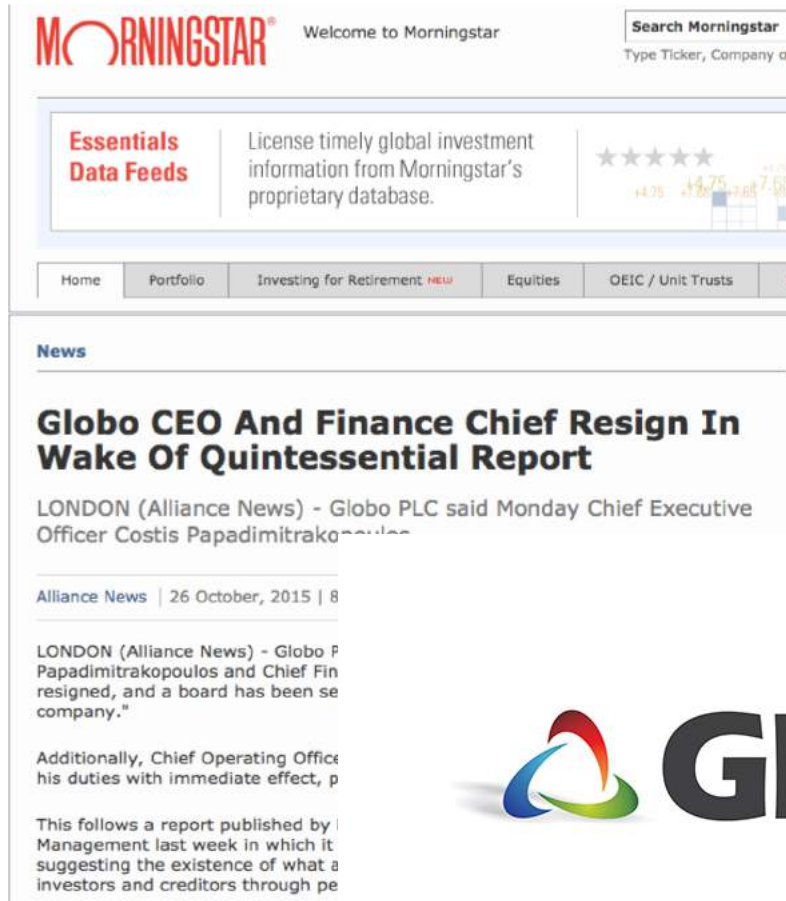
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THE FIRST “GREEK PARMALAT” SANK BY QCM



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News

Globo CEO And Finance Chief Resign In Wake Of Quintessential Report

LONDON (Alliance News) - Globo PLC said Monday Chief Executive Officer Costis Papadimitrakopoulos

Alliance News | 26 October, 2015 | 8

LONDON (Alliance News) - Globo PLC said Monday Chief Executive Officer Costis Papadimitrakopoulos and Chief Financial Officer resigned, and a board has been set up to run the company.

Additionally, Chief Operating Officer resigned his duties with immediate effect, and the company said it was in the process of appointing a new CEO.

This follows a report published by Quintessential Capital last week in which it suggested the existence of what it called a "Greek Parmalat" among investors and creditors through the company.

Forbes / Economics & Finance

OCT 27, 2015 @ 07:22 AM 960 VIEWS

In Praise Of Short Sellers: Globo Edition



Tim Worstall
CONTRIBUTOR

I have opinions about economics, finance and public policy.

Robert Shiller won his share of the Nobel Prize for, in part, explaining the value that short sellers bring to a financial market. And we've a nice example of this today in the form of the stock of Globo, a mobile phone technology company listed on AIM, the junior London market. Shiller's prize was one of those odd ones. Shares went to the guy (Eugene Fama) who said that the efficient markets hypothesis was obviously true, to the statistician who showed it to be so, and then to Shiller, who marched in and pointed out when it wasn't in fact true. Shiller's

the theory: rather, it was an need for it to be really true. markets where people can bet that them complete markets, and es hold.

s goings on at Globo just

Board of Directors of the Group shed by Quintessential Capital





The Other Greek Parmalat

QCM IS **SHORT** FOLLI FOLLIE (FFGRP)

FOLLI FOLLIE: THE BASICS

- Market Cap: \$1.4b
- Industry: luxury goods.
- Domicile: Greece.
- Listed: Greek Stock Exchange.
- Sales: €1.3b (2016)
- EBITDA: €279m (2016)

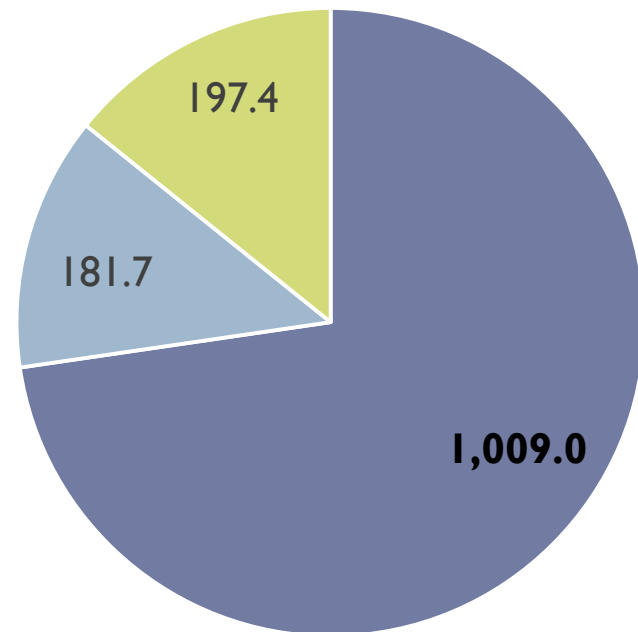


THE PRODUCTS ARE OK...



JEWELRY, WATCHES & ACCESSORIES ARE CORE

Sales - € millions



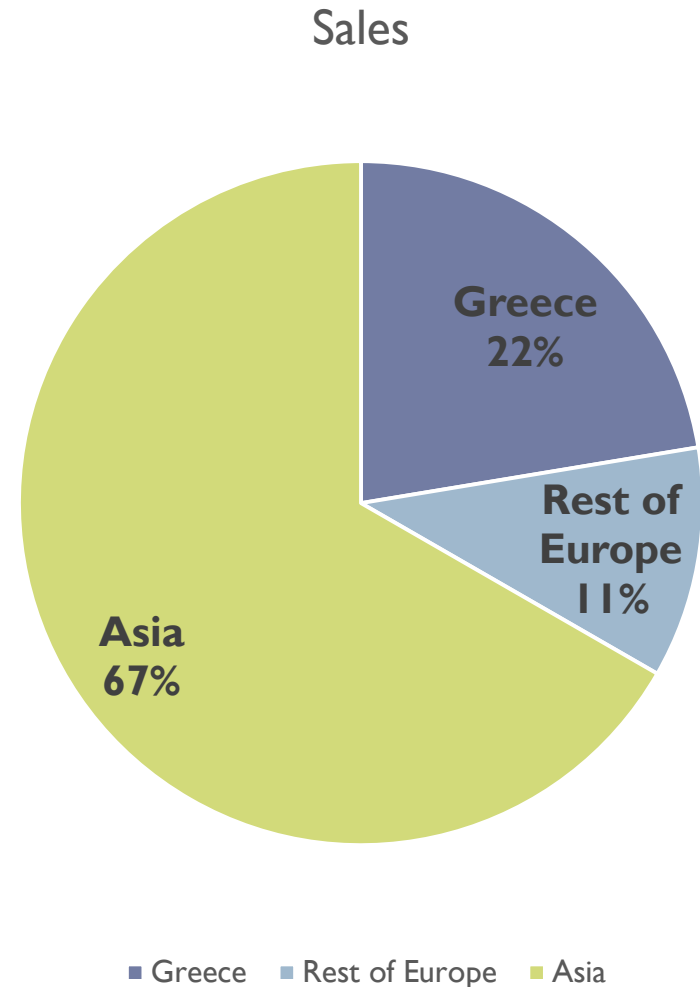
- Core business is JWA.
- Department store is Attica (Athens).
- Retail/wholesale is secondary.

■ Jewellery-Watches-Accessories
■ Department Stores
■ Retail / Wholesale



ASIA IS DOMINANT: \$1BN SALES (2016)

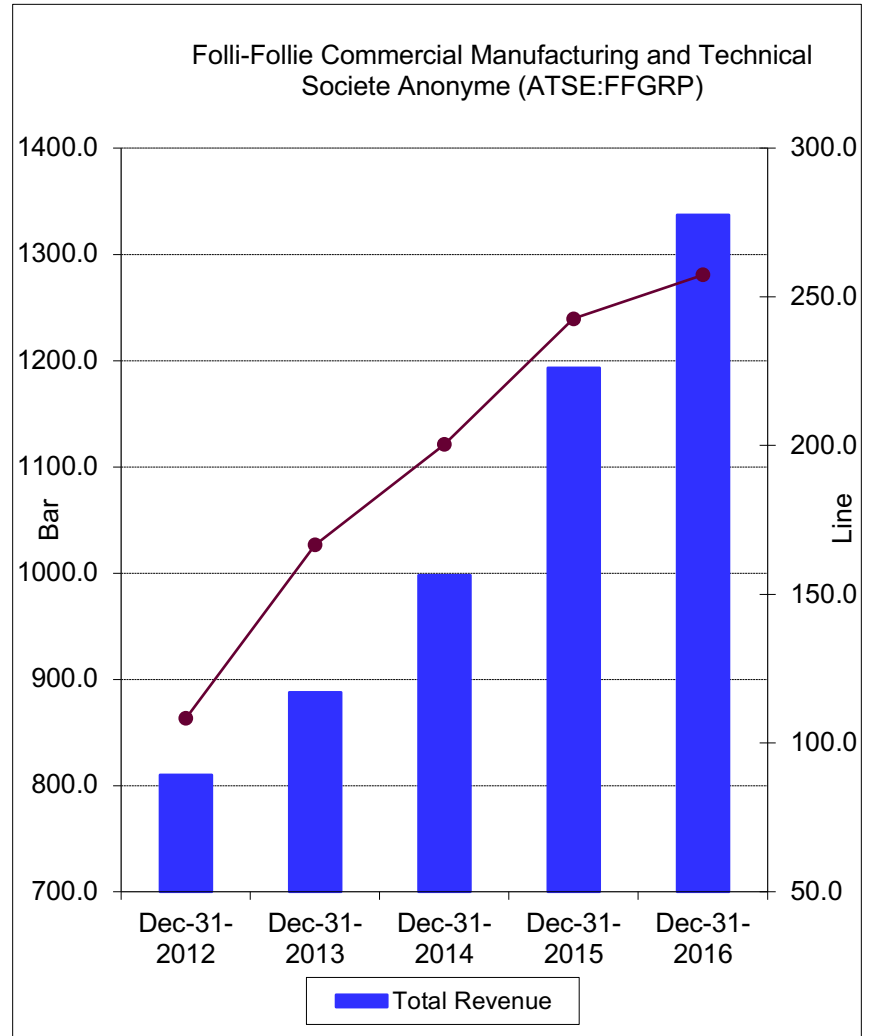
- 58% of shops.
- 67% of revenue.
- **100% of EBIT**



A ROARING TIGER (ON PAPER...)

- Sales CAGR: 11%
- EBIT CAGR: 20%!
- 20% Operating Margin
- P/E: 4.4

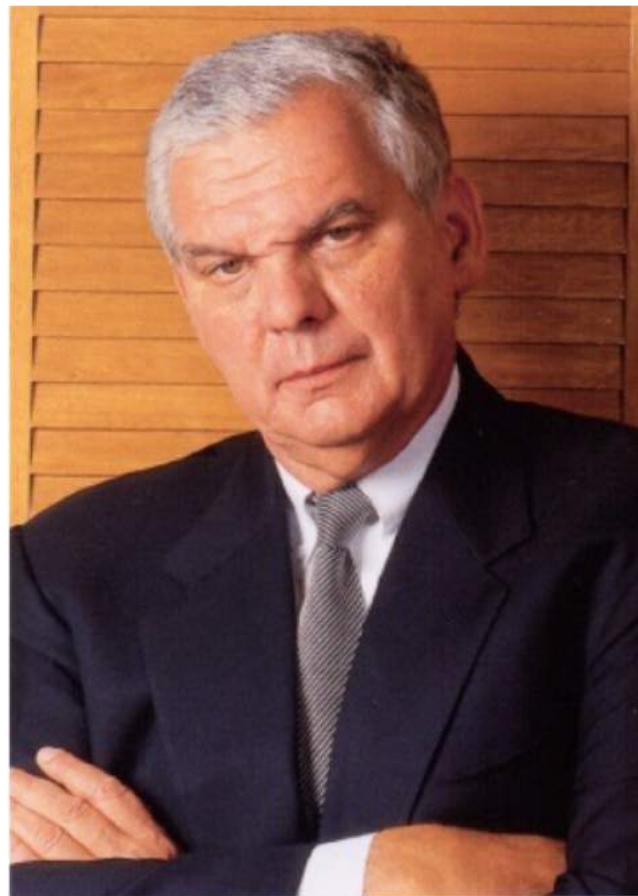
[source: CapitalIQ]



IN A GROWING MODE...

“All activities exhibited remarkable growth [...] we expanded our footprint in new markets and we prepared for the next stage of development.”

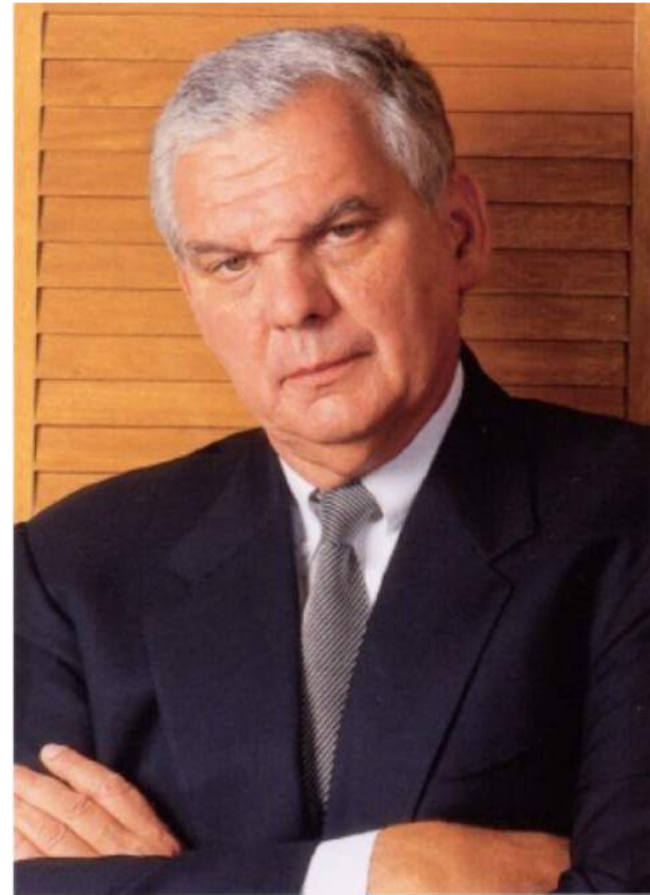
Dimitris Koutsolioutsos
Chairman of the Board



EXPANDING IN THE US...

