

11/02/2026 - Scope Ratings GmbH

Scope assigns BB-/Stable first-time rating to Serbian retailer Fashion Company

The rating reflects the issuer's established position in the Serbian and Balkan apparel retail markets, and Scope's expectation that the company will maintain credit metrics commensurate with the rating, despite its continued debt financed expansion.

The latest information on the rating, including rating reports and related methodologies, [is available on this LINK.](#)

Rating action

Scope Ratings GmbH (Scope) has today assigned a first-time issuer rating of BB-/Stable to Serbia-based Fashion Company d.o.o. Scope has also assigned a preliminary bond rating of (P) BB- to the company's planned RSD 8.4bn senior unsecured bond.

The rating is driven by Fashion Company's leading position as a multibrand retailer in Serbia, its strong and stable profitability, and its moderate leverage. However, it is constrained by the

company's small scale and limited diversification.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: B+ (new). The issuer's business risk profile benefits from a historically solid positioning as a fashion retailer in the Serbian market and high profitability. Small scale and poor geographical diversification are constraints.

With revenue of RSD 24.6bn (around EUR 0.2bn), the issuer is small in the context of the European retail landscape, which exposes it to risk from potential new entrants and constrains its ability to enter larger markets. Nonetheless, its market position is supported by: (i) strong brand awareness in Serbia and the Balkan region; (ii) the region's higher growth potential compared with more saturated European markets; (iii) the issuer's presence in two structurally growing sub-segments (affordable luxury and premium lifestyle) as well as mass market to a lesser extent; and (iv) a balanced mix of multi-brand and mono-brand stores combined with efficient sourcing, providing access to around 85% of the brands present in the region within these sub-segments. Scope anticipates significant growth in 2026–2027, underpinned by the company's investment plan (approximately 120 new store openings over eight years from 2025, compared with around 145 stores currently in operation). However, Scope also highlights the risk of a rapidly evolving competitive environment, including the potential entry of large international online retailers, which could intensify competitive pressures and pose challenges for a relatively small-scale company.

The issuer's revenue base is geographically concentrated, with sales largely focused on the Balkan region. Serbia alone accounted for 59% of revenue in 2024. The underlying economies share similar consumer characteristics, limiting geographic diversification benefits. By contrast, product diversification is relatively stronger. Although the fashion apparel sector is inherently cyclical, revenue stability is partially supported by the issuer's exposure to both affordable luxury and premium lifestyle sub-segments, a multi-format retail model (multi-brand, mono-brand and beauty stores), and a broad portfolio of over 80 brands. In addition, two factors benefit the issuer's business profile: i) the region remains in a growth phase for these sub-segments, underpinned by a structural shift in consumer preferences towards higher-quality and higher-priced apparel and ii) its presence, through KIKO Milano, in the cosmetic segment which exhibit 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.

Profitability, measured by the Scope-adjusted EBITDA margin*, is a positive driver for the company's business risk profile. With an average EBITDA margin of 16%, Fashion Company ranks higher than most Scope retail peers, and than largest retail players in general. Scope attributes this high profitability to i) the issuer's positioning in the affordable luxury and premium lifestyle sub-segments, which supports above-average margins; and ii) the meaningful contribution from mono-brand stores, which benefit from strong branding and higher per-store profitability, albeit with greater exposure to shifts in consumer preferences. Profitability is further supported by limited competition in core markets, where major online players are not yet present, and by long-standing supplier relationships that enable favourable

purchasing terms, efficient inventory management, and strong pricing power. Over 2025–2027, Scope expects the issuer's profitability to remain broadly stable, supported by the issuer's ability to pass through inflation, strong supplier pricing power, and limited competitive pressure in the medium term.

Scope nonetheless notes that profitability could decline rapidly due to market uncertainty, the issuer's expansion plans, and the potential entry of larger competitors, which could materially pressure margins.

Financial risk profile: BB (new). The financial risk profile is supported by moderate leverage and good interest cover. However, cash flows constrained by high capex and working capital requirements.

Leverage (debt/EBITDA) has reduced to 2.9x in 2024 from 3.6x in 2022, supported by strong EBITDA growth. Scope does not expect the planned expansion, financed by an RSD 8.4bn bond, to materially affect the company's credit profile, as EBITDA growth, enabled by store openings, should keep leverage at around 3x, with a temporary peak at 3.6x in 2026. The bond is expected to carry a covenant of net debt/EBITDA, (with net debt excluding IFRS 16 liabilities) below 2.5x, which provides additional reassurance regarding controlled expansion activity. A portion of the proceeds will refinance existing debt (around RSD 3.5bn), with the remainder funding capex and working capital, resulting in a moderate net debt increase.

EBITDA interest cover ratio has remained strong, consistently above 10x from 2021–2024, despite higher debt and lease costs from expansion. It is expected to remain high at above 15x

in 2025 and decline in the range 8x-9x in 2026–2027 due to the new bond's higher interest rate (current weighted average cost of debt 3.9%). Following the refinancing of RSD 3.5bn in bank loans, around 84% of debt will be fixed-rate, limiting exposure to interest-rate fluctuations.

The 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. Scope expects free operating cash flow/debt to remain positive but volatile (in the 2% to 6% range), reflecting the company's planned expansion. This expansion is likely to result in higher capital expenditure, increased lease-related cash outflows, and negative net working capital movements during the 2026-2027 period.

Liquidity: adequate (new). Liquidity is adequate. Liquidity is adequate. Projected liquidity is expected to cover short term debt repayment 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 2bn yearly.

Supplementary rating drivers: credit-neutral (new). Supplementary ratings drivers have no impact on this credit rating action.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's 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.

The **upside scenario** for the ratings and Outlook is:

1. 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 are (individually):

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

Debt rating

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 Scope assigns a preliminary bond rating of (P) BB-. Scope based its recovery analysis on a liquidation value in a hypothetical default scenario in 2027, with bank loans and payables secured through pledge on company assets and bank guarantee. The RSD 11.9bn available to creditors after deducting 10% administrative claim, translates into an above average recovery for senior unsecured creditors. Nevertheless, Scope has refrained from upnotching the rating of the senior unsecured bond due to the potential for an increase in senior secured debt en route to default, which could reduce the recovery amount.

Environmental, social and governance (ESG) factors

Overall, ESG factors have no impact on this credit rating action.

All rating actions and rated entities

Fashion Company d.o.o.

Issuer rating: BB-/Stable, new

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

**All credit metrics refer to Scope-adjusted figures.*

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 14 February 2025; Retail and Wholesale Rating Methodology, 25 June 2025), are available on scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): registers.esma.europa.eu/cerep-publication. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and

information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on [scooperatings.com/governance-and-policies/rating-governance/methodologies](https://www.scooperatings.com/governance-and-policies/rating-governance/methodologies).

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings and/or Outlook were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

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The Credit Ratings/Outlook were first released by Scope Ratings on 11 February 2026.

Potential conflicts

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✓ INSTRUMENTS 1