*“In the process of entering new markets, and for the Folli Follie and Links of London brand, **investing in the US heavily.***”*

Dimitris Koutsolioutsos
Chairman of the Board



AN IMPRESSIVE NETWORK...

*“The FF Group has established a strong presence counting more than **930 points of sales** worldwide.”*

[2016 Annual Report]

The FF Group creates fashion globally and has established a strong presence counting more than 930 points of sale worldwide and employing almost 5,000



...ESPECIALLY IN ASIA

*“In Japan & China FF has over
65 and 240 POS.”*

[2016 Annual Report]

The launch of Folli Follie in the very demanding Greek jewellery market was followed by an unprecedented success that convinced the owners to steer the brand towards additional categories of fashion accessories and led the way towards the brand's international expansion through strategic shop locations. In Japan and China, Folli Follie has over 65 and 240 points of sale respectively, whereas overall the brand has



THE REALITY (ACCORDING TO QUINTESSENTIAL)

- Asian sales could be a fraction of reported figures.
- Profit could be negative.
- Network seems half of claimed size.
- Business seems rapidly shrinking.
- Cash balances doubtful.
- Insolvency may be a concern.
- **Can shareholders really trust the books?**



WE COLLECTED A MOUNTAIN OF EVIDENCE

- Investigation spanning three continents.
- Dozens of live, field checks.
- 600 telephone calls.
- Dozens of interviews.
- Full digital presence audit.
- Chinese government record searches.



How many Points of Sale are really out there?

The elusive POS network

ACCORDING TO THE COMPANY...

- 930 POS worldwide.
- 630 FF only.
- 65 in Japan
- 240 in China

[2016 annual report]



2016 ANNUAL REPORT: 930 POS

"WE CREATE FASHION"

Folli Follie

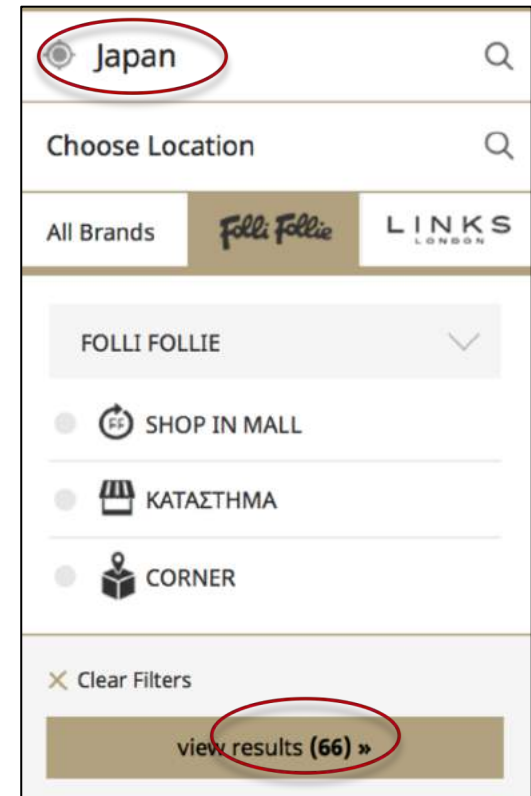
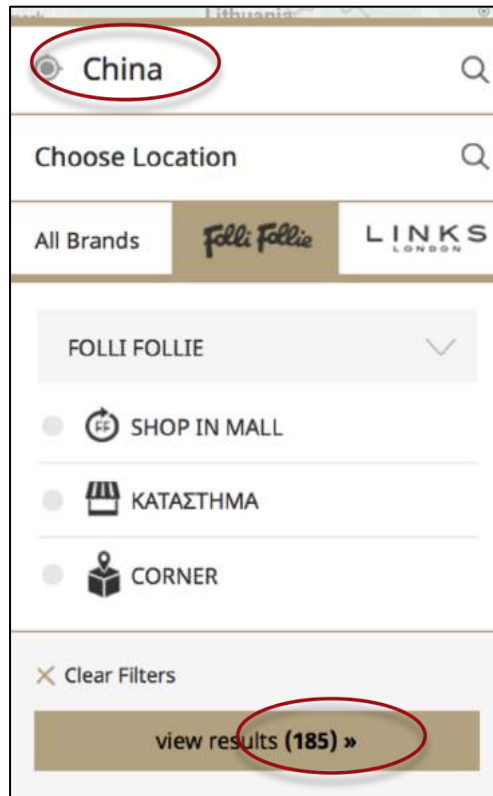
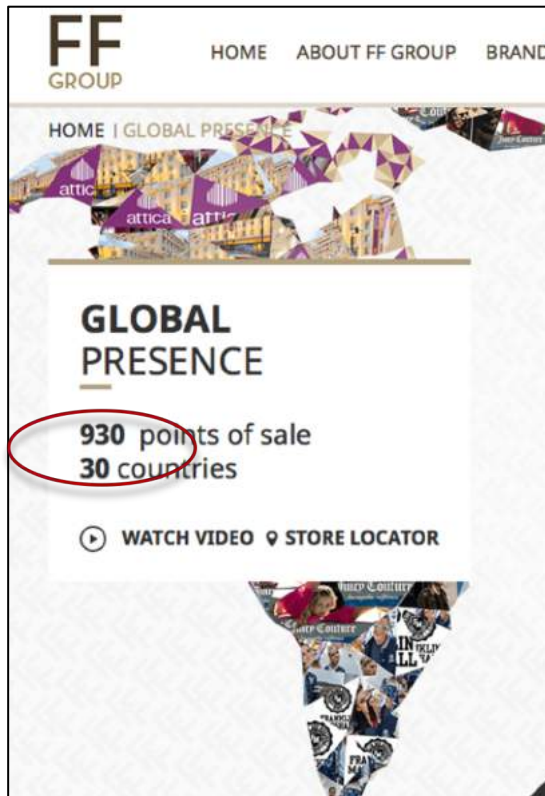
12

Folli Follie is an international lifestyle fashion brand, which designs, manufactures and distributes jewellery, watches and accessories. Folli Follie creates and offers fashion in 30 markets with more than 630 points of sale worldwide. Today, Folli Follie's core philosophy is to unveil the brightest side of women internationally, by offering a collection of versatile, original and fashionable designs of jewellery, watches and accessories.

The launch of Folli Follie in the very demanding Greek jewellery market was followed by an unprecedented success that convinced the owners to steer the brand towards additional categories of fashion accessories and led the way towards the brand's international expansion through strategic shop locations. In Japan and China, Folli Follie has over 65 and 240 points of sale respectively, whereas overall the brand has



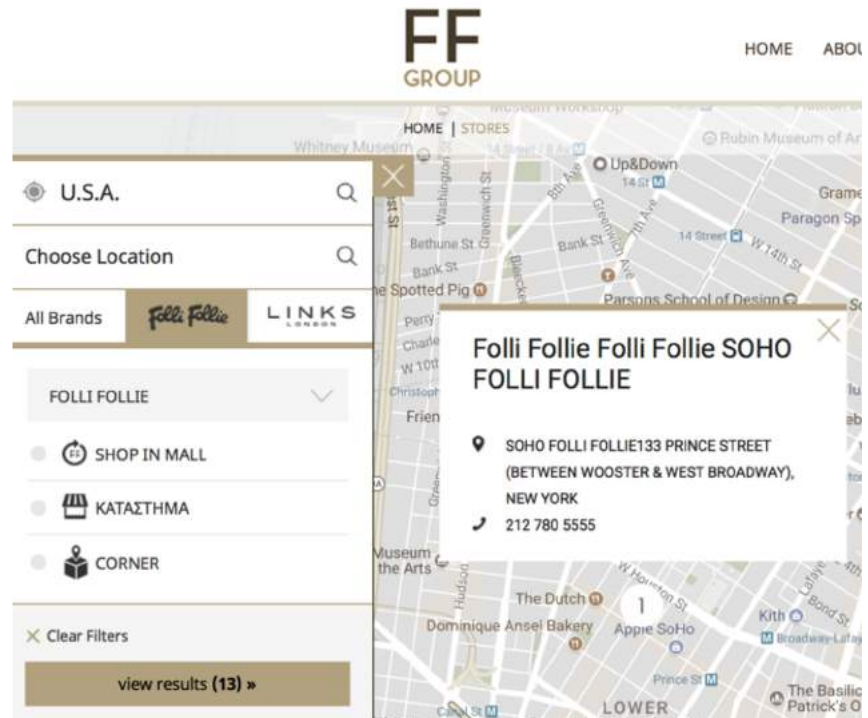
STORE LOCATOR ON CORPORATE WEBSITE: 930 POS



FF STORE LOCATOR...JUST A MATTER OF CHECKING!



Google Maps



A SMALL SAMPLE OF OUR WORK...

Excel File Edit View Insert Format Tools Data Window Help

AutoSave OFF

Folli-Folli Stores workbook maya.xls - Compatibility Mode — Saved to my Mac

Search Sheet

Normal

Page Break Preview

Page Layout

Custom Views

✓

Ruler

✓

Formula Bar

100%

Zoom

Zoom to 100%

Freeze Panes

Freeze Top Row

Freeze First Column

Split

View Macros

Record Macro

✓

Gridlines

✓

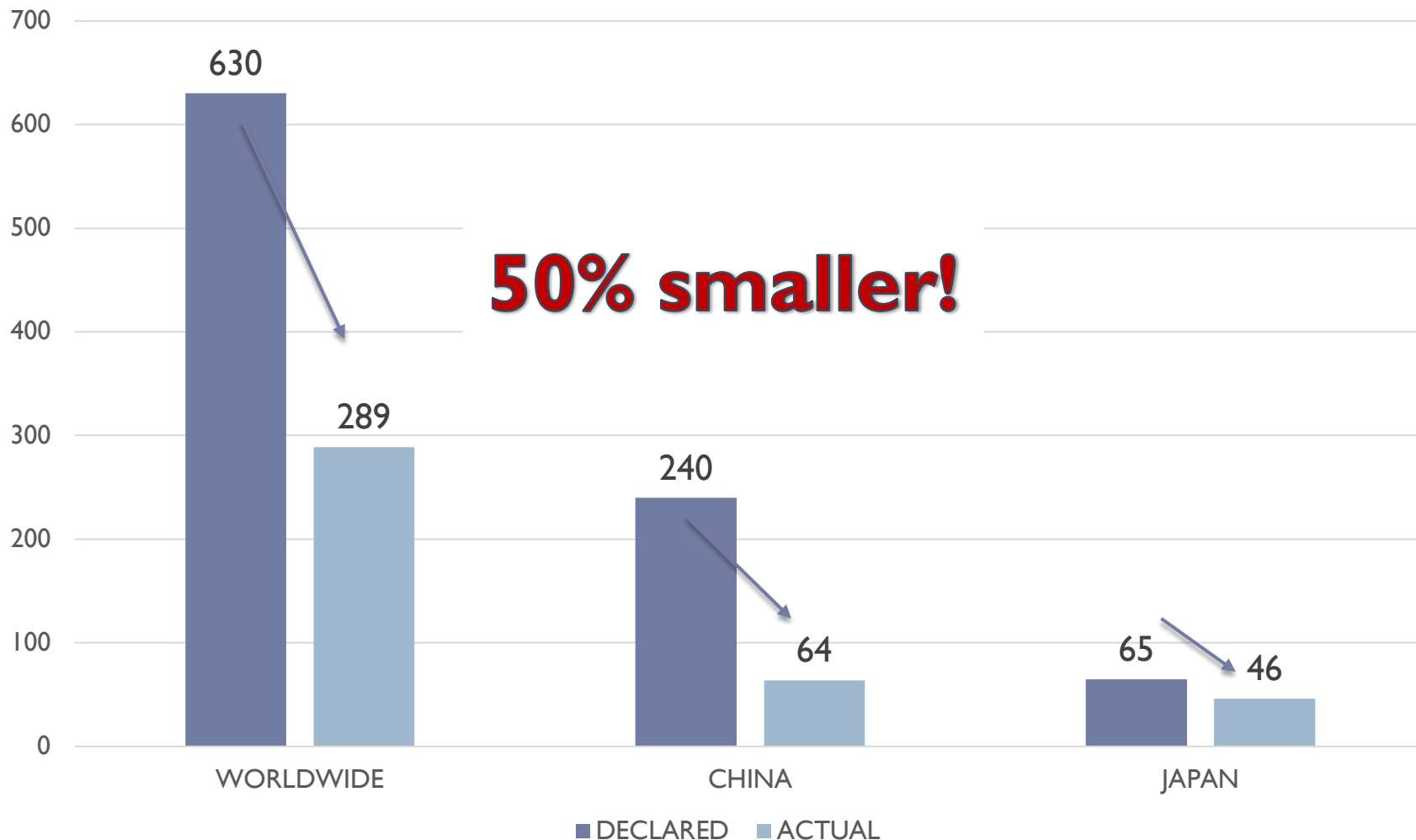
Headings

Q78

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PERCEPTION VS QCM FINDINGS: THE POS NETWORK





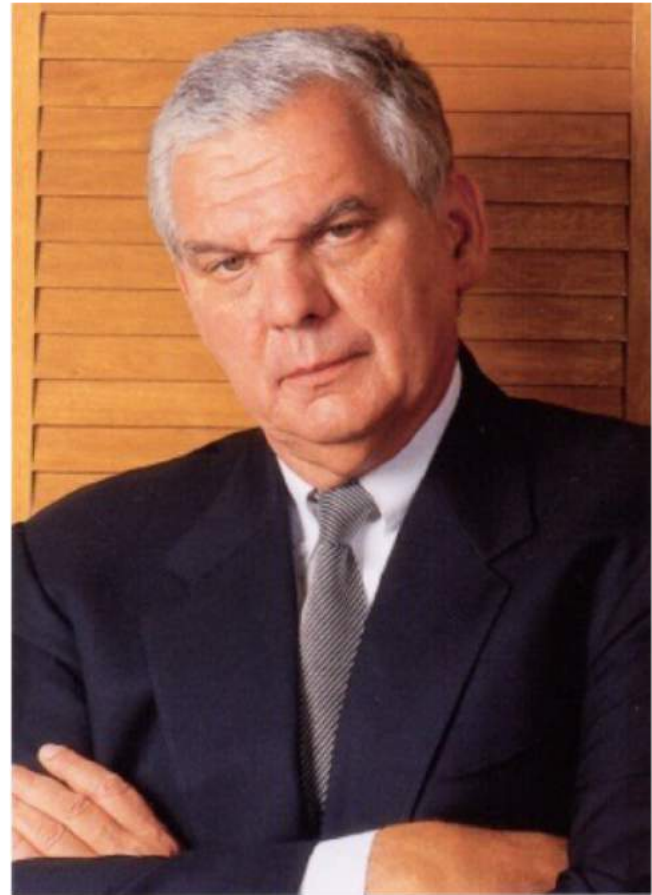
TRUST...BUT VERIFY!

QCM on-site reconnaissance

FROM THE MOUTH OF THE CHAIRMAN...

*“In the process of entering new markets, and for the Folli Follie and Links of London brand, **investing in the US heavily.**”*

Dimitris Koutsolioutsos
Chairman of the Board



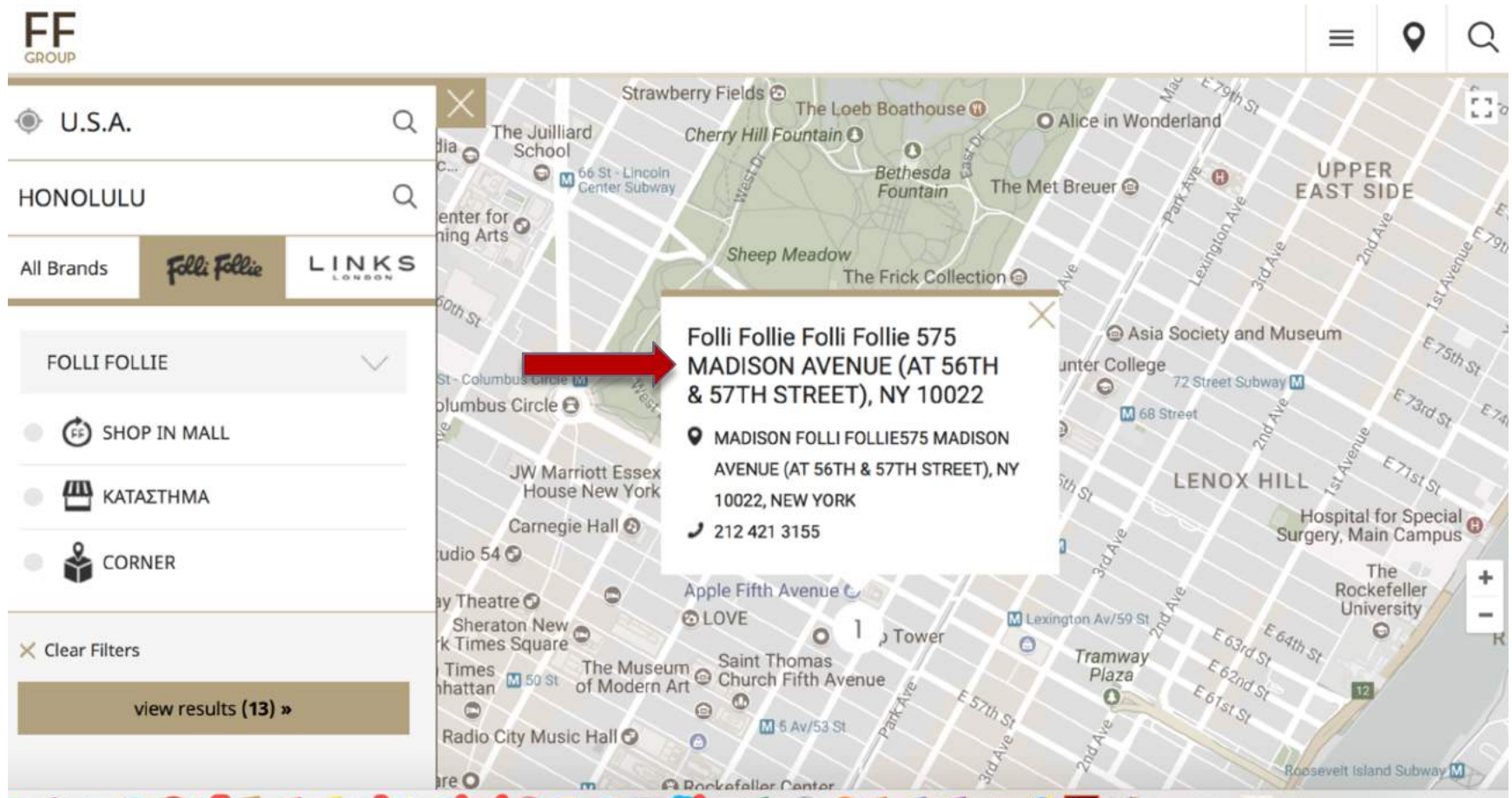
SOHO SHOP ON THE FF CORPORATE WEBSITE...



...AND IN REALITY!



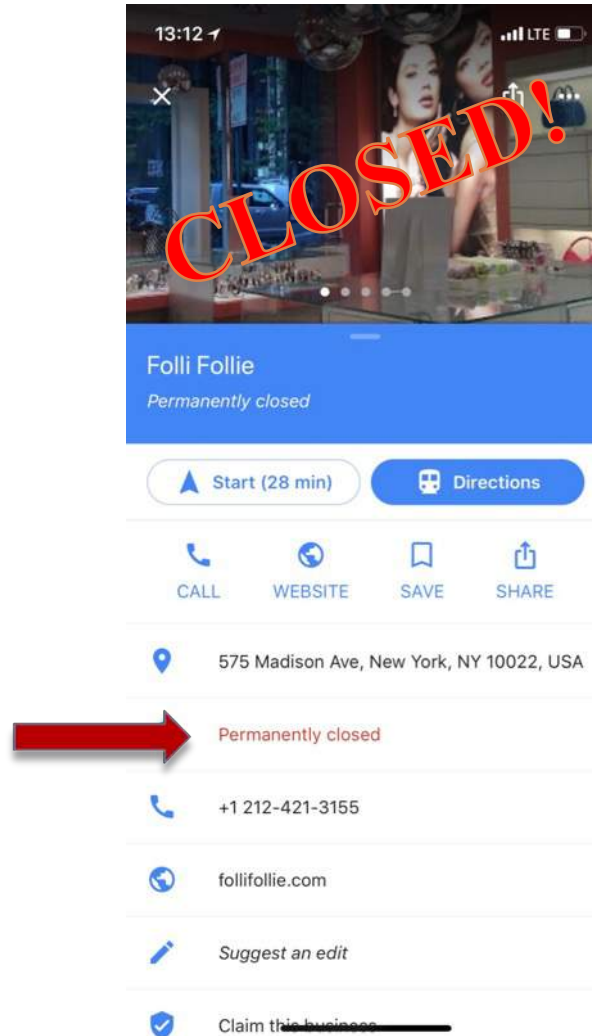
MADISON AVE & 57TH SHOP IN THE SHOP LOCATOR



...AND IN REALITY!



...EVEN GOOGLE AGREES: IT'S CLOSED!

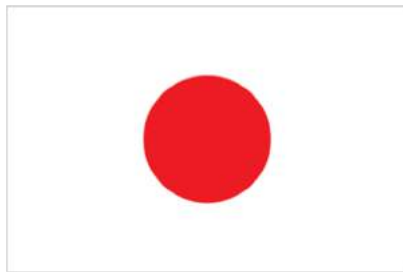


WTC: THE ONLY FF SHOP IN CONTINENTAL USA?



Better luck in Japan?

FF in the Land of the Rising Sun



FF OMOTE SANDO: TOKYO'S FANCY MAIN STREET...



...AND IN REALITY!



CLOSED!



2ND OMOTE SANDO LOCATION: NOW A SNICKERS SHOP!



SHINJUKU! AT LEAST WE FOUND ONE...



FOLLI FOLLIE ISETAN SHINJUKU

CONCESSION

ADDRESS

ISETAN SHINJUKU HONKAN 1F,
3-14-1, SHINJUKU,
SHINJUKU-KU,
TOKYO

PHONE

03-3352-6477

[VIEW MAP & DIRECTIONS](#)



...WELL, KIND OF...



FF “shop” in Shinjuku



BUT, MAYBE IN THE TOKYO SUBURBS THINGS WILL BE BETTER?

FOLLI FOLLIE D+

FF SHOP

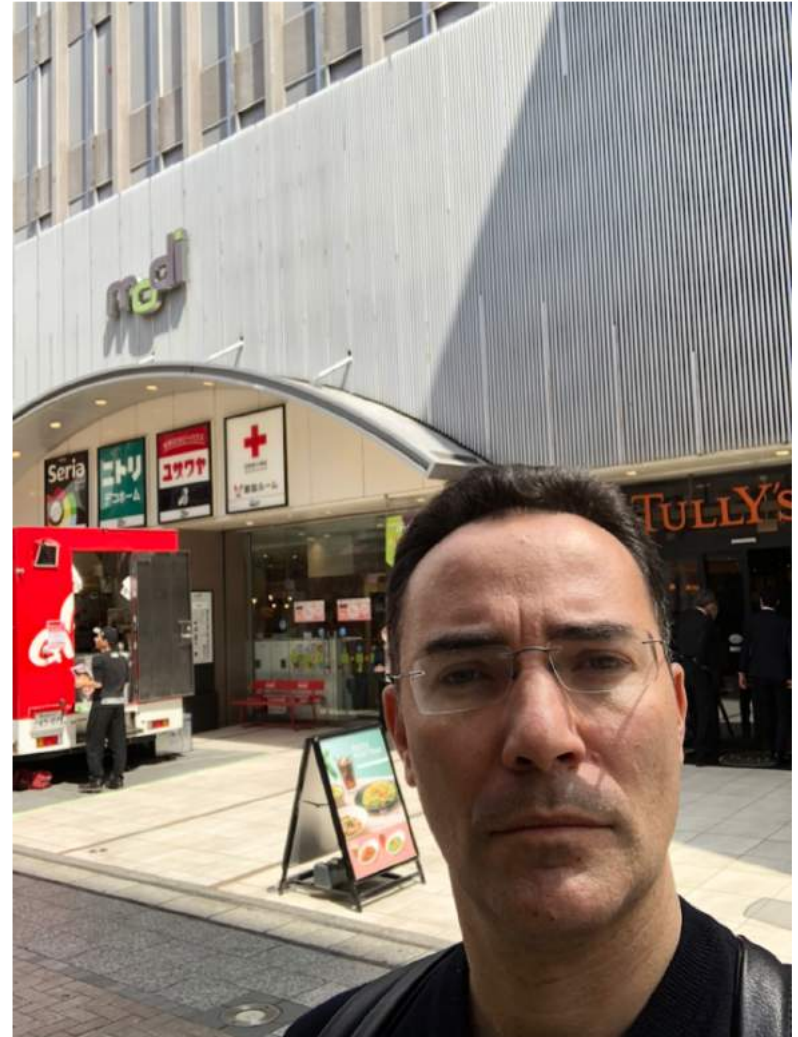
ADDRESS

KAWAGOE MODI 1F, 4-2,
WAKITAMACHI,
KAWAGOE-SHI
SAITAMA

PHONE

049-222-0112

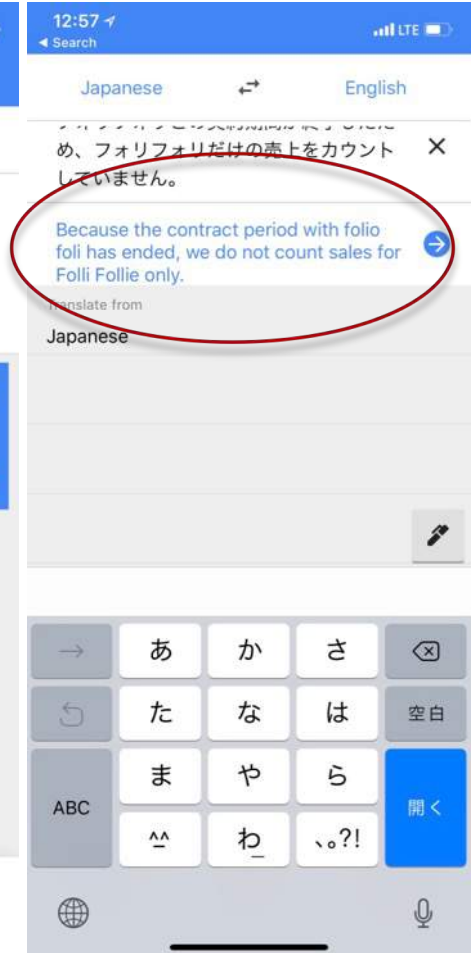
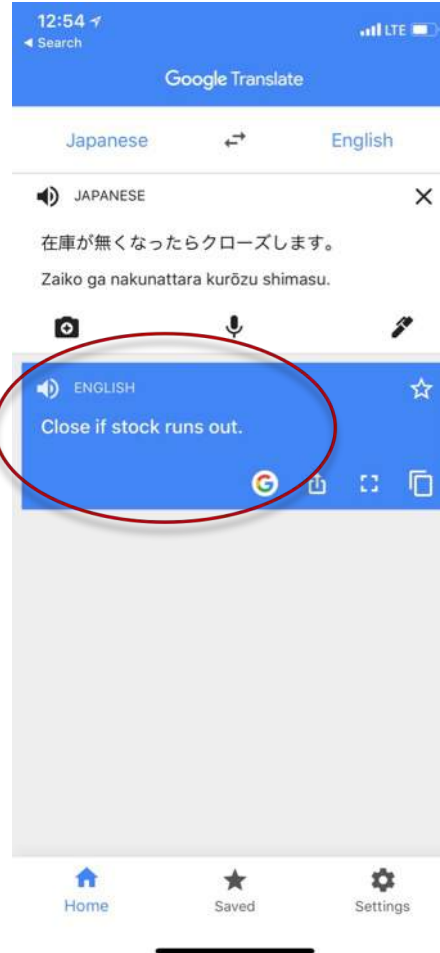
[VIEW MAP & DIRECTIONS](#)



NOT SO...: FF IN KAWAGOE MODI

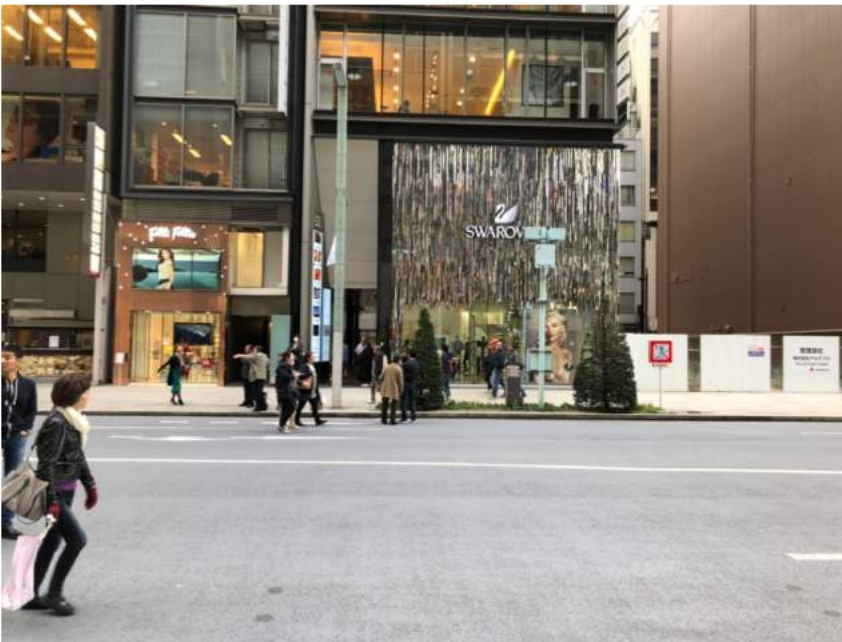


KAWAGOE: “CLOSING WHEN STOCK RUNS OUT”



WE DID FIND ONE IN GINZA...

- At the edge of the main street.
- Less traffic compared to the rest of the area.
- Very small compared to competitors.



JAPAN FF VS COACH IN KEY LOCATIONS

FF



Shinjuku

COACH



FF



Ginza

COACH



Omote Sando



Narita
Airport



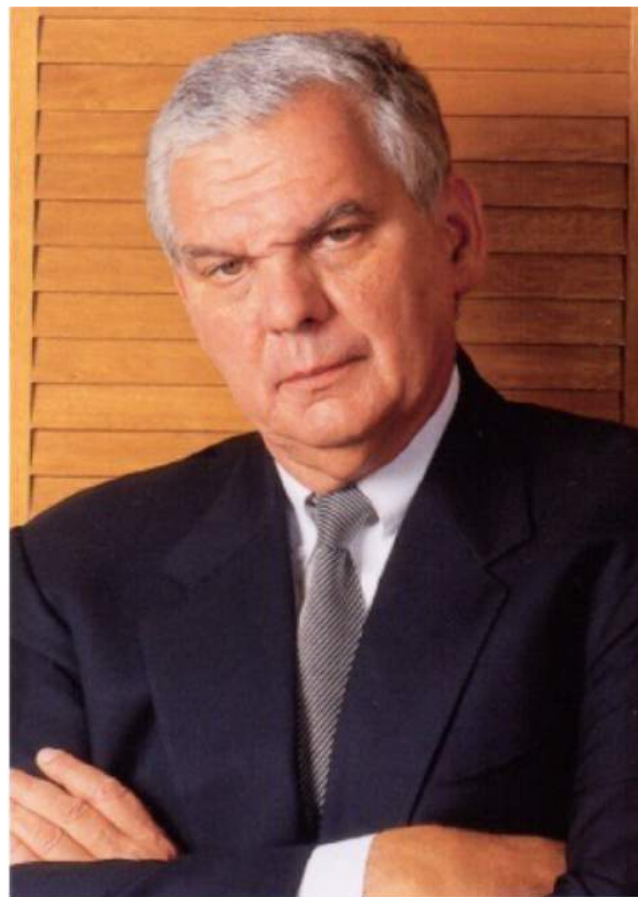
BIG DATA DOESN'T LIE

AN ANALYSIS OF FOLLI FOLLIE'S DIGITAL PRESENCE (OR
LACK THEREOF)

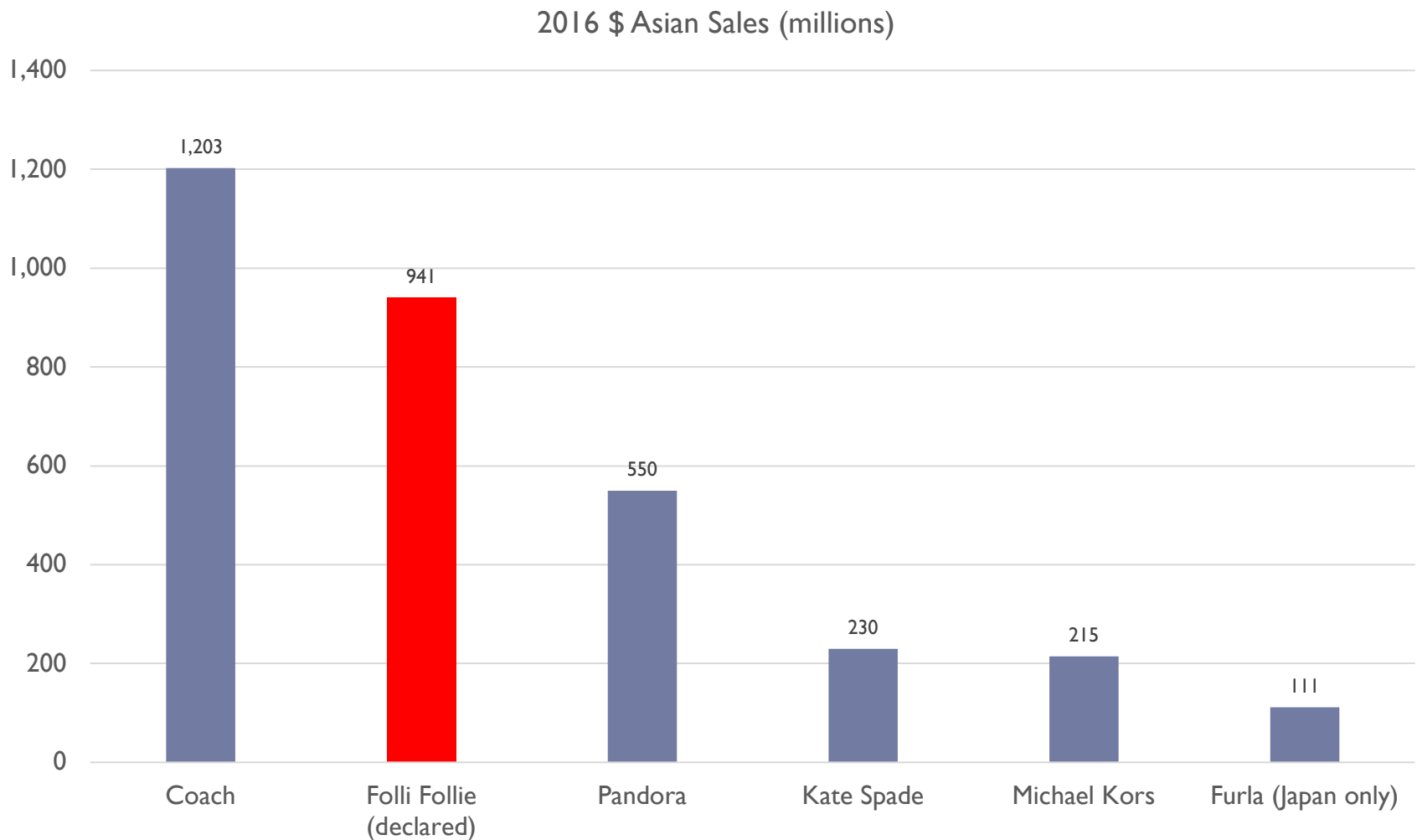
FROM THE MOUTH OF THE CHAIRMAN

“Online is booming.”

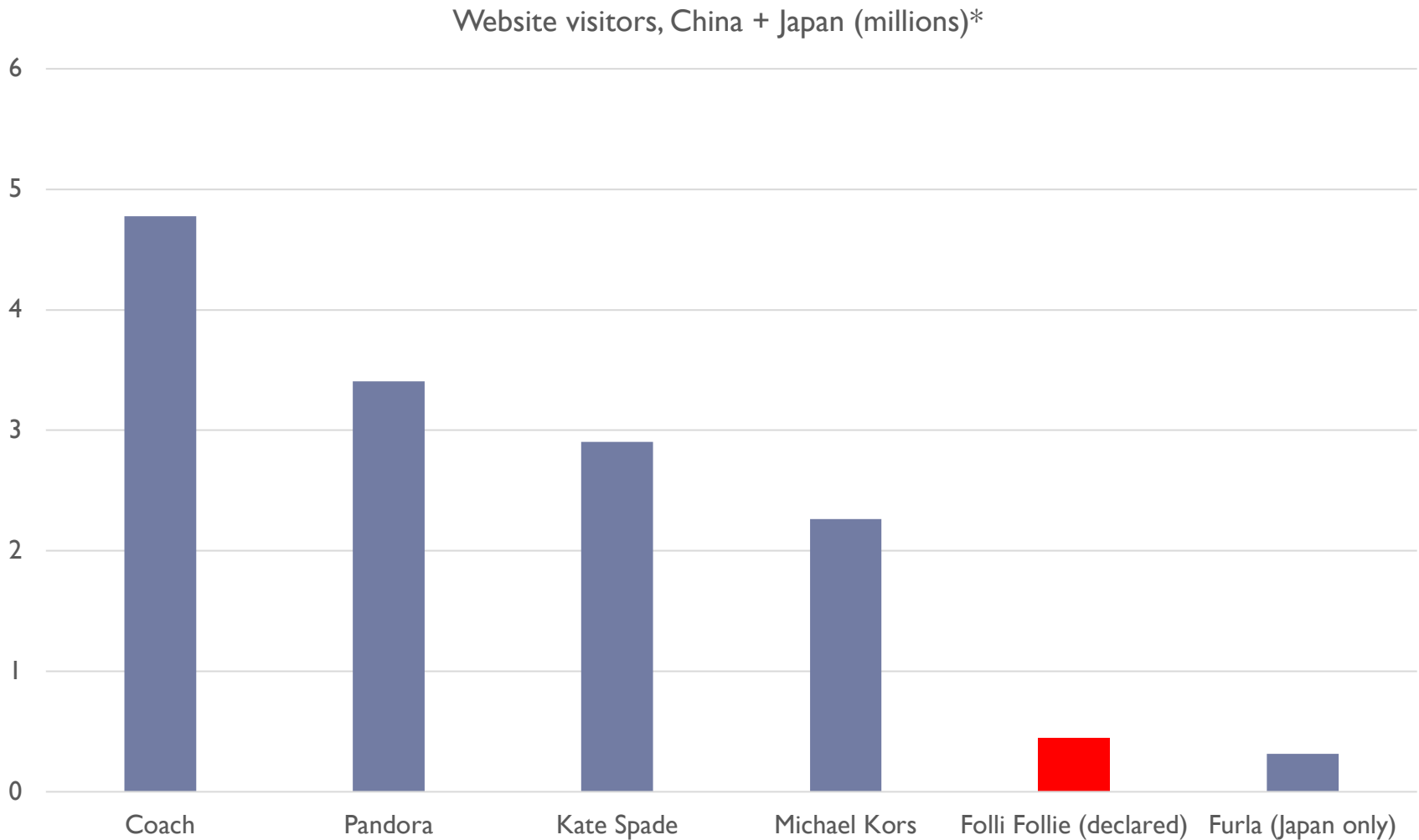
Dimitris Koutsolioutsos
Chairman of the Board



FF: CLEARLY, A HEAVYWEIGHT IN ASIA...



...ALTHOUGH IT PUNCHES A BIT BELOW ITS WEIGHT ONLINE



SOURCE DATA: SIMILARWEB

Traffic & Engagement


Total Visits

Dec 2017 - Feb 2018,  Worldwide

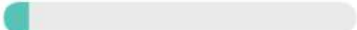
Domain

% 

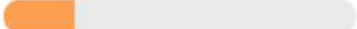
 follifollie.com 

 561,345

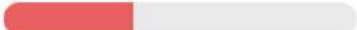
 furla.com

 3.059M

 katespade.com

 8.778M

 michaelkors.com

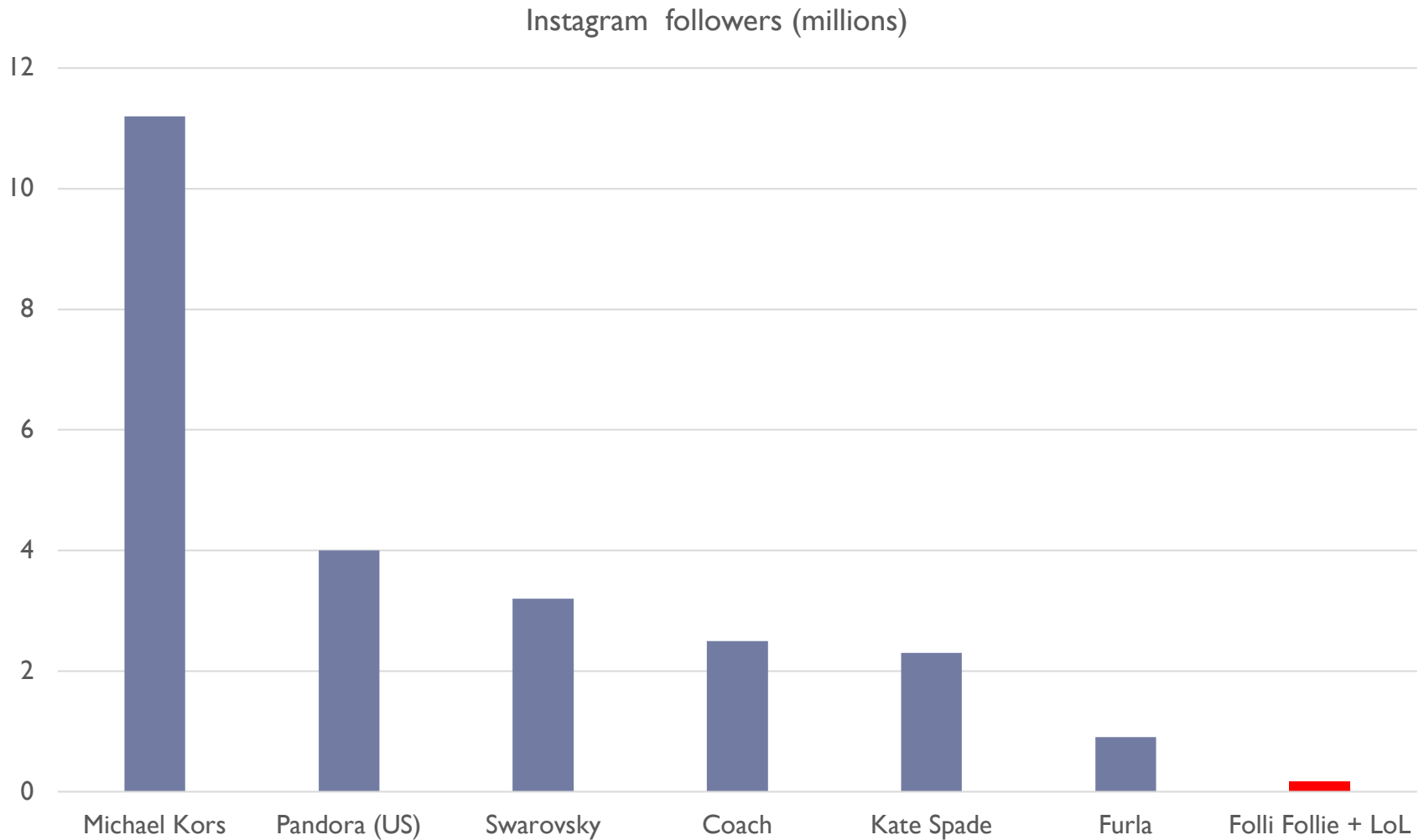
 16.00M

 coach.com

 15.26M

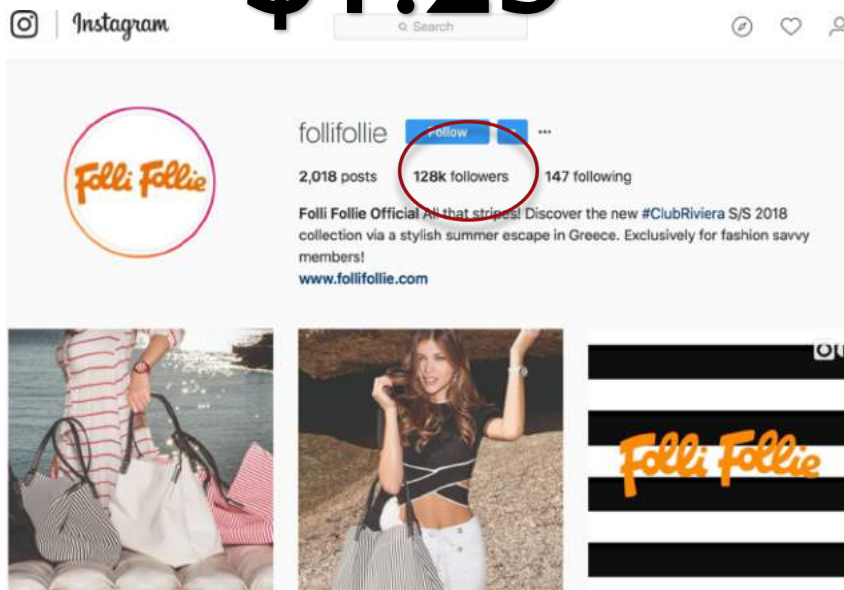


POPULARITY ON INSTAGRAM ISN'T STELLAR...



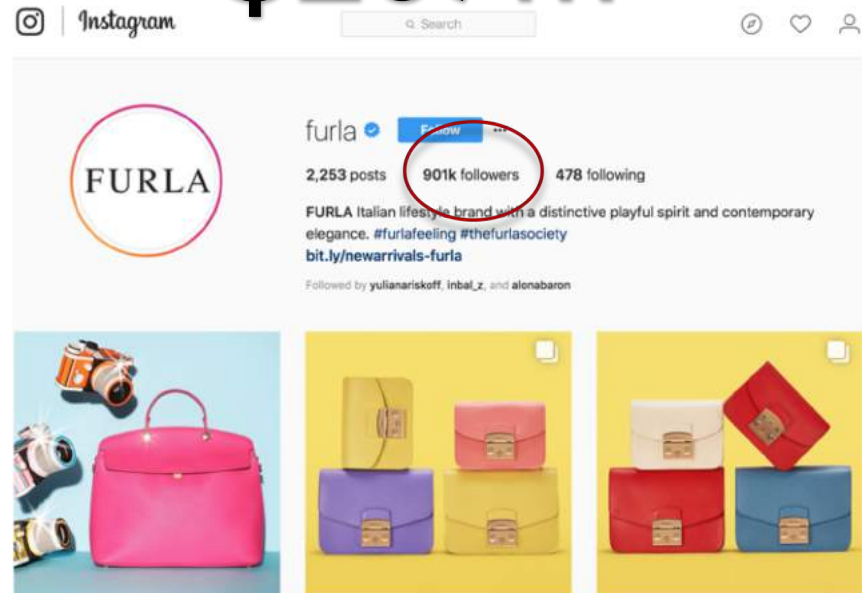
INSTAGRAM FOLLOWER

\$1.2b



128k

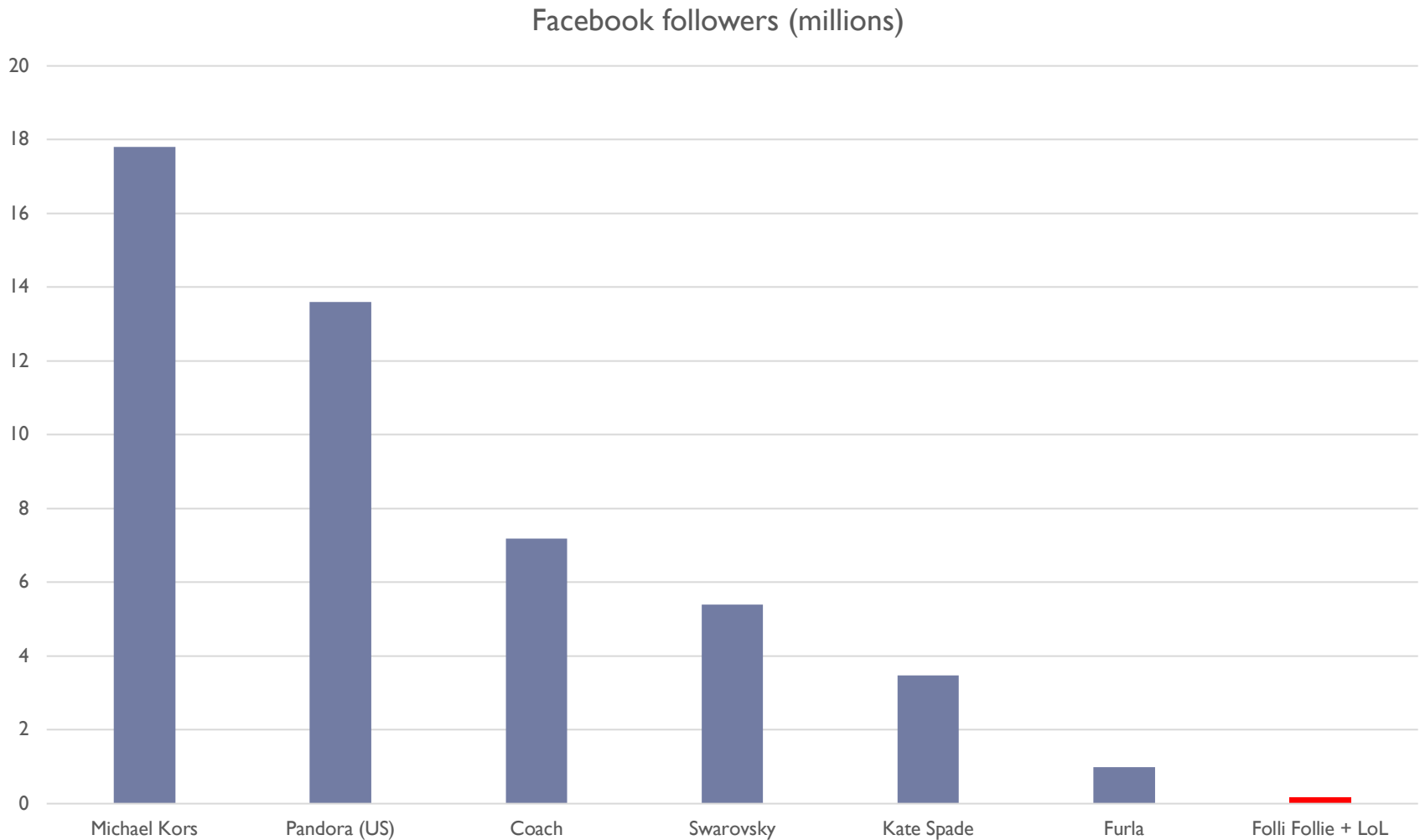
\$267m



901k

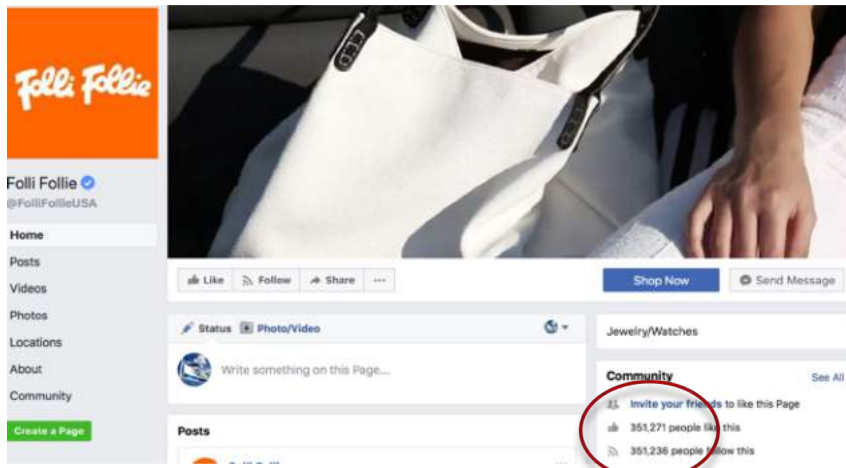


SAME STORY ON FACEBOOK



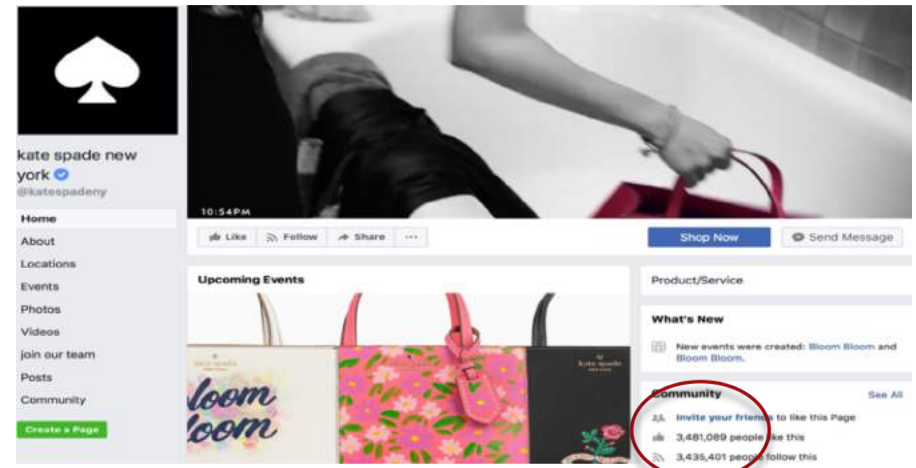
FACEBOOK “LIKES” VS. GLOBAL SALES

\$1.2b



351k

\$1.4b

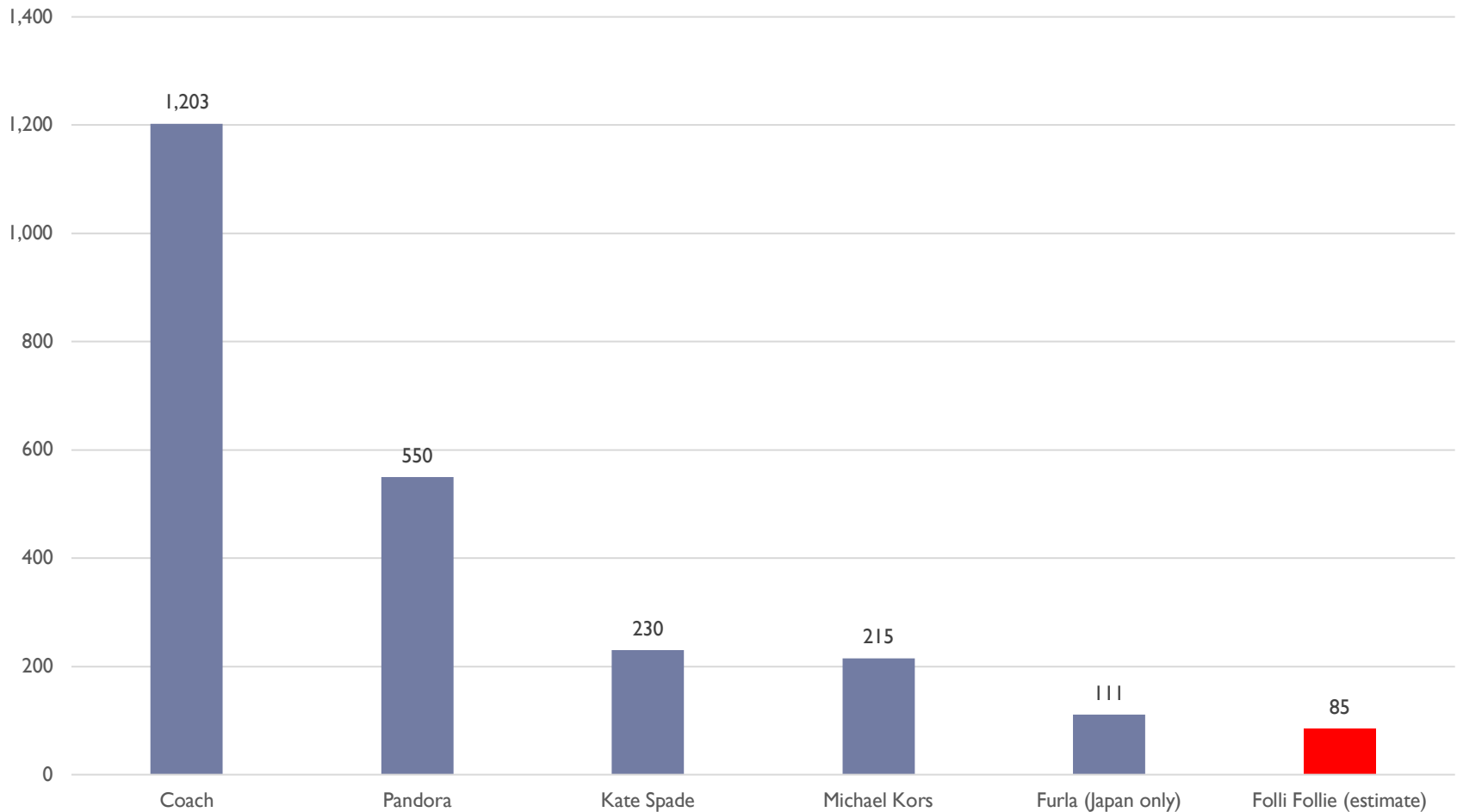


3.5m



IMPLIED ASIAN SALES ARE ONLY \$85M*.

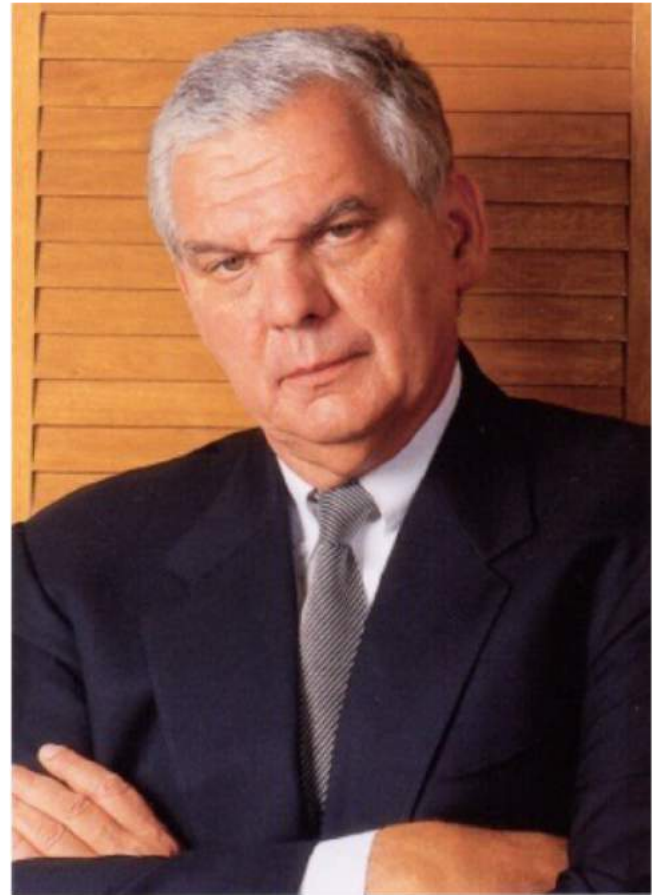
2016 \$ Asian Sales (millions)



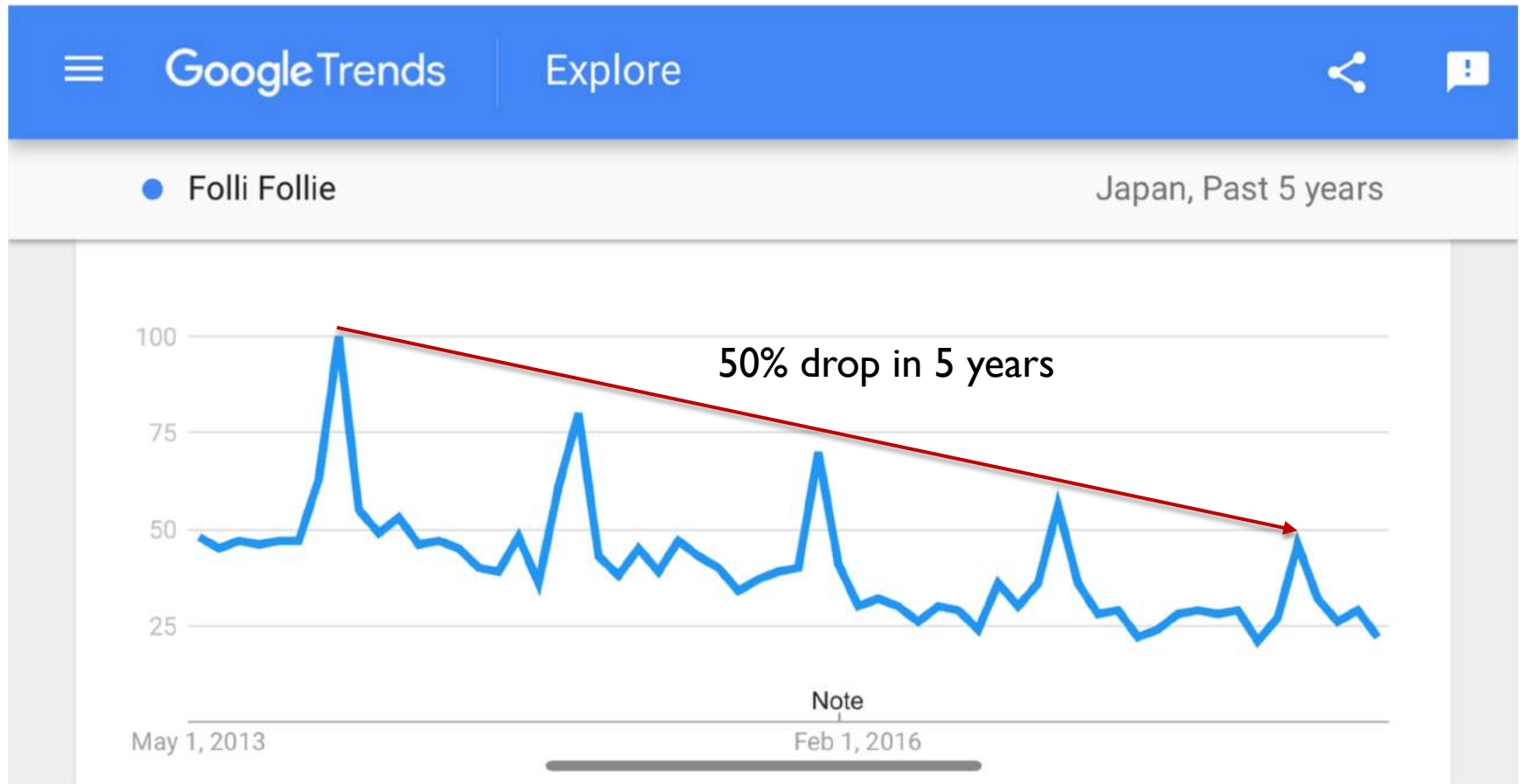
FROM THE MOUTH OF THE CHAIRMAN

***All activities exhibited
remarkable growth,
whereas we expanded our
footprint in new
markets [...].***

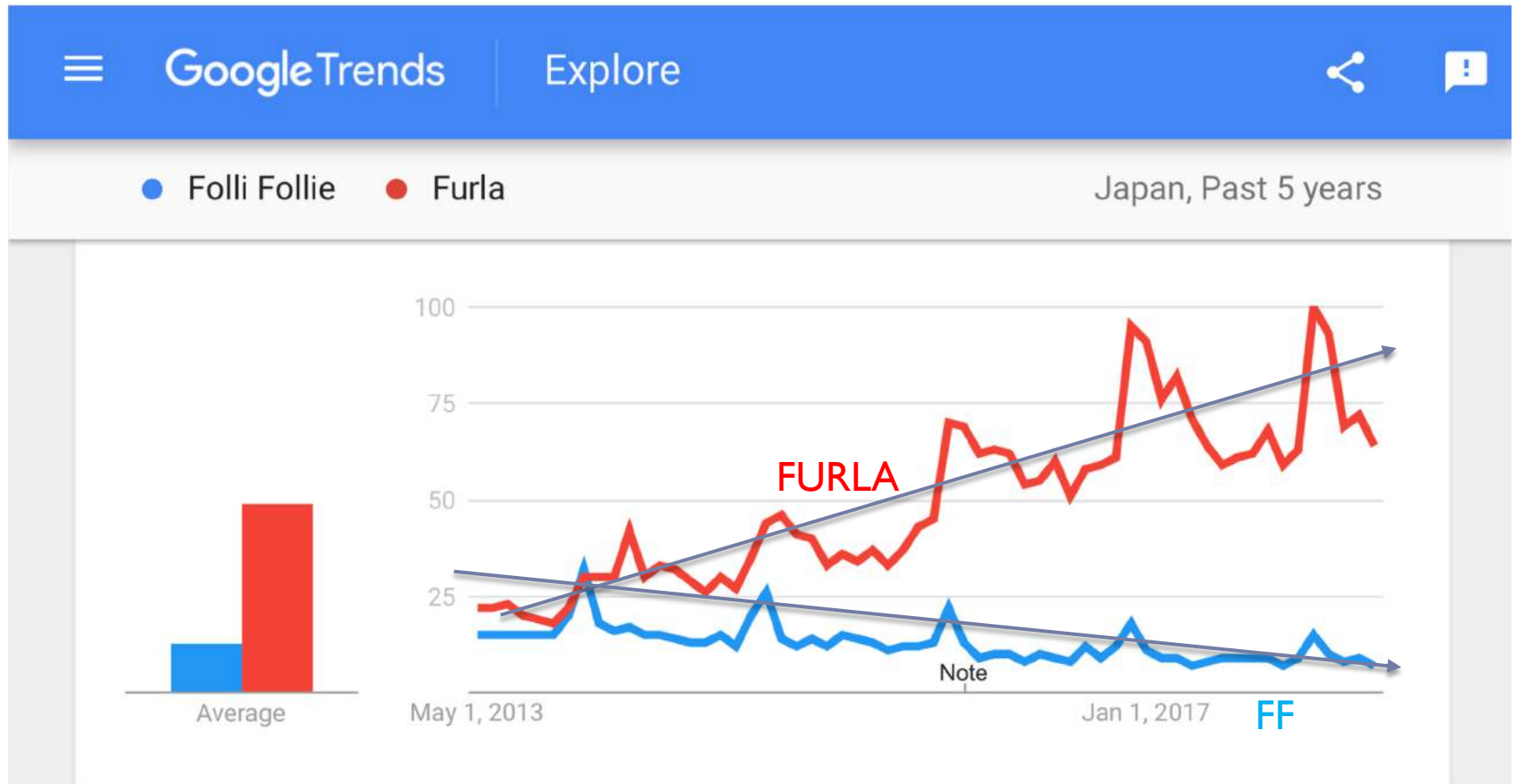
Dimitris Koutsolioutsos
Chairman of the Board



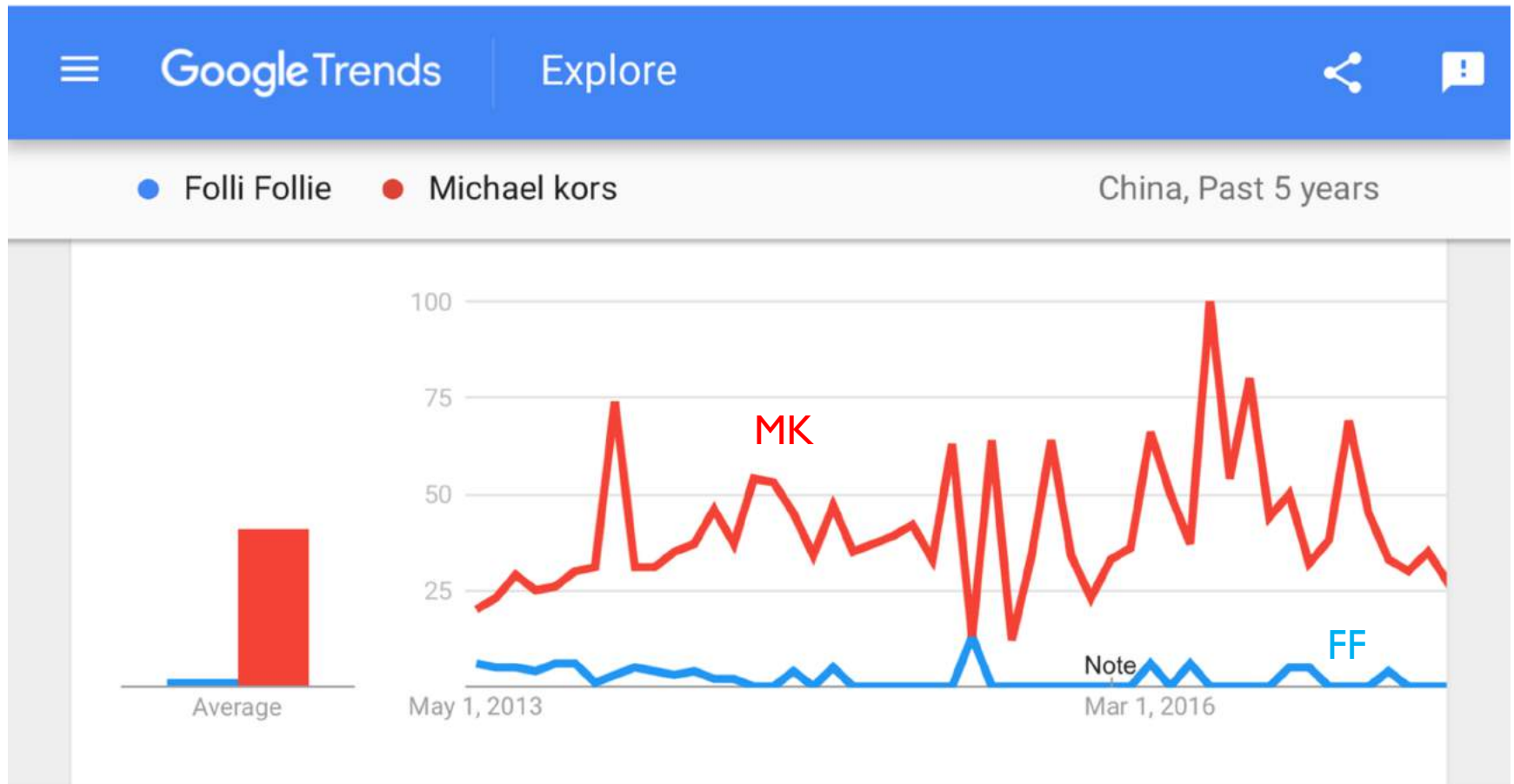
GOOGLE TRENDS SHOWS STEADY DECLINE IN JAPAN



IN JAPAN: FF VS. TINY FURLA...



IN CHINA: FF VS. MICHAEL KORS



EVIDENCE FROM FIELD SOURCES

DISCLAIMER: For compliance reasons we avoided speaking to current employees. The information we received was general in nature and the sources we contacted have been asked specifically not to convey any sensitive information or information covered by non-disclosure agreements.

BUSINESS IN CHINA: SOURCE 1 - FORMER EMPLOYEE

- ***“The China business is going down, it’s a fact. [...] the Chinese business is the worst one, because productivity is low. The stores are not making money and the management team is just a mess.”***



ASIAN BUSINESS: SOURCE 2 - FORMER EMPLOYEE

“I would say that the brand is poorly managed and in terminal decline simply due to management.”



POS CLOSING – FORMER EMPLOYEES

“We have less than 100 POS in China.”

- Source 1

“They [FF] have been slowly closing down points of sale, [...] as sales have declined slowly every year”.

- Source 2



COMPETITION – FORMER EMPLOYEES

“...brands like Swarosky and Pandora have come in and offered the same and better products and better retail offer as well and they have gone and taken the customers.” – Source 1

“our space productivity was low compared to Swarosky and Michael Kors.” – Source 2

“competition is getting stronger and stronger so they are losing market share.” – Source 3



SOURCE 4: OPINIONS BY LARGE, CHINESE MALL OPERATOR HOSTING FF POS

*“FF is **performing poorly** compared to other similar brands in our shopping centers.*

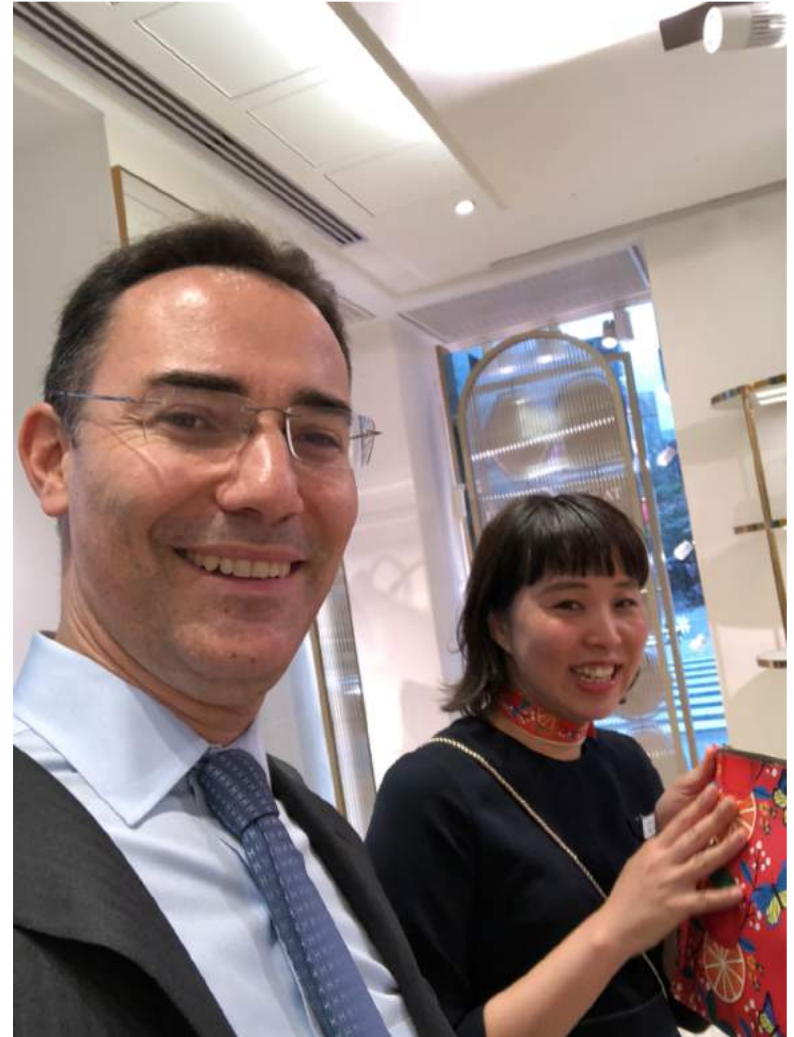
*Given the performance of FF that we see, we estimate decreasing sales across the country and **expect the company to shrink further.***”*



OPINIONS BY SALESPEOPLE

During our store visits and phone due diligence:

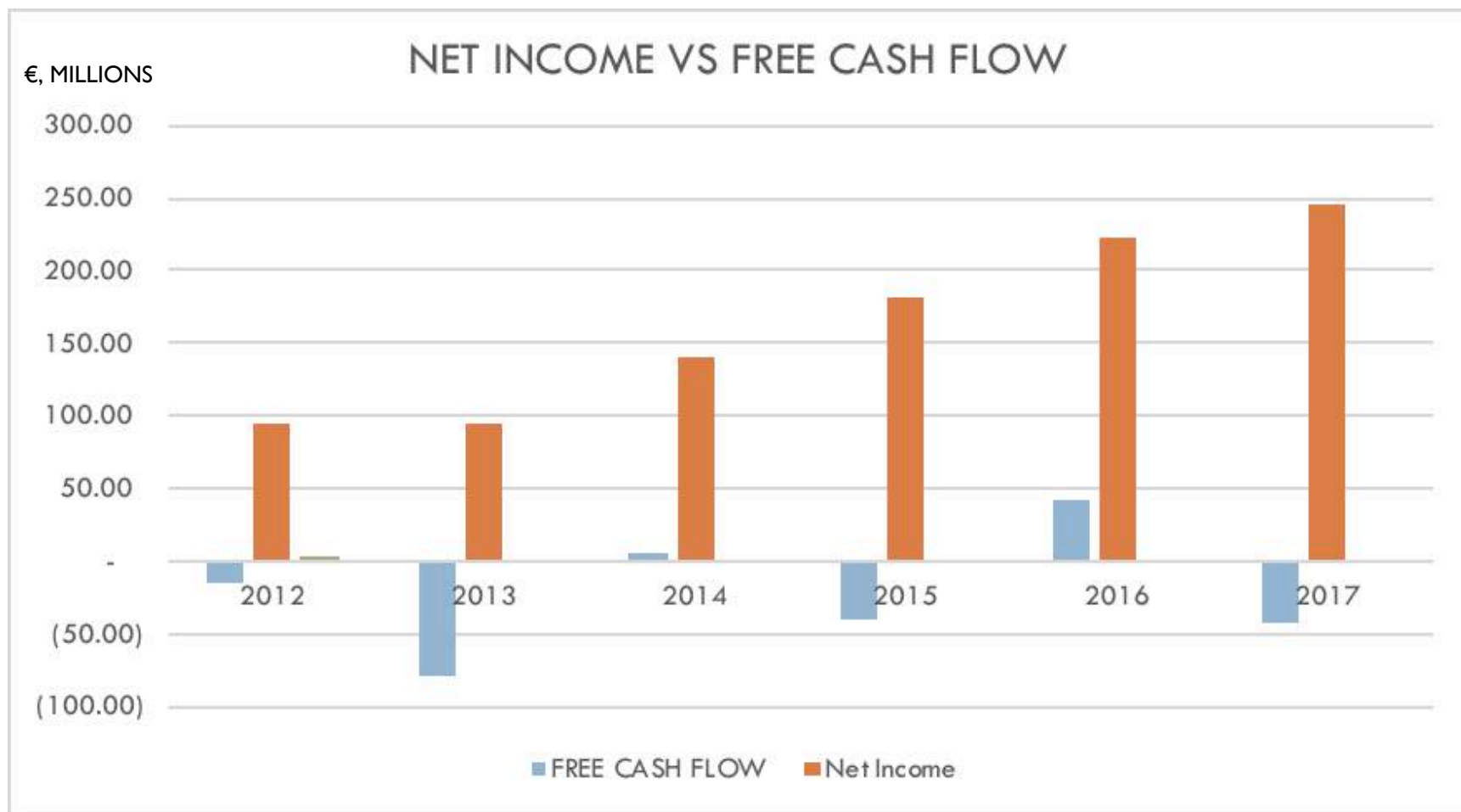
Salespeople expressed almost universally negative opinions about the health of FF's business.



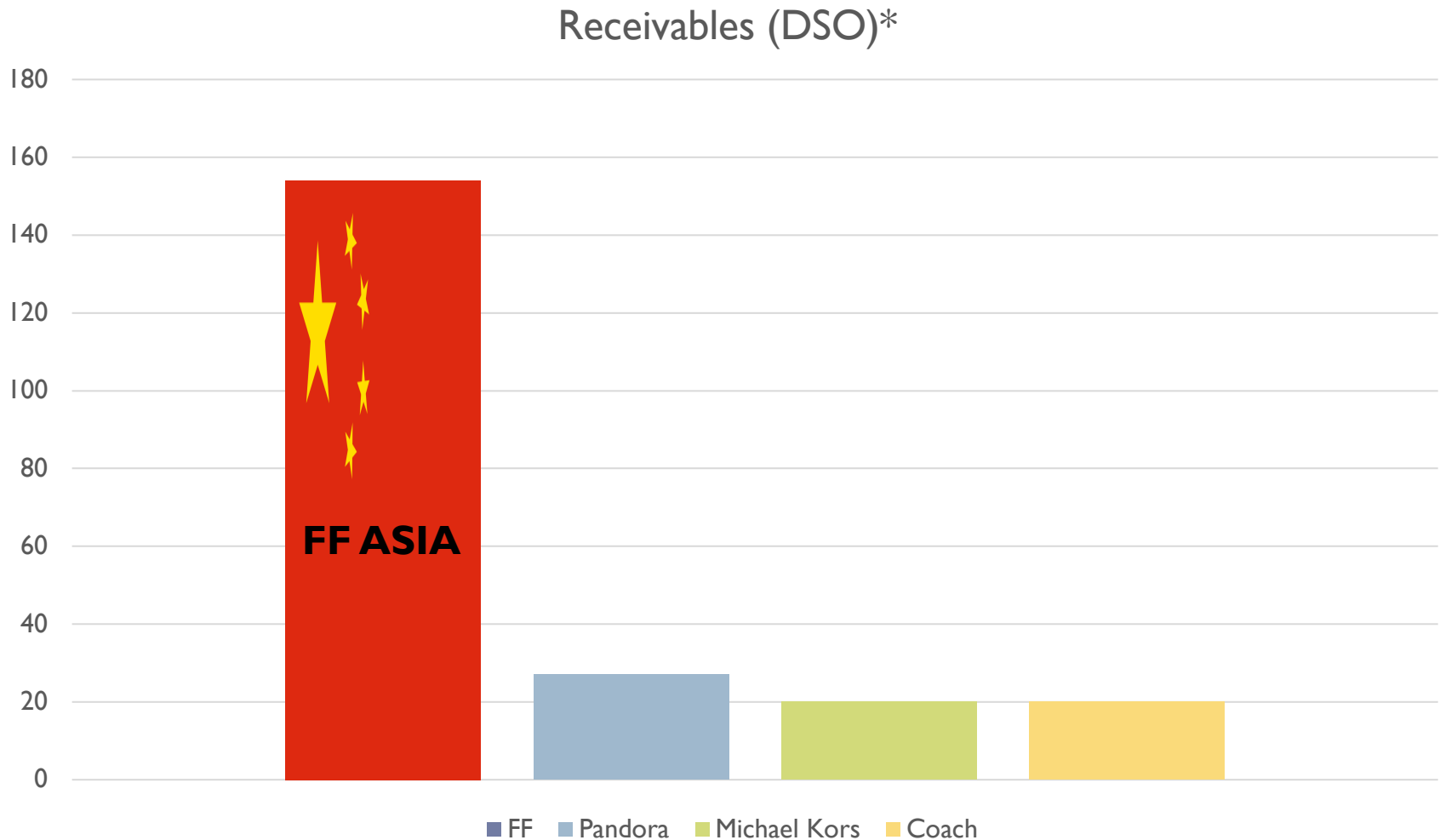


A LOOK AT FINANCIALS

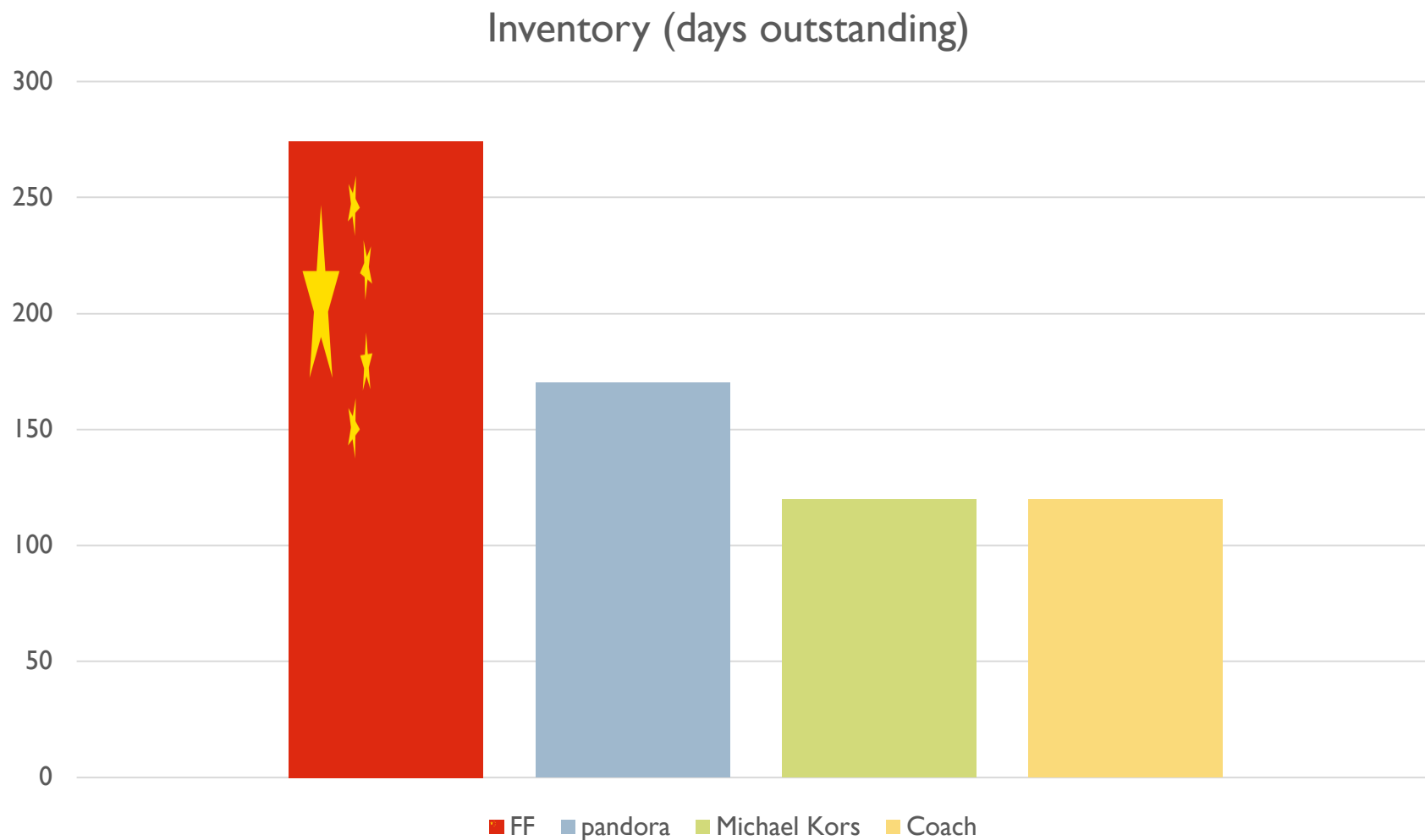
PROFITS AND CASH* TELL TWO DIFFERENT STORIES



RECEIVABLES, RECEIVABLES EVERYWHERE...

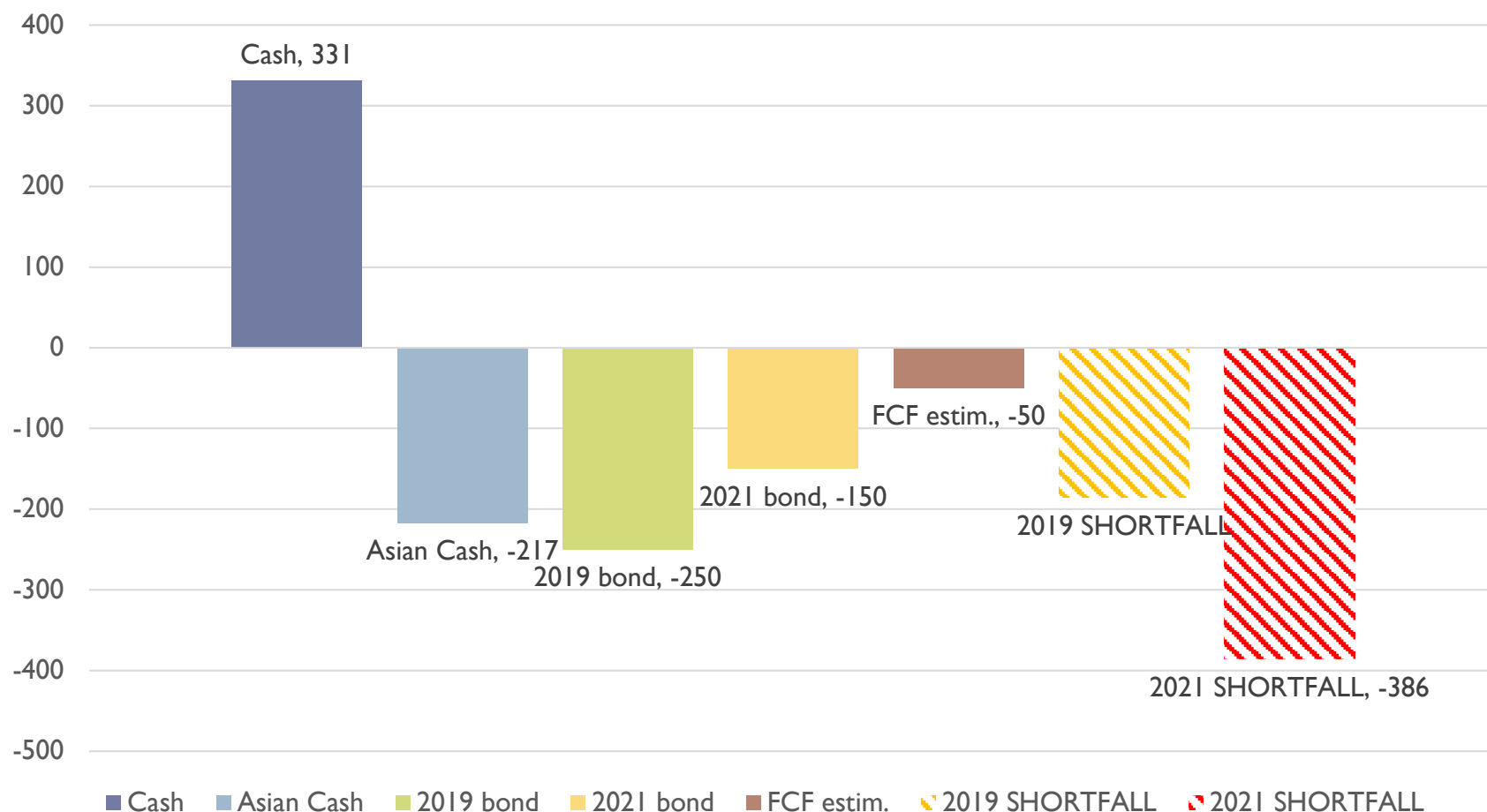


...AND INVENTORY TOO



WE ARE CONCERNED ABOUT FF'S ABILITY TO REPAY DEBT

Liquidity vs. Debt* - €



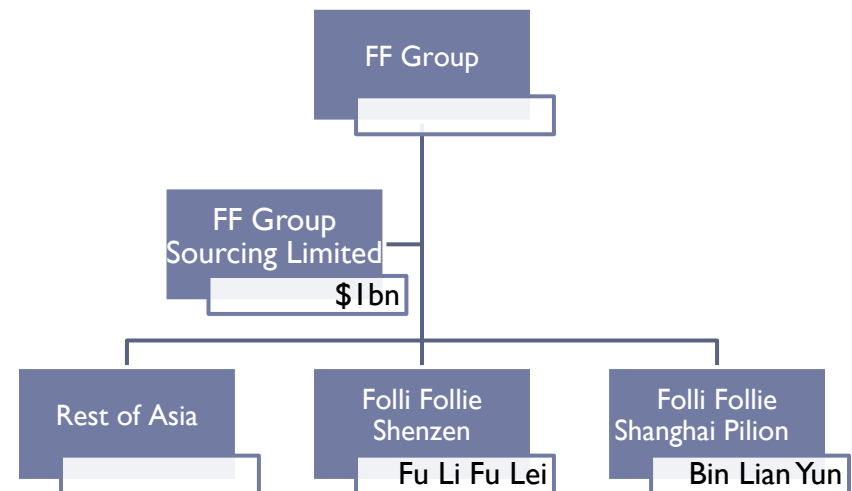
BIG TROUBLE IN LITTLE CHINA

QCM INVESTIGATION INTO OFFICIAL CHINESE
GOVERNMENT RECORDS



ENTER FF ASIA: “THEY DON’T DARE LIE IN CHINA”

- FF Group Sourcing Limited (FFGS):
 - largest FF subsidiary consolidating all Asian revenue: **\$1bn**.
- China appears to be the largest market in Asia for FF.*
- FF GS has only 2 Chinese mainland subsidiaries.
- Name deceptive?



BILIANYUN:

LARGEST CHINESE FF SUBSIDIARY: ONLY \$25.5M?!

- ASSETS: \$2.6m
- SALES: \$25.5m
- NET LOSS: (\$6.1M)
- Number of POS: 33
- Sales/POS: \$770k

Chinese government filings

中国移动 4G VPN 1:34 AM 98%		
2016年度 天眼查		
网站信息		
股东及出资信息		
① FF GROUP SOURCING LIMITED		
认缴出资金额(万元)	认缴出资时间	出资方式
3500	2010.11.03	货币
实缴出资金额(万元)	实缴出资时间	出资方式
3500	2010.11.03	货币
资产状况		
资产总额: 16614.89 万元		
所有者权益合计: 915.34 万元		
销售总额: 16135.32 万元		
利润总额: -3886.54 万元		
主营业务收入: 15575.42 万元		
净利润: -3886.54 万元		
纳税总额: 1682.86 万元		
负债总额: 15699.55 万元		
对外提供保证担保信息		
暂无		
对外投资信息		



FU LI FU LEI: SMALLER CHINESE SUBSIDIARY

- Number of POS: 15
- ASSETS: n/a
- SALES (est*.): \$13.9m
- NET LOSS (est.): (\$3.3M)

1.2 分支机构

序号	名称	营业执照	登记机关
1	富莉富蕾贸易(深圳)有限公司北京王府井大街第二分店	91110101MA01961931	北京市工商行政管理局东城分局
2	富莉富蕾贸易(深圳)有限公司广州第一分店	440106400000985	广州市天河区工商行政管理局
3	富莉富蕾贸易(深圳)有限公司广州第二分店	440106400000977	广州市天河区工商行政管理局
4	富莉富蕾贸易(深圳)有限公司深圳福田星河苏活购物公园店	91440300MA5ELR250L	深圳市市场监督管理局
5	富莉富蕾贸易(深圳)有限公司京基百纳二分店	440301506700322	深圳市市场监督管理局
6	富莉富蕾贸易(深圳)有限公司北京王府井大街第一分店	91110101MA01969L2N	北京市工商行政管理局东城分局
7	富莉富蕾贸易(深圳)有限公司上海黄浦店	310000500618826	上海市工商行政管理局

Chinese government filings

*Calculated taking the average sales/POS from Binlianyun and multiplying by the number of Fu Li Fu Lei POS.



ESTIMATE OF TOTAL MAINLAND CHINA SALES: \$40M (VS. COMPARE TO \$1BN OF DECLARED SALES IN ASIA)

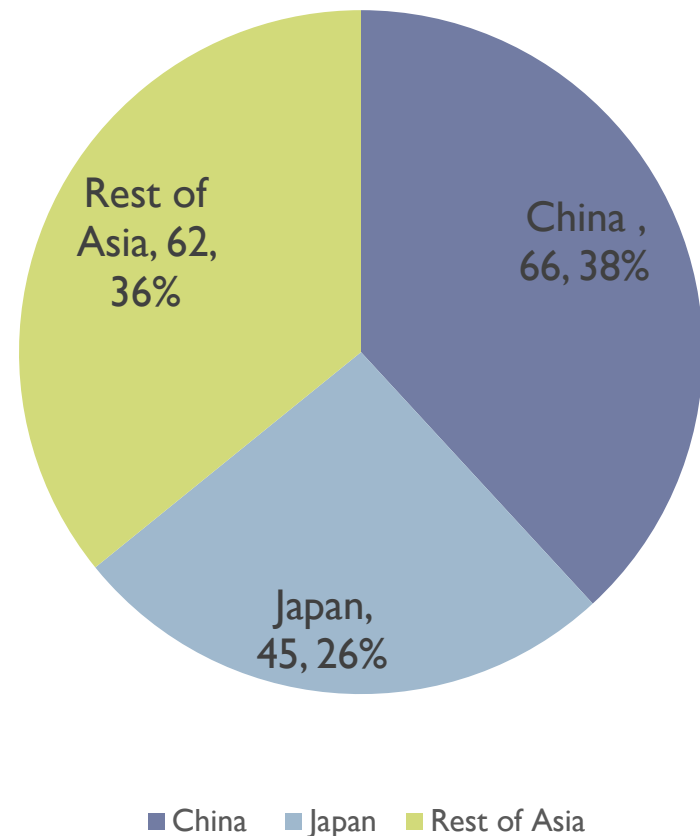
- SALES: \$39.4m
- PROFIT: (\$9.4m)
- POS: 48



QCM ESTIMATED ASIAN SALES: \$121M (VS. \$1BN)

- China has 38% of total POS in Asia*.
- Mainland China POS average \$770k of sales*.
- Assuming same sales/POS in the rest of Asia: total Asia sales would be approximately \$82m.
- Total Asian sales:
 - $82+39 = \$121\text{m}$
- Vs . FF reported sales in Asia: \$1bn.

Number of POS in Asia*



HOW IS THIS POSSIBLE?



Meet FF auditors

AS ITS BUSINESS DECLINED IN 2014 FF CHANGED AUDITORS TO AN OBSCURE FIRM?

- FF had **Baker Tilly** as auditors, a 2nd-tier firm, since 2006.
- In 2014 FF switched to **Ecovis**, a relatively unknown firm.
- Could the switch have coincided with the alleged deterioration of the Asian business?
- Perhaps Baker Tilly finally demanded to audit the Asian subsidiaries?
- IR: “*we prefer a small firm to keep costs low*”.




IS FF'S CHINESE AUDITOR APPROPRIATE FOR A \$1BN CO?

Chung & Partners

- Only 2 employees!
- They audit no other public company (or anything else, to our knowledge*).
- No services listed on CPA directory.
- Only 9 connections on LinkedIn.
- Next to zero internet footprint, even in Chinese.

Chung & Partners Limited
辛區會計師事務所有限公司



Dr. CHUNG, Yau Yan Sammy — DBA, JD, FCPA (Practising), CPA (Aust), FCCA, ACA

Dr. Chung was an auditor and received his professional training with Price Waterhouse Hong Kong (merged to become PricewaterhouseCoopers) in 1989. He attained his first professional qualification, Certified Public Accountant, in 1991. Dr. Chung is the Founder and Managing Director of Chung & Partners Limited. Currently, he is a Fellow Practising Member of the Hong Kong Institute of Certified Public Accountants, an Associate of The Institute of Chartered Accountants in England & Wales, a Fellow of The Association of Chartered Certified Accountants, and a Certified Public Accountant of CPA Australia. Dr. Chung has over 20 years of experience in the professional accounting practice in Hong Kong.

Dr. Chung is a man of profound learning. He received a Bachelor's Degree in Business (Accounting) from the Curtin University of Technology, Western Australia, a Master's Degree in Business (Accounting) from the Monash University, Australia in 1999, and a Doctorate Degree in Business Administration from the Hong Kong Polytechnic University in 2005. In response to the increasing demand of continuing education for professionals where the requirements are intended to encourage professionals to expand their knowledge base and stay up-to-date on new developments, Dr. Chung pursued and extended his knowledge in laws and was awarded the Juris Doctor from the City University of Hong Kong in 2018. In 2015, Dr. Chung also received a Master's Degree in Laws from the University of Wolverhampton, England. His research interests are mainly focused on corporate governance and the role of auditors in shareholders' protection, lifting a new generation of business school practitioners. Dr. Chung is able to lead his own and his client's organisations to the next threshold of excellence in this increasingly competitive global economy.

In the community services, Dr. Chung had served as one of the External Members of the Examination Board for the Professional Diploma in Accounting and Finance and the Professional Diploma in Business Management of the Institute of Professional Education And Knowledge, a Member of Vocational Training Council Group, during 2004 - 2008. Dr. Chung has been further appointed as the External Examiner (EE) of the Professional Diploma in Accounting and Finance and the Professional Diploma in Business Management of the Institute of Professional Education And Knowledge from 1 January 2009 to present. In addition, starting from 2008 to 2017 Dr. Chung served as Professional Mentor for Mentorship Programme operated by Department of Business Administration of the Hong Kong Institute of Vocational Education (The Tin), a Member of Vocational Training Council Group.

Mr. HO, Chun Chung Patrick — CPA (Practising), FCCA, ACIS, MSc (Fin)

Mr. Ho, non-executive director, is a practising member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Secretaries and Administrators. Mr. Ho holds a Master Degree of Science. He also received his professional training in PricewaterhouseCoopers Hong Kong. Mr. Ho has profound and hands-on experiences in listing arrangements, due diligence exercises, projects appraisal, tax efficiency scheme execution and structural treasury transactions.

Sammy Chung
M.D. at Chung & Partners Limited
Hong Kong | Accounting

Current positions
M.D. at Chung & Partners Limited

Save as lead Send InMail

9 connections



CONCLUSION, IN OUR OPINION:

- Network size.
- Asian sales.
- Digital presence
- Cash generation.
- Liquidity/solvency
- Doubtful accounting.

